



# GOOD PRACTICES

## IN LATIN AMERICA AND THE CARIBBEAN



# CORRUPTION WARNING SIGNS

Is Your Project at Risk?

VOLUME 1 NUMBER 1

NOVEMBER 2007



THE WORLD BANK  
LATIN AMERICA AND CARIBBEAN REGION

## Note to the Reader

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This series highlights existing or emerging good practice from operations in the Latin America and the Caribbean Region. The series is intended to provide operational staff with useful guidance to improve the quality of the World Bank's work in the Region

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## PREFACE

This toolkit contains a set of most common corruption warning signs which may appear throughout the project cycle. It was developed by the Operations Services Department of the Latin America and Caribbean Region (LCSOS), consistent with the World Bank Group Governance and Anti-corruption Strategy (GAC strategy) and the Region's responsibility to provide appropriate guidance to teams on managing fiduciary risks and the prevention of corruption. This document contains a broad overview of possible flags, although it cannot be fully comprehensive as corruption takes many forms. It is intended only as a quick reference for task teams and fiduciary staff to help them identify issues which require further review and seek appropriate guidance on follow-up.

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## ACRONYMS

CAS	Country Assistance Strategy
CPS	Country Partnership Strategy
GAC	World Bank Group's Strategy on Governance and Anticorruption
INT	Department of Institutional Integrity
LCSOS	Latin America and the Caribbean Operations Services Department
OPRC	Operations Procurement Review Committee
PRSP	Poverty Reduction Strategy Paper
PAD	Project Appraisal Document
RPMs	Regional Procurement Managers
WB	The World Bank Group

# INTRODUCTION

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1. Corruption takes many forms. In the context of a project, the most visible forms could be bribes to influence procurement, kickbacks from consultants and providers, and fraudulent practices, but there are many more. Within the public sector, some of the other forms of corruption and fraud are theft and misuse of public assets and funds, abuse of official discretion, and others. Accordingly areas that require particular attention are:

- **Corrupt practices**, defined<sup>1</sup> as “the offering, giving, receiving, or soliciting, directly or indirectly, of anything of value<sup>2</sup> to influence improperly the actions of another party”, for example a bribe or a kickback.
- **Fraudulent practices**, defined as “any act or omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit or to avoid an obligation”, for example submission of invoices with fraudulent information concerning progress to obtain payment for work not performed.
- **Collusive practices**, defined as “an arrangement between two or more parties designed to achieve an improper purpose, including seeking to influence improperly the actions of another party”, for example having a supervisor certify work not carried out.
- **Coercive practices**, defined as “impairing or harming, or threatening to impair or harm, directly or indirectly, any party or the property of the party to influence improperly the actions of a party”, for example threatening to fire a consultant unless a portion of his/her salary is given to the hirer.
- **Obstructive practices**, defined as deliberately destroying, falsifying, altering or concealing evidence material to the investigation or making false statements to investigators in order to materially impede an investigation.

2. Corruption tends to flourish when there is a lack of transparency, weak institutions, poor accountability, and excessive discretionary power, etc. Because corruption thrives away from public view and enriches only those involved, it naturally subverts the transparency, accountability, and inclusiveness that mark good decision-making and adequate governance. There is evidence to suggest that countries with less corruption at the very least: (a) have developed systems to combat it; (b) have enlisted the aid of civil society; and (d) have effective prosecution mechanisms.

<sup>1</sup> See *Guidelines on Preventing and Combating Corruption in Projects financed by IBRD Loans and IDA Credits and Grants*.

<sup>2</sup> Includes money, gifts, favors, etc.

3. This document focuses on corruption that may occur in projects financed by donors but, corruption may not be an isolated phenomenon within a project. Instead, it may be systemic, affecting the whole sector or country. Thus, a project being implemented in such an environment will likely be susceptible to this broader, overall environment and not just to project specific issues. As an example, if a relevant decision maker is demanding a cut of every transaction under his/her sphere of influence, a project in the related sector, province or country is unlikely to remain free of corruption.

4. Warning signs of fraud and corruption in projects are just that: indications that a project may need to be looked into. It does not necessarily mean that there is corruption in the project. Signs could point just as equally to unintended errors or vulnerabilities that increase the risk of corruption. What can be said with certainty is that a “second look” may be warranted to attempt to get better clarity on whether an issue relates to capacity constraints (errors) or to suspected corruption. Such a “second look” would involve one or more of the following actions:

- Discuss the issue with the Country Management Unit, Sector Leader, Procurement and Financial specialists, etc. as appropriate to determine next steps.
- Review the case in an internal departmental, sectoral or regional round-table discussion and decide on the course of action that would consist of obtaining further information to support the claims.
- Propose interim conservative measures depending on the seriousness of the allegations such as increasing controls, lowering statement of expenditures and/or procurement thresholds, suspending disbursement, etc.
- Propose institutional strengthening actions including strengthening of the control framework.
- Review and revise the financial management and procurement arrangements and processes.
- Review and revise audit terms of reference and other ex-post instruments.

5. These proposed actions do not exclude Bank staff from seeking INT’s advice at an early stage of the review process. Where unintended error can be ruled out or where there are remaining doubts on whether an issue is a result of fraud or error, the matter should be referred to the Bank’s Department of Institutional of Integrity (INT) without delay.

6. The identification of activities susceptible to corruption begins at Project Identification and continues through Project Preparation and Implementation. This note accordingly sets out Warning Signs that typically are seen in each of these phases. It is however, worth keeping in mind that projects are not rigid structures - identification activities can and do occur during implementation, just as procurement activities will occur during preparation, and so on.

# PROJECT PREPARATION

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## Identification

7. **During the identification phase**, Bank teams work with governments to identify projects which can be funded as part of the agreed development objectives. The teams prepare an internal document that outlines the basic elements of the project, its proposed objectives, likely risks, alternative scenarios to conducting the project, and a likely timetable for the project approval process.<sup>3</sup>

8. **Questionable selection of development projects.** In the identification phase there may be attempts to select “high-rent” projects because of the possible ease for bribery and illegal commissions. In some countries, there are economic sectors deemed as “high rent”, for example infrastructure projects rather than service improvements, since infrastructure projects usually involve larger investments and may be more prone to wrongdoing. High rent sectors may vary from country to country, depending on each country economic context

### Warning Signs

- Insistence on projects that are not aligned with agreed priorities as set out in the CAS/CPS or PRSP.
- Selection of projects through unclear or subjective criteria.
- Selection of projects in sectors deemed as highly corrupt.

9. **“Hard-wiring” implementation.** Counterparts might seek to favor privileged companies by defining projects aimed at highly specific technologies, monopolized by the companies, or certain geographical areas where the favored companies control the market. For example, water sector projects present specific vulnerabilities with respect to pipe supply. In certain countries, the pipe supply industry is controlled by few manufacturers, which facilitates overpricing and collusive arrangements. In general, the market may be controlled by interest groups that fix prices at artificial levels and orchestrate collusive agreements to pre-determine contract awards. Most of these groups operate with the assistance of government officials, who provide information and in return receive kickbacks (or favours) for their assistance. In this context, public officials may manipulate the size of

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<sup>3</sup> World Bank website: Projects & Operations: The Project Cycle: <http://www.worldbank.org/>

contracts, restricting entry to market for companies that are not part of particular interest groups.

### Warning Signs

- Insistence on selecting propriety technologies, where the project objectives could also be attained through the implementation of technologies that are widely available.
- Insistence on concentrating project activities in certain regions of the country.

10. **Entrusting the administration of a project to an institution or individual suspected of corruption or facing lack of capacity for implementing the operation.** In the past, certain institutions or project implementation units have been found to be corrupt in various ways, including “paying the price” by diverting a portion of project funds for decision-makers. A corrupt decision-maker may therefore wish to have the project managed by such a group to ensure his/her “cut”.

### Warning Signs

- Assigning the responsibility for implementation of a project to an entity for subjective or unclear reasons or to an entity already suspected of corruption.
- Using an entity with low capacity instead of entities with a greater accountability, efficiency and transparency.
- Centralizing responsibility for implementation of multiple upcoming projects in one entity despite the fact that the upcoming projects are not necessarily related and the entity appears to lack the capacity to implement them.
- Locating a project under a ministry or entity not related to the project’s nature and with weak capacity or regarded as a corrupt entity.
- Assigning oversight responsibilities of an upcoming project to a steering committee to be comprised of influential officials who lack technical expertise in the sector in which the upcoming project will be implemented.

## Preparation

11. **During Project Preparation**, counterparts conduct studies seeking to establish technical, institutional, economic, environmental, and financial conditions required for the project to succeed. Among other tasks, counterparts need to compare possible alternative methods for achieving the project's objectives. During this phase, contracts may also be awarded for: carrying out studies; preparation of the project implementation plan; preparation of an operations manual; preparation of a procurement plan; and establishment of a project implementing entity.

12. The counterparts may attempt to exaggerate the **Scope of the Project** under the assumption that more money and/or contracts would provide for more chances of corruption, (or the scope may be underspecified, with inflated costs).

### Warning Signs

- Preference for capital investments without justification over alternative projects involving smaller investments in maintenance/rehabilitation.
- Unjustified requirements for equipment, be it large numbers of smaller equipment (e.g., cars and computers) or heavy, expensive equipment (e.g., earth moving equipment or telecommunication repeater stations).
- Unjustified requirements for local labor in civil works (thus extending the project implementation), so that the project would resolve unemployment issues.
- The location of the new medical, educational facilities, water sources may not correspond to actual needs, may not be easily accessible to beneficiaries, or are unjustifiably far from users.
- Land to be acquired has recently and unusually changed hands.
- Using newer drugs as opposed to older and more cost-effective drugs (Health sector), thus favoring specific manufacturers or suppliers, or pharmaceuticals of questionable efficacy but seemingly better price.
- Quantification of pharmaceuticals based on subjective estimates (Health sector), or made on the basis of suspect data, resulting in excessive purchase of restricted shelf-life material.
- Underspecified requirements compared to need.
- Inflated estimated costs.

13. **Over/under-statement of physical requirements and/or over-dimension of project components.** Analysis carried out during the project preparation stage provides the basis for the project's budgeting and planning. Overestimations of needs at the preparation stage would carry over to the project's budgeting and planning and could be used to manipulate the allocation of project funds among different project components or regions where the upcoming project would be implemented. Similarly, public officials may deliberately exclude relevant pieces of information from their designs, thus seeking to ensure that favored contractors in possession of the omitted information would be able to submit the lowest bid. Alternatively, public officials may deliberately under-specify requirements of a specific project, expecting that this would provide sufficient justification for variation orders during contract implementation.

### Warning Signs

- Disagreement between information supporting the preliminary estimation of project's physical requirements and information obtained by Bank staff from other sources.
- Request for increase in funding and importance of certain project components despite the fact that available data does not support the request.
- Large components financing individual consultants not directly related to project objectives.
- Contracts size exceeding the assessed needs.
- Unallocated funds without a clear process for their use and allocation.

14. **Manipulation of studies.** During the project preparation stage, counterparts may require advisory services from consultants to analyze project's needs, alternative methods to reach the project's objectives, different choices of technology, etc. The award of these studies and their outcomes could be manipulated to pave the way for fraud and corruption (further manipulation) during the implementation stage.

### Warning Signs

- Studies containing unsupported conclusions and/or inconsistent reasoning.
- Studies making controversial recommendations, such as the granting of a monopoly franchise, or discarding certain alternatives for project design, and/or are completed in record time.
- Consultants retained appear to lack the capacity to undertake the required work.
- Consultants retained appear to have a conflict of interest or be subject to influence from specific interest groups.

15. **Pre-conditions for weak supervision mechanisms.** Initial pre-conditions for weak supervision mechanisms include underestimating resources required to satisfy the project's supervisory needs, inaccessibility of project locations, inadequate institutional structure for decentralized implementation arrangements, etc.

### Warning Signs

- Projects under an implementing unit that lacks the capacity to monitor their implementation when better alternative exists.
- Remote location of certain project components hampers project supervisors' ability to perform their duties.
- Insufficient funds for financing of supervisory activities.
- Resistance to include project beneficiaries in the project preparation/implementation.

16. **Expansion of discretionary decisions.** Certain projects involve activities, such as granting subsidies, issuing licenses, decentralizing sub-projects or authorizing payments that provide a window of opportunity for the abuse of discretionary powers. In this context, counterparts could seek to maximize areas for discretionary powers in order to facilitate the success of future solicitations of kickbacks, for example, by expanding these discretionary powers in the operations manuals and other documents regulating the operations of an upcoming project.

### Warning Signs

- Operations manual fails to include criteria and procedures for the allocation of project resources among beneficiaries.
- Procedures established for the granting of licenses or the issuances of authorization for the exploitation of resources are vague and concentrate authority on few public officials.
- Concentration of too much discretionary decision making without proper oversight mechanisms.

## Appraisal

17. The Bank is responsible for this phase of the Project Cycle. Bank staff review the work done during identification and preparation. Staff prepare either Project Appraisal Documents (investment projects) or Program Documents (for development policy operations) and the Project Information Documents. Staff also undertake financial management and procurement assessments of the proposed implementing entity. The Bank and borrowers also need to agree on the measures required to assure project success.

18. **Provision of misleading information.** Counterparts may seek to disguise manipulation in project design aimed at facilitating wrongdoing during the project implementation stage. Such misleading information may refer to different aspects of the proposed project, such as information concerning the local market's structure and capacity, information concerning the capacity of the implementing entity, or information concerning the viability of a condition for effectiveness.

### Warning Signs

- Inconsistency between information provided to the Bank and information obtained from other sources.
- Persistent refusal to facilitate meetings with certain stakeholders during the appraisal stage.
- Inconsistency between information provided to the Bank with regard to a condition for effectiveness and government's actual activity towards the fulfillment of the said condition.

19. **Incomplete Project Implementation Plan.** The framework for appropriate management and oversight of any project is the implementation plan with detailed costs estimates and deliverables. A comprehensive implementation plan should be composed of activities (i.e., components, subcomponents, activities, tasks), each with at the very least: an objective, a description of action with a beginning and an end date, an estimated cost, a defined result and deliverable, indicators of result quality, and in some cases values for acceptable, superlative or failing accomplishments. Each macro-activity subdivides into lesser activities, and so on until a manageable level is reached (a level that can be assigned to one person, for example).

### Warning Signs

- Project funds have not been allocated up front, and project documents do not establish procedures for such allocations.
- Project documents (legal agreements, operational manuals, etc) poorly describe implementation arrangements and/or are silent on project management accountability.
- Operational manuals do not describe procurement and financial management procedures, and or their provisions are contrary to what was agreed in the legal agreement, creating confusion.
- Procurement plans are not designed as instruments for project implementation. In several cases, the procurement plans do not reflect Borrower's capacity to allocate resources; and they are approved without the consensus of project beneficiaries and other important stakeholders.

# PROJECT IMPLEMENTATION

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## Introduction

20. During the implementation stage, counterparts take responsibility for the execution of the project, while the Bank provides supervision. This stage is the most prone to fraudulent and corrupt practices, since it encompasses the award and execution of contracts.

21. It is important to note that, since this group of general warning signs refers to the environment in which a project is being implemented, these signs could be solely signaling inefficiency, negligence, or lack of capacity. Thus, the Bank should seek to determine whether any additional scheme-specific or sector-specific warning signs exist.

22. **Monitoring and oversight.** Some projects such as infrastructure projects, require work and materials, and quality is often not apparent in intermediate products. This creates a dependence on works supervisors and inspectors, responsible for monitoring and certifying that the quality of these works and materials complies with contract requirements. Since construction sites are often located away from offices where payments are processed, the lack of easy verification may constitute a risk for corrupt practices.

## Warning Signs

- Work supervisors and inspectors retained appear to lack capacity or have a conflict of interest.
- Failure to report the use of substandard materials or the completion of poor work. For example, the use of substandard chemicals in water treatment, or the distribution of substandard or counterfeit pharmaceuticals as a means to increase profits.
- Failure to distribute goods in a timely fashion. Pharmaceuticals, for example, not only require close monitoring of quality and compliance with packaging and labeling instructions, their timely delivery is essential for them to benefit the population (and preclude expired drugs from being acquired and resold). Stocked pharmaceuticals may be diverted and resold. These cases are more often found in Health sector projects, which involve the acquisition and distribution of a varied range of products such as pharmaceuticals, vaccines, contraceptives, nutritional supplements and medical equipment.
- Excessive delivery charges. Corrupt public officials may seek to profit by charging project beneficiaries for the distribution of pharmaceuticals originally intended for free distribution.
- Certification of receipt of the appropriate quantity of materials in cases where less materials have been delivered or used.
- Addition of “ghost” workers to pad a payroll.
- Creation of seemingly unnecessary work orders or changes to work orders that result in unnecessary contract extensions.
- Failure to execute performance securities provided by contractors that failed to meet the contract terms.
- Indication that government staff have been subcontracted, or are being used, to perform portions of contracted work.
- Unusual level of complaints by users of goods purchased under the project.

23. **The abuse of discretionary powers.** Projects should be carried out observing agreed provisions, and avoiding the abuse of powers, which would damage transparency and competition. Such an abuse is possible in activities such as concessions accompanying infrastructure projects, such as toll roads, and the operation of airports and ports. Concession contracts are designed to be attractive to the private sector, and potential concessionaries may collude with public officials to make concessions over-attractive, by misrepresenting circumstances that provide factual justification to these claims. Alternatively, concessionaries may also collude with public officials to obtain subsidies for their operations. Projects in the environment and natural resources sector may also include components focused on the granting of licenses, permits and concessions for the utilization or exploitation of natural resources (fishing, timber logging, or extraction of mineral resources) and territories.

### Warning Signs

- Unnecessary renegotiation to obtain more favorable contract terms concerning the contract's deadline, subsidies, nature and extent of investments required from the concessionaries, rates charged to end- users, exclusivity granting, capacity estimation, assets valuation, tariff setting process, etc.
- Delegation of large discretion to public officials responsible for the administration of national resources.
- Conflict of interest of the selection committee members with manufacturers.
- In certain countries, the manufacturing industry tends to be almost monopolistic, being controlled by few manufacturers (e.g., textbooks). This circumstance makes procurement of particularly prone to collusive agreements aimed at inflating prices.
- Projects financing educational vouchers, stipends and expenses where the disbursement is based on the enrolment registries, if not carefully designed, may provide opportunities for misuse of a loan/credit proceeds.
- Manipulation of shortlists or invitations to participate in shopping procedures. Shortlists including companies that do not have comparable experience or that are not capable of good quality performance. Alternatively, these lists of providers maybe not updated (or remain the same), excluding, therefore, other potential companies to participate in these processes.

## Financial Management

24. Poor financial management conditions are often an enabling factor for corruption or the result of deliberate efforts to undermine corruption prevention actions. The nature and quality of the financial management system determine the ease with which corruption can occur. Vulnerabilities to corruption can exist in all stages of project financial management, including budget preparation, budget execution, accounting and reporting, internal control, and external audit and oversight.

25. **Excessive influence over the formulation of the project budget could pave the road for significant corruption.** This includes peddling on resource allocations and project activities that benefit groups, under or overestimating the budget, planting the seeds of corruption downstream, shifting resources to activities or types of expenditures more conducive to corrupt practices.

### Warning Signs

- Excessive and concentrated discretionary on resource allocations.
- Nontransparent systems of decision making over resource allocations for public investments, including their choice, location and design.
- Resources directed to special projects without clear criteria for resource allocations.
- Likelihood that resource allocations benefit the decision maker, friends or acquaintances.
- Unlimited executive decisions to approve spending through in-year adjustments without reporting.
- Weak budget estimates or underspecified plans for using the funds.

**26. The budget execution stage where resources actually flow and assets change hands, is the most fragile ground for corrupt activities.<sup>4</sup>**

### Warning signs

- Unpredictable budget execution contributing to irregular procedures used to justify discretionary decisions.
- Significant deviations from planned expenditure target.
- Poor cash planning and predictability of funds creating opportunities for manipulation of rules for personal gain or the benefit of close associates.
- Payments in cash especially for large amount, leaving no audit trail, that could indicate fraudulent schemes.
- Payments with endorsable checks to companies or individuals.
- Absence of records or weak record-keeping that prevents an audit trail.
- Excessive delays in procurement processes.
- Unusually short processing time for procurement processes.
- Absence of clear rules/criteria for processing payments.
- Large deposits and transfers of funds.
- Leakage of funds from center to district.
- Multiple invoices for the same work (sometime from different sources: a grant and a project), or invoices not contemplated in the contract; advance payments for suppliers/contractors not contemplated in the contract at issue, or that are not supported by an acceptable guarantee.
- Duplicate payments. Companies may seek to obtain advantages by submitting multiple invoices claiming payment for the same goods/services. Public officials may – deliberately or negligently – process and pay these duplicate invoices.
- Delays in payments to contractors/consultants. Public officials may seek to profit by delaying due payments while project monies are invested elsewhere.
- Apparent connections between suppliers, same phone/fax numbers or fonts or format on pro-forma invoices, etc.
- Disbursements not matching physical progress.
- Indications that prices quoted by certain vendors are inflated or above market references.
- Unusually high operational expenses, especially if not related to project needs.
- There is no direct link between project activities and results with contracts and expenditures.

<sup>4</sup> World Bank 2007. "The Many Faces of Corruption - Tracking Vulnerabilities at the Sector Level

27. Poor accounting and reporting can in many instances be a deliberate attempt to conceal corrupt activities. While accounting and reporting generally do not offer direct opportunities for corruption, they can often help detect corruption during the budget execution stage.

### Warning signs

- Transactions that are odd as to: time (of day, week, month, year, or season), frequency (too many, too few), places (too far &, too near, and too “Far out”), amount (too high, too low, too consistent, too alike, too different), parties or personalities (related parties, oddball personalities, strange and estranged relationships between parties, management performing clerical functions).
- *Discrepancies in Accounting Records:*
  - Account balances that are significantly over/or understated.
  - Transactions not recorded in a complete or timely manner or improperly recorded as to amount, accounting period, classification, or policy.
  - Duplication of accounting records.
  - Unsupported or unauthorized records, balances, or transactions.
  - Last minute client adjustments that significantly affect financial results (particularly those increasing income presented after submission of the proposed audit adjustments).
  - Inaccurate or incomplete recording of transactions, including off-the-books accounts and transactions.
- *Conflicting or Missing Evidential Matter:*
  - Missing documents, non standard documentation replacement (invoices are copies, duplicates on plain paper not letterhead).
  - Unexplained items on reconciliations.
  - Unavailability of other than photocopied documents.
  - Inconsistent, vague or implausible responses arising from inquiries or analytical procedures.
  - Unusual discrepancies between the client’s records and confirmation replies.
  - Missing inventory or physical assets.
  - Excessive voids or credits.
  - Common names or addresses of payees or customers.
  - Alterations of and tampering with invoices and other supporting documents (e.g. back dating).
  - Duplications (e.g., duplicate payments).
  - Questionable handwriting on documents.
- Recording of non-existent expenditures and incorrect identification of liabilities.
- Untimely, irregular, inaccurate reporting.
- Irregularities in reconciliation processes between bank account data and accounting records.

28. Weaknesses in the overall internal control, internal audit, and external audit can either promote a fertile ground for corruption or may be signs of a deliberate attempt to undermine controls to facilitate corrupt practices.

### Warning Signs

- Lack of accountability, including unjustified and or unclear approval processes for awards of contracts and processing payments.
- Incomplete internal control reports, i.e., not all transactions are recorded.
- Incomplete audit trails and reports.
- Unrecorded or unaudited transactions or overrides.
- Failure to reconcile bank statements.
- The auditor's opinion is issued subject to reservations or is "qualified".
- Consistent unexplained delays in the submission of audited financial statements to the Bank.
- Frequent changes of the external auditor or unsubstantiated request to change the external auditor.
- Transactions which do not follow regular procedures, lack appropriate authorization or documentary support.
- Absence of inventory control, asset registry.
- Absence or deficiency in the management/internal controls.
- Absence of management oversight and review of payment.

### Procurement

29. The Bank's requirements with respect to client procurement arrangements are set out in OP/BP 11.00 *Procurement*.

30. The procurement process is described in the Bank's Guidelines and its use prescribed in the legal agreement. In some cases, particular variations may have been agreed with the country and modified standard bidding documents prepared, otherwise the Bank's Standard Bidding Documents are used.

31. **Urgency may be invoked to justify departures from agreed procurement plans or rules.** Tornados, earthquakes, tsunamis and other "acts of nature", plagues and epidemics need to be discussed before project implementation (during the project preparation and appraisal). Later justifications may be attempts to circumvent competi-

tive procedures and justify direct purchases from favored manufacturers or suppliers at inflated prices.

### Warning Signs

- Upward re-evaluation of needs, leading to cases for requests to increase quantities in existing contracts or for direct contracting due to time pressures.
- Cost estimates above market rate values indicate an earlier overestimation, especially in conjunction with sole-sourcing or a less-than-competitive bidding process.
- Lack of consideration of “least-cost” solutions might be an indication of exaggerations of the the scope, budget and program to “pad” contracts.
- Project modifications that increase the scope and budget/ requests for excessive amounts of new equipment or replacement of equipment that could have been repaired.

32. **Needs reassessment is frequently undertaken during project implementation**, as the needs may vary as project implementation progresses. The same distortions occur here as during project preparation, with some more specific additions.

33. **Inappropriate tender design.** During the tender design stage counterparts define the characteristics of the goods, works or services to be procured, determining their technical requirements and how the procurement will take place. This stage normally encompasses decisions concerning contract packaging, and procurement methods, descriptions of technical specifications and evaluation criteria. Multiple schemes affect these decisions, leading to their manipulation with the aim of benefiting favored companies and/or influencing the award of the contract at issue.

## Warning Signs

- Technical specifications tailored to a) fit a particular contractor/consultant/supplier b) eliminate competitor(s), or c) change during the process.
- Ill-defined services.
- Inadequate technical specifications, for example describing obsolete items or items that will promptly become obsolete, seeking to favor a specific supplier/contractor/consultant.
- Technical specifications containing inaccurate data to mislead potential bidders and benefit a favored firm that has previously been advised and that can then adjust its bid to actual needs.
- Advance knowledge of confidential information to give a competitive advantage to a favored bidder. For example, a bidder is unfairly provided with information that complements vague technical specifications.
- Bidding documents may contain improper payment strategies, such as special advance payments or front-loading, which lead to loss of control in the execution phase.
- Hidden sole-sourcing occurs when as the project develops, the maintenance of equipment bought in the first stages or acquisition of further goods is unexpectedly only offered by providers with exclusive rights.
- Contracts might have been unnecessarily split to ensure that they fall below thresholds established by the Bank for prior review or for international competitive biddings. Seeking to facilitate the manipulation of the award of certain contracts through the use of more flexible procurement methods.
- Contracts might be bundled together to exclude certain companies from competing, either because they are too small or because their expertise does not cover all aspects of the bundled contract.
- Framework agreements may be used to circumvent competitive processes and/or prior review thresholds.
- Biased evaluation criteria may be used to influence contract awards, for example giving too much weight to a particular criterion which favors a particular firm, or to subjective criteria which can be manipulated during award evaluation.
- Extortive conditions may be set in the bidding documents, to facilitate later solicitations of kickbacks. For example, excessively high financial securities, overly strict delivery conditions, and onerous penalties etc.
- Contracts with unusual payment patterns.
- Disproportionate commissions and fees.

34. **Public Advertising.** Advertising announces upcoming procurement processes to potential bidders. Depending on the size and nature of contracts, advertising may be done nationally, internationally, through the United Nations Development Business (UNDB online), the Development Gateway's dgMarket or a mixture of all. Misleading advertising can be used to preclude all potential bidders from participating in the process.

### Warning Signs

- Inadequate/restricted advertising. Using local or regional publications with small local circulation, early or late editions that have a smaller circulation, national gazettes that have a restricted circulation or other publications calculated not to reach potential bidders.
- Publications take place during national and other holidays, limiting the awareness of the incoming bids by all interested parties.
- Incomplete or misleading advertising. Lack of essential information, such as the identification of the entity managing the procurement process or instructions on how to obtain bidding documents. Alternatively, wrong information may be given for the date or venue set for bid opening, or it may be modified at the last minute without notifying all potential bidders of these changes.
- Restriction of competition through excessive charges for the purchase of bidding documents or complementary information, such as blueprints, copies of feasibility studies, etc.
- Advertisements may have been fictitious, suggesting open competition, but instead be tailored to avoid complying with procurement guidelines.

35. **The period of time between advertising and bid opening must encourage a fair competition.** During this time, bidders obtain and review bidding documents, request clarifications from the counterpart, and prepare their bids; concurrently, the Counterpart issues clarifications and notifies all potential bidders of changes concerning information contained in the bidding documents.

#### Warning Signs

- Limited time for submitting proposals due to “implementation constraints”. Insufficient time may be allowed for the preparation of bids, thus restricting competition by other bidders (this presumes advance knowledge by the “wired-in” bidder). Another warning signal is to have what appears to be sufficient time but in reality is reduced by national holidays, or customary national vacations (in some countries it is understood that vacations are taken during certain months).
- Complaints by bidders that the request for extensions of bid preparation time are denied.

36. **Access to information necessary to prepare bids must be facilitated.** Certain assignments may require that Counterparts make information available which is costly to reproduce, such as architectural plans, maps, or complex and lengthy studies; by making it difficult for certain bidders to obtain this information (restricting schedules, for example) or restricting site visits, the competitiveness of the procurement process is undermined.

#### Warning Signs

- Failure to notify all potential bidders of clarifications or changes introduced in the bidding documents. Counterparts may seek to benefit favored companies by failing to notify their competitors of the issuance of clarifications or amendments to the bidding documents.
- Unclear, or ambiguous, clarifications, issued to confuse competitors of favored companies, to which Counterparts have already provided accurate information.
- Facilitation of collusive agreements between advertising and bid opening by making an inappropriate use of clarifications meetings, leaking information to particular interest groups concerning the list of companies that purchased bidding documents, or by referring potential bidders to specific subcontractors.

37. **During pre-qualification.** Bidders are required to submit information showing that they meet qualification requirements set out in the prequalification documents. Only qualified bidders are invited to submit offers. Pre-qualification could facilitate collusive agreements since the list of prequalified companies is known to all of those who are part of the procurement process. Also, it can facilitate collusion among prequalified bidders to increase prices.

### Warning Signs

- Unexpectedly narrow subset of pre-selected companies (by using strict or narrow prequalification criteria). Favoring companies or excluding qualified bidders will limit the number of bidders and reduce competitiveness. One way to limit the field is through manipulation of technical specifications by over-specifying technical requirements.
- Unduly strict prequalification criteria to exclude qualified bidders, thus eliminating disfavored firms. For example, registration of products or obtaining governmental authorization for distribution may preclude or discourage qualified suppliers; excessive prior experience requirements that are disproportionate when compared to the size of the tendered goods/works/services, etc.
- Interrelated pre-qualified companies may indicate that counterparts are seeking to benefit favored companies under an appearance of "genuine" competition.
- Rotation of pre-qualified bidders. There might be collusion between prequalified companies to submit bids in turn for different packages; when combined with purposefully excluded qualified bidders during the prequalification stage, this would enable firms to ensure winning bids. A variation of this scheme is having prequalified firms fail to submit a bid during the bidding stage of the procurement process, which would favor another prequalified company.

38. **During the Bid opening stage.** Counterparts open, in public, all bids received on time, reading the quotations submitted by each bidder aloud. In addition, counterpart prepare minutes from the bid opening, recording the information read aloud. These minutes should be signed by government officials and representatives of the bidders who attended the bid opening ceremony.

### Warning Signs

- Irregular bid opening seeking to benefit favored companies by deviating from the bid opening requirements set out in the procurement guidelines. For example, having a private bid opening, restricting attendance irregularly to representatives of certain bidders, accepting late bids, or late discounts, or failing to open all bids at the same time by taking breaks between the opening of different bids.
- Complaints or indications that there was a disclosure of confidential information contained in bids prior to bid opening, disclosing to favored companies the quotations contained in bids submitted by their competitors.
- Failure to read discounts aloud thus benefitting favored contractors that submitted the lowest bid.
- Fictitious discounts read aloud to ensure that the favored company will obtain the contract at issue.
- Receipt of a bid submitted by a company that did not prequalify, or a company that was not included in the short-list.

39. **During the evaluation stage.** Counterparts compare submissions received from bidders and select one, giving the reasons for the decision in a written Bid Evaluation Report. Where criteria are flexible, evaluation can be manipulated.

### Warning Signs

- Deviation from published evaluation criteria or weights, or adding new criteria, to favor a particular bidder.
- Biased application of evaluation criteria, usually for non-price qualitative criteria.
- Special treatment for favored companies, such as permitting amendments to their bid submissions while disqualifying other companies which have not been afforded a similar opportunity, or disregarding deviations, or omissions.
- Inconsistency between the information stated in Bid Evaluation Report and actual supporting documents. Counterparts may benefit favored companies by inserting unsupported statements in Bid Evaluation Reports, such as stating that competitors of a favored company failed to include certain information in their submissions, which was in fact included in the submission at issue, or distorting verbal input and/or written conclusions provided by independent experts assisting the Bid Evaluation Committee. Alternatively, Counterparts may accept non-responsible bid submissions –or bid proposals- as if these were responsive bids.
- Counterparts may use excuses to disqualify competitors of favored companies, basing these disqualifications on minor mistakes or ambiguities contained in their bid submissions.
- Deliberate omission to state essential information in the Bid Evaluation Report. Counterparts may seek to disguise information that could give away their actions to favor a specific company by deliberately omitting essential information, such as the ranking of quotations received, the estimated value of tendered contract, or names of members comprising the Bid Evaluation Committee.
- Bid Evaluation Committees comprised by unqualified members. Counterparts may seek to benefit favored companies by manipulating the individuals comprising the Bid Evaluation Committee. Counterparts may include in the Bid Evaluation Committee unqualified individuals, who are not familiar with Bid Evaluation procedures and lack technical expertise, or low rank officials who are vulnerable to pressures and manipulation. Alternatively, Counterparts may include individuals who have vested interests in the outcome of a procurement process in the Bid Evaluation Committee for that specific tender.

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- Pressures on Bid Evaluation Committee members. Counterparts may exercise pressure on members of the Bid Evaluation Committee to ensure that a favored company obtains the contract.
- Solicitations during the evaluation procedure. Counterparts may use the bid evaluation stage to request, and negotiate kickbacks with companies participating in the procurement process at issue. To that end, Counterparts may take unreasonably long periods of time to evaluate bid submissions –or bid proposals-, while they seek to reach an agreement in the negotiations for kickbacks with the best evaluated company or other companies participating in the procurement process.
- Inconclusive tender followed by improper negotiations with companies. During the bid evaluation stage Counterparts may recommend declaring a tender void on the basis, for instance, that all quotations are well above the estimated costs; seeking to facilitate corrupt practices in a subsequent negotiation of prices with some of the bidders or the lowest bidder- based on an alleged need to award the contract at issue without further delays.

40. **During contract implementation.** The awarded contract is executed under Counterparts' supervision and funds begin to be disbursed. This circumstance makes this stage of the procurement process particularly vulnerable to a wide range of fraudulent and corrupt schemes, which could prevent contract monies from being used in accordance with the contract's stipulations and also affect the quality of the end product. In this context, it is important to keep in mind that some aspects of Counterparts' supervisory activity gain relevance in the early detection of wrongdoing.

### Warning Signs

- **Front-loading.** The contractor executes expensive activities during the early stages of the execution, putting the contract at risk of incompleteness as a significant part of the contract's amount has already been disbursed. Alternatively, an extension of the contract's original value may be requested in order to continue.
- **Repetitive Change Orders.** During the execution of a contract, contractors may make misrepresentations seeking to obtain change orders or contract extensions. Alternatively, contractors

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may misrepresent seeking to justify delays or faults attributable to themselves or their personnel. Indicators: Unsupported claims, documentation supporting claims lacks signatures, documentation supporting claims disagrees with information provided by works supervisor and site inspectors, documentation supporting claims is produced by consultants linked to the contractor.

- Deliberate use of unqualified supervisors/monitors. Counterparts may deliberately appoint unqualified supervisors/monitors to facilitate wrongdoing by contractors.
- Product substitution and/or delivery of substandard goods by a supplier. This may include collusion to obtain acceptance by the Counterpart.
- Subcontracting of government employees. Public officials may require contractors to subcontract government employees -or companies linked to government officials- to perform a portion of the tendered civil works and/or studies required to perform the work. Alternatively, public officials may require contractors to pay for, and use, governmental equipment or data to perform part of the work.
- Special payments not contemplated under the contract. Public officials may seek to favor certain companies by authorizing special payments not contemplated expressly in the contract. These special payments may be justified in the need to expedite contract implementation by improving companies' cash flows or certifications submitted by companies indicating that they have already stocked up materials required to execute the contract at issue.
- Failure to execute securities provided by underperforming companies. Public officials may seek to favor underperforming companies by failing to execute their performance securities before their expiration. Alternatively, public officials may deliberately fail to request the renewal of a performance security before its expiration date.
- Substitution of a consultant for less qualified and inexperienced personnel. Consulting firms may substitute individual consultants originally comprising their proposed professional team and whose CVs were evaluated during the selection process for less qualified and inexperienced consultants.
- Resale of goods purchased to be distributed free of charge. Public officials may seek to make money by charging project

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- beneficiaries for the distribution of goods originally purchased to be distributed free of charge among qualifying beneficiaries.
- Failure to keep inventory and safe storage of the procured goods (thus allowing for goods to find a way into the market).
- Wholesale subcontracting. Awarded companies that lack qualifications, or capacity, to implement a contract may subcontract most, or all, of the contract to other companies, keeping a percentage of the contract's value as a reward for having secured the contract. "Wholesale" subcontracting constitutes a sign that the winning bid could have been overpriced and/or that the awarded company only consisted of a fictitious company.
- Failure to deliver studies. Consulting firms favored by public officials through the commissioning of unnecessary or unusable studies may fail to deliver said studies. Alternatively, these consulting firms may deliver identical studies under different assignments or deliver already existing studies produced by other entities, including governmental entities.

41. **Poor records management.** In today's online world, procurement documents, requests for no-objection and no objections themselves are sent through email as attachments. Until issues of digital signatures and the legality of such documents are solved, in the interests of speed and efficiency, the Bank tends to operate on a "good faith" basis: accept, but verify later. To preclude complaints, it is crucial that paper and electronic documents be proven to be fully consistent with supervision and external audits.

### Warning Signs

- Inadequate Record-Keeping Automated System or procedures.
- Inconsistent, incomplete, contradictory or inexistent files documenting procurement and disbursement transactions, including no-objections. These include purchase orders, invoices, receiving records, inventories, supporting documents for contracts, etc.

## IF CORRUPTION IS SUSPECTED

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42. Warning Signs do not prove misdemeanors – they just point at events which merit a second look. When a staff member is alerted by a warning sign, he or she should consult with his/her direct manager, the procurement specialist or procurement-accredited staff assigned to the project, and others as appropriate. Depending on the situation, whenever there are questions the Regional Procurement Manager (RPM) should be contacted. The Operations Procurement Review Committee (OPRC) may be consulted, or a departmental or even regional level meeting held.

For the list of contacts in LCSPT, type “LCSPT” in your web browser and select “Procurement Staff”. The fax number is #522-3099

The Regional Procurement Manager can be contacted at (202)-473-0538

43. In many cases, preventive action can be taken to preclude the occurrence of corruption; in other cases, preventive action should be taken to preclude a recurrence of fraud or corruption. For example, strengthening planning, internal control or auditing.

44. In accordance with the Staff Manual, a staff member has a duty to report suspected fraud or corruption in Bank-Group financed projects or in the administration of Bank Group business to his or her direct manager, or to the Department of Institutional Integrity (‘INT’). A manager who suspects or receives a report of suspected fraud or corruption has an obligation to report it to INT.

INT is located at the Bank’s Headquarters, in Washington DC. INT investigators can be contacted at (202) 458-7677, through email [investigations\\_hotline@worldbank.org](mailto:investigations_hotline@worldbank.org), or by fax (202) 522-7140.

There is an INT Hotline available 24 hours per day, 7 days a week: 1-800-831-0463, or (704) 556-7046 collect. Interpreters and language-skilled operators are available upon request. For written communications, write to PMB 3767, 13950 Ballantyne Corporate Place, Charlotte, North Carolina, 28277, USA. There is also a website: <http://www.worldbank.org/integrity>.

45. Complaints should be made in good faith, containing the reason why the reported activity appears to be improper and all pertinent information, dates, subjects and modality. Pertinent documentation sent to INT is useful. Proof is not needed – it is INT’s responsibility to assess the credibility of the claim and the prospects of substantiating it.

46. Upon receipt of an allegation, INT conducts a preliminary inquiry to assess credibility of the underlying allegation and rank its level of priority, and conducts investigations according to the ranking. If INT finds sufficient evidence to substantiate the allegations, the case is referred to an Evaluations and Suspension Officer (EO).

47. INT Investigations, when appropriate, may result in:

- Initiating debarment procedures against individuals and companies involved.
- The sharing of a report on the investigation with government for action at the national level.
- Recommendations on prevention of similar actions in Bank-funded operations

48. The LCR Region is actively engaged in implementing its regional governance and anti-corruption strategy that is embedded in the Bank’s overall approach. It addresses GAC activities at the project, community, sectoral and regional level.<sup>5</sup>

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<sup>5</sup> <http://intranet.worldbank.org/> select LAC Region under Countries Tab and Governance and Anti-corruption in LAC under topics/themes.

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