

Independent Advisory Board (IAB)

2011 ANNUAL REPORT



December 2011

IAB – ANNUAL REPORT (2011)

This third annual report of the Independent Advisory Board (IAB), covers:- (1) Meetings in 2011; (2) Response to the IAB's 2010 Annual Report; (3) Subsequent developments and response; and (4) Key Issues.

The IAB takes this opportunity to thank President Zoellick, Ms. Sri Mulyani Indrawati, Managing Director; the Audit Committee chaired by Mr. P. Chatterji; Leonard McCarthy, Vice President, INT; Joachim von Amsberg, Vice President OPCS; and other senior management and World Bank Group staff who helped the IAB to deliberate and make the recommendations of this 2011 annual report.

1. MEETINGS SINCE THE LAST REPORT

The IAB has convened thrice since its last report: (i) from June 1-3, 2011 in Washington, DC; (ii) via a telephone conference in October 2011; and (iii) in Jakarta Indonesia from November 1-4, 2011.

The activities that took place during these meetings are summarized below. The conclusions reached by the Board during these three encounters feature in the section "Key Issues". The annexes provide the work program of these meetings and a list of the people that the Board met.

Washington – June 2011

The key elements covered during the IAB's June Washington visit include: (1) The continued dialogue with INT on its performance and budget constraints; (2) The relationships among INT, the Legal Department (LEG) and the Office of Evaluation and Suspension (OES); (3) the Sanctions Board and the review of the sanctions process; (4) Settlements and related modalities; (5) Referrals and the graduated response when countries fail to act on the findings of investigations; (6) Debarments and the compliance system; and (7) broader governance framework issues such as the relations of the five "Is", the potential new lending instrument (Program for Results) and Governance and Anti-Corruption (GAC) Strategy Phase 2.

During that visit the IAB attended a training offered by INT's Prevention Services Unit (PSU). It met the Audit Committee (AC) and shared its views on the above-mentioned subjects. The AC sought the IAB's advice on the best ways to measure the performance of INT and possible indicators. The IAB discussed the possibility of a second term as requested by President Zoellick in his letter of March 24, 2011. The IAB was also able to discuss in more detail the possible Program for Results approach with INT and OPCS and to discuss the GAC Phase 2 agenda with Sri Mulyani.

Telephone Conference – October 2011

In their October 2011 telephone conference the members of the IAB and Mr. McCarthy discussed the November mission to Indonesia as well as other matters that have been part of the ongoing dialogue between the IAB and INT as a result of the June visit. Mr. McCarthy sought views of the IAB on the capacity required to tackle "big" cases and related optimal tools and mechanisms; the suitability of such performance measures as "reducing" the incidence of fraud and corruption (F&C); the possible anti-corruption fund; the potential Program for Results approach; and field presence. The IAB raised the idea of using existing databases for more strategic impact. The IAB also raised the need for INT to get a better sense of national follow-up to investigations.

Indonesia – November 2011

During their November mission to Jakarta the IAB continued to explore with national government, field staff, and civil society organisations how the World Bank and national authorities tackle corruption and how effective the work of INT is on the ground. In addition to meetings with senior government and World Bank officials, the IAB visited the city of Bogor to observe the National Program for Community Empowerment (PNPM), a program funded by the Government, the World Bank and bilateral development partners, operates on the ground. The PNPM is a community-driven development (CDD) program of approximately \$1 billion that involves more than 60,000 villages that benefit from 70,000 block grants. The IAB witnessed physical achievements and discussed with local beneficiaries and authorities how F&C is addressed at their level. The IAB also explored how F&C is tackled at the central level, that is, even before the monies reach local organisations. Such a large program is always at risk of F&C but "what level of risk is tolerable" remains an important question. Governance is at the core of the World Bank's partnership with Indonesia. The IAB highlighted the complexity of such a large country program and the need to understand the complex country context, a matter that is also a challenge for INT. The Board highlighted the need to have a clear public financial management framework to build viable institutions. In that context the quality of audits was mentioned, a subject that is also at the heart of GAC Phase 2. The IAB also underlined the importance of identifying key risks, seeking to mitigate them, and ensuring there are in place solid monitoring and evaluation (M&E) systems as well as grievance mechanisms. The Board discussed INT's role and interactions, particularly with Bank management and staff in the field as well as with other development partners. Their findings are reflected in the section "Key Issues". The Indonesia field visit gave the IAB valuable insight on INT's performance on the ground, how it manages strategic priorities, and what needs to be done for INT to improve its impact on the Bank's operations.

2. RESPONSE TO THE IAB'S 2010 ANNUAL REPORT

The IAB's annual report was submitted to the President on January 31, 2011 and was disclosed shortly after as stipulated in its terms of reference (TORs). President Zoellick responded by letter of March 24, 2011. In his letter the President supported the IAB's findings and recommendations. He emphasized the need for INT to optimize the effects of its resources

and staff allocated to preventive services and efforts, particularly as GAC Phase 2 is moving towards greater focus on institutions and less on transactions. The President underlined the need to complement debarment with financial settlements and was particularly interested in the Board's views on how to administer such a mechanism. He agreed on the need for the Bank to assess how seriously national authorities take action on the outcomes of investigations. On the need to address risks across instruments, the President instructed INT, LEG and OPCS to follow-up on the IAB's recommendation. The President asked the Board to serve for a second, three-year term and highlighted areas where he would value the Board's views during that mandate, namely: guidance to INT and the Bank on how to measure more effectively the impact of its anti-corruption work; future direction of the Bank's preventative work; monitoring how the Bank implements the IAB's recommendations, particularly with respect to settlements and referrals; and advice on the second phase of the GAC strategy. The following section expands on the second IAB mandate (July 2011- end June 2014).

3. SUBSEQUENT DEVELOPMENTS TO THE ANNUAL REPORT AND RESPONSE

The IAB replied positively to the President's request for a second three-year term in its June 3, 2011 letter to Mr. Zoellick. The President in turn replied on July 12, 2011 with agreement to the IAB meeting 2 or 3 times a year and indicating his willingness to meet the Board when its meetings coincide with his availability.

The new and current IAB mandate started on July 1, 2011 and will be completed by end June 2014. This mandate has been enhanced reflecting the experience gained during the first three-year term. It captures the need for increased inputs from the IAB and the need clearly to agree on an annual work program with INT that would help focus attention on key matters.

For this second term the President asked in a letter dated September 22, 2011 that Mr. Peter Costello serve as Chair of the Board with Prof. Chester Crocker as Vice-Chair. Both members agreed to the President's request.

4. INT in 2011

INT's evolution during calendar year 2011 can be summarized in terms of a range of specific benchmarks, some of which have been enumerated in its own quarterly reports to the Audit Committee. Quantitative metrics of INT efforts to clear its case backlog, to register debarments (and cross-debarments), to complete sanctions proceedings or negotiate settlements, and to make referrals to client authorities are to be found in Section 5(a) below. The IAB attaches particular importance to ensuring INT makes advances at the strategic level. The Board was pleased to note the launch and publication of the Global Roads review that addressed fraud and corruption vulnerabilities in this key sector; we look forward to additional sectoral analyses of this kind which have broad implications for multiple Bank clients and other stakeholders across regions. As described above, in June the IAB had the opportunity to join a training session conducted by PSU to help Task Team Leaders (TTLs) detect and address corruption risks. Though small in number, the PSU is having a significant impact as attested by operational staff

members in headquarters and the field, as the IAB heard first hand during its November meetings in Indonesia. Negotiated settlements are another important tool in INT's arsenal. INT has negotiated 21 settlements since this practice was initiated. When used strategically, these actions are capable of sending a powerful message to stakeholders and those who would abuse World Bank lending operations. In this connection, 2011 saw the rolling out of the newly appointed Integrity Compliance Officer (ICO) whose task is to monitor integrity compliance in sanctioned companies and decide whether compliance conditions have been met in both sanctions and settlement cases. The IAB also supports the INT's ongoing review aimed at establishing (subject to Board approval) a free-standing trust fund to manage the proceeds of negotiated settlements and to determine appropriate guidelines for their administration and allocation.

It is increasingly recognized that referrals represent a vital link in the Bank's anti-corruption process, and we would like to acknowledge the growing efforts of management to develop effective means of persuading development partners to follow up these shared investigation reports. Encouraging responses from Norway, Indonesia, the Philippines, Kenya, and the U.K. among others, and lateral networking with the OECD's Working Group on Bribery in International Business Transactions are indications of progress in achieving judicial follow-up of INT investigations. In the Lotti case (see 5(b) below), INT not only achieved 7 settlements but a first ever restitution payment to the Indonesian government which is prosecuting local managers of this Italian firm on the basis of the referral.

Thus, INT has had a productive year. There is a full agenda ahead for the INT operation, however, partly as a result of its own accomplishments, it will be necessary to build out and leverage the referrals process so that INT and the Bank have a growing global network of allies in the struggle for transparency, good governance and anti-corruption. Innovations such as the Anti-Corruption Fund (ACF) will need to be fleshed out. INT will need to identify and develop its role in reference to Bank initiatives such as the Program for Results (PforR) and ongoing Development Policy Loans (DPLs). While there has been progress in revising and clarifying relations between INT, OES, the Sanctions Board and LEG, the IAB continues to believe that the Bank must create a common set of statistics to enable a joint data base on the caseload and backlog. The IAB also believes that INT needs to find a methodology for winding up old cases.

The IAB is concerned that INT requires a clearer strategy on its priorities for engagement with its operations partners in headquarters and the field. A relatively centralized, Washington-based unit, INT often finds itself on a steep learning curve with decentralized field operations and complex country team structures with which it interacts unevenly. INT recognizes this issue and seeks avenues for sustaining its recent focus on high impact cases, lateral alliances with anti-corruption partners and greater emphasis on following up referrals (see below) see section 5(b) below. But INT continues to spread itself thinly across a wide array of jurisdictions, sectors, complaints, and cases, many of which appear to be relatively low priority. The IAB recognizes that INT's leadership seeks to move beyond reactive, transaction-linked investigative work, but it will require a strategy and method for doing so. Choices will need to be made, and integration between its Washington base and far-flung field operations enhanced. The IAB looks forward to working with INT in order to assist in achieving greater return on its efforts and a more focused organizational model for interacting with other units of the Bank. The IAB hopes to see timely

identification of priority challenges and enhanced communication with INT so that the IAB is able to make more effective use of the limited time available.

INT presence and relationships with the field

As noted in this and previous IAB reports, relationships between INT and operational units is considerably improved from the earlier state of affairs. Yet while there is inevitable tension between the operating culture and procedures of project teams, country offices and Washington-based investigations teams, the IAB believes that more could be done to enhance communication and effective working relationships at the country level. One possibility is for INT to establish its own presence in selected regions and countries rather than relying on long-distance interactions and sporadic field visits. Experience suggests that even temporary presence enhances INT's grasp of the context in which country management units (CMUs) operate. Recently, INT has negotiated Memoranda of Understanding (MOUs) with a wide range of partner investigative authorities in an effort to enrich the flow of data and reciprocal understanding.

The IAB is not persuaded that the solution to residual frictions and a lack of coherent messaging to Bank clients and other donors—where these issues exist—lies in more MOUs and permanent INT deployments overseas. An experimental presence of a few people on a regional basis could be considered. But a more systematic solution may lie in developing greater mutual awareness between INT and large CMUs which already have personnel specialized in procurement and financial management; greater use could be made of these personnel resources and potential relationships. In addition, the IAB remains firmly of the view that a systematic approach would entail more reciprocal recruitment and embedding of staff between INT and Operations, both in Washington and the field. While limited cross-posting has occurred in recent years, there is probably not enough of it. The IAB believes that Bank management should study the obstacles to such cross-posting and devise the incentives necessary to overcome them.

5. KEY ISSUES

(a) INT Performance

(i) Investigation

The IAB was told that during the year 2011 further progress was made in resolving the so called “legacy cases”.

Overall, FY2011 has been a year of intense activity for INT in the area of investigations. Based on 460 complaints it has opened 73 new investigations and carried over 99 from the preceding years, 46 FIRs were finalized, 27 Statements of Accusations and Evidence (SAEs) and 11 Negotiated Resolution Agreements (NRAs) submitted to OES. Whereas in this period 34 cases have been concluded with a sanction, 44 referrals have been made to countries. Eight cross-debarment notifications to other multilateral development banks (MDBs) have been issued relating to 37 cross-debarments during the first year of the agreement. In FY2011 and the first half of FY 2012 several high visibility settlements have been concluded.

The IAB recognizes the heavy work load and the wide geographic spread of investigative activities of a relatively small team. Nevertheless, it considers the average duration of a case from its inception to the final sanctions decision of over 3 years as too long. It acknowledges that the average has come down over the last 4 years and that the average time of a case with INT is merely just over 2 years. This being the average, some individual cases, however, still take far longer. Therefore, the IAB would like to encourage all entities involved in the investigation and sanctioning process (INT, OES, and the Sanctions Board) to increase their efforts in reducing the duration of procedures.

To this aim, where cases cannot be brought within a reasonable time frame, be it for lack of clear evidence or legal reasons, an informed decision to close such a case should be taken. In order to develop a strategy to reduce excessive duration of investigations clear criteria should be developed to decide on the closure of cases.

The IAB reiterates its recommendation to concentrate on “big fish” and strategically relevant cases (independently of their size).

(ii) Settlements

INT should be congratulated on some of its most recent successes (like Lotti, MacMillan, and The Crown Agents). Whilst settlements should be considered a viable option for terminating especially big and complex cases there is some concern that settlements may be used as an easy way out—in particular by economically powerful companies, whereas small/medium enterprises (SMEs) might find it difficult to muster the necessary expertise to negotiate a settlement.

Furthermore, the Bank needs to ensure that an adequate balance between the regular decisions by the Sanctions Board and negotiated outcomes is struck: The IAB is considering whether a 1/3 settlements- to 2/3 sanctions-ratio would constitute the upper limit of settlements. (see further discussion in 5 (c) Sanctions Review)

Finally, the IAB has advised the President and the Audit Committee that in its view the Sanctions Board rather than OES or LEG should approve settlements. The criteria and the bases for negotiating settlements also need to be clarified and made a matter of public record in the interest of the World Bank’s reputation and in order to secure transparency.

(iii) Preventive Services Unit (PSU)

The PSU has increased its activities substantially. During its own field missions, especially to Indonesia, the IAB has been informed that the preventive advice given by the PSU was especially welcome when delivered by staff members with past experience with operational experience. The IAB would like to encourage PSU to continue to make use of Bank practitioners also in other regions of the world.

(b) Referrals

The IAB has received detailed information about referrals of cases to client-countries. It appears that of 167 referrals over 12 years 16 have resulted in completed prosecutions or other action leading to convictions. In 61 cases either the statute of limitation or the aging of evidence has precluded further action. In 40 cases it was reported that there has been no or no adequate response by the recipient country.

On its mission to Indonesia the IAB had the opportunity to witness a positive example of a referral: INT had, together with the Indonesian anti-corruption authority “KPK”, investigated sanctionable behavior of an Italian company C. Lotti and Associati Societa di Ingegneria S.P.A. (Lotti) and its local representative in Indonesia. The Indonesian authorities had, as the Deputy Attorney General assured the IAB, indicted both the company representative and the Indonesian officials involved.

In light of the high number of cases apparently not leading to procedures on a national level, the IAB, however, reiterates that the Bank should follow up on its referrals and that possibly the Bank’s Board should bring its influence to bear on national Governments to act on INT’s referrals. The IAB has, in its Annual Report 2009 and again in 2010, suggested detailed steps of a graduated response to insufficient action by national Governments.

(c) Sanctions Review

In our 2010 Annual Report we noted the progress that had been made to improve the operation of the World Bank sanctions procedures. A great deal of work has also gone into updating sanctioning guidelines and, importantly, making them public. In our meetings with the various interested parties: INT, the Sanctions Board, Leg VP and the Audit Committee of the Board, we have urged that the procedures and guidelines be made public and readily available to assist staff of the Bank and those contracting to work on Bank projects, to know the conduct that is prohibited, how investigations will be conducted, and the consequences of malfeasance.

In our June meetings we also recommended that an Information Note be prepared to deal with frequently asked questions so that outsiders, particularly those subject to investigation and potential disbarment, are aware of how complaints will be handled. We welcome the fact that an Information Note covering these matters and giving a general explanation of how the sanction process works is now publicly available on the website.

One of the concerns that have been repeatedly raised with the IAB by operational staff is that when a contractor, or program, is under investigation the Bank continues to deal with that person and disburse funds under existing programs. Where a party is under investigation it can still bid for new contracts. Although the contract may subsequently be cancelled, it is embarrassing to the reputation of the Bank if new contracts are allocated to a party whilst it is under an investigation which ultimately leads to debarment. Operating staff feel they have not been given sufficient guidance on how to handle this issue.

There is provision in the World Bank sanction procedures for temporary suspension prior to sanctions proceedings—Article II. Under this procedure INT, before it concludes an investigation, if it believes it is highly likely that an investigation will be successfully concluded, can present to the OES a Request for a Temporary Suspension. INT can take this procedure where it believes that a Statement of Accusation and Evidence (SAE) will be presented within a maximum period of one year. The OES must form the conclusion that if the sanctionable practice is eventually proven it would recommend a debarment of not less than two years. The thinking behind this procedure is that if the investigation takes a year and the sanction proceedings take another year then the ultimate penalty expected should not be less than the period of the temporary suspension.

Embedded in this procedure is an assumption that an investigation by INT would normally be completed within a year. There may be some complex cases where this cannot be done. But in those cases INT would not be in a position to take action for temporary suspension until it is within a year of presenting the SAE. In those complex cases therefore there is a risk that Bank programs will run on with people under investigation who might ultimately be disbarred.

This, of course, is a reputational risk for the Bank. Even in those cases where it is found eventually that a sanctionable practice has not occurred, the program will have operated under the cloud of an investigation. It is debilitating for staff to know that they are administering a program that is under investigation. If the investigation comes to the attention of bilateral donors they may also take action of their own to protect their reputation which may have the effect of disrupting the effectiveness of the program.

All of these factors emphasize the importance of INT acting expeditiously in its investigations. INT needs to be focused when it commits resources to an investigation and needs to act decisively when the results of investigation come to hand. It needs to carefully consider the option of temporary suspension. It is in no one's interests – not the Bank, not the staff, not the host country and not INT for investigations to take any longer than is absolutely necessary.

One of the decisions that has been made as part of the recent review and updating of the sanctions process, is that decisions of the Sanctions Board will be published in full. We welcome this decision. In fact the first Law Digest of the Sanctions Board was published in December 2011. This will allow staff of the Bank, and parties contracted to projects financed by the Bank, to gain an appreciation of the conduct which is sanctionable and the penalties which flow as a consequence.

Publishing the decisions of the Sanctions Board will, the IAB hopes, over a period of time develop a jurisprudence which will be available to educate outsiders and deter potential wrongdoing. Like any body of law it will take some time to develop this jurisprudence. It will also depend on the cases which come before the Sanctions Board.

In this regard the WBG must be careful that the Sanctions Board is not starved of jurisdiction. At any time during sanctions proceedings parties can request a stay for the purpose of conducting settlement negotiations. The advantage of a negotiated resolution agreement is

that it is quicker than a full hearing through the Sanctions Board. It may also provide for restitution for the wrongful conduct. But if it becomes the usual or common method of dealing with a complaint then the Sanctions Board will be sidelined. It will not develop a body of case law. Nor will it exercise a leadership role in setting the penalties applicable to sanctionable conduct. Not only is it necessary for a sample of cases to proceed to the Sanctions Board it is necessary that they be a representative sample of cases. One of the concerns the IAB has is that if large cases where companies are well advised and informed of their rights are settled directly and only lesser cases where companies are not so well represented proceed to the Sanctions Board there may be two tiers of treatment developed in the sanctions process. (See also previous under 5 a (ii) Settlements)

In its 2010 Report the IAB noted that cases which are settled are subject to the review of the OES who is required “to ensure that the terms of the agreement do not manifestly violate” the factors to be taken into account in determining an appropriate sanction (Article XI, Section 11.02(b)). The IAB suggested that the OES was not the best person to approve settlements and that the function of approving an Agreement should be given to the Sanctions Board itself. If this were the case the Sanctions Board could ensure that settlements comply with the range of outcomes that would have applied had the matter proceeded to decision (with appropriate reductions for cooperation). The IAB suggested that this be the subject of a review which we understand has now commenced into the new sanctions procedures which is discussed below in more details.

In its 2010 Report the IAB also endorsed the use of financial settlements as a complement to debarment. The Board recommended that the Bank develop guidelines on how they should be administered. Since then INT has engaged in a series of meetings and discussions with other parts of the Bank to discuss the nature and shape that an anti-corruption fund (ACF) would take. The establishment of such a Fund would require the resolution of the Board.

The IAB has previously warned of the danger of allowing a party who has negotiated a settlement with a financial penalty being allowed to either disperse, or recommend recipients of disbursement, from the Fund. The payment is a penalty. The party paying the penalty should not be in a position to decide how it is spent. Nor indeed would it be qualified to decide the best use to which the funds could be put.

The IAB recommends that an outside group of distinguished and disinterested people be responsible for deciding how the money is dispersed from an ACF and the recipients of such disbursement. It may be that in some cases injured parties can be compensated. But it is likely that funds will be dispersed to causes which will promote anticorruption. The causes to be chosen and the parties who will receive such funds should be those approved by, and respected by, the international community.

International Corruption Hunters Alliance (ICHA)

The concept of a global alliance of anti-corruption agencies/personnel has been tried in the past with mixed results. However, the launching of the International Corruption Hunters Alliance (ICHA) by the World Bank, through its Integrity Vice Presidency (INT), as a universal

mechanism, “has the potential to make a big difference” (R. Zoellick, “Founding the International Corruption Hunters Alliance”, 7 December 2010) and “open new frontiers for cooperation in the fight against corruption at regional and international levels” (L. McCarthy, “What the Alliance Means”, 7 December 2010). The reason for hope is that with its tremendous influence, extensive network and vast resources, the World Bank if it pursues this initiative with sustained vigor can succeed where other efforts have failed.

At the outset, the INT should realize that the individual representatives of the member countries of the ICHA have varying degrees of commitment and competence. Accordingly, the first step is to determine those among the individual representatives who have the deepest commitment and best expertise. It is not unusual that the most committed are also the most competent. It is indispensable that a core group of committed competent representatives (“Working Group”) be identified and then organized. This group will develop the blue print for ICHA’s future course of action and provide the human resources and initial funding to implement and pursue the future plan of action. More importantly, the Working Group will provide adequate inspiration and momentum to the entire ICHA.

ICHA should use its influence to pursue cooperation through a mechanism such as a multilateral Mutual Legal Assistance Treaty (“MLAT”). The multilateral MLAT could contain provisions, *inter alia*, on:

- investigation and gathering of testimonial/documentary evidence and the like;
- mutual sharing of gathered testimonial and documentary evidence;
- witness protection program;
- tracing, freezing, and remitting to the victim states the proceeds of corruption; and
- provision and exchange of information on law and domestic procedures to facilitate the use of the provision of the MLAT and on eventual results of prosecution and implementation of preventive measures.

It is important to include a provision on the obligation of the state where the corruption proceeds are hidden to initiate the necessary legal steps to trace, freeze, forfeit and reconstitute the assets acquired through corruption upon request of the victim member. Also, the provision on initiating investigation addressed to a member state upon request of a victim state to gather the necessary evidence, both testimonial and documentary, is very important. There is also a reciprocal obligation on the part of the victim state to initiate its own investigation to secure relevant evidence upon the request of a member state who is investigating or prosecuting its own citizens or corporations who are suspected of committing acts of corruption in the victim state or pursuing an investigation on charges that dirty assets of corrupt officials from a victim state are stashed within its jurisdiction. The multilateral MLAT can provide the needed platform for robust information sharing, parallel investigations/prosecution and restitution of proceeds of corruption.

Members of the Working Group should initiate the conduct of training programs in less capable member states, especially those identified as fragile states. Strengthening the integrity

and capacity of institutions involved in anti-corruption and good governance in less capable member states through the transfer of knowledge of best practices and developed pertinent tools (particularly on evidence gathering and preventive measures) and the conduct of well-tested training programs to provide the required expertise and to hone the necessary skills of anti-corruption/good governance personnel is necessary to make them more effective partners in the fight against corruption. Capacity-building and training programs should also cover the Judiciary. Even if a country has a sufficient number of competent and honest investigators and prosecutors, success in the crusade against corruption cannot be achieved if it has a corrupt judiciary or a weak judicial structure/system. The training programs should, of course, include one on how the MLAT can be best utilized in investigating and prosecuting transnational corruption activities.

The ICHA should be utilized to influence, persuade and pressure member states who refuse or are slow to act on referrals. If developed and utilized properly, an international coalition of numerous bodies in the ICHA with the backing of international financial institutions, can have a much greater clout than a single state or a sole international institution, in convincing and pushing states, particularly fragile states and/or developed states where corrupt money is hidden and/or states who are inclined to protect citizens and corporations involved in corruption from prosecution, to act on referrals.

Considering INT's financial constraints, additional support from willing member states and other international institutions which are similarly minded as the World Bank with respect to fighting corruption would be welcome. A good example is the fact that the first meeting of ICHA was organized and hosted by World Bank but sponsored by Australia, Denmark and Norway.

(d) *GAC Phase II*

The Bank is currently preparing Phase II of its GAC strategy. It is aided in this work by an evaluation undertaken by Independent Evaluation Group (IEG) on the progress made under the 2007 strategy and implementation plan. The GAC is a Bank-wide strategy which includes helping countries improve governance and strengthen institutions. It is far wider than the more focused work of INT. The IAB's principal work is directed to the role of INT and its interaction with the Bank.

Nonetheless the IAB has been asked to provide guidance and advice as the Bank prepares Phase II of the GAC. The measures we have outlined in our Report in relation to preventative work, investigation, sanctions and particularly referrals should all be part of the wider Governance and Anti-Corruption Strategy of the Bank and be woven into its overall focus. In its Report the IAB has also made recommendations about INT engaging with operational staff in the field and using the results of its work to educate and inform operations staff. The IAB still thinks that there are improvements that can be made in this area.

The IAB looks forward to contributing on developments in Phase II of the GAC and responding, as requested, to any specific issues where it may be able to give positive guidance.

(e) Instruments

The IAB has repeatedly mentioned in its previous reports that other forms than Specific Investment Loans (SIL), in particular DPLs could pose substantial ethics risks and that they may be more difficult to control.

A new challenge may arise from the project to introduce Program-for-Results Financing (so called PforR). The IAB has raised a series of questions as to who will monitor the performance and what would be the role of INT. The IAB has received first answers about the right to investigate and sanction any party for sanctionable practice, about the obligations of the borrower to inform the Bank about allegations of misconduct and the Banks audit rights under the program. So far, however, the new instrument remains under discussion and the IAB will continue to monitor the debate about risk mitigation.

List of People Met in 2011 by the Independent Advisory Board

World Bank Staff

Sri Mulyani Indrawati, Managing Director, The World Bank (MDI)

Audit Committee members met in June, 2011:

Pulok Chatterji, Chair, Audit Committee, Executive Director (ED) of Bangladesh/Bhutan/
India/Sri Lanka (left the Bank September 2011)

James Russell Hagan, Vice Chair, Audit Committee, ED of Australia/Korea/New Zealand
(left the Bank July 2011)

Piero Cipollone, Audit Committee member, ED of Greece/Italy/Malta/Portugal
(Vice Chair, effective September 2011)

Ambroise Fayolle, Audit Committee member, ED of France

Hekinus Manao, Audit Committee member, ED of Myanmar/Fiji/Indonesia

Renosi Mokate, Audit Committee member, ED of Angola/Nigeria/South Africa
(Chair, effective November 2011)

Ian H. Solomon, Audit Committee member, ED of the United States

Rogério Studart, Audit Committee member, ED of Brazil/Columbia/Dominican Republic

Leonard McCarthy, Vice President, Institutional Integrity (INT)

Joachim von Amsberg, Vice President and Head of Network, Operation Policy and Country
Services (OPCVP)

Otaviano Canuto, Vice President and Head of Network, Poverty Reduction and Economic
Management (PRMVP)

Sanjay Pradhan, Vice President, World Bank Institute (WBIVP)

Anne-Marie Leroy, Senior Vice President and General Counsel, Legal (LEGVP)

Fathi Kemicha, Chair, the World Bank Group Sanctions Board

Galina J. Mikhlin-Oliver, Director, Strategy and Core Services, Institutional Integrity (INTSC)

Robert Saum, Adviser to Managing Director Sri Mulyani Indrawati, (MDI)

Paul Bermingham, Director, Operations Services, Operation Policy and Country Services
(OPCOS)

Pascale Helene Dubois, Evaluation and Suspension Officer, Office of Evaluation and Suspension
(OES)

Linda Van Gelder, Director, Public Sector Governance, Poverty Reduction and Economic
Management (PRMPS)

Stephen Zimmermann, Director, Operations, Institutional Integrity (INTOP)

Wayne Nardolillo, Manager, Strategy and Core Services, Institutional Integrity (INTSC)

Michael Stefanovic, Manager, Operations, Institutional Integrity (INTOP)

Fadia M. Saadah, Manager, Investment Lending, Operations Services and Country Services
(OPCIL)

Lisa Bhansali, Adviser, Operational Services, Latin America and Caribbean (LCSOS)

Frank Fariello, Lead Counsel, Operations Policy, Office of the Sr. VP & General Counsel
(LEGOP)

Anders Hjorth Agerskov, Lead Specialist, Strategy and Core Services, Institutional Integrity
(INTSC)

Elizabeth Lin Forder, Secretary to the Sanctions Board, Sanctions Board Secretariat (SBU)

Paul Ezzeddin, Sr Policy Officer, Office of Evaluation and Suspension (OES)

Jamieson Smith, Senior Counsel, Office of Evaluation and Suspension (OES)

Staff of World Bank Office in Jakarta Indonesia met in November 2011:

Stefan Koeberle, Country Director, World Bank Office in Indonesia, East Asia and Pacific Region (EACIF)

Christian Rey, Acting Manager of Operations and Portfolio (EACIF)

Shubham Chaudhuri, Lead Economist, World Bank Office in Indonesia (EACIF)

George Soraya, Lead Municipal Engineer (EACIF)

Yogana Prasta, Operations Adviser (EACIF)

Amien Sunaryadi, Senior Operations Officer, Head of Governance and Anti-Corruption (EACIF)

Ilham Abla, Senior Operations Officer (EACIF)

Melinda Good, Senior Counsel (EACIF)

Novira Asra, Sr. Financial Management Specialist (EACIF)

Alexandra Drees-Gross, Senior Financial Specialist (EACIF)

Rajat Narula, Sr. Financial Management Specialist (EACIF)

Unggul Suprayitno, Sr. Financial Management Specialist (EACIF)

Rizal Malik, Sr. Communications Officer (EACIF)

Khairy Al-Jamal, Senior Infrastructure Specialist (EACIF)

Sheila Town, Operations Officer (EACIF)

Eka Zarmen Putra, Operations Officer (EACIF)

Sentot Surya Satria, Social Development Specialist (EACIF)

Dayu Amurwanti, Operations Analyst (EACIF)

Marcel Jerry Winata, Communications Assistant (EACIF)

Jonathan Sariaatmadja, Junior Professional Associate (EACIF)

Indonesia Government officials and people met in Indonesia

Mr. Busyro Muqoddas, Chairman of the Indonesia Corruption Eradication Commission (KPK)

Mr. Chandra Marta Hamzah, Vice-Chairman of the KPK

Mr. Hadi Purnomo, Chairman of the National Audit Board (BPK)

Mr. Suwartomo, Prime Secretary, the Indonesian State Finance and Development Surveillance Committee (BPKP)

Mr. Darmono, Deputy Attorney General

Mrs. Jacqui de Lacy, Minister Counsellor, AusAid

Mrs. Hesti Marsono, SMERU [Civil Society Organization (CSO)]

Mrs. Maryati, Center for Regional Information and Studies (PATTIRO), CSO

Mrs. Isma Fadhil, SMERU, CSO

Mr. Ridaya Laodengkowe, Publish What You Pay, CSO

Mr. Setya Budiantoro, Prakarsa, CSO

Mr. Teddy Sitepu, Paramadina, CSO

Mr. Ucok, Fitra, CSO

Other

Mr. Benjamin Heineman – External participant

Independent Advisory Board Meetings

Washington, DC

June 1 – 3, 2011

Wednesday, June 1, 2011

0900	Internal discussions	MC 10-500
1030	Internal discussions	MC 10-500
1130	Initial discussion with L. McCarthy, INTVP	MC10-500
1300	Lunch with Ben Heineman	MC Dining Room
1430	Office of Evaluation and Suspension (Pascale Dubois)	MC-10-500
1530	Internal discussions	MC 10-500
1900	Dinner hosted by Sri Mulyani, Managing Director	La Taberna del Alabardero

Thursday, June 2, 2011

0930	PSU training	MC 4-800
1045	INT Management	MC 10-500
1215	Sanctions Reform (F. Fariello, LEGOP)	MC 10-500
1300	Lunch Ms. Anne-Marie Leroy, LEGVP, J. von Amsberg, OPCVP (host) and L. McCarthy, INTVP	MC Private Dining room I
1430	Sanctions Board (Dr. F. Kemicha, E. Forder)	MC 10-500
1530	Coffee Break	MC 10-500
1600	Audit Committee	MC 13-415
1900	Dinner hosted by Leonard McCarthy, INTVP	Vidalia Restaurant, 1990 M Street NW

Friday, June 3, 2011

0930	Internal discussions	MC 10-500
1030	Internal discussions	MC 10-500
1130	Wrap-up with Sri Mulyani, Managing Director	MC 12-765
1300	Lunch (New Programmatic Instrument-P4R ¹) hosted by Paul Birmingham OPCOS, Galina Mikhlin-Oliver INT, Fadia M. Saadah OPCIL, Leonard Frank McCarthy INTVP.	MC Private Dining room G

¹ Called RBL previously or Results-Based Lending. Now Program for Results.

The IAB Members Visit in Indonesia

Jakarta, Indonesia

November 1 - 3, 2011

Time	Venue	Activities	Status/ Message
Tuesday -November 1			
10.00 AM -10.45 AM	Semeru World Bank Jakarta	Meeting with Country Management Unit	Stefan Koeberle Country Director, Indonesia
12.00 PM - 02.00 PM	KPK Office	Lunch with the Indonesian Corruption Eradication Commission (KPK) <ul style="list-style-type: none"> • Busyro Muqoddas, Chairman of the KPK • Chandra Marta Hamzah, Vice-Chairman of the KPK 	The IAB can check on the realization of the MOU signed between the KPK and INT. Further exchange of information on the status of WB projects is also recommended. World Bank staff in Indonesia Office in Charge (WB): Amien Sunaryadi, Head of Governance and Anti-Corruption
02.30 PM - 03.30 PM	La Na Thai Restaurant Jalan Dr. Kusumaatmaja S.H St.	Discussion with TTLs and Operations Unit team	To discuss of WBOJ's current projects and ways in which the CO is preventing corruption. WB: Christian Rey, Acting Manager Operations and Portfolio
04.30 PM	BPKP Office	Meeting with the Indonesian State Finance and Development Surveillance Committee (BPKP) <ul style="list-style-type: none"> • Mr. Suwartomo, Prime Secretary, the Indonesian State Finance and Development Surveillance Committee (BPKP) 	IAB can explore the potential of INT partnering with BPKP in pursuing investigations through formalizing a working arrangement with them. WB: Rajat Narula, Sr. Financial Management Specialist Novira Asra, Sr. Financial Management Specialist
07.00 PM	Samara Restaurant	Dinner with relevant stakeholders hosted by Stefan Koeberle, Country Director	Guest: Jacqueline de Lacy from AUSAid
Wednesday – November 2			
09.30 AM - 12.00 PM		Visit to project: PNPM Urban location, Bogor City – Sub District Office <ul style="list-style-type: none"> • Neighborhood Head • Sub-District Head (Kepala Kecamatan) 	The IAB is to meet with local neighborhood head and sub-district head to talk on the progress of the PNPM Urban project and to inquire of the way the project money is disbursed. WB: George Soraya, Lead Municipal Engineer
12.30 PM - 02.00 PM	Bogor City	Lunch & Briefing about PNPM Rural	
02.30 PM		PNPM Rural location	The IAB is to meet with local village head and sub-district head to

Time	Venue	Activities	Status/ Message
- 05.30 PM		<ul style="list-style-type: none"> Village Head (Kepala Desa) Sub-District Head (Kepala Kecamatan) 	<p>talk on the progress of the PNPM Rural project and to inquire of the way the project money is disbursed.</p> <p>WB: Sentot Surya Satria, Social Development Specialist</p>
07.00 PM - 09.00 PM	Amuz Restaurant Energy Building	Dinner hosted by Leonard McCarthy, VP INT	WB: Stefan Koeberle Country Director, Indonesia Christian Rey, Acting Manager of Operations and Portfolio
Thursday – November 3			
10.30 AM - 11.30 AM	Attorney General's Office	<p>Meeting with the Attorney General</p> <ul style="list-style-type: none"> Darmono, Deputy Attorney General 	<p>To explore whether World Bank's INT team or CMU team can create a formal working tie with the AG. To inquire about the current WB financed programs that are currently being prosecuted.</p> <p>WB: Amien Sunaryadi, Head of Governance and Anti-Corruption To attend: Stefan Koeberle, Country Director, Indonesia Christian Rey, Acting Manager of Operations and Portfolio Melinda Good, Senior Counsel</p>
11.30PM - 12.30 PM	Bromo 1 & 2 World Bank Jakarta	Discussion with Civil Society Organizations (CSO)	<p>The IAB will then meet with the CSO community to discuss of WBOJ's performance in meeting the demands of the Indonesian people – especially those who are directly affected by WBOJ financed projects.</p> <p>WB: Rizal Malik, Head of Communications</p>
01.00 PM - 02.00 PM	BPK Office	<p>Meeting with the National Audit Board (BPK)</p> <ul style="list-style-type: none"> Hadi Purnomo, Chairman of the BPK Hendar Ristriawan, Secretary General of BPK 	<p>IAB can explore the potential of INT partnering with BPK in pursuing investigations through formalizing a working arrangement with them.</p> <p>WB: Rajat Narula, Sr. Financial Management Specialist Unggul Suprayitno, Sr. Financial Management Specialist</p>
Afternoon		Working on Annual Report at the hotel	