West Bank and Gaza

Emergency Services Support Project (ESSP) MDTF and ESSP III

Redacted Report

July 23, 2012
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Executive Summary

This report provides the findings of an administrative inquiry (the investigation) by the World Bank Group’s Integrity Vice Presidency (INT) into allegations that Person A, a representative of the project implementation unit (PIU) engaged in fraudulent practices by obtaining approval for expenditures of the Palestinian Authority’s (PA) own funds through misrepresentations that the expenditures were for a World Bank (Bank) project.
Background

The Emergency Services and Support Project – MDTF (ESSP-MDTF) and ESSP III were designed to support the Palestinian National Authority with the delivery of education, health, and social care services to the Palestinian population through the financing of recurrent operating expenditures. Combined, the two projects provided reimbursements and retroactive financing for certain recurrent operating expenditures of three ministries, the Ministry of Education and Higher Education (MoEHE), the Ministry of Health (MoH), the Ministry of Social Affairs (MoSA), and the PIU’s recurrent expenditures for monitoring projects. ESSP-MDTF was financed by a TF grant that became effective on September 2006, and closed on June 2011. ESSP III provided a TF grant effective on December 2007, and is scheduled to close on June 2013.

During the period of 2006-2011, the Bank deposited significant funds into Account Z. The management and fiduciary requirements relating to the Account Z funds were under the supervision of Person A, a representative of the PIU. The funds in Account Z were to be swept into the PA Central Treasury Account (CTA) to provide reimbursement for expenditures by the respective beneficiary ministries.

Methodology

INT’s investigation was predicated upon receipt of a news report and allegations of some misuse of the Bank reimbursement funds designated for the CTA. INT limited its investigation to allegations directly related to the use of Bank reimbursements and, in particular, if and how funds were not properly directed to the CTA.

Following its preliminary review, INT undertook an investigation consisting of the review and analysis of expense requests and bank statements, as well as interviews with Person A and other relevant parties. These investigative findings were referred to the Palestinian National Authority Anti-Corruption Commission.

Findings:

1. The evidence indicates that Person A engaged in fraudulent practices by obtaining approval for expenditures of the PA’s own funds through misrepresentations that the expenditures were for a Bank project.

(a) While some reimbursement funds were provided to eligible institutions, the Central Treasury did not receive the appropriate Bank reimbursement funds from the account managed by Person A, as it should have. In total, approximately one-third of the funds Account Z received from the Bank during 2008-2010 were not transferred to the CTA or other eligible institutions as intended.
The records reviewed from the Ministry of Finance (MoF) and Bank of Palestine, as well as interviews with MoF officers, confirmed that the PCU, under the supervision of Person A, submitted frequent requests to disburse funds maintained in Account Z. These requests were based on claims that all expenses were related to ESSP. However, Person A informed INT that none of the Account Z funds in question were used for ESSP expenditures.

Person A alleged a verbal agreement with MoF officials to use Account Z to fund PA projects and general expenses unrelated to ESSP. No MoF officials corroborated this agreement, nor was there any documentation to support its existence.

2. The evidence indicates that Person A committed fraud when he submitted letters identifying that expenses were in support of, and were funded by ESSP, when in fact they were not.

INT found that approximately one-quarter of the Account Z funds received from the Bank during 2008-2010 were applied to expenses not directly related to ESSP and/or authorized by the Bank. These expense requests included rent, medical treatment, vehicles, travel and fees for conferences, and recurring salaries for approximately 100 ministerial employees and consultants.

INT found evidence indicating that a significant amount of Bank reimbursement funds were dispersed from Account Z based on fraudulent claims made pursuant to PA expense requests. In two of those instances, Person A claimed to have received a No Objection Letter from the Bank, when no such approval had been provided.

When confronted with these misinterpretations, Person A stated that the letters submitted to MoF officials referencing support to ESSP were merely cover letters for the Accountant General to process payments, and that MoF approving officials were aware that the expenses were related to ministerial budgets and not ESSP. However, MoF officials involved in the approval of expenses and transfer requests submitted by Person A, stated that they relied on the information in the requests and that, to their respective knowledge, they were approving transactions for ESSP.

In several instances, Person A initiated the transfer of funds between Account Z and other non-Bank projects, which included bilaterals, claiming a connection to ESSP. Further, on two separate occasions, Person A initiated transfers of funds from an unrelated Bank project to Account Z, amounting to an improper commingling of funds. In each of these instances Person A submitted documentation falsely claiming that the Bank had authorized the transfers. Also in each of these cases, when asked to show Bank authorization for the transfers, neither Person A nor the MoF could provide documentation supporting claims of Bank approval.