FIGHTING FRAUD AND CORRUPTION IN DEVELOPMENT PROJECTS:
Islamic Development Bank Group (IsDBG) Perspective

The 7th Global Conference of Parliamentarians Against Corruption

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Director, Integrity and Ethics Department
IsDB
Evolution of IsDB Group (1975 - 2019G)

Institution has Evolved from Single Entity to a Group of Six Entities
IsDB Group Entities

**Islamic Research & Training Institute (IRTI)**
- Research and training arm of IsDB,
- Development of the Islamic Financial Services Industry to support the socio-economic development of MCs.
- Activities: training, research, advisory, capacity development.

**Islamic Corporation for the Development of the Private Sector (ICD)**
- Promote private sector development
- Facilitate access to Islamic capital markets,
- Mobilize additional financial resources for private sector,
- Promote entrepreneurship, and encourage cross-border investment.

**The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC)**
- Boost OIC MCs intra-trade
- Export credit insurance
- Political risk insurance to encourage cross-border investment.

**Islamic Solidarity Fund for Development (ISFD)**
- Dedicated to fighting poverty in MCs
- Target Endowment of $10bn

**International Islamic Trade Finance Corporation (ITFC)**
- Facilitate OIC MCs intra-trade
- Improve access to trade finance for businesses
- Provide trade-related capacity development
Key Facts about IsDB

Established in 1975 with HQ in Jeddah, KSA

1,128 staff distributed across entities & regional hubs

A Unique Model of South-South Cooperation

Global MDB: Membership: 57 Countries Spreading over 4 Continents

11 Regional Hubs

- 11 Regional Hubs to be Operational by 2020
- 7 Regional Hubs are established and functioning
- 4 Regional Hubs are being established Dubai, Egypt, Uganda and Suriname
- 14 Field Representatives in various Member Countries
IsDB Footprint in Field

1. SENEGAL Hub
   - Senegal
   - Guinea Bissau
   - Mali
   - Gambia
   - Sierra Leone
   - Guinea
   - Ivory Coast

2. NIGERIA Hub
   - Nigeria
   - Chad
   - Togo
   - Niger
   - Cameroon
   - Burkina Faso
   - Benin

3. Uganda Hub
   - Uganda
   - Mozambique
   - Djibouti
   - Comoros
   - Somalia

4. SURINAME Hub
   - Suriname
   - Guyana

5. KAZAKHSTAN Hub
   - Kazakhstan
   - Tajikistan
   - Uzbekistan
   - Kyrgyz Republic
   - Turkmenistan

6. INDONESIA Hub
   - Indonesia
   - Malaysia
   - Brunei Darussalam

7. BANGLADESH Hub
   - Bangladesh
   - Maldives

8. MOROCCO Hub
   - Morocco
   - Mauritania
   - Algeria
   - Tunisia
   - Libya

9. EGYPT Hub
   - Egypt
   - Sudan
   - Lebanon
   - Jordan
   - Iraq
   - Syria

10. UAE Hub
    - UAE
    - Pakistan
    - Afghanistan
    - Iran
    - Oman
    - Qatar
    - Kuwait
    - Bahrain

11. Turkey Hub
    - Turkey
    - Azerbaijan
    - Albania

HQ:
- Saudi Arabia
- Palestine
- Yemen
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<th>Main Products and Services of IsDB Group</th>
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<tr>
<td><strong>Special Assistance</strong></td>
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<td><strong>Trade Financing &amp; Promotion of Intra-Trade, Regional Integration</strong></td>
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<td><strong>Development of the Islamic Financial Services Industry</strong></td>
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IsDB Project Financing Products

Modes of Financing

Concessionary
- Loans
- TA Grants
- TA Loans
- Leasing
- Installment Sale
- Istisna’a

Ordinary
- Equity
- Murabaha
IsDB Project Portfolio

Split by geography:
- East Africa: 7%
- Middle East: 17%
- West Africa: 17%
- North Africa: 18%
- Europe and Central Asia: 19%
- South and South East Asia: 22%

Split by sector:
- Education: 7%
- Agriculture: 12%
- Water, Sanitation, Urban Svc.: 13%
- Others: 18%
- Transportation: 24%
- Energy: 26%

Split by type of financing:
- Concessional: 14%
- Ordinary: 86%
IsDB Group 10-Year Strategy (2015-2025)

IDBG Vision

Overarching Vision

Strategic Objectives

Inclusiveness:
Become a preferred partner for MCs economic and social development

Connectivity:
A strong catalyst for South-South cooperation

IFS Growth:
The leading reference in Islamic finance

Strategic Pillars

Economic and social infrastructure
Private Sector Development
Inclusive Social Development
Cooperation between Member Countries
Islamic Financial Sector Development

Capacity Development

Selectivity
Resource Mobilization
Manage for Result

Financial Sustainability
Group Synergy
Build Capabilities in Strategic Pillars
Link Strategy to Budget & Resources

1 Capacity development is integrated in each strategic pillar
AAA Credit Rating

“AAA” & ‘A-1+’ Short-Term
“Stable” Outlook

“Aaa” & ‘Prime-1’ Short-Term
“Stable” Outlook

“Aaa” & ‘F1+’ Short-Term
“Stable” Outlook

EU Zero Risk Weight
IsDB - On-Going Special Programs and Initiatives (1)

**Deep Dive Initiative**
- Strategic Partnership Framework (SPF) with the World Bank Signed on 14 October 2015
- **Co-financing activities** under SPF could potentially reach $9 billion over the period 2016-2018
- **Priority Areas**: Agriculture, Education, Energy, Fragility, Innovative and Islamic Finance, and Trade

**Lives and Livelihoods Fund (LLF)**
- IsDB and Gates Foundation established US$500 million Grant
- Aims to leverage $2 billion of ordinary financing on concessional terms to LDMCs
- **Covers Sectors**: Health, Agriculture, Rural Development, Energy for the poor

**MENA Initiative**
- Financing Facility jointly launched by the World Bank, the UN and the IsDB in October 2015
- **Includes Facility for** (i) Concessional Financing and (ii) Guarantee
- Initially focusing on financing operations in Jordan and Lebanon (facing influx of Syrian refugees)
- Aims to build resilience of host communities, social protection of refugees and jobs creation for vulnerable population
IsDB - On-Going Special Programs and Initiatives (2)

**IsDB-Infrastructure Funds:**
- In 2001, IsDB established first private equity Fund of US$731 million to support Infrastructure development in MCs
  - Fund –I has been successfully completed
  - Fund-II Launched in 2014 US$750 Million

**Special Program for Central Asia (SPCA)**
- Special Program to enhance Competitiveness, Increase Trade and Economic Growth in the Region (2016-2020)
- Planned financing up to $6 billion
- **6 Countries:** Azerbaijan, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan

**Framework Cooperation Agreement (FCA)**
- IsDB and Asian Development Bank signed FCA for period 2018-2022 for Co-financing Projects worth $5 Billion

**Deauville Partnership**
- Partnership between G8 and Arab Donors
- Support Transition Countries in Middle East and North Africa (Egypt, Tunisia, Jordan, Morocco and Libya)
- IsDB to provide development financing up to $4.5 billion
Our Major Partners

Arab Coordination Group

Arab Gulf Program for Development

MDBs and International Organizations

Bilateral and Other Organizations
Combating Fraud and Corruption in IsDB Financed Operations
Why IsDB Group Care?

1) Corruption is a phenomenon, which is difficult to tackle, and at the same time a problem we cannot afford to ignore.

2) It has been estimated that about 68% of government expenditure (world average) turns one way or another into public contracts.

3) Corruption can affect the economy and society at large. It erodes trust in institution and internal review processes, and it undermines the sound functioning of markets and competition.

4) It affects negatively already tight budgets, and it provides opportunities for some decision makers/officials to abuse the system/power under their discretion.

5) Corruption also harms individuals, particularly those below the mid income level: they are the ones most in need of the public services but they cannot afford simply because they cannot pay a bribe.

6) According to Transparency International, in procurement, studies suggest that up to 20-25% of the contracts’ value are lost to fraud and corruption.
1) Article 12 of the Articles of Agreement of the Bank stipulates “IDB has an obligation to ensure that its resources and facilities are used only to their intended purposes”.

2) To contribute in the sound development and reduction of poverty in its member countries, the Bank adopted and implemented Integrity Policy to combat fraud and corruption in its operations.
IsDB Group Integrity and Ethics related Policies and Rules

1) IsDB Group Integrity Policy
2) IsDB Group Whistleblower and Witness Protection Policy
3) IsDB Group Anti-Corruption Guidelines
4) IsDB Group Integrity Principles and Guidelines
5) IsDB Group Code of Conduct
IsDB Group Integrity Policy

1) The Policy covers and applies to all staff members and other employees (e.g. experts, consultants) of the Bank, as well as the entities/companies (suppliers, consultants, contractors) who are in any manner associated with IsDB Group financed projects/transactions/operations.

2) To implement the Policy, the Bank established Integrity and Ethics Department, which is the focal point for dealing with all cases involving allegations of Prohibited practices and Staff Misconduct not related to Fraud and Corruption.

3) The Policy defines following 5 prohibited practices:
   i. A corrupt practice
   ii. A fraudulent practice
   iii. A collusive practice
   iv. A coercive practice
   v. An obstructive practice
Definition of Prohibited Practices

• **Corrupt practice** – offering, giving, receiving or soliciting, directly or indirectly, of anything of value to influence improperly the actions of another party.

• **Fraudulent practice** – any act or omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit or to avoid an obligation.

• **Collusive practice** – an arrangement between two or more parties designed to achieve an improper purpose, including to influence improperly the actions of another party.

• **Coercive practice** – impairing or harming, or threatening to impair or harm, directly or indirectly, any party of the property of the party to influence improperly the actions of a party.

• **Obstructive practice** – deliberately destroying, falsifying, altering or concealing of evidence material to the investigation or making false statements to investigators; and/or threatening, harassing or intimidating any party to prevent it from disclosing its knowledge of matters relevant to the investigation; and/or acts intended to materially impede the exercise of the IsDB Group’s contractual rights of audit or access to information.
Bank’s Actions

Integrity and Ethics Department:

- responsible for conducting independent, objective, and impartial investigations related to staff misconduct and fraudulent and corrupt practices in IDB Group supported activities

- assists in fraud and corruption prevention by providing specialized integrity related advice and training to IDB Group staff and other parties concerned in IDB Group financed activities.
• **Purpose**
  
  ❖ To ensure that staff members and other employees of IsDB Group conduct themselves in accordance with the highest levels of integrity expected of servants of international Islamic Institutions
  
  ❖ To ensure that all activities, transactions, projects and operations financed and/or undertaken by any member of IsDB Group (severally or jointly with other institutions) are free of fraudulent and corrupt practices and executed in a proper control environment
  
  ❖ To ensure that the existing IsDB Group policies, procedures, guidelines and practices support and are harmonized with this Policy in order to achieve maximum realization of IsDB Group broader noble goals and objectives
  
• **Scope**
  
  ❖ Covers and applies to all staff members and other employees (experts, consultants and contractors) and entities who are in any manner associated with IsDB Group and/or involved in their respective proposed, ongoing, and/or completed activities, transactions, projects and operations (ie. Public or Private)
Why Care About Fraud & Corruption?

- The Bank fights corruption in order to
  - Promote good governance, economic growth, and healthy business environments
  - Protect its poverty reduction efforts
  - Ensure that its funds are used for their intended purposes

- Fraud and corruption harm IsDB Group projects through quantity, quality, and price
Bank’s Actions

IsDB will, if it determines at any time that any party is engaged in corrupt, fraudulent and collusive practices:

• will reject a proposal for award;
• will cancel the portion of its financing;
• will declare a firm ineligible either indefinitely or for a stated period of time;
• Inspect their accounts and records relating to the performance of the contract and to have them audited by auditors appointed by IsDB.
Amendments to the IsDB Procurement Guidelines

- **Eligibility:** This provision has allowed to declare a firm or an individual ineligible on the basis of the IsDB Group Anti-Corruption Guidelines as well as the IDB Procurement Guidelines.

- **Updating definitions of Fraud and Corruption:** The proposed amendments has updated IsDB definitions of corrupt and fraudulent practices to harmonize them with those adopted by other Financial Institutions, the IsDB Group Anti-Corruption Guidelines, and other IsDB Group policies.

- **Unfair Competitive Advantage:** Fairness and transparency in the selection process require that consultants or their affiliates competing for a specific assignment do not derive a competitive advantage from having provided consulting services related to the assignment in question.
Amendments to the IsDB Procurement Guidelines

- Thorough and specific definition of the Conflict of Interest:
  The conflict of interest will have a more thorough and detailed definition. The conflict of interest will cover:
  
  1. situations of relationship between companies or individuals in the design and implementation phases of a project,
  2. companies or individuals who submit multiple bids or engage in unauthorized subcontracting of losing bidders,
  3. close business or family relationships between a company or individual competing for a project and a project official, and
  4. companies or individuals who do not comply with other IDB requirements regarding conflicts of interest.

- Introduction of possibility for IsDB to declare mis-procurement for fraud and corruption
IDB Group Whistleblower and Witness Protection Policy

• Definitions

❖ **Whistleblower**: Report suspected Corrupt and Fraudulent Practices cooperate with IED investigations
❖ **Witness**: Provide information or evidence to IED during an investigation
❖ **Retaliation**: Any direct or indirect detrimental action because of reporting Corrupt and Fraudulent Practices

• IsDB Group will take disciplinary action and/or sanctions against the authors of retaliation and against the authors of malicious or knowingly false allegations

• IED will receive, investigate the complaints and make recommendations to the President of IsDB Group
IsDB Group Speak Up Hotline

Individuals can report through the Speak Up Hotline by calling the main # 888-688-1064 *. This number can be called using specific dialing instructions in 56 of our member countries.

You will be asked questions in order to gather sufficient information for follow-up. Your contact information will be asked however, you may remain anonymous if you choose.
### IsDB Group Speak Up Hotline

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* : Await second dial tone
** ATTD : AT&T Direct is a two-stage dialing process whereby the reporter will dial an access number and then be promoted to enter a toll free number.
*** ITFS : International Toll-Free is a dialing process whereby the reporter will dial the number just like any other country toll-free number.
The Islamic Development Bank Group Web Reporting System provides anonymous, web-based incident reporting in up to 45 languages.

Individuals can report through the Web Reporting System by entering https://integrity.isdb.org and will be asked questions in order to gather sufficient information for follow-up.
Obligation: Encouraging to Speak Up

The Bank is committed to maintain a clean and zero tolerance environment and that will be a critical part of our obligation to **speak up and report** any instances of Fraudulent and Corrupt practices and related staff misconduct. There are many ways to do so.
Way Forward

- MC Cooperation: MoU with MC Anti-Corruption Agencies
- IFI Cooperation: MoU with other Partners/IFIs/MDBs
- Cross Debarment Agreement: Joint effort to fight corruption in Development Projects
Empowering people for a sustainable future

Thank you