

INTEGRITY VICE PRESIDENCY  
ANNUAL REPORT

FISCAL YEAR 2009



THE WORLD BANK GROUP



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## Foreword from the President



This has been a year of testing for the World Bank Group and our ability to respond to the needs of our clients in a time of crisis, uncertainty, and danger. It has also been an important year for the World Bank Group's integrity agenda. Countries are facing a loss of confidence in financial institutions and markets – a loss of public trust. Stakeholders around the world – including our member countries and donors – are looking to the World Bank Group for leadership in responsible business practices. They expect us to uphold a high standard of integrity in all aspects of our work.

I firmly believe that INT's work to protect Bank funds is a critical part of the World Bank Group's mission. The Bank Group has now implemented all 18 of the Volcker Panel recommendations, which have paved the way for an accelerated impact on the anticorruption front. Building on this, INT has finalized its strategic framework, which should serve as a blueprint for effective investigations for years to come.

Thorough, independent, and effective investigations are central to the World Bank Group's anticorruption strategy. Corruption happens everywhere, in both developed and developing countries. This Annual Report, especially the case studies, shows the ugly face of fraud and corruption.

But there are also encouraging results: quality analysis, breakthroughs in key investigations, speedier outcomes, increased referrals of criminal investigations to client countries, and more effective sanctions. These results reflect the efforts of many inside and outside the Bank Group to crack down on corruption, and demonstrate the Bank Group's resolve to ensure that every available dollar goes into development.

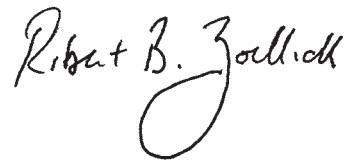
Going forward, chief among the Bank Group's challenges are preventing wrongdoing, anticipating risk, and monitoring results. As the Bank Group ramps up its commitments to support countries affected by the global crisis, we must assure our donors and

client governments that we are responsible stewards of funds; that we are doing enough to guard against delinquent companies and risk-prone sectors; and that we are helping governments show their people, through governance and anticorruption efforts, that they can have confidence in government and public institutions.

I am committed to bringing about an effective international sanctions system to debar delinquent companies from doing business with other Multilateral Development Banks. As an international leader, the World Bank Group will be upgrading its tools and methods in the fight against fraud and corruption, to create a more aggressive debarment regime and greater flexibility to deal with lesser offenders in order to encourage them to come forward.

Another concern is how governments respond when their own officials are implicated in malfeasance involving World Bank Group entrusted funds, and what action they take in respect of criminal conduct committed on their own soil. We will do more to help recover stolen assets, isolate errant officials, and support willing national authorities.

In conclusion, I want to thank the men and women who provide evidence and report credible information of fraud and corruption to INT. I also salute the many courageous and diligent anticorruption officials around the world working closely with the Bank Group – brave individuals who often take great risks. The World Bank Group will always support those who stand up for good governance. Thank you for your dedication and your integrity.

A handwritten signature in black ink that reads "Robert B. Zoellick". The signature is written in a cursive, flowing style with a large loop at the end of the last name.

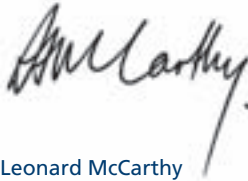
Robert B. Zoellick  
President, World Bank

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## Acknowledgements

This annual report was prepared by the Integrity Vice Presidency and covers Fiscal Year 2009 (July 1, 2008 – June 30, 2009). It is a public document that covers the World Bank Group's internal and external investigations and sanctions, as mandated by the Bank Group's Board of Executive Directors on July 20, 2004.

I wish to convey my appreciation to World Bank Group staff who have contributed to INT results during FY09: to the World Bank Group President and Senior Management for their leadership and guidance; to the Chairman and members of the World Bank Group Board of Executive Directors for their support to the Governance and Anticorruption agenda, to which INT contributes; to members of the Audit Committee and Independent Advisory Board for their oversight and advice; to the Sanctions Board and the Evaluation and Suspension Officers, who weigh and judge the merits of sanctions applications brought by INT; to all those, Bank staff and others, who came forward with complaints, provided INT with information about fraud and corruption, and helped the Bank in its preventive efforts; and finally, to INT staff, who devote their lives and careers to this noble mission.



Leonard McCarthy  
Vice President, World Bank

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## The World Bank Group's Integrity Vice Presidency

In 2001, the World Bank Group established the Department of Institutional Integrity (INT), the investigative arm of the Bank Group, which was elevated to a Vice Presidency in 2008. INT reports directly to the Bank's President and indirectly to the Audit Committee of the Bank Group's Board of Executive Directors.

INT's mandate is to investigate allegations of fraud and corruption in Bank Group-supported activities (external investigations), as well as allegations of significant fraud or corruption involving staff (internal investigations). INT conducts its administrative investigations according to internationally accepted good practices. It refers recommendations for follow-up to other Bank units and officials, such as the World Bank's President, Regional and Operations Vice Presidents, the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA). Furthermore, INT directs its investigative findings for decision to the World Bank Group's Evaluation and Suspension Officers and the Sanctions Board (for external, project-related cases) and to the Human Resources Vice President (for staff misconduct cases). 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.

INT works closely with the Bank Group's Legal Vice Presidency on legal and policy issues, including sanctions questions and contacts with national law enforcement authorities. In addition, as part of the Bank's Governance and Anticorruption (GAC) Strategy, INT coordinates anticorruption activities with Operations Policy and Country Services (OPCS); the Bank Group's Regional Vice Presidencies; the Bank's Poverty Reduction and Economic Management Network (PREM); and the World Bank Institute (WBI). It also collaborates with the Office of Ethics and Business Conduct (EBC) and WBI, in the educational and awareness training for Bank Group staff and clients.



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## INT Year-in-Brief

### **Implementation of Volcker Panel recommendations completed**

The Volcker Panel's 18 recommendations have contributed significantly to INT's role in supporting the Bank Group's GAC program. In this fiscal year, the remaining recommendations were implemented. This included the transfer of investigative responsibility for certain forms of staff misconduct to the EBC, the appointment of an external Sanctions Board chair, and the establishment of clear performance metrics for INT.

### **More cases sent to sanctions, more entities debarred**

Preventing corrupt entities from misusing Bank Group funds is a critical outcome of INT's work. In FY09, the Bank Group's Sanctions Board debarred 13 entities, preventing them from participating in future Bank Group-supported activities. INT also sought sanctions in 40 cases, and when these cases are decided, an additional 110 entities could face sanctions. Furthermore, a recent reform to the sanctions process enables the Bank to temporarily suspend a company's eligibility to bid on Bank Group-supported activities when INT has established that the company has engaged in at least one sanctionable practice, but continues to investigate other related allegations.

### **New tools and advisory services led to enhanced prevention**

Working with key partners in the Bank Group, INT sought to assist operational staff in building preventive measures into everyday Bank Group operations. A new Company Risk Profile Database (CRPD) is being piloted. It should help Bank Group staff perform more thorough due diligence before awarding a contract, alerting them to firms about which INT has pertinent information. Increased outreach and advisory services were aimed at assisting staff in making more informed decisions regarding fraud and corruption risks in their projects.

### **Follow-up on the review of projects in India's health sector (India DIR)**

In FY09, INT concluded nearly all of its Detailed Implementation Review (DIR) follow-up investigations, including investigations of the actions of five companies under the Malaria Control Project, four companies under the Food and Drugs Capacity Building Project, and four companies under the National AIDS Control Project. Two other, more complex DIR follow-up investigations are still ongoing.

### **The Siemens AG case: expediting investigative outcomes**

Acknowledging past misconduct in its global business, Siemens AG and all of its consolidated subsidiaries and affiliates agreed to refrain from bidding on Bank Group business for two years. Furthermore, Siemens OOO, its Russian subsidiary, faces a debarment of up to four years for fraud and corruption-related misconduct. In addition to cooperating on cases that INT has under investigation, Siemens AG also committed to paying US\$100 million over the next 15 years to support anticorruption work. The settlement lays the groundwork for the Bank Group to more expediently deal with companies that admit wrongdoing in the future.

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## Volcker Panel Recommendations Implemented

The Independent Review Panel (Volcker Panel), under the distinguished leadership of former United States Federal Reserve Chairman Paul Volcker, finalized its review of INT on September 13, 2007. The Panel's 18 recommendations were intended to increase INT's effectiveness in supporting the Bank Group's GAC program. The recommendations were then endorsed by the Bank Group's senior management and implemented over the next 20 months (see Table 1). In this fiscal year, the remaining recommendations were implemented, including the appointment of an external member of the

Sanctions Board as chair and the proposal of new performance metrics for INT.

Moreover, INT has attempted to improve its cooperation with other Bank Group units, such as OPCS and the Independent Evaluation Group (IEG) via Memoranda of Understanding (MOUs). Such MOUs help to manage the expectations of staff, by agreeing on protocols and accountabilities. They also help to forge important relationships between the various groups, which build trust and, ultimately, engender a sense of common purpose.



INT investigators field questions about the investigative process from Bank Group staff during Integrity Day, December 3, 2008

Table 1: Volcker Panel recommendations

RECOMMENDATION	STATUS
1 Elevate INT to Vice Presidency status.	INT is a Vice Presidency (June 2008).
2 Establish Independent Advisory Board (IAB).	IAB appointed (September 2008).
3 Establish consulting unit.	Preventive Services Unit (PSU) established (November 2007).
4 Ensure action plan follows from INT findings.	Operational Managing Directors (MDs) responsible for action plan.
5 Re-evaluate INT's confidentiality policies.	Confidentiality protocol agreed in August 2008; guide under preparation.
6 Disclose progress in ongoing external investigations to staff to enable them to protect integrity of ongoing operations.	Allegations reviewed jointly by INT and Regional Vice Presidencies, IFC or MIGA, and appropriate preventive measures agreed.
7 Disclose draft external investigative reports to operational staff.	Being undertaken for all reports completed since September 13, 2007 (i.e., post-Volcker Panel reports).
8 Disclose redacted external investigative reports to Executive Directors, and to the public.	Being done for final reports completed since September 13, 2007; investigative reports are available to the public.
9 Disclose credible allegations, investigative progress, and redacted reports to donors.	Ongoing process; requires additional guidelines to balance competing interests.
10 Improve INT relations with OPCS and IAD.	Interactive: through MOUs, protocols and joint action.
11 Continue to use DIRs with other Bank staff involvement as appropriate.	OPCS and INT are developing guidelines for DIRs; DIRs planned for FY10.
12 Make an external member of the Sanctions Board the chair of that Board.	External member appointed as chair of Sanctions Board (February 2009).
13 Complete normal external investigations within 12 months and complex ones within 18 months.	INT has designed tracking systems to meet standards and is recruiting staff to achieve required resource-to-case ratio.
14 Transfer investigative responsibility for staff misconduct not involving allegations of significant fraud or corruption out of INT.	Transfer to the EBC occurred on July 1, 2009.
15 Complete staff misconduct cases involving fraud or corruption within nine months and workplace conflict within six months.	Case tracking mechanisms developed and trends monitored; timeframes being met.
16 Enhance selected staff rights to improve fairness of internal investigations.	Annex to Staff Rule 8.01 published (December 2008).
17 Improve INT staff competence and diversity.	Recent recruitment has improved diversity; technical specialists being drawn internationally.
18 Improve INT's performance measures.	New performance metrics defined (March 2009).

## Oversight of INT

*“The Integrity Vice Presidency of the World Bank Group is fundamental to the Bank’s ability to deliver its services in poverty reduction and in development cooperation in general. The Independent Advisory Board supports a strengthening of the preventive role of INT, in addition to its investigative functions. The World Bank Group cannot afford to have its efforts undermined by fraud or corruption.”*

### STATEMENT OF THE IAB MEMBERS

### Audit Committee

The Audit Committee of the Bank Group’s Board of Executive Directors has a mandate to assist the Board in overseeing and making decisions with regard to the World Bank Group’s financial condition, risk management and assessment processes, reporting and accounting policies and procedures, and the adequacy of governance and controls.

On a quarterly basis, INT briefs the Audit Committee on matters that may indicate systemic weaknesses, cases referred to the respective Evaluation and Suspension Officers, 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. This fiscal year, INT has benefited in particular from the Audit Committee’s guidance and feedback on sanctions reform, INT’s Strategic Framework, INT’s Annual Report FY08, and the implementation of the Volcker recommendations, including the Terms of Reference for the establishment of the Independent Advisory Board (IAB).

### Independent Advisory Board

With the new IAB in place as of September 2008, INT draws on the insights of four international anticorruption and policy leaders who have agreed to serve on the IAB. The new Board aims to protect the independence and strengthen the accountability of INT by providing advice on policies and procedures and on the Vice Presidency’s interactions within the World Bank Group. It advises the President of the World Bank and the Audit Committee on the performance of INT and the implementation of the related Volcker Panel Report recommendations.

The IAB has four members: **Peter Costello** was Australia’s Treasurer from 1996 to 2007 and chaired the APEC and G-20 Group of Finance Ministers; **Chester Crocker** was US Assistant Secretary of State for African Affairs from 1981-89 and also chaired the Board of the United States Institute of Peace; **Simeon Marcelo** served the Philippines as Ombudsman and as a prosecutor in the impeachment of former President Joseph Estrada; and **Mark Pieth** chairs the OECD Working Group on Bribery in International Business Transactions and is a professor at Basel University.

In its year-long interaction with the IAB, INT has relied on the IAB’s advice in addressing how to uphold independence safeguards, sharpen performance measures, accelerate the implementation of the Volcker recommendations, and determine the future use of DIRs and the role of INT’s Preventive Services Unit. The IAB has also encouraged INT and other units in the Bank Group to strive for possible alternative dispute resolution mechanisms and seek continued collaboration with development partners in strengthening the capacity of law enforcement agencies.

## Integrity at the World Bank Group

### Increased lending necessitates a greater focus on integrity

The World Bank Group has increased lending by 54% over the past fiscal year in response to the financial downturn and the need to provide immediate assistance to those in the most precarious situations. The role that integrity plays in ensuring that development funds actually achieve their intended purposes is equally important. As the members of the IAB have stated “The Integrity Vice Presidency of the World Bank Group is fundamental to the Bank’s ability to deliver its services in poverty reduction and in development cooperation in general. ... The World Bank Group cannot afford to have its efforts undermined by fraud or corruption.”

As an integral part of the Bank Group’s overall GAC strategy, INT is stepping up its efforts to strengthen integrity within the Bank Group and among our development counterparts. INT’s approach is to work in partnership with other Bank units such as OPCS, the Transport Sector Board, the Regions, and IEG.



### A holistic approach to fighting fraud and corruption

Three principles guide INT’s work: detection, investigation and sanctions, and prevention. Raising awareness about fraud and corruption and promoting the detection of fraud and corruption increase the number and quality of complaints brought to INT. Resources for INT’s investigations should be focused on those cases that will have the most impact across regions or sectors, or that involve reputational risk for the Bank Group. Based on INT’s investigations, the Sanctions Board may impose sanctions on entities that have engaged in misconduct. Investigations also serve as a crucial source of information for the Bank Group’s preventive work. It allows INT to channel lessons learned to colleagues in the Bank Group, as well as anticorruption partners around the world. By helping to strengthen capacity in the Bank Group’s member countries, INT can further encourage the prosecution of criminal conduct related to Bank Group operations.



## The Investigative Process

INT groups its investigations into two categories: external and internal investigations. External investigations look into allegations of five types of misconduct: fraud, corruption, collusion, coercion, and obstruction. These are the five practices for which the Bank Group may impose sanctions on firms and individuals doing business with the Bank Group. Evidence of misconduct by government officials is generally referred to national authorities for follow-up. Internal investigations review allegations of staff misconduct involving significant fraud or corruption in connection with Bank Group-financed operations, corporate procurement, Bank Group administrative budgets, or Trust Funds. An INT investigation is administrative in nature and is not a criminal investigation.

### The Five Sanctionable Practices

A **corrupt practice** is the offering, giving, receiving, or soliciting, directly or indirectly, of anything of value to influence improperly the actions of another party.

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.

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 to influence improperly the actions of another party.

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) acts intended to materially impede the exercise of the Bank Group's contractual rights of audit or access to information.

### External Investigations

INT receives complaints—anonymous and named—from all over the world and from many sources, including Bank Group staff, media, Non-Governmental Organizations (NGOs), and government employees.

#### COMPLAINT INTAKE

INT performs an initial assessment of every complaint that it receives. This assessment determines whether the complaint relates to a sanctionable practice in Bank Group-supported activities,

whether the complaint has credibility, and whether the matter is of sufficient gravity to warrant an investigation. Complaints outside of INT's jurisdiction are redirected to other areas of the Bank Group as appropriate. Complaints that fall under INT's jurisdiction are investigated if they are determined to be of a higher priority. When a complaint does not reach this threshold, INT works with Operational staff to address the issues raised. In assigning priority, INT also considers the possible reputational risk to the World Bank Group, the amount of funds involved, and the quality of the information or evidence in INT's possession.

INT's complaint intake process also includes consultation with the Bank's regional management to assess the impact of a potential investigation on Bank Group operations. This consultation helps INT determine which cases can be best leveraged to further the Bank Group's anticorruption work. Criteria may include regional development goals, whether successor projects are planned, or to what degree the subject of an accusation is involved in other Bank Group-supported activities.

#### **INVESTIGATION OF CASES**

Through investigations, INT ascertains whether firms and/or individuals have engaged in one of the Bank Group's five sanctionable practices. Since an INT investigation is administrative in nature, the standard of proof is akin to a "*balance of probabilities*" and therefore lower than the criminal standard of "*beyond a reasonable doubt*." The Bank Group, for that reason, has to prove that it is *more likely than not* that the alleged misconduct has occurred. If INT finds sufficient evidence to prove the allegation, the allegation is considered *substantiated*. The allegation is considered *unsubstantiated* if there was insufficient evidence to prove or disprove it, and *unfounded* if the allegation has no basis in fact.

#### **FINAL INVESTIGATIVE REPORTS**

When INT substantiates a case, it produces a Final Investigative Report (FIR). In some cases, INT will produce an FIR even if there is not reasonably sufficient evidence to substantiate a complaint; for example, if INT believes that the investigation unearthed important lessons that should be shared with colleagues in the Bank Group. FIRs are sent to regional management for comment before being finalized and provided to the President.

In accordance with the recommendations of the Volcker Panel, INT is striving to ensure that the maximum time between open-

ing a case and sending the FIR to the President is 12 months for normal cases, and 18 months for complex cases.

FIRs also form the basis for two other INT outputs: referral reports, which INT sends to relevant national authorities if evidence indicates that the laws of a Bank Group member country may have been violated; and redacted reports, which are provided to the Bank Group's Board of Executive Directors and, after the completion of any related sanctions proceedings, posted on the Internet.

#### **PROPOSED NOTICE OF SANCTIONS PROCEEDINGS**

When INT finds evidence to substantiate that a sanctionable practice occurred, it also prepares a Proposed Notice of Sanctions Proceedings (NoSP) based on the FIR. The Notice is presented for review to the relevant Bank Group's Evaluation and Suspension Officer.

#### **SANCTIONS**

The decision whether a firm or individual has engaged in a sanctionable practice and, if so, what sanction should be imposed, is determined via a two-tier process involving the Evaluation and Suspension Officers (EOs) and the Sanctions Board. Both the EOs and the Sanctions Board are independent of INT. The EOs review the case brought by INT against a respondent to determine whether there is sufficient evidence to support the accusations against the respondent and recommend an appropriate sanction. Under the sanctions procedures, when a respondent chooses not to contest the accusations against it within 90 days, the Sanctions Board will then impose the recommended sanction. If the respondent contests the recommended sanction, the Sanctions Board will make a final decision, which may involve a hearing, if requested by the respondent or INT.

### **Internal Investigations**

INT receives allegations of staff misconduct from individuals inside and outside the Bank Group, including those from anonymous sources.

#### **CASE INTAKE**

INT performs an initial assessment for every complaint it receives. Complaints that fall under INT's jurisdiction move to a preliminary inquiry, while those outside its scope are referred to the other appropriate areas of the Bank Group, such as the Office of Ethics and Business Conduct or other offices within the Bank Group Internal Justice System (formerly, the Conflict Resolution System).

**PRELIMINARY INQUIRY AND INVESTIGATION**

If INT determines that a less formal intervention is inappropriate for a case within its jurisdiction, a preliminary inquiry is initiated to determine if the allegation is sufficiently credible to merit a formal investigation. If the information obtained does not support the allegation, INT may close the matter and explain the reasons to the complainant.

If INT determines during the preliminary inquiry that there is sufficient evidence to warrant further investigation, the matter normally proceeds according to Staff Rule 8.01, in which all relevant facts, circumstances, and supporting evidence are put together. INT notifies the subject staff member in writing of the alleged misconduct and generally conducts an interview with the staff member. INT strives to conduct its internal investigations in a thorough, objective and timely manner, while fully respecting the rights of staff. In keeping with INT's role as a neutral fact-finder, INT investigators collect evidence that is both inculpatory and exculpatory, and take into account potentially mitigating factors.

**DECISION BY THE VICE PRESIDENT, HUMAN RESOURCES**

INT provides the decision-maker (usually the Vice President, Human Resources) with the information necessary to make a fully informed decision whether misconduct occurred and, if so, what disciplinary measure(s), if any, should be imposed. INT also refers findings to national authorities, where it believes that the laws of a member country may have been violated.

# External Investigations

## Overview

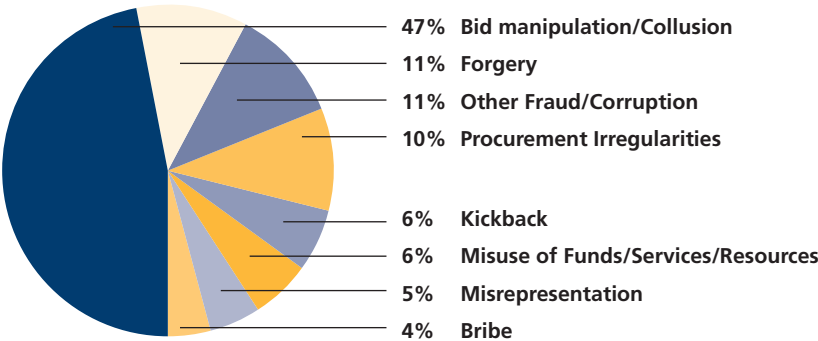
Fiscal year 2009 was a transitional year for INT in which it welcomed new leadership, revised its organizational structure, increased its staff, and remained focused on achieving improved investigative outcomes. INT cleared its backlog of old cases, allowing it to steer more resources toward investigations that will have the greatest impact across regions or sectors. By wrapping up older cases, INT is now better positioned to complete new investigations within the targeted 12-18 month timeframe, as recommended by the Volcker Panel. As a result, 82 of the 138 cases opened in FY09 were also closed within the same fiscal year.

## Receiving and assessing complaints

Bank Group staff remain the largest source of allegations that are related to sanctionable practices in Bank Group operations, accounting for 38 percent of the total allegations received. This encouraging trend can be credited to increased outreach and efforts to raise awareness. Non-Bank staff, including contractors, government officials and employees of NGOs, accounted for 33 percent of the allegations received, while 28 percent of the allegations were reported to INT anonymously.

Not all allegations received by INT lead to investigations. After careful analysis, INT often determines that the allegation would be best handled by operational counterparts within the Bank Group and redirects it. In FY09, of the credible allegations INT received, the majority related to bid manipulation and collusion (see Figure 1).

**Figure 1: The majority of allegations received in FY09 related to bid manipulation/collusion**



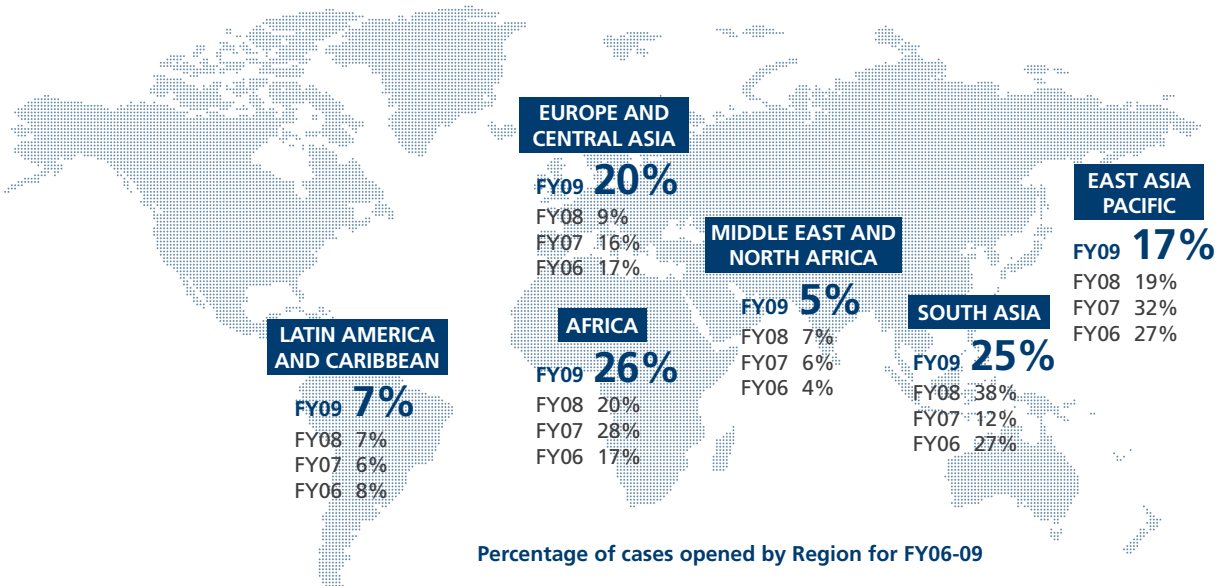
### Investigations

INT opened 138 cases for investigation in FY09. These cases were of varying complexity, ranging from allegations of straight-forward one-time fraud cases to multi-jurisdictional matters in which several large corporations organized an intricate bid-rigging scheme. In FY09, cases were opened in 62 countries in relation to 114 projects, with the largest number of cases opened in the Africa and South Asia regions (see Table 2 and Figure 2). The number of cases opened in a given region does not directly correlate with the risk of corruption encountered in Bank Group projects. Rather, the statistic indicates where cases have been reported, which in turn reflects where INT has been most active over the years. In general, regions in which the Bank Group lends more money have more cases, simply because those portfolios are larger.

**Table 2: Number of cases opened by Region for FY06–09**

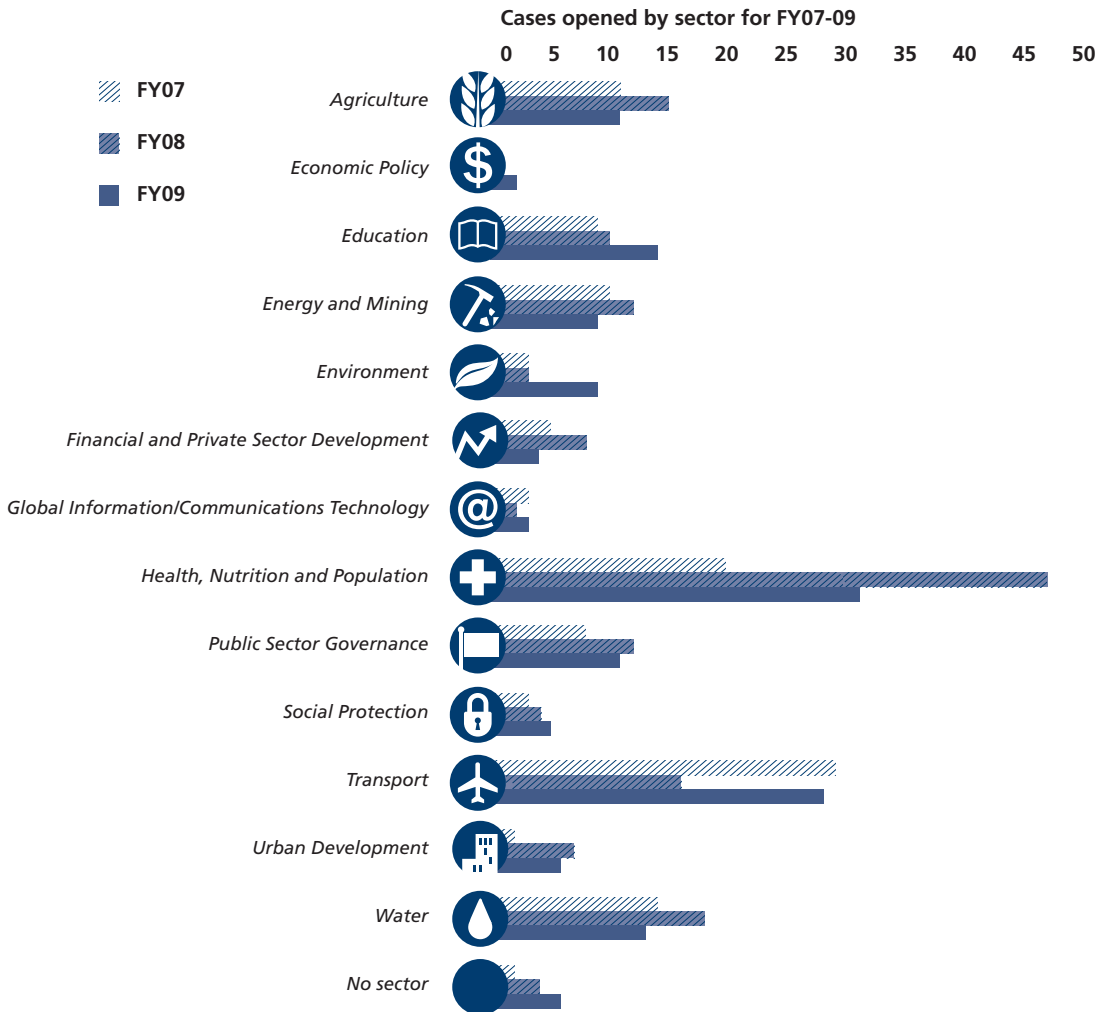
REGION	FY06	FY07	FY08	FY09
Africa	32	33	31	36
East Asia Pacific	51	37	29	23
Europe & Central Asia	33	18	15	28
Latin America & Caribbean	15	7	10	10
Middle East & North Africa	8	7	10	7
South Asia	51	14	57	34
<b>Grand Total</b>	<b>190</b>	<b>116</b>	<b>152</b>	<b>138</b>

**Figure 2: The largest number of cases were opened in Africa and South Asia in FY09**



As has been the trend the past two fiscal years, in FY09 the health, transport, and water sectors had the largest number of cases opened (see Figure 3). Again, like the regional statistics, these are the sectors in which the Bank Group as a whole is most active. Within the transport sector, roads in particular present a challenge, as is evidenced by the Bank Group's decision for INT to conduct a Global Roads Review in 2010. In working across these regions and sectors, during the past fiscal year, INT has gained good insights regarding the potential for fraudulent misrepresentations by companies in obtaining contract awards, collusion among bidders, and corruption. To learn more about some of the cases INT investigated in FY09, see the Case Studies section on page 26.

**Figure 3: Most cases were opened in the health, transport, and water sectors over the past three fiscal years**



### Investigative outcomes

Of the 153 cases closed in FY09, INT substantiated 39 cases. In 15 cases the allegation(s) were unfounded and in 32 cases the allegation(s) were unsubstantiated.

INT produced Final Investigative Reports (FIRs) describing its findings. The FIRs form the basis for the proposed Notice of Sanctions Proceedings in substantiated cases (*see* Sanctions chapter, p.20) or referrals (*see* Referrals chapter, p.24).

In FY09, INT concluded two of its most complex cases. One case concerned a major international cartel. Based on INT's findings, the Sanctions Board debarred eight cartel members and one individual (*see* p.25). In the second case, INT concluded a two year investigation into corruption and fraud in several countries and reached a substantial settlement with a major multinational company (*see* p.19).

INT redirected or did not further investigate 63 cases. After initial investigation, investigators may conclude that a case that *prima facie* seems to be related to a sanctionable practice does not, in fact, warrant further investigation. In other instances, a case may conversely involve a process violation of the Bank's procurement or consultant guidelines, and might negatively impact the planning and implementation of a project. In these cases, INT would redirect the matter to the relevant Regional Procurement Manager for further action. In FY09, INT worked with Procurement on ten cases and forwarded nine cases to Regional Vice Presidencies and two to country governments for follow-up.

Four of the 153 cases closed in FY09 required no further action, and the information from those allegations is kept in INT's databases for future reference. INT expects that the number of cases that are closed as "no further action" will remain low due to an increased effort to perform more thorough analysis during the complaint assessment stage.

Table 3 gives an overview of investigative results.



**Table 3: Overview of INT's investigative outcomes, FY06-FY09**

CASES	FY06	FY07	FY08	FY09
Substantiated	13	33	29	39
Unsubstantiated	35	44	23	32
Unfounded	26	8	15	15
Other*	28	20	54	63
No further action	46	44	48	4
<b>Closed</b>	<b>148</b>	<b>149</b>	<b>169</b>	<b>153</b>

\* Other includes: Not Bank Group-financed; no sanctionable practice; referred to Procurement or Regional Vice Presidency.

INT carried over 143 cases at the end of FY09, which is a decrease of 9 percent as compared to the previous fiscal year.

### Follow-up on review of projects in India's health sector (India DIR)

The two-year long India DIR that was concluded in FY08 involved a broad-based forensic review of contract procurement and execution in five Bank Group-supported health projects, to ascertain whether indicators of fraud or corruption exist. The DIR found a number of indicators to this effect, pointing to systemic risks in the Bank Group's health portfolio in India.

INT recently concluded five DIR follow-up investigations that corroborated many of the DIR's indicators of fraud and/or collusion. The investigations of three projects covered 20 contracts and implicated 13 companies in fraudulent bidding and collusion.

In one project, the State Government is undertaking its own investigations and the Bank is looking to Indian authorities to fast-track reports on their investigations. In addition, INT is still finalizing its findings on two complex cases. Due to negotiations regarding the protocol with the

Government of India, which took longer than expected, INT's investigative window was narrowed, resulting in the delayed completion of these investigations.

The World Bank Group will make referrals regarding the above cases to the Government of India, expecting their follow-up actions. As the President stated during a public address on Integrity Day on December 3, 2008, "INT's Detailed Implementation Review concerning our health lending in India led to a firm commitment by the Bank and the Government of India to change the way we do business."

In this respect, the Bank Group and the Government of India have been drawing on lessons from inquiries and investigations to improve project design, implementation, monitoring and evaluation. However, challenges remain regarding the engagement to address broader systems strengthening and the larger GAC agenda.

## Voluntary Disclosure Program

### ENGAGING THE PRIVATE SECTOR IN THE FIGHT AGAINST CORRUPTION

Under the Voluntary Disclosure Program (VDP), participants commit to: (1) not engage in misconduct in the future; (2) disclose to the Bank Group the results of an internal investigation into past fraudulent, corrupt, collusive, or coercive acts in Bank Group-financed or supported projects or contracts; and (3) implement a robust internal compliance program, which is monitored by a Bank Group-approved compliance monitor. Participants normally pay most of the costs associated with the VDP process. In exchange for their full cooperation, VDP participants avoid debarment for disclosed past misconduct, their identities are kept confidential, and they may continue to compete for Bank Group-supported contracts.

During this fiscal year, INT received a number of applications from companies wishing to join the VDP. FY09 also saw one company graduate from the VDP program, having provided INT with a substantial amount of valuable information as well as having installed and tested, under INT's guidance, improved compliance programs that, going forward, should enable the firm to identify and report on fraud and corruption in World Bank Group projects it is involved in.

### TIMELY AND VALUABLE INFORMATION FROM VDP COMPANIES LED TO RE-BID ON CONTRACT

INT has also sought to improve the value and timeliness of the information obtained from current VDP participants, for example, by being involved directly in the debriefing of VDP participants' employees. This has eased the burden on the participants and enabled them to make more expedient disclosures to INT, thereby ensuring quicker access to valuable information. As a result, VDP information contributes more immediately and directly to active investigations. Such information also led to a decision to re-bid one particular contract, preventing the contract from being awarded through a tainted procurement process.

While the VDP's informational value must, by nature of the program, remain confidential, a properly structured VDP can provide high-quality evidence of the nature, forms, and patterns of corrup-

tion in Bank Group-supported activities and identify corrupt actors in specific instances. Moreover, knowledge derived from VDP disclosures can be mainstreamed into Bank Group policies and operations, to help the Bank Group, its partners and stakeholders safeguard projects throughout their implementation.

### **Implications of INT's investigations on Operations**

INT's investigations in FY09 identified three important challenges for Bank Group Operations. The first is to mitigate the risk of doing business with companies strongly suspected or known to be corrupt or fraudulent actors. Ultimately, this risk is addressed through a Bank Group sanction, like debarment. To help remedy the risks that can arise during delays experienced in the completion of investigations, INT partnered with other Bank Group units to adopt new tools, including the launch of the CRPD (*see* p.34). A critical imperative in the next year will be how to use due diligence and early warning systems to better protect Bank Group operations.

A second challenge for the Bank Group is how to engage in important but, from a fraud and corruption perspective, high-risk sectors or projects. In FY09, as part of the Bank Group's GAC activities, INT partnered with several Bank Group Regions to develop innovative project designs that anticipated and responded to possible integrity risks. On the other hand, whilst risk is relative and underpinned by many factors, there is a need to assert confidence in governance and anticorruption action in certain areas. Therefore, one of INT's points of focus for FY10 is learning how to best encourage national government follow-up to INT referrals in respect of high-risk sectors and projects.

In addition, by the end of FY09, INT had investigated a number of US and EU supervision consultancies, as well as some of the larger companies in the US, EU, and Asia. While INT was able to hold to account companies engaging in fraud and corruption, it also cleared numerous ones from alleged misconduct. As a result of INT's investigative work, the Bank Group and its clients may discern a consistency in compliance levels in the sectors and countries where such companies operate.

Finally, in some of INT's FY09 cases, INT found that funds loaned by the Bank Group were lost to fraud and corruption. A third challenge for the Bank Group is developing tools to help Borrow-

ers recover lost funds, particularly in cases where amounts can be quantified. The Bank Group is making progress in this area through the work of many different units, including INT, the Stolen Asset Recovery (StAR) Initiative, and other analytical and advisory teams.

### **What lies ahead: Responding to increased demand for, and expedited conclusion of, investigations**

The greatest objective currently before INT is to conduct full external investigations of prioritized cases in an efficient and effective manner, achieving the completion targets set by the Volcker Panel (12 months for normal cases and 18 months for complex cases). This aspect should be seen in light of the volume of allegations that the Bank Group receives, the complexity and covert nature of the fraud and corruption that may be found, the political sensitivity of launching certain investigations, and the limited investigative tools that INT possesses. An INT case is typically launched from a single allegation. Moreover, unlike law enforcement agencies, INT does not issue warrants, seek subpoenas, engage in search and seizure, or exercise other intrusive powers, but relies largely on the voluntary cooperation of knowledgeable actors, who may be placing their businesses and their lives at risk.

INT continues to look for new ways to respond to these growing demands and expectations, while at the same time ensuring that its investigations have maximum impact. The following measures are being undertaken:

- The Bank Group is further strengthening INT's in-house investigative forensic accounting capabilities. This should help to further develop the unit's capability in proactive and diagnostic work undertaken in conjunction with other parts of the Bank Group, including forensic audits, fiduciary reviews and DIRs.
- The Bank Group is developing a new case management and information system that should allow for better use of available information emanating from the allegations received. For example, increased analytical capabilities will allow for cross-referencing of information to look for patterns amongst entities, thereby better informing INT and the Regions about the Bank Group's investigative priorities.

### **For more information**

INT makes redacted versions of FIRs available on its website, [www.worldbank.org/integrity](http://www.worldbank.org/integrity).

## The Siemens AG Case

On July 2, 2009, the Bank Group announced a comprehensive settlement with Siemens AG. The settlement came in the wake of the company's acknowledged past misconduct in its global business and World Bank Group investigations into projects involving Siemens AG and its subsidiaries.

As part of the settlement, Siemens AG and all of its consolidated subsidiaries and affiliates agreed to refrain from bidding on Bank Group business for two years. The voluntary restraint undertaken by Siemens AG came about during discussions with the Bank Group. In addition, Siemens OOO, Siemens AG's Russian subsidiary, faces up to a four-year debarment for fraud- and corruption-related misconduct.

The ultimate goal of sanctions and cooperation programs reaches beyond individual companies. Hence, as part of the settlement, Siemens agreed to work with the Bank Group to improve industry methods, clean up procurement practices, and engage in collective action with the World Bank Group and others to fight fraud and corruption—including the provision of information on any additional cases of wrongdoing to INT.

Siemens AG also committed US\$100 million over the next 15 years to support global efforts to fight fraud and corruption. This commitment would include providing funds to organizations and projects, to help combat corruption through collective action, training, and education. The money will also be directed to assist governments recover assets stolen by corrupt leaders, and strengthen efforts to identify and crack down on corrupt practices.

Siemens AG has been a major participant in Bank Group-supported activities. Since 1999, it has been awarded more than 245 contracts under 120 Bank Group-supported activities in all six Regions worth approximately US\$2 billion. The settlement marks a new chapter in the Bank Group's enhanced efforts to hold firms, including those ranking among the 100 largest companies in the world, accountable for corporate misconduct, while at the same time incentivizing firms to self-report and improve their own internal compliance programs.

## Sanctions

### Overview

To accelerate the transition from closing an investigation to bringing a case to sanctions, INT created a specialized litigation unit devoted to drafting and preparing proposed Notice of Sanctions Proceedings (NoSPs). As a result, in FY09, INT was able to substantially clear the backlog of cases for sanctions from the past four years, making the final outcome of each investigation more timely and relevant. Based on INT investigations which were closed in previous fiscal years, the Sanctions Board debarred 13 entities this fiscal year (*see* Tables 4 and 5).

### Sanctions

Over the course of FY09, INT submitted 40 proposed NoSPs to the Bank Group's Evaluation and Suspension Officer (EO), a significant increase over past fiscal years (*see* Table 4). Respondents in these cases included public companies, private companies, NGOs, and individuals. The majority of the cases involved fraud (*see* Figure 4). To further expedite the preparation of cases for sanctions, a litigation specialist has been assigned to each investigative team. The specialist ensures the suitability and quality of evidence gathered during an investigation, and has extensive knowledge of the case when it comes to drafting a proposed NoSP.

In November 2008, INT presented one of its most complex cases to the Sanctions Board, the Philippines National Roads Improvement and Management Program (NRIMP). As a result, seven companies and one individual were debarred. Two of the respondents were permanently debarred—the strongest possible sanction—and US\$33 million was not awarded to corrupt firms (*see* page 25 to learn more about the NRIMP case).

**Table 4: Increased number of proposed NoSPs and debarments in FY09**

	FY06	FY07	FY08	FY09
<b>NoSPs</b>	1	2	4	40
<b>Debarments</b>	2	1	8	13

Figure 4: The majority of proposed NoSPs in FY09 involved fraud

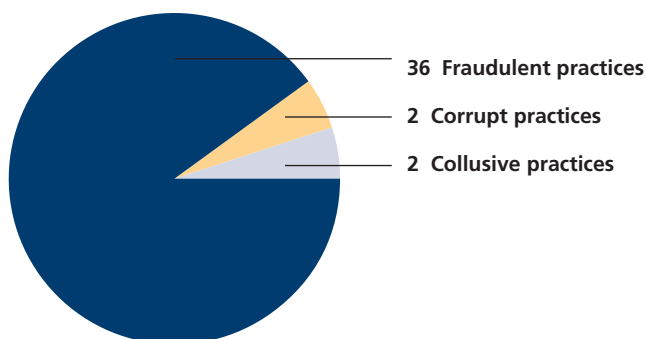


Table 5: Firms/individuals debarred in FY09

COMPANY/INDIVIDUAL	COUNTRY OF ORIGIN	YEARS OF DEBARMENT
Alamdar Esetoglu Galandarov	Turkey	2
Enerji Sistem Insaat Ve Is Makinalari Sanayi Ticaret Limited Sirketi	Turkey	2
Natalia Yasko	Ukraine	3
Ukrainian Centre for International Integration (UCII)	Ukraine	2
C.M. Pancho Construction, Inc.	Philippines	4
Cavite Ideal International Construction & Development Corp.	Philippines	4
China Geo-Engineering Corporation	China	5
China Road and Bridge Corporation	China	8
China State Construction Engineering Corporation (CSCEC)	China	6
China Wuyi Co. Ltd.	China	6
E.C. De Luna Construction Corp.	Philippines	Permanent
Eduardo C. De Luna	Philippines	Permanent
Dongsung Construction Co. Ltd.	Republic of South Korea	4

### Sanctions reform: Early Temporary Suspension

In May 2009, the Bank Group adopted a procedure for Early Temporary Suspension, which allows for the temporary suspension of a company's eligibility to receive Bank Group-financed contracts when the EO has determined that there is sufficient evidence that the company has engaged in some misconduct, but INT continues to investigate other related allegations. Early Temporary Suspension addresses the risk of additional corrupt activities by a firm while INT completes an investigation. The Bank Group will not make public the identity of firms under Early Temporary Suspension, enabling it to proactively protect its funds while balancing the firms' due process rights. It is anticipated that the procedure will prove to be of great value moving into FY10.

### What lies ahead: Raising standards and joining efforts to practice clean business

One challenge will be to maximize the deterrent effect of the Bank Group's sanctions process. When an INT investigation leads to the debarment of a firm, it protects Bank Group funds from misuse and sends a strong message that the Bank Group will not tolerate fraud and corruption. However, if the same firm that the Bank Group has debarred can continue to obtain contracts financed by other Multilateral Development Banks (MDBs), the firm's incentive to practice clean business is immediately diminished. To place this problem in context, currently MDBs are giving approximately US\$70 billion in loans and grants to the developing world per annum.

*“In June 2009, the INT Vice President and the Director General of OLAF (European Anti Fraud Office), European Commission signed a Joint Co-operation Arrangement. While preserving all immunities and privileges as well as respecting differing legal frameworks, our two investigative offices agreed to assist each other wherever possible. This can include sharing information, conducting joint investigations and having staff exchanges and common training. This initiative stands to improve markedly the ability of both offices to investigate more thoroughly and more promptly projects financed by the EU and managed by the World Bank.”*

**FRANZ-HERMANN BRÜNER**, DIRECTOR GENERAL, EUROPEAN ANTI-FRAUD OFFICE (OLAF)



INT continues to coordinate and collaborate with the integrity offices of other International Financial Institutions (IFIs) and with national authorities. The integrity offices have been working closely to harmonize their investigative and sanctions policies, procedures and standards, and to make optimal use of debarments. They are also developing mechanisms to share investigative information in real-time, thereby alerting each IFI of potential fraud and corruption risks in their respective projects and providing the basis for initiating investigations. These actions will minimize the effect of corrupt entities and level the playing field.

While unifying diverse policies and procedures remains a challenge, INT has made significant progress in collaborating with its international peers. INT signed cooperation agreements with the European Anti-Fraud Office (OLAF), which provides for joint investigations where appropriate, and with the UK's Serious Fraud Office (SFO), which provides for effective information sharing.

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## Referrals to National Authorities

Sanctioning provides the Bank Group one means for curbing fraud and corruption that may affect its operations. To maximize the deterrent effect of its investigative work, INT also makes referrals to national governments for further action. INT's investigations do not determine whether national laws have been broken. Instead, findings are referred to national authorities, so that they can determine whether their laws have been violated by conducting their own investigations, if appropriate. To date, INT has made over 90 referrals to member governments, which have resulted in over 30 convictions of implicated individuals, nine other actions for restitution, and administrative actions against government officials.

In addition to nine new referrals of cases to country authorities that warranted criminal investigation in FY09, INT followed up on 25 referrals it had made previously. Following an earlier INT referral, the Philippines Ombudsman announced, on March 25, 2009, formal charges against a number of officials from the Department of Public Works and Highways in connection with the NRIMP case. In a follow-up of a large-scale review of projects in India's Health Sector, the Government of Orissa State has undertaken an inquiry through their Vigilance Department regarding the Orissa Health Systems Development Project.

### What lies ahead: Increasing the effectiveness of the referral process

While a significant number of INT referrals have led to prosecutions in the Bank Group's client countries, prosecutions can be stymied for a variety of reasons, which is a major challenge for INT and the Bank Group in FY10. Through increasing its outreach, celebrating positive examples, and bringing country-level peers together to learn from one another, INT's strategy is to break down barriers to action and prompt greater exchange of information between INT and national authorities. In addition, in the long-term, INT hopes to further assist in building the capacity of client country investigative and prosecutorial offices in partnership with OPCS, PREM, WBI, and country offices.

## The NRIMP Case

### Early detection prevented US\$33 million in Bank Group funds from going to colluding firms

The Philippines National Road Improvement and Management Program (NRIMP) sought to improve sections of the national road network and increase the Government's capacity to monitor, maintain, and further develop the Philippines' highways. The project's first phase sought to establish a well-functioning preventive maintenance program for the national roads system, redesign the system's road management program, and design policy and institutional reforms.

In April 2003, INT was informed by the Bank Group team supervising the project that the procurement process relating to the award of two contracts (with a total value of US\$33 million) might have been tainted by fraud and corruption. Bank Group staff had determined that the results of the 2001–2002 bid process showed indications of collusion, most notably the questionable disqualification of some of the potential bidders and abnormally high bid prices. The Bank Group's task team accordingly declined to issue a letter of no-objection in this first round, asked the implementing agency to re-bid, and referred the matter to INT. Finding the bid prices still unjustifiably high after the 2004 re-bid, the Bank Group asked the implementing agency to carry out a third round of bidding. The Bank Group ultimately decided not to provide a no-objection letter a third time, for the same reason, in 2006. The contracts were not awarded under the NRIMP project.

During its investigation, INT found patterns in the bid prices and bids that indicated collusion among the NRIMP bidders. These patterns included:

- Abnormally high and unexplained unit prices, particularly in the bids' earthworks component, that suggested manipulation of total bid prices;
- Direct mathematical relationships between some bids' prices and the cost estimate;
- Two bidders that submitted bids with component prices that differed by, in some cases, hundreds of thousands, and in other cases by millions of US dollars, but total prices that differed by less than a hundred US dollars;
- A majority of bids that repeatedly contained substantial computation errors, many in excess of one million Philippine pesos, an indicator of last-minute bid manipulation;
- Multiple losing bidders that submitted forged bid securities with their bids; and
- Patterns of inconsistent bidder pre-qualification results suggesting that some bidders were disqualified for invalid reasons, such as failure to fit the contract profile.

Consistent with INT's bid analysis, a number of witnesses separately told investigators that a well-organized cartel was improperly influencing the implementing agency's contract award decisions and setting inflated bid prices. One witness complained of bidders meeting to rig parts of the bidding process and was able to accurately state, in advance, the results of a particular round of bidding.

In January 2009, the Bank Group debarred seven companies and one individual for colluding while bidding for these contracts (an eighth company had already been debarred in August 2008).

#### FOR MORE INFORMATION

Go to [www.worldbank.org/integrity](http://www.worldbank.org/integrity) to read more case studies based on INT investigations.

- Total bid prices that consistently exceeded the cost estimate by 20% or more;

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## Case Studies

### **Regional cooperation and due diligence prevent US\$19.2 million from going to a “mailbox” company**

INT investigators undertook a forensic audit and subsequent fraud investigation of a consulting firm that received over US\$4 million in Bank Group-financed contracts, in multiple countries and regions.

The investigation revealed that the company had no permanent office space and that its address was a mailbox at a retail postal store. INT also found that the company misrepresented and/or falsified its prior work experience by, for example, inflating the value of five previous Bank Group-financed contracts by an average of almost 200%, claiming to have worked on three other Bank Group-financed contracts when it had not done so, and claiming experience for a contract that was cancelled without being executed. Other misrepresentations included claims that it had added staff to its project team when, in fact, it had replaced the staff named in its proposal and contracted with other personnel of unclear skills and qualifications, and without obtaining required approvals by the Borrower and the Bank Group.

Through knowledge sharing and cooperation with regional counterparts, the Bank Group’s procurement network was alerted to the firm’s fraudulent schemes early in the investigation and applied enhanced due diligence regarding the firm’s proposals. As a result of this scrutiny, in one region alone, at least 21 proposals for contracts, totaling US\$19.2 million, were closely examined and rejected by the Bank Group and its clients for identified misrepresentations by the firm. As Jim Adams, Regional Vice President, East Asia & Pacific, said: “By better and more broadly integrating the knowledge and experience of INT into our operations program, I am convinced we are increasing the impact of the Bank’s operational work, as well as ensuring that Bank financing reaches intended recipients.”

This investigation resulted in three FIRs to three different regions. INT will seek sanctions against the company and refer its findings to affected governments and other multilateral organizations around the world.

### **Official from Project Implementation Unit solicits bribe worth 20% of contract value**

INT opened an investigation after receiving several complaints related to the procurement of a contract under a project in a post-conflict country.

INT found that two companies had partnered together to bribe an official who worked for the government agency responsible for implementing the project. According to witnesses, prior to the bidding process, the government official had solicited a bribe worth an estimated 20% of the contract. When the bidding process began, the company that had paid the bribe won the contract, even though its bid was by far the highest priced. One competing firm had submitted a bid more than 50% lower than the winning bid.

In addition, INT found that the government agency had awarded the contract without first obtaining a no-objection letter from the Bank Group. Unaware that the contract had already been awarded, the Bank Group subsequently objected that the winning bid was significantly higher than the others, and noted the anomalies in the procuring agency's conclusion that the three losing bidders were not qualified to receive the contract.

Although project implementation had begun, the Bank Group instructed the Borrower to cancel the contract. INT is seeking sanctions against the companies for corrupt practices, and referred its findings to the relevant government.

### **Three companies admit to collusion in bidding for construction contract**

In one investigation of alleged collusion, INT found that three companies had colluded when bidding for a contract to construct an office building for a water utility company. INT's review of the companies' bids revealed unusual similarities, including in: (i) both the total and unit bid prices; (ii) the bid presentation and common mistakes; and (iii) the companies' contact details. Faced with this evidence, the principals of the companies admitted to a general collusive arrangement between the three firms, and admitted that the same person prepared the bids for all three companies.

INT also found that the director of the water utility company had a conflict of interest, as he was named in two of the companies' bids, while serving as a public official involved in the contract procurement process. Consistent with this conflict of interest, strong indicators were identified of bid manipulation and corruption by this Director, in steering the award to the winning company.

INT will seek sanctions against the three firms for engaging in collusive practices and will refer its findings to the relevant government.

## Investigation confirms Bid Evaluation Committee's suspicions about false manufacturer authorizations of medical equipment

In a procurement for medical supplies and equipment, including medical consumables for blood transfusions and transfusion safety storage equipment, the tender required bidders to include manufacturer's authorizations in their bids that attested to the manufacturer's guarantee and warranty of the equipment to be supplied by the bidder.



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During the tender, the Bid Evaluation Committee (BEC) suspected that one company, which specialized in the commercialization of pharmaceutical products, submitted false manufacturer's authorizations in support of its bid. After confirming with the purported issuers that the company's authorizations were, in fact, falsified, the BEC disqualified the company from the bidding process. The BEC's findings were subsequently reported to INT for investigation.

Consistent with the BEC's findings, INT's investigation established that a company submitted four falsified manufacturer's authorizations as part of its bid submission. When presented with these findings, the company's CEO admitted that he had personally included the falsified authorizations in the company's bid.

Sanctions will be sought against the company and its CEO for fraudulent practices.

## Satellite technology facilitates investigation in post-conflict country

In one investigation in a post-conflict country, INT was able to substantiate allegations that contractors and government officials had submitted fraudulent documents, in order to mislead the Bank Group about whether schools financed by Bank Group-administered funds had been built at the contractually-designated locations.



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Satellite pictures of lots where schools were supposed to have been built with Bank Group funds.

To overcome the security challenges of conducting an investigation in the country, INT procured sophisticated commercial satellite images of the contractually designated school sites. The pictures showed that the lots where the schools were supposed to have been built were, in fact, vacant.

Faced with this evidence, contractors and government officials involved in the project told INT investigators that the schools were built elsewhere. The invoices and completion certificates, however,

stated that the schools were built at the designated sites. With the assistance of another development agency, the Bank Group was able to confirm that schools were constructed on different sites as identified by the contractors and government officials. However, given the misrepresentations in the invoices and completion certificates, INT was unable to conclude with certainty that these schools were built using Bank Group funds.

As a result of INT's findings, the Bank Group sought and was reimbursed by the member government for the total contract amount of US\$1.5 million. INT will seek sanctions against the contractors involved in the case.

### **NGOs make false claims about their qualifications to implement education project**

One INT investigation looked into an education project in which NGOs were hired to provide non-formal education (NFE) through village-based continuing education centers, particularly in the rural parts of the project country.

The World Bank Group received complaints alleging corrupt and fraudulent practices in the NGO selection process and hired an independent auditor to conduct an audit. Among other things, the auditor surveyed a sample of the NGOs that had been selected to participate in the final phases of the project to verify the existence of these NGOs and their qualifications. The auditor found that 64% of the sampled NGOs did not meet the project's required selection criteria.

Using the audit report as a starting point, INT then pursued the Bank Group's investigation into allegations that: (i) Project officials demanded and received bribes to favor certain NGOs in the selection process; and (ii) NGOs submitted falsified certificates to satisfy the tender requirement that they have NFE experience.

INT's investigation found evidence indicating that:

- five of the NGOs made corrupt payments to government officials through intermediaries, in order to receive favorable treatment in the NGO selection process and other benefits; and
- two dozen of the NGOs that received contracts under the project had submitted fraudulent NFE experience certificates with their proposals.

Since completing the investigation, INT has filed proposed NoSPs against many of the NGOs and the individuals running them. To date, eight NGOs and individuals have been debarred for fraudulent practices for periods ranging from two to three years.

## What INT deduces from its investigations

These case studies and information from other ongoing cases illustrate a trend that INT has encountered over time: the procurement process is particularly vulnerable to fraud and corruption, because it is the point in the project cycle where money can change hands. Investigations arising out of procurement activities show several areas of vulnerability, which are not limited to any one country or sector.

First, a number of bidders have been found to have fraudulently misrepresented their credentials, resulting in the award of contracts to unqualified firms and individuals. In practice, these frauds are often followed by other types of misconduct or poor project implementation.

Second, evidence has been found of a variety of collusive arrangements among bidders, designed to circumvent competition and inflate bid prices, unfortunately at times with the knowledge or participation of government officials.

Third, there have been a number of cases involving bid rigging, intended to steer contracts to favored bidders and exclude more capable competitors.

Through the sharing of these observations with other units in the Bank Group, staff are enabled to better identify red flags and take appropriate preventive and remedial action. To this end, the Bank Group has, in a number of instances, conducted deeper audits, introduced tighter high-risk controls, terminated agreements where warranted, cancelled projects, and heightened supervision.



## Internal Investigations

### Overview

Up until July 1, 2009, the Bank Group's internal disciplinary process regarding all allegations of staff misconduct was set out under Staff Rule 8.01 and separated into two distinct components: (1) an investigative component, which was managed solely by INT, and (2) a decision-making component, which is the responsibility of the Bank Group's Vice President, Human Resources (HRSVP).

As a result of the Volcker Panel recommendations, the responsibility for investigating allegations of staff misconduct not involving significant fraud or corruption (*e.g.*, workplace grievances such as harassment, sexual harassment or retaliation) was transferred to the Bank Group's Office of Ethics and Business Conduct (EBC) effective July 1, 2009. INT continues to retain responsibility for investigating alleged staff misconduct involving fraud or corruption in Bank Group operations, corporate procurement, loans, credits, grants, donor trust funds, or in connection with the Bank Group administrative budgets (except for travel, benefit and allowances, petty cash or property).

In addition, INT has agreed with the General Services Department (GSD) to provide investigative assistance during vendor eligibility reviews involving allegations of fraud or corruption by Bank Group vendors. In accordance with Bank Group policy, the Director of GSD may declare vendors found to have engaged in fraud or corruption ineligible for a specified period of time from receiving Bank Group contract awards or to bid on Bank Group solicitations.

### Investigative outcomes

During FY09, INT closed 99 cases of alleged staff misconduct. Of these, 71 cases (71%) were investigated and 28 cases (29%) were referred to management, Human Resources, or to Bank Group Offices within the Internal Justice System (formerly the Conflict Resolution System) for resolution. Of the 71 cases investigated, 24 (34%) were substantiated, 23 (33%) were unsubstantiated and 24 (33%) unfounded (*see* Table 6).

**Table 6: Overview of INT's internal investigations caseload, FY06-FY09**

CASES	FY06	FY07	FY08	FY09
Carried over	77	86	57	54
Opened	102	123	71	72
<b>Closed</b>	<b>93</b>	<b>152</b>	<b>74</b>	<b>99</b>
Referred/not investigated	24	38	20	28
<b>Investigated</b>	<b>69</b>	<b>114</b>	<b>54</b>	<b>71</b>
<b>Substantiated</b>	<b>30</b>	<b>51</b>	<b>24</b>	<b>24</b>
Unsubstantiated	16	38	23	23
Unfounded	23	25	7	24
<b>Ending caseload</b>	<b>86</b>	<b>57</b>	<b>54</b>	<b>27</b>

If INT has determined that an allegation of staff misconduct has been substantiated, the HRSVP determines whether the alleged act or omission constituted misconduct and what, if any, disciplinary measures should be imposed. For examples of allegations of staff misconduct that can lead to an investigation, see Table 7, which provides the results of INT's substantiated investigations in FY09.

**Table 7: Internal substantiated cases by investigative result and sanction, FY09**

<b>NO. OF CASES AND CATEGORY OF MISCONDUCT</b>	<b>ACTIONS TAKEN</b>	<b>GRADE</b>
<b>1</b> <b>Fraud and Corruption (operational budget)</b> <i>Washington (1)</i>	<b>Reprimand</b>	<b>Consultant</b>
<b>6</b> <b>Fraud and Corruption (administrative budget)</b> <i>Country Office (5)</i> <i>Washington (1)</i>	<b>Termination and Barred from Rehire (5)</b>	<b>ETC/GA/GB/GD/GE</b>
	<b>Counseling</b>	<b>GH</b>
<b>3</b> <b>Fraud and Corruption (possible tax allowance fraud)</b> <i>Washington (3)</i>	<b>Conditional Reappointment Block (2)</b>	<b>GD/GF</b>
	<b>Proof of Compliance Provided</b>	<b>GF</b>
<b>3</b> <b>Workplace Misconduct (abuse of authority/harassment/retaliation)</b> <i>Country Office (1)</i> <i>Washington (2)</i>	<b>Termination and Barred from Rehire</b>	<b>GB</b>
	<b>Warning - Oral or Written Censure (2)</b>	<b>GH</b>
<b>9</b> <b>Violations of WBG Rules/Policies</b> <i>Country Office (4)</i> <i>Washington (5)</i>	<b>Counseling</b>	<b>GE</b>
	<b>Termination and Barred from Rehire</b>	<b>ETC</b>
	<b>Decision Pending</b>	<b>GB</b>
	<b>Termination</b>	<b>GB</b>
	<b>Referred to Management (5)</b>	<b>GD/GG (2)/GE/GB</b>
	<b>Termination</b>	<b>STC</b>
	<b>No Action Taken</b>	<b>GG</b>
<b>2</b> <b>Compliance Issues (tax levies)</b> <i>Washington (2)</i>	<b>Other</b>	<b>GD</b>
	<b>Warning - Oral or Written Censure</b>	<b>ETT</b>

### **Options Letters resolve cases more quickly**

Since 2004, INT has used an alternate resolution mechanism known as an “Options Letter” in cases where the allegations, if substantiated, would mandate termination under Staff Rule 8.01. Options Letters may be employed where the staff member has already admitted the misconduct, or the available information, while not conclusive, appears sufficiently credible. Since 2004, Options Letters have been accepted by staff members in over thirty cases.

In FY09, INT expanded the use of the Options Letters to cases where the allegations, if substantiated, would not mandate termination under Staff Rule 8.01, but where the facts are largely not in dispute and the disciplinary measure can be agreed upon in advance with the HRSVP. In FY09, Options Letters were accepted by nine staff members.

### **Sharing lessons learned from staff misconduct investigations**

INT also regularly disseminates lessons learned to stakeholders within the Bank Group—both to help detect and deter staff misconduct and to redress any factors that may support an enabling environment for misconduct to occur. INT works with Bank Group management to improve Bank Group policies, procedures, and Staff Rules, and to address weaknesses in internal controls that facilitate misuse or abuse of Bank Group funds or resources (such as abuse of donor trust funds, corporate procurement fraud, exploitation of Bank Group staff loan processes to conduct exchange-rate related arbitrage or embezzling funds from corporate accounts), or that prevent appropriate Bank Group follow-up (such as definitional lacunae in the Staff Rules that might make a finding of misconduct problematic in specific instances). In addition, lessons learned from abuses of the Bank Group’s internal and external procurement processes have helped operational and corporate procurement colleagues to tighten various regulatory controls.

### **What lies ahead: Further expediting the completion of cases**

The Volcker Panel recommended the completion of staff misconduct cases involving fraud or corruption within 9 months. INT is making significant efforts, including recruiting additional investigators, to achieve these targets in a consistent manner in the future.

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## Prevention

### Overview

An important emphasis of INT's prevention efforts in FY09 has been the development of tools that enable operational staff to detect the early signs of fraud and corruption. This work was made possible by leveraging INT information regarding high-risk contractors and by reviewing all DIRs and substantiated INT investigations to distill lessons on how complainants and investigators were able to detect fraud and corruption schemes. The most important products in this area were: the Company Risk Profile Database (CRPD), the *Most Common Fraud and Corruption Red Flags in Procurement* brochure, and the *Fraud Awareness Handbook*. In addition, INT continued to support task teams seeking assistance in the identification and mitigation of fraud and corruption risks and scaled-up its training activities.

### Building capacity to detect the early signs of fraud and corruption

#### COMPANY RISK PROFILE DATABASE (CRPD)

World Bank Group staff are the first—and best—line of defense when it comes to protecting Bank Group funds from misuse. By performing thorough due diligence before a contract is awarded, they can help avoid many of the issues that require greater intervention later in the project. INT worked with the Bank's Procurement Unit (OPCPR) to develop the CRPD, which can alert operational staff to INT's knowledge of possible risks related to companies recommended for contract award, thus allowing Bank Group staff to take an informed risk when issuing its no-objection for the award of contract. The database is currently being piloted and will be operational by the end of calendar year 2009.

#### MOST COMMON RED FLAGS IN PROCUREMENT

INT has developed, in collaboration with OPCPR, two publications to assist operational staff in early detection of fraud and corruption. The *Most Common Fraud and Corruption Red Flags in Procurement* brochure was issued in seven languages: Arabic, Chinese, English, French, Portuguese, Spanish and Russian.

#### FRAUD AND CORRUPTION AWARENESS HANDBOOK

The second publication is the *Fraud and Corruption Awareness Handbook*, which describes how fraud and corruption work and how they can be detected. The handbook, which draws on input from operational and regional colleagues, is the first tangible result of a systematic review of INT's investigations and DIRs to distill the operational insights. The lessons are divided into those that relate to procurement, financial management, and implementation.

The handbook provides multiple case examples, red flags organized by procurement process steps, and fraud and corruption schemes that can be detected during the project design and supervision stages. The handbook is intended to help incorporate more systematically INT lessons into Bank Group operations. The handbook will be disseminated as part of INT training and outreach undertaken in partnership with the Regions.

#### **ONLINE RED FLAG TOOL**

As a follow-up to the Red Flags brochure, INT and OPCPR are working closely together on the development of an online red flag tool for operational staff. This tool will be embedded in the P-RAMS business process, and is intended to serve as a decision support instrument that enables staff to identify and probe red flags. The tool currently includes red flags that may be found throughout the entire procurement process, with an emphasis on those steps requiring the Bank Group's no-objection. Each red flag entry includes: (i) questions to ascertain whether what has been observed is truly a red flag; (ii) actual examples of red flags from substantiated INT investigations; (iii) underlying fraud and corruption schemes that may have resulted in the red flag; and (iv) suggested follow-up actions. After a brief pilot, the tool will be launched near the end of 2009.

#### **SELF-ASSESSMENT OF GOVERNANCE AND ANTICORRUPTION (GAC) RISKS**

Additionally, in conjunction with operational staff, INT has produced a dialogue-based instrument entitled *Self-Assessment of GAC Risks*. It is based on the insights derived from advising more than a hundred task teams during the past three years. The tool assists task teams in their initial identification of fraud and corruption risks by focusing the team's attention on areas that may indicate heightened risks of fraud and corruption, such as: any legitimate concerns that may be voiced about the project; industry structure-driven collusion and performance risks; agency capacity and undue political influence; strength of agency prevention controls; effectiveness of external accountability mechanisms; effectiveness of contractual and other remedies; and project design risks.

### **Providing advisory services on risk assessment and mitigation**

#### **RISK ASSESSMENT AND MITIGATION ADVICE**

At the request of task teams, INT provided advice on how to assess and mitigate fraud and corruption risks in Bank Group-supported activities. In reaching out to assist Operations, INT advised 26

task teams responsible for, among others, preparing investment lending and technical assistance loans to Bangladesh, Honduras, India, Indonesia, Kenya, Lesotho, Nepal, Pakistan, Russia, Thailand, and Vietnam. These projects involved such sectors as education, emergency support, environment, food crisis support, health, power, roads, safety nets, and taxation. INT assists the task team by pulling information from investigations that have taken place in the same sector and country. This knowledge is based on an understanding of: (i) how fraud and corruption schemes work in various sectors and processes such as procurement, accounting and distribution; (ii) any specific local conditions INT is aware of; (iii) stakeholders that are most likely to know the schemes being perpetrated; (iv) how various fraud controls, such as audit ToRs, independent oversight, and Bank Group supervision, can be tailored to address specific risks; and (v) what key questions the task team should raise with government officials and other stakeholders, in order to better ascertain project vulnerabilities. As a result of this work, fraud and corruption risks have been included in Project Appraisal Documents where they otherwise may not have been, which in turn helped to inform the design of mitigating controls, as well as risk-based supervision.

#### OPERATIONAL TRAINING

During the past year, INT has increased the number of training activities, especially those targeted at field-based staff. INT experiences have been adapted to focus on various Operational topics such as: vulnerabilities in Community-Driven Development projects; detecting red flags in contract management; addressing specific instances of fraud and corruption in the country dialogue;

### Training provided to Bank Group staff on fraud and corruption risks in two Community-Driven Development projects

INT provided customized training at the request of a Country Director to improve the skills of Bank Group and Project staff to identify and mitigate corruption risks. The training was provided in conjunction with the launch of two Community-Driven Development Projects totaling US\$450 million in Bank Group financing. The training identified the residual fraud and corruption risks in both projects based on the analysis of the project documents and INT experience. The training

addressed mitigation measures of the identified risks; complaints handling and design; the use of remedies; procurement and documentation standards; and supervision methods. The participants also reviewed the Operational Manual and Procurement Plans and provided advice on improvements in both. The training was attended by the Regional Project managers, the Bank Group task team leaders, and procurement officers.

defining the role of a preventive services unit in national anticorruption efforts; critical fraud and corruption risks in the transport sector; fraud and corruption prevention in Sector Wide Approaches (SWAs); fraud and corruption in the education sector; and fraud and corruption core training organized by GAC in Projects.

### **What lies ahead: Better use of investigative findings to assist operational staff and building the anticorruption capacity of the Bank Group's development partners**

INT's growing prevention efforts will continue to focus on using investigative results to develop tools to enable staff to detect and mitigate risks of fraud and corruption in Operations. The demand for INT's Preventive Services Unit (PSU) currently outstrips the unit's capacity. In light of this constraint, the unit will gradually shift from responding entirely to demands to becoming more risk-based. Building a team of highly skilled professionals that can provide practical trusted and solutions-oriented advice and training to operational staff will be critical, as will the continued strengthening of ties between Operations (in particular OPCS and the Regions) and investigations.

The medium-term preventive work priorities will include using investigative results to provide:

- Real-time advisory services for operational staff on integrity risks, particularly in high-risk operations;
- Guidelines for handling of fraud and corruption allegations;
- Fraud and corruption risk management training;
- Fraud and corruption in procurement training;
- Brochure on visible red flags in the road sector;
- Review of road sector cases, including an assessment of physical red flags; and
- Policy reviews and input into implementation of the GAC and related policies (e.g., comments on Operational Policies and Business Procedures).

In FY10, INT staff will also continue to take an active role in the development of the anticorruption capacity of the Bank Group's development partners. This real-time engagement by INT represents a large step forward in implementing the Bank Group's GAC Agenda.

## Creating a Global Corruption Hunters Network

This past fiscal year the Bank Group, through INT, convened a series of regional meetings to bring together the people who are entrenched in the day-to-day fight against corruption. These events allow INT and national anticorruption enforcement authorities to build relations, better understand each other's needs, and formalize ways to cooperate. Ultimately, national authorities will have enhanced capacity to follow up on INT referrals.

Two meetings have been held in the Africa and the Latin America and Caribbean regions respectively. The outcomes of these engagements were a number of resolutions regarding, among others, the creation of practical information sharing portals, bilateral cooperation agreements, collective and more strategic use of tax records,

the conducting of joint investigations and sector reviews, and the need for reciprocal feedback on key investigations. These resolutions will serve as the basis for formalizing cooperation among the participants. In FY10, INT will replicate the initiative in the remaining regions.

As INT strengthens regional level interaction, in partnership with other divisions in the Bank Group, it will simultaneously work to help establish connections at a global level, with the aim to optimize the impact of each separate network. INT can also leverage the World Bank Group's resources for the benefit of the global network, by bringing in operational staff for training and support, and connecting enforcement authorities to programs such as the Stolen Asset Recovery Initiative (StAR).



Meeting of heads of 13 anticorruption agencies and prosecuting authorities in Sub-Saharan Africa; Gaborone, Botswana, January 22, 2009



## Integrity Day

“We need to make every day into Integrity Day,” said World Bank President Robert Zoellick, launching the World Bank’s first Integrity Day.

Former Chairman of the United States Federal Reserve Paul Volcker returned to the World Bank in December 2008 to participate in Integrity Day. The event, which will be held annually, is geared toward raising awareness about fraud and corruption and connecting those who are concerned about such issues.

Having chaired a panel in 2007 that reviewed INT’s operations, and made recommendations for improving transparency, accountability, and impact, Volcker expressed his pleasure in the progress achieved. Volcker noted, “It’s not often

that someone in my position that has written a report actually can see it implemented in a substantial way.” Volcker continues to serve as an indispensable counsel to INT, periodically following up on the Unit’s progress.

In a time of economic uncertainty, he also praised the Bank for its role in fostering stability and opportunity, calling the Bank “an institution in which people do have confidence—confidence in its integrity, confidence in its competence.”

*“We need to make every day into Integrity Day.”*

**WORLD BANK PRESIDENT ROBERT ZOELICK,**  
LAUNCHING THE WORLD BANK’S  
FIRST INTEGRITY DAY



Former Chairman of the United States Federal Reserve Paul Volcker, Integrity Vice President Leonard McCarthy, and World Bank President Robert Zoellick during Integrity Day 2008



One of the three Integrity Award winners, Samira Hillis (center), among her colleagues from the Middle East and North Africa region and INT, during Integrity Day 2008.

## Budget and Staffing

### Overview

INT has developed a new organizational framework that enhances its ability to work more efficiently and effectively. In order to address its new directives while meeting escalating demands, INT pursued a focused recruitment strategy in FY09 to increase its staffing levels and build up internal knowledge, reduce the case-to-investigator ratio, and reduce the historical dependence on outside firms.

To support the scale-up in its program, INT's budget was increased by 28% in FY09. The number of INT staff grew by 44% over the past fiscal year to 78 by the end of FY09 (*see* Table 8). INT increased its investigative and litigation capacity through the hiring of 18 additional investigators and investigative analysts, as well as five litigation staff. Other recruitments in FY09 included the Director of Operations; forensic specialists; and administrative, IT, and resource management staff. INT's recruitment efforts will continue in the coming fiscal year. INT's team spans 34 different nationalities and half of the staff (50%) is female. INT continues to work to attract a more diverse team of qualified staff.

**Table 8: Budget and staffing levels FY06–09**

	FY06	FY07	FY08	FY09
Budget (in US\$ millions, incl. reimbursables)	13.3	14.0	14.6	18.8
<b>Staffing</b>				
Staff grades GE <sup>1</sup>	37	38	42	52
<i>o/w Investigators/Specialists</i>	33	32	37	47
Staff grades GA–GD <sup>1</sup>	9	14	12	26
<i>o/w GA–GD Specialists</i>	1	4	4	15
<b>Total</b>	<b>46</b>	<b>52</b>	<b>54</b>	<b>78</b>

*Footnote 1: Includes staff holding Extended Term Consultant and Extended Term Temporary appointments at equivalent grades GE+ and GA-GD respectively*

## See Something Worth Reporting?

INT's investigations are primarily based upon the allegations it receives, so it is extremely important that those people who are involved in Bank Group-supported activities take the initiative to report suspected fraud or corruption. Anonymous allegations are accepted.

### CONTACT INT DIRECTLY AT WORLD BANK GROUP HEADQUARTERS IN WASHINGTON, DC

Phone: +1.202.458.7677

Fax: +1.202.522.7140

E-mail: [investigations\\_hotline@worldbank.org](mailto:investigations_hotline@worldbank.org)

### USE AN INDEPENDENT, THIRD-PARTY HOTLINE THAT WILL FORWARD YOUR ALLEGATION TO INT.

This service is available 24 hours-a-day, and provides translators if necessary. Inside the United States, call 1.800.831.0463. Outside the United States, call 1.704.556.7046 and ask to have the charges reversed.

Allegations may also be mailed to the hotline service:  
PMB 3767, 13950 Ballantyne Place, Charlotte, NC 28277, USA

### What should I include in my allegation?

The more specific the information is that you provide, the better INT will be able to follow up on your allegation. Include details such as:

- **what** alleged wrongdoing you are reporting;
- **where** and **when** (dates and times if available);
- **who** is/are the perpetrators; and
- **how** the individual or firm committed the alleged wrongdoing.

Include the project name, if known to you. If possible, provide information on documentation available to corroborate the allegations, and names of witnesses to the alleged wrongdoing. Let us know how you can be reached for further information or clarification.

### Confidentiality

Complainants are requested to provide their name and telephone number or e-mail or mailing address to enable us to reach you to obtain further information and to follow up on the allegation. If you choose to give us your name, but want your name to remain confidential, the Bank Group will not reveal your name to the parties in any court or tribunal process and will not reveal any information that may disclose your identity to anyone outside the investigative team and its managers and attorneys, unless the Bank Group determines that you have made an intentional misrepresentation or omission, or the Bank Group is required to do so by law. If you agree to permit the Bank Group to use your name, please be assured that the Bank Group will not tolerate any form of retribution or retaliation against a person for reporting in good faith allegations of fraud or corruption.

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## Abbreviations and Acronyms

BEC	Bid Evaluation Committee
CEO	Chief Executive Officer
CRPD	Company Risk Profile Database
DIR	Detailed Implementation Review
EBC	Office of Ethics and Business Conduct
EO	Evaluation and Suspension Officer
EU	European Union
FIR	Final Investigative Report
FY	Fiscal Year
GAC	Governance and Anticorruption
GSD	General Services Department
IAB	Independent Advisory Board
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IFI	International Financial Institution
INT	Integrity Vice Presidency
MDB	Multilateral Development Bank
MIGA	Multilateral Investment Guarantee Agency
MOU	Memorandum of Understanding
NFE	Non-Formal Education
NGO	Non-Governmental Organization
NoSP	Notice of Sanctions Proceedings
NRIMP	National Roads Improvement and Management Program
OLAF	European Anti-Fraud Office
OPCPR	Procurement Policy and Services Group
OPCS	Operations Policy and Country Services
P-RAMS	Procurement Risk Assessment & Management System
PREM	Poverty Reduction and Economic Management Network
PSU	Preventive Services Unit
SFO	Serious Fraud Office (United Kingdom)
StAR	Stolen Asset Recovery Initiative
VDP	Voluntary Disclosure Program
VPHR	Vice President Human Resources
WBI	World Bank Institute
US	United States of America



