

**TI COMMENTS ON THE INDEPENDENT PANEL REVIEW  
OF THE WORLD BANK GROUP  
DEPARTMENT OF INSTITUTIONAL INTEGRITY**

*October 31, 2007* — Transparency International (TI) welcomes the opportunity to comment on the report of the Independent Panel Review conducted by Paul Volcker and a panel of experts ("Report") regarding the Department of Institutional Integrity (INT) and its role within the broader World Bank approach to anti-corruption.

The Report correctly “recognizes and emphasizes the critically important contribution that a coherent and forceful attack on corruption can and should make to the Bank-wide goal of facilitating economic development and reducing poverty.” It notes this is essential both as a matter of fiduciary responsibility<sup>1</sup> and for aid effectiveness, citing World Bank Institute findings that “Bank projects are much less likely to succeed where there is poor governance and high corruption.”

The Report appropriately concludes that “[e]very dollar lost to illicit acts is a dollar taken from those most in need, the world’s poor” and, therefore, there must be a “twofold” effort: supporting capacity and action among Bank borrowers and “protecting the integrity of the Bank’s own operations.” The Bank “can hardly be credible if [it] does not effectively deal with corruption in programs that it supports with its own funds.”

TI concurs with the Report’s conclusion that “a fully coordinated approach across the entire World Bank Group” is needed, comprising both an independent and accountable investigation function and an assumption of individual responsibility throughout the Bank for prevention, detection, investigation and remediation. The Report’s recommendations for strengthening these two objectives should be fully implemented and integrated into the Governance and Anticorruption (GAC) Strategy Implementation Plan (IP).

President Zoellick, in his October 10, 2007 National Press Club speech, noted that “to be successful, the World Bank Group must also squarely face its own internal challenges” including “work to do in strengthening our approach to dealing with governance and corruption.” Recognizing the dual nature of the Report’s recommendations, he indicated the Bank was “moving toward operational improvements” to “bolster the work of our investigators *and make sure their product is put to best use.*” (italics added)

As noted in the Report, making sure INT’s expertise is put to best use requires a change in the internal culture that makes the fight against corruption the shared responsibility of INT and the rest of the Bank through a “comprehensive approach that incorporates and reflects a widely understood policy framework, consistent

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<sup>1</sup> Note that the Report calls for safeguarding Bank funds, including trust funds which are growing in proportion of the Bank’s operations.

systems and processes among operational groups, defined responsibilities, and effective educational, training, and communication arrangements.”

President Zoellick also underscored the need to “strengthen our ties with civil society organizations and NGOs so we can learn from them.” TI welcomes this commitment. It has long emphasized that greater transparency and external consultation are fundamental to an effective, sustainable and comprehensive attack on corruption in Bank operations and the countries where it operates. TI again urges the Bank to institutionalize a more robust policy for disclosure, with a “presumption of transparency” as recommended by the Report. It also calls for a more predictable process for external stakeholder consultations in country and at headquarters and urges the creation of an external advisory group to monitor and promote progress on governance and anticorruption-related efforts.

TI urges implementation of the Report’s recommendations, both explicit and implicit, with particular attention to the following:

1. **Leadership:** The Report emphasizes “the central importance of the leadership of the Bank, not simply by the President and the Board of Executive Directors but by those responsible for both operational and staff units of the Bank.” It calls for the Managing Directors, Regional Vice Presidents, and Country Directors to drive the entire governance and anticorruption program in both country capacity building and program integrity.

TI concurs with these recommendations and, in particular, urges that a Managing Director be responsible for the Bank-wide undertaking. This would help address the justifiable concern that “the prevention effort has no clear leader” and assure more effective internal direction, coordination, and follow-up.

2. **Incentives:** The Report notes that the present pay and performance evaluation system rewards lending and acts as a disincentive to confront borrowers on issues of corruption or to have corruption in projects exposed. TI has long urged that the GAC IP, as a matter of priority, contribute to the much needed change in the internal culture by realigning staff incentives to reward attention to governance and to sanction failures to follow Bank controls policies. This will also provide a model to borrowers seeking to incentivise their own civil servants to achieve anti-corruption objectives.

3. **Disclosure:** The Report’s many recommendations on enhancing disclosure point to the need for the Bank to adopt and publish a comprehensive public disclosure policy based on a strong presumption of transparency. This should include making public INT investigative reports and Detailed Implementation Reviews, taking into account an appropriate timeframe to protect investigative integrity and the need for redaction to protect the safety of confidential witnesses. This will enable the Bank as well as the public to understand how corruption works and the steps needed for mitigation. The Bank should also make public the risk mitigation measures it plans to adopt in its policies and practices in response to INT findings. Disclosure will empower the demand-side of governance, creating pressure for the Bank and the respective borrowers to effectively follow up. A test case will be the timely publication of the forthcoming India Detailed Implementation Review.

4. **Lessons Learned:** The Volcker Report notes that “it is clear that INT’s experience and expertise has not been adequately developed and regularly incorporated...” and that “a particularly critical point is that the Bank lacks a consistent decisional framework and effective leadership for taking action once an INT investigation is completed.”

It underscores the importance of INT lessons and of closer cooperation between INT and the operations (OPCS) to ensuring a coordinated response and remediation with the borrower and “changes in procurement and monitoring practices in other Bank programs across the globe to minimize chances of exploitation again of the type revealed by INT’s investigation.” In other words, INT expertise should be an integral element of prevention and systemic reform.

TI has underscored this point, urging that lessons learned inform future project identification, appraisal, procurement, implementation, audit and supervision, as well as decisions regarding country systems and direct budget support. The Report notes that managers and operational staff want and would benefit from counsel on how to deal with related projects that might entail similar risks of fraud and corruption. TI strongly supports the Report’s recommendation that a separate unit be created bringing together experts, including from operations, investigations, procurement and legal departments. This unit should provide advice on a regular and proactive, rather than *ad hoc* basis to staff responsible for compliance with Bank control systems and for preventing and addressing corruption in country assistance strategies and in projects.

INT lessons learned, including its assessment methodology and its findings from cases and Detailed Implementation Reviews, should inform the Bank’s country-level approach to governance and anticorruption issues that impinge on development (“CGAC process”). This can help broaden understanding among Bank staff and in country of how corruption occurs and mitigate against risks. INT expertise should also contribute to the capacity-building for GAC implementation.

Given the Bank’s limited capacity to take action against those found to have engaged in corruption, TI also supports referral to national law enforcement authorities so that cases may be pursued against both the public officials as well as the private parties.

TI fully supports the assignment of responsibility to develop, review and report progress on a comprehensive post-investigative action plan to a Managing Director.

5. **INT Independence and Accountability:** TI strongly supports the Report’s call for protecting the independence of INT by maintaining its reporting line to the President, elevating the rank of its leadership to enable it to function effectively within the Bank system, and creating an external expert advisory board to protect INT’s independence and promote its accountability.

6. **External Views:** As there is a need to situate INT within the broader Bank context, so is there a need for broader external oversight beyond INT to include progress on the GAC IP, Volcker Report, and corruption-related issues in Bank policies and programs, such as country systems and budget support. TI strongly recommends and would participate in an External Advisory Committee to monitor

and promote timely and robust action in this context. Chairman Volcker established a model by convening a group of external advisors to provide input to the expert panel and comment on its recommendations.

As noted earlier, TI also strongly urges the Bank to institutionalize external consultations in country and has offered to convene a working group to help develop and establish a suitable framework.

In conclusion, the Volcker Report provides important and timely insights and recommendations that can help ensure an effective investigative function as well as a comprehensive Bank Group approach to governance and corruption that will minimize the burden on INT and increase the Bank's effectiveness.

TI concurs with Report's view that the Bank should be "at the center of the anti-corruption effort" and should lead by example. It looks forward to and will monitor progress on the recommendations presented in the Report and elaborated in this document.