

# Government Accountability Project

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## Plundering the Yerevan Water Utility<sup>1</sup>

### Executive Summary

Independent since 1991, Armenia is the southernmost republic of the Commonwealth of Independent States (CIS), located high in the Caucasus Mountains. Since the devastating Spitak earthquake of 1988, Armenia has struggled with the transition from socialism to capitalism. The country has been frustrated by years of electricity blackouts, an economic blockade, and a war with Azerbaijan over the disputed region of Karabakh. In addition, problems with basic infrastructure, and especially water services, developed after the well-established state-run utilities fell into disrepair. Even in Yerevan, the capital where almost one-third of the population resides, the water utility can deliver safe drinking water only intermittently.

In 1998, the Government of Armenia received a credit from the World Bank to help restore the Yerevan water utility, and in keeping with the World Bank preference for private-sector management (if not ownership), ACEA, one of the international water giants, assumed control of the utility. In return, ACEA was to complete the necessary repairs and improvements and return a continuous supply of safe drinking water to Yerevan's households over the course of the four-year project.

In May 2000, the World Bank funded Municipal Development Project (MDP) began implementation, and, as the first and second years of the project passed, complaints about unreliable service and contaminated water increased. In 2002, Yerevan's Mayor insisted the project be terminated and the international operator be dismissed. Nonetheless, the project continued. In 2004, an Armenian Parliamentary Commission was established to study how effectively credits, grants and humanitarian assistance had been used since independence in 1991. With complaints about water service and quality mounting, in addition to reports from contractors about project improprieties, the Commission singled out the MDP for a detailed study.

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<sup>1</sup> This paper was prepared by Beatrice Edwards, International Program Director, GAP, with research by International Program Intern Ashley Brush.

The year-long study exposed the facts behind the dissatisfaction of Yerevan's water consumers: they had not received the safe and continuous water they had been promised. The study revealed that the representative of the international operator ACEA, in collaboration with corrupt State officials, had diverted project materials and equipment to commercial enterprises for personal gain. Further, the study showed that costly improvements to the system had been abandoned and replaced by improper for-profit schemes, that the representative of the international operator had used his position to establish a network for the purpose of embezzling public funds, and that the Bank did not oversee the project responsibly. The Commission reported these findings to the Bank repeatedly, beginning in 2004, but in its 2006 Implementation Completion Report (ICR), the Bank not only falsely claimed that project objectives had been achieved, but also claimed that project goals had been exceeded. In fact, the ICR reported that the international operator had met impressive efficiency and reliability targets, although the World Bank Country Manager had been officially informed that the targets had been altered in such a way as to conceal what was actually an abysmal performance.

In 2006, the World Bank financed a second water project for Yerevan, explaining it was necessary to build on its successes, and Veolia took over Yerevan's water company, this time under a lease agreement. Veolia, the French water corporation, immediately doubled the water tariff, service reliability deteriorated and the company announced that it was to make the improvements that ACEA and the Bank claimed had already been made through the initial project. Moreover, ACEA's authorized representative, whom the Parliamentary Commission had reported to the Bank as a corrupt official at the center of MDP-related fraud, corruption and embezzlement, was appointed by Veolia as a senior consultant.

In January 2007, it was apparent that the problems the Parliamentary Commission had observed and reported to the Bank were not being appropriately addressed, so a whistleblower on the Parliamentary Commission contacted the Government Accountability Project (GAP) to support a request for an investigation by the Bank's investigative body, the Department of Institutional Integrity (INT). In March 2007, GAP submitted a detailed letter to the Director of the INT, based on a volume of documents produced by the Commission study, and requested an investigation into a claim of project-related corruption.

Because British citizens were central figures in the project improprieties, the British Ambassador in Armenia and the UK Foreign & Commonwealth Office (FCO) supported GAP's claim, writing to the INT Director and speaking with Bank officials in Washington. The FCO passed the claim documents on to the UK's Serious Fraud Office

(SFO), whose senior officials traveled to Washington to review the INT response to the claim.

Five months after GAP contacted INT on behalf of the Senior Specialist for the Parliamentary Commission, a Senior Institutional Integrity Officer responded that the case had been ranked ‘medium priority’ by the Department. A review of INT procedures conducted by an independent panel chaired by Paul Volcker subsequently revealed that: *“Generally, INT has been able to investigate only high priority cases ..... and normally medium priority cases are NOT investigated”*. **In effect, under existing procedures, a claim of corruption supported by compelling evidence, involving substantial amounts of financing, compromising a vital service to a country capital, and implicating a highly-placed World Bank staff member, was unlikely to be investigated.** More importantly perhaps, INT appeared to be in a legal position that allowed the Department to block any investigation proposed by the national authorities affected.

The case study presented here of the World Bank’s Municipal Development Project (MDP) in Yerevan, Armenia illustrates the problems associated with the early stages of privatization of water services in a formerly socialist economy. It sets out the steps that had to be taken to prepare a public enterprise for private operation, and the ways in which those steps could be, and were, manipulated by unscrupulous government officials, and private entrepreneurs. It also shows that World Bank officials, when confronted with evidence of corruption, were indifferent at best and complicit at worst. It further demonstrates that, when a parliamentary appointee attempted to expose the fraud and address the corruption, he himself was informally ‘blacklisted’ by the World Bank and the government, and his allegations were virtually ignored.

Using three separate internal channels over a period of three years, the Commission specialist sought to oblige INT to investigate fraud in the MDP, but no effective response was forthcoming. In 2007, he resorted to external disclosure of what had happened, seeking counsel from GAP and releasing evidence of the fraud in the press and on a blog established for that purpose. In early 2008, INT interviewed the whistleblower in Yerevan, but would not discuss a timeline for the investigation or an update on its status.

Specifically, this paper explains the objectives of the MDP. It covers how project targets were improperly changed to the detriment of the project and the benefit of corrupt actors. It details the problems found by the Parliamentary Commission study and how they were reported to the international operator and to the Bank. The paper also articulates how the problems continued despite the whistleblower’s allegations, and it chronicles the process

of attempting to encourage INT to carry out a full investigation into a documented claim of significant fraud and embezzlement associated with a World Bank project.

In a more general sense, the case demonstrates that no national or international authority is responsible for investigating or prosecuting criminal conduct in World Bank projects when the Bank itself lacks either the capacity or the will to do so.

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## **I. World Bank Philosophy and Water Privatization**

According to World Bank representatives, the question of “whether privately managed utilities perform better than those run by the state has long been a source of debate.”<sup>i</sup> The Bank itself has vacillated on whether or not privatization is appropriate in the water sector. From the 1960s through the 1980s, the Bank promoted the creation of publicly held water utilities, and during this period in most of the developing world, infant and child mortality declined quite rapidly,<sup>ii</sup> largely as a result of increasing access to potable water. By the 1990s, however, freshwater had become increasingly scarce worldwide, due to pollution, climate change and other factors, and private enterprises began to view it as a valuable and profitable commodity. This, coupled with the Bank’s move toward trade liberalization and deregulation in all sectors, led to a shift in the Bank’s view on water privatization.<sup>iii</sup> Operationally, the World Bank and the regional development banks took steps in donor countries to promote privatization, which came to be an umbrella term that includes selling assets, tendering a water concession or awarding management contracts to a private company.

To codify the shift in approach, the Bank published a Water Resources Management Report in 1993 that portrayed water as an economic good and promoted an agenda of privatization and full-cost recovery. The report stated that “the privatization of public water service agencies.... will be encouraged”<sup>iv</sup> and that the “mix between private and public capital for investments in water resources will need to change, with the private sector share increasing sharply.”<sup>v</sup> Subsequently numerous water supply loans included a privatization component: analysis of World Bank data shows that between 1990 and 2002 approximately one third of the 276 water supply loans granted by the Bank had a privatization requirement.<sup>vi</sup> According to the non-governmental organization (NGO) CorpWatch, by 2004, 460 million people worldwide were “dependent on private water corporations for their daily supply - compared to 51 million in 1990 - because of the privatization policies promoted by the World Bank and IMF.”<sup>vii</sup>

Discussion of this issue at the Bank reveals that although privatization is not wholly embraced as a panacea, there is a general consensus that the benefits outweigh the costs. A recent study by two Bank specialists concedes that water privatization has always been controversial and noted that questions persist regarding the sustainability of improvements that may be achieved through water privatization.<sup>viii</sup> But the report’s authors maintain that privatization in the water sector leads to increased output and residential connections per worker and an increase in the number of hours of service.<sup>ix</sup> Similarly, another Bank report argues that “water concessions create value by boosting service coverage and quality, and by improving the efficiency of utility operations.”<sup>x</sup>

In its water privatization toolkit, the World Bank asserts that “the greatest value of engaging a private firm can be in transforming decision making and accountability by better aligning the interests of all parties, government and private, with the public interest.”<sup>xi</sup> The Bank also lists additional benefits that private companies offer over public systems of water distribution such as establishing an emphasis on service and commercial performance, creating easier access to capital, and increasing sustainability.<sup>xii</sup> While the Bank report does go on to note that making the transition from a public to a private system may present certain difficulties, it suggests that when such a transition is made correctly, a greater number of people will have access to clean water.

Numerous scholars, labor unions and nongovernmental organizations – such as Public Citizen and Public Services International – have done extensive reports to debunk these claims and to criticize the Bank’s simplistic appraisal of the risks and difficulties of shifting from public to private control of water services. Many labor and consumer groups forcefully argued that the Bank had neglected to do an informed and impartial analysis of the negative impact of this shift on workers, users and taxpayers, producing instead an ideologically-driven gloss of the transition. The critical research shows that water privatization consistently caused serious problems, such as reduced access to water, an increase of water-borne illnesses, higher consumer fees, and corruption.<sup>xiii</sup> In Latin America, especially, the privatization of water companies became increasingly unpopular as the public came to associate it with higher cost, declining service and poor water quality.

Critics of privatization also argue that the provision of water constitutes a natural monopoly unsuited to market competition. Delivery of a monopoly on a service essential to public health into private, profit-seeking hands may not be the most effective and appropriate way to improve service and maintain infrastructure. Far from improving the accountability of service providers, privatization shifts more data about the operations of a water utility behind the shield of proprietary information, facilitating corruption and abuse of authority. If in addition, the privatization process occurs before an effective regulatory regime is in place, as the Bank often encouraged, the enterprise in question becomes subject to plunder, with all the resulting financial and social costs.

## **II. The Municipal Development Project**

Approved by the Board of the World Bank in June, 1998, the Municipal Development Project (MDP) included six components: an immediate investment program, a private sector management contract, an operating investment fund, capital investments, housing and technical assistance. The total project cost was US\$ 35.5 million. Through its low-interest loan window for low-income countries, the International Development

Association (IDA), the Bank provided US\$30 million in financing to the Government of Armenia (GoA), which contributed US\$ 5.5 million. The credit was transferred through a sub-credit agreement from the GoA to the Yerevan Water & Sewerage Company (YWSC), the project beneficiary, which was required to appoint an international operator under contract to manage the four year project and to provide a range of consultancy services. Among the project's objectives was the promotion of "... private sector development, particularly in the construction sector, by supporting the privatization process and building on the experience currently being gained in promoting competitive procurement procedures."<sup>xiv</sup>

### **III. The Parliamentary Commission Study**

In September, 2003, the Parliament of Armenia established the Commission to Study Credits, Grants, and Humanitarian Assistance Received from Foreign Countries and Intergovernmental Organizations" (CGHA Commission). The Speaker of Parliament appointed Vahan Hovhannessian, the Deputy Speaker, to head the Commission. He also named Bruce Tasker, a systems engineer and entrepreneur, as senior specialist to manage a team of reviewers and analysts. In November, Commission members determined that the examination of specific loans and projects fell within their scope of work, and in January, 2004, they included the World Bank's MDP as one of operations to be studied. Specifically, the Commission included the MDP in its review because of: a) continual complaints from Yerevan's water consumers about service interruptions and poor quality, and b) a complaint from a local construction company that alleged improper exclusion from a contract after having been selected through a bidding process held under the auspices of the project. The study of the MDP developed into a comprehensive year-long investigation that revealed wide-ranging and high-level bribery, fraud, corruption and embezzlement.

#### *Coordination with the World Bank*

Early in the process, the Commission found a number of commercial and administrative irregularities, including problems with registration of the Project Management Unit (PMU). To address the problem, Tasker, the Commission Senior Specialist, met with Roger Robinson, World Bank Country Manager (WBCM), to discuss the project and request copies of original project documents in English. The WBCM advised that the Bank would not provide MDP documents to the Commission, which, he said, should be obtained from the PMU. Among the documents requested were World Bank project reviews conducted at six-month intervals. At this meeting, Tasker presented project documents in Armenian that he had obtained from the PMU. The documents indicated there was reason to believe the PMU was itself fraudulent. The WBCM conceded that the



Bank would provide the project documents requested, adding that the Commission should at no time communicate directly with Bank headquarters in Washington.

The WBCM asked the Commission to provide a full report of its concerns, and to keep the Country Office informed about the ongoing Commission study. The Head of Commission and the Senior Commission Specialist subsequently submitted a meeting report to the WBCM, followed by a number of additional letters and reports.

### World Bank Oversight

Through multiple inquiries and meetings, as well as a study of documents, the CGHA Commission established that the steps required by the Bank to secure the loan and guarantee its proper disbursement were not taken by the GoA. The Bank did not properly:

- Confirm that the loan guarantee had been established;
- Oversee the contract between the YWSC and the independent operator;
- Ensure the PMU was established and adequately staffed;
- Monitor the disbursement of Project funds.

### Security Agreement

The World Bank provided funding to the project through a credit agreement with the Government of Armenia, represented by the Ministry of Finance and Economy. Through a sub-credit agreement with the Ministry, the project funds were transferred to the Yerevan Water & Sewerage Enterprise (YWSE), later the Yerevan Water & Sewerage Company (YWSC). The Credit Agreement between the Ministry of Finance and Economy and the Bank required another agreement, under which the YWSC would pledge all of its assets as security against the loan. The Commission found that the YWSC had not entered into the security agreement with the Ministry of Finance & Economy. Nor had YWSC pledged its assets against the loan, as required by the Sub-Credit Agreement. This omission passed the burden of repaying the loan from the YWSC to the public, making the company, unencumbered by debt, more attractive to potentially predatory privatizers.

### A Conflict of Interest

The first step to be taken in initiating the MDP was the contracting of an independent international private operator to manage the project and to provide a range of consultancy services to the YWSC as part of an effort to make the company more efficient. The independent International Operator for the MDP was a subsidiary of the Italian water

giant ACEA, registered in Armenia as ACEA - A. Utilities.<sup>2</sup> Under the terms of the MDP, the International Operator was contracted to the YWSC, and its Authorized Representative (ARIO) was responsible for managing implementation of the improvements funded by the MDP and supporting day-to-day operation of YWSC. In turn, the Director of YWSC was responsible for enforcing the terms of the contract with the International Operator, and the Director of the PMU represented the Bank to ensure that project funds were disbursed and used legitimately, according to the provisions and objectives of the project loan (Exhibit 1: Conflict of Interest).

During the month of January, 2004, the CGHA Commission held a series of meetings with the three principals: the ARIO, an official presented as the Executive Director of the YWSC, and the Director of the PMU. The Commission requested information about a complaint from a construction firm that had lost an MDP contract and about other contracts issued under the MDP. Little information was forthcoming in response, the first sign that the inquiry would be difficult and that the International Operator would resist it.

A subsequent examination of documents showed that a month into the project the International Operator had been made ‘Governing Counsel’ and the ARIO was appointed General Director of the YWSC. In effect, according to documentation collected by the Commission, throughout the duration of the project, ACEA had taken control of the state water company and the ARIO was managing in-country MDP works and providing consultancy services to the YWSC, the company he was simultaneously serving as General Director. Although the ARIO was party to a performance-based contract with the YWSC, a State enterprise that represented the public interest, in fact the ARIO and the General Director of the YWSC were the same person, such that the international operator for the MDP was no longer independent, and no State advocate for the public interest was represented in the project.

As a result, the Independent Operator, the management of the YWSC and corrupt government officials were able to manipulate the terms of the project and improperly appropriate project resources for their own benefit. In turn, they left Yerevan consumers with ever-increasing tariffs for an unreliable water service and the Armenian public with the responsibility of repaying borrowed funds from which they received little or no benefit.

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<sup>2</sup> ACEA & Company Armenian Utility S.C.A.R.L. (A. Utilities)

### The Municipal Development Project Management Unit

The fraudulent activities described above could and should have been prevented by the Bank's Project Management Unit (PMU), an oversight mechanism that the Bank required the borrowing government to establish prior to the initial disbursement of funds. Early in the inquiry, however, the CGHA found that the PMU had not been properly registered at the time the first project documents were signed: a counterfeit PMU stamp of a non-existent unit was affixed to the sub-credit agreement that transferred the IDA loan from the Ministry of Finance & Economy to the YWSC. The World Bank credit for the MDP stipulated that the PMU was to be registered and staffed prior to World Bank disbursal of funds. Instead, the Commission found that the PMU was registered after the initial disbursements were made and the fundamental agreements were signed. After project implementation began, this PMU was registered and re-registered, but the initial one was not liquidated, so throughout the four year duration of the project there were two registered PMUs (Exhibit 2: MDP PMU Registration).

The CGHA, then, in its report, showed that the Government of Armenia, through its Ministry of Finance & Economy, had in fact obtained a credit from the World Bank by approving a falsified document, signed by the Director of a non-existent PMU and endorsed with a counterfeit stamp.

### Change of Project Objectives

The prime objectives of the MDP originally had been to:

- (i) Make emergency short term improvements in the water supply system to improve the drinking water supply to Yerevan, in particular to the poorer and the most affected elements of the population;
- (ii) Improve the efficiency, management, operation and delivery of water and wastewater services for the Yerevan service area; and
- (iii) Lay the groundwork for the sustainable involvement of the private sector in the overall management of these services in Armenia.

But with the ARIO doubling as General Director of the YWSC, to which he was contracted under the MDP, the project objectives were at risk. Many of the capital investment projects were poorly executed or eliminated, and a blanket system of domestic water meter installation was introduced. Consequently, during the first two years of the project, the International Operator's performance was well below the 'Excellent' rating needed to receive the maximum annual bonus of \$375,000, half the possible total value of the management contract. To award the bonus to the International

Operator despite a deficient performance, the General Director simply lowered the standards necessary to qualify for it. Because both parties to the contract were, in fact, the same person, this was a simple exercise.

### Domestic Water Meters

Two years into the project execution period, the domestic water meter program intensified and YWSC obliged subscribers in Yerevan to install water meters. Within one year, through collaboration between the International Operator and the YWSC, acting as the same party, and with authorization from an apparently complicit Armenia State Water Committee, the objectives of the MDP were fundamentally changed. Ostensibly, a major project component was now the installation of water monitoring and domestic water metering systems (Exhibit 3: Changes to Credit Agreement). At the same time, in nearly all cases, customers were obliged to pay for the meters, to pay for and arrange installation, and to fund the additional cost of fixtures and fittings. Through this project component, the Operator claimed that the meters were a major additional project benefit financed by the MDP, when in fact, the residents of Yerevan paid, on average, US\$30 for each meter.

The YWSC General Director/ARIO confirmed to the Commission that, by 2004, the YWSC had registered 289,000 water meter subscribers and the average number of water meters per customer was 1.5. These figures extrapolated to 433,500 domestic water meters installed, with a total value of more than US\$13 million. The YWSC financial documents provided to the Commission, however, did not show profits or cash flow income anticipated from the sale of water meters. Nevertheless, the Bank's MDP Implementation Completion Report (ICR) of May, 2006 praised the manner in which the project's meter installation target had been surpassed by a factor of more than thirteen times, with 277,000 domestic water meters being installed in place of the 20,000 pilot installations originally contemplated. The Bank later acknowledged that less than \$500,000 in project funds had been expended on the thirteen million dollar project component for which it subsequently claimed credit. In fact, it was Yerevan residents who paid YWSC for the meters, but the revenue went unrecorded.

### Damage to the Municipal Water Utility

The consequence of the shift in operations was not simply a fraud that benefited specific people at the expense of the public; it also sabotaged the overall plan to repair the Yerevan water system. This had a doubly negative impact because the integrity of the existing distribution pipelines depended on low water pressure. Given the unreliability of water delivery prior to water metering, Yerevan residents had developed the habit of

leaving their taps open while they waited for the water to arrive, at which time they would replenish their stocks in buckets, saucepans and bathtubs. Having collected their water, and because water consumers paid a fixed monthly fee for the water they used, the taps would typically remain open and the water would run freely into the drainage system. The introduction of water meters resulted in consumers paying for the amount of water they used, which encouraged them to turn off their taps after they had collected the water they needed. Closed taps created back-pressure in the system, which resulted in a pressure increase in the distribution pipeline. The initial improvement plan called for repairs to the system infrastructure first, to enable the pipes to withstand the stress of the increased pressure, but that major capital investment component was all but eliminated.

Nevertheless, the plan for metering and charging for water used continued. By implementing this phase of the project first, the pipe pressure increased before critical repairs were made to the worst of the corroded pipe sections. The deteriorated pipelines were unable to withstand the dramatic pressure increase, so by the end of the four-year project the number of major breaks and leaks had increased by a factor of four to more than 5,000. Had the original objectives been followed, the pipes would have been repaired first, using new materials purchased for the project. The upgraded parts of the system would then have tolerated the growing pressure occasioned by metering, and the breaks and water losses that occurred in many sections would have been avoided.

The International Operator explained that the change in objectives was to eliminate the system of booster pumps, used to increase the water pressure for high rise buildings, calculating that the increased pressure generated as a result of closing taps would be sufficient to deliver water to the upper floors. But not only did the introduction of water metering fail to allow the elimination of booster pumps, it further impaired water delivery for all consumers because of the multiple ruptures in the system that followed.

#### *Diversion of resources and use of substandard materials*

##### i) Pipes were Diverted for Commercial Use

In keeping with the priorities of the MDP, the first step in improving the water system was to test for leaks in the main distribution water pipeline and repair or replace major sections of the older and more seriously corroded pipes.<sup>3</sup> The International Operator reported to the Commission that new pipes bought under the MDP had been used in a number of specific pipe replacement projects. But the increasing – rather than decreasing – number of leaks and breaks in the pipelines led members of the

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<sup>3</sup> This objective was all but eliminated in the first year, however, after the technical auditor rejected the International Operator's method of testing for leaks – by looking under manhole covers.

Commission to doubt this claim. When asked to provide evidence of completing the work, the ARIO and General Director of the YWSC, Richard Walkling, submitted a ledger of more than 100 certificates and work orders to the Commission, showing that new pipe had been used for a variety of repair works. The Head of Commission invited the attorney for the Parliament to give his opinion on the documents submitted, and he confirmed that they were all falsified and/or counterfeit. This ledger has been filed in the archives of the National Assembly, together with other original documents gathered for the CGHA study.

After reviewing all documentation provided and completing numerous site visits, the Commission concluded that approximately US\$4 million of MDP funds were spent to buy water pipes to replace the worst of Yerevan's old pipes, but the new materials were diverted for illicit use in profit-making activities. Anecdotal evidence strongly indicated that thousands of meters of new pipes purchased for initial stage capital investment projects under the MDP were actually used to produce stanchions and frames for the hundreds of billboards that sprang up along the highways into and out of Yerevan around this time.

ii) Old Materials Used for New Construction

New pipes were also to be used for connection to a Yerevan reservoir that was constructed with project funds. This was the subject of the complaint sent to the Commission by a local construction company that claimed its bid had been improperly excluded from the selection process. Under review, it became evident that the local company awarded the contract installed used pipes instead of new ones. Moreover, the pipes installed were taken from the steam system of a derelict chemical factory and would typically have been sold for scrap because of their deteriorated condition. Instead, they were used to connect the new reservoir to the water mains. The head of the CGHA Commission showed photographs of the deteriorated pipes to the National Assembly in a presentation made March 30<sup>th</sup>, 2004 (Exhibit 4: Main Repair).

iii) Improper Use of Cheap Alternative Proprietary Components

The International Operator advised the Commission that Yerevan had a system of 795 Booster Pumps that locally increased water pressure for delivery to the upper floors of high-rise apartment buildings. The Bank's ICR claims that the MDP reduced the number of booster pumps by 31%, and that 44% of the remaining pumps were new, more efficient units. The CGHA Commission found that a putatively new booster pump, installed under the MDP in 2003 in a new pump house with all new pipework,

used sub-standard materials (Exhibit 5: Garni Pumping Station). The pumps were of the standard horizontal type, but the motors were actually cheap unreliable machines imported from China rather than the high-quality motors manufactured in Italy that the project paid for and the International Operator claimed had been installed.<sup>4</sup>

iv) Capital Investment Works Claimed for but Not Implemented

The large source pumps shown in the Exhibit 5 photograph are located at the Garni Pumping Station. One of the major tasks under the MDP was to convert pumped water to gravity feed and thus reduce electricity billing for the YWSC. As part of this activity, the project was to re-route a section of pipework to eliminate the Garni Pumping Station, which is located at the bottom of a gorge, some 25 kilometers north of Yerevan. The International Operator claimed that more than US\$100,000 was spent on project design, materials and construction to complete this work. During a site visit in March 2004, however, the CGHA found that the section of the pipework that had been re-routed and the associated excavation work had obviously been done many years before. There was no sign that the work would be completed and the Garni pumps continued to operate. Moreover, the International Operator had scheduled a refurbishment of the pumping station, which was to be de-commissioned, and many thousands of dollars had been expended on materials, a consultancy and engineering works for that project, which amounted to no more than a superficial paint job.

Commercial Irregularities

i) Increased Incentive Compensation Payments

In reviewing the changes in project objectives, the CGHA Commission found that by sidelining capital investment projects and pursuing profit-making ventures, the International Operator, represented by Richard Walkling, was not able to meet the targets in the 'Performance-Based Management Contract'. Therefore, in the first two years Walkling did not qualify for his US\$375,000 annual bonus. Consequently, in the third project year, the YWSC, represented by Walking in his capacity of General Director, amended the contract and significantly lowered the performance standard from 'Excellent' to 'Poor' (and lower). In this way, the Operator could qualify for

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<sup>4</sup> In 2000, at the start of the Municipal Development Project, according to International Operator reports, Yerevan had 795 Booster Pumps. The elimination of 31% leaves about 550 pumps. Assuming 44% of those were replaced by new, more efficient units, 308 old pumps remain. In January, 2007, Veolia, the present day Operator of the Yerevan Water Company, announced that 500 new, more efficient pumps are to be installed. As a result, either Veolia is currently inflating the number of booster pumps to be purchased and installed, or the former International Operator exaggerated the number of booster pumps replaced, and the World Bank did not verify the figure before printing it in the MDP Implementation Completion Report.

the full bonus, including for previous years (Exhibit 6: Changes to the Management Contract). The Operator thereby retroactively claimed the first and second year bonuses he had not received because of poor performance. The Bank approved the modification; once again, because the YWSC General Director and the ARIO were the same person, amending the contract in favor of the Operator was an uncontested exercise.

ii) Ghost Consultants

The study of the MDP required the Commission specialists to spend many days at the offices of the PMU and at the YWSC, conducting discussions with the PMU Director and his staff, with the ARIO/YWSC General Director, and with other senior YWSC officials. The ARIO had submitted a detailed list to the Commission of 50 international consultants who worked on the MDP, including himself, who was also General Director of the YWSC. But throughout the year of the study, the Commission specialists saw only one other International Operator representative. The Commission later obtained a document that the ARIO submitted to the Bank in March 2004, proposing a one-year extension of the project and including a second list of international consultants who had worked on the project for the first four years (Exhibit 7: Ghost Consultants). There were only 17 international consultants on the second list, some of whom were not included in the first list, and Walkling, the ARIO who headed the first list, did not appear on the second. While the International Operator billed the YWSC, and thus the Government of Armenia, for the work of more than 50 foreign consultants, the Armenian security and customs services were only able to confirm that 14 of these people had actually entered the country during the four year duration of the project.

A Study of YWSC Finances

The ARIO, in his dual capacity as General Director of the YWSC, took on the responsibility for all YWSC operations, including YWSC finances, which had been intermingled with those of the MDP. Therefore, in order for the Commission to track MDP expenditures, it was necessary to study YWSC finances, and that exposed embezzlement of budget funds much greater in value than the \$35 million cost of the World Bank's MDP.

In May, 2004, the CGHA Commission began a study of YWSC finances and found questionable circumstances surrounding the transfer of an energy debt in 2002 from the YSWC to the State energy company Haigasart, under the Government of Armenia's Integrated Finance Rehabilitation Plan (IFRP). The IFRP was formulated in



collaboration with the World Bank and was subject to ‘surveillance’ by the IMF under a technical assistance agreement, designed to eliminate \$450 million worth of bad electricity debts dating back to 1996, including those of the YWSC.

In May and June, 2004, Tasker, the CGHA Senior Specialist, and the rest of the Commission attempted to work with officials from the auditing firm KPMG to clarify the financial statements provided by the YWSC for the years 1999 to 2003. KPMG had audited the YWSC accounts up to and throughout the duration of the MDP, and the Commission found that details in the financial statements externally audited by KPMG differed dramatically from those provided by the YWSC Finance Director and by the tax authorities. The YWSC Finance Director provided hundreds of financial documents to the Commission that indicated discrepancies in the amounts the YWSC had recorded for electricity in its externally audited accounts. In addition, numerous other serious irregularities surfaced, including the fact that the income generated by the sale of water meters (see above) had gone unrecorded.

In June, 2004, Mr. Tasker set out these issues in a letter to Mr. A. Kuchukyan, Managing Director of KPMG, seeking information about irregularities in the statements. But despite written approval from the YWSC, KPMG’s Director refused to answer the Commission’s questions and declined repeated requests to meet.

#### *Manipulation of YWSC Externally Audited Accounts*

During the first two years of the MDP the YWSC paid virtually none of its \$7 million annual electricity expenses, despite having received more than \$10 million in State subsidies specifically for that purpose. The Commission found that the electricity account had been used in many ways to create illicit gain:

- ❖ In 1999, in preparation for the MDP, the State extended a 5 billion Dram (US\$9.5 million) credit to the YWSC to clear all outstanding electricity debts. But according to externally audited accounts, both the 5 billion Dram electricity debt and the 5 billion Dram credit remained on the YWSC account.
- ❖ During the first 28 months of the MDP, the YWSC paid virtually none of its 8 billion Dram electricity account, so in October, 2002 the debt had built up to 13 billion Drams (US\$25 million)
- ❖ During the same 28 month period the State provided more than 5 billion Drams in subsidies, specifically for payment of the electricity account, but the electricity account was not paid.
- ❖ In May, 2002, the State decreed that 10 billion Drams of the 13 billion Dram electricity debt would be converted to increase its shareholding in the company.

- ❖ In October, 2002 the 10 billion Drams assigned for conversion to capital was included in a 13 billion Dram electricity debt which was transferred to Haigasart, under the Government's Integrated Finance Rehabilitation Plan (IFRP). The YWSC did not record that transfer in its externally audited accounts.
- ❖ In December, 2002, the State paid a further 3 billion Drams (US\$6 million) subsidy to the YWSC, to pay more of its electricity debt, and the YWSC paid those funds to Haigasart. But the YWSC did not record the receipt and payment of the 3 billion Drams in its externally audited accounts.
- ❖ The YWSC 2002 financial statement double-accounted the 10 billion Dram part of the debt which had been transferred to Haigasart, and which had also been used to increase capitalization, by concealing it as a separate general debt item.

The final elimination of the electricity debt and the increase in YWSC capitalization was scheduled to take place in 2003. But YWSC financial documents were being withheld from the Commission, including, most significantly, the company's externally audited 2003 financial statement. Without this document the Commission could not reach a final determination about the apparent irregularities that appeared in letters and reports to the International Operator and to the Bank.

### *Reporting the Problems*

By the end of July, 2004, no further documentation was forthcoming from the International Operator, YWSC or the World Bank, so Tasker, as Senior Specialist for the Commission, set out his concerns. Summarizing the finance documents that he and his team had studied, but without the final details anticipated in the YWSC financial statement for 2003 and other related documents, Tasker forwarded his reservations about the MDP in an August 6<sup>th</sup> letter to Walkling, the ARIO/YWSC General Director, and copied to Robinson at the World Bank Country Office (Exhibit 8: Report to WBCM and ARIO). By the end of August, 2004 the statement for 2003 had not been made available to the Commission, which the World Bank attributed to the need to complete its own review. Tasker therefore submitted his Final Report to the Head of Commission, who filed it in the National Assembly Archives, where it remains.

Because of the attention the study had already attracted, however, the Speaker of Parliament extended the Commission term until the end of the year to give it the opportunity to piece the documents together and complete the study.

### Continued Problems with YWSC Audits and Accounts

The Bank did not provide details of its own review of the financial statements ultimately provided, but in October, 2004 eventually released the externally audited YWSC 2003 statement to the Commission. A study of the statement not only confirmed the Commission's suspicions regarding the YWSC electricity account, it revealed a number of additional multi-million dollar manipulations, which – despite a six-month Bank review – had not been corrected.

#### i) Elimination of Electricity Debt

In 2003, the YWSC received a further 10 billion Drams cash payment as a grant from the State, to be recorded as an increase in capitalization, and to be used for payment of the electricity and other debts. This meant that the YWSC manipulated the single 10 billion Dram electricity debt to create four potential 10 billion Dram losses for the YWSC and/or the State budget: 1) In May, 2002, it assigned the debt to increase capitalization; 2) In October, 2002, it transferred the debt to Haigasart; 3) In the 2002 financial statement, it double accounted the debt, hiding it as a general debt item; 4) In 2003, it received a 10 billion Drams cash payment from the State to increase capitalization that in 2002 had already been increased.

#### ii) Over-Stated Asset Valuation

During 2002, the YWSC assets had been re-valued and the re-valuation was recorded in the financial statement for 2003. Initially, Aucon, a local auditing firm, assessed non-fixed assets at YWSC at a value of US\$ 4 million. Subsequently, however, the YWSC recorded a massively over-stated US\$100 million in re-valued non-fixed assets. The over-valuation allowed YWSC to record an unwarranted US\$ 6-million depreciation charge and demand compensation in this amount from the State budget. In addition, the over-valuation had other important implications, as explained below.

#### iii) Security Agreement

The YWSC financial statements for years 2000 to 2002 reported that, in compliance with the sub-credit agreement for the World Bank credit, the security agreement between the Ministry of Finance & Economy and the YWSC had been established and all of the company's assets had been pledged to secure the IDA loan. In February, 2004 however, the Commission reported to the Bank that the security agreement had not been established. The YWSC financial statement for 2003, released in October, 2004, reconfirmed that the security agreement had been established, but included a

modified clause that the company's *non-fixed assets* had been pledged against the loan, which did not comply with the terms of the sub-credit agreement. Assets worth only US\$4 million, but which had been improperly recorded by the YWSC at US\$100 million, had been pledged against the US\$30 million IDA credit.

iv) Increase in State Shareholding

In December, 2003, the 10 billion Dram grant the State provided to the YWSC was to be registered as an increase of the State capital shareholding in the company. But the 10 billion Dram electricity debt had already been assigned to be used for that purpose, so this simply constituted an additional 10 billion Dram cash donation for the YWSC. The Commission study of the 2003 statement found that, although the US\$20 million facility had been provided to the YWSC two times, and although the YWSC reported the increase in capitalization in the 2003 statement, the YWSC did not in fact increase the capitalization as it should have done.

v) Massive Expenses

The YWSC has annual expenses of US\$12 million, but in 2003 it recorded a loss of more than US\$50 million, even after receiving more than US\$45 million in subsidies and other payments from the State.

Head of Commission Reports to the Bank

At the end of May, 2004, the Head of Commission, Vahan Hovhanessyan, wrote to Robinson, WBCM, explaining that the CGHA Commission was broadening the scope of its review of the MDP as a consequence of what appeared to be a widening range of corrupt activities associated with the Project.

Hovhanessyan wrote:

*The indication from our study to date is that there may have been financial improprieties related to activities between the YWSC and other Governmental organizations, which could possibly amount to major 'Money-Laundering'. Furthermore, the improprieties could be part of a long established and ongoing process...(Exhibit 9: Hovhanessyan Correspondence)*

#### **IV. Attempt to Bribe the Commission Specialist**

Throughout February and March, 2004, as irregularities were exposed in the administrative, commercial and technical aspects of the project, the International Operator and senior State officials became noticeably nervous. Verbal information from project officials was contradictory and unreliable, and reluctance developed on their parts to provide the Commission with the documentation needed for the study. This reluctance prompted a site visit by the Commission to physically confirm what project materials had been used and what capital investment projects had been completed, in accordance with information provided by the ARIO. A water company specialist, Mr. Artur Petrossian, was assigned to accompany the Commission specialist to visit the eight projects where the ARIO had claimed that new pipes had been installed in the main water distribution system to replace corroded pipes. The water company specialist was not able to show a single completed project. This failure prompted the Garni pumping station site visit, to confirm that the works had been completed to convert the water from pumped to gravity feed, as the ARIO had also claimed to the Commission.

While traveling to Garni, the water company specialist suggested to Tasker, the Commission specialist, that he might prefer to leave the Commission, where his expenses surpassed his income, and accept a highly paid job as Richard Walkling's Deputy General Director for the Water Company. This was an obvious attempt to bribe Tasker and stop his investigation into what was clearly a highly corrupt MDP, in which Richard Walkling was a central figure. Bribery is the very core of corruption, the subject of numerous anti-corruption agreements, conventions and laws. The international community makes every effort to discourage the paying and/or receiving of bribes and requires those pressured to offer or encouraged to take a bribe to report such matters to the appropriate local and international authorities. Tasker repudiated the bribe, thinking that his efforts would lead to improvements in the developing Armenian environment, where corruption had for several years been escalating.

#### **V. 2004 Application to the 'INT Hotline'**

As the dimensions of the apparent fraud and embezzlement associated with the manipulation of MDP funds became clear to the CGHA Commission, and, given the fact that the General Director of the auditing firm KPMG was not prepared to cooperate with the Commission, Tasker began to seek avenues for advice regarding further investigations. On June 23<sup>rd</sup>, 2004, Tasker contacted the World Bank hotline for reporting fraud and corruption, established as part of the Bank's Department of Institutional Integrity (INT). INT directs Bank staff and the public to report fraud and corruption in Bank operations. INT defines this as:

...[S]uspected contract irregularities and violations of the Bank's procurement guidelines; bid manipulation; bid collusion; coercive practices; fraudulent bids; fraud in contract performance; fraud in an audit inquiry; product substitution; price manipulation; substandard or inferior parts or materials; cost or labor mischarges; kickbacks, bribery or acceptance of gratuities; abuse of authority; misuse of Bank Group funds or funds entrusted to the Bank Group..."<sup>xv</sup>

On July 30<sup>th</sup>, 2004, Tasker received a reply to the concerns he had raised. In this communication, Yannick Stephant, an Institutional Integrity Officer for INT responsible for matters relating to Eastern Europe and Central Asia, advised Tasker that his concerns regarding a fraudulent PMU, and a conflict of interest in the person of the Director of the YWSC could best be addressed by contacting the PMU, the Director of the YWSC or the Ministry of Finance. In other words, Stephant directed Tasker to obtain the information from the very individuals and offices that he had reported as complicit in the fraud. Despite the improbability of obtaining documentation from these sources, the Commission nonetheless contacted them. Stephant then violated the INT commitment to confidentiality of witnesses and claimants by copying his reply to the Armenia Country Manager and to the Task-Manager of the project in Washington.

The website for INT states that:

INT is responsible for ensuring a fair, prompt and thorough review of the facts and circumstances regarding reports of misconduct, and also for ensuring that the whistleblower is informed of the outcome of the Bank Group's review or investigation into the matter, including whether misconduct has been substantiated and whether disciplinary measures, sanctions, or other remedial measures have been taken.

To date, neither Mr. Tasker nor GAP knows of any such review, finding of misconduct, or application of sanctions.

Further, INT claims in its public statements that its officers respect the following confidentiality policy:

If you choose to give us your name but want your name to remain confidential, the Bank will not reveal your name in any court or tribunal process and will not reveal any information that may disclose your identity to anyone outside the investigative team and its managers and attorneys unless the Bank determines you

have made an intentional misrepresentation or omission, or the Bank is required to do so by law.

Mr. Tasker's confidentiality was violated early in the investigative process.

## **VI. The World Bank's Failure to Investigate**

On April 1<sup>st</sup>, 2004, the WBCM Roger Robinson notified Hovhanessyan, the Parliamentary Head of the CGHA Commission, that the technical and legal authorities at the World Bank had been informed of the problems with the MDP (Exhibit 10: Robinson Correspondence). According to Tasker, however, neither the technical nor the legal specialists at the Bank ever contacted the CGHA Commission for interviews or evidence, indicating that, either they had never been informed of the improprieties Tasker was reporting, or that they never actually investigated, for some reason.

Tasker's repeated attempts to address and correct fraud in the MDP in Armenia by disclosures to INT and the Country Manager did not elicit an investigation of the central figure in the fraud, who continued to operate with impunity. Nor did it precipitate a forensic audit by the Bank of the financial statements of YWSC and improprieties regarding the conduct of KPMG in Armenia related to World Bank funds. On the contrary, in February, 2005, the Bank approved a follow-up project for an additional \$20 million in financing: the Yerevan Water and Wastewater Project. The Bank's website described the project as "...continuing and expanding accomplishments achieved under a previous IDA-financed Municipal Development Project."<sup>xvi</sup>

The Project Appraisal Document for the new water project was finalized in January, 2005, less than one month after the CGHA Commission had filed its highly critical inquiry into the MDP in the National Archives. The description of the new project reads as if the questions sent to the World Bank Country Manager six months before by the Speaker of the Armenian Parliament had never been raised:

In 1998 Armenia received a US\$30 million IDA credit for a Municipal Development Project (MDP) to improve drinking water services in Yerevan. To continue reforms initiated under the MDP, and build on its success, RoA has asked the Bank to finance a second phase of investments.<sup>xvii</sup>

## **VII. World Bank Implementation Completion Review (ICR)**

Similarly, in May, 2006, the World Bank released an Implementation Completion Review of the MDP. The Abstract for the ICR reads: "The project outcome is

satisfactory, sustainability likely, and the institutional development impact is substantial.”<sup>xviii</sup> To arrive at such a conclusion evaluators either ignored or were never shown the allegations of corruption and accompanying documentation produced by the Commission. For example, the ICR states: “...[E]valuators cited the fact that the Operator earned 94 percent of possible incentive payments as evidence that the Operator performance was ‘fully satisfactory.’”<sup>5</sup> Nowhere does the report note that, in order to earn the incentive compensation, the International Operator, in his simultaneous capacity of General Director, had lowered the performance standard necessary to qualify for the incentive compensation from ‘excellent’ to ‘poor’, as agreed by the Bank’s PMU. Exhibit 11 includes Tasker’s annotated version of the ICR, which is replete with such distortions.

### **VIII. 2007 – A second application to the INT**

By the end of 2006, the Bank had made little effort to resolve the problems the Commission had raised on repeated occasions and reported to it in detail in 2004. The consultant at the center of the corruption scheme continued to provide consultancy services to the Yerevan Water Company, now re-registered and under lease to the French water utility giant Veolia, with additional World Bank funding. Tasker had attempted to put his Parliamentary study experiences behind him and to continue with entrepreneurial project work of his own. But doors formerly open to him were now inexplicably closed, within the Armenian Government and the international community, especially at the World Bank. In December, 2006, a senior Government official told Tasker that he had been unofficially ‘blacklisted.’ In response, Tasker reiterated his concerns to the WBCM and proposed submitting a formal complaint to INT.

The UK embassy in Armenia had also been informed of the problems in the MDP since June, 2004, and Tasker sought guidance from the British Ambassador, who provided details of the UK Bribery and Corruption Law. The law “...gives UK courts jurisdiction over crimes of bribery committed wholly overseas by UK nationals and by bodies incorporated under UK law.” But the UK Serious Fraud Office, the authority that could investigate such bribery and corruption, requires approval from the World Bank to act in cases where the Bank is involved.

The “United Nations Convention against Corruption” refers to the participation of society in the fight against corruption and details obligations of the countries that have ratified

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<sup>5</sup> “Operator performance also can be measured by the US\$1.41 million incentive payments received, 94% of the US\$1.50 million possible. In conclusion, performance of the Operator is rated as fully satisfactory; not all performance criteria were achieved, but nor were all realistically defined” (ICR, p. 12).



the Convention, which as of February 2006, included the UK. The following are relevant clauses from the Convention:

- Promoting the participation of individuals and groups - Article 13<sup>6</sup>
- The protection of witnesses, experts and victims - Article 32<sup>7</sup>
- The protection of reporting persons - Article 33<sup>8</sup>

But further legal exploration revealed that commitments under the UN Convention in developing countries only apply where the UN has an active anti-corruption program, a provision that means Armenia is excluded. Nor did any other international body provide a meaningful enforcement mechanism for anti-corruption measures.

In January 2007, Tasker contacted GAP and began a prolonged effort to persuade INT to carry out a full investigation. On March 29, 2007, GAP submitted a letter to Suzanne Folsom, Director INT, detailing the claims of fraud in the MDP, and requesting a response within 10 days. INT publishes its guidelines<sup>9</sup> on what to include with a complaint, and GAP's submission – which included a copy of the ICR, with annotations by Tasker and additional Parliamentary Commission letters and reports – complied.

The initial letter to INT listed eight acts of Fraud and Corruption and three acts of Embezzlement as follows:

- The PMU Director falsely represented the registration of the PMU;
- A conflict of interest had been created in the person of the ARIO/ YWSC General Director;
- Project objectives had been improperly altered;

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<sup>6</sup> “Each State Party shall take appropriate measures, within its means and in accordance with fundamental principles of its domestic law, to promote the active participation of individuals and groups outside the public sector, such as civil society, non-governmental organizations and community-based organizations, in the prevention of and the fight against corruption and to raise public awareness regarding the existence, causes and gravity of and the threat posed by corruption”.

<sup>7</sup> “Each State Party shall take appropriate measures in accordance with its domestic legal system and within its means to provide effective protection from potential retaliation or intimidation for witnesses and experts who give testimony concerning offences established in accordance with this Convention and, as appropriate, for their relatives and other persons close to them”.

<sup>8</sup> Each State Party shall consider incorporating into its domestic legal system appropriate measures to provide protection against any unjustified treatment for any person who reports in good faith and on reasonable grounds to the competent authorities any facts concerning offences established in accordance with this Convention.

<sup>9</sup> “When contacting INT, please make your complaint as specific as possible and include details such as what alleged wrongdoing you are reporting, where and when (dates and times if available), who is/are the perpetrators, how the individual or firm committed the alleged wrongdoing, and why you believe the activity was improper. Include the project name, if you know it. If possible, provide information on documentation available to corroborate the allegations, and names of witnesses to the alleged wrongdoing. Let us know how you can be reached for further information or clarification.”

- Project targets had been improperly altered;
- Project works that had not been implemented were reported as achieved;
- Deficient material had been used in the construction of a reservoir;
- Water meters had been purchased with project funds yet the revenues went unrecorded;
- “Ghost” consultants had been extensively used;
- Company accounts had been manipulated in annually audited financial statements, resulting in the embezzlement of public funds – through:
  - The transfer of an electricity debt to a public utility under the IFRP;
  - Incorrectly stated and revalued company assets;
  - Incorrectly stated and inflated increase of company charter capital.

The Bank’s 2006 ICR was documented as a supplementary item, as it included numerous additional fraudulent claims.

For two months, INT did not reply to the letter, and on May 29<sup>th</sup>, 2007 the British Ambassador in Armenia added his support to the claim through a letter to Folsom, requesting that INT inquiries be carried out expeditiously in order to bring the matter to an appropriate conclusion. The UK Foreign & Commonwealth Office (FCO) contacted the UK Embassy in Washington, and a senior Embassy official discussed the matter with INT authorities. The FCO also transmitted details of the claim to the UK Serious Fraud Office (SFO) which continued to monitor the case. Despite the high-level international support, however, INT still did not respond. On August 10<sup>th</sup>, GAP sent a second letter to INT, requesting an update on the status of the complaint

When no response was forthcoming from INT, the British Ambassador in Armenia discussed the matter with the UK representation at the World Bank in Washington, asking that the delegation approach INT for information about the claim. The UK World Bank representative in Washington advised that a meeting had been arranged with INT and that a report would be made subsequently to Tasker.

INT persistently refused to provide information about the status of the allegations and did not respond to evidence and commentary provided by Tasker and GAP in the March 29<sup>th</sup>, 2007 letter to INT. Eventually, on August 31<sup>st</sup>, 2007, INT’s Senior Institutional Integrity Officer wrote to GAP explaining that of the three INT categories for claims, ‘High’, ‘Medium’ and ‘Low’, Tasker’s disclosures had been categorized ‘Medium’. INT declined to commit to whether, or when, a full investigation would be carried out.

On September 6<sup>th</sup>, GAP released a study it had prepared about the procedures used by INT. The GAP report highlighted four claims that had been submitted to INT with respect to corruption in World Bank projects, including Armenia’s MDP.

On the 13<sup>th</sup> September, an official review of INT, prepared by a panel chaired by Paul Volcker, was released. The Volcker Panel's report on INT operations stated: "*Generally, INT has been able to investigate only high priority cases ..... and normally medium priority cases are NOT investigated*". **The Volcker report revealed, in effect, that under existing procedures, a claim of corruption supported by compelling evidence, involving substantial amounts of financing, compromising a vital service to a country capital, and implicating a high-placed World Bank staff member, was unlikely to be investigated.** More importantly perhaps, INT appeared to be in a legal position that allowed the Department to block any investigation proposed by the national authorities affected.

To explain the lack of investigation, on October 4<sup>th</sup>, 2007, the new World Bank Country Manager in Yerevan, Aristomene Varoudakis, told the press: "The World Bank does not have evidences (sic) of deception or inadequate management on the Yerevan water supply program." When GAP and Tasker met with Varoudakis the following month, however, he admitted that he did not know what materials had been presented to INT regarding the MDP.<sup>10</sup>

Following the meeting with the new WCBM in Yerevan, GAP sent a letter to Jonathan Shapiro, Senior Institutional Integrity Officer at INT, attaching evidentiary documents related to two items of fraud, and asking again for a full INT investigation into Tasker's claim. Both GAP and Tasker had formally requested that INT disclose to them an initial assessment of the evidence already in the unit's possession and give some account of what procedures were to be followed and what timeline was in place. These requests were in compliance with the recommendations made by the "Volcker Panel" in September, 2007, and with World Bank Working Group's statement in January 2008 about reforms at INT:

*"INT should furnish regular updates to complainants and victims on the general status of an investigation and promptly respond to specific queries from complainants and victims, INT should develop written guidelines to ensure that its investigators adequately communicate with complainants and victims of alleged staff misconduct."*<sup>xix</sup>

Without revealing information about the status of Tasker's allegations and request for an investigation, Shapiro wrote to GAP:

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<sup>10</sup> A tape of this meeting exists that includes this statement. GAP and Tasker agreed to Varoudakis' request to record the meeting, provided that a copy of the tape would also be provided to them. Varoudakis, however, subsequently refused to provide a copy.

Please note that INT will not provide any information regarding its investigative methodology as a precondition to receiving information on allegations of possible fraud or corruption. What I can state is that your client's allegation will receive a full objective review on the merits. Similarly, I will tell you that going forward we will not be engaging in a continuous back and forth negotiation with your client about what evidence he provides. His failure to provide the information requested will materially hamper our ability to fully review this matter.

The letter left Tasker and GAP at a loss, as INT had never specifically requested any 'evidence.' Moreover, the "regular updates to complainants" that the Volcker Panel recommended became, in the parlance of INT, "a continuous back and forth negotiation" that would be eschewed by the department.

No further communications were forthcoming from INT, but in March, 2008, Tasker became aware through contacts of his own that a team of INT investigators had arrived in Yerevan. Because he had not been contacted by the team, he contacted the WBCM again suggesting that INT investigate his claim. On Tuesday March 25<sup>th</sup>, Tasker was asked to meet with the INT team. The head of the team, Vyacheslav Anfinogenov, explained that the investigators had been in Armenia throughout the previous week examining Tasker's claim and interviewing witnesses. Nonetheless, it is apparent that the team had not intended to interview Tasker. This meeting with INT occurred nearly four years after Tasker first raised his concerns with the WBCM in Yerevan, and one year after GAP's first appeal to the investigative unit on Tasker's behalf.

As a result of the lack of communication on the part of INT, interactions between the Bank and GAP/Tasker have devolved into conflict over which documents were provided to whom, and when they were transmitted. It emerged that the investigative team, when it interviewed Tasker in Yerevan, had very little evidence on which to base its inquiries and identify witnesses. Finally, on May 21<sup>st</sup>, 2008, GAP received the following communication from INT:

We believe we have given Mr. Tasker ample opportunity to provide all the evidence he claims he has in his possession, especially considering the fact that INT investigators met with him personally in Yerevan. That said, we feel that we have now been able to collect sufficient information to address Mr. Tasker's concerns, *in spite of his lack of willingness to share information with us* (emphasis added).

INT is finalizing its investigative efforts into the allegations of corruption on the MDP and will be ready in due time to update you on the outcome of Mr. Tasker's complaint.<sup>xx</sup>

With this turn of events, INT accused Tasker of not cooperating with an investigation that he himself had spent four years urging the Bank to initiate. Nonetheless, on May 22<sup>nd</sup>, 2008, Tasker retransmitted all the evidence in his possession to Mr. Anfinogenov. INT never responded. To date, no report on Tasker's allegations has been forthcoming, and neither GAP nor Tasker is certain what information INT will base its findings on, if in fact, an investigation is ever concluded.

## **IX. Conclusions**

The chronology of fraud and of the World Bank's tolerance and collusion in widespread corruption affecting Armenia represent a realistic explanation for the deepening indebtedness of the country, and the simultaneous lack of demonstrable benefit from the claimed expenditures, construction, improvements and modernization so glowingly described by the Bank and its client government. At the very least, an effective and impartial department must be charged with responsibility for prompt investigation of credible claims of corruption. Throughout this ordeal, Bruce Tasker has been treated by the World Bank as an adversary rather than an ally because he sought to address misconduct and fraud involving Bank funds. He has also been treated as a party responsible for doing the real work of INT. Without the power of discovery, consistent access to privileged documents or the ability to interview the people involved, he amassed a body of evidence that demonstrates:

- A conflict of interest in the person of the General Director of the YWSC;
- Manipulation of finances through the IFRF;
- Manipulation of assets of the YWSC;
- Misrepresentation of project objectives, targets and achievements in official documents of the Bank.

Yet his case shows that no national or international authority is responsible for investigating or prosecuting this criminal conduct and the Bank itself lacks either the capacity or the will to do so.

Eleven months ago, the Volcker Panel published recommendations for the reform of this unregulated department. In January, 2008, the World Bank President adopted those recommendations. Nonetheless, this case demonstrates that INT continues to operate as

before: without oversight, transparent procedures, uniform methods, reliable communication, or real responsibility for public funds.

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## ENDNOTES

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- <sup>ii</sup> Kenneth Hill and Anne R. Pebley, "Child Mortality in the Developing World," *Population and Development Review*, Vol. 15, No. 4 (Dec., 1989), pp. 657-687.
- <sup>iii</sup> Public Citizen. "Profit Streams: The World Bank & Greedy Global Water Companies," September, 2002, Accessed 8 April, 2008 <<http://www.citizen.org/documents/ProfitStreams-World%20Bank.pdf>>, p. 2-3.
- <sup>iv</sup> International Bank for Reconstruction and Development/The World Bank. "Water Resources Management," 1993, 8 April, 2008 <[http://www.freedom21santacruz.net/site/resource\\_center/multi\\_page.pdf](http://www.freedom21santacruz.net/site/resource_center/multi_page.pdf)>, p. 15-16.
- <sup>v</sup> Ibid. p. 58.
- <sup>vi</sup> "Promoting Privatization," 3 February, 2003, The Center for Public Integrity.org, 20 December, 2007, <<http://www.publicintegrity.org/water/report.aspx?aid=45>>.
- <sup>vii</sup> Hacher, Sebastian. "Argentina Water Privatization Scheme Runs Dry," 26 February, 2004, CorpWatch, 2 April 2008, <<http://www.corpwatch.org/article.php?id=10088>>.
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