

How is the Bank reacting to recent reports of corruption in its projects?

On January 11, 2008 the World Bank made public a report detailing significant incidents of corruption and poor governance and their negative impacts project outcomes. The Detailed Implementation Review (DIR) report was a follow-up to a previous investigation of one health project in India, and it confirmed that “significant indicators” of corruption also impacted five other Bank-funded India health projects valued at \$570 million. The impact of corruption and poor project management is evident in the pictures below:

Ceiling cement in new operating theater floor



Sewage surrounding new hospital



Inoperative new baby warmer



What is a Detailed Implementation Review (DIR)?

A DIR is a review by the World Bank's Department of Institutional Integrity (INT) of all phases of a World Bank project that seeks to identify “red flags” which suggest fraud and corruption. The DIR also identifies weaknesses in Bank systems—project design, implementation, controls, and evaluations—that facilitate fraud and corruption or obscure the Bank's detection of its effect on implementation results. The DIR seeks to inform the Bank's preventive efforts to strengthen future projects.

For the report's executive summary, report and further photographs, click here:

<http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/ORGANIZATION/ORGUNITS/EXTD OII/0,,menuPK:588927~pagePK:64168427~piPK:64168435~theSitePK:588921,00.html>

Lesson Learned: World Bank Controls are Not Designed to Catch Corruption

The India DIR made clear that the Bank's control systems—of project design, supervision, and evaluation—failed to ensure the projects' appropriate implementation. Instead, they permitted for

Highlights of DIR Findings of Corruption Red Flags

- Government officials gave preferential treatment to bidders, leaked bid estimates and technical specifications to bidders, and failed to justify their contract award decisions.
- Bidder documents appeared to be fraudulent upon basic inspection, exhibiting identical mistakes, phone numbers and addresses, and sequential bid securities.
- Companies, including BASF and Bayer, exhibited indicators of collusion such as equal splitting of contracts, rotation of contract awards, and inflated contract prices.
- Decentralized procurement of small contracts was particularly fraught with red flags.
- NGO contractors were often non-existent or existed only to produce fraudulent invoices.
- Borrower supervision reports exhibited inaccuracies. For example, the Borrower reported completed civil works which in fact exhibited significant problems or were incomplete.

corruption, collusion, fraud, and poor project management to affect project implementation, and this resulted in inadequate or unfinished project outputs. The exclusion of external controls, in the form of citizen oversight and participation, further exacerbated the negative consequences. **[Despite hundreds of investigative findings, DIRs, and debarments]**

The DIR identified the following Bank control failures:

- **Project Design:** The Bank projects' designs did not assess corruption risks.
- **Supervision:**
 - Bank policy delegates supervision to the Borrower and does not provide for sufficient independent verification.
 - The Bank's supervision did not involve site visits to most implementation sites.
 - The Bank's reviews of the borrowers' procurement decisions failed to identify red flags.
 - The terms of reference for project audits did not require a physical review of the outputs

The India DIR showed that:

- **World Bank funds continue to be corrupted**
- **Corruption can negatively impact development outputs**
- **Without accountability measures , a government can not be trusted to effectively manage procurement, finances and implementation.**
- **The World Bank systems fail to prevent, detect, or react to implementation inadequacies and corruption risks.**

- (technical review), nor did they require flagging of corruption red flags.
- The Bank's supervision documents, negotiated with the Borrower, were opaque. When the documents raised issues, it did not trigger effective remedial action.
- The Bank forwarded complaints to the Borrower and accepted its responses without further inquiry.
- **Evaluation:** Bank project ratings were more positive than the DIR's observations.

First Put Your House in Order...

The DIR's findings confirm the concerns raised in a recent Independent Panel Report chaired by Paul Volcker, known for his investigation of the United Nations Oil for Food Program:

"[T]he Bank's support for national efforts to improve governance can hardly be credible if the Bank does not effectively deal with corruption in programs that it supports with its own funds. Conversely, there is an important demonstration effect to the extent the Bank can prevent, identify, and successfully deal with the threat of fraud and corruption in its own programs. . . Much of the potential impact of the Bank's GAC efforts can come from the design and content of project and program assistance."

For the Volcker Report, see [http://siteresources.worldbank.org/NEWS/Resources/Volcker_Report_Sept. 12, for website FINAL.pdf](http://siteresources.worldbank.org/NEWS/Resources/Volcker_Report_Sept._12,_for_website_FINAL.pdf)

Highlights of World Bank Commitments in Response to Volcker Report

- Commit to address, as a matter of first priority, staff incentives to encourage sensitivity to risk in project design, supervision, and evaluation;
- Adopt a presumption of transparency for the production of INT reports (caveat here)
- Construct a process by which lessons learned from INT reports will be mainstreamed into Bank operations

For an interview between TI and Volcker, See: Link (see attachment to e-mail) For TI's comments on the Volcker report, see: (See attached to e-mail)

For the Bank's response to the Volcker Report, see: http://siteresources.worldbank.org/NEWS/Resources/volcker_report_response.pdf

The Volcker Report called on the Bank to integrate lessons learned from INT reports, such as the India DIR, into a “framework” of preventing, detecting, investigating, and remediating corruption in Bank projects. This, in turn, would catalyze governance reforms in countries.

The World Bank has taken this recommendation on board. World Bank President Zoellick responded to the India DIR with the following statement:

“The probe has revealed unacceptable indicators of fraud and corruption... On the Bank side, there were weaknesses in project design, supervision and evaluation. There are also systemic flaws. I am determined to fix these problems. The Volcker Report points the way towards what has to be done.”

To see further Bank statements, see:

<http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:21610079~menuPK:34463~pagePK:34370~piPK:34424~theSitePK:4607,00.html>

The World Bank and Government of India have recently released an Action Plan that puts forward concrete reforms which address the systemic problems identified in the India DIR. The resulting action plan, provided here:

<http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:21686068~pagePK:34370~piPK:34424~theSitePK:4607,00.html>

The Action Plan focuses on strengthening the Bank’s internal controls and introduces external controls such as third party monitoring. The reforms will first be applied at the South Asia Regional Department, and the Bank’s Operations and Policy Office will translate best practices into Bank-wide reforms.

Highlights of Action Plan Resulting from India DIR

Bank Project Design

- Project Appraisal Documents (PAD) will require an analysis of outputs
- PADs will include Governance and Accountability Action Plan (GAAP) to address governance risks

Bank Supervision

- Bank’s own supervision process
 - Increase supervision budget per each project
 - Introduce random site visits
 - Staff, particularly procurement and financial management, trained in identifying red flags
- Audit terms of reference strengthened to require physical site visits and sensitivity to corruption
- Increased public accountability
 - Increased transparency of project-related documents
 - Third party monitoring partnerships introduced
 - A transparency complaints handling mechanism

Bank Evaluation

- Review of evaluation standards and practices at the Bank

See TI-USA Panel on this topic during the World Bank Spring Meetings:

Corruption as a Barrier to Achieving the MDGs: Lessons from The World Bank's India Detailed Implementation Review (DIR)

Sponsor: Transparency International USA

Panel: *John Zutt* (Department of Institutional Integrity, World Bank), *John Roome* (South Asia Region, World Bank), *Aneta Wierzynska* (Transparency International-USA)

Place and Time: Saturday, April 12, 3:30 – 5:00
World Bank Headquarters, MC1- 200

Reducing fraud and corruption in development programs is critical to achieving the Millennium Development Goals. It will help ensure that scarce financial resources reach their intended beneficiaries. This session will examine the harmful impact of corruption on development outcomes based on a recent World Bank Detailed Implementation Review (DIR) of five Bank health projects in India. It will explore the Bank's response to this study, which includes strengthening project design, supervision, and evaluation systems; increasing access to information and external oversight; and integrating emerging best practices into the Bank's Governance and Anticorruption (GAC) Strategy. The session will also examine how this study impacts external stakeholders (end-users, civil society, and the private sector) and explore what role the stakeholders can play to advance the integrity of development work (civil society engages in "demand-side" work such as project monitoring, companies adopt anti-corruption codes and compliance programs).

Selected links

For a study of the politics behind these reforms, see the following links:

The Bank and Government of India made the India DIR public on January 11, 2008, and they issued press releases on the report:

<http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0..contentMDK:21610079~menuPK:34463~pagePK:34370~piPK:34424~theSitePK:4607,00.html>

The topic is highly sensitive, however. The GoI, while committing to reforms through the action plan, is also strongly criticizing the DIR. GoI's submission to the Bank at the bottom of the page listed above, along with other press releases (see links below), demonstrate that the GoI is not keen on the reforms.

<http://news.in.msn.com/national/article.aspx?cp-documentid=1284349>

http://in.news.yahoo.com/pti/20080311/r_t_pti_nl_politics/tnl-govt-denies-wb-s-dir-report-on-corr-6adc8fa.html

<http://www.livemint.com/2008/03/13010108/World-Bank-sticks-to-corrupcio.html>

http://www.thaindian.com/newsportal/health/health-ministry-denies-world-bank-charges-of-fraud_10026442.html

<http://www.newindpress.com/NewsItems.asp?ID=IEQ20080314162815&Page=Q&Title=ORISSA&Topic=0>

Nonetheless, most international press has been rather positive on the Bank and GoI's proactiveness on this issue:

<http://online.wsj.com/article/SB120026972002987225.html>

("With the exception of Paul Volcker's investigation of the U.N. Oil for Food scandal, we can think of no comparable review of an international organization that has brought such damaging facts to light, certainly not one that was internally conducted.")

<http://www.reuters.com/article/bondsNews/idUSN1334804620080313>

http://online.wsj.com/article/SB120552496977537377.html?mod=googlenews_wsj

<http://www.washingtonpost.com/wp-dyn/content/article/2008/03/14/AR2008031403552.html?hpid=moreheadlines>

http://www.domain-b.com/finance/banks/World_Bank/20080314_fight_corruption.html

<http://www.newstrackindia.com/newsdetails/2763>

<http://online.wsj.com/article/SB120015652802886295.html>

There is also confusion in the press whether a report so honest and constructive could have come out of the Bank...

http://www.economist.com/world/international/displaystory.cfm?story_id=10880573

...particularly given the context of the Bank's work on anticorruption in the past:

http://online.wsj.com/article/SB120476549379315205.html?mod=googlenews_wsj