

I. INTRODUCTION

PURPOSE AND SCOPE OF THIS REPORT

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

THE MANDATE OF INT

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

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

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

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

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

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

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

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

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

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