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**EUROPEAN BANK FOR RECONSTRUCTION  
AND DEVELOPMENT (EBRD), LONDON**

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A Report to Members

OF THE

COMMITTEE ON FOREIGN RELATIONS  
UNITED STATES SENATE

Richard G. Lugar, Chairman

ONE HUNDRED NINTH CONGRESS

SECOND SESSION

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## LETTER OF TRANSMITTAL

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UNITED STATES SENATE,  
COMMITTEE ON FOREIGN RELATIONS,  
*Washington, DC, June 16, 2006.*

DEAR COLLEAGUES: From May 18–22, 2006, a Senate Foreign Relations Committee staff delegation, consisting of Jay Branegan, visited the European Bank for Reconstruction and Development (EBRD) in London, as part of the committee's ongoing inquiry into anti-corruption practices and development effectiveness at the World Bank and the other multi-lateral development banks (MDBs). Committee staff had two days of interviews with U.S. officials and international staff at the EBRD headquarters, then attended the two-day Annual Meeting of the bank as Congressional Adviser to the U.S. delegation, which was headed by Clay Lowery, Assistant Secretary for International Affairs, U.S. Department of the Treasury. Staff also met with several representatives of NGOs that are working on issues related to the committee's oversight of the MDBs. A complete list of persons interviewed is attached.

Sincerely,

RICHARD G. LUGAR,  
*Chairman.*



## **TRIP TO EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD), LONDON**

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### SUMMARY

The European Bank for Reconstruction and Development (EBRD), the youngest of the MDBs, has only lately, and somewhat grudgingly, begun to implement the types of measures for transparency, openness, and accountability that the committee has been encouraging and that Congress called for when it passed legislation last year. The EBRD, for instance, has never issued an anti-corruption report (the first is expected out this fall), although U.S. officials attributed this to the substantial demands on and workload of the Office of the Chief Compliance Officer. It has only had for two years a process for indigenous people to lodge protests, and that process, the Independent Recourse Mechanism, is, by most accounts, inferior to that of other banks'. It has only recently established, against much resistance from some important figures in management, an independent evaluation function. An updated Code of Conduct, for which the U.S. Executive Director was strongly advocating, was approved earlier this year after a substantial delay due to the opposition of certain members of the Board of Directors. Just before the annual meeting the bank approved a new Public Information Policy that, while an improvement over the previous PIP, still falls so far short of best practice that the U.S. abstained in the board vote. The U.S. Executive Director, Mark Sullivan, told staff that while he and a few other EDs are pushing hard on these issues, "A number of European Directors were deeply suspicious of transparency."

If the EBRD seems to be somewhat complacent about corruption issues, as several officials indicated could appear to be the case, nonetheless actual reported instances of corruption have been rare. Loan losses are low, no companies or individuals have been debarred or blacklisted for corruption on EBRD projects, and no one has been prosecuted for corruption on the basis of an EBRD referral. Many of those the committee's staff talked with conceded that considering the corruption that is endemic in EBRD's client countries, this laudable record is a bit of a conundrum. "How can the incidence of fraud and corruption be so low?" one bank employee asked rhetorically. The question naturally arises whether this is due to luck, or to willful ignorance and a reluctance to probe too deeply into deals as long as the money is paid back. Officials said the latter is not the case: "Sometimes things smell fishy, but we've looked and never found the fish," one said. Standard explanations are that unlike other MDBs, the EBRD deals overwhelmingly with the private sector, not governments, does little or no pro-

gram lending, maintains and continually improves an open procurement process, and has dealt primarily in countries that rank better on various corruption and transparency indices than most clients of the other MDBs. It also uses private investigating firms, like Kroll and Associates, to check out the background and source of funds of loan applicants with murky backgrounds, and has turned down some projects that posed too much "reputational risk." However, the EBRD will soon "graduate" eight relatively advanced client countries that have joined the European Union, and will devote more resources to the Balkan region and to Russia and Central Asia, a harsher environment for anti-corruption efforts. Several bank officials acknowledged that corruption could pose a greater challenge in the future and said that more resources will be allocated accordingly.

It should also be noted that in light of the proximity of the EBRD's area of operations to the Middle East, and the number of large criminal organizations operating in the area, the bank has paid special attention to money-laundering and terrorist financing. Every financial institution with which the bank deals must have in place anti-money laundering and anti-terrorist financing procedures. These procedures must be applied across the board, not just to the institutions' transactions with the EBRD. The bank is thus seeking to use its leverage to improve practices on this front throughout the region. In addition, it offers courses and workshops on money-laundering and terrorist financing to other financial institutions, regardless of whether they are doing business with the EBRD.

On the issue of effectiveness, the EBRD generally gets good marks from the U.S. Treasury Department. While in London, Assistant Secretary Lowery said publicly that the bank had done a better job than most of focusing on its mission, and was "not trying to be all things to all people." Unlike the other MDBs, the EBRD, set up after the Cold War to help rehabilitate former Communist economies, does not have poverty alleviation as a primary goal. Instead, the bank focuses on privatization and development of basic infrastructure for a market economy so the "countries in transition" can get financing from commercial banks. The bank is to avoid competing with, or crowding out, private investment. According to the bank's Evaluation Department, which reports directly to the board, about 77 percent of the projects are rated positively when judged solely on the basis of their "transition impact." However, the overall success rate falls markedly—to 57 percent—when other factors are taken into account, primarily the financial success of the project. (The EBRD itself rarely lost money in these deals.) When staff inquired to what degree corruption was a factor in this relatively low overall success rate, they were told it was "impossible to give any percentage," but "very few cases were corruption." USED Sullivan was surprised that only 57 percent of the projects were rated successful given that the transition impact achieved (77 percent) was much more favorable. For the U.S., USED Sullivan said, transition impact is a major factor to consider in determining the success or failure of a project for the EBRD, which has as its basic purpose the transition of the former Communist countries to multiparty democracies with open, market-oriented economies.

One measure of the bank's effectiveness is that eight client countries have been deemed so successful in throwing off the legacy of Communism that the board decreed at this meeting that they will "graduate" by 2010 and no longer be eligible for EBRD loans. The U.S. has hailed this a major success for the bank and for the countries (achieving a certain timetable for graduation was also a victory for the U.S., which had to push hard against many Europeans on the board). However, these eight—the Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Slovakia and Slovenia—all recently completed a lengthy process for accession to the E.U., and the prospect of E.U. membership was a powerful incentive for reform. The E.U. required them to make major changes in their legal, regulatory, financial and monetary structures to conform to European standards. Many in the bank openly acknowledge that these improvements would not have been so fast or so far-reaching without the E.U. factor. They said it remains to be seen whether the EBRD countries east and south that have little or no prospect of E.U. membership will be as successful in making the transition.

A possible indication of future problems on this score comes from an NGO report on Azerbaijan where the EBRD has been quite involved but has—allegedly—failed so far to bring about the sought-after policy changes. Azerbaijan is currently enjoying an oil windfall—GDP jumped 40.5 percent last year—but with oil production there expected to peak very soon, by 2010, the country needs to diversify its economy. The EBRD and other donor/lenders have made development of the non-oil economy a priority, but according to a study by the Bank Information Center, an NGO with which the committee has worked, the major IFIs have put a majority of their lending into oil and gas, while production sharing agreements have led to a flood of private investment into the sector, at the expense of non-oil investments. Growth in non-oil exports is slowing, according to the report. As is typical of countries with a "resource curse" the easy money in oil and gas has lowered the incentive to make structural changes in the rest of the economy, according to BIC. It quotes a U.S. government report from last year: "Government bureaucracy, weak legal institutions and predatory behavior by politically connected monopoly interests have severely hindered investment outside the energy sector." The BIC report says that by allowing energy investors to bypass the rest of the Azeri political and economic structure, the energy production sharing agreements promoted by the EBRD "may be prolonging poor governance and thus creating an unintended barrier to non-hydrocarbon growth."

By another measure, making money, the bank has proved highly effective: it reported a profit of 1.5 billion euros last year, and expects to do the same this year, on the basis of about 4.3 billion euros in new lending. Much of this is unrealized profit on investments, but nonetheless represents an enviable rate of return.

The Senate Foreign Relations Committee has also been following closely a controversial project on Sakhalin Island in far eastern Russian, known as Sakhalin II, that is currently the world's largest oil and gas development project. Environmentalists have for several years sought to stop the project, which is now 70 percent complete, and the EBRD has for nearly as long been considering whether to make an investment. At this point both sides concede

that the project—a joint venture of Shell and two Japanese firms—will be completed regardless of the EBRD's decision, which is expected this summer. NGO representatives interviewed by committee staff at the meeting said that the EBRD has let them participate in many consultations on the project—at the annual meeting, for instance, there was one three-hour session between NGOs and bank officials devoted exclusively to Sakhalin II—and that some changes have been made to address environmental and other concerns. Overall, however, they have been very disappointed in the EBRD's response to their objections, claiming that the project clearly fails to meet the bank's own stated criteria for funding. NGOs say they are still pressing the EBRD to turn down the project in order to send a signal about future large energy developments. Bank officials told committee staff that they have not come to a formal decision, but that in all of the areas that NGOs have raised objections, either the objections have been met or plans have been drawn up which, if implemented successfully, will satisfy the objections. USED Sullivan said the board has never voted down a loan proposal that has been recommended by management.

#### BACKGROUND

The EBRD was founded in 1991 as Communism was collapsing. It now has 27 client countries and 60 sovereign shareholders (and two institutional ones, the European Union and the European Investment Bank). The U.S., with 10 percent of the capital, is the largest single shareholder on a 23-member board of directors. The European countries together form a majority, and the G-7 (which includes Japan, Canada and the U.S.) also form a majority (votes are weighted according to shares), which tends to give the balance of power to Britain, Germany, Italy and, especially, France (which each, like Japan, hold 8.5 percent of the capital). The driving force behind the creation of the EBRD and its first president was Jacques Attali, a dashing French intellectual who served as an influential adviser to France's Socialist president Francois Mitterand. The Attali period is still remembered for a flap over his decision to replace Travertine marble with Carrara at the EBRD's London headquarters at a cost of more than \$1 million, more than the bank had spent at the time on rebuilding Eastern Europe. This *scandale*, sharp criticism over the bank's slow start in lending, and Attali's alleged "arrogant" management style, all contributed to his premature resignation from the bank in 1993. (Two of the three subsequent presidents have been French, including the current one, Jean Lemierre, who has been serving since 2000). The EBRD also endured a rough patch during the 1998 Russian financial collapse, when the bank declared a loss of \$225 million. The bank has recovered nicely since then and is now the largest single investor in its region, which has been showing solid economic growth in recent years. Last year the EBRD recorded a profit of 1.5 billion euros (about \$1.9 billion at current exchange rates), more than triple the profit of 2004. (The previous four years' profit had ranged from 66 million to 402 million euros).

The bank's charter established it as a significantly different institution than its sister MDBs. It was designated specifically to be an instrument for economic and political transition: unlike any

other MDB, it can only work in countries that are “committed to democratic principles.” All EBRD investments must meet three criteria—they must help the country move toward a market economy, i.e., have “transition impact”; they must take risks that “supports private investors and does not crowd them out”; and it must apply sound banking principles. This last stipulation is followed by all the MDBs, but in the case of the EBRD, this is taken to mean it should lend within time-frames similar to a commercial bank. In addition, the EBRD is the only MDB that has “respect for the environment” written into its charter. In practice, the EBRD is a unique mix of development bank and commercial-style investment bank, functions which aren’t always compatible. Loans are approved through an “operations committee,” the counterpart of a normal bank’s “credit committee,” that includes representatives from the office of banking, risk management, legal counsel and chief economist.

Similar to other French-inspired European institutions, the EBRD tends to favor a top-down, closed management style, and is often resistant to efforts at openness and accountability. Staff was told that President Lemierre, who was in the running two years ago to head the IMF, typically fights initiatives for change. It was only last year, for instance, that the EBRD’s Chief Evaluator (formerly called the project evaluation department) was realigned so that he reports directly to the board (it used to report to management as well), the contentious effort to promulgate the Code of Conduct earlier this year took 18 months, and it was only last year that the bank finally got what one official called “a meaningful compliance function” and posted a Whistleblower Protection Policy on its website. These are all steps in the right direction, and while the EBRD appears to have quite a ways to go in these areas, USED Sullivan said, “It’s light years ahead of where it was a few years before.”

#### THE EBRD AND THE SFRC’S ANTI-CORRUPTION LEGISLATION

In November, 2005, President Bush signed into law H.R. 3057, the FY 06 appropriations for foreign operations. This law includes Senator Lugar’s MDB reform measures contained in Lugar’s amendment S.A. 1293 that passed the Senate by unanimous consent. This also represents a significant portion of Lugar’s reform bill S. 1129 that passed out of the Senate Foreign Relations Committee by unanimous consent and is co-sponsored by eleven Senators. Because Congress cannot legislate directly on international institutions, the bill declares what is U.S. policy regarding transparency and accountability issues at the banks and directs the U.S. executive directors to seek to have those policies implemented. This visit was the first by SFRC staff to any of the MDBs since the legislation was enacted. Accordingly, staff explained to their interlocutors at the bank, and to some of the NGOs, the significance and intention of the legislation, and presented each with a copy of the legislative language (a copy is attached). Here is a point-by-point summary of how well EBRD policies currently conform to those urged by Congress in the bill.

*Extractive Industries Transparency (Sec. 585c)*

While the bank has no formal policy regarding publication of oil and gas revenues and the other measures listed, in practice it supports them and requires EITI-like provisions in its loans. To his credit, President Lemierre has openly talked about the importance of revenue management and transparency in extractive industry projects. "Revenue reporting is vital in combating corruption," he wrote in an op-ed that appeared in the *Wall Street Journal-Europe* last year, in which he singled out Azerbaijan and the Kyrgyz Republic for path-breaking disclosure policies in EBRD-financed oil and gold projects respectively. The EBRD-financed BTC pipeline from Baku to Turkey also had revenue transparency provisions, and the bank helped set up Azerbaijan's State Oil Fund, modeled after Norway's. See below for more on Azerbaijan. (Note: Treasury is to report 180 days after enactment of the appropriations bill on all the MDB's loans made to extractive projects.)

*Financial Disclosure for Bank Employees (Sec. 1505.a.1)*

The EBRD's new code of conduct (updated for the first time since the bank's founding) does call for disclosure by bank directors and senior management. The legislation enumerates "employees" and "consultants" and was originally conceived to apply to any employee who had decision-making authority over a loan. The CoC does not cover consultants and appears narrower than envisioned in the original legislation. It is a step forward from the previous code and represents a triumph of sorts over the European aversion to any disclosure, particularly by directors.

*Results-Based Management (Sec. 1505.a.2)*

The bank claims it has countered the pressure-to-lend syndrome by requiring that all loans have "transition impact" and contribute "financial additionality" to a project. However, others claim that the performance incentives are not clear (not as clear, for instance, as in a corporate proxy statement). As the bank shifts toward riskier and smaller projects to the east and south, it is expected a new incentives structure will be required which will give an opportunity for improvement.

*Voluntary Disclosure Program (Sec. 1505.a.3)*

The EBRD has no such system for encouraging companies or individuals to come forward and admit wrongdoing. As noted above, the EBRD has less experience dealing with corruption than other MDBs.

*Loan Requirements on Transparency and Accountability (Sec. 1505a.4)*

USED Sullivan says EBRD loan documents have numerous covenants and clauses which appear to conform to the legislative intent.

*Debarment and Cross-Debarment (Sec. 1505a.5)*

The bank has, as noted earlier, recently formally committed to publicly blacklisting companies found culpable of fraud in applying for a loan. Committee staff was informed that debarment would

also be imposed for other loan-related corruption, and that the bank will also consider debarring companies debarred by other banks. However, the legislative provision about clear and published standards for debarment has not been fulfilled. USED Sullivan said some of these items are being discussed in the inter-MDB anti-corruption talks and more guidelines will be issued once the banks agree on common standards.

*Coordinate Debarment, Procurement and Other Policies Across MDBs (Sec. 1505.a.6)*

The EBRD is actively engaged in this process with other MDBs, as noted above.

*Maintain High Procurement Standards (Sec. 1505.a.7)*

Nearly all bank projects are put to open bid, and the bank maintains an established process to deal with complaints from losing bidders in a timely fashion. Bank officials told committee staff they continually tighten and upgrade procurement policies, and are constantly on guard against collusive practices regarding consultants. Officials interviewed by staff oppose the World Bank proposal, referenced later in the legislation, to increase the use of country systems in procurement.

*Independent Investigations, Audits and Evaluations (Sec. 1505a.8)*

Thanks to changes in recent years, these functions have gained independence and appear to be in nominal conformity with the legislation. The internal auditor can, if necessary, meet with the board's audit committee without management present, and as noted above, the Chief Evaluator now reports directly to the board, while the Chief Compliance Officer has been recently empowered. The post is now held by Enezy Quinones, a former head of the OECD's anti-corruption division, where she led the drafting of, and implementation of the monitoring for, the anti-corruption treaty. An American (Puerto Rican native, graduate of NYU and Harvard law), Ms. Quinones is well-regarded within the bank. The bank is in the process of searching for a new internal auditor. USED Sullivan said the previous auditor had "the complete support" of the board's audit committee, and that that relationship will have to be rebuilt with the new holder of the post. USED Sullivan raised the question of whether the auditor's office has sufficient resources, a point that emphasized more strongly by his Canadian counterpart and former Audit Committee chairman, Scott Clark (who is returning to Canada after four years on the board.) He suggested that the auditing function may be too limited in its scope—the auditor can't review projects criticized by the evaluation department, for instance, nor follow up on implementation of the procurement policy. In fact, he said, the current auditing function "is a kind of hit or miss operation in terms of corruption. We have a group that's supposed to mitigate the risk of money laundering. I don't know if they're doing a good job or not." He said that when he arrived the board didn't even have an effective audit committee, raising questions about effective governance. With the help of USED Sullivan, who has been a member of the audit committee since 2003, and others, along with technical advice from Price Waterhouse, the

audit committee was given more corporate-like authority and the bank's internal controls were strengthened. Canadian ED Clark said it will be vital that the new auditor have "gravitas" to maintain the office's independence, extend its remit and obtain sufficient resources. *See below* for more on the Compliance and Evaluation functions.

*Transparency in Budget Support and Program Loans (Sec. 1505.a.9)*

The EBRD does very little of this type of lending.

*Recourse for Locals Alleging Adverse Impact by Bank Projects (Sec. 1505.a.10)*

The EBRD's Independent Recourse Mechanism (IRM) is generally regarded as the most defensive and weakest of any of the MDBs', e.g., the World Bank's Inspection Panel system. Bank officials also said it is not seen as an important vehicle for uncovering corruption. (The purpose of the IRM is two-fold, USED Sullivan explained. It is to review the compliance of the Bank with its policies, specifically its Environmental Policy and project-specific provisions of the PIP; and to provide a problem-solving function to restore dialogue between the parties, where possible, and to try to resolve the underlying issues giving rise to the complaint or grievance.) The IRM, which is operated by the chief compliance officer, only went into operation in July 2004 (the U.S. abstained in the vote authorizing it), and by October, 2005, had only received seven complaints—five of which it rejected out of hand as being "manifestly ineligible." Accepted for review was one complaint related to Sakhalin II, but it was then put on holding pending the decision, expected later this summer, on whether the EBRD will actually commit funding to the project. (The complainants were local fishermen who alleged that the dredging and other construction activities are hurting their livelihoods.) The other complaint was from villagers in Azerbaijan who charged construction of the BTC pipeline caused vibration damage to their property. Two of the rejected complaints related to procurement and were forwarded to procurement department, one was rejected because the bank wasn't involved in the offending project, another because the bank policy allegedly violated was "outside the jurisdiction of the mechanism." NGOs are particularly upset with the fifth and final rejection, in which a trade union filed a complaint on behalf of its members. The complaint was rejected because the union itself didn't constitute an "affected group" under the rules. It is hoped that the many of the IRM shortcomings can be addressed and the overall mechanism strengthened during first review of the policy, scheduled to commence after July, 2006.

*Effective Whistleblower Protection (Sec. 1505.a.11)*

In 2004, the Government Accountability Project, in a major report on MDB whistleblower policies, singled out the EBRD as the only one that had NOT "embraced the notion of whistleblower protection." It gave the EBRD's policy the lowest marks among the four MDBs it rated (the African Development Bank was not included). Since then, the situation has improved incrementally. The

EBRD has now posted its whistleblower policy on its website, for instance. However, the policy stills falls far short of best practices in this area. USED Sullivan says efforts to strengthen the policy have been hung up over European concerns over the conflict between whistleblower anonymity and the right to confront one's accuser.

*Draft Country Strategies Published at Least 45 Days in Advance.  
(Sec. 1505.a.12)*

USED Sullivan says this is the policy and will be the practice.

It should be noted that Assistant Secretary Lowery, in his formal statement delivered to the annual meeting, alluded to the bank's transparency record and the committee's anti-corruption work. He said:

To promote good governance in the region, the EBRD must make sure that its own practices are best practices. We are pleased that the Bank is now implementing improved grievance and appeals procedures as well as a new, modern code of conduct which includes disclosure of financial interests. While we believe that the new Public Information Policy fell short of what it could and should have achieved, we recognize that it has improved the transparency of the EBRD's operations. We also commend the Board and the Management for breaking new ground among the multilateral development banks by agreeing to disclose the compensation provided to members of the Board of Directors as well as senior management. We continue to believe that reviewing the operations of the Board and determining whether it provides good value for money should be part of the process of bringing the Bank in line with best corporate practices.

We have worked closely with our U.S. Congress in strengthening anti-corruption policies at the MDBs. Achieving this goal requires improved cooperation among the MDBs. We commend the EBRD for its efforts to combat corruption and to prevent money laundering and terrorist financing, but we recognize that there is still room for improvement.

#### THE NEW PUBLIC INFORMATION POLICY

Shortly before the visit by SFRC staff, the board on May 18, 2006, approved a new, updated Public Information Policy, the cornerstone of the bank's own transparency. Both the USED's office (which ultimately did not vote to approve the document, but abstained) and NGOs that spoke to committee staff, had the same general comment: while the new policy draft issued early in the year represented an improvement over the previous one, bank management and many on the board of directors basically ignored or rejected extensive requests and suggestions for further changes made during the consultation period. Among the changes sought by the U.S. was disclosure of board votes. Instead, the PIP calls for publishing minutes that disclose only who attended, the approval of previous minutes, titles of agenda items and decisions reached—

but not the votes, so the publics of the various countries can't know how their representatives voted. As USED Sullivan noted, the PIP essentially calls on the board to keep two sets of books, one for the public, another for internal use. The board even blocked a U.S. proposal that individual countries could voluntarily opt to disclose in the public minutes how they voted. The U.S. discloses its votes on the U.S. Treasury Department website.

Those changes hailed as improvements show how far behind the EBRD's information policy has been. Until this new policy, for instance, the bank did not disclose draft country strategies and did not publish the salaries of directors and senior management. But the USED's office failed to win approval for other changes, such as releasing the final draft policies when they are sent to the board for action, disclosure of public sector documents connected with a project, or a 120-day disclosure period for environmental impact statements on private sector projects (like they have for public sector ones).

CEE Bankwatch, a Prague-based counterpart to the Bank Information Network with which the committee has worked, prepared an extensive set of comments to improve the initial draft, most of which were not accepted. Said Bankwatch's Klara Schirova, "Basically, the EBRD is not willing to accept a presumption of disclosure." The bank, she said, bows too much to the wishes of its private sector clients, who want as little disclosure as possible—in part for legitimate commercial reasons—and argues that if it discloses too much, those clients will go elsewhere. Moreover, she complains, the EBRD has a poor appeal mechanism, so that when NGOs or citizens are denied access to information they feel should be disclosed, they have little recourse. Other IFIs have some independent adjudicator to assess whether documents whether documents are being withheld (the European Investment Bank, for instance, uses the E.U. ombudsman, while the ADB set up a special Public Disclosure Advisory Committee), but EBRD appeals go to the bank's own chief compliance officer through the Independent Recourse Mechanism, which isn't really set up to handle such complaints, and is limited to appeals of denial of information about a specific project. Another NGO, the Global Transparency Initiative, based in Brussels, likewise criticized the PIP's appeal mechanism, its leniency in allowing third parties to decide what is confidential (it points out that all the other MDBs, including the private sector arm of the World Bank, the IFC, provide for more disclosure of third party information than the EBRD), and transparency at the board of directors.

#### COMPLIANCE OFFICE

The compliance office will issue its first ever Anti-Corruption Report within the next few months. However, the official in charge of preparing it, the deputy chief compliance officer Lee Marler, a former British prosecutor, said, "We're not picking up too many reports of corruption. It does seem strange we're not getting more." Like other MDBs, they have a telephone hot-line and an anonymous drop box, but called them "under-utilized." Most complaints come in via e-mail. He wondered out loud if it might not be a legacy from the Iron Curtain days that people in Eastern Europe are

reluctant to inform on others. Most of those they do get seem to relate to procurement, often lodged by a disgruntled bidder who complains that EBRD officials unfairly chose someone else. There are no on-going investigations into corruption at the moment, he said.

Mr. Marler praised the efforts of the committee and Senator Lugar in particular in helping bring corruption issues to the forefront and for stimulating more inter-MDB cooperation and harmonization on corruption matters. "We are indebted to Senator Lugar," he said. "Senator Lugar has galvanized the activity in this area." He cited the MDB task force against corruption, which first met on February 18, 2006, and is scheduled to make a report in September, and a June 7-9 investigators conference in London. (It should be noted that some observers believe the task force, created at the behest of the World Bank, actually slowed down anti-corruption efforts, which had been proceeding apace through more informal cooperation among the MDB anti-corruption staffs.)

The EBRD compliance office has seven professionals, and is responsible for fraud and misconduct among staff (expense account fraud, e.g.), operating the Independent Recourse Mechanism and assuring compliance with the Public Information Policy and the Code of Conduct, as well as investigating fraud and corruption allegations on loans and projects. As mentioned above, no companies or individuals have been blacklisted by the EBRD, and Mr. Marler said that the bank is on record as saying it would publish names of any companies or individuals debarred for corruption, not just, as the PIP states, for fraud related to the application for funding.

Although the bank has had a compliance office for the past seven or eight years, it is only relatively recently that it has had what former acting compliance officer Chris Holyoak called "a meaningful compliance function. Before, it was mostly about attending conferences around the world." Mr. Holyoak, who has been with the bank since its inception (employee ID #4), said there had long been reluctance to add "an extra policeman" when the bank already had a number of process controls in place. Belatedly, the decision was made, "Let's be more pro-active," said Mr. Holyoak, who is now the corporate director in charge of a planned renovation of the bank's headquarters building. "There's much greater interaction with the banking team, and a raised profile. Now we have a compliance function that is sizable, and serious." The chief compliance officer, Ms. Quinones, reports directly to the bank president.

I asked Mr. Holyoak in how many projects he thought corruption was a factor. He replied that he didn't know, but believed it was "very low." He believes the bank does a good job on procurement, and the awarding of contracts, and praised what he called "independent procurement reviews." He suggested that one area where more attention should be paid is project implementation, although he said that bank has sent investigators out to "dig up a piece of road" just to ensure it was built to specifications. "You just can't make a loan and walk away," he said. And like others, he said the bank's plans to increase its activities in central Asia and Russia poses a new challenge. "The first step is for everyone to recognize that it's a different world. What worked in Poland won't work as we go farther east," he said.

Mr. Marler said that thanks to the recent changes and the beefed up staff, he believes the compliance office now has a sufficient "tool-kit" to battle corruption. He's very enthusiastic about the enhanced cooperation among the banks. "The MDBs are fired up," he said. "The train is going down the tracks." He said one important focus going forward will be one of the mandates of the MDB task force, examining what help the MDBs can provide in enhancing the anti-corruption efforts of their client countries.

#### RISK MANAGEMENT

Michael Williams, director of risk management, was one of several bank employees who said that because of the EBRD's private sector focus, "corruption is a much smaller problem for us, than the public sector-focused MDBs." Although inevitably, given the risk profile, some projects haven't fared well for other reasons than corruption, "we've had very few cases where our money was diverted or disappeared," he said. The bank has declared misprocurement and cancelled loans wholly or in part on a small number of occasions.

He gave several examples to suggest the kind of insider/crony corruption to which the bank might be susceptible. In some CIS countries, he pointed out, it is not uncommon for the first family and friends to own a large part of the economy. Such ownership can be public, but it is also frequently alleged to be hidden. When this is the case there is often the suspicion that a relative or friend of the ruling family is able to use political leverage for commercial advantage. When it looks at a major sale of an asset, the bank asks questions like "Is this a fair price? Why is it being paid in cash? Where does the money come from? Is this truly an arms-length transaction? Has undue influence been used to improperly gain commercial advantage?" The Bank refuses to participate in deals when suspicions like this arise and the questions cannot be satisfactorily answered.

As the bank moves further east and south, he said, it will encounter more of what he called "this kind of crony capitalism." The bank needs to be careful and vigilant in this environment, he suggested, but can't simply await the dawn of universal honesty to begin lending. Instead it tries through its project conditionality to move its clients in the direction of better corporate governance and greater transparency. Because the EBRD does so many deals with private companies, it often deals with local businessmen who, in these former Communist countries, may have questionable backgrounds. It is often unclear where or how, for instance, they got the shares in their companies and the money to pay for them, or whether they have undisclosed ties to government officials. Therefore, in addition to what he called its own normal and stringent due diligence, the EBRD keeps on retainer several private investigating firms—what Mr. Williams called "gumshoes"—who are experts in performing due diligence and uncovering the backgrounds of uncertain characters and uncertain businesses. The bank, he says, takes seriously the work of the risk management department. Asked if his department can veto a deal that meets the approval of others on the bank's operations committee, he said, "Practically,

yes. However, it would be unusual for risk management to be the only objector in the face of unresolved integrity issues.”

#### EVALUATION DEPARTMENT

Like the other banks, EBRD has an evaluation department, separate from the banking and country teams, which goes in after a project is completed to give what is supposed to be an independent evaluation of how well the project met its goals. (The project team also does its own self-evaluation of every project upon completion. The evaluation department looks at about 75 per cent of completed projects, usually about 1–2 years after last disbursement.) Because it is supposed to avoid competing with private sector funding, the bank is supposed to take on somewhat risky projects that advance the region’s transition to a democratic, market system. “We are not in it for the money, we are in it for helping to realize the project,” explained Fredrik Korfker, the Chief Evaluator.

He said that by far the most important measure of several in rating an investment’s overall success is its “transition impact.” This includes such goals as promoting privatization, developing skills in the economy beyond the project itself, encouraging competition and supporting market expansion. In addition to transition impact, other factors examined are financial performance, environmental impact, additionality (i.e., the ability of the bank to complement, rather than substitute for, commercial bank financing), fulfillment of project objectives and investment performance (whether the bank made money on the deal).

Mr. Korfker said that looking just at the “transition impact,” for the period 1996–2005, 77 percent of the projects got a passing grade—that is, they were rated satisfactory, good or excellent. (23 percent were rated marginal, unsatisfactory, or highly unsatisfactory). In other words, about one of four projects fails to meet what the bank says is its most important goal and the rationale for its entire lending program. In the view of the Evaluation Department, the Bank is doing well overall and has implemented projects which largely meet the Bank’s mandate.

The outcome is worse, however, when looking at the overall performance. Taking into account the other factors mentioned above, only 57 percent are deemed either successful or highly successful (the rest are either partly successful or unsuccessful). The main difference, he says, is that many of those with positive transition impacts showed poor financial results, i.e., they didn’t perform as expected at appraisal, even though the bank usually was repaid its loan. (In one case, for instance, the EBRD lent money to a group of five banks, the transition impact was rated “good” but the overall rating suffered because two of the five banks did not do well financially.) The bank explains that this lower success rate is due to the difficult environment it operates in and its mandate to take on projects where private sector lenders fear to tread. Still, it raises questions whether the EBRD has been able to avoid the “pressure to lend” syndrome as well as many of its officials believe. Although these figures are posted on the EBRD’s website, USED Sullivan was unfamiliar with these success ratings and was unable to shed any further light on the issue.

Asked to what degree corruption was a factor in the poorly rated projects, Mr. Korfker said “It’s impossible to give any percentage” but said in “very few” was corruption a significant factor. In one case, he said, “a foreign sponsor seemed to have tricked the bank.” It delivered machinery with a high, unwarranted mark-up, and the bank lost about \$10 million, he said. In another case, concerning a credit line facility for small and medium enterprises, the EBRD lent money to four banks, who were supposed to use the money to lend to small- and medium-sized companies. The loans the banks made were to a great extent to medium-sized companies and less to smaller projects, and some of the loan recipients had government connections.

In another case in a country in the very early stages of financial reform, the bank saw a need for changes in the mortgage system and tried to help restructure mortgage legislation through a technical assistance project. For a variety of reasons, this project failed and no immediate improvements could be made regarding the deficient property rights system. In retrospect, the Bank had to question whether the local government was really interested in reform in the first place. However, the Bank continues to work on improving the situation through important legal transition initiatives, Mr. Korfker says.

Mr. Korfker highlighted to staff the tension that sometimes exists between Management and the evaluation function. A recent discussion was on the issue of access to information. To do proper evaluation, evaluators must have full access to all relevant information, and the evaluation policy allows them to enter the project cycle at any time and at any place. But management occasionally resisted granting full access, arguing that this could lead to evaluation interfering with operational issues. This debate has recently been concluded between the Board of Directors and management whereby the evaluation department continues to have full access to all relevant information to carry out its function adequately, according to Mr. Korfker.

## SAKHALIN II

Sakhalin Island is located in far eastern Russia, in the Sea of Okhotsk, north of Japan’s Hokkaido Island. Once a Czarist penal colony, it is encased in ice for half the year, remote—and rich in oil and gas. It is estimated that beneath its shores lie 45 billion barrels of oil equivalent, as much as in the North Sea. ExxonMobil has been pumping oil from there since October, 2005. Shell has been pumping oil—in the summer months only—from another development since 1999, and is in the process of completing a major expansion in what is currently the world’s largest oil and gas development project, Sakhalin II. To quote from a recent *Financial Times* description, “Two of the largest concrete structures ever built in Russia have been installed in the sea. As large as football fields and as tall as 15-story buildings, the offshore platform bases have been towed in from 1,000 miles away. Some 6,000 construction workers labor in temperatures that can reach minus 40 degrees laying (twin) 800 km (480 miles) pipelines down the length of the island.

“On the south side, Russia’s first liquefied natural gas plant is being built on Aniva Bay ... The big push is underway to transform Sakhalin into the world’s largest oil and gas province. ... It is by far the largest direct foreign investment in Russia. ... The project is burning through \$100 a second and occupying 60 million person hours a year. When complete, it will deliver up to 150,000 barrels of oil a day, and 9.6 million metric tons of LNG a year. ... Future expansion could see a doubling of that capacity. ... Winter temperatures average minus 11 F, and the island is located in a typhoon area. The platforms have had to be specially designed to withstand massive ice floes. ... as well as earthquakes that frequently shake the island. ... An endangered population of only 100 western gray whales feed on Sakhalin’s northeastern shore during the summer months.” There are fears the construction will hurt the local salmon industry, and “the company does not have a plan for what to do in the event of an oil spill under ice,” the *Financial Times* story said. The project will cost \$20 billion, double the initial budget.

Environmentalists have been contesting the project—and EBRD’s possible involvement in it—for a number of years. They have achieved such changes as a rerouting of the pipeline away from the whale feeding area, and efforts by the company to mitigate shore erosion at the hundreds of crossings the pipeline makes across rivers and creeks, in order to prevent silting and damage to the salmon runs. The bank is to make a decision soon as to whether to help fund the project, which is now 75 percent complete. Regardless of what the bank decides, the EBRD’s Alistair Clarke told a group of NGO representatives during the annual meeting, “The project is going ahead.”

The bank has held extensive consultations with various stakeholders, including in London, Sapporo, Moscow and on the island. At the annual meeting, Sakhalin II was the subject of one, dedicated, three-hour meeting between the EBRD officials and NGOs, and the project came up numerous times during the rest of the NGO Forum discussions with EBRD officials at all levels. The day after the annual meeting, President Lemierre also had his regular get-together with the NGO community, where it was brought up again. According to the EBRD’s Mark King and Jeffrey Jeter, they’ve broken down the issue into four categories—whales, river crossings, social and legal. On the whales, they believe that Shell has come up with “a good approach,” which includes the pipe rerouting and the creation of a special advisory committee from the World Conservation Union (IUCN) to advise on whale issues. The issue of river crossings and erosion caused by the pipeline “is not being handled very well.” They seem to regard the social issues as either solved or solvable, involving relatively few inhabitants, although there had been quite a few problems. They said that the Sakhalin project had been slow to address these matters, in contrast to the BTC pipeline from Azerbaijan through Georgia to the Turkish Mediterranean coast. “They got it right up front. There was a lot of interaction with the NGOs,” Jeter said. The legal issues relate primarily to whether the project has complied with all the requirements surrounding an Environmental Impact Assessment. The two EBRD officials again believe that the issues here

have been either put to rest or are on a path to being resolved. In their view, the primary outstanding matter relates to environmental concerns, but all are still technically under review. If the project meets certain benchmarks, staff will recommend that funding be approved.

Where the EBRD sees the glass as half-full, the NGOs see the glass as completely empty and cracked. During the annual meeting, for instance, they highlighted news stories, supposedly based on leaked documents, which alleged that Shell's consortium is misleading the bank and others by keeping two sets of books regarding its compliance with environmental standards. Internal documents showed 15 violations by contractors at two river crossings, the stories alleged, but in the reports the consortium posted on its website, the violations were not mentioned. The consortium's spokesman denied any wrongdoing. The WWF-UK's James Leaton disagreed: "This is material misrepresentation. This is fraud, this is corruption."

The NGOs cite numerous instances where they claim the project is in irreversible non-compliance with EBRD policies, and ask why the EBRD is still considering funding. They claim the whale panel is not effective because the consortium doesn't listen to it; an assiduous Russian researcher regularly produces pictures he's taken of eroded river banks; there is still no plan for coping with an under-ice oil spill; they complain the plan for indigenous people's developmental assessment should have been completed well before the project was started, not mid-way through, in order to consider alternatives. In the view of the NGOs, the bank had for some time been openly skeptical about the project. However, said Leaton, "About six months ago they started to get laryngitis."

The bottom line is that the NGOs reject the argument that regardless of its shortcomings, it would be better for the bank to be in the project than out of the project, that having some influence is better than having none at all. Those who support EBRD involvement claim that by joining in, the bank will better able to hold the project to account on environmental standards during its operations. But Doug Norlen, a tireless anti-Sakhalin campaigner for Pacific Environment, contends, "The fact that they are not willing to hold them accountable now, before financing when their leverage is greatest, demonstrates that this would be a hollow commitment." Instead, the NGOs believe that no endorsement by the bank would be far preferable because, as Leaton explained, "It will send a message to the big banks that these big projects can't just bully their way through and still get the blessing of the EBRD." This, he believes, would have an impact on future energy projects by making it clear to all that the environmental and other social issues must be taken seriously if that project hopes to obtain any of the benefits of MDB backing.

## APPENDIXES

### APPENDIX I

#### INDIVIDUALS INTERVIEWED FOR THIS REPORT

MARK SULLIVAN, *U.S. Executive Director, EBRD*  
PETE WISNER, *advisor to the USED*  
CLAY LOWERY, *Assistant Treasury Secretary for International Affairs*  
KEN PEEL, *Deputy Assistant Treasury for International Development*  
DILEK MACIT, *Consultancy Services Unit, EBRD*  
MAURICE LEPAGE, *Procurement and Purchasing Department*  
FREDRIK KORFKER, *Chief Evaluator*  
LEE MARLER, *Deputy Chief Compliance Officer, Office of the chief compliance officer*  
JEFFREY JETER, *Senior Environmental Advisor, Environmental Department*  
MARK KING, *Group Head, Environmental Department*  
MICHAEL WILLIAMS, *Director, Risk Management*  
CHRIS HOLYOAK, *Corporate Director, Administration, Procurement and Consultancy Services*  
C. SCOTT CLARK, *EBRD Executive director for Canada and Morocco*  
KLARA SCHIROVA, *CEE Bankwatch Network*  
GREIG AITKEN, *CEE Bankwatch Network*  
HEIKE MAINHARDT-GIBBS, *Bank Information Center*  
DOUG NORLEN, *Pacific Environment*  
JAMES LEATON, *WWF-UK*



## APPENDIX II

### MULTILATERAL DEVELOPMENT BANK LAW

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Below is language referring to the multilateral development banks that was included in H.R. 3057, the FY06 Foreign Operations Appropriations Bill, and signed by the President into law on 11/14/2005. This law includes Senator Lugar's reform measures contained in Senator Lugar's amendment S.A. 1293 that passed the Senate by unanimous consent. This also represents a significant portion of Senator Lugar's reform bill S. 1129 that passed out of the Senate Foreign Relations Committee by unanimous consent and is co-sponsored by 11 Senators.

#### ENVIRONMENT PROGRAMS

##### **SEC. 585. (c) EXTRACTION OF NATURAL RESOURCES**

(1) The Secretary of the Treasury shall inform the managements of the international financial institutions and the public that it is the policy of the United States that any assistance by such institutions (including but not limited to any loan, credit, grant, or guarantee) for the extraction and export of oil, gas, coal, timber, or other natural resource should not be provided unless the government of the country has in place or is taking the necessary steps to establish functioning systems for: (A) accurately accounting for revenues and expenditures in connection with the extraction and export of the type of natural resource to be extracted or exported; (B) the independent auditing of such accounts and the widespread public dissemination of the audits; and (C) verifying government receipts against company payments including widespread dissemination of such payment information, and disclosing such documents as Host Government Agreements, Concession Agreements, and bidding documents, allowing in any such dissemination or disclosure for the redaction of, or exceptions for, information that is commercially proprietary or that would create competitive disadvantage.

(2) Not later than 180 days after the enactment of this Act, the Secretary of the Treasury shall submit a report to the Committees on Appropriations describing, for each international financial institution, the amount and type of assistance provided, by country, for the extraction and export of oil, gas, coal, timber, or other national resource since September 30, 2005.

PROMOTION OF POLICY GOALS AT MULTILATERAL  
DEVELOPMENT BANKS

SEC. 599B. Title XV of the International Financial Institutions Act (22 U.S.C. 262o, et seq.) is amended by adding at the end the following:

**SEC. 1505. PROMOTION OF POLICY GOALS.**

(a) The Secretary of the Treasury shall instruct the United States Executive Director at each multilateral development bank to inform each such bank and the executive directors of each such bank of the policy of the United States as set out in this section and to actively promote this policy and the goals set forth in section 1504 of this Act. It is the policy of the United States that each bank should—

(1) require the bank's employees, officers and consultants to make an annual disclosure of their financial interests and income and of any other potential source of conflict of interest;

(2) link project and program design and results to management and staff performance appraisals, salaries, and bonuses;

(3) implement voluntary disclosure programs for firms and individuals participating in projects financed by such bank;

(4) ensure that all loan, credit, guarantee, and grant documents and other agreements with borrowers include provisions for the financial resources and conditionality necessary to ensure that a person or country that obtains financial support from a bank complies with applicable bank policies and national and international laws in carrying out the terms and conditions of such documents and agreements, including bank policies and national and international laws pertaining to the comprehensive assessment and transparency of the activities related to access to information, public health, safety, and environmental protection;

(5) implement clear anti-corruption procedures setting forth the circumstances under which a person will be barred from receiving a loan, contract, grant, guarantee or credit from such bank, make such procedures available to the public, and make the identity of such person available to the public;

(6) coordinate policies across multilateral development banks on issues including debarment, cross-debarment, procurement guidelines, consultant guidelines, and fiduciary standards so that a person that is debarred by one such bank is subject to a rebuttable presumption of ineligibility to conduct business with any other such bank during the specific ineligibility period;

(7) require each bank borrower and grantee and each bidder, supplier and contractor for MDB projects to comply with the highest standard of ethics prohibiting coercive, collusive, corrupt and fraudulent practices, such as are defined in the World Bank's Procurement Guidelines of May, 2004;

(8) maintain a functionally independent Investigations Office, Auditor General Office and Evaluation Office that are free from interference in determining the scope of investigations

(including forensic audits), internal auditing (including assessments of management controls for meeting operational objectives and complying with bank policies), performing work and communicating results, and that regularly report to such bank's board of directors and, as appropriate and in a manner consistent with such functional independence of the Investigations Office and the Auditor General Office, to the bank's President;

(9) require that each candidate for adjustment or budget support loans demonstrate transparent budgetary and procurement processes including budget publication and public scrutiny prior to loan or grant approval;

(10) require that for each project where compensation is to be provided to persons adversely affected by the project, such persons have recourse to an impartial and responsive mechanism to receive and resolve complaints. The mechanism should be easily accessible to all segments of the affected community without impeding access to other judicial or administrative remedies and without retribution;

(11) implement best practices in domestic laws and international conventions against corruption for whistleblower and witness disclosures and protections against retaliation for internal and lawful public disclosures by the bank's employees and others affected by such bank's operations who challenge illegality or other misconduct that could threaten the bank's mission, including (1) best practices for legal burdens of proof, (2) access to independent adjudicative bodies, including external arbitration based on consensus selection and shared costs, and (3) results that eliminate the effects of proven retaliation; and

(12) require, to the maximum extent possible, that all draft country strategies are issued for public consideration no less than 45 days before the country strategy is considered by the multilateral development bank board of directors.

(b) The Secretary of the Treasury shall, beginning thirty days after the enactment of this Act and within sixty calendar days of the meeting of the respective bank's Board of Directors at which such decisions are made, publish on the Department of the Treasury website a statement or explanation of the United States position on decisions related to (1) operational policies; and (2) any proposal which would result or be likely to result in a significant effect on the environment.

(c) In this section the term "multilateral development bank" has the meaning given that term in section 1307 of the International Financial Institutions Act (22 U.S.C. 262m-7) and also includes the European Bank for Reconstruction and Development and the Global Environment Facility.

#### AUTHORIZATIONS

SEC. 599C. (a) To authorize the United States participation in and appropriations for the United States contribution to the fourteenth replenishment of the resources of the International Develop-

ment Association, the International Development Association Act, Public Law 86–565, as amended (22 U.S.C. 284, *et seq.*), is further amended by adding at the end thereof the following new section:

**SEC. 23. FOURTEENTH REPLENISHMENT.**

(a) The United States Governor of the International Development Association is authorized to contribute on behalf of the United States \$2,850,000,000 to the fourteenth replenishment of the resources of the Association, subject to obtaining the necessary appropriations.

(b) In order to pay for the United States contribution provided for in subsection (a), there are authorized to be appropriated, without fiscal year limitation, \$2,850,000,000 for payment by the Secretary of the Treasury.

(b) To authorize the United States participation in and appropriations for the United States contribution to the tenth replenishment of the resources of the African Development Fund, the African Development Fund Act, Public Law 94–302, as amended (22 U.S.C. 290g, *et seq.*), is further amended by adding at the end thereof the following new section:

**SEC. 218. TENTH REPLENISHMENT.**

(a) The United States Governor of the Fund is authorized to contribute on behalf of the United States \$407,000,000 to the tenth replenishment of the resources of the Fund, subject to obtaining the necessary appropriations.

(b) In order to pay for the United States contribution provided for in subsection (a), there are authorized to be appropriated, without fiscal year limitation, \$407,000,000 for payment by the Secretary of the Treasury.

(c) To authorize the United States participation in and appropriations for the United States contribution to the eighth replenishment of the resources of the Asian Development Fund, the Asian Development Fund Act, Public Law 92–245, as amended (22 U.S.C. 285, *et seq.*), is further amended by adding at the end thereof the following new section:

**SEC. 32. EIGHTH REPLENISHMENT.**

(a) The United States Governor of the Bank is authorized to contribute on behalf of the United States \$461,000,000 to the eighth replenishment of the resources of the Fund, subject to obtaining the necessary appropriations.

(b) In order to pay for the United States contribution provided for in subsection (a), there are authorized to be appropriated, without fiscal year limitation, \$461,000,000 for payment by the Secretary of the Treasury.

**ANTI-CORRUPTION PROVISIONS**

SEC. 599D. Twenty percent of the funds appropriated by this Act under the heading “International Development Association,” shall be withheld from disbursement until the Secretary of the Treasury certifies to the appropriate congressional committees that—

(1) World Bank procurement guidelines are applied to all procurement financed in whole or in part by a loan from the

International Bank for Reconstruction and Development (IBRD) or a credit agreement or grant from the International Development Association (IDA);

(2) the World Bank proposal 'Increasing the Use of Country Systems in Procurement' dated March 2005 has been withdrawn;

(3) the World Bank is maintaining a strong central procurement office staffed with senior experts who are designated to address commercial concerns, questions, and complaints regarding procurement procedures and payments under IDA and IBRD projects;

(4) thresholds for international competitive bidding are established to maximize international competitive bidding in accordance with sound procurement practices, including transparency, competition, and cost-effective results for the Borrowers;

(5) all tenders under the World Bank's national competitive bidding provisions are subject to the same advertisement requirements as tenders under international competitive bidding; and

(6) loan agreements are made public between the World Bank and the Borrowers.

#### **Title IV—Multilateral Economic Assistance**

##### **INTERNATIONAL FINANCIAL INSTITUTIONS**

###### **CONTRIBUTION TO THE INTERNATIONAL DEVELOPMENT ASSOCIATION**

The conference agreement provides \$950,000,000 for the International Development Association (IDA), the concessional lending facility of the World Bank, as proposed by the House instead of \$900,000,000 as proposed by the Senate.

The conferees believe that the IDA could be an appropriate source of funds to help eligible countries prepare for and combat a potential avian influenza epidemic. There exists significant need in Asia for programs to increase surveillance capacity, compensate small-scale farmers for timely reports of bird die-offs, modernize animal husbandry practices, and upgrade infectious disease infrastructure. The conferees urge the United States Executive Director to the World Bank to use the voice and vote of the United States to increase support for this global priority, and direct the Secretary of the Treasury to report not later than 90 days after enactment of this Act on the World Bank's plans to do so. The conferees urge governments in that region to make combating avian influenza a top priority.

###### **CONTRIBUTION TO THE MULTILATERAL INVESTMENT GUARANTEE AGENCY**

The conference agreement provides \$1,300,000 for the Multilateral Investment Guarantee Agency, as proposed by the Senate, instead of \$1,741,515 as proposed by the House.

CONTRIBUTION TO INTER-AMERICAN INVESTMENT CORPORATION

The conference agreement provides \$1,741,515 for past due payments by the United States to the Inter-American Investment Corporation as proposed by the House, instead of \$1,500,000 as proposed by the Senate.

CONTRIBUTION TO THE ENTERPRISE FOR THE AMERICAS  
MULTILATERAL INVESTMENT FUND

The conference agreement provides \$1,741,515 for past due payments by the United States to the Multilateral Investment Fund as proposed by the House, instead of \$3,742,000 as proposed by the Senate.

CONTRIBUTION TO THE ASIAN DEVELOPMENT FUND

The conference agreement provides \$100,000,000 for the United States contribution to the Asian Development Fund, as proposed by the Senate, instead of \$115,250,000 as proposed by the House.

CONTRIBUTION TO THE AFRICAN DEVELOPMENT BANK

The conference agreement provides \$3,638,000 for the African Development Bank, as proposed by the Senate, instead of \$5,638,350 as proposed by the House.

CONTRIBUTION TO THE AFRICAN DEVELOPMENT FUND

The conference agreement provides \$135,700,000 for the African Development Fund as proposed by the House and the Senate.

CONFERENCE AGREEMENT NOTES

**SEC. 599B. PROMOTION OF POLICY GOALS AT MULTILATERAL DEVELOPMENT BANKS**

The conference agreement includes a provision, similar to that proposed by the Senate, which amends the International Financial Institutions Act by requiring the Secretary of the Treasury to inform the multilateral development banks and the executive directors of such banks of certain reform goals and to actively promote these reforms. The conferees believe these reforms would improve transparency, deter corruption, promote justice and accountability, protect whistleblowers, and enhance the quality of MDB-financed projects, and should be vigorously implemented. The House did not address this matter

**SEC. 599C. AUTHORIZATIONS**

The conference agreement includes authorization language for the International Development Association, the African Development Fund, and the Asian Development Fund.

**SEC. 599D. ANTICORRUPTION PROVISIONS**

The conference agreement includes a provision, similar to that proposed by the House that would withhold 20 percent of the funds for the World Bank's International Development Association (IDA) from disbursement until the Secretary of the Treasury makes a certification about a number of procurement issues that would increase transparency in the World Bank procurement process. The

provision includes International Bank for Reconstruction and Development (IBRD) loans as well as IDA credit agreement or grants and project preparation advances, and “World Bank procurement guidelines” include the following World Bank Guidelines: Procurement Under IBRD Loans and IDA Credits; Guidelines: Selection and Employment of Consultants by World Bank Borrowers; and, all relevant Standard Bidding Documents applicable to World Bank-funded tenders. The Senate did not address this issue.

