ETHICS AND INTEGRITY – A CASE STUDY

Background

The following hypothetical scenario is designed to assist World Bank staff member government officials, and private sector vendors and contractors understand the role of ethics and integrity in transactions involving World Bank funded or executed projects. The scenario is also designed to assist all concerned in identifying and resolving ethical dilemmas, with reference to the generally accepted ethical constructs, best practices, as well as World Bank Values, its Code of Professional Responsibility. The scenario is hypothetical, but is grounded in the experiences of the World Bank and its clients and customers.

Assignment

Participants will be broken up into groups. Each group will elect a chairman. The scenario has been divided into seven exercises. For each exercise, the participants’ responsibility will be to do the following:

a. Identify situations that amount to “red flags” or raise concerns about ethics and integrity. Explain why each set of facts is a “red flag”.

b. For each “red flag”, outline the ethical dilemma, the values at stake, the stakeholders, and the possible responses. Relate the dilemma, values, and responses to an ethical framework – including the formal World Bank values and Code of Professional Responsibility, but including as well as other ethical norms, particularly emerging global norms and best practices. Analyze the pros and cons of each possible response, and recommend the preferred response. Explain why the preferred response is both ethical and practical. Identify steps that could have been taken to avoid or mitigate the ethical dilemma.

Case Study

I. Ten years ago, the International Development and Assistance Agency (IDAA) established a field office in Telan, the capital city of Ruritania. Ruritania is a relatively new country, having established its independence only 15 years ago. Since then, Ruritania has been struggling in its efforts to transition from a closed, command-directed state economy with little or no political freedom to a democracy with a market-based economy. With its infrastructure and economy in shambles after many years of foreign domination and economic mismanagement, Ruritarian officials are extremely anxious to obtain both developmental assistance and foreign direct investment (FDI). Annual per capita income in Ruritania has been estimated by the IMF to be about $1500.
II. The new Country Director of the IDAA Country office in Telan is Milos Tyson, a specialist in macroeconomic analysis. In a career in the IDAA spanning over 20 years, Mr. Tyson has become widely recognized as one of the leading experts in his field, and has a reputation as an extremely hard-working perfectionist. His prior assignments with the IDAA have all been as an analyst; this is his first assignment as a manager.

III. Prior development projects in Ruritania underwritten by the IDAA have seen more than their share of problems, with cost overruns and long delays being more the norm than the exception. Before leaving for his new assignment, Mr. Tyson received a background briefing from officials at the Headquarters of the IDAA, where it was stressed that he was being given the assignment as part of an effort to improve performance on IDAA projects in Ruritania. He was advised that the former Director of the field office had recently been given a lateral transfer to a staff assignment “more in keeping with his talents and abilities”. He was also informed of rumors of considerable staff dissension within the Telan field office. As ambitious as he was hard-working, he promised himself that he would be successful, no matter what it took.

IV. Ruritania has considerable oil and natural gas reserves, but a very limited pipeline and refinery infrastructure. The Board of Directors of the IDAA has approved the Development Association (DA) credit for the first phase of a possible multi-phase project to build a 75 mile pipeline from one of the major oil and gas fields to the Ruritanian seaport of Beloch and to construct a terminus at the port for trans-shipping crude oil and natural gas to large ocean-going tankers.

V. The overall project has been estimated to cost $400 million. The initial phase of the project, approved for $30 million, is composed of three sub-projects. The first sub-project is to conduct an in-depth macroeconomic analysis of the economic viability of the project and the impact on the Ruritanian economy if the full-scale project were to be approved and completed. If this analysis is positive and the assessment is approved by the Board of Directors, the second sub-project contemplated is to conduct the necessary and appropriate environmental analysis of alternatives and to obtain the necessary approvals from the Ruritanian Ministry of Ecology. The final sub-project of the initial phase is to obtain an initial engineering design for the pipeline and port terminus.

VI. The Ruritanian Management Unit (RMU) has been placed in overall charge of the project. The RMU is headed by Sergei Kerinski, a former business associate of Nicholai Mostov, the President of Ruritania. Nicholai Mostov is a former “apparachnik” who became extremely wealthy during the chaotic process of privatizing state-owned enterprises in the period immediately following Ruritanian independence. He was elected as President two years ago on a reform platform, vowing to root out corruption and to implement an ambitious program of economic development and social reform. To date, there has been little progress. In a recent speech, President Mostov hailed the pipeline and terminus project as “an historic opportunity to stimulate our economy and attract billions of dollars of foreign investment.”
VII. Upon arrival at the Telan International Airport, Mr. Tyson was greeted by George Baker, the Acting Director of the Telan Country Office, and a delegation of Ruritanian officials, headed by Sergei Mostov. The group moved immediately to a private VIP lounge in the airport, where a sumptuous buffet awaited them. During his welcome speech, Minister Mostov spoke glowingly of the bright future for Ruritania that would result from gaining access to world oil markets, and promised every cooperation of the Ruritanian Government in ensuring the swift completion of the entire development project.

VIII. After the ceremony, Mr. Baker and Mr. Tyson agreed that the first thing on the agenda was for Mr. Tyson to hold a meeting the next day with the entire staff of the Country office. Mr. Baker assured Mr. Tyson that “except for a few malcontents”, the office was highly capable and professional, that reports of extensive staff dissension had been “greatly exaggerated”, and were mostly due to the unrealistic attitude of the former Country Director, who had lacked appreciation of the “real world” and the difficulties of dealing with the Ruritanian Ministry of Finance.

IX. The next day, Mr. Tyson arrived at the Telan Country Office, where the entire staff was in attendance. During his welcome speech, Mr. Baker praised Mr. Tyson as a “man who knew how to get things done” and who had the full support and backing of senior officials at Headquarters. Mr. Tyson then took the floor, and said that his first priority was to get the pipeline and terminus project “in high gear” so that he and the entire staff could demonstrate to the folks in Washington just how effective they were. He stated that he was committed to the success of the project, and would use all his energies to “overcome any obstacle” to ensure its successful completion. He concluded that he was prepared to work “night and day” to ensure the project’s success, and that he was confident that the staff would be willing to do the same.

X. During the initial meeting with senior staff that same day, Mr Tyson asked Mr. Baker why Georg Von Halstead, listed in the staff directory as the Operations Manager, was not present. Mr. Baker responded that Von Halstead was “just a technician” and that in any case he was one of the “malcontents”, wasn’t really a “loyal team player”, and that there was a rumor that he may have submitted an anonymous complaint, spurious of course, of improper activities by certain staff members and problems with the pipeline and terminus project. Mr. Baker strongly advised Mr. Tyson to be “cautious” around Mr. Von Halstead, and not share any “sensitive” information with him.
Exercise 2

XI. The meeting then shifted to a series of progress reports on the initial phase of the project. Mr. Karzai, the project Task Manager, reported that the RMU was scheduled to award a contract for the conduct of the macro-economic analysis within the next month or so. Because of the proposed contract amount of $5 million, Mr. Karzai noted that prior review by the IDAA Regional Procurement Advisor was required, and that the bid evaluations were nearly completed.

Mr Karzai then noted that the RMU, in order to minimize potential delays, had decided that they wanted to proceed with the Environmental Assessment on a “reserved procurement” basis, and award the contract, estimated at $4 million, to a Ruritanian consulting firm called “Ecostudies”. Mr. Karzai stated that Ecostudies was headed by Janos Blatvik, a former Minister, and that the assessment by the country office staff was that Ecostudies had “good contacts” within the Ministry of Ecology and had been extremely effective in the past in conducting assessments and in obtaining the necessary permits and permissions.

Mr. Karzai also stated that the RMU was extremely confident that the macro-economic analysis would support the economic value of the overall project and that the necessary environmental permits would be obtained, despite opposition from some “radical elements” characterized as “pampered students and obstructionists” who were opposed to any development and were “willing to let people starve in the name of environmental absolutism”. Accordingly, the RMU was contemplating requesting approval for an “advance contracting and retroactive financing” approach to the third sub-project, the engineering design for the pipeline and terminus, even though the Bank had not committed to a loan for that phase pending successful completion of the first two sub-projects. Mr. Tyson responded that he was impressed by the willingness of the RMU to “lean forward”, and that this was the kind of “get things done” attitude he was hoping to find.

Exercise 3

XII. Mr. Tyson returned to his office, very pleased with what he had heard. He was beginning to feel very confident that he would be able to “show the Regional Vice-President what he could do”. At that point, his secretary advised him that Mr. Von Halstead was outside, requesting to see him. Although he recalled Mr. Baker’s warning, Mr. Tyson told her to show him in. Mr. Von Halstead, who appeared emotionally upset, immediately launched into a series of complaints about Mr. Baker and warned that Ecostudies was a “sham company”, and that their “record of success” had more to do with payments to officials of the Ministry of Ecology than to high quality work. Mr. Tyson asked him why he had that view of Ecostudies. Mr. Von Halstead refused to provide any specific evidence, saying that his information came from a “junior member”
of the Ministry of Ecology, who was in a “position to know”. Mr. Von Halstead further stated that the source was very fearful of retaliation or even assassination, and that he had made a solemn promise of confidentiality to his source that he would never reveal his name.

Mr. Tyson was not impressed. He told Mr. Von Halstead to come back when he was calmed down, and that he needed to be prepared to back up any allegations with some hard evidence. After Mr. Von Halstead stormed out, Mr. Tyson called Mr. Baker to thank him about his warning, stating that Von Halstead had just left his office after engaging in a “tirade” that “wasn’t worth repeating”, except that Von Halstead appeared to “have it in” for Mr. Baker. Mr. Tyson asked Mr. Baker to begin thinking about the steps they might need to take to take care of the “Von Halstead problem”.

Exercise 4

XII. Dr. Sonjia Rodinsky, a young Ruritanian economist, is a staffer in the RMU who has been assigned to work on the pipeline and terminus project, with an initial focus on the pending contract for the macro-economic analysis. Ambitious and hard-working, Dr. Rodinsky is an idealist and a patriot who dreams of a bright future for Ruritania. She sees the pipeline project as a real step to economic success. She has begun gathering data on the economic viability of tapping the country’s oil reserves and attracting commitments from international oil companies to engage in oil field development and commit to long-term shipping contracts, once the terminus at Beloch is completed.

However, her initial research has revealed some troubling information. First, the only possible route for the pipeline runs through the Akai Gorge, which in the past has experienced some minor earth tremors, although there hasn’t been an earthquake in the region for at least fifty years. The wetlands area surrounding the Akai Gorge is one of the few remaining relatively pristine areas in a country devastated ecologically by the policies of past governments.

She has also received some preliminary information from internal RDA studies indicating that the rugged terrain in and around the oil fields had the potential to drive exploration and recovery costs to the point where the net FOB cost of crude oil at the Beloch terminus would be competitive on the open market only during periods of relatively high oil prices. She has also received a tip from a Anatole Arkady, a friend of hers and a reporter for the Telan Times newspaper, that the Ruritanian Oil and Gas Company, which owned mineral rights to the bulk of the oil fields, was in fact largely owned by Ruritanian Enterprises, which in turn through a series of “shell companies” was owned by President Mostov and members of his family, including Sergei Kerinski, the head of the RDA.

Disturbed by this information, Dr. Rodinsky brings it to the attention of her immediate supervisor, Andrei Gorsk. Gorsk immediately shuts the door and delivers a stern warning to Dr. Rodinsky that the information she has brought is “extremely sensitive”, that it in
all likelihood wasn’t valid in any case, and that she should focus on how to make the project succeed rather than on bringing forward “alarmist nonsense”.

Gorsk reminded her of how important the project was to Ruritania, and stressed that the Minister was extremely committed to the project. He complimented her on her abilities and work ethic, assuring her that he mentioned her to the Minister just the other day as one of the RDAs “rising young stars”. As she was leaving, Mr. Gorsk casually asked her where she had gotten the “ridiculous tripe” about the President and the Minister being “behind the scenes” owners of the Ruritanian Oil and Gas Company. Dr. Rodinsky murmured that she had “just overheard a remark at a party” and left.

Back in her office, she debated what to do. She decided that she should rely on Gorsk, since her friend really hadn’t given her any hard proof in any case. She assured herself that the project had a good chance of success even if some of the disturbing information was valid. Finally, she convinced herself that given the importance of tapping oil markets to the future of her country, she really shouldn’t “rock the boat”. After all, the most important thing was to raise the standard of living for the Ruritanian people. In any case, she told herself, she was only a junior economist, and couldn’t really affect the course of events.

Exercise 5

XIII. The project proceeded apace. The contract for a macroeconomics analysis had been awarded, and the contractor had delivered the analysis per the contract schedule. The report concluded that the macroeconomic factors were favorable for the project, that upon completion the oil revenues would provide much badly-needed hard currency to the economy, and that the prospects were good for gaining long term commitments from major oil companies for use of the Beloch terminus. In the appendices to the report, it was noted that a significant portion of the data upon which the report was based had been provided by the RMU and the Ministry for Oil and Gas, and although it appeared valid, it could not be independently verified.

The RMU also informed the field office that the environmental analysis under the Ecostudies contract had been completed, that the assessment was favorable, and that upon review of the assessment the Ministry of Ecology had signaled tentative clearance for the project. Things were beginning to come together very well – in fact, the project was already ahead of schedule. Mr. Tyson resolved to work even harder than he had been, and to “keep the staff’s feet to the fire” to ensure that the project remained on a course for success.

XIV. Meanwhile, Anatole Arkady, despite having been told to “back off” by the editor of the Telan Times (who was well aware of the power of the government to shut down his paper if they chose to do so) had continued to develop information concerning the project and the true ownership of the oil fields. Over the last few years, he had cultivated a number of confidential sources among the young professionals within the RMU, the Ministry of Ecology, and the Ministry of Oil and Gas. He also had developed a close
relationship with a woman he knew only as “Shasha”, the leader of the recently outlawed Ruritanian Greenpeace Movement, a group of environmental activists that had been accused by the government of being “nothing more than ecoterrorists”.

From these sources and his own careful investigation, he had managed to amass an impressive dossier of information that provided some compelling evidence of the true ownership of the oil fields, that the environmental analysis done by Ecostudies was a sham report, and that in fact Ecostudies was itself merely a sham company whose main business was paying bribes to senior officials in the Ministry of Ecology.

He had also received considerable information from Dr. Rodinsky, who had finally decided that she couldn’t be a party to massive deception, that the data provided for the macroeconomic analysis was simply fabricated in order to ensure a favorable report. She also told Anatole that the company doing the analysis was aware that the data was faulty but had decided that the contract did not require independent confirmation, and that accordingly they could accept the data without violating any of their contract terms.

From Sasha, he obtained considerable disturbing information concerning the fact that the area around the Akai Gorge was geologically unstable, that even a small earthquake would rupture any pipeline, and that the resultant oil spill would devastate the surrounding wetlands.

XV. Well aware that his editor would not publish this information, and concerned for his own safety if he should even bring it to his editor’s attention, Arkady decided to forward the entire package to Mr. Von Halstead at the Telan Country Office, whom he had met years ago.

As soon as he saw the package, Von Halstead knew the situation was politically explosive, and that publication of the information could result in political instability or even the overthrow of the government. He also knew that if this information became known, the oil and pipeline project would be cancelled and that the IDAA would cancel the loans and begin the process to recoup the monies already expended.

Aware of his reputation as a troublemaker, Mr. Tyson’s cold attitude toward him, and Mr. Tyson’s total commitment to the success of the project, Von Halstead decided that bringing the information to Mr. Tyson would be pointless. In fact, he was concerned that Tyson might share the information with Ruritanian officials, possibly putting his sources in real danger. Von Halstead decided to take the information with him on his upcoming home leave, and to present it to officials at IDAA Headquarters.

Exercise 6

XVI. Several weeks later, Mr. Tyson was in his office, when he received an anonymous package (actually sent by Dr. Rudinsky, now ashamed that she had participated in
fabricating data) containing information that the macroeconomic study of the project was based on fictitious data knowingly submitted by various ministry officials. She also included summaries of the actual data.

Mr. Tyson was stunned. As an expert in macroeconomics, it was clear to him immediately that if the data really were fictitious, and that if the data in the package were to be substituted, the results of the analysis would clearly have been unfavorable. Unsure of what to do, he decided to “think about it” for a while, and carefully locked the package in his safe. As he did so, he told himself that the package had been sent anonymously, and might just be nothing more than an elaborate invention of a troublemaker.

Three days later, his secretary informed him that a team from the IDAA had just arrived at the airport to conduct an inquiry into certain allegations regarding the oil and pipeline project and certain alleged violations of the Staff Rules and Code of Professional Responsibility by individuals in the field office. Mr. Tyson’s stomach churned.

Quickly, he tried to remember if Von Halstead had ever come back with more information or had put his allegations in writing. He decided that he had not, and that if it came down to it and the allegations proved to be true, it would be just Von Halstead’s word against his about whether he had been put on notice that there might be problems with the project or with members of the staff. He tried hard to think of anything he had done that might be a violation of the staff rules or Code of Professional Responsibility.

He could think of nothing; he knew himself to be an honest man. Suddenly, he remembered the package in his safe. He opened the safe and took out the package. What to do? What if the information wasn’t an invention at all, but was valid? How could he survive this with his career and reputation intact? How could he explain not following up on the information in the package? Could he show that he had worked night and day to make the project a success, and that he was simply one of the victims here? Should he destroy the package before the team arrived and just ride it out? Slowly, he put his head in his hands. How had things gone so wrong so suddenly?