

Background Paper:

Review of the World Bank's Procurement Policies and Procedures

ANALYSIS OF WORLD BANK COMPLETED CASES OF FRAUD AND CORRUPTION FROM THE PERSPECTIVE OF PROCUREMENT

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WORLD BANK

REVIEW OF PROCUREMENT POLICIES

**ANALYSIS OF COMPLETED CASES OF FRAUD AND CORRUPTION FROM THE
PERSPECTIVE OF PROCUREMENT**

Introduction

One of the areas of interest in reviewing the World Bank's procurement policies and practices is to analyze the incidence of fraud and corruption under Bank-financed contracts from the perspective of procurement. The objective is to ascertain if there is any discernible pattern that exists between the Bank's findings on fraud and corruption and the process that had been followed in the related procurement. We also want to explore any other common features in terms of the nature of the contract, the sector, and the country in which the F&C took place. Although these results are not statistically significant, given the very small number of investigations having led to sanctions as compared to the number of contracts under Bank-financed projects, they could provide insights into how the Bank's procurement policies may need to take potential patterns into account. Another caveat is that Bank investigations have exclusively focused on procurement processes and no other sanctions have been pronounced under the Anti-corruption Guidelines, so that an analysis of the potential for revisiting the investigation paradigm to include project design and contract execution is warranted as an integral part of the procurement policy review.

Approach

This study used the data collected on the completed cases of fraud and corruption that led to sanctions being imposed by the Bank on the respondents. These data are maintained by the Bank's Sanctions Evaluation and Suspension Office. Since the dataset consists of only completed cases that led to sanctions, it does not include cases that did not lead to the imposition of sanctions, those currently under investigation, cases that were dropped for lack of evidence, or allegations reported to the Bank and not pursued. Only cases from 2007 onwards were included, following the reform of the Bank's sanctions policy in 2006.

In total, the dataset, as of March 2012, entails 157 contracts worth about US\$245.1 million, or an average contract size of US\$1,592,000.^{1,2} These contracts concern 54 projects in 33 countries or recipients. There were cases of F&C in multiple contracts under several projects and frequently more than one respondent involved in a single contract as both the company and its chief executive are usually named.

¹ Two cases are not completed as respondents are appealing.

² In some cases, the value of the contract was not indicated. Where there were similar works or goods contracts as part of series, the average value was used. In three cases of consulting contracts, the contracts were not signed. No value was assigned to those contracts.

The data extracted from the sanctions evaluation reports and profiles consist of: (i) country and project name; (ii) the procurement category (works, goods, services); (iii) the procurement method (e.g. ICB, NCB); (iv) the contract reference number; (v) the summary contract description; (vi) the Bank's prior review or not; (vii) the contract amount in local currency and in US dollars equivalent; and (viii) the nature of the sanctionable practice. Data from other Bank sources include the sector, the per capita income level of the country, and its corresponding CPIA on Accountability. Data in the Initiating Discussion paper for the review were also used, in particular, table 2, page 33, on the number, amounts and average size of prior reviewed contracts and Box 8, page 43, on the frequency of use of different procurement methods, and data contained in Figure 3A, on procurement method for civil works and goods, page 62.

Analysis

Procurement Process

Table 1, below, provides a summary of the cases of fraud and corruption, analyzed by procurement method and category.

Table 1: Completed Cases of Fraud and Corruption by Procurement Category and Method

	Works		Goods		Consultant		Other ³	Total
	ICB	NCB	ICB	NCB	Firms	Individual		
Number of Contracts with F&C	28	47	43	7	11	20	1	157
Percentage of Total (%)	18	30	27	4	8	12	1	100
Value (US\$'000)	158,680	15,913	60,948	1,017	5,786	420	2,350	245,115
Average Size Contract with F&C (US\$'000)	5,667	339	1,417	145	723	21	2,350	1,592
Percentage of Total (%)	65	6	25	0	2	0	1	100

- **Method of Procurement.** Cases of fraud and corruption are most prevalent under contracts let under ICB, both in terms of the share of the total number of contracts and the value of the contracts, accounting for 45 percent and 90 percent, respectively. This is followed by NCB in

³ This contract was settled without sanction. It was not financed by the Bank.

terms of the number of contracts, 34 percent, and 7 percent of the value. These shares are in line with the use of ICB and NCB Bank-wide. The Bank's overall experience is that ICB is used in roughly 50 percent of the total number of contracts reviewed by the Bank, representing about 80 percent of the value. NCB is used Bank-wide in 35 percent of the number of contracts, and about 17 percent of the value. The above, in addition to its limits due to the size of the sample, highlights a few issues. First of all, there are more cases under NCB for works and more cases under ICB for goods without a clear rationale for such results. Second, when compared with the percentage of contracts for works and goods, the figures show that there are more cases under works than goods (see below). It is, therefore, difficult to validate that the weight of ICB vs. NCB among contracts with F&C is significant. None of the completed cases of F&C cited local shopping or sole source/direct contracting as the method of procurement, although post-reviews show that there are more issues in general with those methods than under NCB. In the case of the hiring of consultants, there was insufficient data to discern amongst the different bid evaluation methods.

- **Procurement Category.** Generally, the relative shares of contracts with F&C by category mirror Bank-wide experience. That is, works make up some 65-70 percent of the total value of contracts Bank wide, and 65 percent of contracts with F&C. Similarly, goods make up about 25-30 percent of the value of contracts Bank wide, and 25 percent of the value of contracts with F&C. The works category seems to dominate in terms of cases of fraud and corruption, accounting for almost half of the total number and three-quarters of the total value. Goods is the next largest, followed by Consulting Services. As to be expected, Consulting Services only account for a small share of the total value (roughly 2 percent) but constitute a more significant share of the total number of cases, 20 percent, reflecting the small size of such contracts, especially for individual consultants. The picture is, however, not as clear as it may seem given that there are more allegations regarding works contracts than for any other category, and that they mostly regard fraudulent practice which is relatively easier to investigate and document.

Nature of the Contracts

While not precise, the general description of the contracts in question provides insight into the nature of the works, goods, and services being financed. A cursory review of this information generates the following observations:

- **Works.** The general description of the concerned contracts shows that small civil works/construction and rehabilitation, repair and maintenance works tend to be the most common among works contracts. One of the characteristics is the decentralized or geographically disbursed nature of the works. Nevertheless, large civil works contracts in transport (e.g. highways, overpasses) remain the most important in terms of value.
- **Goods.** There is a very wide variety of products, ranging from medical equipment and supplies, generators, refrigerators, lab equipment, computers, office equipment, data processing, spare parts, and vehicles, with no discernable pattern as to the type of goods. Most contracts were relatively small in size and/or involved the purchasing in bulk of relatively small items, with the exception of one project with important acquisition of earth moving and other heavy duty

equipment. It is important to note that none of the goods contracts involved acquisition of major equipment for electrical installations, for example.

- **Consultants.** Again, there was considerable variety in terms of the number of contracts, with most consultants engaged in field work, decentralized support and monitoring. There was no case involving the engagement of core project management. However, fraud and corruption was detected in one case of consultants to carry out procurement services, another for auditing services, and human resource management. In terms of value, the largest case, representing about half of the total value of consulting contracts with F&C, had to do with data processing.

Sectors

Table 2 provides an analysis of the completed cases of F&C by sector. This shows that the transport sector accounts for an overwhelming share—74 percent—of the completed cases in terms of value, while the health sector accounts for the largest share—20 percent—by number. This is not surprising given the relative weight in terms of value of the transport sector contracts as compared to those in the health sector, even for similar categories (e.g. construction works in transport are typically relatively large road contracts while in health they mostly relate to smaller (i.e. building schools or clinics) contracts). In the other sectors, these data show that the cases of F&C are much more in the realm of a typical contract and in some cases, e.g. water and urban development, considerably smaller than average.

Another feature of these data is that some sectors are noticeably “under-represented” among the contracts with F&C. (This assumes that F&C ought to be, by and large, spread throughout Bank-financed operations, which may or may not be the case.) Using data from the Initiating Discussion Paper, it is easy to see that the transport sector is clearly over-represented, accounting for 74 percent of the value of contracts with F&C, as compared to about 39 percent of the value of contracts reviewed from FY06-10. This may indicate that they are more subject to F&C, or that they are subject to more allegations and hence more investigations. On the other hand, the energy sector only accounts for 2 percent of the value of the contracts with F&C but it typically accounts for a much larger share of the Bank’s business (over FY06-10, contracts in the energy sector represented 18 percent of the total value of contracts reviewed in that period). This may be explained by the fact those contracts are subject, given their value, to systematic prior-review and due diligence. The agriculture sector, too, is somewhat “under-represented” while the health and social sector are about “right”: they account for 9 percent of the value of contracts reviewed in FY06-10 and 10 percent of the value of contracts with F&C. So are the education and public administration sectors.

Table 2: Contracts with F&C by Sector

Sector	Number of Contracts With F&C	Share of Total (%)	Value of Contracts* with F&C (US\$'000)	Share of Total (%)	Average Size Contract with F&C (US\$'000)	Bank-wide Average Size Contract (US\$'000)
Transport	16	11	180,529.1	74	11,283	3,750
Water & Urban	17	11	8,689.4	4	511	1,680
Finance & Ind.	3	2	2,326.4	1	775	729
Energy	3	2	3,449.7	1	1,150	2,100
Ag/Rural Dev.	21	13	4,231.1	2	202	569
Public Admin.	19	12	13,257.0	5	698	476
Health	32	20	17,006.5	7	527	625
Education	25	16	7,979.1	3	319	419
Social	21	13	7,833.1	3	373	625
Total	157	100	245,113.8	100	1,592	1,256

* Values do not include the three unsigned consulting contracts. Average contract sizes by sector are therefore only approximate.

Sanctionable Practices

The dataset on completed cases that led to sanctions categorizes infractions between fraud and corruption. Fraud is further broken down among forged third party documents (e.g. bank guarantees, manufacturer's authorization, performance or experience documentation) and other fraud (e.g. invoices, payment certificates, misrepresentations) and corruption is broken down among collusion, corruption and obstruction. For purposes of this analysis, only the broad breakdown between fraud and corruption was taken into account.

By far, the most common sanctionable practice is fraud. Out of the total 157 contracts, about 70 percent involved only fraud and the remainder, some 30 percent or 46 contracts, involved corruption or both fraud and corruption. Of these 46 contracts, 24 were let by ICB, one involved the hiring of consultants using QCBS, and the balance, NCB. The nature of the infraction did not seem to bear any relation to other characteristics and no particular pattern emerged. The data also indicate the origins of the respondents—either in the country in which the contracting took place, elsewhere or some combination.

Overwhelmingly, the respondents are from the same country in which the contracting took place: only in 26 out of the 157 contracts were respondents from multiple countries.

Countries Analyzed by CPIA and Per Capita Income

A wide range of countries have been involved in these completed cases of F&C. In total there have been 33, out of some 120 active Bank borrowers. Most countries only experienced one project with F&C, but 13 countries had more than one. All regions have been affected: the number of countries with completed cases of F&C by region is as follows: Africa—11 countries, ECA—8 countries, EAP—6 countries, LAC—3 countries, and MNA—2 countries.

As shown in Table 3, below, the incidence of completed cases of F&C is skewed towards lower income countries and countries with lower CPIA scores on transparency, accountability and corruption in the public sector. There has been no completed case of F&C in a high income country and the relative number of upper middle income countries having such cases is lower than their share of the total number of such countries among the Bank's borrowers. In fact, the frequency of completed cases of F&C rises from 18 percent for upper middle income countries to 26 percent among lower middle income countries and 32 percent among low income countries.

Moreover, the cohort of countries with completed cases of F&C tends to have lower CPIA ratings on accountability than the Bank-wide average of 3.1. This relationship is particularly marked in the case of upper middle income countries and tends to corroborate the CPIA rating as a leading indicator of vulnerability to F&C. Nevertheless, the relationship does not hold for lower middle income countries: as a group, these countries with completed cases of F&C have a slightly higher CPIA rating than for the average of that same income group. Looking at the Bank-wide group of lower middle countries, there are many with CPIA ratings considerably lower than countries with completed cases of F&C although these countries have yet to see a completed case.

Table 3: Countries Analyzed by CPIA Rating on Accountability (2009) and Per Capita Income

Per Capita Income	Only Countries with Cases of F&C		Bank-wide	
	Average CPIA Rating	Number of Countries	Average CPIA Rating	Number of Countries
High	--	0	4.3	9
Upper Middle	2.9	7	3.5	40
Lower Middle	3.1	14	2.9	53
Lower	2.4	12	2.7	38

Among the 31 countries with CPIA ratings (two did not), fully 26 of them had a CPIA rating for transparency, accountability and corruption of 3.0 or less, regardless of per capita income. That level seems to be some sort of breaking point. And, since the Bank-wide average of this CPIA rating is 3.1, the pool of countries vulnerable to F&C in which there has yet to be a completed case of F&C remains large.

Conclusions

Before drawing conclusions from the above analysis, a number of caveats have to be stated:

- First, the completed cases of F&C may not necessarily be random across the Bank’s portfolio; that is, it is very likely that there is an element of self-selection in choosing to pursue (or not) a particular allegation depending on its perceived importance and maybe even the chances of ultimately proving the case. It is clear that very small transactions tend not to be pursued, and therefore the results underestimate the likely level of F&C under local shopping or small valued contracts let under sole source or direct methods. It may be that investigations are skewed towards larger, more highly visible contracts as may have been, say, in the transport sector that have been let under ICB.
- Second, the completed cases of F&C are not independent of one another; that is, they tend to cluster and produce a number of related cases for a given project, for a given country, or a given sector. It is likely that, once there is substance to an allegation in one contract, there may be more attention paid to related contracts. This seems to have been the case in India, for example, as a result of the DIR of five health projects, or in the case of several projects in which F&C seems to run through a certain component or activity or in the case of the health sector in which the likelihood of F&C may be considered high *ex ante*. Thus, the results may be geared towards such clusters.
- Third, the completed cases of F&C may be significantly different from the total pool of allegations and the reality of when and where F&C actually occurs on the ground. Unfortunately, comparable data on allegations and on cases that did not lead to sanctions being imposed are not available so any differences among these populations cannot be analyzed. As a result, any conclusions from this analysis can only be made with reference to completed cases that led to sanctions and not the entire pool of F&C allegations and investigations.
- Fourth, the fact that the weight of ICB contracts in the pool of contracts with F&C appears higher than the average Bank-wide may be due to the self-selection of allegations to be pursued, particularly in the transport sector.
- Finally, with only 157 completed cases, the dataset is still relatively small and insufficient to draw conclusions at the level of specific countries, regions, project types or sectors.

With these caveats in mind, the analysis seems to bear out the following conclusions:

- The method of procurement selected for any given contract, at least among the main methods of ICB and NCB, does not seem to alter the chances of a particular contract encountering F&C. There are, however, hardly any data regarding other methods.
- There is a greater preponderance of fraud as the sanctionable practice than other forms of F&C.
- The analysis does not seem to support the supposition that the Bank’s prior review of ICB contracts acts as a deterrent or prevents F&C. This, however, does not account for the fact that prior-review often results in rejecting flawed or unclear bidding documents that are conducive to F&C or award recommendations that are suspicious (in particular with regard to consulting services, which may explain the lower percentage of sanctions in that category). With regard to NCB contracts, there is no evidence regarding the likelihood of F&C occurring more when

subject to prior-review or not. There is also insufficient data local shopping or sole source/direct contracting, to draw any conclusions with regard to those methods.

- There is some evidence that differences in the nature of the activity being financed may be associated with F&C. The general descriptions of the contracts with F&C seem to point in the direction of F&C being more common for works that involve smaller, dispersed rehabilitation and maintenance activities, smaller, lower valued goods that are bundled into larger packages to make them more attractive to bidders, and diverse services on the periphery. Thus, F&C may likely go hand-in-hand with activities that are “out of sight, out of mind”, harder to specify *ex ante*, more difficult physically to inspect (or without the visibility see what is going on), and overwhelming in terms of the number of items involved. This points to the need for improved contract management during execution.
- The analysis corroborates the general conclusion reached under other studies that poorer countries with weak institutional capacity are unfortunately more prone to be afflicted by F&C than other countries. The Bank’s experience with completed cases of F&C reveals that the frequency goes up as income levels and the CPIA rating on transparency, accountability, and corruption fall. In fact, this CPIA rating may be a leading indicator to the possibility of F&C under Bank financed operations and could be a good warning sign.
- While able to shed some light onto how the outcomes of the Bank’s completed investigations into allegations of F&C relate to procurement processes, the analysis in this note can only go so far. Indeed, the issues and concerns about F&C are much broader and profound. It is clear from this analysis that there is only a limited amount of information that can be derived from the results of the Bank’s completed cases of F&C and that a wider net must be cast to map out the risks to procurement.