

OFFICE MEMORANDUM

DATE: October 26, 2006

TO: Ms. Ana Palacio, Senior Vice President and Group General Counsel

FROM: Karen Hudes, Senior Counsel, LEGKM

EXTENSION: 81622

SUBJECT: **Conflict Resolution System**

I have been a member of the Legal Department for twenty years, and was the country lawyer for the Philippines from 1998-2000. During that time I worked with the Chief Justice, Hilario J. Davide, to launch a multi-donor judicial reform program. On December 15, 2005 the Philippines judiciary gave me an award in recognition of the quality of the judicial sector assessment that I task managed which provided a basis for the judicial reform program.

I had also worked on the Banking Sector Reform Loan, and attempted to prevent the take-over of Philippine National Bank by Lucio Tan, the owner of Philippine Airlines, and a crony of then-President Estrada. Vinay Bhargava, the Country Director at the time, did not want to raise this issue with the Estrada Government, and he refused to warn the Government during the take-over that the tranche release conditionality requiring the transparent privatization of PNB could not be met. Instead, Mr. Bhargava requested the Legal VPU to reassign me a week before the decision meeting recommending disbursement of the Banking Sector Reform Loan.

In 2000 Estrada was impeached for bribery, corruption, betrayal of public trust and violation of the Constitution. In a meeting on January 6, 2001, Pieter Stek, who was the Executive Director for the Netherlands constituency at the time, and the Chair of the Board Committee on Development Effectiveness, and I informed Jim Wolfensohn about what had happened on the Philippines Banking Sector Reform Loan, which by that time had resulted in a \$500 million banking failure, cancellation of \$200 million from the Bank's loan to the Philippines, and cancellation of \$200 million in cofinancing from Japan.

The Operations Evaluation Department's evaluation of the Banking Sector Reform Loan attributes all of the responsibility for the unsatisfactory performance of that operation to the Government of the Philippines, and states that the Bank's performance was satisfactory. In the intervening years, I have tried to correct the record, and to establish proper accountability for the failed Philippines Banking Sector Reform Loan. When the Legal VPU was not supportive of these efforts, I sought to resolve my case through recourse to the Conflict Resolution System.

Jacquelyn Gates, who was the Bank's Ethics Officer in 2002/3, left the Bank in frustration due in part to my case. The performance of the Bank's Conflict Resolution System on my case raises sensitive issues of Board oversight and access to information,

especially in light of the current review of the Conflict Resolution System.¹ I have contacted Suzanne Folsom, Kevin Kellems, and Auguste Tano Kouame (whom I met with on October 18, 2006) in order to assure Mr. Wolfowitz of my loyalty and high regard for his Presidency. Despite best efforts to settle, my case remains unresolved.

¹ Annotated Tribunal decision No. 337;

Memorandum of November 7, 2005 to Mr. Wayne Nardolillo, Lead Institutional Integrity Officer, INT;
Translation of email dated December 19, 2003 from Pieter Stek to Ad Melkert, Dutch ED