

Republic of Armenia

Municipal Development Project

REDACTED REPORT

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Executive Summary

This Report provides the findings of an administrative inquiry (the investigation) by the World Bank Group's (Bank's) Integrity Vice Presidency (INT) into allegations of fraud and corruption raised by Mr. Bruce Tasker in connection with the implementation of the Bank-financed Municipal Development Project (MDP or the Project). While it is not INT's practice to identify complainants in its reports, in this instance Mr. Tasker has made his allegations publicly and requested that INT investigate and publicly respond to them.

INT's investigation found no evidence of fraud or corruption in the MDP. INT also found no evidence to corroborate the allegation that Mr. Tasker has been blacklisted from participating in any Bank-financed activities as a result of his claims regarding the MDP. During the course of the investigation, INT did note certain Government procedural and procurement imperfections, though none of these, taken either singly or together, constituted fraud or corruption.

Background

The US\$30 million Bank-funded Municipal Development Project (IDA Credit No. 3095), which was approved in June 1998 and closed in January 2006, aimed to improve the access, reliability, and quality of drinking water in the Armenian capital of Yerevan. The Project fully disbursed the Bank's portion of the financing.

On February 14, 2000, the Yerevan Water and Sewerage Company (YWSC) and the Operator, ACEA & Company Armenian Utility scarl from Italy (A. Utility), entered into a Management Contract under which A. Utility operated the YWSC. The Management Contract commenced on May 1, 2000, and its primary objective was to improve the effectiveness of the YWSC's operations. The Management Contract was concluded, after a one-year extension, in April 2005.

The Commission to Study Credits, Grants, and Humanitarian Assistance (CGHA Commission) was established by the Republic of Armenia (RA) National Assembly in 2003 to examine the parameters of external support to the Armenian Government since the country's independence in 1991. Mr. Tasker was employed as a Senior Specialist and Analyst for the CGHA Commission. In November 2003, the CGHA Commission reviewed the MDP; it noted certain administrative, technical, and commercial irregularities, but it did not report any fraud or corruption on the Project. The CGHA Commission presented its interim report to the National Assembly in March 2004. The RA Government subsequently issued its detailed response to the findings of the CGHA Commission, and these findings were incorporated into the Commission's final report, entitled "Intermediate Report No. 1." This final report, which was only one and a half pages long, represented a scaled back version of the Commission's interim report and lacked any details to support the Commission's findings. However, the final report retained the initial recommendation not to extend the Management Contract with A. Utility.

In March 2007, Mr. Tasker alleged to INT, through the Government Accountability Project (GAP), wide-scale fraud and corruption in the MDP.¹ The allegations covered numerous aspects of the implementation of the Project. INT has grouped these aspects into five categories:

1. Administrative irregularities, such as: (i) improper registration of the Project Management Unit and the use of a counterfeit stamp in the Subsidiary Loan Agreement between the Ministry of Finance and Economy and the YWSC for on-lending the proceeds of the Bank credit; and (ii) a conflict of interest stemming from the appointment of the Authorized Representative of the Operator as General Manager of the YWSC;
2. Technical irregularities, such as altering the MDP objectives and lowering the performance targets to help the Operator to qualify for yearly performance bonuses;
3. Commercial irregularities, such as the use of substandard materials and waste of Project funds at several sites; maintaining a fictitious ledger of performed works and contracts; and the employment of "ghost consultants" by the Operator on the Management Contract;

¹ GAP, a Washington-based nonprofit public interest group whose stated purpose is to promote government and corporate accountability, represented itself as Mr. Tasker's legal counsel. Between 2004 and 2006, Mr. Tasker contacted INT with claims of large-scale corruption in the MDP, but INT was unable to follow-up on Mr. Tasker's claims because he did not provide supporting information specific enough to initiate a full INT investigation. It was only in March 2007 that Mr. Tasker, through GAP, provided INT with specific information in support of his claims. INT then launched a full investigation into those claims.

4. Financial irregularities resulting in the embezzlement of public funds, such as (i) inflated valuation of the YWSC's assets; (ii) only partial pledging of the company's assets as collateral against a Subsidiary Loan; (iii) concealing the revenues and profits from the sale of water meters; and (iv) serious irregularities related to the utilization of the Government funds received by the YWSC to repay its energy debts alleged to amount to a major money-laundering scheme; and
5. The blacklisting of Mr. Tasker from Bank-funded projects as a result of his disclosure of fraud and corruption in the MDP.

On August 1, 2008, GAP released its own report of an investigation into the MDP that supported these allegations. It cited a body of evidence that, according to GAP, showed that the fraud and corruption in the MDP was allegedly made possible with the Bank's tolerance and collusion.²

Methodology

The INT investigation involved an extensive review of relevant Project documentation as well as interviews with MDPMU and Government officials, Bank staff, the representatives of former and current international operators of Yerevan Djur (formerly the YWSC), and Mr. Tasker. In addition, the investigative team visited the various Project sites in Armenia pertaining to the MDP to verify allegations specific to the relevant Project sites.

Findings

1. **Administrative irregularities:** INT confirmed Mr. Tasker's claim that the Subsidiary Loan Agreement contained a seal from a project implementing unit (the Municipal Development Project Implementing Unit, or MDPIU) that was different than the project implementing unit that signed Agreement (the Municipal Development Project Management Unit, or MDPMU). However, it is INT's assessment that this discrepancy did not represent a fraudulent practice on the part of the Borrower. INT found evidence that the MDPIU and the MDPMU were, in fact, the same unit, with the same staff, that was fully operational throughout the life of the MDP. However, due to changes in the country's regulatory framework, the unit changed its name from the MDPIU to the MDPMU and encountered difficulties completing its formal registration as the "MDPMU". These changes and difficulties resulted in the unit signing the Agreement under one name but using a seal bearing its other, older name.

INT also analyzed Project documents and queried various Bank, Project, and Government officials regarding whether a conflict of interest was created by the same person serving as both the Authorized Representative of the Operator and the General Manager of the YWSC. This evidence indicated that the interests of the Operator and the YWSC were generally aligned because the Operator was hired to run the YWSC. Further, the Operator duly followed all the requirements of the Management Contract in appointing its Authorized Representative as General Manager of the YWSC; the Government entity overseeing the YWSC approved the appointment. Based on this evidence, INT concluded that there was no conflict of interest.

² In addition to reviewing the entire body of evidence cited by GAP, INT, as described in the methodology section of this Report, also conducted numerous interviews, an extensive document review, and an investigative mission to Armenia that included visits to MDP sites.

2. **Technical irregularities:** INT investigated the allegation that the Project’s objectives and performance targets were intentionally revised in favor of the Operator. However, INT’s review of the Bank’s Implementation Completion Report, related Project documents, as well as numerous interviews and discussions, provided evidence indicating that the key monitoring indicators were adjusted to be consistent with the Government’s shifting Project priorities, which in turn were influenced by knowledge gained during Project implementation. Moreover, the amendments to the Management Contract relating to performance targets were approved by the Bank’s Task Team. The technical auditor on the Project, Ramboll Denmark A/S, which was fully apprised of all changes to the performance targets, and whose scope of audit permitted a final determination on the amount of the incentive compensation to the Operator, also concluded that the Operator largely met the performance standards over the entire period of the Management Contract. Given these findings, INT concluded that the evidence did not support this allegation.

3. **Commercial irregularities:** INT’s interviews of CGHA Commission members and former YWSC officials, review of the relevant contracts and work acceptance certificates, and site inspections found no evidence of the use of inadequate materials or fictitious contracts or work orders on the MDP. Based on the interview statements provided by Project officials, Bank staff, and its own document review, INT also did not find any evidence of “ghost consultants” employed by A. Utility on the Management Contract. The YWSC properly utilized its experts in fulfilling its contractual obligations, and the fixed management fee, which was payable monthly to the Operator, was based on the Operator’s submitted reports and not the time spent by its personnel on the Project. It is INT’s assessment that the Project monies spent for the design (US\$87,505) and the purchase of valves (US\$81,966) for the Garni Pumping Station may not have represented the most efficient use of Bank funds. However, this Project sub-component was cancelled when the Project staff realized that it was not an economically viable initiative, and the money initially provisioned for the replacement of the Garni pipeline was re-assigned to other project sub-components.

4. **Financial irregularities:** INT did not find any evidence of the embezzlement of RA Government or Bank funds by YWSC officials. INT also reviewed the MDP’s financial records—including the RA Government audits of the MDP conducted by the Armenia Chamber of Control (Audit) and the RA Ministry of Finance and Economy’s Financial Inspection Control Department, as well as the Final YWSC Asset Valuation Act signed by a local auditing firm that conducted an appraisal of the YWSC’s assets—and found no evidence of any other alleged financial irregularities.

On the issue of collateral for the Subsidiary Loan, based on clarifications provided by various officials, as well as the RA Government’s Response to the CGHA Commission, INT concluded it was entirely at the Government’s discretion to require that YWSC pledge its assets for the on-lent amount, because the YWSC was a Government-owned enterprise. The Bank’s Task Team also concluded that the Development Credit Agreement between the Bank and the RA Government, which is the legal documentation of the Bank credit for the MDP, made no mention of any security required to ensure that the credit proceeds would be repaid. It is the Bank’s general policy not to require specific collateral on loans, but rather to rely on the sovereign guarantee of the client country, and the Bank followed this policy regarding the MDP.

5. **Blacklisting of Mr. Tasker from Bank-funded projects:** INT concluded that Mr. Tasker’s claim of being blacklisted by the Bank was not supported by the evidence. INT interviewed various Bank, Project, and Government officials, and none of them could provide any instance of such blacklisting by the Bank. Rather, evidence indicated that Mr. Tasker had never tendered for any Bank-funded projects. When INT’s investigative team traveled to Armenia, Mr. Tasker

refused to cooperate with the investigative team members and did not provide any evidence in support of his blacklisting claim.

Conclusion

INT thoroughly investigated the aforementioned allegations of fraud and corruption under the MDP. Although INT did note certain Government procedural and procurement imperfections, INT found no evidence of fraud and corruption under the Project.