

**Albania – Integrated Coastal Zone Management and Clean-Up Project:
Management Response to the Inspection Panel Investigation Report
February 17, 2009
U.S. Position**

The United States is deeply troubled by the Inspection Panel findings on the Albania Coastal Zone Management Project. The United States expects Bank Management to take swift and appropriate action to hold those responsible accountable for their actions and, more broadly, address what is being done to prevent such serious failings in future projects.

The United States also requests that Management provide clarification on a number of troubling issues: first, how and why the Board and the Inspection Panel were repeatedly misinformed about material facts; second, why the project design was significantly flawed; and third, why the Bank did not act more promptly to address the problems. These governance and transparency issues are separate, though not unrelated, to the harm that was done to the families in the coastal community of Jale, Albania, whose homes were demolished, and how the Bank should proceed in its engagement with Albania on this project, and the lending program as a whole.

Inspection Panel's Findings

The Panel's investigation has revealed examples of safeguards violations, gross mismanagement, dysfunctional communications, gaps in the official record, and misrepresentations to both the Board and the Inspection Panel, which are of great concern.

The Panel's finding that the Bank failed to comply with **BP 10.00 on Presentation to the Board** is disturbing. Crucial, factual information was withheld from the Board when this project was presented on June 21, 2005 – notably, that the PAD contained an incorrect sentence and there was in fact no Albanian Government commitment to impose a moratorium on future demolitions. This essential sentence was the basis on which many Executive Directors decided to support the project. Had the Board not been misled that day, the project might not have been approved in the first place.

There has been a cascading series of missteps on the part of Bank Management, from the significant omission in Management's presentation to the Board on June 21, 2005; to the failure to communicate and respond effectively to the April 2007 demolitions; to the highly flawed approach to reconciling the error in the PAD by issuing an ill-advised PAD Corrigendum over the Labor Day 2008 holiday weekend; to the unscheduled November 11, 2008 discussion of the Legal Note that attempted, unconvincingly, to justify the actions taken to correct the PAD. None of these events should have occurred.

Also troubling is the Panel's finding that Management failed to comply with **OP/BP 13.05 on Project Supervision**. It is difficult to understand how staff could have failed to recognize the risks of demolition at the outset of the project. The fact that staff did not see the connection between the Bank's assistance to the Construction Police and the demolitions also strains credulity. The clearest explanation for this failure is that the

Bank project team ignored known conflicts of interest in the selection process for the Project Coordinator. This design error was compounded when locally-based staff neglected to inform Management about the uproar caused by demolitions, as evidenced by the chorus of news reports and parliamentary hearings. The United States shares the Panel's concerns regarding this system breakdown, which has implications far beyond this particular project.

There are conflicting assessments as to the applicability of **OP/BP 4.12 -- Involuntary Resettlement**. While Management has focused on the ambiguity of footnote 8, and whether coastal zone management is subject to this portion of the Involuntary Resettlement safeguard, we find it difficult to understand how the loss of one's home cannot be construed as "involuntary resettlement". The United States expects that the forthcoming Guidance Note from OPCS will clarify the applicability of OP/BP 4.12 to land zoning projects. Furthermore, whether the safeguard itself is triggered or not, the Bank's reputation demands that staff exercise sound judgment in these situations to minimize harm.

Staff Responsiveness to the Inspection Panel

The United States is deeply concerned by the Panel's report on the nature of the staff's response to Panel inquiries. It is incumbent on management to convey to all Bank staff the importance of cooperating fully with Inspection Panel investigations. In this regard, the United States is pleased that President Zoellick tasked the Department of Institutional Integrity (INT) to conduct an Accountability Review to determine what happened and whether there was actionable staff misconduct. Starting next month, such matters will be referred to the Office of Ethics and Business Conduct (EBC), as the Volcker Panel recommendations are implemented.

Inspection Panel Process

Although not a formal part of the process, the Board has heard from the Albanian Government through the letter from Finance Minister Bode which was circulated by a colleague at the request of his authorities. Management has formally tabled this letter through the Management Response. In the case of the Panel's Bujagali investigation, the United States heard informally from Requesters ahead of the Board discussion. The United States considers outreach by both countries and requesters appropriate to help inform the Board's deliberations on Inspection Panel reports and Management Action Plans.

Notwithstanding U.S. support for the important role of the Panel, the United States shares the concerns voiced by Albania regarding the need for the Panel to remain within the scope of its mandate. The United States understands the Panel's intention in reporting allegations of corruption, but great care needs to be exercised in presenting such information.

Looking Forward

The United States appreciates the seriousness with which Senior Bank Management has treated the issues and errors raised by this Inspection Panel investigation, and welcomes the candid and forthright tone taken in Management's Response. The United States expects that same spirit will be present as these issues continue to be addressed, including when Management reports back to Board in three months' time on progress in restructuring this project and in addressing the supervision and other deficiencies identified by the Panel's investigation.

With respect to the fate of this particular project, the United States can support Management's proposed response to reduce the scope of the project to exclude land management, to strengthen supervision of the remainder of the project, to support petitioners' attempts to seek satisfaction through domestic procedures but reserve the right to make them whole directly. It would be helpful to know whether the requestors were consulted on this proposal.

The United States also welcomes Management's decision to undertake a comprehensive review of the 1,550 active projects in the Bank portfolio in response to the errors revealed in this operation. Although this portfolio review has reportedly revealed no errors as egregious as the case before us today, seven projects have been referred to Managing Directors for further investigation and an additional 75 projects had discrepancies between the PAD and the legal loan document. The United States has requested additional details on these seven problem projects from OPCS, and would appreciate an inventory of the 75 projects with a description of each discrepancy. Going forward, steps must be taken to ensure that the PAD and the legal agreement are consistent, and Management should so certify to the Board.

Today's discussion raises broader issues of Board-Management trust and internal governance, which merit further discussion. It is imperative to safeguard the integrity of the documents on which the Board makes vital fiduciary decisions. This is particularly important as the Board is asked to consider increased delegation of authority and devolution of decision-making to country offices. The accuracy of Board documentation is critical to the Board's ability to discharge its fiduciary responsibilities in reviewing projects and assessing and overseeing compliance with Bank policies.

This report poses significant reputational risks to the Bank at a time when its effectiveness is absolutely critical. The Bank needs to show strong leadership in addressing these challenges. The United States looks forward to a timely and effective communications strategy, executed jointly between Management and the Panel, to disclose the key outcomes of this investigation.

In closing, the United States commends the Inspection Panel for its extensive work on this complex and sensitive matter, and thanks the Inspection Panel for its diligence in pursuing the facts in this case and presenting a clear and coherent report. This matter underscores the importance of an independent Inspection Panel in identifying lapses in compliance with Bank policies, to help ensure that World Bank Group projects achieve their development objectives.