

[TEXT OF COVER LETTER TO SR INFO NOTE FOR BORROWERS]

Dear _____,

We are pleased to provide you with the enclosed Information Note on reforms to the World Bank's sanctions regime approved by Executive Directors on August 1, 2006.

The reforms include (i) the expansion of the sanctions regime beyond procurement to cover more generally fraud and corruption that may occur in connection with the use of Bank loan proceeds in the preparation and/or implementation of Bank-financed investment projects; and (ii) adoption of "obstructive practices" as a separate sanctionable offense.

In addition, new Anti-Corruption Guidelines have been adopted as part of the legal framework for Bank investment operations. Like the Procurement Guidelines and the Consultant Guidelines, the Anti-Corruption Guidelines will be incorporated by reference into the legal agreements for each investment project. The contractual remedies relating to fraud and corruption in the IBRD and IDA General Conditions have also been strengthened.

The new sanctions regime and related changes to the legal framework for Bank operations apply to all Bank financed investment projects for which a Project Concept Note is issued on or after October 15, 2006.

ANNEX A: SANCTIONS REFORM: COMPARISON OF NEW AND PREVIOUS DEFINITIONS OF FRAUD AND CORRUPTION

	Previous Definition	New Definition	Comment(s) on Rationale and/or Effect of Change
<p>Corrupt practice</p>	<p>The offering, giving, receiving, or soliciting,</p> <p>directly or indirectly,</p> <p>of any thing of value</p> <p>to influence the action of a public official (Includes World Bank staff and employees of other organizations taking or reviewing procurement decisions)</p> <p>in the procurement process or in contract execution</p>	<p>The offering, giving, receiving or soliciting,</p> <p>directly or indirectly,</p> <p>of anything of value</p> <p>to influence improperly the actions of another party.</p> <p>[Anti-Corruption Guidelines provide context to cover recipients of loan proceeds acting in connection with the preparation or implementation of a Bank-financed project.]</p>	<p>No change.</p> <p>No change.</p> <p>No change.</p> <p>De-links purpose from procurement context.</p> <p>Add requirement that the influence be "improper".</p> <p>Changes "target" of corrupt practice from "public official" to "another party" to cover private parties (e.g., NGOs, financial intermediaries) in IBRD/IDA context.</p> <p>Covers "private corruption" in IFC/MIGA/PRG context.</p> <p>Context removed from proposed definition and covered by Anti-Corruption Guidelines (for IBRD/IDA) and in explanatory note (for IFC/MIGA/PRG).</p> <p>Context changes from procurement to use of loan proceeds generally.</p>

ANNEX B

GUIDELINES

On Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants

Dated October 15, 2006

Purpose and General Principles

1. These Guidelines are designed to prevent and combat fraud and corruption that may occur in connection with the use of proceeds of financing from the International Bank for Reconstruction and Development (IBRD) or the International Development Association (IDA) during the preparation and/or implementation of IBRD/IDA-financed investment projects. They set out the general principles, requirements and sanctions applicable to persons and entities which receive, are responsible for the deposit or transfer of, or take or influence decisions regarding the use of, such proceeds.
2. All persons and entities referred to in paragraph 1 above must observe the highest standard of ethics. Specifically, all such persons and entities must take all appropriate measures to prevent and combat fraud and corruption, and refrain from engaging in, fraud and corruption in connection with the use of the proceeds of IBRD or IDA financing.

Legal Considerations

3. The Loan Agreement¹ providing for a Loan² governs the legal relationships between the Borrower³ and the Bank⁴ with respect to the particular project for which the Loan is made. The responsibility for the implementation of the project⁵ under the Loan Agreement, including the use of Loan proceeds, rests with the Borrower. The Bank, for

¹ References in these Guidelines to “Loan Agreement” include any Guarantee Agreement providing for a guarantee by the Member Country of an IBRD Loan, Financing Agreement providing for an IDA Credit or IDA Grant, agreement providing for a project preparation advance, or Institutional Development Fund (IDF) Grant, Trust Fund Grant Agreement providing for a recipient-executed trust fund Grant in cases where these Guidelines are made applicable to such agreement, and the Project Agreement with a Project Implementing Entity related to an IBRD loan or IDA credit or grant.

² References to “Loans” include IBRD loans as well as IDA credits and grants, project preparation advances, IDF grants and recipient-executed trust fund grants for projects to which these Guidelines are made applicable under the agreement providing for such grant, but excludes development policy lending, unless the Bank agrees with the Borrower on specified purposes for which loan proceeds may be used

³ References in these Guidelines to the “Borrower” include the recipient of a grant. In some cases, an IBRD Loan may be made to an entity other than the Member Country. In such cases, references in these Guidelines to “Borrower” include the Member Country as Guarantor of the Loan, unless the context requires otherwise. In some cases, the project, or a part of the project, is carried out by a Project Implementing Entity with which the Bank has entered into a Project Agreement. In such cases, references in these Guidelines to the “Borrower” include the Project Implementing Entity, as defined in the Loan Agreement.

⁴ References in these Guidelines to the “Bank” include both IBRD and IDA.

⁵ References in these Guidelines to the “project” means the Project as defined in the Loan Agreement.

its part, has a fiduciary duty under its Articles of Agreement to “make arrangements to ensure that the proceeds of any loan are used only for the purposes for which the loan was granted, with due attention to considerations of economy and efficiency and without regard to political or other non-economic influences or considerations.”⁶ These Guidelines constitute an important element of those arrangements and are made applicable to the preparation and implementation of the project as provided in the Loan Agreement.

Scope of Application

4. The following provisions of these Guidelines cover fraud and corruption that may occur in connection with the use of Loan proceeds during the preparation and implementation of a project financed, in whole or in part, by the Bank. These Guidelines cover fraud and corruption in the direct diversion of Loan proceeds for ineligible expenditures, as well as fraud and corruption engaged in for the purpose of influencing any decision as to the use of Loan proceeds. All such fraud and corruption is deemed, for purposes of these Guidelines, to occur “in connection with the use of Loan proceeds”.

5. These Guidelines apply to the Borrower and other all persons or entities which either receive Loan proceeds for their own use (e.g., “end users”), persons or entities such as fiscal agents which are responsible for the deposit or transfer of Loan proceeds (whether or not they are beneficiaries of such proceeds), and persons or entities which take or influence decisions regarding the use of Loan proceeds. All such persons and entities are referred to in these Guidelines as “recipients of Loan proceeds”, whether or not they are in physical possession of such proceeds.⁷

6. The Bank’s specific policy requirements on fraud and corruption in connection with the procurement or execution of contracts for goods, works or services financed out of the proceeds of a Loan from the Bank, are covered in the *Guidelines: Procurement under IBRD Loans and IDA Credits*, May 2004, as revised October 2006 (“Procurement Guidelines”) and the *Guidelines: the Selection and Employment of Consultants by World Bank Borrowers*, May 2004, as revised October 2006 (“Consultant Guidelines”). For ease of reference, the relevant sections of the Procurement Guidelines and Consultant Guidelines are set forth in the Annex to these Guidelines.

⁶ IBRD’s Articles of Agreement, Article III, Section 5(b); IDA’s Articles of Agreement, Article V, Section 1(g).

⁷ Certain persons or entities may fall under more than one category identified in paragraph 5. A financial intermediary, for example, may receive payment for its services, will transfer funds to end users and will make or influence decisions regarding the use of loan proceeds.

Definitions of Practices Constituting Fraud and Corruption

7. These Guidelines address the following defined practices when engaged in by recipients of Loan proceeds in connection with the use of such proceeds:⁸

A “corrupt practice” is the offering, giving, receiving or soliciting, directly or indirectly, of anything of value to influence improperly the actions of another party.⁹

A “fraudulent practice” is any act or omission, including a misrepresentation, that knowingly or recklessly¹⁰ misleads, or attempts to mislead, a party to obtain a financial or other benefit or to avoid an obligation.

A “collusive practice” is an arrangement between two or more parties designed to achieve an improper purpose, including to influence improperly the actions of another party.

A “coercive practice” is impairing or harming, or threatening to impair or harm, directly or indirectly, any party or the property of the party to influence improperly the actions of a party.

An “obstructive practice” is (i) deliberately destroying, falsifying, altering or concealing of evidence material to the investigation or making false statements to investigators in order to materially impede a Bank investigation into allegations of a corrupt, fraudulent, coercive or collusive practice; and/or threatening, harassing or intimidating any party to prevent it from disclosing its knowledge of matters relevant to the investigation or from pursuing the investigation, or (ii) acts intended to materially impede the exercise of the Bank’s contractual rights of audit or access to information.¹¹

8. The above practices, as so defined, are sometimes referred to collectively in these Guidelines as “fraud and corruption”.

⁸ Unless otherwise specified in the Loan Agreement, whenever these terms are used in the Loan Agreement, including in the applicable General Conditions, they have the meanings set out in paragraph 7 of these Guidelines.

⁹ Typical examples of corrupt practice include bribery and “kickbacks”.

¹⁰ To act “knowingly or recklessly”, the fraudulent actor must either know that the information or impression being conveyed is false, or be recklessly indifferent as to whether it is true or false. Mere inaccuracy in such information or impression, committed through simple negligence, is not enough to constitute fraudulent practice.

¹¹ Such rights include those provided for, *inter alia*, in paragraph 9(d) below.

Borrower Actions to Prevent and Combat Fraud and Corruption in connection with the Use of Loan Proceeds

9. In furtherance of the above-stated purpose and general principles, the Borrower will:

(a) take all appropriate measures to prevent corrupt, fraudulent, collusive, coercive and obstructive practices in connection with the use of Loan proceeds, including (but not limited to) (i) adopting appropriate fiduciary and administrative practices and institutional arrangements to ensure that the proceeds of the Loan are used only for the purposes for which the Loan was granted, and (ii) ensuring that all of its representatives¹² involved with the project, and all recipients of Loan proceeds with which it enters into an agreement related to the Project, receive a copy of these Guidelines and are made aware of its contents;

(b) immediately report to the Bank any allegations of fraud and corruption in connection with the use of Loan proceeds that come to its attention;

(c) if the Bank determines that any person or entity referred to in (a) above has engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in connection with the use of Loan proceeds, take timely and appropriate action, satisfactory to the Bank, to address such practices when they occur;

(d) include such provisions in its agreements with each recipient of Loan proceeds as the Bank may require to give full effect to these Guidelines, including (but not limited to) provisions (i) requiring such recipient to abide by paragraph 10 of these Guidelines, (ii) requiring such recipient to permit the Bank to inspect all of their accounts and records and other documents relating to the project required to be maintained pursuant to the Loan Agreement and to have them audited by, or on behalf of, the Bank, (iii) providing for the early termination or suspension by the Borrower of the agreement if such recipient is declared ineligible by the Bank under paragraph 11 below; and (iv) requiring restitution by such recipient of any amount of the loan with respect to which fraud and corruption has occurred;

(e) cooperate fully with representatives of the Bank in any investigation into allegations of fraud and corruption in connection with the use of loan proceeds; and

(f) in the event that the Bank declares any recipient of Loan proceeds ineligible as described in paragraph 11 below, take all necessary and appropriate action to give full effect to such declaration by, among other things, (i) exercising the Borrower's right to terminate early or suspend the agreement between the Borrower and such recipient and/or (ii) seeking restitution.

¹² References in these Guidelines to "representatives" of an entity also include its officials, officers, employees and agents.

Other Recipients of Loan Proceeds

10. In furtherance of the above-stated purpose and general principles, each recipient of Loan proceeds which enters into an agreement with the Borrower (or with another recipient of Loan proceeds) relating to the Project will:

- (a) carry out its project-related activities in accordance with the above-stated general principles and the provisions of its agreement with the Borrower referred to in paragraph 9 (d) above; and include similar provisions in any agreements related to the Project into which it may enter with other recipients of Loan proceeds;
- (b) immediately report to the Bank any allegations of fraud and corruption in connection with the use of loan proceeds that come to its attention;
- (c) cooperate fully with representatives of the Bank in any investigation into allegations of fraud and corruption in connection with the use of loan proceeds;
- (d) take all appropriate measures to prevent corrupt, fraudulent, collusive, coercive and obstructive practices by its representatives (if any) in connection with the use of loan proceeds, including (but not limited to): (i) adopting appropriate fiduciary and administrative practices and institutional arrangements to ensure that the proceeds of the loan are used only for the purposes for which the loan was granted, and (ii) ensuring that all its representatives receive a copy of these Guidelines and are made aware of its contents;
- (e) in the event that any representative of such recipient is declared ineligible as described in paragraph 11 below, take all necessary and appropriate action to give full effect to such declaration by, among other things, either removing such representative from all duties and responsibilities in connection with the project or, when requested by the Bank or otherwise appropriate, terminating its contractual relationship with such representative; and
- (f) in the event that it has entered into a project-related agreement with another person or entity which is declared ineligible as described in paragraph 11 below, take all necessary and appropriate action to give full effect to such declaration by, among other things, (i) exercising its right to terminate early or suspend such agreement and/or (ii) seeking restitution.

Sanctions and Related Actions by the Bank in Cases of Fraud and Corruption

11. In furtherance of the above-stated purpose and general principles, the Bank will have the right to take the following actions:

(a) sanction any recipient of Loan proceeds¹³ other than the Member Country¹⁴ (and/or, if such recipient is an entity rather than a natural person, any of its representatives); sanctions include (but are not limited to) declaring such person or entity ineligible to receive the proceeds of any loan made by the Bank or otherwise to participate further in the preparation or implementation of the project or any other project financed, in whole or in part, by the Bank, if at any time the Bank determines¹⁵ that such person or entity has engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in connection with the use of loan proceeds;¹⁶

(b) if the Bank determines that any such recipient of Loan proceeds is also a potential provider of goods, works or services, declare it ineligible under paragraph 1.8 (d) of the Procurement Guidelines or paragraph 1.11 (e) of the Consultant Guidelines (as appropriate); and

(c) declare a firm, consultant or individual ineligible under paragraph 11 (a) above if such firm, consultant or individual has been declared ineligible under paragraph 1.14 of the Procurement Guidelines or under paragraph 1.22 of the Consultant Guidelines.

Miscellaneous

12. The provisions of these Guidelines do not limit any other rights, remedies¹⁷ or obligations of the Bank or the Borrower under the Loan Agreement or any other document to which the Bank and the Borrower are both parties.

¹³ As in the case for bidders in the procurement context, the Bank may also sanction persons and entities which engage in fraud or corruption in the course of applying to become a recipient of Loan proceeds (e.g., a bank which provides false documentation so as to qualify as a financial intermediary in a Bank-financed project) irrespective of whether they are successful.

¹⁴ Member Country includes officials and employees of the national government or of any of its political or administrative subdivisions, and government owned enterprises and agencies that are not eligible to bid under paragraph 1.8(b) of the Procurement Guidelines or participate under paragraph 1.11(b) of the Consultant Guidelines.

¹⁵ The Bank has established a Sanctions Board, and related procedures, for the purpose of making such determinations. The procedures of the Sanctions Board sets forth the full set of sanctions available to the Bank.

¹⁶ The sanction may, without limitation, also include restitution of any amount of the loan with respect to which sanctionable conduct has occurred. The Bank may publish the identity of any entity declared ineligible under paragraph 11.

¹⁷ The Loan Agreement provides the Bank with certain rights and remedies which it may exercise with respect to the Loan in the event of fraud and corruption in connection with the use of Loan proceeds, in the circumstances described therein.

**REVISIONS TO IBRD/ IDA GENERAL CONDITIONS
RELEVANT TO FRAUD AND CORRUPTION
(New text is bolded)**

I. TEXT OF NEW REMEDIES IN THE GENERAL CONDITIONS:¹

A. TEXT OF NEW EVENTS OF SUSPENSION:

If any of the events specified in paragraphs (a) through (m) of this Section occurs and is continuing, the Bank may, by notice to the Loan Parties, suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account. Such suspension shall continue until the event (or events) which gave rise to the suspension has (or have) ceased to exist, unless the Bank has notified the Loan Parties that such right to make withdrawals has been restored.

* * *

(c) *Fraud and Corruption.* **At any time, the Bank determines that any representative of the Guarantor or the Borrower or the Project Implementing Entity, or any other recipient of any of the proceeds of the Loan, has engaged in corrupt, fraudulent, coercive or collusive practices in connection with the use of the proceeds of the Loan, without the Guarantor or the Borrower or the Project Implementing Entity (or any other such recipient) having taken timely and appropriate action satisfactory to the Bank to address such practices when they occur.**

(l) *Ineligibility.* **The Bank or the Association has declared the Borrower (other than the Member Country) or the Project Implementing Entity ineligible to receive Loan proceeds made by the Bank or of credits or grants made by the Association or otherwise to participate in the preparation or implementation of any project financed, in whole or in part, by the Bank or the Association, as a result of a determination by the Bank or the Association that the Borrower or the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of Loan proceeds.**

¹ Similar revisions would be made to the IDA General Conditions for Credits and Grants.

B. TEXT OF EXPANDED EVENT OF CANCELLATION BY THE BANK:

If any of the events specified in paragraphs (a) through (f) of this Section occurs with respect to an amount of the Unwithdrawn Loan Balance, the Bank may, by notice to the Loan Parties, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount shall be cancelled.

(c) ***Fraud and Corruption.*** At any time, the Bank determines, with respect to any **amount of the Loan proceeds**, that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of **the Guarantor** or the Borrower or the Project Implementing Entity (or other recipient of the Loan proceeds), without **the Guarantor**, the Borrower or the Project Implementing Entity (or other recipient of the Loan proceeds) having taken timely and appropriate action satisfactory to the Bank to **address such practices when they occur.**

II. TEXT OF EXPANDED REFUND REMEDY IN THE GENERAL CONDITIONS APPLICABLE TO IDA GRANTS:

(a) If the Association determines that an amount of the Withdrawn Grant Balance has been used in a manner inconsistent with the provisions of the Financing Agreement or these General Conditions, the Recipient shall, upon notice by the Association to the Recipient, promptly refund such amount to the Association. Such inconsistent use shall include, without limitation:

- (i) use of such amount to make a payment for an expenditure that is not an Eligible Expenditure; or
- (ii) **(A) engaging in corrupt, fraudulent, collusive or coercive practices in connection with the use of such amount or (B) use of such amount to** finance a contract during the procurement or execution of which **such** practices were engaged in by representatives of the Recipient or the Project Implementing Entity (or other recipient of such amount of the Withdrawn Grant Balance), **in either case** without the Recipient or the Project Implementing Entity (or other such recipient) having taken timely and appropriate action satisfactory to the Association to **address such practices when they occur.**

(b) Except as the Association may otherwise determine, the Association shall cancel all amounts refunded pursuant to this Section.

ANNEX D

Revisions have been made in the May 2004 Procurement Guidelines. They refer to the paragraphs dealing with Eligibility, and Fraud and Corruption (other paragraphs and sub-paragraphs remain unchanged).

These revisions include minor changes made in addition to those included in the August 1st Board approval of the Sanction Reform package (as indicated in its Annex D).

Procurement Guidelines

Eligibility

1.8 (d) A firm declared ineligible by the Bank in accordance with sub-paragraph (d) of paragraph 1.14 of these Guidelines [or in accordance with the World Bank Group Anti-Corruption policies¹⁷](#) shall be ineligible to be awarded a Bank-financed contract during the period of time determined by the Bank.

Fraud and Corruption

1.14 It is the Bank's policy to require that Borrowers (including beneficiaries of Bank loans), as well as bidders, suppliers, and contractors [and their subcontractors](#) under Bank-financed contracts, observe the highest standard of ethics during the procurement and execution of such contracts.¹⁸ In pursuance of this policy, the Bank:

- (a) defines, for the purposes of this provision, the terms set forth below as follows:
 - (i) [“corrupt practice”¹⁹ is the offering, giving, receiving or soliciting, directly or indirectly, of anything of value to influence improperly the actions of another party;](#)
 - (ii) [“fraudulent practice”²⁰ is any act or omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit or to avoid an obligation;](#)

¹⁷ [For purposes of this sub-paragraph, the relevant World Bank Group Anti-Corruption policies are set forth in the Guidelines On Preventing and Combating Fraud and Corruption in Projects financed by IBRD Loans and IDA Credits and Grants, and in the Anti-corruption Guidelines for IFC, MIGA, and World Bank Guarantee Transactions.](#)

¹⁸ [In this context, any action taken by a bidder, supplier, contractor, or a sub-contractor to influence the procurement process or contract execution for undue advantage is improper.](#)

¹⁹ [For the purpose of these Guidelines, “another party” refers to a public official acting in relation to the procurement process or contract execution\]. In this context, “public official” includes World Bank staff and employees of other organizations taking or reviewing procurement decisions.](#)

²⁰ [For the purpose of these Guidelines, “party” refers to a public official; the terms “benefit” and “obligation” relate to the procurement process or contract execution; and the “act or omission” is intended to influence the procurement process or contract execution.](#)

ANNEX D

- (iii) “collusive practice”²¹ is an arrangement between two or more parties designed to achieve an improper purpose, including to influence improperly the actions of another party;
- (iv) “coercive practice”²² is impairing or harming, or threatening to impair or harm, directly or indirectly, any party or the property of the party to influence improperly the actions of a party;
- (v) “obstructive practice” is
- (aa) deliberately destroying, falsifying, altering or concealing of evidence material to the investigation or making false statements to investigators in order to materially impede a Bank investigation into allegations of a corrupt, fraudulent, coercive or collusive practice, and/or threatening, harassing or intimidating any party to prevent it from disclosing its knowledge of matters relevant to the investigation or from pursuing the investigation, or
- (bb) acts intended to materially impede the exercise of the Bank’s inspection and audit rights provided for under par. 1.14 (e) below.
- (b) will reject a proposal for award if it determines that the bidder recommended for award has, directly or through an agent, engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in competing for the contract in question;
- (c) will cancel the portion of the loan allocated to a contract if it determines at any time that representatives of the Borrower or of a beneficiary of the loan engaged in corrupt, fraudulent, collusive, coercive or obstructive practices during the procurement or the execution of that contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to address such practices when they occur;
- (d) will sanction a firm or individual, including declaring ineligible, either indefinitely or for a stated period of time, to be awarded a Bank-financed contract if it at any time determines that the firm has, directly or through an agent, engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in competing for, or in executing, a Bank-financed contract; and
- (e) will have the right to require that a provision be included in bidding documents and in contracts financed by a Bank loan, a provision be included requiring bidders, suppliers and contractors to permit the Bank to inspect their accounts and records and other documents relating to the bid submission and contract performance and to have them audited by auditors appointed by the Bank.

²¹ For the purpose of these Guidelines, “parties” refers to participants in the procurement process (including public officials) attempting to establish bid prices at artificial, non competitive levels.

²² For the purpose of these Guidelines, “party” refers to a participant in the procurement process or contract execution.

