

## MESSAGE FROM THE DIRECTOR

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

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

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

### FISCAL YEAR 2005

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

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

### FISCAL YEAR 2006

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

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

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

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

## CASE CLOSING REVIEW

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

Implementation of the triage system had enabled INT to close a total of 293 External cases in FY05. Of these, 131 were closed through the rating of “low-priority/No Further Action” or “referred.” To inform Bank management of the methodology by which the outcome of cases were rated “low priority/No Further Action” and “referred,” the Department undertook a review of 133<sup>2</sup> cases that were originally closed in FY05 with these outcomes. This due-diligence exercise, which necessitated delaying the Fiscal Year 2005 report, revealed the following:

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

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

## CONCLUSION

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

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

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

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

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

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