



# “ZERO TOLERANCE”?

Assessing the Asian Development  
Bank's Efforts to Limit Corruption  
in its Lending Operations



By STEVE HERZ

MARCH 2004



The author would like to thank the following people who were kind enough to provide their assistance and thoughtful comments on the English and Thai versions of this review:

Roy Adkins, Yuki Akimoto, Manish Bapna, Dawan Chantharahassadee, Toshiyuki Doi, Sameer Dossani, John Fitzgerald, Kenji Fukuda, Andrea Gross, Jane Garrido, Bruce Jenkins, Jen Kalafut, Shannon Lawrence, Luntharimar Longoharoen, Samuel Paul, Nikki Reisch, Penchom Tang, Nurina Widagdo, and Mishka Zaman.

Thanks are also due to ADB's Peter Pedersen, Patricia Moser and members of the ADB North America Resident Mission for arranging a discussion and sharing thoughts on initial findings of this Report.

I would also like to thank a number of others who were equally generous with their time and insights, but did not wish to be explicitly recognized.

For further information, please contact the Bank Information Center (BIC) or Towards Ecological Recovery and Regional Alliances

**Bank Information Center**

733 15<sup>th</sup> Street NW, Suite 1126  
Washington, D.C. 20005  
*phone:* 202-737-7752 • *fax:* 202-737-1155  
*e-mail:* info@bicusa.org  
*Web site:* <http://www.bicusa.org>

**TERRA**

409 Soi Rohitsuk, Pracharajbampen Rd.  
Huay Khwang, Bangkok 10320  
*phone:* (66-2) 691 0718-20, *fax:* (66-2) 691 0714  
*email:* terraper@ksc.net.th  
*Web site:* <http://www.terraper.org>

# Table of Contents

Executive Summary .....	iii
I. Introduction: Overview and Objectives .....	1
II. Corruption and the Asian Development Bank .....	1
A. The Negative Impacts of Corruption on Development .....	1
B. The Risks of Corruption in ADB's Portfolio .....	2
1. <i>Corruption in the Asia/Pacific Region</i> .....	2
2. <i>The Corruption Risks in ADB Projects and Programs</i> .....	2
III. ADB's Policy Response to the Challenge of Corruption .....	3
A. Anticorruption Responsibilities under the Charter .....	3
B. ADB's Governance Policy .....	3
C. The Anticorruption Policy and Procedures .....	4
1. <i>Overview of Policy Framework</i> .....	4
2. <i>Risk Assessment and Reporting Requirements</i> .....	4
D. Guidelines on Procurement and Use of Consultants .....	5
IV. Analysis of ADB's Compliance with the Requirements of the Anticorruption Policy .....	6
A. Discussion of Corruption in Country Strategy Reports .....	6
B. Discussion of Corruption in Project Appraisal Reports .....	7
C. Discussion of Corruption in Project Evaluation Reports .....	8
D. Why is Compliance with the <i>Anticorruption Policy</i> so Poor? .....	10
E. Conclusions on Compliance .....	10
V. Policy and Program Recommendations .....	12
A. Clear Guidelines for Staff .....	12
1. <i>Methodologies and Diagnostic Tools</i> .....	12
2. <i>Comprehensive Assessment of Corruption Risks</i> .....	13
B. A Proactive Participation Strategy .....	15
C. Improvement in Transparency and Disclosure .....	16
D. Project Monitoring and Supervision .....	17
E. Strong Institutional Commitment to Anti-Corruption Tied to Staff Incentives .....	18
F. External Audits .....	18
G. ADB should address its own accountability for corruption in its projects and programs .....	19
H. Proactive Role of Board .....	19

VI. Conclusions .....	20
Appendix A: Case Study of the Samut Prakarn Wastewater Management Project in Thailand .....	23
Appendix B: Procedures for Handling Corruption Allegations .....	22
Appendix C: The World Bank's Experience Controlling Corruption .....	21
Bibliography .....	35

# Executive Summary

---

Official corruption is now widely recognized as a major impediment to sustainable and equitable development and poverty alleviation. Corruption can waste or misallocate scarce public resources, suppress economic growth, hinder the enforcement of health, safety and environment laws, and undermine democratic and participatory public decision making. While all societies must contend with corruption, it is particularly damaging in poorer countries that can ill afford to bear these social costs. And within these countries, the burdens of corruption fall disproportionately upon the poorest and most marginalized, who depend most heavily on public services but lack the resources to purchase the favor of venal officials.

Because of the negative impacts corruption can have on a country's development trajectory, it presents a major challenge for international development agencies such as the Asian Development Bank (ADB). The ADB, like other development agencies, frequently operates in countries and sectors in which corruption is pervasive. In response, ADB, like its peer institutions, has recognized the importance of taking corruption into account in its assistance strategies, and controlling it in the projects and programs that it supports. Towards this end, ADB has adopted an *Anticorruption Policy* and a suite of implementing guidelines and procedures.

This study assesses one aspect of ADB's response to the challenge of corruption—its efforts to limit the incidence and impact of corruption in its lending operations. ADB has taken a strong rhetorical stance against corruption in the projects and programs that it supports. The *Anticorruption Policy* expresses “zero tolerance” for corruption in these operations, and imposes a “compelling obligation” on its staff to ensure the integrity of Bank operations. As part of this obligation, management and staff are required to address corruption issues more openly, comprehensively and rigorously throughout the entire range of ADB operations, and in all stages of the project cycle.

But does ADB really undertake its anticorruption efforts with the kind of diligence and rigor that “zero tolerance” implies? To answer this question, we reviewed a sample of recent country strategies, project appraisals, and evaluation reports, and assessed how these took corruption into account. We found that ADB *almost never* complied with the policy requirement to explicitly address corruption issues in its reports, assessments, and evaluations.

Thus, country strategies did not address how corruption might impact the country's ability to attain its development objectives, how ADB projects might be affected

by corruption, the government's ability to control corruption, or how the Bank could help combat it. Project appraisals did not address the sponsor's financial management and procurement capacity, the risks of theft or misappropriation of ADB funds, the potential impacts of corruption on the project's development objectives, or how identified risks would be mitigated in the design and supervision of the project. Project evaluations did not assess whether ADB resources had been misappropriated, whether corruption hampered the development effectiveness of the project, or the strengths and weaknesses of ADB's mitigation strategies during project design and implementation, and failed to make appropriate recommendations based on these assessments.

Taken together, these failures to appropriately consider corruption issues represent substantial missed opportunities for ADB to improve the development impact of its projects and programs. There are a number of steps that ADB should take to improve the manner in which corruption issues are addressed throughout its operations. ADB should:

- provide staff with clear guidance for assessing and responding to corruption risks in all of its operations;
- develop a proactive participation strategy to harness the insight and interests of civil society stakeholders in combating corruption;
- improve its information disclosure policies and the transparency of its operations to facilitate better public participation;
- improve the quality and rigor of its project monitoring and oversight;
- commission an external audit of the scale of corruption in its operations, and the efficacy of its internal control mechanisms and policies to identify critical gaps and weaknesses; such an audit should be conducted periodically at regular intervals.
- articulate a stronger organizational commitment to eradicating corruption in ADB operations, and realign staff incentives to increase accountability for anticorruption outcomes;
- address its own accountability for its past willingness to lend money that it knew, or reasonably believed, would be misappropriated; and
- the Board of Executive Directors should exercise its fiduciary and oversight responsibilities more proactively to ensure that corruption issues are properly addressed.



# I. Introduction: Overview and Objectives

---

This review was initiated in response to civil society concerns about the negative effects of corruption on the economic, social, and environmental impacts of ADB projects, particularly the Samut Prakarn Wastewater Management Project in Thailand (*discussed in detail in Appendix C*). It has two main purposes: first, it considers the extent to which ADB is complying with the policies and procedures it has put in place to address corruption in its projects and programs; and second, it recommends how those policies and their implementation could be strengthened to better combat corruption.

The review does not address other elements of ADB's anticorruption efforts, such as its broader work on governance issues, financial management capacity building, or support for specific anticorruption initiatives. By focusing exclusively on ADB's efforts to combat corruption in its own operations, we do not suggest that these efforts should supplant other efforts to assist governments to control corruption in their administrations, or, conversely, that these broader governance efforts do not warrant close external scrutiny. ADB should pursue appropriate governance reform initiatives as part of its strategic approach to corruption, and these efforts should be subjected to rigorous external critique.

Section II of the review sets the context by explaining why corruption is such an important issue for the Asian Development Bank. It outlines the profound negative impacts corruption can have on sustainable and equitable development, and describes how ADB projects and programs are often exposed to extreme corruption risks. Sec-

tion III provides an overview of ADB's policy response to the challenge of corruption. Section IV reviews a representative sample of recent country strategies, project appraisals, and evaluation reports to assess the extent to which ADB actually complies with its policy requirements to explicitly take corruption into account in all phases of Bank activities. It finds that ADB does not systematically consider the incidence or impacts of corruption in any phase of its operations. Section V then draws upon these findings, the recent literature on corruption and development, and the insights of external stakeholders and current and former ADB officials and staff to fashion recommendations for how ADB should better address the problem of corruption in its operations.

The primary finding of this review is that despite ADB's often laudable anticorruption rhetoric, it has not systematically addressed corruption in its operations. Based on the documents reviewed, we found that ADB management and staff almost never comply with the policy requirement to explicitly address corruption in ADB reports, assessments, and evaluations. Thus, a substantive discussion of corruption risks and their potential impacts is conspicuously absent from almost every country strategy, project appraisal, and project evaluation report that we considered. We have also found that there is much that ADB could do to strengthen these policies and improve their implementation. This report is intended to contribute to the discussion about how to facilitate a more proactive and robust approach to fighting corruption in ADB operations.

## II. Corruption and the Asian Development Bank

---

### A. The Negative Impacts of Corruption on Development

Corruption has only recently come to be seen as an issue that is critical to the development process. While corruption was once considered to have an inconsequential or even salutary effect on development, a consensus has now emerged among scholars and practitioners that it poses a serious obstacle to sustainable and equitable development and poverty alleviation. All of the major international development agencies, including the Asian Development Bank, have embraced this new understanding of the harmful impacts of corruption.<sup>3</sup>

Corruption has been shown to hinder investment and growth, and to negatively impact the process of sustainable and equitable development.<sup>4</sup> Its impacts vary widely, depending on the form it takes in the local political economy. High-level or "grand" political corruption can distort the structure and scale of the state, and skew the allocation of public resources toward the rich, powerful, and politically well connected.<sup>5</sup> It can also divert scarce public resources from priority sectors such as health and education, and squander them on uneconomical projects that generate lucrative payoffs.<sup>6</sup> Lower level political and bureaucratic corruption can create perverse incentives by

inducing people to direct their talent, intellect and entrepreneurial energy towards gaining access to the wealth of the state, rather than on more economically and socially productive activities.<sup>7</sup> Such “petty” corruption can also compromise the quality of development projects and endanger public safety through substandard work and the selection of inappropriate projects.<sup>8</sup> Furthermore, it reduces government revenue from taxes, licenses, and customs, and inequitably shifts the burden of these charges to those who do not pay bribes.<sup>9</sup>

### **Definition of Corruption**

The term “corruption” is used to refer to a wide range of illicit or improper activities. Different institutions have promulgated slightly different definitions. The World Bank, for example, succinctly defines corruption as “*the abuse of public office for private gain.*”<sup>1</sup> ADB has expanded this definition to include fraud and abuse in the private sector. As a shorthand definition, ADB defines corruption as “*the abuse of public office or private office for personal gain.*” ADB also offers a more comprehensive definition:

*behavior on the part of officials in the public and private sectors, in which they improperly and unlawfully enrich themselves and/or those close to them, or induce others to do so, by misusing the position in which they are placed.*<sup>12</sup>

For purposes of consistency and simplicity, we have employed ADB’s broad definition.

Corruption also undermines political processes and public decision making. It can destroy confidence in government by breeding public cynicism and resentment toward the political process and those associated with it.<sup>10</sup> In extreme cases, this can lead to political instability and regime collapse.<sup>11</sup> Corruption can also have the opposite effect—it can serve to entrench venal ruling elites by insulating them from legitimate political pressures. Corruption both increases the incentives for incumbents to retain power and enhances their ability to do so. Public officials are less likely to accede to a democratic transition or allow an orderly electoral succession when the perquisites of retaining public office include the opportunity to plunder the public fisc. Moreover, corrupt officials can build the political support necessary for them to retain their lucrative public positions by allowing powerful constituencies to share the spoils.<sup>12</sup>

Corruption can also have substantial negative impacts on the equity and legitimacy of specific public decisions.<sup>13</sup> Governments frequently make decisions that allocate substantial benefits, costs and risks. When corruption infects this decision making process, it undermines the fairness,

and ultimately the *legitimacy*, of the initiative. This is particularly true where such decisions entail the allocation of significant public benefits and costs, or where the understanding of the public interest is highly contested.

Finally, corruption can have some profound negative impacts on the health of the human and natural environments. Corruption often causes natural resources to be poorly managed, and reduces compliance with environmental, health and safety regulations.<sup>14</sup> It can also lead to the failure to properly account for environmental and social externalities in project design and selection. In fact, the United Nations, the World Bank, and World Resources Institute have identified corruption as a “major force undermining environmental equity and destroying ecosystems.”<sup>15</sup>

## **B. The Risks of Corruption in ADB’s Portfolio**

### **I. Corruption in the Asia/Pacific Region**

Corruption is common if not systemic in most of the countries in which the Asian Development Bank operates.<sup>16</sup> Since 1995, many of ADB’s most important borrowers, including Indonesia, Pakistan, Vietnam, China, India, the Philippines, Thailand and Bangladesh have been ranked among the most corrupt countries in the world.<sup>17</sup> Political leaders in many of these countries have publicly conceded that corruption is rampant throughout the political and bureaucratic ranks of their governments.<sup>18</sup> Even a country such as Malaysia, which is perceived to be relatively “clean” by regional standards, still has substantial issues with corruption.<sup>19</sup>

A few specific examples illustrate the scale of the problem. According to the ADB, corruption adds between 20 and 100 percent to the costs of procurement of government goods and services in several countries in the region.<sup>20</sup> The Government of Pakistan has estimated that \$50 million per day is misappropriated due to mismanagement and corruption.<sup>21</sup> The Philippines is estimated to have lost about \$48 billion due to corruption over the last 20 years, a figure that exceeds its entire foreign debt of \$40.6 billion.<sup>22</sup> And in the 1990s, both Pakistan and Thailand experienced military coups that were justified, at least in part, as necessary to overcome the pervasive corruption in the civilian administrations.

### **2. The Corruption Risks in ADB Projects and Programs**

These country-level corruption risks are exacerbated by the fact that ADB often supports projects or programs that are particularly vulnerable to corruption, or in which corruption is particularly difficult to control. Many of the sectors that ADB has prioritized for investment are known

to be acutely at risk for corruption—including natural resource development, transportation infrastructure, urban infrastructure and development, and other public works projects such as water supply and sanitation projects.<sup>23</sup> Moreover, the risks of graft and misappropriation may be even higher for “program” or “budget support” lending, a growing segment of ADB’s portfolio. Program loans support the general operations of a government entity, and are not dedicated to discrete projects. As such, their proceeds are commingled with the other

budgetary resources of the agency. It is therefore exceedingly difficult to determine how they are being used, and to ensure that they are programmed appropriately.<sup>24</sup> Consequently, budget support loans are exposed to the same risks of misappropriation as all other resources programmed through the implementing agency. Given the high level of corruption and weak internal controls of many of ADB’s client agencies, these risks can be extreme, and exceedingly difficult to mitigate.

### III. ADB’s Policy Response to the Challenge of Corruption

---

ADB’s response to the threat of corruption in its projects and programs is expressed in several documents: (1) the founding *Charter*; (2) the *Governance Policy*; (3) the *Anticorruption Policy* and its implementing *Operational Procedures* and *Bank Policies*; and (4) the *Guidelines for Procurement* and *Guidelines on the Use of Consultants*. This section will review each of these documents and describe their relevance to the ADB’s anticorruption efforts.

#### A. Anticorruption Responsibilities under the Charter

Article 14(xi) of the *Agreement Establishing the Asian Development Bank* (the *Charter*) imposes a fiduciary duty on Bank management and staff to ensure that Bank funds are used exclusively for their intended purposes. It provides:

*the Bank shall take the necessary measures to ensure that the proceeds of any loan made, guaranteed or participated in are used only for the purposes for which the loan was granted and with due attention to considerations of economy and efficiency.*<sup>25</sup>

The plain language of this provision requires Bank management and staff to take whatever measures are necessary to eradicate corruption from ADB-financed projects and programs. Thus, it directs management and staff to take “necessary measures,” (emphasis added) not merely those that are reasonable or cost-effective. And it requires them to “ensure,” not merely to promote, the appropriate use of Bank funds.

The “necessary measures” clause, however, is probably best understood as a largely aspirational statement of principle. Read literally, it would impose a duty to eradicate all corruption—an outcome that is probably not possible, or even desirable.<sup>26</sup> But this is not to say that the clause does not impose any specific obligations. At

a minimum, it implies two concrete commitments. During appraisal, it imposes a duty to analyze the corruption risks and to devise an action plan to address them. That is, the Bank must determine which measures will actually be necessary to safeguard Bank funds on any given project. During implementation, it provides a clear standard for assessing the quality of the Bank’s anticorruption efforts. Where funds are diverted or lost to corruption, the clause should be read to require the Bank to justify why it was not possible or desirable to better protect the Bank’s resources, and to take responsibility for the loss of those resources where the failure to take “necessary measures” cannot be justified.

#### B. ADB’s Governance Policy

The second key element of the Bank’s approach to corruption is the 1995 Board Policy Paper entitled *Governance: Sound Development Management* (*Governance Policy*). Although the *Governance Policy* did not address corruption directly, it formally recognized, for the first time, the importance of fair, effective and accountable public administration to achieving positive development outcomes. The adoption of the *Governance Policy* signaled the Bank’s reconsideration of its narrow interpretation of its *Charter* restrictions on interfering in the domestic political affairs of its borrowers, and laid the groundwork for the Bank to confront corruption more directly.<sup>27</sup> Thus, when the Bank promulgated its *Anticorruption Policy* three years later, it framed its anticorruption efforts as a component of its existing work to improve governance and public administration.<sup>28</sup>

The *Governance Policy* articulates four basic elements of good governance — accountability, transparency, predictability, and participation. It defines these elements as follows:

- **Accountability** is necessary to ensure that government officials are answerable for government behavior and responsive to the entity from which they derive their authority.<sup>29</sup>
- **Participation** means that people must have access to institutions that promote development. It implies that “government structures are flexible enough to offer beneficiaries and others affected, the opportunity to improve the design and implementation of public programs and projects.”<sup>30</sup>
- **Predictability** refers to the existence of laws, regulations and policies to regulate the state and their fair and consistent application. It requires the state and its agencies to be bound by the rule of law.<sup>31</sup>
- **Transparency** refers to the availability of information to the general public, and clarity about government rules, regulations and decisions.<sup>32</sup>

## C. The Anticorruption Policy and Procedures

### I. Overview of Policy Framework

ADB’s specific response to corruption is articulated in its *Anticorruption Policy*, promulgated in 1998, and in its implementing *Bank Policies and Operational Procedures on Anticorruption*, which followed in 2000.<sup>33</sup> These three documents (1) explain how ADB believes corruption impacts its development objectives; (2) establish the institution’s priorities for fighting corruption; (3) require management and staff to consider and report on corruption issues throughout the Bank’s operations; and (4) establish a mechanism and procedures for investigating and taking action on allegations of corruption in Bank projects and programs. (*This mechanism is described in Appendix B*).

The *Anticorruption Policy* builds upon the *Governance Policy* by emphasizing that improving the quality and effectiveness of public administration is the cornerstone of its anticorruption strategy. Starting from the premise that the basic elements of good governance are also critical to the fight against corruption,<sup>34</sup> it identifies three priority areas for ADB’s anticorruption efforts:

- (i) supporting competitive markets, and efficient, effective, accountable, and transparent public administration as part of ADB’s broader work on governance and capacity building;
- (ii) supporting promising anticorruption efforts on a case-by-case basis and improving the quality

of ADB’s dialogue with its Developing Member Countries on a range of governance issues, including corruption; and

- (iii) ensuring that ADB’s projects and staff adhere to the highest ethical standards.<sup>35</sup>

Curiously, the *Anticorruption Policy* never mentions the *Charter’s* requirement which requires management and staff to take the “necessary measures” to ensure that Bank funds are used appropriately. Rather, in contrast to the fiduciary approach of the *Charter*, the *Anticorruption Policy* takes a more instrumental approach. It grounds its anticorruption efforts in the pursuit of development effectiveness rather than the obligation to safeguard Bank funds. Thus, the *Policy* identifies addressing corruption through its broader work on governance and capacity building as the “major thrust” of ADB’s anticorruption efforts,<sup>36</sup> and thereby deemphasizes its obligation to ensure that Bank funds are used appropriately. The *Policy* also seems to qualify the fiduciary obligations imposed by the *Charter*. While the *Charter* requires Bank management and staff to take “necessary measures” to ensure that its funds are not misappropriated, the *Anticorruption Policy* suggests that they need only take “reasonable precautions.”<sup>37</sup>

The *Policy’s* commitment to combating corruption in ADB projects and programs is qualified in other ways as well. On the one hand, the *Policy* imposes a “compelling obligation” upon all ADB staff to ensure the integrity of Bank operations within their area of responsibility.<sup>38</sup> It also expresses a “zero tolerance policy” in which ADB will firmly and expeditiously respond to all credible evidence of corruption among ADB staff and on its projects.<sup>39</sup> On the other hand, however, the “zero tolerance” policy applies only to the manner in which ADB will respond to solid evidence of corruption, not to the more important question of how much effort and resources should be devoted to uncovering and deterring corruption in the first place. On that point, the policy prioritizes “practical and cost-effective prevention control measures” over enforcement mechanisms, and disavows any intent to turn Bank staff into “police officers.”<sup>40</sup>

### 2. Risk Assessment and Reporting Requirements

The *Anticorruption Policy* also aims to ensure that corruption issues are addressed candidly, comprehensively and rigorously across the entire range of ADB operations, and at all stages of the project cycle. Toward this end, the *Operational Procedures* set out the following requirements for assessing and reporting on corruption risks and strategies to mitigate them:

- **Country Programming:** The *Operational Procedures* require management and staff to consider corruption issues more explicitly in country risk analysis and the formulation of the country strategies. The *Procedures* provide that “ADB will systematically identify, in consultation with its member countries, opportunities for reducing corruption as part of its broader emphasis upon promoting good governance and sound development management.”<sup>41</sup> They direct management and staff to assess whether ADB projects are likely to be affected by corruption during their design or implementation, whether a country’s ability to attain its national development objectives are being compromised by corruption, and whether the government is willing or able to control corruption.<sup>42</sup> In preparing these documents, management and staff are instructed to use plain language, and avoid using opaque or euphemistic language that may obscure the nature of the problem.<sup>43</sup>
- **Economic and Sector Work:** The *Procedures* direct management and staff to undertake more detailed analysis of corruption-related issues in the context of loan-related economic and sector work (ESW).<sup>44</sup> They state that ESW should more systematically address the effects of corruption on economic policymaking and implementation, and the extent to which it distorts the impact of policies and programs.<sup>45</sup>
- **Project Appraisal and Preparation:** The *Procedures* also require management and staff to explicitly address corruption in project preparation.<sup>46</sup> They instruct management and staff to identify those projects that are particularly at risk, and pay careful attention to these risks when designing projects.<sup>47</sup> Management and staff are also required to design projects in ways that support good public sector management.<sup>48</sup> This includes the use of appropriate procurement methods and the careful design of contract packages.<sup>49</sup>
- **Project Supervision:** During implementation, the *Procedures* instruct management and staff to devote greater attention and resources to upgrading the quality of project supervision, particularly for projects that have been identified as being acutely at risk.<sup>50</sup> This includes improving oversight missions, initiating random audits, and more closely scrutinizing the number and scope of change orders to ensure that they are appropriate for the project.<sup>51</sup> Management and staff are required to report on evidence that corrupt activities have adversely affected the effectiveness or rate of return of ADB projects in all ADB supervision docu-

ments, so that appropriate remedial action can be considered.<sup>52</sup> They are also required to use plain language in their reports, and avoid using opaque or euphemistic language that may obscure the nature of the problem.<sup>53</sup>

#### D. Guidelines on Procurement and Use of Consultants

ADB has incorporated some anticorruption measures into its guidelines for the purchase of goods and services using Bank funds. Both the *Guidelines for Procurement* and *Guidelines on the Use of Consultants* reiterate the basic principles of the *Anticorruption Policy*, and define the range of responses and disciplinary measures that ADB can take if it uncovers corruption in its procurement or consulting contracts. These *Guidelines* provide that the Bank will:

- reject a proposal if it determines that the contractor has engaged in corrupt or fraudulent practices in competing for the contract in question;
- cancel the portion of the loan allocated to the contract if it determines that the borrower or beneficiary of the loan engaged in corrupt or fraudulent practices during the selection or execution of the contract, without the borrower having taken timely and appropriate action to remedy the situation;
- declare a contractor ineligible, either indefinitely or for a stated period of time, to be awarded a Bank-financed contract, if it determines that the contractor has engaged in corrupt or fraudulent practices in competing for or executing the contract;
- have the right to require that a provision be included in contracts financed by a Bank loan requiring contractors to permit the Bank to inspect their accounts and records relating to the performance of the contract and to have them reviewed by auditors appointed by the Bank.<sup>54</sup>

As with the *Anticorruption Policy*, however, the guidelines do not give full expression to the “necessary measures” clause of the *Charter*. This oversight is particularly evident in the *Guidelines for Procurement*, which refer to the *Charter* obligation to “ensure that the proceeds of its loans are used with due attention to considerations of economy and efficiency,” but do not mention the “necessary measures” clause, even though it is in the same provision of the *Charter*.<sup>55</sup>

## IV. Analysis of ADB's Compliance with the Requirements of the Anticorruption Policy

---

The impacts of corruption can vary widely depending upon how it manifests itself in the local political economy. For example, where corruption is organized at highest levels of government, a kleptocratic ruler may structure the size, organization, spending, policymaking and regulatory priorities of the state to maximize his personal wealth, rather than to advance the public welfare.<sup>56</sup> Conversely, where corruption is mostly the province of lower level functionaries, its effects on the development trajectory of the country may be completely different, if not necessarily less pernicious.<sup>57</sup> Because corruption can vary so widely in form and impact, ADB staff must fully understand its local manifestations before they can craft an appropriate policy response.

The *Operational Procedures* recognizes this diversity, and directs ADB staff to assess and explicitly report on corruption issues across the entire range of Bank operations—from country programs and sector analysis through project preparation and implementation. To determine whether ADB management and staff are complying with these requirements, we reviewed a representative sample of recent country strategies, project appraisals, and evaluation reports. For each document, we posed a set of questions designed to determine whether ADB had adequately addressed corruption issues. We found no evidence in these documents that ADB systematically considers corruption issues in any phase of its operations. At best, we found that ADB's treatment of corruption issues was sporadic and superficial. More often, it was entirely absent.

### A. Discussion of Corruption in Country Strategy Reports.

ADB describes its assistance strategy for each Developing Member Country (DMC) in a Country Strategy and Program (CSP). The CSP is the central planning document for ADB's operations in each country,<sup>58</sup> and is updated each year to ensure that it remains current and relevant (CSP-Update). The *Operational Procedures* require management and staff to clearly and explicitly address corruption issues in these country strategy reports. According to the *Operational Procedures*, these reports should discuss the history of ADB operations in a given sector or country; whether ADB projects are likely to be affected by corruption during their design or implementation; whether the country's ability to attain its national development objectives will be compromised by corrup-

tion; and the degree to which the government has the capacity or political will to control corruption.<sup>59</sup> Country strategy documents should also recommend ways in which ADB can help advance the principles of sound development management, including measures that would help to combat corruption.<sup>60</sup>

To determine ADB's compliance with this requirement, we reviewed the most recent CSP or CSP-Update for eight countries in which corruption risks are known to be high—Bangladesh, Cambodia, India, Indonesia, Laos, Nepal, Pakistan and Vietnam. These reports reflect current ADB practice, as they were all completed after October 2002. We then assessed the compliance of each CSP or CSP-Update with the requirements of the *Operational Procedures* by posing the following questions:

- Did the CSP assess how ADB projects may be affected by corruption during design or implementation?
- Did the CSP assess the potential impact of corruption on the country's ability to attain its national development objectives?
- Did the CSP assess the government's ability and willingness to control corruption?
- Did the CSP discuss how the Bank could help combat corruption?

Finally, to compare ADB's practice with that of other development institutions, we considered whether the World Bank's analogous Country Assistance Strategy (CAS) for each country addressed the same questions.

In each of the eight CSPs and CSP-Updates we reviewed, ADB's treatment of corruption was either substantially deficient or entirely absent. (*See Box 3*). A reader of these documents would never learn that corruption is endemic in each of these countries, or that it is likely to have profound impacts on their development trajectories. None of the eight reviews explicitly discussed how ADB projects might be affected by corruption during design or implementation, or assessed the government's ability and willingness to combat corruption. Only the CSP for Indonesia discussed how systemic corruption might undermine a country's ability to achieve its development objectives, and how the Bank could contribute to fighting corruption.<sup>61</sup>

The CSP-Update for Bangladesh is illustrative. Bangladesh is widely perceived to be among the world's most corrupt countries.<sup>62</sup> According to Bangladesh's Public Administration Reform Commission, "[c]orruption pervades public life and public administration in Bangladesh. Corruption takes place at both political and bureaucratic levels, occasionally independent of each other, sometimes in collusion."<sup>63</sup> In fact, corruption in Bangladesh is so common, and its control mechanisms are so weak, that the Auditor General of Bangladesh has publicly disavowed any ability to assure international development agencies that their assistance funds are being spent appropriately.<sup>64</sup> Nevertheless, one searches the Bangladesh CSP in vain for any analysis of the corruption risks, or their potential impacts on the country's development prospects or the likely success of Bank projects.

The difference between the CSPs and the World Bank's CASs is striking. In stark contrast with the CSPs, all eight CASs considered how corruption might affect the country's development trajectory, and the government's ability or willingness to control it; seven CAS's discussed

the role the Bank could play in fighting corruption; and four discussed how specific World Bank projects might be affected. For every country strategy we reviewed, the CAS offered a far more candid and detailed treatment of corruption issues than the CSP or CSP-Update. For example, the CAS for Cambodia asserts that "[c]orruption is widespread at all levels of the public sector," and explains how it impacts tax and customs collections, illegal logging, the distribution of public services, and access to health and education services.<sup>65</sup> Similarly, the CAS for Viet Nam explains that "corruption is a significant and growing problem in Viet Nam, and poses risks for the Bank and for Vietnam's development."<sup>66</sup> The ADB CSPs for Cambodia and Viet Nam, however, contain no mention whatsoever of corruption or its effects.

## B. Discussion of Corruption in Project Appraisal Reports

The *Operational Procedures on Anticorruption* require that corruption issues be addressed more explicitly in project preparation.<sup>83</sup> Management and staff must identify which

### BOX 3: ASSESSMENT OF CORRUPTION ISSUES IN COUNTRY STRATEGY AND PROGRAM REPORTS

Assessment in ADB CSP					
Country	1. Assessment of how ADB projects may be affected during design or implementation?	2. Assessment of impact on country's ability to attain its national development objectives?	3. Assessment of government's ability and willingness to control corruption?	4. Discussion of how Bank can help combat corruption?	5. Issues discussed in World Bank CAS?
Bangladesh <sup>67</sup>	No	No	No	Discussed generally, not in "plain language"	1,2,3,4 <sup>68</sup>
Cambodia <sup>69</sup>	No	No	No	Discussed generally, not in "plain language"	1,2,3,4 <sup>70</sup>
India <sup>71</sup>	No	No	No	No	2,3,4 <sup>72</sup>
Indonesia <sup>73</sup>	Discussed generally, not in "plain language"	Yes	No	Yes	1,2,3,4 <sup>74</sup>
Laos <sup>75</sup>	No	No	No	Discussed generally, not in "plain language"	2,3 <sup>76</sup>
Nepal <sup>77</sup>	No	No	No	No	2,3,4 <sup>78</sup>
Pakistan <sup>79</sup>	No	No	No	No	2,3,4 <sup>80</sup>
Viet Nam <sup>81</sup>	No	No	No	No	1,2,3,4 <sup>82</sup>

projects are particularly at risk, and pay careful attention to those risks when designing projects.<sup>84</sup> This includes the use of proper procurement methods, such as international competitive bidding or local competitive bidding, and the design of appropriate contract packages.

To assess the extent to which Bank management and staff are considering corruption issues in project preparation, we reviewed a sample of *Reports and Recommendations of the President to the Board (RRP)*. The *RRP* summarizes the management's appraisal of the project for the Board of Executive Directors prior to its consideration of the loan proposal. It is supposed to provide the Board with all the information that it needs to make an informed decision on whether or not to approve ADB's involvement in the project, including the nature of the project; its development objectives; its potential costs and benefits; and any foreseeable risks that could hinder the implementation of the project or prevent it from meeting its development objectives.

We reviewed the *RRP*'s for the eighteen projects that the ADB approved in 2002 in three prominent, high-risk borrowing countries—Bangladesh, Indonesia and Pakistan.<sup>85</sup> For each *RRP*, we asked:

- Did the *RRP* assess the borrower's financial management and procurement capacity?
- Did the *RRP* assess the risks of theft or misappropriation of ADB funds?
- Did the *RRP* assess the potential impacts of corruption on the project's development objectives?
- Did the *RRP* explain how identified risks would be mitigated in the design and supervision of the project?

Of the eighteen *RRP*'s we considered,<sup>86</sup> none treated the issue of corruption with the rigor and detail that the *Operational Procedures* require (See Box 4). Despite the extremely high rates of corruption in each of these countries, only one of the eighteen *RRP*'s explicitly identified corruption as a critical project risk—and that discussion, while relatively candid, was patently incomplete.<sup>87</sup> None discussed how existing corruption in the host country generally, in the project sector, or in the implementing agency would put Bank funds at risk, and just one discussed how existing corruption could be an impediment to realizing the development objectives of the project.<sup>88</sup> Only two discussed the fiduciary capacities of the borrowing agencies.<sup>89</sup> While all of the *RRP*'s described the standard auditing regime that would be used, and four described additional measures that are designed to improve the fiduciary controls of the borrower, none of the

*RRP*'s addressed how the auditing and capacity building were tailored to identified corruption risks.

Thus, none of the *RRP*'s inform the public or the Board of Executive Directors (1) if a project is particularly at risk; (2) why the project was designed as it was in light of the existing corruption risks; (3) what design alternatives were considered and why they were rejected; (4) why the auditing regime crafted for the project properly addresses those risks; or (5) how Bank staff intended to supervise the projects in order to compensate for specific corruption risks or weaknesses in the borrower's financial management practices. The limited and occasional mention of corruption that does arise in the *RRP*'s completely fails to meet the requirements of the *Anti-corruption Operational Procedures* to explicitly address corruption issues in project preparation, and design projects so as to mitigate those risks.

### **C. Discussion of Corruption in Project Evaluation Reports.**

The *Operational Procedures* direct management and staff to devote greater attention and resources to upgrading the quality of project supervision, particularly for projects that are most at risk.<sup>109</sup> This includes improving oversight missions, initiating random audits, and more closely scrutinizing the number and scope of change orders to ensure that they are appropriate for the project.<sup>110</sup> Management and staff are also required to report on evidence that corrupt activities have hampered the effectiveness of ADB projects or lowered their rate of return in all monitoring and evaluation reports.<sup>111</sup> Management and staff are supposed to use plain language in discussing corruption in these reports, and avoid using opaque or euphemistic language that may obscure the nature of the problem.<sup>112</sup>

We reviewed a sample of recent Project Completion Reports (PCR) and Project Performance Audit Reports (PPAR) to determine the extent to which Bank management and staff are considering corruption issues in project oversight and evaluation.<sup>113</sup> The PCR is the operations department's assessment of the project one to two years after completion.<sup>114</sup> The PPAR is produced by the Operations Evaluation Department three years after completion, and is intended to provide an independent assessment of the impacts and effectiveness and sustainability of the project after this initial period of operation.<sup>115</sup> To comply with the *Operational Procedures*, these documents should contain a candid assessment of the scale and incidence of corruption that was encountered on the project and the extent to which that corruption impacted Bank funds, compromised the efficiency of the Bank's investment, or prevented the anticipated

**BOX 4: ASSESSMENT OF CORRUPTION ISSUES IN SELECTED  
REPORTS AND RECOMMENDATIONS OF THE PRESIDENT (RRP) IN 2002**

<b>PROJECT</b>	<b>1. Assessment of borrower's financial management and procurement capacity?</b>	<b>2. Assessment of potential for theft or misappropriation of project funds?</b>	<b>3. Assessment of potential impacts on development objectives?</b>	<b>4. Action Plan tailored to identified risks, including specific supervisory actions to be taken? <sup>90</sup></b>
<b>BANGLADESH</b>				
Jamuna-Meghna River Erosion Mitigation <sup>91</sup>	No	No	No	No
Dhaka Clean Fuel <sup>92</sup>	No	No	No	No
Urban Governance and Infrastructure Improvement <sup>93</sup>	No	No	Identifies "poor governance and lack of accountability" in participating municipalities as an impediment to good outcomes.	Project uses a performance based approach in which demonstrated progress on governance criteria is a prerequisite for continued participation. ADB will monitor performance. Midterm reviews.
Rural Infrastructure Improvement <sup>94</sup>	No	No	No	No
Road Network Improvement and Maintenance <sup>95</sup>	No	No	No	No
<b>PAKISTAN</b>				
Decentralization Support Program <sup>96</sup>	No	No	Yes	No explicit plan. TA to support budgeting, financial management and procurement.
Decentralized Elementary Education <sup>97</sup>	No	No	No	No
Financial (Nonbank) Markets and Governance <sup>98</sup>	No	No	No	No
Punjab Road Development <sup>99</sup>	No	No	No	No
Rural Finance Sector Development <sup>100</sup>	No	No	No	Capacity building for forensic accounting.
Sindh Rural Development <sup>101</sup>	No	No	No	No
Punjab Community Water Supply <sup>102</sup>	Yes	No	No	Capacity Building.
<b>INDONESIA</b>				
Poor Farmer's Income Improvement <sup>103</sup>	No	No	Appropriation of benefits by powerful interests.	No
Renewable Energy Development <sup>104</sup>	No	No	No	No
Coral Reef Rehabilitation and Management II <sup>105</sup>	No	No	No	No
Financial Governance and Social Security Reform <sup>106</sup>	No	No	No	No. Supports anti-money laundering regime.
Power Transmission <sup>107</sup>	No	No	No	No
Capacity Building for Decentralization <sup>108</sup>	Yes, for regional recipients, but not for implementing agency.	No	No	No

development benefits from being realized. They should also assess the success or failure of ADB's anticorruption efforts on the project, and make recommendations based on these experiences on how to avoid such problems in the future.

We reviewed eight PCRs and eight PPARs from projects and programs across the region. We considered two recent PCRs from four countries that are known to have high corruption risks—Bangladesh, India, Indonesia and the Philippines.<sup>116</sup> The PPAR sample consisted of a diverse mix of recent PPARs from a range of countries and sectors.<sup>117</sup> For each PCR and PPAR we asked:

- Did the report determine whether any ADB resources had been misappropriated?
- Did the report assess whether corruption hampered the development effectiveness of the project or lowered its rate of return?
- Did the report assess the strengths and weaknesses of ADB's mitigation strategies during project design and implementation, and make appropriate recommendations based on these assessments?

Of the sixteen PCRs and PPARs that we considered, none addressed corruption in any way. (See Box 5). This is true even for the four reviews that explicitly raised concerns about the implementation of the project's auditing and accounting regimes.<sup>118</sup> Unless we assume that ADB has been perfectly successful in insulating its projects from the impacts of systemic corruption that is present in many of these countries, operations staff and OED have invariably failed to comply with the requirements of the *Operational Procedures* to retrospectively assess the impacts of corruption on these projects.

#### **D. Why is Compliance with the Anticorruption Policy so Poor?**

What explains ADB's conspicuously poor record in complying with the requirements of its own *Operational Procedures*? There are a number of contributing factors. First, management has not provided staff with any guidance on how to assess corruption issues, or how to factor those assessments into their analysis and decision making. The absence of such direction ensures that corruption risks will not be addressed in a systematic, consistent or comprehensive way. Second, there is much stronger pressure on staff to finance new projects than to ensure that old ones are successful. Accountability for project quality suffers accordingly. Third, management and staff are often reluctant to discuss corruption issues with the

Board. According to one long-time ADB staff member, management and staff prefer to exclude the Board by "scrubbing" these documents of references to corruption for two reasons: they perceive that Board members would "lose face" by having to discuss the corruption in the regimes that they represent, and they do not believe that the Board actually has any interest or expertise on anti-corruption issues, and may even believe that involving the Board might be counterproductive.<sup>119</sup> Finally, ADB's poor performance can also be attributed to weaknesses in institutional leadership. According to one former Executive Director, ADB President Tadao Chino remains relatively indifferent to corruption issues. According to this former official, the demonstrably superior treatment of corruption issues at the World Bank is best explained by the fact that World Bank President James Wolfensohn has made fighting corruption an institutional priority, whereas President Chino has not. In this person's opinion, enormous progress could be made if ADB senior leadership sent a clear mandate to staff to comply with the requirements of the *Operational Procedures*.<sup>120</sup>

#### **E. Conclusions on Compliance.**

Our review of selected CSPs, RRP, PCRs and PPARs found no evidence that ADB management and staff systematically comply with their responsibilities to candidly address corruption issues in all relevant reports and strategy papers.<sup>121</sup> The systematic failure to report on corruption issues undermines ADB's anticorruption efforts in at least four important ways. First, it means that any anticorruption work that ADB does undertake proceeds in an *ad hoc* manner, with little peer review or Board oversight and no public accountability. Second, it disempowers interested stakeholders who could use such information to help ADB design more effective anticorruption strategies, inform their own anticorruption efforts, and demand better governance from their leaders. Third, the wide gulf between the promising rhetoric of the *Anticorruption Policy* and the abysmal performance of management and staff in implementing it invites cynicism about ADB's commitment to controlling corruption on its projects, and undermines ADB's credibility as a regional leader on this issue. Fourth, by sparing corrupt member governments from open discussion of their practices, ADB actually helps to shield them from domestic and international pressures that can catalyze fundamental change.<sup>122</sup> In several Asian countries, anticorruption reforms have been driven by the government's fear of a public backlash, or out of concern with its international reputation.<sup>123</sup> Taken together, the negative impacts of ADB's reticence amount to considerable lost opportunities in the effort to limit corruption as a persistent blight on the political economies of the region.

**BOX 5:ASSESSMENT OF CORRUPTION ISSUES IN PROJECT  
COMPLETION REPORTS AND PROJECT PERFORMANCE AUDIT REPORTS**

<b>PROJECT</b>	<b>1. Assessment of whether any ADB resources had been misappropriated?</b>	<b>2. Assessment of whether corrupt activities hampered the development effectiveness of the project or lowered its rate of return?</b>	<b>3. Assessment of ADB's mitigation strategies during project design and implementation? Make appropriate recommendations?</b>
<b>Project/ Program Completion Reports</b>			
Capital Market Development Program (Bangladesh)	No	No	No
Flood Damage Rehabilitation Project (Bangladesh)	No	No	No
Housing Finance Project (India)	No	No	No
Coal Ports Project (India)	No	No	No
Senior Secondary Education Project (Indonesia)	No	No	No
Second Integrated Irrigation Sector Project (Indonesia)	No	No	No
Leyte-Mindanao Interconnection Engineering Project (Philippines)	No	No	No
Municipal Water Supply Project (Philippines)	No	No	No
<b>Project/Program Performance Audit Reports</b>			
Kathmandu Urban Development Project (Nepal)	No	No	No
Saigon Port Project (Viet Nam)	No	No	No
Power Rehabilitation Project (Cambodia)	No	No	No
Metropolitan Cebu Water Supply Project (Philippines)	No	No	No
Agriculture Sector Program (Cambodia)	No	No	No
Northeast Minor Irrigation Project (Bangladesh)	No	No	No
CESC Limited Project (India)	No	No	No
Second Small and Medium Industries Project (Sri Lanka)	No	No	No

## V. Policy and Program Recommendations

---

There are a number of steps that ADB should take to improve the manner in which corruption issues are addressed throughout its operations. Based upon our assessment of the ADB's current policies and practices, our review of the anticorruption literature, and discussions with various stakeholders and current and former ADB officials, we believe that ADB management should:

- provide staff with clear guidance for assessing and responding to corruption risks in all of its operations;
- develop a proactive participation strategy to harness the insight and interests of civil society in combating corruption;
- improve its information disclosure policies and the transparency of its operations to facilitate better public participation;
- improve the quality and rigor of its project monitoring and oversight;
- commission an external audit of the scale of corruption on its projects and programs, and of the effectiveness of its internal control mechanisms; such an audit should be conducted periodically at regular intervals.
- articulate a stronger organizational commitment to eradicating corruption in ADB operations, and realign staff incentives to increase accountability for anticorruption outcomes; and
- forthrightly address its own accountability for its past willingness to lend money that it knew, or reasonably believed, would be misappropriated.

We also believe that the Board of Executive Directors should exercise its fiduciary and oversight responsibilities more proactively to ensure that corruption issues are properly addressed. Each of these recommendations is discussed in greater detail below.

### A. Clear Guidelines for Staff

ADB's poor record of compliance with the requirements of the *Operational Procedures* can be attributed, at least in part, to management's failure to provide staff with clear guidance on corruption issues. The *Anticorruption Operational Procedures* offer no guidance on how to assess corruption risks, or how to factor the results of those assessments into their analysis or decision-making. Such guidance is also missing from the guidelines for prepar-

ing these reports. This ensures that assessment and reporting of corruption risks will be undertaken, if at all, in an *ad hoc* and unsystematic fashion.

The ADB's failure to provide explicit guidance on how to address corruption issues bespeaks a lack of seriousness on the issue. Although the *Anticorruption Policy* maintains that combating corruption is essential to achieving positive development outcomes, the ADB does not afford it the same level of attention or analytical rigor as it gives to other issues that it considers to be critical to development. Compare, for example, the Bank's treatment of corruption with its treatment of environmental externalities or economic impacts during project appraisal. While management and staff are provided with no meaningful guidance on how to address corruption risks on proposed projects, they are given extremely detailed instruction on how to analyze and consider environmental impacts and economic rates of return.<sup>124</sup> This guidance sets out the range of issues that should be considered, provides a structured methodology for addressing them, and gives very specific instructions for how these issues should be presented. Similar guidance should be provided for anticorruption issues. As with these issues, ADB should provide management and staff with clearer direction on corruption issues by promulgating clear guidelines, and holding staff accountable for implementing them. The following sections describe some of the critical issues that should be addressed in these guidelines.

### I. Methodologies and Diagnostic Tools

---

As the *Anticorruption Policy* recognizes, the impacts of corruption on development outcomes depend upon the nature and scale of the problem and the dynamics of the local political economy.<sup>125</sup> A serious response to corruption therefore requires a fine-grained assessment of how, where and why corruption is occurring, what impacts it is having, and how it can most effectively be mitigated.<sup>126</sup> To improve the consistency and rigor with which corruption issues are addressed, ADB should develop policy-based methodologies for identifying, analyzing, managing and reporting on corruption issues in each aspect of the Bank's work.<sup>127</sup> These methodologies should be clearly set out in the guidelines for preparing each country or sector strategy document, project appraisal report and project monitoring report. Separate approaches should be developed for project loans and budget support loans to account for the different issues that arise in each context. Staff should be held accountable for implementing these frameworks.

To the extent relevant for each document, the methodologies should provide guidance for staff to:

- **Assess Vulnerabilities and Risks:** The first step in a corruption assessment should be to determine the nature and scale of the problem.<sup>128</sup> Each methodology should explain how staff should assess all relevant corruption risks, including those associated with the host country, the implementing agency, the economic sector, the specific project, and the potential contractors. With respect to the host country, for example, staff should be instructed to consider the governance environment and the capacity and political will of the borrower to control corruption risks.<sup>129</sup> Towards this end, the World Bank and the United States Agency for International Development (USAID) have each developed analytical frameworks for assessing country-level corruption risks and devising appropriate anticorruption initiatives.<sup>130</sup> ADB's Auditor General has also developed a methodology for assessing the "risk profile" of an implementing agency, and has conducted a pilot "project procurement related audit" of six contracts in Sri Lanka.<sup>131</sup>
- **Assess the likely impacts and social costs of corruption:** Each methodology should provide staff with appropriate diagnostic tools to estimate the likely impacts and expected social costs of corruption on each country strategy, sector strategy, project or program.
- **Devise appropriate mitigation and supervision action plans:** The methodologies should guide staff in creating mitigation strategies that are appropriately tailored to the identified corruption risks, and the opportunities and constraints for addressing them.<sup>132</sup> For example, the extent to which the borrower is amenable or averse to anticorruption efforts may determine which project designs, public monitoring arrangements, auditing regimes, and other mitigation efforts may be appropriate.<sup>133</sup> They should also help staff set priorities by identifying the easiest and most cost effective way to address the most severe risks.<sup>134</sup>
- **Avoid committing ADB funds where risks are too high:** The methodologies should establish criteria for determining which risks or combinations of risks are simply too high to be adequately mitigated, and therefore preclude ADB support.
- **Report on anticorruption impacts:** The methodologies for supervision and evaluation reports should articulate how staff should investigate whether ADB resources have been misappropriated, whether corruption has hampered development effectiveness, and should provide guidance for assessing ADB's mitigation strategies. They should also explain how to de-

termine whether ADB is successfully reducing corruption to a target or "optimal" level.

Staff should be held accountable for the quality and consistency with which they implement these frameworks. Towards this end, performance reviews should reward high quality implementation and penalize poor compliance.

## **2. Comprehensive Assessment of Corruption Risks**

The assessment of corruption risks should not be narrowly limited to the basic fiduciary question of the risks posed to project or program funds. Rather, it should address the full range of potential impacts on development outcomes and the distribution of social costs. These include the impacts on (a) the design and selection of projects; (b) environmental and social outcomes of the project; (c) the overall economic returns of the project or program; and (d) the equity and legitimacy of the distribution of costs, benefits, and risks. These assessments should inform, and be informed by, the other key diagnostic tools employed by ADB, such as the Environmental Impact Assessment and the Economic Rate of Return analysis.

### ***a. Impacts on Project Design and Selection***

The *Anticorruption Policy* recognizes that corruption among senior decision makers can lead to the design and selection of projects that are indefensible from a public welfare perspective.<sup>135</sup> It also concedes that the costs of such distortions in public decision making can be enormous, as they can produce substantial negative impacts, inefficiencies and opportunity costs.<sup>136</sup> To avoid supporting such projects, ADB should develop a methodology to assess whether proposed projects have been conceived to expand opportunities for corruption. Because it often will be difficult to find direct evidence of such malfeasance, rigorous alternatives assessments may be the most effective approach to identify suspicious decisions. ADB should scrutinize proposed projects to assess whether their scale and design are narrowly tailored to appropriate public policy objectives. Such assessments are particularly necessary for large-scale infrastructure projects, which are most vulnerable to such manipulation. Where the alternatives assessment reveals that the project is larger or more complex than necessary, ADB should not provide assistance.<sup>137</sup>

### ***b. Economic Rate of Return***

The anticipated costs and impacts of corruption should also inform the determination of whether ADB should support a project or program. Currently, ADB calculates

an estimated economic rate of return (ERR) for each proposal to assess whether it is likely to generate sufficient economic benefits to justify its support.<sup>138</sup> The ERR methodology, however, does not systematically consider how corruption may consume the expected project benefits. It does not account for the misappropriation of funds, the provision of substandard goods and services, the diversion of project benefits from intended recipients, increased environmental and social harms, reductions in the collection of taxes and fees, or any other negative impact of corruption. As a result, the ERR calculations inflate the estimated benefits in a way that will generally increase as corruption risks intensify.

This methodological bias in the ERR calculation seriously compromises its utility as a tool for identifying appropriate projects for support. Under the current ERR analysis, some proposed projects are eligible for ADB support that would not satisfy the minimum ERR requirements if corruption impacts were properly considered.<sup>139</sup> To generate a more realistic estimate of the likely economic benefits of a proposal, the ERR should discount the potential benefits by the likelihood of corruption and its estimated impacts. ADB should therefore amend its ERR methodology to provide guidance on how management and staff should estimate the potential impacts of corruption on economic returns.

### ***c. Environmental and Social Impacts***

The risk that corruption will significantly exacerbate the negative environmental and social impacts of a project, or consume a substantial portion of the expected benefits, should be assessed during project appraisal. For example, if a project is proposed to increase access to primary education, the corruption appraisal should assess whether broader access will be frustrated by teachers and administrators who improperly impose “fees” for the right to attend school. Similarly, if an environmental management plan for a forestry project sets aside some particularly sensitive areas to be preserved, staff should consider the risks that forestry officials will be bribed to look the other way as those areas are cut. The findings of these assessments should be factored into the design of the project and the Bank’s approach to project supervision.

### ***d. Allocative Equity and Legitimacy***

Corruption assessments must also address the risks posed by corruption to the distribution of project benefits, costs and risks. Every government initiative necessarily entails decisions that allocate benefits, costs and risks among different, often competing interests. When these allocative decisions are based on the purchase of favor from govern-

ment decision makers rather than on a reasoned assessment of the public interest, they fundamentally lack legitimacy. Those who are denied public services, or required to bear disproportionate costs and risks of a public initiative, are entitled to inquire why they must bear the burden of decisions that are so divorced from the public interest. To ensure that it avoids supporting projects that lack political legitimacy, ADB should determine whether the critical allocative decisions on its projects or programs have been made for improper purposes.

The questions of equity and legitimacy in the distribution of impacts are particularly critical where such decisions entail the allocation of significant public benefits and costs, or where the understanding of the public interest is highly contested. A classic example is the decisions about the nature, siting, design and financing of locally undesirable land uses such as waste treatment facilities. While the benefits of such projects can be diffused across a broad geographic area, the risks and costs of the facility are concentrated in neighboring communities. Moreover, because the interests of affected groups may diverge so dramatically, and because the underlying scientific and technical issues are often unclear or highly contested, there is rarely consensus on what exactly is in the public’s interest.<sup>140</sup> In these circumstances, procedural fairness—inclusive and transparent decision making, due process, and rule of law—will be a critical determinant of public legitimacy. Corruption, being entirely antithetical to the basic principles of good governance and public interested decision making, necessarily subverts such legitimacy.

The decision regarding the siting of the Samut Prakarn Wastewater Treatment Plant illustrates how corruption can corrode legitimacy on an ADB financed project. (*Discussed in detail in Appendix C*). In Samut Prakarn, a sweetheart land deal involving officials at the executing agency, real estate developers and the consortium of contractors led to the decision to site the sewage treatment plant in the community of Klong Dan. This decision could not reasonably be defended as the product of a legitimate balancing of competing considerations in the public interest, for such a balancing never took place. When the corrupt land transactions were exposed, the story became a national scandal, and the legitimacy of the project was so fundamentally undermined that the fate of the nearly-completed project remains in doubt.

To avoid such debacles in the future, ADB must expand its understanding of the negative impacts of corruption to explicitly include effects on allocative equity and project legitimacy. It should recognize that public decisions that are driven by corruption are almost invariably illegal and *ultra vires*, and as such, should not

command the authority normally afforded to the official acts of a sovereign government. It should incorporate a “legitimacy reinforcing” component into its anticorruption strategy by proactively assessing the risk that corruption will substantially distort the critical allocative decisions on the projects that it finances. Where such impacts are likely to be substantial, such as in large-scale projects, it should employ a stricter level of scrutiny of key allocative decisions to ensure that they are made in accordance with the principles of good governance articulated in the *Governance Policy*, and are not driven by the cupidity of government decision makers. This closer scrutiny might include, for example, a more rigorous assessment of whom the likely winners and losers of the project will be under various project alternatives to ensure that a proposed project was designed for appropriate public-regarding reasons.

Such a review is fully anticipated by the *Governance Policy* and the *Anticorruption Policy*, and is consistent with the prevailing understanding of the charter mandate not to consider political issues. While the *Governance Policy* appropriately recognizes that a wide range of different models of public administration and decision-making can be consistent with the basic principles of good governance, the *Anticorruption Policy* makes clear that official corruption is irreconcilable with any legitimate variation. All countries, regardless of their political system or cultural heritage, require their public administrators to exercise their designated powers in the public interest. Thus, all countries have laws on the books that criminalize corruption,<sup>141</sup> and these laws virtually always includes most forms of bribery, fraud, extortion, embezzlement, and kickbacks on public contracts.<sup>142</sup> Moreover, this universal condemnation of corruption cannot be dismissed as a mere artifact of the laws on the books. It is also deeply rooted in underlying cultural traditions and value systems. Bribery, for instance, is not only a criminal offense in every country on Earth, it is also universally considered to be shameful.<sup>143</sup> In short, in no country is it either legal or acceptable for a public official to use her public position for private gain. For this reason, the government participants in the 2003 Global Forum declared that there is a “universally held value of integrity” and insisted that the “call for cultural and historical particularity should not be used as a pretext for justifying corruption.”<sup>144</sup> Therefore, focusing on the impacts of corruption on the legitimacy of allocative decision making does not expand the Bank’s understanding of corruption into the forbidden realm of politics. Rather, it simply identifies a priority area of attention within the existing parameters of the Bank’s anticorruption efforts.

## B.A Proactive Participation Strategy

Civil society organizations, the media, and the general public are some of the most important resources that can be deployed in the fight against corruption.<sup>145</sup> Since citizens and user groups have a vested interest in the success of a project or program, they can be motivated watchdogs and advocates for the proper use of project resources.<sup>146</sup> Often, they also have the most nuanced understanding of the forms and folkways of local corruption, and can provide invaluable information on where corruption may be occurring, and how to design and implement projects to minimize it.<sup>147</sup> Moreover, involving the press and public in overseeing projects and programs can deter corruption by increasing the likelihood of exposure.<sup>148</sup> And, public involvement can be essential for creating the political momentum for more effective anticorruption initiatives.<sup>149</sup> For example, civil society groups can be important allies of reform minded individuals within the government and bureaucracy who want to reduce corruption in their projects and programs.<sup>150</sup> By bringing the insights and interests of the public to bear on the fight against corruption, then, the public can be mobilized to serve as “millions of auditors” of government operations.<sup>151</sup>

Anticorruption strategies that empower citizens by increasing transparency, accountability and public voice may be even more effective in combating corruption than more conventional public sector management tools, such as increasing civil service wages or strengthening internal oversight and enforcement. Thus, researchers at the World Bank have found that “corruption [usually] has been reduced not so much by overreaching visions of good government as by the growing ability of people and groups outside the state to defend themselves against official abuse and to check the unfair advantages of others.”<sup>152</sup>

ADB, however, has not fully recognized the important role that communities, civil society organizations, user groups and journalists can play in uncovering corruption, bringing it to the attention of enforcement authorities, and ensuring that those authorities take appropriate action. The *Anticorruption Policy* downplays the importance of public participation, and fundamentally misconstrues its relevance by arguing that it is primarily about generating public support for government-led initiatives.<sup>153</sup> In practice, ADB’s anticorruption efforts still tend to focus on strengthening the internal control mechanisms of the implementing agencies rather than on empowering stakeholders. For example, none of the eighteen projects discussed in Box 3 included an outreach, participation, or public capacity building component that was specifically designed to help control the incidence and impacts of corruption.<sup>154</sup>

ADB's experience with the Samut Prakarn Wastewater Management Project illustrates the pitfalls of failing to adequately include the public in project design and oversight. In Samut Prakarn, members of the affected Klong Dan community were the first to raise concerns about the integrity of the land transaction. Unfortunately, the community was not consulted before the land was purchased, and when they did bring their concerns to the Bank, they were not taken seriously. As a result, ADB missed an early opportunity to uncover and react to the corruption on the project.

ADB's narrow focus on improving governments' ability to control corruption in its own ranks should be broadened to include more systematic efforts to expand public and civil society oversight and involvement in anticorruption efforts on the projects and programs that it supports. ADB should ensure that the public is meaningfully consulted and invited to participate in all stages of project design and implementation, including the formulation of corruption assessments recommended above.<sup>155</sup> As the ADB-sponsored *Anticorruption Action Plan for Asia and the Pacific* emphasizes, this should not be limited to public outreach, but should also include facilitating cooperative relationships between interested groups and implementing agencies, and providing support and capacity building to civil society organizations to improve their effectiveness.<sup>156</sup>

The World Bank and USAID have been exploring ways to empower the media, civil society and community based organizations in the fight against corruption.<sup>157</sup> For example, USAID has supported programs that provide training for independent media in anticorruption investigation.<sup>158</sup> Similarly, the World Bank has begun to employ community-based monitoring programs to help minimize the impacts of corruption and prevent the misuse of its funds. In these programs, local interests are given a role in project design and implementation, including oversight of project expenditures. Many World Bank projects now specifically include some aspect of increased transparency or community involvement in the project design to help prevent the misuse of funds.<sup>159</sup> For instance, the Second Kecamatan Development Project in Indonesia, a project to develop public infrastructure in poor villages, closely integrates communities into the management of the projects, and provides technical assistance to support extensive civil society monitoring.<sup>160</sup>

Potential initiatives to encourage greater public participation include (a) conducting consultations with locally affected peoples, local governments, professional organizations, and other civil society groups; (b) establishing citizens' oversight bodies for public agencies; (c) carrying out systematic client surveys to determine how

corrupt systems of procurement, contracting, and service delivery actually work; (d) using telephone hot lines, call-in radio shows, and educational programs to receive and disseminate information; (e) requiring increased transparency regarding project costs and expenditures; and (f) encouraging those people who have information about corrupt activities to come forward by instituting strong whistleblower protections and incentives for speaking out; and (g) creating broad-based and durable civil society coalitions to improve the sustainability of anticorruption efforts.<sup>161</sup>

### **C. Improvement in Transparency and Disclosure**

Fraud and corruption, like most forms of official mischief, tend to flourish in the dark spaces that are shielded from public view. Exposing clandestine government operations to the disinfecting light of public scrutiny is therefore one of the most powerful tools available for uncovering and deterring corruption.<sup>162</sup> This entails ensuring that government decision making and policy implementation are transparent, and that the press and public have timely, complete and convenient access to the information they need to meaningfully scrutinize official activities.<sup>163</sup>

ADB should therefore view improving transparency and access to information as critical to controlling fraud and corruption in every project or program it supports. Particularly where the government has refused to allow participatory decision making, ADB involvement should provide a mechanism through which the public can review the government's actions. In this light, ADB's failure to assess and report on corruption risks in its projects and programs represents a substantial missed opportunity to inform the public about these issues. As a threshold matter, then, ADB should recommit itself to complying with these existing requirements. But on a broader level, ADB should also use its ongoing Disclosure Policy review to improve government accountability to its citizens through improved transparency and information disclosure.<sup>164</sup> Towards this end, the anticorruption benefits of increasing access to information should be considered throughout this review, and should inform decisions on changes to the policy.

A priority of this revision process should be to accelerate and expand the release of key project and program documents. The early release of key appraisal and oversight reviews can trigger a positive feedback loop through which the ADB and interested citizens can each strengthen their respective anticorruption efforts. By allowing the public to review key documents as early as possible, ADB can engage stakeholders to help expose

flaws and gaps in its treatment of corruption, and to help identify alternative or additional mechanisms for controlling it. And, improved access to critical information will empower citizens in their own efforts to fight corruption. For example, if the *Report and Recommendation of the President* were released in draft form and early enough in the project cycle to allow for meaningful public comment (rather than after Board approval, as is currently the case), the public could better assist ADB in designing cleaner projects. The public could also use ADB's assessments of the risk profile of the project or the implementing agency in their own domestic advocacy efforts. Similarly, the release of monitoring reviews during implementation would help strengthen the public's oversight efforts.

The Disclosure Policy review should also include a reconsideration of the near total secrecy that surrounds the operations of the Anticorruption Unit. Admittedly, there are a number of competing considerations that a transparency policy for the Anticorruption Unit must balance. On the one hand, the public has a right to be informed about how ADB monies are being used and how the ADB is enforcing its anticorruption policies. Complainants and whistleblowers also have a right to know how their specific allegations have been handled. On the other hand, there are some legitimate reasons for the Anticorruption Unit to be circumspect about the information it places in the public domain. Sometimes confidentiality may be necessary to protect the security of whistleblowers, the integrity of investigations, and the reputations of those who may be falsely accused. Refusing to disclose the results of investigations may also afford the ADB greater latitude to impose punitive sanctions on those who are found to have violated its policies.<sup>165</sup>

It is not at all clear, however, that these competing considerations are optimally balanced by maintaining near-absolute confidentiality. Criminal justice systems throughout the world have found ways to balance similar sets of competing interests in ways that accommodate far greater transparency. Furthermore, the full legal immunity provided by the Bank's *Charter* should provide greater space for the ADB to be more candid about publicly identifying those it has sanctioned.<sup>166</sup> The Disclosure Policy review should consider how to maximize the amount of publicly available information regarding the operations of the Anticorruption Unit while preserving confidentiality in the specific instances in which it is necessary.

## D. Project Monitoring and Supervision

The *Anticorruption Policy* recognizes that effective project monitoring and supervision are critical to achieving good anticorruption outcomes. The *Policy* therefore asserts that

“improving the quality of oversight and management of Bank loans and TA grants” is central to the Bank's efforts to reduce illicit behavior on its projects.<sup>167</sup> This includes improving the quality and frequency of general project oversight and financial audits.<sup>168</sup> While progress has been made in both areas, ADB still does not supervise its projects closely enough to systematically uncover or deter fraud and corruption.

Historically, ADB has taken a very permissive approach to project oversight. In 1994, ADB's Task Force on Improving Project Quality found that ADB did not adequately supervise and monitor its projects, and that project supervision and administration consistently received less priority and resources than project processing and preparation.<sup>169</sup> As a result, review missions were infrequent and limited in both scope and duration.<sup>170</sup> Worse, the Task Force found that monitoring efforts generally paid inadequate attention to “analyzing the more substantive aspects of the project” such as the achievement of project objectives, beneficiary involvement, improving agency capacity and development impact.<sup>171</sup> It attributed these shortcomings to an entrenched “culture of approval” that emphasized approving new projects over ensuring that existing projects were successful in meeting their development objectives.<sup>172</sup> Overall, the Task Force found an “urgent need to improve accountability for project quality.”<sup>173</sup>

While ADB has increased the administrative resources available for project supervision,<sup>174</sup> many of the problems identified by the Task Force have yet to be resolved. Most troubling, the “culture of approval” is still firmly in place. Staff still have much stronger incentives to approve new projects than to ensure that old ones are successful. Accountability for project quality remains weak or nonexistent. One former Board member described the prevailing mindset of project staff as follows: “their focus totally is on getting a paper to the Board. After that, it's not [their] problem, even if the project flops.”<sup>175</sup> Moreover, project monitoring has not improved sufficiently. In response to the findings of the Task Force, ADB introduced a new Midterm Review (MTR), which was designed to provide a more thorough assessment of the likely achievement of project goals, objectives, and benefits than ordinary monitoring reviews.<sup>176</sup> However, ADB's Operations Evaluation Department has found that most MTRs focus on the same questions of physical progress, loan disbursements, and covenant compliance as ordinary reviews, and thus “fall considerably short of what this study considers to be an effective MTR, with appropriate objectives, scope, and methodology.”<sup>177</sup> As a result of these shortcomings, the quality of project monitoring and supervision continues to suffer. For example, out of the ten performance audits OED conducted

between January and July of 2003, five identified shortcomings in mission reviews, project oversight, data collection, or review of post-approval design changes.<sup>178</sup>

Similar weaknesses are evident with respect to ADB's oversight of borrowers' financial controls. Borrowers are generally required to provide ADB with audited financial statements that demonstrate how loan proceeds have been used. However, the quality and rigor of these financial audits are often extremely suspect. Many domestic auditors simply lack the capacity, expertise and professional standards to consistently produce accurate and effective audits.<sup>179</sup> As a result, local audits tend to be *pro forma* exercises that focus exclusively on whether the books are in balance, without considering whether the entries are legitimate.<sup>180</sup> Such cursory reviews are incapable of consistently ferreting out even the most blatant instances of fraud or corruption.<sup>181</sup>

Despite these deficiencies, ADB does not adequately supervise the quality or accuracy of the audits it receives. In fact, until recently, ADB accepted these financial statements without any meaningful review.<sup>182</sup> While ADB has instituted an approval process to improve quality assurance, too few staff and managers are willing to speak out when borrowers conduct inadequate auditing and oversight.<sup>183</sup> This is in some sense understandable, since there is little incentive for them to do so. The *Anticorruption Policy* does not require rigorous oversight—indeed, it explicitly de-emphasizes enforcement mechanisms by disclaiming any intent to turn Bank staff into “police officers.”<sup>184</sup> Worse, managers and staff who raise such issues believe that it may delay their projects and undermine the support and cooperation of sponsor governments. Many also believe that taking affirmative action against corruption will harm their prospects for career advancement in an institution that offers opportunities and remuneration that often far exceed anything that may be available in their home country.<sup>185</sup> As a result, improving the effectiveness of project oversight will require a significant alteration of the staff incentive structure to make staff more accountable for project outcomes rather than simply for the volume of lending that they arrange.

### **E. Strong Institutional Commitment to Anti-Corruption Tied to Staff Incentives**

ADB currently lacks clear institutional direction and a culture of accountability with respect to anticorruption issues. Overall, ADB sends mixed signals on whether fighting corruption really is an institutional priority. While the rhetoric of the *Anticorruption Policy* commits ADB to vigorously combat corruption in its operations, it also disavows any intent to turn Bank staff into “police officers.”<sup>186</sup> Management has also signaled that corruption is not a priority issue by failing to promulgate meaningful

guidance for implementing the *Policy*, failing to require even nominal compliance with the policies, and tolerating poor anticorruption outcomes. The predictable result is that borrowers receive mixed signals about ADB's commitment to halt corruption on its projects when staff fail to apply the *Policy* requirements.

ADB cannot expect to achieve consistently good anticorruption outcomes, or to be taken seriously as a regional leader on anticorruption issues, if it continues to so blithely disregard the requirements of its own policies. For ADB's anticorruption efforts to be effective and credible, it must fully implement its rhetorical commitment to proactively, energetically and forthrightly address corruption. The impetus for this renewed commitment must come from senior management. ADB leadership should work to cultivate a powerful anticorruption ethos within the institution, in which management and staff are encouraged to see rigorous corruption assessments and meaningful reductions in fraud and corruption as a key value added of ADB participation. This ethos should be supported by a system of staff incentives that would mainstream accountability for achieving these outcomes.<sup>187</sup>

Management could take a number of steps to improve the incentives and accountability for achieving good anticorruption outcomes. Management should more clearly articulate what it expects to contribute to controlling corruption through its participation. Such a strategic perspective is entirely absent in current policy and practice.<sup>188</sup> It should then provide clear guidance to staff about how they should achieve those objectives. Finally, management should strive to improve staff incentives and responsibility for achieving these goals. As an initial step, ADB could dramatically improve staff incentives by implementing the un-enforced provisions of its existing policies: (1) the *Charter* provision that requires staff to take “necessary measures” to ensure that Bank funds are used only for their intended purpose;<sup>189</sup> (2) the provision of the *Anticorruption Policy* that imposes a “compelling obligation” upon all ADB staff to ensure the integrity of Bank operations within their area of responsibility;<sup>190</sup> and (3) the provision of the *Operational Procedures* that authorizes disciplinary action for the failure to take “reasonable precautions” to combat corruption.<sup>191</sup> To maximize their effect, these provisions should be implemented within the context of a broader realignment of staff incentives to end the “culture of approval” and more closely tie staff evaluations and promotions to successful project performance and positive development results.

### **F. External Audits**

Just as it is critical to assess the risks and impacts of corruption at the project or program level, it is also essential to understand how corruption affects the institution as a

whole. ADB should therefore assess the nature, scale and causes of corruption in its operations, the impacts it is having on ADB's mission, and how it can most effectively be controlled. To date, ADB has never estimated the level of corruption in its portfolio.<sup>192</sup> Nor has it allowed its internal controls over financial reporting or compliance with its governing charter or policies to be subjected to external review.<sup>193</sup> The United States General Accounting Office (GAO) has recommended that to better understand the nature of the problem and the effectiveness of its response, ADB should commission an independent, external audit of the incidence of corruption in its projects and programs, and the adequacy of its current policies, procedures, and management controls.<sup>194</sup>

The World Bank recently invited the GAO to conduct such a comprehensive audit of the quality of its internal control systems. The GAO study identified a number of strengths and weaknesses in the World Bank's policies and procedures and their implementation, and made a number of interesting recommendations for improvement.<sup>195</sup> The GAO has also conducted a follow-up study of the World Bank's implementation of reform measures that made some additional recommendations for improvement.<sup>196</sup> These reviews have proved useful, as the World Bank has welcomed and adopted many of the recommendations.<sup>197</sup>

## G. ADB's Accountability

The previous six recommendations address how ADB should improve its anticorruption efforts in the projects and programs that it supports. But it is also important to consider the question of ADB's own responsibility for the loss of some of the proceeds of its previous loans. Over the years, ADB has lent enormous sums of money to corrupt regimes. In some non-trivial percentage of those transactions, it knew, or should have known, that much of that money would be stolen, and yet failed to discharge its fiduciary duty to put appropriate safeguards in place. Currently, the burden of repaying these stolen funds falls entirely on the victims of these corrupt regimes—their citizens. Basic fairness, the Bank's governance principles of accountability and rule of law, and the "necessary measures" clause of the *Charter* would all seem to demand that the Bank assume some financial responsibility for its negligence or acquiescence in the misappropriation of these funds.<sup>198</sup>

ADB's *Governance Policy* underscores the importance of accountability and rule of law for sound management of the development process. It explains that:

Accountability is imperative to make public officials answerable for government behavior and responsive to the entity from which they derive their au-

thority. . . The litmus test is whether private actors in the economy have procedurally simple and swift recourse for redress of unfair actions or incompetence of the executive authority.

Predictability refers to (i) the existence of laws, regulations, and policies to regulate society; and (ii) their fair and consistent application. . . The rule of law encompasses both well-defined rights and duties, as well as mechanisms for enforcing them, and settling disputes in an impartial manner. It requires the state and its subsidiary agencies to be as much bound by, and answerable to, the legal system as are private individuals and enterprises.<sup>199</sup>

Having asserted the importance of these principles, one might expect ADB to endeavor to apply them to its own operations. But in fact, ADB has never publicly conceded that it may have some responsibility for acquiescing in the theft of its loaned funds, nor has it ever, to our knowledge, forgiven any loans on that basis. Moreover, ADB generally eschews the rule of law and absolves itself from accountability to outside entities by seeking refuge in the expansive legal immunity provided by its *Charter*.<sup>200</sup> If, as the *Governance Policy* asserts, the availability of simple and swift redress from the unfair actions or incompetence of public entities is indeed the "litmus test" of accountability, ADB fails that test spectacularly.

ADB must address its own accountability for providing money that it knew would be stolen from the intended beneficiaries. As anticorruption activists stated at the 11th International Anti-Corruption Conference in May, 2003, "[w]hen international agencies are found to have financed . . . corrupt transactions, they—not the consumers—must bear appropriate responsibility for outstanding loans and credits."<sup>201</sup> The case for debt forgiveness is particularly compelling where the current government is a democratic successor to a corrupt and authoritarian regime that misspent the money in the first place.<sup>202</sup>

## H. Proactive Role of Board

The Board of Executive Directors is responsible for directing the general operations of the Bank.<sup>203</sup> In this capacity, the Board is expected to exercise independent oversight of Bank operations to ensure that management and staff adhere to the operating policies of the Bank, and that the proposals they approve actually advance the development objectives of the institution. With respect to corruption issues, then, it is incumbent upon the Board to ensure that management and staff have (a) complied with their fiduciary obligations to safeguard Bank funds against misappropriation, (b) satisfied the due diligence and reporting requirements of the *Anticorrupt-*

tion Policy, and (c) taken appropriate steps to minimize the chances that corruption will undermine the project's development objectives. In practice, however, the Board has not effectively exercised its responsibility to direct and oversee the Bank's anticorruption efforts. As we have seen in Section IV, the Board has been consistently willing to approve reports and strategies that manifestly fail to address corruption issues.

Four factors contribute to the Board's reticence on corruption issues. First, the Board generally tends to defer to management and staff on operational issues, and to assume that management has resolved critical issues, even if they are not discussed in Board documents.<sup>204</sup> According to former Executive Director Frank Black,

*the Board, at least in its present mode of operation, is more part of the problem than the solution. It is almost entirely reactive to, and very effectively "contained" by, the Bank's management, and by its "consensus culture." And while the latter has a valid place in the international system, it is not the best way to provide clear vision and direction to a development institution which needs to implement significant change.*<sup>205</sup>

Second, some Executive Directors have been especially reluctant to candidly discuss corruption because they think it unseemly or impolitic to draw attention to the corruption in the regimes of their Board colleagues. Since the issue of corruption is so heavily freighted with moral overtones, some Board members have been concerned that a candid discussion will entail an implicit accusation that can cause borrowing country directors to "lose face."<sup>206</sup> Third, the persistent temptation to "play politics" with international donor assistance has led some

Board members to subordinate corruption issues to other priorities. For example, as the *Anticorruption Policy* explains, some donors have historically been willing to overlook the financial improprieties of key allies to advance their own broader geopolitical interests.<sup>207</sup> Finally, the Board has a substantial "moral hazard" problem with respect to corruption. The Bank is likely to be paid back regardless of how much of its loans are lost to corruption. As a result, it does not bear the risks of misappropriation of its funds, and its incentives for rigorous fiduciary oversight are dampened accordingly.

Given the centrality of corruption to the integrity of Bank operations and to achieving good development outcomes, the Board should make it a first-order priority to hold management accountable for systematically addressing corruption issues throughout its operations, and for achieving consistently excellent anticorruption outcomes. The political will for a reinvigorated, candid treatment of corruption at the Board level already seems to be in place, both at the Board itself and in the member countries. By unanimously ratifying the *Anticorruption Policy*, every member country has already committed itself to a forthright and explicit discussion of the issue. Moreover, public debates about corruption are already taking place in most, if not all, borrowing countries.<sup>208</sup> Government leaders in a number of countries have been quite candid about the corruption in their own administrations, and many governments have recently prosecuted senior officials.<sup>209</sup> For example, seventeen regional governments have endorsed the *Anticorruption Action Plan for Asia and the Pacific*, pledging to proactively combat corruption and encourage a richer public dialogue on corruption issues. This has not been limited to the familiar dynamic of opposition accusation and government denial.

## VI. Conclusions

---

Despite the requirements of the *Anticorruption Policy*, ADB is consistently failing to address corruption risks and their potential impacts in their country assessments, project and program due diligence, and post-completion evaluation. Thus, country strategies do not address how corruption might impact the country's ability to attain its development objectives, how ADB projects might be affected by corruption, the government's ability to control corruption, or how the Bank could help combat it. Project appraisals do not discuss the sponsor's financial management and procurement capacity, the risks of theft or misappropriation of ADB funds, the potential impacts of corruption on the project's development objectives, or

how identified risks would be mitigated in the design and supervision of the project. And project evaluations do not assess whether ADB resources have been misappropriated, whether corruption hampered the development effectiveness of the project, the strengths and weaknesses of ADB's mitigation strategies during project design and implementation, and fail to make appropriate recommendations based on these assessments.

Taken together, the failure to appropriately consider corruption issues represents substantial missed opportunities for ADB to improve the development impact of its projects and programs.

# APPENDIX A: CASE STUDY OF THE SAMUT PRAKARN WASTEWATER MANAGEMENT PROJECT IN THAILAND

## A. Project Background

The Samut Prakarn Wastewater Management Project was conceived by the Government of Thailand in the early 1990's to address the severe water pollution problems in Samut Prakarn Province. Because of Samut Prakarn's strategic location on the Chao Phraya river just south-east of Bangkok, the province was one of the most heavily industrialized and rapidly urbanizing provinces in Thailand. Its sanitation and water treatment facilities could not handle the large volumes of wastewater produced by its 1.2 million residents and over 4,000 factories.<sup>210</sup> Most residential wastewater in Samut Prakarn was being processed in cesspits or septic tanks that were inadequate for high-density development, and that discharged effluent directly into the canals and drains that flow into the Chao Phraya.<sup>211</sup> Moreover, most of Samut Prakarn's industries were not adequately treating their wastewater, and were rarely in compliance with government mandated effluent standards.<sup>212</sup> And despite the heavy concentration of industry, there were no hazardous wastewater facilities operating in the province.<sup>213</sup>

The resulting pollution levels in the Chao Phraya and the local canals was taking a large toll on the human and natural environment.<sup>214</sup> Public health was deteriorating as the incidence of water and sanitation related diseases increased.<sup>215</sup> Many of the impacted waterways, including the Chao Phraya itself, had lost the ability to sustain aquatic life.<sup>216</sup> Conditions were only expected to deteriorate further with increased industrial expansion and related urban development.<sup>217</sup>

Recognizing the severity of the problem, the Government of Thailand designated pollution control in Samut Prakarn as a national environmental policy priority, and sought assistance from the ADB in developing a wastewater management system for the province.<sup>218</sup> ADB responded by commissioning a project feasibility study that identified and evaluated an array of project options.<sup>219</sup> Thirteen of these options were selected and evaluated for cost, environmental impact (based on an initial environmental examination), social impact, and technical merit.<sup>220</sup> The study ultimately recommended building two large central treatment plants, one on each side of the Chao Phraya River.<sup>221</sup>

Following the recommendations of the study, the Thai government endorsed the "two facility" option, and sought

financing for the project from the ADB. ADB management also agreed that the project should include treatment plants located on either side of the Chao Phraya, and recommended that its Board of Directors approve financing.<sup>222</sup> Management's *Report and Recommendation of the President (RRP)* explained that this approach was "the optimum long-term strategy because [it] represents the least-cost solution in economic terms, can achieve the desired water quality objectives, has minimal negative environmental and social impact, involves minimal resettlement and is affordable."<sup>223</sup> Management proposed to award a separate "turnkey contract"<sup>224</sup> for each facility, with the contractors selected through a process of international competitive bidding. This plan was approved by ADB's Board, and was incorporated in the loan agreements with the Government of Thailand.<sup>225</sup>

## B. Site Selection

Management's recommendation to the Board maintained that two suitable sites had already been selected for the facilities.<sup>226</sup> The *RRP* made several references to the nature of these sites, and provided a map showing their locations.<sup>227</sup> Management assured the Board that while the turnkey contractors would have primary responsibility for actually obtaining these lands,<sup>228</sup> there would not be any "particular problems or undue delays" in acquisition, as the lands were "remote, generally uninhabited land with limited development potential."<sup>229</sup> As an additional guarantee, the Thai Government and the executing agency for the project, the Pollution Control Department (PCD), agreed to exercise its powers of eminent domain if the contractors proved unable to secure the necessary land.<sup>230</sup>

Despite management's confidence that acquiring the land would not be a problem, however, the two contractors that submitted proposals in the second round of the bidding process claimed that they were unable to secure suitable land for the west bank site.<sup>231</sup> Instead of asking the Thai government to condemn the land, however, they persuaded the PCD to amend the bidding documents to allow alternative bids for a single treatment plant.<sup>232</sup> Ultimately, only one contractor—the NVSPKG Joint Venture<sup>233</sup>—submitted a final bid. NVSPKG proposed to build the single facility not at the original east bank site, but rather at Klong Dan, over 20 kilometers from the east bank of the river. PCD accepted this proposal. For its part, ADB

treated this significant change as a routine matter of project administration that did not require additional management review or Board approval.<sup>234</sup>

### C. Allegations of Corruption

The residents of Klong Dan were never informed of the decision to relocate the wastewater treatment facility to their community.<sup>235</sup> In fact, they learned of the nature of the project and its evolution only after construction had begun. When the Klong Dan residents finally became aware of the nature of the project, they strenuously objected. They raised a number of concerns about the negative impacts the facility would have on their environmental quality and economic well-being.<sup>236</sup> Moreover, community members became convinced that the decision to move the project was driven more by the desire to enrich a handful of politically well-connected landholders than by any considered assessment of the public interest. They pointed to a number of irregularities in the relocation of the project and acquisition of the Klong Dan site that, taken together, suggested that the siting decision was tainted by corruption. These included:

- the PCD agreed to scrap the original “two facility” plan and move the project to Klong Dan without the requisite Cabinet approval and without conducting any impact assessments or feasibility studies of the new site, as required by ADB policy and Thai law.<sup>237</sup>
- the PCD purchased the land for the Klong Dan site from politically powerful interests with close ties to relevant ministries.<sup>238</sup>
- the PCD grossly overpaid for the land, paying more than twice its assessed value at a time when land prices had been much reduced due to the economic crisis.<sup>239</sup>
- the purchase price exactly equaled the maximum purchase price allowed under the contract. This, along with the inflation of the purchase price, strongly suggested collusion between the buyer and seller.<sup>240</sup>
- the land was not well suited for the facility, as it was acidic, weak in structure, prone to subsidence and often under water.<sup>241</sup>

Subsequent investigations by the Thai Government have corroborated these allegations, and have found additional evidence of corruption. Thai law enforcement authorities believe that PCD officials, executives of the joint venture, and the owners of the Klong Dan property conspired to inflate the purchase price of the parcels by as much as 1000 percent.<sup>242</sup> They found that the property purchased by the PCD included publicly owned

land that had been illegally titled through corrupt dealings with the land ministry,<sup>243</sup> and that executives of the joint venture owned shares in the company that had illegally obtained the land.<sup>244</sup> They also accused the former head of PCD of advising the bidders to propose the single facility design in violation of a cabinet resolution that called for a facility to be built on each bank of the Chao Phraya.<sup>245</sup> Finally, Thai authorities accused the joint venture of deceiving the PCD in the bidding process by failing to disclose that a member of the consortium with critical expertise had withdrawn from the joint venture before the contract was awarded.<sup>246</sup> A number of senior officials of the PCD, real estate developers, and executives of the joint ventures have now been criminally charged as a result of these investigations. Four top officials of the PCD, including two former director generals, have also been transferred in connection with the scandal.<sup>247</sup> In sum, the Samut Prakarn project has become the kind of cesspit it was designed to replace.

The corruption in the Samut Prakarn project is now an issue of national interest. The case has garnered substantial attention in the national press, and has been subjected to scrutiny of several government entities. Many in Thailand now suspect that the collusive land deals are only the tip of the iceberg of the corruption on the Samut Prakarn project, and that far grander corruption is likely to have occurred in the procurement and construction of the project.<sup>248</sup> In fact, the Prime Minister has publicly conceded that the project was “riddled with corruption.”<sup>249</sup> As a result of the controversies surrounding the project, it has never been completed, and its future as a wastewater treatment plant is very much in doubt. The Thai government is now evaluating alternative uses for the facility and considering how to proceed.

### D. ADB’s Response to Corruption in Samut Prakarn

The Samut Prakarn Wastewater Management Project is an unfortunate lesson in how corruption can transform a potentially important public initiative into a major development debacle. As such, it provides an important opportunity to assess the role ADB plays, or should play, with respect to corruption in the projects that it finances. A critical question is whether ADB’s involvement had any meaningful impact in limiting or exposing the corruption that has been found on the project. Towards this end, ADB’s performance can be considered across three areas of potential impact:

- (1) *project design and appraisal*: How did the ADB assess corruption risks and design the project and its financing to minimize those risks?

- (2) *project supervision during implementation*: What steps did it take to supervise the project to prevent or uncover corruption during implementation?
- (3) *response to corruption allegations*: How did ADB respond to the allegations of corruption that were brought to its attention?

As described below, the ADB can claim no meaningful achievements in any of these areas.

### **I. ADB's Pre-Approval Assessment of Corruption Risks and Project Design**

As part of its project preparation and appraisal, ADB management and staff should have recognized that the Samut Prakarn project was particularly vulnerable to corruption, and taken steps to address those risks. Corruption was known to be rampant in Thailand's public administration at the time that Samut Prakarn was designed, approved and put out for bidding. Moreover, Thailand was known to have a particularly acute problem with misappropriation, bribery, and graft on its public works projects. Despite the high country and project risks, however, there is no indication in ADB's project documents to suggest that it systematically assessed these risks, or sought to design the project in ways that would minimize them.

The corruption risks on the Samut Prakarn project were both patent and profound. Official corruption has long been endemic in Thai political culture.<sup>250</sup> One local observer has characterized corruption in Thailand as "widespread, deeply-rooted, well-organized, and tolerated."<sup>251</sup> In 1991, just four years before the Samut Prakarn project was approved, corruption was so widespread in the ruling civil administration that the military was able to use it as a plausible justification to seize power.<sup>252</sup> As it turned out, however, the military junta was much less interested in actually cleaning up the government than in expanding its own access to illicit income. As a result, little if anything had improved by 1995, when the ADB was contemplating providing support for Samut Prakarn. At that time, corruption was practiced with such impunity that Thailand was widely perceived to be one of the more corrupt countries in the world.<sup>253</sup> The scale of the problem was vividly described by the Speaker of Parliament, who likened the government's budget to "a popsicle stick that's passed around. Everyone gets a lick at it when it comes their way, so that by the time the one at the end of the line gets it, there's little left."<sup>254</sup>

The nature of the Samut Prakarn project exacerbated the risks of corruption. Considered to be the largest wastewater treatment facility in Southeast Asia,<sup>255</sup> Samut

Prakarn was exactly the sort of large-scale infrastructure project that is well known to be particularly susceptible to bribery, procurement fraud and other types of corruption.<sup>256</sup> Thailand, moreover, has had a particularly difficult time controlling corruption on such projects.<sup>257</sup> Collusion among businessman, bureaucrats and politicians in the procurement process has been described as the "common pattern" of corruption in Thailand, and has often resulted in the initiation of "pork barrel" projects.<sup>258</sup> One study has estimated that between 1960 and 1990, construction projects in Thailand suffered from "leakage" rates of 20 to 40 percent of project costs.<sup>259</sup>

Despite these manifest risks, neither the *RRP* for the original loan nor the December 1998 Supplementary Loan, ever mention that corruption could compromise project effectiveness or the achievement of development outcomes. ADB's failure to take these risks into account in designing and appraising the project was a clear violation of the Bank's due diligence and fiduciary policies as they existed at the time. While the *Anticorruption Policy* had not yet been promulgated when the original project appraisal was being conducted, ADB's founding *Charter*, its *Governance Policy* and its due diligence procedures required management and staff to consider corruption risks and endeavor to mitigate them. Under Article 14 of the *Charter*, management and staff had a fiduciary obligation to take "necessary measures" to ensure that the proceeds of its loans were used only for the purposes for which they are granted.<sup>260</sup> Moreover, the *Governance Policy* enjoined staff to be cognizant of the importance of accountability, transparency, participation, and rule of law in achieving positive development outcomes.<sup>261</sup> And finally, the Bank management and staff were expected to assess the major risks that could impede the success or effectiveness of the project, and describe how those risks will be mitigated, as part of their recommendations to the Board of Executive Directors.

The *Anticorruption Policy* did apply to the preparation and approval of the Supplementary Loan in 1998. Indeed, the *RRP* for this loan was submitted to the Board just four months after the approval of the *Anticorruption Policy*. Since Supplementary Loans must be appraised with the same scope and rigor as original loans, the appraisal of the Supplementary Loan provided a critical opportunity to fully reassess the project with the dictates of the *Anticorruption Policy* in mind.<sup>262</sup> However, the *RRP* for the Supplementary Loan also failed to consider the potential impacts of corruption in any way. While the *RRP* should have reevaluated the project in its entirety, it did not assess the corruption risks or describe how they would be controlled or mitigated as required by the *Policy*.

To comply with its due diligence, anticorruption, and fiduciary obligations, ADB should have been careful to structure the project to ensure that adequate safeguards were in place to ensure that the project was not compromised by corruption, including a vigorous and proactive supervisory role for ADB. Since ADB opted to proceed under a turnkey arrangement with the contractors, the central question with respect to the adequacy of the design of the Samut Prakarn Project was whether the turnkey structure of the deal provided ADB enough oversight authority to determine whether its funds were being used appropriately.

There is nothing inherent in a turnkey contract that would circumscribe ADB's authority or responsibility to effectively supervise the use of the proceeds of its loans.<sup>263</sup> Indeed, covenants to the loan contract empower the Bank to obtain any reports or information and conduct any inspections it might deem necessary to discharge its usual oversight responsibility.<sup>264</sup> Nevertheless, ADB seems to have interpreted the turnkey structure of the project to provide an exemption from its ordinary responsibilities for project oversight. As the Inspection Panel's review of the project noted, management and staff assumed that "all the Project implementation issues should be taken care of by the turnkey contractor."<sup>265</sup> ADB used this interpretation as a justification for abdicating oversight responsibility.

Thus, ADB's understanding of its responsibilities under a turnkey contract appears to have been a greater barrier to the kind of effective oversight contemplated in Article 14 of the *Charter* than any constraints inherent in the nature of the turnkey arrangement. Indeed, to the extent that a turnkey contract may be an inherent obstacle to ensuring that ADB funds are used as intended, its use cannot be reconciled with the *Charter* obligations to prevent misappropriation, particularly on projects that entail substantial corruption risks.

## **2. ADB's Monitoring and Supervision of the Project**

The failure to consider corruption issues during the project design and appraisal stages adversely impacted project monitoring and supervision during implementation. By not identifying the major areas of vulnerability or devising an action plan to mitigate them, ADB squandered a critical opportunity to prioritize its oversight efforts in a way that could most effectively mitigate corruption risks. This lack of a strategic approach, combined with ADB's minimalist interpretation of its responsibilities under the turnkey contract, led to manifestly deficient project monitoring. Thus, ADB did not question a number of substantial design changes that contra-

vened ADB policy, the loan agreements, and/or Thai law, and provided significant opportunities for corruption.<sup>266</sup> For example:

- ADB accepted changes in the bidding documents to allow alternative bids for one facility, despite the fact that (1) the loan agreements and resolution of the Thai cabinet explicitly provided for two facilities, and (2) ADB's procurement policy required it to pre-approve such changes;<sup>267</sup>
- ADB accepted the change in the location of the facility to Klong Dan, despite the fact that no environmental, social or alternatives assessment was ever conducted for the Klong Dan site as required under ADB policy and Thai law.<sup>268</sup>
- ADB failed to adequately scrutinize project changes that led to an 87 percent increase in costs prior to loan signing;<sup>269</sup>
- ADB did not object when the contract was granted to the only bidder, despite the fact that Thai procurement regulations require that competitive bidding processes that result in only a single bid be relet for bidding.

The failure to meaningfully review these changes was also inconsistent with the *Anticorruption Policy* and the "necessary measures" provision of Article 14 of the *Charter*. The *Policy* cautions that changes in the approved design and scope of the project are often requested to create new opportunities for illicit enrichment. It therefore directs staff to devote greater effort to "scrutinizing the number and scope of change orders. . . with the aim of ensuring the appropriateness of such requests."<sup>270</sup> While this policy was not yet in place at the time the changes were initially made, the *Policy* was in place by the time the Supplementary Loan was submitted to the Board for approval in December, 1998.<sup>271</sup> The proposed changes should therefore have been closely reviewed as part of the due diligence on the Supplementary Loan. Such due diligence is also inherent in the "necessary measures" requirement of the *Charter*.

Overall, ADB management and staff abdicated their responsibility to exercise appropriate supervision of the implementation of the project. Indeed, there is no evidence that ADB took the "necessary measures," or any measures at all, to ensure that the integrity and effectiveness of the project was not compromised by corruption.

## **3. ADB's Response to Corruption Allegations**

In June 2000, ADB management sent a Special Review Mission to Thailand to investigate the concerns raised by

the Klong Dan community, including the allegations of corruption in the land deal. The Mission was unable to find any evidence of irregularities in the land acquisition.<sup>272</sup> It is fairly clear from the *Aide Memoire* why the Mission reached such an erroneous conclusion—the Mission simply did not take the allegations seriously, and was more concerned with defending management’s previous decisions than in conducting an independent review of the concerns raised by the community. The *Aide Memoire* did not substantively address the allegations, dismissing them in a single sentence without any analysis or factual support for its findings.<sup>273</sup> It also failed to describe the basis of the allegations, the nature of its investigations, or the evidence it uncovered to disprove the accusations.<sup>274</sup>

The community presented its claims of corruption in the site selection process to the Inspection Panel and the Anti-corruption Unit of the Office of the General Auditor (OAG). The community asked the Panel to review whether the ADB had complied with its internal audit policies and the Anti-corruption Policy.<sup>275</sup> The Board Inspection Committee, however, determined that the corruption issues were outside of the Panel’s terms of reference.<sup>276</sup> It also noted that the Panel’s involvement might be redundant and counterproductive, since the OAG was concurrently conducting an internal investigation of the allegations of corruption.<sup>277</sup> The OAG, however, never conducted such an investigation. Arguing that the land transactions were being investigated by the Thai government, it limited its review to the wholly separate issue of an alleged conflict of interest involving a key ADB staff member on the project. Having been shuffled from one office to another, the community was ultimately denied review of its corruption allegations by both of the separate and independent accountability mechanisms to which it brought its claims.

Thus, ADB has never responded to the allegations of corruption raised by the Klong Dan community in a forthright and satisfactory way. Although at least three differ-

ent offices of ADB have reviewed aspects of the Samut Prakarn project, none have fully investigated and reported on the issues of corruption in the land transactions. Management’s review of the project failed to find any evidence of corruption, and both the Inspection Panel and the Anticorruption Unit of the Office of the General Auditor declined to consider the issue at all. Moreover, ADB has never publicly commented upon the results of the investigations of the Thai authorities, or the fact that the Government has instituted criminal proceedings against so many senior officials on the project. Nor has ADB taken any action in light of those findings, or launched a wider investigation of corruption on the project.

Overall, ADB’s response to the allegations of corruption has been grossly inadequate for an institution that purports to have “zero tolerance” for corruption on its projects.

## E. Conclusions

ADB’s involvement in the Samut Prakarn Wastewater Management Project had little discernible impact in reducing or exposing corruption in the project. ADB failed to adequately assess the corruption risks as part of its project due diligence, and made no effort to design the project in ways that would minimize those risks. Nor did it identify the major areas of vulnerability and craft a mitigation strategy to address them. Moreover, during implementation, ADB abdicated its supervisory responsibility to ensure that corruption did not subvert the integrity and effectiveness of the project. When allegations of corruption were brought to the attention of ADB, it failed to fully investigate them. Because ADB failed to conduct appropriate due diligence, and failed to exercise its monitoring and investigative responsibilities, ADB bears a significant measure of responsibility for the devastating impacts the ensuing corruption scandals have had on the project.

## APPENDIX B: THE WORLD BANK'S EXPERIENCE CONTROLLING CORRUPTION

The World Bank and the ADB face many of the same corruption challenges in countries in which they both operate—they tend to support the same types of projects, partner with the same types of sponsors, employ the same type of financing arrangements, and use similar due diligence procedures to assess project risks. Their responses to the challenge of corruption are also quite similar. In fact, ADB has self-consciously patterned its anticorruption strategy after the World Bank's, and has instituted anticorruption mechanisms that are “effectively identical.”<sup>278</sup> As a result of the broad similarities in their operations, the World Bank's experience with corruption can provide a useful estimate of the levels in ADB financed projects.

The United States General Accounting Office's (GAO) comprehensive audit of the quality of the World Bank's internal management systems for controlling corruption concluded that the project level auditing of Bank projects was too weak to provide “reasonable assurance that project funds are spent according to Bank guidelines.”<sup>279</sup> It found that the Bank and its borrowers did not always comply with Bank procedures on project supervision of procurement and financial management practices, and that the Bank was not adequately monitoring the extent to which these problems were being resolved.<sup>280</sup>

Not surprisingly, these control weaknesses have hampered the World Bank's ability to reduce corruption in its operations below the baseline levels that exist in the host country. The World Bank's experience in Indonesia is a particularly useful case study in this regard, for three reasons. First, Indonesia has been an important borrower for both the World Bank and the ADB, and ADB has explicitly recognized that its experience in Indonesia “does not appear to differ from that of the World Bank.”<sup>281</sup> Second, there is more publicly available information about corruption in World Bank projects in Indonesia than in any other country. And third, the corruption risks in Indonesia, though severe, are similar in magnitude and kind to those of many other countries in the region.<sup>282</sup>

According to a confidential assessment by its own resident mission in Indonesia, the World Bank has not been capable of reducing corruption in its portfolio below that which ordinarily occurs in Indonesian public administration. The review concluded:

In aggregate we estimate that at least 20-30% of GOI [government of Indonesia] development budget funds are diverted through informal payments to GOI staff and politicians, and *there is no basis to claim a smaller 'leakage' for Bank projects as our controls have little practical effect on the methods generally used.*<sup>283</sup> (emphasis added).

The Resident Mission's assessment of the level of corruption in the World Bank's Indonesia portfolio is supported by a recent project audit conducted by the Bank's Department of Institutional Integrity (DI). The audit uncovered numerous instances of corruption, including (1) manipulation of procurement processes to create the appearance of competition; (2) pre-arrangement of winning bids; (3) altering bid prices after submission; and (4) failure to perform invoiced work.<sup>284</sup> It concluded that such pervasive malfeasance was possible because the oversight and control mechanisms that were put in place to prevent it were grossly inadequate. The review found little evidence to suggest that appropriate project oversight was conducted, despite the “elaborate institutional structure to support and monitor project implementation at the various levels of Government,” and the “large contingent of consultants” retained by the World Bank for this purpose.<sup>285</sup>

Overall, the publicly available evidence regarding the extent of corruption in World Bank operations suggests that it probably approximates the level of corruption for similar activities in the borrowing country, and is therefore a common feature of World Bank projects.<sup>286</sup> Given the similarities in operations and approaches to fighting corruption, there is little reason to believe that the ADB has been any more successful than the World Bank in ensuring that corruption is demonstrably lower on its projects than in the country at large.

# APPENDIX C: PROCEDURES FOR HANDLING CORRUPTION ALLEGATIONS

The ADB *Operational Procedures* establish the Anticorruption Unit of the Office of the Auditor General (OAG) as the focal point of the Bank's efforts to enforce its anticorruption policy in ADB sponsored projects and programs and among ADB staff. The OAG has the exclusive authority to investigate allegations of corruption, and Bank procedures are designed to ensure that all potential cases of corruption are referred to them. Thus, staff is required to report allegations or evidence of corruption to the OAG, and is prohibited from undertaking their own investigations.<sup>287</sup> Staff does not need authorization from a superior to refer a case to OAG.<sup>288</sup> "Evidence" is defined broadly to ensure that all potential cases of corruption are referred to OAG:

"Evidence" is information, facts or circumstances which would lead a neutral, unbiased observer to the reasonable belief that corrupt or fraudulent practice(s) may have occurred in any aspect of ADB's operations, including projects and programs financed by ADB loans and investments.<sup>289</sup>

When the Anticorruption Unit receives an allegation or evidence of corruption, it begins an initial screening process to determine its specificity, credibility, seriousness and potential implications for ADB operations.<sup>290</sup> If the Anticorruption Unit concludes that a preliminary investigation is required, it outlines the proposed nature, scope, duration, investigating entity and method for conducting the investigation, and convenes an Oversight Committee.<sup>291</sup> The Oversight Committee must endorse the proposed work plan,<sup>292</sup> and decide whether to proceed with project financing while the investigation is taking place.

At the close of its investigation, the Anticorruption Unit submits its findings to the Oversight Committee for consideration. If the Committee believes that it needs more information to assess the veracity of the allegations, it can request further investigation or invite the accused to comment on the allegations. Once it has sufficient information to make a determination, it renders a decision whether the alleged violation did in fact take place or if the case should be closed.<sup>293</sup>

If the Committee concludes that the allegations are true, it must decide what sanction or remedial action to impose. In determining the appropriate response, the Committee considers the nature of the violation and the borrower's willingness to act decisively in addressing it. It may refuse to finance certain expenditures, suspend disbursements, accelerate loan maturities or cancel loans. It

may also declare a firm or individual ineligible from participating in ADB-financed projects and activities, and request the reassignment, demotion, dismissal or possible prosecution of personnel who are implicated in the corruption.<sup>294</sup> If ADB consistently encounters problems within a particular executing agency or sector, it can reduce or forego future lending and technical assistance operations in that area.<sup>295</sup> Finally, if ADB concludes that corruption has become so endemic in a country that it poses a significant impediment to the probity and integrity of ADB operations or the attainment of a country's fundamental development objectives, it can elect to lower or suspend ADB lending and TA operations to that country.<sup>296</sup>

Once the Committee determines culpability and the appropriate penalty, it reports its findings and proposed response to the President. This information is also provided to the ADB staff who originated the complaint, the relevant ADB head of department/office, the director, the government executing agency, the accused party, and any other relevant parties whom ADB deems appropriate.<sup>297</sup> The public, however, is not informed. ADB policy prohibits the release of any information regarding a specific fraud and corruption investigation to external parties. On occasion, the Oversight Committee may authorize specific exceptions to this policy, such as to refer a particular case to national authorities for criminal investigation and prosecution.<sup>298</sup>

## Protection for "Whistleblowers"

The *Anticorruption Policy* recognizes that in order to create the proper incentives for people who are aware of corruption to come forward, the ADB must protect them from potential retaliation.<sup>299</sup> The *Operational Procedures* therefore commit ADB to a range of measures to protect the safety and reputation of whistleblowers. First, it guarantees that the source of any corruption allegation or evidence will be kept strictly confidential. Second, it endeavors to protect its own staff who come forward by taking "appropriate measures" to ensure that their personal safety or career prospects are not jeopardized. Staff members who believe that they have been subject to retaliation have access to appeal procedures.<sup>300</sup> The policy further commits ADB to protect resident and regional mission staff by taking appropriate steps to reduce the risk of retaliation, including "using its good offices with the relevant government to secure transfer or adequate security protection."<sup>301</sup>

# ENDNOTES

- 1 World Bank, *Helping Countries Control Corruption: The Role of the World Bank*, at 9 (1997).
- 2 ADB, *Anticorruption Policy*, at 9-10 (1998).
- 3 ADB's *Anticorruption Policy* describes corruption as a "serious brake on the development process," ADB, *Anticorruption Policy*, at 19. See also, World Bank, *Helping Countries Control Corruption*, at 1 ("There is increasing evidence that corruption undermines development."); United States Agency for International Development, *Promoting Transparency and Accountability: USAID's Experience* (January 2000). Inter-American Development Bank, *Strengthening a Systemic Framework Against Corruption for the Inter-American Development Bank* (February 2001).
- 4 ADB, *Bank Policies- Anticorruption*, at ¶ 18 (20 July 2000); Rose-Ackerman, *CORRUPTION AND GOVERNMENT*, at 19.
- 5 ADB, *Anticorruption Policy*, at 15; Susan Rose-Ackerman, *CORRUPTION AND GOVERNMENT: CAUSES, CONSEQUENCES AND REFORM*, at 114-115 (1999).
- 6 ADB, *Anticorruption Policy*, at 17; ADB, *Bank Policies- Anticorruption*, at ¶¶ 15, 17 (20 July 2000); Rose-Ackerman, *CORRUPTION AND GOVERNMENT*, at 116, 119. Cheryl Gray and Daniel Kaufmann, "Corruption and Development" in *Finance and Development*, at 8 (March 1998).
- 7 Rose-Ackerman, *CORRUPTION AND GOVERNMENT*, at 213-14; Gray and Kaufmann, "Corruption and Development," at 8.
- 8 ADB, *Anticorruption Policy: Frequently Asked Questions*, at 1; Rose-Ackerman, *CORRUPTION AND GOVERNMENT*, at 18.
- 9 Rose-Ackerman, *CORRUPTION AND GOVERNMENT*, at 227; Gray and Kaufmann, "Corruption and Development," at 8.
- 10 ADB, *Anticorruption Policy*, at 15.
- 11 *Id.* at 17.
- 12 Rose-Ackerman, *CORRUPTION AND GOVERNMENT*, at 116, 217.
- 13 Gray and Kaufmann, "Corruption and Development," at 8.
- 14 Rose-Ackerman, *CORRUPTION AND GOVERNMENT*, at 18-19.
- 15 United Nations Development Programme *et al.*, *World Resources 2002-2004: Decisions for the Earth: Balance, Voice and Power*, at 36-38 (2003).
- 16 See Transparency International Perception Index, at <http://www.transparency.org/cpi/index.html>.
- 17 In fact, since 1995, Indonesia, Pakistan, China and Bangladesh have each, at one time or another, been considered to be among the three most corrupt countries in the world. Transparency International Perception Indices, 1995-2002 at <http://www.transparency.org/cpi/index.html>
- 18 See, for example the comments of Bangladeshi senior officials in World Bank, *Clean Government and Public Financial Accountability*, Operations Evaluation Department, at 6 (Summer 2000); the comments of the Prime Minister of Pakistan, ADB, *Anticorruption Policy*, at 16, *citing* "The News" (28 March 1997); and the comments of the Speaker of the Thai Parliament, *The Nation* (19 May 1996) in Pasuk Phongpaichit and Sungsidh Piriyarangsarn, *CORRUPTION AND DEMOCRACY IN THAILAND*, at iv (1996).
- 19 Transparency International Perception Indices, 1995-2002 at <http://www.transparency.org/cpi/index.html>
- 20 ADB, *Anticorruption Policy*, at 16.
- 21 *Id.*, *citing* "The News" (28 March 1997).
- 22 Philippine Government estimate, cited from *Reuter Newswire*. 1997. "Philippines Corruption a 'Nightmare' -Ramos," 11 January. In ADB, *Anticorruption Policy*, at 15 (1998).
- 23 ADB's priority sectors for investment are discussed at ADB, *ANNUAL REPORT 2002*, at 52-58 (2003). UNDP *et al.*, *World Resources 2002-2004*, at 36-38 (discussing corruption in natural resource development); Rose-Ackerman, *CORRUPTION AND GOVERNMENT*, at 22-29 (discussing corruption in large-scale public works projects).
- 24 World Bank, *Clean Government and Public Financial Accountability*, at 11.
- 25 ADB, *Agreement Establishing the Asian Development Bank*, Article 14(xi) (1966).
- 26 Even if all corruption could be completely eradicated, the cost of doing so would likely be prohibitive. For this reason, many commentators argue that anticorruption efforts should be designed to reduce corruption only to an "efficient" level, at which the marginal cost of corruption equals the marginal cost of further reductions. See Robert Klitgaard, *CONTROLLING CORRUPTION*, at 25 (1998); Susan Rose-Ackerman, *CORRUPTION AND GOVERNMENT*, at 52.
- 27 Article 36(2) provides :  
The Bank, its President, Vice President(s), officers and staff shall not interfere in the political affairs of any member, nor shall they be influenced in their decisions by the political character of the member concerned. Only economic considerations shall be relevant to their decisions. Such considerations shall be weighed impartially to achieve and carry out the purpose and functions of the Bank  
ADB, *Agreement Establishing the Asian Development Bank*, Article 36 (2) (1966).
- 28 ADB, *Anticorruption Policy*, at 7.
- 29 ADB, *Governance: Sound Development Management*, at 8 (August 1995).
- 30 *Id.*, at 9.
- 31 *Id.*, at 10.
- 32 *Id.*, at 11.
- 33 ADB, *Anticorruption Operational Procedures*, (Revised 1 January 2002); ADB, *Bank Policies on Anticorruption*, at ¶ 8.
- 34 ADB, *Anticorruption Policy*, at 7.
- 35 *Id.* at 7-8; *Bank Policies on Anticorruption*, at ¶ 8.
- 36 ADB, *Anticorruption Policy*, at 20.
- 37 Paragraph 38 of the *Operational Procedures* provides:  
Individual staff members are ADB's front line of defense against corruption. They could be held responsible for any failure to take reasonable precautions or to turn over allegations or evidence of corruption within ADB lending and TA operations or among ADB staff to OGA for investigation.  
ADB, *Anticorruption Operational Procedures*, at ¶ 38.
- 38 *Id.*, at 33; ADB, *Bank Policies— Anticorruption*, at ¶ 24.
- 39 ADB, *Bank Policies— Anticorruption*, at ¶ 25 (20 July 2000).
- 40 ADB, *Anticorruption Policy*, at 28, 33. Unfortunately, the *Policy* does not explain why the "compelling obligations" of Bank staff should not include a robust oversight, policing function.
- 41 ADB, *Anticorruption Operational Procedures*, ¶ 1 (Revised 1 January 2002).
- 42 *Id.*, at ¶ 27.
- 43 *Id.*, at ¶ 54.
- 44 *Id.*, at ¶ 2(iv).
- 45 *Id.*, at ¶ 30.
- 46 *Id.*, at ¶ 2(i).
- 47 *Id.*, at ¶ 24.
- 48 *Id.*, at ¶ 22.

- <sup>49</sup> *Id.* Other corruption prevention and control measures identified by the operational procedures include:
- ensuring that staff with the requisite skills in accounting and financial management are recruited by the executing or implementing agency,
  - ensuring that robust internal control systems and accounting systems are in place prior to loan disbursement.
  - identifying projects that are particularly at risk
  - conducting direct field investigations for major infrastructure projects
  - targeted auditing of executing agencies directly involved in project implementation
  - the provision of information in local languages about ADB's anticorruption policy
  - improved cooperation with capable NGOs in monitoring certain facets of project implementation.
- Id.*, at ¶ 24.
- <sup>50</sup> *Id.*, at ¶ 25.
- <sup>51</sup> ADB, *Anticorruption Policy*, at 30.
- <sup>52</sup> These include project supervisory reports, mission reports, project completion reports, project evaluation reports, performance audit reports, and other relevant reports.
- <sup>53</sup> ADB, *Anticorruption Operational Procedures*, at ¶ 54.
- <sup>54</sup> ADB, *Guidelines for Procurement Under Asian Development Bank Loans*, at 3-4 (February 1999); ADB, *Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers*, at 2-4 (April 2002).
- <sup>55</sup> ADB, *Guidelines for Procurement*, at 1.
- <sup>56</sup> Rose-Ackerman, CORRUPTION AND GOVERNMENT, at 117-118.
- <sup>57</sup> *Id.*, at 121.
- <sup>58</sup> According to the ADB website, the CSP:
- defines ADB's medium-term development strategy as agreed with the developing member country (DMC)
  - identifies and describes ADB's distinctive role, focused on ADB's overarching goal of reducing poverty, as well as the DMC's development priorities
  - is anchored on strong poverty, economic, social, and sector analysis
  - determines ADB's country-specific poverty reduction strategy, thematic, and sector priorities [www.adb.org/Documents/CSPs/default.asp](http://www.adb.org/Documents/CSPs/default.asp)
- <sup>59</sup> ADB, *Anticorruption Operational Procedures*, at ¶ 27.
- <sup>60</sup> *Id.*, at ¶¶ 26, 2(ii).
- <sup>61</sup> ADB, *Indonesia Country Strategy and Program 2003-2005* (October 2002).
- <sup>62</sup> Transparency International Perception Index, at <http://www.transparency.org/cpi/index.html>.
- <sup>63</sup> Bangladesh's Public Administration Reform Commission, Volume 1, at 83 (June, 2000), cited in World Bank, *Bangladesh Country Assistance Strategy*, at 3 (February 2001).
- <sup>64</sup> World Bank, *Clean Government and Public Financial Accountability*, at 6.
- <sup>65</sup> World Bank, *Cambodia Country Assistance Strategy*, at 2 (February 2000).
- <sup>66</sup> World Bank, *Viet Nam Country Assistance Strategy* at 31 (September 2002).
- <sup>67</sup> ADB, *Bangladesh Country Strategy and Program Update 2004-2006* (July 2003).
- <sup>68</sup> World Bank, *Bangladesh Country Assistance Strategy* (February 2001).
- <sup>69</sup> ADB, *Cambodia Country Strategy and Program Update 2004-2006* (July 2003).
- <sup>70</sup> World Bank, *Cambodia Country Assistance Strategy* (February 2000).
- <sup>71</sup> ADB, *India Country Strategy and Program 2003-2006* (April 2003).
- <sup>72</sup> World Bank, *India Country Assistance Strategy* (June 2001).
- <sup>73</sup> ADB, *Indonesia Country Strategy and Program 2003-2005* (October 2002).
- <sup>74</sup> World Bank, *Indonesia Country Assistance Strategy* (February 2001).
- <sup>75</sup> ADB, *Lao People's Democratic Republic Country Strategy and Program Update 2004-2006* (July 2003).
- <sup>76</sup> World Bank, *Laos Country Assistance Strategy* (March 1999).
- <sup>77</sup> ADB, *Nepal Country Strategy and Program Update 2004-2006* (August 2003).
- <sup>78</sup> World Bank, *Nepal Country Assistance Strategy* at 25-26, 35-36 (November 1998).
- <sup>79</sup> ADB, *Pakistan Country Strategy and Program Update 2004-2006* (July 2003).
- <sup>80</sup> World Bank, *Pakistan Country Assistance Strategy* (June 2002).
- <sup>81</sup> ADB, *Socialist Republic of Viet Nam Country Strategy and Program 2004-2006* (July 2003).
- <sup>82</sup> World Bank, *Viet Nam Country Assistance Strategy* at 25-26, 35-36 (September 2002).
- <sup>83</sup> ADB, *Anticorruption Operational Procedures*, at ¶ 2(i).
- <sup>84</sup> ADB, *Anticorruption Operational Procedures*, at ¶ 24.
- <sup>85</sup> Bangladesh, Indonesia, and Pakistan were considered the first, sixth, and twenty-third most corrupt countries in the world in 2002, according to Transparency International. Transparency International, *Corruption Perception Index 2002*, at <http://www.transparency.org/cpi/index.html>.
- <sup>86</sup> **Bangladesh:** ADB, *RRP on a Proposed Loan to the People's Republic of Bangladesh for the Road Network Improvement and Maintenance Project*, BAN 3223 (September 2002); ADB, *RRP on a Proposed Loan to the People's Republic of Bangladesh for the Jamuna-Meghna River Erosion Mitigation Project*, BAN 34038 (October 2002); ADB, *RRP on Proposed Loans to the People's Republic of Bangladesh for the Dhaka Clean Fuel Project*, BAN 35466 (October 2002); ADB, *RRP on a Proposed Loan and Technical Assistance Grant to the People's Republic of Bangladesh for the Urban Governance and Infrastructure Improvement*, BAN 29041 (October 2002); ADB, *RRP on a Proposed Loan to the People's Republic of Bangladesh for the Rural Infrastructure Improvement Project*, BAN 31304 (November 2002).
- Indonesia:** ADB, *RRP on a Proposed Loan to the Republic of Indonesia for a Poor Farmer's Income Improvement Through Innovation Project*, INO 34112 (July 2002); ADB, *RRP on a Proposed Loan and Technical Assistance Grant to the Republic of Indonesia for the Sustainable Capacity Building for Decentralization Project*, INO 35261 (November 2002); ADB, *RRP on a Proposed Loan to the Republic of Indonesia for the Power Transmission Improvement Sector Project*, INO 35139 (November 2002); ADB, *RRP for a Proposed Loan to the Republic of Indonesia for the Coral Reef Rehabilitation and Management Project Phase II*, INO 32176 (November 2002); ADB, *RRP for a Proposed Cluster, First Loan and Technical Assistance Grant to the Republic of Indonesia for the Financial Governance & Social Security Reform Program*, INO 33399 (November 2002); ADB, *RRP for a Proposed Loan and Technical Assistance Grant for the Renewable Energy Development Sector Project To the Republic of Indonesia*, INO 34100 (November 2002).
- Pakistan:** ADB, *RRP on a Proposed Loan to the Islamic Republic of Pakistan for the Punjab Community Water Supply and Sanitation Sector Project*, PAK 35314 (November 2002); ADB, *RRP on a Proposed Loan to the Islamic Republic of Pakistan for the Sindh Rural Development Project*, PAK 32024 (October 2002); ADB, *RRP on a Proposed Loan to the Islamic Republic of Pakistan for the Rural Finance Sector Development Program*, PAK 36075 (November 2002); ADB, *RRP on a Proposed Loan to the Islamic Republic of Pakistan for the Punjab Road Development Sector Project*, PAK 32058 (October 2002); ADB, *RRP on Proposed Loans and Guarantees for the Financial (Nonbank) Markets and Governance Program in the Islamic Republic of Pakistan*, PAK 33271 (November 2002); ADB, *RRP on a Proposed Loan to the Islamic Republic of Pakistan for the Decentralized Elementary Education Project (Sindh)*, PAK 30216 (August 2002); ADB, *RRP on the Proposed Program and Technical Assistance Loans to the Islamic Republic of Pakistan for the Decentralization Support Program*, PAK 34328 (October 2002).

- <sup>87</sup> That project, the Decentralization Support Program in Pakistan, is described in the *RRP* as “arguably the boldest” decentralization program ever undertaken by a developing country, as it includes creating an entirely new tier of local government. Yet the *RRP* does not assess how this radical transfer of power might create new risks and opportunities for corruption, or decrease the government’s ability to manage them. ADB, *RRP on the Proposed Program and Technical Assistance Loans to the Islamic Republic of Pakistan for the Decentralization Support Program*, PAK 34328 (October 2002).
- <sup>88</sup> ADB, *RRP on the Proposed Program and Technical Assistance Loans to the Islamic Republic of Pakistan for the Decentralization Support Program*, PAK 34328 (October 2002).
- <sup>89</sup> ADB, *RRP on a Proposed Loan to the Islamic Republic of Pakistan for the Punjab Community Water Supply and Sanitation Sector Project*, PAK 35314 (November 2002); ADB, *RRP on a Proposed Loan and Technical Assistance Grant to the Republic of Indonesia for the Sustainable Capacity Building for Decentralization Project*, INO 35261 (November 2002).
- <sup>90</sup> All projects included a description of the procedure for financial auditing of the project that is more or less standard. This question asks whether that plan is tailored to identified risks, and whether any other actions are being taken.
- <sup>91</sup> ADB, *RRP on a Proposed Loan to the People’s Republic of Bangladesh for the Jamuna-Meghna River Erosion Mitigation Project*, BAN 34038 (October 2002).
- <sup>92</sup> ADB, *RRP on Proposed Loans to the People’s Republic of Bangladesh for the Dhaka Clean Fuel Project*, BAN 35466 (October 2002).
- <sup>93</sup> ADB, *RRP on a Proposed Loan and Technical Assistance Grant to the People’s Republic of Bangladesh for the Urban Governance and Infrastructure Improvement*, BAN 29041 (October 2002).
- <sup>94</sup> ADB, *RRP on a Proposed Loan to the People’s Republic of Bangladesh for the Rural Infrastructure Improvement Project*, BAN 31304 (November 2002).
- <sup>95</sup> ADB, *RRP on a Proposed Loan to the People’s Republic of Bangladesh for the Road Network Improvement and Maintenance Project*, BAN 3223 (September 2002);
- <sup>96</sup> ADB, *RRP on the Proposed Program and Technical Assistance Loans to the Islamic Republic of Pakistan for the Decentralization Support Program*, PAK 34328 (October 2002).
- <sup>97</sup> ADB, *RRP on a Proposed Loan to the Islamic Republic of Pakistan for the Decentralized Elementary Education Project (Sindh)*, PAK 30216 (August 2002).
- <sup>98</sup> ADB, *RRP on Proposed Loans and Guarantees for the Financial (Non-bank) Markets and Governance Program in the Islamic Republic of Pakistan*, PAK 33271 (November 2002).
- <sup>99</sup> ADB, *RRP on a Proposed Loan to the Islamic Republic of Pakistan for the Punjab Road Development Sector Project*, PAK 32058 (October 2002).
- <sup>100</sup> ADB, *RRP on a Proposed Loan to the Islamic Republic of Pakistan for the Rural Finance Sector Development Program*, PAK 36075 (November 2002).
- <sup>101</sup> ADB, *RRP on a Proposed Loan to the Islamic Republic of Pakistan for the Sindh Rural Development Project*, PAK 32024 (October 2002).
- <sup>102</sup> ADB, *RRP on a Proposed Loan to the Islamic Republic of Pakistan for the Punjab Community Water Supply and Sanitation Sector Project*, PAK 35314 (November 2002).
- <sup>103</sup> ADB, *RRP on a Proposed Loan to the Republic of Indonesia for a Poor Farmer’s Income Improvement through Innovation Project*, INO 34112 (July 2002).
- <sup>104</sup> ADB, *RRP for a Proposed Loan and Technical Assistance Grant for the Renewable Energy Development Sector Project to the Republic of Indonesia*, INO 34100 (November 2002).
- <sup>105</sup> ADB, *RRP for a Proposed Loan to the Republic of Indonesia for the Coral Reef Rehabilitation and Management Project Phase II*, INO 32176 (November 2002).
- <sup>106</sup> ADB, *RRP for a Proposed Cluster, First Loan and Technical Assistance Grant to the Republic of Indonesia for the Financial Governance & Social Security Reform Program*, INO 33399 (November 2002).
- <sup>107</sup> ADB, *RRP on a Proposed Loan to the Republic of Indonesia for the Power Transmission Improvement Sector Project*, INO 35139 (November 2002).
- <sup>108</sup> ADB, *RRP on a Proposed Loan and Technical Assistance Grant to the Republic of Indonesia for the Sustainable Capacity Building for Decentralization Project*, INO 35261 (November 2002).
- <sup>109</sup> ADB, *Anticorruption Operational Procedures*, ¶ 25.
- <sup>110</sup> ADB, *Anticorruption Policy*, at 30.
- <sup>111</sup> These include project supervisory reports, mission reports, project completion reports, project evaluation reports, performance audit reports, and other relevant documents.
- <sup>112</sup> ADB, *Anticorruption Operational Procedures*, ¶ 54.
- <sup>113</sup> We would have liked to review a sample of implementation monitoring reports, but these are not publicly available.
- <sup>114</sup> ADB, *Annual Review of Evaluation Activities in 2002*, Operations Evaluation Department, at 35-36 (May 2003).
- <sup>115</sup> *Id.*
- <sup>116</sup> ADB, *PCR on the Capital Market Development Program Loan in Bangladesh* (August 2003); ADB, *PCR on the Flood Damage Rehabilitation Project in Bangladesh* (June 2003); ADB, *PCR on the Housing Finance Project in India* (August 2003); ADB, *PCR on the Coal Ports Project in India* (September 2003); ADB, *PCR on the Senior Secondary Education Project in Indonesia* (March 2003); ADB, *PCR on the Second Integrated Irrigation Sector Project in Indonesia* (September 2002); ADB, *PCR on the Leyte-Mindanao Interconnection Engineering Project in The Philippines* (May 2003); ADB, *PCR on the Municipal Water Supply Project in The Philippines* (September 2003).
- <sup>117</sup> ADB, *PPAR on the Kathmandu Urban Development Project in Nepal* (September 2003); ADB, *PPAR on the Saigon Port Project in the Socialist Republic of Viet Nam* (March 2003); ADB, *PPAR on the Power Rehabilitation Project in Cambodia* (July 2003); ADB, *PPAR on the Metropolitan Cebu Water Supply Project in the Philippines* (December 2002); ADB, *PPAR on the Agriculture Sector Program in Cambodia* (July 2003); ADB, *PPAR on the Northeast Minor Irrigation Project in Bangladesh* (April 2003); ADB, *PPAR on the CESC Limited Project in India* (December 2002); ADB, *PPAR on the Second Small and Medium Industries Project in Sri Lanka* (August 2003).
- <sup>118</sup> ADB, *PCR on the Housing Finance Project in India*, at 47 (August 2003); ADB, *PCR on the Second Integrated Irrigation Sector Project in Indonesia*, at 31 (September 2002); ADB, *PPAR on the Kathmandu Urban Development Project in Nepal*, at 21 (September 2003); ADB, *PPAR on the CESC Limited Project in India*, (December 2002).
- <sup>119</sup> Personal interview with ADB staff member. See also Frank Black, *The Asian Development Bank: A Unique Contribution? The Effectiveness Of The Financing And Political Role Of The ADB In Reducing Poverty In The Asia/Pacific Region*, at 8 (June 2003)(arguing that management and staff effectively “contain” the Board.
- <sup>120</sup> Personal interview with former Executive Director. On the issue of ADB vision and leadership generally, see Frank Black, *The Asian Development Bank: A Unique Contribution?* at 7-8.
- <sup>121</sup> This is not necessarily to say that no due diligence on corruption is being done. It is possible that corruption issues are being integrated into project and program reports, but are not being discussed in publicly available documents. However, the consistent absence of such analysis creates a strong *prima facie* case that these shortcomings extend to the underlying due diligence work.
- <sup>122</sup> Bhargava and Bolongaita, *CHALLENGING CORRUPTION IN ASIA*, at 17 (2003).
- <sup>123</sup> *Id.*; Transparency International, *GLOBAL CORRUPTION REPORT 2003*, at 129 (2003).
- <sup>124</sup> ADB, *Operational Procedures on Environmental Considerations in ADB Projects* (29 October 2003); ADB, *Operational Procedures on Economic Analysis of Projects* (12 November 1997).

- <sup>125</sup> ADB, *Anticorruption Policy*, at 17.
- <sup>126</sup> Rose-Ackerman, CORRUPTION AND GOVERNMENT, at 227; United States Agency for International Development, *A Handbook on Fighting Corruption*, at 15 (1997); Final Declaration in Global Forum III, (May 2003) at [www.worldbank.org/wbi/governance/pdf/gf3\\_finaldec.pdf](http://www.worldbank.org/wbi/governance/pdf/gf3_finaldec.pdf) (“anticorruption measures tailored to the specific circumstances of a particular society should be devised in order to deliver practical solutions.”).
- <sup>127</sup> For analogous recommendations to the World Bank, see United States General Accounting Office, *World Bank: Management Controls Stronger, but Challenges in Fighting Corruption Remain*, at 18 (April 2000).
- <sup>128</sup> USAID, *A Handbook on Fighting Corruption*, at 15.
- <sup>129</sup> Bhargava and Bolongaita, CHALLENGING CORRUPTION IN ASIA, at 77 (2003).
- <sup>130</sup> USAID, *A Handbook on Fighting Corruption*, at 15; Bhargava and Bolongaita, CHALLENGING CORRUPTION IN ASIA, at 18-53. For another example of a systematic approach to “vulnerability assessment,” see, United States Office of Management and Budget, *Internal Control Guidelines*, cited in Robert Klitgaard, CONTROLLING CORRUPTION, at 84.
- <sup>131</sup> Statements of Peter Pederson, ADB Auditor General, Washington, D.C. (3 November 2003). Management, however, has no plans to mainstream the Auditor General’s structured approach to risk assessment.
- <sup>132</sup> USAID, *A Handbook on Fighting Corruption*, at 16.
- <sup>133</sup> *Id.*
- <sup>134</sup> Klitgaard, CONTROLLING CORRUPTION, at 48.
- <sup>135</sup> ADB, *Anticorruption Policy: Frequently Asked Questions*, at 1-2; ADB, *Bank Policies- Anticorruption* ¶¶ 15, 17; see also, Rose-Ackerman, CORRUPTION AND GOVERNMENT, at 116, 119, 228. Gray and Kaufmann, “Corruption and Development” at 8.
- <sup>136</sup> ADB, *Bank Policies- Anticorruption*, *id.* Rose-Ackerman, CORRUPTION AND GOVERNMENT, at 228.
- <sup>137</sup> *Id.*
- <sup>138</sup> ADB, *Guidelines for the Economic Analysis of Projects* (1997).
- <sup>139</sup> Rose-Ackerman proposes the following hypothetical to illustrate this point:  
Suppose that 20 percent of aid funds is lost due to corruption. The 20 percent represents not bribes per se, but the inflated contracting costs and the loss of equipment and other inputs that result from tolerating bribery. On this scenario, a \$100 million project would have cost only \$80 million in an honest system. Suppose further that the investment must earn a return of 10 percent one year in the future to pass muster. Then an honest project needs to generate benefits of \$88 million, while the corrupt project requires \$110 million, a difference of \$22 million. A project that should have cost \$80 million must return \$110 million in order to be worthwhile—a rate of return on productively used resources of 37.5 percent. Even in developed countries, not many projects have such a high return.  
Rose-Ackerman, CORRUPTION AND GOVERNMENT, at 179.
- <sup>140</sup> See, Bruce A. Williams and Albert Matheny, DEMOCRACY, DIALOGUE, AND ENVIRONMENTAL DISPUTES: THE CONTESTED LANGUAGES OF SOCIAL REGULATION, at 91 (1995).
- <sup>141</sup> World Bank, *Helping Countries Combat Corruption*, at 13; John T. Noonan, BRIBES, at 702-703 (1984).
- <sup>142</sup> Klitgaard, CONTROLLING CORRUPTION, at 3-4, 11.
- <sup>143</sup> Noonan, BRIBES, at 702-703.
- <sup>144</sup> Final Declaration of Global Forum III, cited in Bhargava and Bolongaita, CHALLENGING CORRUPTION IN ASIA, at 10.
- <sup>145</sup> See e.g., Jeremy Pope, *Elements of a Successful Anticorruption Strategy*, at 98 in Rick Stapenhurst and Sahr J. Kpundeh ed., *Curbing Corruption: Toward a Model for Building National Integrity* (World Bank, 1999). Robert Klitgaard, *International Cooperation Against Corruption* (1998); Daniel Kaufman, *Challenges in the Next Stage of Anticorruption*, at 144 (1998). Vinod Thomas, et al. *The Quality of Growth*, at 165 (World Bank 2000); Rose-Ackerman, CORRUPTION AND GOVERNMENT, at 143, 162. Rick Stapenhurst, *The Media’s Role in Curbing Corruption*, at 1 (World Bank Institute, 2001); World Bank, *Precis: Participation in Development Assistance*, Operations Evaluation Department (Fall 2001).
- <sup>146</sup> United States General Accounting Office, *Management Controls Stronger, but Challenges in Fighting Corruption Remain*, at 27 (April 2000).
- <sup>147</sup> Klitgaard, *International Cooperation Against Corruption* (1998).
- <sup>148</sup> Klitgaard, CONTROLLING CORRUPTION, at 53.
- <sup>149</sup> Samuel Paul, PUBLIC ACCOUNTABILITY: NEW APPROACHES AND MECHANISMS (Public Affairs Centre, Bangalore, 1995).
- <sup>150</sup> Maria Gonzalez de Asis, *Civil Society Participation in Anticorruption Coalitions* (World Bank Institute 2003); Daniel Kaufmann, *Challenges in the Next Stage of Anticorruption*, at 144.
- <sup>151</sup> Thomas, et al. *The Quality of Growth*, at 165.
- <sup>152</sup> Michael Johnston and Sahr J. Kpundeh, *Building A Clean Machine: Anti-Corruption Coalitions and Sustainable Reform* (World Bank Institute, 2002).
- <sup>153</sup> Thus, the *Anticorruption Policy* maintains that while transparent, predictable and accountable public administration is critical to the fight against corruption, participation is only relevant. ADB, *Anticorruption Policy*, at 7.
- <sup>154</sup> Many of the projects did include an outreach or capacity building component that was tailored to achieve other ends.
- <sup>155</sup> ADB-OECD, *Anticorruption Action Plan for Asia and the Pacific*, at 8 (2001); Kaufmann, *Challenges in the Next Stage of Anticorruption*, at 9.
- <sup>156</sup> *Id.*
- <sup>157</sup> United States General Accounting Office, *Management Controls Stronger, but Challenges in Fighting Corruption Remain*, at 27; United States Agency for International Development, *A Handbook on Fighting Corruption*, at 12-16.
- <sup>158</sup> USAID, *A Handbook on Fighting Corruption*, at 15.
- <sup>159</sup> United States General Accounting Office, *Management Controls Stronger, but Challenges in Fighting Corruption Remain*, at 27 (April 2000).
- <sup>160</sup> World Bank, *Project Appraisal Document on a Proposed Loan to the Republic of Indonesia for a Second Kecamatan Development Project* (23 May 2001).
- <sup>161</sup> Some of these initiatives are described in Klitgaard, *International Cooperation Against Corruption*; United States General Accounting Office, *Management Controls Stronger, but Challenges in Fighting Corruption Remain*, at 27; Maria Gonzalez de Asis, *Civil Society Participation in Anticorruption Coalitions*, at 10; Paul, PUBLIC ACCOUNTABILITY: NEW APPROACHES AND MECHANISMS.
- <sup>162</sup> Transparency International, GLOBAL CORRUPTION REPORT 2003, at 8 (2003); ADB, *Governance*, at 9; ADB-OED, *Anticorruption Action Plan for Asia and the Pacific*, at 8 (2001).
- <sup>163</sup> Transparency International, *id.*
- <sup>164</sup> For more information about the review of the Disclosure Policy, see [www.adb.org](http://www.adb.org).
- <sup>165</sup> Statements of Auditor General, Washington, D.C. (3 November 2003). That ADB has been able to sanction much larger and more powerful companies than the World Bank, which publishes a “blacklist” on its website, supports this conclusion.
- <sup>166</sup> ADB, *Agreement Establishing the Asian Development Bank*, Article 50.
- <sup>167</sup> ADB, *Anticorruption Policy*, at 31-32.
- <sup>168</sup> *Id.*
- <sup>169</sup> ADB, *Report of the Task Force on Improving Project Quality*, at 11, 23-24 (1994).
- <sup>170</sup> *Id.*, at 23-24.
- <sup>171</sup> *Id.*, at 23-24.

- <sup>172</sup> *Id.*, at 11.
- <sup>173</sup> *Id.*, at 14.
- <sup>174</sup> ADB, *Anticorruption Policy*, at 32.
- <sup>175</sup> Personal interview with former Executive Director .
- <sup>176</sup> ADB, *Special Evaluation Study of the Midterm Review Process*, at 7 (December 1998).
- <sup>177</sup> *Id.*, at 1.
- <sup>178</sup> ADB, *PPAR on the Northeast Minor Irrigation Project in Bangladesh*, at 14 (May 2003) (substantial delays in mission review); ADB, *PPAR on the Participatory Forestry Project in Sri Lanka*, at 7-8 (April 2003) (poorly designed monitoring and evaluation system); ADB, *PPAR on the Saigon Port Project in the Socialist Republic of Vietnam*, at 14 (March 2003) (shortcomings in project supervision); ADB, *PPAR on the Laiwu Iron and Steel Company Modernization and Expansion Project in People's Republic of China*, at 15-16 (January 2003) (no due diligence or review of major project change); ADB, *PPAR on the Second Aquaculture Development in Bangladesh*, at 16 (January 2003) (failure to identify and avoid unnecessary investment).
- <sup>179</sup> Statements of Peter Pederson, ADB Auditor General, Washington, D.C. (3 November 2003).
- <sup>180</sup> Statements of World Bank task managers compiled in Jeffrey A. Winters, *Criminal Debt*, in Jonathan R. Pincus and Jeffrey A. Winters, *REINVENTING THE WORLD BANK*, at 115-117.
- <sup>181</sup> *Id.* Thus, the World Bank's Operations Evaluation Department has concluded that "[g]overnments and their external auditors are unable to give the [World] Bank sufficient assurance that their leaders and officials have spent the money that lenders and taxpayers have provided them wisely or exclusively for the intended purposes." World Bank, *Clean Government and Public Financial Accountability*, at 6.
- <sup>182</sup> Statements of Peter Pederson, ADB Auditor General, Washington, D.C. (3 November 2003).
- <sup>183</sup> Statements of Peter Pederson, ADB Auditor General, Washington, D.C. (3 November 2003).
- <sup>184</sup> ADB, *Anticorruption Policy*, at 28, 33. Unfortunately, the *Policy* does not explain why the "compelling obligations" of Bank staff should not include a robust oversight and policing function.
- <sup>185</sup> Statements of Peter Pederson, ADB Auditor General, Washington, D.C. (3 November 2003).
- <sup>186</sup> ADB, *Anticorruption Policy*, at 28, 33. Unfortunately, the *Policy* does not explain why the "compelling obligations" of Bank staff should not include a robust oversight, policing function.
- <sup>187</sup> On the importance of senior management establishing clear institutional priorities and holding management and staff accountable for achieving them, see International Finance Corporation, *A Review of IFC's Safeguard Policies: Core Business: Achieving Consistent and Excellent Environmental and Social Outcomes*, Compliance Advisor Ombudsman (January 2003).
- <sup>188</sup> The "zero tolerance" policy does not serve this function, as it refers only to the steps ADB will take once corruption has been discovered, not to the steps ADB must take to prevent or to uncover corruption in the first place.
- <sup>189</sup> ADB, *Agreement Establishing the Asian Development Bank*, Article 14(xi).
- <sup>190</sup> ADB, *Anticorruption Policy* at 33; ADB, *Bank Policies—Anticorruption*, at ¶ 24.
- <sup>191</sup> ADB, *Operational Procedures on Anticorruption*, at ¶ 38.
- <sup>192</sup> Statements of Peter Pederson, ADB Auditor General, Washington, D.C. (4 November 2003).
- <sup>193</sup> United States General Accounting Office, *Regional Multilateral Development Banks: External Audit Reporting Could Be Expanded*, at 2 (December 2001).
- <sup>194</sup> The financial statement audits currently conducted by ADB's external auditor do not include a review of the internal control over lending operations, or whether ADB's funds are actually being spent for their intended development purposes. *Id.*, at 3.
- <sup>195</sup> United States General Accounting Office, *Management Controls Stronger, but Challenges in Fighting Corruption Remain* (April 2000).
- <sup>196</sup> United States General Accounting Office, *World Bank Group: Important Steps Taken on Internal Control but Additional Assessments Should Be Made* (June 2003)
- <sup>197</sup> *Id.*
- <sup>198</sup> This argument borrows heavily from the discussion of the World Bank's accountability for "criminal debt" in Winters, *Criminal Debt*, in Pincus and Winters, ed. *REINVENTING THE WORLD BANK*, 101-02 (2002).
- <sup>199</sup> ADB, *Governance: Sound Development Management*, at 8, 10.
- <sup>200</sup> ADB, *Agreement Establishing the Asian Development Bank*, Article 50.
- <sup>201</sup> Jim Vallette, "World Bank Knew About Enron's Payoffs in Guatemala," *Corpwatch* (August 2003), citing *Final Communiqué of Anti-corruption Activists, 11th International Anti-Corruption Conference*, Seoul, Korea (May 2003).
- <sup>202</sup> Debt forgiveness is more problematic where there has been no democratic transition, since it could create perverse incentives for increased official corruption.
- <sup>203</sup> ADB, *Agreement Establishing the Asian Development Bank*, Article 31 (1966).
- <sup>204</sup> Personal interviews with former Executive Director and current staff member in an Executive Director's office.
- <sup>205</sup> Frank Black, *The Asian Development Bank: A Unique Contribution?* at 8.
- <sup>206</sup> Personal interview with ADB staff member.
- <sup>207</sup> ADB, *Anticorruption Policy*, at 1-2. The *Anticorruption Policy*, however, treats this phenomenon as a discredited artifact of the Cold War. In fact, it remains a powerful force in Board decision making. Its most obvious current manifestation is the increased aid directed to countries considered to be critical to the fight against terrorism after the terrorist attack on the United States on September 11, 2001. Pakistan, for instance, has enjoyed an increase of over 60 percent in ADB lending since fiscal year 2000. By last year, it had become the ADB's largest borrower, receiving over 20 percent of ADB's total assistance. See [www.adb.org/Documents/Reports/Operations/2002/default.asp](http://www.adb.org/Documents/Reports/Operations/2002/default.asp); ADB, *Annual Report 2001*, at 206 (2002); ADB, *Annual Report 2000*, at 218 (2001). In the current environment, it would be difficult to imagine the Board insisting on a searching scrutiny of the corruption risks of a loan to Pakistan as a condition of loan approval.
- <sup>208</sup> Transparency International, *GLOBAL CORRUPTION REPORT 2003*, 115-164. Seventeen regional governments have also pledged to take affirmative steps to improve the public dialogue around corruption issues by endorsing the *Anticorruption Action Plan for Asia and the Pacific*. ADB-OED, *Anticorruption Action Plan for Asia and the Pacific*, at 8 (2001).
- <sup>209</sup> Examples include Thailand, Indonesia, The Philippines, India, Bangladesh, Sri Lanka and China. *Id.*, at 129, 140, 153.
- <sup>210</sup> ADB, *RRP on a Proposed Loan to the Kingdom of Thailand for the Samut Prakarn Wastewater Management Project*, at ii, 11 (Nov. 1995).
- <sup>211</sup> *Id.*, at 11.
- <sup>212</sup> *Id.*
- <sup>213</sup> *Id.*
- <sup>214</sup> *Id.*, at 12.
- <sup>215</sup> *Id.*, at ii.
- <sup>216</sup> *Id.*, at 12.
- <sup>217</sup> *Id.*, at 11.
- <sup>218</sup> *Id.*, at ii.

- 219 ADB, TA 2014-THA, *Wastewater Management and Pollution Control in Samut Prakarn*, for \$600,000, (14 December 1993).
- 220 ADB, *RRP on the Proposed Samut Prakarn Wastewater Management Project*, at 13.
- 221 *Id.*
- 222 *Id.*, at 13, 19, map 2 at vi.
- 223 *Id.*, at 13.
- 224 Under a “turnkey contract,” a private sector entity agrees to design and build the facility using state provided investment capital. The facility must meet agreed upon performance criteria over a designated operating period before it is turned over to the government agency. Here, the joint venture was required to operate the facility for three years following initial commissioning. *Id.*, at 13.
- 225 Schedule 1 of the loan agreement provides, in pertinent part:  
2. The project consists of the following components.  
Part B. Wastewater Treatment and Disposal Facilities. Construction of central wastewater treatment and disposal facilities on each of the east and west banks of the Chao Phraya River, consisting of:
- (i) in respect of the central wastewater treatment facility on the east bank of the Chao Phraya River, force mains for effluent transfer, an aerated lagoon system with a capacity of approximately 400,000 cubic meters per day (cmd) and a terminal pumping station for transfer of effluent to multiple shoreline outlets; and
- (ii) in respect of the central wastewater treatment facility on the west bank of the Chao Phraya River, force mains for effluent transfer and an aerated lagoon system with a capacity of approximately 125,000 cmd.
- ADB, *Loan Agreement (Samut Prakarn Wastewater Management Project) between Kingdom of Thailand and Asian Development Bank*, at 12 (1996).
- 226 ADB, *RRP on the Proposed Samut Prakarn Wastewater Management Project*, at 19, 28.
- 227 *Id.*, at 19, 22, 28, map 2 at vi.
- 228 *Id.*, at 18-19.
- 229 ADB, *RRP on the Proposed Samut Prakarn Wastewater Management Project*, at 17, 28 (Nov. 1995).
- 230 The Government of Thailand and the PCD assured the ADB that “[i]n the event that the turnkey contractors are unable to acquire all land required, Government expropriation procedures will be initiated.” ADB, *RRP on the Proposed Samut Prakarn Wastewater Management Project*, at 29 (Nov. 1995); ADB, *Loan Agreement: Samut Prakarn Wastewater Management Project between Kingdom of Thailand and Asian Development Bank*, at 25; see also ADB, *Final Report of Inspection Panel on Samut Prakarn Wastewater Management Project*, at 16 (14 December 2001).
- 231 ADB, *Response to Request for Inspection, Samut Prakarn Wastewater Management Project*, at 5 (24 May 2001). The Inspection Panel was unable to verify whether the consortium really did have trouble obtaining the land. ADB, *Final Report of Inspection Panel on Samut Prakarn Wastewater Management Project*, at 17.
- 232 ADB, *Final Report of Inspection Panel*, at 4. ADB, *Response to Request for Inspection, Samut Prakarn Wastewater Management Project*, at 5.
- 233 The Joint Venture consisted of North West Water International of the U.K., and five Thai companies—Prayoovisava Engineering, Krung Thon Engineers Co. Ltd., Vihitbhan Construction Co. Ltd., See Sang Karn Yotah Co. Ltd, and Gateway Development Co. Ltd. North West Water subsequently withdrew from the project in late 1997.
- 234 ADB, *Final Report of Inspection Panel on Samut Prakarn Wastewater Management Project*, at 17-19.
- 235 Narong Khomklom, *et. al.* Letter to Inspection Committee of the Asian Development Bank, at 14 (5 April 2001).
- 236 Narong Khomklom, *et. al.* Letter to Tadao Chino, President of the Asia Development Bank, (24 November 2000).
- 237 *Id.*, at Annex II. The ADB policies on environmental assessments then in force required an initial environmental examination (IEE) of the Klong Dan site to be conducted. If the IEE found that there would be negative environmental impacts, ADB policies required a more thorough environmental impact assessment (EIA). ADB, *Operations Manual § 21, Environmental Considerations in Bank Operations* (1 December 1992) (policy in force at time of initial approval); ADB, *Operations Manual § 20, OP/BP Environmental Considerations in Bank Operations* (7 January 1997) (policy in force at time of approval of Supplementary Loan). Thai law also required an environmental assessment of the site. See, Royal Kingdom of Thailand, *Enhancement and Conservation of National Environmental Quality Act* (NEQA) (1992); Constitution of Royal Kingdom of Thailand, §56, ¶2 (1997).
- 238 Narong Khomklom *et. al.*, Letter to Tadao Chino, at Annex II.
- 239 *Id.*; Narong Khomklom, *et. al.* Letter to Inspection Committee of the Asian Development Bank, at 15., *citing* Bangkok Post “Credibility Leak in Wastewater Project,” (28 May 2000).
- 240 *Id.*
- 241 Narong Khomklom, *et. al.*, Letter to Tadao Chino, Annex II.
- 242 Bangkok Post, “Klong Dan Wastewater Plant Scandal: Vatana, Nine Others Accused: Graft Report Names VIPs, Senior Officials” (11 June 2002).
- 243 Bangkok Post, *id.*; Bangkok Post, “Klong Dan Wastewater Plant Scandal: State Could Reclaim Illegally Sold Land: Reselling Pushed Price to B1m a Rai” (12 June 2003).
- 244 Bangkok Post, “Firms’ Bosses to Hear Land Scam Charges: Police Due to Issue Summonses Today,” (29 August 2003).
- 245 Bangkok Post, “Klong Dan Wastewater Plant Scandal: Vatana, Nine Others Accused: Graft Report Names VIPs, Senior Officials” (11 June 2002); Bangkok Post, “Klong Dan Wastewater Plant, Pollution Dept. Under Fire Again: Cabinet Ignored, Blueprint Changed ,” (20 June 2003).
- 246 Bangkok Post, Klong Dan Wastewater Plant: Police to Lay Charges Against Consortium: Graft Case Against Officials, Politicians,” (28 August 2003).
- 247 Bangkok Post, “Klong Dan Wastewater Plant Scandal: Vatana, Nine Others Accused: Graft Report Names VIPs, Senior Officials” (11 June 2002); *The Nation*, “Making the Case for Graft at Klong Dan” (18 July 2003).
- 248 *The Nation*, “Making the Case for Graft at Klong Dan,” (18 July 2003).
- 249 *Id.*
- 250 Pasuk Phongpaichit and Sungsidh Piriyarangsana, *CORRUPTION AND DEMOCRACY IN THAILAND*, at 1 (1996).
- 251 Treerat, Nualnoi, *Controlling Corruption in Thailand: Transforming the Problems and Paradoxes*, in Bhargava and Bolongaita, *CHALLENGING CORRUPTION IN ASIA*, at 171 (2003).
- 252 *Id.*, at 14.
- 253 *Id.*, at iv; Transparency International, *Corruption Perception Index* (1995), at <http://www.transparency.org/cpi/1995/cpi1995.pdf>
- 254 Speaker of Parliament Boon-ua Prasertsuwan *quoted in*, *The Nation* 19 May 1996 in Pasuk Phongpaichit and Sungsidh Piriyarangsana, *CORRUPTION AND DEMOCRACY IN THAILAND*, at iv.
- 255 Bangkok Post, “Klong Dan Treatment Plant Officials, VIPs to be Arrested,” (7 June 2003).
- 256 ADB, *Anticorruption Policy*, at 30 (1998).
- 257 Pasuk Phongpaichit and Sungsidh Piriyarangsana, *CORRUPTION AND DEMOCRACY IN THAILAND*, at 14.
- 258 Treerat, Nualnoi, *Controlling Corruption in Thailand: Transforming the Problems and Paradoxes*, in Bhargava and Bolongaita, *CHALLENGING CORRUPTION IN ASIA*, at 174.
- 259 *Id.*, at 36-38.
- 260 ADB, *Agreement Establishing the Asian Development Bank*, Article 14(xi) (1966).

- <sup>261</sup> Asian Development Bank, *Governance: Sound Development Management* (August 1995).
- <sup>262</sup> ADB, *Final Report of Inspection Panel on Samut Prakarn Wastewater Management Project*, at 21-22.
- <sup>263</sup> If a turnkey contract did prevent ADB from taking the “necessary measures” to ensure its loans were used properly, Article 14 of the Charter would prohibit the Bank from ever using one, particularly on projects where the corruption risks are substantial.
- <sup>264</sup> ADB, *Loan Agreement for the Samut Prakarn Wastewater Management Project between the Kingdom of Thailand and the Asian Development Bank*, Article IV (1996).
- <sup>265</sup> Asian Development Bank, *Final Report of Inspection Panel on Samut Prakarn Wastewater Management Project*, at 14 (14 December 2001).
- <sup>266</sup> *Id.*, at 17.
- <sup>267</sup> *Id.*, at 17.
- <sup>268</sup> *Id.*, at 24.
- <sup>269</sup> *Id.*, at 20.
- <sup>270</sup> ADB, *Anticorruption Policy*, at 30 (1998).
- <sup>271</sup> The *Anticorruption Policy* was adopted on July 2, 1998.
- <sup>272</sup> ADB, *Aide Memoire of the Asian Development Bank Mission for the Pollution Control Department Special Review Mission*, at 6, ¶ 25 (19-28 June 2000).
- <sup>273</sup> *Id.*
- <sup>274</sup> Unfortunately, this perfunctory treatment of the allegations was symptomatic of the defensive nature of the entire report. For example, the *Aide Memoire* first suggests that the Bank had no oversight responsibility in the land acquisition process by observing that “Bank financing was not used for land acquisition.” *Id.* This claim was not only spurious—the loan proceeds to finance the turnkey contract were fungible and not specifically earmarked—but also irrelevant, as Bank oversight responsibilities are not narrowly tied the specific aspects of the project financed by the Bank. Thus, the *Anticorruption Policy* ADB expresses a “zero tolerance” policy for corruption on ADB projects. ADB, *Anticorruption Policy*, at 28. It then justifies the land siting process by arguing the turnkey structure of the deal was necessary to avoid expected difficulties in acquiring the land. ADB, *Aide Memoire of the Asian Development Bank Mission for the Pollution Control Department Special Review Mission* (19-28 June 2000), at 3, ¶ 9. This argument, however, directly contradicted Management’s assurance that land acquisition would not present any “particular problems or undue delays.” Asian Development Bank, *Report and Recommendation of the President on the Proposed Samut Prakarn Wastewater Management Project*, at 17, 28 (Nov. 1995).
- <sup>275</sup> Narong Khomklom, et. al., *Letter to Inspection Committee of the Asian Development Bank*.
- <sup>276</sup> ADB, *Final Report of Inspection Panel on Samut Prakarn Wastewater Management Project*, at 32-35.
- <sup>277</sup> *Id.*, at 34-35.
- <sup>278</sup> ADB, *Anticorruption Policy*, at 29.
- <sup>279</sup> United States General Accounting Office, *Management Controls Stronger, but Challenges in Fighting Corruption Remain*, at 5, 6.
- <sup>280</sup> *Id.*, at 6.
- <sup>281</sup> ADB, *Indonesia Country Strategy and Program 2003-2005* at 12 (October 2002).
- <sup>282</sup> Transparency International. 2003. *Corruption Perception Index*, at <http://www.transparency.org/cpi/index.html>; see e.g., World Bank, *Cambodia Country Assistance Strategy*, at 2; World Bank, *Viet Nam Country Assistance Strategy* at 31; World Bank, *Bangladesh Country Assistance Strategy*.
- <sup>283</sup> World Bank, *Summary of RSI Staff Views Regarding the Problem of “Leakage” from World Bank Project Budgets* (August 1997). These findings were confirmed by a subsequent Bank mission. World Bank, *Options to Reduce Negative Impacts from Corruption on Bank Financed Activities*. Office Memorandum from Jane Loos to Jean-Michel Severino, Vice President, EAP (October 1998) cited in Winters, *Criminal Debt*, in Pincus and Winters ed., *REINVENTING THE WORLD BANK*, at 127-128. Other observers have concluded that the extent of corruption in the World Bank’s operations in Indonesia has probably reached one-third of disbursements. Winters, *id.*
- <sup>284</sup> World Bank, *Indonesia: Fiduciary Review of the Second Sulawesi Urban Development Project*, Department of Institutional Integrity, (June 2002).
- <sup>285</sup> *Id.*, at 10.
- <sup>286</sup> Statements of World Bank task managers compiled in Winters, *Criminal Debt*, in Pincus and Winters, ed., *REINVENTING THE WORLD BANK*, at 115-117.
- <sup>287</sup> ADB, *Anticorruption Operational Procedures*, at ¶ 4.
- <sup>288</sup> *Id.*, at ¶ 7.
- <sup>289</sup> *Id.*, at ¶ 4.
- <sup>290</sup> *Id.*, at ¶ 10.
- <sup>291</sup> *Id.*, at 2, ¶ 11. This Committee consists of three regular voting members and three alternate members. Members are nominated by the General Auditor and approved by the President. The heads of Budget, Personnel and Management Systems Department (BPMSD) and Central Operations Services Office (COSO) (or their designees), and an Assistant General Counsel designated by the General Counsel will advise the Committee. Committee decisions will be by majority vote. The Anticorruption Unit in OGA serves as the secretariat to the Committee.
- <sup>292</sup> If the Oversight Committee refuses to endorse the workplan, the Committee can request authorization from the President to launch an investigation.
- <sup>293</sup> ADB, *Anticorruption Operational Procedures*, at 3-4 ¶ 14.
- <sup>294</sup> *Id.*, at 5, ¶ 19.
- <sup>295</sup> *Id.*, at 5, ¶ 20.
- <sup>296</sup> *Id.*, at 5, ¶ 21.
- <sup>297</sup> *Id.*, at 3-4, ¶ 14.
- <sup>298</sup> *Id.*, at 11, ¶ 55.
- <sup>299</sup> *Id.*, at 9, ¶ 46.
- <sup>300</sup> *Id.*, at 9, ¶ 47.
- <sup>301</sup> *Id.*, at 10, ¶ 48.

# BIBLIOGRAPHY

- Asian Development Bank. 1966. *Agreement Establishing the Asian Development Bank*.
- . 1992. *Operations Manual § 21, Environmental Considerations in Bank Operations*, December.
- . 1993. *Technical Assistance for Wastewater Management and Pollution Control in Samut Prakarn*, December.
- . 1994. *Report of the Task Force on Improving Project Quality*.
- . 1995. *Governance: Sound Development Management*, August.
- . 1995. *Report and Recommendation of the President on a Proposed Loan to the Kingdom of Thailand for the Samut Prakarn Wastewater Management Project*, November.
- . 1996. *Loan Agreement (Samut Prakarn Wastewater Management Project) between Kingdom of Thailand and Asian Development Bank*.
- . 1997. *Guidelines for the Economic Analysis of Projects*.
- . 1997. *Operations Manual § 20, OP/BP Environmental Considerations in Bank Operations*, January.
- . 1997. *Operational Procedures on Economic Analysis of Projects*, November.
- . 1998. *Anticorruption Policy*.
- . 1998. *Report and Recommendation of the President on a Supplementary Loan to the Kingdom of Thailand for the Samut Prakarn Wastewater Management Project*, December.
- . 1998. *Special Evaluation Study of the Midterm Review Process*, December.
- . 1999. *Guidelines for Procurement Under Asian Development Bank Loans*, February.
- . 2000. *Aide Memoire of the Asian Development Bank Mission for the Pollution Control Department Special Review Mission*, June.
- . 2000. *Anticorruption Policy: Description and Answers to Frequently Asked Questions*.
- . 2000. *Bank Policies- Anticorruption*, July.
- . 2001. ANNUAL REPORT 2000.
- . 2001. *Final Report of Inspection Panel on Samut Prakarn Wastewater Management Project*, December.
- . 2001. *Response to Request for Inspection, Samut Prakarn Wastewater Management Project*, May.
- . 2002. ANNUAL REPORT 2001.
- . 2002. *Anticorruption Operational Procedures*, January.
- . 2002. *Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers*, April.
- . 2002. *Indonesia Country Strategy and Program 2003-2005*, October.
- . 2002. *Project Completion Report on the Second Integrated Irrigation Sector Project in Indonesia*, September.
- . 2002. *Project Performance Audit Report on the CESC Limited Project in India*, December.
- . 2002. *Project Performance Audit Report on the Metropolitan Cebu Water Supply Project in the Philippines*, December.
- . 2002. *Report and Recommendation of the President for a Proposed Cluster, First Loan and Technical Assistance Grant to the Republic of Indonesia for the Financial Governance & Social Security Reform Program*, November.
- . 2002. *Report and Recommendation of the President on Proposed Loans and Guarantees for the Financial (Nonbank) Markets and Governance Program in the Islamic Republic of Pakistan*, November.
- . 2002. *Report and Recommendation of the President for a Proposed Loan and Technical Assistance Grant for the Renewable Energy Development Sector Project to the Republic of Indonesia*, November.
- . 2002. *Report and Recommendation of the President on a Proposed Loan and Technical Assistance Grant to the People's Republic of Bangladesh for the Urban Governance and Infrastructure Improvement (Sector) Project*, October.
- . 2002. *Report and Recommendation of the President on a Proposed Loan and Technical Assistance Grant to the Republic of Indonesia for the Sustainable Capacity Building for Decentralization Project*, November.
- . 2002. *Report and Recommendation of the President on the Proposed Program and Technical Assistance Loans to the Islamic Republic of Pakistan for the Decentralization Support Program*, October.

- . 2002. *Report and Recommendation of the President on a Proposed Loan to the Islamic Republic of Pakistan for the Decentralized Elementary Education Project (Sindh)*, August.
- . 2002. *Report and Recommendation of the President on a Proposed Loan to the Islamic Republic of Pakistan for the Punjab Community Water Supply and Sanitation Sector Project*, November.
- . 2002. *Report and Recommendation of the President on a Proposed Loan to the Islamic Republic of Pakistan for the Punjab Road Development Sector Project*, October.
- . 2002. *Report and Recommendation of the President on a Proposed Loan to the Islamic Republic of Pakistan for the Rural Finance Sector Development Program*, November.
- . 2002. *Report and Recommendation of the President on a Proposed Loan to the Islamic Republic of Pakistan for the Sindh Rural Development Project*, October.
- . 2002. *Report and Recommendation of the President on Proposed Loans to the People's Republic of Bangladesh for the Dhaka Clean Fuel Project*, October.
- . 2002. *Report and Recommendation of the President on a Proposed Loan to the People's Republic of Bangladesh for the Jamuna-Meghna River Erosion Mitigation Project*, October.
- . 2002. *Report and Recommendation of the President on a Proposed Loan to the People's Republic of Bangladesh for the Road Network Improvement and Maintenance Project*, September.
- . 2002. *Report and Recommendation of the President on a Proposed Loan to the People's Republic of Bangladesh for the Rural Infrastructure Improvement Project*, November.
- . 2002. *Report and Recommendation of the President for a Proposed Loan to the Republic of Indonesia for the Coral Reef Rehabilitation and Management Project Phase II*, November.
- . 2002. *Report and Recommendation of the President on a Proposed Loan to the Republic of Indonesia for a Poor Farmer's Income Improvement Through Innovation Project*, July.
- . 2002. *Report and Recommendation of the President on a Proposed Loan to the Republic of Indonesia for the Power Transmission Improvement Sector Project*, November.
- . 2003. ANNUAL REPORT 2002.
- . 2003. *Annual Review of Evaluation Activities in 2002*, Operations Evaluation Department, May.
- . 2003. *Bangladesh Country Strategy and Program Update 2004-2006*, July.
- . 2003. *Cambodia Country Strategy and Program Update 2004-2006*, July.
- . 2003. *India Country Strategy and Program 2003-2006*, April.
- . 2003. *Lao People's Democratic Republic Country Strategy and Program Update*, July.
- . 2003. *Nepal Country Strategy and Program Update 2004-2006*, August.
- . 2003. *Operational Procedures on Environmental Considerations in ADB Projects*, October.
- . 2003. *Pakistan Country Strategy and Program Update 2004-2006*, July.
- . 2003. *Project Completion Report on the Capital Market Development Program Loan in Bangladesh*, August.
- . 2003. *Project Completion Report on the Coal Ports Project in India*, September.
- . 2003. *Project Completion Report on the Flood Damage Rehabilitation Project in Bangladesh*, June.
- . 2003. *Project Completion Report on the Housing Finance Project in India*, August.
- . 2003. *Project Completion Report on the Leyte-Mindanao Interconnection Engineering Project in The Philippines*, May.
- . 2003. *Project Completion Report on the Municipal Water Supply Project in The Philippines*, September.
- . 2003. *Project Completion Report on the Senior Secondary Education Project in Indonesia*, March. ——. 2003. *Project Performance Audit Report on the Agriculture Sector Program in Cambodia*, July.
- . 2003. *Project Performance Audit Report on the Kathmandu Urban Development Project in Nepal*, September.
- . 2003. *Project Performance Audit Report on the Laiwu Iron and Steel Company Modernization and Expansion Project in People's Republic of China*, January.
- . 2003. *Project Performance Audit Report on the North-east Minor Irrigation Project in Bangladesh*, April.

- . 2003. *Project Performance Audit Report on the Participatory Forestry Project in Sri Lanka*, April.
- . 2003. *Project Performance Audit Report on the Power Rehabilitation Project in Cambodia*, July.
- . 2003. *Project Performance Audit Report on the Saigon Port Project in the Socialist Republic of Vietnam*, March.
- . 2003. *Project Performance Audit Report on the Second Aquaculture Development in Bangladesh*, January.
- . 2003. *Project Performance Audit Report on the Second Small and Medium Industries Project in Sri Lanka*, August.
- . 2003. *Socialist Republic of Viet Nam Country Strategy and Program 2004-2006*, July.
- Asian Development Bank, Organization for Economic Cooperation and Development. 2001. *Anticorruption Action Plan for Asia and the Pacific*, November.
- Bangkok Post. 2000. "Credibility Leak in Wastewater Project," 28 May.
- . 2002. "Klong Dan Wastewater Plant Scandal: Vatana, Nine Others Accused: Graft Report Names VIPs, Senior Officials," 11 June.
- . 2003. "Firms' Bosses to Hear Land Scam Charges: Police Due to Issue Summonses Today," 29 August.
- . 2003. "Klong Dan Treatment Plant Officials, VIPs to be Arrested," 7 June.
- . 2003. "Klong Dan Wastewater Plant: Police to Lay Charges Against Consortium: Graft Case Against Officials, Politicians," 28 August.
- . 2003. "Klong Dan Wastewater Plant, Pollution Dept. Under Fire Again: Cabinet Ignored, Blueprint Changed," 20 June.
- . 2003. "Klong Dan Wastewater Plant Scandal: State Could Reclaim Illegally Sold Land: Reselling Pushed Price to B1m a Rai," 12 June.
- Bangladesh's Public Administration Reform Commission, 2000. Volume 1, June.
- Bhargava, Vinay and Bolongiata, Emil. 2003. CHALLENGING CORRUPTION IN ASIA: CASE STUDIES AND A FRAMEWORK FOR ACTION (World Bank).
- Black, Frank. 2003. *The Asian Development Bank: A Unique Contribution? The Effectiveness Of The Financing And Political Role Of The ADB In Reducing Poverty In The Asia/Pacific Region*, June.
- Final Declaration in Global Forum III. 2003. [www.worldbank.org/wbi/governance/pdf/gf3\\_finaldec.pdf](http://www.worldbank.org/wbi/governance/pdf/gf3_finaldec.pdf)
- González de Asís, Maria. 2000. *Coalition Building to Fight Corruption* (World Bank Institute).
- . 2003. *Civil Society Participation in Anticorruption Coalitions* (World Bank Institute).
- Gray, Cheryl and Kaufmann, Daniel. 1998. "Corruption and Development" in *Finance and Development*, (March 1998).
- Inter-American Development Bank. 2001. *Strengthening a Systemic Framework Against Corruption for the Inter-American Development Bank*, February.
- International Finance Corporation. 2003. *A Review of IFC's Safeguard Policies: Core Business: Achieving Consistent and Excellent Environmental and Social Outcomes*, Compliance Advisor Ombudsman, January.
- Johnston, Michael and Kpundeh, Sahr J. 2002. *Building A Clean Machine: Anti-Corruption Coalitions and Sustainable Reform* (World Bank Institute).
- Kaufmann, Daniel. 1998. *Challenges in the Next Stage of Anticorruption*.
- Klitgaard, Robert. 1988. CONTROLLING CORRUPTION (University of California Press).
- . 1998. *International Cooperation Against Corruption*.
- Narong Khomklom, et. al. 2000. *Letter to Tadao Chino, President of the Asian Development Bank*, 24 November (on file with author).
- . 2001. *Letter to Inspection Committee of the Asian Development Bank*, 5 April (on file with author).
- The Nation. 2003. "Making the Case for Graft at Klong Dan," 18 July. (Thailand).
- Noonan, John T. 1984. BRIBES.
- Pasuk Phongpaichit and Sungsidh Piriyaarangsarn. 1996. CORRUPTION AND DEMOCRACY IN THAILAND.
- Paul, Samuel. 1995. PUBLIC ACCOUNTABILITY: NEW APPROACHES AND MECHANISMS (Public Affairs Centre, Bangalore)
- Pincus, Jonathan R. and Winters, Jeffrey A. 2003. REINVENTING THE WORLD BANK.
- Pope, Jeremy. *Elements of a Successful Anticorruption Strategy*, in Rick Stapenhurst and Sahr J. Kpundeh ed., *Curbing Corruption: Toward a Model for Building National Integrity* (World Bank).

- Reuters Newswire. 1997. "Philippines Corruption a 'Nightmare' -Ramos," 11 January.
- Rose-Ackerman, Susan. 1999. *CORRUPTION AND GOVERNMENT: CAUSES, CONSEQUENCES AND REFORM* (Cambridge University Press).
- Royal Kingdom of Thailand. 1992. *Enhancement and Conservation of National Environmental Quality Act* (NEQA).
- . 1997. Constitution of Royal Kingdom of Thailand, §56, ¶2.
- Stapenhurst, Rick. 2001. *The Media's Role in Curbing Corruption* (World Bank Institute).
- Stapenhurst, Rick and Kpundeh, Sahr J. ed. 1999. *Curbing Corruption: Toward a Model for Building National Integrity* (World Bank).
- Thomas, Vinod. 2000. *THE QUALITY OF GROWTH* (World Bank).
- Transparency International. 2003. *Corruption Perception Index*, at <http://www.transparency.org/cpi/index.html>.
- . 2003. *GLOBAL CORRUPTION REPORT 2003*.
- United Nations Development Programme *et.al.* 2003. *World Resources 2002-2004: Decisions for the Earth: Balance, Voice and Power*.
- United States Agency for International Development. 1997. *A Handbook on Fighting Corruption*.
- . 2000. *Promoting Transparency and Accountability: USAID's Experience*, January.
- United States General Accounting Office. 2000. *World Bank: Management Controls Stronger, but Challenges in Fighting Corruption Remain*, April.
- . 2001. *Regional Multilateral Development Banks: External Audit Reporting Could Be Expanded*, December.
- . 2003. *World Bank Group: Important Steps Taken on Internal Control but Additional Assessments Should Be Made*, June.
- Vallette, Jim. 2003. "World Bank Knew About Enron's Payoffs in Guatemala," *Corpwatch*, August.
- Williams, Bruce and Matheny, Albert. 1995. *DEMOCRACY, DIALOGUE, AND ENVIRONMENTAL DISPUTES: THE CONTESTED LANGUAGES OF SOCIAL REGULATION* (Yale University Press).
- Winters, Jeffrey A. 2002. *Criminal Debt*, in Pincus, Jonathan R. and Winters, Jeffrey A. *REINVENTING THE WORLD BANK*.
- World Bank. 1997. *Helping Countries Control Corruption: The Role of the World Bank*.
- . 1997. *Summary of RSI Staff Views Regarding the Problem of "Leakage" from World Bank Project Budgets*, August.
- . 1998. *Nepal Country Assistance Strategy*, November.
- . 1998. *Options to Reduce Negative Impacts from Corruption on Bank Financed Activities*. Office Memorandum from Jane Loos to Jean-Michel Severino, Vice President, EAP, October.
- . 1999. *Laos Country Assistance Strategy*, March.
- . 2000. *Cambodia Country Assistance Strategy*, February.
- . 2000. *Clean Government and Public Financial Accountability*, Operations Evaluation Department.
- . 2001. *Bangladesh Country Assistance Strategy*, February.
- . 2001. *India Country Assistance Strategy*, June.
- . 2001. *Indonesia Country Assistance Strategy*, February.
- . 2001. *Precis: Participation in Development Assistance*, Operations Evaluation Department.
- . 2001. *Project Appraisal Document on a Proposed Loan to the Republic of Indonesia for a Second Kecamatan Development Project*, 23 May.
- . 2002. *Pakistan Country Assistance Strategy*, June.
- . 2002. *Viet Nam Country Assistance Strategy*, September.
- . 2003. *Indonesia: Fiduciary Review of the Second Sulawesi Urban Development Project*, Department of Institutional Integrity, June.



