

III. DETAILED IMPLEMENTATION REVIEW (DIR)

OVERVIEW

The DIR is a proactive diagnostic tool developed by INT in 2001 to evaluate Bank-financed projects for indicators of fraud and corruption and the robustness of the Bank Group's control mechanisms to prevent, detect, and respond to them. Using forensic accounting and fraud investigation techniques, a DIR examines a project's procurement and implementation processes for indicators of fraud and corruption. It seeks to determine how, and to what extent, fraud and corruption may be present and thereby adversely affect the procurement of the project's essential goods, works, and services and the successful completion of project implementation. By bringing to light possible indicators of the diverse schemes through which projects can become corrupted, such reviews suggest areas where risks may be mitigated.

Since 2002, INT has undertaken six DIRs in five countries involving 22 projects (see Table 5)

THE DIR: NOT AN INVESTIGATION

The DIR's methodology, although structured, is guided by an understanding that in order to identify fraud and corruption, the search must be comprehensive and dynamic. This is accomplished by deploying an

experienced team of investigators and other technical professionals possessing a wide range of skill sets to perform a variety of state-of-the-art forensic accounting, analytical, and investigative procedures.

Although there are similarities, a DIR is not an INT investigation in the traditional sense (see Box 7). INT investigations are conducted to substantiate or disprove allegations, and may lead to the Bank Group sanctioning contractors or exercising operational remedies. By comparison, a DIR seeks to proactively diagnose the level of risk that fraud and corruption pose in Bank Group projects across a portfolio in order to identify opportunities for strengthening Bank Group controls and to further mitigate against such risks. Notwithstanding, many DIR findings have ultimately led to follow-up INT investigations and on occasion, DIR staff may develop substantial evidence that can be developed into notices of sanctions proceedings without much additional investigative effort. Past DIRs have led to the debarment of 140 firms and individuals by the Bank Group.

INT has conducted six DIRs to date, including the ongoing DIR in India. These DIRs have all been triggered by discussions between INT, regional and country management, and governments, either in the context of an INT investigation or because a need had been identified for stronger procurement, financial, or project implementation controls.

ACCOMPLISHMENTS

- Detailed Implementation Reviews (DIRs) have yielded findings regarding indicators of fraud and corruption schemes and patterns and control weaknesses in procurement, financial management and implementation;
- INT completed two DIRs in Kenya and Vietnam and shared the findings with the governments of the respective countries and with the Bank Group's Africa and East Asia Pacific regions to allow follow-up actions addressing the issues as identified by the DIRs;
- INT assessed the procurement, financial management and implementation processes of five health projects as part of the DIR India; a report with recommendations will be issued in fiscal year 2008.

TABLE FIVE

Overview of DIRs Undertaken by INT

Year	Country	No. of Projects	Sectors
2002	Indonesia	1	Urban development
2003	Vietnam	5	Health, water sanitation, rural infrastructure/energy/transport
2004	Cambodia	5	Rural development, flood and road rehabilitation, biodiversity
2005-2006	Kenya	4	Health, education, and roads
2006	Vietnam	2	Rural roads
2007	India	5	Health

The DIR team uses its expert knowledge of the varied types of corrupt and manipulative schemes identified in Bank-financed projects to identify indicators of potentially corrupt activities that “cheat” the contract and divert funds. For example, the DIR may find indicators that a supplier substituted lower-quality or counterfeit products for the high-quality products required by the contract’s technical specifications; or, the review may show that suppliers colluded to rig the bidding process and artificially raise prices. These indicators are consistent with those commonly used by national, state, and local law enforcement, as well as specialized audit agencies and the professional fraud control community, but are tailored to suit the particular needs of each DIR.

The DIR integrates information from multiple and often isolated sources in order to maximize its discovery of indicators and best validate and support its findings. The DIR methodology recognizes that indicators of fraud and corruption may not be identified or confirmed by computer data analyses or document review alone, but rather from a comprehensive, interrelated and iterative review of procurement, financial management and implementation activities.

For example, the identification of sequential bid security numbers across different bidders prompts additional computer data analyses to identify other connections between the suspect bidders. Procurement records are then reviewed to determine whether there are indicators that the bidders engaged in bid rigging or collusion, or are operating as a cartel. Site visits are conducted to determine if this or other corrupt behavior caused deficient implementation through the supply of, for example,

substandard goods or inoperable equipment. Pricing research and analyses would also be conducted to determine if the prices of goods had been inflated.

Examples of analyses conducted during a DIR include simple data analytics such as price comparisons, as well as cross-cutting analyses like:

- comparisons of bidding patterns over time with complaints submitted over time;
- comparisons of bid evaluation committee disqualification justifications across tenders;
- linking indicators identified in procurement with implementation problems in the field.

For a DIR to be successful, partnership between the relevant national government, the Bank Group’s country management team and INT is essential. For example, in an effort to obtain all the necessary documents for review in as timely and complete a manner as possible, cooperation between all partners is critical. In addition, without a joint agreement about the need for such a review and about what to do with the findings, a DIR will be of little value. Hence, the ongoing dialogue between the Bank Group’s country team and the borrowing government after the completion of the DIR includes discussions about improvements of mechanisms to mitigate the risks of fraud and corruption. This may lead to anticorruption and mitigation plans either as part of new project proposals or retrofitted to existing project proposals.

The Difference between an External Investigation and a DIR

	External Investigation	Detailed Implementation Review
Initiative	INT	INT, in consultation with the borrower government and Country management unit
Nature	Formal investigation	Diagnostic
Based on	Allegation from Bank staff, beneficiary, company/NGO, government official, anonymous	Request for assessment of vulnerability to fraud and corruption of one or more projects in discussion with the Bank's Region and/or Country management
Selection	A case is prioritized, in consultation with the Country team, based on multiple criteria. Only High and Medium Priority cases have been investigated	Projects in a country and/or sector are selected for review in the context of a past INT investigation or because a need has been identified for stronger procurement, financial or project implementation controls
Scope	The specific acts covered by the allegation, as well as additional evidence that may emerge over the course of the investigation	All contracts of the project, independent of observed irregularities
Objective	Determine whether an allegation is substantiated, unsubstantiated or unfounded and recommend follow-up actions by the relevant Bank management and borrower government	Assess the likelihood of fraud, corruption and mismanagement in Bank-financed projects, assess the "where and why" of control weaknesses, and offer recommendations
Process	Preliminary (desktop) inquiry followed by a full investigation	Data collection, analysis and review of procurement contracts, financial management activities, and implementation activities
Outputs	In case of substantiated allegation: final investigative report to Regional/Country office; proposed Notice of Sanctions Proceedings; and referral report to the borrowing government/other donors	DIR report with findings of fraud and corruption indicators and risks and recommendations for improvement of controls to the Bank, the relevant country government and relevant donors
Outcomes	Sanctioning of corrupt and/or fraudulent companies creating a deterrent effect	Assistance to operational staff and the borrower government in improving project design, implementation and supervision
Follow-up	Operational team in its ongoing dialogue with the borrowing government discusses recommendations made in referral reports.	Investigations, project design improvements, and operational institutionalization of risk mitigation measures.

Transparency and Accountability in an Education Project in Kenya

The Free Primary Education Support Project (FPESP) helped deliver textbooks to all 18,000 primary schools throughout Kenya. About 1.5 million children who had previously dropped out or never attended school have benefited from this project since it was implemented in January 2003.

INT's Detailed Implementation Review of the FPESP concluded that the mechanisms for community involvement, consultations, accountability, procurement and financial management were satisfactory. Some of the specific controls that had been incorporated in the project were the public display of funds received from the government as well as funds spent. This transparency provides a "community" oversight function which is widely regarded as a key control device in publicly financed projects.

The review did request additional safeguards for the Kenya Education Sector Support Program (KESSP) as a follow-up to the FPESP, including public disclosure of performance indicators, independent monitoring of performance, and an annual independent audit of procurement. These safeguards should provide a satisfactory level of accountability and assure the project will secure results in improving enrollment and quality of education. Consequently, on November 7, 2006, the World Bank approved a credit of US\$80 million for the KESSP.



DIR KENYA

A DIR was conducted in Kenya between January and April 2006 and involved four projects, one in the education sector, two in the health sector, and one in the transportation sector. INT undertook this DIR at the request of the Government of Kenya after the government was informed about the high level of fraud and corruption uncovered by INT in an earlier investigation of a Bank-financed project in the urban transport sector.

The Bank Group collected data on 450 contracts and undertook a detailed procurement review of 70 contracts. In addition, the DIR team reviewed the procurement of textbooks and the financial management in 35 schools under the education project, as well as 53 grant activities under a health project. While the DIR found indicators of fraud, corruption and collusion in the two health and the transportation projects, the education project showed a satisfactory level of accountability from the local communities to the national ministry which contributed to the proper use of project funds.

The findings of this DIR clearly indicate that some sectors within a country can be at low risk of fraud and corruption while others are not. In the case of the education project, for example, specific controls had been built in the project that made fraud and corruption less likely to occur. Recommendations regarding additional controls with regard to a follow-up of the education project were approved by the Government of Kenya and included in the project design and implementation (see Box 8).

INT has engaged with colleagues in the Africa region and with the Bank Group's Country team to discuss their follow-up to the DIR findings in collaboration with the Government of Kenya. In March 2007, INT briefed government officials on the DIR in Nairobi.

DIR VIETNAM

A DIR was conducted in Vietnam between May and September 2006 covering two Bank-financed infrastructure projects which also received funds from the United Kingdom's Department for International Development (DfID). The DIR team was led by INT with input from the Regional staff and staff from DfID's Anti-Corruption Unit. The Bank Group collected data on 742 contracts, undertook an intensive procurement review of 100 contracts and a detailed financial management review of 77 contracts. Team members visited a total of 51 sites to review the implementation of contracts.

The DIR found a proliferation of indicators of collusion, fraud, misrepresentation and preferential treatment in the procurement and award of contracts. The DIR also found vulnerabilities to irregularities in the projects' financial management activities and control environment. Lastly, a large number of the project sites visited by the DIR team showed design and construction irregularities in works.

The DIR findings were discussed with the Government of Vietnam in May 2007, the Bank Group's Regional and Country office and two donors. To facilitate effective sharing of the findings within the Government of Vietnam, the DIR report was translated into Vietnamese. Furthermore, the Bank Group's country office held a joint press conference on the DIR report with the Ministry of Transport of

Vietnam. The Region and the Government of Vietnam have since developed an action plan to address the DIR findings with the intention of reducing the weaknesses and vulnerabilities of Bank-financed projects to fraud and corruption.

UPDATED METHODOLOGY EXPANDS DIR'S SCOPE

At its origins, the DIR methodology was developed after it had become clear that the Bank Group's traditional supervision and audit approach did not detect instances of fraud and corruption in Bank-financed projects. Since the first DIR in 2002, the methodology has been continuously updated, building on lessons learned from each DIR.

The DIRs completed so far answered only two questions. First, did the DIR find indicators that fraud and corruption may have affected the reviewed projects and, if so, to what extent? Second, what adverse effects, if any, did fraud and corruption have on project implementation (*i.e.*, the delivery of project outputs and the successful completion of project objectives)?

However, the Bank Group's new Governance and Anticorruption (GAC) Strategy,¹⁵ discussed by the Bank Group's Development Committee during the Annual Meetings in Singapore in September 2006, identified a need to translate such findings into ideas for improving the Bank Group's processes and procedures. In response to this need, INT has expanded the scope of the DIR to answer a third, additional question: How well did the Bank Group's supervisory systems and anticorruption controls function to prevent, identify, and respond to any such schemes?

This new approach was applied in a DIR in India which is expected to provide the kind of insights that will have an institutional impact on the way the Bank Group operationally addresses fraud and corruption risks in its projects. In fiscal year 2007, INT dedicated significant resources to the DIR India (see Box 9). The decision to conduct this review was motivated by the findings of a complex investigation of a health project in India.¹⁶ In consultation with the Government of India and the Bank Group's regional team, INT selected five projects in the health sector: four

15 "A key source of information is any INT investigative findings or relevant Detailed Implementation Reviews. Appropriate corruption mitigation measures will then be included in the project's design, in a growing number of countries, drawing on lessons from INT investigations regarding effective anti-corruption safeguards and due diligence." GAC, Annex C, paragraph 5.

16 Two firms, Nestor Pharmaceuticals Ltd and Pure Pharma Ltd were debarred by the Bank on July 16, 2007 for their collusive practices in connection with the project.

DIR India (Ongoing)

Helping the Government of India improve the health of its population and achieve the health-related United Nations Millennium Development Goals has been an increasing priority for the World Bank. Since 1990, the Bank Group has approved 30 new health projects valued at more than US\$4.4 billion for India, which was the Bank Group's largest borrower in FY07. INT's investigation of the Reproductive and Child Health Project (RCH I) in India, which closed in 2005, uncovered evidence of fraud and corruption that raised serious concerns about other Bank-financed projects in that sector. In response, the Bank Group and the Government of India agreed to a further review of the risks of fraud and corruption to the Bank Group's health sector portfolio in India through a DIR of five health projects.

Launched in mid-2006, the DIR India team involved over 75 INT staff, consultants, and subject matter experts. The large, multi-dimensional team operated from dedicated office space located near the Bank Group office in New Delhi, which was provided and refurbished specifically for the DIR by the India country office.

Over the past eleven months, the DIR effort entailed the construction of a sizeable database of procurement and contract-related data (including the inputting of its data) and interviews of a large number of witnesses, suppliers, and government project personnel. It also involved the collection and detailed review of thousands of project procurement files; hundreds of complaints; and large volumes of Bank Group appraisal documents, audits, and operational reports. In addition, the DIR team undertook visits to more than one hundred field sites across multiple districts in five Indian states taking, in the process, thousands of digital photographs and several hours of video. The review was ongoing as this report went to print.

Two key factors have made the India DIR a far more complex effort than other DIRs, leading to increased staffing and resources demands, and a longer completion time. First, the DIR India is simply larger in scale and scope than other DIRs conducted by INT. It involved the review of a far greater number of contracts and visits to many more field sites across a more expansive and challenging geographical territory.

Second, the DIR India's methodology was expanded to be more comprehensive in its approach. It incorporated more forensic accounting expertise and techniques, adopted more rigorous validation and quality assurance procedures, and substantially increased the amount of analytical tests and procedures. Additional analyses include:

- examination of correspondence relating to complaints;
- comparisons of the DIR's procurement reviews with Bank Group pre- and post-procurement reviews;
- comparisons of the DIR's financial management reviews with the audit reports provided to the Bank Group; and
- comparisons of Bank Group supervision reports with the DIR's findings.

These steps were taken to respond to the Bank Group's Government and Anticorruption Strategy; uncover further links, patterns, schemes, and inconsistencies that point to harmful fraud and corruption; and to increase the value of the DIR's findings, conclusions, and recommendations.

projects carried out by the Government of India and one project implemented by a State Government. The DIR is of an unprecedented size and scale and will be completed during the beginning of fiscal year 2008.

CHALLENGES

The DIR has evolved considerably over the past five years, not only in terms of its methodology but also with respect to the dissemination of its findings. In the first DIR in Indonesia in 2002, which reviewed only one project, the findings were used to start follow-up investigations, cancel the planned extension of the subject project until such mitigation measures were implemented as necessary, and to reclaim funds. In addition, lessons learned were discussed as part of the ongoing dialogue between the Bank Group's country team and the government. However, the DIR had no significant impact on the Bank Group's own control mechanisms. In contrast, because of its size and scope, some of the lessons learned from the DIR India may be applicable Bank Group-wide. The challenge will be to analyze the data collected in a manner whereby lessons can be extracted, and to communicate effectively to the relevant departments a set of recommendations based on the lessons learned so that the necessary improvements can be made.



INT plans to continue to use the DIR more strategically with the aim of adding as much value as possible to the Bank Group's operations in mitigating fraud and corruption. The DIR India is an important step in that direction. However, such large-scale DIRs are extremely resource-intensive in terms of manpower and time and also require very specific skills for analyzing and translating data into valuable information for the Bank Group's operations. DIRs are therefore likely to be used less frequently, though more strategically, in the future.

PLANS FOR FISCAL 2008

- Finalize DIR India and submit final report to the World Bank Group with recommendations to improve controls;
- Submit final redacted report to the Government of India and DfID in liaison with the Bank Group's Regional and Country management;
- Consider investigative follow-up for the DIR India;
- Consolidate the different DIR-databases to achieve analytical synergy;
- Determine the optimal timing to start formal investigations that may follow from DIR findings to achieve maximum impact with available resources;
- Implement recommendations that may flow from the Independent Review Panel.