

# Preventing Fraud and Corruption in World Bank Projects

*A Guide for Staff*

Mario A. Aguilar  
Jit B.S. Gill  
Livio Pino

The World Bank  
Washington, D.C.

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# Preface

World Bank staff have the crucial fiduciary duty to ensure that loan funds are used for their intended purposes. The World Bank has long been concerned with keeping its projects free of corruption. This is also a major plank of the Bank's anticorruption strategy, unveiled in 1997.

This Guide is intended to enhance our awareness of the ways in which fraud and corruption may creep into projects and the measures that can be taken to counter them. **Part One: Introduction** provides a brief overview of the causes and effects of corruption and the Bank's strategy to deal with it. **Part Two: Preventing Fraud and Corruption in Projects** illustrates ways in which design, procurement, and financial management of projects may be manipulated for fraudulent or corrupt purposes; discusses the Bank's anticorruption policies and procedures as they relate to procurement and financial management; and suggests actions that Borrowers and Bank staff can take to minimize the occurrence of fraud and corruption. **Part Three: Case Studies** presents a number of cases based on fictitious situations involving fraud or corruption. The case studies are designed for individual reflection, group analyses, or discussions in training seminars and workshops. **Part Four: Selected Documents and Excerpts** is a compilation of selected documents containing the Bank's anticorruption policy and procedures.

I am confident that LCR staff, and Bank staff in general, will find the Guide useful in enforcing the highest standards of integrity, transparency, and accountability in Bank projects.

May 2000  
Washington D.C.

David de Ferranti  
Vice President  
Latin America and the Caribbean Region  
The World Bank

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# Abbreviations

ADR	Alternative Dispute Resolution
ARCS	Audit Reporting Control System
CFMA	Country Financial Management Assessment
CPAR	Country Procurement Assessment Review
GCC	General Conditions of Contract
IAD	Internal Audit Department
IBRD	International Bank for Reconstruction and Development
ICB	International Competitive Bidding
IDA	International Development Agency
ITB	Instructions to Bidders
LACI	Loan Administration Change Initiative
NCB	National Competitive Bidding
OCFC	Oversight Committee on Fraud and Corruption
PMR	Project Management Report
PS	Procurement Specialist
RPA	Regional Procurement Adviser
SBD	Standard Bidding Document
SOE	Statement of Expenditure
TTL	Task Team Leader

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# Acknowledgments

This Guide was prepared by a team consisting of Mario A. Aguilar (Consultant, Procurement sections and case studies), Livio Pino (LCOAA, Financial Management sections and case studies), and Jit B. S. Gill (LCSPS, Task Team Leader). The authors would like to thank Geoffrey Shepherd (Lead Specialist, LCSPS), Mike Stevens (PRMPS), Armando Araujo (RPA-LCOPR), Jaime Roman (LCOPR), John McCormick (Oversight Committee on Fraud and Corruption), and David Varela (LEGLA) for their valuable comments and suggestions. The authors are also grateful to Teia Thompson-Brown and Sharon Spriggs for their assistance in formatting and editing the document.

## About the Authors

### *Mario Aguilar*

Mario Aguilar is a civil engineer with a degree in electrical engineering from the University of Chile. He joined the World Bank in 1975 after occupying senior positions in the largest power utility in Chile. There he was involved in the areas of design and construction of hydroelectric and thermal facilities, transmission and distribution systems, and power sector expansion and financial planning. He later founded and directed his own consulting company.

During his 23 years with the Bank, Mr. Aguilar accumulated considerable operational and procurement experience through his work in energy projects in Latin America, Asia, and Africa. Before retiring in 1998, he served for nine years as the procurement adviser for the Bank's Regional Office for Latin America and the Caribbean.

At present, Mr. Aguilar works as a consultant for OCSPR, the Procurement Policy Services Group in the Bank's Operational Core Services Network.

### *Jit B.S. Gill*

Jit B.S. Gill is a Senior Public Sector Management Specialist with the Latin America and the Caribbean Region (LCR) of the World Bank. Mr. Gill has an M.B.A. from the Columbia Business School and is a C.P.A.; he also has

bachelor's degrees in Law and Electrical Engineering. Before joining the Bank in 1993, he held various senior positions in the Indian Revenue Service. At the Bank, he has managed several LCR projects relating to public sector reform, covering modernization of revenue administration, strengthening of public expenditure management, restructuring of public sector entities, and anticorruption efforts. Mr. Gill has frequently provided technical advice and support to the Europe and Central Asia, South Asia, and Africa Regions of the Bank. He designed and delivered a part of the first Anti-Corruption Core Course organized by the World Bank Institute for participants from seven African countries, focussing on tackling corruption in customs. He has also developed a comprehensive Diagnostic Framework for Revenue Administration, for the Tax Policy and Administration Thematic Group of the Poverty Reduction and Economic Management (PREM) Network.

### *Livio Pino*

Livio Pino, senior financial management specialist in the Operations Support Unit of the Latin American Region, has been deeply involved in the Bank's efforts to improve project financial management. In fourteen years with the Bank, preceded by five years at the International Monetary Fund, he has held professional positions in internal audit, disbursements, and operations departments and conducted Bank mission work in more than 30 countries in Latin America and the Caribbean, Europe and Central Asia, and East Asia and the Pacific. Before joining the Bank, Mr. Pino was an audit partner with a major international auditing firm in Chile, his home country, and taught business finance and management at the University of Chile in Santiago.



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## Part One

# Introduction

### What Is Corruption?

In the context of Bank operations, fraud and corruption have been defined as follows:<sup>1</sup>

Fraudulent and corrupt practices include the solicitation, payment or receipt of bribes, gratuities or kickbacks, or the manipulation of loans or Bank Group-financed contracts through any form of misrepresentation. Fraudulent or corrupt practices also include any situation in which staff members have abused their position or misused World Bank Group funds or other public funds for private gain.

Corruption manifests itself in different ways. The most frequent occurrence is in the form of bribes that may be used to influence the award of public contracts, acquire various benefits from government, lower tax liabilities, obtain licenses, expedite government processes, affect judicial decisions, or lower penalties. Some of the other common forms of corruption and fraud are theft and misuse of public assets, falsification of accounts to cover diversion of public funds to personal accounts, abuse of official discretion, or disclosure of privileged information to help friends and relatives. Corruption may be grand, involving large transactions and high-level politicians and bureaucrats. It may also be petty, involving small payments and favors extracted by low-level officials as a part of their daily transactions with the public. Corruption may be episodic, affecting only isolated actions in an otherwise clean system. Or it may be systemic, permeating all activities of the public sector.

Corruption is a result of a complex interaction of economic, institutional, political, social, and historical factors. It tends to flourish when public-sector policies generate economic rents, institutions are weak, political and bureaucratic power is exercised for personal gain, society does not forcefully disapprove corruption, and voice mechanisms are not strong. Excessive discretionary power vested in public officials, monopolistic

authority, lack of transparency in the functioning of government, absence of effective accountability systems, high cost of getting to public office, and low public-sector wages also encourage fraud and corruption.

Corruption imposes massive costs on countries, institutions, and ordinary citizens. It affects macroeconomic stability by encouraging wasteful and ineffective government expenditures and tax evasion; discourages investment, including foreign direct investment; raises the cost of doing business; reduces competitiveness of domestic enterprises in the international market; corrodes public institutions by subverting laws, rules, regulations, and institutional checks and balances; and undermines political legitimacy. As a result, corruption obstructs economic growth and development; creates a serious risk of marginalization in the global economy for countries with high levels of corruption; imposes a disproportionately heavy burden on the poor by siphoning off resources from antipoverty programs and by creating barriers of bribery that deny the poor access to public goods and services. Also, corruption reduces the development impact of international assistance to developing countries. At the same time, the perception that in many developing countries corrupt public officials misappropriate aid resources weakens the support for aid programs.

## **The Bank's Anticorruption Strategy**

Because of the Bank's mandate to promote economic and social development, the fight against corruption is a central part of its mission to reduce poverty and improve the quality of life of people in developing countries and transition economies. For this purpose, the Bank has adopted a comprehensive anticorruption strategy.<sup>1</sup> The five pillars of the strategy are:

- Preventing fraud and corruption within World Bank projects;
- Helping countries that request Bank support in their efforts to reduce corruption;
- Taking corruption more explicitly into account in country assistance strategies, country lending considerations, policy dialogues, analytical work, and the choice and design of projects;
- Adding voice and support to international efforts to reduce corruption; and
- Protecting the Bank from internal fraud and corruption.

This Guide deals with the first pillar.

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## Part Two

# Preventing Fraud and Corruption in World Bank Projects

### **The Bank's Fiduciary Responsibility**

Under Article III, Section 5(b) of the Articles of Agreement of the International Bank for Reconstruction and Development (IBRD), the Bank is required 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 noneconomic influences or considerations. Similar requirements are specified in Article V, Section 1(g) of the Articles of Agreement of the International Development Agency (IDA). Fraud and corruption can divert loans and credits to purposes other than those for which these were granted. Inevitably, such diversion would also seriously affect the efficiency and effectiveness of the concerned projects. As such, the Bank and its staff have a fiduciary responsibility to prevent fraud and corruption in projects financed by it.

### **How and When Fraud and Corruption May Occur in Bank Projects**

Fraud and corruption can adversely affect Bank projects at any stage of the Project Cycle. Some of the possibilities are indicated below:

#### *Project Design Stage*

Corrupt influences may be brought to bear on project design to:

- Overstate physical requirements and over-dimension project components to increase potential corrupt earnings during implementation;
- Manipulate project design to benefit particular suppliers, consultants, contractors, and other private parties;

- Allow officials of the Borrower unfettered discretion in allocating project resources amongst beneficiaries;
- Define procurement and financial management arrangements in such a way as would enable project managers to divert funds for unauthorized purposes;
- Create weak oversight and supervision mechanisms that would prevent detection of fraud and corruption; and
- Alter the timing of the project to suit vested interests.

### *Procurement Stage*

The risk of corruption in the procurement of goods, civil works, and services is particularly high. Corruption at this stage may originate on the Borrower (purchaser or employer) side or on the supplier (contractor or consultant) side.

#### CORRUPT AND FRAUDULENT PRACTICES ON THE BORROWER SIDE

Borrowers may attempt corrupt practices to limit competition in the following ways:

- **Insufficient or inadequate advertising.** This occurs when invitations to bid are advertised in limited-circulation newspapers. Since many qualified bidders do not have access to the chosen newspapers, this strategy effectively bars them from bidding. No doubt, in most countries the law mandates advertising in the Official Gazette to comply with administrative and legal requirements. However, this does not solve the problem as, very often, the Gazette also does not have the circulation required for international bidding.
- **Excessively short bidding time.** This is one of the most frequently attempted corrupt practices. While sometimes there are compelling reasons for obtaining bids as quickly as possible, frequently the purpose of this practice is to give a short period of time to all bidders except one or, at best, a few. The privileged bidder gets, for a fee, the bid information well in advance of everyone else and, therefore, is not constrained by a short “official” bidding time.
- **Bidding time allowed is apparent, not real.** Advertisements and bidding documents issued toward the end of the year, or during national or ethnic holidays, may appear to give an adequate time to submit bids, but in fact the effective preparation time allowed may be very short. For example, there are about eight weeks from the last week of November to mid-January but, given the large number of official holidays, the working time actually available for bid preparation is only about three weeks.
- **Misuse of legal and administrative requirements.** Some countries have laws that prohibit making major procurement decisions close to

elections. Similarly, public expenditure laws of most countries do not allow the carrying forward of budgetary allocations that are not spent in the relevant fiscal year. Such measures are designed to prevent corruption and enhance accountability. Ironically, impending elections or the approaching end of the fiscal year may be used to justify accelerating procurement actions by shortening bidding times and by-passing formal checks and balances. This opens possibilities of corruption through advance information to selected bidders, improper bid evaluations, and contracts favoring particular suppliers and service providers.

- **Inappropriate bidding procedures.** Using National Competitive Bidding (NCB) documents not approved by the Bank or using the Bank's Standard Bidding Documents (SBDs) with unauthorized changes may result in procedures that are unclear in respect to bid preparation and submission, violate bidding secrecy, and contain unacceptable registration requirements and evaluation criteria. This is sometimes compounded by the introduction of last minute changes. In some cases, unnecessary pre-bid meetings allow passing pre-bid information selectively to bidders through coded questions and answers. Directed or biased technical specifications are another way to restrict competition (for example, specifying that a vehicle must have a length equal to 5,457 millimeters and an absolutely horizontal floor). Another frequent mechanism is the use of unfair bid-evaluation procedures based on the application of merit points in cases where minimum requirements can be clearly specified. Finally, the rules and procedures of bidding may be so drafted as to enable rejection of bids on the basis of unimportant technicalities.
- **Procedures that violate the secrecy of bidding.** In open competition procedures, a key aspect of competitive bidding is the secrecy of bidding. Knowing before bid opening who will or will not bid may have a strong impact on bid prices. Sometimes, purchasing agencies establish procedures that allow manipulation of the secrecy of the bidding process.

#### CORRUPT AND FRAUDULENT PRACTICES ON THE BIDDER SIDE

Bidders may attempt to manipulate the procurement process through corrupt practices such as the following:

- **Unjustified Complaints.** Complaints are necessary and often useful in stopping abuses in procurement. However, bidders or bidder groups frequently present extemporaneous or unjustified complaints during the prequalification, bid opening, or bid evaluation stages. The purpose of such complaints is to introduce delays, paralyze the respective stage, and exert pressure on the Purchaser to take action to disqualify potential bidders and thus restrict competition.

- **Collusion schemes.** Some of the collusive practices used include:
  - Prebidding understandings among bidders. Groups of bidders decide before bidding which of them will get the contract. This is more likely to occur under NCB procurement.
  - Lowest bidder quits. The lowest bidder, in collusion with the next lowest bidder, withdraws its bid. The lowest bidder is “adequately compensated” by the next-lowest bidder. This corrupt practice is particularly frequent in countries where it is illegal to require a bid security. Some procurement laws contain provisions to discourage this practice by specifying that if the lowest bidder quits, the contract can be awarded to the second-lowest bidder at the price of the lowest bid. However, the Bank considers this procedure unacceptable because it involves changing the bid price after bids have been received and because it penalizes honest bidders in cases where withdrawal of the lowest bidder is not linked to corruption.
- **Misleading bids.** A bidder presents a bid with prices that can be interpreted in more than one way. A clarification requested by the purchaser allows the bidder to select the way it prefers the bid price to be interpreted. This technique permits the bidder to change the bid price without breaking the rules. Depending on the other bid prices, the bidder can choose to increase or decrease the misleading price to suit his or her interests.
- **Malicious front-loading.** Front-loading is a practice that allows bidders to minimize borrowing to execute the contract. The savings obtained in financial charges should be reflected in the bid price. However, excessive front-loading of unit costs, for parts of the works that have to be executed, or goods provided, mostly in the first year of a multi-annual contract, can involve unacceptable risks for the purchaser. This practice may favor collusion between bidder and purchaser. In this case, the purchaser will not object to a heavily front-loaded bid, provided the bidder pays a bribe. On the contrary, to favor another bidder, an otherwise acceptable moderately front-loaded bid can be disqualified, on the grounds that its unit prices are unbalanced.

### *Implementation Stage*

Corrupt and fraudulent actions during contract implementation and contract management can be very costly for a project and may be the main cause of cost overruns. Often they involve collusion between the supplier-purchaser and the contractor-employer. Possible malpractices at the implementation stage include the following:

- **Corrupt contract amendments.** The purpose of a corrupt contract amendment is to introduce, in an official manner, changes to a contract's scope of work and cost that are not justified. Official approvals sought, including the Bank's no objection, are intended to give credibility to such changes.
- **Unjustified complaints.** Sometimes contractors present complaints during implementation as a way to obtain unjustified contract price increases. Contractors have often considerably more experience handling complaints than Borrowers. This is particularly true in the case of social-sector projects where Borrowers might not have lengthy experience in contract management.
- **Overbilling/overpayment.** Overbilling is the presentation of a fraudulent request for payment. The bill may include more units than realized, more services than provided, or more travel expenses than incurred. Overbilling and overpayment rely either on the assumption that nobody will verify the accounts and physically inspect the works or goods, or on the assumption that the reviewers can be bribed, or both. If the overpayment is important, the corruption scheme may even involve bribing the auditors and the technical inspectors.
- **Lower than specified quality.** This is a form of fraud where construction materials used or equipment and goods supplied (or both) are of lower quality than that specified in the contract. Typical examples include lesser cement or steel reinforcement content in concrete structures, thinner zinc coating on galvanized structures and lower paper quality in writing pads or books, than that specified. Lower quality is difficult to detect, particularly in works, as its consequences may not appear until long after the fraud took place.
- **Fraudulent justification of delays.** In this case the purchaser or employer, in exchange for a bribe, ignores delays in delivery or completion of contract execution and waives the penalties that should have been applied.
- **Flagrant theft.** It is a form of corruption that consists of diverting contract materials, equipment or services to private channels.
- **Manipulation of Alternative Dispute Resolution (ADR) procedures.** This involves collusion between the adjudicator or ADR Panel and at least one of the parties to the contract, with a view to resolving a dispute in favor of the bribing party.

### *Financial Management*

Corrupt or fraudulent practices in financial management of projects may include:

- **Duplication of payments.** Inadequate internal control permits paying several times for the same item.
- **Alteration of and tampering with invoices and other supporting documents.** Amounts and quantities are changed after payments have been made, thus increasing the total value of transactions to cover misappropriation of funds.
- **Adulteration or duplication of accounting records.** Different accounting records are kept for different purposes to conceal unauthorized or illicit transactions.
- **Lack of supporting records.** As a result of deliberate misfiling or destruction of records, payments made are not supported by valid documentation, such as invoices and authorizations.
- **Ineligible payments.** Supporting documents refer to services not rendered or items not purchased, or purchased and not supplied (for example, fuel). Payments continue for contracts that have expired. Payments are made for ineligible retroactive financing.
- **Misuse of funds.** Project funds are used for other than project needs—for example, short-term loans to government agencies or contractors or friends, illicit market transactions, or gambling.
- **Unauthorized advance payments without guarantee.**
- **Unauthorized use of project property.** Vehicles, office equipment, and furniture are used for personal or political purposes.
- **Excessively high operational expenditures.** The Project Implementation Unit's operational expenses exceed reasonable limits.
- **Unreported discounts.** Misappropriation of discounts obtained from suppliers-contractors.

## Bank Anticorruption Policy on Procurement

The Bank's anticorruption policy relating to procurement under World Bank projects is outlined in the *Guidelines: Procurement under IBRD Loans and IDA Credits*, revised January 1999 (hereinafter referred to as the Procurement Guidelines) and in the *Guidelines: Selection and Employment of Consultants by World Bank Borrowers* (hereinafter referred to as the Consultant Guidelines). These Guidelines apply to all procurement actions under Bank loans and credits. All Bank Standard Bidding Documents and Standard Forms of Contract strictly follow this policy.

### *Procurement and Consultants Guidelines*

Article 1.15 of the Procurement Guidelines and Article 1.25 of the Consultants Guidelines contain the Bank's policy with respect to procurement fraud and corruption in Bank projects (Exhibits 3a and 3b). The policy covers three aspects:



## DEFINITION OF FRAUD AND CORRUPTION

Art. 1.15 (a) of the Procurement Guidelines defines “corrupt practice” and “fraudulent practice” as indicated below. Similar definitions, with appropriate modifications, are contained in Art. 1.25 (a) of the Consultant Guidelines.

- (i) “corrupt practice” means the offering, giving, receiving, or soliciting of anything of value to influence the action of a public official in the procurement process or in contract execution.
- (ii) “fraudulent practice” means a misrepresentation of facts in order to influence a procurement process, or the execution of a contract, to the detriment of the Borrower, and includes collusive practices among bidders designed to establish bid prices at artificial non-competitive levels to deprive the Borrower of the benefits of free and open competition.

## ACTIONS BY THE BANK IN CASES INVOLVING FRAUD AND CORRUPTION

Art. 1.15 (b), (c), and (d) of the Procurement Guidelines indicate that the Bank will take the following actions in cases involving fraud and corruption:

- Reject a proposal for award if it determines that the bidder recommended for award has engaged in corrupt or fraudulent practices in competing for the contract in question;
- Cancel the portion of the loan allocated to a contract for goods or works if it at any time determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the loan during the procurement or the execution of that contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation; and
- Declare a firm ineligible, either indefinitely or for a stated period of time, to be awarded a World Bank contract if it at any time determines that the firm has engaged in corrupt or fraudulent practices in competing for, or in executing, a World Bank contract.

In addition, Art. 1.15 (e) of the Procurement Guidelines states that the Bank will have the right to require that in contracts financed by a Bank loan, provision be included requiring Suppliers and Contractors to permit the Bank to inspect their accounts and records relating to the performance of the contract and to have them audited by auditors appointed by the Bank.

Similar provisions are contained in Art. 1.25 (b), (c), (d), and (e) of the Consultants Guidelines.

## UNDERTAKING TO OBSERVE THE COUNTRY'S LAWS AGAINST FRAUD AND CORRUPTION

Art. 1.16 of the Procurement Guidelines and Art. 1.26 of the Consultants Guidelines specify the circumstances in which a Borrower can introduce into Bid Forms for large contracts an undertaking of the bidder to observe the country's laws against fraud and corruption (Exhibits 3a and 3b).

### *Standard Bidding Documents*

All Standard Bidding Documents (SBDs) and Standard Contracts contain clauses and provisions aimed at preventing corruption. These clauses are summarized below. As an illustration, the relevant clauses of the SBDs for Supply and Installation of Plant and Equipment are attached as Exhibit 4.

#### INSTRUCTIONS TO BIDDERS

**Eligibility.** Instructions to Bidders (ITB) clause 2.4 specifies that a bidder who is under a declaration of ineligibility issued by the Bank as a consequence of engaging in corrupt or fraudulent practices shall not be permitted to participate in World Bank contracts.

**Commissions and Gratuities.** ITB clause 15.4 requires that the bidder furnish information on commissions and gratuities paid or to be paid.

**Corrupt or Fraudulent Practices.** ITB clause 35 contains the part of the Bank policy stated in Art. 1.15 of the Procurement Guidelines that is applicable to the bidding stage.

**Bid Form.** The bidder is requested to declare all commissions or gratuities paid or to be paid by the bidder to agents in relation to its Bid or contract execution if it is awarded the contract.

#### GENERAL CONDITIONS OF CONTRACT

**Bank Audits.** Clause 9.6 of the General Conditions of Contract (GCC) specifies that the Contractor shall permit the Bank to inspect the contractor's records related to a World Bank contract.

**Termination for Corruption.** GCC Clause 42.2.1(c) specifies that the engaging of a contractor or supplier in corrupt or fraudulent practices will be an event of default as a result of which the Borrower may terminate the contract.

## **Bank Anticorruption Policy on Financial Management**

Financial Management is of paramount importance in the efforts to combat corruption. In the context of a development project, financial management involves:

- Planning project activities accurately in a timely manner;
- Formulating the budget and costing project activities;
- Organizing the human and physical resources available in a way so as to ensure that project objectives are efficiently and effectively attained within the inherent cost constraints;
- Conducting overall project activities toward successfully accomplishing project objectives within the allocated funding limits;
- Maintaining proper accounts; and
- Ensuring that the financial statements of the project are regularly audited by independent auditors.

### *OP/BP 10.02*

The Bank policy on financial management requires, for all projects financed by funds administered by the Bank, that the Borrower and the project implementing entities maintain financial management systems adequate to ensure that they can provide accurate and timely information regarding project resources and expenditures. Such systems must address the following main areas:

#### ACCOUNTING

Accounting information submitted to the Bank by project implementing entities must adhere to accounting standards acceptable to the Bank. When project implementation begins, the Borrower and project implementation entities must have in place accounting and internal control systems that accord with such standards.

#### FINANCIAL REPORTING

Project legal agreements normally require that the Borrower and the project implementing entities provide the Bank, within six months after the end of each fiscal year (including the fiscal year of the final Bank disbursement), with annual audited financial statements of the project that are acceptable to the Bank. The Bank also requires audited financial statements of any revenue-earning Borrower or project-implementing entity if (a) its financial viability is vital to project success, or (b) one of the project objectives is to improve its institutional capability. In addition, the Bank may require submission of interim unaudited statements used for project management and monitoring purposes.

#### AUDITING

The Bank requires the Borrower and the project implementing entities to have the required financial statements for each year audited in accordance with standards on auditing that are acceptable to the Bank. An audit of such financial statements includes (a) an assessment of the adequacy of accounting and internal control systems to monitor expenditures and

other financial transactions and ensure safe custody of project-financed assets; (b) a determination as to whether the Borrower and project implementing entities have maintained adequate documentation on all relevant transactions; (c) verification that expenditures submitted to the Bank are eligible for financing; and (d) identification of any ineligible expenditures.

The Borrower and the project implementing entities ensure that an independent auditor acceptable to the Bank is appointed in sufficient time to carry out its responsibilities, including a review of the financial management systems at the beginning of project implementation and periodically thereafter.

### *The Loan Administration Change Initiative (LACI)*

The Loan Administration Change Initiative (LACI), recently approved by the Board, introduces an integrated project monitoring system bringing together accounting and financial management, disbursement, procurement and contract management, and physical progress. It introduces a simplified system of disbursing funds, linking disbursements to project progress as reported in quarterly project management reports.

Project Management Reports (PMRs) prepared under LACI arrangements require for their timely submission an appropriate and duly staffed project organization structure and an effective internal control environment, including a physical and financial monitoring system. Through the latter, project management will compare actual and planned project progress and explain any major variations. In addition, the PMR includes a procurement management report for monitoring of selected contracts above and below the prior review thresholds. It has been observed that in projects already using this mechanism, overall control over project activities is significantly enhanced. This also helps reduce corruption and fraud.

## **Specific Actions to Combat Corruption in Bank Projects**

### *The Role of the Borrower*

To prevent fraud and corruption in a Bank project, the Borrower must strictly adhere to the commitments and procedures spelled out in the Loan Agreement with the Bank. The Loan Agreement implicitly or explicitly contains the Bank's anticorruption policy and specific clauses, relating to procurement, financial management, and disbursement procedures, that are designed to minimize the risk of corruption in the project. To meet these commitments, the Borrower should ensure that capable, experienced personnel are appointed to handle all transactions under the Bank loan, particularly procurement and financial management. Such personnel can be the Borrower's own staff or consultants.

Borrowers should also commit themselves to use the Bank SBD in a sound manner. This implies obtaining the Bank's no objection to any proposed changes to the SBDs.

### *The Role of Bank Staff*

Bank staff can prevent fraud and corruption in Bank projects through good project design, effective supervision, and high standards of personal integrity.

#### PROJECT DESIGN

Task Teams are responsible for ensuring high quality-at-entry of projects they prepare. In addition to focusing on the specific subject matter of the project, it is important to make sure that the risk of fraud and corruption during implementation is minimized. This requires careful design of project activities and procurement, financial management, disbursement, supervision, and implementation arrangements. The definition of project components needs to be scrutinized for potential bias favoring untargeted beneficiaries or specific consultants, contractors, or suppliers. Preparation work done by the Borrower and others, including consultants, needs to be reviewed as to the appropriateness of underlying assumptions, computer models, and cost and time estimates. Project cost estimates must be realistic. Excessively generous cost estimates, especially in projects involving only a few large contracts, present a big temptation for fraud and corruption by borrowers and contractors. On the other hand, cost estimates that show substantial shortages in relation to actual contract prices may require adjustments in scope of work or project design, creating opportunities for corrupt practices. In case of doubt, Task Teams should consult specialists inside and outside the Bank.

For designing the **procurement arrangements** of a project, Task Teams should:

- Include a Procurement Specialist in the Task Team.
- Review, at an early stage of the project cycle, procurement laws, regulations, and practices in the Borrower's country to assess not only conflicts with Bank policy, but also the overall soundness of public procurement. When a Country Procurement Assessment Review (CPAR) is available, it will provide appropriate guidance on procurement procedures that might present difficulties for implementing procurement under a project. If a CPAR is not available, the Task Team should consider the feasibility of having a CPAR conducted before appraisal.
- Carry out during project preparation an assessment of the procurement capacity of the implementing agency. It is important to ensure

that the procurement function is well organized, procurement procedures are clearly defined and understood, and the implementing agency has a strong procurement team. Inefficiencies and mistakes by unqualified, low-salaried procurement teams may prompt “experienced” bidders to attempt corrupt practices.

- Conduct procurement seminars for project implementation staff during project preparation. This training should be repeated regularly during implementation to keep procurement skills of project staff up to date.
- Select procurement procedures in a realistic manner, taking into account the borrowing country’s capability and experience in supplying the goods and services and constructing the works included in the project. The following deficiencies are frequently noticed in the design of procurement arrangements:
  - **Implementing-agency procurement capacity.** The procurement capacity of the implementing agency is overestimated, leading to higher prior-review thresholds and unrealistic procurement plans.
  - **Local industry participation.** In some cases the participation of the local industry may represent the most economic and efficient way to implement a project. However, sometimes there may be too much optimism about the capacity of the local industry. It may be assumed that most of the goods will be locally produced, most work contracts performed by local contractors, and most consulting work provided or led by national consultants. This may not only lead to downstream difficulties in implementation of projects, but also enhance opportunities for corruption.
  - **Procurement methods.** There is a trend to provide for a large number of small consulting contracts, mostly with individual consultants, based on the often erroneous assumption that no consulting company would be interested in handling a large number of small, scattered consulting assignments. A large number of small contracts practically eliminates adequate supervision by the Bank and the Borrower, and increases opportunities for corruption. In many cases, Borrowers propose an unnecessary splitting of large contracts into smaller components to increase the chances of awards to local contractors, suppliers, or consultants. This practice limits competition and favors corruption.

There is also a trend to rule out prequalification on grounds that it is too time-consuming or against the “fundamental principles” of the Constitution. A hidden purpose might be to increase the chances of local bidders who would not otherwise have a chance to compete. Prequalification, if appropriately scheduled and implemented in accordance with the procurement plan, should not involve major delays in project execution.

- **Bank review of procurement decisions.**
  - **Prior review.** Borrowers push for, and Task Teams are sometimes willing to support, procurement arrangements with reduced or no prior review by the Bank, arguing that this causes excessive delays. This argument is often not true. The use of the Bank SBDs and appropriate standard documents for NCB can largely simplify and expedite prior review by the Bank.
  - **Post review.** Post review often does not take place as specified in most Loan Agreements, thus allowing all sorts of procurement wrongdoing to go undetected. Special procurement supervision must be provided when large parts of a loan will be disbursed under Statement of Expenditure (SOE) procedures. Alternatively, provision for procurement audits needs to be made to ensure transparent, corruption-free procurement.
- **Local laws and practices.** The fact that Article X, Section 10.01 of the General Conditions Applicable to IBRD Loans and IDA Credits (see Exhibit 2) establishes that the provisions of the Loan Agreement prevail over national or subnational laws is of particular relevance to ensure sound procurement and contract implementation. The procurement laws of most borrowing countries contain provisions that exempt Bank projects from complying with the provisions of such laws. However, in some cases, this exemption is subject to there being no conflict with “fundamental principles” of the Constitution. This can create difficulties during implementation for, depending on how the “fundamental principles” are interpreted, it may be difficult to enforce the provisions of the Loan Agreement. For instance, prequalification procedures may not be allowed on the ground that prequalification restricts access to public bidding processes. Also, bid securities may not be permitted on the ground that they discriminate against smaller firms. In view of these potential problems, the local procurement laws must be studied carefully and the Loan Agreement should be drafted in a manner that would ensure that the preeminence of the Bank’s procurement policies and procedures is preserved under all circumstances. In cases where certain exceptions to these are justified, they should be agreed to at negotiations, in consultation with the Regional Procurement Advisor’s (RPA’s) office, and clearly indicated in the Loan Agreement.

With regard to the design of **financial management arrangements** of a project, Task Teams should:

- Include a Financial Management Specialist in the Task Team.

- Review the most recent Country Financial Management Assessment (CFMA) to provide a diagnosis of a country financial management system and its overall accounting environment for private and public sector organizations. If a CFMA is not available, the Task Team should explore the possibility of having one prepared prior to project appraisal.
- Assess the financial management capacity of the implementing agency. Ensure that the Borrower's capacity to handle financial, accounting and auditing aspects of the project is commensurate with project requirements.
- Organize Financial Management seminars for project staff, to be conducted during preparation and repeated during implementation as needed.

#### PROJECT IMPLEMENTATION AND SUPERVISION

Task teams should keep the following considerations in mind during project implementation and supervision to prevent fraud and corruption in projects:

- **Compliance with the Loan Agreement.** It is critical to ensure that Borrowers strictly and consistently comply with the provisions of the Loan Agreement, particularly those relating to procurement, disbursement, financial management, and auditing.
- **Waivers and exceptions.** Bank procurement policy and procedures have been designed to ensure transparency and minimize corruption. Therefore, before granting waivers or exceptions to Bank rules or procedures, such as procurement thresholds and the time to be allowed for submitting bids, the potential for corruption should be analyzed carefully in consultation with the RPA and the Legal Department. Personal interests might be the main reason behind many requests for exceptions. For instance, in some cases, the real motivation behind a request to waive or eliminate International Competitive Bidding (ICB) requirements, and allow instead the application of NCB procedures, may be to increase the ability of the purchasing officers to grant contracts to local firms who are close to them.
- **Visiting, inspecting project sites.** There is no substitute for site visits to get a good idea of how the project is progressing. Project sites are places where project activities are taking place. In case of infrastructure projects, it could be the site(s) where a road or a bridge is being built. In the case of education projects or public-sector improvement projects, the sites could be the places where computers are being installed or libraries are being constructed, or where training courses are delivered. Sometimes site visits bring surprises, as actual progress observed may be substantially less than that reported.



- **Decisions close to loan closing.** Sometimes Borrowers may request the Bank's authorization for unusually large advance payments as a way to ensure full disbursement of a loan that is about to be closed and, thus, avoid cancellation of funds. Though such advance payments must be made against a bank guarantee, as required by the Bank to protect the Borrower against noncompliance by the contractor, there is nothing the Bank can do to enforce contract execution after loan closing. The Borrower can make the guarantee effective, recover its advance payment, and use the funds for something else. The Borrower may even compensate or "remunerate" the contractor for helping to obtain funds that can then be used without any accountability.
- **Financial management and audit.** Ensuring that appropriate project financial monitoring systems are in place and effectively used by project management throughout project implementation is an important deterrent to corrupt practices. Regular progress and financial reports must be obtained from the project management. Explanations about deviations from plans or unusual items should be called for and carefully analyzed to initiate timely remedial measures. Ensuring that independent auditors regularly audit the project is a major tool to reduce the risk for fraud and corruption.

#### PERSONAL INTEGRITY

While project design and supervision play an important role in keeping Bank projects free of corruption, the personal integrity of Bank staff is key. Bank staff carry a heavy fiduciary responsibilities in their day-to-day work. Therefore, it is imperative that they follow and project the highest standards of personal integrity. Bank Staff Rules of Conduct and the Ethical Guide for Bank Staff Handling Procurement Matters in Bank-Financed projects (Exhibit 5) provide some guidance in this regard.

### What to do if Corruption is Suspected or Reported

The procedures for reporting, processing, and investigating allegations of corrupt or fraudulent practices are contained in the following documents:

- **Fraud and Corruption under World Bank Contracts: Procedures for Dealing with Allegations against Bidders, Suppliers, Contractors, or Consultants:** Operational Memorandum dated January 5, 1998 (Exhibit 6);
- **New Measures to Combat Fraud and Corruption:** Mr. Wolfensohn's memo dated October 15, 1998 (Exhibit 7).
- **Procedures for Reporting Allegations of Fraud and Corruption:** E-mail dated March 3, 2000 of Mr. Shengman Zhang, Chairman,

Oversight Committee on Fraud and Corruption (Exhibit 8). This partially modifies Operational Memorandum dated January 15, 1998, mentioned above.

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## Part Three

# Case Studies

The following cases illustrate situations where World Bank projects may be exposed to fraud and corruption. They also indicate circumstances where an impression of fraud and corruption may be created, even when there is no actual wrongdoing. All of the cases are fictitious. Any resemblance with real situations, persons, projects, or countries is purely coincidental.

### Cases on Procurement

#### *Case 1*

Metales y Asociados, Ltd. (MyAL), the winning foreign bidder of a goods contract that was awarded following ICB procedures, informs the Task Team Leader (TTL) that at the last minute, before signing the contract, the purchaser has requested it to provide a special bank guarantee for 50 percent of the contract value in order to secure the availability of spares for a period of five years. This requirement was not included in the bidding documents. MyAL also informs the TTL that unknown persons of the purchaser's country have threatened that unless it rejects the award and quits, its goods will be boycotted upon arrival in the country.

1. What should the TTL do?
2. What can the Bank do?

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#### *Case 2*

The executing agency of a World Bank project must hire a large number of individual consultants during the project execution period. An individual consultant informs the TTL that he has been asked to pay in cash a commission of 15 percent of his contract value to a person who is not a party to his contract with the Borrower. He says that many other consultants are in the same situation but do not want to go public because they will not be

given any further assignments. The consultant says that he would be willing to inform the authorities and testify in court, but would like to know if the Bank could provide him with any kind of protection.

1. Can the Bank provide any protection to the consultant?
  2. If the consultant required employment with the Bank, in exchange for denouncing the case to the authorities and testifying in court, would this be an option worth considering?
- 

### *Case 3*

At the end of a mission that included negotiating a large loan in the field, the Borrower invites the TTL and the other members of the mission to a dinner party. The TTL and mission leader accept the invitation, which she considers appropriate and not excessive. When the TTL returns to her hotel, she finds that a package has been delivered to her room together with a note from a high-level government official thanking her for her efforts and congratulating her on the good work done. The package contains what seems to be a gold and sapphire ring. Upon her return to Washington, the TTL asks a jeweler to appraise the ring and realizes that its value is estimated at US\$5,000. On her way to the office, she realizes that the ring has been stolen from her bag. She feels that there is nothing she can do at that point.

1. Should the TTL report the event to the Bank?
  2. If you were the Director of the TTL, what would be your reaction?
- 

### *Case 4*

A TTL finds a threatening message in his voice mail. The message says “You have signed your death sentence by interfering with contract awards under Project....”

1. What should the TTL do?
  2. What can the Bank do?
- 

### *Case 5*

During a supervision mission, a TTL gets a hint from a low-level public official that the Official Gazette of a certain date contains “valuable information” on recent actions taken by the Borrower, an autonomous agency of the government. That night the TTL reads the Gazette issued on the specified date and finds that the Borrower has entered into a contract involving large financial commitments, which constituted a default of specific covenants of

the Loan Agreement. The TTL notes with disappointment that the Bank has just declared the loan effective after obtaining assurances from the Borrower that the contract in question would not be pursued. The TTL is furious and feels betrayed by the Borrower. He is planning to discuss the matter early next morning at a meeting with the Minister of Finance and inform the press.

1. How would you characterize the action of the Borrower?
  2. Is the reaction of the TTL appropriate? What else can the TTL do?
  3. Can the Bank take any action against the Borrower?
  4. What can the government do?
- 

### *Case 6*

During a field post-review of procurement actions by the Borrower, a Procurement Specialist (PS) verifies that there are a number of contracts that the Borrower has awarded in contravention to the provisions of the Loan Agreement. After briefly discussing the situation with his supervisor on the phone, the PS did not record the situation in the Aide Memoir. Upon his return to Washington, he informs his supervisor in detail that the Borrower knowingly awarded contracts through direct contracting, instead of NCB procedures as specified in the Loan Agreement. The prices of the awarded contracts are substantially higher than similar market prices. The PS suspects that this is a case of corruption, but notes with surprise that his manager is reluctant to discuss the situation at higher levels and suggests that the Back to Office Report should contain no reference to the situation. The PS believes that the Bank should have declared misprocurement, with cancellation of funds from the loan account. However, he opts to not report his findings, because he is afraid of his supervisor's reaction.

1. Comment on the situation in respect to
    - the reaction of the supervisor
    - the steps taken by the PS.
  2. How would you have acted in this situation?
- 

### *Case 7*

A public official receives from Trapp Inc., a private company, an invitation to have a family vacation at a beach resort owned by the company. The president of the company insists that the invitation would involve no extra costs for the company, as the resort has to be kept open and functioning in any case. The public official decides to accept the invitation. The market price of an equivalent vacation is \$3,500. The public official is later appointed as one of the members of the evaluation commission in a bidding process in

which Trapp is participating. The official feels trapped. He thinks that he can act impartially and fairly as a member of the evaluation commission and, therefore, he does not want to reject the appointment. If he does, his colleagues may become suspicious and everybody may become aware of the fact that he had accepted the invitation. He could even lose his job. On the other hand, if he does not inform his supervisor, he could be at the mercy of Trapp Inc., which could blackmail him in exchange for favorable treatment or confidential information. He does not see a way out.

1. Analyze the situation as to the improprieties committed by the various players.
  2. How would you resolve this case?
- 

### *Case 8*

A public official contacts a bidder through a third party to request \$1,000 in cash for making available a copy of the draft evaluation report and additional confidential information of a bidding process in which the bidder is participating. The contact person suggests to the bidder that the information will allow the presentation and substantiation of a claim.

1. What should the bidder do?
  2. What should the TTL do if he (she) becomes aware of the situation?
- 

### *Case 9*

A public official sends through a third party a message to the Director of the Research Center of a university, requesting that he use his influence to ensure that the daughter of a colleague public official be admitted to the university. In exchange, the public official promises the director a favorable treatment during the evaluation of a proposal presented by the Research Center, to provide consulting services to the agency the public official heads, under a World Bank project.

What should the Bank do if it learns about this situation?

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### *Case 10*

During the evaluation period of a large-value contract financed by the Bank, a bidder is seen in a restaurant having dinner with two members of the evaluation commission and the TTL for the project. In fact, the reason for the invitation was not connected to the work of the evaluation commission, but nobody believed them.

What lesson does this situation offer?

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### *Case 11*

Prior to starting a series of public bidding processes under National Competitive Bidding (NCB) for a large number of schools under a World Bank education program, a peculiar meeting takes place. More than 20 local contractors meet secretly to distribute the contracts among themselves and agree on who will get what before any bidding invitation takes place. The scheme included the manipulation of prices to make the public believe that in fact there had been competition. The event became public after a journalist released a tape of the session that he obtained by placing a hidden microphone in the meeting room. Disappointing epilogue: it was later known that the real purpose of the journalist was to blackmail the contractors. The contractors, knowing that the law and local courts were ineffective to punish this kind of corruption, decided to not pay a bribe to the journalist.

1. What can the government do?
  2. Is there anything the newspaper or the Association of Journalists can do?
  3. Why did whistle-blowing not work in this case?
  4. What can the Bank do in a situation like this?
- 

### *Case 12*

The original cost estimate of a contract in a Bank project was US\$300 million. The actual price through ICB was US\$180 million. Political campaigning for national elections coincided with the stage when the project was two-thirds completed. The Borrower agency, a stronghold of the ruling political party, proposed to accelerate completion at an additional cost of US\$120 million. During a detailed review by the Bank, it was demonstrated that the acceleration of contract completion was not needed and that the cost of the acceleration program was excessive. The Bank learned through confidential sources that the rationale behind the attempt was that "there was enough money in the loan account and it was a good idea to take advantage of it."

1. Comment on the situation in respect to project cost estimates.
  2. What can the Bank do in a case like this?
- 

### *Case 13*

During the supervision of a large works contract, a TTL notes that the works being executed are actually substantially different in nature from

those specified in the contract. Relatively simple works in areas of no priority have replaced large, complex, and costly works in high-priority areas. The TTL also notes that, despite these changes, the cost of the contract has been kept the same, to the second decimal place. The TTL realizes that the contract is of high visibility and that any public information of the matter could have strong adverse consequences in a forthcoming election.

1. What should the TTL do?
  2. What could the Bank do to deal with this situation?
- 

#### *Case 14*

A Task Team Leader authorizes the first disbursement for a contract under a World Bank highways project. The payment request received by the Bank was supported by documentation signed by the contractor and the Borrower certifying that the work had been done. The TTL in a surprise move decides to visit the construction works. During the visit he discovers that not a single foot of the highway has been constructed.

1. What should the TTL do?
  2. What should the Bank do?
  3. What should the Borrower do?
  4. What should the government do?
- 

#### *Case 15*

During the construction of a large infrastructure project the Borrower, in a bizarre move, hired a consulting company to assist the contractor to formulate and justify a claim for about \$100 million of additional payment (about 5 percent of the original contract price). An amendment justifying the overrun was presented to a regional international bank that was co-financing the project with the World Bank. The regional bank rejected the request on the grounds that the extra expenses claimed to have been incurred by the contractor were its responsibility and, therefore, there was no justification for additional payments. The Borrower then attempted to obtain financing from the World Bank, but the Bank rejected the request on the same grounds as well as due to the fact that the works involved in the claim were not part of the contracts to be financed by the Bank. Unfortunately, the government came to the rescue of the Borrower and provided the financing.

What can the Bank do in a case like this?



*Case 16*

The Purchaser's procedures require that bidders present their bids in a special bid form. Copies of the bid form signed by the Purchaser's Director are only distributed at the request of interested bidders three days before bid opening.

Comment on the procedure with regard to the secrecy of bidding and possible corrupt actions.

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*Case 17*

The Purchaser's procedures require that potential bidders present their bid securities two days before bid opening, to make sure that no bid would be rejected because of nonconformity of the bid security.

Comment on the opportunities for corruption implicit in this procedure.

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*Case 18*

The Purchaser's procedures require that foreign bidders present all documentation certified by the Purchaser's Consul in the country of the Bidder.

Does this procedure favor corruption?

## Cases on Financial Management

*Case 1*

A TTL requests the Borrower to prepare information required for a midterm review of a World Bank project. The TTL emphasizes the importance of including in such information a complete and accurate financial management report reflecting cumulative project implementation to date. The TTL was not knowledgeable on financial management matters, and therefore proposed to include a Financial Management Specialist in the mid-review team. The TTL's request was denied because of budgetary constraints. During the review, the TTL received from the Borrower a report detailing project progress and records of financial transactions, including SOEs and Special Account. The report of the midterm review confirmed that the Borrower had complied with the project financial reporting requirement.

Two weeks after issuing the midterm review report, Bank managers are appalled to learn from local press reports that a fraud and corruption

scheme had been discovered in the Project Management Unit. The Bank promptly appointed an experienced Financial Management Specialist to review the case. The specialist discovered that the Borrower's report was not based on actual accounting records and that in fact there had been misappropriation of funds.

1. Comment on the decision of not including a financial management specialist in a midterm review.
2. Who is ultimately responsible for the Bank's lack of attention to financial management aspects in this case?
3. What should the Bank do in this case?
4. If you had been the TTL, what would you have done differently?

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### *Case 2*

The independent auditor's reports on a World Bank project disclosed for three consecutive years serious internal control weaknesses, including the lack of appropriate project accounting records. Upon receiving the audit reports in the Bank, the required information was entered in the Audit Reporting Control System (ARCS).

Back to Office Reports of Bank Supervision Missions never addressed the internal control issues raised by the independent auditors. During this three-year period, two different TTLs were responsible for project implementation. Both were Education Specialists with several years of service at the Bank. The Project Implementation Unit made available detailed internal progress reports at each supervision visit. Supervision reports normally highlighted the high quality of project implementation by the Project Implementing Unit as well as the achievement of project objectives.

After a change in authorities following a change in government administration, the newly appointed Secretary of Education instructed an investigation of wrongdoing at the PIU, including fraud, misuse of public funds, and use of public property for personal gain.

In their explanation of the issue to Bank management, both TTLs argued that as the project was moving along so well, they never considered it necessary to look into the audit reports and other aspects of the project. TTLs further argued that audit reports only covered financial aspects of the project and that the technical and substantive areas of the project under their control always showed good performance.

A Bank Internal Audit Department (IAD) special review was conducted at the request of Bank management. IAD's report concluded that there was major negligence in project supervision as evidenced by the lack of action on the repeated recommendations of the auditors.

1. Comment on the satisfactory project progress assessed in spite of the deficiencies in financial management.
2. Under what conditions can TTLs rely on internal progress reports?

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### *Case 3*

A TTL receives from the Project Executing Agency on November 12, 1998, the FY97 Audit Report for a Social Investment Fund project. The project cost is \$90M, of which the Bank finances \$50M, another International Development Bank \$28M, and the Borrower \$12M. The report shows total cumulative expenditures as follows:

Civil works	\$27 million
Goods and Services	\$ 8 million
Consultants	\$ 3 million
Total	\$38 million

The Audit Report discloses no internal control weaknesses and states that the audit was conducted in accordance with generally accepted auditing standards. The report does not show the total funds disbursed by the Bank, but the TTL obtains information from LOA that Bank disbursements through December 31, 1997, amount to US\$31 million. The TTL assumes that the US\$7 million difference was either disbursed by the other International Development Bank or provided as counterpart funds by the government (or both). On this basis the TTL has no objections to the audited figures being entered into the Audit Report Compliance System (ARCS)

1. Identify weaknesses in the handling of the audit report by the TTL.
2. Could any fraudulent actions go undetected on the basis of the financial information disclosed in the audit report?

### *Case 4*

The institutional strengthening component of an education project finances civil works for the Central Offices of the Ministry of Education, as well as several schools in various provinces. It also finances training of teachers. Training was contracted with a Private Specialized Training Center. At the midterm review of the project, the TTL was informed that civil works costs had escalated due to inordinate delays in receiving counterpart funds. Physical progress reported by the Engineering Department of the Ministry of Education indicates that 45 percent of the works have been completed. However, 75 percent of the total civil works budget has been already spent. Payments to the Private Specialized Training Center amount to 80 percent

of total contract cost. Information on how many teachers have been trained to date is being prepared and will not be available until after the mission's departure. Government contribution stands at 14 percent of total expenditures, whereas Schedule 1 of the Loan Agreement specified financing by government of 30 percent and by World Bank of 70 percent.

The Project Coordinator affirms that the PCU has most diligently followed Bank procurement and disbursement procedures. The project accountant has been ill for the past three months, resulting in delays in keeping project accounts current. In fact there have been no financial statements issued during the accountant's absence from office. Despite the anomalous situation, loan withdrawal applications have been submitted regularly to the Bank, the majority of them on the basis of SOEs. This, in the opinion of the Project Coordinator, has made a steady flow of funds to the project possible, compensating for the unreliable provision of funds by the government.

1. What are the main financial management issues in this case?
2. What would you do to address the issues?
3. If you were the TTL what would be the main points that you would include in the mission's Aide Memoire?
4. In what manner does the situation favor fraud and corruption and what can be done to prevent them?

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## Part Four

# Selected Documents and Excerpts

This section provides relevant Bank instructions, guidelines, and directives, or excerpts therefrom, pertaining to the policies and procedures designed to prevent and control corruption in Bank projects.

- Articles of Agreement of the IBRD [Article III, Section 5(b)] and Articles of Agreement of the IDA [Article V, Section 1(g)].
- General Conditions Applicable to IBRD loans and IDA Credits. (Article X, Section 10.01).
- Procurement and Consultants Guidelines:
  - Guidelines: Procurement under IBRD Loans and IDA Credits, revised January 1999 (Art. 1.15 and Art. 1.16).
  - Guidelines: Selection and Employment of Consultants by World Bank Borrowers, revised January 1999 (Art. 1.25 and Art. 1.26).
- Standard Bidding Documents (selected clauses).
- Ethical Guide for Bank Staff Handling Procurement Matters in World Bank Projects (Office Memorandum dated April 23, 1998).
- Procedures for Dealing with Allegations against Bidders, Suppliers, Contractors, or Consultants (Office Memorandum dated January 5, 1998).
- New Procedures to Combat Fraud and Corruption (Mr. Wolfensohn's Memo dated October 15, 1998).
- Procedures for Reporting Allegations of Fraud and Corruption (e-mail dated March 3, 2000 of Mr. Shengman Zhang, Chairman, Oversight Committee on Fraud and Corruption).

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# Exhibit 1

## **ARTICLES OF AGREEMENT OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (As amended effective February 16, 1989)**

### **ARTICLE III**

#### **General Provisions Relating to Loans and Guarantees**

##### **SECTION 5. Use of Loans Guaranteed, Participated in or Made by the Bank**

(b) The Bank shall 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.

## **ARTICLES OF AGREEMENT OF THE INTERNATIONAL DEVELOPMENT ASSOCIATION**

### **ARTICLE V**

#### **Operations**

##### **SECTION 1. Use of Resources and Conditions of Financing**

(g) The Association shall make arrangements to ensure that the proceeds of any financing are used only for the purposes for which the financing was provided, with due attention to considerations of economy, efficiency and competitive international trade and without regard to political or other non-economic influences or considerations.

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# Exhibit 2

## **GENERAL CONDITIONS APPLICABLE TO IBRD LOANS AND IDA CREDITS**

### **Article X**

#### **Enforceability of Loan Agreement and Guarantee Agreement; Failure to Exercise Rights; Arbitration**

##### **Section 10.01. Enforceability**

The rights and obligations of the Bank, the Borrower and the Guarantor under the Loan Agreement and the Guarantee Agreement shall be valid and enforceable in accordance with their terms notwithstanding the law of any State or political subdivision thereof to the contrary. Neither the Bank nor the Borrower nor the Guarantor shall be entitled in any proceeding under this Article to assert any claim that any provision of these General Conditions or the Loan Agreement or the Guarantee Agreement is invalid or unenforceable because of any provision of the Articles of Agreement of the Bank.

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# Exhibit 3a

## **Guidelines: Procurement under IBRD Loans and IDA Credits, revised January 1999 (Excerpts)**

### **Fraud and Corruption**

#### **Article 1.15**

1.15 It is the Bank's policy to require that Borrowers (including beneficiaries of Bank loans), as well as bidders/Suppliers/Contractors under World Bank contracts, observe the highest standard of ethics during the procurement and execution of such contracts. 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" means the offering, giving, receiving, or soliciting of any thing of value to influence the action of a public official in the procurement process or in contract execution; and
  - (ii) "fraudulent practice" means a misrepresentation of facts in order to influence a procurement process or the execution of a contract to the detriment of the Borrower, and includes collusive practices among bidders (prior to or after bid submission) designed to establish bid prices at artificial, non-competitive levels and to deprive the Borrower of the benefits of free and open competition;
- (b) will reject a proposal for award if it determines that the bidder recommended for award has engaged in corrupt or fraudulent practices in competing for the contract in question;
- (c) will cancel the portion of the loan allocated to a contract for goods or works if it at any time determines that corrupt or fraudulent prac-



tices were engaged in by representatives of the Borrower or of a beneficiary of the loan during the procurement or the execution of that contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation;

- (d) will declare a firm ineligible, either indefinitely or for a stated period of time, to be awarded a World Bank contract if it at any time determines that the firm has engaged in corrupt or fraudulent practices in competing for, or in executing, a World Bank contract; and
- (e) will have the right to require that, in contracts financed by a Bank loan, a provision be included requiring Suppliers and Contractors to permit the Bank to inspect their accounts and records relating to the performance of the contract and to have them audited by auditors appointed by the Bank.

#### **Article 1.16**

1.16. With the specific agreement of the Bank, a Borrower may introduce, into bid forms for large contracts financed by the Bank, an undertaking of the bidder to observe, in competing for and executing a contract, the country's laws against fraud and corruption (including bribery), as listed in the bidding documents.<sup>2</sup> The Bank will accept the introduction of such undertaking, at the request of the Borrower's country, provided it is satisfied:

- (a) that the requirement of such an undertaking is part of an anti-corruption program initiated by the Borrower's country; and
- (b) that such requirement will apply, within a timetable agreed between the Bank and the Borrower's country, to all similar public procurement.

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# Exhibit 3b

## **Guidelines: Selection and Employment of Consultants by World Bank Borrowers, revised January 1999 (Excerpts)**

### **Fraud and Corruption**

#### **Article 1.25**

It is the Bank's policy to require that Borrowers (including beneficiaries of Bank loans), as well as consultants under World Bank contracts, observe the highest standard of ethics during the selection and execution of such contracts. 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" means the offering, giving, receiving, or soliciting of any thing of value to influence the action of a public official in the selection process or in contract execution; and
  - (ii) "fraudulent practice" means a misrepresentation of facts in order to influence a selection process or the execution of a contract to the detriment of the Borrower, and includes collusive practices among consultants (prior to or after submission of proposals) designed to establish prices at artificial, noncompetitive levels and to deprive the Borrower of the benefits of free and open competition;
- (b) will reject a proposal for award if it determines that the Consultant recommended for award has engaged in corrupt or fraudulent activities in competing for the contract in question;
- (c) will cancel the portion of the loan allocated to the Consultant's contract if it at any time determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a benefi-

ciary of the loan during the selection process or the execution of that contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation;

- (d) will declare a Consultant ineligible, either indefinitely or for a stated period of time, to be awarded a World Bank contract if it at any time determines that the Consultant has engaged in corrupt or fraudulent practices in competing for, or in executing, a World Bank contract; and
- (e) will have the right to require that, in contracts financed by a Bank loan, a provision be included requiring consultants to permit the Bank to inspect their accounts and records relating to the performance of the contract and to have them audited by auditors appointed by the Bank.

#### **Article 1.26**

With the specific agreement of the Bank, a Borrower may introduce into the RFPs for large contracts financed by the Bank, a requirement that the Consultant include in the proposal an undertaking of the Consultant to observe, in competing for and executing a contract, the country's laws against fraud and corruption (including bribery), as listed in the RFPs.<sup>3</sup> The Bank will accept the introduction of such a requirement at the request of the Borrower's country, provided it is satisfied:

- (a) that the requirement of such an undertaking is part of an anti-corruption program initiated by the Borrower's country; and
- (b) that such requirement will apply, within a timetable agreed between the Bank and the Borrower's country, to all similar public selections of consultants."

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# Exhibit 4

## Standard Bidding Documents

All Bank Standard Bidding Documents include provisions against corruption. As an example, the *SBD for Procurement of Supply and Installation of Plant and Equipment* contains provisions in Section II Instructions to Bidders (ITB), Section IV General Conditions Contract (GCC) and in the Bid Form of Section VIII Sample Forms and Procedures. The provisions are the following:

### Instructions to Bidders

**Sub-Clause 2.4.** Bidders shall not be under a declaration of ineligibility for corrupt and fraudulent practices issued by the Bank in accordance with ITB Sub-Clause 35.1.

**Sub-Clause 15.4.** The Bidder shall furnish information as described in the last paragraph of the Form of Bid on commissions or gratuities, if any, paid or to be paid to agents relating to this bid, and to contract execution if the Bidder is awarded the contract.

### Clause 35. Corrupt or Fraudulent Practices

35.1 The Bank requires that Borrowers (including beneficiaries of Bank loans), as well as bidders/Suppliers/Contractors under World Bank contracts, observe the highest standard of ethics during the procurement and execution of such contracts. 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” means the offering, giving, receiving or soliciting of any thing of value to influence the action of a public official in the procurement process or in contract execution; and

- (ii) “fraudulent practice” means a misrepresentation of facts in order to influence a procurement process or the execution of a contract to the detriment of the Borrower, and includes collusive practice among bidders (prior to or after bid submission) designed to establish bid prices at artificial non-competitive levels and to deprive the Borrower of the benefits of free and open competition;
- (b) will reject a proposal for award if it determines that the Bidder recommended for award has engaged in corrupt or fraudulent practices in competing for the contract in question;
- (c) will declare a firm ineligible, either indefinitely or for a stated period of time, to be awarded a World Bank contract if it at any time determines that the firm has engaged in corrupt or fraudulent practices in competing for, or in executing, a World Bank contract.

35.2 Furthermore, bidders shall be aware of the provision stated in Sub-Clause 9.6 and Sub-Clause 42.2 of the General Conditions of Contract.

## **General Conditions of Contract**

### **Clause 9. Contractor’s Responsibilities**

- 9.6 The Contractor shall permit the World Bank to inspect the Contractor’s accounts and records relating to the performance of the Contractor and to have them audited by auditors appointed by the World Bank, if so required by the World Bank.

### **Clause 42.2 Termination for Contractor’s Default**

- 42.2.1 The Employer, without prejudice to any other rights or remedies it may possess, may terminate the Contract forthwith in the following circumstances by giving a notice of termination and its reasons therefore to the Contractor, referring to this GCC Sub-Clause 42.2:
- (a) if the Contractor ... *[this clause not related to corruption]*
  - (b) if the Contractor ... *[this clause not related to corruption]*
  - (c) if the Contractor, in the judgment of the Employer, has engaged in corrupt or fraudulent practices in competing for or in executing the Contract. For the purpose of this Sub-Clause:

“corrupt practice” means the offering, giving, receiving or soliciting of any thing of value to influence the action of a public official in the procurement process or in contract execution.

“fraudulent practice” means a misrepresentation of facts in order to influence a procurement process or the execution of a contract to the detriment of the Employer, and includes collusive practice among bidders (prior to or after bid submission) designed to establish bid prices at artificial non-competitive levels and to deprive the Employer of the benefits of free and open competition.

## Sample Forms and Procedures

### 1. Bid Forms and Price Schedules

#### 1.1 Bid Form—Single Stage Bidding

Commissions or gratuities, if any, paid or to be paid by us to agents relating to this Bid, and to contract execution if we are awarded the contract, are listed below:

Name and Address of Agent	Amount and Currency or Gratuity	Purpose of Commission
_____	_____	_____
_____	_____	_____
_____	_____	_____

(If none, state “none.”)

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## Exhibit 5

THE WORLD BANK/IFC/M.I.G.A.

### **OFFICE MEMORANDUM**

DATE: April 23, 1998

TO: Procurement Family and Accredited Staff

FROM: Katherine Sierra, Director and Head, OCS

EXTENSION: 36795/34791

SUBJECT: **Ethical Guide For Bank Staff Handling Procurement Matters In Bank-Financed Projects**

1. The Bank's Code of Professional Ethics issued in September 1994,<sup>4</sup> summarizes the rules of conduct contained in the Articles of Agreement, the Staff Principles and the Staff Rules. It stresses that the highest level of professional ethics is expected from staff members. To facilitate compliance, Staff Rule 3.01, "Outside activities and interests" is circulated each year. This Rule authorizes the issuing of additional rules requiring some or all members in an organizational unit to avoid specified kinds of activities because of the staff members' duties.

2. This memorandum is being circulated to reiterate the importance of the Code to staff handling procurement in World Bank projects and to provide a motivating force in the day-to-day ethical behavior of the staff. The Bank is increasingly helping countries in their efforts to reduce corruption, and it is essential that these efforts be balanced by internal efforts to maintain the highest ethical approach to procurement.

3. Bank staff handling procurement in World Bank projects should be particularly aware of the requirements imposed by chapter three of the Principles of Staff Employment, which set out the broad principles of integrity, independence and discretion that constitutes the ethical behavior of staff. In dealing with procurement matters, Bank staff shall exercise

objective impartial judgment, and carry out their duties with due care and competence. Against this background, staff shall:

- avoid strictly any conflict of interest or even the appearance of a conflict of interest in any matter related to the performance of the staff member's duties;
- respect the confidentiality of information received in the course of duty and never use it for personal gain, as stated in Section 4.01 of Staff Rule 3.01. Information given in the course of duty should be true and fair and never designed to mislead;
- decline acceptance directly or indirectly of any gratuity, gift, favor, entertainment, or anything of monetary value from anyone who has an interest in seeking business in Bank related projects. Exceptions are authorized in section 4.05 of Staff Rule 3.01;
- disclose to his/her line manager any personal interest which may influence or appear to influence the staff member's impartiality in any matter relevant to his or her duties; and
- disqualify him/herself from outside employment or activities, including dealings with former or future employers and employment after separation, that conflict with his/her Bank duties and responsibilities, except as provided in Sections 4.02, 4.03 and 6.02 of Staff Rule 3.01.

4. The above provisions are not intended to cover every situation that may arise in handling procurement matters. It is understood that the staff member's self-discipline and sense of higher duty will underlie the observance of these provisions.



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# Exhibit 6

## **Fraud and Corruption under Bank-Financed Contracts: Procedures for Dealing with Allegations against Bidders, Suppliers, Contractors, or Consultants**

File with OD 11.00

DATE: January 5, 1998

TO: Staff Recipients of the Operational Manual

FROM: Joanne Salop, Director, Operations Policy and  
Strategy

EXTENSION: 37499

SUBJECT: **Fraud and Corruption under Bank-Financed  
Contracts: Procedures for Dealing with Allegations  
against Bidders, Suppliers, Contractors, or  
Consultants**

1. The Bank requires the highest standard of ethical behavior from its own staff and from firms and individuals that act as bidders, suppliers, contractors, or consultants under World Bank contracts. Therefore, if it determines that a firm has engaged in corrupt or fraudulent practices in competing for or executing a Bank-financed contract, it may declare that firm ineligible, either indefinitely or for a stated period of time, to be awarded a World Bank contract.

2. This memorandum sets out the procedures for handling any allegations of corrupt or fraudulent practices. These procedures are internal to the Bank and must be distinguished from any judicial procedures that may be taken by authorities in the country concerned.

3. *Review of Allegations.* (Editorial Note: This paragraph has been deleted as it has been superseded by the procedure detailed in Exhibit 8)

4. **Investigation of Allegations.** An investigation carried out by the government is conducted according to the country's applicable legal procedures. Any other investigation is conducted in a manner that fairly protects the privacy of the accuser and the rights of the accused firm; in particular, (a) the accused firm has the right to be assisted by legal counsel; (b) if the accuser is willing to submit to cross-examination, the Bank arranges for the accused firm to question the accuser in the presence of Bank staff; and (c) the accuser may also be requested to answer under oath questions submitted by the accused. The MDO submits the results of the investigation to the Committee (see para. 5).

5. **Finding and Recommendation by Committee.** The President appoints a Committee consisting of the two MDOs, the General Counsel, and two other senior staff, or of three persons from outside the Bank, to make a decision on the matter. The Committee may seek technical advice from within or outside the Bank, as it deems necessary. If the accused firm admits to having engaged in corrupt or fraudulent practices, or if the Committee finds that the evidence from the investigation is reasonably sufficient to show that the firm has engaged in such practices, the Committee recommends to the President that the firm (and any firm that owns the majority of the accused firm's capital, or of which the accused firm owns the majority of the capital) be ineligible to be awarded a World Bank contract. The recommended period of ineligibility may be limited or indefinite, depending on the magnitude of the offense. The Committee informs the accused firm and the Executive Directors representing the borrowing country and the accused firm's country of its recommendation to the President. The Committee also advises on whether any other borrowing country affected by the corrupt or fraudulent activities of the accused firm should be notified about the Bank's final decision.

6. **President's Decision.** After a waiting period of not less than two weeks, the President makes an administrative decision on the matter. The President's decision is final and takes effect immediately, without prejudice to any action taken by any government under its applicable law.

7. **Questions.** Questions about this memorandum should be addressed to the Legal Adviser, Procurement and Consultant Services. The contents will be included in OP/BP 11.00, *Procurement*, in due course.

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"Bank" includes IDA.

"Firm" includes individual bidders/suppliers/contractors/consultants.

See para. 1.15, *Guidelines: Procurement under IBRD Loans and IDA Credits* (Washington, D.C.: January 1995, revised January and August 1996 and September 1997); and para 1.25, *Guidelines: Selection and Employment of Consultants by World Bank Borrowers* (Washington, D.C.: January 1997, revised September 1997).

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# Exhibit 7

**The World Bank**  
Washington, DC 20433  
USA

JAMES D. WOLFENSOHN  
President

October 15, 1998

To All Staff:

## **NEW MEASURES TO COMBAT FRAUD AND CORRUPTION**

The fight against corruption is a central part of our mission to reduce poverty and improve the quality of people's lives. To work effectively with our clients on this issue, we need to ensure that we have the proper mechanisms in place to minimize fraud and corruption within our own organization — and to respond swiftly and effectively when it does occur. I want to emphasize that I have full confidence in the integrity of the staff of our institution. Those instances where staff have not conducted themselves in accordance with the World Bank Group's ethical standards are very rare. I do not believe we have a widespread problem in this regard. We cannot be complacent, however. As I have said before, even one case of fraud or corruption is one too many. In addressing this issue I am, above all, committed to the continued protection of the rights of Bank Group staff.

Based on a review of the current situation, I am instituting two major changes to strengthen our efforts to combat fraud and corruption:

First, in order to provide a central focal point within the World Bank Group for the reporting of all allegations of fraud and corruption, a telephone hotline is being established, effective **Monday, October 19, 1998**. The hotline may be used to report fraudulent or corrupt practices within the Bank Group or in connection with Bank Group-financed contracts. I want

to assure you that all matters reported via the hotline will be held *strictly* confidential, and all investigations involving staff members will be conducted with full protection of and sensitivity to the rights of staff, in accordance with Staff Rule 8.01.

Second, to ensure consistent, prompt, and appropriate responses to allegations received via the hotline, I am expanding the mandate of the existing Oversight Committee on Fraud or Corruption Involving World Bank Group Staff to encompass oversight of *all* allegations of fraudulent or corrupt practices — within the Bank Group or in connection with Bank Group-financed contracts. Shengman Zhang, Managing Director, will serve as Chairman of the new Oversight Committee on Fraud and Corruption. Also, to ensure a broad, institutional perspective, membership of the Committee will be strengthened as needed by (i) drawing upon expertise in security issues, in recognition of the need to anticipate and address security concerns staff may have, and (ii) enlisting the participation of others on a case-by-case basis. A small Secretariat will support the work of the Committee and ensure appropriate follow-up on all matters reported via the hotline.

The attached note provides further details on the hotline (including the telephone number) and the Oversight Committee, and the procedures under which they will operate.

I believe these new measures will help us all to build an even stronger institution going forward.

James D. Wolfensohn  
President

## WORLD BANK GROUP PROCEDURES FOR HANDLING ALLEGATIONS OF FRAUD AND CORRUPTION

### Hotline

In order to facilitate the reporting of *allegations of fraud or corruption* within the World Bank Group or in connection with Bank Group-financed contracts, a telephone hotline is being established, effective **Monday, October 19, 1998**. It will operate 24 hours per day, seven days a week, and will be available for use by both Bank Group staff and the public. The telephone number in the United States and Canada will be **1-800-831-0463**. In other countries, this toll-free "800" number will be accessible through an AT&T operator. Country-specific local telephone numbers to reach an AT&T operator will be communicated to you separately next week.

*Fraudulent or corrupt practices include the solicitation, payment or receipt of bribes, gratuities or kickbacks, or the manipulation of loans or Bank Group-financed contracts through any form of misrepresentation. Fraudulent or corrupt practices also include any situation in which staff members have abused their position or misused World Bank Group funds or other public funds for private gain.*

The hotline will be operated by an outside firm staffed by trained specialists working under the strictest standards of confidentiality. Those calling the hotline may choose to remain anonymous, if they wish. All matters reported via the hotline will be turned over to the Secretariat of the Oversight Committee on Fraud and Corruption (see below) for appropriate follow-up.

All reports received via the hotline will be taken seriously, and each report will benefit from a thorough and fair review. No staff member who in good faith reports suspected fraud or corruption shall be subject to retaliation or disciplinary action for having done so. At the same time, measures will be in place to ensure that the hotline is not used for retaliatory, bad faith or other improper purposes. The protective provisions of staff member rights, including notice and ability to respond, as set out in Staff Rule 8.01, "Disciplinary Measures," will continue to be strictly adhered to in situations where individual staff member misconduct is at issue. All matters coming to the attention of the World Bank Group through the hotline will be held in strict confidence. If the findings from a preliminary inquiry indicate that misconduct may have occurred, then the staff member con-

cerned will be informed, given an opportunity to respond, and a formal investigation may then be initiated.

The procedures for handling allegations against bidders, suppliers, and contractors under World Bank Group-financed contracts, as set out in an Operational Memorandum on the subject, dated January 5, 1998, will continue to apply where debarment of an external firm from eligibility for a Bank Group-financed contract may be imposed.

### **Oversight Committee on Fraud and Corruption**

The mandate of the existing Oversight Committee on Fraud or Corruption Involving World Bank Group Staff is being expanded to encompass oversight of *all* allegations of fraudulent or corrupt practices—within the Bank Group or in connection with Bank Group-financed contracts. The new Oversight Committee on Fraud and Corruption will be responsible for supervising all investigations into allegations of fraud or corruption—including those involving World Bank Group staff—and for ensuring that these investigations are thorough, prompt, and responsibly carried out. The Committee will also be responsible for protecting the confidentiality of investigations and for ensuring that procedures are in place to preclude information that comes to its attention from being used for improper purposes. The Committee will determine whether an investigation of allegations of fraud or corruption should be carried out by the Investigations Unit of the Internal Audit Department, by the Office of Professional Ethics, or by external, specialized investigative resources. The Committee will also have the authority to devise policies in the area of the Bank Group’s anti-corruption work, as it relates to Bank Group-financed operations.

In addition to Shengman Zhang, Managing Director, who will chair the Committee, its membership will consist of: the Deputy General Counsel for Administration, Finance and Institutional Affairs, as Vice Chairperson; the Auditor General; and the Manager of the Office of Professional Ethics. The Director and Head of the Operational Core Services Network will participate as needed to deal with systemic issues affecting Operations. The Chief of Security, General Services Department, will also participate in matters where security of staff may be an issue. And on matters relating to IFC or MIGA, a senior manager of the respective organization will participate on a case-by-case basis. The Oversight Committee will be provided a separate budget to be used for conducting investigations.

### **Secretariat to the Oversight Committee**

The Oversight Committee will be supported by a small Secretariat located in the Legal Department. The Secretariat and its day-to-day operations

will be under the supervision of the Vice Chairperson of the Oversight Committee.

The Secretariat will be the executing arm of the Oversight Committee. It will receive all incoming reports from the firm operating the hotline, as well as reports or allegations coming from any other sources. The Secretariat will provide an initial screening function, and will review all allegations or reports according to criteria established by the Oversight Committee. In connection with the review, the Secretariat may seek assistance from and consult with the Investigations Unit of the Internal Audit Department, the Office of Professional Ethics, the Legal Adviser on Procurement, or any other relevant unit within the World Bank Group.

For matters involving allegations of fraud or corruption, the Secretariat will be responsible for ensuring that the directives of the Oversight Committee are carried out. Accordingly, the Secretariat will have responsibility for and control over all matters forwarded by the Oversight Committee to the Investigations Unit of the Internal Audit Department, the Office of Professional Ethics, or specialized outside investigators for investigation. The Secretariat will ensure that investigations are carried out promptly, efficiently, and rigorously, and will present the findings of such investigations to the Oversight Committee. The Committee will, in turn, review the findings to determine whether they justify possible criminal prosecution or civil action, and will present its recommendations to the President for decision.

Matters which the Secretariat, using the criteria established by the Oversight Committee, deems not to be serious allegations of fraud or corruption, will be routinely referred by the Secretariat to the appropriate unit within the World Bank Group for disposition. For example, matters relating to human resource issues will be forwarded to the relevant Human Resource Vice Presidency, and matters relating to ethical violations that do not involve fraud or corruption will be referred to the Office of Professional Ethics.

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# Exhibit 8

**The World Bank**  
Washington, D.C. 20433  
U.S.A

**SHENGMAN ZHANG**  
**Chairman, Oversight Committee on Fraud and Corruption**

To: All Bank Staff

Subject: **Procedures for reporting allegations of fraud and corruption**

The World Bank Group is strongly committed to helping our members eliminate fraud and corruption, and to making sure that our own Staff members are held to the highest possible standards. This means that we must address vigorously any instances of fraud or corruption within the Bank or involving Bank-financed contracts. As you know, the Oversight Committee for Fraud and Corruption was formed to supervise all investigations of fraud and corruption. The Oversight Committee is supported by a Secretariat which reviews and screens all allegations or complaints involving fraud and corruption according to criteria established by the Oversight Committee.

Prompt action must be taken whenever any contractor, borrower, or Staff member engages in fraudulent or corrupt practices. Fraudulent or corrupt practices include the solicitation, payment or receipt of bribes, gratuities or kickbacks, or the manipulation of loans or Bank Group-financed contracts through any form of misrepresentation. Fraudulent or corrupt practices also include any situation in which Staff members have abused their positions or misused World Bank Group funds or other public funds for private gain. In the event that you receive allegations or evidence of fraud and corruption within the Bank or involving Bank-financed contracts, please follow these guidelines for reporting and handling fraud and corruption allegations or evidence:



1. **Before taking any action, notify the Secretariat to the Oversight Committee for Fraud and Corruption.** The Secretariat may be reached by telephone between the hours of 9:00 a.m. and 5:30 p.m. (EDT), Monday through Friday, at (202) 458-7677, by pager at 1-800-915-7820, or by e-mail at [investigations\\_hotline@worldbank.org](mailto:investigations_hotline@worldbank.org). **Secretariat personnel will advise you as to the proper manner for handling the allegations and evidence received, and the appropriate actions to be taken.** When you telephone the Secretariat, you may remain anonymous. If you choose to give the Secretariat your name, but want your name to be kept confidential, the Secretariat will not reveal your name to anyone who is not part of the investigative team.

2. As an alternative, Staff may use the external hotline that the Bank has set up for reporting fraud or corruption within the Bank or involving Bank-financed contracts. The hotline is operated 24 hours per day, 7 days a week, by an outside firm staffed by trained specialists. Qualified interpreters are available, upon request. All matters reported via the hotline will be turned over to the Secretariat to the Oversight Committee. You may telephone the **toll-free Fraud and Corruption Hotline** by dialing **(800) 831-0463** in the United States and Canada. In other countries, this toll-free "800" number is accessible through an AT&T operator. Country-specific local telephone numbers to reach an AT&T operator are available on the September 30, 1999 archived Kiosk/Live Bulletin, on AT&T's website ([http://www.att.com/business\\_traveler/content/country.cgi](http://www.att.com/business_traveler/content/country.cgi)), or on the Secretariat's Website (<http://investigations.worldbank.org>). Again, all callers to the hotline may remain anonymous or request that their names be kept confidential.

3. Please remember that in order to protect the privacy rights of all parties, and to maintain the integrity of its investigations, the Bank has adopted a policy of keeping all allegations involving fraud and corruption strictly confidential. **If you receive allegations of fraud and corruption, please do not discuss these allegations with anyone without first consulting the Secretariat to the Oversight Committee.** In addition, any documentary or physical evidence received should be kept in a secure location until arrangements can be made to turn this evidence over to the Oversight Committee.

4. **In the event of an emergency,** please call the Bank's **emergency number, (202) 477-4321.** A Security Officer in the Security Operations Center will put you in contact with the correct person who can handle your particular situation. If for some reason you cannot contact the Security Officer on duty, you may contact your immediate supervisor. If for whatever reason you feel it would be inappropriate to contact your immediate supervisor given

the nature of the emergency or problem, you may contact your next higher level manager.

If you have any questions or comments about these procedures, please contact David Rivero, Chief Counsel, Administration Unit, and Acting Vice-Chairman of the Oversight Committee, at (202) 458-1509.

These measures are intended to ensure that all allegations of fraud and corruption are thoroughly and promptly investigated with full protection of, and sensitivity to, the rights of all parties involved.

*The procedures outlined herein supersede those set forth in paragraph 3 of the Operational Memorandum, dated January 5, 1998, setting forth the procedures for dealing with allegations against bidders, suppliers, contractors, and consultants.*

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# Notes

1. James A. Wolfensohn. New Measures to Combat Fraud and Corruption. Communication to staff dated October 15, 1998 (Exhibit 7).

2. For a complete discussion of the forms, causes and effects of corruption and the Bank's strategy to combat it, see "Helping Countries Combat Corruption: The Role of the World Bank," September 1997.

3. As an example, such an undertaking might read as follows: "We undertake that, in competing for (and, if the award is made to us, in executing) the above contract, we will strictly observe the laws against fraud and corruption in force in the country of the [Purchaser] [Employer], as such laws have been listed by the [Purchaser] [Employer] in the bidding documents for this contract."

4. As an example, such an undertaking might read as follows: " We undertake that, in competing for (and, if the award is made to us, in executing) the above contract, we will observe the laws against fraud and corruption in force in the country of the Client, as such laws have been listed by the Client in the RFP for this contract."

5. The Code of Professional Ethics is available on the Bank's Intranet by selecting "Services," "Human Resources," then "Workplace Issues." It is also available in Lotus Notes by clicking on "Information Resources Guide," and selecting "Personnel and Administration."

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