



OPERATIONS POLICY AND COUNTRY SERVICES

INTEGRITY VICE PRESIDENCY

# Most Common Red Flags of IN BANK-FINANCED PROJECTS Fraud and Corruption in Procurement

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Please report to INT any:

- allegations from the Borrower or third parties making reference to fraudulent and corrupt practices;
- procurement complaints where fraud or corruption is suspected;
- red flags of fraud and corruption that you may find as part of due diligence activities or during project implementation.

In order to handle red flags and allegations of suspected fraud and corruption in Bank Group-financed projects in the most efficient way, INT and OPCS will develop guidelines ("Protocol") for staff which will be posted at <http://opcs> or <http://integrity>.



Fraud & Corruption Hotline

+1 800 831 0463 (within US)

+1 704 556 7046 (collect call)

+1 202 458 7677 (INT direct)

+1 202 522 7140

investigations\_hotline@worldbank.org

The World Bank Group – Integrity Vice Presidency



# 1 COMPLAINTS FROM BIDDERS

## Any complaint from bidders and other parties

Complaints are a vital source of information about fraud and corruption in Bank-financed projects. Many complaints, while not mentioning the words fraud and corruption, upon investigation often lead to the discovery of such misconduct. For example, a complaint about missing or defective materials could indicate low capacity, but it could also indicate that in exchange for bribes, defective materials were accepted. Complaints can relate to any type of scheme or risk.

- **Bids are distinct from one another by a systemic percentage, i.e., 1%, 3% 10%** (check Bid Evaluation Report - BER).
- **Bids are inexplicably too close or too far apart, i.e., less than 1% or more than 10% between the lowest bid and the subsequent lowest bid** (check BER).
- **Losing bid prices are round or unnatural numbers, e.g., 355,000 or 65,888,000 USD** (check BER).
- **Unexplained inflated bid prices, i.e., total bid or components of the bid are unjustifiably higher than the cost estimate** (check BER).
- **Losing bidders become subcontractors** (check bids).
- **Apparent rotation of winning bidders.**
- **Delays in completing the BER or contract award and signing may indicate negotiation of corrupt terms.**
- **Repeated extension of bid security.**

# 3 UNUSUAL BID PATTERNS

In collusive bidding cases, it is not unusual for the designated winner to coordinate the bidding by the other participants – dictating prices to be bid by others to ensure that the designated winner's bid is the lowest. This often includes the coordination of the preparation of bids on

behalf of the collusive bidders. The designated winner might also use subsidiaries, affiliates or shell companies (firms that are set up as a front for illegal activities), to submit complementary bids. In several cases, INT investigators found that the designated winner faxed the bids for all bidders from a single fax machine.

INT investigators have found additional indicators such as bidders that have identical last names, addresses, fax, telephone numbers; or bids that have sequential bid security numbers indicating they were purchased by one individual. A close review of the bid documents could reveal the use of the same type face or letter print styles, the same spelling mistakes, etc.

In some industries or geographic areas where collusive bidding is more prevalent, bid prices are often 30% or more above the government estimate.

## Seemingly inflated fees of agents or prices of goods

Fees can be used to disguise corrupt payments. These fees often take the form of

# 4 SEEMINGLY INFLATED AGENT FEES

the involvement of an unnecessary middleman (otherwise known as broker, agent or facilitator). INT has found two scenarios which occur in Bank-financed projects:

1. An international contractor hires a local agent to "assist" with the bid preparation and contract negotiations. The fee paid to the local agent is non-distinct and/or itemized and often used to pay the agreed bribes.
2. A procurement unit places an order for office equipment with a middleman at a certain price per computer. The broker buys the equipment from a local firm for a much lower price per computer (or buys even cheaper substitutes) and keeps the profit or splits the profit with the procurement personnel.

# 9 MULTIPLE CONTRACT CHANGE ORDERS

## Multiple change orders to the contract

After the contract has been signed and during implementation, change orders are often proposed. While there are circumstances in which change orders are legitimate, there are also circumstances where the client and contractor collude to increase the value of the contract without actual delivery of any new products/services.

# 10 POOR QUALITY WORKS/SERVICES

## Goods/Services are of low quality or not delivered

INT investigations and Detailed Implementation Reviews have demonstrated that in most cases low quality or undelivered goods, works or services is a strong indicator of fraud and corruption.

When a contractor uses bribes and kickbacks or colludes with other bidders to procure a project, these illicit costs need to be recovered in order to still make a profit. The most common ways to do this are to:

- Inflate the contract price of works/goods/services delivered.
- Deliver less works/goods/services than specified.
- Deliver lower-quality works/goods/services than specified.

The above is often preceded by a manipulated selection process.

Numerous contracts with values just under procurement thresholds (contract splitting)

# MULTIPLE CONTRACTS BELOW PROCUREMENT THRESHOLDS 2

Often in corruption or fraudulent schemes the perpetrators endeavor to avoid higher level review or competitive bidding. To this effect, they often tailor a contract to fall just under the procurement threshold, or seemingly arbitrarily split a contract into several smaller contracts to accomplish that purpose.

# 5 SUSPICIOUS BIDDER

## Bidder is not a legitimate entity

If you have questions about the winning bidder, do some due diligence by searching the telephone directory, checking the winning bidder's website, etc., to establish whether the company is a legitimate entity. The following may be at play:

- Unscrupulous persons have set up a fictitious company/consulting firm to obtain contracts.
- Project personnel have set up a fictitious contractor to submit false invoices.
- A "shadow bidder" has submitted higher priced bids to facilitate the selection of the designated winner and to give the appearance of competition.

These fictitious companies, also called front or shell companies, have no substantial assets or permanent business facilities; often they are not registered or listed in business or telephone directories.

# 6 LOWEST BIDDER NOT SELECTED

## Lowest evaluated bid is unjustifiably declared non-responsive

This red flag can indicate bid rigging. Project officials with a hidden interest in a contractor, or expecting to receive kickbacks from a contractor (sometimes on behalf of other government officials) often pressure Bid Evaluation Committee members to declare the lowest evaluated bid(s) unresponsive, thereby allowing the award of the contract to their preferred contractor, who often offers a much higher price and/or is only marginally qualified.

# REPEAT AWARDS TO SAME CONTRACTOR 7

## Unjustified and/or repeated sole source awards

Requests for an exception to the approved procurement plan to allow for the awarding of contracts to a single bidder should be closely reviewed. Often, these requests are made for so-called reasons of "urgency." The contracts being sought are awarded on the basis of false justifications or they are split into multiple contracts, in order to bring their value under procurement thresholds.

## Unjustified changes in contract terms and value

A change to the initial contract in the amount or type of services, and/or an increase in price from what was bid before the contract is signed, should be reviewed

# CHANGES IN CONTRACT TERMS AND VALUE 8

carefully. Profits can be generated by unjustifiably increasing the price and/or quantity of the services between the time the contractor is selected and the signing of the contract through a change in scope, (participation of) key personnel, manufacturing unit rates, or the General Conditions of Contract (GCC). In addition, once the contract is implemented, the contractor could substitute services by those of lesser value, quality and/or not use the agreed man hours.

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