

IMPROVING DEVELOPMENT OUTCOMES

Annual Integrity Report

THE WORLD BANK GROUP • FISCAL YEAR 2007

MESSAGE FROM THE PRESIDENT



Development assistance is a precious resource. The World Bank Group needs to assure its shareholder governments, developing world partners, and other stakeholders that we will exercise the utmost fiduciary responsibility to safeguard the funds entrusted to us. We owe this responsibility to the people we are seeking to assist.

Corruption, if unchecked, can erode confidence among donors and beneficiaries, leading to skepticism about the effectiveness of international development and, ultimately, jeopardizing our very mission: overcoming poverty and building inclusive and sustainable growth and opportunity.

The ugly face of corruption is the village that does not have a school or health clinic because officials have stolen the money that would have constructed them. It is medicines that do not cure—or may even kill—because someone has diluted them or substituted counterfeit drugs. It is the foreign company that pays bribes to get preferred concessions or contracts, costing poor countries in diminished goods and services. It is the aid official who betrays the trust of his colleagues, and the people he is charged to assist, to receive financial favors. And it is the student who drops out of school rather than submit to an instructor's demand to "purchase" course notes that are a prerequisite to a passing grade and a better life.

Over the past decade, the World Bank Group has recognized corruption as one of the greatest obstacles to economic and social development. Corruption benefits the privileged at the expense of the poor, while at the same time sabotaging policies and programs aimed at promoting economic growth and overcoming poverty. Entrenched corruption has a corrosive effect on people's trust in government institutions, which weakens public services.

In 1996, President Jim Wolfensohn publicly acknowledged that the Bank Group's lending programs were vulnerable to "the cancer of corruption" and called for action. In the

ten years since the Board of Executive Directors endorsed the World Bank Group's first anticorruption strategy, the Bank Group has made significant progress in the fight against corruption. The Bank Group has also taken steps to address the broader governance-related issues that can allow corruption to flourish.

In 2001, the World Bank Group established the Department of Institutional Integrity (INT) to investigate allegations of fraud and corruption in Bank-financed projects as well as possible staff misconduct.

INT's findings have underscored the need for a strong focus on anticorruption. The results of investigations and Detailed Implementation Reviews—substantive analyses of documents, processes, and contract implementation to identify indicators of fraud and corruption throughout selected projects—have revealed serious weaknesses in implementation, particularly in the area of procurement. This report describes some of these investigative findings, and it explains how the World Bank Group is taking action to hold wrongdoers accountable; to address risks in our lending programs; and to hold our staff to the highest professional standards.

To be successful, the fight against corruption and for better governance must be waged by all World Bank Group units, not just INT. Other principal offices pursuing our broader engagement in governance and anticorruption include the Poverty Reduction and Economic Management (PREM) network; the World Bank Institute; Operations Policy and Country Services (OPCS); the Legal Vice Presidency; and the Bank Group's regional staff. In order to be most effective, the Bank also works with numerous external stakeholders, including other multilateral and bilateral development institutions, civil society, and the private sector.

In fiscal year 2007, with the advocacy of President Paul Wolfowitz, the Bank Group's Board unanimously endorsed a new strategy entitled "Strengthening World Bank Group Engagement on Governance and Anticorruption." The strategy's three pillars are to:

- build capable, transparent, and accountable institutions through assistance to countries;
- minimize corruption in Bank-funded projects by assessing corruption risk in projects upstream, actively investigating allegations of fraud and corruption, and strengthening project oversight and supervision; and
- expand global partnerships to address corruption.

Attacking corruption is critical to achieving the Bank Group's overarching mission of helping people overcome poverty by creating opportunity and hope. Corruption distorts the rule of law and weakens the institutional foundation on which economic growth depends. In FY07, the World Bank Group's public sector support to governance and rule of law was \$3.8 billion—\$3.4 billion for governance, and \$424 million to support improvements in the rule of law. This comprised 15.5 percent of total Bank Group lending. As we implement the new Governance and Anticorruption strategy, these activities should increase.

As we scale up our broader engagement in governance, the Bank Group will remain vigilant against fraud and corruption. The World Bank Group needs a strong and independent investigative function. This core capability is essential to ensuring that our operations maximize development effectiveness; it is also vital to the institution's credibility as a trustworthy steward of financial resources.

We recognize that we can improve and sharpen our efforts. To create an independent assessment of our work in this vital area, President Wolfowitz asked former Federal Reserve Chairman Paul Volcker to lead a panel of five experienced and accomplished professionals from around the world to assess the performance of our internal investigative capability, its working relationships within the Bank Group, and how we could strengthen both. As this report goes to press, the World Bank Group is reviewing the recommendations of the Independent Review Panel, which we hope will lead us to wage the fight against corruption with even greater effectiveness and fairness.

The activities described in this report pre-date my arrival to the World Bank. However, on behalf of the institution, I would like to express my deep gratitude to those who made these accomplishments possible, both within and outside the Bank Group. In particular, I wish to thank the Audit Committee and Board of Executive Directors; the dedicated and professional staff and management of the Integrity Department, who have operated with admirable conviction and independence; the Bank Group's Legal Vice Presidency; the previous Sanctions Committee and new Sanctions Board; and civil society organizations, such as Transparency International, that both critique and support our work. The World Bank deeply appreciates the courage and determination of the individuals—including Bank Group staff, private citizens, and public officials—who came forward with allegations of fraud and corruption and helped us protect the integrity of our projects.



Robert B. Zoellick
President

MESSAGE FROM THE DIRECTOR

Fiscal year 2007 was an extremely productive and successful period for the Department of Institutional Integrity (INT). Among the many achievements over the year, we were able to formally launch the Voluntary Disclosure Program, harmonize our investigative practices with other International Financial Institutions, launch an unprecedented number of Detailed Implementation Reviews (DIRs), and close a significant volume of complex and multifaceted investigations.

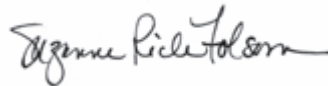
At the same time, the year presented a multitude of daunting challenges for INT, and for the World Bank Group as a whole. While our investigative activities increased, we had to expend a sizeable amount of time and energy responding to an independent review of our Department's work and effectiveness. At the same time, the institution was rocked by a leadership crisis—a crisis that also resulted in a high degree of additional pressure on INT.

These challenges make the year's accomplishments all the more impressive, as they were achieved in the face of extreme adversity. I would therefore like to express my strong gratitude to the hard-working staff and management team of INT. Their dedication, commitment, skill and courage are helping this Department make a critical contribution to the World Bank Group's efforts to help our member countries achieve development effectiveness. This report cannot adequately describe the long missions, grueling hours, and extreme circumstances under which the INT team must work in order to deliver on its mandate. They are true professionals, and their work deserves to be recognized.

In addition, the Department would like to express its thanks to our colleagues in the Legal Vice Presidency for the strong and continuing partnership. INT is also grateful for the support and cooperation of other colleagues across the Bank Group, particularly Regional management and the Human Resources Department.

As the institution works to implement the Bank Group's new Governance and Anticorruption strategy, INT looks forward to making an even greater contribution to the Bank Group's overall mission of poverty reduction, by continuing our work in ensuring that the Bank Group's resources go to their intended beneficiaries, and by helping to deter future wrongdoing.

Working together constructively with our colleagues across the World Bank Group—and with our development partners, borrower countries, civil society, and the private sector—we can make even further strides in diminishing the devastating effects that fraud and corruption have on the capacity of societies to lift themselves out of poverty.



Suzanne Rich Folsom

Counselor to the President and
Director, Department of Institutional Integrity

ABBREVIATIONS & ACRONYMS

ACS	Administrative and Client Support	IEG	Independent Evaluation Group
ADB	Asian Development Bank	IFC	International Finance Corporation
AfDB	African Development Bank	IFI	International Financial Institution
CCI	Centralized Case Intake Unit	INT	Department of Institutional Integrity
CFP	Concessional Finance and Global Partnerships	INTIS	Institutional Integrity Information System
CRS	Conflict Resolution System	KESSP	Kenya Education Sector Support Program
CSR	Controller's, Strategy and Resource Management	MDB	Multilateral Development Bank
DfID	Department for International Development (United Kingdom)	MEDEF	French Confederation of Business Enterprises
DIR	Detailed Implementation Review	MIGA	Multilateral Investment Guarantee Agency
EBC	Office of Ethics and Business Conduct	NCB	National Competitive Bidding
EBRD	European Bank for Reconstruction and Development	NGO	Non-governmental organization
ED	Executive Director	NOSP	Notice of Sanctions Proceedings
EIB	European Investment Bank	OECD	Organisation for Economic Co-operation and Development
EO	Evaluation and Suspension Officer	OLAF	European Anti-Fraud Office
FIR	Final Investigative Report	OPCS	Operations and Country Services
FPESP	Free Primary Education Support Project	PACI	Partnership Against Corruption Initiatives (World Economic Forum)
FY	Fiscal Year	PIR	Preliminary Inquiry Report
GAAP	Governance and Accountability Action Plan	PMU	Project Management Unit
GAC	Governance and Anticorruption	PRG	Partial Risk Guarantee
GSD	General Services Department	STC	Short-term Consultant
HR	Human Resources	TI	Transparency International
HRVP	Vice President, Human Resources	TOC	Trust Fund Quality Assurance and Compliance
IAD	Internal Audit Department	TOR	Terms of Reference
IBRD	International Bank for Reconstruction and Development	UN	United Nations
ICB	International Competitive Bidding	VDP	Voluntary Disclosure Program
IDA	International Development Agency	WBG	World Bank Group
IDB	Inter-American Development Bank	WBI	World Bank Institute

EXECUTIVE SUMMARY

FISCAL YEAR 2007: A YEAR OF ACTION IN THE WORLD BANK'S FIGHT AGAINST CORRUPTION

This annual report covers a year in which the World Bank Group undertook several important steps to strengthen its commitment to fighting corruption and to helping improve governance around the globe. It was also a year in which the Bank Group's Department of Institutional Integrity (INT) achieved a number of significant successes in its work to ensure that the Bank Group's limited financial resources are directed to the intended beneficiaries, as enshrined in the institution's Articles of Agreement.

Governance and Anticorruption Strategy

In fiscal year 2007 (FY07), the World Bank Group's Board of Executive Directors unanimously endorsed a new Governance and Anticorruption (GAC) Strategy which aims to heighten the institution's focus on these areas as an integral part of its work to reduce poverty and promote economic growth. The strategy calls for the Bank Group to increase its engagement in governance and anticorruption in three key areas: supporting country efforts; addressing fraud and corruption in Bank Group operations; and building global partnerships. Among the strategy's recommendations, the GAC calls for the Bank Group to step up the inclusion of appropriate fraud and corruption mitigation measures in project design, drawing on lessons from INT investigations regarding effective anticorruption safeguards and due diligence. The GAC also recommends wider dissemination of INT findings and emerging good practices and increased training and sensitization of task teams in how to spot "red flag" indicators of fraud and corruption.

Voluntary Disclosure Program and Sanctions Reform

The Bank Group's Board also approved two other important anticorruption initiatives in FY07, both directed toward private-sector actors that have engaged in fraud and corruption related to Bank-financed projects: a

Voluntary Disclosure Program and a broad new set of reforms to the Bank Group's sanctions regime.

The Voluntary Disclosure Program (VDP) is a proactive anticorruption tool designed to identify corrupt and fraudulent schemes and patterns in Bank Group-financed activities through the voluntary cooperation of participating firms and individuals. Managed by INT, the VDP allows entities who have engaged in past fraud and corruption to avoid administrative sanctions if they disclose all prior wrongdoing and satisfy standardized, non-negotiable terms and conditions. Lessons learned through the program will be applied to mitigate risks more effectively in future Bank Group-supported operations.

The reforms to the Bank Group's sanctions regime, which INT was significantly involved in designing, will help ensure uniform compliance with the highest ethical standards in all aspects of Bank-financed projects across the world. These standards will help level the playing field among companies and individuals involved in Bank Group-supported activities.

These two initiatives, which will greatly increase INT's ability to gain information about corrupt practices as they affect Bank Group activities and help the institution hold wrongdoers accountable, were approved by the Bank Group's Board at a meeting on August 1, 2006. At this session, the Board requested an external review of INT in order to ensure that the Department was operating as effectively as possible. This review, which was completed in September 2007, was conducted by a panel of experts headed by Paul Volcker, former Chairman of the United States Federal Reserve, who led the Independent Inquiry Committee into the United Nations Oil-for-Food Programme.

The Independent Review Panel has reviewed and evaluated several aspects of INT's work, including its mandate, authorities, policies, procedures, practices, independence, reporting lines, and oversight mechanisms. Throughout much of FY07, INT had to devote a significant amount of time and energy preparing for and responding to requests concerning this review.

As the Independent Review Panel's report was issued in fiscal year 2008, and the institution is currently reviewing its recommendations, this report does not reflect the findings of the review.

Sanctions-Related Activities

In fiscal year 2007, the Bank Group implemented a number of important changes to the institution's sanctions procedures that were approved by the Bank Group's Board in fiscal year 2004. One key modification was the replacement of the Bank Group's previous Sanctions Committee—comprised of only Bank Group staff—with a Sanctions Board that includes external parties.

Another was the creation of an "Evaluation and Suspension Officer" position for each of IBRD/IDA, IFC, MIGA and Bank Partial Risk Guarantees, who is to evaluate the evidence presented by INT and decide whether the case against the respondent has been substantiated.¹ The Evaluation and Suspension Officer also has the authority to temporarily suspend a private sector entity in a Sanctions proceeding pending final resolution of the case and to recommend a sanction to be imposed on a respondent, which sanction would become effective if the respondent elects not to contest the allegations against it by appealing to the Sanctions Board. The transition period between the Sanctions Committee and the new sanctioning bodies (consisting of the Sanctions Board and the Evaluation and Suspension Officers) took longer than expected, causing a temporary slowdown in the institution's ability to move sanctions proceedings forward.

Because of the delay in the implementation of the sanctions reform, the Department participated in only one sanctions hearing during the fiscal year, which was held under the previous Sanctions Committee procedures;² once the new sanctions system was in place, INT presented two new cases to the IBRD/IDA Evaluation and Suspension Officer in FY07, involving over 50 respondents.

In FY07, the previous Sanctions Committee provided its recommendation to the President for a final decision on a

significant case that had been heard by the Committee in FY06. On November 3, 2006, the Bank Group declared Lahmeyer International GmbH (Lahmeyer), a German company, ineligible to be awarded Bank-financed contracts for a period of seven years because of corrupt activities in connection with the Lesotho Highlands Water Project (LHWP). The Sanctions Committee recommended that the period of ineligibility may be reduced by four years if the Bank Group determines that the company has met specific compliance conditions and fully cooperated with the Bank Group in disclosing past sanctionable misconduct. This was the first time that the Sanctions Committee provided an incentive for private sector entities to reform their internal compliance process—a result that has been advocated by INT.

Joint IFI Anticorruption Task Force

FY07 was also a year that saw an unprecedented agreement among the International Financial Institutions (IFIs) to harmonize their approaches in investigating fraud and corruption in their lending operations. From FY06 into FY07, an IFI Task Force comprised of representatives of the African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, European Investment Bank, Inter-American Development Bank, International Monetary Fund, and the World Bank Group worked to develop a common approach to preventing and combating fraud and corruption in the activities and operations of their respective institutions. INT was appointed representative to the Task Force by the World Bank's President.

On September 17, 2006, the IFI Task Force Joint Framework was announced at the World Bank/IMF Annual Meetings in Singapore. This agreement represents a significant step forward, as it allows all IFIs to work according to the same set of standards and procedures. The Joint Framework provides new harmonized definitions of fraudulent and corrupt practices, principles and guidelines for investigations, and the promotion of information exchange across the institutions, among other measures.

¹ A case is "substantiated" when the evidence is *reasonably sufficient* to show that the alleged misconduct was committed; it is "unfounded" when the evidence is *reasonably sufficient* to show that the alleged misconduct did not occur; and it is "unsubstantiated" when the evidence is inconclusive or the allegation is unsupported, vague and ambiguous to warrant review.

² This case resulted in the debarment of two firms in early FY08 by the new Sanctions Board: Nestor Pharmaceuticals Ltd. (Nestor) and Pure Pharma Ltd. (Pure Pharma). Nestor was debarred for a period of three years and Pure Pharma was debarred for one year because of collusive practices in connection with the Bank-financed Reproductive and Child Health Project (RCH II) in India.

As a result of this agreement among the IFIs, the European Bank for Reconstruction and Development (EBRD) in February 2007 took the unprecedented step of debarring Lahmeyer International based on INT's investigative findings and the World Bank's debarment of the firm. The ineligibility will apply until Lahmeyer has implemented an anticorruption program satisfactory to the EBRD. The EBRD's cross-debarment of Lahmeyer marked the first time a Multilateral Development Bank (MDB) took such mutual enforcement action, a move with the potential to significantly increase the deterrent effect of each MDB's sanctions process.

Detailed Implementation Reviews

Over the fiscal year, INT greatly increased its use of a proactive diagnostic tool called the Detailed Implementation Review, or DIR. The DIR was developed in 2001 to evaluate Bank-financed projects for indicators of fraud and corruption and to assess the robustness of the Bank Group's anticorruption control mechanisms to prevent, detect, and respond to them. Using forensic accounting and investigative techniques, a DIR examines a project's procurement, financial management and implementation processes for indicators of fraud and corruption. Although there are similarities, a DIR is not an INT investigation in the traditional sense.

INT completed two DIRs in FY07, in Kenya and Vietnam, and shared the findings with the Bank Group's Regional management for the respective countries and with the country governments themselves, in order to allow for learning opportunities. In addition to these completed DIRs—twice as many as any other fiscal year—INT undertook a DIR of five projects across the Bank Group's health portfolio in India. This DIR was the most complex and labor-intensive undertaking ever initiated within INT. The India DIR team involved the work of dozens of INT staff, consultants, and subject matter experts. It also involved the collection and detailed review of thousands of project procurement files; hundreds of complaints; and large volumes of Bank Group appraisal documents, audits, and operational reports. In addition, the DIR undertook visits

to more than one hundred field sites across multiple districts in five Indian states. A report with recommendations will be issued in fiscal year 2008.

Lessons Learned and Operational Advice

FY07 saw a marked increase in INT's sharing of "lessons learned" from past investigations, as well as in the provision of operational advice on projects under preparation. INT was asked by Task Teams to review numerous Project Appraisal Documents to assess whether they include appropriate risk mitigation measures. Among the success stories of FY07 is the support INT provided to the development of a risk assessment and mitigation plan for the Colombia La Guajira Water Project. The Task Team had developed a rigorous governance risk assessment and mitigation plan that received strong and explicit support by a wide range of Board members. INT also greatly stepped up the number of workshops and training sessions provided to operational colleagues on "red flags" and risk assessments receiving widely positive reviews from participants.

INT Investigative Activities During Fiscal Year 2007

- In fiscal year 2007, INT closed a total of 301 cases, including both external cases (fraud and corruption in Bank-financed projects) and internal cases (alleged staff misconduct), an increase of 60 cases from FY06;
- The total carryover of open cases into FY08 was 232 cases, a decrease of 62 cases (21 percent) from the carryover into FY07 and the lowest year-end total since FY02;
- INT's External Unit closed 149 cases in FY07, one more than in fiscal year 2006. Of these, 85 were fully investigated; the balance were either referred or closed as Low Priority;
- Of the fully investigated external cases, 33 (39 percent) were found to be substantiated; 44 (52 percent) unsubstantiated; and eight (9 percent) unfounded;

- INT's Internal Unit closed 152 cases—the highest number in four fiscal years and an increase of 63 percent over FY06;
- Of the 152 cases closed, 38 were referred to others in the institution for action and 114 were investigated;
- Of the 114 cases investigated, 51 (45 percent) were found to be substantiated, 38 (33 percent) unsubstantiated, and 25 (22 percent) unfounded;
- As a result of the substantiated investigations, the Human Resources Vice President terminated and/or barred from rehire 22 staff members and imposed other disciplinary measures on 22 additional staff members with sanctions ranging from salary reductions, demotions, and letters of reprimand to training. The number of substantiated cases includes three cases of sexual harassment, wherein the staff members were all terminated for such behavior;
- INT made nine referrals to borrower countries and other donors in FY07, but challenges remain;
- These exceptional numbers were achieved notwithstanding the resources that INT had to devote to the

Independent Review Panel, the India DIR and the collateral issues regarding the leadership crisis in the fourth quarter of this fiscal year.

Conclusion

While FY07 was a noteworthy year in the World Bank's work on governance and anticorruption, it was also a period that presented significant challenges to the institution. During the latter half of the fiscal year, the Bank Group underwent a leadership crisis that was extremely testing for the Bank Group's Board, its management, and its staff. This crisis highlighted the importance of maintaining the highest standards in governance, both within the organization and with our borrowers, in order for the institution to remain credible and viable going forward.

As the World Bank continues to deliver on its mission of helping reduce poverty and foster economic growth, so must the vital work of INT continue. The findings from external and internal investigations, DIRs, and the VDP all clearly point to the fact that an independent and effective investigative office, able to deliver on its mandate without interference, is critically important for the Bank Group's staff, shareholders, and project beneficiaries.

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Corruption is a cancer that steals from the poor, eats away at governance and moral fiber, and destroys trust. The challenge for the World Bank is how best to diagnose, determine, and clean out corruption in concert with developing and developed countries.

Robert B. Zoellick, President

I. INTRODUCTION

SCOPE AND PURPOSE OF THIS REPORT

This Report on the activities of the Department of Institutional Integrity (INT) covers the fiscal year 2007 (July 1, 2006 – June 30, 2007). It is a public document³ that covers the World Bank Group's⁴ internal and external investigations and sanctions. The report also discusses proactive new instruments such as the Voluntary Disclosure Program (VDP) and the Detailed Implementation Review (DIR), two innovative anticorruption tools introduced by INT in recent years that further strengthen the Bank Group's effectiveness in preventing fraudulent and corrupt activities.

The report is specifically aimed at increasing the transparency of the work of the Integrity Department and serves as the basis of discussion with stakeholders in the public and private sector. INT's main challenge in this respect is to carefully balance transparency of investigative findings and the confidentiality of those who have assisted INT in the investigative effort, often in very challenging environments, as well as the integrity of the investigative process. In this regard, INT works within a Bank Group policy framework including the World Bank's Staff Rules, legal opinions and the Bank Group's Disclosure Policy (see Box 1).

THE BANK GROUP'S GOVERNANCE AND ANTICORRUPTION EFFORTS

In recent years corruption has been identified as one of the most important obstacles to economic growth in developing countries. Promoting good governance and combating corruption are key to achieving the World Bank's mission of poverty reduction by ensuring that funds are used for their intended purposes.

While the Bank Group has its own administrative definitions of fraudulent and corrupt practices (see Box 2), corruption is generally defined as the abuse of public office for private gain. Corrupt practices within Bank-financed projects touch multiple areas, including procurement, financial management and project implementation. Corruption is most pervasive in, but certainly not limited to, countries with weak or poor governance.⁵

BOX ONE

Disclosure of Investigative Findings

By publicly reporting aggregate investigative outcomes, INT's Annual Integrity Reports show that the institution takes allegations of fraud and corruption in its projects seriously and that the Bank Group's staff are held to a high professional standard. Similarly, INT has continued to highlight the number of cases in which INT has *fully cleared* staff members, to underscore the role of INT as an unbiased, neutral, and impartial finder of fact. These reports have also noted that the number of Bank Group staff facing misconduct allegations at any given time amount to less than one percent of the total Bank Group workforce.

The World Bank Group Staff Rules govern the disclosure and dissemination of INT investigative findings on internal cases. Under these rules, INT is restricted from disclosing case-specific outcomes of *substantiated* cases for which disciplinary measures are imposed to any parties, except the complainant(s) involved in the particular case. Any discretion on disclosure of information related to such cases to parties other than a complainant is explicitly reserved for the Vice President of Human Resources, the President, the Legal Vice Presidency or the President of the Administrative Tribunal.

With regard to the investigative findings on external cases, the Bank Group publishes decisions made by the Sanctions Board on the basis of INT findings. INT is not authorized to disclose the rationale underlying the Board's decision. In addition, under the current interpretation of Bank Group's disclosure policy, the decision to disclose INT final investigative reports and Detailed Implementation Reviews (DIRs) beyond the Bank Group's President and Regional Vice Presidents is made by the senior management on a case-by-case basis.

The Independent Review Panel has provided recommendations on the Bank Group's disclosure policies, which the Bank Group is now considering.

³ This was mandated by the Board of Executive Directors in July 2004.

⁴ The World Bank Group consists of the International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), International Finance Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID).

⁵ Kaufmann, Daniel, Aart Kraay and Massimo Mastruzzi (2007). "Governance Matters VI: Aggregate and Individual Governance Indicators for 1996-2006. World Bank Policy Research Working Paper No. 4280. Washington, D.C.

New Definitions of Sanctionable Offenses

In August 2006, as part of a package of reforms to the World Bank Group's sanctions regime, the Bank Group strengthened its definitions of fraud, corruption, collusion, and coercion and added a new sanctionable offense: obstruction. The Bank Group may now sanction firms and individuals who are found through an INT investigation to have engaged in the following practices:

A **corrupt practice** is the offering, giving, receiving, or soliciting, directly or indirectly, anything of value to influence improperly the actions of another party such as bribes and kick-backs.

A **fraudulent practice** is 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 such as the use of front or shell companies.

A **coercive practice** is impairing or harming, or threatening to impair or harm directly or indirectly, any party or the property of the party to influence improperly the actions of a party.

A **collusive practice** is an arrangement between two or more parties designed to achieve an improper purpose, including influencing improperly the actions of another party such as bid-rigging.

An **obstructive practice** is (1) deliberately destroying, falsifying, altering or concealing evidence material to the investigation or making false statements to investigators in order to materially impede a Bank Group investigation into allegations of a corrupt, fraudulent, coercive or collusive practice, and/or threatening, harassing or intimidating any party to prevent it from disclosing its knowledge of matters relevant to the investigation or from pursuing the investigation, or (2) any act intended to materially impede the exercise of the Bank Group's inspection and audit rights.

On March 20, 2007, the Bank Group's Board approved a strategy paper entitled "*Strengthening Bank Group Engagement in Governance and Anticorruption*" (GAC) (see also page 61). This strategy aims to help countries develop capable and accountable institutions that can devise and implement sound policies, provide public services, set the rules governing markets, and combat corruption. It sets out a framework of activities with the intention to streamline governance and anticorruption in the Bank Group's work to reduce poverty and promote growth. In addition to improving a country's governance, the strategy aims to ensure the highest fiduciary standards in Bank-financed operations, in large part by preventing opportunities for fraud and corruption through improved project design, greater disclosure, enhanced participation, and strengthening monitoring and supervision. INT will play a role in the implementation of the GAC through a combination of activities described in this report.

PRACTICE WHAT YOU PREACH

The Bank Group is not excluded from the rules of good governance it requires from its clients. On the contrary, the Bank Group holds its staff to the highest standards of ethical behavior, whether it is in their conduct with external parties or in the Bank Group's workplace.

Consequently, the Bank Group investigates, as part of its fiduciary responsibility, allegations concerning staff who may have used Bank Group resources improperly or abused their positions. In addition, the Bank Group is committed to promoting a workplace that is free of harassment, retaliation, discrimination and other forms of misconduct. Most workplace grievances can be resolved by staff, their manager or within the Bank Group's Conflict Resolution System. However, there are instances where the improper conduct is serious enough to warrant a formal investigation by INT.

It is important to note that the number of serious allegations involving Bank Group staff (including full time staff, consultants, temporaries and former staff) represents less than one percent of the institution's total workforce at any given time.

THE MANDATE OF INT

In 2001, the Department of Institutional Integrity (INT) was established to act as the independent investigative arm of the World Bank Group, reporting directly to the World Bank President. INT is also mandated to brief the Audit Committee of the Bank Group's Board of Executive Directors on a quarterly basis to provide "updates on the significant activities and outcomes of this unit."⁶ The Bank Group's Articles of Agreement, the World Bank Group Principles of Staff Employment and INT's Terms of Reference (see Box 4) form the basis for INT's mandate to investigate allegations of fraud and corruption in Bank-financed projects, as well as allegations of possible staff misconduct. INT investigations are typically triggered when INT receives and reviews such allegations.

INT conducts its administrative fact-finding investigations according to internationally recognized best practices, procedures and protocols. The Department investigates allegations

of staff misconduct under the policies set forth in Staff Rule 8.01 (Disciplinary Proceedings) (see chapter V). INT refers its findings to decision-makers such as Regional Operations, the Evaluation and Suspension Officers, and the Sanctions Board (for external cases) and the Human Resources Services Vice President (for staff misconduct cases) for further action.

In the past four years INT has increased its activities to prevent fraud and corruption through the introduction of the Voluntary Disclosure Program (VDP), which was officially launched on August 1, 2006 (see chapter IV), and the completion of Detailed Implementation Reviews (DIR) (see chapter III). INT also trains Bank Group staff and clients on how to identify "red flag" indicators of fraud and corruption. In addition, the Department assesses risks in Bank Group projects and programs and works with Regional colleagues to mainstream information and findings into future operations. Finally, INT publicizes the sanctions decisions of the Sanctions Board and promotes an environment whereby staff can report allegations without fear of retaliation.

BOX THREE

The Effects of Fraud and Corruption on Projects

When a supplier uses bribes and kickbacks or colludes with other suppliers to procure a project, these illicit costs need to be recovered in order to still make a profit. Hence, the supplier, frequently with the approving nod of one or more of the borrower's officials, proceeds to "cheat" the contract's competitively-established economic structure. This is generally accomplished in one or more of three ways:

1. **inflate the contract price of the good or service delivered**, causing the borrower to pay more for goods than they are worth;
2. **deliver fewer quantities of goods and services** than was contracted, causing the borrower to pay for goods not received; and/or
3. **deliver lower-quality goods or services**, which in the Bank Group's work leads to diminished development outcomes.

The above is often preceded by a skewed selection process in which various bidders have agreed amongst themselves who will be the winning bidder and how the losing bidders will be compensated by the winner.

As a result, a hospital built to allow the poor in a rural area to receive health care closer to home is not built according to specifications because money has been diverted. The hospital might therefore lack a delivery room, contain an ill-equipped surgical theatre, or have a roof that leaks when the first monsoon rains arrive.

On a quarterly basis, INT briefs the Audit Committee of the Bank Group's Board of Executive Directors on matters that may indicate systemic weaknesses, cases that will be referred to the respective Evaluation and Suspension Officer or investigations that involve a reputational risk for the Bank Group. These briefings include a statistical overview of cases opened and closed in the previous quarter and a discussion of major investigative findings. For highly sensitive matters, the Audit Committee and/or the Board may meet with INT in Executive Session which limits attendance to Executive and Alternate Directors exclusively.

INT works closely with the Legal Vice Presidency on legal and policy issues including sanctions proceedings and contacts with national law enforcement authorities. In addition, INT coordinates with the Internal Auditing Department (IAD) and the Independent Evaluations Group

(IEG) to ensure efficiency and effectiveness in the work of each of the three departments. Finally, INT collaborates with the Ethics and Business Conduct Office (EBC) and the World Bank Institute (WBI) in educational and awareness training for Bank Group staff and clients.

In fiscal year 2007, the Bank Group's Internal Audit Department (IAD) initiated an audit of INT. INT management requested that the Audit also evaluate the effectiveness and quality of the improvements it had made in INT's organization, processes and procedures since October 2005. The audit was put on hold in early 2007 because the Independent Review Panel, which was tasked with conducting a review of INT's entire business model and processes, would likely have been duplicative of the IAD audit of INT (see Box 5). The audit resumed during the latter stage of the Independent Review, in support of the Panel's goals.

BOX FOUR

The Bases for INT's Mandate

IBRD Articles of Agreement, Article III, section 5(b) states that "the Bank shall make arrangements to ensure that the proceeds of any loan are used only for the purposes for which the loan was granted, with due attention to considerations of economy and efficiency and without regard to political or other non-economic influences or considerations."

World Bank Group Principles of Staff Employment, Principle 3.1. on general obligations of staff members states that "the sensitive and confidential nature of much of their work requires of staff a high degree of integrity and concern for the interests of the Organizations. Moreover, as employees of international organizations, staff members have a special responsibility to avoid situations and activities that might reflect adversely on the Organizations, compromise their operations, or lead to real or apparent conflicts of interest."

The Department of Institutional Integrity Terms of Reference states that "The Bank Group has charged INT with the responsibility for the investigation of fraud and corruption in Bank Group operations. The Bank Group has also charged INT with the responsibility for investigating allegations of misconduct against Bank Group staff. In both instances, INT reports its findings to Senior Management. In addition, INT assists in preventative efforts to protect Bank Group funds, as well as those funds entrusted to the Bank Group, from misuse and to deter fraud and corruption in Bank Group operations."

Independent Review Panel

On August 1, 2006, the Bank Group's Board of Executive Directors requested an external review of INT in order to ensure that the Department was operating as effectively as possible. This review was conducted by a panel of experts headed by Paul Volcker, former Chairman of the United States Federal Reserve. Mr. Volcker is known for his careful and effective leadership of the UN Oil-for-Food investigation, in which he demonstrated his capacity to manage a review involving a large, complex international organization with significant diplomatic sensitivities and the competing interests of multiple stakeholders.

The panel reviewed and evaluated several aspects of INT's work, including its mandate, authorities, policies, procedures, practices, independence, reporting lines, and oversight mechanisms. The panel considered how other similar investigative offices operate, with a view to ensuring that the Bank Group is maintaining the highest possible standards. It also assessed the Bank Group's implementation of recommendations from the previous three formal reviews of INT.

The Panel is comprised of:

Mr. Gustavo Gaviria, who has worked since 1974 in the coffee and finance industries in Colombia. Mr. Gaviria is founder and President of Industrias Aliadas S.A. and founder and chairman of Coffeecal, Inc. Mr. Gaviria is also founder and President of Vision de Valores S.A. Since 2004 he has served on the Board of Ecopetrol, the largest Colombian company, where he heads the Committee on Corporate Governance. From 1999 to 2004, he was a Senior Advisor in the Office of the Executive Director for Colombia at the World Bank.

Mr. John Githongo, who as a former journalist investigated fraud and bribery in his home country, Kenya. In 1999, he founded the Kenya chapter of Transparency International, and in 2003, President Kibaki appointed him Permanent Secretary of Governance and Ethics, a position from which he resigned in early 2005. He is currently a Senior Associate Member of St. Antony's College at Oxford University in the UK.

Mr. Ben W. Heineman, Jr., who is a Distinguished Senior Fellow at Harvard Law School and a Senior Fellow at Harvard's Kennedy School of Government, where he is teaching and writing in the area of governance. He spent much of his early career in private practice and in government in Washington, D.C., including as law clerk to Supreme Court Justice Potter Stewart, and he now maintains an association with WilmerHale as Senior Counsel. From 1987 to 2005 he was Senior Vice President and General Counsel, and then Senior Vice President for Law & Public Affairs, for The General Electric Company where he dealt with matters directly relevant to maintaining high ethical standards in an international organization.

Prof. Walter Van Gerven, who is a distinguished EU legal author and law professor at Leuven (Belgium) and Tilburg (the Netherlands) Universities with visiting fellowships at, a.o., Chicago, Stanford, Michigan, Paris II, and King's College London. Between 1962 and 1967 he was an associate in the Brussels office of Cleary, Gottlieb, and a founding partner in 1970 of a leading Brussels law firm which was subsequently acquired by Linklaters. From 1982 to 1988, he served as the President of the Belgian Banking Commission; from 1988 to 1994 he was Advocate-General in the European Court of Justice; and in 1999 he served as one of five members of the Committee of Independent Experts investigating allegations regarding fraud, mismanagement and nepotism in the European Commission, and formulating recommendations resulting in various reforms.

Sir John Vereker, who is the Governor of Bermuda, an overseas territory of the United Kingdom. Briefly a staff member of the World Bank (from 1970 to 1972), he has spent most of his career in the UK government, including a three-year period in the Policy Unit of the Prime Minister's Office (from 1980 to 1983). In 1994, he became the Permanent Secretary of the UK's Overseas Development Administration and its successor the Department for International Development (DFID), a position that he held until becoming Governor in 2002.

The Panel's report, which was issued in FY2008, contained a number of important recommendations that the Bank Group undertook to review. The Bank Group's decisions on these recommendations will be reflected in the next Annual Integrity Report (see www.independentpanelreview.com).

II. EXTERNAL INVESTIGATIONS AND SANCTIONS

OVERVIEW

INT's External Investigations Unit investigates allegations of fraud and corruption in World Bank Group-funded projects. The external team is also responsible for carrying out Detailed Implementation Reviews (DIRs) and supports the Voluntary Disclosure Program (VDP) with investigative skills and analytical expertise (see Chapters III and IV).

The Department of Institutional Integrity receives allegations from multiple sources: individuals in and outside the World Bank, companies, government staff, beneficiaries of Bank-financed projects and non-governmental organizations (NGOs). The single largest source of allegations involving Bank-financed projects is Bank Group staff themselves (see Figure 2). Allegations can relate to procurement, financial management or implementation of project activities, though the vast majority of allegations relate to procurement.

Through a Board-approved triage system, INT aims to ensure the best use of scarce investigative resources by actively investigating all high priority cases (see further page 28). The objective of an investigation is to either *substantiate* or *refute* the allegation. If the evidence is inconclusive, an allegation is classified as unsubstantiated and the matter is closed. While the Bank Group can prevent companies, NGOs and individuals that have been sanctioned by the Evaluation and Suspension Officer or by the Sanctions Board from tendering for future Bank-financed projects, the Bank Group may not sanction implicated government officials.

Notwithstanding the lack of formal sanctioning power over implicated government officials, if officials of borrower governments are implicated in fraudulent and corrupt practices, INT may refer its findings to the relevant government for their own sovereign action.⁷ Further, operational staff can use lessons learned from investigative reports shared by INT to determine how to improve project design, imple-

ACCOMPLISHMENTS

- The External Investigations Unit began the fiscal year with a carryover from FY06 of 208 cases. The unit closed 149 cases and opened 116 cases, bringing the overall size of the portfolio down to 175 cases at the end of FY07;
- Of the 85 investigated cases 33 cases (39 percent) were found to be substantiated; 44 cases (52 percent) were unsubstantiated and 8 cases (9 percent) were unfounded;
- INT made nine referrals to borrower countries and other donors;
- On the basis of INT's investigative findings, the Bank Group's Sanctions Committee declared Lahmeyer International GmbH ineligible to do business with the Bank Group for a period of seven years;⁸
- Findings of significant fraud and corruption in a number of Bank-financed projects in a borrower country led to the development of Anticorruption Action Plans for three ongoing projects, which are expected to substantially reduce corruption risks going forward;
- A Central Case Intake Unit was established to allow for better investigative prioritization and record and document management (see Box 6);
- INT consolidated the External Unit's Investigation Policy & Procedures in order to streamline these with UN and IFI Task Force Principles and Guidelines for Investigations;
- The External Unit enhanced communications with operational teams.

⁷ A referral report should not be relied upon as the sole basis for initiating any criminal, administrative or civil proceedings against any party especially since evidentiary thresholds and the nature of administrative fact finding inquiries are different from national, criminal investigations.

⁸ The Sanctions Committee recommended that the period of ineligibility may be reduced by four years if the Bank determines that the company has met specific compliance conditions and fully cooperated with the Bank in disclosing past sanctionable misconduct.

mentation and supervision. The Bank Group will raise such matters as part of its ongoing dialogue with the Borrower governments in order to further strengthen the country's governance and anticorruption policies and procedures.

The External Investigations Unit uses formal protocols and procedures based on the United Nations Uniform Guidelines for Investigation, as well as the Principles and Guidelines for Investigations as agreed to by the Joint International Financial Institution Anticorruption Task Force (IFI Task Force). These protocols are updated and revised on a periodic basis to take into account the lessons learned from previous investigations as well as from the advice given by outside experts such as the Independent Review Panel. A complete overview of all the steps in the investigative process can be found in Appendix 5.

INVESTIGATIONS AND CASELOAD MANAGEMENT

The External Unit of INT carried over 208 cases into fiscal year 2007, opened 116 new cases—a decrease of 74 cases (39 percent) from fiscal year 2006—and closed 149 cases, or one more than in fiscal 2006. As a result 175 cases were carried over to fiscal 2008 for a net reduction of 33 cases (16 percent) from the previous year (see Table 1).

The 116 new cases opened represented a 39 percent decrease in comparison with FY06. The sharp decline in the number of new cases opened is a result of a temporary backlog in case intake caused by the establishment of the Centralized Case Intake Unit (CCI) in February 2007 and the introduction of new intake procedures,

TABLE ONE

External Cases (FY04–07)

	FY04	FY05	FY06	FY07
Cases carried over	244	224	166	208
New cases opened	203	235	190	116
Subtotal	447	461	356	324
Cases closed	223	293	148	149
Ending caseload	224	166	208	175

BOX SIX

Centralized Case Intake Unit

The establishment of a Centralized Case Intake Unit (CCI) was completed in Fiscal Year 2007, allowing for standardization of the intake and prioritization process of new external cases. CCI is responsible for consolidating and monitoring all complaints concerning fraud and corruption in Bank-financed projects that INT receives, for initial evaluation of the priority of the allegation, and for document management and retention.

When an allegation is received, CCI conducts an initial screening and assessment in order to determine whether the allegation received is *prima facie* credible and related to activities supported by the World Bank Group. The initial assessment is recorded in a Preliminary Inquiry Report (PIR). This report provides a precise summary of the allegation and evaluates the impact that the alleged corrupt practices could have on the Bank Group's reputation, finances, and development goals which is used to determine the ranking of cases. The PIR is also a valuable instrument to facilitate communications between INT and the Bank Group's Regional management and includes a specific section for the Regions to provide their input in writing into case prioritization.

The standardization of case intake ensures the timely, adequate and consistent review of all cases. This allows for a more objective ranking of external cases according to the impact they may have on different stakeholders. In addition, having a singular overall picture of complaints, the CCI can identify links and relations among the issues received.

Document management is also a key component of CCI's role as it ensures that cases are uniformly maintained and easily retrieved. CCI records all information relevant to each complaint into INT's enhanced information management system (INTIS). This information often includes communications with complainants; inter- and intra-office correspondence regarding the project, subjects, and companies named in the complaint; and all work products related to the matter. Furthermore, INT maintains a secure state-of-the-art investigative storage facility. This facility provides a highly secure and compartmentalized environment with limited access to ensure the integrity of the investigative files and underlying evidence.

FIGURE ONE

External Cases Opened and Closed (FY04-07)

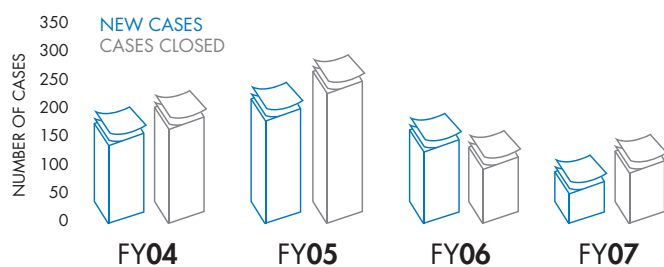
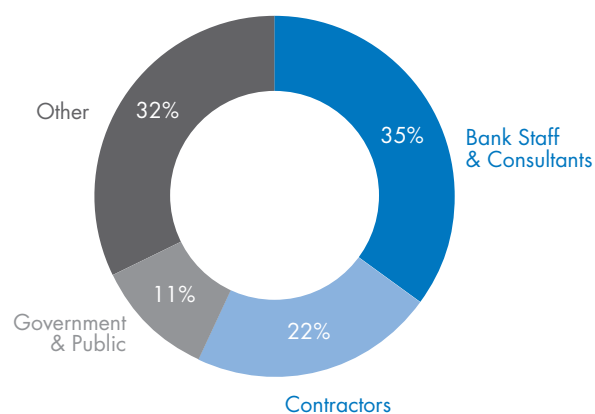


FIGURE TWO

External Cases by Sources of Allegations (FY07)



as well as the shift of significant resources to servicing requests from the Independent Review Panel.

Preliminary Inquiry Reports (PIRs) are now prepared by CCI—rather than investigators, as was the previous practice—and are far more extensive and comprehensive. Preparing the PIR is now a full-fledged investigative phase, wherein CCI makes first contact with the complainant, when possible, and undertakes all the necessary desk-top research, which was previously the responsibility of investigators. This now allows INT's investigators to focus purely on their investigative activities. As a result of this change in procedures, PIRs take longer to prepare. However, noted efficiencies are gained in ensuring that only pre-screened cases are investigated and in freeing up additional investigative resources (see Box 6).

By the end of FY07, the number of completed PIRs which had not yet resulted in newly opened cases stood at 52. In addition, during the first quarter of FY08, CCI staff worked on another 50 PIRs that might lead to new, opened cases that would have normally been counted as part of FY07. As such, the real number of cases opened if CCI had not had a backlog would in all probability be higher than the cases opened in FY06 (190 cases).

After CCI became fully staffed, in FY08, this backlog was cleared during the first quarter of the fiscal year.

In fiscal year 2007, the External Unit closed 149 cases, one more than in the previous fiscal year. This was achieved notwithstanding the Detailed Implementation Review (DIR) in India, which was the single largest undertaking by INT since its inception in terms of time and resources. Up to 80 percent of INT's investigative staff worked for ten months of fiscal 2007 on the DIR (see Chapter III, Box 9). In addition, INT devoted significant time and energy toward preparing for, and responding to requests from, the Independent Review Panel.

In terms of the sources of allegations, the percentage of cases reported by Bank Group staff (mostly task team leaders and procurement and financial management specialists) increased to 35 percent in fiscal 2007, up from 32 percent in FY05 and FY06, reflecting both the growing awareness of the institutional integrity function within Operations and the growing level of comfort among Bank Group staff to come forward (see Figure 2).

External sources of allegations include employees of companies, non-governmental organizations (NGOs), governments,

donors, the media, and beneficiaries of Bank-financed projects. "Other" refers to parties who made their allegations anonymously, and may also include Bank Group staff.

In FY07, as with previous years, the vast majority of INT investigations involved fraud and corruption in the procurement of goods and services under the Bank Group's lending operations. Public procurement has been found to be particularly susceptible to corruption because of the high level of funds involved and because of the expenditure profile of public procurement programs.⁹ For the shares of the types of allegations in fiscal year 2007, see Figure 3.

As for the distribution of cases by Region, one cannot draw with confidence any conclusions from the figures, as explained in the Annual Integrity Report Fiscal Year 2005-2006.¹⁰ Overall the number of cases opened per Region has remained consistent for most Regions (see Table 2). The sharp reduction in the opening of cases in the South Asia region does not indicate less reporting or a better fiduciary environment; rather, it represents a delay in processing complaints by the team responsible for the South Asia region due to their involvement with the Detailed Implementation Review in India, prior to the establishment of the Centralized Case Intake Unit in the second half of FY07.

FIGURE THREE

External Cases by Types of Allegations (FY07)

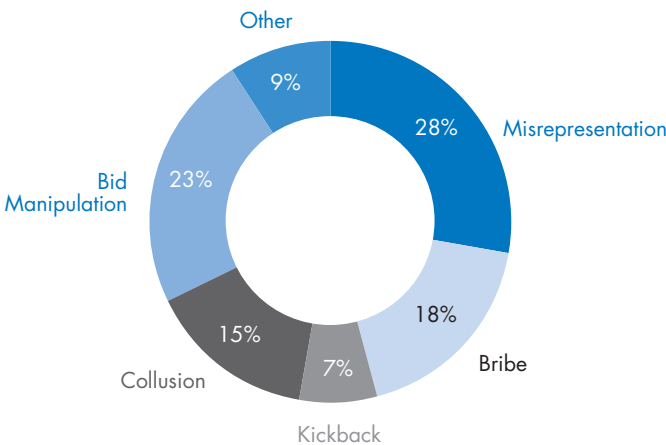


TABLE TWO

External Cases Opened by Region (FY05–07)

Region	FY05		FY06		FY07	
Africa	39	(16%)	32	(17%)	33	(28%)
East Asia/Pacific	63	(27%)	51	(27%)	37	(32%)
Europe/Central Asia	40	(17%)	33	(17%)	18	(16%)
Latin America/Caribbean	30	(13%)	15	(8%)	7	(6%)
Middle East/North Africa	12	(5%)	8	(4%)	7	(6%)
South Asia	51	(22%)	51	(27%)	14	(12%)
Total	235	(100%)	190	(100%)	116	(100%)

⁹ Ware, Moss, Campos and Noone, "Corruption in Public Procurement: A Perennial Challenge," *The Many Faces of Corruption*, World Bank, 2007.

¹⁰ The number of allegations received by the Bank from any given Region does not necessarily reflect the extent of corruption in the countries of that Region. Rather, the statistics are simply an indication of where cases have been reported to the Bank, which in turn reflects where INT has been most active over the years.

Fraud and Corruption within Infrastructure Projects

Three INT investigations concluded in this fiscal year involving three countries in two Regions, show that Bank-financed projects in the infrastructure sector continue to face fraud and corruption challenges. In two cases, consulting services contracts valued collectively at over US\$7 million for the supervision of road works construction were found to have been tainted by fraud and corruption. In the third case, INT found evidence of collusion in the bidding for contracts valued over US\$30 million.

In the first case, the main consultant – an international firm – was advised by its local partners immediately prior to contract signature that bribes valued at a certain percentage of the contract price would need to be paid by the partnership to government officials from the Ministry implementing the project. The international firm rejected the demand for bribes and reported the matter to the Bank Group. INT's investigation found sufficient evidence to establish that the local partners intended to make this corrupt arrangement. Sanctions proceedings will be brought against the local partners and the Bank Group intends to make a referral of the case to the borrowing government. Fortunately, because of the prompt reporting by the company, the Bank Group was able to prevent the arrangement from being carried forward.

In the second case, an international firm admitted it likely paid bribes over a number of years and at various stages of the contract implementation process through its local partners to government officials of the Ministry implementing the project. The international firm will also face sanctions proceedings, though its cooperation with INT during the investigation may be proposed as a mitigating factor when the case is brought to the Bank Group's Evaluation and Suspension Officer and, possibly, the Sanctions Board if the firm continues to cooperate fully.

In both cases, firms cooperated with the INT investigation because of their own internal policies of business ethics; because they realized that their involvement in fraud and corruption in third countries would bring them afoul of national legislation in their home countries; and because they see the Bank Group as a trustworthy interlocutor. Unfortunately, both firms indicated they would no longer compete for Bank-financed contracts in the countries in which they were involved, because they considered the fiduciary environment to be too risky.

In the third case, three rounds of bidding for road rehabilitation contracts were cancelled by the Bank Group in light of persistent evidence that bidding contractors were colluding to fix prices and nominate pre-determined bid winners. INT conducted two investigations in relation to the bidding rounds and determined that the collusion was orchestrated by government officials within the Ministry implementing the project; that hefty bribes were intended to be paid; and that senior politicians within the government of the borrowing country were also likely to be involved. The findings of collusive practices led to cancellation of the contracts, resulting in significant delays in the development of critical infrastructure. INT plans to recommend sanctions against a number of companies in the borrowing country and will make a referral of the investigation to the relevant authorities.

Case Ranking

Through the use of a Board-approved triage system, INT aims to ensure the best use of scarce investigative resources by focusing on the most important cases while administratively closing cases of the least importance. Under the current process, cases are ranked as High, Medium and Low Priority according to a number of criteria including: impact on development outcomes; impact on the Bank Group's reputation and finances; impact on present and future Bank Group engagements; ability to deter future corrupt practices; estimated cost of resolution; likelihood of resolution; and safety of Bank Group staff and witnesses. The ranking is determined in consultation with the Bank Group's Regional teams, but the final decision remains INT's.

Since fiscal year 2004, INT has considered for investigation, and investigated, most High and Medium Priority cases according to the availability of resources. The criteria for ranking varied from region to region, and hence, there may have been disparities in the prioritization of allegations. However, as of fiscal year 2008, INT has introduced a new approach whereby all allegations are ranked according to the same criteria, and all High Priority cases will be actively investigated. This will require a selective approach to ranking based on priorities and resources. All other cases will be ranked either Medium or Low Priority.

Medium Priority cases are reviewed monthly to determine whether their priority should be adjusted up or downwards, where relevant in relation to new incoming cases. These cases may be upgraded to High Priority if new information is received and/or additional resources become available. This allows for more realistic and effective management of major investigations. It also allows for more effective communication with Regions about the status of investigations. Low Priority cases are closed automatically after 30 days if no other information becomes available that justifies a change in the priority rating. Such cases can be reconsidered for investigation if further information becomes available suggesting a higher priority ranking is justified.

Length of Investigations

The length of time between when an allegation is received and an investigation is closed by INT is an issue of continuous concern to all stakeholders. Understandably, every complainant expects an investigation to be resolved quickly. However, each investigation is unique, and there is no way to predict the duration at the outset. Factors that can influence the length of an investigation include the number of allegations involved, the number of contracts to be reviewed, the number of witnesses to be interviewed, and the location of the witnesses. Investigations have also built-in time lags related to obtaining documents held by the borrowing country (the Bank Group has no direct contractual relationship in the majority of cases), organizing missions, and arranging interviews with witnesses—some of whom may be hesitant to cooperate. In fiscal year 2007, the India DIR and the Internal Review Panel necessitated a temporary but considerable shift of resources away from external investigations.

To improve the turnaround of cases, INT has undertaken a number of actions: (i) using the newly established Centralized Case Intake System (CCI) and the triage process to focus on a smaller number of strategically important cases in order to ensure that those cases investigated are turned around more rapidly; (ii) initiating monthly management reviews of the progress of major cases and adjustment of priority rankings; and (iii) deploying staff more flexibly across regions.

OUTCOMES AND RESULTS

INT's objective is not to increase the number of substantiated cases but to provide solid investigative findings in order to resolve the allegations made. Of the 85 investigated cases in FY07, 33 cases (39 percent) were substantiated, 44 cases (52 percent) were unsubstantiated, and eight cases (9 percent) were unfounded (see Table 3). The fluctuation in the number of substantiated and/or unfounded cases over the years should not be interpreted as an indicator of the extent of fraud and corruption in Bank-financed projects.

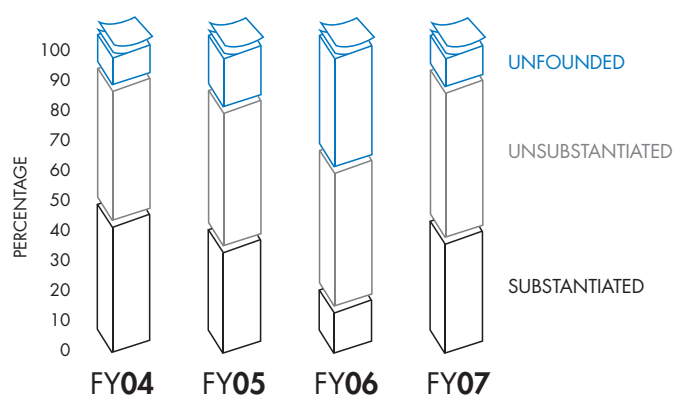
TABLE THREE

External Cases by Investigative Outcomes (FY04–07)

	FY04	FY05	FY06	FY07
Cases closed	223	293	148	149
Cases referred/not investigated	120	41	28	20
Low Priority – No Further Action		90	46	44
Cases investigated of which:	103	162	74	85
Substantiated	45 (44%)	58 (36%)	13 (18%)	33 (39%)
Unsubstantiated	49 (48%)	77 (48%)	35 (47%)	44 (52%)
Unfounded	9 (8%)	27 (16%)	26 (35%)	8 (9%)

FIGURE FOUR

External Cases by Investigative Outcomes (FY04–07)



Other Investigative Outputs: Referral Reports and Notices of Sanctions Proceedings

In addition to the Final Investigative Reports that INT issues to relevant parties upon closure of a High Priority investigation, which contain the findings and evidence as well as recommend actions to be taken by the Bank Group, INT's external investigations result in two other products: referral reports and Notices of Sanctions Proceedings.

A referral report is the formal passing of investigative findings and recommendations to a member government and/or another donor by INT, in coordination with the Regional and/or Country office and the Bank Group's Legal Vice Presidency. Referral reports allow member countries to identify whether their laws have been violated; pursue criminal and administrative investigations as necessary; and guard against engaging in business transactions that put the government at risk. Referrals also

The Bank Group's Sanctions Process (FY04–07)

	FY04	FY05	FY06	FY07
<i>Sanctions-related actions</i>				
Number of cases received	23	2	1	2
Number of committee sessions	8	6	2	1
Number of cases heard	16	13	2	1
<i>Number of sanctions applied</i>				
Number of debarments				
Firms	55	54	4	1
Individuals	71	45	9	0
Total debarments	126	99	13	1
<i>Number of letters of reprimand</i>				
Firms	4	1	0	0
Individuals	3	5	0	0
Total letters of reprimand	7	6	0	0
Total sanctions applied	133	105	13	1

help donors identify whether any of their funds have been diverted and guard against ongoing and future risk to funds. INT issued nine referral reports based on external investigations in FY07.

A Notice of Sanctions Proceedings is the document that initiates an administrative process through which the Bank Group determines whether or not, or under what conditions, to do business with firms and individuals alleged to have engaged in sanctionable practice(s) in relation to Bank-financed projects.

Sanctions Activities in FY07

With the implementation of the sanctions reforms in October 2006, the Bank Group has made a great step forward in increasing the transparency and integrity of the sanctions process.¹¹ However, the transition period

between the Sanctions Committee and the new Sanctions Board and the creation of the Evaluation and Suspension Officer (EO) positions¹² took longer than expected in FY07, causing a temporary slowdown in the institution's ability to move sanctions proceedings forward.

Because INT had been expecting these changes to be implemented throughout most of FY07, the Department participated in only one sanctions hearing during the fiscal year, which was held under the previous Sanctions Committee procedures.¹³ In addition, as a result of a hearing by the Sanctions Committee held in fiscal year 2006, Lahmeyer International GmbH was debarred by the Bank Group in FY07 (see Case Study 2).

The number of sanctions is expected to increase significantly in the coming fiscal year with the EOs and new Sanctions Board in place to receive Notices of Sanctions

¹¹ *Sanctions Reform: Expansion of Sanctions Regime Beyond Procurement and Sanctioning Obstructive Practices* (R2006-0149/4), July 28, 2006.

¹² Under the new system, a full-time Evaluation and Suspension Officer was designated to handle IBRD and IDA cases, and part time Evaluation and Suspension Officers were designated to handle cases involving MIGA, IFC and Bank Guarantee Project transactions.

¹³ This case resulted in the debarment of two firms in early FY08 by the new Sanctions Board: Nestor Pharmaceuticals Ltd. (Nestor) and Pure Pharma Ltd. (Pure Pharma). Nestor was debarred for a period of three years and Pure Pharma was debarred for one year because of collusive practices in connection with the Bank-financed Reproductive and Child Health Project (RCH II) in India.

Lahmeyer International GmbH

One of the most significant sanctions cases since INT's inception was decided in FY07, leading to the debarment of Lahmeyer International GmbH (Lahmeyer), a German company, for a period of seven years because of corrupt activities in connection with the Lesotho Highlands Water Project (LHWP). The period of debarment may be reduced by four years if the Bank Group determines that Lahmeyer has met specific compliance conditions and fully cooperated with the Bank Group in disclosing past sanctionable misconduct.

The LHWP is a massive, multi-billion dollar water transfer and hydropower project implemented by the governments of Lesotho and South Africa. The project is designed principally to transfer water from the Maluti Mountains in eastern and central Lesotho to the Gauteng Province of South Africa.

The World Bank Group's Sanctions Committee found that Lahmeyer engaged in corrupt activities by bribing the Lesotho Highlands Development Authority's Chief Executive, Mr. Masupha Sole, the government official responsible for contract award and implementation under the LHWP, in violation of the Bank Group's procurement guidelines. In July 2004, the World Bank Group debarred Acres International, another firm convicted of paying bribes under the LHWP, for a period of three years. Two other European firms were also convicted in Lesotho in relation to the LHWP, although they were not involved in the Bank-financed portions of the project.

The case was a re-opening of 2001 sanctions proceedings against Lahmeyer in relation to the LHWP. The Government of Lesotho announced criminal indictments of Lahmeyer and Mr. Sole in 1999. Following the announcement of the indictments, INT initiated an investigation into whether Lahmeyer had engaged in corrupt practices in relation to its contracts with the Bank Group. In October 2001, the Sanctions Committee found that the evidence was not sufficient to make a determination, and said that it would re-examine its findings in light of any additional relevant information. In 2002 and 2003, the High Court of Lesotho convicted Mr. Sole and Lahmeyer for bribery. The Court of Appeal of Lesotho affirmed Mr. Sole's conviction in April 2003, and Lahmeyer's conviction on six of seven counts in April 2004. In light of the information obtained from these decisions, the World Bank Group re-opened sanctions proceedings against Lahmeyer in August 2005.

Once the indictments were announced in mid-1999, the World Bank Group provided extensive evidentiary support to the Lesotho prosecutors and made Bank Group staff available for interviews. The World Bank later assisted the Government by bringing together the Lesotho prosecutors with the various project funding agencies and EU antifraud officials. The Bank Group benefited greatly from the investigative work done by the Lesotho Government in bringing the debarment case against Lahmeyer and Acres.

Proceedings from INT. INT presented two new cases to the Evaluation and Suspension Officer for IBRD and IDA in FY07, involving more than 50 respondents.

CHALLENGES

Effective use of limited resources

Fiscal year 2007 presented an unusual set of challenges to INT's External Investigations unit. Some of the more labor- and resource-intensive issues faced by the unit, such as the launch of the Voluntary Disclosure Program (VDP), the Independent Review Panel, and the India DIR, are unlikely to recur, at least on such a scale. Other new challenges, such as series of disclosures from private sector firms outside the VDP (see Case Study 3) may continue even as new issues arise with the implementation of any recommendations that come from the Independent Review Panel. The External Unit will certainly face increasing internal and external demands as anticorruption becomes an even more important institutional priority and in order to meet growing demand for risk mitigation advice from operational staff.

INT continues to look for new ways to respond to these growing demands and expectations while at the same time achieving maximum efficiency and effectiveness with limited resources. These business needs will require more analytical capacity in the Department in order to synthesize the information from external investigations, the VDP, and DIRs into practical lessons learned. This is critical, however, as these lessons will help the Bank Group improve procedures and protocols concerning controls to lessen the risks of fraud and corruption in Bank-financed projects going forward.

Another challenge going forward will be to maximize the deterrent effect of the Bank Group's sanctions process. After Lahmeyer International was debarred by the Bank Group, and subsequently cross-debarred by the EBRD, INT was contacted by the compliance officers of several multinational firms concerning VDP and non-VDP disclosures. However, the fact that only one firm was sanctioned in FY07 has lessened the overall deterrent effect of the sanctions process, and at the same time has dampened potential private sector interest in joining the VDP. It is vitally important, now that new Evaluation and Suspension Officers are in place and the Sanctions Board is operational, that the institution moves forward with additional sanctions proceedings.

PLANS FOR FISCAL 2008

- Increase the number of Notices of Sanctions Proceedings to be presented to the Evaluation and Suspension Officers in fiscal year 2008;
- Select cases for active investigation on the basis of increased analysis of institutional and beneficiary impact to achieve better outcomes;
- Develop a policy to work with companies that do not qualify for VDP, yet want to fully cooperate with INT, to achieve maximum investigative impact;
- Develop a standardized approach with regard to protection of information in final reports to allow increased sharing of reports with MDBs and relevant donors, as called for by the IFI Task Force;
- Implement recommendations that may flow from the Independent Review Panel.

Disclosures Made by Companies Outside the VDP

In fiscal year 2007, three international companies agreed with INT to disclose past fraudulent and/or corrupt practices that they were involved in, as well as misconduct that they were aware of involving other parties, such as joint venture partners, government officials, or Bank Group staff. These disclosures were not made through the Voluntary Disclosure Program (VDP), but they were facilitated by the program's formation, as it created a portal within the Bank Group to provide such information.

As these disclosures were proffered outside the Bank Group's VDP, they will almost certainly lead to the firms being sanctioned for any established wrongdoing. Each company expressed specific reasons for their disclosures. These included protecting the company's reputation; a conscious decision to stop paying bribes; as well as a conclusion that escalating demands for bribes at various steps of contract implementation have had an excessively negative effect on profit margins.¹⁴

One company has already made several disclosures to INT about bid processes or contract execution in which either its staff were directly approached for bribes or it is strongly suspected that officials of borrowing governments sought bribes. INT's review of the disclosures suggests that six of them, involving five countries in three Regions, are credible and warrant follow-up investigations. The company has committed to continue cooperating with INT over the long term.

The other two companies are engaged in internal reviews which are expected to highlight a number of Bank-financed contracts that have been tainted by corrupt or fraudulent practices.

This trend toward open disclosure is important because, while information provided has not been as detailed as disclosures made under the VDP, we see that:

- The companies that disclose to INT have developed or are developing robust compliance programs designed to stop employees from engaging in fraud and corruption in tendering contracts, which in turn reflects the impact of national antibribery legislation;
- The disclosures will most likely lead to investigations of other companies that may have committed misconduct;
- This should encourage other firms to disclose their wrongdoing under Bank-financed contracts, once knowledge of the disclosures is disseminated publicly.

III. DETAILED IMPLEMENTATION REVIEW (DIR)

OVERVIEW

The DIR is a proactive diagnostic tool developed by INT in 2001 to evaluate Bank-financed projects for indicators of fraud and corruption and the robustness of the Bank Group's control mechanisms to prevent, detect, and respond to them. Using forensic accounting and fraud investigation techniques, a DIR examines a project's procurement and implementation processes for indicators of fraud and corruption. It seeks to determine how, and to what extent, fraud and corruption may be present and thereby adversely affect the procurement of the project's essential goods, works, and services and the successful completion of project implementation. By bringing to light possible indicators of the diverse schemes through which projects can become corrupted, such reviews suggest areas where risks may be mitigated.

Since 2002, INT has undertaken six DIRs in five countries involving 22 projects (see Table 5)

THE DIR: NOT AN INVESTIGATION

The DIR's methodology, although structured, is guided by an understanding that in order to identify fraud and corruption, the search must be comprehensive and dynamic. This is accomplished by deploying an

experienced team of investigators and other technical professionals possessing a wide range of skill sets to perform a variety of state-of-the-art forensic accounting, analytical, and investigative procedures.

Although there are similarities, a DIR is not an INT investigation in the traditional sense (see Box 7). INT investigations are conducted to substantiate or disprove allegations, and may lead to the Bank Group sanctioning contractors or exercising operational remedies. By comparison, a DIR seeks to proactively diagnose the level of risk that fraud and corruption pose in Bank Group projects across a portfolio in order to identify opportunities for strengthening Bank Group controls and to further mitigate against such risks. Notwithstanding, many DIR findings have ultimately led to follow-up INT investigations and on occasion, DIR staff may develop substantial evidence that can be developed into notices of sanctions proceedings without much additional investigative effort. Past DIRs have led to the debarment of 140 firms and individuals by the Bank Group.

INT has conducted six DIRs to date, including the ongoing DIR in India. These DIRs have all been triggered by discussions between INT, regional and country management, and governments, either in the context of an INT investigation or because a need had been identified for stronger procurement, financial, or project implementation controls.

ACCOMPLISHMENTS

- Detailed Implementation Reviews (DIRs) have yielded findings regarding indicators of fraud and corruption schemes and patterns and control weaknesses in procurement, financial management and implementation;
- INT completed two DIRs in Kenya and Vietnam and shared the findings with the governments of the respective countries and with the Bank Group's Africa and East Asia Pacific regions to allow follow-up actions addressing the issues as identified by the DIRs;
- INT assessed the procurement, financial management and implementation processes of five health projects as part of the DIR India; a report with recommendations will be issued in fiscal year 2008.

TABLE FIVE

Overview of DIRs Undertaken by INT

Year	Country	No. of Projects	Sectors
2002	Indonesia	1	Urban development
2003	Vietnam	5	Health, water sanitation, rural infrastructure/energy/transport
2004	Cambodia	5	Rural development, flood and road rehabilitation, biodiversity
2005-2006	Kenya	4	Health, education, and roads
2006	Vietnam	2	Rural roads
2007	India	5	Health

The DIR team uses its expert knowledge of the varied types of corrupt and manipulative schemes identified in Bank-financed projects to identify indicators of potentially corrupt activities that “cheat” the contract and divert funds. For example, the DIR may find indicators that a supplier substituted lower-quality or counterfeit products for the high-quality products required by the contract’s technical specifications; or, the review may show that suppliers colluded to rig the bidding process and artificially raise prices. These indicators are consistent with those commonly used by national, state, and local law enforcement, as well as specialized audit agencies and the professional fraud control community, but are tailored to suit the particular needs of each DIR.

The DIR integrates information from multiple and often isolated sources in order to maximize its discovery of indicators and best validate and support its findings. The DIR methodology recognizes that indicators of fraud and corruption may not be identified or confirmed by computer data analyses or document review alone, but rather from a comprehensive, interrelated and iterative review of procurement, financial management and implementation activities.

For example, the identification of sequential bid security numbers across different bidders prompts additional computer data analyses to identify other connections between the suspect bidders. Procurement records are then reviewed to determine whether there are indicators that the bidders engaged in bid rigging or collusion, or are operating as a cartel. Site visits are conducted to determine if this or other corrupt behavior caused deficient implementation through the supply of, for example,

substandard goods or inoperable equipment. Pricing research and analyses would also be conducted to determine if the prices of goods had been inflated.

Examples of analyses conducted during a DIR include simple data analytics such as price comparisons, as well as cross-cutting analyses like:

- comparisons of bidding patterns over time with complaints submitted over time;
- comparisons of bid evaluation committee disqualification justifications across tenders;
- linking indicators identified in procurement with implementation problems in the field.

For a DIR to be successful, partnership between the relevant national government, the Bank Group’s country management team and INT is essential. For example, in an effort to obtain all the necessary documents for review in as timely and complete a manner as possible, cooperation between all partners is critical. In addition, without a joint agreement about the need for such a review and about what to do with the findings, a DIR will be of little value. Hence, the ongoing dialogue between the Bank Group’s country team and the borrowing government after the completion of the DIR includes discussions about improvements of mechanisms to mitigate the risks of fraud and corruption. This may lead to anticorruption and mitigation plans either as part of new project proposals or retrofitted to existing project proposals.

The Difference between an External Investigation and a DIR

	External Investigation	Detailed Implementation Review
Initiative	INT	INT, in consultation with the borrower government and Country management unit
Nature	Formal investigation	Diagnostic
Based on	Allegation from Bank staff, beneficiary, company/NGO, government official, anonymous	Request for assessment of vulnerability to fraud and corruption of one or more projects in discussion with the Bank's Region and/or Country management
Selection	A case is prioritized, in consultation with the Country team, based on multiple criteria. Only High and Medium Priority cases have been investigated	Projects in a country and/or sector are selected for review in the context of a past INT investigation or because a need has been identified for stronger procurement, financial or project implementation controls
Scope	The specific acts covered by the allegation, as well as additional evidence that may emerge over the course of the investigation	All contracts of the project, independent of observed irregularities
Objective	Determine whether an allegation is substantiated, unsubstantiated or unfounded and recommend follow-up actions by the relevant Bank management and borrower government	Assess the likelihood of fraud, corruption and mismanagement in Bank-financed projects, assess the "where and why" of control weaknesses, and offer recommendations
Process	Preliminary (desktop) inquiry followed by a full investigation	Data collection, analysis and review of procurement contracts, financial management activities, and implementation activities
Outputs	In case of substantiated allegation: final investigative report to Regional/Country office; proposed Notice of Sanctions Proceedings; and referral report to the borrowing government/other donors	DIR report with findings of fraud and corruption indicators and risks and recommendations for improvement of controls to the Bank, the relevant country government and relevant donors
Outcomes	Sanctioning of corrupt and/or fraudulent companies creating a deterrent effect	Assistance to operational staff and the borrower government in improving project design, implementation and supervision
Follow-up	Operational team in its ongoing dialogue with the borrowing government discusses recommendations made in referral reports.	Investigations, project design improvements, and operational institutionalization of risk mitigation measures.

Transparency and Accountability in an Education Project in Kenya

The Free Primary Education Support Project (FPESP) helped deliver textbooks to all 18,000 primary schools throughout Kenya. About 1.5 million children who had previously dropped out or never attended school have benefited from this project since it was implemented in January 2003.

INT's Detailed Implementation Review of the FPESP concluded that the mechanisms for community involvement, consultations, accountability, procurement and financial management were satisfactory. Some of the specific controls that had been incorporated in the project were the public display of funds received from the government as well as funds spent. This transparency provides a "community" oversight function which is widely regarded as a key control device in publicly financed projects.

The review did request additional safeguards for the Kenya Education Sector Support Program (KESSP) as a follow-up to the FPESP, including public disclosure of performance indicators, independent monitoring of performance, and an annual independent audit of procurement. These safeguards should provide a satisfactory level of accountability and assure the project will secure results in improving enrollment and quality of education. Consequently, on November 7, 2006, the World Bank approved a credit of US\$80 million for the KESSP.



DIR KENYA

A DIR was conducted in Kenya between January and April 2006 and involved four projects, one in the education sector, two in the health sector, and one in the transportation sector. INT undertook this DIR at the request of the Government of Kenya after the government was informed about the high level of fraud and corruption uncovered by INT in an earlier investigation of a Bank-financed project in the urban transport sector.

The Bank Group collected data on 450 contracts and undertook a detailed procurement review of 70 contracts. In addition, the DIR team reviewed the procurement of textbooks and the financial management in 35 schools under the education project, as well as 53 grant activities under a health project. While the DIR found indicators of fraud, corruption and collusion in the two health and the transportation projects, the education project showed a satisfactory level of accountability from the local communities to the national ministry which contributed to the proper use of project funds.

The findings of this DIR clearly indicate that some sectors within a country can be at low risk of fraud and corruption while others are not. In the case of the education project, for example, specific controls had been built in the project that made fraud and corruption less likely to occur. Recommendations regarding additional controls with regard to a follow-up of the education project were approved by the Government of Kenya and included in the project design and implementation (see Box 8).

INT has engaged with colleagues in the Africa region and with the Bank Group's Country team to discuss their follow-up to the DIR findings in collaboration with the Government of Kenya. In March 2007, INT briefed government officials on the DIR in Nairobi.

DIR VIETNAM

A DIR was conducted in Vietnam between May and September 2006 covering two Bank-financed infrastructure projects which also received funds from the United Kingdom's Department for International Development (DfID). The DIR team was led by INT with input from the Regional staff and staff from DfID's Anti-Corruption Unit. The Bank Group collected data on 742 contracts, undertook an intensive procurement review of 100 contracts and a detailed financial management review of 77 contracts. Team members visited a total of 51 sites to review the implementation of contracts.

The DIR found a proliferation of indicators of collusion, fraud, misrepresentation and preferential treatment in the procurement and award of contracts. The DIR also found vulnerabilities to irregularities in the projects' financial management activities and control environment. Lastly, a large number of the project sites visited by the DIR team showed design and construction irregularities in works.

The DIR findings were discussed with the Government of Vietnam in May 2007, the Bank Group's Regional and Country office and two donors. To facilitate effective sharing of the findings within the Government of Vietnam, the DIR report was translated into Vietnamese. Furthermore, the Bank Group's country office held a joint press conference on the DIR report with the Ministry of Transport of

Vietnam. The Region and the Government of Vietnam have since developed an action plan to address the DIR findings with the intention of reducing the weaknesses and vulnerabilities of Bank-financed projects to fraud and corruption.

UPDATED METHODOLOGY EXPANDS DIR'S SCOPE

At its origins, the DIR methodology was developed after it had become clear that the Bank Group's traditional supervision and audit approach did not detect instances of fraud and corruption in Bank-financed projects. Since the first DIR in 2002, the methodology has been continuously updated, building on lessons learned from each DIR.

The DIRs completed so far answered only two questions. First, did the DIR find indicators that fraud and corruption may have affected the reviewed projects and, if so, to what extent? Second, what adverse effects, if any, did fraud and corruption have on project implementation (i.e., the delivery of project outputs and the successful completion of project objectives)?

However, the Bank Group's new Governance and Anticorruption (GAC) Strategy,¹⁵ discussed by the Bank Group's Development Committee during the Annual Meetings in Singapore in September 2006, identified a need to translate such findings into ideas for improving the Bank Group's processes and procedures. In response to this need, INT has expanded the scope of the DIR to answer a third, additional question: How well did the Bank Group's supervisory systems and anticorruption controls function to prevent, identify, and respond to any such schemes?

This new approach was applied in a DIR in India which is expected to provide the kind of insights that will have an institutional impact on the way the Bank Group operationally addresses fraud and corruption risks in its projects. In fiscal year 2007, INT dedicated significant resources to the DIR India (see Box 9). The decision to conduct this review was motivated by the findings of a complex investigation of a health project in India.¹⁶ In consultation with the Government of India and the Bank Group's regional team, INT selected five projects in the health sector: four

¹⁵ "A key source of information is any INT investigative findings or relevant Detailed Implementation Reviews. Appropriate corruption mitigation measures will then be included in the project's design, in a growing number of countries, drawing on lessons from INT investigations regarding effective anti-corruption safeguards and due diligence." GAC, Annex C, paragraph 5.

¹⁶ Two firms, Nestor Pharmaceuticals Ltd and Pure Pharma Ltd were debarred by the Bank on July 16, 2007 for their collusive practices in connection with the project.

DIR India (Ongoing)

Helping the Government of India improve the health of its population and achieve the health-related United Nations Millennium Development Goals has been an increasing priority for the World Bank. Since 1990, the Bank Group has approved 30 new health projects valued at more than US\$4.4 billion for India, which was the Bank Group's largest borrower in FY07. INT's investigation of the Reproductive and Child Health Project (RCH I) in India, which closed in 2005, uncovered evidence of fraud and corruption that raised serious concerns about other Bank-financed projects in that sector. In response, the Bank Group and the Government of India agreed to a further review of the risks of fraud and corruption to the Bank Group's health sector portfolio in India through a DIR of five health projects.

Launched in mid-2006, the DIR India team involved over 75 INT staff, consultants, and subject matter experts. The large, multi-dimensional team operated from dedicated office space located near the Bank Group office in New Delhi, which was provided and refurbished specifically for the DIR by the India country office.

Over the past eleven months, the DIR effort entailed the construction of a sizeable database of procurement and contract-related data (including the inputting of its data) and interviews of a large number of witnesses, suppliers, and government project personnel. It also involved the collection and detailed review of thousands of project procurement files; hundreds of complaints; and large volumes of Bank Group appraisal documents, audits, and operational reports. In addition, the DIR team undertook visits to more than one hundred field sites across multiple districts in five Indian states taking, in the process, thousands of digital photographs and several hours of video. The review was ongoing as this report went to print.

Two key factors have made the India DIR a far more complex effort than other DIRs, leading to increased staffing and resources demands, and a longer completion time. First, the DIR India is simply larger in scale and scope than other DIRs conducted by INT. It involved the review of a far greater number of contracts and visits to many more field sites across a more expansive and challenging geographical territory.

Second, the DIR India's methodology was expanded to be more comprehensive in its approach. It incorporated more forensic accounting expertise and techniques, adopted more rigorous validation and quality assurance procedures, and substantially increased the amount of analytical tests and procedures. Additional analyses include:

- examination of correspondence relating to complaints;
- comparisons of the DIR's procurement reviews with Bank Group pre- and post-procurement reviews;
- comparisons of the DIR's financial management reviews with the audit reports provided to the Bank Group; and
- comparisons of Bank Group supervision reports with the DIR's findings.

These steps were taken to respond to the Bank Group's Government and Anticorruption Strategy; uncover further links, patterns, schemes, and inconsistencies that point to harmful fraud and corruption; and to increase the value of the DIR's findings, conclusions, and recommendations.

projects carried out by the Government of India and one project implemented by a State Government. The DIR is of an unprecedented size and scale and will be completed during the beginning of fiscal year 2008.

CHALLENGES

The DIR has evolved considerably over the past five years, not only in terms of its methodology but also with respect to the dissemination of its findings. In the first DIR in Indonesia in 2002, which reviewed only one project, the findings were used to start follow-up investigations, cancel the planned extension of the subject project until such mitigation measures were implemented as necessary, and to reclaim funds. In addition, lessons learned were discussed as part of the ongoing dialogue between the Bank Group's country team and the government. However, the DIR had no significant impact on the Bank Group's own control mechanisms. In contrast, because of its size and scope, some of the lessons learned from the DIR India may be applicable Bank Group-wide. The challenge will be to analyze the data collected in a manner whereby lessons can be extracted, and to communicate effectively to the relevant departments a set of recommendations based on the lessons learned so that the necessary improvements can be made.



INT plans to continue to use the DIR more strategically with the aim of adding as much value as possible to the Bank Group's operations in mitigating fraud and corruption. The DIR India is an important step in that direction. However, such large-scale DIRs are extremely resource-intensive in terms of manpower and time and also require very specific skills for analyzing and translating data into valuable information for the Bank Group's operations. DIRs are therefore likely to be used less frequently, though more strategically, in the future.

PLANS FOR FISCAL 2008

- Finalize DIR India and submit final report to the World Bank Group with recommendations to improve controls;
- Submit final redacted report to the Government of India and DfID in liaison with the Bank Group's Regional and Country management;
- Consider investigative follow-up for the DIR India;
- Consolidate the different DIR-databases to achieve analytical synergy;
- Determine the optimal timing to start formal investigations that may follow from DIR findings to achieve maximum impact with available resources;
- Implement recommendations that may flow from the Independent Review Panel.

IV. VOLUNTARY DISCLOSURE PROGRAM (VDP)

OVERVIEW

The Voluntary Disclosure Program (VDP) is a proactive tool that combats fraud and corruption through prevention and deterrence. The World Bank's Board of Executive Directors formally approved the VDP's programmatic elements on August 1, 2006, following a three-year program pilot. INT publicly launched the VDP the same day through a press release, published in six languages, and the VDP website, www.worldbank.org/vdp.¹⁷

Under the VDP, participants commit to: (i) not engage in misconduct in the future; (ii) disclose to the Bank Group the results of an internal investigation into past fraudulent, corrupt, collusive, or coercive practices in Bank-financed or supported projects or contracts; and (iii) implement a robust internal compliance program which is monitored for three years by a Bank-approved compliance monitor (see Box 10). Participants pay the costs associated with almost every step of this process.

In exchange for their full cooperation, VDP participants avoid sanctions for disclosed past misconduct, their

identities are kept confidential, and they may continue to compete for Bank-supported projects. The Bank Group will sanction, for ten years, any participant that engages in continued misconduct or materially violates the VDP's Terms & Conditions.

BENEFITS AND FIRST-YEAR RESULTS

The VDP provides many benefits to the Bank Group, its member countries, and its partners. The program benefits the Bank Group by providing high-quality evidence of the nature, forms, and patterns of fraud and corruption in its projects—including ongoing or planned corrupt acts—as well as the identities of corrupt actors. The Bank Group uses this information to guide its investigations, safeguard its projects, and improve its policies (see Box 11).

The VDP benefits the Bank Group's member countries by helping to ensure the proper use of Bank Group and donor funds, and by facilitating meaningful enforcement action by national authorities based upon participant disclosures. The VDP also benefits the Bank Group's

ACCOMPLISHMENTS

- The VDP was publicly launched on August 1, 2006;
- INT presented the VDP to more than 70 groups inside and outside of the Bank Group;
- The business community expressed considerable interest in the VDP and INT received many specific inquiries about the program;
- INT prepared several reports for member countries that summarize VDP participant disclosures regarding fraudulent or corrupt practices that occurred in those countries;
- INT's VDP team coordinated closely with the Department's External Investigations unit to provide investigators with information and investigative leads;
- INT reviewed and commented on several participants' anticorruption compliance programs, helping to enhance their effectiveness.

¹⁷ The official languages of the World Bank are Arabic, Chinese, English, French, Russian and Spanish.

partners by incentivizing both bribe givers and bribe takers to cease corrupt behavior and comply with the Bank Group's rules. In the long term, this will promote a business environment in Bank Group member countries that is increasingly characterized by merit-based competition.

During FY07, the VDP had many significant accomplishments, including the following:

- The VDP was publicly launched via press releases and the dedicated VDP website. As a result of this launch, the VDP was featured in more than 70 press articles in 30 countries, as well as radio interviews on the BBC, French-speaking Radio Canada International, and Radio France Internationale.
- INT presented the VDP to more than 70 groups inside and outside of the Bank Group, including briefings to business and industry associations, government and non-profit groups, and the integrity divisions of the other MDBs.



A hard to reach waterwell.

The VDP Process

All firms, other entities, and individuals performing under Bank-financed or supported projects or contracts are eligible to participate in the VDP unless they are Bank Group staff or under active investigation by the Bank Group. Participants enter the VDP by agreeing to a non-negotiable, standardized set of Terms & Conditions.

Participants begin their VDP participation by listing their Bank-financed or supported contracts that were signed or in effect during at least the previous five years. If they wish, participants also can list older contracts. The Bank Group reviews and approves this list, and the participant then classifies each contract as tainted or untainted by fraud and corruption. The Bank Group samples untainted contracts to verify this classification.

Following the list's verification, the participant internally investigates its tainted contracts and reports its findings to the Bank Group. INT then verifies the completeness and accuracy of the firm's investigation and shares selected disclosures with member countries, Bank Group management and staff, and other stakeholders through reports carefully redacted to keep the VDP participant's identity confidential.

After finishing its investigation and report, the participant submits its ethics and compliance program to the Bank Group for review and approval. A Bank-approved compliance monitor then monitors the program's implementation for three years and reports annually to both the participant and the Bank. If no further issues arise, the participant exits the VDP two years after the monitor's final report.

VDP Insights into Fraud and Corruption and the Benefits of Ethical Business

Despite being a new program, the VDP has already taught the Bank Group many important lessons about the anatomy of fraud and corruption. For example, VDP participants have informed INT that the notion of a country or culture being “entirely corrupt” is inaccurate. Rather, certain firms and officials engage in corrupt practices, and action taken against them can make a significant impact on fraud and corruption in the country as a whole. Participants also revealed that their improper payments appeared in their financial records, usually as abnormally large or patterned transactions in catch-all accounts like administration costs or office expenses. INT has added this knowledge to the “red flags” that it uses in its investigations, technical assistance, and trainings.

Importantly, participants repeatedly emphasized that they gained business advantages by improving their corporate ethics. They told INT that many potential clients inquire about their corporate ethics policies and programs, so having strong policies and programs helped them earn business. Several participants used their compliance program development efforts as a platform for analyzing and managing risks throughout their business, making them more competitive. And participants often noted that their compliance programs deterred third parties from soliciting bribes from their employees because those third parties knew their employees would not pay. This deterrence effect makes ethical business easier and provides hope for the future as ever more firms, NGOs, and individuals adopt ethics policies and programs.

- The business community expressed considerable interest in the VDP, and INT received many specific inquiries about the program. (For confidentiality and deterrence reasons, INT does not disclose the number of VDP applicants or participants.)
- INT prepared several reports for member countries that summarize VDP participant disclosures regarding fraudulent or corrupt practices that occurred in those countries. When writing these reports, INT followed a rigorous, 24-step report redaction protocol to protect the participants’ confidential identities. INT will deliver these reports in FY08.
- INT’s VDP Team coordinated closely with the Department’s External Investigations unit to provide investigators with information and investigative leads. Resulting investigations led the Bank Group to take measures to protect ongoing projects, such as scheduling additional audits to detect and address possible procurement fraud.
- INT reviewed and commented on several participants’ anticorruption compliance programs, helping to enhance their effectiveness.
- VDP has opened a disclosure “portal” in INT that has encouraged firms to make robust disclosures outside of the VDP and thereby increased the Bank Group’s understanding of fraud and corruption in the projects the institution finances. Numerous high-profile disclosures are currently underway which will lead to considerable results in the near term.

CHALLENGES

INT's experiences during the VDP's first year of public operation highlighted three key challenges for the future. First, the VDP's superficial similarity to traditional amnesty systems can be confusing, and INT must strive to keep the distinction clear. The VDP is not a plea bargain, pardon, or amnesty because the program's terms are non-negotiable and entry into the VDP does not limit a sovereign government's right to prosecute that company. Moreover, participants in the program must pay most program costs, commit to monitored reform, and remain liable for violations of national laws.

Second, INT has found that the VDP yields a large volume of useful information, and there is great demand for that information both within and outside of the Bank Group. INT shares extensive VDP information after making thorough redactions to keep participants' identities confidential. INT must continue to process and share VDP disclosures as efficiently as possible while always maintaining confidentiality.

Third, INT must continue to publicly promote the VDP and encourage program participation. The VDP's benefits grow with the number of participants in the program, and sustaining business interest in the VDP will require continued worldwide communications outreach.

PLANS FOR FISCAL 2008

- Conduct further global communications outreach, with a particular emphasis on World Bank client countries, by conducting VDP communications outreach missions overseas and using the Bank Group's Global Development Learning Network to reach additional countries and markets;
- Move VDP participants through the program as efficiently as possible by obtaining more assistance from non-VDP Team staff when needed;
- Process and share participants' disclosures as quickly as possible while continuing to use best efforts to eliminate the risk that a participant could be identified as a source of shared information. INT plans to accomplish this goal by using its completed redacted reports as models for future reports, and thus reduce drafting time;
- Leverage disclosed information when pursuing action against companies about which INT has received information from VDP participants;
- Implement recommendations that may flow from the Independent Review Panel.

V. INTERNAL INVESTIGATIONS AND SANCTIONS

OVERVIEW

The Bank Group's internal disciplinary process set forth in Staff Rule 8.01 (Disciplinary Proceedings) is separated into two distinct components. The first is the investigative component which mandates INT to investigate allegations of possible staff misconduct. The second is the decision-making component, which is the responsibility of the Bank Group's Vice President for Human Resources (HRVP). INT does not make disciplinary decisions. In other words, INT has the role of impartial and independent fact-finder. Its findings and conclusions on any given case are subject to review by the HRVP and may be challenged by the staff members involved in the Bank Group's independent Appeals Committee, and ultimately in the Administrative Tribunal.

Allegations of staff misconduct that can lead to investigations by INT include alleged fraud and corruption committed both in Bank Group operations and in relation to the Bank Group's own administrative budget and various staff benefits programs. INT also investigates allegations of workplace misconduct as well as other serious violations of Bank Group rules and policies (see Box 13).

With respect to workplace misconduct, INT works closely with its colleagues in the Conflict Resolution System (CRS), individual managers, and Human Resources staff in pursuing, where possible and appropriate, informal means of addressing and resolving grievances that are initially reported to INT for inquiry or investigation.¹⁸ Through this collaboration, INT strives to reserve the formal investigative and disciplinary process as an avenue

ACCOMPLISHMENTS

- The Internal Unit completed and closed a significant number of cases (152) and opened 123 cases, bringing the overall size of its portfolio down to 57 cases at the end of fiscal 2007;
- Of the 152 cases closed, 38 were referred to the CRS or to management for intervention and 114 cases were investigated;
- Of the 114 cases investigated, 51 (45 percent) were found to be substantiated, 25 (22 percent) were unfounded and 38 (33 percent) were unsubstantiated;
- *Options Letters* were offered to 10 staff members and accepted by eight (80 percent) of them (see Box 14);
- INT was a major contributor to the ongoing formulation of a comprehensive Bank Group whistleblower policy (see Box 16);
- The Internal Unit increasingly shared lessons learned from its investigative efforts with relevant units within the Bank Group;
- The Internal Unit has worked with the Bank Group's General Services Department (GSD) in pursuing the first-ever vendor debarments under GSD's own debarment procedures based on evidentiary findings from multiple staff misconduct investigations;
- INT further improved the transparency of its investigative process, standards and procedures (see Box 13).

¹⁸ For all intents and purposes, the CRS is comprised of five core services: Ombuds Services, Mediation Services, Appeals Committee, Administrative Tribunal, and Office of Ethics and Business Conduct. Associated services that provide additional support are Human Resources, Staff Association, Legal Vice Presidency, Personal and Work Stress Counseling Unit, and INT.

of last resort or for cases which, on their face, are egregious. INT will not initiate an investigation of workplace misconduct without the express consent of the aggrieved staff member.

The principal objective in a formal investigation is to establish whether there is sufficient evidence to either: (i) substantiate an allegation of misconduct which in turn provides the institution the means with which to hold the wrongdoer accountable; or (ii) refute (*i.e.*, disprove) the allegation and clear the accused staff member of any wrongdoing. If the evidence is inconclusive or if the allegation is vague and lacks specificity the case is closed as unsubstantiated, as the benefit of the doubt always goes to the accused. INT's objective is not to increase the number of substantiated cases but to

BOX TWELVE

Types of Allegations

Fraud and corruption

- Operations related
- Administrative budget related
- Conflict of interest
- Tax allowance fraud

Compliance issues

Violations of WBG Rules & Policies

Workplace misconduct

- Sexual harassment
- Harassment
- Discrimination
- Retaliation
- Abuse of authority
- False allegations

BOX THIRTEEN

Increased Transparency of the Internal Investigative Process

Since 2004, INT's Annual Integrity Reports show the general public and Bank Group staff, by publicly reporting its investigative outcomes at an aggregate level that INT takes allegations of fraud, corruption and other forms of misconduct seriously and that staff members are held accountable for failures to comply with the Bank Group's Staff Rules or Bank Group policies. Similarly, INT has continued to highlight the number of cases in which INT has fully cleared staff members who were wrongly accused of misconduct to underscore the role of INT as an unbiased, neutral, and impartial finder of fact.

During fiscal year 2007 and based on stakeholder feedback, INT has also substantially improved the transparency of its investigation processes within the Bank Group. For example, an enhanced "Staff Guide to INT", which contains links to various INT standards and procedures, matters of due process and staff rights, all relevant staff policies and other resources, was published on the Bank Group's intranet in fiscal year 2007. The guide was also distributed electronically to the Bank Group's Staff Association and the entities of the Conflict Resolution System (CRS) for information and cascading to staff counselors and Respectful Workplace Advisors. The Guide was published in brochure form during the first quarter of fiscal year 2008.

In addition, INT has instituted a policy and practice of providing staff members who are the subject of an impending formal Staff Rule 8.01 investigation with a 24-hour notice, by email, in advance of their first formal interview with INT investigators.

These notices provide the staff member with context for the interview and emphasize their right to be accompanied by another staff member, including a representative from the Staff Association to observe the interview proceedings. The notice also contains several relevant documents including a complete list of the staff members' rights and obligations, the Staff Guide to INT, and Staff Rule 8.01 (Disciplinary Proceedings) to help familiarize the staff member with the process in advance of their interview.

Finally, as a member of the "Rules" working Group on CRS Reform, INT prepared and presented the full menu of staff rights and obligations under the Bank Group's disciplinary proceedings, much of which were derived from INT's existing Standards and Procedures for Conducting Internal Inquiries and Investigations, for codifying in Staff Rule 8.01 (Disciplinary Proceedings).

provide solid investigative findings to be able to resolve the allegations made.

The investigative and decisionmaking process related to allegations of staff misconduct aim to achieve three equally important goals: (1) investigative thoroughness; (2) transparency of process; and (3) protection of the rights of all parties concerned, including the accused staff member, those who report allegations, and those who provide information during an ensuing inquiry or investigation. A complete overview of all the steps in the investigative and decision-making process can be found in Appendix 6.

INVESTIGATIONS AND CASELOAD MANAGEMENT

The Internal Unit of INT carried over 86 cases into fiscal year 2007, opened 123 new cases, an increase of 21 (20 percent) from fiscal year 2006, and closed 152 cases, an increase of 55 (63 percent) from fiscal 2006. As a result, 57 cases were carried over to fiscal 2008 for a net reduction of 29 cases (34 percent) from the previous year (see Table 6).

TABLE SIX

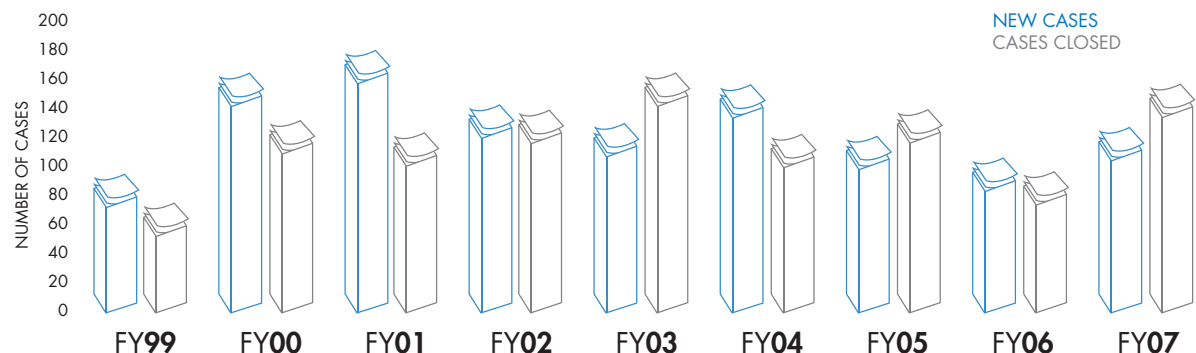
Internal Cases (FY04–07)

	FY04	FY05	FY06	FY07
Cases carried over	71	94	77	86
New cases opened	151	117	102	123
Subtotal	228	211	179	209
Cases closed	118	134	93	152 ¹⁹
Ending caseload	110	77	86	57
	(16)			94 ²⁰

The 152 cases represent the highest volume of internal cases completed in the past four fiscal years. In addition to the sustained and concerted efforts by the Internal Unit, a number of other factors contributed to the exceptionally high number of cases completed and closed in this fiscal year. The continued use of *Options Letters* (see Box 14) and the modest increase of cases

FIGURE FIVE

Internal Cases Opened and Closed (FY99-07)



19 This number includes 10 cases pending disciplinary decisions by VPHR at the end of FY07, which unlike prior years, were logged as closed on the basis that INT completed and delivered its core deliverable (i.e. the Final Investigative Report)

20 INT Internal Unit's FY04 ending caseload was reduced by 16 in Table 8. Some of the figures for fiscal 2004 vary from those reflected in INT's "Annual Report on Investigations and Sanctions of Staff Misconduct and Fraud and Corruption in Bank-Financed Projects, Fiscal Year 2004." When compiling the data for the Fiscal Year 2005-2006 Annual Report, INT discovered that the variance was due to two errors which occurred in preparing the Fiscal Year 2004 Annual Report: (i) The case category for a few cases opened and /or closed in fiscal 2004 was incorrectly recorded in the database during data entry; and (ii) some cases were inadvertently counted twice because they had been logged in both the External database and the Internal database during a period when the former databases in use by INT for recording external and internal cases were not integrated as they are beginning in fiscal 2005. In order to validate and ensure the integrity of the data reflected in the Fiscal Year 2005-2006 report for both fiscal 2004 and fiscal 2005, INT conducted a line-by-line review of every internal case in the database that was carried over into fiscal 2004 and 2005, opened and closed in fiscal 2004 and 2005, and active at the end of fiscal 2004 and 2005.

INT delegated to managers, under the continuous guidance and oversight of INT, allowed the Internal Unit to focus on those cases that warranted the most investigative attention. The 152 cases also included 10 cases that were originally pending disciplinary decisions by the Vice President of Human Resources (HRVP) at the end of the fiscal year. Unlike prior years, these cases were logged as closed on the basis that INT completed and delivered its core deliverable (*i.e.*, the Final Report of Investigation). In future, cases will be logged as closed on the same basis. Additional investigative resources during the second and third quarter of fiscal 2007 to make up for losses sustained in the previous fiscal year complete the picture.

In fiscal year 2007, the Internal Investigations unit made a special effort to complete and close cases more than one year old. Of the 152 cases completed and closed in fiscal year 2007, 68 cases were more than one year old. By contrast, of the 93 cases closed in fiscal year 2006, 44 cases were more than one year old. At the end of fiscal year 2007, of the 57 pending cases, only 18 cases (32 percent) were aged more than one year.

The Internal Unit's closure rate was attained notwithstanding: (i) substantial demands of the Independent Review Panel on the Internal Unit's limited resources; (ii) the growing demand for advice by staff, managers, and Human Resource professionals on addressing contentious workplace issues; and (iii) collateral issues stemming from the Bank Group's leadership crisis in the spring of 2007. The leadership crisis resulted in INT receiving a large increase of complaints (538 complaints) via the hotline; all of which had to be vetted before they could be sent to the appropriate Bank Group unit, mostly the Bank Group Board's Ethics Committee (see Box 15).

Options Letter

INT first introduced the *Options Letter* in 2003, in collaboration with the Bank Group's Legal Vice Presidency and the Human Resources Vice Presidency. The *Options Letter* is an institutional cost-saving alternative to pursuing the full formal disciplinary process and has proven to be an effective tool for managing the Internal Unit's caseload. The use of *Options Letters* is limited to situations in which (i) based on the results of the preliminary inquiry, the allegation is deemed credible and (ii) the conduct, if substantiated during a misconduct investigation, would mandate termination under Staff Rule 8.01 (Disciplinary Proceedings).

Through the *Options Letter*, the subject staff member is afforded the option to voluntarily terminate his or her staff appointment or consultancy contract with the Bank Group and agree to a permanent bar to future employment with the Bank Group in any capacity; a permanent restriction on access to Bank Group facilities worldwide; restitution where applicable; and a waiver to any rights to appeal (Option One), in lieu of undergoing the potentially more intrusive and visible formal disciplinary process (Option Two). A staff member's decision to leave the Bank Group under an *Options Letter* has the same effect as termination for misconduct.

If the *Options Letter* alternative is pursued, the specific nature of the alleged misconduct and the two options are detailed in a formal letter to the subject staff member drafted by INT, reviewed by the Bank Group's Legal Vice Presidency and signed and issued by the Director of Operations for HRVP (or by the IFC HR Vice President in the case of IFC staff).

The *Options Letter* tool protects both the Bank Group's interests *as well as* the staff member's due process rights. In fiscal year 2007, the *Options Letter* was offered in ten cases; in eight of those cases, the subject staff member selected voluntary termination (including the conditions listed above) in lieu of a formal investigation.

Investigative Responsibilities: INT and the Board's Ethics Committee

While INT investigates corruption and fraud in World Bank projects and possible misconduct of Bank Group staff, the Ethics Committee of the Bank Group's Board of Directors is responsible for matters involving Board officials and the President. The Board's Ethics Committee may:

- consider requests from Board Officials or the President for guidance concerning conflicts of interest, annual financial disclosures, or other ethical aspects of conduct in respect of Board Officials or the President, and provide advice in response thereto; and
- consider allegations of misconduct against Board Officials or the President that relate to the performance of official duties or actions that affect their performance of official duties, whether such actions are taken prior to, during, or, with respect to any applicable restrictions on future employment or disclosure of information, subsequent to their terms of service as Board Officials or President, and make recommendations to the Executive Directors with respect thereto.

As the President is not a staff member, INT has no jurisdiction over the President. Moreover, since INT reports to the President, any involvement of INT in investigating the President would by itself constitute a conflict of interest. Hence, any allegations involving the President or the Board of Directors that are received by INT via its hotline or any other venue for reporting allegations are forwarded to the Board's Ethics Committee.

Types of Allegations

Allegations against Bank Group staff vary widely and range from fraud and corruption in Bank Group operations or in relation to the Bank Group's own administrative budgets to other forms of misconduct such as sexual harassment, abuse of authority, violations of Bank Group policies and procedures (e.g. conflicts of interest), and non-compliance with private legal obligations (see Table 7 and Figure 6).

The fluctuation in the number of new cases received from year to year should not be interpreted as evidence of the frequency of staff misconduct worsening or improving. Rather, the fluctuation is an indicator of the overall reporting environment.

The Bank Group takes all allegations seriously. Cases of alleged sexual harassment which have stayed at the same level as in fiscal 2006 (4), are accorded the highest priority, along with those involving alleged fraud and corruption by Bank Group staff.

OUTCOMES AND RESULTS

During fiscal 2007, INT closed 152 cases of alleged staff misconduct. Of these, 114 cases (75 percent) were investigated and 38 cases (25 percent) were reassigned to other colleagues within the Conflict Resolution System (CRS) (see Table 10). Of the cases investigated, 51 (45 percent) were substantiated, 38 (33 percent) were unsubstantiated and 25 (22 percent) were unfounded.²¹

Table 8 and Figure 7 show that, over the past four years, the percentage of substantiated cases has remained constant at around 45 percent, while the percentage of unsubstantiated and unfounded cases has alternated between 20 and 30 percent. Unsubstantiated cases result from one of two situations. The first situation involves cases in which upon investigation INT determines that the evidence is inconclusive. In this instance, fairness dictates that the benefit of the doubt goes to the accused. The second situation involves allegations received by INT which are unsupported, too vague or ambiguous for INT to responsibly conduct an investigation. This situation

21 A case is "substantiated" when the evidence is reasonably sufficient to show that the alleged misconduct was committed; it is "unfounded" when the evidence is reasonably sufficient to show that the alleged misconduct did not occur; and it is "unsubstantiated" when the evidence is inconclusive or the allegation is unsupported, vague and ambiguous to warrant review.

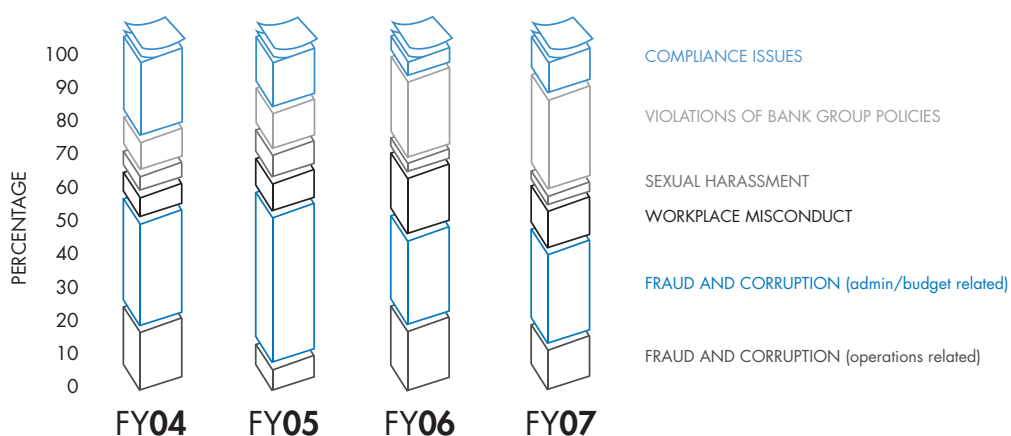
TABLE SEVEN

Internal Cases by Type and Number of Allegations (FY04-07)

TYPE OF CASES	FY04	FY05	FY06	FY07
Fraud and corruption: operations related	32 (21%)	11 (9.5%)	21 (21%)	18 (15%)
Fraud and corruption: admin/budget related	48 (32%)	53 (45%)	28 (27%)	36 (29%)
Workplace misconduct	10 (7%)	11 (9.5%)	18 (18%)	15 (12%)
Sexual harassment	7 (5%)	9 (8%)	4 (4%)	4 (3%)
Violation of WBG policies and procedures	17 (11%)	15 (13%)	26 (25%)	37 (30%)
Non-compliance with personal legal obligations	37 (24%)	18 (15%)	5 (5%)	13 (11%)
Total cases	151	117	102	123

FIGURE SIX

Internal Cases by Types of Allegations (FY04-07)



may occur when an allegation is made anonymously and the source does not provide INT with a means to communicate with him/her in an anonymous manner (e.g., a commercial e-mail address using a pseudonym) or there is no way to pursue the allegation without disclosing the identity of the complainant and INT determines that the risk of retaliation is too high for the complainant.

INT's objective is not to increase the number of substantiated cases but to provide solid investigative findings to

be able to resolve the allegations made. In this regard, aside from the 45 percent of substantiated cases in which INT found sufficient evidence to enable the Bank Group to impose disciplinary measures and thereby hold staff members accountable for their actions, an equally important outcome is the 22 percent of cases in which the INT's investigation fully cleared staff members who had been accused of misconduct (unfounded cases).

Sanction-Related Activities

The 51 cases that were substantiated in fiscal 2007 were submitted to the Human Resources Vice President for review and decision. Details of the 51 cases that were substantiated in fiscal 2007 follow (see Table 9).

In fiscal year 2007, of the 14 substantiated cases of fraud and corruption affecting the Bank Group's administrative budget, the HRVP terminated 11 staff and barred them from rehire; four were also required to make restitution.

One staff was demoted, one staff received a reprimand and lost his/her privileges and one warranted no action. These staff, ranging from Level GA to GJ, were sanctioned for having engaged in a range of activities including:²²

- Submitting inflated overtime claims and stealing fuel in a Country office;
- Submitting fraudulent expense claims ranging from as much as US\$7,250 to as little as US\$246;

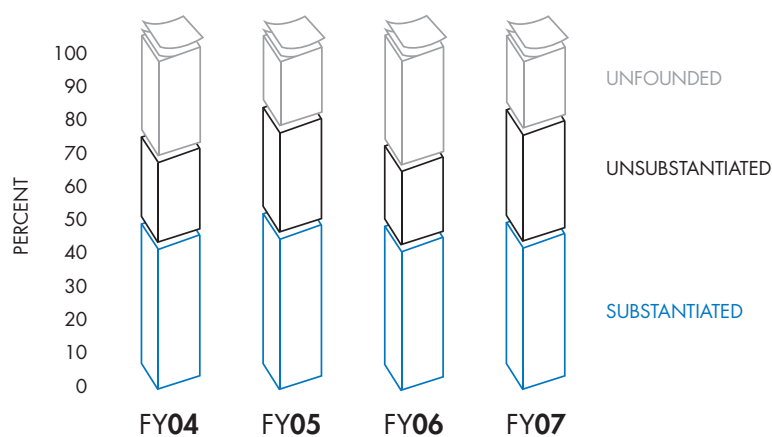
TABLE EIGHT

Internal Cases by Investigative Outcomes (FY04–07)

	FY04	FY05	FY06	FY07
Cases closed	118	134	93	152
Cases referred/not investigated	40	36	24	38
Cases investigated	70	98	69	114
<i>of which:</i>				
Substantiated	31 (44%)	47 (48%)	30 (44%)	51 (45%)
Unsubstantiated	18 (26%)	30 (31%)	16 (23%)	38 (33%)
Unfounded	21 (30%)	21 (21%)	23 (33%)	25 (22%)

FIGURE SEVEN

Internal Cases by Investigative Outcomes (FY04–07)



²² Bank staff levels range from lowest GA to highest GK

- Abuse of position and engaging in a conflict of interest by hiring a person with whom the staff member had an intimate personal relationship as a consultant at an excessively high daily rate and then falsifying the consultant's time and attendance records;
- Misusing the corporate credit card for making personal cash withdrawals;
- Embezzling funds ranging from as much as US\$8,500 to as little as US\$60;
- Filing false and fraudulent claims for dependency allowances totaling US\$18,500;
- Abuse of position by using office maintenance assistants, office vehicles and office supplies for personal use (see Case Study 4);
- Abuse of position for personal gain by purchasing stock under preferential terms in companies that had then-current or prospective business interests in the staff member's Vice Presidential Unit and by personally

TABLE NINE

Internal Substantiated Cases by Investigative Results and Sanctions (FY07)

NO. OF CASES AND CATEGORY OF MISCONDUCT	ACTIONS TAKEN	GRADE
4 - Fraud and corruption (operations) Country Office (3) Washington HQ (1)	Termination/bar to rehire and restitution (1) Termination/bar to rehire (2) Referred to management for mandatory training (1)	GH GG GF
14 - Fraud and corruption (administrative budget) Country Office (10) Washington HQ (4)	Termination/bar to rehire and restitution (4) Termination/bar to rehire (7) Demotion (1) Reprimand, and loss of privileges (1) No action required (1) ²³	GF, GH, ETC, STC GA-GJ, ETC GG GH GI
15 - Misuse of income tax allowances Washington HQ (15)	Demotion, salary reduction, and written reprimand (2) Salary reduction, and written reprimand (10) Full compliance (1) Pending (2)	GC, GE GA-GG GC GB, GC
2 - Abuse of authority/harassment Washington HQ (2)	Termination/bar to rehire (1) Verbal reprimand (1)	GH GF
3 - Sexual harassment Country Office (1) Washington HQ (2)	Termination/bar to rehire (3)	GG, STC
7 - Non-compliance with personal legal obligations Country Office (4) Washington HQ (2)	Termination/bar to rehire (3) Written reprimand and warning (1) Full compliance (3)	STC STC STC
6 - Other violations of Bank Group rules Country Office (4) Washington HQ (2)	Termination/bar to rehire (1) Demotion, and salary reduction (1) Salary reduction, loss of benefits, and written reprimand (1) Written reprimand (1) Warning and written reprimand (1) Resignation, conditional rehire – full compliance (1)	GG GH GH GA GG GD

23 This case was the second of two cases involving the former staff member who, as a result of the first case, was permanently barred from rehire for corrupt practices.

Fraud and Corruption (Administrative Budget)

A Level GH Country manager was found to have defrauded the Bank Group of US\$7,250 by using Country office cars and drivers for personal purposes, using a country office mobile phone for his family's personal purposes and by submitting reimbursement claims for representation expenses with no supporting documentation.

The manager also requested that country office drivers falsely record personal trips as "official miscellaneous" and to replace the original log entries of drivers' logs with false entries in advance of an internal audit. Finally, despite a warning from the Country Director not to communicate with the Country office staff concerning INT's ongoing preliminary inquiry, the staff member telephoned his staff to discuss INT's visit, thereby violating the duty to cooperate provision in Staff Rule 8.01.

The manager was given an Options Letter which led to his voluntary termination, a permanent bar to future employment in any capacity anywhere in the Bank Group, a permanent restriction on access to Bank Group facilities, restitution, and a waiver to all rights to appeal.

intervening and advocating for a previously disqualified firm to serve as a Bank Group vendor, which led to the firm being the beneficiary of multiple sole source contracts valued in excess of US\$5 million; witness intimidation, and failure to cooperate with an INT investigation.

Of the four substantiated cases of fraud and corruption affecting the Bank Group's operations, the HRVP terminated and barred from rehire three staff, ranging from Level GG to GH; one was also required to make restitution. Disciplinary decisions were applied for a range of activities, including:

- Abuse of position and conflict of interest by hiring a Short Term Consultant (STC) to prepare Terms of Reference (TOR) for a project and then hiring the STC to perform the very work for which the STC had designed the TOR;
- Abuse of position, fraudulent representation, conflict of interest, and failure to disclose by concurrently working for the Bank Group and for a company which was involved in a project financed by a trust fund administered by the Bank Group;

- Conflict of interest by entering into a business relationship with an outside entity without approval of the Outside Interest Committee;
- Abuse of position, collusion, and conflict of interest by a Task Team Leader who colluded with his son in establishing a company under his son's name for the express purpose of obtaining Bank-financed contracts, after which the company received US\$179,000 in Bank-financed contracts.

Fifteen staff members were found to have submitted fraudulent annual tax allowance certificates and misused the income tax allowances which the Bank Group paid to them for the express purpose of paying timely taxes due on their Bank Group compensation. Sanctions in 12 such cases included salary reduction and written reprimand with two out of these 12 also being demoted in grade. One person provided proof of compliance following INT's intervention in the matter and two cases are pending disciplinary decisions (see Case Study 5).

Five staff, ranging from level GF to GH and an STC were found to have engaged in workplace misconduct.

Misuse of Income Tax Allowances

Staff members, whose salary is paid net of income and social security taxes receive allowances to compensate for payments of income tax as well as a reimbursement of social security tax payments.²⁴ In order to receive these allowances staff must pay all (estimated) income and social security taxes due on their Bank Group compensation on time and certify annually to the Bank Group that they made these payments. Failure to do so may constitute misconduct under Staff Rule 8.01, and result in disciplinary action.

When the Bank Group receives a Notice of Levy or Lien from the U.S. Internal Revenue Service or state tax authorities (e.g., States of Virginia or Maryland or the District of Columbia) indicating that a staff member has not paid their income taxes for tax years in which the staff member has applied for and received tax allowances, INT is responsible for determining whether or not the staff member has: (i) failed to comply with personal legal obligations; (ii) misused Bank Group tax allowances; and/or (iii) made a fraudulent misrepresentation when submitting their annual certification upon which payment of tax allowances and reimbursement of social security taxes is calculated.

In fiscal 2007, 15 cases involving fraudulent annual tax allowance certificates and misuse of tax allowance were substantiated. The Levy/Lien issued by the tax authorities ranged for a period between one to eight years. The amount of the Levy/Lien ranged from US\$6,613 to US\$171,938, including unpaid taxes and statutory additions. The staff members involved received tax allowances from the Bank Group for the payments of tax years covered by the Levy/Lien in an amount ranging from US\$6,750 to US\$140,000.

These cases included three sexual harassment cases and two abuse of authority/harassment cases. Sanctions ranged from termination and bar to rehire to oral reprimand.

Six staff engaged in other types of violations of Bank Group Rules ranging from:

- misusing Bank Group property;
- tampering with e-mail records whereby a supervisor falsely and maliciously represented to management that a subordinate staff member was the source of failing to undertake certain operational actions when in fact it was the supervisor who was the actual subject of the failures in the original, unedited version of the e-mail;

- circumventing vehicle importation rules to avoid paying taxes when selling a private vehicle shipped duty free to the staff member's country office assignment;
- willfully misrepresenting the fact of having a Category I close relative (blood relative) working for the Bank Group;
- repeatedly misusing the Bank Group's diplomatic pouch for shipping contraband materials.

In fiscal 2007, seven cases were substantiated regarding non-compliance with personal legal obligations (see Case Study 6). Three staff members were terminated and barred from rehire. One staff received a warning and written reprimand while three staff members brought themselves into full compliance pursuant to INT's intervention.

24 United States Nationals and Residents for tax purposes

Sharing Lessons Learned

Leveraging the findings from certain investigations, the Internal Unit disseminated lessons learned to stakeholders within the Bank Group to help detect and/or deter fraud and other forms of misconduct as well as to help mitigate the conditions that provided an enabling environment on past cases of fraud or other forms of misconduct.

To build awareness of institutional integrity activities and address the need for general deterrence and prevention, INT's Internal Unit actively alerts and educates Bank Group staff on potential patterns of behavior they need to report. For example, the Internal Unit has identified specific 'red flags' in the areas of travel fraud, corporate travel credit card fraud, fraud in claims for representation expenses, fraud in benefits programs, and fraud in institutional procurement. In fiscal year 2007, the Internal Unit presented a briefing to the Resource Management Forum held in Washington, D.C., focusing on these five areas of potential fraud.

In a second example of INT's outreach efforts with other departments within the Bank Group, the Internal Unit collaborated with Internal Audit Department (IAD) in FY 2007 by conducting a joint mission to a Country office to investigate allegations of staff misconduct, serious control lapses and other irregularities in loans to staff members and various SAP-approved transactions.

Finally, INT's lessons learned regarding institutional procurement processes deriving from two unrelated investigations led GSD to revise the Bank Group's institutional procurement processes to tighten controls and align them with the Bank Group's Procurement Guidelines and Consultant Guidelines for Borrowing Countries.

CHALLENGES

The Internal Investigations Unit continues to face challenges regarding the length of internal investigations, which the unit has been addressing in collaboration with

CASE STUDY SIX

Non-Compliance with Personal Legal Obligations

Under the Principles of Staff Employment, staff members are required to comply with their private legal obligations and due observance of the law and may not hide behind the Institution's privileges and immunities in this regard. Failure to do so may constitute misconduct under the provisions of Staff Rule 8.01, and result in disciplinary action.

INT is responsible for handling alleged non-compliance with personal legal obligations when the Bank Group receives proper legal notice of a staff member's liability. Generally, allegations of non-compliance with personal legal obligations are based on the Bank Group's receipt of: (i) Tax Levy/Lien from the tax authorities against staff members who received gross salary from the Bank Group (Bank Group Consultants); and (ii) Garnishment Orders from appropriate authorities showing a staff member's obligation to pay an ascertainable amount of money.

During fiscal year 2007, seven cases involving non-compliance with personal legal obligations were substantiated. Six of these cases involved a Tax Levy/Lien issued by the tax authorities for a period ranging between one to five years. The amount of the Levy/Lien ranged from US\$5,560 to US\$37,254.90, including unpaid taxes and statutory additions. One case involved a Garnishment Order against a staff member on an unpaid student loan.

the Legal Vice Presidency and the Vice Presidency for Human Resources.

The time it takes to conclude an internal investigation is of perpetual concern to all stakeholders, whether accused, complainant, or affected department(s), as well as to INT itself. The length of an internal investigation is affected by myriad factors, not the least of which is that INT operates in an inherently unpredictable, allegation-driven environment. In contrast to external cases which can be triaged for priority and handling, all internal cases are considered high priority and must be reviewed and pursued to a logical point of resolution.

No two cases are alike; they vary in complexity, number of allegations per staff member accused, geography, and risk to staff or the institution as a whole. Over the past three fiscal years, the number of new cases has increased and cases have become more multifaceted and complex in nature. Moreover, the Internal Unit finished fiscal year 2006 with 38 percent less staff than it began while 50 percent of the current Internal Unit staff joined INT during the second and third quarters of fiscal year 2007.

Over the years, the investigative process has become more elaborate in order to adhere to the jurisprudence from the World Bank's Administrative Tribunal, to benefit from lessons learned from Appeals Committee proceedings, and to ensure that investigations are carried out in a rigorous, competent, fair, and balanced manner. Thoroughness often requires numerous interviews, the scheduling of which can be complicated by staff travel and difficulties in securing

the cooperation of witnesses who need to be interviewed but who are external to the Bank Group.

Thoroughness and fairness attendant to an impartial fact-finding investigation also require that INT seeks not only *inculpatory*, but *exculpatory* evidence as well, including following up on all relevant investigative leads in support of the subject's stated defense. In addition, and in fairness to the accused staff member, INT is flexible in granting approval to requests from subject staff members for extensions in time in which to respond in writing to the allegations and in reviewing and commenting on the draft Final Report of Investigation before it is finalized and submitted for possible disciplinary decision.

INT continues to seek ways to manage its finite resources more efficiently. The Options Letter (see Box 14) is one of the tools used to effectively off-set the above factors. Another tool is the delegation to management of preliminary inquiries or investigations in cases which INT deems are relatively straightforward and in which the underlying facts are not in dispute (e.g., because the accused have come forward or have already admitted their wrongdoing). In these cases, INT provides continuous guidance and oversight to ensure that procedural safeguards are in place to protect the due process rights of staff, and assists in the drafting and/or reviewing of reports for submission to the HRVP for decision. Finally, INT continues to scrutinize cases during the intake and evaluation stage (i.e., the first stage of the Internal process) to see if there are viable and appropriate alternative interventions to disciplinary proceedings.

Whistleblower Policy

Since its inception, INT has handled hundreds of cases which were predicated upon Bank Group staff “blowing the whistle” on suspected fraud, corruption, and other forms of serious misconduct. In this regard, INT has been quite successful in protecting staff from retaliation when staff approach INT as their first portal for reporting such allegations.

Historically, complaints of whistleblower retaliation have involved either: (i) situations where the staff member claimed retaliation by their management chain for having raised their concerns of alleged wrongdoing to management or through one of the portals within the Bank Group’s Conflict Resolution System; or (ii) a staff member asserting “whistleblower status” for allegedly having raised concerns in the workplace *after* experiencing an adverse personnel action but which, upon investigation, the evidence showed that the staff member’s alleged whistleblowing had no basis in fact.

Notwithstanding, many staff understandably remain fearful of retaliation if they raise allegations of misconduct within the workplace, particularly those staff who are based in Country offices. Similarly many staff believe that the institution cannot effectively protect them from retaliation.

In early 2005, the Bank Group formed a Whistleblowing Policy Working Group to study, clarify and strengthen the Bank Group’s existing policies on whistleblower protection. The Bank Group’s goals in this area are to promote a safe environment for reporting misconduct, to prohibit retaliation, to assure that every possible step is taken to address cases of misconduct, to manage risks, and to uphold standards of good governance within the World Bank Group.

The Working Group consisted of the Legal Vice Presidency (chair), the Human Resources Vice Presidency and INT. The Working Group engaged an outside consultant – Robert Vaughn, Professor of Law at American University (USA), who issued a report in April 2005. The report was circulated to both the Personnel and Audit Committees of the Board of Executive Directors on May 23, 2005.

The Working Group considered the recommendations contained in the Vaughn Report and conducted consultations with other outside experts knowledgeable on best practices in this field and with the Staff Association, and carefully considered the protective rules provided by other international organizations and the laws in place in the Bank Group’s shareholder countries.

In FY 2007, a new Rule was drafted and presented to both the Personnel and Audit Committees. Additional consultations are underway with the Staff Association, outside experts and others as needed. Management plans to present before the Personnel and Audit Committees a revised draft in the first quarter of fiscal year 2008 and seek Board approval soon thereafter.

VI. POLICY DEVELOPMENT AND ADVISORY SERVICES

During FY07, INT played a key role among the Multilateral Development Banks and within the International Financial Institution Anticorruption Task Force (IFI Task Force) in order to streamline policies and procedures within the World Bank Group and among its sister organizations. In addition, INT was greatly involved in the development, approval by the Board, and implementation of a new set of reforms to the Bank Group's sanctions regime, including the introduction of "obstructive practice" as a new sanctionable offense.

SANCTIONS REFORMS

In July 2004, the Bank Group's Board of Executive Directors approved a paper entitled *Reform of the World Bank's Sanctions Process*. The reforms were formulated in light of the Bank Group's experience with the administrative sanctions process as well as recommendations made by the 2002 Thornburgh Report.²⁵ The aim of these reforms was to increase the efficiency, effectiveness, transparency and objectivity of the sanctions process.

In August 2006, the Bank Group adopted a series of additional reforms in its sanctions regime building on the work of the IFI Task Force (see below *IFI Task Force*) to ensure consistency of treatment of fraud and corruption occurring in Bank-financed projects across the world and

to increase the effectiveness of the investigative process. These standards will help level the playing field among the various individuals and entities involved in Bank-financed projects.

As a result of these two sets of reforms, the following changes were implemented in FY07:

- The Sanctions Committee has been replaced by the Sanctions Board which is now composed both of Bank Group staff *and* external members. Members are appointed by the Executive Directors based on a recommendation from the President;
- A new position of Evaluation and Suspension Officer (EO) has been established to act as a first tier of review. The EO is charged with making an initial assessment of the sufficiency of the evidence presented by INT against the accused party. He/she can remand a case back to INT for lack of evidence as well as temporarily suspend all new contracts pending the final outcome of the sanctions process. The EO also recommends a sanction to the Sanctions Board (the second tier) which becomes the sanction imposed if the accused does not contest the charge, and has the authority to issue a temporary suspension from bidding on Bank-financed contracts pending final resolution of a case;

ACCOMPLISHMENTS

- Substantial contributions in preparing for the Board's approval of major reforms in the Bank Group's sanctions system;
- Expanded provision of risk mitigation advice and guidance;
- Leadership role in harmonizing definitions of fraud and corruption across the IFIs; and
- Improved management of Trust Fund-related cases.

²⁵ "Report Concerning the Debarment Processes of the World Bank" submitted by a team of external experts headed by former U.S. Attorney-General and Deputy Secretary-General of the UN Richard Thornburgh on April 1, 2002 and revised on August 14, 2002.

- The Sanctions Board issues decisions on appropriate sanctions as opposed to the recommending role of the Sanctions Committee where the final decision was taken by the President. The President is no longer part of the sanctions process;
- Incentives to contractors who voluntarily disclose information on fraud and corruption, admit culpability and/or cooperate in the investigation, were introduced to allow for greater flexibility in imposing sanctions;
- The Sanctions Board has more flexibility in types of sanctions, such as conditional non-debarment and debarment with conditional release;
- The sanctions regime has been expanded to include IFC and MIGA;²⁶
- Expanded definitions related to corrupt, fraudulent, coercive and collusive practice as agreed among the MDBs were adopted. The Bank Group thereby expanded the coverage of the sanctions regime beyond procurement to any aspects of a project, including financial management and implementation;
- A new sanctionable offense, “obstructive practice”, defined as deliberate obstruction of Bank Group investigations into fraud and corruption, was adopted. This will facilitate enforcing the Bank Group’s audit clause granting access to a contractor’s books and records concerning Bank-financed contracts;
- New Anticorruption Guidelines set out the obligations of borrowers and other recipients of loans proceeds to prevent and combat fraud and corruption in connection with the use of loan proceeds. The Guidelines, as well as revised Procurement and Consultant Guidelines incorporate the new definitions.

As a result of the new sanctions regime, a firm can no longer escape a sanction when it obstructs an investigation by, for example, shredding evidence. Furthermore, a commercial bank is now sanctionable when, for example,

it demands kickbacks in its capacity as a financial intermediary making sub-loans to local beneficiaries out of the proceeds of a Bank Group loan. Similarly, an NGO engaged by the borrower to serve as an implementing agency for a Bank-financed project can no longer escape sanction when committing corrupt or fraudulent practices.

The larger scope of project activities, offenses and agencies covered, represents both challenges and opportunities for INT. On the one hand, more allegations of fraud and corruption may be expected since the offenses no longer need to relate to procurement alone or to IBRD and IDA related projects. On the other hand, investigating allegations is facilitated because of the increased access to evidence, as well as the incentives given to respondents to cooperate with the investigation.

Since the approval of the sanctions reforms in 2006, each Bank Group agency has formulated its “Anticorruption Guidelines” that are consistent with relevant laws and international conventions. INT as well has started to adjust its policies and protocols to reflect the changes. The Evaluation and Suspension Officers for IBRD/IDA, IFC, MIGA and Bank Partial Risk Guarantees became operational in March 2007. The members of the Sanctions Board were also appointed in March 2007 and the new Board met for the first time in June 2007.

IFI TASK FORCE

During the World Bank/International Monetary Fund (IMF) Annual Meetings of September 2006 in Singapore, the heads of the African Development Bank (AfDB), Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), Inter-American Development Bank (IDB), IMF, and the World Bank Group endorsed a framework for preventing and combating fraud and corruption in their operations. This groundbreaking agreement was based on the work of the Joint International Financial Institution Anticorruption Task Force.²⁷

²⁶ Due to the separate business model for private sector operations, there are a number of modifications to the sanctions process, including alternate Evaluation and Suspension Officers and Sanctions Board members with specialized expertise.

²⁷ The IFI Task Force which was established in February 2006 by the heads of the African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, Inter-American Development Bank, International Monetary Fund, and European Investment Bank to work towards a consistent and harmonized approach to combat corruption in the activities and operations of the member institutions.

This framework included the following agreements:

- Agreement in principle on standardized definitions of fraud, corruption, collusion, and coercion (see Box 2, page 6);
- Agreement on common principles and guidelines for investigations;
- Agreement to strengthen the exchange of information, as appropriate and with due attention to confidentiality, in connection with investigations into fraudulent and corrupt practices;
- Agreement on general integrity due diligence principles relating to private sector lending and investment decisions;
- Agreement to explore further how compliance and enforcement actions taken by one institution can be supported by the others.

A major outcome of the agreements was the first cross-debarment by the European Bank for Reconstruction and Development (EBRD) of Lahmeyer International GmbH, a firm which the World Bank debarred in November 2006 (see Box 17).

WORLD BANK GROUP ENGAGEMENT ON GOVERNANCE AND ANTICORRUPTION (GAC)

In a Bank Group-wide effort to strengthen governance and deepen the fight against fraud and corruption in member countries, the Bank Group's Board of Executive Directors in March 2007 adopted a strategy entitled Strengthening World Bank Group Engagement on Governance and Anticorruption (GAC). The strategy articulates the rationale for a deeper Bank Group focus on GAC issues and outlines broadly the types of activities that can support and strengthen GAC outcomes in a country. In addition to improving a country's governance, the strategy aims

to ensure that the highest fiduciary standards are applied to Bank-financed operations, in large part by preventing opportunities for fraud and corruption through improved project design, greater disclosure, enhanced participation, and strengthening monitoring and supervision.

INT's work with regard to investigating fraud and corruption in Bank-financed projects and its use of proactive tools such as the Voluntary Disclosure Program (VDP) and the Detailed Implementation Review (DIR) are an integral part of the World Bank Group's new strategy to assist countries in combating fraud and corruption and building their institutions. When fraud and/or corruption in Bank-supported projects is detected by INT's investigative work, the Bank Group will continue to publicly sanction corrupt firms and promote follow-up actions both by governments and internally. In addition, the GAC calls for the Bank Group to step up the inclusion of appropriate fraud and corruption mitigation measures in project design, drawing on lessons from INT investigations regarding effective anticorruption safeguards and due diligence. The GAC also recommends better dissemination of INT findings and emerging good practice and more explicit training and sensitization of task teams in how to spot "red flag" indicators of fraud and corruption.

OPERATIONAL ADVICE

During this fiscal year, INT expanded its efforts to provide advice based on lessons learned from its investigations to operational staff. During discussions with the Bank Group's project teams, INT works to explore what fraud and/or corruption risks may be present in the various components of the project and what cost-effective risk mitigation measures can be put in place.

INT's operational advice is meant to help the Bank Group's operational teams to avoid: i) vaguely or too broadly defined risks; ii) implementation of controls that do not effectively mitigate the risks; iii) tensions in country relations from not clearly discussing up-front the Bank Group's expectations with the government; and iv) losses

Cross-debarment: A Result of Greater Cooperation between MDBs

On February 26, 2007, the London-based European Bank for Reconstruction and Development (EBRD), in the first-ever case of cross-debarment by an MDB, declared Lahmeyer International GmbH ineligible to receive future EBRD-financed contracts until Lahmeyer has implemented an anticorruption program satisfactory to the EBRD.

Cross-debarment means that a company or individual is declared ineligible to receive contracts from an institution based solely on the fact that fraud and/or corruption was substantiated and the firm debarred by another bank, in this case the World Bank. The EBRD's announcement that they cross-debarred Lahmeyer marked the first time a Multilateral Development Bank has taken such mutual enforcement action, and has the potential to significantly increase the deterrent effect of each Bank's sanctions processes.

The cross-debarment concept resulted from increased cooperation between the different International Financial Institutions (IFIs) which in September 2006 resulted in a framework for preventing and combating fraud and corruption. This action by the EBRD validates its commitment as part of the Joint IFI Anti-Corruption Task Force to explore further how compliance and enforcement actions taken by one institution can be supported by the others.

of resources from other donors. In terms of risk mitigation, INT has gathered valuable experience over the last year and a half from its advice to more than 50 Task Teams in such areas as complaint handling mechanisms, third party monitoring, transparency efforts, financial disclosure programs, and other areas.

The results of INT's operational advice to date have been encouraging both in terms of greater protection of projects against potential fraud and corruption and of closer working relationships with procurement and Regional staff (see Box 17). One example of the value of this type of advice was the Infrastructure Networks Anticorruption Award given to the Paraguay Road Project Team—a project which INT had supported with advice on risk identification and mitigation and assistance in establishing a partnership with the Inter-American Development Bank.

TRUST FUND-RELATED INVESTIGATIONS

During FY 2007, INT took several steps to strengthen the institution's management of Trust Fund-related investigations. Working with partners in the Departments of Concessional Finance and Global Partnerships (CFP), Controller's, Strategy and Resource Management (CSR), and Trust Fund Quality Assurance and Compliance (TQC), INT established a Trust Fund Committee to help address issues surrounding possible allegations of misuse of the resources the Bank Group manages through various Trust Funds. The Committee has met four times so far to discuss the current portfolio of Trust Fund related allegations (similar to the briefing INT undertakes for the Regions), any controls issues, donor relations, impact on financial statements, and policy gaps.

Second, INT began to share with the units represented in this Committee for their input the Preliminary Inquiry Reports involving Trust Fund-related allegations. The contributions received so far have been valuable to INT in its prioritization of the cases and in exploring further sources of information. Third, the Committee is in the process of drafting a protocol to define more clearly the interface between INT and CFP, CSR, and TQC, including the units' respective accountabilities.

Colombia: La Guajira Water and Sanitation Project—Addressing the Governance Challenge in the Infrastructure Sector

In 2007, the Bank Group's Board approved an important operation to address the pressing needs of the poor in the State of La Guajira, one of the least developed and most impoverished of Colombia's 32 States. Adequate water supply and sanitation is among the most critical needs of its 520,000 people – approximately 42 percent of whom are indigenous Wayúu people. Among other problems, the issue of governance, broadly defined, remains a key impediment to improving the quality of water services in La Guajira. The design of the Bank-supported operation explicitly puts in place mechanisms to improve sector management and governance, including improved transparency and accountability.

During preparation, the Project team sought the guidance of INT in developing a clearly articulated approach for anti-corruption efforts under the operation. INT's rich experience proved valuable in providing the team with examples of good practice and mechanisms to think through the complex interactions and relationships between institutional players and opportunities for corrupt or fraudulent practices.

INT gave the team guidance on how to examine the Project structure and engage the different stakeholders in identifying the most critical anticorruption aspects within the operation. Based on suggestions from INT, the team undertook stakeholder consultation and was able to develop a detailed Transparency and Accountability Strategy. This strategy includes risk mitigation measures such as a public website with all relevant contract award information, a community oversight mechanism and a full-time local staff to work exclusively on the supervision of the project. The strategy was commended by a number of members of the Bank Group's Board of Directors and has become an important tool for outreach and communication as the project moves forward to implementation.

VII. COMMUNICATIONS AND OUTREACH

COMMUNICATIONS AND TRAINING

During FY 2007, INT's senior management and many in the Department worked to strengthen the transparency of INT's work. More than 160 presentations, briefings and other engagements — including extensive outreach activities regarding the VDP (see further below) — were undertaken to explain INT's mandate and activities. This extraordinary number of presentations was conducted on top of the extra workload brought about by the DIR India and the Independent Review Panel.

In addition to the number of internal and external dialogues, INT made a major effort in upgrading its internal and external websites, improving both their design and content in this fiscal year.

The Department's most important message concerned its goal to become much closer to Operations in terms of sharing information about ongoing investigations and lessons learned, and providing ideas on risk mitigation measures in order to ensure that projects will meet their objectives. Staff of the Internal Unit also continued their outreach regarding staff rights and obligations in the area of staff misconduct and encouraged staff members to come forward to INT directly, or via the various channels at their disposal, when they are aware of instances of fraud and corruption or staff misconduct.

In February 2007, INT completed and issued the Annual Integrity Report World Bank Group Fiscal Years 2005 – 2006. The Report, as well as the press release launching the Report, were translated into the Bank Group's other official languages²⁸ and published on the Bank Group's website. Numerous international media, press agencies and top economic and financial newspapers covered the Report, including interviews with the Director and senior management of INT.

INT also provided two technical briefings to the Bank Group's Board of Directors in FY07. In addition, INT made a number of individual presentations and briefings to Executive Directors (EDs) and alternate EDs who joined the Bank Group during the fiscal year.

The department responded to many requests for briefings from representatives of national authorities and agencies such as the European Anti-Fraud Office (OLAF), the Asian Development Bank (ADB) and the Organization for Economic Cooperation and Development (OECD), as well as from representatives from various national business associations.

The debarment by the Bank Group's Sanctions Committee²⁹ of Lahmeyer International GmbH was made public by a press release in November 2006 and was well covered by the international media. As a result of the publicity around this debarment, several private companies and law firms requested information about the VDP.

Where possible and practical, INT staff who were on an investigative mission used the opportunity of the visits to reach out to Country office staff. Further, staff in INT's External Unit used the monthly briefings to the Regions regarding the status of INT's external investigations to discuss possible risk mitigation matters in projects. A series of workshops that INT piloted in fiscal year 2006 to train Task Team members in identifying fraud and corruption in projects were continued in this fiscal year. These workshops include case studies of actual fraud and corruption schemes and tools to identify them. For example, the week-long Africa Region Quality Control workshop contained several INT modules covering one and a half days in total. The INT modules included hands-on training on fraud and corruption indicators and protocols on how and when to contact INT to limit impact on the project.

INT participated in a number of Procurement Clinics for Task Team Leaders (TTLs) in the Africa region, conducting a one-hour module that provides TTLs with early warning tools and with policies and procedures to use these tools. The presentations were followed by candid discussions about fraud and corruption issues in Regional projects. The most common feedback voiced in these clinics was to have more training of a similar kind.

INT also continued to play a prominent role in the ongoing MDB Forum, which discusses areas of

²⁸ The other official languages of the World Bank are Arabic, Chinese, French, Russian and Spanish.

²⁹ This was the Sanctions Committee's last decision before it was replaced by the Sanctions Board.

cooperation and harmonization of processes and procedures regarding the investigation and prevention of fraud and corruption (see Chapter VI, *IFI Task Force*). As in the past, INT also participated in the Annual Conference of International Investigators held in Vienna in May 2007.

COMMUNICATIONS RELATED TO THE LAUNCH OF THE VDP

On August 1, 2006, the Board formally approved the programmatic elements of the Voluntary Disclosure Program (VDP), a proactive anticorruption tool as described in Chapter IV. Immediately following Board approval, INT issued a press release for global distribution in the Bank Group's official languages and launched a dedicated VDP website on the Bank Group's intranet and external website. The VDP website includes details of all the programmatic elements of the VDP and an extensive questions and answers section. In addition, a brochure and a one-page summary were produced in the Bank Group's official languages to inform internal and external audiences about the VDP. Inside the Bank Group, the VDP team presented the program to a number of

management teams of Regions and Sectors, and to Bank Group staff in two open townhall meetings, as well as via the intranet.

In October 2006, the VDP team made an advocacy trip to Europe and met with representatives of professional associations and member countries which included the International Chamber of Commerce, MEDEF (the French Confederation of Business Enterprises), OLAF, Europe Aid, the European Investment Bank (EIB), the Prince of Wales International Business Leaders Forum, the French Treasury, the Netherlands Development Finance Company, and the Federation of German Industries. Lack of capacity allowed only one such mission in the fiscal year. The VDP team plans to continue this outreach to countries in other Regions in the second half of FY08.

VDP staff also maintained a constructive dialogue with trusted partners like Transparency International (TI) in Washington D.C., Berlin and Norway; the World Economic Forum's Partnership Against Corruption Initiatives (PACI); and Transparent Agents and Contracting Parties (TRACE) International. Since the VDP launch, these and other professional organizations, legal associations and business publications have written about the VDP.

VIII. ORGANIZATION, STAFFING, AND RESOURCES

INT ORGANIZATION

In fiscal year 2007, the Integrity Department continued to adapt its organizational structure to enable it to address the growing demands on its investigative and advisory services. The Director's office is responsible for policy, quality assurance, resource management, and strategic communications. The Chief Investigative Officer, who reports to the Director, oversees the External Investigations Unit, the Detailed Implementation Reviews (DIRs) and the Voluntary Disclosure Program (VDP) as well as the newly established Centralized Case Intake Unit, which is responsible for the case management information and prioritization system. The Internal Investigations Unit also reports to the Director of INT, who reports directly to the World Bank President. INT has a dotted line reporting relationship to the Audit Committee of the Board of Executive Directors.

INT STAFFING AND RESOURCES

As of June 30, 2007, the Integrity Department had a total of 56 staff members, a net decline of one as compared

to fiscal 2006. Open-ended and fixed-term professional staff increased by six while the number of professional consultants fell by seven (see Table 10). There were 11 administrative and client support (ACS) staff, as in the previous fiscal year. The number of investigators amounted to 32, including three consultants. The remaining specialists included forensic accountants, procurement and database management specialists, resource management staff, and communications staff. INT's team spans 29 different nationalities and 28 different language proficiencies. Nearly half the Department's staff, or 46 percent, are female. INT continues to work to attract a more diverse team of qualified investigative staff.

INT's total budget allocation for FY07 was US\$14.04 million (see Table 11). INT had requested and obtained a supplemental budget increase of US\$4.41 million in the previous fiscal year. At that time, the Department asked that the funding be made in the form of an increase in the Department's base budget, as the rise in INT's commitments was expected to continue into future fiscal years. The Bank Group's senior management granted this request.

TABLE TEN

Staffing Levels (FY04-07)

	FY04	FY05	FY06	FY07
Bank staff				
Investigators/other specialists	28	33	32	38
ACS/other support staff	9	9	6	6
Subtotal	37	42	38	44
Consultants/temporary staff				
Investigators/other specialists	6	9	14	7
ACS/other support staff	4	4	5	5
Subtotal	10	13	19	12
Total staff and consultants	47	55	57	56

Budget in US\$ millions (FY04-07)

	FY04	FY05	FY06	FY07
Base budget allocation	9.3	9.4	8.842	14.041
Additional allocation (midyear)	0.6	1.3	4.416	0
Total budget authorization	9.9	10.7	13.258	14.041

APPENDIXES

APPENDIX 1

HISTORICAL DATA

The Institutional Integrity Department (INT) is designated by the World Bank Group to investigate allegations of fraud and corruption related to World Bank-financed projects and operations, and allegations of staff misconduct. The Department also helps improve compliance with World Bank policies and prevention of fraud and corruption by training staff to detect and deter fraud and corruption. Those activities contribute directly to the poverty reduction mission of the World Bank and aim to improve development results by helping ensuring that funds are used for their intended purposes.

The World Bank's current investigations function began with a small unit in the Internal Audit Department in 1997. In 2001, the unit was established as a new and separate Department known as Institutional Integrity. The first years were characterized by rapid growth; external hiring to secure needed new skills and expertise; the development of operational policies and procedures; adjustment of these procedures in light of subsequent experience; and the introduction of new initiatives, which led to some major early successes along with some inevitable growing pains.

Recognition within the institution grew over this time that the capacity to detect, deter and prevent fraud and corruption related to Bank-financed projects needed to be embedded in the organization at several levels for the long term, consistent with the fiduciary controls existent in other financial institutions.

INT's activities continue to evolve. For example, the official launch of the Voluntary Disclosure Program in FY2007, after a 3-year pilot phase, is a major accomplishment. Further steps are being taken to ensure that the Detailed Implementation Review is of the utmost utility to the Bank Group and Borrower Countries in helping improve the controls environment. In addition, based on stakeholder feedback, the integrity of the investigative processes is continuously improved by formulating new policies and procedures, while much attention is being given to increased transparency to Bank Group staff and the general public.

The Department's design and work has been subjected to outside review from its inception. Three external reports were prepared by a noted expert, Richard Thornburgh, former United Nations Under-Secretary-General and United States Attorney General. They concerned a report on mechanisms to address problems of fraud and corruption, a report concerning debarment processes, and a final report on the foundation and direction of the Strategic Directions and Business Plan of the Department of Institutional Integrity. The last report looked at ways to improve quality, effectiveness, fairness, and efficiency of the investigative process. This outside evaluation of the adequacy and functioning of the structures, procedures, resources and management framework was taken into consideration by the Board of Executive Directors in approving INT's first three year plan. The Thornburgh reports and Department plan are available on the World Bank website.

The Department reports directly to the World Bank President. It has a dotted line reporting relationship to the Audit Committee of the Board of Executive Directors.

APPENDIX 2

TERMS OF REFERENCE³⁰

In pursuing its mission of promoting development and reducing poverty, the World Bank Group³¹ strives to ensure that its funds, as well as those funds entrusted to the Bank Group, are used for their intended purposes. The Bank Group is committed to working with Governments to fight fraud and corruption. The Bank Group is also committed to ensuring that Bank Group staff work in an ethical environment, free from discrimination, harassment, retaliation, and the misuse of Bank Group resources. The Bank Group has created the Department of Institutional Integrity (INT) to play a key role in pursuit of these objectives.

Authority

The Bank Group has charged INT with the responsibility for the investigation of fraud and corruption in Bank Group operations. The Bank Group has also charged INT with the responsibility for investigating allegations of misconduct against Bank Group staff. In both instances, INT reports its findings to Senior Management. In addition, INT assists in preventative efforts to protect Bank Group funds, as well as those funds entrusted to the Bank Group, from misuse and to deter fraud and corruption in Bank Group operations.

Independence

INT's activities must be carried out in an atmosphere free of improper influence, or even the perception of improper influence. Therefore, to ensure the independence of its activities, the Director of INT reports directly to the President of the Bank Group.

Activities

INT maintains effective lines of communication to permit Bank Group staff and the public to submit to INT allegations of staff misconduct or allegations of fraud or corruption in Bank Group projects. INT ensures that allegations can be submitted on an anonymous and/or confidential

basis. INT also conducts its investigations with a view to preventing false allegations from causing harm to the reputations of wrongly accused individuals or firms.

In carrying out its investigative work, INT uses its expertise and lessons learned from its findings to recommend to Senior Management measures to prevent the misuse of Bank Group funds. INT participates in the training of Bank Group staff to prevent and detect fraud and corruption in the Bank Group and in Bank Group projects. In addition, INT devises pro-active efforts to identify and eliminate fraud and corruption in the Bank Group and in Bank Group projects. When warranted, INT prepares notices of debarment proceedings recommending to declare firms ineligible to be awarded future Bank-financed contracts for engaging in fraudulent or corrupt practices.

INT respects the rights of Bank Group staff members by executing its responsibilities in a fair, impartial, and professional manner consistent with all applicable Bank Group rules. INT also takes steps to promote an environment whereby Bank Group staff can report misconduct without fear of retaliation. Like all staff members, INT personnel adhere to the Principles of Staff Employment, the Staff Rules, and other relevant Bank Group policies. INT is responsible for establishing its internal procedures and for ensuring that such procedures are consistent with externally recognized practices for conducting investigations in international organizations. In its dealings with firms and individuals not employed by the Bank Group, INT acts in a fair and professional manner while maintaining its obligation to protect the Bank Group's assets and reputation.

Access

When conducting its investigations, INT personnel have unrestricted access to all Bank Group records, documents, and physical properties with the following conditions:

- Access to the contents of computer files and other electronic records shall be in accordance with the Detailed Information Security Policy.

30 See The Department of Institutional Integrity Strategic Directions and Business Plan: A Summary, Board Report no. 29756, July 10, 2003.

31 The World Bank Group consists of the International Bank for Reconstruction and Development, the International Development Association, the International Finance Corporation, the Multilateral Investment Guarantee Agency, and the International Centre for Settlement of Investment Disputes.

- Access to personnel records shall be in accordance with Staff Rule 2.01 (Confidentiality of Personnel Information).
- Access to individual medical records shall be in accordance with Staff Rule 2.02 (Confidentiality of Medical Information and Medical Records). Such records are not available to INT personnel without the express authorization of the staff member or person to whom the records relate.
- Access to the records of Conflict Resolution System providers such as the Ombudsman and the Mediation Office shall be in accordance with the Staff Rules establishing those offices. In the case of some of these providers, such records are not available to INT personnel without the express authorization of the staff member concerned.
- Access to any documents in the possession of the Bank Group that are covered by a confidentiality

agreement with an external entity shall only be disclosed to INT in a manner consistent with such agreement.

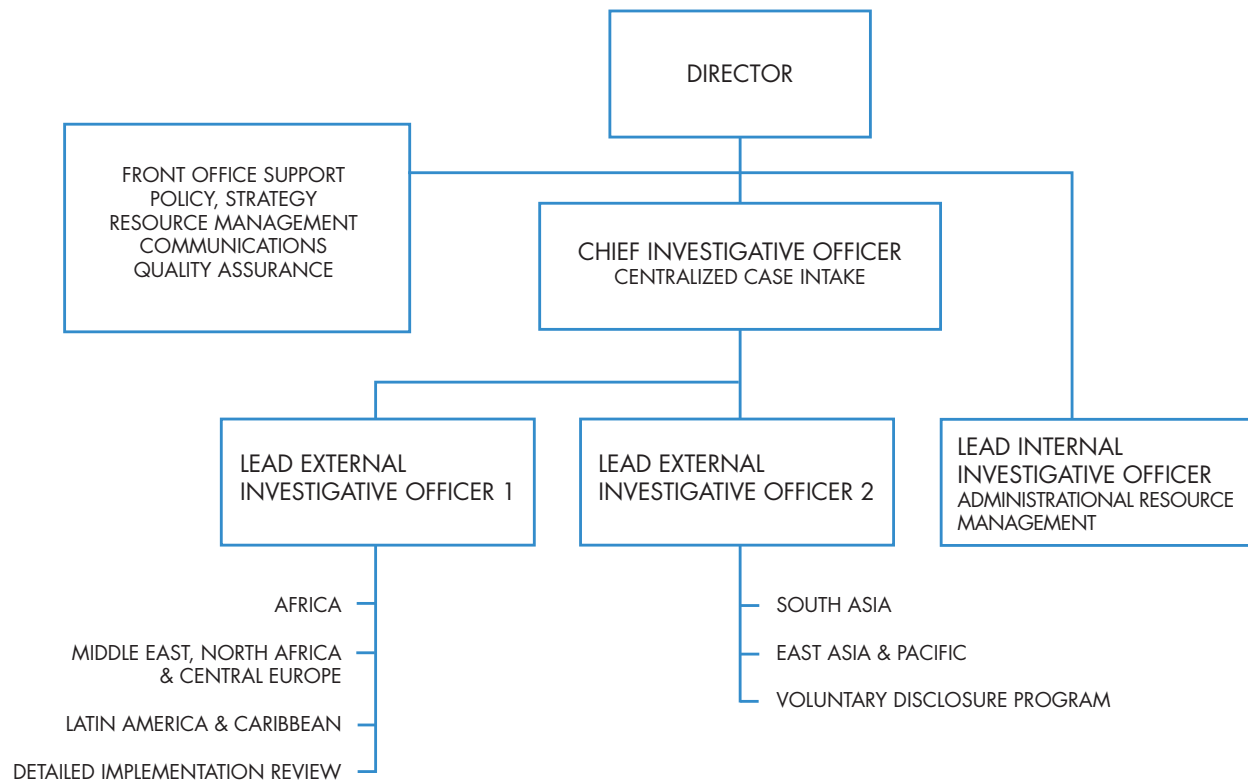
INT personnel also have access to all Bank Group staff to obtain information relevant to investigations in accordance with Staff Rule 8.01.

Partnerships

INT works closely with the Legal Vice Presidency on issues that relate to the legal status of the Bank Group and its staff or its privileges and immunities, including debarment proceedings and contacts with national law enforcement authorities. In addition, INT coordinates with the Internal Auditing Department and the Operations Evaluations Department to ensure efficiency and effectiveness in the work of the three departments. Finally, INT collaborates with the Ethics Office and the World Bank Institute to design and provide appropriate educational and awareness training for Bank Group staff and clients.

APPENDIX 3

ORGANIZATIONAL CHART



APPENDIX 4

TRENDS IN CASELOAD – FISCAL YEAR 1999-2007

TOTAL INVESTIGATIONS CASELOAD

	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07
Carried Over	–	66	227	470	430	321	318	243	294
New Cases	167	400	545	550	339	354	352	292	239
Cases Closed	101	239	297	590	448	341	427	241	301
Year-end Total	66	227	470	430	321	318	243	294	232

INTERNAL INVESTIGATIONS CASELOAD

	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07
Carried Over	–	19	52	109	112	71	94	77	86
New Cases	91	160	176	137	125	151	117	102	123
Cases Closed	72	127	119	134	160	118	134	93	152
Year-end Total	19	52	109	112	77	94	77	86	57

EXTERNAL INVESTIGATIONS CASELOAD

	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07
Carried Over	–	47	175	361	318	244	224	166	208
New Cases	76	240	369	413	214	203	235	190	116
Cases Closed	29	112	178	456	288	223	293	148	149
Year-end Total	47	175	361	318	244	224	166	208	175

APPENDIX 5

EXTERNAL INVESTIGATIVE PROCESS

The Department of Institutional Integrity (INT) receives allegations of fraud and corruption via its telephone hotline, by fax, email, or regular mail. In addition, INT has retained a reputable outside firm to receive complaints through an “800 number” and via collect calls from any country and in a variety of languages, thereby allowing complainants to communicate anonymously with INT without fear of their identity being disclosed. When an allegation is received by INT, the Centralized Case Intake Unit (CCI) conducts the initial screening and assessment (preliminary inquiry) in order to determine whether the allegation received is *prima facie* credible and related to activities supported by the World Bank Group. The initial assessment undertaken by CCI includes the drafting of a Preliminary Inquiry Report (PIR). This report provides a precise summary of the allegation and evaluates the impact that the alleged corrupt practices could have on the Bank Group’s reputation, finances, and development goals. According to a number of criteria the case will be ranked. The ranking is prepared in consultation with relevant Bank Group staff in the affected Regional Vice Presidency Units while final decision rests with INT.

The number of cases of possible fraud and corruption in Bank-financed projects far exceeds the resources required to investigate every single case. Therefore, since fiscal year 2004, INT has been authorized by the Bank Group’s Board to use a triage approach to its external case management. Based on the ranking, cases are given a High, Medium or Low Priority rating. Cases rated low are usually closed without further investigation, but all relevant information is maintained in the INT database system (INTIS) for future reference and analysis. Such cases may be revisited if INT receives additional information. The ranking is determined in consultation with the Bank Group’s Regional teams, but the final decision remains INT’s.

Since fiscal year 2004, INT has considered for investigation, and investigated, most High and Medium Priority cases according to the availability of resources. The criteria for ranking varied from region to region, and

hence, there may have been disparities in the prioritization of allegations. However, as of fiscal year 2008, INT has introduced a new approach whereby all allegations are ranked according to the same criteria, and all High Priority cases will be actively investigated. This will require a selective approach to ranking based on priorities and resources. All other cases will be ranked either Medium or Low Priority.

Medium Priority cases are reviewed monthly to determine whether their priority should be adjusted up or downwards where relevant in relation to new incoming cases. These cases may be upgraded to High Priority if new information is received and/or additional resources become available. Low Priority cases are closed automatically after 30 days if no other information becomes available that justifies a change in the priority rating. Such cases can be reconsidered for investigation if further information becomes available suggesting a higher priority ranking is justified. This allows for more realistic and effective management of major investigations. It also allows for more effective communication with Regions about the status of investigations.³²

CCI records all information relevant to each complaint into INTIS. This information includes communications with complainants; inter- and intra-office correspondence regarding the project, companies named in the complaint, and all work product related to the matter.

The length of any investigation will depend on a number of factors including the location of witnesses, willingness of witnesses to assist INT, the location of and availability of key documents and the availability of INT staff. Investigative tasks include the collection and review of documents (contracts, contract evaluation reports, implementation reports, etc.), field visits to interview relevant individuals, observing the project as it is being or has been implemented, and report writing.

Once an investigation is completed there are three possible outcomes. A case is substantiated, if the evidence is sufficient to show that the alleged misconduct was more

³² The Lead Investigative Officer and relevant Regional Team Leader of INT have standard monthly meetings with the Operations Director and Procurement Manager of each Region. In addition, INT briefs the Region immediately following investigative missions and provides exit briefings to the relevant Country Director/Country Manager about the findings of investigations.

likely than not committed. It is *unsubstantiated*, if the evidence is inconclusive and *unfounded* if the evidence is sufficient to show that the alleged misconduct did not happen. A Final Investigative Report (FIR) with findings and recommendations to increase vigilance with regard to fraud and corruption is sent to the Office of the President, the affected Regional Vice Presidency Units and Sectors and other relevant staff.

Once FIRs are issued, the case is ready for closure. Only CCI can close a case, which occurs after the assigned investigator has drafted a Case Closing Memorandum and the Lead Institutional Integrity Officer (LIIO) has signed off on the closure. CCI will then verify that the process is fully documented and that all

gathered evidence and files are properly submitted for archival purposes.

Other investigative outputs include referrals which are the formal passing of investigative findings and recommendations on a case-by-case basis to the borrowing country and/or a donor government by INT in coordination with the Regional or Country office; and follow-up investigations by INT, where applicable.

An allegation found to be substantiated is brought forward to the Evaluation and Suspension Officer (EO) (see Appendices 7 and 8). The identity of each sanctioned company and individual and the sanction imposed are publicly disclosed on the Bank Group's website.

APPENDIX 6

INTERNAL INVESTIGATIVE PROCESS

The principal objective in an investigation is to establish whether there is sufficient evidence to either: (i) substantiate an allegation of misconduct which in turn provides the institution the means with which to hold the wrongdoer accountable; or (ii) refute (i.e., disprove) the allegation and clear the accused staff member of any wrongdoing. If the evidence is inconclusive or if the preliminary inquiry lacks specificity an allegation is unsubstantiated in which case the benefit of the doubt goes to the accused.

The investigative and decision-making process related to allegations of staff misconduct aim to achieve three equally important goals: (1) investigative thoroughness; (2) transparency of process; and (3) protection of the rights of all parties concerned, including the rights of those who are accused and the rights of those who report allegations. INT's standards and procedures for investigating allegations of staff misconduct are governed by the policies set forth in Staff Rule 8.01.

INT receives allegations of staff misconduct from individuals in and outside the World Bank, including anonymous complaints. When INT receives an allegation or complaint of staff misconduct, it first evaluates whether the alleged behavior, if it occurred, would constitute misconduct. If it does not, the matter is usually referred to the appropriate manager(s), the Human Resources team, or to both for follow-up and resolution in a non-disciplinary context. INT normally makes such referrals after consulting with the Office of Ethics and Business Conduct (EBC), Human Resources, and/or the Legal Vice Presidency. If the allegation or complaint could constitute misconduct, INT evaluates the totality of the allegation to determine whether the matter could be better addressed, in the first instance, through less formal means of intervention by management or Human Resources or within the framework of the Conflict Resolution System (CRS). INT makes these determinations following consultations with the Office of EBC, Human Resources, and/or the Legal Vice Presidency.

Conducting the Preliminary Inquiry

If INT determines that less formal means of intervention are not appropriate, it initiates a preliminary inquiry to determine if the allegation is sufficiently credible to merit a formal investigation. If the information it collects does not support the allegation, INT may close the matter and explain to the staff member why INT will not be opening an investigation. If the information and evidence gathered during a preliminary inquiry supports the misconduct allegation, INT normally initiates a formal Staff Rule 8.01 investigation to gather all relevant facts and circumstances.

Notifying the Staff Member

When allegations are sufficiently credible to merit a full investigation, INT notifies the staff member in writing of the alleged misconduct. This gives staff members the opportunity to respond to the allegations and to provide information, evidence, and/or the names of people whom INT can interview to support their explanation of what occurred. The notice includes a description of the allegations, the relevant Bank Group standards applicable to the allegations, an overview of the investigative and decision-making process, and a summary of the staff member's rights and responsibilities.

Normally, INT first contacts the staff member, by email, within 24 hours to inform the staff member of the Staff Rule 8.01 interview. In the email, INT provides the staff member a brief explanation as to the purpose of the interview and the staff member's right to be accompanied by another staff member to observe the interview proceedings. INT also provides the staff member with a link to Staff Rule 8.01, a document which lists the staff member's rights and obligations under the Staff Rule 8.01 process, and a Staff Guide to INT.

Next, an INT professional presents the staff member with the written notice in a private meeting at the beginning of the investigative interview. During the meeting, the staff

member is given the opportunity to review the notice in its entirety and to have his or her questions answered before a dialogue on the substance of the issues under investigation begins (the actual interview). The staff member may also request an extension of time in which to respond in writing and if the request is reasonable and justified, INT is flexible in granting such requests. A staff member has the right to respond to the allegations of misconduct during the course of the investigation orally, in writing, or both, and he or she may be required to do so by the person conducting the investigation (see Staff Rule 8.01, paragraph 4.08). Following the initial interview, the staff member is afforded ten business days in which to submit a written response to the allegations.

Gathering Facts

The fact-gathering stage of the investigation normally involves interviewing staff members and other parties as appropriate, obtaining relevant documents and other information, analyzing the testimonial and documentary evidence, and making objective credibility assessments. In keeping with INT's role as a neutral fact-finder, INT investigators collect evidence that is both inculpatory and exculpatory, and takes into account potentially mitigating factors, as appropriate. It does not act in any way as an advocate for any party involved in an investigation. INT asks all staff members to maintain the confidentiality of the investigations in order to maintain the integrity of the fact-finding process, to avoid the spread of rumors, and to protect the reputation of staff members against whom allegations have been made, who are presumed innocent until such time as the investigation is completed and the HRVP makes a decision based on the facts and evidence.

Issuing a Final Report

Once INT concludes its fact-finding it prepares a detailed report of the investigation. This report comprises the administrative record upon which a conclusion of whether misconduct occurred is based. The report includes both

inculpatory information, and evidence and information that is exculpatory or potentially mitigating in nature.

Before the investigative report is submitted to the HRVP, the staff member is provided with a copy of the draft report. The draft includes all supporting information and evidence (all documents and testimony) used by INT investigators and made part of the record upon which a disciplinary decision would be based. Staff members receive a copy of the draft so that they can point out any factual errors before the report is finalized, introduce any other relevant information that they believe may rebut the findings or support their position, clarify any of their previous statements, and comment on the report. A staff member waives his/her right to review the final report if s/he refuses to respond to the allegations. If the staff member so requests, INT also provides a copy of the draft of the final report to the staff member's outside counsel, if one has been engaged, and to the staff member's counselor (e.g., a Staff Association counselor). These parties first have to read and sign a Non-Disclosure Agreement prior to INT releasing to them a copy of the draft report.

The staff member's comments are then addressed in the body of INT's final report and incorporated in their entirety into the final report, which is submitted to the HRVP for review and decision. If the staff member's comments to the draft report result in a substantive revision to its findings or conclusions, INT allows the staff member to review and comment on the revised draft report *before* it is finalized and submitted to the HRVP. To protect the reputation of the staff member, INT does not provide a copy of its reports on Staff Rule 8.01 investigations to the staff member's management chain.

INT submits the final report to the HRVP for review and decision on whether misconduct occurred and what disciplinary measures, if any, are to be imposed. Within the time periods set forth in the applicable Staff Rules, a staff member can appeal the decision of the HRVP to the Appeals Committee and then to the Administrative Tribunal.

APPENDIX 7

SANCTIONS BOARD HISTORICAL DATA

Establishment and Outcomes

In 1998, the Bank Group institutionalized a sanctions process by which in November of that year, the President established a Sanctions Committee. The Sanctions Committee, an administrative body comprised of senior Bank Group management, was responsible for carrying out independent administrative reviews of findings of fraud or corruption in Bank-financed projects and making recommendations to the President of sanctions to be imposed on those firms or individuals found to have engaged in such activities.

The Bank Group issued its first sanctions decision in March 1999 and has since debarred 340 firms and individuals. From 1999 through October 2006, in accordance with the Bank Group's Sanctions Committee Procedures, the Bank Group would issue a Notice of Debarment Proceedings against a firm and/or individual (the Respondent). The Sanctions Committee would then review documentation submitted by both INT and the Respondent, hold a hearing and issue a recommendation of sanction to the President, who would ultimately issue a decision in the matter.

In light of lessons learned through the implementation of the sanctions process and of recommendations made by Richard Thornburgh in his 2002 *Report Concerning the Debarment Process of the World Bank*, the Bank Group began reforming its sanctions process. In 2004, the Board approved the first Sanctions Reform package, which included:

- replacing the Bank Group's previous Sanctions Committee with a Sanctions Board that would include external members;
- establishing, as part of a new two-tier sanctions process, an Evaluation and Suspension Officer (EO) with, *inter alia*, authority to temporarily suspend a respondent pending final resolution of the sanctions case; and
- introducing measures to address a perceived need for more flexibility in the sanctions process.

During Fiscal Years 2005 and 2006, the Bank, IFC and MIGA undertook significant efforts aimed at furthering the World Bank Group's sanctions reform process, with a view toward bringing about a harmonized World Bank Group approach to sanctions. One important feature of the new approach is that a person or entity debarred from doing business with either the Bank Group, MIGA, or the IFC will be debarred from doing business with all of them.

In August 2006, the Board approved the second Sanctions Reform package, which called for further reforms of the Bank Group's sanctions procedures, including:

- expanding sanctions beyond procurement-related violations;
- expanding the Bank Group's definitions of Fraud, Corruption, Collusion and Coercion to those that were harmonized with other MDBs;
- introducing a new sanctionable practice: Obstructive Practice;
- introducing new IBRD/IDA Anticorruption Guidelines and amending them to the General Conditions of Loan Agreements both of which explicitly state borrowers' duties to address fraud and corruption, which formerly were only implicit obligations;
- revising the Procurement and Consultant Guidelines; and
- incorporating the Bank Group's private sector arms – the IFC, MIGA, and the Bank Group's Partial Risk Guarantee (PRG) operations – into the sanctions regime.

The new sanctions process became effective on October 15, 2006. Subsequently, the Sanctions Board held its first meeting on March 16, 2007 and Evaluation and Suspension Officers (EOs) for the IBRD/IDA, IFC, MIGA and PRG operations also started operations at that time.

As the former Sanctions Committee, the current EOs and the Sanctions Board operate under Board-approved sanctions procedures. Because of the particular nature

of their activities, separate sanctions procedures exist for Bank-financed, IFC, MIGA and PRG activities. Pursuant to the new sanctions procedures, possible sanctions include a public letter of reprimand, conditional non-debarment, debarment with conditional release, debarment (either limited or indefinite) from participating in future Bank Group-financed activities, and restitution. Sanctions imposed continue to be posted on the Bank Group's external website as was the procedure under the former process as well.

Case Management

Under the new sanctions procedures, if INT finds sufficient evidence of sanctionable misconduct, the case is referred to the relevant EO – **the first tier**. The EO reviews the evidence submitted by INT and, if the EO determines that the alleged fraud or corruption has more likely than not occurred, the EO issues a Notice of Sanctions Proceedings (Notice) that includes a proposed sanction. The EO may also temporarily suspend a firm or individual from bidding on Bank-financed contracts pending the final outcome of the sanctions process. If the firm or individual does not contest the allegation within 90 days of the issuance of the Notice, the Sanctions Board will issue a decision without a hearing and impose the sanction recommended by the EO.

If the firm or individual contests the allegations or the recommended sanction, the case is referred to the World Bank's Sanctions Board – **the second tier**. The Board, considers the allegations and recommendation in the Notice, along with any response from the firm or individual, before taking a final decision in the case. The Board may also, upon the request of a Respondent or INT, hold a hearing as part of its deliberations

Sanctions Process Staffing and Resources

The new sanctions process has resulted in considerable changes in staffing and resources. There is currently one full-time EO for IBRD/IDA and three part-time EOs for IFC, MIGA and PRG respectively. The Sanctions Board (second tier) is comprised of three Bank Group staff and four external members. Additionally, for cases involving IFC, MIGA, and PRG operations, separate external and internal members with specific expertise have been appointed. Since April 2007, the position of Secretary to the Sanctions Board, has been filled by an Acting Secretary. Appointment of a Secretary to the Sanctions Board is expected in fiscal year 2008.

THE SANCTIONS PROCESS (FY99-FY07)

	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	Total
Sanctions-related Actions^a										
Number of Cases Received ^b	8	6	4	7	15	23	2	1	2	68
Number of Committee Sessions ^c	7	11	9	8	5	8	6	2	1	57
Number of Cases Heard	5	8	2	4	8	16	13	2	1	59
Number of Sanctions Applied										
Number of Debarments										
Firms	7	37	15	3	14	55	54	4	1	190
Individuals	2	8	4	1	8	71	45	9	0	148
Total Debarments	9	45	19	4	22	126	99	13	1	338
Number of Letters of Reprimand										
Firms	–	1	2	–	2	4	1	0	0	10
Individuals	–	–	–	–	–	3	5	0	0	8
Total Letters of Reprimand	–	1	2	–	2	7	6	0	0	18
Total Sanctions Applied	9	46	21	4	24	133	105	13	1	356

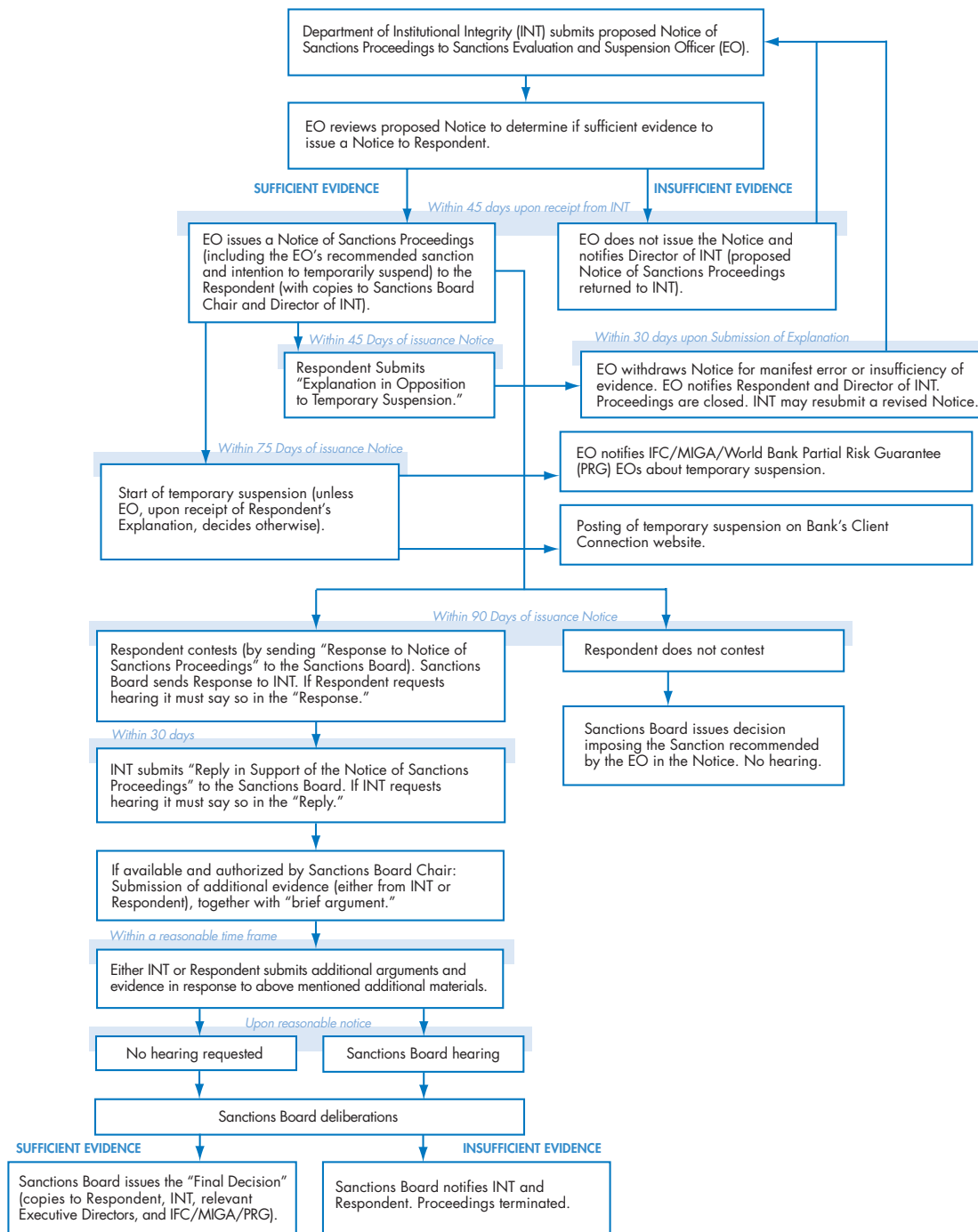
^a Although the Committee followed a sanctioning process and debarred 99 firms and individuals, the totals may not add up as some firms and individuals were debarred under more than one case.

^b In some instances, more than one session was convened to deal with a single case; in other instances a single session was able to deal with more than one case.

^c One case was dealt with by the Sanctions Committee twice, in FY01 and FY04.

APPENDIX 8

WORLD BANK GROUP SANCTIONS MANAGEMENT: Sanctions Proceedings Flowchart



APPENDIX 9

WORLD BANK GROUP UNITS RESPONSIBLE FOR INTERNAL CONTROL AND OVERSIGHT OF OPERATIONS

UNIT	FUNCTION
Department of Institutional Integrity	Investigates allegations of fraud and corruption in World Bank-financed projects and allegations of staff misconduct. Formulates recommendations to protect the integrity of projects to Regional operations
IFC Business Risk Department	Provides anti-money laundering/combating the financing of terrorism advice, support, training and tools for IFC staff; develops, implements and monitors internal controls
Inspection Panel	Receives and investigates claims from project-affected people alleging that they have been harmed by World Bank violations of its own policies and procedures
Internal Auditing Department ^{33 34}	Performs audits to assess the adequacy and effectiveness of the Bank Group's network of risk management, control, and governance processes
Loan Department	Reviews and signs off on the financial management and disbursement aspects of loan agreements
Independent Evaluation Group	Assesses which projects and programs work, which do not, and the lasting contribution to a country's overall development
Operations Policy and Country Services	Provides advice and support on preparing and implementing lending and non-lending operations and managing portfolios, including oversight of the World Bank's procurement and financial management functions and guidelines that govern lending relationships and conditions
Quality Assurance Group	Conducts real time assessments of the quality of the project portfolio, including supervision, financial management, and monitoring and evaluation
Trust Fund Quality Assurance and Compliance Unit	Seeks to improve fiduciary compliance with safeguard policies

³³ The Auditor General reports to the President and is under the oversight of the Audit Committee acting on behalf of the Executive Directors (the Board). This reporting arrangement promotes objectivity and adequate consideration of audit results. The mandate of the Internal Auditing Department extends to virtually all activities of the World Bank Group except for medical records of Bank Group staff and the Ombuds Services.

³⁴ The Internal Auditing Department provides audit support to INT's investigative teams at their request.

APPENDIX 10

HOW TO REPORT ALLEGATIONS OF FRAUD, CORRUPTION, OR STAFF MISCONDUCT

How to Contact INT

Allegations must concern the Bank Group
or Bank-financed operations:

DIRECTLY

Telephone +1 202 458 7677

Fax +1 202 522 7140

E-mail investigations_hotline@worldbank.org

THROUGH A TOLL-FREE INDEPENDENT FRAUD AND CORRUPTION HOTLINE

(external service – 24 hours/day):

Telephone +1 800 831 0463
(translation facilities available)

To reverse the charges (collect calls) +1 704 556 7046

Country Office staff: call the toll-free number through
an AT&T operator or call the collect number.

BY MAIL:

PMB 3767
13950 Ballantyne Corporate Place
Charlotte, NC 28277
USA

If you choose to contact INT anonymously, please be as specific
as possible with the information you provide.

TRANSPARENCY AT WORK

KYAANI PRIMARY SCHOOL EXPENDITURE CHART OPERATIONAL A/C II O. 194099724 BALANCE AS AT 31/8/04		
Vote head A/C DR (Ksh) CR (Ksh)		
Opening balances:		
Cash in hand		6388.20
Cash at Bank		189284.20
GOVERNMENT GRANT		140660.00
SUPPORT STAFF WAGES	15028.00	
TUITION MATERIALS	2292.00	
LT & T	15370.00	
CONTINGENCY	4218.00	
R.M.I	30191.00	
SPORTS & ACTIVITY	7610.00	
B.M & CONS.	1492.00	
POSTAL RENT	8700.00	
QUALITY ASSURANCE	10402.00	
BOOK STORGE	1240.00	
AICI-SIMBA	139318.00	6500.00
CLOSING BALANCES:		271330.00
CASH IN HAND CBF		
CASH AT BANK CBF		114684.70

GOVERNMENT GRANTS 2003		
AICI-(SIMBA)	AICI-(SIMBA)	
EXPECTED GRANTS	GRANTS RECEIVED	
Ksh. 449 X 436 = Ksh. 195764.00	Ksh. 198,458.00	
Ksh. 350 X 436 = Ksh. 152600.00		
TOTAL Ksh. 348364.00		
AICI II OPERATIONAL	AICI II GRANTS RECEIVED	
INITIAL GRANTS = Ksh. 28653.00	Ksh. 48,620.00	
110 X 436 = Ksh. 47960.00	Ksh. 48,620.00	
185 X 436 = Ksh. 80660.00	Ksh. 106,770.00	
BOOK STORAGE = Ksh. 25,000.00	Ksh. 90,698.00	
TOTAL Ksh. 182213.00	Ksh. 294,708.00	
TOTAL Ksh. 530,637.00	TOTAL Ksh. 521,819.00	
TOTAL EXPECTED Ksh. 530,637.00		
LESS GR RECEIVED Ksh. 521,819.00		
SHORTFALL Ksh. 8818.00		

KYAANI PM EXPENDITURE OPERATIONAL A/C BALANCE AS AT 31/8/04		
VOTE HEADS A/C		
Cash at Bank CBF		
GOVT. Grant A/c		
SUPPORT STAFF		
Tuition m A/c		
LT and T. A/c		
EX & CONS. A/c		
RM and I A/c		
ACCOUNT NO. I A/c		
SPORTS & ACTIVITY		
Contingency A/c		
Quality Assurance		
Bank Fees A/c		
BOOK STORAGE		
Bank Interest		
Balances - A/c		
Cash on hand		
Cash at Bank		

Good project design and community participation, including publicly displaying the use of funds, mitigates the risk of corruption.