



THE WORLD BANK

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Doing Business with Integrity in High-Risk Countries

Presentation for the PSLO

Agenda What will be covered?

1. Introduction
2. What are the common fraud and corruption **threats**?
3. What **advice** to give companies doing business in high-risk environments?

Introduction The cost of corruption is significant



Private Sector

[Up to 10%](#) is added to the total cost of doing business globally due to corruption

[61%](#) of supply managers view corruption as the second most significant risk to their business

[37.6%](#) of firms globally identify corruption as a major constraints

[\\$3.4bn](#) was ordered by SEC in sanctions in 2013

[\\$80m+](#) was the average price for settling and FCPA case in 2013



Infrastructure

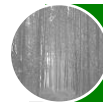
[25%](#) of 500 World Bank roads projects received one or more allegations of corruption over ten year period

[25%](#) is the average, illegal surcharge by cartels



Health

[\\$415bn](#) (or 7.29%) of health expenses are lost to fraud and error



Environment

[\\$30-100bn](#) is the estimated value of illegal logging



Taxation

[US\\$3.1tr+](#) (5.1% of world GDP) is the estimated tax evasion



World Bank

69% - corruption risk rating in 2013 Risk Scan (2nd highest)

580 inquiries, 150 investigative targets (FY13)

29% suspected fraudulent expenditure in a CDD project

6-13% going bribery rate in certain large projects

Threat #1 Political interference

What is it?

Use of political influence in violation of laws or official rules to unduly confer a benefit on himself or another person

What are some examples?

- Choosing a project solely on the basis of expected kickbacks
- Using inside information to purchase land and sell at inflated prices to the government or donor for use in the project
- Pressure Bid Evaluation Committee to award contract to a favored bidder
- Pressure officials to hire, promote or otherwise confer unduly benefits on friends or relatives
- Seek to stop an investigation into corrupt practices
- Pressure officials to allocate more road maintenance funds than planned to own constituency
- Deliberately weaken fiduciary standards



Threat #1 Political interference

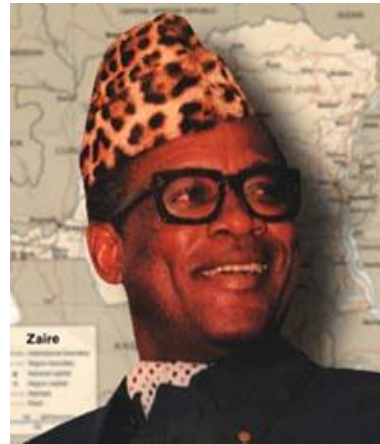
Where did the money come from?



Mohamed Suharto
President of Indonesia
1967-1998
\$14-35 billion



Sani Abacha
President of Nigeria
1993-1998
\$2-5 billion



Mobuto Sese Seko
President of Zaire
1965-1997
\$5 billion

Ferdinand Marcos
(President of the Philippines)
1972-1986
\$5-10 billion



Threat #2 Unnecessary items

What is it?

Deliberate inflation of a Bill of Quantity or tender in order to increase contract amounts and thus bribe payments. Sometimes the unnecessary items will not be delivered at all, allowing for even greater diversion of funds.

What are some examples?

Any example will depend on the type of good, work or service being procured, e.g.:

- Specification that the contractor must use 13 4WD vehicles in connection with the construction of a 25km highway, when it is clearly not needed or even in the interest of the employer to specify this
- Requirement that an expensive laboratory be constructed, when in fact the procuring agency will cancel this component (benefitting the company with inside information that bid low on this component and won the tender). In the latter case, this is also called “unbalanced bidding”.



Threat #2 Unnecessary items



What is the red flag?

Threat #3 Biased specifications

What is it?

Drafting a technical solution or detailed specifications that deliberately exclude other valid options

What are some examples?

Any example will depend on the type of good, work or service being procured, e.g.:

- Pickup truck with 6-cyl and 3.2l engine
- Blood gas analyzers with an LCD-screen for readouts
- Cement highway (when an asphalt is more economical)
- Mosquito nets with no maximum gap size (only minimum!)



Threat #4 Fraudulent bids

What is it?

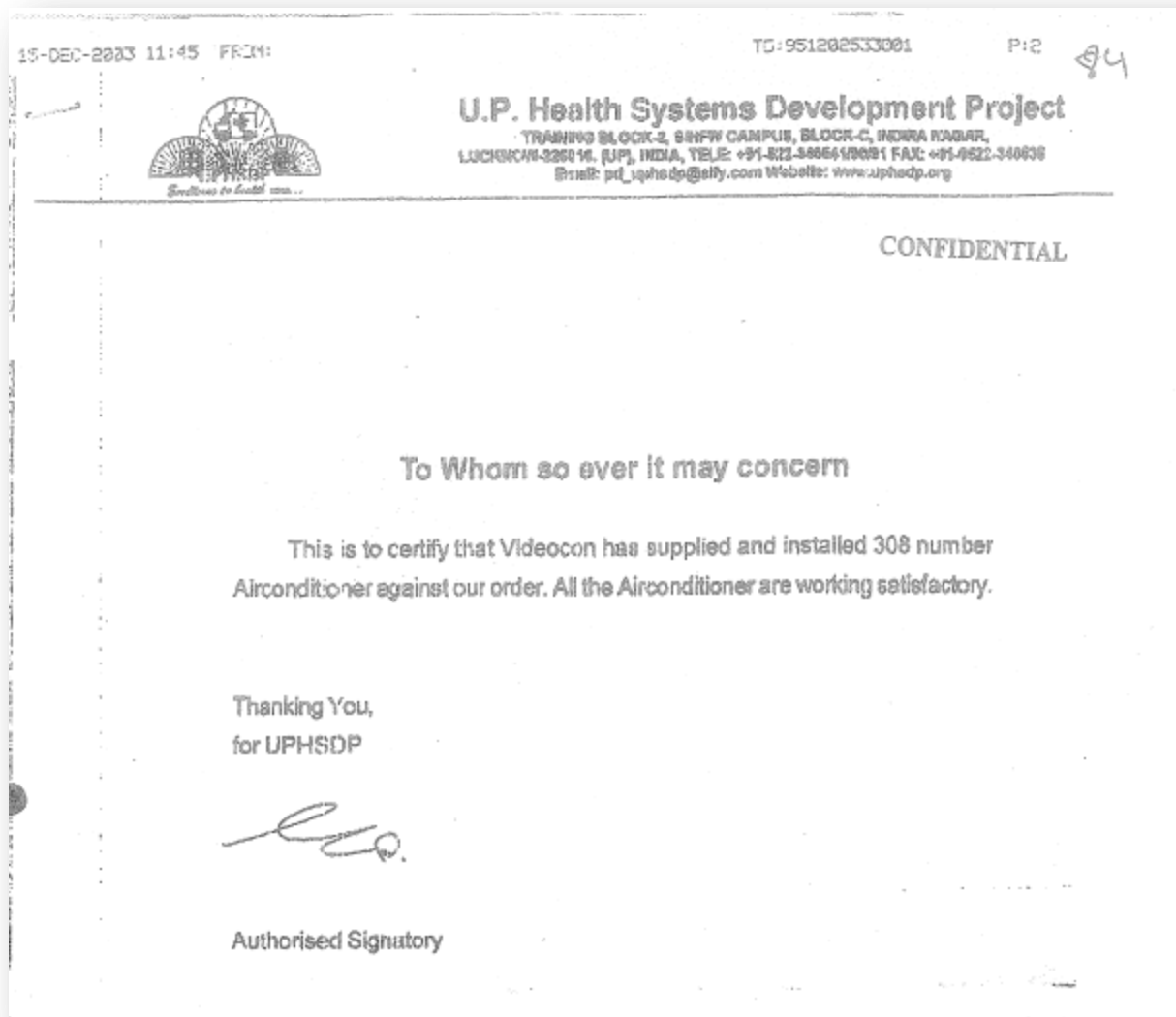
Misrepresentation of financial or technical capacity in order to meet the eligibility criteria. The concern is that the contracting authority hires a poor performer (obviously charger more than better companies).

What are some examples?

- Consultants on the bidder's team are not employed with the firm and they have not approved their participation
- Prior experience on CVs has been deliberately exaggerated
- Turnover has been inflated
- Audited financial statements are fictitious
- Certificate of prior work is false
- Bid security is false (in order to save the cost of the security)



Threat #4 Fraudulent bids



What is the red flag?

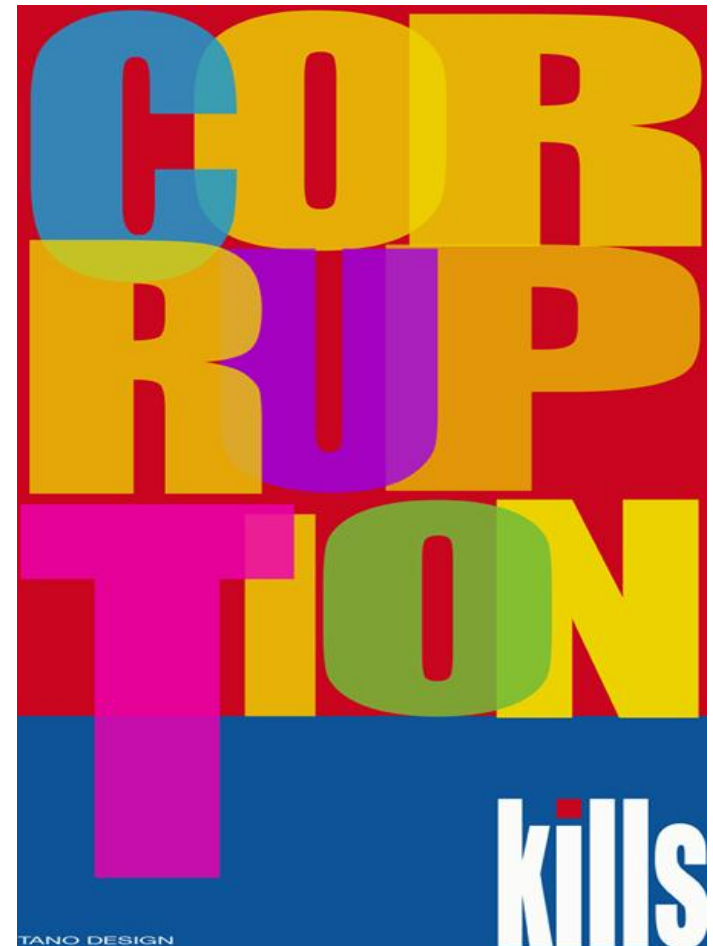
Threat #5 Collusion

What is it?

Companies coordinating bid submission by determining who will win and lose the bid in order to inflate prices and share the economic rent. Though prevalent in civil works due to the high barriers, collusion in combination occurs relatively frequently because it effectively circumvents competitive bidding.

What are some examples?

- Bidders take turn winning bids (rotating), e.g., with the losing bidder working as a subcontractor or receiving 1-2% of the contract amount for its participation
- Companies agree to fix prices in the market
- Companies divide up the market (e.g., in geographical regions or by customer segment)



Threat #5 Collusion

1.4B	A. Facilities for the engineer	% Variance vs ABC	B. Other General Requirements	% Variance VS ABC	C. Earthworks	% Variance VS ABC	D. Subbase and Base Course	% Variance vs ABC
ABC	41,363,564.22		15,214,839.33		117,411,763.53		76,969,696.23	
Company A	39,349,388.33	-4.87	66,300,000.00	335.76	221,474,877.51	88.63	75,545,811.90	-1.85
Company B	51,522,055.88	24.56	25,915,749.43	70.33	160,867,040.61	37.01	82,684,797.00	7.43
Company C	63,879,676.33	54.43	22,344,391.97	46.86	235,225,851.51	100.34	124,102,495.14	61.24
Company D	36,566,283.12	-11.60	16,596,800.00	9.08	235,171,716.83	100.30	72,022,657.59	-6.43
Company E	48,922,104.00	18.27	60,692,192.00	298.90	184,714,928.51	57.32	151,426,127.97	96.73
Company F	41,275,309.60	-0.21	29,659,149.60	94.94	196,035,336.59	66.96	96,208,570.28	25.00

1.4B	F. Bridge Construction	% Variance vs ABC	G. Drainage & Slope	% Variance vs ABC	H. Misc. Structures	% Variance vs ABC	J. Dayworks Schedules	% Variance VS ABC
ABC	82,682,889.57		156,110,990.22		52,107,644.29		10,842,275.02	
Company A	131,465,858.11	59.00	194,965,521.65	24.89	61,381,613.61	17.80	23,233,502.87	114.29
Company B	110,048,752.30	33.10	210,577,154.38	34.89	70,585,268.00	35.46	13,882,240.60	28.04
Company C	122,424,004.78	48.06	191,999,151.44	22.99	58,181,743.50	11.66	9,414,847.58	-13.17
Company D	98,266,032.07	18.85	223,541,629.77	43.19	61,065,720.68	17.19	13,614,648.32	25.57
Company E	144,330,707.03	74.56	171,164,336.66	9.64	71,916,103.47	38.01	9,797,376.00	-9.64
Company F	103,308,983.26	24.95	223,877,420.37	43.41	100,584,344.03	93.03	15,088,360.67	39.16

1.4B	E. Surface Course	% Variance vs ABC	Subtotal 1st Round	% Variance VS ABC	Bidprice 1st Round	% Variance VS ABC	Bidprices / Company A
ABC	371,408,699.56		916,412,362.15		967,012,362.15		
Company A	379,232,169.30	2.11	1,192,948,743.28	30	1,235,848,743.38	28	
Company B	497,676,941.80	34.00	1,223,760,000.00	34	1,266,660,000.00	31	30,811,256.72
Company C	397,827,837.75	7.11	1,233,100,000.00	35	1,276,000,000.00	32	40,151,256.72
Company D	486,140,097.50	30.89	1,242,958,585.88	36	1,285,858,585.88	33	50,009,842.60
Company E	410,136,602.00	10.43	1,253,100,477.64	37	1,296,000,477.64	34	60,151,734.36
Company F	453,635,618.91	22.14	1,259,673,093.31	37	1,302,573,093.31	35	66,724,350.03

Company B	497,676,941.80		1,223,760,000.00		1,266,660,000.00		
Company C	397,827,837.75		1,233,100,000.00		1,276,000,000.00		
Company D	486,140,097.50		1,242,958,585.88		1,285,858,585.88		
Company E	410,136,602.00		1,253,100,477.64		1,296,000,477.64		

Indicators

One percentage point apart

In ten unit increments

Unnatural numbers

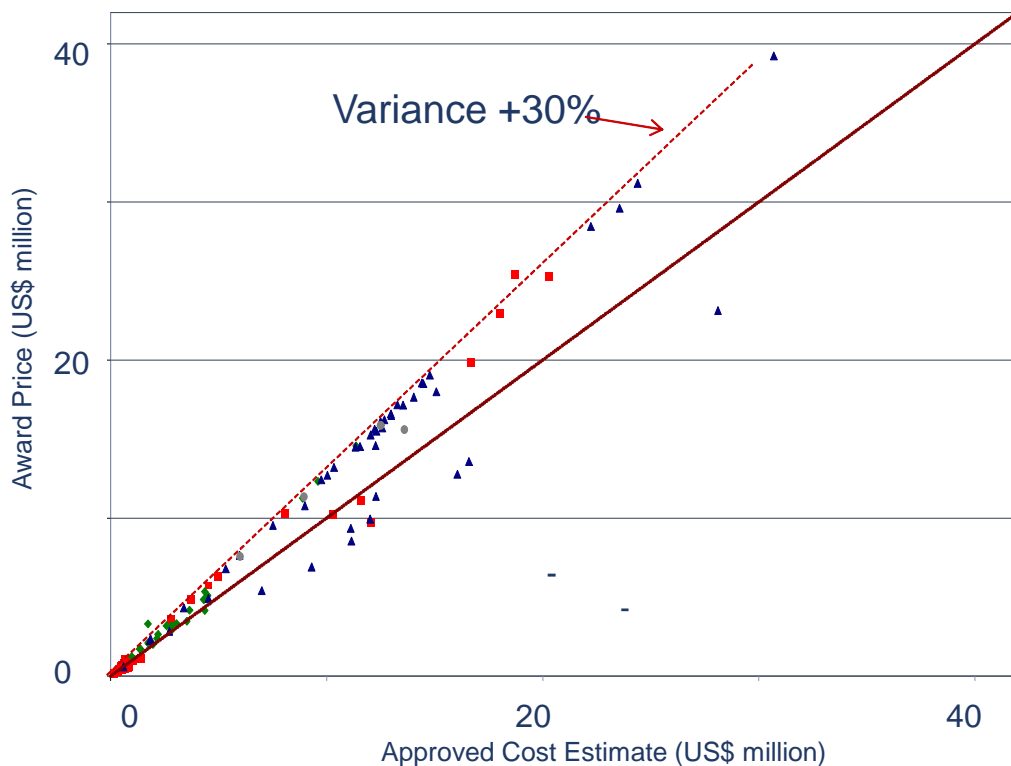
Three disqualified companies

Grossly inflated Earthworks

Evidence

Threat #5 Collusion

Philippines 197 Contacts Financed by Four IFIs (2001-4)



Romania Construction

Half of Romanian construction companies admitted in a 2012 ECA/INT survey to discussing prices, etc. with other firms prior to bid submission

Estimated Cartel Overcharges

<i>Road Contracts</i>	
State of Florida	8%
Republic of Korea	15%
Tanzania	15-60%
Philippines	20-60%
Sample 29 developing countries	40%
<i>All Construction Contracts</i>	
Netherlands	Up to 20%
Japan	30-50%
<i>All Cartels</i>	25%

Threat #6 Shell company

What is it?

A company that exists on paper only, i.e., it has no activities and staff except for a formal manager and owner. Related is fictitious companies that are not even formally registered. While shell companies are used in, e.g., corporate restructuring, they have no place in procurement.

What are some examples?

- Shell company owned by Finance Minister's son wins contracts, takes a cut, and subcontracts all work
- The contractor is entirely fictitious – it cannot be found on any of the addresses listed



Threat #6 Shell company



Fictitious construction firm's address (tender documents): empty lot / auto repair shop...



Address according to the Ministry of Commerce: rice trader and shop house.



Threat #7 Bid steering

What is it?

Manipulation of the procurement procedures to steer a contract to a favored company by excluding other potential vendors. An act typically undertaken in exchange for a bribe.

What are some examples?

- The tender notice is unnecessarily **vague** so that bidders cannot determine their interest (and, hence, do not bid)
- An Request for Proposal is posted over a holiday period with an unreasonably short **deadline** (often shorter than required by the World Bank or national rules)
- Pages from a bid has been torn out or the entire bid left in the **safe**, resulting in the bid being declared unresponsive or not being considered
- **Price** of the lowest responsive bidder has been altered during or after bid opening
- Bid Evaluation Committee members disqualify a bidder for minor deviations or give a biased **scoring**



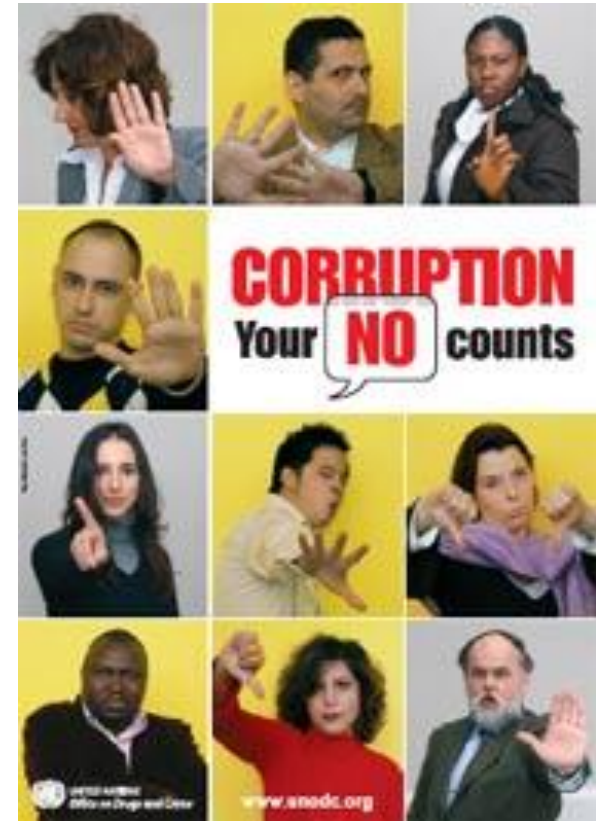
Threat #8 Conflict of interest

What is it?

An entity is involved in multiple interests, one of which could possibly corrupt the motivation for an act in the other.

What are some examples?

- An official awards a contract to his wife's firm, hires friends and relatives, accepts larger gifts, or takes leave of absence so that he can take on an external consultant job on the project for which he was involved in an official capacity
- PIU Director sits on the board of a SOE serving as a subcontractor
- A bidder fails to disclose that it owns the company that designed the civil works being tendered (i.e., it could have biased the design so it would be more competitive or have used inside information in the bidding for the construction tender)



Threat #9 Substandard work

What is it?

Goods, works and services that do not comply with the specifications stipulated in the contract. This may be in agreement with corrupt officials or a result of a company taking advantage of poor contract management practices. Sometimes the supervision consultants are bribed or coerced to sign-off on the substandard work.

What are some examples?

- Instead of German equipment, the contractor supplied a Chinese brand – the government didn't know and didn't check
- Contractor left the construction site without finishing the work
- Computers were supplied with less memory than required



Threat #9 Substandard work



Baby incubators, rusting and never used, in a hospital in Orissa, India.

Threat #9 Substandard work



A Pediatric Ward patient sits on a cardboard covered bed.

Threat #9 Substandard work



Incomplete drainage work off the Cau Long Binh Bridge



Drainage built according to specifications off the Cau Truong An bridge (Rural Transport Project in Vietnam)

Threat #9 Substandard work



Different companies built components of this major toll road project (Road Rehabilitation and Maintenance Project in SAR)

Threat #9 Substandard work

Fictitious roads were added to official network & maps...



...the roads were designed to be up to 22% longer than actually built

Threat #9 Substandard work

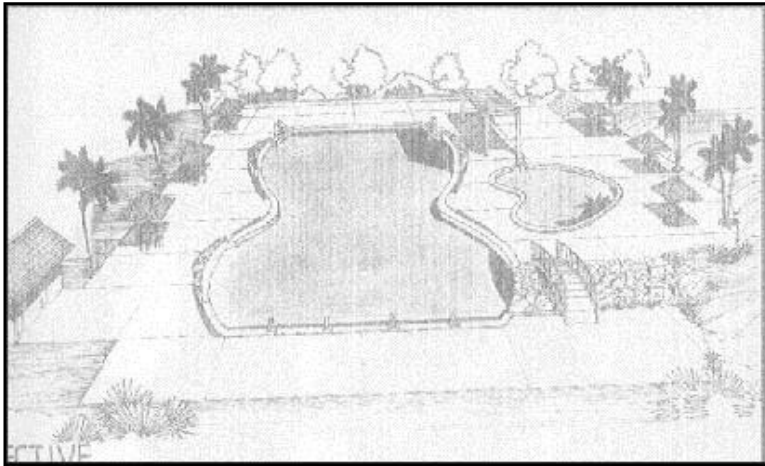


The earth bund shows erosion after only three months...

...and settlement/cracking of rip-rap adjacent to main sluice-gate.

Disbursement was suspended on this project; it was lifted after the government accepted anticorruption plans for three projects and engaged an international procurement agent (Kok Tathok small scale irrigation project in Cambodia)

Threat #9 Substandard work



Design of hot springs spa for ecotourism center

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

▶ No supervision mission was conducted to this remote site

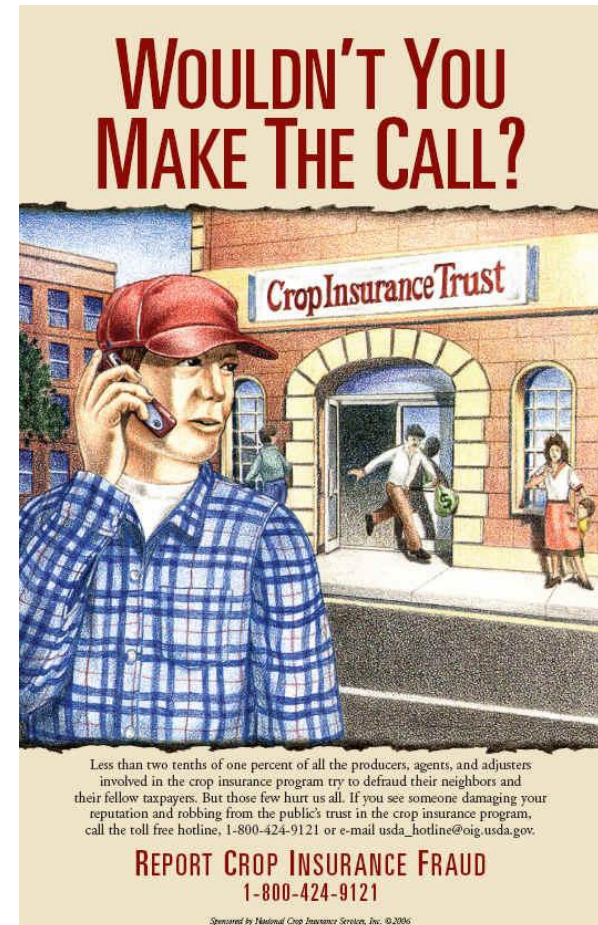
Threat #10 False claims

What is it?

Claims have been deliberately fabricated or inflated.

What are some examples?

- Per diems claimed for participating in a workshop, though the person never participated or participated fewer days than claimed
- Cost of workshop was inflated 100-fold by adding two zeros to the amount on the invoice
- More gasoline was purportedly put on the car than the tank could hold
- Company invoices the government twice for the same item in the hope of getting paid both times (“double invoicing”) or the invoice is entirely fictitious
- Claiming to be unemployed in order to obtain financial benefits



WOULDN'T YOU MAKE THE CALL?

Less than two tenths of one percent of all the producers, agents, and adjusters involved in the crop insurance program try to defraud their neighbors and their fellow taxpayers. But those few hurt us all. If you see someone damaging your reputation and robbing from the public's trust in the crop insurance program, call the toll free hotline, 1-800-424-9121 or e-mail usda_hotline@oig.usda.gov.

REPORT CROP INSURANCE FRAUD
1-800-424-9121

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What do I advise a company complaining about an unfair **procurement** process?

Guidance

Most firms don't complain about outright fraud and corruption. Ask questions to figure out, if the grief "just" pertains to a breach of procurement rules or possibly misconduct. In either case, the firm can complain to the Bank, but who gets involved and what happens differ. In the first instance, Bank procurement staff review the matter, while in the latter INT assesses the complaint and may conduct an investigation. The complaint could also result in actions by both procurement and INT.

Case 1

A company tells you that the **specifications** for blood gas analyzer tendered under a World Bank-financed contract calls for a display of a particular type. The company tells you that they produce analyzers with a different display type, which is functionally equivalent, but that they fear that they will be excluded on this basis. What do you do?

Case 2

A company complains about not being **shortlisted**. What questions do you ask?

How does a firm report suspected fraud and corruption to the World Bank?

What type of integrity concerns can the World Bank help address?

If you have an allegation that involves possible fraud, corruption, collusion, coercion and obstruction in World Bank-funded projects and/or against World Bank staff, the World Bank's Integrity Vice Presidency (INT) may be able to help address your concerns. [Click here for definitions and examples.](#)

How do I report?

[Online Integrity Complaint Form](#) The Integrity Complaint Form is the best way to send a report to INT. When you click on the link to the Form, you will be taken to a secure and confidential third-party website that is managed by INT. You will need to provide basic information regarding your allegations and a detailed summary of your concerns. There are available "Guide Questions" to help you fill out the Form. You also have the option to upload supporting documents after submitting the Form.

[iOS Integrity App](#) Our phone hotlines and/or Integrity App can also be used to provide information to INT, as appropriate.

To reach INT offices in Washington, DC directly, you may call +1 (202) 458-7677.

When should I expect a response?

You will receive an automated response with a reference number when you submit a report to INT using the Integrity Complaint Form and the Integrity App. A reference number will be provided to you when you report to our phone hotline. If your report pertains to fraud, corruption, collusion, coercion and obstruction involving World Bank-funded projects or World Bank staff, someone from INT will contact you directly using the contact information that you have provided.

Can I remain anonymous?

Yes. The World Bank will still review your complaint even if you wish to remain anonymous. However, you still will need to provide INT with at least an email address to contact you for additional information or clarification. All information provided to INT is confidential. We will not disclose information that may reveal your identity without your consent unless the World Bank is required to do so by law.

What do I advice a firm not having received **payment** for work delivered under the contract?

Guidance

There may be legitimate reasons for why a firm has not been paid, e.g., the goods, works, or services have not been delivered according to the contractual obligations. However, the withholding of payment may also be a sign that government officials are attempting to extort money from the firm.

Case 3

A company tells you that it has delivered a feasibility study to the client government, but that it has not received fully payment despite multiple attempts to collect the funds. What do you advice?

A consulting firm seeks a **local partner** in order to present a stronger proposal. What do you advise?

Guidance

When selecting a local partner or agent, firms should be aware that some may engage in unethical business practices. The www.business-anti-corruption.com portal, which is a multi-donor effort, has tools available to help conduct due diligence on partners. In addition, FIDIC has developed a model representative agreement, which includes integrity provisions to help safeguard against malfeasance.

Case 4

A company is asking you for advice on how to assess a possible agent in the Philippines. What do you advise?

How can a **compliance program** help a firm reduce integrity risks?

Guidance

Companies establish compliance programs to reduce the risks that affiliate firms and employees in general engage in corruption. These programs can also serve as a legal defense in case, where an employee engage in bribery. The World Bank Group has developed a set of [Integrity Compliance Guidelines](#) to assist companies in developing more robust programs. They are also used to assess, whether certain debarred companies have put in place an adequate compliance program and thus can be released from the debarment.

What are the key principles of a robust compliance program?

The above Integrity Compliance Guidelines provide a more comprehensive overview of what constitutes a robust program. The following are some of the key principles:

1. **Prohibit misconduct**, e.g., in a code of conduct or similar document
2. **Assign clear responsibility** for compliance with the leadership, individual staff, and in a corporate function
3. **Conduct a comprehensive** fraud and corruption risk assessment and address any shortcomings
4. **Institute internal policies** to vet current/future employees; restrict arrangements with former public officials; regulate gifts, hospitality, political contributions, donations and sponsorships; prohibit facilitation payments; maintain appropriate records; and other controls to prevent fraud, collusion, and coercive practices
5. **Encourage ethical practices** among all business partners through due diligence, informing partners about the integrity compliance program, documenting the relationship with the partner, etc.
6. Institute proper internal controls

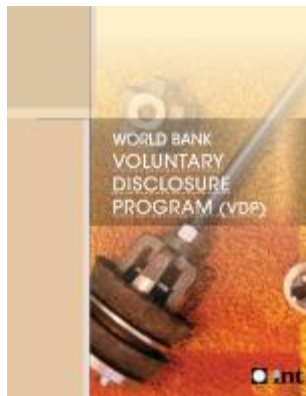
What do you advise a company suspecting that one of its employees has committed **bribery**?

Guidance

Bribery is likely a criminal offense in both the government official's country and the headquarter of the bribing firm. In addition, bribery violates the World Bank's anti-corruption guidelines, and as such is sanctionable.

- How certain is the company that a bribe was paid?
- Was this the only time the employee paid a bribe?
- What this a "rogue" employee or could this be happening elsewhere?
- What compliance program does the company have in place to safeguard against such misconduct? Is it sufficiently robust for management to claim that it has the necessary controls in place?
- What is the advice of the company's counsel or external counsel?
- Has an internal investigation been conducted?
- When does the company plan to disclose the matters to national investigative authorities, and the World Bank?
- Is the company aware of the [Voluntary Disclosure Program](#) ?

What is the Voluntary Disclosure Program?



The VDP provides firms and individuals incentives to disclose their involvement in of fraudulent and corrupt practices under World Bank-financed and supported activities. The entity agrees to: (i) **cease** its fraudulent or corrupt practices; (ii) voluntarily **disclose** information about misconduct that is sanctionable by the Bank (e.g., fraud, corruption, collusion, coercion) by conducting internal investigations at its own cost; and (iii) adopt a robust "best practice" **compliance program**, which is monitored for 3 years by a Compliance Monitor.

In exchange, the Bank **does not publicly debar** the entity for disclosed past misconduct and keeps their identities confidential. If, however, a Participant does not disclose all Misconduct voluntarily, completely, and truthfully; continues to engage in Misconduct; or violates other material provisions of the Terms & Conditions of the VDP, that the entity faces mandatory 10-year public debarment in accordance with regular World Bank procedures.

A company wants to avoid doing business with corrupt and unethical entities?

Guidance

In order to avoid doing business with corrupt entities, organized crime groups, etc. is to conduct an Integrity Due Diligence on the firms. There are various companies that provide such services, but there are also simple due diligence steps the firm itself can conduct, e.g., by

- Examining the entity through Dun & Bradstreet
- Verifying that the company actually exists, e.g., is in the local telephone book
- Reviewing the website to determine that the contents/activities appears representative of the representations made
- Verifying information about the company with its clients
- Googling the firm
- Scanning the World Bank's [debarment list](#).

Debarred Firms and Individuals					
Name: <input type="text"/>		Country: All		GO	Reset
Firm Name >	Address	Country >	Ineligibility Period		Grounds
			From >	To >	
YERENERGO CLOSED JOINT STOCK COMPANY*230	11 TUMANYAN STR., 0001, YEREVAN	Armenia	02-OCT-2014	01-OCT-2016	Procurement Guidelines, 1.16(a)(ii)
MR. CHARLES KYENKYA*229	PLOT 2B, 5TH STREET CLOSE INDUSTRIAL AREA, P.O. BOX 21160, KAMPALA	Uganda	30-SEP-2014	29-SEP-2021	Procurement Guidelines, 1.14(a)(i)-(ii)
PIONEER CONSTRUCTION LTD*228	PLOT 2B, 5TH STREET CLOSE INDUSTRIAL AREA, P.O. BOX 21160, KAMPALA	Uganda	30-SEP-2014	29-SEP-2022	Procurement Guidelines, 1.14(a)(i)-(ii)
CHINA HUASHI HYDROPOWER DEVELOPMENT CORP.*227	230A CAIHUYING, GENGTAI DISTRICT, BEIJING	China	24-SEP-2014	24-SEP-2017	2006 PGL, 1.14(a)(ii); 1999 PGL 1.15(a)(ii)
CHINA INTERNATIONAL WATER & ELECTRIC CORP.*227	CWE MANSION, 3 LIUJUKANG STREET, XICHENG DISTRICT, BEIJING 100120	China	24-SEP-2014	24-SEP-2017	2006 PGL, 1.14(a)(ii); 1999 PGL 1.15(a)(ii)
CWE POWER DEVELOPMENT CO., LTD.*227	ROOM 803, BUILDING B, NEW MOER BUSINESS CENTER, 209 WUJING ROAD, YUNAN PROVINCE, KUNMING	China	24-SEP-2014	24-SEP-2017	2006 PGL, 1.14(a)(ii); 1999 PGL 1.15(a)(ii)
CWE SOUTH AMERICA LIMITED*227	230A CAIHUYING, GENGTAI	China	24-SEP-2014	24-SEP-2017	2006 PGL, 1.14(a)(ii); 1999 PGL

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Obrigado Spasibo Dank U
Grazie
Eυχαριστώ Danke
Dziękuję Eυχαριστώ
Merci
Thank You
Ngiyabonga
Dank U
Diolch
Ngiyabonga
Obrigado
Thank You
Tack
Dank U
תודה
Terima Kasih
Diolch
Grazie
Merci
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