INT Preventive Services Unit

CORRUPTION:

Is it our Business and why should we care?

Department of Institutional Integrity

March 2008
Delivery of Sub-standard and Hazardous Equipment

New Baby-warmer
- Does not fit the specifications of the procurement
- **User risks electric shock**
- Procurement unit accepted the delivery
- Contract **paid in full**
Construction of a New Dam as a result of a flood that occurred 6 years ago.

Purpose of the Dam is to irrigate crops of a small town nearby.
Old Dam
damaged 30 years ago

No sight of the crops or the small town.
Information gathered pointed to government official that had some commercial crops nearby
Trust Fund Conservation Project

Design of hot springs spa for ecotourism center

Status after >50% disbursed with 30 days left to completion

No supervision mission conducted to this remote site
Rural Roads Project

- Road 30% narrower than specifications
- No road surfacing, contrary to specifications
- Sub-standard quality

Contract paid in full
Why should we Care?

- Funds entrusted to the Bank must be used for their intended purposes
- Harmful effects on the institution’s reputation
- Implicit support of illegal conduct
- Unlawful personal enrichment
- Honest firms cannot compete
- Success of project is compromised (unqualified contractors, greatly inflated costs, poor quality goods and services, etc.)
- Entrenched cynicism
- Most importantly: the poor are robbed of the few opportunities they have to improve their lives
INT Preventive Services Unit

Lessons Learned in Project Design and Supervision: Moving Towards a Preventive Approach

Department of Institutional Integrity
March 2008
INT and the Project Cycle

**Classic (Reactive) Focus:**
Complaint-triggered investigations during and after implementation

**Pro-active (Preventative) Focus:**
Risk-specific advice and training in parallel with the Project Cycle
Where is our knowledge coming from?

Voluntary Disclosure Program

Allows participating firms to...
Voluntarily disclose information about their misconduct in Bank-financed or supported projects or contracts

in exchange for...
- No debarment
- Confidentiality
Detailed Implementation Review (DIR)

**What**  
A proactive diagnostic tool

**Why**  
To assess the risk of fraud, corruption and mismanagement in Bank-financed projects

**How**  
Through analysis of contracts employing data mining and forensic investigative techniques in a selected project portfolio, and involving substantial review of contract procurement, financial management, disbursement and implementation

- A DIR goes **beyond compliance** aspects (emphasizes fiduciary and implementation matters)
- DIRs are resource-intensive but can have **high impact**

DIRs help operational colleagues and the Government improve project design and implementation by identifying risks
Findings of Past DIRs

- Fraud and corruption
- Inadequate controls
- Inappropriate bid evaluation
- Questionable financial management
- Substandard physical works
- Insufficient supervision
- Poor document management
Result from Investigations

Since 1999

- More than 2,400 cases closed
- 340 firms and individuals publicly debarred
- More than 26 criminal convictions in multiple jurisdictions based on INT referrals
Lessons. Lessons from Advice to 50+ Task Teams

INT has found some common pitfalls

- Fraud and corruption risks not mentioned, even where relevant
- Risks are described at too high a level
- Mitigation measures are not specific in terms of who does what when
- Government and donor roles in risk mitigation not mentioned / explicit
- Capacity building efforts seen as synonymous with risk mitigation
- Supervision, prior review thresholds, etc. are not linked to specific threats
- Monitoring framework not clearly spelled out
- No integration of fraud & corruption risks in overall risk mitigation and reporting plan

Things to build on

- The Task Team / Regional team are the most valuable resource in identifying risks!
- Past audit reports, ICRs, etc.
- Knowledge of donors, government officials and trusted third parties
- Lessons learned from INT to be incorporated
**Research. Collusion Indicators Based On Cases & Literature**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Agency</th>
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<tbody>
<tr>
<td>- Do few companies dominate the market?</td>
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<td>- Do companies take turn winning projects?</td>
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<td>- Is the industry operated/strongly influenced by organized crime?</td>
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<td>- Are there high entry barriers?</td>
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<td>- Prior allegations or cases related to procurement or corruption?</td>
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<td>- Are Officials tied to bidders?</td>
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<th>Bidders</th>
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<td>- Are shell companies submitting bids?</td>
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<td>- Are there examples of bidders with cross-ownership?</td>
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<td>- Are there allegations of bidders being coerced to join the cartel?</td>
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<tr>
<td>- Are bid prices significantly above or below earlier prices/the cost estimate/market prices or too close to the cost estimate?</td>
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<td>- Are bidders prices, unit rates or bills of quantities too identical?</td>
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<td>- Are there odd numbers in the bid prices or bills of quantities?</td>
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<td>- Are there examples of similar formats, spelling mistakes, etc.?</td>
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<td>- Are bid securities sequential?</td>
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<td>- Is most work subcontracted or substantial agent fees involved?</td>
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<td>- Are loosing bids irrational or poorly formulated?</td>
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<th>Implementation</th>
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<td>- Does the winner back out because major sub-contractor declines work</td>
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Risk Assessment. Analyzing Controls

Third Party Monitoring

External Checks
- Competition Authority
- Anti-Corruption Agency
- Parliament
- Police
- Attorney General
- Courts

Internal Controls
- Proc
- FM
- Audit
- Supervision
- Mgt.

Assets

Influencers
- Bidders
- Project Officials
- Others

Beneficiaries
- Business Organizations
- World Bank
- Bilateral Donors
- NGOs

CBOs

Others

ProcFM

SupervisionMgt.
**Risk Assessment. Drafting a Risk Control Framework**

1. **Define Who Threatens What When With Which Impact**
   - Elevated bid prices resulting from the **collusion and other bid rigging** by bidders and officials in the procurement of the four public works contracts

2. **Assign Accountability for Mitigation and When**
   - **Implemented Controls**
     - Agencies supported by owner’s engineers review bidding documents for **rigged specifications** and BERs for corruption indicators
     - Bank analyses winning and loosing bids for corruption indicators prior to the issuance of its No-Objection Letter
     - Agencies inform bidders of the Bank’s anti-corruption guidelines, hotline, etc.
     - Agency staff receive corruption awareness training and sign code of conduct; and senior staff participate in financial disclosure programs

3. **Ensure Controls Mitigate the Identified Risks**
   - **Evidence of Effective Controls**
     - Agency BERs
     - Owners engineers’ sign-off of BERs
     - Bank No-Objection Letter and Analysis
     - Copy of letters to bidders w/anti-corruption guidelines and hotline number
     - List of agency staff having received corruption training

4. **Provide Positive Assurance that Controls are In Place**
   - **Indicators of Actualized Corruption**
     - Credible corruption related procurement complaints / newspaper articles
     - Corruption indicators uncovered during supervision missions

5. **Provide Negative Assurance that We Don’t Know of Any Material Fraud or Corruption**
   - **Monitoring Activities**
     - [date] Bank review of BER
     - [date] Bank supervision
     - [date] Government conducts random audit of financial disclosure forms

6. **Identify Scheduled Points At Which the Bank Obtain Further Assurances**
Critical Issues in Assessing Complaint Handling

Assessing Complaint Handling Mechanisms

Department of Institutional Integrity