

MESSAGE FROM THE PRESIDENT



As a public institution which has been entrusted by the international community to provide development assistance, it is vital that the World Bank Group operate in an open and transparent manner.

This will be particularly

important as we scale up our efforts to work with many of our partner countries on strengthening governance. This report details the steps the Bank is taking to confront fraud and corruption in our projects, as well as to promote the highest standard of conduct amongst our staff. It is another means by which the Bank's various stakeholders can hold us accountable.

Within the Bank Group, there are several units coordinating our broader governance and anti-corruption work, including Regional staff, Operations Policy and Country Services (OPCS), the Poverty Reduction and Economic Management Network (PREM), the Institutional Integrity Department (INT), the World Bank Institute (WBI), and the Legal Department. This report focuses on the investigative activities of, and outcomes from, the work of INT.

Thorough, independent investigation of allegations of corruption and misconduct are fundamental to fulfilling the Bank's fiduciary obligations, addressing reputational risks concerning the effective use of development assistance, deterring misuse of funds in Bank projects and, most important, achieving development effectiveness.

Corruption is a disease that drains resources and discourages investment. It benefits the privileged and deprives the poor. Today, there are more than 1 billion people worldwide surviving from one day to the next on \$1 a day. Corruption threatens their hope for a better quality of life and a more promising future. If there is a universal concern I hear from people when I visit developing countries, it is the need for fair and effective governance — and that means dealing with the impact of corruption.

Every development institution, including the World Bank, has a responsibility to safeguard every dollar, to ensure that it is spent as wisely as possible, and to set a standard which we can be proud of. We at the World Bank are well aware that our own projects can be targets of corruption, and this report makes clear that we are taking action.

We must also ensure that Bank staff continue to maintain high standards of conduct. The overwhelming majority of people working in the Bank Group are exceptionally dedicated professionals, but recent corporate scandals around the world have shown that the actions of even a very small number of individuals can tarnish the reputation of an entire organization.

This report shows the commitment and hard work of the staff of the Integrity Department over the past two years. Their accomplishments would not have been possible without the support of the Audit Committee and the Board of Executive Directors, as well as the Legal Department and the Sanctions Committee.

The World Bank Group owes much gratitude to the individuals who reported the allegations of fraud and corruption and helped protect the integrity of our projects. This institution must continue to promote an environment in which Bank staff, public officials and private citizens can report allegations and ensure that every development dollar is used to benefit the poor.

Paul Wolfowitz
President, World Bank Group

ABBREVIATIONS AND ACRONYMS

ACS	Administrative and Client Support
ASCE	American Society for Civil Engineers
CAS	Country Assistance Strategy
CRS	Conflict Resolution System
DfID	Department for International Development (United Kingdom)
DIR	Detailed Implementation Review
FATF	Financial Action Task Force
FIDIC	International Federation of Consulting Engineers
FY	Fiscal Year
HRSVP	Vice President, Human Resources Services
IAD	Internal Auditing Department
IBRD	International Bank for Reconstruction and Development
ICSID	International Centre for Settlement of Investment Disputes
IFC	International Finance Corporation
IFI	International Financial Institution
IGAC	International Group for Anticorruption Coordination
IGEC	Interpol's Group of Experts on Corruption
INT	Department of Institutional Integrity
INTIS	Institutional Integrity Information System
LEGPR	Legal Department, Procurement and Consultant Services
MDB	Multilateral Development Bank
MIGA	Multilateral Investment Guarantee Agency
OEBC	Office of Ethics and Business Conduct
OECD	Organization for Economic Co-operation and Development
OLAF	European Anti-Fraud Office
OPCS	Operations Policy and Country Services
PEP	Politically Exposed Person
PREM	Poverty Reduction and Economic Management Network
SRI	Salary Review Increase
TI	Transparency International
VDP	Voluntary Disclosure Program
WBG	World Bank Group
WBI	World Bank Institute

MESSAGE FROM THE DIRECTOR

This Annual Report summarizes investigative outcomes of the World Bank Group for the fiscal years 2005 and 2006. The period reviewed was a time of transition, both for the World Bank Group and for the Bank's Department of Institutional Integrity (INT). On June 1, 2005, Paul Wolfowitz became the tenth President of the World Bank Group. In October 2005, I was asked by President Wolfowitz to serve as Acting Director of the Integrity Department. A few months later, in January 2006, this appointment was made permanent.

Like his predecessor, James D. Wolfensohn, under whose leadership INT was created, President Paul Wolfowitz recognizes that addressing corruption in Bank-funded activities is critical to the Bank's overall mission of poverty alleviation. Pervasive corruption has a devastating impact on the capacity of governments to function properly; on the private sector to grow and create employment; on the talents and energies of people to add value in productive ways; and ultimately on societies to lift themselves out of poverty. Having witnessed these effects first hand while United States Ambassador to Indonesia, President Wolfowitz has renewed and strengthened the Bank's commitment to the fight against corruption.

Since the last Report on Investigations, the Integrity Department has seen a continued trend toward more complex cases involving multiple contracts and more sophisticated ways of hiding illicit activities. This had significant implications in terms of the demands placed on INT skills, time and resources.

FISCAL YEAR 2005

During Fiscal Year 2005, the Integrity Department's External Unit, which is responsible for investigating allegations of corruption in Bank-financed projects, experienced a marked increase in the number of labor- and resource-intensive investigations. Similarly, over the same period, the portfolio of INT's Internal Unit, which investigates allegations of staff misconduct, saw a fall in the number of tax and compliance investigations—which are far less time-consuming—but a corresponding increase in the number of complex and large-scale internal cases.

The higher level of complexity of these investigations required a much higher volume of documents to be examined; more witnesses to be interviewed; additional stakeholders to be managed; and more time spent in post-investigative phases.

FISCAL YEAR 2006

In Fiscal Year 2006, the trend toward more multifaceted investigations continued, in both internal and external cases. At the same time, the Integrity Department was provided with additional resources and empowered to more effectively fulfill its mandate. The Department was also requested by the President to take an even more proactive approach in the following areas:

- Increase the use of sophisticated initiatives such as Detailed Implementation Reviews (DIRs) which identify vulnerabilities of projects or portfolios to fraud and corruption through a combination of data analysis, document review and field verification. DIRs have proven highly effective in exposing "red flag" indicators of past wrongdoing;
- Exercise more frequently the World Bank's right to audit the books and records of contractors and consultants to identify fraud and corruption issues;
- Launch the Bank Group's Voluntary Disclosure Program (VDP). Under this program, the final programmatic elements of which were approved by the Bank's Board on August 1, 2006, companies that cease misconduct and voluntarily disclose all information about their involvement in fraud and corruption in Bank activities can receive assurances of confidentiality and avoid debarment for past misconduct; and
- Provide more "upstream" risk-mitigation advice, guidance and recommendations concerning future lending operations that are about to be presented to the Board.

Many of these efforts have required INT to become more closely aligned with Operational staff. This has been welcomed by INT, as well as by Operations, as evidenced, for example, by a sharp increase in the demand for advice on the strengthening of anticorruption safeguards in projects. Also, INT began to meet with Regional management teams on a monthly basis to provide updates on investigations

as well as discuss how its work can support ongoing policy dialogues, procurement decisions, client relations and risk assessments.

CASE CLOSING REVIEW

In addition to this challenging portfolio, in FY06 INT also undertook a rigorous Case Closing Review of all External cases closed over the previous year through the triage system.¹

Implementation of the triage system had enabled INT to close a total of 293 External cases in FY05. Of these, 131 were closed through the rating of "low-priority/No Further Action" or "referred." To inform Bank management of the methodology by which the outcome of cases were rated "low priority/No Further Action" and "referred," the Department undertook a review of 133² cases that were originally closed in FY05 with these outcomes. This due-diligence exercise, which necessitated delaying the Fiscal Year 2005 report, revealed the following:

- Upon initial evaluation, the review found that 88 cases, representing 66 percent of the total "low priority/No Further Action" cases closed in FY05, lacked proper closing documentation or merited further examination;
- Upon receipt of additional documentation, the review determined that 125 cases in FY05 were *justifiably* closed. The remaining six cases in FY05 were further reviewed and were ultimately determined to be not unjustifiably closed; and
- As an additional part of this exercise, INT closely examined each of the 133 "low priority/No Further Action" cases to help the Department better define the methodology by which it rates its cases.

As a result of this review, clearly delineated thresholds for appropriately closing cases were developed and implemented. These thresholds – a critical element in case intake and case rating – should help the Department avoid such a time-consuming and laborious review in the future.

CONCLUSION

I want to thank the staff and management in INT whose dedication, expertise, courage and passion can never be adequately reflected in the numbers in this report. In addition, the Department would like to express its deep appreciation and thanks to our colleagues in the Bank's Legal Department for the extremely supportive relationship that has developed between our groups over the past year. INT is also grateful for the cooperation and support of other colleagues within the Bank, particularly the Regional management teams and the President's office.

As President Wolfowitz has said, all of us who are working to help the people of developing countries have a responsibility to set a standard that we can be proud of, to safeguard every dollar, and to ensure that it is spent as wisely as possible. James Wolfensohn, president of the World Bank for about half of the period covered in this report, first spoke openly about "the cancer of corruption" in 1996. Since then, the Bank, many of its partner countries – and the development community as a whole – have made tremendous strides in the global fight against corruption. Moving forward, the Bank is now building on this strong foundation, armed with a deeper understanding of the ways that weak governance and pervasive corruption undermine the Bank's core poverty reduction mission.

President Wolfowitz has made his position clear. The Bank will continue down the path of zero tolerance toward fraud and corruption and commit itself to a 'gold standard.' The World Bank, and the Integrity Department, must continue to do everything possible to ensure that the funds entrusted to our institution by its shareholders are used for their intended purposes.

Suzanne Rich Folsom
Counselor to the President and
Director, Department of Institutional Integrity

1 INT implemented a triage system for external cases in 2004 to address the Department's mounting backlog of allegations. Prior to the triage system, the Bank's policy mandated that all allegations referred to INT be investigated. The triage system enabled INT to rate its cases as "low/medium/high-priority" and set priorities for the allocation of INT's investigative resources.

2 The figure 133 is two more than the actual number of cases closed with this rating in FY05. Following the review, one case rated as "low priority" was re-classified as "high" and the closure rating changed from "other" to "unsubstantiated" and the other case was deleted from the database as it had been incorrectly entered.

EXECUTIVE SUMMARY

To further its goal of promoting development and reducing poverty, the World Bank Group seeks to ensure that its funds, and those entrusted to it, are used for the intended purposes. As a complement to the Bank's procurement policies and supervision responsibilities, the Bank also ensures that mechanisms are in place to minimize and to detect fraud and corruption, and to respond swiftly and effectively when it occurs. This is why the work of an investigative unit is part of the core mission of the World Bank.

As a multinational organization, the World Bank Group is committed to promoting a workplace that is free of harassment, discrimination and other forms of misconduct. While most workplace grievances can be resolved by staff, their manager or within the Bank's Conflict Resolution System, there are instances where the improper conduct is serious enough to warrant a formal investigation. Similarly, the Bank has a fiduciary responsibility to investigate allegations of staff using Bank resources improperly or using their positions for personal financial gain. However, it is important to note that the number of serious allegations involving Bank staff represents less than 1% of the institution's total workforce.

THE ROLE OF INT

Since its foundation, the World Bank Group's Department of Institutional Integrity (INT) has reviewed or investigated more than 2,400 cases related to both staff misconduct (internal) and Bank-financed activities (external). As a result of these investigations, the Bank has sanctioned over 330 firms and individuals for fraud and corruption in Bank-financed activities; these sanctions are published on the Bank website and publicly announced. Findings from investigations into staff misconduct are provided to the Bank's Human Resources Vice President for decision. When appropriate, the Department also refers its investigative findings to the prosecutorial authorities of relevant member countries for further action.

INT's primary objective is to investigate allegations of fraud and corruption in Bank-financed activities and allegations of staff misconduct including, but not limited to, fraud and corruption. However, the Bank is

now working to achieve a more effective balance of reactive and preventive approaches. INT's mission, therefore, includes working closely with others across the World Bank Group to:

- Reduce the risk of fraud and corruption in Bank-supported projects through a combination of investigations and sanctions in response to allegations and through proactive implementation reviews and sharing of lessons learned with staff in Operations; and
- Encourage the highest standards of personal honesty, integrity and ethical behavior within the Bank through a combination of investigations of allegations of staff misconduct (with referral to Human Resources for appropriate disposition) and outreach programs incorporating the lessons learned.

INT ACTIVITIES DURING FISCAL YEARS 2005 – 2006

This report finds that, during Fiscal Years 2005 and 2006, INT has:

- Completed 293 cases in FY05, including 104 new high priority external cases; and completed 148 cases in FY06, including 51 high priority external cases;
- Completed investigations, leading to the sanctioning of 337 firms and individuals for fraud and corruption in Bank-financed projects (including both debarments and letters of reprimands) since 1999;
- Completed investigations leading to the debarment of 58 firms and 54 individuals and issuing of six letters of reprimand in fiscal years 2005 – 2006;
- Substantiated allegations in 47 staff cases in FY05, and as a result the Human Resources Vice President has terminated and/or barred from rehire nine staff members and disciplined nine others for fraud and corruption; terminated three staff members for sexual harassment; disciplined two for failure to comply with personal obligations; and disciplined four others for conflict of interest or other violations. The remaining 20 staff brought themselves into compliance with their legal obligations following INT's investigations;

- Substantiated allegations in 30 cases involving 31 staff members in FY06, and as a result the Human Resources Vice President has terminated and/or barred from rehire 13 staff members and disciplined two others for fraud and corruption; terminated and/or barred from rehire two staff members for sexual harassment; disciplined three for failure to comply with personal obligations; and terminated and/or barred from rehire seven others for conflict of interest or other violations. The remaining four staff members brought themselves into compliance with their legal obligations following INT's investigation;
- A unit of over 50 staff and consultants working on integrity issues and investigations;
- Annual expenditures of more than \$10 million a year on investigations and sanctions;
- Shifted resources towards proactive tools such as project reviews in high-risk sectors or countries in an effort to achieve a better balance with reactive approaches;
- Finalized the guidelines and programmatic elements of the Voluntary Disclosure Program (VDP) – a formal program to encourage firms participating in Bank-financed projects to voluntarily disclose fraud and corruption in return for confidentiality and the continued ability to bid on contracts; and
- Made other significant policy changes relating to sanctions reform and case management, as well as increased communications and training in an effort to share more broadly INT's lessons learned and to create awareness of INT and its work.

These statistics demonstrate the sizeable caseload which INT continues to face. As more of the cases are determined to be high profile, high value, and of greater complexity, the time it takes to resolve these matters increases. However, the quantity of cases closed should not be used as a measure of productivity. Each case – whether internal or external – is unique in its complexity, and each presents its own set of challenges. This is true in terms of the number of documents to be reviewed or interviews held, as well as in terms of the impact and value of the case to the institution. While it is certainly important that cases be closed, the statistic itself should not be used as a benchmark of success.

The nature of the allegations received by the Bank related to lending activities during FY05

and FY06 included procurement fraud, collusion, kickbacks and bribes, the misuse of project assets, and misrepresentation of qualifications in bid submissions.

One overarching finding from the investigations into fraud and corruption in Bank-financed projects is that the schemes devised by the corrupt actors are broadly similar whether in Africa, Asia, Europe, Latin America, or the Middle East. This is a critical lesson learned, as it is allowing INT to assist Operations in implementing controls to mitigate the risks of common corruption schemes on a Bank-wide basis. While INT has gained a deeper and growing understanding of the nature of vulnerabilities to corruption in Bank-financed projects, knowledge of the frequency, scope and depth of the problem are less certain. This is partly because the allegations INT receives are only a subset of the entire universe of corrupt activities, but also because INT has a finite ability to actively investigate all the allegations it receives.

VOLUNTARY DISCLOSURE PROGRAM AND DETAILED IMPLEMENTATION REVIEW

Two initiatives that INT will be employing to greater effect in the future, the Voluntary Disclosure Program and the Detailed Implementation Review, should begin to allow INT to obtain a more complete picture of the frequency, scope and depth of fraud and corruption as they effect World Bank-financed operations.

Throughout Fiscal Years 2005 – 2006, INT was developing a Voluntary Disclosure Program (VDP), the concept for which was approved by the Bank's Board of Executive Directors in Fiscal Year 2004. The VDP gives firms involved in contracts related to Bank projects the opportunity to: cease corrupt practices; voluntarily disclose information about misconduct that is sanctionable by the Bank; adopt a compliance program monitored for three years by a Compliance Monitor; and avoid public debarment for disclosed past Misconduct. The firm obtains confidentiality in exchange for full and proactive cooperation.

Another diagnostic tool that has been particularly useful in the identification of control weaknesses is the Detailed Implementation Review (DIR) which has been in use since 2002. Conducted through country offices, a DIR is specifically designed to review

Bank-financed projects in the absence of any prior allegations or evidence that wrongful activity had taken place. A DIR focuses on identifying indicators of fraud, collusion, and corruption in the procurement and disbursement process, in contract management, and in the implementation stage of projects.

Building on the experiences of DIRs, the Bank and the countries involved have identified remedial measures to lessen the incidence of fraud and collusion in Bank-financed projects. Several risk mitigation strategies have been implemented, including tighter procedures for national competitive bidding, revised procurement thresholds, rationalization of the bid evaluation committee membership and responsibility for procurement decisions.

CONCLUSION

The financial losses from fraud and corruption are an important concern for the institution, but they are not the only concern. Corruption sets off a chain reaction that can be highly detrimental to development projects. The money to pay a kickback or bribe must come from some part of the overall project financing, generally leading to increased prices and decreased quality or performance. When less qualified bidders are awarded contracts through bid rigging and other anti-competitive activities, qualified bidders lose confidence in the system and stop bidding.

Finally, public awareness of entrenched corruption erodes trust in government institutions, leading to acceptance of substandard public services and infrastructure – and an environment that discourages the reporting of allegations of fraud and corruption. All these effects should be considered when assessing the impact of corruption in development, and the contribution of the Department of Institutional Integrity to the mission of the World Bank Group.

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I. INTRODUCTION

PURPOSE AND SCOPE OF THIS REPORT

This Report on Investigations covers the fiscal year 2005 (FY05, July 1, 2004 – June 30, 2005) and fiscal year 2006 (FY06, July 1, 2005 – June 30, 2006). In July 2004, the Board of Executive Directors mandated that a public document be prepared to report on the World Bank Group's internal and external investigations and sanctions. The World Bank Group consists of the International Board for Reconstruction and Development (IBRD), International Development Association (IDA), International Finance Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID). As established in an amendment to the Bank's disclosure policy³, the report describes the *"nature and volume of institutional integrity activities and investigations. It will contain, among other things, aggregate data regarding categories of institutional integrity activities, volume of cases, and outcomes, as well as generic descriptions of the most significant investigations and cases resolved within the prior fiscal year. It will not contain any confidential information, including information specific to undisclosed investigations or sanctions."*

THE MANDATE OF INT

In 2001, the Department of Institutional Integrity (INT) was established to act as the independent investigative arm of the Bank, reporting directly to the World Bank President. INT investigates allegations of fraud and corruption in Bank-financed projects, as well as allegations of possible staff misconduct, and refers its findings to decision-makers such as the Sanctions Committee (for external cases) and the Human Resources Services Vice President (for staff misconduct cases) for further action. Since 1998, the Sanctions Committee has conducted administrative reviews of cases involving external parties that had been investigated by INT and recommended to the President the sanctions to be imposed on anyone found to have engaged in fraud or corruption.

On a quarterly basis, INT provides an oral briefing on the Department's activities to the Audit Committee of the Bank's Board of Executive Directors and discusses major investigative findings with the Committee.

During fiscal 2006, INT was empowered to step up its work in detecting fraud and follow-up on allegations of fraud and corruption in Bank-financed projects, particularly in high risk countries. In order to achieve a better balance between reactive and proactive approaches, the Department sought to: (1) adopt a new, more efficient approach to case management; and (2) better integrate the department's work with the anticorruption strategies of the Regions and Country teams. INT began working with Regional colleagues to incorporate "lessons learned" upstream into project design and program development, and began including recommendations in its investigative reports.

INT has continued to carry out Detailed Implementation Reviews (DIR)—a type of fiduciary review—of Bank-funded projects determined to be 'high risk' in a number of countries. Conducted in coordination with country offices, these reviews are designed to detect corruption by ensuring that proper financial controls and oversight are in place in selected projects.

Together with PREM and WBI, INT also contributes to prevention by training staff to detect and deter fraud and corruption in Bank operations.

INT has also been more actively involved in referrals of high value investigative findings. This meant putting greater effort into writing high quality referral reports, meetings with government officials and following up on investigative actions taken by the countries.

In fiscal 2006, INT completed plans for the launch of a formal Voluntary Disclosure Program (VDP) designed to enable firms to report instances of corruption in which they have been involved. In exchange, participating firms will not be debarred, and their identity will be kept confidential.

³ World Bank, "External Communications Strategy Related to Investigations and Sanctioning of Fraud and Corruption in World Bank-Financed Projects," Washington, D.C., June 3, 2004.

The Department also worked with the integrity divisions of other International Financial Institutions (IFIs) to reach a common understanding on various issues under their shared purview. Regular meetings laid the ground work for subsequent collaboration on harmonization of definitions of fraud and corruption and for a possible future cross debarment across the IFIs, amongst other topics. In February 2006, President Wolfowitz and the leaders of other IFIs agreed to take this work a step further with the development of concrete proposals.

To credibly promote good governance and anticorruption worldwide, one needs to start with best practices at home. Recognizing this, the Bank has also looked inward to stamp out conflicts of interest and any possible corrupt practices among its own staff. In 2003, the Bank announced the strengthening of its financial disclosure obligations for senior staff. Bank senior managers are now required to provide an annual statement listing their financial interests and those of their immediate family. In 2006, although only two senior staff members were obligated to do so, 95.2 percent of all staff in INT disclosed their personal financial interests. In addition, all staff in INT signed an additional confidentiality agreement that provides for mandatory termination of employment in the event of a breach of the terms of the agreement.

II. ORGANIZATION, STAFFING, AND RESOURCES

INT ORGANIZATION

At the end of Fiscal Year 2006, the Integrity Department consisted of the Director's Office, responsible for policy, quality assurance, resource management, and strategic communications; the Forensic Services Unit, responsible for the case management information system (INTIS), knowledge management and the detailed implementation reviews (DIRs); the External Investigations Unit; the Internal Investigations Unit; and the Voluntary Disclosure Program (VDP) Unit. In FY06, the Department also received supplemental financial resources, and additional staff and skills were attracted in order to address the growing demands upon its services and expertise.

The INT team is now comprised of more than 50 professionals from a range of disciplines and a diversity of countries. The team includes experts in the following areas: law, ethics, investigation (at international, national and state level), prosecution, forensic accounting and financial analysis, criminology, research, and data management, among other areas.

INT STAFFING AND RESOURCES

As of June 30, 2005, the Integrity Department had a total complement of 55 employees: 42 open-ended and fixed-term staff and 13 consultants and temporary staff (see Table 1).⁴ Of these, 13 were administrative and client support (ACS) staff and 42 were investigators (including attorneys and former prosecutors), forensic accountants, procurement and database management specialists, resource management staff, experienced operations staff, and managers.

As of June 30, 2006, the Integrity Department had a total complement of 57 employees: 38 open-ended and fixed-term staff and 19 consultants and temporary staff (see Table 1). Of these, 11 were administrative and client support (ACS) staff.

Table 1. INT Staffing Levels (FY2004–FY2006)

	FY2004	FY2005	FY2006
Bank staff			
Investigators/other specialists	28	33	32
ACS/other support staff	9	9	6
Subtotal	37	42	38
Consultants/temporary staff			
Investigators/other specialists	6	9	14
ACS/other support staff	4	4	5
Subtotal	10	13	19
Total staff and consultants	47	55	57

INT's total budget allocation for FY05 was US\$10.7 million and US\$13.258 million for FY06 (see Table 2).⁵ This consisted of a base budget for FY05 of \$9.4 million, and an additional allocation of \$1.3 million. For FY06, this consisted of a base budget of \$8.842 million and an additional allocation of \$4.416 million.

Table 2. INT Budget (FY2004–FY2006)

(US\$ millions)	FY2004	FY2005	FY2006
Base budget allocation	9.3	9.4	8.842
Additional allocation (midyear)	0.6	1.3	4.416
Total budget authorization	9.9	10.7	13.258

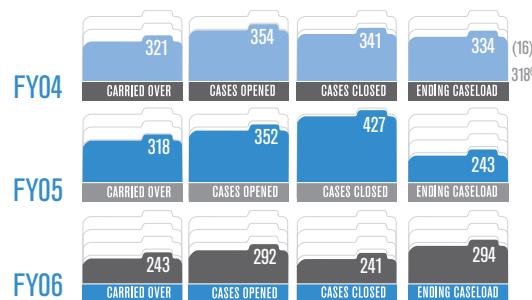
⁴ In interpreting these figures, it should be noted that the distinction between Bank staff, consultants and temporary staff is only relevant in terms of the terms of employment of each category of staff.
⁵ All dollar amounts are U.S. dollars unless otherwise indicated.

III. INVESTIGATIONS ACTIVITIES

INVESTIGATIONS

INT began fiscal 2005 with a carryover of 318 open cases, of which 224 (70 percent) were external (fraud and corruption in Bank projects) and 94 (30 percent) were internal (staff misconduct). During the year, 352 new cases were opened and 427 cases were closed, with a carryover to fiscal 2006 of 243 cases—or 75 fewer cases than at the outset of fiscal 2005 (see Table 3). The number of new cases in fiscal 2005 was slightly lower (352) than in fiscal 2004 (354). However, the number of cases closed in fiscal 2005 was much higher (427) than in fiscal 2004 (341). The FY05 outcome was the result of a review by INT management of a large number of relatively old fraud and corruption cases that were technically listed as open, yet for all intents and purposes were non-active. All relevant information of these cases was entered into the INT database (INTIS) and cases may be reopened if INT were to receive new information.

Table 3. INT Caseload (FY2004–FY2006)



INT began fiscal 2006 with a carryover of 243 open cases, of which 117 (48 percent) were external (fraud and corruption in Bank projects) and 126 (52 percent) were internal (staff misconduct). During the year, 292 new cases were opened and 241 cases were closed, with a carryover to fiscal 2007 of 294 cases—or 51 more cases than at the beginning of fiscal 2006 (see Table 3). The number of new cases in fiscal 2006 was lower (292) than in fiscal 2005 (352). The number of cases closed in fiscal 2006 was lower (241) than in fiscal 2005 (427).

CASELOAD MANAGEMENT

The number of cases originating outside the Bank far exceeds the resources required to conduct a full investigation into every case. Therefore, INT uses a triage approach to its external case management which was formally approved by the Audit Committee and Board of Directors in fiscal 2004.

All external cases are thus subjected to a preliminary inquiry and the information gathered is used to prioritize the allegation by ranking, using a standard set of criteria. Cases given low priority are usually closed without further investigation, but all relevant information is entered into the INT database system (INTIS) for future reference and analysis. Such cases may be reopened if INT receives additional information. Medium and high priority cases are included in the work program, and high priority cases are scheduled for investigation based on their impact and significance. Priority ratings may change over time as additional information becomes available.

It should be noted that the triage approach to case management is not applied to internal investigations. All cases involving World Bank staff receive a high priority rating *per se* and are investigated to the fullest extent necessary before they can be closed.

⁶ For this Annual Report, INT adjusted the FY04 ending caseload downward by 16 cases (from 334 to 318), in order to reflect an internal review conducted by the Department during FY2005. During this review, INT determined that 16 cases were inadvertently counted twice. This error occurred prior to the integration of INT's Internal and External databases, which took place at the beginning of FY2005.

Table 4. INT Ending Caseload by Rating (FY2005–FY2006)⁷

	Carryover into FY2005	New Cases	Cases Closed	Carryover into FY2006	New Cases	Cases Closed	Carryover into FY2007
High priority (external)	166 ⁷ (72)	221 (104)	209 (75)	169 (92)	153 (51)	119 (26)	203 (117)
Medium priority	77	31	58	27	47	32	42
Low priority	24	77	154	30	51	75	6
No rating (preliminary inquiry)	51	23	6	17	41	15	43
Total cases	318	352	427	243	292	241	294

As shown in Table 4, INT completed 209 high priority cases in fiscal 2005, of which 134 were internal and 75 were external. A total of 169 high priority cases were carried over to fiscal 2006. Twenty-seven medium priority cases were carried over to fiscal 2006, or 50 fewer than were carried over from fiscal 2004. The carryover of low priority cases increased by six, from 24 to 30 during fiscal 2005, partly reflecting the new approach to case management: the triage system.

In fiscal 2006, as shown in Table 4, INT completed 119 high priority cases, of which 93 were internal and 26 were external, and 203 high priority cases were carried over to fiscal 2007. Forty-two medium priority cases were carried over to fiscal 2007, or 15 more than the figure for fiscal 2005. The carryover of low priority cases fell by 24, from 30 to six during fiscal 2006.

⁷ The figures in this Table (by row) are not cumulative, as case priority ratings are subject to change during the course of an investigation. For example, cases are occasionally opened with a higher priority rating than that with which they are closed. This change in a case's priority is most clearly evident in the "Low priority" row in Table 4, wherein 100 low priority cases were either opened during, or carried into, FY2005, but 153 were closed.

⁸ INT's "Annual Report on Investigations and Sanctions of Staff Misconduct and Fraud and Corruption in Bank-Financed Projects, Fiscal Year 2004" stated that 182 high priority cases were carried over into FY05. For this report, INT has adjusted this number (to 166) to reflect the error explained in Footnote 6.

IV. EXTERNAL INVESTIGATIONS AND SANCTIONS

INVESTIGATIONS AND CASELOAD MANAGEMENT

On the external side, INT carried over 224 cases into fiscal 2005, opened 235 new cases, an increase of 32 from fiscal year 2004 and closed 293 cases, an increase of 70 from fiscal 2004 (see Table 5). As a result, 166 cases were carried over to fiscal 2006 for a net reduction of 58 cases from the previous year. By the end of fiscal 2005, 104 new high priority external cases were opened and 75 closed throughout the fiscal year, leaving a carryover figure of 92, or 20 more than were carried over the previous fiscal year (see Table 6). Twenty-seven medium priority cases were carried over to fiscal 2006, a significant drop by 50 from the number of cases carried over to fiscal 2005, as well as 30 low priority cases. The number of cases with "No rating (Preliminary Inquiry)" was down 34, from 51 to 17; in such cases, no priority ranking can be assigned until the inquiry is complete.

As discussed, the carryover into fiscal 2006 amounted to 166 cases; 190 new cases were opened, a decrease

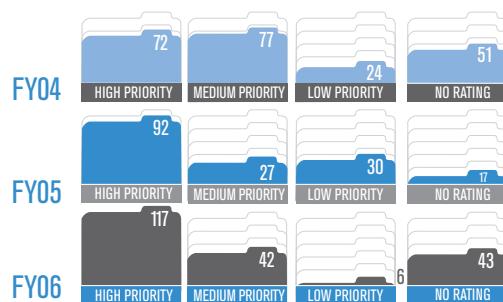
Table 5. INT External Cases (FY2004–FY2006)

	CARRIED OVER	CASES OPENED	CASES CLOSED	ENDING CASeload
FY04	244	203	223	224
FY05	224	235	293	166
FY06	166	190	148	208

of 45 from fiscal 2005, and 148 cases closed, or 147 less than in fiscal 2005 (see Table 5). As a result, 208 cases were carried over to fiscal 2007 for a net increase of 42 cases from the previous year.

By the end of fiscal 2006, INT opened 51 new high priority external cases and closed 26 throughout the fiscal year, leaving a carryover figure of 117, or 25 more than were carried over the previous fiscal year (see Table 6). In the category medium priority cases, 42 were carried over to fiscal 2007, an increase of 15 from the number of cases carried over to fiscal 2006. Six low priority cases were carried over as well to fiscal 2007. The number of cases with "No rating" was up 26, from 17 to 43.

Table 6. INT External Cases by Priority Ratings (FY2004–FY2006) carried over into the subsequent fiscal year's caseload



The nature of the allegations received by the Bank during FY05 and FY06 range from procurement fraud and collusion to kickbacks and bribes; from accounting fraud and overcharging to the misuse of project assets, and included other activities, such as misrepresentation of qualifications in bid submissions. As noted in Figure 1, collusion in the procurement process was the most common allegation made, representing 36 percent of all allegations for cases closed in fiscal 2005. The next most common was kickbacks (23 percent) followed by bribery (17 percent), often a complement to collusion during the bidding process, with additional payments required later for payment of invoices. Together, these three categories accounted for 76 percent of all allegations received in fiscal 2005.

Figure 1. Types of Allegations Received (FY2005)

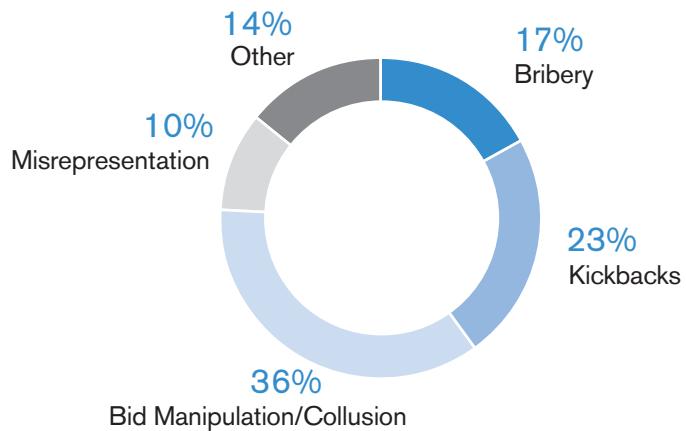
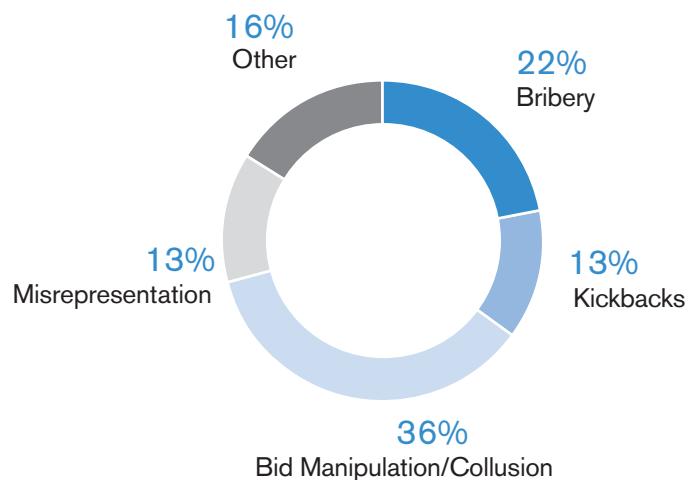


Figure 2. Types of Allegations Received (FY2006)



The types of allegations received in fiscal 2006 were almost identical to those in the previous fiscal year. As noted in Figure 2, collusion in the procurement process was most frequent, representing 36 percent of all allegations for cases closed in fiscal 2006. The next most common was bribery (22 percent). Together, these two categories accounted for 58 percent of all allegations received in fiscal 2006.

In terms of the sources of allegations, the share of cases reported by Bank staff (mostly task team leaders and procurement and financial management specialists) has continued to rise – up from 26 percent in fiscal 1999 to 32 percent in fiscal 2005 – reflecting, in part, the growing awareness of the institutional integrity function within Operations (see Figure 3).

Figure 3. Sources of Allegations (FY2005)

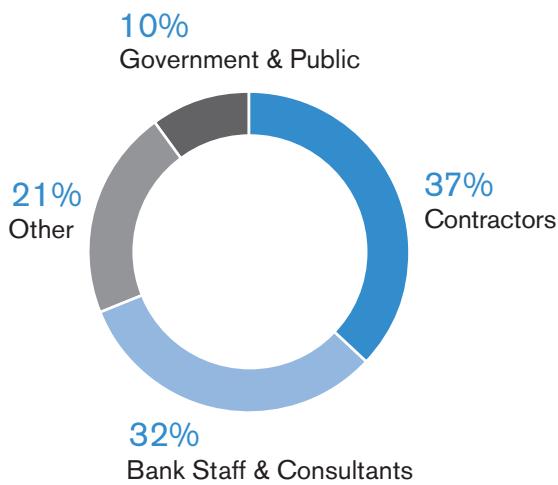
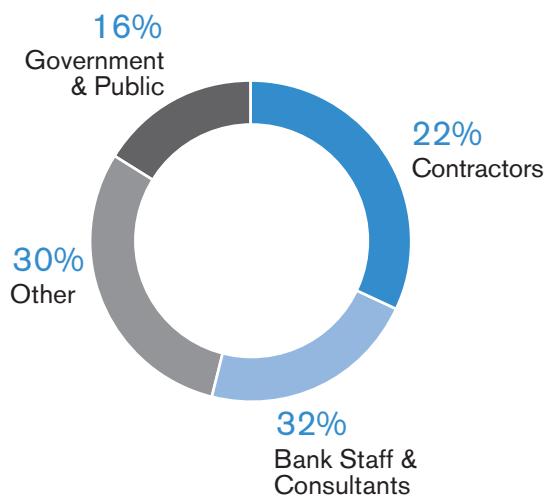


Figure 4. Sources of Allegations (FY2006)



The share of cases reported by Bank staff in fiscal 2006 remained at the same 32 percent level that was seen in FY05 (see Figure 4).

As for the distribution of cases by Region (see Table 7), it should be emphasized that the number of allegations received by the Bank from any given Region does not necessarily reflect the extent of corruption in the countries of that Region. Rather, the current statistics

are simply an indication of where cases have been reported to the Bank, which in turn reflects where INT has been most active over recent years. The distribution may also reflect a relatively small project portfolio in the Region, for example, as exists in the Middle East and North Africa Region. Over time, as investigators undertake investigations over a wider geographic area, the current phenomenon of under-reported countries/Regions is expected to decline.

Table 7. INT External Cases by Region (FY2004–FY2005)

Region	FY2004 Carryover	FY2005 New Cases	FY2005 Subtotal	FY2005 Closed Cases	FY2005 Ending Caseload
Africa	33	39	72	43	29
East Asia/Pacific	62	63	125	89	36
Europe/Central Asia	61	40	101	70	31
Latin America/Caribbean	31	30	61	38	23
Middle East/North Africa	4	12	16	4	12
South Asia	<u>33</u>	<u>51</u>	<u>84</u>	<u>49</u>	<u>35</u>
Total	224	235	459	293	166

In fiscal 2005, the East Asia and Pacific (63), South Asia (51), and Europe and Central Asia (40) Regions reported the largest number of new cases; the Middle East and North Africa Region reported the fewest. The East Asia and Pacific (125) and the Europe and Central Asia (101) Regions handled the largest caseloads during the fiscal year. The East Asia and Pacific Region also closed the largest number of cases (89).

In fiscal 2006, the East Asia and Pacific (51), and South Asia (51) Regions reported the largest number of new cases, followed by Europe and Central Asia (33) and the Africa (32) Regions. The Middle East and North Africa Region reported the fewest. The East Asia and Pacific (87), South Asia (86) and the Europe and Central Asia (84) Regions handled the largest caseloads during the fiscal year. The Europe and Central Asia (40) and South Asia (40) Regions closed the largest number of cases.

OUTCOMES AND RESULTS

INT closed a total of 293 cases in FY2005. This includes cases that were rated as “low-priority”, as well as those that were medium or high-priority which underwent an in-depth investigation and were determined to be “substantiated,” “unsubstantiated,” or “unfounded.”⁹

Of these, 133 were originally rated “low priority/No Further Action”, or were “referred.” Following the closure of FY05, INT embarked upon a review of these 133 cases in order to determine whether any of these cases were closed without proper cause. The review determined that 131 of the 133 cases should have been classified with a rating of “low priority/No Further Action” (see also Footnote 2).

INT determined that 125 of these cases (95 percent) were deemed to be *Justifiably* closed;

Table 8. INT External Cases by Region (FY2005–FY2006)

Region	FY2005 Carryover	FY2006 New Cases	FY2006 Subtotal	FY2006 Closed Cases	FY2006 Ending Caseload
Africa	29	32	61	17	44
East Asia/Pacific	36	51	87	37	50
Europe/Central Asia	31	33	84	40	24
Latin America/Caribbean	23	15	38	11	27
Middle East/North Africa	12	8	20	3	17
South Asia	35	51	86	40	46
Total	166	190	356	148	208

⁹ A case is considered “substantiated” when the evidence is sufficient to show that the alleged misconduct was committed; “unfounded” when the evidence is sufficient to show that the alleged misconduct was not committed; and “unsubstantiated” when the evidence is inconclusive.

for 6 cases (5 percent), the reviewers were not able to make a determination and consequently rated them *grey*, but after culling all necessary, missing documentation, INT reviewers determined that there were *zero* cases that were closed *Unjustifiably*.¹⁰

Through this review, clearly delineated thresholds have been developed that INT considers to be appropriate for closing cases. These thresholds—a critical element in case intake and case rating—should help the Department avoid such a time-consuming and laborious review in the future.

The chart in Table 9 below indicates that 162 of the cases closed during fiscal 2005 underwent full investigation. Here, the rate of substantiated allegations was 36 percent. Allegations were unsubstantiated in 48 percent of cases, and 16 percent of cases were determined to be unfounded—that is, the evidence clearly indicated that the allegations were not true. Although the number of substantiated cases increased from fiscal 2004 to fiscal 2005, the substantiation rate of cases investigated decreased from 44 percent to 36 percent.

As noted earlier in this report, cases have become more complex, requiring more investigators per case, and involving more INT advisory support to operations at various levels in the life of projects. Table 9 indicates that 74 cases closed during fiscal 2006 underwent full investigation. Here, the rate of substantiated allegations was 18 percent. Allegations were unsubstantiated in 47 percent of cases, and 35 percent of cases were determined to be unfounded—that is, the evidence clearly indicated that the allegations were not true. The number of substantiated cases fell from 58 in fiscal 2005 to 13 in fiscal 2006 and the substantiation rate of cases investigated decreased from 36 percent to 18 percent.

Table 10 summarizes the sanctions imposed by the Bank's Sanctions Committee during fiscal 2004-2006 in response to cases substantiated by INT investigations against Bank-financed contractors or consultants—the Bank publishes those sanctions on its website. In addition, the Bank made a number of referrals to national authorities:

Overall, during fiscal 2005 the Sanctions Committee:

- Received two new cases from INT;
- Met six times and heard 13 cases;

Table 9. INT External Cases by Investigative Outcomes (FY2004–FY2006)

	FY2004	FY2005	FY2006
Cases closed	223	293	148
Cases referred/not investigated	<u>120</u>	<u>41</u>	<u>28</u>
Low Priority – No Further Action	0	90	46
Cases investigated of which:	103	162	74
Substantiated	45 (44%)	58 (36%)	13 (18%)
Unsubstantiated	49 (48%)	77 (48%)	35 (47%)
Unfounded	9 (8%)	27 (16%)	26 (35%)

¹⁰ Each of the four cases considered Grey were reviewed by the Lead INT Investigative Officer. During this review, the number of grey and Unjustified cases decreased exponentially, as the relevant Case Closing Memos (CCMs) that provided a valid justification for case closure were either located by the reviewing team (through extensive due-diligence), or finalized by the INT investigator involved in the case.

- Debarred 54 firms and 45 individuals; and
- Issued six letters of reprimand, *i.e.* one to a firm and five to individuals.

In fiscal 2006, the Sanctions Committee:

- Received one new case from INT;
- Met twice and heard two cases; and
- Debarred four firms and nine individuals.

The number of debarred firms remained fairly constant (54 firms in FY 2005 compared with 55 in FY2004) and these cases were characterized by:

- A broader geographical reach of cases, including countries such as Albania, Burkina Faso, Cambodia, China, Croatia, East Timor, France, Indonesia, Lesotho, and the United Kingdom; and
- The involvement of large companies such as Acres International Limited (see * in Appendix 4) and Thales Engineering and Consulting Group.

Table 10. The Bank's Sanctions Process (FY2004–FY2006)

	FY2004	FY2005	FY2006
Sanctions-related actions			
Number of cases received	23	2	1
Number of committee sessions	8	6	2
Number of cases heard	16	13	2
Number of sanctions applied			
Number of debarments			
Firms	55	54	4
Individuals	71	45	9
Total debarments	126	99	13
Number of letters of reprimand			
Firms	4	1	0
Individuals	3	5	0
Total letters of reprimand	7	6	0
Total sanctions applied	133	105	13

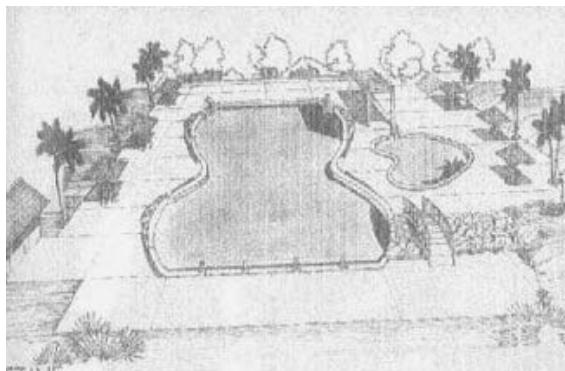
Fiscal 2006 was a period of transition for INT, wherein the Department shifted its priorities from sanctions to the increasingly labor-intensive investigations in its caseload. As INT's decision to focus on higher impact cases began to take effect, the number of sanctions cases heard declined, as did the total number of sanctions applied. FY06 was also a time of transition for the Sanctions Committee, with the President appointing new members and a new Acting Secretary. Moreover, the larger and more internationally well-known the respondent, the more likely the case was to be vigorously defended and the greater the time and resources the Bank (including INT) had to devote to the case.

In fiscal 2006, four firms and nine individuals were debarred, including in the Russian Federation and in Lithuania. In addition, a number of sanctions cases are currently at various stages of finalization, some involving numerous respondents in highly complex collusion cases.

INT will continue to seek to increase the impact and demonstration effect of the cases brought to the Sanctions Committee and its successor body by ensuring that, as far as possible, the cases are geographically diverse and cover a broad range of prohibited misconduct.

INT has made a number of referrals to Member Countries and International Organizations in FY05 and FY06. A referral may involve more than one communication with or provision of report to the recipient; referrals to different agencies of a member country on the same matter are treated as one referral for these purposes. In FY05, there were a total of 2 referrals made to 2 countries (Argentina and India); in FY06, there were a total of 12 referrals made to 8 countries (Bangladesh, Bolivia, Bosnia, Cambodia, France, India, Philippines, and Sweden) and 4 international agencies (Interpol, UNICEF, UNHCR and OLAF). Referrals were also made to 2 member countries in the course of the VDP pilot program in the period FY05-FY06.

TRUST FUND CONSERVATION PROJECT



Design of hot springs spa for ecotourism center



Status after >50% disbursed with 30 days left to completion

DETAILED IMPLEMENTATION REVIEW (DIR)

As the Bank has increased its focus on anticorruption, INT's Forensic Services Unit has developed the Detailed Implementation Review (DIR).¹¹ A DIR is a broad-based examination of the contracts within selected projects of the borrower country. The examination is a review of the project's contracting processes relating to contract procurement, financial management and implementation using forensic accounting, auditing and investigative techniques. The primary purpose of the DIR is to evaluate a country's contracting process for the potential existence of fraud, corruption and mismanagement and to identify specific contracts that exhibit strong indicators consistent with the presence of fraud and corruption. The DIR's methodology is based on widely-accepted practices within the forensic audit and fraud examination disciplines and uses a combination of computerized and manual review and assessment techniques to assess the risk of and to identify indicators of possible fraud and corruption.

Indicators of fraud and corruption are *identifiable and observable characteristics* consistent with fraudulent or corrupt behavior. A high proportion of such indicators in contracts reviewed suggests likely, although not conclusive, widespread and systemic breakdowns, weaknesses and problems within the contract procurement, financial management and implementation processes. INT emphasizes, however, that the absence of any indicators does not imply that the contract or project is immune from or has not been subjected to potential fraud and corruption.

The DIR is conducted in three main stages. The first stage commences with the physical collection of vast amounts of procurement and financial management data¹² from selected Bank-financed project(s) which is then uploaded into a specialized DIR database. The dataset is then searched for patterns which reveal indicators of fraud and corruption in procurement processes and financial transactions. The specific procurement processes and financial transactions flagged by this data-mining exercise identify the contracts under the projects that need more detailed review.

In the second stage, these contracts are subjected to fraud examination techniques to determine the veracity of the indicators and to collect specific evidence of fraud and corruption where possible. While the first stage of the DIR provides insight into the scale of irregularities in the project(s), the second stage reveals the nature of the irregularities by indicating the schemes, corrupt actors, and other contributing risk factors such as poor document management, vulnerable procurement practices and weak financial management.

The purpose of the third stage of the DIR is to commence substantiating the indicators of fraud, corruption and collusion and to verify the quality of implementation. This stage is conducted through interviews and field inspections. Upon completion of the DIR, a report is written that highlights the findings as noted above.

INT investigators and forensic accountants collaborated with World Bank country teams to complete one DIR in fiscal 2005, and began work on additional DIRs in fiscal 2006. The completed DIR was conducted in Cambodia. The Bank's country team and the member country announced the review publicly, reported on the findings, and began follow-up actions that resulted in a dialogue on the ways to improve compliance with World Bank requirements.¹³ INT also launched a number of investigations based on the findings of the DIR.

In general terms, the DIRs undertaken to date confirmed that goods, works and services under Bank-financed projects were delivered, but that the quality of output was often substandard. In addition, they also identified indicators of fraud, corruption and collusion at various points throughout the procurement and implementation cycles in all of the selected projects. These indicators included lax or inconsistent adherence to procurement guidelines, nontransparent bid evaluation meetings, unusual similarities in bids, poor implementation of works, and evidence that procurement processes were not genuinely competitive. In some cases, INT conducted further investigations, which gathered evidence to substantiate the indicators identified during the DIR.

11 In the early stages of its development, the DIR was called "Fiduciary Review."

12 The DIR does not generally rely on sampling techniques but rather collects the universe of data available in the selected Bank-financed projects.

13 See World Bank Press Release "The Royal Government Of Cambodia And The World Bank Release Summary Report And Action Plan Aimed At Reducing Fiduciary Risks," issued in Phnom Penh on September 16, 2005.

DETAILED IMPLEMENTATION REVIEW (DIR)

The Detailed Implementation Review (DIR) is a new, proactive tool designed to identify indicators of fraud and corruption in specific Bank-supported projects. The DIR has attracted a great deal of interest within the Bank, both from financial management, procurement and audit staff, who have studied it for their own risk assessment initiatives, and from operational staff as they attempt to assess the risks of fraud and corruption in the projects they are involved with.

DIRs are undertaken in the absence of any allegations of misconduct or evidence that such activity has taken place. The reviews are very resource intensive and take at least eight months to complete. For a DIR to be successful, partnership between the relevant national government, the Bank's country management team and INT is essential. This close collaboration continues long after the completion of the review through the ongoing dialogue between the Bank and the government authorities.

Since 2002, DIRs have been completed in Indonesia, Vietnam and Cambodia. One DIR is expected to conclude in Kenya and one in India in FY2007, and more reviews are planned in other countries.

In 2002, in Sulawesi, Indonesia, the Bank undertook an overall assessment of 277 contracts; a detailed procurement review of 26 contracts; and a detailed financial management review of 85 contracts. The review was hampered by large quantities of missing documentation. Nevertheless, strong indicators of collusion among bidders and common ownership of shell companies were found in many contracts.

Building on this experience, the country team identified possible remedial measures to lessen the incidence of fraud and collusion in Bank-financed projects. Several risk mitigation strategies were implemented, including the formation of an Anti-Corruption Committee.

In fiscal 2005, in Cambodia, basic data from 632 contracts were entered into the special DIR database from which a list of 257 contracts was identified with issues of possible concern. Of these, 119 contracts were reviewed in detail. The review revealed a number of instances of: (1) lack of competitive bidding; (2) inappropriate bid remedial measures to lessen the incidence of fraud, corruption and collusion in Bank-financed projects; (3) irregular bid securities; (4) questionable financial management; (5) substandard physical works; and (6) poor document management. The results of the DIR were passed to the Government as well as the Bank Country Team so that specific remedial measures could be designed to mitigate the risk of a recurrence of these instances.

As a result of the information obtained during the DIRs, INT launched a number of investigations, a procedure that is seen as an integral part of the overall process, resulting in debarment proceedings against numerous companies.

V. INTERNAL INVESTIGATIONS AND SANCTIONS

OVERVIEW

The Institutional Integrity Department is mandated to independently investigate allegations of staff misconduct under the policies set forth in Staff Rule 8.01 (Disciplinary Proceedings).

The Bank's disciplinary process is separated into two distinct components. The first is the investigative component, which is the responsibility of INT. The second is the decision-making component, which is the responsibility of the Bank's Vice President for Human Resources Services (HRSVP). INT does not make disciplinary decisions.

The investigative and decision-making process related to allegations of staff misconduct aim to achieve three equally important goals: (1) investigative thoroughness; (2) transparency of process; and (3) protection of the rights of all parties concerned. The Bank's procedures are designed to protect individual rights, ensure due process, protect against reprisals, and safeguard the interests of the institution.

INT's role is that of impartial and independent fact-finder. Its findings and conclusions on any given case are subject to review by the HRSVP and may be challenged by the staff members involved in any given case in the Appeals Committee, and ultimately in the Administrative Tribunal.¹⁴

With respect to alleged staff misconduct, INT investigates allegations of fraud and corruption committed both in Bank Group operations and in relation to the Bank Group's own administrative budget and various benefit programs.

Within the context of inappropriate workplace behavior, INT also investigates other forms of alleged staff misconduct, including harassment, sexual

harassment, discriminatory practices, retaliation, and abuse of authority.

In addition, INT staff advise managers on the mechanisms available to address allegations of harassment and sexual harassment. Specifically, guidance is given on whether allegations of harassment should be investigated under the Bank's disciplinary process or whether they can be addressed informally through any of the various problem-solving mechanisms available within the Bank's Conflict Resolution System (CRS).¹⁵ When managers or staff consult with INT on these matters, INT does not automatically initiate an investigation into the allegations. In fact, INT *will not* initiate an investigation without the expressed consent of the aggrieved staff member.

INT works closely with the CRS and associated services as well as individual managers in an effort to best address and resolve allegations of inappropriate workplace behavior through informal interventions. The formal process of Staff Rule 8.01 is reserved as the avenue of last resort, or for cases in which the alleged behavior appears *prima facie* either egregious or chronic.

INVESTIGATIONS AND CASELOAD MANAGEMENT¹⁶

The Internal Unit of INT closed a significant number of cases (134) in fiscal 2005, an increase of 16 from fiscal 2004 (118 cases). Fiscal 2005 saw a decline in the number of cases carried over – 77 cases were carried over to fiscal 2006, a decrease of 33 from the previous year (see Table 11). New cases were down by 34, from 151 in fiscal 2004 to 117 in fiscal 2005.

14 World Bank investigations are administrative, not criminal, investigations. As a result, the applicable rules and procedures differ in some respects from those applicable to a criminal inquiry.

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

16 Some of the figures for fiscal 2004 in Table 11 vary from those reflected in INT's "Annual Report on Investigations and Sanctions of Staff Misconduct and Fraud and Corruption in Bank-Financed Projects, Fiscal Year 2004." When compiling the data for this Annual Report, INT discovered that the variance was due to two errors which occurred in preparing the previous Annual Report: (i) The case category for a few cases opened and /or closed in fiscal 2004 was incorrectly recorded in the database during data entry; and (ii) some cases were inadvertently counted twice because they had been logged in both the External database and the Internal database during a period when the former databases in use by INT for recording external and internal cases were not integrated as they are beginning in fiscal 2005. In order to validate and ensure the integrity of the data reflected in this report for both fiscal 2004 and fiscal 2005, INT conducted a line-by-line review of every internal case in the database that was carried over into fiscal 2004 and 2005, opened and closed in fiscal 2004 and 2005, and active at the end of fiscal 2004 and 2005.

Table 11. INT Internal Cases (FY2004–FY2006)

	FY2004	FY2005	FY2006
Cases carried over	71	94	77
New cases opened	<u>151</u>	<u>117</u>	<u>102</u>
Subtotal	228	211	179
Cases closed	<u>118</u>	<u>134</u>	<u>93</u>
Ending caseload	110 (18) 94 ¹⁸	77	86

In fiscal 2006, the Internal Unit closed 93 cases, a decrease of 41 from fiscal 2005 (134 cases). A total of 86 cases were carried over to fiscal 2007, an increase of 9 from the previous year (see Table 11). New cases were down by 15, from 117 in fiscal 2005 to 102 in fiscal 2006.

The number of cases closed in FY06 while lower than the number closed in FY05, is noteworthy in light of increasing capacity constraints. The closure rate was attained notwithstanding: (i) a 38 percent reduction in the number of investigators;¹⁷ (ii) substantial overhead costs of reviewing, editing, and revising reports outsourced to law firms; and (iii) the allocation of substantial resources on an institutionally sensitive, high-stakes, and multi-dimensional fraud and corruption investigation involving three staff and former staff subjects and two long-term institutional vendors which was launched in the first quarter of FY06 and continued well into FY07.

Timeliness is a perpetual concern in staff misconduct cases, especially in sexual harassment investigations, which are emotionally charged for the concerned parties and can adversely affect staff morale within the affected department or country office until the matter is resolved. Indeed, timeliness applies in essentially every case because of the impact of an ongoing investigation on staff morale and the workplace climate.

The Internal Unit's portfolio saw a significant fall in the number of tax and compliance investigations—which are far less time-consuming—and a substantial increase in the number of multifaceted, high-profile and large-scale internal investigations.

While the volume of internal cases has remained relatively steady year after year, cases have become more complex. Unlike external investigations, all Bank staff-related matters must be reviewed and resolved to prevent prejudice and periods of uncertainty to the staff members. The increase in complexity of the investigations requires that a much higher volume of documents be examined, more witnesses be interviewed, additional stakeholders be managed, and more time spent in post-investigative phases.

The investigative process has also become more sophisticated over time, in part to accommodate binding rulings by the Administrative Tribunal and non-binding recommendations by the Appeals Committee, and in part to reflect the lessons of experience about how best to ensure that investigations are carried out in a fair, balanced, rigorous, and professionally competent manner. Complicating matters is the fact that INT's operating environment is inherently unpredictable with respect to the frequency, volume, and sensitivity of complaints it receives on a regular basis.

In workplace conflict cases, INT's initial response is to determine whether an allegation requires the full and formal processes of an INT investigation, or whether it might be resolved more efficiently and effectively through a less formal process. Thus, during both the initial intake and the preliminary inquiry stages, each case is examined against the various alternatives available either under the CRS or through managerial intervention in a performance-based context. A judgment is then made about the most appropriate approach to resolving the issue in dispute.

Whenever the best alternative is not obvious, INT may consult with various parts of the CRS and associated services, and the relevant Bank managers, depending on the nature of the issue, to arrive at the most appropriate answer. This process is working well—36 cases were reassigned to CRS colleagues or relevant Bank managers in fiscal 2005, and 20 cases were similarly reassigned in fiscal 2006 (see Table 14 in the next section). This approach has allowed INT to focus its resources on those cases in which referral is not appropriate (e.g., because of the egregious nature of the allegations) or in which remedies under the CRS have already been exhausted.

17 A recruitment effort was launched in the second half of fiscal 2006 to address this shortfall.

18 INT Internal Unit's FY04 ending caseload was reduced by 16 in Table 10. Please see Footnote 16 for additional information on the reason for this adjustment.

Allegations against Bank Group staff vary widely and range from fraud and corruption in Bank Group operations or in relation to the Bank Group's own administrative budgets to other forms of misconduct such as sexual harassment, abuse of authority, violations of Bank Group policies and procedures (e.g. conflicts of interest), and non-compliance with private legal obligations (see Table 12).

The Bank takes all allegations seriously. Cases of sexual harassment which increased slightly from seven in fiscal 2004 to nine in fiscal 2005 and then dropped to four in fiscal 2006 are accorded the highest priority, along with those involving fraud and corruption by Bank Group staff.

As noted in Table 13, from fiscal 2004 to fiscal 2005 INT carried over 22 cases involving fraud or corruption by Bank Group staff in relation to Bank Group operations, and it added 11 new allegations in fiscal 2005, a considerable reduction from the number of new cases opened (32) in fiscal 2004. Of these 33 cases, 24 were closed and 9 carried over into fiscal 2006. Of the 23 cases that were closed following either a preliminary inquiry or a full investigation, two were substantiated as a result of a full investigation.¹⁹

From fiscal 2005 to fiscal 2006, as noted in Table 13, INT carried over 9 cases involving fraud or

corruption by Bank Group staff in relation to Bank Group operations; it added 21 new allegations in fiscal 2006, a considerable increase from the number of new cases opened (11) in fiscal 2005. Of these 30 cases, 17 were closed and 13 carried over into fiscal 2007. Of the 13 cases that were closed following either a preliminary inquiry or a full investigation, two were substantiated as a result of a full investigation.

The number of cases involving allegations of fraud and corruption in relation to the Bank Group's administrative budgets (e.g., travel or benefits fraud and embezzlement) was up in fiscal 2005, with 53 new cases compared with 36 in fiscal 2004, an increase of 47 percent.²⁰ Of the 47 cases closed, 18 were referred²¹ or not investigated,²² and 29 were closed after either a preliminary inquiry or a full investigation. Sixteen of the 29 cases were substantiated following a full investigation (a substantiation rate of 55 percent).

Subtracting the 21 referrals from IAD in FY05 (see Footnote 20) the number of cases involving allegations of fraud and corruption in relation to the Bank Group's administrative budgets remained relatively constant during fiscal 2006. Of the 30 cases closed, three were referred or not investigated, and 27 were closed after either a preliminary inquiry or a full investigation. Thirteen of the 27 cases were

Table 12. INT Internal Cases by Type and Number of Allegations (FY2004-FY2006)

Type of Cases	FY2004	FY2005	FY2006
Fraud and corruption/operations-related	32 (21%)	11 (9.5%)	21 (21%)
Fraud and corruption/administrative budget-related	48 (32%)	53 (45%)	28 (27%)
Workplace misconduct	10 (7%)	11 (9.5%)	18 (18%)
Sexual harassment	7 (5%)	9 (8%)	4 (4%)
Violation of WBG policies and procedures	17 (11%)	15 (13%)	26 (25%)
Non-compliance with personal legal obligations	37 (24%)	18 (15%)	5 (5%)
Total cases	151	117	102

19 A case is "substantiated" when the evidence is sufficient to show that the alleged misconduct was committed; it is "unfounded" when the evidence is sufficient to show that the alleged misconduct was not committed; and it is "unsubstantiated" when the evidence is inconclusive.

20 Twenty one of the 53 new cases involved referrals to INT from the Bank's Internal Audit Department (IAD) as a result of "red flags" and anomalies involving staff travel claims stemming from IAD's audit of the Bank's travel management.

21 Fifteen referrals involved the travel audit cases (mentioned in the preceding footnote) which INT returned to IAD following INT's preliminary review. Although exceptions to the Bank's travel policy were found to have occurred, the professional opinion of INT was that misconduct should not be inferred. However, in an effort to address them in a productive and effective manner, INT returned these cases to IAD which is best suited to engage the responsible managers and staff members within a 'controls' context to resolve the exceptions administratively.

22 Occasionally, INT receives very vague and ambiguous allegations from anonymous sources who do not provide a means for INT to communicate with the sources (e.g., a commercial e-mail address which can preserve their anonymity), in order to seek clarity or probe for specifics about the allegations. Absent a framework in which to investigate such claims in a reasonable, responsible, and focused manner, INT will not pursue such allegations. The allegations will, however, be recorded in INT's database for future retrieval should additional relevant information be received later that would provide a basis to investigate the matter at that time.

Table 13. INT Internal Cases Involving Allegations of Fraud and Corruption (FY2004 – 2006)

	FY2004	FY2005	FY2006
<i>Fraud and corruption/operations-related</i>			
Cases carried over	10	22	9
New cases opened	<u>32</u>	<u>11</u>	<u>21</u>
Subtotal	42	33	30
Cases closed of which:			
Reassigned/not investigated	20	24	17
Investigated	3	1	4
of which substantiated (%)	17	23	13
3 (18%)	2 (9%)	2 (15%)	
Ending balance	22	9	13
<i>Fraud and corruption/administrative budget-related</i>			
Cases carried over	11	29	35
New cases opened	<u>36</u>	<u>53</u>	<u>28</u>
Subtotal	47	82	63
Cases closed of which:			
Referred/not investigated	18	47	30
Investigated	8	18	3
of which substantiated (%)	10	29	27
4 (40%)	16 (55%)	13 (48%)	
Ending balance	29	35	33

substantiated following a full investigation (a substantiation rate of 48 percent).

Any appreciable fluctuation in the volume of new cases, either in general or by category, between fiscal years should not be interpreted solely as a condition that is improving or worsening. Rather, the fluctuation may also be an indicator of the reporting environment.

OUTCOMES AND RESULTS

During fiscal 2005, INT closed 134 cases of alleged staff misconduct. Of these, 98 cases (73 percent) were investigated and 36 cases (27 percent) were reassigned to others (see Table 14). Of the cases investigated, 47 (48 percent) were substantiated, 30 (31 percent) were unsubstantiated, and 21 (21 percent) were unfounded.

During fiscal 2006, as noted also in Table 14, INT closed 93 cases of alleged staff misconduct. Of these, 69 cases (74 percent) were investigated and 24 cases (26 percent) were reassigned to others. Of the cases investigated, 30 (44 percent) were substantiated, 16 (23 percent) were unsubstantiated, and 23 (33 percent) were unfounded.

It is important to note the distinction between those cases in which sufficient evidence was found to enable the Bank to impose disciplinary measures (substantiated cases) and thereby hold the staff members accountable for their actions, and those in which the Bank's investigation exonerated staff

Table 14. INT Internal Cases by Investigative Outcomes (FY2004 – FY2006)

	FY2004	FY2005	FY2006
Cases closed	118	134	93
Cases referred/not investigated	40	36	24
Cases investigated	70	98	69
of which:			
Substantiated	31 (44%)	47 (48%)	30 (44%)
Unsubstantiated	18 (26%)	30 (31%)	16 (23%)
Unfounded	21 (30%)	21 (21%)	23 (33%)

members who had been accused of misconduct (unfounded cases)—an equally important outcome for all concerned.

Details of the 47 cases that were substantiated in fiscal 2005 follow (see Table 15):

- Eighteen staff members were found to have engaged in fraudulent or corrupt practices, of which 16 cases were related to the Bank Group's administrative budgets (eight involved misuse of income tax allowances) and two involved Bank Group operations. Of the 18 staff, nine were terminated and barred from rehire (or if they had already left the Bank, simply barred from rehire) and eight of the nine also forfeited separation benefits as a means of restitution; one was demoted and forfeited a salary review increase (SRI); and eight received other forms of disciplinary action, including reprimands, salary reductions, or loss of salary review increases;²³
- Three staff members were found to have engaged in sexual harassment and were terminated and barred from rehire;

Table 15. INT Internal Substantiated Cases by Investigative Results (FY2005)

NO. OF CASES AND CATEGORY OF MISCONDUCT	ACTIONS TAKEN ²⁴	GRADE	LOCATION
2 – Fraud and corruption (operations)	Termination (1) Reprimand and salary reduction (1)	GF GG	Country Office (1) Washington HQ (1)
8 – Fraud and corruption (Bank Group administrative budget)	Bar to rehire and restitution (6) Demotion and loss of SRI (1) Restitution (1)	GC-GJ GG STC	Country Office (3) Washington HQ (5)
8 – Misuse of income tax allowances	Bar to rehire and restitution (2) Salary reduction (2) Reprimand and loss of SRI (3) Written censure (1)	GB-GG	Washington HQ (8)
3 – Harassment/sexual harassment	Termination (3)	GA-GH	Country Office (2) Washington HQ (1)
1 – Conflict of interest	Demotion and salary reduction (1)	GH	Washington HQ (1)
22 – Noncompliance with personal legal obligations	Full Compliance (20) Bar to rehire (1) Written Warning (1)	GC-GG STC, ETC	Washington HQ (22)
3 – Other violations of Bank Group rules	Bar to rehire (1) Demotion and salary reduction (1) Reprimand (1)	GA-GG	Country Office (3)

23 The Bank's definition of "fraud and corruption" includes certain misconduct (e.g., conflicts of interest) that would not mandate termination under the Staff Rules. Accordingly, a staff member can be found to have committed misconduct categorized generally as "fraud and corruption," but for which termination is not mandatory. As such, a disciplinary measure less than termination can be imposed.

24 Whenever a staff member is terminated for misconduct, an automatic bar to rehire takes effect.

Table 16. INT Internal Substantiated Cases by Investigative Results (FY2006)

NO. OF CASES AND CATEGORY OF MISCONDUCT	ACTIONS TAKEN	GRADE	LOCATION
2 – Fraud and corruption (operations)	Termination (2)	GG, STC	Country Office (2)
8 – Fraud and corruption (Bank Group administrative budget)	Termination and restitution (4) Bar to rehire (3) Oral and Written censure and salary reduction (1)	GA-GI	Country Office (2) Washington HQ (6)
5 – Misuse of income tax allowances	Bar to rehire (4) Reprimand (1)	GC, GG, STC	Washington HQ (5)
2 – Harassment/sexual harassment	Termination (1) Bar to rehire (1)	GG, STC	Washington HQ (2)
1 – Conflict of interest	Bar to rehire (2) ²⁵	GE-GF	Country Office (2)
7 – Non-compliance with personal legal obligations	Bar to rehire (3) Full Compliance (4)	GC, GE, ETC	Washington HQ (7)
5 – Other violations of Bank Group rules	Termination (1) Bar to rehire (4)	GA-GH, STC	Country Office (5)

- Two staff members were disciplined (one was barred from future hire) for failure to comply with personal legal obligations under the Principles of Staff Employment, and 20 others brought themselves into full compliance with their obligations as a result of INT's intervention; and
- Four staff members were disciplined for either conflict of interest or other violations of Bank Group policies.

Details of the 30 cases that were substantiated in fiscal 2006 follow (see Table 16):

- Fifteen staff members were found to have engaged in fraudulent or corrupt practices, of which 13 cases were related to the Bank Group's administrative budgets (five involved misuse of income tax allowances) and two involved Bank Group operations. Of the 15 staff, 13 were

terminated and barred from rehire (or if they had already left the Bank, simply barred from rehire) four of whom also forfeited separation benefits as a means of restitution;

- Two staff members were found to have engaged in sexual harassment. One was terminated and one had already left the Bank; both were barred from rehire;
- Three staff members were barred from future hire for failure to comply with personal legal obligations under the Principles of Staff Employment, and four others brought themselves into full compliance with their obligations as a result of INT's intervention;
- In a conflict of interest case, two staff members were barred from future hire; and
- Five staff members were disciplined for other violations of Bank Group policies.

²⁵ This single case involved two staff members. Therefore, the total number of staff members is 31.

VI. POLICY DEVELOPMENT AND NEW ANTICORRUPTION TOOLS

POLICY DEVELOPMENT

Considerable policy work was conducted in fiscal 2005/2006 to implement initiatives that should strengthen and deepen the World Bank Group's ability to prevent, investigate, and sanction fraud and corruption related to its funds, grants, and guarantees in future.

Strengthening the Sanctions Process

Significant progress was made during fiscal 2005/2006 in implementing the proposed sanctions reforms identified by a team headed by former UN Under-Secretary-General and U.S. Attorney General Dick Thornburgh in the *Report Concerning the Debarment Processes of the World Bank*.²⁶

This progress included discussions on how to bring the various business models of the IFC, MIGA, and the IBRD's work on guarantees under the umbrella of the sanctioning procedures.

On July 9, 2004, the Executive Directors of IBRD and IDA and the Boards of Directors of the IFC and MIGA approved the paper "Reform of the World Bank's Sanctions Process" ("Board paper").²⁷ This Board paper recommended significant revisions to the Bank's existing sanctions process intended to increase its efficiency and effectiveness, including:

- Replacement of the Sanctions Committee with a Sanctions Board, whose members would include not only World Bank Group staff (for their expertise and knowledge of Bank operations) appointed by the President but also individuals from outside the World Bank Group appointed by the Executive Directors based on a recommendation from the President. This change is designed to improve the transparency of the decision-making process, increase objectivity, and avoid any appearance of a conflict of interest between the Bank's senior management responsible for operations and the sanctions process;

- Whereas the current Sanctions Committee makes recommendations to the Bank's President for decisions, the new Sanctions Board would itself make final decisions on appropriate sanctions;
- Application of the sanctions process to IBRD and IDA guarantee operations;
- For the first time, the new Sanctions Board would review cases involving participants in IFC and MIGA activities, as well as IBRD/IDA projects;
- Establishment within the IBRD/IDA, IFC, and MIGA, respectively, of a new staff position, "evaluation officer," who would act as the first tier of review and have authority to issue temporary sanctions pending final resolution of cases on appeal to the Sanctions Board or in undisputed cases; and
- Introduction of certain measures intended to allow greater flexibility in imposing sanctions, including additional incentives to contractors to voluntarily disclose information about fraud or corruption in Bank-financed projects.

Of particular note, World Bank Group management has undertaken preparation of the various documents required to establish the Sanctions Board and implement additional reforms recommended in the Board paper. Some of these documents, which include a Sanctions Board Statute and new Sanctions Procedures, are necessarily specific to the individual World Bank Group entities. They result, however, from extensive discussions and consultations within the Bank and between the IBRD/IDA, IFC, and MIGA, and they generally reflect a consensus approach. World Bank Group staff members, as well as the evaluation officers, will be appointed directly by the Bank's President.

Harmonization and Broadening the Reach of the Sanctions Process

The Integrity divisions of the African Development Bank (AfDB), Asian Development Bank (AsDB),

26 Dick Thornburgh, Ronald L. Gainer, and Cuyler H. Walker, "Report Concerning the Debarment Processes of the World Bank," Washington, D.C., World Bank, August 14, 2002.

27 World Bank, "Reform of the World Bank's Sanctions Process," Washington, D.C., 2004, as supplemented by Supplemental Notes dated March 1, 2004, and May 11, 2005, approved by the Board on March 9, 2004 and May 23, 2005, respectively.

European Bank for Reconstruction and Development (EBRD), Inter-American Development Bank (IDB) and World Bank met regularly in a series of “MDB Integrity Forums” beginning in December 2004 to reach a common understanding on various issues under their shared purview.

These regular meetings, on occasion hosted by the World Bank, enabled the institutions to engage in comparative analysis on their respective policies and procedures and seek ways to increase effectiveness through coordinated action. In particular, these meetings laid the groundwork for subsequent collaboration on harmonization of definitions of fraud and corruption and began considering future items for review, such as how cross debarment across the MDBs could be effectively implemented, among other topics.

Building on this progress, at a meeting of the heads of International Financial Institutions (IFIs) in February 2006, hosted by the World Bank, President Wolfowitz and the leaders of the AfDB, AsDB, IDB, EBRD, European Investment Bank (EIB), and International Monetary Fund (IMF) established a Joint IFI Anti-Corruption Task Force.

The IFI Task Force was given the mandate to: standardize definitions of corruption; improve consistency of investigative rules and procedures; strengthen information sharing; and assure compliance and enforcement actions taken by one institution are supported by all others. The press release²⁸ also committed the institutions to work together, “*to develop concrete proposals to assist countries over the longer term in strengthening their capacity to combat corruption and to improve cooperation with civil society and other stakeholders and institutions, such as the press and judiciary, with the goal to enhance transparency and accountability.*” The Task Force was asked to conclude an agreement on these goals by the 2006 Annual Meetings of the Boards of Governors of the International Monetary Fund and World Bank Group.

In parallel with sanctions reforms, the revision of the definitions of fraudulent and corrupt practices under development by the IFI Task Force aims to expand the range of offenses that can be sanctioned by the World Bank beyond procurement-related offenses, to include more effective audit clause enforcement and the inclusion of obstruction of an investigation as a sanctionable offence.

During fiscal 2005/2006, the U.S. Senate Committee on Foreign Relations under the chairmanship of Senator Richard Lugar continued to hold hearings on the effectiveness of the MDBs in combating fraud and corruption, including a hearing entitled *Combating Multilateral Development Bank Corruption: U.S. Treasury Role and Internal Efforts*, on July 21, 2005.²⁹ The hearings culminated in provisions that were included in the Foreign Operations Appropriations Act in November 2005. This legislation promotes the implementation of financial disclosure and voluntary disclosure programs by the MDBs, staff incentives for project design, a call for harmonized definitions of fraud and corruption across the MDBs and policy coordination to provide for cross-debarment across the institutions. The legislation also seeks to strengthen whistleblower protections and support the independence and efficacy of audit functions.



Meeting of the heads of IFIs at the World Bank Headquarters in Washington, DC on February 18, 2006.

28 World Bank press release, “Multilateral Development Banks Agree on Common Approach to Fight Corruption,” issued in Washington, D.C. on February 18, 2006.

29 The first hearing was held before the same committee on May 13, 2004. See U.S. Senate Committee on Foreign Relations, “Combating Corruption in the Multilateral Development Banks,” 108th Cong., 2d sess. The testimony from the second hearing also appears on the committee’s Web site.

“ But punishing corruptors isn’t the only solution. In fact, it probably isn’t the best solution. The best solution is in fact improved transparency, improved accountability, so that corruptors know ahead of time that they can’t hide. Prevention is much better than the cure. Businesses and civil society organizations can play an important monitoring and advocacy role here, so can the press. And anyone who says that the issue of press freedom is purely a political issue that has nothing to do with development, I don’t think understands just how important accountability is to preventing corruption, and just how serious a threat corruption is to the development process. ”

Paul Wolfowitz,

**Remarks to the Business for Social Responsibility Conference,
Washington, D.C., November 4, 2005**

Integrating Investigative Findings

The World Bank's Operations Policy and Country Services (OPCS) Vice Presidency provides operational policy and guidance to staff with the aim of improving the development effectiveness of Bank activities. This work incorporates efforts to strengthen governance and prevent fraud and corruption, including translating INT findings into guidance on the Bank's country programs and operations; and strengthening safeguards in Bank lending.

Actions taken during fiscal 2005/2006 reflect OPCS's growing emphasis on anticorruption. For example, the ongoing modernization of investment lending policy is incorporating relevant lessons on combating corruption. OPCS also took various measures aimed at strengthening the Bank's capacity to combat fraud and corruption through its procurement policies and practices. Some actions were proposed and executed at a central level (e.g., modification of the *Procurement Guidelines*) and others were undertaken by the regional procurement offices (e.g., support to current INT investigations). Financial management in projects continues to evolve, and support for countries' financial management systems is becoming more harmonized with that of other donors. The design of country assistance strategies is also being strengthened to provide further support to governance issues. Finally, OPCS also provides

sector-specific advice with a focus on anticorruption for extractive industries.

In April 2006, the Development Committee³⁰ requested that the Bank “*lay out a broad strategy... for helping member countries strengthen governance and deepen the fight against corruption, working closely with the Fund, other multilateral development banks and the membership, to ensure a coherent, fair and effective approach.*” The paper under development at the end of fiscal year 2006, led by OPCS, sought to describe the policy framework and address the operational implications of the World Bank Group's heightened focus on governance and anticorruption and its envisioned scaled up support for country efforts to strengthen governance and reduce corruption.

Other Anticorruption Initiatives and Developments in World Bank Group Agencies

Within the World Bank, other anticorruption initiatives related to Bank-financed projects and trust funds in FY05 and FY06 included policy work in the following areas:

- Anticorruption implications of wider use of country procurement systems in Bank-financed projects;
- Anti-money laundering and counterterrorist financing;
- Impact and effectiveness of institutional integrity work;

³⁰ The Development Committee is a forum of the World Bank and the International Monetary Fund that facilitates intergovernmental consensus-building on development issues. Known formally as the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries, the Committee was established in 1974.

- Evolution and interaction of compliance functions of the World Bank Group in light of changes in the compliance environment; and
- Impact of legislation in the U.S. Congress on "Combating Corruption in the Multilateral Development Banks." (see below)

During FY05/06, the IFC and MIGA undertook significant efforts to support and further the World Bank Group's sanctions reform process, with a view toward bringing about a harmonized World Bank Group approach to sanctions and debarment. Teams from the Bank, MIGA, and the IFC worked together to develop sanctions procedures that are relevant and appropriate to each unit's business model and operations. The ultimate goal is to have a fully functional system of sanctions and debarment operational throughout the World Bank Group. One important feature of a harmonized approach is that an individual or entity debarred from doing business with either the Bank, MIGA, or the IFC will be debarred from all of them. In FY07, the institutions will continue to work together to bring the reformed sanctions and debarment process into effect.

In addition, the IFC expanded the use of anticorruption representations, warranties, and covenants from projects in which particular due diligence or risks might have been indicated, such as financing with significant government contracts or concessions, to cover all IFC investment operations. The IFC is also upgrading other proactive measures to automatically screen projects for the involvement of "Politically Exposed Persons" ("PEPs")—a situation that may indicate the use of enhanced due diligence or extraordinary procedures in evaluating the proposed project—and to help screen out projects that might be vulnerable to allegations of corruption.

In 2005, MIGA revised its internal procedures on corrupt practices, money laundering, and financing of terrorism. MIGA has undertaken a strengthening of its own due diligence in the underwriting process. The revised procedures are designed to identify reputational risks associated with potential guarantee holders or other MIGA counterparties, so that MIGA can either decline to deal with parties of a high risk of corruption or require remediation before proceeding with a project. In addition, MIGA has introduced a process to automatically screen the names of applicants for MIGA guarantees and their officers, directors, and shareholders against international watch lists of corruption, money laundering and financing of terrorism, including the WBG

sanctions list. In this effort, MIGA is working closely with the IFC, which has such a system in place. For projects of smaller scale (under \$5 million), MIGA has instituted special integrity due diligence guidelines and procedures to deal with the difficulty of assessing the reputational risk posed by small investors.

If MIGA determines that any prohibited act mentioned above has occurred after the contract of guarantee is issued, it can terminate the contract. MIGA may, however, at its discretion and where appropriate, allow for a cure period before terminating. In 2006, language has been clarified in its new model contracts of guarantee, in order to ensure that corrupt practices, money laundering, and the financing of terrorism are all adequately covered.

Assistance to Other Organizations

During fiscal 2005/2006, INT and other departments within the World Bank received numerous requests for assistance from agencies and organizations (both international and national) in connection with developing anticorruption functions. Many of these requests came from international organizations or aid agencies located in member countries of the Organization for Economic Co-operation and Development (OECD), although some came from borrowing countries in relation to more effective detection, investigation and/or prosecution of white-collar crime cases. The technical assistance requests covered diverse topics, including:

- How to establish a hotline to receive allegations;
- The World Bank's sanctions procedure and reforms related thereto;
- The due process safeguards that are built into the sanctions process;
- The Bank's experiences with financial disclosure by senior management;
- Protection of whistleblowers;
- Communications guidelines for fraud and corruption cases;
- Development of an annual report on investigations and sanctions; and
- Prerequisites for and likely consequences of cross debarment—that is, the debarment of a company from all MDB-funded contracts, not just those of the Bank Group, on the basis of the finding of misconduct by one of the MDBs.



VOLUNTARY DISCLOSURE PROGRAM

Fiscal 2005/2006 saw significant progress in the development of the World Bank's Voluntary Disclosure Program (VDP). The VDP is a new, proactive tool designed to obtain information about the anatomy of corruption and promote compliance with Bank rules and guidelines at minimal cost to the Bank. As noted in the Fiscal Year 2004 Annual Report, the VDP began in earnest in 2004 when the Bank conducted a small pilot exercise to develop the VDP's mechanics and test its results. As the VDP developed, INT looked to similar programs for guidance, including programs or legislation effective in, *inter alia*, Argentina, Australia, Brazil, the European Union, France, Italy, Japan, Pakistan, the United Kingdom, the United Nations, and the United States.

Under the VDP, participants commit to: (1) not engage in misconduct in the future; (2) disclose to the Bank the results of an internal investigation into past fraudulent, corrupt, collusive, or coercive acts in Bank-financed or supported projects or contracts; and (3) implement a robust internal compliance program which is monitored and reported on annually, for three years, by a Bank-approved compliance monitor. Participants pay the costs associated with almost every step of the VDP process.

In exchange, VDP participants avoid debarment for disclosed past misconduct, their identities are kept confidential, and they may continue to compete for Bank-supported projects. The World Bank will sanction, for a period of ten years, any participants that engage in continued misconduct or materially violate the program's Terms and Conditions.

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

The Bank shares participants' disclosures through reports carefully redacted to keep the participants'

identities confidential. The Bank shares these reports with member countries, World Bank management and staff, and other interested stakeholders, including other MDBs.

The VDP's benefits are manifold. For member countries, the VDP helps ensure the proper use of donor funds and empowers member countries to take meaningful enforcement action based on VDP participant disclosures. For the Bank's partners, the VDP provides incentives to both bribe givers and bribe takers to cease corrupt behavior and become compliant with Bank rules and guidelines. In the long term, this will promote a business environment in developing countries that is increasingly characterized by merit-based competition.

For the World Bank, the VDP is an efficient and cost-effective method of combating corruption. Disclosures by one participant can provide high-quality information of the patterns of corruption in Bank-financed projects and the identities of the firms and individuals engaging in corrupt acts. VDP participants also alert the Bank to ongoing or planned corrupt acts in real time, enabling the Bank to safeguard projects throughout their development and implementation. Lessons learned from VDP disclosures are mainstreamed into Bank policies and operations.

In fiscal 2005, INT conducted its first verification of investigations conducted under the VDP pilot. The pilot firms' disclosures provided evidence of numerous contracts, in several countries, tainted by corrupt payments to government officials. Moreover, the pilot firms provided evidence indicating that joint venture partners also engaged in corrupt practices on the same contracts. INT added this information to its databases and may use it to guide future investigations into these firms.

During fiscal 2006, INT completed its first full report of a participating VDP company and shared the redacted findings with relevant government authorities.

Also in fiscal 2006, following extensive consultations, the Bank's Audit Committee endorsed the VDP proposal. The Board of Executive Directors approved the VDP's programmatic elements on August 1, 2006 (Fiscal Year 2007).³¹ Once underway, INT will report aggregate data and results on a regular basis. The pilot program's fiscal 2005/2006 results are included in the data presented in this report.

³¹ More information about the VDP and its programmatic elements is available online at www.worldbank.org/vdp.

VII. COMMUNICATIONS AND OUTREACH

ENHANCED COMMUNICATIONS FOR DETERRENCE AND PREVENTION

In 2005, the World Bank put in place its first formal communications policy for investigations and sanctions of fraud and corruption. This policy, approved and publicly disclosed by the Board of Executive Directors in July 2004, has made it possible to improve transparency about the final results of investigations. It enabled, first and foremost, publication of the first integrity report for FY 2004³² and issuance of more detailed press statements about cases that resulted in sanctions. It also led to INT hiring a full-time, experienced communications professional. The overall purpose of the Bank's increased communications in this area is not only to raise awareness, but to change behavior—that is, to reduce the incidence of fraud and corruption and the behavior that tolerates or produces it (see Box 2).

INT's first Report on Investigations was posted on the Bank's web site in February 2005, and a press release was issued in all six official languages of the Bank. A press briefing was held and subsequent presentations were made to various audiences, including World Bank staff, business groups, and some European governments. The report was reprinted by the American Bar Association's Continuing Legal Education program and highlighted by other organizations as well.

Over the past two fiscal years, the World Bank has issued press releases about a number of debarment actions. The releases were translated into the relevant local languages, and many were translated into all six Bank languages. The Bank aims to provide even more translations of information about investigations and sanctions in the future, with the goal of reaching non-English-speaking audiences in member countries. Other press releases noted the actions of member governments on criminal referrals made by the World Bank, as well as the completion of a Cambodian study on reduction of fiduciary risks. In keeping with the new communications policy,

COMMUNICATIONS FOR DETERRENCE AND PREVENTION

To meet the need for more general deterrence and prevention, the World Bank has approved an affirmative approach to communications, carefully balanced with concern for legal safeguards. This approach is based on the core principle that the Bank will publish the sanctions and statistics that are the final results of fraud and corruption investigations in a timely, consistent, and fair fashion, balanced by the need to respect due process and not to compromise ongoing investigations and legal processes. Such publication and dissemination is an integral part of the antifraud and anticorruption effort.

Four objectives provide a test for whether sufficient information is being provided to allow the key target audiences to change their behavior. This would be information sufficient to:

- Warn potential wrongdoers that this kind of illicit activity is known to the Institution and that the Bank will follow-up if it is detected;
- Educate interested corporate or government officials and allow them to take specific actions to improve their systems;
- Alert and educate Bank staff and partners to potential patterns of behavior they need to report; and
- Alert potential victims (communities, citizens, civil society, businesspeople, staff) to risks and enable them to protect themselves.

³² "Annual Report on Investigations and Sanctions of Staff Misconduct and Fraud and Corruption in Bank-Financed Projects, Fiscal Year 2004," The World Bank Group, February 2005.

these press announcements were more detailed and timely than in the past and can be found on the INT website.

Effective internal communications is critical to the Bank's zero tolerance policy on staff involvement in fraud and corruption, as well as to deter misconduct such as sexual harassment. INT makes regular presentations in the Bank's Orientation Program for all new staff and consultants, and numerous presentations at regional department and country office meetings. In addition, it has publicized ways in which staff can report possible fraud and corruption. As a result, Bank staff and consultants provide over half of all the allegations received. It is notable that none of these staff have reported retaliation or threats of retaliation as a result of reporting their concerns directly to INT. The Department has also distributed several thousand brochures describing its role in the Bank. The Bank's intranet is also used to communicate personnel actions resulting from serious cases of staff misconduct, both to inform victims or those who have reported misconduct as well as to discourage those who might engage in similar conduct. Finally, INT meets with the Audit Committee of the Bank's Board of Executive Directors on a quarterly basis, in accordance with the Committee's oversight mandate.

OUTREACH AND KNOWLEDGE MANAGEMENT

In addition to enhanced communications, the Bank continued its efforts to build awareness of institutional integrity activities and enhance deterrence through presentations, workshops, seminars, training, and other more in-depth training and education for

operational staff in Washington and country offices. Outreach on integrity activities is frequently paired with presentations on the World Bank's governance work, which is much more extensive in scope.

In fiscal 2005/2006, INT staff participated in several international conferences dealing with fraud and corruption issues and contributed to cross-cutting networks sharing knowledge and techniques (see Box 3). In addition, the Department greatly increased its outreach to member countries, business associations, and anticorruption experts and organizations.

Two core presentations were "Anatomy of Transnational Corruption" and the findings of the fiscal 2004 Annual Report. "Anatomy" is a description of the typology and mechanisms of international fraud and corruption and the Bank's efforts to investigate and sanction any wrongdoing. "Anatomy" was presented in fiscal 2005/2006 to a variety of audiences inside the World Bank, including the Board of Executive Directors, and to external audiences ranging from the U.K. Department for International Development to the Fletcher School of Law and Diplomacy at Tufts University.

In addition, INT staff provided briefings for country offices and awareness presentations while working in client countries, including on detecting fraud and corruption in procurement contracts, due diligence tools, and INT's mandate and activities.

Also in fiscal 2005/2006, INT contributed to numerous internal seminars and training programs, such as the Core Course on Governance and Anticorruption, which targets Bank country economists and others interested in governance issues.

CREATING CROSS-CUTTING NETWORKS ON INVESTIGATIVE PRACTICES

Sharing its experience in fighting corruption—experience specific to institutional controls, investigations, and sanctions—has become an increasingly important part of the World Bank's work as an institution. The Institutional Integrity Department and the Sanctions Committee Secretariat have participated in and indeed actively encouraged the development of networks to facilitate the sharing of information and investigative best practices, and discussions of common challenges. To this end, INT is a member of the secretariat that organizes the **Conference of International Investigators** which met three times during fiscal 2005/2006. It was hosted by Interpol in Lyon, France, in September 2004, by the Inter-American Development Bank in Washington, D.C., in June 2005, and by the European Bank for Reconstruction and Development in London, UK, in June 2006.

INT has also been a driving force in the meetings of the **Multilateral Development Bank Integrity Forum**, a small, informal discussion group. The Forum is a valuable platform for practical discussions of issues such as whistleblower protection, sanctioning procedures, broader definitions of misconduct, possibilities for cross-debarment, and shared use of databases to improve information sharing. The December 2005 Integrity Forum paved the way for the IFI Task Force announced in February 2006 (see Chapter 6).

INT represented the Bank at the **11th United Nations Congress on Crime Prevention and Criminal Justice** in April 2005 and at various side meetings timed to overlap with the Congress, the **International Group for Anticorruption Coordination (IGAC)**, and Interpol's **Group of Experts on Corruption (IGEC)**. It is an active contributor to IGEC and IGAC, both of which generally meet biannually.

In addition, INT has been in discussions with business groups both in the United States and Europe. The Department participated in a number of events, including a workshop on business integrity at the **International Federation of Consulting Engineers (FIDIC)** conference in Fiscal 2005, the annual convention of the **American Society for Civil Engineers (ASCE)** in Fiscal 2005 and 2006, events organized by the **American Bar Association in the US and Europe**, the **OECD Working Group on Anticorruption**, and meetings with non-profit organizations such as **Transparency International (TI)** and **TRACE** throughout Fiscal Years 2005/2006.

VIII. CHALLENGES

Corruption stands as one of the biggest obstacles to achieving the Millennium Development Goals. Therefore, the fight against fraud and corruption in development lending is, in essence, a fight to reduce poverty. But tackling corruption in Bank-supported projects is not only vital to the Bank's mission in poverty reduction. It is also essential if the Bank is to be seen as credible when providing advice to partner countries on their broader governance efforts.

Corrupt activities — whether initiated by companies or government officials — often force reputable firms to flee from the projects that most require their expertise. Local and international companies cease bidding on development projects because corruption makes these endeavors unprofitable — not only because of the inflated costs, but also because of the very real and growing legal and reputational risks involved.

World Bank investigations are not just about enforcing rules and producing sanctions; they are about gaining knowledge and creating behavioral change. The specific patterns of corruption being documented by the Bank's investigative department, and by others in public procurement will provide guidance on how to better protect funds in the future.

Investigations of corruption conducted by the Bank's Integrity Department, and the subsequent actions taken by the institution based on the investigative findings, are fundamental in: fulfilling the Bank's fiduciary obligations; addressing reputational risks about the effective use of development assistance; deterring corruption in Bank projects; and, ultimately, achieving greater development effectiveness.

Using the reactive and proactive approaches described in this report, the World Bank will be working with partner countries and the broader development community to harness this information toward more efficient and transparent systems of financial accountability and better governance.

Going forward, INT is working with colleagues within the Bank and its development partners toward progress in the following areas:

- Moving to common systems and standards, including harmonized definitions of fraud and corruption, first among international agencies and with others donors such as the bilateral agencies;
- Implementing more proactive programs such as the Detailed Implementation Review (DIR) and Voluntary Disclosure Program (VDP) to combat fraud and corruption—in addition to *post facto* investigations—across the Bank and the broader development community;
- Moving toward better, more integrated compliance systems and encouraging companies and borrowers to ensure they have in place effective systems for enforcing high standards and for self-reporting when standards fail;
- Improving the ethical environment inside all organizations, including the ability to talk frankly about corruption when one sees it happening internally or in projects financed by the organizations;
- Stronger laws against fraud and corruption—with consequences for white-collar criminals—and more successful enforcement; and
- Reducing grand corruption through international cooperation and better governance.

“ Corruption is not just a problem for developing countries to deal with. The developed countries have an enormous responsibility. Indeed, every corrupt transaction has, unfortunately, at least two parties, and often more, and very often the bribe givers are from developed countries. They need to do more to police that. And they also need to do more to prevent stolen cash from being moved to foreign bank accounts, and to hold private firms accountable if they export corruption to emerging economies.

Paul Wolfowitz,
*Good Governance and
Development: A Time For Action,*
Jakarta, April 11, 2006

APPENDIX 1

HISTORICAL DATA

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

The World Bank's current investigations function began with a small unit in the Internal Audit Department in 1997. In 2001, it was established as a new and separate Department known as Institutional Integrity. The first years were characterized by rapid growth; external hiring to secure needed new skills and experience; developing operational policies and procedures and adjusting them in the light of subsequent experience; new initiatives leading to some major early successes, along with inevitable growing pains; strong support among certain key stakeholders and a less than fully enthusiastic reception from others. Recognition grew over this time that the capacity to detect, deter and prevent fraud and corruption related to Bank projects needed to be embedded in the organization at several levels for the long term, consistent with the fiduciary controls existent in other financial institutions. The international impact of the U.S. Congress' Sarbanes-Oxley Act reinforced this need for stronger control mechanisms.

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

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

APPENDIX 2

TERMS OF REFERENCE³³

In pursuing its mission of promoting development and reducing poverty, the World Bank Group³⁴ strives to ensure that its funds, as well as those funds entrusted to the Bank Group, are used for their intended purposes. The Bank Group is committed to working with Governments to fight fraud and corruption. The Bank Group is also committed to ensuring that Bank Group staff work in an ethical environment, free from discrimination, harassment, retaliation, and the misuse of Bank Group resources. The Bank Group has created the Department of Institutional Integrity (INT) to play a key role in pursuit of these objectives.

Authority

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

Independence

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

Activities

INT maintains effective lines of communication to permit Bank Group staff and the public to submit to INT allegations of staff misconduct or allegations of fraud or corruption in Bank Group projects. INT ensures that allegations can be submitted on an anonymous and/or confidential basis. INT also conducts its investigations with a view to preventing false allegations from causing harm to the reputations of wrongly accused individuals or firms.

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

INT respects the rights of Bank Group staff members by executing its responsibilities in a fair, impartial, and professional manner consistent with all applicable Bank Group rules. INT also takes steps to promote an environment whereby Bank Group staff can report misconduct without fear of retaliation. Like all staff members, INT personnel adhere to the Principles of Staff Employment, the Staff Rules, and other relevant Bank Group policies.

INT is responsible for establishing its internal procedures and for ensuring that such procedures are consistent with externally recognized practices for conducting investigations in international organizations. In its dealings with firms and individuals not employed by the Bank Group, INT acts in a fair and professional manner while maintaining its obligation to protect the Bank Group's assets and reputation.

Access

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

- Access to the contents of computer files and other electronic records shall be in accordance with the Detailed Information Security Policy.
- Access to personnel records shall be in accordance with Staff Rule 2.01 (Confidentiality of Personnel Information).

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

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

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

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

Partnerships

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

APPENDIX 3

TYPES OF INVESTIGATIONS CONCLUDED IN FY 2005-2006

External Investigations (Fraud and Corruption in Bank Projects)

ABUSE OF SOCIAL BENEFITS PROGRAM

The Institutional Integrity Department (INT) investigated allegations of manipulation in the enrollment and exclusion of beneficiaries in a social benefits program aimed to help alleviate the impact of unemployment throughout the borrowing country.

Considering the decentralized nature of the program's implementation arrangements and the large number of beneficiaries, the Bank's review was necessarily limited to a small subset of the program, but involved the conduct of interviews and the examination of project data and relevant government information. INT found evidence that in a four month period, the number of enrollments increased in one area by a third because of issues unconnected with eligibility criteria. The investigation also found that in some instances civil society organizations were inserted into the enrollment process and in a limited number of cases the civil society organizations threatened to exclude beneficiaries from the program if they refused to participate in the organization's activities, or if the beneficiaries refused to share a portion of the benefits with the administrative agency. During the life of the project, the borrowing government's own structures were also collecting information and acting on allegations of abuse in the program.

As a result of the Bank's findings, the borrowing government has endeavored to create greater transparency of the social benefits program by reviewing the entire roster of eligible beneficiaries; adopting more transparent procedures and internal controls regarding beneficiary registration and status of registrants; and implementing stricter controls in determining the eligibility of beneficiaries.

COLLUSIVE BIDDING AND INTIMIDATION IN A BANK-FINANCED ROADS PROJECT

In a roads project, procurement for two Bank-financed roads totaling US\$14 million was found to be tainted by fraudulent practices, including the use of intimidation of competing bidders.

The Bank's investigation found that a pre-determined bid winner, a local company, was aided and abetted

in the collusive scheme by the local Bid Evaluation Committee and probably other project officials from the relevant province. The pre-determined bid winner used a combination of threats to the future business interests of competitor companies or threats to the physical well being of competitors' staff, in addition to payments to "losing" bidders, to ensure that other tenderers submitted inflated bids. In one instance, representatives of the local company held captive staff members of a rival bidder wishing to submit a lower cost proposal, in order to force the competitor to miss the bid submission deadline.

The effect of the collusion was that winning bid prices were considerably higher than they would have been through genuine competitive bidding. As a result, the project's developmental impact was eroded and public confidence in the Bank's procurement system was severely undermined.

The bids affected by the collusion and coercion were cancelled, and a new bidding round was scheduled. The final tendering garnered prices were substantially lower than those intended by the originators of the collusive practice. The Bank was unable to establish whether public officials in the borrowing country received kickbacks as part of the scheme.

The Bank has made a referral of the investigation to the borrowing government for its own investigation.

COLLUSIVE BIDDING AND PAYMENT OF KICKBACKS IN A BANK-FINANCED ROADS PROJECT

Responding to the results of an ex-post review of contracts under a Bank-financed roads project, INT investigated 22 contracts totaling US\$4.8 million and found indications of collusive bidding by all bidders in every contract examined. All of the contracts at issue were procured at the district (sub-provincial) level within the borrowing country.

The investigation discovered that the procurement processes of this major public works project were skewed by widespread payment of kickbacks and favoritism. Predetermined bid winners lacking

the requisite credentials, but having personal relationships within the government, conspired with members of the bid evaluation committee to ensure their success. Many admissions were made by bidders that kickbacks had been paid to district level officials, including bid evaluation committee members, project managers and other government officials.

One noticeable technique to facilitate pre-determined bid winners was the supply of official letterhead by "losing" bidders so that the winner could falsely create all the "competing" bids. The sham competitive bids were returned to the companies for signature, then submitted and ultimately reviewed by the bid evaluation committee to create the appearance of a competitive process. For allowing their letterhead to be used, supporting companies received a percentage of the contract value from the pre-determined bid winner and an assurance that their company would be awarded a contract in the future.

Many bidders told the Bank that they did not like to participate in such manipulations of the procurement system, but felt required to do so given the potential for exclusion from other procurement processes if they failed to cooperate. Moreover, some bidders claimed that the system of collusive bidding and the payment of kickbacks to government officials is pervasive in the roads sector in the borrowing country, and extends beyond contracts financed by the Bank.

The Bank's investigation determined that the amount paid in kickbacks to local government officials ranged between 10-25 percent of the relevant contracts depending on the district and province. The consequences of the fraudulent and corrupt practices were that more was paid for the road works than was required and in at least some instances, the standard of work was poor. Thus, project beneficiaries were denied the full value of the development objectives of the project due to outright fraud.

The Bank has made a referral of the investigation's findings to the borrowing government for its own investigation.

CORRUPTION MAKES COMPANIES RELUCTANT TO TENDER ON BANK-FINANCED CONTRACTS

In a number of countries and sectors, INT has investigated Bank-financed projects involving consulting services companies that have been approached by government officials to engage in corrupt practices. It is made clear to those companies that certain amounts of bribes will

need to be paid to certain officials in order to make a chance to be awarded a contract. During INT's investigations, a few of these companies have described the processes by which consulting services contracts are awarded by Bid Evaluation Committees (BEC) to prearranged bid winners. Those processes include the manipulation of technical scores by corrupt BECs and/or the compulsory engagement of local agents or partners by the consulting firms to facilitate the corrupt arrangements.

INT has also learned that consulting services companies, particularly those headquartered in the richer countries, are increasingly confronted with the dilemma of having to pay bribes to win contracts in a given country in order to remain commercially viable and, in doing so, face the risk of sanctions for breaching new, tough anti-bribery laws in their home countries. Because of this pressure, some consulting services companies are beginning to lose interest in tendering for Bank-financed contracts in certain countries.

As a result, highly qualified firms will in fact withdraw from the market in some countries or some sectors, leaving the less competent and unscrupulous firms as the only ones tendering for certain Bank-financed contracts. In this compromised contract tendering environment, a few corrupt officials and business people end up enriching themselves at the expense of the needy that are supposed to benefit from the Bank-financed projects.

WIDESPREAD CORRUPTION IN A VARIETY OF PROJECTS IN A BORROWING COUNTRY

A Bank-conducted review of several projects in a Borrowing Country revealed that many contracts showed indications of being affected by fraudulent and/or corrupt practices. In response, INT sent a team to the country to undertake a thorough investigation of several contracts. During and after that mission, the investigators received allegations from a number of sources, including bidders, that other projects in the same country were similarly affected by fraudulent and corrupt practices. INT undertook another mission to the country to resolve the additional allegations and conclude the earlier investigations. While in-country during the second mission, INT received allegations relating to yet another project, the investigation of which was concluded during the mission's timeframe. The projects investigated were or are being implemented by a variety of Ministries. INT substantiated the vast majority of the allegations and was able to demonstrate in several instances that the implementation of works contracts was sub-standard.

The INT findings indicated that fraudulent and/or corrupt practices within the Borrowing Country were likely to be widespread and having a deleterious effect on the development objectives sought through the Bank's projects. In response to the findings, the Bank suspended ongoing projects which had been affected by the fraud and corruption. The Borrower and the Bank also agreed on risk mitigation action plans, the successful implementation of which was a condition to the lifting of the suspensions. Moreover, the Bank exercised remedies under the relevant loan agreements to have contract amounts declared misprocured or cancelled from loan amounts. The Bank also briefed other donors to the Borrowing Country on the investigative findings. Finally, INT will request that sanctions be applied to a large number of firms and individuals who were actively involved in the fraudulent and/or corrupt schemes.

REFORM OF PUBLIC PROCUREMENT IN THE HEALTH SECTOR

Over the period 2004-2005, INT undertook a number of investigative missions to a Borrowing Country to determine the validity of numerous allegations it had received concerning fraud and corruption in a health project. In the first phase of the investigation, INT determined through documentary evidence and interviews of bidders that fraudulent certificates of previous experience were widely used by bidders in an effort to qualify for Bank-financed contracts under the health project. It was also deemed highly likely that a cartel was operating amongst a small number of bidders.

In the second phase of the investigation, INT was able to establish the existence and method of operation of the cartel. Investigators also confirmed that some officials of the Borrowing Country were involved in supporting the cartel in return for receiving kickbacks from its principals. Furthermore, the investigation revealed that the range of procurements affected by the operation of the cartel was likely to be broader than first thought.

In response to the findings, the Bank and the Borrowing Government worked closely together to develop a detailed action plan, the implementation of which should ensure a significantly enhanced procurement environment for the country's health sector. The action plan incorporates future diagnostic work to assist in identifying other problems, if any, in other health projects within the country, and to

amend the action plan in that light. INT will request that sanctions be applied to the firms and individuals most involved in the operation of the cartel and to those involved in the use of fraudulent certificates.

BID RIGGING AND COLLUSION IN AN EDUCATION PROJECT

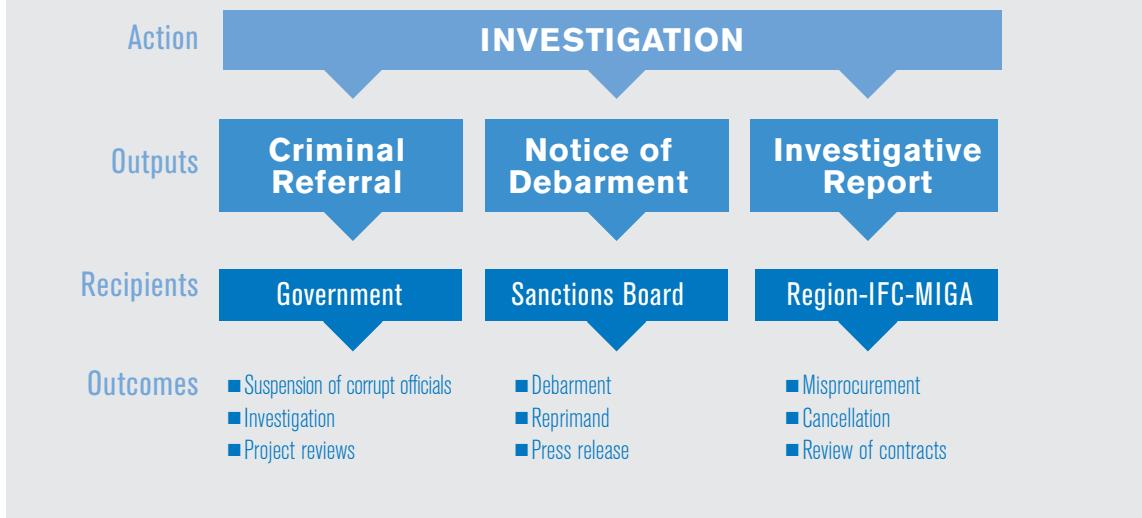
A Borrowing Government arrested an official of an agency which was responsible for implementing a Bank-financed education project on charges of financial impropriety. On the basis of that arrest and subsequent information from a contractor that the agency official had arranged a collusive bidding ring in relation to a number of contracts under the education project, INT undertook an investigation of the relevant contracts. The investigation involved the collection and analysis of a large number of bidding documents and interviews of a number of witnesses in the Borrowing country.

The investigators found that the agency official had arranged a collusion ring to steer a large number of contracts awards to his own company and to the companies of people known to him. To implement the collusion, the agency official influenced local officials who had a role in awarding the contracts.

The documentary evidence showing collusion was very strong: For example: (a) bidding documents from different companies contained the same spelling mistakes and used an identical template (showing that the bids were likely produced at a central point); (b) higher than usual bid prices had no adequate justification; and (c) there was evidence of bid rotation *i.e.*, companies took turns to win contract awards. (The incentive for losing bidders to participate in a collusive scheme is often compensation from the pre-determined winning bidder and/or a promise that the next contract will be allocated to the loser of the current bid process).

This evidence was supported by the testimony of witnesses with direct knowledge of the collusive scheme. In addition, INT found that one of the colluding companies had submitted false certificates of prior experience in order to "qualify" for the bid process. All of the contracts at issue were below the threshold of value that required the Bank to issue a "No Objection" before the contracts were awarded. As this report went to press, the Bank was determining what the response will be to the INT findings.

INVESTIGATIONS HELP STRENGTHEN RISK MITIGATION MEASURES AND DETER CORRUPTION



Internal Investigations (Staff Misconduct)

FRAUDULENT CLAIMS FOR REPRESENTATION FUNDS

A senior manager consistently submitted and filed fraudulent claims of representation expenses totaling \$7,500 over a documented period of two years. By combining representation and hospitality expenses for frequent lunches with staff and external clients, the manager knowingly misrepresented the receipts and documents submitted after frequent reminders to the contrary.

The staff member claimed to have misunderstood the difference between representation and hospitality expenses and listed them as fungible when in relation to any business-related entertainment. The only descriptions written upon the receipts were either "business development" or "business representation." Thus, the receipts submitted by the manager failed to list with whom and for what purpose the business expenses occurred, contrary to Bank guidelines.

The evidence suggested, however, that the manager was aware of the procedural requirements to file the expenditure claims, along with the differences between the two business expenses. When the subject manager was required to approve business expenses of office subordinates, the rules were strictly enforced. In contrast, the distinction was ignored when such claims were submitted by the subject manager. The discriminatory application of

the Bank's guidelines corroborated the fact that the manager understood the distinction and procedural protocols between the two business expenses.

Based on INT's findings, the Bank's Vice President of Human Resources Services found that the manager's actions were in violation of Bank rules and policies. While the expenses were approved, the manager's position required a heightened responsibility to observe the Bank's policies, particularly concerning representation and hospitality expenses. Thus, the manager was required to reimburse the Bank for the subject expenditures, and was further barred from future employment in any capacity with the World Bank Group.

CONFLICT OF INTEREST AND ABUSE OF POSITION AS A TASK TEAM LEADER

A Task Team leader of an urban development project failed to distinguish between professional responsibilities to the Bank and personal financial interests. INT first responded to allegations that the staff member lived beyond the reasonable means of an international organization employee, when reports alleged that the Task Team Leader owned more than one lavish home while also residing at the same address of a bidding consultant company. The investigation concluded that over the course of seven years, the staff member lived in an apartment

paid by a consultant company rent-free (valued at \$31,849); accepted an all-expenses-paid trip by the consultant company; and received limousine car services for travel to and from the airport to the home of the staff member's family residence.

The consultant company sought employment on Bank-financed projects and won at least four contract awards, three of which were administered by the Task Team Leader. Thus, the staff member compromised any appearance of propriety while domiciled within the consultant's apartment complex. When the consultant company eventually demanded rental payment, or threatened eviction, the No-Objection Letter to one of the contracts by the Bank was withdrawn.

The Task Team Leader argued that the highest ranked consultant company in the supervisory contract bidding process lacked the technical capacity to simultaneously monitor construction projects in two states that were geographically nine hours apart by car. Therefore, a legitimate business reason, and not partiality, swayed the Task Team Leader to select the second highest ranking company.

The consultant company, however, suggested that the Task Team Leader retaliated because of the demand for rent or eviction. The consultant company supervised other sites in differing states with no logistical problems, but due to the company's recent demand for rent payment, the Task Team Leader allegedly forced the withdrawal of the No-Objection Letter.

INT found that while there was a legitimate reason to disqualify the consulting company, the Task Team Leader's personal financial interests created an appearance of conflicting interests with World Bank professional responsibilities. The sponsored living accommodations provided an opportunity for the consultant company to claim credibly that their failure to secure the contract award was a result of retaliation rather than upon merit or competition. Based on INT's findings, the Bank's Vice President of Human Resources Services terminated the staff member's employment and permanently barred the staff member from future employment in any capacity with the World Bank Group.

SEXUAL HARASSMENT

This case involved a Level GH senior staff member who engaged in a pattern of behavior over six months that constituted sexual harassment. On multiple occasions, the staff member engaged in inappropriate behavior toward a subordinate staff

member by extending repeated invitations to social activities outside of work; touched the junior staff member in an unwelcome manner through repeated massages; made unwelcome comments and solicitations of a sexual nature; and retaliated against the junior staff member when such advances were rebuffed.

While the subordinate staff member willingly socialized at the outset of their working relationship, the expectation was for professional advancement, rather than a pretext for a sexual relationship. As the supervisor's actions toward the subordinate staff member became more overt, the attention became increasingly offensive, intimidating and troubling; in turn, creating an allegedly hostile work environment. In particular, after the junior staff member communicated that such actions were no longer welcome, the staff member withheld the location and date of return from time spent on personal leave to the chagrin of the senior staff member. The senior staff member, who had supervisory power over the subordinate staff member, retaliated by denying authorization of five of 10 requested leave days for no legitimate business reason.

Based on INT's findings, the Bank's Vice President of Human Resources Services terminated the senior staff member's employment for sexual harassment, and barred the said staff member from future employment with the World Bank Group.

TRAVEL FRAUD

A Level GG staff member serving as a project manager willfully and intentionally deceived senior management through a continuous pattern of financial fraud from January 2002 to January 2005 by providing false and fraudulent hotel receipts and statement of expenses totaling \$30,330 for which there was no legitimate entitlement. Furthermore, the staff member manipulated and improperly used World Bank Group calling cards and the office telephone for personal long distance calls, then subsequently misrepresented the extent and purpose of the calls when explaining travel for personal leave.

Through a consistent pattern of claiming one to three extra days of travel reimbursements by altering, extending or forging hotel receipts or statements of expense, the project manager gradually accumulated tens of thousands of dollars in fraudulent travel claim reimbursements.

The investigation originally stemmed from an inquiry as to personal phone charges made from one location using the World Bank telephone system,

when the staff member alleged to senior management to be attending training in another country. The discrepancy in the physical location of the staff member led to a further investigation of all travel expenses during the project manager's tenure. INT found substantial evidence to indicate a clear and continuous pattern of misrepresentation with regard to, not only the use of the World Bank telephone system, but also mission travel in that the staff member submitted falsified hotel receipts and statements of expense.

Based on INT's findings, the Bank's Vice President of Human Resources Services terminated the staff member's employment, barred the staff member from future hire within the World Bank Group, and ordered the forfeiture of the staff member's separation benefits totaling \$30,300 as restitution for the staff member's ill-gotten gains.

ABUSE OF AUTHORITY AND SEXUAL HARASSMENT

This case involved a Level GG senior staff member who engaged in a pattern of behavior towards multiple females, which constituted an abuse of authority and sexual harassment. In successive sequences, the staff member offered each female, who were either newly employed by the Bank in junior positions or seeking employment with the Bank, to engage in physical contact with him with the offer of a massage.

The accused staff member admitted to having engaged in the behavior alleged by the complainants, but disputed that it constituted either an abuse of authority or that it created a hostile work environment for the complainants, stating that the behavior stopped immediately after the solicitation had been rebuffed by the females. The investigation revealed that, regardless of the staff member's intention, the impact of the inappropriate behavior on the multiple victims ranged from embarrassment to fear, and resulted in the creation of an intimidating work environment, particularly for one victim, who worked under the direct supervision of the staff member. In addition, the staff member's position with the Bank was perceived by the junior staff members as inherently intimidating. Lastly, the fact that after each female successively rejected his solicitations, the staff member proceeded to engage in a similar pattern of behavior with the next female, which also posed a serious reputational risk for the institution.

Based on INT's findings, the Bank's Vice President of Human Resources Services terminated the senior

staff member's employment for abuse of authority and sexual harassment, and permanently barred the staff member from future employment within the World Bank Group in any capacity.

CONFLICT OF INTEREST AND ABUSE OF POSITION

Three managers were alleged to have undertaken trips which were funded by the Bank as operational for the actual purpose of attending sporting events and other personal activities. The three managers were also alleged to have accepted gifts and entertainment from Bank vendors for whom the three staff were the point of contact in the Bank.

The results of INT's preliminary inquiry indicated that the allegations against two of the managers were sufficiently, although not conclusively, corroborated by documentary evidence. Accordingly, the two staff members were afforded the option to resign under four conditions: *(i)* that the staff be barred permanently from rehire in any capacity within the World Bank Group; *(ii)* that the staff make restitution for funds received to which the staff was not entitled; *(iii)* that the staff's access to Bank Group facilities be restricted; and *(iv)* that the staff waive their rights to appeal (Option 1), in lieu of undergoing a more expansive, intrusive and visible Staff Rule 8.01 misconduct investigation. This "Options" approach has proven to be a very effective and cost-efficient tool in resolving cases quickly where the allegations, if substantiated, would mandate termination under the Bank's rules.

Two of the managers chose to resign from the Bank immediately and agreed to the four conditions cited above.

Further investigation into the allegations involving the third manager revealed no corroborative evidence of travel fraud, but indicated that the manager had accepted minor gifts and/or gratuities from Bank vendors, with whom the World Bank had a business relationship. INT concluded that while those actions did not rise to a level of seriousness requiring formal Staff Rule 8.01 disciplinary proceedings, the staff member's actions did create the appearance of impropriety and a conflict of interest, warranting corrective action. In this regard, INT recommended to the staff member's senior manager that the staff member be required to undergo further training on business ethics and conflict of interest avoidance through the Bank's Office of Ethics and Business Conduct.

APPENDIX 4

SANCTIONS APPLIED IN FISCAL 2005 AND 2006

A. List of Firms and Individuals Debarred

NAME	ADDRESS	COUNTRY	INELIGIBILITY PERIOD	GROUNDS	
ACRES INTERNATIONAL LIMITED (*)	ONTARIO	CANADA	22-JUL-2004	22-JUL-2007	Consultant Guidelines 1.25(a)(i)
PT. TIGA SERANGKAI	JAWA TENGAH	INDONESIA	08-SEP-2004	08-SEP-2006	Procurement Guidelines 1.15(a)(ii)
PT. TITIAN ILMU	BANDUNG	INDONESIA	08-SEP-2004	08-SEP-2006	Procurement Guidelines 1.15(a)(ii)
PT ASTRA DAIHATSU	UJUNG PANDANG	INDONESIA	08-SEP-2004	08-SEP-2006	Procurement Guidelines 1.15(a)(i) and (ii)
PT PRIBUMI MEKAR		INDONESIA	08-SEP-2004	08-SEP-2019	Procurement Guidelines 1.15(a)(ii)
PT TRIGENDA KARYA	BANDUNG	INDONESIA	08-SEP-2004	08-SEP-2006	Procurement Guidelines 1.15(a)(ii)
UD BULUKUMBA JAYA MOTOR	SULAWESI SELATAN	INDONESIA	08-SEP-2004	08-SEP-2005	Procurement Guidelines 1.15(a)(ii)
YAYASAN PENERBIT IKIP MALANG	BANDUNG	INDONESIA	08-SEP-2004	08-SEP-2019	Procurement Guidelines 1.15(a)(ii)
PT. EDUMEDIA	JAWA TIMUR	INDONESIA	08-SEP-2004	08-SEP-2006	Procurement Guidelines 1.15(a)(ii)
PT. GANECA EXACT	BANDUNG	INDONESIA	08-SEP-2004	08-SEP-2006	Procurement Guidelines 1.15(a)(ii)
PT. GRASINDO	JAKARTA	INDONESIA	08-SEP-2004	08-SEP-2006	Procurement Guidelines 1.15(a)(ii)
PT. INDAH JAYA ADIPRATAMA	BANDUNG	INDONESIA	08-SEP-2004	08-SEP-2019	Procurement Guidelines 1.15(a)(ii)
PT. MAPAN	BANDUNG	INDONESIA	08-SEP-2004	08-SEP-2019	Procurement Guidelines 1.15(a)(ii)
PT. MITRA GAMA WIDYA	JAKARTA	INDONESIA	08-SEP-2004	08-SEP-2006	Procurement Guidelines 1.15(a)(ii)
PT. MIZAN	JAKARTA	INDONESIA	08-SEP-2004	08-SEP-2006	Procurement Guidelines 1.15(a)(ii)

NAME	ADDRESS	COUNTRY	INELIGIBILITY PERIOD	GROUNDS	
PT. MULTI ADIWYATA	BANDUNG	INDONESIA	08-SEP-2004	08-SEP-2019	Procurement Guidelines 1.15(a)(ii)
PT. PABELAN	JAKARTA	INDONESIA	08-SEP-2004	08-SEP-2006	Procurement Guidelines 1.15(a)(ii)
PT. PENERBIT ERLANGGA	JAKARTA	INDONESIA	08-SEP-2004	08-SEP-2006	Procurement Guidelines 1.15(a)(ii)
PT. SURYA ANGKASA	SEMARANG	INDONESIA	08-SEP-2004	08-SEP-2006	Procurement Guidelines 1.15(a)(ii)
PT. PRIBUMI MEKAR	BANDUNG	INDONESIA	08-SEP-2004	08-SEP-2019	Procurement Guidelines 1.15(a)(ii)
PT. REMAJA ROSDA KARYA	BANDUNG	INDONESIA	08-SEP-2004	08-SEP-2019	Procurement Guidelines 1.15
MR. PAK MARSUS	UJUNG PANDANG	INDONESIA	08-SEP-2004	08-SEP-2007	Procurement Guidelines 1.15(a)(ii)
MR. ROZALI USMAN	BANDUNG	INDONESIA	08-SEP-2004	08-SEP-2019	Procurement Guidelines 1.15(a)(ii)
MR. SONNY SYARIFUDDIN	UJUNG PANDANG	INDONESIA	08-SEP-2004	08-SEP-2006	Procurement Guidelines 1.15(a)(ii)
MR. WIMPY IBRAHIM	BANDUNG	INDONESIA	08-SEP-2004	08-SEP-2019	Procurement Guidelines 1.15(a)(ii)
MRS. H. DJUMSURI	PARE PARE	INDONESIA	08-SEP-2004	08-SEP-2005	Procurement Guidelines 1.15(a)(ii)
MS. IBU ACE/ ACUE AMIR	JAKARTA	INDONESIA	08-SEP-2004	08-SEP-2006	Procurement Guidelines 1.15(a)(ii)
PT. ASTRA INTERNATIONAL ISUZU		INDONESIA	08-SEP-2004	08-SEP-2007	Procurement Guidelines 1.15(a)(ii)
PT. BALAI PUSTAKA, JALA	BANDUNG	INDONESIA	08-SEP-2004	08-SEP-2019	Procurement Guidelines 1.15(a)(ii)
MR. H. DJUNADAE ATIRAH	PARE PARE	INDONESIA	08-SEP-2004	08-SEP-2006	Procurement Guidelines 1.15(a)(ii)
MR. H. NASRUM ALI	PARE PARE	INDONESIA	08-SEP-2004	08-SEP-2006	Procurement Guidelines 1.15(a)(ii)
MR. H. SYAEFULLAH SIRIN	BANDUNG	INDONESIA	08-SEP-2004	08-SEP-2019	Procurement Guidelines 1.15(a)(ii)
MR. HARIS ARSYAD	PARE PARE	INDONESIA	08-SEP-2004	08-SEP-2005	Procurement Guidelines 1.15(a)(ii)
MR. IRWAN AMIRUDDIN	PARE PARE	INDONESIA	08-SEP-2004	08-SEP-2006	Procurement Guidelines 1.15(a)(ii)
MR. KETUT SUARDHANA	BANDUNG	INDONESIA	08-SEP-2004	08-SEP-2006	Procurement Guidelines 1.15(a)(ii)
MR. MAYHUDDIN AL MUDRA	JAKARTA	INDONESIA	08-SEP-2004	08-SEP-2006	Procurement Guidelines 1.15(a)(ii)
MR. MUSLIM FAISAL	BANDUNG	INDONESIA	08-SEP-2004	08-SEP-2006	Procurement Guidelines 1.15(a)(ii)

NAME	ADDRESS	COUNTRY	INELIGIBILITY PERIOD		GROUNDS
MR. P.M. WINARNO	JAKARTA	INDONESIA	08-SEP-2004	08-SEP-2006	Procurement Guidelines 1.15(a)(ii)
CV TIGA PERMATU BIRU	PARE PARE	INDONESIA	08-SEP-2004	08-SEP-2005	Procurement Guidelines 1.15(a)(ii)
CV TRESNAMUDA TEHNIK	PARE PARE	INDONESIA	08-SEP-2004	08-SEP-2005	Procurement Guidelines 1.15(a)(ii)
CV WIRA KARYA	PARE PARE	INDONESIA	08-SEP-2004	08-SEP-2006	Procurement Guidelines 1.15(a)(ii)
IKIP MALANG	BANDUNG	INDONESIA	08-SEP-2004	08-SEP-2019	Procurement Guidelines 1.15(a)(ii)
MR. ARFAN DJAFAR	UJUNG PANDANG	INDONESIA	08-SEP-2004	08-SEP-2007	Procurement Guidelines 1.15(a)(ii)
MR. BURHAN ALI	PARE PARE	INDONESIA	08-SEP-2004	08-SEP-2006	Procurement Guidelines 1.15(a)(ii)
MR. DENDY WARDHANA PUTRA	UJUNG PANDANG	INDONESIA	08-SEP-2004	08-SEP-2007	Procurement Guidelines 1.15(a)(ii)
MR. FRANS PARERA	JAKARTA	INDONESIA	08-SEP-2004	08-SEP-2006	Procurement Guidelines 1.15(a)(ii)
MR. GUNAWAN HUTAURUK	JAKARTA	INDONESIA	08-SEP-2004	08-SEP-2006	Procurement Guidelines 1.15(a)(ii)
MR. H. ACHMAD	SULAWEISA SELATAN	INDONESIA	08-SEP-2004	08-SEP-2005	Procurement Guidelines 1.15(a)(ii)
CV. GRAFINDO		INDONESIA	08-SEP-2004	08-SEP-2019	Procurement Guidelines 1.15(a)(ii)
CV. KENDANG SARI	SURABAYA	INDONESIA	08-SEP-2004	08-SEP-2006	Procurement Guidelines 1.15(a)(ii)
CV. SELANGKAH MAJU		INDONESIA	08-SEP-2004	08-SEP-2006	Procurement Guidelines 1.15(a)(ii)
CV ALVIN PERDANA	PARE PARE	INDONESIA	08-SEP-2004	08-SEP-2006	Procurement Guidelines 1.15(a)(ii)
CV CEMPaka PUTIH	JAKARTA	INDONESIA	08-SEP-2004	08-SEP-2006	Procurement Guidelines 1.15(a)(ii)
CV DIAN	PARE PARE	INDONESIA	08-SEP-2004	08-SEP-2006	Procurement Guidelines 1.15(a)(ii)
CV MULTI TRUST		INDONESIA	08-SEP-2004	08-SEP-2019	Procurement Guidelines 1.15(a)(ii)
CV TIARA KARYA	PARE PARE	INDONESIA	08-SEP-2004	08-SEP-2006	Procurement Guidelines 1.15(a)(ii)
CV. ANEKA ILMU	JAKARTA	INDONESIA	08-SEP-2004	08-SEP-2006	Procurement Guidelines 1.15(a)(ii)
CV. BUMI AKSARA	BANDUNG	INDONESIA	08-SEP-2004	08-SEP-2006	Procurement Guidelines 1.15(a)(ii)
CV. DJATNIKA	JAWA BARAT	INDONESIA	08-SEP-2004	08-SEP-2006	Procurement Guidelines 1.15(a)(ii)
PT INSAN MANDIRI KONSULTAN	JAKARTA	INDONESIA	25-OCT-2004	25-OCT-2009	Consultant Guidelines 1.25(a)(i)&(ii)

NAME	ADDRESS	COUNTRY	INELIGIBILITY PERIOD		GROUNDS
SEYDOU IDANI		BURKINA FASO	25-OCT-2004	Permanent	Consultant Guidelines 1.25(a)(i)
SINAR GUNUNG NONA		TIMORLESTE	25-OCT-2004	25-OCT-2005	Procurement Guidelines 1.15(a)(ii)
ALPHA CONSULTING & TRAINING		BURKINA FASO	25-OCT-2004	Permanent	Consultant Guidelines 1.25(a)(i)
ARAFURA PROJECTS AND CONSULTANCY	DILI	TIMORLESTE	25-OCT-2004	25-OCT-2007	Procurement Guidelines 1.15(a)(ii)
BIS HEALTHCARE GROUP	KENT	UNITED KINGDOM	25-OCT-2004	25-OCT-2008	Consultant Guidelines 1.25(a)(ii)
CV UAI MORI	DILI	TIMORLESTE	25-OCT-2004	25-OCT-2005	Procurement Guidelines 1.15(a)(ii)
MR. AGUS TRI IWAHYONO	JAKARTA	INDONESIA	25-OCT-2004	25-OCT-2009	Consultant Guidelines 1.25(a)(ii)
MR. BRAM CHAI	DILI	TIMORLESTE	25-OCT-2004	25-OCT-2005	Procurement Guidelines 1.15(a)(ii)
MR. BRUNO GOMES	KENT	UNITED KINGDOM	25-OCT-2004	25-OCT-2008	Consultant Guidelines 1.25(a)(ii)
MR. DARWIS DARLIS	JAKARTA	INDONESIA	25-OCT-2004	25-OCT-2009	Consultant Guidelines 1.25(a)(ii)
MR. JORGE DO CARMO	DILI	TIMORLESTE	25-OCT-2004	25-OCT-2005	Procurement Guidelines 1.15(a)(ii)
MR. MANUEL LEONG	DILI	TIMORLESTE	25-OCT-2004	25-OCT-2005	Procurement Guidelines 1.15(a)(ii)
MR. ROB FOSTER	DILI	TIMORLESTE	25-OCT-2004	25-OCT-2007	Procurement Guidelines 1.15(a)(ii)
MR. SUBANDRIYO	JAKARTA	INDONESIA	25-OCT-2004	25-OCT-2009	Consultant Guidelines 1.25(a)(ii)
PT AMAZONAS	DILI	TIMORLESTE	25-OCT-2004	25-OCT-2005	Procurement Guidelines 1.15(a)(ii)
JIANGMEN ZHONGYU MOTOR CO. LTD.* *(PRINCIPAL) – SEASON NEPAL P	JIANGMEN GUANGDONG P.R.	CHINA	05-NOV-2004	05-NOV-2007	Procurement Guidelines 1.15(a)(ii)
CAMBODIA ROYAL AUTO MANUFACTURING CO. LTD. OF PHNOM PENH**	PHNOMPENH	CAMBODIA	05-NOV-2004	05-NOV-2007	Procurement Guidelines 1.15(a)(ii)
MR. JEREMY PURCE	RUNGIS	FRANCE	05-NOV-2004	05-NOV-2009	Consultant Guidelines 1.25(a)(ii)
MR. LEIKOC LON TREVOR**	JIANGMEN CITY	CHINA	05-NOV-2004	05-NOV-2007	Procurement Guidelines 1.15(a)(ii)
MR. LIN YAOMING**	JIANGMEN CITY	CHINA	05-NOV-2004	05-NOV-2007	Procurement Guidelines 1.15(a)(ii)
MR. SOK POLEN	PHNOMPENH	CAMBODIA	05-NOV-2004	05-NOV-2007	Consultant Guidelines 1.25(a)(ii)
MR. WU JINBO**	PHNOMPENH	CAMBODIA	05-NOV-2004	05-NOV-2007	Procurement Guidelines 1.15(a)(ii)

NAME	ADDRESS	COUNTRY	INELIGIBILITY PERIOD		GROUNDS
SPLJ GROUP	PHNOMPENH	CAMBODIA	05-NOV-2004	05-NOV-2007	Consultant Guidelines 1.25(a)(ii)
THALES ENGINEERING & CONSULTING***	RUNGIS	FRANCE	05-NOV-2004	05-NOV-2005	Consultant Guidelines 1.25(a)(ii)
MR. DALIP KUQI	MAMMURRAS	ALBANIA	03-MAR-2005	03-MAR-2006	Procurement Guidelines 1.5(a)(ii)
MR. FERDINAND CAUSHI	TIRANA	ALBANIA	03-MAR-2005	03-MAR-2007	Procurement Guidelines 1.5(a)(ii)
MR. ILLIRJIAN LOKA	TIRANA	ALBANIA	03-MAR-2005	03-MAR-2006	Procurement Guidelines 1.5(a)(ii)
MR. PJETER PACANI	TIRANA	ALBANIA	03-MAR-2005	03-MAR-2010	Procurement Guidelines 1.5(a)(ii)
MR. SHPETIM VARAKU	DURRES	ALBANIA	03-MAR-2005	03-MAR-2007	Procurement Guidelines 1.5(a)(ii)
PACANI SH.P.K.		ALBANIA	03-MAR-2005	03-MAR-2010	Procurement Guidelines 1.5(a)(ii)
PROJECT 2000 SH.P.K.		ALBANIA	03-MAR-2005	03-MAR-2006	Procurement Guidelines 1.5(a)(ii)
VARAKU SH.P.K.		ALBANIA	03-MAR-2005	03-MAR-2007	Procurement Guidelines 1.5(a)(ii)
ADRIATIK 1	DURRES	ALBANIA	03-MAR-2005	03-MAR-2006	Procurement Guidelines 1.5(a)(ii)
INA SH.P.K.	TIRANA	ALBANIA	03-MAR-2005	03-MAR-2007	Procurement Guidelines 1.5(a)(ii)
MANDI 1 SH.P.K.	MAMMURRAS	ALBANIA	03-MAR-2005	03-MAR-2006	Procurement Guidelines 1.5(a)(ii)
MR. TRIKO EKO WARSO	JAKARTA BARAT	INDONESIA	25-APR-2005	25-APR-2008	Consultant Guidelines 1.25(a)(i) and (ii)
PT PEMETA INTERNATIONAL	BANDUNG	INDONESIA	25-APR-2005	25-APR-2008	Consultant Guidelines 1.25(a)(i) and (ii)
PT PLANOSIP NUSANTARA ENGINEERING	BANDUNG	INDONESIA	25-APR-2005	25-APR-2006	Consultant Guidelines 1.25(a)(ii)
MR. ADE IMAM BUDIMAN	BANDUNG	INDONESIA	25-APR-2005	25-APR-2006	Consultant Guidelines 1.25(a)(i)
MR. HARY KUSTIawan	BANDUNG	INDONESIA	25-APR-2005	25-APR-2008	Consultant Guidelines 1.25(a)(i) and (ii)
MR. LUTHFI DJATNIKA	BANDUNG	INDONESIA	25-APR-2005	25-APR-2008	Consultant Guidelines 1.25(a)(i) and (ii)
MR. MOHAMMAD MANSOER	BANDUNG	INDONESIA	25-APR-2005	25-APR-2006	Consultant Guidelines 1.25(a)(ii)
AB PANEVEZIO STATYBOS TRESTAS (PST)	PANEVEZYS	LITHUANIA	19-JUL-2005	19-JUL-2006	Procurement Guidelines 1.15(a)(ii)
MR. ARNAS CINGA	PANEVEZYS	LITHUANIA	19-JUL-2005	19-JUL-2006	Procurement Guidelines 1.15(a)(ii)
MR. VIDAS RUTKAUSKAS	PANEVEZYS	LITHUANIA	19-JUL-2005	19-JUL-2006	Procurement Guidelines 1.15(a)(ii)

NAME	ADDRESS	COUNTRY	INELIGIBILITY PERIOD		GROUNDS
VLADIMIR VINOKUROV	MOSCOW	RUSSIAN FEDERATION	19-JUL-2005	19-JUL-2009	Procurement Guidelines 1.15(a)(ii)
ZAO LANCK	ST. PETERSBURG	RUSSIAN FEDERATION	19-JUL-2005	19-JUL-2008	Procurement Guidelines 1.15(a)(ii)
L. SAKALAUSKAS	PANEVEZYS	LITHUANIA	19-JUL-2005	19-JUL-2008	Procurement Guidelines 1.15(a)(ii)
JOUZAS STRAGAUSKAS	GARGZDAI	LITHUANIA	19-JUL-2005	19-JUL-2008	Procurement Guidelines 1.15(a)(ii)
JONAS DUMASIUS	GARGZDAI	LITHUANIA	19-JUL-2005	19-JUL-2008	Procurement Guidelines 1.15(a)(ii)
FRANTISKUS GRAZNOVAS	GARGZDAI	LITHUANIA	19-JUL-2005	19-JUL-2008	Procurement Guidelines 1.15(a)(ii)
EUGENIUS RECIUNAS	PANEVEZYS	LITHUANIA	19-JUL-2005	19-JUL-2008	Procurement Guidelines 1.15(a)(ii)
AB HIDROSTATYBA	GARGZDAI	LITHUANIA	19-JUL-2005	19-JUL-2008	Procurement Guidelines 1.15(a)(ii)
UNIVERSAL TECHNOLOGY SYSTEMS CO.	WILMINGTON, DE	UNITED STATES	03-MAR-2006	03-MAR-2011	Procurement Guidelines 1.15(a)(ii)
ANDREI V.KOZHIN Also known as: ANDREY KOJIN	MOSCOW	RUSSIAN FEDERATION	03-MAR-2006	03-MAR-2011	Procurement Guidelines 1.15(a)(ii)
Also known as: ANDREW KOZHIN					
Also known as: ANDREW KOJINE					

* The ineligibility of the debarred firm, Acres International Limited, extends to any firm directly or indirectly controlled by Acres International Limited, but does not extend to any firm or individual that directly or indirectly controls Acres International Limited. In addition, and for avoidance of doubt, the ineligibility of the debarred firm does not extend to its sister corporations, including Acres International Corporation, Acres Management Consulting, and Synexus Global Inc.

** This sanction may be lifted prior to the above-referenced date, subject to the debarred firm/individual meeting pre-specified conditions of early release.

*** The ineligibility of the debarred firm, Thales Engineering and Consulting S.A., extends to any firm directly or indirectly controlled by Thales Engineering and Consulting S.A., but does not extend to any firm or individual that directly or indirectly controls Thales Engineering and Consulting S.A.

B. Letters of Reprimand Issued

Ms. Mariatty, of PT Insan Mandiri Konsulan, Jakarta, Indonesia	Reprimanded October 25, 2004	Remains Eligible	Consultant Guidelines 1.25(a)(i) & (ii)
PT Kanisius, of Jakarta, Indonesia	Reprimanded September 8, 2004	Remains Eligible	Procurement Guidelines 1.15 (a) (i) & (ii)
Mr. I. Puja Raharja, of Jakarta, Indonesia	Reprimanded September 8, 2004	Remains Eligible	Procurement Guidelines 1.15(a)(i) & (ii)
Mr. F.X. Supri Harsono, of Jakarta, Indonesia	Reprimanded September 8, 2004	Remains Eligible	Procurement Guidelines 1.15(a)(i) & (ii)
Mr. E. Surono, of Jakarta, Indonesia	Reprimanded September 8, 2004	Remains Eligible	Procurement Guidelines 1.15(a)(i) & (ii)
Mr. Ardian Mustafaraj, of Durres, Albania	Reprimanded March 3, 2005	Remains Eligible	Procurement Guidelines 1.15(a)(ii)

APPENDIX 5

TRENDS IN CASE LOAD – FISCAL 1999-2006

Total Investigations Case Load

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

Internal Investigations Case Load

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

External Investigations Case Load

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

APPENDIX 6

SANCTIONS COMMITTEE HISTORICAL DATA

Establishment and Outcomes

The Bank's sanctions process was implemented in a January 1998 Operational Memorandum³⁵ and the President established a Sanctions Committee in November 1998 to carry out independent administrative reviews of allegations of fraud or corruption in Bank-financed projects (as these terms are defined in the Bank's Procurement Guidelines and Consultant Guidelines) and to recommend to the President sanctions to be imposed on those firms or individuals found to have engaged in such activities.³⁶

The Committee's membership during much of fiscal 2006 consisted of the managing Director for Operations (Chair), the Senior Vice President and General Counsel, and two other senior staff selected for their operational experience (one Regional Vice President and the Vice President, Infrastructure, formerly VP of Human Resources Services). In March 2006, however, with the departure from the Bank of some Committee members and as part of the transition to a Sanctions Board (approved by the Board of Executive Directors in July 2004), a new Committee was appointed by the President under the chairmanship of the Managing Director for Operations. This (interim) Committee continued to operate under the existing Sanctions Procedures, which provide for sanctions that include periods of ineligibility (limited or indefinite) to participate in future Bank-financed procurement, letters of reprimand, and requirements that the respondent institute training and integrity programs for its employees. Sanctions imposed are posted on the Bank's external website.

As mentioned above (see VI), during fiscal 2005/06, the IFC and MIGA undertook significant efforts aimed at supporting and furthering the World Bank Group's sanctions reform process, with a view toward bringing about a harmonized WBG approach to sanctions and debarment. One important feature of the new approach is that a person or entity

debarred from doing business with either the Bank, MIGA, or the IFC will be debarred from all of them. The IFC continued working together with colleagues from the Bank and MIGA to bring the reformed sanctions and debarment process into effect in fiscal 2006.

Sanctions Committee Staffing and Resources

For the first half of fiscal year 2006, the procurement unit of the Legal Department (LEGPR) served as the Sanctions Committee secretariat, reviewing and providing legal advice on cases. During this period, this unit comprised the Chief Counsel, two level GG professional staff and one paralegal. Since March 2006, the position of Secretary has been filled by an Acting Secretary with advice as needed from LEGPR, pending the appointment of an Evaluation Officer, to work with the new Sanctions Board.

Case Management

Under its procedures, the Committee reviews each case, notifies respondents of the allegations, holds hearings to which the respondent is invited and, based on its conclusions in each case, makes recommendations to the President.

³⁵ January 5, 1998 Operational Memorandum on Fraud and Corruption under Bank-Financed Contracts: Procedures for Dealing with Allegations Against Bidders, Suppliers, Contractors, or Consultants.

³⁶ The Committee is not involved in sanctioning Bank staff or borrowers accused of such activities.

The Sanctions Process (FY99-FY06)

Sanctions-related Actions	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	Total
Number of Cases Received	8	6	4	7	15	23	2	1	66
Number of Committee Sessions (a)	7	11	9	8	5	8	6	2	56
Number of Cases Heard	5	8	2	4	8	16	13	2	58
Number of Sanctions Applied									
Number of Debarments									
Firms	7	37	15	3	14	55	54	4	189
Individuals	<u>2</u>	8	<u>4</u>	<u>1</u>	<u>8</u>	<u>71</u>	<u>45</u>	<u>9</u>	<u>148</u>
Total Debarments	9	45	19	4	22	126	99	13	337
Number of Letters of Reprimand									
Firms	—	1	2	—	2 (b)	4	1	0	10
Individuals	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3</u>	<u>5</u>	<u>0</u>	<u>8</u>
Total Letters of Reprimand	—	1	2	—	2	7	6	0	18
Total Sanctions Applied	9	46	21	4	24	133	105	13	355

(a) In some instances, more than one session was convened to deal with a single case; in other instances a single session was able to deal with more than one case. Also, some cases have been dealt with more than once by the Sanctions Committee.

(b) INT's "Annual Report on Investigations and Sanctions of Staff Misconduct and Fraud and Corruption in Bank-Financed Projects, Fiscal Year 2004" mistakenly stated that only one Letter of Reprimand had been issued to firms. For this report, INT has corrected this error and adjusted this number to 2.

APPENDIX 7

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

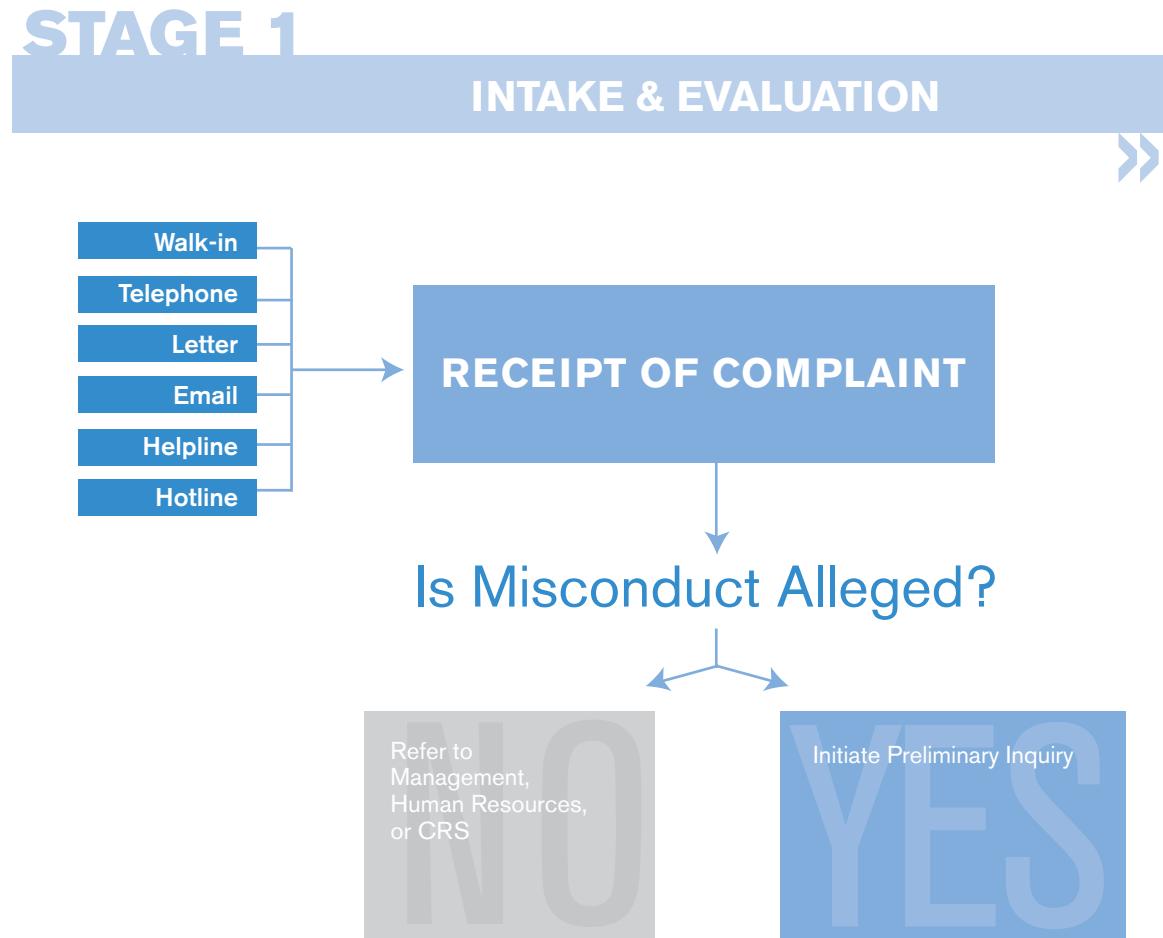
UNIT	FUNCTION
Department of Institutional Integrity	Investigates allegations of fraud and corruption in World Bank-financed projects and allegations of staff misconduct
IFC Business Risk Department	Provides anti-money laundering/combating the financing of terrorism advice, support, training and tools for IFC staff; develops, implements and monitors internal controls
Inspection Panel	Receives and investigates claims from project-affected people alleging that they have been harmed by World Bank violations of its own policies and procedures
Internal Auditing Department ^{37 38}	Performs audits to assess the integrity of the internal controls of business processes, including those associated with the project cycle
Loan Department	Reviews and signs off on the financial management and disbursement aspects of loan agreements
Operations Evaluation Department	Assesses which projects and programs work, which do not, and the lasting contribution to a country's overall development
Operations Policy and Country Services	Provides advice and support on preparing and implementing lending and non-lending operations and managing portfolios, including oversight of the World Bank's procurement and financial management functions and guidelines that govern lending relationships and conditions
Quality Assurance Group	Conducts real time assessments of the quality of the project portfolio, including supervision, financial management, and monitoring and evaluation
Trust Fund Quality Assurance and Compliance Unit	Seeks to improve compliance with safeguard policies

³⁷ The Auditor General reports to the President and is under the oversight of the Audit Committee acting on behalf of the Executive Directors (the Board). This reporting arrangement promotes objectivity and adequate consideration of audit results. The mandate of Internal Auditing extends to virtually all activities of the World Bank Group.

³⁸ In FY05, Internal Auditing referred some 20 cases to INT. In addition, Internal Auditing provides audit support to INT's investigative teams at their request.

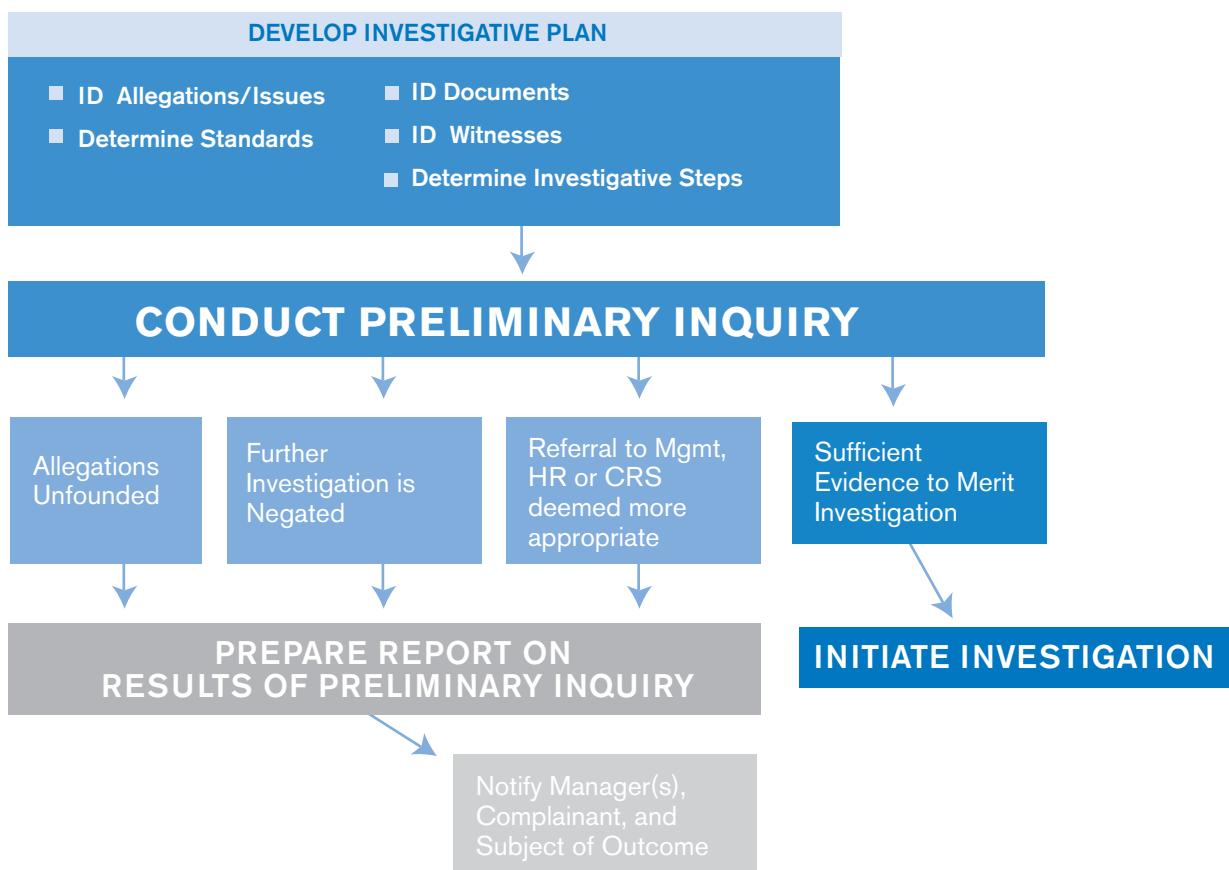
APPENDIX 8

THE INVESTIGATIVE PROCESS: ALLEGATIONS OF STAFF MISCONDUCT



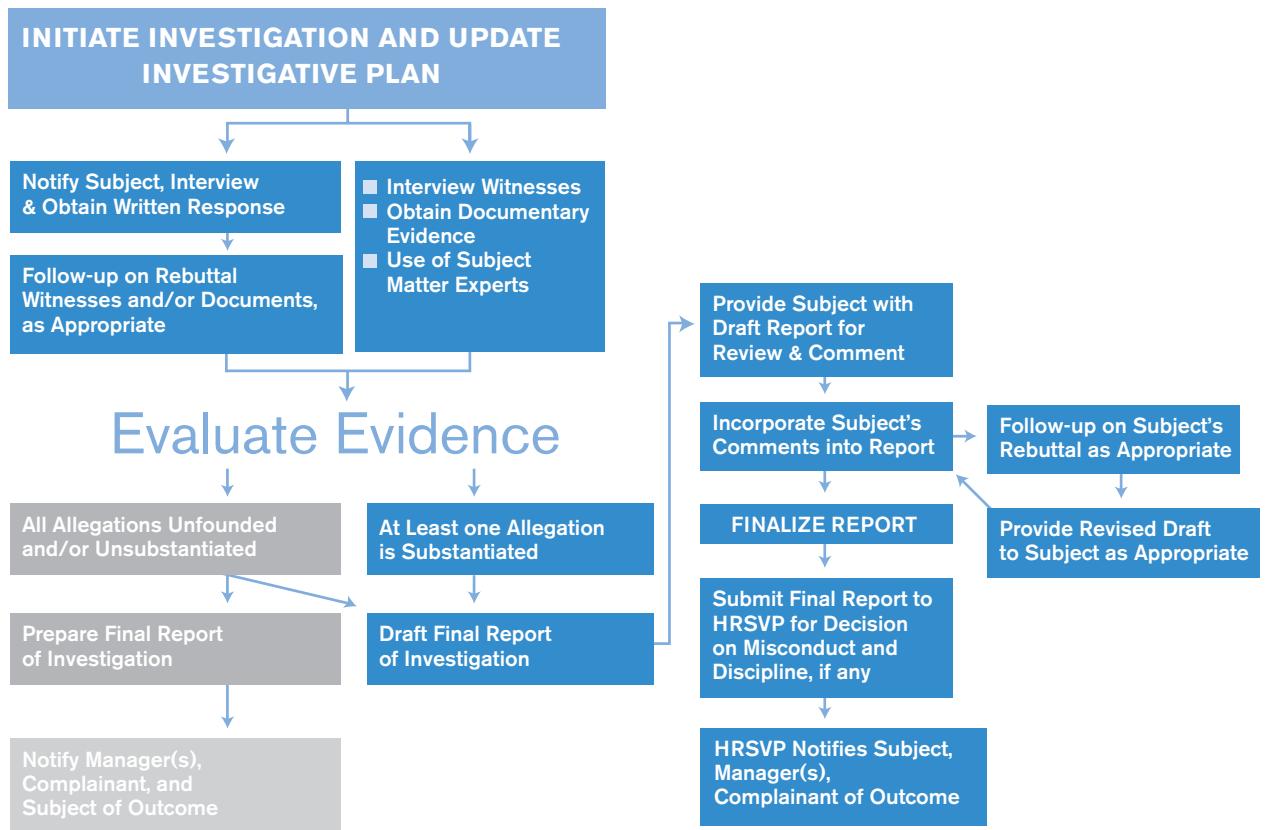
STAGE 2

PRELIMINARY INQUIRY



STAGE 3

INVESTIGATION



APPENDIX 9

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

HOW TO CONTACT INT?

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

DIRECTLY

Telephone 202-458-7677
Fax 202-522-7140
E-mail investigations_hotline@worldbank.org
Website www.worldbank.org/integrity (click on "How to Report Fraud and Corruption")

THROUGH A TOLL-FREE FRAUD AND CORRUPTION HOTLINE (external service – 24 hours/day):

Telephone 1-800-831-0463 (translation facilities available)
To reverse the charges (collect calls) 704-556-7046
Country Office staff: call the toll-free number through an AT&T operator or call the collect number.

BY MAIL:

PMB 3767
13950 Ballantyne Corporate Place
Charlotte, North Carolina 28277
USA

When you call anonymously, please be as specific as possible with the information you provide.
Let us know how you can be reached for further information.



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