

JOSEPH R. BIDEN, JR., DELAWARE, CHAIRMAN

CHRISTOPHER J. DODD, CONNECTICUT
JOHN F. KERRY, MASSACHUSETTS
RUSSELL D. FEINGOLD, WISCONSIN
BARBARA BOXER, CALIFORNIA
BILL NELSON, FLORIDA
BARACK OBAMA, ILLINOIS
ROBERT MENENDEZ, NEW JERSEY
BENJAMIN L. CARDIN, MARYLAND
ROBERT P. CASEY, JR., PENNSYLVANIA
JIM WEBB, VIRGINIA

RICHARD G. LUGAR, INDIANA
CHUCK HAGEL, NEBRASKA
NORM COLEMAN, MINNESOTA
BOB CORNER, TENNESSEE
JOHN E. SUNUNU, NEW HAMPSHIRE
GEORGE V. VOINOVICH, OHIO
LISA MURKOWSKI, ALASKA
JIM DUMRINT, SOUTH CAROLINA
JOHNNY ISAKSON, GEORGIA
DAVID VITTER, LOUISIANA

ANTONY J. BLINIKEN, STAFF DIRECTOR
KENNETH A. MYERS, JR., REPUBLICAN STAFF DIRECTOR

United States Senate

COMMITTEE ON FOREIGN RELATIONS

WASHINGTON, DC 20510-6225

April 11, 2007

Donald Kaberuka, President
African Development Bank
Angle des trois rues: Avenue du Ghana, Rue Pierre de Coubertin, Rue Hedi Nouria
BP. 323
1002 Tunis Belvedere
TUNISIA

Dear President Kaberuka:

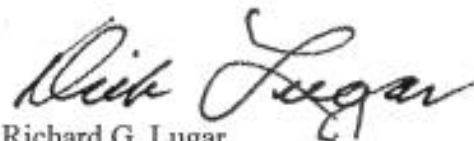
I am pleased that we had the opportunity to meet in February and discuss your initiatives at the African Development Bank. You have made significant progress in the fight against corruption. Your efforts will help ensure that development bank funds reach the projects and programs designed to alleviate poverty.

As you know, the Senate Foreign Relations Committee held six oversight hearings focused on the multilateral development banks. I introduced legislation which became law in late 2005 to promote anti-corruption reforms and transparency at the development banks.

I would be grateful if you could please provide me with a written description of anti-corruption reforms and transparency measures that the African Development Bank has implemented since November 2005. This information will be shared with my Senate colleagues.

I appreciate your perseverance in promoting good governance. Should your staff have any questions about my request, please direct them to Nilmini Rubin or Keith Luse at (202) 224-6797.

Sincerely,



Richard G. Lugar
United States Senator

RGL/nrk

AFRICAN DEVELOPMENT BANK GROUP

13 AVENUE DU GHANA
ANGLE AV. HEDI NOUIRA ET PIERRE DE COUBERTIN
B.P. 323 - 1002 TUNIS BELVEDERE
Téléphone : (216) 71 102 800
Fax : (216) 71 352 577
Web Site : www.afdb.org
TUNISIE



PRESIDENT

Date: 3 May 2007

Senator Richard G. Lugar
Committee on Foreign Relations
United States Senate
Washington, DC 20510-6225
U.S.A.

Dear Senator Lugar,

Thank you for your letter of 11th, April 2007 and for the fruitful discussions we had in February during my Washington visit on our initiatives in the fight against corruption in Africa. I am pleased for the opportunity to apprise you of the anti corruption reforms and transparency measures that the African Development Bank (AfDB) has implemented since November 2005 in the enclosed report.

The report describes the reforms AfDB has undertaken to equip itself with anti corruption and fraud investigation capacity as well as measures to promote transparency and accountability through Institutional Support Grants, Policy Based Lending to Regional Member Countries (RMCs) and Diagnostic Instruments. AfDB continues to intensify its efforts in combating fraud and corruption through investigations and supporting capacity building in RMCs.

I thank you for sparing time to meet with me in February and for your continued interest in the Bank promoting good governance in Africa.

Yours truly,

A handwritten signature in black ink, appearing to read 'Donald Kaberuka', written in a cursive style.

Donald **KABERUKA**

REPORT ON ANTI-CORRUPTION REFORMS AND TRANSPARENCY MEASURES – REQUEST BY US SENATOR RICHARD LUGAR

This report provides a panoramic view of the anti corruption reforms and transparency measures that the African Development Bank (the Bank) has implemented. November 2005 marked an important action by the Boards of Directors in establishing the Anti-Corruption and Fraud Investigation Function. Since then an important policy and investigation systems have been instituted. At the operational level, the Bank has extended grants and policy based lending for the promotion of transparency and accountability in a number of Regional Member Countries. We outline below anti-corruption reforms and transparency measures so far undertaken by the Bank.

Whistle-blowing and Complaints Handling Policy

1. In furtherance of our objectives, the Bank approved a comprehensive Whistle-blowing and Complaints Handling Policy on January 24, 2007. The policy sets a new standard for protecting staff members and others from retaliation when they report fraud, corruption or other misconduct in the Bank as well as Bank financed projects and programs. It is worth noting that the policy has been highly acclaimed by Government Accountability Project (GAP), a whistleblower protection organization in the USA.

The Establishment of the Anti-Corruption and Fraud Investigation Division

2. In November 2005, the Boards of Directors, after having approved the *Guidelines for Preventing and Combating Corruption and Fraud in Bank Group Operations*, approved the establishment of the Anti-Corruption and Fraud Investigation Division within the Office of the Auditor General, whose independence was further reinforced. The overriding mandate of the Division is to undertake investigations of corrupt and fraudulent acts and other misconduct by Bank personnel and contracting parties in Bank Group operations and activities.
3. To operationalize the Anti-Corruption and Fraud Investigation Division, management recruited a consulting firm, from July to December 2006 to set up systems and procedures for the Division. Following their recruitment and our own initiatives, the following have been or are being accomplished:
 - Acquisition of specialised investigation software and equipments,
 - A Computer forensic laboratory established,
 - Development of Standard Operating Procedures
 - Establishment of a secure information technology platform (Stand alone system)
 - Case Management System is being developed,
 - Design and printing of Brochures and Posters for publicizing the Whistle-blowing policy to staff and stakeholders by mid May.

- Website development and Hotline Facilities. Dedicated hotline services are ready. The services comprise secure email, telephone and fax,
 - Hotline attendants are being trained in the handling of complaints or information relating to corruption, fraud and other misconduct,
 - Recruitment efforts are underway to fully staff the Anti-Corruption and Fraud Investigation Division by end 2007.
 - The US Treasury Department (OTA) also seconded a technical assistant in the capacity of advisor to the division in September 2006.
4. Most of the facilities bulleted actions above are in place. The Anti-Corruption and Fraud Investigation Division are using them to undertake investigations. With the dissemination of the Complaints Handling Policy to staff and the public, we anticipate greater awareness of the Bank's effort in the fight against corruption, fraud and other misconduct within the Bank and in projects and programs it finances. The awareness is to be further improved through fraud-related training for Bank staff and personnel of Regional Member Countries.
 5. Notwithstanding the limited staff, the Anti-Corruption and Fraud Investigation Division has undertaken a number of investigations into fraud and staff misconduct with the support of the consultants. The Anti Corruption and Fraud Division, has so far received 22 cases of allegations, investigated 7 involving internal misconduct, misuse of resources and corrupt practices in a bank-financed project. Seven cases are currently being reviewed.
 6. With the support of the Advisor from the US Treasury Department, the Anti-Corruption and Fraud Investigation Division is in the process of developing intelligence/integrity database to serve as a tool that would facilitate the evaluation of corruption levels in Regional Member Countries (RMCs). Such database would be used as input into the design and appraisal of new Bank-financed projects. It will also assist in conceiving a program of capacity building for institutions in the RMCs charged with investigating fraud and corruption.

Harmonization with the other IFIs

7. The Bank joined the other Heads of IFIs in Singapore in September 2006, and agreed to a common framework for fighting fraud and corruption in activities and operations funded by their respective institutions. This marked a major milestone in the battle for improved governance. The meeting in Singapore, outlined the following joint actions to combat fraud and corruption:

- Agreement in principle on standardized definitions of fraudulent and corrupt practices for investigating such practices in activities financed by them. The agreed definitions were endorsed by the Board when approving the Whistleblowing and Complaints Handling Policy.
- Agreement on common principles and guidelines for investigations. The common principles and guidelines now form part of the Standard Operating Procedures of the Anti Corruption and Fraud Investigation Division;
- Agreement to strengthen the exchange of information, as appropriate and with due attention to confidentiality, in connection with investigations into fraudulent and corrupt practices;
- Agreement on general integrity due diligence principles relating to private sector lending and investment decisions;
- Agreement to further explore how compliance and enforcement actions taken by one institution can be supported by the others.

Legal Measures

8. To ensure good governance and accountability, the Bank's General Counsel and Legal Services Department is integrating good governance and accountability issues into the General Conditions Applicable to Loan Agreements and Guarantee Agreements and, the Procurement and Financial Management Unit, is undertaking a similar assignment in the Rules of Procedure for the Procurement of Goods and works and for the Use of Consultants. These documents are being revised to be submitted for Board approval.

Promoting transparency and accountability

9. The Bank supports regional and country based anti-corruption activities, and measures to promote transparency and accountability through Institutional Support Grants, Policy Based Lending and Diagnostic Instruments. Since November 2005 the Bank has approved several lending and grant operations. Several documents regarding Country Governance Profile (CGP), Decentralization and Country Financial Assessment Accountability (CFAA) and Country Procurement Assessment Review (CPAR) are in process of preparation or are being scheduled. The following are selected examples of such operations and studies.

Institutional Support Grants and Policy Based Lending

- *Project Support to Public Expenditure Programming and Control Institutions in Burkina Faso:* In October 2006, the Bank provided a grant to improve transparency, reliability and efficiency of budget management in Burkina Faso. The components of the project focus on: (i) public expenditure improvement program; (ii) strengthening of internal control; (ii) strengthening of external control; and (iii) project management and monitoring. The project's focus of attention is on strengthening the organs responsible for fighting corruption. The Bank's Governance Profile, produced jointly with the Bank and UNDP, highlighted the scale of the problem and how weaknesses in the structures that carry out a-posteriori control fosters corruption.

- ***Second Poverty Reduction Strategy Support Program (PRSP II) in Benin:*** In July 2006, the Bank provided a Poverty Reduction Strategy Support (PRSP II) loan with a governance reform component. The component “improvement and promotion of governance” of PRSP II focuses on: (i) the improvement of results-based budget management; (ii) improvements in budget implementation; (iii) strengthening of the fiduciary framework; (iv) beefing up of external supervision; and (v) intensifying the fight against corruption and money laundering
- ***Governance Reform Support Program (GRSP) in Cameroon:*** In December 2006, the Bank provided a loan to support the implementation of the governance reform program as defined in the Government’s program. The program focuses on supporting the emergence of effective good governance in the areas of justice, public administration, public finance and the fight against corruption. The Bank is also providing an institutional support designed to strengthen the capacities of structures involved in the implementation of program measures.
- ***Protection of Basic Services (PBS) Grant Program in Ethiopia:*** In December 2006, the Bank provided a grant to protect the provision of basic services at the local level and to strengthen local accountability mechanisms in service delivery and enhance transparency in the budget process at sub-national levels. This grant will support inter alia, activities geared toward enhancing financial transparency and accountability by strengthening the budgeting process, including audits. Another component of this grant relates to social accountability which seeks to strengthen the voice and citizen representative groups in determining priorities in the planning of decentralized basic service delivery and enhancing their capacity to engage in the budget process.
- ***Second Poverty Reduction Support Loan (PRSL II) in Ghana:*** In September 2005, the Bank provided a PRSL II with a governance and public sector management reform component. Action underway in this component center on progress on a medium-term agenda for public sector reform that includes decentralization, improving public sector performance, the modernization of the fiduciary framework and public expenditure management, and strengthening the capacity to monitor and evaluate the government policy agenda.
- ***Project to Support Capacity Building in Debt, Public Investment and Control Institutions Management (PADIPOC) in Guinea:*** Approved in July 2006, a Bank Grant is financing capacity building of public investment and control institutions in Guinea. The Project aims at capacity building in debt and investment management, re-establishing and consolidating control and promoting the fight against corruption. The grant provides targeted support and aims at consolidating control and external resource management, thus contributing to the promotion of good governance through improved public resource management and the fight against corruption. The direct beneficiaries of the Project are: (i) the National Debt and Public Investments Directorate (ii) the General Inspectorate of Finance (iii) the Accounts Chamber, and (iv) the Committee on Finance and Economic Affairs of the National Assembly and (v) the National Agency to Combat Corruption and Improve Ethical Conduct in Economic and Financial Activities.
- ***Kenya Institutional Support for Good Governance Project (KISGG):*** In July 2006, the Bank provided a grant to assist the Government of Kenya to enhance the operational efficiency of the institutions whose functions relate to maintaining good governance in Kenya, namely Kenya Anti-Corruption Commission (KACC), the

Public Procurement Directorate, and the Kenya National Audit Office by beefing up their equipments and supporting structures basic to their functions. A strengthened KACC will better address the perpetrators of corruption, while a strengthened procurement and auditing systems will aid the prevention of such acts. They will also ensure accountability and transparency in management of public funds and enhance the human resource capacity for efficient administration. It will also help the ADB desk to become more efficient in its activities.

- ***Institutional Support Project for Governance, Economic Management and Poverty Reduction in Liberia***: In October 2006, the Bank provided a Grant for institutional support grant for economic management and good governance. The launching of the project in November 2006 successfully assembled all key stakeholders for dialogue and training in public sector procurement and disbursement methods of the Bank.
- ***Institutional Capacity Building Support Project in Togo***: In July 2006, the Bank provided a grant for an institutional capacity building project. The project areas of focus take account of the needs identified in the areas of institutional capacity building for public expenditure preparation and control which are contributing to Good Governance in Togo.
- ***Multinational /COMESA (Common Market for Eastern and Southern Africa) - Enhancing Procurement Reforms and Capacity Project***: In July 2006, the Bank provided a grant for a project to enhance good governance and regional integration in COMESA through modern and harmonized public procurement systems. The objective of the proposed EPRCP is to enhance the public procurement systems of COMESA Member States by modernizing and harmonizing the laws, regulations and procedures and by strengthening the countries' capacities to manage modern public procurement systems.
- ***Multinational - Regional Technical Assistance Centers Program (AFRITAC) - Phase II***: In December 2006 the Bank provided Second-phase grant to assist the regional Africa Technical Assistance Centers program (AFRITAC). The goal of the Program is to build the human and institutional capacities of countries to develop the expertise needed to ensure efficient macroeconomic and financial management and help the adoption of sound and sustainable economic and financial policies and improve governance. The activities of this Program will encourage efficient management of public resources, compliance with international standards of financial management and the production of accurate macroeconomic statistics. Implementation of this multi-country program is being carried-out in close coordination with several donor partners.
- ***Project in Support of Public Procurement Systems Reform in the WAEMU zone (Phase II)***: In December 2006, The Bank provided a Grant to support the public procurement systems reform in the 8 countries in the West African Economic & Monetary Union (WAEMU) zone. The project is assisting WAEMU member countries modernize and harmonize their country procurement systems and build their institutional capacity to manage modernized systems. Additionally, the project will strengthen WAEMU's capacity to assist the member States to apply the Community rules and monitor their compliance. The renewed efficiency and transparency of public procurement will directly reduce opportunities for corruption and promote good governance in the WAEMU zone.

Country Governance Profile (CGP)

Nigeria: The Nigeria CGP is currently being finalized. The main findings of the report relates to efforts of the federal government to improve transparency and accountability and combat corruption in the country. While these issues are being constructively addressed at the federal level—in particular through the successful implementation of the Nigeria Extractive Industries Transparency Initiative, covering a major share of fiscal revenue—major problems still remain at the state and local government levels. Future progress in the area of transparency, accountability, and anti-corruption will depend largely on the outcomes of the recent elections.

Ethiopia: The Bank is finalizing the Country Governance Profile for Ethiopia which takes into account the emerging governance challenges of the country. The challenges include strengthening institutions and processes for promoting (i) state accountability to citizens in the wake of recent political disturbances and (ii) enhancing the governance framework for decentralization. The CGP for Ethiopia is also reviewing the new framework for measuring governance performance and for broad based dialogue.

Lesotho: Lesotho CGP was circulated to the Boards in February 2006. It focused on accountability, transparency, combating corruption, stakeholder participation, and legal and judicial framework.

Other CGP focusing on improving transparency and accountability, reforms of judicial and legal framework and fighting corruption are at various stages of preparation and concerns the following countries: Rwanda, Gambia, Botswana, Djibouti, Ghana, Niger, Sierra Leone, Burundi, Angola Namibia, Morocco and Tunisia.

Decentralization

Niger: The bank approved Decentralization Support Project in November 2006 a grant to finance the decentralization support project. The main project components focus on : (i) Improvement of the institutional framework for decentralization and support to ownership of the reform by the population; (ii) Building of the capacities of the supervisory authority and decentralized entities, and reduction of factors of resistance to the implementation of the reform; and (iii)Support for the management of the project.

Mali: A decentralization Support Project is at an advanced stage of preparation. It will focus on building the capacities of decentralized entities and the improvement of the institutional framework for administrative and financial decentralization and governance at the local level.

Country Financial Assessment Accountability (CFAA) and Country Procurement Assessment Review (CPAR): The Bank continues to participate with the World Bank on several CFAA and CPAR for East, Central and West African countries. Currently the Bank is discussing with the World Bank on carrying out in 2008/2009 Country Financial Assessment Accountability and Country Procurement Assessment Review for several countries.

AfDB/OECD Anti-Bribery and Business Integrity Initiative for Africa: This initiative builds on decisions by the Partnership Against Corruption in Africa (PACA) to sharply focus the anti-corruption effort on business integrity and improving the investment climate in Africa. The initiative is undertaking a stocktaking exercise to analyze existing institutional and legal framework to combat bribery in 20 African states. The stocktaking is focused on the following two key areas of particular relevance to improving a countries' and the region's attractiveness to domestic and foreign investment activities: *the existence of comprehensive and predictable measures to prevent and sanction bribery in business transactions; and related law enforcement provisions, including on international judicial cooperation and the recovery of proceeds of bribery in business transactions*. The stocktaking also highlights trends and developments in the region of the consequences of effective anti-bribery policies and the recovery of proceeds of corruption on economic growth and investor confidence. Following completion of the stocktaking work, the two organizations will organize a regional expert meeting later this year to – on the basis of the stocktaking of anti-bribery policies in selected African countries - develop concrete actions that African countries and OECD partners should take to increase the effectiveness of their fight against bribery.