

THE WORLD BANK GROUP

# ANNUAL REPORT

ON INVESTIGATIONS AND SANCTIONS  
OF STAFF MISCONDUCT AND FRAUD AND  
CORRUPTION IN BANK-FINANCED PROJECTS

FISCAL YEAR 2004



THE WORLD BANK

Department of Institutional Integrity  
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**Annual Report on Investigations  
and Sanctions of Staff Misconduct  
and Fraud and Corruption in  
Bank-Financed Projects**

**Fiscal 2004**

**(July 1, 2003 – June 30, 2004)**

**February 2005**

## Abbreviations and Acronyms

ACS	Administrative and Client Support	INT	Institutional Integrity Department (Department of Institutional Integrity)
ADB	Asian Development Bank	LEGAD	Legal Department, Corporate Administration
ACFIU	Anticorruption and Fraud Investigations Unit	LEGPR	Legal Department, Procurement and Consultant Services
AFD	French Development Agency (Agence Française de Développement)	MIGA	Multilateral Investment Guarantee Agency
AFR	Africa Regional Vice Presidency (World Bank)	NGO	Non Governmental Organization
CAS	Country Assistance Strategy	OECD	Organisation for Economic Cooperation and Development
CRS	Conflict Resolution System	OIOS	U.N. Office of Internal Oversight Service
DFID	U.K. Department for International Development	OLAF	European Anti-Fraud Office (Office européen de lutte anti-fraude)
DIR	Detailed Implementation Review	OPCS	Operations Policy & Country Services
DOJ	U.S. Department of Justice	PREM	Poverty Reduction and Economic Management Network
EBRD	European Bank for Reconstruction and Development	SEC	U.S. Securities and Exchange Commission
ETC	Extended Term Consultant	SOE	Statement of Expenses
ETT	Extended Term Temporary	SRI	Salary Review Increase
EXT	External Affairs	STC	Short Term Consultant
FSA	U.K. Financial Services Authority	STT	Short Term Temporary
FY	Fiscal Year	UN	United Nations
HR	Human Resources	USAID	U.S. Agency for International Development
IAD	Internal Auditing Department	WBI	World Bank Institute
IADIU	Internal Auditing Department Investigations Unit	WBG	World Bank Group
IDB	Inter-American Development Bank		
IFC	International Finance Corporation		
IFI	International Financial Institution		
IPC	Investigations Policy Committee		

# Message from the President

This Annual Report summarizes the nature and volume of institutional integrity activities and investigations of the World Bank Group for the fiscal year ending June 30, 2004. The World Bank has made significant progress in its capacity and execution of these activities over the past five years. Since its establishment in April 2001, the Department of Institutional Integrity (INT) has handled over 1,300 cases and currently has over 300 active cases. The Bank now has a budget of US\$10 million for work in this area, making it by far the leader in resources committed among international institutions in the fight against fraud and corruption. As a result of these activities, the Sanctions Committee heard 16 cases involving alleged fraud and/or corruption by parties involved in Bank projects, leading to the debarment of 55 firms and 71 individuals in fiscal 2004.

Fiscal 2004 also saw the culmination of several years' effort to mainstream these new functions into the World Bank Group. This work was undertaken against the backdrop of concerns raised by events in the United States such as the corporate scandals of Enron and WorldCom as well as the Parmalat scandal in Europe. These events drew increased attention to corporate governance issues, money laundering, and terrorist financing, resulting in legislation such as the Sarbanes-Oxley statute in the U.S. Internationally, anticorruption instruments such as the OECD's Anti-Bribery Convention and the U.N. Convention Against Bribery have demonstrated the international community's determination to fight fraud and corruption. Transparency International and other organizations have also played a significant role in raising awareness of the issue of corruption in the political arena. All of these developments have combined to focus attention on the use of development funds and on

efforts by the World Bank and others to combat fraud and corruption. Some of the accomplishments of the past year include:

- The strategy and the adequacy of the Bank's mechanisms and resources for implementing its fraud and corruption prevention strategy were the subject of a review by outside experts, led by former U.N. Undersecretary and former U.S. Attorney General Dick Thornburgh. His report provided a strong endorsement of the Bank's new directions, as well as the quality of its staff, but noted that additional resources would be required.
- An earlier report by the Thornburgh group included recommendations relating to reform of the sanctions process, which were approved by the World Bank Board of Executive Directors (the Board) in July 2004 and are now in the process of being implemented.
- Development and approval of a Strategic Directions and Business Plan document for INT, approved by the Management Committee and endorsed in July 2004 by the Board, providing for a more proactive and preventive approach to the fight against fraud and corruption.
- On the basis of the agreed business plan, the Integrity Department received an additional US\$2.2 million in budget for fiscal 2004 and authorization to recruit eight more staff, including an additional six investigators.
- As part of the strategy, the Integrity Department introduced a new approach to case management for allegations regarding fraud and corruption in Bank projects. All allegations undergo a preliminary assessment. Those rated high or medium priority are fully investigated. Information

on low priority cases is filed for future reference. In conjunction with this, the Integrity Department developed its own case management database, which facilitates more effective capture and analysis of case-related data.

- Progress was also made in case management on the staff misconduct side, in terms of more efficient resolution of cases and the referral of allegations received by the Integrity Department to the Conflict Resolution System (CRS) whenever a less formal means of resolution may be more appropriate than a formal investigation, and to Human Resources whenever a case is determined to be essentially a performance-related issue.
- A communications audit related to investigations and sanctions was carried out with the goal of increasing deterrence and prevention through increased transparency of results. A formal communications strategy, together with recommended changes to the Bank's disclosure policy, was approved by the Board in July 2004.
- In the interest of transparency, all of the aforementioned documents were disclosed and posted on the World Bank website.

While much has been accomplished, much more remains to be done. On the internal side, continued vigilance is needed to ensure that the Bank's own house is in order. Bank staff must be beyond reproach in their personal and professional conduct. In terms of the Bank's lending activities, the diversion of funds from development projects through fraud and corruption, when it occurs, directly injures the ability of the Bank, its partners and its borrowers to achieve the goals that have been set for poverty reduction. Resources lost to fraud

and corruption are an unacceptable drain on development effectiveness, not to mention the damage to the credibility of lending institutions such as the World Bank.

But it is not just the financial damage from fraud and corruption that should be of concern to us. It is the fact that corruption sets in motion a chain of events that can wreak havoc on a development project. The money to pay a bribe must come from some part of the project; as a result, prices may be raised, and/or quality and performance lowered. Less qualified bidders win by bid rigging while qualified bidders become discouraged and stop bidding. In addition, citizen awareness of unchallenged corruption undermines trust in government and public institutions, which leads to acquiescence to poor quality and performance in public services and infrastructure – and to an unwillingness to report fraud and corruption. All of these effects must be considered when we assess the true impact of corruption on publicly financed projects.

As we take stock of the Bank's accomplishments, I would like to recognize the support that these new functions have had from within and outside the World Bank Group, including the Audit Committee and the Board of Executive Directors. I would also like to acknowledge the talents, hard work and dedication of the staff of the Integrity Department, the Legal Department and the Sanctions Committee.

Finally, I would like to thank those who have demonstrated their integrity, and in many cases their courage, by reporting allegations of fraud and corruption to the Bank.

James D. Wolfensohn  
*President*

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# How to Report Allegations of Staff Misconduct, Fraud or Corruption

To report allegations of staff misconduct or allegations of fraud or corruption within the Bank Group or in Bank Group-financed operations, you should contact the Integrity Department. You can contact INT in a number of different ways:

Contact INT directly:

Telephone: 202-458-7677

Fax: 202-522-7140

Email: [investigations\\_hotline@worldbank.org](mailto:investigations_hotline@worldbank.org)

Website: <http://www.worldbank.org/integrity> (Click on “Online Complaint Form”)

We encourage you to make use of a free email service (such as Hotmail or Yahoo) to create a temporary email account using a pseudonym, so that we may correspond with you as necessary. This can be helpful in pursuing your allegation.

Contact INT through an external Fraud and Corruption Hotline (24 hours/day):

Toll-free: 1-800-831-0463 (translation facilities available)

To reverse the charges (collect calls): 704-556-7046

Mail:

PMB 3767

13950 Ballantyne Corporate Place

Charlotte, NC 28277 USA

Anonymous calls are accepted.

Please be as specific as possible and include at least the basic details of who, what, where, when, and how. Let us know how you can be reached for further information or clarification if you can, or tell us the name of a temporary email account you have created for this purpose.

## Related Websites of Interest

Integrity Department

[www.worldbank.org/integrity](http://www.worldbank.org/integrity)

Anticorruption

[www.worldbank.org/anticorruption](http://www.worldbank.org/anticorruption)

Conflict Resolution System

[www.worldbank.org/crs](http://www.worldbank.org/crs)

Procurement (including Sanctions)

[www.worldbank.org/procurement](http://www.worldbank.org/procurement)

Policy on Disclosure of Information

[www1.worldbank.org/operations/disclosure/](http://www1.worldbank.org/operations/disclosure/)

## Documents Cited in this Report

Many of the key World Bank documents in this report have been made public during 2004.

Thornburgh, Dick, Ronald L. Gainer, and Cuyler H. Walker (January 21, 2000) *Report Concerning Mechanisms to Address Problems of Fraud and Corruption*

[http://www-wds.worldbank.org/servlet/WDS\\_IBank\\_Servlet?pcont=details&eid=000160016\\_20040805171318](http://www-wds.worldbank.org/servlet/WDS_IBank_Servlet?pcont=details&eid=000160016_20040805171318)

Thornburgh, Dick, Ronald L. Gainer, and Cuyler H. Walker (August 14, 2002) *Report Concerning the Debarment Processes of the World Bank*

[http://www-wds.worldbank.org/servlet/WDS\\_IBank\\_Servlet?pcont=details&eid=000012009\\_20040720152713](http://www-wds.worldbank.org/servlet/WDS_IBank_Servlet?pcont=details&eid=000012009_20040720152713)

Thornburgh, Dick, Ronald L. Gainer, and Cuyler H. Walker (July 9, 2003) *Report Concerning the Proposed Strategic Plan of the World Bank's Department of Institutional Integrity, and the Adequacy of the Bank's Mechanisms and Resources for Implementing that Strategy*

[http://www-wds.worldbank.org/servlet/WDS\\_IBank\\_Servlet?pcont=details&eid=000160016\\_20040805152445](http://www-wds.worldbank.org/servlet/WDS_IBank_Servlet?pcont=details&eid=000160016_20040805152445)

Department of Institutional Integrity (July 10, 2003) *Department of Institutional Integrity: Strategic Directions and Business Plan—a Summary*

[http://www-wds.worldbank.org/servlet/WDS\\_IBank\\_Servlet?pcont=details&eid=000160016\\_20040805133244](http://www-wds.worldbank.org/servlet/WDS_IBank_Servlet?pcont=details&eid=000160016_20040805133244)

World Bank (June 3, 2004) *External communications strategy related to investigations and sanctioning of fraud and corruption in World Bank-financed projects*

[http://www-wds.worldbank.org/servlet/WDS\\_IBank\\_Servlet?pcont=details&eid=000160016\\_20040823112649](http://www-wds.worldbank.org/servlet/WDS_IBank_Servlet?pcont=details&eid=000160016_20040823112649)

Operational Core Services PREM Network (June 30, 2000) *Helping countries combat corruption: progress at the World Bank since 1997*

[http://www-wds.worldbank.org/servlet/WDS\\_IBank\\_Servlet?pcont=details&eid=000094946\\_01010905322182](http://www-wds.worldbank.org/servlet/WDS_IBank_Servlet?pcont=details&eid=000094946_01010905322182)

CRS Report for Congress (order code RL32374) (April 30, 2004) *Anti-Corruption Standards of the International Financial Institutions*

Hearing before the Committee on Foreign Relations, United States Senate, One Hundred Eighth Congress, Second Session (May 13, 2004) *Combating Corruption in the Multilateral Development Banks* <http://foreign.senate.gov/hearings/2004/hrg040513a.html>

# Introduction and Background

## A. Purpose and Scope of this Report

1. This Report covers the period July 1, 2003 to June 30, 2004 (fiscal 2004). In July 2004, the Board of Executive Directors mandated the preparation of an Annual Report, as a public document, describing the World Bank Group's overall efforts in investigations and sanctions<sup>1</sup>. As set out in an amendment to the Bank's disclosure policy,<sup>2</sup> the report will describe 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."

## B. The World Bank and the Anticorruption Agenda

2. The fight against corruption by the World Bank was launched by President Wolfensohn in his Annual Meetings speech of October 6, 1996. Since then, much has been accomplished within the Bank and by its Borrowers in tackling the underlying issues. Support for the Bank's anticorruption efforts has grown, as the fight against corruption has become recognized as central to the fight against poverty—to ensure that development expenditures actually go to help the poor and that an efficient private sector is able to contribute to poverty reduction through rapid and sustainable growth. Attacking corruption, therefore, is essential to the Bank's overarching mission of poverty reduction.

3. In September 1997, the Board endorsed the paper *Helping Countries Combat Corruption: The Role of the World Bank*<sup>3</sup> that set out the basic framework of the Bank's anti-corruption strategy. This strategy has four components:

- Helping countries that request the Bank's support in their efforts to reduce corruption;
- Mainstreaming anticorruption in all aspects of the Bank's relations with its borrowing member countries;
- Adding voice and support to international efforts to reduce corruption; and
- Preventing fraud and corruption in World Bank-financed projects.

4. Within the Bank, the Public Sector Management Group, along with the World Bank Institute and the Procurement and Financial Management Groups, have led the charge—working with borrowers to improve governance and accountability and to strengthen the capacity for sound fiduciary management. At the same time, the Bank introduced a new function (initially in IAD) to investigate allegations of fraud and corruption in Bank projects. In 2001, it was established as a new department—the Department of Institutional Integrity. In 1998, the Bank estab-

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<sup>1</sup> The World Bank Group consists of the IBRD, IDA, IFC and MIGA.

<sup>2</sup> World Bank (June 3, 2004) External communications strategy related to investigations and sanctioning of fraud and corruption in World Bank-financed projects, p. 9.

<sup>3</sup> <http://www.worldbank.org/publicsector/anticorrupt/corruptn/coridx.htm>

lished a Sanctions Committee to conduct administrative reviews of allegations of fraud or corruption and to recommend to the President the sanctions to be imposed on those found to have engaged in such activities.

5. In furthering its mission of promoting development and reducing poverty, the Bank strives to ensure that its funds, and those entrusted to it, are used for the intended pur-

poses. The Bank's procurement policies and supervision responsibilities are key to fulfilling this mission. (For a description of indicators of fraud and corruption, see Box 1.) In addition, the Bank must ensure that it has mechanisms in place to minimize fraud and corruption within the institution, and to respond swiftly and effectively when it occurs, in line with the Bank's stated policy of zero

## **Box 1: Red Flags**

### **Indicators of Possible Fraud or Corruption**

A common case of fraud and corruption in a development project involves: (a) bribes and kickbacks; (b) bid collusion; and (c) fraud. Bribes or kickbacks are paid in order to secure contracts, and may also be required to secure the payment of subsequent invoices, in which case they may be in the nature of facilitation payments. When bid collusion takes place, either among all bidders or more often, among project officials on the one hand and the bidders on the other hand, it relies on designated losers being paid for their willingness to support collusion: hence, it surfaces in the form of rotating awards in any given series of consecutive or concurrent biddings. Bids show unusual similarities (same typographical errors, same breakdown of unit prices, etc.). Since the designated winning bidder may have to pay off the losers—in addition to project officials—to secure the contract, in order to recoup the costs of bribes and kickbacks, the winning contractor/supplier will inflate prices, over-bill for materials and labor, and/or under-deliver on quantity and quality in comparison with what the bid and the contract specify.

Indicators of fraud, and possibly underlying corruption, include: the appearance of local agents or consultants that provide ill-defined, generic, or unneeded services—especially in a country with a reputation for corruption; unjustified or repeat sole source awards; repeated selection of unqualified or high-priced contractors; a project official insisting on the use of certain local sub-contractors or suppliers; long and/or unexplained delays in contract execution after bid award, and a project official living beyond his means. It may also include the surfacing of new and unknown bidders or sub-contractors, or a sudden and significant change in an implementing agency's approach to procurement—either rigid adherence to procurement rules when they are normally quite flexible, or the reverse situation.

More broadly, indicators of bid manipulation by project officials may include: bid specifications too narrow or too vague; unreasonable pre-qualification requirements; an unreasonably short time to submit bids; selection of other than the lowest evaluated bidder; selection of a bidder followed by change orders increasing price or scope; questionable disqualification of winning bidder and re-bidding; persistent high bid prices; the same (few) bidders bidding; apparent connections between bidders, etc.

Indicators of fraud during contract implementation include: poor quality work; repeated failed tests or inspections; delays or refusals to allow tests or inspections; and complaints from users.

tolerance of fraud and corruption. This is the role of the Integrity Department's Internal Unit which investigates allegations of staff misconduct.

6. Our core values as an institution, however, go well beyond personal honesty and integrity. As a multinational and multicultural organization, we are also committed to promoting a positive work environment where respect and understanding are vital to valuing our differences. Ensuring a workplace free of harassment, discrimination and other forms of inappropriate behavior helps to build this respect and understanding. Misconduct by Bank staff, therefore, is not limited to cases of fraud and corruption but extends to other aspects of behavior that are essential to maintaining a culture of integrity.

### C. The Mission of Institutional Integrity

7. Reflecting these concerns, INT's original instructions were to investigate allegations of fraud and corruption in Bank projects and allegations of staff misconduct including, but not limited to, fraud and corruption. Over time, however, that original mandate has evolved. From a mostly reactive and remedial effort to investigate problems after they have occurred, with sanctions applied as a deterrent, the Bank is working to achieve a more effective balance of reactive and proactive/preventive approaches. INT's current mission, therefore, includes working closely

with other agents of change 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 proactive measures for earlier detection and prevention; 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 (led by the Ethics Office) incorporating the lessons learned.

8. This statement of the mission was incorporated in the Integrity Department's Strategic Directions and Business Plan paper approved by Senior Management and subsequently endorsed by the Board in July 2004. In addition to seeking a better balance between reactive and proactive approaches, the strategy calls for adoption of a new, more efficient approach to case management, and better integration of the Integrity Department's work into the anticorruption strategies of the Regions and Country teams. It also includes expanding and regularizing the Department's staff while improving gender and nationality diversity, and strengthening communications and outreach efforts regarding the Bank's results and lessons learned.



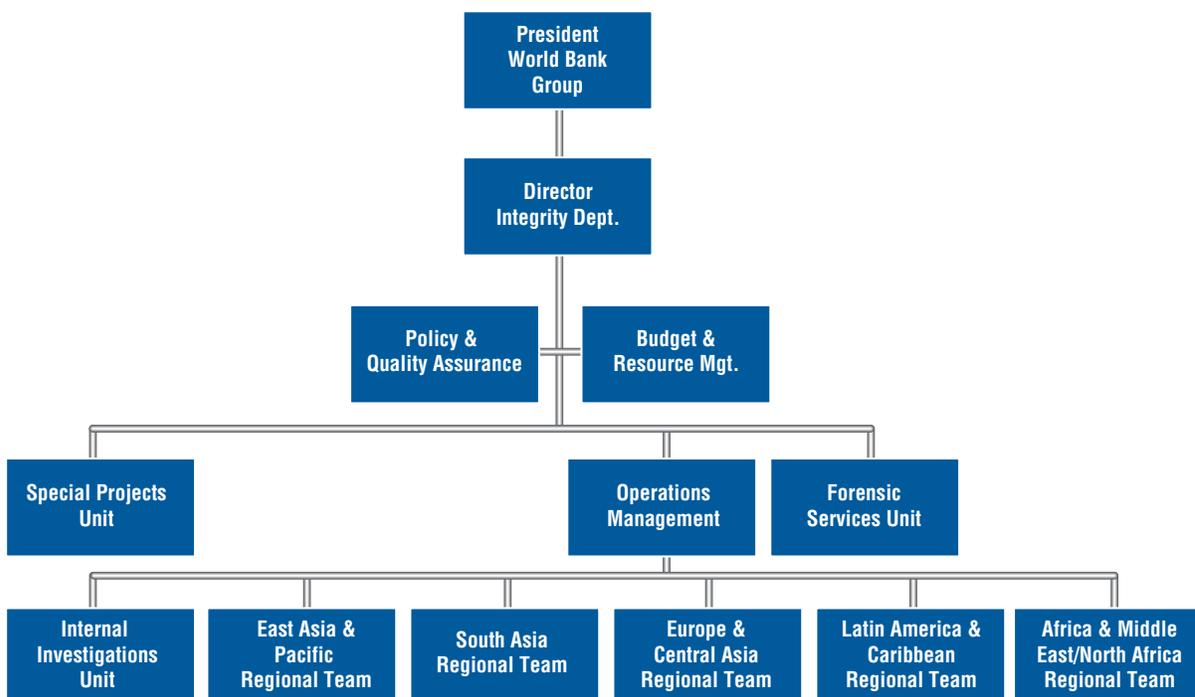
# Organization, Staffing and Resources

## A. Organization

9. In 1997, the Internal Auditing Department established a small investigations unit (IADIU) to pursue allegations of fraud and corruption. As the case work grew, the unit contracted with outside accounting firms to assist in the growing number of cases. In 1998, the Oversight Committee on Fraud and Corruption was created, chaired by the Managing Director for Operations, along with a small secretariat to provide coordination and oversight of the investigations. In 1999, IADIU and the secretariat to the Oversight Committee were merged into a single unit, the Anticorruption and Fraud Investigations Unit (ACFIU). With further growth, and the merger of ACFIU with the investigations function of the Office of Professional Ethics in 2001, the new Department of

Institutional Integrity was created, reporting directly to the President. IAD and the Integrity Department now work closely together to ensure a coordinated effort on fraud and corruption. This collaborative approach includes regular quarterly review meetings between the senior managers as well as briefings by Integrity Department staff in advance of travel by IAD staff, and occasional referrals between the two departments.

10. Since then, the Integrity Department has continued to evolve. At the end of fiscal 2004, the Department consisted of: the Director's Office responsible for policy, quality assurance, and resource management; a Forensic Services Unit responsible for the case management system and knowledge management; a Special Projects Unit responsible for the development of a proactive approach to



the prevention of fraud and corruption; and the Operations Group, consisting of six teams of investigators (one dealing with allegations of staff misconduct, and five regional teams dealing with allegations of fraud and corruption in Bank projects) led by an Operations Manager.

## B. INT Staffing and Resources

11. As of June 30, 2004, the Integrity Department had a total complement of 47 employees, 37 open-ended and fixed-term staff, and 10 consultants and temporary staff (see Table 1). Of these, 13 were administrative and client support (ACS) staff (levels GB to GD) and 34 were comprised of investigators (many of them attorneys, some former prosecutors), forensic accountants, procurement and database management specialists, resource management staff, experienced operations staff and managers (levels GE to GI).

12. While INT's budget increase and recruitment authority for fiscal 2004 provided for a higher number of staff, the Department experienced high turnover ratio during the year—a total of twelve staff departures. Of these, five were recruited by the U.N. Oil for Food Programme investigation in New York and two others left to take up senior positions at the Inter-American Development Bank (IDB)

and the U.S. Federal Reserve Board. An international recruitment effort was launched, but most of those selected did not arrive before the end of the fiscal year. These new staff will add significantly to the Department's gender and nationality diversity, which is vital for the effective conduct of investigations in our member countries. They also add important new dimensions in terms of language capabilities, including Russian, Chinese, Bahasa Indonesia, Hindi and Urdu.

13. Progress was also made in another area of concern noted in INT's strategy paper—the high proportion of staff on fixed-term rather than open-ended appointments. Of the 24 staff at grade GF or higher in fiscal 2003, only nine (38%) had open-ended appointments while 15 (62%) were fixed-term. Fortunately, with the approval of the strategy and business plan, and a significant budget increase, the Integrity Department was able to convert a number of fixed-term staff to open-ended appointments. As of June 30, 2004, of the 27 staff at level GF and above, 18 (67%) were open-ended while only nine (33%) were fixed-term, essentially a reversal of the situation the previous year.

14. INT's total budget allocation for fiscal 2004 was nearly US\$10 million (see Table 2). This included a base budget of US\$9.3 million, an increase of US\$2.2 million over the base budget in fiscal 2003. As a result of work program developments during the year, the Integrity Department requested and received additional funding of US\$600,000 (mostly for travel and for outside experts to supplement the Integrity Department staff in the conduct of high priority investigations), for a total budget of US\$9.9 million. The additional US\$2.2 million in base-budget fund-

**Table 1: INT Staffing Levels (FY03–FY04)**

Staff Types	FY03	FY04
<b>Bank Staff</b>		
Investigators/Other Specialists	27	28
ACS/Other Support Staff	9	9
Subtotal	36	37
<b>Consultants/Temporary Staff</b>		
Investigators/Other Specialists	7	6
ACS/Other Support Staff	2	4
Subtotal	9	10
<b>Total Staff and Consultants</b>	<b>45</b>	<b>47</b>

**Table 2: INT Budget (FY03-FY04 – US\$ million)**

Budget Allocation	FY03	FY04
Base Budget Allocation	6.1	9.3
Additional Allocation (Mid-Year)	1.0	0.6
<b>Total Budget Authorization</b>	<b>7.1</b>	<b>9.9</b>

ing for fiscal 2004 allowed for the recruitment of another eight staff, as well as increased travel, space, computers and other support services.

### **C. Sanctions Committee Staffing and Resources**

15. Within the Legal Department, the procurement unit (LEGPR) serves as the Sanctions Committee secretariat and reviews and provides legal advice on cases (see Appendix 3). In fiscal 2004, this unit comprised the Chief Counsel, two level GG professional staff and one paralegal. In addition to Sanctions Committee support, LEGPR also provides legal

advice on operational procurement issues as well as on policy development and country institutional work, to the Regions, the Procurement Unit in OPCS, and the Bank's Procurement Board. LEGPR also provides training to Bank staff and borrowers in the legal, institutional, and commercial aspects of procurement, and actively cooperates with international institutes and business groups. Along with the LEGAD, the Legal Corporate Administration Unit, LEGPR played a lead role in reviewing the Bank's sanctions process which led to the reform proposals adopted by the Board in July 2004. The unit devotes about one fourth of its staff resources to this function, or roughly US\$175,000.



# Investigations and Case Load Management

## A. Investigations

16. INT started fiscal 2004 with a carryover of 321 open cases, comprising 76% external cases (fraud and corruption in Bank projects) and 24% internal cases (staff misconduct). During the year, 354 cases were opened and 341 cases were closed, with a carryover to fiscal 2005 of 334 cases—an increase of 13 cases (see Table 3). The number of new cases in fiscal 2004 was up slightly over fiscal 2003, while the number of cases closed was much lower. The higher figure in fiscal 2003 was a result of a special effort to close a large number of relatively old fraud and corruption cases. The increase in the carryover to fiscal 2005 was due to a decline of external cases (down by 20) offset by an increase of internal cases (up by 33) and an end of fiscal year ratio of 67% external to 33% internal.

## B. Case Load Management

17. As part of INT's new approach to case management, allegations received are rated as to their relative priority using a standard set of criteria. All allegations of staff misconduct received by the Integrity Department are con-

sidered extremely important and are given a high priority rating and are investigated to the full extent necessary in order to achieve closure. (As noted in para. 23, some of the allegations of staff misconduct that come initially to the Integrity Department may be referred to other parts of the Bank for appropriate resolution.) On the external side, however, the number of cases clearly exceeds the resources that would be needed to conduct a full investigation into every case.

18. All external cases go through a preliminary inquiry, with the information gathered used in the rating process. Cases rated low priority are usually closed without further investigation, but all relevant information is entered into INT's database for future reference and analysis. Such cases may be reopened if the Integrity Department receives additional information. Medium and high priority cases are included in the work program, with high priority cases scheduled for investigation based on the Integrity Department's discussions with the relevant regional counterparts. Overall, based on feedback from both the Integrity Department's investigators and the Regions, the new approach to case management is working well.

19. As shown in Table 4, the Integrity Department completed 176 high priority cases in fiscal 2004, including both internal and external cases. Despite this accomplishment, there were 182 high priority cases carried over to fiscal 2005, 48 cases more than the fiscal 2003 carryover (33 internal and 15 external). Medium priority cases were up by 26, while low priority cases declined by 41, reflecting the new approach to case management. (Note: while low priority cases should normally be closed immediately after being rated, there is sometimes a delay in completing the necessary paperwork—hence the 24 cases shown

**Table 3: Total Number of Cases**  
(FY03–FY04)

Total Cases	FY03	FY04
Cases Carried Over	430	321
New Cases Opened	339	354
Subtotal	769	675
Cases Closed	448	341
Ending Case Load	321	334

in the table as low priority cases are still open. Note also that the “adjustment” column reflects changes in the status of cases that emerge from the “no rating” category: the 51 “no rating”

cases carried over to FY04, for example, represent the original stock of 71, plus 161 new cases, less 154 that emerged with ratings, less 27 others that were closed.)

**Table 4: INT Case Priority Ratings**  
(FY03–FY04)

	<b>FY03 Carryover</b>	<b>New Cases</b>	<b>Adjustments</b>	<b>Cases Closed</b>	<b>FY04 Carryover</b>
High Priority (of which External)	134 (57)	175	49	176	182 (72)
Medium Priority	51	11	56	41	77
Low Priority	65	7	49	97	24
No Rating (Preliminary Inquiry)	71	161	–154	27	51
<b>Total Cases</b>	<b>321</b>	<b>354</b>		<b>341</b>	<b>334</b>

# Internal Investigations and Sanctions

## A. Investigations and Case Load Management

20. With the closing out of a large number of special cases in fiscal 2003, the business plan assumed a reduction in the carryover of internal (staff misconduct) cases. Instead, fiscal 2004 saw a reversal of the previous year's decline, with 110 cases carried over, an increase of 33 (see Table 5). New cases were up by 26, from 125 in fiscal 2003 to 151 in fiscal 2004. (Again, this compares with a total population of about 10,000 Bank staff and consultants.) The increase in new cases can be seen as a favorable indicator, at least to the extent that it reflects an improvement in the reporting environment, where staff feel comfortable and protected in making good faith allegations, and confident that the institution will take their complaints seriously (see Box 2 on Protection of Whistleblower Rights).

21. Many of the cases that INT's internal unit investigated during fiscal 2004 were exceptionally complex and sensitive, requiring a high concentration of resources and generally carried out against a tight time schedule. Timeliness is a perpetual concern in staff miscon-

duct cases, especially if a staff member has been placed on administrative leave pending the completion of the investigation/decision making process. However, the timeliness issue applies in essentially every case, given the impact on staff morale and the workplace climate of an ongoing investigation. The investigative process has also become more sophisticated over time, in part to accommodate rulings by the Administrative Tribunal and the Appeals Committee, but also reflecting lessons of experience about how best to ensure that investigations are carried out in a fair, balanced, and professionally competent manner (see Appendix 4). Complicating matters is the fact that INT's operating environment is inherently unpredictable with respect to the frequency, volume and sensitivity of complaints that it may receive.

22. These factors, combined with the fiscal 2004 increase in new cases, have required new approaches to case load management on the internal side as well. In the area of workplace conflict cases, for example, INT's initial response is to determine whether the case requires the full and formal processes of an Integrity Department investigation, or might be resolved more efficiently and effectively through a less formal process. During both the initial intake and the preliminary inquiry stages, therefore, each case is examined against the various alternatives available under the World Bank's CRS and a judgment is made about the most appropriate approach to resolving the issues in dispute.

23. Whenever the best alternative is not obvious, INT may consult with various parts of the CRS (Ombudsman, Mediation, or Ethics) as well as with the Legal Department, Human Resources, and the relevant Bank managers, depending on the nature of the issue, to arrive at the most appropriate answer.

**Table 5: Number of Internal Cases (FY03–FY04)**

Total Cases	FY03	FY04
Cases Carried Over	112	77
New Cases Opened	125	151
Subtotal	237	228
Cases Closed	160	118
Ending Case Load	77	110

## Box 2

### World Bank Group Protection of Whistleblower Rights

The World Bank Group (WBG) has procedures which are intended to protect whistleblowers from retaliation for raising good faith concerns in the workplace.

- A “whistleblower” is an individual who provides information or raises concerns in good faith to management or any entity within the WBG conflict resolution system (CRS) on suspected misconduct (e.g., fraud and corruption), mismanagement, waste of resources and/or abuse of authority within the WBG, and where, as a result, that staff member may be subjected to selective, arbitrary and/or exaggerated administrative and/or disciplinary action for making the report (retaliation, reprisal) by his/her chain of command, senior management official(s), or his/her fellow staff members.
- Staff Rule 8.01 (“Disciplinary Proceedings”) prohibits retaliation against any person who in good faith provides information about suspected misconduct, or who uses the CRS.
- The WBG recognizes an obligation to protect whistleblowers from being subjected to pressure or retaliation, or the fear of such consequences, as a result of raising workplace concerns in good faith. There are four ways in which the WBG affords this protection:
  1. Staff members may choose to remain anonymous when reporting suspected misconduct to the Integrity Department or raising concerns with any entity in the CRS.
  2. Staff members may request to have their identity kept confidential during the investigative process. This means that their identity would not be disclosed outside the investigative team unless the staff member consents to the disclosure, or the Bank Group is so ordered by a competent judicial authority within a member government, or it is determined that the staff member knowingly made a false allegation of misconduct.
  3. In consultation with HRS, the staff member may be transferred elsewhere in the WBG, if possible. For example, in recent cases of whistleblowing, management has used the WBG’s Institutional Staff Resources Program to move staff into other areas of the WBG at the staff member’s request.
  4. As a deterrent, the WBG expressly prohibits retaliation by a WBG staff member against any person who in good faith provides information about suspected misconduct or who uses the CRS, and the WBG will take appropriate disciplinary action under Staff Rule 8.01.
- In fiscal 2005, the WBG is undertaking a review of its policies and procedures relating to protecting whistleblowers from retaliation to evaluate any areas for improvement in light of evolving U.S. and international best practices in the public and private sectors and the Bank’s status as an international organization.

This process is working well, with a total of 110 cases referred to others over the last two fiscal years (see Table 8). This has allowed the Integrity Department to focus its resources on those cases where referral is not appropriate (e.g. due to the egregious nature of the allegations) or where the CRS system has already been exhausted.

24. Allegations against Bank staff vary widely and range from fraud and corruption in Bank-financed projects or in relation to the Bank's own administrative budget, to other forms of workplace misconduct such as sexual harassment, violations of World Bank Group polices and procedures, and non-compliance with personal financial obligations (see Table 6).

25. The Bank takes all of these allegations seriously. Cases of sexual harassment are accorded the highest priority, along with those involving fraud and corruption by Bank staff. While the number of such allegations is small in comparison with the total number of Bank staff and consultants (less than 1%), the Bank's ethical obligations as an institution, and its obligations as a lender, as well as the credibility of its anticorruption efforts, require that its staff be above reproach.

26. As noted in Table 7, there were eight cases involving fraud and/or corruption by Bank staff in relation to Bank projects carried, and 32 new allegations in fiscal 2004,

for a total of 40 open cases. Of these, 17 were closed and 23 carried over into fiscal 2005. Of the 17 closed, two were referred to managers as they involved procedural irregularities, not fraud or corruption, and three were not investigated beyond the preliminary inquiry due to a lack of evidence. Of the remaining twelve that were closed following full investigation, only one was substantiated; six were unsubstantiated and five were unfounded.<sup>4</sup> While the number of such allegations was up significantly in fiscal 2004, and the substantiation rate down, the numbers are simply too small to be meaningful in terms of patterns or trends.

27. The number of cases involving allegations of fraud and corruption in relation to the Bank's administrative budget (e.g., benefits fraud and embezzlement) are also up somewhat in fiscal 2004, with 48 new cases compared with 33 in fiscal 2003. The substantiation rate, however, remained above 50%. Of the 31 cases closed, 11 were referred or

<sup>4</sup> A case is: "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.

**Table 6: Internal Cases by Type and Number of Allegations**  
(FY03–FY04)

Types of Cases	FY03	FY04
Fraud and Corruption—Project Related	11 (9%)	32 (21%)
Fraud and Corruption—Budget Related	33 (26%)	48 (32%)
Workplace Misconduct	11 (9%)	10 (7%)
Sexual Harassment	4 (3%)	7 (5%)
Violation of WBG Policies/Procedures	32 (26%)	17 (11%)
Non-Compliance w/Personal Obligations	34 (27%)	37 (24%)
<b>Total Cases</b>	<b>125 (100%)</b>	<b>151 (100%)</b>

**Table 7: Internal Cases Involving Allegations of Fraud and Corruption (FY03–FY04)**

	FY03	FY04
<b>Fraud and Corruption—Project Related</b>		
Cases Carried Over	3	8
New Cases Opened	11	32
Subtotal	14	40
Cases Closed	6	17
Cases Referred/Not Investigated	—	5
Cases Investigated	6	12
of which Substantiated (%)	3 (50%)	1 (8%)
Ending Balance	8	23
<b>Fraud and Corruption—Budget Related</b>		
Cases Carried Over	18	19
New Cases Opened	33	48
Subtotal	51	67
Cases Closed	32	31
Cases Referred/Not Investigated	9	11
Cases Investigated	23	20
of which Substantiated (%)	12 (52%)	11 (55%)
Ending Balance	19	36

not investigated, while 20 were closed after a full investigation. Of these, 11 were substantiated, six were unsubstantiated, and three were unfounded.

## B. Outcomes and Results

28. During fiscal 2004, INT closed a total of 118 cases of alleged staff misconduct. Of these, 49 cases (42%) were referred to others and 69 cases (58%) were investigated. Of the cases investigated, 30 (43%) were substantiated, 14 (20%) were unsubstantiated, and 25 (36%)

**Table 8: Investigative Outcomes—Internal Cases (FY03–FY04)**

	FY03	FY04
Cases Closed	160	118
Cases Referred/Not Investigated	61	49
Cases Investigated	99	69
of which:		
Substantiated	64 (65%)	30 (43%)
Unsubstantiated	10 (10%)	14 (20%)
Unfounded	25 (25%)	25 (36%)

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 where the Bank’s investigation exonerated staff members who had been accused of misconduct (unfounded cases)—an equally important outcome for all concerned.

29. Out of the 30 cases that were substantiated:

- 12 staff members were found to have engaged in fraudulent or corrupt practices, 11 relating to the Bank’s administrative budget and one involving Bank-financed projects. Of those, nine were terminated and barred from rehire (or if they had already left the Bank, simply barred from rehire) and three received other forms of disciplinary action consistent with Bank rules and procedures;
- Two staff members were found to have engaged in sexual harassment, and were terminated and permanently barred from rehire;
- 12 staff members were disciplined for failure to comply with personal obligations

under the Principles of Staff Employment, while eight others brought themselves into full compliance with their obligations as a result of INT's intervention; and

- Four staff members were disciplined for other violations of Bank Group policies.

30. In terms of outputs, referrals to CRS/HR/Management were down somewhat in fiscal 2004, non-compliance with personal obligations cases remained steady and formal investigations and reports to Human Resources for decision were down significantly (see Table 9). The fiscal 2003 results, however, reflected the large number of trust fund and visa-related cases, part of two special reviews, both of which were launched and mostly completed during fiscal 2003.

**Table 9: INT Investigative Results (Internal)**  
(FY03–FY04)

<b>Internal Products</b>	<b>FY03</b>	<b>FY04</b>
Referrals to CRS/HR/Management	61	49
Non-Compliance w/Personal Obligations Notes	46	45
Formal Investigations	54	14
Final Reports to Human Resources for Decision	52	11
Referrals to National Authorities	2	1



# External Investigations and Sanctions

## A. Investigations and Case Load Management

31. On the external side, 203 new cases were opened, down 11 from fiscal 2003, and closed 223 cases, down 65 from fiscal 2003—for the reason noted in para. 16. While this resulted in 20 fewer external cases carried over to fiscal 2005, the aggregate figures do not reflect the challenge of a growing number of high and medium priority cases. As shown in Table 4, the number of cases not yet rated declined by 20 in fiscal 2004, while the number of low priority cases declined by 41, closed, in most instances, without a full investigation. High priority external cases, however, increased by 15, and medium priority by 26, an increase of 41. When compared with the 108 high and medium priority external cases in fiscal 2003, this represents a 40% increase in the workload, since low priority cases, even before the new approach to case management, were rarely fully investigated. By way of context, the Bank approves approximately 240 new projects a year, and has an outstanding portfolio of approximately 1,400. Each project has multiple contracts and in some cases, especially those

involving small scale expenditures at the local level, contracts can number in the thousands. INT’s investigations may involve a single contract or multiple contracts on the same project.

32. Several high priority cases in fiscal 2004 were exceptionally complex and sensitive, requiring a high concentration of resources for both investigations and documentation and report writing. These cases were critical for achieving greater impact from INT’s resources but resulted in other high priority cases being delayed or not pursued during the period, as reflected in the increase of high priority cases. There were insufficient resources to pursue medium priority cases, with a corresponding aging of that portfolio.

33. The nature of the allegations received by the Bank range from procurement fraud and collusion to kickbacks and bribes, from accounting fraud and overcharging to the misuse of project assets, and other activities such as misrepresentation of qualifications in bid submissions (see Box 1). As noted in Chart 1, collusion in the procurement process was most frequent, representing 45% of all allegations for cases closed in fiscal 2004. The next most common was kickbacks and bribes (30%), often a complement to collusion during the bidding process, with additional payments required subsequently to get invoices paid. Together, these two categories accounted for 75% of all allegations received in fiscal 2004.

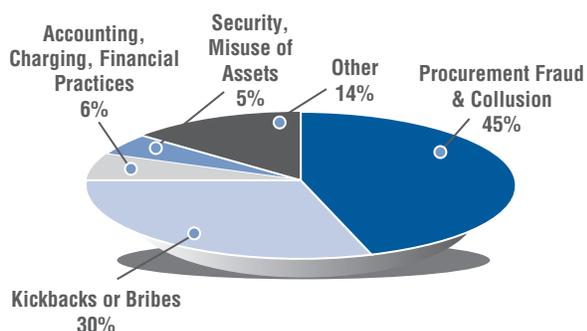
34. In terms of the sources of complaints, the share of cases reported by Bank staff (mostly Task Team Leaders, Procurement and Financial Management Specialists) has continued to rise—reflecting, in part, the growing awareness of the institutional integrity function within Operations—up from 26% in fiscal 1999 to 56% in fiscal 2004.

35. In terms of the distribution of cases by Region (see Table 11), it is important to note

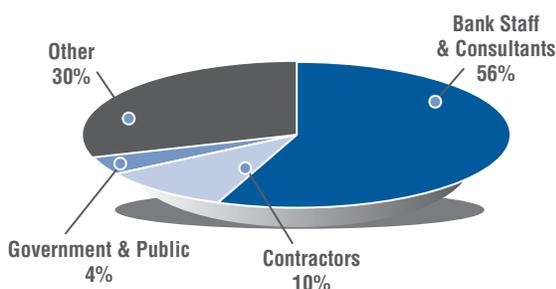
**Table 10: Number of External Cases (FY03–FY04)**

Total Cases	FY03	FY04
Cases Carried Over	318	244
New Cases Opened	214	203
Subtotal	532	447
Cases Closed	288	223
Ending Case Load	244	224

**Chart 1: Types of Allegations Received (FY04)**



**Chart 2: Sources of Allegations (FY04)**



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 the Integrity Department has been most active over the recent few years. It may also reflect a relatively small project portfolio, as in the case of the Middle East and North Africa Region. Over time, as investigators visit more countries and undertake investigations over a wider geographic range, the current phenomenon of under-reported countries/regions is expected to decline.

36. In fiscal 2004, the East Asia and Pacific and the Europe and Central Asia Regions reported the largest number of new cases, with the Middle East and North Africa region reporting the fewest. The largest number of cases closed was also in East Asia, reflecting the finalization of a large number of cases arising from the Detailed Implementation Review (DIR) of a project in Indonesia (see para. 43, and Appendix 1, p. 31).

## B. Outcomes and Results

37. For cases closed during fiscal 2004, where a full investigation was completed, the rate of substantiated findings was 44%, up some-

**Table 11: External Cases by Region (FY03–FY04)**

Region	FY03 Carryover	New Cases	Subtotal	Closed Cases	Ending Case Load
Africa	25	34	59	26	33
East Asia/Pacific	90	69	159	97	62
Europe/Central Asia	49	50	99	38	61
Latin America/Caribbean	49	20	69	38	31
Middle East/North Africa	2	5	7	3	4
South Asia	29	25	54	21	33
<b>Total</b>	<b>244</b>	<b>203</b>	<b>447</b>	<b>223</b>	<b>224</b>

**Table 12: Investigative Outcomes—External Cases**  
(FY03–FY04)

	FY03	FY04
Cases Closed	288	223
Cases Referred/Not Investigated	75	120
Cases Investigated of which:	213	103
Substantiated	72 (34%)	45 (44%)
Unsubstantiated	128 (60%)	49 (48%)
Unfounded	13 (6%)	9 (8%)

what from fiscal 2003 (see Table 12). The lower figure for fiscal 2003, however, was likely depressed by the effort to close older cases, in some instances after an investigation had been launched, but evidence to substantiate the allegations was never obtained. Unsubstantiated cases were at 48%, and unfounded cases (where the evidence clearly indicated that the allegations were not true) were at 8%.

38. Table 13 provides a summary of Sanctions Committee activities and outcomes during fiscal 2004 based on cases substantiated as a result of the Integrity Department's investigations. In almost every area, the numbers were higher than in any previous year—largely as a result of cases generated by a DIR carried out in Indonesia in fiscal 2002 which led to a number of follow up investigations (see para. 43). In addition to administrative

**Table 13: The Bank's Sanctions Process**  
(FY03–FY04)

	FY03	FY04
<b>Sanctions-Related Actions</b>		
Number of Cases Received	15	23
Number of Committee Sessions	5	8
Number of Cases Heard	8	16
<b>Number of Sanctions Applied</b>		
Number of Debarments		
Firms	14	55
Individuals	8	71
Total Debarments	22	126
Number of Letters of Reprimand		
Firms	1	4
Individuals	—	3
Total Letters of Reprimand	1	7
Total Sanctions Applied	23	133

sanctions, there were also 10 referrals to national authorities made as a result of the cases substantiated by INT. During fiscal 2004, the Sanctions Committee:

- received 23 new cases from the Integrity Department—the highest number since the Committee was established in 1999 (see Appendix 4);
- met eight times, and heard 16 cases—twice as many as in fiscal 2003;
- debarred 55 firms and 71 individuals; and
- issued seven Letters of Reprimand, four to firms and three to individuals.



## A. Policy Development

39. The development of the Bank's work on fraud and corruption has benefited from the advice of various outside experts, including former U.N. Undersecretary and former U.S. Attorney General Dick Thornburgh.<sup>5</sup> During fiscal 2003, Mr. Thornburgh led a team which reviewed the proposed strategy and the adequacy of the Bank's mechanisms and resources for implementing that strategy. Among other conclusions, his report provided a strong endorsement of the Bank's new directions, and of the caliber of its staff, but noted that additional resources would be required. His report also highlighted the need to resolve a number of policy issues that were central to INT's investigative work. At about the same time, the Bank established a new Investigations Policy Committee (IPC), chaired by the Managing Director, Operations and including the Senior Vice President and General Counsel, the Vice President for Operations Policy and Country Services, the Vice President for Human Resources, and the Vice President and Controller.

40. The IPC was supported by a secretariat in the Legal Department's Corporate Administration Division (LEGAD) and by a joint Integrity Department/Legal Department working group. As a result, significant progress was made in dealing with a number of pressing policy issues, including those arising from the Integrity Department's review of the feasibility of new and more proactive approaches to fighting fraud and corruption in Bank projects. These included progress on issues of confidentiality and witness security, reform of the Bank's sanctions policy and processes, and development of related communications policy. The remaining unresolved issues are the subject of ongoing work.

41. During the period covered by this report, only the IBRD and IDA were subject to the Sanctions Committee. However, the authority of the Integrity Department to conduct investigations extends to all World Bank Group institutions. As part of the sanctions reform process, the sanctions procedures are currently being updated and extended to include the specific business needs of both IFC and MIGA.

## B. New and More Proactive Tools

42. The Integrity Department began work on a proactive approach involving a possible formal program for the voluntary disclosure of information by firms. A variety of voluntary disclosure programs are currently in use in the U.S., the E.U., several European countries and Australia for different compliance purposes. The Bank's objective would be to encourage firms who have engaged in fraudulent or corrupt practices in relation to Bank-financed projects to disclose to the Bank the details of those practices in exchange for a reduction in the application of sanctions that would otherwise apply, such as debarment. A small pilot exercise has been carried out. Such an approach has the potential to generate significant additional information, not otherwise available to the Bank, at a relatively low cost. Such information could then be used by the Bank, *inter alia*, to strengthen the Bank's internal controls and to inform the identification, preparation, appraisal and supervision of future Bank-financed projects. It would also increase the risk of detection and sanction of other, non-compliant companies.

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<sup>5</sup> The Thornburgh reports are available on the Bank's external website (see page viii.)

43. The Integrity Department participated in a second proactive Detailed Implementation Review (DIR), similar to the one carried out in Indonesia in fiscal 2002<sup>6</sup>. While the first review focused on a single project in a relatively high risk sector, the second review focused on several projects in different sectors in a relatively high risk country. (Results are not yet complete and thus details cannot be released.) DIRs involve an intensive review of project documentation, as well as physical inspection of the project components as built. Going beyond the normal requirements of project supervision by Bank Task Teams, these reviews are able to reveal indicators of fraud and/or corruption that occur “under the existing radar” but can have a significant impact on the success and sustainability of a development project. The results of the review can then be followed up in a variety of ways, including referral for possible further investigation. A third DIR was in the planning stage at the close of fiscal 2004, this one also involving a number of projects in the portfolio of another relatively high risk country.

### C. Communications

44. With the assistance of a Bank Communications Advisor and an outside consultant, a communications audit was carried out that highlighted some key challenges the Bank faced in getting its messages out—including the disclosure of information regarding the results of its investigations. As part of this exercise, the Bank conducted a benchmarking exercise on best practices in communications related to investigations and sanctions. This included dialogue and visits with a number of other agencies including: The European Anti-Fraud Office (OLAF); the U.N. Office of Internal Oversight Service (OIOS); the French Banking Commission; U.S. Securities and Exchange Commission (SEC); U.K. Financial Services Authority (FSA); U.S. Federal Reserve Board; U.S. Department of Justice (DOJ), Office of Professional Responsibility; U.K. Department for International Development (DFID); French Development Agency (AFD); U.S. Agency for International Development

(USAID); Asian Development Bank (ADB); Inter-American Development Bank (IDB); and European Bank for Reconstruction and Development (EBRD). This exercise revealed a clear trend towards increased transparency about results and actions in most, if not all, of these agencies as a strategic tool for deterrence and prevention.

45. On the basis of this work, a communications strategy specifically related to investigations and sanctions was developed and recommendations were made regarding needed changes in the Bank’s disclosure policy to allow greater transparency. In addition to increasing public awareness of the Bank’s anti-corruption efforts, the intention is to increase the deterrent effects of the Bank’s work by publicizing the results of its investigations, consistent with the broader goal of contributing to a change in behavior by persons involved in fraud and corruption. In July 2004, the Board endorsed that strategy and approved the changes in the Bank’s disclosure policy. This document was disclosed in July, and may be viewed on INT’s website (<http://www.worldbank.org/integrity>) as well as on the Bank’s Documents & Reports website (<http://www-wds.worldbank.org>).

46. Within the Bank, communication of results in staff misconduct investigations is essential to leveraging deterrence of would-be offenders. One of the most effective methods to deter staff from engaging in misconduct is to announce the results of specific cases (without names) via the Bank’s intranet home page (known as the Bank “Kiosk”) and through website posting. Names or units are not publicly released in accordance with Bank staff rules on confidentiality. An added benefit of communicating results is to encourage future reporting by staff, by demonstrating that their claims will be taken seriously and acted upon.

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<sup>6</sup> Progress Report: Fiduciary Review of the Second Sulawesi Urban Development Project Overview Report, [http://wbln0018.worldbank.org/acfiu/acfiuweb.nsf/\(intlinks\)/CTON-5PL77Z](http://wbln0018.worldbank.org/acfiu/acfiuweb.nsf/(intlinks)/CTON-5PL77Z) and Appendix 1, p.5.

The Integrity Department is also cooperating with IAD, Human Resources, and the Ethics Office in sharing the findings from relevant investigations in order to assist them in enhancing the Bank's internal control environment, and in support of the Ethics outreach program, drawing upon lessons learned from staff misconduct investigations.

## **D. Outreach and Knowledge Management**

47. Fiscal 2004 saw a continuation of earlier efforts to broaden the awareness of what institutional integrity is and what it does through workshops and seminars, as well as more in-depth training and education for operational staff both in Washington and in country offices. In addition, the Integrity Department has regularized an arrangement with IAD to provide briefings to audit teams in preparation of engagements to identify potential fraud and corruption concerns and facilitate appropriate audit plan focus.

48. The Integrity Department developed a comprehensive presentation on the typology and mechanisms of international fraud and corruption, and the Bank's efforts to investigate and sanction any wrongdoing. This presentation is called "The Anatomy of Transnational Corruption" and it was given over 20 times in fiscal 2004 before a wide variety of audiences, both within the Bank (e.g. Senior Management, the Board's Audit Committee, PREM Network training seminars, Legal Department, regional hub training events and others) and externally (e.g. Harvard Law School, Kennedy School of Government, U.S. Department of Justice, and the Socially Responsible Investor Forum), and in each instance was well received.

49. Department staff participated in more than a dozen major internal and external multi-day conferences and training events, including the World Bank Fiduciary Forum, IDB conferences, and other external for a ranging from the Conference of International Investigators in Lyon, France to the Rotary Club of Dili, East Timor. Integrity Department investigators are continually encouraged to seek ap-

propriate opportunities for outreach during their travels.

50. Briefings by the Integrity Department have become an integral component of the orientation program for new Bank staff and new extended-term consultants and contract staff, as has the practice of specifically briefing newly appointed country directors on Bank procedures and case histories in their country. In fiscal 2004, the incoming participants in the Bank's Young Professionals Program also received a briefing by Integrity Department staff on potential fraud and corruption in Bank operations. The Integrity Department is responsible for a full day of the PRMSP Core Course on Governance and Anticorruption, targeted specifically to Bank country economists and others interested in governance issues. The Department's regional teams typically provide monthly updates of activities to their counterparts in the regional vice presidencies as well as presenting outreach and awareness modules in regional hub training sessions for field-based staff. Integrity Department staff also provide country office staff briefings and awareness presentations while working in client countries. More than 50 such orientation and briefing sessions were conducted by Department staff during fiscal 2004.

51. INT has continued to support the Vienna Institute partnership with the U.N. Office on Drugs and Crime to conduct their annual multi-day anticorruption program for delegates from developing countries, and the International Group for Anticorruption Coordination. During fiscal 2004, senior staff of the Integrity Department participated in seven major international gatherings dealing with fraud and corruption issues, including planning sessions to assess implementation of Interpol's Global Standards for investigations, and prosecution.

52. As most of INT's level GE or higher staff were external recruits without previous Bank experience, an important training priority for fiscal 2004 was addressed by offering two three-day "Introduction to Bank Operations for INT Staff" courses in partnership with OPCS. The customized version of the five-day OPCS course focused on the operational pro-

cesses, decision inputs and standard documentation produced in preparing and implementing Bank lending. An additional offering of this course is planned for fiscal 2005 based on positive staff response and additional staff recruitment.

53. INT's Learning Committee organized a series of Brown Bag Lunch seminars and lectures dealing with current Bank/INT topics ranging from procurement reform, revision of the standard audit access rights in Bank-financed contracts, operational issues for a voluntary disclosure program, the record and lessons of experience from the U.N. Tribunal for Yugoslavia, and many other topics of interest to INT staff. This is a continuing activity.

54. In addition, the secretariat of the Sanctions Committee, which includes the Chief Counsel of LEGPR, has conducted numerous training and information sessions, both formal and informal, inside and outside the Bank. Topics covered include fraud and corruption in Bank projects, the sanctions process in the Bank, and the ongoing reform of that process.

## **E. External Scrutiny**

55. The Congressional Research Service stated in an April 30, 2004 report<sup>7</sup> to the U.S. Congress that the World Bank appears to be the

international financial institution (IFI) with the most extensive and detailed process for addressing corruption issues. Assessing the anticorruption standards of IFIs, the report stated that the Bank was the only IFI that had adopted four main procedures—an independent corruption unit, an oversight committee, mandatory staff financial disclosure procedures, and a corruption reporting hotline.

56. The U.S. Senate Committee on Foreign Relations held a hearing on "Combating Corruption in the Multilateral Development Banks" on May 13, 2004 at which public testimony was given by U.S. Executive Director, Carol Brookins, and by Dick Thornburgh, among others, related to the work of the World Bank and its Department of Institutional Integrity. The testimony is available on the Senate Committee website.<sup>8</sup>

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<sup>7</sup> "Anti-Corruption Standards of the International Financial Institutions," CRS Report for Congress (order code RL32374), April 30, 2004

<sup>8</sup> Hearing before the Committee on Foreign Relations, United States Senate, One Hundred Eighth Congress, Second Session, "Combating Corruption in the Multilateral Development Banks" <http://foreign.senate.gov/hearings/2004/hrg040513a.html>

# WMI Challenges

57. As the preceding sections demonstrate, the Bank has made a good deal of progress in the development of its integrity functions. There are challenges still ahead. One of the most important for fiscal 2005 will be implementation of the sanctions reform changes approved in July 2004, and the creation of a new Sanctions Board with a broader range of sanctions. This will require the appropriate staffing and resource commitments, as well as the capacity to communicate these changes widely to all affected audiences once they are finalized. On the other side, the Integrity Department continues to evolve in its functions and programs. It is still in the process of achieving an equilibrium level of staffing and budget consistent with the department's responsibilities and work load. The significant growth of the department's staff and budget over the past three years clearly reflects the institutional priority being given to this important new function within the World Bank. Other challenges include:

- Striking the right balance between the newer, proactive/preventive approaches and the Bank's ongoing role of responding to allegations received—whatever the source—in a timely and effective manner;
- Developing plans for the possible launch of a formal Voluntary Disclosure Program, including putting in place the required policies, procedures and supportive infrastructure;
- Adapting investigative activities and proposals for more proactive anti-fraud approaches in the face of the potential challenges presented by increased use of country systems in the place of Bank procurement and financial management policies and procedures;
- Extracting lessons learned from investigations and more proactive approaches and

ensuring that those lessons are integrated back into the Bank's internal policies and procedures and in the Bank's approach to the identification, preparation, appraisal and supervision of the development projects the Bank finances;

- Reinforcing whenever necessary the need for the Integrity Department to remain an independent investigative unit within the World Bank Group, reporting directly to the President, and able to decide—with or without consultation—both the priority of individual cases and the manner in which they should be pursued;
- Managing the transition to a new leadership team within the Integrity Department in fiscal 2005, taking into account the arrival of a new Operations Manager in October 2004 and the planned departure of the current Director at the end of his five-year term (December 2005);
- Continuing to build up the Bank's cadre of expert, experienced staff working on institutional integrity activities, including recruitment, training, mentoring and development, as well as maintaining a high level of morale and work/life balance;
- Building on progress made during fiscal 2004, continue the process of extending the sanctions procedures in use by the IBRD and IDA to IFC and MIGA in a manner appropriate to their business models and taking into account their existing procedures for due diligence and other anti-fraud and anticorruption measures;
- Continuing the process of awareness raising and outreach in both IFC and MIGA, with investigative services provided by INT;
- Further strengthening the links between Integrity Department and other related units in the World Bank Group, including Legal, HR, CRS, Management, IAD, etc.;

- Developing evaluation tools that will help ensure that INT's business processes and approach are both efficient and effective;
- Enhancing the institution's communications and outreach efforts. This will be critical for the Bank, indeed for all IFIs, in order to increase deterrence and prevention; and
- Strengthening partnerships with the other IFIs, our borrowers, the private sector, NGOs, and civil society, since collective

action is critical for changing how projects actually work on the ground.

58. More broadly, the Bank will need to continue efforts to help mainstream concerns about fraud and corruption into the basic work of the institution—reducing poverty through financing of development projects in our member countries. This is the long-term challenge.

## Significant Investigations Concluded in Fiscal 2003/2004

### A. Internal Investigations (Staff Misconduct)

#### *Embezzlement*

A staff member and a former short-term consultant embezzled around US\$90,000 in WBG funds. The evidence showed that on at least seven occasions over a four month period, the staff member falsified, and/or caused to be falsified, accounts payable records and thus diverted the funds to the personal bank account of a former WBG short-term consultant (STC). Of note, no documentation supporting the changes that led to the disbursements were produced and each transaction amount was below the threshold that would have required approval from an Accounts Payable manager prior to disbursement. Following disbursements, the STC then “kicked-back” approximately US\$33,000 to the staff member through wire transfers to the staff member’s personal bank account.

Human Resources found that the staff member’s actions constituted serious misconduct. The staff member’s appointment was terminated and the staff member is not eligible for rehire. The former STC was permanently barred from rehire in any capacity.

#### *Local Procurement*

Two country office staff members acting in concert with a vendor, engaged in a scheme over a period of approximately two years to generate bids and award more than 98% (approximately US\$22,000) of the maintenance services contracts for the residences of expa-

triate Bank staff members to this single vendor. While “competing” bid submissions were falsified to prevent detection of the scheme, close inspection of the documentation yielded indicators of fraud. In return for this procurement manipulation, one of the staff members received several thousand dollars worth of free or discounted labor and materials in connection with work performed by the vendor on the staff member’s private residence.

Human Resources found that the staff members’ actions constituted serious misconduct. Both staff members’ appointments were terminated and they are not eligible for rehire.

#### *Acceptance of Bribes*

After a detailed investigation originating from an IAD referral of project supervision irregularities, the Bank terminated a staff member for accepting bribes from a consulting firm in exchange for influencing the retention of a consultant on a Bank-financed project. The investigation established that the staff member, acting in the capacity of task manager, used a middleman to facilitate the transfer of illicit payments between the consultant and the staff member. At the time, the middleman was acting as a consultant procurement advisor to the project.

In conducting this investigation, Integrity Department investigators searched public records and determined that the staff member made large additions to the staff member’s house using cash payments to builders and suppliers. When interviewed about the source

of the wealth to make home improvements, the Integrity Department developed evidence that the staff member fabricated elaborate stories regarding the source of outside funding. In addition, investigators spent considerable time in the field interviewing government officials and consulting companies who worked on the projects supervised by this staff member. Many officials gave oral accounts of illicit activity by the staff member. The Integrity Department ultimately uncovered a contractor willing to provide documentary evidence of a specific bribe payment to the staff member. The contractor turned over authenticated commercial bank documents which conclusively established the misconduct by the staff member.

The Bank also took debarment action against the middleman and his associated companies, with the Sanctions Committee issuing lifetime debarments for their involvement in corruption.

### ***Sexual Harassment***

The case involved a senior level country office staff member (manager) who engaged in a continuous pattern of behavior over a period of six years that constituted both sexual harassment and workplace harassment. The manager targeted five ACS and temporary staff members. The staff member repeatedly solicited three female staff members to engage in sexual relationships, and repeatedly invited two of them to join him for lunch and dinner (perceived as a pretext to pursue his personal interests with these individuals) after it was made clear his invitations were unwelcome. The second form of harassment alleged was hostile or offensive behavior on the part of the manager by his repeatedly insulting the complainants' professional competence in the presence of others. During this period, the manager was one of two Anti-Harassment Advisors in the country office.

Human Resources found that the manager's actions represented conduct that is unsuitable, unacceptable and incompatible with the ethical behavior the WBG expects, and further stated that as a manager, and in a position of trust, the behavior was particularly

egregious. The manager's appointment with the WBG was terminated, and he is ineligible for future rehire.

## **B. External Investigations (Fraud and Corruption in Bank Projects)**

### ***Fraud and Corruption in the Implementation of Rural Infrastructure Projects***

The Bank was advised that during the course of a regular supervision mission, the project team noticed a series of irregularities associated with the implementation of the project. A subsequent investigation involved the collection and analysis of documents and interviews with several witnesses, resulting in evidence of fraudulent and corrupt practices in the award and implementation of more than 20 subprojects. These fraudulent and corrupt practices had a negative impact on the project's developmental objective. While significant disbursements were made on a number of infrastructure contracts, contractors had made little progress on the actual works. In addition, the Integrity Department found that in some instances, rural mayors used the Bank-financed funds to finance their political campaigns.

As a result of the investigation, the Bank cancelled a portion of the loan and requested the reimbursement of the misused funds. In addition, the Bank suspended further disbursements until the Borrower took remedial actions to prevent future misuse of funds in the implementation of the project.

The Bank also referred its findings substantiating the allegations of fraud and corruption to local authorities. The Borrower established a group of anticorruption prosecutors to investigate and prosecute the cases that arose from the Bank's referral. To date, these prosecutors have completed nine trials, which have resulted in the conviction of 15 project officials, members of bid evaluation committees and contractors. Sentences have ranged between two and four years of imprisonment. In addition, the trials also resulted in the decision to suspend prosecution against another nine individuals under the condition that they provide restitution to the Borrower. Another

15 indicted individuals are currently awaiting trial.

### **Bribery**

INT has conducted a number of bribery investigations. A sample of representative cases is presented below:

- I. Following a Government's criminal indictments in connection with an alleged corruption in 1999, the Bank initiated an investigation into those allegations and, in particular, into whether consultants who had received contracts financed by the Bank had engaged in corrupt practices. At the conclusion of this initial investigation, the Bank concluded that the evidence was not reasonably sufficient to show that the firm had engaged in corrupt practices and as a result did not sanction the firm. The Bank at that time, however, reserved the right to reopen the investigation in light of any additional information that might surface, including from the public proceedings.

Following the firm's conviction of bribery in September 2002 by the High Court of the Borrower, the Bank reopened its investigation. In August 2003, the Court of Appeal of the Borrower upheld the High Court's decision on one of the two counts of bribery. The investigative work done by the Borrower produced evidence not available to the Bank during its initial investigation. With the new evidentiary information, the Bank proceeded with another debarment proceeding.

Consequently, the firm was declared ineligible to receive any new Bank-financed contracts for a period of three years as a result of corrupt activities for the purpose of influencing the decision-making of a public official, a violation of the Bank's procurement rules. Consideration was given to the fact that the firm had already been ordered to pay a criminal fine by the criminal courts of the Borrower and that the relevant persons involved in the firm's work on the project were no longer in positions of responsibility in the company.

- II. Following an investigation, a Bank staff member was terminated and a consultant and consulting firm were permanently debarred for corrupt practices in the award and execution of technical assistance contracts. Analysis of documentation revealed red flags of fraud and corruption and, with the support of witness statements, the investigation established that the procurement process had been manipulated and the bribery had occurred.

- III. Similarly, disbursements for an infrastructure improvement project were suspended by the Bank after an investigation found evidence that the Project Director and a former Bank staff member were involved in bribery and bid-rigging with contractors. The lifting of the suspension was conditioned upon the completion of a criminal investigation and forensic audit of the project. The subsequent forensic audit initiated by the Borrower's Government identified significant indicators of possible corruption and other control weaknesses in the management of the Bank-financed project.

The Project Director was also arrested and criminal proceedings are ongoing. Two Bank staff who were earlier terminated for misconduct subsequently pled guilty in U.S. Federal District Court on charges related to the project.

The new government of the Borrower has pledged to act on the recommendations in the audit report in an aggressive and transparent manner, and to take appropriate legal action against those involved. The Bank and the Government will be working very closely to ensure that the lessons learned and the recommendations contained in the audit are implemented, and the Bank's country team will undertake a review of its current portfolio to ensure that all possible anticorruption safeguards are in place.

- IV. A number of cases have revealed that some large multi-national companies entered into agreements with local agents who had con-

tacts in the government, and subsequently negotiated the award of contracts with the government officials in exchange for a bribe or kickbacks. During contract execution, it has been established that the involved companies frequently were required to pay facilitation fees to government officials in order to have their invoices processed or to obtain approval of substituted personnel.

### ***Collusive Bidding and the Payment of Kickbacks***

An extensive investigation was conducted in response to specific allegations of fraud and corruption made in the media. This investigation concluded that bidders on a Bank-financed education project colluded with each other to maximize the prices that could be obtained during the procurement of education supplies, and that many project officials received kickbacks from contract winners amounting, on average, to approximately 15% of the value of the contracts. As a result, the Bank declared misprocurement on a significant portion of the relevant loan, entered into negotiations with the Government to promote changes to procurement methods in the sector to reduce the chances of corruption in the future. A referral of the findings was made to the Government so a determination could be made concerning criminal charges against the relevant officials.

Further, the Bank instituted debarment hearings against the bidders. A substantial number of contractors were subsequently sanctioned, being declared ineligible to participate in future Bank-financed contracts for a stated period.

### ***Forged World Bank Letters***

Two suspicious letters written on Bank letterhead were forwarded to the Bank. The letters were addressed to an agency that provides export guarantees, and related to an alleged contract between a company selling medical equipment and the Ministry of Health. A false representation was made that the Bank provided a “no objection” to borrowing and expenditure in the sector in recognition that the health sector was a priority.

INT’s review of this matter confirmed that the correspondence were forgeries, and likely an attempt to undermine a procurement process and to defraud. As the Bank had no involvement in a project to supply medical equipment to this country, a referral to the relevant government was made.

### ***Misrepresentation of Credentials-Fraudulent Documents***

During the implementation of a health project, the performance of a key consulting company exhibited a number of shortcomings that contributed to delays in the assessment phase of the pilot project. This issue raised suspicion among the project officials and the Bank team that the real capacities and qualifications of the company might have been misrepresented. As a result of the poor performance of the firm, project officials in coordination with the Bank, decided not to extend the contract of the company although the assignment was not completed and only half of the funds were disbursed under the contract. The matter was referred to the Integrity Department for further investigation.

The investigation involved the collection and analysis of documents, as well as interviews with many witnesses in several countries. The Integrity Department confirmed that the experience and credentials of the principal as well as the qualifications and certifications of the consulting firm were misrepresented in order to meet the selection criteria of the tender. The Integrity Department also found that this fraudulent practice was recurrent in the numerous misrepresentations the contractor committed not only on this project, but also on a previous contract in a different country.

The matter was referred to the Sanctions Committee who recommended debarments of both the principal and the firm for fraudulent practice. The poor performance of the company underscores the fact that fraudulent misrepresentations committed by any contractor on a Bank-financed project can have significant negative impacts during project implementation. This case is a typical example of procurement manipulation where the falsification

of documents, forgery of financial documents and misrepresentation of credentials are used in order to meet selection criteria for tenders.

### ***Detailed Implementation Review***

A series of debarment hearings were concluded, resulting in the imposition of sanctions against over 100 individuals and companies which had undertaken fraudulent and/or corrupt practices in relation to a number of Bank-financed contracts in the urban sector of a borrowing member country. These debarments arose from the Bank's first Detailed Implementation Review (DIR), a joint effort between the Integrity Department and the country office. The DIR was part of a program initiated by the relevant country office to strengthen fiduciary controls and reduce corruption in Bank-financed projects and was undertaken with the cooperation of the Borrower. A risk analysis was undertaken to select which project would be reviewed. The DIR involved a broad overview of procurement, implementation and financial management practices accompanied by an intensive review of a sample of contracts in a variety of project locations. Despite a severe problem with missing documentation, the DIR team found evidence of collusion amongst bidders and common ownership of shell companies. The DIR team also found inadequate project oversight by implementing agencies and consultants, resulting in departures from compliance with contractual terms, failure to complete work and changes to contracts without appropriate approvals. Similar problems were found with financial management controls.

The DIR was followed by an intensive Integrity Department field investigation of over 20 referrals from the DIR team, nearly all of which resulted in substantiated findings that bidders had manipulated the procurement processes to give the appearance of competition, and that often such collusive bidding was accompanied by the payment of kickbacks to project officials and to "losing" bidders who went along with the collusive scheme.

The Bank shared the DIR results with the Government and declared misprocurement in relation to some of the contracts. The Government also agreed to suspend disbursements

of the relevant loan which, ultimately, was cancelled. Follow up measures are being taken to introduce more rigorous anticorruption measures in the design of future Bank projects, and to improve transparency, accountability and governance.

### ***Abuse of a Trust Fund***

The Bank conducted an investigation into allegations, sent via mail to a local Bank country office by an anonymous complainant, which stated that the Government agency implementing a project dealing with social safety net arrangements had engaged in fraudulent and corrupt practices. The complainant alleged that project officials from the Government agency had manipulated the procurement process by which consultants were hired under the project, that expenses were fraudulently claimed by those officials and that payments were made by those officials for services which were not provided. The project at issue was funded by a Trust Fund for which the Bank acted as trustee. The Bank's high fiduciary duty towards Trust Funds under the Bank's management necessitated the investigation being made a high priority.

The Integrity Department investigation, which involved significant document collection and analysis and the conduct of a three-week field visit, substantiated the allegations. The investigation also uncovered three examples whereby project officials manipulated contracts to ensure that the vast majority of the contract revenues were returned to them and that their actions would not be detected by standard Bank supervisory practices. In response to the investigative findings, the Government has been asked to repay a relevant part of the misused funding and the Bank is undertaking debarment proceedings against the companies and private individuals involved. In addition, the Bank has also referred the case to the Government for a determination on whether criminal charges against the relevant officials should be pursued.

### ***Misrepresentations in Procurement***

In response to concerns raised by the Bank's task team, an investigation was conducted into

a Bank-financed contract which was part of a project designed to assist the reintegration of former military personnel into civilian society in the aftermath of war. The Integrity Department investigation found that a major procurement of goods—valued at over US\$6,000,000—was the subject of significant misrepresentations from the winning bidder during the bid

process and that the misrepresentation was abetted by the project’s supervising consultant and its local partners. As a result of INT’s findings, the Bank declared misprocurement on the contract and sanctioned several companies and persons, including the supervising consultant.

# Appendix 2

## Sanctions Applied in Fiscal 2004

### A. List of Firms and Individuals Debarred

NAME	ADDRESS	COUNTRY	INELIGIBILITY PERIOD		GROUND
AMRIN AMIR	UJUNG PANDANG	Indonesia	12 MAY 2004	12 MAY 2005	Procurement Guidelines 1.15(a)(ii)
ANDY KARAMAY	MANADO	Indonesia	12 MAY 2004	12 MAY 2005	Procurement Guidelines 1.15(a)(ii)
CV AGUNG SEJAHTERA	MANADO	Indonesia	12 MAY 2004	12 MAY 2006	Procurement Guidelines 1.15(a)(ii)
CV BERINGIN	MANADO	Indonesia	12 MAY 2004	12 MAY 2006	Procurement Guidelines 1.15(a)(ii)
CV BAHTERA AGUNG	MANADO	Indonesia	12 MAY 2004	12 MAY 2006	Procurement Guidelines 1.15(a)(ii)
CV CITRA AGUNG	MANADO	Indonesia	12 MAY 2004	12 MAY 2005	Procurement Guidelines 1.15(a)(ii)
CV INDO PRATAMA	MANADO	Indonesia	12 MAY 2004	12 MAY 2005	Procurement Guidelines 1.15(a)(ii)
CV KARMEL	MANADO	Indonesia	12 MAY 2004	12 MAY 2005	Procurement Guidelines 1.15(a)(ii)
CV LELEMUKU	MANADO	Indonesia	12 MAY 2004	12 MAY 2005	Procurement Guidelines 1.15(a)(ii)
CV MARCAPADA	MANADO	Indonesia	12 MAY 2004	12 MAY 2005	Procurement Guidelines 1.15(a)(ii)
CV NUSA INDA	UJUNG PANDANG	Indonesia	12 MAY 2004	12 MAY 2006	Procurement Guidelines 1.15(a)(ii)
CV PRATAMA KARYA	MANADO	Indonesia	12 MAY 2004	12 MAY 2005	Procurement Guidelines 1.15(a)(ii)
CV RANDY PRATAMA	MAKASSAR	Indonesia	12 MAY 2004	12 MAY 2006	Procurement Guidelines 1.15(a)(ii)

CV REJEKI BERSAMA	UJUNG PANDANG	Indonesia	12 MAY 2004	12 MAY 2005	Procurement Guidelines 1.15(a)(ii)
CV RIFKI JAYA	UJUNG PANDANG	Indonesia	12 MAY 2004	12 MAY 2005	Procurement Guidelines 1.15(a)(ii)
CV TAUFAN DIAZPORA RAYA	MANADO	Indonesia	12 MAY 2004	12 MAY 2006	Procurement Guidelines 1.15(a)(ii)
CV WIRANDA ABADI	MAKASSAR	Indonesia	12 MAY 2004	12 MAY 2005	Procurement Guidelines 1.15(a)(ii)
CV ZORAYA CIPTA SORANA	MAKASSAR	Indonesia	12 MAY 2004	12 MAY 2007	Procurement Guidelines 1.15(a)(ii)
DENY SUMIOK	MANADO	Indonesia	12 MAY 2004	12 MAY 2006	Procurement Guidelines 1.15(a)(ii)
HERI ISMAWI	MAKASSAR	Indonesia	12 MAY 2004	12 MAY 2005	Procurement Guidelines 1.15(a)(ii)
IMRAN ANDI	UJUNG PANDANG	Indonesia	12 MAY 2004	12 MAY 2006	Procurement Guidelines 1.15(a)(ii)
JULIUS LALOAN	MANADO	Indonesia	12 MAY 2004	12 MAY 2006	Procurement Guidelines 1.15(a)(ii)
JUNALDI D. MONOARFA	MAKASSAR	Indonesia	12 MAY 2004	12 MAY 2006	Procurement Guidelines 1.15(a)(ii)
JURRY PELEALU	MANADO	Indonesia	12 MAY 2004	12 MAY 2006	Procurement Guidelines 1.15(a)(ii)
KARIM HADI	MAKASSAR	Indonesia	12 MAY 2004	12 MAY 2007	Procurement Guidelines 1.15(a)(ii)
MOHAMMED ILYAS MALLA	MAKASSAR	Indonesia	12 MAY 2004	12 MAY 2007	Procurement Guidelines 1.15(a)(ii)
MR. A. SYARIFUDDIN	UJUNG PANDANG	Indonesia	12 MAY 2004	12 MAY 2005	Procurement Guidelines 1.15(a)(ii)
MR. ALIM SURYADI	MANADO	Indonesia	12 MAY 2004	12 MAY 2006	Procurement Guidelines 1.15(a)(ii)
MR. BOY KARAMAY	MANADO	Indonesia	12 MAY 2004	12 MAY 2005	Procurement Guidelines 1.15(a)(ii)
MR. DICKY LANTU	MANADO	Indonesia	12 MAY 2004	12 MAY 2007	Procurement Guidelines 1.15(a)(ii)
MR. FRANS	UJUNG PANDANG	Indonesia	12 MAY 2004	12 MAY 2005	Procurement Guidelines 1.15(a)(ii)
MR. JULIANUS KESEK	MANADO	Indonesia	12 MAY 2004	12 MAY 2005	Procurement Guidelines 1.15(a)(ii)
MR. RADIUS LIEM	MANADO	Indonesia	12 MAY 2004	12 MAY 2007	Procurement Guidelines 1.15(a)(ii)

MR. SJAHRIAL	UJUNG PANDANG	Indonesia	12 MAY 2004	12 MAY 2006	Procurement Guidelines 1.15(a)(ii)
MRS. WIRDA MAJID	MAKASSAR	Indonesia	12 MAY 2004	12 MAY 2005	Procurement Guidelines 1.15(a)(ii)
MS. AUDREY VERRA MENTANG	MANADO	Indonesia	12 MAY 2004	12 MAY 2005	Procurement Guidelines 1.15(a)(ii)
PETRUS TITALEY	MANADO	Indonesia	12 MAY 2004	12 MAY 2005	Procurement Guidelines 1.15(a)(ii)
PIETER KEY	MANADO	Indonesia	12 MAY 2004	12 MAY 2005	Procurement Guidelines 1.15(a)(ii)
PT ADI KARYA ABADA	MANADO	Indonesia	12 MAY 2004	12 MAY 2007	Procurement Guidelines 1.15(a)(ii)
PT CIPTA BARU	MAKASSAR	Indonesia	12 MAY 2004	12 MAY 2007	Procurement Guidelines 1.15(a)(ii)
PT DIMENSI PRAKARSA UTAMA	MAKASSAR	Indonesia	12 MAY 2004	12 MAY 2005	Procurement Guidelines 1.15(a)(ii)
ROSMIATI NUR	MAKASSAR	Indonesia	12 MAY 2004	12 MAY 2007	Procurement Guidelines 1.15(a)(ii)
SAAT IRANDA	MAKASSAR	Indonesia	12 MAY 2004	12 MAY 2005	Procurement Guidelines 1.15(a)(ii)
ABDUL AZIZ MALLA	MAKASSAR	Indonesia	29 DEC 2003	29 DEC 2005	Procurement Guidelines 1.15(a)(ii)
ANDARIAS P. PARABANG	MAKASSAR	Indonesia	29 DEC 2003	29 DEC 2005	Procurement Guidelines 1.15(a)(ii)
CV ARIES	BITUNG	Indonesia	29 DEC 2003	29 DEC 2005	Procurement Guidelines 1.15(a)(ii)
CV PANTANG MUNDUR	BITUNG	Indonesia	29 DEC 2003	29 DEC 2005	Procurement Guidelines 1.15(a)(ii)
CV SULINDO	MAKASSAR	Indonesia	29 DEC 2003	29 DEC 2005	Procurement Guidelines 1.15(a)(ii)
D. SAMPATH RAO	KARIMNAGAR	India	29 DEC 2003	29 DEC 2005	Procurement Guidelines 1.15(a)(ii)
EDY SUNARKO	BITUNG	Indonesia	29 DEC 2003	29 DEC 2005	Procurement Guidelines 1.15(a)(ii)
FANNY LENGKONG	Bitung	Indonesia	29 DEC 2003	29 DEC 2005	Procurement Guidelines 1.15(a)(ii)
FREDDY PRASETYO	MAKASSAR	Indonesia	29 DEC 2003	29 DEC 2005	Procurement Guidelines 1.15(a)(ii)
HATAB MUCHTAR	MAKASSAR	Indonesia	29 DEC 2003	29 DEC 2005	Procurement Guidelines 1.15(a)(ii)

HEDY TAMAKA	BITUNG	Indonesia	29 DEC 2003	29 DEC 2005	Procurement Guidelines 1.15(a)(ii)
IDRIS SALEH	BITUNG	Indonesia	29 DEC 2003	29 DEC 2005	Procurement Guidelines 1.15(a)(ii)
JAGAN RAO		India	29 DEC 2003	29 DEC 2005	Procurement Guidelines 1.15(a)(ii)
KRISPINA LENNY TENDRA	MAKASSAR	Indonesia	29 DEC 2003	29 DEC 2005	Procurement Guidelines 1.15(a)(ii)
NY. SHIRLEY TAMAKA		Indonesia	29 DEC 2003	29 DEC 2005	Procurement Guidelines 1.15(a)(ii)
PT BRAGAS CIPTA	MAKASSAR	Indonesia	29 DEC 2003	29 DEC 2005	Procurement Guidelines 1.15(a)(ii)
PT MINARTA DUTAHUTAMA	MAKASSAR	Indonesia	29 DEC 2003	29 DEC 2005	Procurement Guidelines 1.15(a)(ii)
PT REKABANGUN NUSA TIMUR	MAKASSAR	Indonesia	29 DEC 2003	29 DEC 2005	Procurement Guidelines 1.15(a)(ii)
PT TIRTA SUL-SEL MURNI	MAKASSAR	Indonesia	29 DEC 2003	29 DEC 2005	Procurement Guidelines 1.15(a)(ii)
REFLI MAMBU	BITUNG	Indonesia	29 DEC 2003	29 DEC 2005	Procurement Guidelines 1.15(a)(ii)
SREE SATYA ENTERPRISES (KARIMNAGAR)	Karimnagar	India	29 DEC 2003	29 DEC 2005	Procurement Guidelines 1.15(a)(ii)
YANTO RUPPU	BITUNG	Indonesia	29 DEC 2003	29 DEC 2005	Procurement Guidelines 1.15(a)(ii)
YULI RUPPU	BITUNG	Indonesia	29 DEC 2003	29 DEC 2005	Procurement Guidelines 1.15(a)(ii)
A. PERUMAL 1.15(a)(ii)	METTUR DAM	India	06 NOV 2003	06 NOV 2005	Procurement Guidelines 1.15(a)(ii)
K. SRINIVASAN 1.15(a)(ii)	METTUR DAM	India	06 NOV 2003	06 NOV 2005	Procurement Guidelines 1.15(a)(ii)
M/S. SRI SRINIVASA ENG. WORKS		India	06 NOV 2003	06 NOV 2005	Procurement Guidelines 1.15(a)(ii)
ABD. MUIN AYYUB	PARE PARE	Indonesia	03 NOV 2003	03 NOV 2005	Procurement Guidelines 1.15(a)(ii)
AHMAD ALI RIFKI	PARE PARE	Indonesia	03 NOV 2003	03 NOV 2007	Procurement Guidelines 1.15(a)(ii)
AMMADE MADONG	PARE PARE	Indonesia	03 NOV 2003	03 NOV 2005	Procurement Guidelines 1.15(a)(ii)
ANDI NATALUDDIN	PARE PARE	Indonesia	03 NOV 2003	03 NOV 2006	Procurement Guidelines 1.15(a)(ii)

ANDI NURMIATI HAMID	PARE PARE	Indonesia	03 NOV 2003	03 NOV 2005	Procurement Guidelines 1.15(a)(ii)
CV ARA RIFKI	PARE PARE	Indonesia	03 NOV 2003	03 NOV 2007	Procurement Guidelines 1.15(a)(ii)
CV CIPTA INDAH	PARE PARE	Indonesia	03 NOV 2003	03 NOV 2005	Procurement Guidelines 1.15(a)(ii)
CV DELAPAN-DELAPAN	MAKASSAR	Indonesia	03 NOV 2003	03 NOV 2005	Procurement Guidelines 1.15(a)(ii)
CV HIJRAH	MAKASSAR	Indonesia	03 NOV 2003	03 NOV 2005	Procurement Guidelines 1.15(a)(ii)
CV MUTIARA PELITA	PARE PARE	Indonesia	03 NOV 2003	03 NOV 2005	Procurement Guidelines 1.15(a)(ii)
CV NASTRI	Pare Pare	Indonesia	03 NOV 2003	03 NOV 2005	Procurement Guidelines 1.15(a)(ii)
CV PAMMANA SEJAHTERA	PARE PARE	Indonesia	03 NOV 2003	03 NOV 2005	Procurement Guidelines 1.15(a)(ii)
CV SULO GROUP	MAKASSAR	Indonesia	03 NOV 2003	03 NOV 2006	Procurement Guidelines 1.15(a)(ii)
CV WANDY'S	PARE PARE	Indonesia	03 NOV 2003	03 NOV 2005	Procurement Guidelines 1.15(a)(ii)
CV WIRA KARY A JAYA	PARE PARE	Indonesia	03 NOV 2003	03 NOV 2005	Procurement Guidelines 1.15(a)(ii)
DARWIS ALI	MAKASSAR	Indonesia	03 NOV 2003	03 NOV 2006	Procurement Guidelines 1.15(a)(ii)
H.M. NASIR HADDADE	PARE PARE	Indonesia	03 NOV 2003	03 NOV 2005	Procurement Guidelines 1.15(a)(ii)
Edward HAMDANI	PARE PARE	Indonesia	03 NOV 2003	03 NOV 2005	Procurement Guidelines 1.15(a)(ii)
IMALIA HARAHAP	MAKASSAR	Indonesia	03 NOV 2003	03 NOV 2005	Procurement Guidelines 1.15(a)(ii)
PT HAYDAR PUTERA PERKASA	MAKASSAR	Indonesia	03 NOV 2003	03 NOV 2005	Procurement Guidelines 1.15(a)(ii)
PT INDERA PERDANA TRD	MAKASSAR	Indonesia	03 NOV 2003	03 NOV 2005	Procurement Guidelines 1.15(a)(ii)
RIDA ALI RIFKI	PARE PARE	Indonesia	03 NOV 2003	03 NOV 2007	Procurement Guidelines 1.15(a)(ii)
SOEWANDY TJANGGO	PARE PARE	Indonesia	03 NOV 2003	03 NOV 2005	Procurement Guidelines 1.15(a)(ii)
CV ADI KARYA UTAMA	BITUNG	Indonesia	29 DEC 2003	29 DEC 2004	Procurement Guidelines 1.15(a)(ii)

ATHOS PORTOS ARAMIS	BITUNG	Indonesia	29 DEC 2003	29 DEC 2004	Procurement Guidelines 1.15(a)(ii)
CV RAYA KONSTRUKSI	BITUNG	Indonesia	29 DEC 2003	29 DEC 2004	Procurement Guidelines 1.15(a)(ii)
ADI MULYONO	BITUNG	Indonesia	29 DEC 2003	29 DEC 2004	Procurement Guidelines 1.15(a)(ii)
BIENY PADJA CV PERISAI	BITUNG	Indonesia	29 DEC 2003	29 DEC 2004	Procurement Guidelines 1.15(a)(ii)
CV CAKRA MANGGALA PUTRA	MAKASSAR	Indonesia	29 DEC 2003	29 DEC 2004	Procurement Guidelines 1.15(a)(ii)
TRI PALUPI	MAKASSAR	Indonesia	29 DEC 2003	29 DEC 2004	Procurement Guidelines 1.15(a)(ii)
PAT HAERUMY HAMZA TUPPU	MAKASSAR	Indonesia	29 DEC 2003	29 DEC 2004	Procurement Guidelines 1.15(a)(ii)
PT JAYA PERDNA	MAKASSAR	Indonesia	29 DEC 2003	29 DEC 2004	Procurement Guidelines 1.15(a)(ii)
BUHRANUDDIN BADRUN	MAKASSAR	Indonesia	29 DEC 2003	29 DEC 2004	Procurement Guidelines 1.15(a)(ii)
PT PANCA WAHANA SAKTI	MAKASSAR	Indonesia	29 DEC 2003	29 DEC 2004	Procurement Guidelines 1.15(a)(ii)
JOHNNY LEONARDO	MAKASSAR	Indonesia	29 DEC 2003	29 DEC 2004	Procurement Guidelines 1.15(a)(ii)
RAIS RAHMAN	MAKASSAR	Indonesia	29 DEC 2003	29 DEC 2004	Procurement Guidelines 1.15(a)(ii)
PT DUTAGRAHA MAHAWISESA	MAKASSAR	Indonesia	03 NOV 2003	03 NOV 2004	Procurement Guidelines 1.15(a)(ii)
HAERUMY HAMZA TUPPU	MAKASSAR	Indonesia	03 NOV 2003	03 NOV 2004	Procurement Guidelines 1.15(a)(ii)
CV SURYA ENDAR JAYA	MAKASSAR	Indonesia	03 NOV 2003	03 NOV 2004	Procurement Guidelines 1.15(a)(ii)
AMIN BASO	MAKASSAR	Indonesia	03 NOV 2003	03 NOV 2004	Procurement Guidelines 1.15(a)(ii)
CV WIRA MAS	MAKASSAR	Indonesia	03 NOV 2003	03 NOV 2004	Procurement Guidelines 1.15(a)(ii)
Hj. MASGAWATI	MAKASSAR	Indonesia	03 NOV 2003	03 NOV 2004	Procurement Guidelines 1.15(a)(ii)
ADNAN SUBAIR	MAKASSAR	Indonesia	03 NOV 2003	03 NOV 2004	Procurement Guidelines 1.15(a)(ii)
CV BINA BERSAMA	PARE PARE	Indonesia	03 NOV 2003	03 NOV 2004	Procurement Guidelines 1.15(a)(ii)

WAHID ARAFIN	PARE PARE	Indonesia	03 NOV 2003	03 NOV 2004	Procurement Guidelines 1.15(a)(ii)
CV AROMA	PARE PARE	Indonesia	03 NOV 2003	03 NOV 2004	Procurement Guidelines 1.15(a)(ii)
AHMAD MAPPAINGE	PARE PARE	Indonesia	03 NOV 2003	03 NOV 2004	Procurement Guidelines 1.15(a)(ii)
CV LUMPUE INDAH	PARE PARE	Indonesia	03 NOV 2003	03 NOV 2004	Procurement Guidelines 1.15(a)(ii)
LOEKITO SUDIRMAN	PARE PARE	Indonesia	03 NOV 2003	03 NOV 2004	Procurement Guidelines 1.15(a)(ii)
CV MALLUSETASI	PARE PARE	Indonesia	03 NOV 2003	03 NOV 2004	Procurement Guidelines 1.15(a)(ii)
JAN SUNDQVIST	STOCKHOLM	Sweden	15 AUG 2003	Permanent	Procurement Guidelines 1.15(a)(ii)
SMAFORETAGARTJA NST SRB AB	STOCKHOLM	Sweden	15 AUG 2003	Permanent	Procurement Guidelines 1.15(a)(ii)

## B. Letters of Reprimand Issued in FY04

Viñas Russi & Cía Ltda., of Barranquilla, Colombia	Reprimanded June 29, 2004	Remains Eligible	Procurement Guidelines 1.15(a)(ii)
Mr. Pedro Elías Russi Diaz, of Barranquilla, Colombia	Reprimanded June 29, 2004	Remains Eligible	Procurement Guidelines 1.15(a)(ii)
Mr. Jesús Viñas de la Hoz, of Barranquilla, Colombia	Reprimanded June 29, 2004	Remains Eligible	Procurement Guidelines 1.15(a)(ii)
Schlumberger S.A. (formerly known as Schlumberger Industries S.A.), France	Reprimanded July 28, 2003	Remains Eligible	Procurement Guidelines 1.15(a)(ii)
Ganz Meter Company Ltd., Hungary	Reprimanded July 28, 2003	Remains Eligible	Procurement Guidelines 1.15(a)(ii)
Naresh Grover, India	Reprimanded October 14, 2003	Remains Eligible	Procurement Guidelines 1.15(a)(ii)
Surgicoín, India	Reprimanded October 14, 2003	Remains Eligible	Procurement Guidelines 1.15(a)(ii)



## Sanctions Committee Background and Historical Data

### Establishment and Outcomes

The Bank's sanctions process was first formulated in a paper presented to the Board in July 1996<sup>9</sup> and was implemented in a January 1998 Operational Memorandum.<sup>10</sup> Consistent with the Board paper and Operational Memorandum, 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.<sup>11</sup>

The Committee's membership during fiscal 2004 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, Human Resources).

The July 1996 Board paper and the January 1998 Operational Memorandum established a framework for the operations of the Sanctions Committee. The policies contained in these two documents provided the basis for procedures subsequently finalized with the assistance of the Thornburgh team and issued in August, 2001. Those procedures provided for sanctions that included 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.

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. The first case was decided in March 1999. As of June 30, 2004, the Committee had received 63 cases from INT, met 48 times, and heard 43 cases. On the basis of Committee recommendations, the Bank had debarred 131 firms and 94 individuals, and had issued 11 letters of reprimand—eight to firms and three to individuals (see Table below).

### Review of Experience and Current Reform Process

In 2002, the Bank undertook a review of the sanctions process to ensure that it was func-

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<sup>9</sup> Fraud and Corruption—Proposed Amendments in the Bank's Loan Documents for the Purpose of Making Them More Effective in the Fight Against Fraud and Corruption, dated July 11, 1996 Board Paper R96-112/1

<sup>10</sup> January 5, 1998 Operational Memorandum on Fraud and Corruption under Bank-Financed Contracts: Procedures for Dealing with Allegations Against Bidders, Suppliers, Contractors, or Consultants.

<sup>11</sup> The Committee is not involved in sanctioning Bank staff or borrowers accused of such activities.

## The Sanctions Process (FY99–FY04)

	FY99	FY00	FY01	FY02	FY03	FY04	Total
<b>Sanctions-related Actions <sup>a</sup></b>							
Number of Cases Received <sup>b</sup>	8	6	4	7	15	23	63
Number of Committee Sessions <sup>c</sup>	7	11	9	8	5	8	48
Number of Cases Heard	5	8	2	4	8	16	43
<b>Number of Sanctions Applied</b>							
Number of Debarments							
Firms	7	37	15	3	14	55	131
Individuals	2	8	4	1	8	71	94
Total Debarments	9	45	19	4	22	126	225
Number of Letters of Reprimand							
Firms	—	1	2	—	1	4	8
Individuals	—	—	—	—	—	3	3
Total Letters of Reprimand	—	1	2	—	1	7	11
Total Sanctions Applied	9	46	21	4	23	133	236

<sup>a</sup> Although the Committee followed a sanctioning process and debarred 306 firms and individuals, the totals may not add up as some firms and individuals were debarred under more than one case.

<sup>b</sup> 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.

<sup>c</sup> One case was dealt with by the Sanctions Committee twice, in FY01 and FY04.

tioning in an effective and efficient manner and affording a fair process to those involved in the proceedings. As part of the review, the Bank again engaged the Thornburgh team to prepare a report assessing the Bank’s debarment process and making recommendations with respect to possible reforms to existing practices. Following further internal review and discussion, the proposed reforms were submitted to the Board of Directors for their consideration in June 2004.

The goal of the proposed reform is to increase the effectiveness of the Bank’s sanctions process by streamlining the process, expanding the types of sanctions available, and instituting a temporary suspension mechanism

to protect the institution from further losses due to fraud and corruption while cases are pending. In terms of specific changes to the existing process, the most significant ones include:

- a) modification of the membership of the Sanctions Committee (to be renamed “Sanctions Board”) to include both Bank staff and non-Bank staff, sitting in panels of three to decide cases;
- b) establishment of a new staff position of “Evaluation and Suspension Officer” with the authority to issue temporary suspensions pending final resolution of the cases on appeal to the Sanctions Board (the

Evaluation and Suspension Officer's preliminary decisions would become final absent an appeal by the respondent or INT); and

- c) introduction of measures to address a perceived need for lighter and more flexible sanctions, recognition of cooperation as a mitigating factor in sanctions determina-

tions, and additional incentives to contractors to disclose voluntarily information about fraud or corruption in Bank-financed projects.

These reforms were approved by the Board of Directors on July 9, 2004 and the Bank is currently in the process of implementing them.

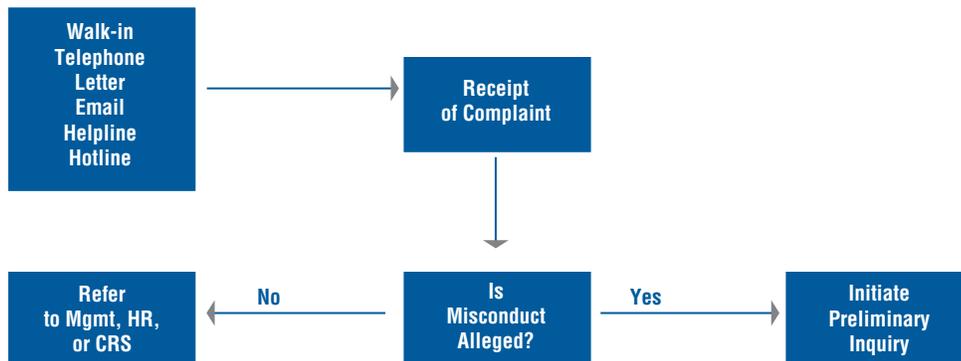


# 4 Appendix

## The Investigative Process: Allegations of Staff Misconduct

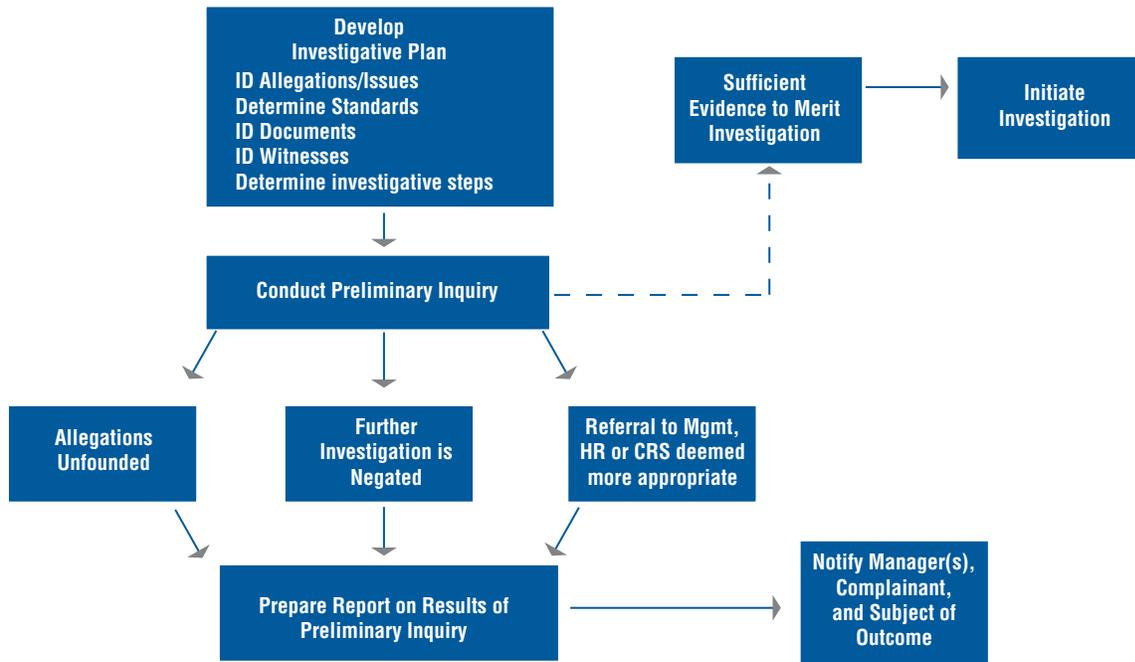
### Investigative Process (First Stage)

#### Intake & Evaluation



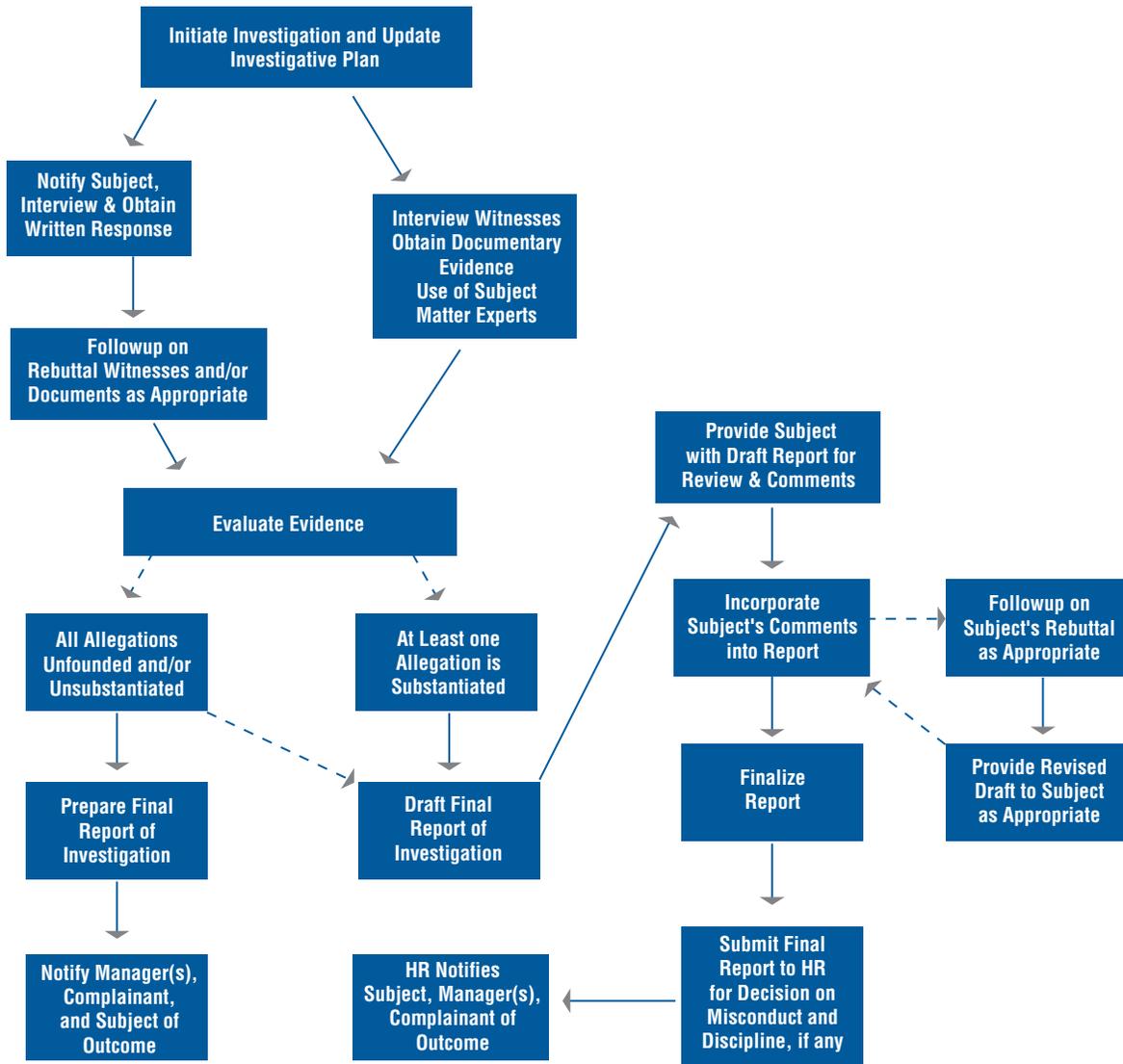
## Investigative Process (Second Stage)

### Preliminary Inquiry



## Investigative Process (Third Stage)

# Investigation





# Appendix 5

## Trends in Case Load Fiscal 1999–2004

### Total Investigations Case Load

	FY99	FY00	FY01	FY02	FY03	FY04	Total FY99–04
Carried Over	—	66	227	470	430	321	
New Cases	167	400	545	550	339	354	2,355
Cases Closed	101	239	297	590	448	341	2,016
Year-end Total	66	227	470	430	321	334	

### Internal Investigations Case Load

	FY99	FY00	FY01	FY02	FY03	FY04	Total FY99–04
Carried Over	—	19	52	109	112	77	
New Cases	91	160	176	137	125	151	840
Cases Closed	72	127	119	134	160	118	730
Year-end Total	19	52	109	112	77	110	

### External Investigations Case Load

	FY99	FY00	FY01	FY02	FY03	FY04	Total FY99–04
Carried Over	—	47	175	361	318	244	
New Cases	76	240	369	413	214	203	1,515
Cases Closed	29	112	178	456	288	223	1,286
Year-end Total	47	175	361	318	244	224	





