

**The World Bank**  
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION

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## Exhibit 5

December 28, 2006

Senator Richard G. Lugar  
306 Hart Senate Office Building  
Washington, D.C. 20510-1401

Dear Senator Lugar,

As a member of the World Bank's Legal Department for twenty years, and a member of the DC Bar, I was obligated by the DC Rules of Professional Conduct to report a weak control culture in the Bank. On June 2, 2004 I informed the Audit Committee of the Board of Executive Directors about sensitive governance issues concerning interference in the Board's access to information. The Operations Evaluation Department refused to reveal to the Board the role of the Bank's poor supervision of the Philippines Banking Sector Reform Loan in the corrupt take-over of the second largest bank in the Philippines resulting 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.

Two of the Bank's former Ethics Officers tried in vain to protect me from retaliation for reporting the lapses in internal controls. Anita Baker placed my division chief, Mohan Gopal, on mandatory administrative leave for his retaliation against me. After Jacqueline Gates replaced Anita Baker as Ethics Officer, she asked the Institutional Integrity Department ("INT") and the Human Resources Department ("HRS") to end the retaliation. When both INT and HRS refused, Ms. Gates resigned in frustration. I have reported the risk to the reputation of the US for probity in its oversight of the Bank to senior management, the US Executive Director's office, and the US Treasury Department, as documented in the attached correspondence.

The Netherlands constituency intervened in 2005, and the Audit Committee requested INT to look into the matter. The resulting INT report of October 31, 2005 was evasive and sought to discredit me rather than to address the serious issues which I raised. The Executive Directors are now requiring an audit of INT. The attached work program of the Board's Committee on Governance is aimed at achieving better access to information and greater voice in Bank management.

The review of the Bank's conflict resolution system and policies for protection of whistleblowers, mandated by U.S. law, is proceeding in a closed process that excludes the Board, after a taskforce with a broader mandate that would have consisted of former members of the Board was rejected. I learned yesterday from the Staff Association that the new whistleblower rule has been finalized without provision for review of the final

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draft by the Board or by experts. Mr. Eckhard Deutscher, Dean of the Board, has informed me that the World Bank Board is treated like a mushroom, "kept in the dark, and covered with fertilizer." It is necessary for the review of the Bank's conflict resolution system to be put on track to achieve consensus for much needed reform.

In order to minimize reputational risk to the Bank, I sought to mediate my personnel grievances with HRS, but was referred instead to the Bank's Appeals Committee and the Administrative Tribunal. The performance of the Administrative Tribunal on my case documents the weaknesses in the Bank's conflict resolution system. HRS is refusing to mediate and demanding for me to leave the Bank in July, 2007. If I am required to leave the Bank, this will dissuade any other employee who would report serious internal problems from establishing a direct line of communication with the Board.

I am currently working with Kevin Kellums on the Farm Journal Forum to be held in December 2007, dedicated in memory of my friend Sonja Hillgren's life and work. I sincerely hope that you will help me to remain at the Bank so that I can continue my work on rule of law as well as the upcoming Forum in Sonja's memory.

Respectfully,



Karen Hudes

Enclosures