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## **Report on the implementation of the IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations**

Executive Board — Ninetieth Session  
Rome, 17-18 April 2007

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**For: Review**

## **Note to Executive Board Directors**

This document is submitted for the review of the Executive Board.

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# **Report on the implementation of the IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations**

## **I. Introduction**

1. The Executive Board considered the IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations (hereinafter the anticorruption policy) at its eighty-fifth session in September 2005. It adopted an amended version of the policy in November 2005 (EB 2005/85/R.5/Rev. 1).
2. By means of the anticorruption Action Plan, IFAD committed itself to take the following measures to improve the prevention, detection and investigation of fraud, corruption and misconduct in its activities and operations, and to apply appropriate sanctions as required:
  - (a) Prevention:
    - (i) Update of internal and operational procedures and legal instruments; and
    - (ii) Awareness-raising and sensitization (creation of an anticorruption website and issuance of an anticorruption awareness kit).
  - (b) Detection and investigation:
    - (i) Establishment of confidential communication facilities for the reporting of allegations;
    - (ii) Coordination with development partners and other external entities;
    - (iii) Setting up of an investigation section within the Office of Internal Audit (renamed the Office of Audit and Oversight in early 2007 in recognition of its expanded role);
    - (iv) Strengthening of the capacity of the Office of the General Counsel and of the Loans and Grants Administration Unit; and
    - (v) Review of the IFAD investigative structure.
  - (c) Application of sanctions:
    - (i) Implementation of a debarment or sanctions process for contractors and consultants financed under IFAD projects/programmes or by the IFAD administrative budget; and
    - (ii) Coordination with development partners and other external entities.
3. IFAD further committed itself to present a report on the implementation of the anticorruption policy to the Executive Board at its April 2007 session. Accordingly, this report provides the Executive Board with an overview of the steps IFAD took in 2006 to ensure the effective implementation of its anticorruption policy.

## **II. Highlight of achievements in 2006**

### **Prevention and detection**

4. Following outreach activities initiated in 2005 to raise awareness internally, IFAD intensified its efforts in 2006 to disseminate its anticorruption policy externally (i.e. to IFAD-funded projects and programmes), in particular by issuing an anticorruption brochure in the four official languages. The launch of an anticorruption website in March 2006 also constituted a key measure to raise

awareness and combat fraud and corruption, both within IFAD and in IFAD-financed operations. The website alerts the public to the channels available for reporting allegations of fraud and corruption, namely through an online complaint form, by phone, fax, e-mail and mail, or in person.

5. Furthermore, a wide-ranging communication campaign was initiated to disseminate relevant information on the anticorruption policy to all IFAD staff, to cooperating institution employees and to all other individuals and entities implementing IFAD loan and grant activities. In particular, information on the policy was provided during IFAD project start-up workshops, regional and thematic workshops, and loan negotiations, and through e-mail communications and the websites of IFAD regional networks.
6. Throughout 2006, IFAD also made significant progress in strengthening its procedures and legal instruments and closing loopholes to ensure the effective implementation of the anticorruption policy. A thorough review of the relevant documents was completed, and specific suggestions were made about possible modifications or additions to existing provisions, taking into account best practices applied by other United Nations agencies and the major multilateral development banks. The actual revision of relevant procedures and legal instruments is due in 2007 (internal documents) and 2008 (operational documents).

#### **Investigations and sanctions**

7. In the area of investigations and sanctions, two major milestones in the implementation of the anticorruption policy were reached in 2006: the establishment of the Investigation Section, and the complete overhaul of IFAD's investigation and sanction processes.
8. The Investigation Section, which is staffed with one investigation officer and one investigation assistant, became fully operational during 2006. Located within the Office of Audit and Oversight, it acts as a focal point for IFAD efforts to prevent, detect and investigate fraud, corruption and misconduct in its operations and activities. In addition to becoming a key instrument for prevention and detection by carrying out the policy development and outreach activities described in this document, the Investigation Section also received an increased number of allegations in 2006 – significantly more than registered by IFAD in previous years – and completed a substantially larger number of cases, four of which led to the imposition of sanctions. The Office of Audit and Oversight further strove to model its investigative procedures and practices on the quality standards and best practices of other United Nations agencies and the major multilateral development banks.
9. In parallel, an external review of the IFAD investigation and sanction processes was conducted by the Chief of the Office of Institutional Integrity at the Inter-American Development Bank and the Head of Investigations at the Office of the United Nations High Commissioner for Refugees. The review led, in less than six months, to a major reform of IFAD procedures for the conduct of investigations and the imposition of sanctions. Changes effected included the abolition of the Oversight Committee, a redefinition of the role of the then Office of Internal Audit, the establishment of the Sanctions Committee, the development of debarment procedures and the strengthening of IFAD disciplinary proceedings. A President's Bulletin on "Revised Investigation and Sanction Processes" promulgated these revised procedures in early 2007.

### III. Details of activities undertaken in 2006

*Anticorruption Action Plan approved by the Executive Board, November 2005*

*Implementation status as at February 2007*

#### I. PREVENTION

##### Development of new procedures and normative guidance

<p><b>Update of internal procedures and legal instruments:</b> The existing IFAD procedural guidance relevant to this topic will be replaced or supplemented as necessary to reflect the new policies. This will involve the review, amendment where necessary, and approval of revised sections of the relevant documents and legal instruments, mainly the Human Resources Procedures Manual, the Headquarters' Procurement Guidelines and standard contracts with institutions, suppliers and consultants. These procedures were issued or revised during the last three years and already include provisions on anticorruption. IFAD policy and practices for the protection of whistle blowers and for financial disclosure by IFAD staff will be given particular attention in this context and appropriate provisions will be introduced as necessary.</p> <p><b>Timing and resources.</b> The review of all procedures will be concluded by 30 June 2006. It is expected that supplementary or revised procedures will be drafted and issued to staff within a further three months from the completion of the internal review.</p>	<p>The update of IFAD internal procedures and legal instruments began in 2006 and is ongoing.</p> <p>IFAD carried out a thorough review of the relevant procedures and legal instruments (e.g. related to human resources management, procurement), the purpose of which was to identify potential gaps and loopholes, or obstacles to the proper implementation of the anticorruption policy. Methodology for the review included benchmarking the relevant provisions against best practices as applied by other United Nations agencies and the multilateral development banks, including compliance with the provisions of the International Financial Institutions Anticorruption Task Force's Uniform Framework for Preventing and Combating Fraud and Corruption.</p> <p>The report on the review, which includes specific suggestions concerning the amendments required for the effective implementation of the anticorruption policy, was circulated within IFAD in November 2006. The revision of the relevant documents is either in progress or planned for 2007, and should be completed by the end of 2007.</p> <p>The delay in completing this task is primarily due to the need to link this effort to other institutional initiatives, some of them emanating from the implementation of the anticorruption Action Plan (e.g. the external review of the IFAD investigative and sanctions processes, formulation of an IFAD debarment policy).</p>
<p><b>Update of operational procedures and legal instruments:</b> This will involve the review, amendment where necessary, and approval of revisions to the IFAD procurement, consultant and audit guidelines, the Loan and Grant Administration – Operational Manual and the standard provisions of loan and grant agreements, and cooperation agreements and letters of appointment for cooperating institutions. The review will include comparisons with relevant best practices, guidelines and standards applied by similar institutions, including relevant programme guidelines related to implementing community-driven development projects. This work will entail negotiating with cooperating institutions and potentially amending IFAD's basic documents.</p> <p><b>Timing and resources.</b> The review of all procedures will be concluded by 30 June 2006. The clearance process will involve consultations with cooperating institutions, and the revisions may need to be approved by the Executive Board. Implementation of these actions will consequently be aligned, as necessary, with the agreed Executive Board review dates of the relevant policies and with actions linked to the forthcoming revision of the IFAD supervision policy and the implementation of the new IFAD operating model.</p>	<p>The update of IFAD operational procedures and legal instruments is ongoing.</p> <p>IFAD carried out a thorough review of the relevant texts (e.g. loan agreements, cooperation agreements), the purpose of which was to identify potential loopholes or obstacles to the effective implementation of the anticorruption policy and to ensure that activities financed by the Fund are executed in a properly controlled environment. Methodology for the review included benchmarking the relevant provisions against best practices as applied by the major multilateral development banks.</p> <p>The report on the review, which includes specific suggestions concerning potential amendments, was circulated within IFAD in November 2006. The revision of the relevant documents is either in progress or planned for 2007, and should be completed in the course of 2008.</p> <p>The completion of this task is closely linked to the finalization of other institutional initiatives (e.g. implementation of the Project Procurement Guidelines, adoption of the IFAD Policy on Supervision and Implementation Support (hereinafter the supervision policy). Following approval by the Executive Board in December 2006 of the supervision policy, guidelines are being revised and a first draft for internal review is expected in mid-March 2007, including cross-referencing to the anticorruption policy. The development of Action Plan outputs, including enhanced country operations, will have similar cross-referencing.</p>

*Anticorruption Action Plan approved by the Executive Board, November 2005*

*Implementation status as at February 2007*

### **Awareness-raising and sensitization**

<p><b>The creation of an IFAD anticorruption Intranet and Internet site</b> (referred to henceforth as the anticorruption website) to contain the IFAD policy, definitions, information on the IFAD investigative process and responsibilities, guidelines to staff, projects, cooperating institutions and contractors, a section on frequently asked questions and information on the investigation cases handled by the Fund.</p> <p><b>Timing and resources.</b> The first version of the website will be published before the end of 2005 and its content will be augmented in due course.</p>	<p>The IFAD anticorruption website (<a href="http://www.ifad.org/governance/anticorruption">www.ifad.org/governance/anticorruption</a>) was launched in March 2006. In addition to making useful information on the anticorruption policy available to the public, the website introduced formal mechanisms through which anyone, within or outside IFAD, can report, in strict confidence, concerns relating to, or allegations of, fraud, corruption and other irregular practices – i.e. using the online complaint form, by phone, fax, e-mail and mail, or in person.</p> <p>An announcement of the website creation was sent shortly thereafter to all staff in IFAD and to over 1,000 individuals implementing IFAD loan and grant activities and cooperating institution staff. The website was also publicized on the websites of IFAD regional networks (FIDAMERICA, FIDAFRIQUE).</p> <p>Throughout 2006, the anticorruption website was amplified, including: (i) versions of the website in the four official languages; (ii) hotlinks to the anticorruption policy and the anticorruption brochure; and (iii) an online complaint form.</p>
<p><b>The issuance of an anticorruption awareness kit</b> including materials providing guidance on channels of communication available for reporting irregular practices, processes for dealing with different types of irregular practices, and the responsibilities and obligations of staff, other internal entities, cooperating institutions and other external entities in relation to potential irregularities.</p> <p><b>Timing and resources.</b> The anticorruption awareness kit will be issued within five months from the final approval of the policy.</p>	<p>An anticorruption brochure was produced in the four official languages, providing an overview on how to report irregular practices within IFAD and in IFAD-funded programmes and projects. Following its publication, the brochure was disseminated during regional and project-level events, reaching staff in some 38 projects and programmes during the second half of 2006. A presentation was also given to cooperating institutions from Latin America.</p> <p>The electronic version of the brochure is available on the anticorruption website.</p>

## **II. DETECTION AND INVESTIGATION**

### **Establishing confidential communication facilities for allegations**

<p><b>The creation of an internal drop-box for IFAD staff and a confidential anticorruption hotline (telephone and fax numbers and e-mail address).</b> These numbers will be publicized to IFAD projects/programmes and local partners through a variety of means, including through the IFAD anticorruption website. Special arrangements will be put in place to ensure adequate security in the operation of these lines. The Office of Internal Audit will establish an appropriate secure process for operating this facility on behalf of the Oversight Committee.</p> <p><b>Timing and resources.</b> The confidential telephone and fax numbers will be activated before the end of 2005.</p>	<p>A telephone and fax facility and an e-mail account were set up and thereafter publicized on the anticorruption website, and also through a communication campaign with projects and cooperating institutions (during IFAD project start-up workshops, regional and thematic workshops, and loan negotiations, and through e-mail communications).</p> <p>The creation of a drop-box was deemed redundant given the other reporting facilities available and less secure than these.</p>
<p><b>Confidential online reporting facility:</b> This Web-based facility will be included in the IFAD anticorruption website. A secure information technology environment will be created to house the facility, which will be operated by the Office of Internal Audit on behalf of the Oversight Committee.</p> <p><b>Timing and resources.</b> The online reporting facility is expected to be activated before the end of 2005.</p>	<p>The online reporting mechanism was activated in April 2006. Online reports are received in a secure mailbox, to which the Investigation Officer and the Director of the Office of Audit and Oversight only have access.</p>

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#### **Coordination with development partners and other external entities**

**The assessment of current cooperating institution arrangements and the formalization or strengthening of arrangements for the communication and investigation of allegations pertaining to IFAD projects.** Steps will be taken to ensure that any allegations pertaining to IFAD projects and programmes are promptly reported to IFAD and that all such allegations are investigated by the Member State and cooperating institution involved or by IFAD. IFAD is currently re-examining its arrangements for cooperating institutions in relation to the project supervision requirements it is developing, and will take this opportunity to reinforce and formalize the manner in which project- and programme-related allegations are handled. Meetings have already taken place between IFAD and a number of cooperating institutions, and some initial elements have been agreed on in relation to the handling of allegations.

**Timing and resources.** The first round of meetings with the main cooperating institutions is expected to be concluded by the end of 2005 and it is hoped that coordination in this area will be significantly strengthened thereby, well ahead of the planned revision of IFAD supervision arrangements. The formalization of some of the agreed arrangements may have to be aligned, as necessary, with actions linked to the forthcoming revision of the IFAD supervision policy and implementation of the new IFAD operating model.

The assessment of current cooperating institution arrangements was partly covered by the review of IFAD procedures and legal instruments, which was completed in November 2006 (see details earlier in this table).

Further alignment is in progress. For example, the cooperation agreement with the United Nations Office for Project Services (IFAD's major cooperating institution) is currently being revised, and IFAD is taking this opportunity to incorporate a new section on procedures relating to allegations of fraud and corruption. Similarly, when cooperation agreements with other institutions are revised, they will be made to reflect the new IFAD supervision policy and related procedures.

The development of detailed IFAD supervision guidelines in 2007 will afford a further opportunity to define more precisely the role of cooperating institutions in relation to allegations pertaining to IFAD projects and programmes.

#### **Strengthening IFAD's detection and investigative capabilities**

**Setting up an investigation section within the Office of Internal Audit and restructuring the Office.** A proposal is under consideration (as part of the 2006 budget process) with regard to strengthening the Office of Internal Audit to enable it to meet its investigation responsibilities. More specifically, a two-person investigation section would be established within the Office of Internal Audit to manage the investigation responsibilities under the supervision of the Director, Office of Internal Audit and the guidance of the Oversight Committee. Moreover, the charter and name of the Office will be revised to recognize its role in internal oversight.

**Timing and resources.** This action will necessitate an additional allocation of approximately US\$250,000 to the Office of Internal Audit. Subject to the availability of this funding in the 2006 budget, the investigation section within the restructured Office of Internal Audit and Oversight will be in place before the end of 2005.

The Investigation Section was formally established in 2005 within the Office of Internal Audit and staffed with an investigation officer in January 2006 and an investigation assistant as of June 2006.

The section became fully operational in the course of 2006 and now functions according to best practices and standards. Detailed and comprehensive investigation guidelines were finalized and issued in early 2006. Standard procedures and practices were developed. The safety of investigation records was significantly improved through specific measures (e.g. purchase of security cupboards). Further, an efficient and comprehensive investigation database was developed. It allows for more rigorous case registration and status tracking and, overall, significantly improves the management of information related to cases, including statistical reporting.

The two-person Investigation Section handled a significant and increasing caseload throughout 2006, in addition to the policy revision/development work and awareness activities mentioned elsewhere in this document. The year 2006 saw a 58 per cent increase in the number of cases registered, compared with 2005. All cases carried over from previous years were finalized, and most new cases were processed without undue delay, despite the section's limited resources. One internal case resulted in the summary dismissal of a staff member, while ad hoc debarment proceedings were initiated against several firms and individuals found to have engaged in fraud and corruption.

The Office of Internal Audit was renamed the Office of Audit and Oversight in order to reflect this new dimension of its activities, and its charter was revised accordingly.

*Anticorruption Action Plan approved by the Executive Board, November 2005*

*Implementation status as at February 2007*

<p><b>Strengthening the capacity of the Office of the General Counsel and of the Loans and Grants Administration Unit.</b> The Office of the General Counsel will be strengthening its capacity in 2006 by engaging external expertise and additional staff dedicated to assist the work of the Oversight Committee and implementation of the anticorruption policy. The Loans and Grants Administration Unit is stepping up efforts to ensure proper review and follow-up of loan and grant administration issues, including the audit process. The unit was recently provided with additional staff resources for this purpose and is looking to further strengthen its capacity in this regard during 2006.</p> <p><b>Timing and resources.</b> This will necessitate an additional allocation of approximately US\$300,000 in staff costs and financial resources for the Office of the General Counsel. The estimated cost of the incremental capacity for the Loans and Grants Administration Unit linked to anticorruption activities is not identified in its budget proposal as this function is an integral part of the unit's other activities.</p>	<p>The Office of the General Counsel hired four new lawyers during 2006. Three joined in 2006, while the fourth one will be on board in early 2007. The position of the General Counsel, is expected to be filled shortly.</p> <p>Regarding the Loans and Grants Administration Unit, in the Office of the Controller, one staff member is in charge of the final review of project audit reports, thus completing a process that starts at the level of the cooperating institutions and continues with the IFAD country programme manager. This improved review process of project audit reports represents a substantial evolution from a quantitative analysis to a more qualitative approach. The follow-up given to project audit reports results in the increased timeliness and quality of the reports submitted. This process is, however, the result of a long-term investment.</p> <p>As far as other activities related to loan and grant administration are concerned, adoption of the new operating model, and in particular the supervision policy, will affect the activities performed by the Office of the Controller. Consequently, IFAD will need to ensure that the resources available to this Office can guarantee the sound financial management of the activities it performs.</p>
<p><b>Review of the IFAD investigative structure.</b> A review will be conducted of the IFAD investigation and sanctions processes, in particular the roles, responsibilities and authority of the Oversight Committee, the Office of Internal Audit and the Office of the General Counsel in this regard.</p> <p><b>Timing and resources.</b> This will be included in the review of the policy's implementation in April 2007.</p>	<p>IFAD requested two external experts with experience in the area of investigations and administrative sanctions to conduct a review of IFAD investigation and sanction processes. The Chief of the Office of Institutional Integrity at the Inter-American Development Bank and the Head of Investigations at the Office of the United Nations High Commissioner for Refugees visited IFAD Headquarters in August 2006 to conduct the on-site part of the review (i.e. interviews), and issued their report to the President in late September 2006.</p> <p>IFAD Senior Management endorsed the external review's findings, providing that a number of their reservations were addressed. A President's Bulletin promulgating revised procedures for the conduct of investigations and the imposition of sanctions, in line with the main recommendations of the external review, was issued in early 2007.</p> <p>The major features of the revised procedures are: (i) transfer of the investigative responsibilities previously delegated to the Oversight Committee to the Office of Audit and Oversight, and (ii) creation of the Sanctions Committee, composed of IFAD's Vice-President, General Counsel and Assistant Presidents, to review investigative findings and determine whether a sanction should be applied or any other action taken, including debarment.</p>

### III. APPLICATION OF SANCTIONS

#### Implementation of a debarment or sanctions process for contractors and consultants

<p>A process will be developed and implemented for debarment of and/or sanctions against IFAD-financed contractors and consultants under IFAD projects and strengthening of the process already in place with respect to contractors and consultants financed by IFAD's administrative budget. This will also involve drawing up a policy for the disclosure of information on debarred firms or consultants.</p> <p><b>Timing and resources.</b> The debarment/sanctions process, which is expected to be finalized by the end of 2006, will be presented to the Executive Board for approval.</p>	<p>The newly established Sanctions Committee has authority to decide on the appropriate sanctions to impose on firms, private entities and individuals (including consultants) that have bid, applied for or participated in an IFAD-financed or Headquarters-related contract and have been found to have engaged in fraud and corruption.</p> <p>In line with best practices followed by multilateral development banks that have implemented debarment procedures, the following sanctions may be imposed: (i) reprimand; (ii) debarment, either indefinitely or for a stated period of time, from participating in IFAD-financed activities; (iii) other sanctions deemed appropriate under the circumstances, including contractual remedies (e.g. termination).</p> <p>Pending the implementation of the above-mentioned debarment procedures in early 2007, ad hoc debarment proceedings were initiated in 2006 – for the first time in IFAD's history – against: (i) a</p>
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*Anticorruption Action Plan approved by the Executive Board, November 2005*

*Implementation status as at February 2007*

	<p>contractor and a firm that colluded in order to improperly benefit from IFAD's business; (ii) a project party's employee responsible for the embezzlement of IFAD project funds; and (iii) an individual selected for a project director position on the basis of false educational credentials. In this last case, the person concerned was declared ineligible to participate in any IFAD-financed activity for an indefinite period of time. The other cases had yet to be completed at the end of 2006.</p> <p>Within the first two years of the Sanctions Committee's operations, IFAD will assess the Committee's functioning and decide on the appropriateness of publicizing the names of sanctioned entities and individuals. In the meantime, an internal list will be kept, and information will be shared with other international organizations and representatives or agencies of IFAD member countries that request and/or need to know such information in the interests of cooperation, harmonization and transparency.</p>
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#### **Coordination with development partners and other external entities**

<p>The IFAD offices responsible for investigations are actively participating in, or following up closely on, interagency efforts and initiatives on sharing information and cross-debarment. The IFAD General Counsel is leading an ad hoc working group of United Nations legal advisers charged with reviewing the practices of the various agencies in order to identify areas of common concern and further interagency coordination in this regard. The practices of multilateral development banks in this regard will be used as reference. However, the role of cooperating institutions vis-à-vis IFAD-funded project/programme procurement (an element unique to IFAD) will necessitate a coordinated approach with such institutions to develop and implement a debarment process tailored to the Fund's operational modalities. IFAD has already informally agreed on a number of actions with some cooperating institutions, and consultations with all other cooperating institutions will be needed to further develop the process.</p> <p><b>Timing and resources.</b> This activity, which has already started, will involve significant staff time from several IFAD divisions and will be ongoing.</p>	<p>IFAD has collected information from numerous agencies on their investigative and sanction policies and processes. This information will be presented at the next meeting of United Nations legal advisers in 2007, where the topic of fraud and corruption is also expected to be discussed.</p> <p>Furthermore, the ongoing coordination with multilateral development banks on the performance based allocation system also provides opportunities for discussion of governance and corruption policies and procedures. This is particularly the case with the African Development Bank and the World Bank.</p> <p>Last but not least, IFAD made sure that its revised investigative process was consistent with the International Financial Institutions Principles and Guidelines for Investigations (September 2006).</p>
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## **IV. The road ahead**

10. As can be seen from sections II and III, since the adoption of the anticorruption policy in November 2005, substantial progress has been made in each of the areas covered by the anticorruption Action Plan.
11. In 2007, IFAD will redouble its efforts to finalize the updating of its procedures and legal instruments, and to increase coordination with development partners and other external entities. IFAD only partially achieved these goals in 2006, primarily because it needed first to revise its procedures on the conduct of investigations and the imposition of sanctions. IFAD expects to update its internal procedures and legal instruments during 2007 and to complete the revision of its operational procedures and legal instruments in 2008.
12. In-house collaborative efforts will continue to increase awareness on fraud and corruption and promote further deterrent and detection activities, both within IFAD and in IFAD-funded projects.

13. The Investigation Section will be strengthened with the recruitment of an associate professional officer in late 2007.
14. The year 2007 will also bring new challenges with IFAD's adoption of streamlined procedures on the conduct of investigations and the imposition of sanctions. The creation of the Sanctions Committee and the implementation of debarment procedures will constitute a major milestone in the implementation of the anticorruption policy.
15. The results of IFAD's efforts, as summarized in this report, demonstrate the Fund's commitment to enhance integrity and tackle fraud and corruption in its activities and operations.
16. Further updates on the implementation of the anticorruption policy and additional information on IFAD's investigative activities in 2006 will be provided in the 2006 annual report of the Oversight Committee, which will be presented to the Audit Committee and published on IFAD's website.

