# GUIDELINES

## On Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants

## Dated October 15, 2006 and Revised in January, 2011

### Purpose and General Principles

1. These Guidelines are designed to prevent and combat fraud and corruption that may occur in connection with the use of proceeds of financing from the International Bank for Reconstruction and Development (IBRD) or the International Development Association (IDA) during the preparation and/or implementation of IBRD/IDA-financed investment projects. They set out the general principles, requirements and sanctions applicable to persons and entities which receive, are responsible for the deposit or transfer of, or take or influence decisions regarding the use of, such proceeds.

2. All persons and entities referred to in paragraph 1 above must observe the highest standard of ethics. Specifically, all such persons and entities must take all appropriate measures to prevent and combat fraud and corruption, and refrain from engaging in, fraud and corruption in connection with the use of the proceeds of IBRD or IDA financing.

### Legal Considerations

3. The Loan Agreement[1] providing for a Loan[2] governs the legal relationships between the Borrower[3] and the Bank[4] with respect to the particular project for which the Loan is made. The responsibility for the implementation of the project[5] under the Loan

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[1]References in these Guidelines to "Loan Agreement" include any Guarantee Agreement providing for a guarantee by the Member Country of an IBRD Loan, Financing Agreement providing for an IDA Credit or IDA Grant, agreement providing for a project preparation advance or Institutional Development Fund (IDF) Grant, Trust Fund Grant or Loan Agreement providing for a recipient-executed trust fund grant or loan in cases where these Guidelines are made applicable to such agreement, and the Project Agreement with a Project Implementing Entity related to any of the above.

[2]References to "Loan" or "Loans" include IBRD loans as well as IDA credits and grants, project preparation advances, IDF grants and recipient-executed trust fund grants or loans for projects to which these Guidelines are made applicable under the agreement providing for such grant and/or loan, but excludes development policy lending, unless the Bank agrees with the Borrower on specified purposes for which loan proceeds may be used.

[3]References in these Guidelines to the "Borrower" include the recipient of an IDA credit or grant or of a trust fund grant or loan. In some cases, an IBRD Loan may be made to an entity other than the Member Country. In such cases, references in these Guidelines to "Borrower" include the Member Country as Guarantor of the Loan, unless the context requires otherwise. In some cases, the project, or a part of the project, is carried out by a Project Implementing Entity with which the Bank has entered into a Project Agreement. In such cases, references in these Guidelines to the "Borrower" include the Project Implementing Entity, as defined in the Loan Agreement.

[4] References in these Guidelines to the "Bank" include both IBRD and IDA.

[5]References in these Guidelines to the "project" means the Project as defined in the Loan Agreement.

Agreement, including the use of Loan proceeds, rests with the Borrower. The Bank, for its part, has a fiduciary duty under its Articles of Agreement to "make arrangements to ensure that the proceeds of any loan are used only for the purposes for which the loan was granted, with due attention to considerations of economy and efficiency and without regard to political or other non-economic influences or considerations."[6] These Guidelines constitute an important element of those arrangements and are made applicable to the preparation and implementation of the project as provided in the Loan Agreement.

**Scope of Application**

4. The following provisions of these Guidelines cover fraud and corruption that may occur in connection with the use of Loan proceeds during the preparation and implementation of a project financed, in whole or in part, by the Bank. These Guidelines cover fraud and corruption in the direct diversion of Loan proceeds for ineligible expenditures, as well as fraud and corruption engaged in for the purpose of influencing any decision as to the use of Loan proceeds. All such fraud and corruption is deemed, for purposes of these Guidelines, to occur "in connection with the use of Loan proceeds".

5. These Guidelines apply to the Borrower and all other persons or entities which either receive Loan proceeds for their own use (e.g., "end users"), persons or entities such as fiscal agents which are responsible for the deposit or transfer of Loan proceeds (whether or not they are beneficiaries of such proceeds), and persons or entities which take or influence decisions regarding the use of Loan proceeds. All such persons and entities are referred to in these Guidelines as "recipients of Loan proceeds", whether or not they are in physical possession of such proceeds.[7]

6. The Bank's specific policy requirements on fraud and corruption in connection with the procurement or execution of contracts for goods, works or services financed out of the proceeds of a Loan from the Bank, are covered in the Procurement Guidelines[8] and the Consultant Guidelines[9], as each such Procurement Guidelines and Consultants Guidelines are applicable to a particular Loan.

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[6] IBRD's Articles of Agreement, Article III, Section 5(b); IDA's Articles of Agreement, Article V, Section 1(g).

[7] Certain persons or entities may fall under more than one category identified in paragraph 5. A financial intermediary, for example, may receive payment for its services, will transfer funds to end users and will make or influence decisions regarding the use of loan proceeds.

[8] *Guidelines: Procurement under IBRD Loans and IDA Credits,* May 2004, as revised October 2006 and May 2010, and *Guidelines: Procurement of Goods, Works and Non-Consulting Services Under IBRD Loans And IDA Credits & Grants By World Bank Borrowers* dated January 2011, as such Procurement Guidelines may be amended from time to time.

[9] *Guidelines: the Selection and Employment of Consultants by World Bank Borrowers,* May 2004, as revised October 2006 and May 2010, and *Guidelines: Selection and Employment of Consultants Under IBRD Loans and IDA Credits & Grants by World Bank Borrowers* dated January 2011, as such Consultant Guidelines may be amended from time to time.

**Definitions of Practices Constituting Fraud and Corruption**

7. These Guidelines address the following defined practices when engaged in by recipients of Loan proceeds in connection with the use of such proceeds:[10]

a) A "corrupt practice" is the offering, giving, receiving or soliciting, directly or indirectly, of anything of value to influence improperly the actions of another party.[11]

b) A "fraudulent practice" is any act or omission, including a misrepresentation, that knowingly or recklessly[12] misleads, or attempts to mislead, a party to obtain a financial or other benefit or to avoid an obligation.

c) A "collusive practice" is an arrangement between two or more parties designed to achieve an improper purpose, including to influence improperly the actions of another party.

d) A "coercive practice" is impairing or harming, or threatening to impair or harm, directly or indirectly, any party or the property of the party to influence improperly the actions of a party.

e) An "obstructive practice" is (i) deliberately destroying, falsifying, altering or concealing of evidence material to the investigation or making false statements to investigators in order to materially impede a Bank investigation into allegations of a corrupt, fraudulent, coercive or collusive practice; and/or threatening, harassing or intimidating any party to prevent it from disclosing its knowledge of matters relevant to the investigation or from pursuing the investigation, or (ii) acts intended to materially impede the exercise of the Bank's contractual rights of audit or access to information.[13]

8. The above practices, as so defined, are sometimes referred to collectively in these Guidelines as "fraud and corruption".

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[10] Unless otherwise specified in the Loan Agreement, whenever these terms are used in the Loan Agreement, including in the applicable General Conditions, they have the meanings set out in paragraph 7 of these Guidelines.

[11] Typical examples of corrupt practice include bribery and "kickbacks".

[12] To act "knowingly or recklessly", the fraudulent actor must either know that the information or impression being conveyed is false, or be recklessly indifferent as to whether it is true or false. Mere inaccuracy in such information or impression, committed through simple negligence, is not enough to constitute fraudulent practice.

[13] Such rights include those provided for, *inter alia*, in paragraph 9(d) below.

**Borrower Actions to Prevent and Combat Fraud and Corruption in connection with the Use of Loan Proceeds**

9. In furtherance of the above-stated purpose and general principles, the Borrower will:

(a) take all appropriate measures to prevent corrupt, fraudulent, collusive, coercive and obstructive practices in connection with the use of Loan proceeds, including (but not limited to) (i) adopting appropriate fiduciary and administrative practices and institutional arrangements to ensure that the proceeds of the Loan are used only for the purposes for which the Loan was granted, and (ii) ensuring that all of its representatives[14] involved with the project, and all recipients of Loan proceeds with which it enters into an agreement related to the Project, receive a copy of these Guidelines and are made aware of its contents;

(b) immediately report to the Bank any allegations of fraud and corruption in connection with the use of Loan proceeds that come to its attention;

(c) if the Bank determines that any person or entity referred to in (a) above has engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in connection with the use of Loan proceeds, take timely and appropriate action, satisfactory to the Bank, to address such practices when they occur;

(d) include such provisions in its agreements with each recipient of Loan proceeds as the Bank may require to give full effect to these Guidelines, including (but not limited to) provisions (i) requiring such recipient to abide by paragraph 10 of these Guidelines, (ii) requiring such recipient to permit the Bank to inspect all of their accounts and records and other documents relating to the project required to be maintained pursuant to the Loan Agreement and to have them audited by, or on behalf of, the Bank, (iii) providing for the early termination or suspension by the Borrower of the agreement if such recipient is declared ineligible by the Bank under paragraph 11 below; and (iv) requiring restitution by such recipient of any amount of the loan with respect to which fraud and corruption has occurred;

(e) cooperate fully with representatives of the Bank in any investigation into allegations of fraud and corruption in connection with the use of loan proceeds; and

(f) in the event that the Bank declares any recipient of Loan proceeds ineligible as described in paragraph 11 below, take all necessary and appropriate action to give full effect to such declaration by, among other things, (i) exercising the Borrower's right to terminate early or suspend the agreement between the Borrower and such recipient and/or (ii) seeking restitution.

[14] References in these Guidelines to "representatives" of an entity also include its officials, officers, employees and agents.

**Other Recipients of Loan Proceeds**

10. In furtherance of the above-stated purpose and general principles, each recipient of Loan proceeds which enters into an agreement with the Borrower (or with another recipient of Loan proceeds) relating to the Project will:

(a) carry out its project-related activities in accordance with the above-stated general principles and the provisions of its agreement with the Borrower referred to in paragraph 9 (d) above; and include similar provisions in any agreements related to the Project into which it may enter with other recipients of Loan proceeds;

(b) immediately report to the Bank any allegations of fraud and corruption in connection with the use of loan proceeds that come to its attention;

(c) cooperate fully with representatives of the Bank in any investigation into allegations of fraud and corruption in connection with the use of loan proceeds;

(d) take all appropriate measures to prevent corrupt, fraudulent, collusive, coercive and obstructive practices by its representatives (if any) in connection with the use of loan proceeds, including (but not limited to): (i) adopting appropriate fiduciary and administrative practices and institutional arrangements to ensure that the proceeds of the loan are used only for the purposes for which the loan was granted, and (ii) ensuring that all its representatives receive a copy of these Guidelines and are made aware of its contents;

(e) in the event that any representative of such recipient is declared ineligible as described in paragraph 11 below, take all necessary and appropriate action to give full effect to such declaration by, among other things, either removing such representative from all duties and responsibilities in connection with the project or, when requested by the Bank or otherwise appropriate, terminating its contractual relationship with such representative; and

(f) in the event that it has entered into a project-related agreement with another person or entity which is declared ineligible as described in paragraph 11 below, take all necessary and appropriate action to give full effect to such declaration by, among other things, (i) exercising its right to terminate early or suspend such agreement and/or (ii) seeking restitution.

**Sanctions and Related Actions by the Bank in Cases of Fraud and Corruption**

11. In furtherance of the above-stated purpose and general principles, the Bank will have the right to sanction in accordance with prevailing Bank's sanctions policies and procedures, any individual or entity [15] other than the Member Country [16], including (but not limited to) declaring such individual or entity ineligible publicly, either indefinitely or for a stated period of time: (i) to be awarded a Bank-financed contract; (ii) to benefit from a Bank-financed contract, financially or otherwise, for example as a sub-contractor; and (iii) to otherwise participate in the preparation or implementation of the project or any other project financed, in whole or in part, by the Bank,

(a) if at any time the Bank determines[17] that such individual or entity has engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in connection with the use of Loan proceeds;[18]

(b) if another financier with which the Bank has entered into an agreement for the mutual enforcement of debarment decisions has declared such individual or entity ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier; or

(c) if the Bank's General Services Department has found the individual or entity to be non-responsible on the basis of fraud and corruption in connection with World Bank Group corporate procurement.

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[15] As in the case for bidders in the procurement context, the Bank may also sanction individuals and entities which engage in fraud or corruption in the course of applying to become a recipient of Loan proceeds (e.g., a bank which provides false documentation so as to qualify as a financial intermediary in a Bank-financed project) irrespective of whether they are successful.

[16] For purposes of these Guidelines, "Member Country" includes officials and employees of the national government or of any of its political or administrative subdivisions, and government owned enterprises and agencies that are not eligible to: (i) bid under paragraph 1.8(b) of the *Guidelines: Procurement under IBRD Loans and IDA Credits*, May 2004, as revised October 2006 and May 2010, and paragraph 1.10(b) of the *Guidelines: Procurement of Goods, Works and Non-Consulting Services Under IBRD Loans And IDA Credits & Grants By World Bank Borrowers* dated January 2011;or (ii) participate under paragraph 1.11(b) of the *Guidelines: the Selection and Employment of Consultants by World Bank Borrowers*, May 2004, as revised October 2006 and May 2010, and paragraph 1.13(b) of the *Guidelines: Selection and Employment of Consultants Under IBRD Loans and IDA Credits & Grants by World Bank Borrowers* dated January 2011.

[17] The Bank has established a Sanctions Board, and related procedures, for the purpose of making such determinations. The procedures of the Sanctions Board sets forth the full set of sanctions available to the Bank.

[18] The sanction may, without limitation, also include restitution of any amount of the loan with respect to which sanctionable conduct has occurred. The Bank may publish the identity of any individual or entity declared ineligible under paragraph 11.

**Miscellaneous**

12. The provisions of these Guidelines do not limit any other rights, remedies[19] or obligations of the Bank or the Borrower under the Loan Agreement or any other document to which the Bank and the Borrower are both parties.

[19] The Loan Agreement provides the Bank with certain rights and remedies which it may exercise with respect to the Loan in the event of fraud and corruption in connection with the use of Loan proceeds, in the circumstances described therein.