

**Testimony
of
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***Fighting Corruption in the Multilateral Development Banks*
Senate Foreign Relations Committee**

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Mr. Chairman, distinguished Members of the Senate Foreign Relations Committee, thank you for your invitation to testify today on an issue of great importance, *Fighting Corruption at the Multilateral Development Banks*.

As former President of the World Bank Jim Wolfensohn noted more than a decade ago, "corruption is a cancer..." It is a cancer on the hope and dreams of people living in poverty across the globe, in every corner of the world. It is a cancer that eats away at the core of what is good and selfless: the fight to eradicate poverty. But corruption, as you have rightly pinpointed Mr. Chairman, doesn't start or end at the national level. As major international scandals have recently proven, corruption is a transnational problem and, it is clear that corruption and fraud are commonplace in many international institutions charged with fighting this cancer and making the world place to live.

The African Development Bank Group has made significant strides in the recent past against corruption, although much more remains to be done. The new President of the Bank Group, Dr. Donald Kaberuka, has made fighting corruption one of his top priorities. Indeed, given his experience as finance minister of Rwanda, dealing with a post-conflict and fragile country, the Bank's new president is well-placed to know just how important institution-building can be. Upon taking office, President Kaberuka set the right tone. In his welcome address to Bank Staff, he told them that internal controls and the fight against waste were everyone's responsibility—not just Management's. Everyone had a stake in ensuring the Bank is clean and effective. The U.S. Executive Director's Office has been working closely with the Bank's senior Management to ensure that proper safeguards are implemented quickly and that those that already exist are strengthened.

Of course the fight against corruption cannot be won if the right tools are not at the Bank's disposal. Within the Bank, there must exist the right mechanisms to prevent, detect, and punish corruption. In member states, the right leadership must exist to foster a culture of zero tolerance when it comes to graft and take it upon itself to strengthen national systems so that they can withstand the scourge of corruption. And, as a donor, we must do our part to sustain pressure and demand results.

Mr. Chairman, let me take each of these areas and detail for you where I believe we are and where I believe we need to go from here.

Strengthening the Bank's Tools for Fighting Corruption

Both Management and Staff of a financial institution must rely on systems and processes, in addition to corporate ethos, to make the fight against corruption effective.

For the last several years, I have pushed the Bank to create a strong fraud and corruption investigation office. With our backing and our constant pushing, the African Development Bank established the Anti-Corruption and Fraud Investigation Unit in 2005. The Bank's Board also approved establishing an oversight committee on fraud and corruption. Together, these two functions will comprise an entire division of the Bank Group. Getting this unit fully functional, however, has been delayed somewhat but we have worked closely with management to ensure this important work proceeds apace.

Once fully functional, this unit will undertake investigations in response to specific allegations of corruption and fraud against individual staff members or third parties who engage in business with the Bank. The Bank is currently developing a Whistleblower Protection Policy to bring to the Board in the next few weeks. This policy has taken longer than we expected to develop, but we understand that it may include several other important provisions, such as voluntary disclosure.

Recently, the Treasury Department's Office of Technical Assistance agreed to provide an advisor to the new investigative unit to help the Bank and its member countries develop its capacity to carry out investigations and detect fraud. We expect this help to be mainstreamed in the Bank's member states and to the Bank's lending activities across Africa. In this way, we hope to strengthen African capacity to detect and punish corruption.

The African Bank is also updating its Guidelines for Financial Governance and Financial Analysis of Projects. These guidelines describe and explain the Banks' policies, procedures and approaches to the financial governance, management and analysis of projects and programs that the Bank finances, and are used by all Bank staff as they design and implement projects. Updating the guidelines involves numerous workshops with other MDBs and stakeholders, as well as good governance experts to exchange state-of-the-art lessons learned and best practices. Once completed, the guidelines should substantially improve portfolio quality and performance and further mainstream the importance of fighting corruption in all Bank activities.

Diagnosis of opportunities for fraud and corruption is critical if the fight is to be won. The Bank continues to use the latest diagnostic tools, such as the Country Financial Accountability Assessments (CFAA), Country Procurement Assessment Reviews (CPAR), and Country Governance Profiles (CGPs), to assess operational risks and recommend ways to assist borrowers to fight corruption, restore integrity, and promote good governance. CGP diagnostics are now incorporated into all Bank governance projects, and are used as a tool in Bank policy dialogues with borrowers, particularly in the design of policy-based loans. Last year, five Country Governance Profiles, for Madagascar, Djibouti, Ethiopia, Namibia and Mozambique, were completed, and an additional nine are scheduled for 2006. In addition, the Bank collaborated with the World Bank to carryout two CFAAs, in Togo and Uganda, last year, and six more are planned for 2006.

In response to the accord between African leaders and the G8 at the Gleneagles Summit in 2005, the AfDB and OECD joined forces through the Partnership Against Corruption in Africa (PACA) to support member countries in strengthening ongoing anti-corruption efforts and to initiate new ones. Through the PACA framework, the two institutions merge their experience—both in Africa and internationally—in the fight against corruption, money laundering and related activities. Working with the OECD, the Bank plans to engage local and international partners, including the private sector, so that it can help African countries design, implement, and monitor the fight against corruption. Invitations to join have been extended to fourteen countries that were provided debt relief in 2005. In return for joining the partnership, PACA will offer countries a menu of reform programs to curb the supply and demand of corruption, a platform for regional dialogue and development of joint programs, and opportunities for the exchange of lessons learned. The Partnership could be an important tool for the Bank as it takes a lead role in raising awareness throughout Africa and the world on the costs of corruption.

The Bank has also assumed its Observer role with the Financial Action Task Force (FATF) and regularly attends FATF meetings for information gathering and exchange of views with other institutions fighting corruption. These include African agencies engaged in the fight against money laundering and terrorist financing. In 2005, the Bank launched a process of preparing a strategy on money laundering and terrorist financing, which is expected to be finalized in early 2006. The United States has been pushing for the strategy for several years and we hope—once the Board approves the Bank's strategy—for the Bank to mainstream it into member states' efforts. Working relations have also been established with African FATF-Style Regional Bodies (FSRBs) for the development of a common approach to tackling money laundering and terrorist financing.

In late 2005, the Bank implemented a new COSO (named for the Committee of Sponsoring Organizations of the Treadway Commission) internal control framework. The framework is an important tool to check that internal Bank procedures are being followed and that risks are appropriately mitigated. The COSO framework tests Management policies and practices that could lead to fraud, waste, and corruption. The system, currently in use in most of the Fortune 500, should strengthen Management's ability to detect and stop corruption.

In addition, the Bank recently instituted a means to ensure that corruption and conflicts of interest do not exist among members of the Bank's Board. Through a series of financial disclosure forms, we hope such conflicts and wrongdoing will be exposed before damage is done to the institution's integrity.

Finally, the AfDB's independent evaluation department, the Operations Evaluation Unit (OPEV) continues to support the Bank's governance and anti-corruption work. In 2005, it issued 168 evaluation reports of Bank projects and activities covering the entire range of sectors and countries in which the Bank Group is active. These evaluations have helped to pinpoint weaknesses in governance in member states. OPEV has also completed a thorough review of the Bank's Country Strategy Papers (CSPs), which provide a framework for dialogue with borrowing countries on governance and

corruption issues. The review concluded that the Bank's CSPs have covered governance issues adequately for about 84% of the cases reviewed.

Also in 2005, OPEV undertook four Country Assistance Evaluations. The CAEs for Ghana, for example, found that the Bank's institutional support project, which included a component on governance, had a substantial positive impact on the country's institutional development. This is particularly helpful in Ghana because it is a HIPC country in the process of strengthening its institutions. In the other three CAEs, Bank institutional support was rated as modest but with substantial room for improvement. Some of the recommendations from the reviews have focused on paying even greater attention to governance in future CSPs for Mali and Mauritania.

I should note, Mr. Chairman, one issue of concern regarding OPEV. While we have high regard for the quality and value of OPEV's work, we have not been able to secure the kind of independence from Management we would like this unit. A recent Board resolution – which we opposed – calls for the head of OPEV to be hired and fired by the Bank's President, with only consultation of the Board, not its concurrence. We have asked President Kaberuka to revisit this issue.

Mr. Chairman, the above elements help form a set of tools that, when fully implemented and strengthened, can help the Bank take on and fight corruption. But the effort—in order to be successful—has to rely on the second pillar of effectiveness: good country leadership.

Creating a Conducive Environment

It is easy to dictate the importance of fighting corruption from a distance, Mr. Chairman. It is much more difficult to put in place systems and attitudes that fight graft on the ground, on a day-to-day basis. A critical first step is having the right leadership. Leadership that is committed to eradicating corruption and the decay it causes to institutions. Leadership that is devoted to strengthening institutions and the rule of law so that judiciaries can not be undermined and treasuries can not be plundered. Leadership, Mr. Chairman, that creates a conducive environment to root out corruption and punish the corrupt.

Through its work with member states, the African Development Bank has helped those member states with the right leadership to build safeguards and strengthen institutions. I would like to share a few examples with you of this important work and, most importantly, of the results the Bank has been able to achieve thus far:

- After developing an anti-corruption program with the help of the Bank in 2003 and 2004, Benin started implementing anti-corruption efforts last year, including acceleration of institutional reforms, revamping and strengthening government policies, and consolidation of public finances. With the Bank's help, Benin also established an office to monitor anti-corruption efforts.
- Nigeria's anti-corruption campaign is also supported by the Bank, which provides technical assistance and capacity building. Nigeria's National Empowerment and

Development Strategy (NEEDS), developed with the Bank's help, aims to enhance public sector capacity for good governance and responsible economic management, including fiscal planning. Nigeria has also established the Economic and Financial Crimes Commission (EFCC) and the Independent Corrupt Practices Commission (ICPC), and the government has acted to remove high ranking civil servants from office on grounds of corruption. The Anti-Money Laundering Act was also reviewed last year, and a revised version is currently with the National Assembly for approval.

- After going off-track from its IMF program in 2003, Gambia engaged the Bank and other international donors on a wide-reaching anti-corruption campaign. In late 2003, the Gambian government passed the Financial Institutions, Insurance and Money Laundering Act. The government also launched "Operation No Compromise," a campaign aimed at raising public awareness of corruption and governance issues.
- The government of Burkina Faso has adopted the National Policy to Combat Corruption, and is in the process of establishing a national anti-financial crimes office. In 2005, the government passed the National Policy on Good Governance and both the Bank's Results-Based Country Strategy Paper and two lending programs are designed to better identify and combat corruption.
- In 2005, a new State Inspector General was appointed to help investigate corruption charges in the government of Mauritania. At the same time, the government has moved forward to improve governance and the quality of services it provides to its citizens. Over the course of 2005, the amount of time it took to process a government complaint form has decreased from one day to 45 minutes. The government is also working with the AfDB, the World Bank and other donors to strengthen the National Good Governance Program.
- The Ghana Anti-Corruption Coalition (GACC), made up of the government and its partners (including the AfDB), has organized workshops and agreed on an action plan to combat corruption. The Serious Fraud Office (SFO) investigates corruption and the Police Special Investigation Unit, which acts as a financial intelligence unit.

Of course much more must be done in the Bank's operations to fight corruption, both in countries and in Bank-funded projects. In a number of countries, such as Kenya, Chad, Republic of Congo, and Uganda, new allegations of corruption have surfaced recently. The Bank is reviewing its engagements with these countries. Thus far, the Bank has found that none of its projects in Kenya were corrupted. We expect the Bank to design interventions in these and other countries with a focus on anti-corruption and good governance. The Bank's technical assistance and capacity building activities can help these countries strengthen their systems detect and prevent corruption.

More broadly, Mr. Chairman, the Bank is working to build awareness in member states, among governments and the people, so that they are aware of the existence and negative impact of corruption. In July 2005, the Bank collaborated with other donors to host a

regional workshop on *Pro-poor Local Governance*, and preparations are underway in the Bank to develop a strategy paper on rebuilding state capacity for better governance and development effectiveness. Printed information and public workshops are offered to sensitize local populations to the problem of corruption. Bank representatives form an integral component of this dialogue, so that corruption is fought at every step of Bank Group engagement.

The Bank's role in building conducive and supportive environments is potentially very large. And the Bank should use its convening powers to raise awareness among member states. At my urging, President Kaberuka is organizing a half-day seminar on fighting corruption at the African Bank's upcoming Annual Meetings in Burkina Faso in May. Ministers from the Bank's seventy-seven member countries will be in attendance, as well as other leading personalities, from all over the world. I expect President Kaberuka to emphasize that there is no place for corruption in development, and no place for corruption at the African Development Bank itself. In such fora, where development leaders join together to review and assess the progress they have made, it is more important than ever before to make sure this message is heard. By organizing this event, the Bank is taking an important leadership role on the African continent.

Sustaining Pressure

Finally Mr. Chairman, I would like to speak to the recent legislation concerning fighting corruption at the Multilateral Development Banks sponsored by you and approved by Congress, and signed into law by the President

Several of the measures you specifically introduced are already being implemented. And many more are being strengthened. For example, the African Bank is in the process of presenting a Whistleblower Protection Policy, which we hope to have up and running very soon. Financial disclosures for Board members are now required. The Bank is also in the process of discussing ways to implement "cross debarment" across the MDBs of corrupt firms found to be doing business with other MDBs. This was the topic of a high-level discussion between the Heads of the MDBs in Washington in February.

On the audit side of Bank operations, we have successfully pushed for the establishment of an Anti-Corruption and Fraud Investigation Unit and I am proud to say that the United States is playing an active role to help the Unit develop investigative techniques and mainstream them to member states. As I noted earlier, getting this unit operational is the key next step, and we will continue to press Management on this score.

The Bank has also established an Independent Review Mechanism which consists of a Compliance Review and Mediation Unit and a Roster of Experts to help advise the Board, if necessary, on projects that adversely affect people. Like the Anti-Fraud and Corruption Unit, however, staffing the unit has slowed its full effectiveness. We will continue to work to ensure that this becomes an effective mechanism that builds a more responsive and transparent culture in the Bank and member states.

One particular area where I will focus my near term efforts is on the area of the independence of OPEV. As I mentioned earlier, we will need to redouble our efforts

with Management and other Board members to bring the African Bank into alignment with the other MDBs on this important issue.

As a donor, we have to raise anti-corruption to the level of global importance that it deserves. For too long, discussion of corruption has been swept under the carpet by donors or watered down to nonexistence in order to satisfy supposed exigencies. But without openly discussing the problem, one can not even hope to tackle the problem. Mr. Chairman, your leadership on this matter has given voice to others, encourages them to lead, and gives strength to anyone who stands against corruption

Conclusion

Mr. Chairman, progress is being made, but it will require substantial, ongoing efforts by all parties concerned. We must strengthen the tools we already have to prevent and detect corruption, and, when necessary, develop new ones. We must work with like-minded leaders to raise awareness and strengthen institutions in the African countries. We must demonstrate our strong international leadership that helps keep the spotlight shining on fighting corruption. These efforts will help the Bank deliver real results to the neediest.

Mr. Chairman, I hope you will agree that while the road to fighting corruption is a long one, we have started off in good stride. While there is no room for complacency and we must remain intense and vigilant in our efforts, I believe that the African Development Bank is on the move. I thank you for your strong support.