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
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RE: World Bank Governance

From: kahudes@aol.com

Aalmofadhi@worldbank.org; mketsela@worldbank.org;

To: wdebevoise@worldbank.org; afayolle@worldbank.org; jhagan@worldbank.org;
mhasan@worldbank.org; gmajnoni@worldbank.org; hwijffels@worldbank.org

Date: Tue, 1 Apr 2008 4:35 pm

maudit3..pdf update.pdf

To the Audit Committee:

The Audit Committee's mandate includes the adequacy of governance and the Bank's controls. The Audit Committee has been requested tomorrow to approve hasty recommendations on a far-reaching restructuring of the Bank's Institutional Integrity Department ("INT"). The work of the Volcker Panel was predicated upon terms of reference that did not include INT's regrettable practice of intimidating staff who report misconduct to the Board, as evidenced in the ongoing cover-up to the Board of the Bank's supervision mistakes on the Philippines Banking Sector Reform Loan.

Insofar as the proposed advisory panel would supplant important functions envisaged for the Advisory Council established pursuant to Article V, Section 6 of the Bank's Articles, it is my opinion that the Audit Committee, if it is inclined to accept the recommendation before it at tomorrow's meeting of the Audit Committee, must refer the proposal on to other Board members in order to obtain the requisite votes for amendments of the Bank's Articles.

Sincerely, Karen Hudes

-----Original Message-----

From: kahudes@aol.com

To: Paul-Lachal.ROBERTS@ec.europa.eu

Cc: Franz.Bruener@ec.europa.eu; emilysbolton@gmail.com

Sent: Sun, 30 Mar 2008 10:40 am

Subject: RE: World Bank Governance

Dear Mr. Roberts,

Thank you for your email concerning governance issues at the World Bank, which I received 3/30/2008 at 10:00 a.m. EST. As you are aware, the recommendation of the Volcker Panel that the Institutional Integrity Department ("INT") no longer be given responsibility for investigating whistleblower retaliation cases was not followed. Staff currently have the right to report misconduct directly to multiple authorities within the World Bank, including the Board. Instead, under the proposed whistleblower protection policy, staff "generally should" report suspected misconduct either to their managers or to INT.

On February 26, I asked the members of the Board's Committee on Development Effectiveness, in the attached email, whether in view of INT's unfortunate reputation for harassing whistleblowers, staff should be prevented from reporting directly to CODE and whether INT's proposed advisory board would overlap the responsibilities envisaged for the

Advisory Council established pursuant to Article V, Section 6 of the Bank's Articles.

Ten years ago when I was a member of the Human Resources taskforce under the Strategic Compact with the Board, I proposed reforms to increase accountability and transparency at the World Bank. At that time, I counseled that change efforts succeed only when 75% of management is ultimately convinced that the status quo is unacceptable (Email dated June 1, 1998 to Robert Drysdale, Katherine Tyler, and Alberto Bazzan). The Human Resources Vice Presidency did not follow its institutional mandate to promote increased transparency and accountability. Instead, HRS is part and parcel of a deficient control environment in the World Bank, documented fully by the institutional cover-up on the Philippines Banking Sector Reform Loan.

Pieter Stek, the former Dutch Executive Director, Chair of the Board's Audit Committee and Committee on Development Effectiveness, described my case as follows:

Karen has bitten into a case of failure of the Bank, harm to a country, cover-up, failure of evaluation, failure of controls, and threatening failure of the Board (Audit Committee) to take up the issue. The corollary is not hard to envisage: the Bank runs the risk of being caught with its pants down (in an area where it is lecturing the developing world on how to dress) and the whistleblower (who has not whistled in public) is at imminent risk of being dismissed, due to failure of the checks and balances in the Bank meant to protect individuals (the Integrity Directorate, the Ombudsman, the Tribunal, President (Email dated February 23, 2005, forwarded February 16, 2007 to Vincenzo La Via, Chief Financial Officer, and Faye zoul Choudhury, Controller)

Last week, I asked various US Congressional committees charged with oversight of the World Bank whether it would be appropriate for the US Government Accountability Office to assist the Independent Evaluation Group in the evaluation of the World Bank's internal controls. On March 26, 2008 Ms. Michele Sumilas of the House Appropriations Committee met with Mr. Tom Melito of the US Government Accountability Office to review this question. Mr. Chris Armstrong of the Senate Finance Committee is also considering this question.

In light of OLAF's familiarity with the deficient control environment at the World Bank, I wonder whether OLAF would care to assist in helping to formulate appropriate terms of reference for the proper diagnosis of requirements for whistleblower protection, HRS and INT independence.

Best, Karen Hudes

-----Original Message-----

From: Paul-Lachal.ROBERTS@ec.europa.eu

To: kahudes@aol.com

Cc: Franz.Bruener@ec.europa.eu; emilysbolton@gmail.com

Sent: Sat, 29 Mar 2008 2:08 pm

Subject: RE: World Bank Governance

Dear Ms. Hudes,

Thank you for your e mail. I recall your raising some of these issues with me when we met. I regret that you have found the work of the Volcker Panel deficient. As I advised you when we met, the ambit of the Panel's review was prescribed by the terms of reference under which it was established. The Panel adhered to those terms of reference. My role as Counsel to the Panel came to an end shortly after the report was presented to the President, in September last year.

OLAF is part of the institutions of the European Union. Its existence, mandate and functioning is established and supervised by the laws of the European Union. These do not, to the best of my knowledge extend to having legal competence to pursue the grievances you raise.

You ask that OLAF inform member governments about what you see as a crisis in governance at the bank. My Director General and I met with a number of European Executive Directors of the World Bank a few weeks ago to discuss the Volcker Panel report. At the meeting there was also discussion about governance issues. My impression was that the European Executive Directors are well apprised of all relevant issues at the Bank and no further comment by OLAF is warranted even if it was within our legal competence.

Yours sincerely

Paul Lachal Roberts
Adviser to the Director General
European Anti Fraud Office (OLAF)
European Commission
Brussels

-----Original Message-----

From: kahudes@aol.com

To: jzou@worldbank.org; mketsela@worldbank.org; jfamiliar@worldbank.org;
jhagan@worldbank.org; gmajnoni@worldbank.org; tshikibu@worldbank.org;
swatson1@worldbank.org; hwijffels@worldbank.org

Sent: Tue, 26 Feb 2008 10:43 am

Subject: RE: CODE's Oversight Responsibility for Accurate Evaluations and Reporting of Supervision Mistakes

To the Members of the Board Committee on Development Effectiveness:

The Committee on Development Effectiveness is required to satisfy itself that the Bank Group's operations evaluation and self-evaluation activities are adequate and efficient. It is now proposed that staff should be prevented from reporting misconduct on evaluations to the members of CODE to enable them to carry out their oversight responsibilities. Instead, the proposed whistleblower policy directs staff to report cover-ups on evaluations to the Department of Institutional Integrity, ("INT").

Bank staff lack confidence in INT's independence. The Staff Association Newsletter reported in a May 2005 article entitled, *Staff Want Grievances Handled with Due Process*:

"INT has been controversial. Outside watchdog groups and staff have accused management of using INT to perform punitive investigations on scanty evidence, or of doing the reverse—calling off a warranted investigation. Victims have included staff who have revealed accounting or project facts embarrassing to managers..."

INT's report to the Board concerning the cover-up of the Bank's supervision mistakes on the Philippines Banking Sector Reform Loan was unprofessional. INT did not correct an inaccurate evaluation of the Bank's supervision mistakes on the BSRL, which resulted in a \$500 million banking failure, cancellation of \$200 million from the Bank loan, and cancellation of a similar amount from the Japanese cofinancing. Instead, INT sought to discredit me through a vicious *ad hominem* personal attack that did not address any of the issues that I had raised. Mr. Zutt has refused my February 1, 2008 request for INT to inform the Executive Directors of INT's mistake (attached).

In September 2007 the former President of the Philippines was found guilty of plunder and ordered to repay the commissions that I had tried to prevent him from receiving for the corrupt sale of government employee pension stock in violation of the conditionality on the BSRL and the banking laws in the Philippines. The Bank's supervision performance was rated as satisfactory, and I was fired on August 1, 2007 in retaliation for reporting this internal control lapse to the Board. The Staff Association tried to inform the Administrative

Tribunal that staff are intimidated from reporting misconduct as a result, but the President of the Tribunal refused to provide the Staff Association's attached statement of support to the other judges on the Tribunal.

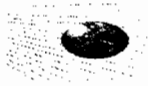
It is now proposed to establish a three person advisory board for INT, with a secretariat in the OPCS unit. I request CODE to consider whether in view of INT's unfortunate reputation for harassing whistleblowers, staff should be prevented from reporting directly to CODE and whether INT's proposed advisory board would overlap the responsibilities envisaged for the Advisory Council established pursuant to Article V, Section 6 of the Bank's Articles.

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Actions

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William B. Hurlbut
03/31/2008 11:06 AM
31732 IEGWB

Subject FYI: Matrix of Actions to Implement Volcker Panel
Recommendations

The final outcome of the Volcker work.

"Always do whatever's next" — George Carlin

IEG WORLD BANK
Independent Evaluation Group

William B. Hurlbut
Senior Policy Writer, IEGWB
Telephone: 202 473-1732 - Fax: 202 522-3123
whurlbut@worldbank.org - <http://www.worldbank.org/ieg>

----- Forwarded by William B. Hurlbut/Person/World Bank on 03/31/2008 11:05 AM -----

Jeffrey S. Gutman

03/27/2008 10:29 AM
80454 OPCVP

To Caroline D. Anstey

cc Juan Jose Daboub, Ngozi N. Okonjo-Iweala, Graeme Paul
Wheeler, Hasan A. Tuluy, Scott B. White, Johannes Zutt,
William B. Hurlbut, Carl Patrick Hanlon, Hartwig Schafer,
John A. Roome, Eva Mennel

Subject Matrix of Actions to Implement Volcker Panel
Recommendations

Bob (via Caroline):

I am pleased to inform you that the Internal Working Group established to prepare management's response and an action plan to implement the recommendations of the Volcker Report, has concluded it work.

Attached is the Matrix of Actions which was prepared to facilitate and track the implementation of the recommendations. It incorporates a clear timetable and allocation of responsibilities so that individuals of the Group are maintaining responsibility for tracking progress.

Substantive actions have already been taken and I would point to the launching of upstream support services through the initial efforts of the "Preventative Services Unit" as a key element in integrating INT with Operations. Amongst important upcoming milestones, I would point to the selection of a VP for INT which is well underway and the launching of the selection of the members of the Independent Advisory Board, which should follow discussions with the Audit Committee next week.

We will be scheduling further meetings with the Audit Committee on recommendations relating to the Sanctions Board and to Disclosure in April and May.

One recommendation which will take some time to further design and implement is the transfer of cases not involving significant fraud and corruption to the Ethics Office. A Task Force is to be established, once the new Chief Ethics Officer is appointed, to design and manage the transition with a target date of January 1, 2009 for full implementation. All recommendations regarding changes to staff rights and processes, however, are already being applied.

I want to acknowledge the efforts of the members of the Group who devoted so much of their time to go through these complex issues and I believe that the results and the uptake of the recommendations are evidence of the quality of those deliberations.

jeff



matrix of Action - Volker Report rev1- final. fo doc.doc

MATRIX OF ACTION

INDEPENDENT PANEL REVIEW OF WBG DEPARTMENT OF INSTITUTIONAL INTEGRITY

	RECOMMENDATION	ACTION	RESPONSIBLE UNIT	COMMENTS	FOLLOW-UP FROM WORKING GROUP
1.	(a) INT Director report to President (b) INT Head to be rank of VP	Implemented Decision taken and process launched. Appointment by May 1, 2008	— President/HR		J. Gutman
	(c) Remove title "Counselor to President"	Implemented	—		
2.	Advisory Oversight Board	Discussion in Audit Committee of TOR – March 2008 Appointment of 3 members by July 1, 2008 Secretariat established by June 1, 2008	Zutt/Gutman/White	TORs and Selection Criteria have been prepared and discussion with audit committee on April 2.	J. Zutt/J. Gutman/S. White
3.	INT Consulting Unit	Implemented Budget and staffing for FY09 Under preparation	INT	A Framework for the consulting unit has been set up in INT but the unit is not yet fully staffed. INT to include request for additional resources for staffing in FY 09 budget	J. Zutt

	RECOMMENDATION	ACTION	RESPONSIBLE UNIT	COMMENTS	FOLLOW-UP FROM WORKING GROUP
				request	
4.	Action Plan	Setup staffing, systems, procedures by July 1, 2008	OPCS	OPCS to hire 1 staff person to implement starting July 1	J. Gutman
5.	INT Confidentiality	Incorporate protocol into Policy and Procedures Manual of INT 8.3.4. Publish "Guide to External Investigations" by July 1, 2008	INT		J. Zutt
6.	Disclosure—ongoing investigations to Ops staff	Revise INT External Investigative Manual para 3.8.3 by July 1, 2008	INT/Regions	Applied in Interim	J. Zutt/S. White/J. Gutman
7.	Disclosure—Reports drafts to Ops Staff	Revise INT Policies Procedures Manual para 6.2.4 by July 1, 2008	INT	Applied in Interim	J. Zutt/S. White/J. Gutman
8.	Disclosure to Executive Directors	Codify Disclosure Protocol by July 1, 2008	INT/Legal/OPCS/Audit Committee	Applied in Interim	J. Zutt/S. White/J. Gutman
9.	Disclosure to Funding Partners	Codify Disclosure Protocol by July 1, 2008	INT/Legal/OPCS/Audit Committee	Applied in Interim	J. Zutt/S. White/J. Gutman
10.	INT relation with OPCS/IAD	Implemented	INT/IAD/OPCS	Point person to be nominated by IAD	J. Zutt
11.	Detailed Implementation Reviews	Guidelines for conducting different types of DIRs by July 1, 2008	INT/OPCS	OPCS will develop guidelines	J. Zutt/J. Roome/J. Gutman

	RECOMMENDATION	ACTION	RESPONSIBLE UNIT	COMMENTS	FOLLOW-UP FROM WORKING GROUP
12.	Sanction Board Chair	Implementation details and timing. Meeting with Audit Committee April 2008 Amend sanctions framework R2004-0025/2004 – (TBD)	Legal and OPCS Board	OPCS will appoint Peter Harrold as a point person for issues relating to the Sanctions Board	S. White/J. Gutman
13	Speed of External Investigations	Prepare detailed budget and personnel implications for FY 09	INT/CSR/Sr. Management	INT to request additional resources in FY 09 budget request	J. Scott
14.	Reassignment from INT to Ethics of Internal cases not involving fraud or corruption	Establish Task Force to develop detailed transfer by April 1, 2008. Prepare Budget and staff needs for FY 09 Final Transfer by January 1, 2009	Ethics/INT/HR and Staff Association	Task Force to be established upon appointment of CEO Develop process for transfer and revise staff rules to reflect changes	E. Mennel/J. Zutt
15.	Speed of Internal Investigations	Task Force to take into account # 14	INT / Office of the Chief Ethics Officer once transfer of internal cases has taken place INT/ISG/Legal	Metrics to be established by Task Force (see above)	E. Mennel/J.Zutt
16. (a)	INT Review of Staff emails	Amend Information Security Policy/INT internal procedures by May 1, 2008		Clarify status of implementation and timeliness with Legal and INT.	E. Mennel/J.Zutt

	RECOMMENDATION	ACTION	RESPONSIBLE UNIT	COMMENTS	FOLLOW-UP FROM WORKING GROUP
(b)	Advance notice to staff of allegations before interview	Amend INT Internal Procedures Manual by April 4, 2008	INT	Applied in interim	E. Mennel/J.Zutt
(c)	Staff access to Transcripts ¹	INT Internal Procedures Manual amended on February 20, 2008	INT/HR	Applied in Interim	E. Mennel/J.Zutt
(d)	Staff right to communicate and witness	Amend INT Internal Procedures Manual by April 4, 2008	INT	Applied in Interim	E. Mennel/J.Zutt
(e)	Staff right to prompt receipt of FIR	Amend INT Internal Procedures Manual by April 4, 2008	INT/HR	Applied in Interim	E. Mennel/J.Zutt
(f)	Rights to notice of case status	Amend INT Internal Procedures Manual by April 4, 2008	INT/HR	Applied in Interim	E. Mennel/J.Zutt
(g)	Clarification, codification, and publication of staff rights	Task Force established on February 24, 2008 by Wayne Nardallilo to carry out review and related communications plan	INT/LEG/HR/SA/office of the CEO once the transfer of internal cases has taken place	A second review (and related communication initiative) will be required once the internal cases have been transferred to	E. Mennel/J.Zutt

¹ Amendment to staff rule 8.01 will be addressed by the Task Force established to address staff rights

	RECOMMENDATION	ACTION	RESPONSIBLE UNIT	COMMENTS	FOLLOW-UP FROM WORKING GROUP
				CEO and the modalities of a 'streamlined' procedure for these cases will have been finalized, planned by January 2009	
17.	Diversity/Recruitment	Implementation of INT Action Plan Review and Revise in FY 09	INT/HR		J. Zutt
18.	Measuring/Auditing and Evaluating of INT	Contract assistance to advise on indicators and set forth initial measures as part of FY09 budget	INT	Advisory Board and IEG to Assist	J. Zutt
OTHER					
1.	Volcker Recommendations and related actions into GAC IP	Revision of GAC IP and Posting by June 1, 2008	PREM (GAC Secretariat)/OPCS	—	J. Gutman