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**RE: World Bank Governance**

From: kahudes@aol.com

To: kkodera@worldbank.org

Date: Sun, 30 Mar 2008 1:04 pm

Dear Mr. Kodera,

I am forwarding for your information emails to authorities in the US Congress charged with World Bank oversight, acknowledging the deficient internal control framework documented over the years through the cover-up on the Philippines Banking Sector Reform Loan.

Sincerely, Karen Hudes

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

**Fwd: RE: World Bank Governance**

From: kahudes@aol.com

To: Chris\_Armstrong@finance-rep.senate.gov

Date: Sun, 30 Mar 2008 12:30 pm

Chris,

I am forwarding to you an email I received from the European Commission's anti-fraud office ("OLAF"), informing me that the Executive Directors in the World Bank representing the European member governments are "well apprised of all relevant issues at the Bank". As I mentioned to you, OLAF participated in the work of the Volcker Panel, and I hand delivered documentation on the cover-up of the Bank's supervision mistakes on the Philippines Banking Sector Reform Loan to Mr. Roberts at the time.

From: kahudes@aol.com

To: MelitoT@gao.gov; Michele.Sumilas@mail.house.gov

Sent: Sun, 30 Mar 2008 12:39 pm

Subject: Fwd: RE: World Bank Governance

Dear Mr. Melito and Ms. Sumilas,

I am forwarding to you an email I received from the European Commission's anti-fraud office ("OLAF"), informing me that the Executive Directors in the World Bank representing the European member governments are "well apprised of all relevant issues at the Bank". OLAF participated in the work of the Volcker Panel, and I hand delivered documentation on the cover-up of the Bank's supervision

mistakes on the Philippines Banking Sector Reform Loan to Mr. Roberts, who was serving as Counsel to the Volcker Panel, at the time.

Please let me know whether GAO intends to conduct an independent audit of the World Bank's internal controls. Mr. Roberts alludes to a discussion among European Executive Directors at the World Bank and OLAF about governance at the World Bank. The probity of US oversight of the World Bank in light of the cover-up on the Philippines Banking Sector Reform Loan would dictate the requirement for such an independent audit.

Best, Karen

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

From: [Paul-Lachal.ROBERTS@ec.europa.eu](mailto:Paul-Lachal.ROBERTS@ec.europa.eu)

To: [kahudes@aol.com](mailto:kahudes@aol.com)

Cc: [Franz.Bruener@ec.europa.eu](mailto:Franz.Bruener@ec.europa.eu); [emilysbolton@gmail.com](mailto: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

---

**From:** [kahudes@aol.com](mailto:kahudes@aol.com) [<mailto:kahudes@aol.com>]

**Sent:** Tue 3/25/2008 1:50 PM

**To:** ROBERTS Paul Lachal (OLAF)

**Subject:** Re: World Bank Governance

Dear Mr. Roberts,

I am writing you because OLAF is aware that the Volcker Panel did not

adequately address the sinister role of the World Bank's Institutional Integrity Department in preventing staff from reporting misconduct to the World Bank's Board of <sup>Executive</sup> Institutional Directors. As a lawyer familiar with the mandate of the legal department under the Articles of Agreement in maintaining rule of law in the governance structure of the World Bank, I have thoroughly documented these severe control lapses and impressed upon the US Congress the urgent need to restore proper governance.

Since the World Bank's Independent Evaluation Group is implicated in the ongoing cover-up, their integrity to properly evaluate the World Bank's internal controls is impeached. I have met with the relevant Congressional oversight Committees in order to require an independent audit of the World Bank's internal controls.

I have also informed Ms. DuFort about proposals to fully integrate the EC in a proposed global partnership with the World Bank on rule of law and governance. I request OLAF to inform member governments about the current crisis in governance at the World Bank.

Sincerely,  
Karen Hudes

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

From: [kahudes@aol.com](mailto:kahudes@aol.com)  
To: [geraldine.dufort@ec.europa.eu](mailto:geraldine.dufort@ec.europa.eu)  
Sent: Fri, 7 Mar 2008 3:47 pm  
Subject: Re: World Bank Governance

Geraldine,

I am a US lawyer who studied development economics at the University of Amsterdam and worked in the legal department of the World Bank for many years. I was fired for insisting that the US leadership at the Bank respect the rules. In December 2006 I informed Mr. Wijffels, the Dutch Executive Director, that I would alert the US government about a crisis in governance at the World Bank. In September 2007 Ms. Riny Bus of the Dutch Ministry of Foreign Affairs suggested that I involve the Washington office of the EU, and I have been informing Mr. Nagarajan about my progress. I am also forwarding an email from another World Bank staffmember who was fired for trying to prevent corruption in an education project in Kenya and then reinstated. Ms. Yoon has also raised questions about INT's independence.

The US Congress has been apprised about the severity of the crisis. What is the European Union's position on the need to restore rule of law at the World Bank and the concrete steps to be taken?

Sincerely, Karen Hudes

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

From: [yangyoon@aol.com](mailto:yangyoon@aol.com)

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Department of Justice is also scheduled to meet with a representative of the Senate Finance Committee. This Committee also heard the Treasury Department.

At these meetings, I would like to speak about my view of the European Union's approach to the World Bank. I have written a letter to the Senate Finance Committee on 3/3/08.

Sincerely, Karen Hudes

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

From: [kahudes@aol.com](mailto:kahudes@aol.com)  
 To: [erin\\_vaughn@schumer.senate.gov](mailto:erin_vaughn@schumer.senate.gov)  
 Sent: Fri, 7 Mar 2008 7:12 am  
 Subject: World Bank in Governance Crisis

The Joint Economic Committee should tackle an ongoing governance crisis at the World Bank by requesting the Government Accountability Office to investigate internal control lapses. The World Bank has continued to violate 2006 appropriations legislation requiring whistleblower protections at the multilateral development banks -- its proposed whistleblower policy would eliminate any due process protection available to the World Bank's whistleblowers. The proposed whistleblower policy also prevents staff from reporting misconduct to the Board--they are directed to report only to their manager or to the Bank's Institutional Integrity Department ("INT").

I worked for 20 years in the World Bank's legal department, and was fired after reporting a cover-up to the Board and the Senate Committee on Foreign Relations. The World Bank rated its supervision performance as satisfactory although the banking sector project in the Philippines ended in failure and corruption. Last September, Estrada, the former president of the Philippines, was ordered to repay the commissions he received for the sale of stock in Philippines National Bank held by government employee pension funds. I was reassigned from the project after requesting the Country Director to warn the Government that the conditionality in the project was not met, and the country's banking laws were being violated. PNB failed and had to be bailed out for \$500 million; \$200 million was canceled from the project, together with \$200 million in matching loans from the Japanese.

The Dutch Government asked the Audit Committee to look into my case, and the Chair of the Audit Committee referred the matter to INT. INT ignored the governance questions I flagged, but spent \$1 million in a vicious personal attack. The Volcker Panel told me that it was not an ombudsman, and did not address the internal control lapses involved in INT's "goon squad" malfunctioning or the continuing cover-up. The Board is troubled that Mr. Zoellick circumvented the necessary Board approval for the proposal to appoint an independent panel to supervise INT.

The Staff Association has stated that other staff are intimidated from reporting misconduct after I was fired. But the Administrative Tribunal refused to consider the Staff Association's statement of support. Another whistleblower at the Bank (who was fired for trying to prevent corruption in an education project in Kenya and then reinstated) has been raising questions about INT's independence.

Sincerely, Karen Hudes

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

From: [kahudes@aol.com](mailto:kahudes@aol.com)  
 To: [Senator@schumer.senate.gov](mailto:Senator@schumer.senate.gov)  
 Cc: [chris\\_frenze@jec.senate.gov](mailto:chris_frenze@jec.senate.gov); [Chris\\_Armstrong@finance-rep.senate.gov](mailto:Chris_Armstrong@finance-rep.senate.gov)  
 Sent: Tue, 4 Mar 2008 2:31 am  
 Subject: Fwd: World Bank: INT as a tool of managerial harassment

The reputation of the United States for probity in the governance of the World Bank is very much at stake. I am forwarding a letter to this effect from the President of the World Bank's Staff Association, and an open letter sent by another whistleblower at the World Bank, concerning the World Bank's General Counsel and Mrs. Laufer, the head of the Mediation

Office. Mrs. Laufer had tried to assist me in resolving my case through mediation. It does not do to fire persons who defend rule of law at the World Bank.

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

From: [yangrooon@aol.com](mailto:yangrooon@aol.com)

Sent: Fri, 29 Feb 2008 12:57 am

Subject: World Bank: INT as a tool of managerial harassment: the example of Ms. Ana Palacio

Please find forwarded an open email sent out today. Best, Yang

----- Forwarded by Yang-Ro Yoon/Person/World Bank on 02/29/2008 12:30 AM -----

Yang-Ro Yoon

02/29/2008 12:28 AM  
37520 WBIHD

To  
EDS EDS and ALTERNATES  
cc  
EXC Correspondence Unit, MDW Roster,  
MDD Roster, MDO Roster, CRR ALL, SA  
Office, WBI Staff, AFR Staff, ECA  
Staff All, LCR Roster, EAP Roster, SAR  
Roster, MNA Roster, LEG Roster, IEG  
Roster, OPC Roster, SFR Anchor Team,  
SDN Roster, FSE Staff, MIG Roster, PRM  
Roster, CFP Roster, FPD All, DEC  
Roster, HDN Roster, EXC Staff, HRS  
Roster, EXT Roster, EDS ALL STAFF, FPD  
Network Members, FSE Sector Members,  
PREM Network All, SDN Network Members,  
HD Sector Members, HD HQ Network  
Members, HD CO Network Members  
Subject  
INT as a tool of managerial  
harassment: the example of Ms. Ana  
Palacio

Dear Mr. Kvasov,  
Dear members of the Board:

The contract of Ms. Deborah Laufer as Manager of Mediation Services (MEF) expired on Wednesday, February 27, 2008. As I described in some detail in my last (February 24, 2008) email to Mr. Zoellick, in view of Ms. Laufer's high professional standards and very successful tenure, her forced departure represents a great loss to the Bank. Since the Mediation Services have been the only functional part of the entire Conflict Resolution System (CRS) in recent years, and since no credible business explanation of her departure has been given, this seems to be the final proof of the Bank's complete lack of sincerity in its pursuit of the so-called "CRS reform" (if such proof is needed).

Today, I want to draw your attention to a different, in many respects even more disturbing aspect of this case, namely what seems by all appearances an improperly motivated and highly unethical manner in which Ms. Laufer was forced to leave, and in particular to the use of the Department of Institutional Integrity (INT) as a tool of harassment by the Bank's General Counsel, Ms. Ana Palacio. The Board is in the unique position to take on this case, since the Bank's internal mechanisms (in particular: the INT and the Ethics Office) are evidently unable to do so.

The credibility of INT reform is at stake

The present case has wide ramifications for the credibility and prospects of the Bank's governance and anti-corruption (GAC) efforts, especially for the ongoing reform of INT. In particular, the Laufer case exposes a grave deficiency of the Volcker Report on which the current reform plans are based, namely the failure to recognize the INT's use as a managerial weapon against selected staff, an issue that previously was widely acknowledged as crucial for the credibility of any INT reform worth its name. Indeed, in the February 22, 2007 Townhall meeting, then President Wolfowitz had explicitly promised to include this issue in the TOR of the Volcker Panel; see my attached October 15, 2007 email to Mr. Zoellick. The Volcker Panel's disregard appears to have been

quite deliberate; for example, it appears that the Panel was briefed in some detail about key aspects of the present case by both members of the CRS and a member of the board, but nonetheless completely excluded this important issue from its purview.

(See attached file: Yoon-em to Mr Zoellick-101507 .doc)

Notwithstanding outward appearances (cf. e.g. SA Chair's February 25, 2008 Note attached below), Ms. Laufer's fixed-term contract did not expire simply as the result of ordinary managerial discretion. To the contrary, Ms. Laufer's forced departure had been prepared systematically by Ms. Ana Palacio, the General Counsel of the Bank. The present summary of Ms. Palacio's dealings with Ms. Laufer substantially expands on the earlier account in my February 24, 2008 email; it also repeats and slightly corrects some parts of this earlier message.

(See attached file: Note from the SA Chair-February 25, 2008.doc)

Shortly after the Mediation Office was formally placed under the auspices of the General Counsel in clear violation of the letter and spirit of Staff Rule 9.1, thereby contradicting earlier verbal commitments by both then Managing Director Shengman-Zhang and subsequently then chief of staff, Letitia Obeng, Ms. Ana Palacio told Ms. Laufer in November 2006 that she could not be confirmed without additional OPEs.

Using the INT as tool of psychological blackmail

An interim OPE meeting was therefore held in January 2007. During that meeting, Ms. Palacio agreed that while the performance of the Mediation Office had improved, not everyone was impressed by Ms. Laufer. In particular, for the first time, Ms. Palacio revealed the existence of an ongoing INT investigation against Ms. Laufer and alleged that its findings cast serious doubt on her professionalism; as a result, she would need to put Ms. Laufer on a 3-month PIP (Performance Improvement Plan). While Ms. Laufer insisted on knowing details of the charges and findings of the investigation, Ms. Palacio was unwilling to reveal them, citing "confidentiality?". To this very day, in flagrant violation of the most basic notions of due process and common fairness, Ms. Laufer has never been allowed to know the allegations against her, let alone the findings of the investigation. Not having been charged with misconduct, she was never able to clear her name. To the contrary, the Bank has been adamant in keeping its file open, as if to keep the threat of tarnishing her reputation alive even after she left the Bank.

Perhaps to add some spice, during the January 2007 meeting, Ms. Palacio alleged that in the course of the investigation at least 50 people had been interviewed. There is no need to explain the threat and potential damage to Ms. Laufer's professional reputation and very ability to function entailed by such a wide-ranging investigation. Of course, it is precisely the likelihood of such (frequently irreversible) damage that mandates restricting INT investigations to situations in which they are absolutely necessary; there is no indication of any such restraint in the present case. As a matter of fact, it is quite unclear whether or not so many people had indeed been interviewed; Ms. Palacio may well have grossly inflated the figure to inflate her psychological leverage over Ms. Laufer.

?Sign ? or you are fired!?

The PIP meeting was held on February 6, 2007. While Ms. Palacio still was not willing to divulge what charges or incidents were the basis for the INT investigation, she now alleged that INT had identified a number of ?weaknesses? in Ms. Laufer. Ms. Palacio had prepared a long document that was supposed to represent a contract of sorts for the PIP, and asked Ms. Laufer to sign it on the spot. When the latter asked her to read the document overnight before signing it in view of its length and complexity, Ms. Palacio retorted that if Ms. Laufer did not sign the document "here in the room", she would be fired. Left without alternatives, Ms. Laufer proceeded to sign, adding a written remark that she was forced to sign under duress. Ms. Palacio reacted furiously and predicted that "this act will be held against you".

Ms. Palacio's true understanding of confidentiality

Ms. Palacio's true understanding of confidentiality was revealed in March of 2007, when she requested in writing all confidential memoranda of the mediation office plus a log of all clients who either met in the mediation suite or spoke with a mediator, again in flagrant violation of Staff Rule 9, not to mention the universally-accepted international definition of confidentiality in mediation.

Ms. Laufer's ?lack of cooperativeness?

We have only to thank Ms. Laufer's integrity that this massive breach of staff trust did not become reality. But, of course, it did not ingratiate her with Ms. Palacio who, two months later in May 2007, judged the outcome of the PIP to be ?inconclusive? on the grounds that Ms. Laufer was not sufficiently ?cooperative? with her ? I guess, she had a point there! As detailed in my last email, this ?inconclusive? assessment flew in the face of all available

objective evidence, in particular of the independent external Mediation Exit Survey. Another OPE was initiated in June 2007 but never completed. In November 2007, Ms. Laufer was notified by the Acting VP HR, Ms. Aulikki Kuusela, that her fixed-term contract would be allowed to expire on February 27, 2008.

That much dirt to hide

If the Bank's senior management has that much dirt to hide, how can they tolerate propriety in their midst? And how could they ever be expected to allow a CRS to develop that would ensure a minimum of transparency and accountability, unless they are forced to do so?

The corrosive effect on staff morale

The nonchalant mean-spiritedness and the demonstrative expectation of being able to act with complete impunity exhibited by Ms. Palacio's actions are quite startling, or at least should be, if we were not so much used to such things. Their corrosive cumulative effect on staff morale cannot be underestimated. The following response to my February 25, 2008, emails is unusual only in the choice of words, not in the sentiment that it expresses: ?I 'would' say that it is unbelievable to me how Bank management gets away with such blatant and immoral mismanagement. But after 13 years in the Bank, I have grown jaded and cynical as I learned just how much the Bank is basically just a tool of evil forces, a place where accountability, responsibility and sensibility are unwanted principles? ? what does it take to arrive at the conclusion that one has been and will be devoting a large part of one's life to ?just a tool of evil forces???

The need for an ethical investigation

As documented above, Ms. Palacio appears to have committed multiple, serious violations of fundamental staff rules. The systematic, manipulative and crassly abusive nature of her ?handling? of Ms. Laufer are strongly indicative of improper motivation. At the same time, Ms. Laufer's independence and impartiality provided Ms. Palacio with a compelling motive. Taken together, this constitutes strong prima-facie evidence of managerial misconduct emanating from the highest levels of Bank management. Since this (apparent) misconduct centrally involves the use of INT as a managerial weapon against targeted staff, it threatens to fatally undermine the credibility of the INT in its proper use, namely the fight against corruption.

Two years ago, in the context of Rizagate, the important precedent was established that no staff member of the Bank is exempt from following the Staff Rules, not even the Bank's president. In view of the elevated position of the accused, it was left to the Bank's Board to thoroughly investigate the merits of the accusations against then-President Wolfowitz. In the present case, there again are strong indications of multiple, severe violations of Bank staff rules which in many ways are arguably even more pernicious and ethically questionable than those of Mr. Wolfowitz.


An ethical investigation of Ms. Palacio's actions is therefore strongly mandated. Since there evidently is no viable internal venue of doing so, this undesirable task falls to the Board. I very much hope that, by taking this task upon itself, the Board confirms that its actions in the context of Rizagate were based on principle rather than political calculation. This would represent a major step forward in re-establishing the credibility of the Bank's governance and anti-corruption (GAC) efforts.

Sincerely,  
Yang-Ro Yoon

Yang-Ro Yoon  
Senior Human Development Economist  
WBIHD  
World Bank  
Phone: 202-473-7520  
email: [yoon@worldbank.org](mailto:yoon@worldbank.org)

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**Re: World Bank**

From: kahudes@aol.com  
 To: Chris\_Armstrong@finance-rep.senate.gov  
 Date: Thu, 27 Mar 2008 1:49 pm

Dear Chris,

Thanks for your email, and glad to hear that you're looking at the World Bank information this afternoon. I'll be happy to answer any questions. My cellphone is 202 316 0684.

Since we spoke last week, I understand from Michele Sumilas on the House Appropriations Committee that she met with GAO's Tom Melito yesterday. I sent them the attached talking points on lapses in the Bank's internal control framework, and hope that you all can ensure that IEG's upcoming report on the World Bank's internal control framework possesses the necessary candor and independence.

Best, Karen

**Re: World Bank Internal Controls**

From: kahudes@aol.com  
 To: MelitoT@gao.gov  
 Cc: Michele.Sumilas@mail.house.gov  
 Date: Tue, 25 Mar 2008 5:36 pm

Dear Mr. Melito,

Further to our conversation today, I understand from Michele Sumilas that she is meeting with you tomorrow to discuss the World Bank's deficient internal controls. I hope that you will discuss at your meeting how the imminent Independent Evaluation Group's review of IDA Internal Controls can be considered as independent when my case demonstrates irrefutably that IEG is implicated in the Bank's deficient control environment. I was fired for requesting IEG to correct their evaluation of the Bank's supervision performance on the Philippines Banking Sector Reform Loan as satisfactory. ([http://inweb18.worldbank.org/oed/oeddoclib.nsf/DocUNIDViewForJavaSearch/40198CB36C53E297852571C40070183B/\\$file/ida\\_controls\\_approach\\_paper.pdf](http://inweb18.worldbank.org/oed/oeddoclib.nsf/DocUNIDViewForJavaSearch/40198CB36C53E297852571C40070183B/$file/ida_controls_approach_paper.pdf)).

INT's flawed report trying to discredit me to the Bank's Audit Committee on the Philippines Banking Sector Reform Loan represents a further internal control lapse. INT continued the cover-up, even after I requested Mr. Zutt February 1, 2008 to correct INT's defective report to the Audit Committee. The Board has been further excluded from considering the proposal to appoint an advisory board, located in the Bank's Operations Group, to oversee INT. This represents another serious failure to respect the authority of the Board under the World Bank's Articles of Agreement.

I was fired in July notwithstanding the intervention of the Senate Committee on Foreign Relations on my behalf. The Bank's Staff Association has gone on record in my case that staff are intimidated from reporting wrongdoing for fear of reprisals. On March 21, I requested Judith Laufman in the US ED's Office, and Mr. Zoellick's chief of staff, Caroline Anstey, to reinstate me at the World Bank. I also requested the Bank's Ombudsman, Thomas Zgambo, to follow up with Judith Laufman and Caroline Anstey. The Bank's internal controls will remain deficient so long as my wrongful discharge has not been corrected through my reinstatement at the Bank.

Best, Karen

---Original Message---

From: Armstrong, Chris (Finance-Rep) <Chris\_Armstrong@finance-rep.senate.gov>  
 To: kahudes@aol.com  
 Sent: Thu, 27 Mar 2008 11:18 am  
 Subject: World Bank info

Hi Karen:

I'll be going over the World Bank info later today after wrapping up another project. Just wanted to let you know I was still looking -- I'll send any questions I might have your way.

Hope you had a great weekend,

Christopher Armstrong  
 Investigative Counsel  
 U.S. Senate, Committee on Finance  
 The Honorable Chuck Grassley, Ranking Member



5203 Falmouth Road  
Bethesda, MD 20816  
March 21, 2008

Mr. Thomas Zgambo  
Ombudsman  
MC12-581  
Washington, DC 20433

Dear Mr. Zgambo,

Thank you for meeting with me yesterday. I have requested Ms. Judith Laufman and Ms. Caroline Anstey to end the cover-up on the Philippines Banking Sector Reform Loan in advance of IEG's upcoming report on the World Bank's internal controls.

I would be grateful for any assistance in my reinstatement.

Sincerely,

  
Karen Hudes

Enclosure

**THE WORLD BANK**

**ADMINISTRATIVE APPEALS—APPEALS COMMITTEE**

**IN THE MATTER OF**

**KAREN HUDES**

**Appeal Nos. 1404, 1426 and 1431**

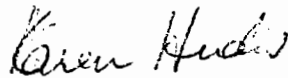
**Reinstatement and Discovery**

1. **Lotus Notes.** Appellant objects to the current deadline for filing additional documents because Respondent is not in compliance with the Panel's previous instructions to Respondent that Appellant have access to her Lotus Notes archives. Appellant is not able to provide additional relevant documentation until she has a complete copy of her Lotus Notes archives.
2. Appellant therefore respectfully requests the Appeals Committee to instruct Respondent to provide Appellant with a complete working copy of her Lotus Notes archives. Appellant submits that her two weeks to provide additional documents can only commence once Respondent has complied with the instructions of the Appeals Committee.
3. **'Human Resources' Failure to Document Appellant's Candidacy for General Counsel.** The probity of the World Bank's Conflict Resolution System depends upon the integrity of its discovery process. The Panel needs to reconsider at this time its February 15, 2008 decision to delay Appellant's request for discovery into Russell Reynolds' advice to the Bank concerning compliance problems and the ongoing lapses in the Bank's internal controls. The Appeals Committee has no other way of learning the truth. The Appeals Committee cannot be considered as a proper forum for adjudicating

whistleblower retaliation cases when its discovery process leads to prevarication and obfuscation.

4. **Provisional Remedies.** Appellant requests the Appeals Committee to reconsider at this time its decision to deny Appellant's request for provisional remedies. There is an increasing risk that the Bank's ongoing control lapses may enter the public domain in connection with IEG's imminent certification of the Bank's control framework. After Appellant was wrongfully discharged, the Staff Association reported the chilling effect that this has had upon other staff considering whether or not to report misconduct. (See Annex 1). As counseled by Russell Reynolds, it is incumbent upon the Bank to reinstate Appellant, to end the cover-up on the Philippines Banking Sector Reform Loan, and to resolve its governance crisis.

Respectfully submitted,



Karen Hudes

March 21, 2008

**MEMORANDUM**

To: The World Bank Administrative Tribunal  
From: The World Bank Staff Association  
Date: December 7, 2007  
Re: Karen Hudes v. IBRD, WBAT Case No. 07/3  
Statement of Support

World Bank  
ADMINISTRATIVE TRIBUNAL  
DEC 07 2007  
RECEIVED BY  
THE EXECUTIVE CLERK BY

---

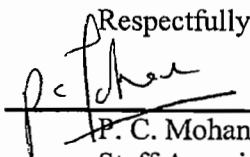
As Chair of the World Bank Staff Association I am writing to advise the World Bank Administrative Tribunal that the Staff Association supports the application of Karen Hudes and opposes its dismissal on jurisdictional grounds as sought by the World Bank, (WBAT Case No. 07/3). Understanding the limitations imposed by Rule 14 of the Administrative Tribunal we do not address the arguments made by either party in this dispute. Rather, our intention is to simply make the members of the Administrative Tribunal aware of our position in this matter.

The Staff Association firmly believes that the integrity of the Bank depends in large part upon its willingness to comply with the terms of agreements it has reached with staff members. Violations of a Memorandum of Understanding ("MOU"), as alleged by Ms. Hudes, not only undermine the credibility of this institution but damage the morale of its workforce.

This impact is particularly harmful when the MOU is intended to address retaliation against an individual who has reported suspected misconduct to the Bank's officers. Violating such an agreement invariably deters other staff members from advising their superiors of wrongdoing. In signing the MOU the Bank agreed to put an end to retaliation against Ms. Hudes; by violating its express terms the Bank instead compounded the misconduct.

Based upon these extraordinary circumstances, the Staff Association urges the Administrative Tribunal to reject the Bank's jurisdictional challenge and to adjudicate her application on the merits.

Respectfully submitted,

  
P. C. Mohan

---

Staff Association Chair

Karen Hudes  
2203 Falmouth Road  
Bethesda, MD 20816  
March 9, 2008

Ms. Michele Sumilas

House Appropriations Subcommittee on Foreign Operations, H-218

U.S. Capitol, Washington, D.C. 20515

Dear Ms. Sumilas,

I have been urging the US Treasury Department for three years to end a cover-up at the World Bank. Last Spring, I informed the US State Department that the US could lose the presidency of the World Bank if US leaders at the Bank did not respect principles of corporate governance. The Senate Committee on Foreign Relations reinforced this message, but unfortunately to no avail. (See attached correspondence.)

Instead, it is proposed to bypass necessary Board of Executive Directors' approval for an outside advisory panel that would duplicate important functions of the Board's Audit and Evaluation Committees. Unfortunately, the Bank's shareholders view this proposal in the context of unresolved internal control lapses. Last week, the General Counsel, Ms. Ana Palacio, tendered her resignation.

It is necessary to restore confidence in the probity of US oversight at the World Bank without further delay.

Sincerely,

*Karen Hudes*  
Karen Hudes

Enclosures

5203 Falmouth Road  
Bethesda, MD 20816  
February 14, 2008

Mr. Raino Perring  
Australian Embassy  
1601 Massachusetts Ave NW  
Washington, DC 20036

Re: World Bank Whistleblower Policy

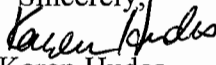
Dear Mr Perring,

The proposed whistleblower policy for the World Bank does not offer adequate protection. The proposal prevents whistleblowers from reporting wrongdoing to the World Bank's Board of Executive Directors; instead they are to go to the Institutional Integrity Department. The period for public comment on the proposal ends February 22, 2008. See the World Bank's external website at:  
<http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:21624514~pagePK:64257043~piPK:437376~theSitePK:4607,00.html>

As a lawyer who had worked in the World Bank's legal department for twenty years, I was fired from the World Bank on August 1, 2007 in retaliation for my having informed the Audit Committee of the Board about an ongoing cover up at the World Bank. As you can see from the attached documentation, the internal grievance process in the World Bank offers scant protection.

The World Bank's Staff Association has informed the Administrative Tribunal that any staff member would be too intimidated to report wrongdoing after what happened to me. But the President of the Tribunal refused to provide this information to other judges on the Tribunal. Instead, he has allowed the World Bank's Legal Department to file altered documentation with impunity, and has agreed to another six month delay in my case.

I hope that the Australian Government will act before the February 22, 2008 deadline for comment on the proposed whistleblower protection policy. At the close of the World Bank's Annual meeting on October 21, 2007, Mr. David Parker, on behalf of the Australian Treasury Department, asked all constituencies, the President of the World Bank, and the management of the World Bank to work to improve the operations of the Board as a governance process. The proposed whistleblower policy will impede the Board's access to information and obstruct the governance reforms called for by the Australian government.

Sincerely,  
  
Karen Hudes

Enclosures

Karen Hudes  
5205 Falmouth Road  
Bethesda, MD 20816  
December 14, 2007

Senator Chris Dodd  
448 Russell Building  
Washington D.C., 20510

Dear Senator Dodd,

I have been inspired by your father's heroic quest for justice, as recounted in *Letters from Nuremberg*. The legacy of rule of law which Tom Dodd left the United States is currently being undermined at the World Bank. As one of the sponsors of Sarbanes Oxley legislation, and a member of the Senate Foreign Relations Committee I would like to ask for your help in restoring my job in the World Bank's Legal Department. The World Bank's Staff Association believes that my dismissal has undermined the credibility of the World Bank, damaged the morale of its workforce, and deters other staff members from advising their superiors of wrongdoing.

I would like to return to the World Bank in order to assist the American Bar Association, the United Nations Development Programme, the International Legal Assistance Consortium, and the Center for International Legal Cooperation establish a global partnership for rule of law. The global partnership would assist civil society organizations combat unfavorable legislation- work that I started as chair of the ABA's NGO Committee. Your father's efforts in the Nuremberg trials, at great personal sacrifice to your family, helped to demonstrate the moral authority of the United States.

[REDACTED]

Your father discussed with J. Edgar Hoover the dangers of concentrating power in investigating agencies. Yet it is currently proposed to give just such responsibility for protecting whistleblowers to the World Bank's Institutional Integrity Department (INT). This agency has justly earned the opprobrium of World Bank Staff because "management has used INT to perform punitive investigations on scanty evidence, or ...doing the reverse--calling off a warranted investigation." INT first refused the Bank's ethics officer request to investigate my case, and then when the Dutch Government asked the Audit Committee to intervene, INT issued a flawed report which sought to discredit me.

Mr. Wolfowitz appointed Paul Volcker to head an investigation of INT. The Volcker Report was issued in September. The Volcker Panel side-stepped the fundamental governance issue arising from INT's retaliation against whistleblowers. The Panel said that it had no mandate to report on individual cases of alleged wrongdoing and merely recommended removing INT's mandate to investigate retaliation cases. Board members are concerned at the Volcker Panel's failure to address one of the primary reasons for the entire exercise and the limited role proposed for Board oversight.

I would appreciate if you would help to restore the confidence of World Bank staff in the probity of US oversight of the World Bank by reinstating my job in the World Bank's Legal Department.

Sincerely,

  
Karen Hudes

Enclosures

[REDACTED]



April 5, 2007

Mr. Russell Munk  
Assistant General Counsel for  
International Affairs  
US Department of the Treasury  
1500 Pennsylvania Avenue, NW  
Washington, DC 20220


Dear Russell,

I can attest to the fact that whistleblowers are an endangered species at the Bank. I am sending you a copy of the latest email correspondence with my supervisor, David Freestone, and the Legal Department's Human Resources Officer, Pauline Ramprasad. David and Pauline seem intent on a witch-hunt, using a disgruntled consultant as a vehicle. Moreover, the Bank is still insisting on the enforcement of a Memorandum of Understanding, which requires me to leave my employment with the World Bank on July 31, 2007. I brought a case on this issue in the Administrative Tribunal on March 22, 2007. The Administrative Tribunal has already failed once on my previous case.

The Bank's Audit and Personnel Committees are meeting on April 25, 2007 to consider a draft whistleblower policy. I have not seen the current draft of the policy, but previous drafts were far from best practice. In any event, without an independently functioning conflict resolution system, human resources system, and Institutional Integrity Department, whistleblower protections will not be enforceable.

I am forwarding a draft memorandum to the Secretariat of the Audit Committee. I have asked Nilmini Rubin and Jay Branegan on the Senate Foreign Relations Committee for their advice on whether it is advisable for me to send it.

Best,

  
Karen Hudes

Enclosures

# OFFICE MEMORANDUM

DATE: April 20, 2007

TO: Mr. Pierre Duquesne, Chairman of the Audit Committee  
Mr. Alexey Kvasov, Chairman of the Personnel Committee

FROM: Mr. Paul Wolfowitz

EXTENSION: 80198

SUBJECT: Whistleblower Protection

Whistleblower protections are required for internal control, by protecting the upward communication of problems and preventing retaliation from occurring. The Personnel Committee of the Board has previously recognized that the primary benefit of whistleblower protections and CRS are their efficacy in preventing reputational risk.<sup>1</sup>

The World Bank Group's whistleblower protection policy must rest upon a realistic assessment of systemic issues that would undermine a whistleblower's confidence that disclosures would be protected and that there would not be any retaliation. In 1997 as part of the Strategic Compact with the Board, it was recognized that reform was required in order to increase accountability and transparency. The Issues Note for the Human Resource Strategy & Reform Agenda provided:

“[I]t is also critical that we seek actively to establish a partnership: between management and the Board, and between management and staff, to realize the vision for the new Bank.”

The Human Resources Vice Presidency has not continued its institutional mandate under the Strategic Compact to promote increased transparency and accountability. Instead, a case which arose in 2000 in the Philippines illustrates systemic weaknesses in the Bank. Pieter Stek, the former Dutch Executive Director, and Chair of the Board's Audit Committee and Committee on Development Effectiveness, has described the case as follows:

“Karen [Hudes]<sup>2</sup> 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

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<sup>1</sup> Conflict Resolution System Report to the Personnel Committee of the Board – CY2004 PC2005-0004 for Meeting March 28, 2005, Attachment 1 Conflict Resolution System Costs and Comparators, page 15.

<sup>2</sup> Ms. Hudes was the country lawyer for the Philippines from 1998-2000. During that time she worked with the Chief Justice, Hilario J. Davide, to launch a multi-donor judicial reform program. On December 15, 2005 the Philippines judiciary gave her an award in recognition of the quality of the judicial sector assessment that she task managed which provided a basis for the judicial reform program.

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 [Wolfensohn]). ...

In my opinion, somebody in the Bank needs to be interested and brave (staff) or a bit brave (Board). By far the most elegant way forward would be for the Audit Committee to discuss the material case from the point of view of whether the accusations against the handling of the case are correct and, if so, whether there could be a systemic aspect to this kind of failure.

One thing in my view is certain: if the truth is withheld from the Board and the Board does not even react when it has indications that this may be the case, the Board is negligent in exercising its responsibility and, therefore, also at risk. An underlying issue is whether a staff member has the duty to inform the Board if he or she hits upon a cover-up. Is one's duty towards the Bank or towards one's bosses? The parallels with other corporate, US Administration, and European Commission cases is obvious, not to speak of broader and more emotional analogies from recent history."

### **Philippines Banking Sector Reform Loan**

As the lawyer on the Philippines Banking Sector Reform Loan, Ms. Hudes attempted in 2000 to prevent the take-over of Philippine National Bank by Lucio Tan, the owner of Philippine Airlines, and a crony of then-President Estrada. Vinay Bhargava, the Country Director at the time, did not want to raise this issue with the Estrada Government, and he refused to warn the Government during the take-over that the tranche release conditionality requiring the transparent privatization of PNB could not be met. Instead, Mr. Bhargava requested the Legal VPU to reassign Ms. Hudes a week before the decision meeting recommending disbursement of the Banking Sector Reform Loan.

In 2000 Estrada was impeached for bribery, corruption, betrayal of public trust, and violation of the Constitution. The Banking Sector Reform Loan ultimately resulted in a \$500 million banking failure, cancellation of \$200 million from the Bank Loan, and cancellation of \$200 million in cofinancing from Japan. The Operations Evaluation Department's evaluation of the Banking Sector Reform Loan attributes all of the responsibility for the unsatisfactory performance of that operation to the Government of the Philippines, and states that the Bank's supervision of that Loan was satisfactory.

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In a meeting on January 6, 2001, Pieter Stek and Ms. Hudes informed Jim Wolfensohn that the Legal VPU had reassigned Ms. Hudes at the request of the Country Director when she was requiring Board approval for the change in loan conditionality on the Philippines Banking Sector Reform Loan. Although Mr. Wolfensohn said at the meeting that he intended to refer the matter to outside counsel, he subsequently changed his mind, and he referred this matter back to the Bank's General Counsel at the time, Mr. Ko-yung Tung.

Mr. Tung did not assume the institutional function that the Bank's General Counsel must provide in serving both the Board and management. Instead, Mr. Tung provided cover for an institutional campaign to suppress information to the Board by retaliating against Ms. Hudes when she tried to correct OED's evaluation of the Banking Sector Reform Loan. The Ethics Officer, Jacqueline Gates, had been attempting to defend Ms. Hudes by requesting the Institutional Integrity Department to investigate the ongoing retaliation. On January 8, 2003 the Institutional Integrity Department declined to open an investigation, and Ms. Gates resigned in frustration. Roberto Danino, who succeeded Mr. Tung as the Bank's General Counsel, exacerbated matters by continuing the campaign of retaliation against Ms. Hudes and compromising the Bank's conflict resolution system as a result.

A diagram of the World Bank's Management Control Structure and chronology of lapses in internal controls are at Tab 2. In an email of January 13, 2005, the Ministry of Foreign Affairs of the Netherlands requested a discussion of the matter in the Audit Committee (see Tab 3). This discussion has never taken place.

The Bank's Administrative Tribunal Decision perpetuated the cover-up; an annotated decision is at Tab 4. The Institutional Integrity Department's various memoranda and correspondence did not demonstrate the required independence (see Tab 5). Ms. Hudes' responses to INT's findings are at Tab 6.

### **Conclusion**

UN reform of whistleblower protections was ineffective without an independently functioning CRS. There needs to be fundamental reform to obtain the required independence of INT, HRS and the Conflict Resolution System. In order for rule of law within the Bank to prevail, whistleblowers need to be assured of protection rather than retaliation. The draft policy needs to be redrafted to provide for best practice protections: to prevent staff from being involuntarily placed on administrative leave; to provide for external arbitration based on mutual consent of selection and a sharing of costs; and to entitle a whistleblower who successfully proves retaliation to reinstatement.

## Governance at the World Bank

The World Bank's Governors and Directors are the only competent authority for oversight of this public international organization, since it is not subject to national law. The World Bank's internal control system is out of compliance with three of the Basle Committee's principles for assessing risk management practices<sup>1</sup>. Access of the World Bank's Governors and Directors to information that would enable these institutions to exercise their oversight responsibility has been impeded, as shown by the following examples:

### **Principle 1:**

**The board of directors should have responsibility for approving and periodically reviewing the overall business strategies and significant policies of the bank; understanding the major risks run by the bank, setting acceptable levels for these risks and ensuring that senior management takes the steps necessary to identify, measure, monitor and control these risks; approving the organizational structure; and ensuring that senior management is monitoring the effectiveness of the internal control system. The board of directors is ultimately responsible for ensuring that an adequate and effective system of internal controls is established and maintained.**

### **Principle 3:**

**The board of directors and senior management are responsible for promoting high ethical and integrity standards, and for establishing a culture within the organization that emphasizes and demonstrates to all levels of personnel the importance of internal controls. All personnel at a banking organization need to understand their role in the internal controls process and be fully engaged in the process.**

In March 2003, Jacquelyn Gates, the World Bank's Ethics Officer, left after the Institutional Integrity Department refused to conduct an investigation which she had requested into the World Bank's role in the Philippines Banking Sector Reform Loan ("BSRL"). The BSRL had resulted in a \$500 million banking failure, cancellation of \$200 million from the BSRL, and cancellation of \$200 million in cofinancing from the Japan Eximbank. Staff requested the Country Director to inform the Government of the Philippines about the requirements under the BSRL for a transparent privatization of Philippine National Bank ("PNB") when an article appeared in the press on March 17, 2000 stating that the acquisition by Lucio Tan of employee stock options would satisfy the tranche release conditionality. The Country Director did not follow this advice; instead the Task Manager of the BSRL and the country lawyer were reassigned from working on the BSRL.

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<sup>1</sup> Framework for Internal Control Systems in Banking Organisations, Basle Committee on Banking Supervision, September 1998.

Lucio Tan was also a shareholder in Philippine Airlines, which airline had significant outstanding loans from PNB. The fact that Lucio Tan was a supporter of the Estrada administration and the risk that this posed to the integrity of banking supervision caused depositors to lose confidence in PNB in October 2000, and the Philippines Deposit Insurance Corporation had to lend P 25 billion to PNB. Staff who requested the Operations Evaluation Department (OED) to correct its satisfactory rating of the World Bank's performance on the BSRL, and who requested senior management to look into this matter, were subjected to retaliation.

### **Principle 6**

**An effective internal control system requires that there is appropriate segregation of duties and that personnel are not assigned conflicting responsibilities. Areas of potential conflicts of interest should be identified, minimized, and subject to careful, independent monitoring.**

In 2003 the head of the Joint World Bank-International Finance Corporation ("IFC") Conflict Office was reassigned just before IFC and the International Development Association ("IDA") initiated a partnership for private sector development in Africa. The World Bank's conflict rules requiring separation of project and advisory teams were ignored; so were the Guidelines for Selection of Consultants, in order that IFC affiliates could be pre-selected as beneficiaries. Nigeria was the first country to participate in the new partnership. The reputational risk arising from conflicts of interest between IDA and IFC was especially sensitive in Nigeria because the Minister of Finance, Ngozi Okonjo Iweala, used to be the World Bank's Corporate Secretary. Senior management of the World Bank had requested Nigeria's President, Olusegun Obasanjo, to expedite project negotiations in order to meet a pre-determined Board date, and the Nigerian counterparts were not provided sufficient time to properly review the project. At the Board meeting to consider the Nigeria project, staff provided incomplete and incorrect answers to critical questions raised by the Directors.

From: Robert S. Drysdale on 06/01/98 09:14 AM  
Extn: 81432 SARVP

To: Karen Alexandra Hudes/Person/World Bank@WorldBank  
cc: Katharine E. Tyler/Person/World Bank@worldbank, Alberto Bazzan/Person/World Bank@worldbank  
bcc:  
Subject: Re: HRS Taskforce

Karen, thanks for the good advice. We will try to reflect these in the comments or the oral presentation. Bob.

Karen Alexandra Hudes 05/29/98 02:56 PM

**Karen Alexandra Hudes** 05/29/98 02:56 PM

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Extn: 81622 LEGMN  
To: Katharine E. Tyler, Alberto Bazzan, Robert S. Drysdale  
Subject: HRS Taskforce

I thought Bob and Alberto's presentation last Friday on the findings and recommendations of the Taskforce was excellent. A lot of careful work has been done since March 19, 1998 to refine the presentation.

Some additional suggestions for further revisions follow:

1. I think the two halves of the presentation need a smoother transition. One way to do this would be to label Bob's part "Diagnosis" and Alberto's part "Vision for Change".
2. The article by John P. Kotter, entitled "Why Transformation Efforts Fail," (let me know if you want me to send you a copy) recommends that a sense of urgency be established. Change efforts succeed only when 75% of the companies' management is ultimately convinced that the status quo is unacceptable. In order to gain support for a launch into the unknown, it will be necessary to convince the audience that there are problems with the current state of affairs.

The Key Challenges slide addresses this point, but needs to do so more forcefully ("evolving client need" is mentioned twice on that slide). On the evolving client and interdependence points, the need for a more participatory approach to project formulation should be brought up, maybe only verbally, but this requirement ties in with the need for Bank managers to have less autocratic, top down management styles. One suggestion for a way to build the sense of urgency would be to feature the results of two evaluations of management performance:

- In September 1995, there was an evaluation of the division chief assessment center. The majority of assessors, panel members, and managers considered the assessment center to be an objective and transparent process, and that it provided an accurate assessment of the participants' managerial skills. In the Bank, the competencies rated as needing the most improvement were motivating performance, delegating, and appraising and developing staff.

- In August 1997, there was a program review of the management feedback program, which also reported that the competencies rated as needing the most improvement were appraising and developing staff, valuing diversity, motivating performance, influencing and resolving differences, planning and organizing, fostering teamwork, managing results, and delegating.

2. The need to achieve a critical mass of support in favor of the reform. For this to happen, there has to be a clear and compelling vision which can be communicated in 5 minutes or less. Alberto's slide on the characteristics of the current climate, and the shifts required by the new strategy presents this vision, but in my view, this gets side-tracked by discussions about the effectiveness of the EDP program and timelines for LAMP implementation.

One aspect which I would add to Alberto's slide on the characteristics of the current climate has to do with the predominant culture in the Bank concerning "uncertainty avoidance" (this cultural aspect is characterized by Geert Hofstede as, "what is different, is dangerous", as opposed to "what is different, is curious"). Cultures with high uncertainty avoidance do not tolerate ambiguity well, and are characterized by the need for formal structure and the need for precision. Alberto de Capitani's 1993 study showed the Bank to have a high uncertainty avoidance index. Future management of the Bank will require a shift in this cultural approach, because it is inimical to innovation and to collaboration (matrix management, participatory project design).

Also, I would recommend that Alberto's verbal example about managers' feelings of entitlement and room size be dropped from the presentation precisely because it is so on point. I am concerned that support for the reform may be diminished because it might become associated with a loss in management prerogatives.

3. The presentation is more focused on managerial selection and development than on performance management. Also, I was unclear about the recommendations concerning multi-source feedback, and why this would not be mandatory for all managers. I think that 360 degree feedback merits stand-alone treatment, and should be handled earlier and more prominently in the presentation.

4. My last point relates to next steps. Kotter's recipe for change management requires the formation of a powerful guiding coalition early in the process. Some thought should be given to whether this guiding coalition could be institutionalized in some fashion. One of the problems in the Bank's history of succession management has been discontinuity in approach through the years. Also, I saw in the slide on the review of the managerial selection process that the National Academy of Public Administration recommended an ongoing assessment of system effectiveness and efficiency. If it were to be created, this institution could help lead the change, assist in fine-tuning, and act as a buffer to prevent dismantling of the system through successive changes in management.