



**XXIVth WORLD
ROAD CONGRESS**
Mexico City 2011

EMERGING LESSONS FROM WORLD BANK REVIEW OF ROADS PROJECTS

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THE WORLD BANK

- The Roads sector is a key sector supported by the World Bank
- Between 2000-2010, the WB committed close to \$56 billion for road construction and maintenance
- Fraud, corruption and collusion are an issue in road construction projects in developed and developing countries
- The Bank projects are not immune
- INTs' review highlights sector vulnerabilities based on external and INT sources and recommends preventive measures to address them



WORLD BANK DEFINITION OF MISCONDUCT

- **corrupt practice:** “offering, giving, receiving or soliciting, directly or indirectly, of anything of value to influence improperly the actions of another party;”
- **fraudulent practice:** “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;”
- **collusive practice:** “an arrangement between two or more parties designed to achieve an improper purpose, including to influence improperly the actions of another party;
- **coercive practice:** “impairing or harming, or threatening to impair or harm, directly or indirectly, any party⁵ or the property of the party to influence improperly the actions of a party;
- **obstructive practice:** “deliberately destroying, falsifying, altering or concealing of evidence material to the investigation or making false statements to investigators in order to materially impede a Bank investigation into allegations of a corrupt, fraudulent, coercive or collusive practice; and/or threatening, harassing or intimidating any party to prevent it from disclosing its knowledge of matters relevant to the investigation or from pursuing the investigation, or acts intended to materially impede the exercise of the Bank’s inspection and audit rights.”

Source: World Bank 2006



MISCONDUCT IN BANK PROJECTS

- Allegations received in one-quarter of 500 plus projects with roads component approved in past decade
- Source of complaints: Bank staff, bid evaluation committees, procurement agent, journalists, and NGOs
- INT substantiated misconduct in 29 cases arising from 25 projects
- Sanctions issued in 10 cases; pending in 5 (not pursued in remainder)



TYPES OF MISCONDUCT

- **Most common misconduct identified:**
 - 10 instances of collusion and good reason to suspect it in four more
 - 11 instances of fraudulent documents
 - 9 of corruption during contract execution
- **Other forms:**
 - Government officials with secret interests in winning bidder
 - Kickbacks to career employees, elected officials



COLLUSION

- *Not only in Bank projects --*
- Reported in non-Bank projects in other developing countries: India, Lithuania, Uganda, Nepal, Armenia, Turkey, Columbia, Peru, Pakistan
- Also in OECD countries: U.S., U.K., France, Japan, Denmark, Sweden, Netherlands



People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices.

Adam Smith

The Wealth of Nations, 1776, p. 128.



10 INDICATORS OF COLLUSIVE BIDDING

1. Number of contract awards to a specific firm;
2. Project bid tabulations;
3. Firms that submitted a bid and later became a subcontractor on that project;
4. Rotation of firms being the low bidder;
5. A consistent percentage differential between the firms' bids;
6. Specific percentage of the available work in a geographic area to one firm or to several firms over a period of time;
7. A consistent percentage differential between the low bid and the engineer's estimate;
8. Location of the low bidder's firm versus location of the second and third low bidders' firms;
9. Variations in unit bid prices submitted by a bidder on different projects in the same setting;
10. Number of firms that requested bid packages versus the number actually submitting a bid.

Source: U.S. Government (2004)



ESTIMATED OVERCHARGES BY CARTELS

Road contracts

State of Florida	8%
Republic of Korea	15%
Tanzania	15%-60% (varying)
Philippines	20% -60% (varying)
29 developing countries	40%

All construction contracts

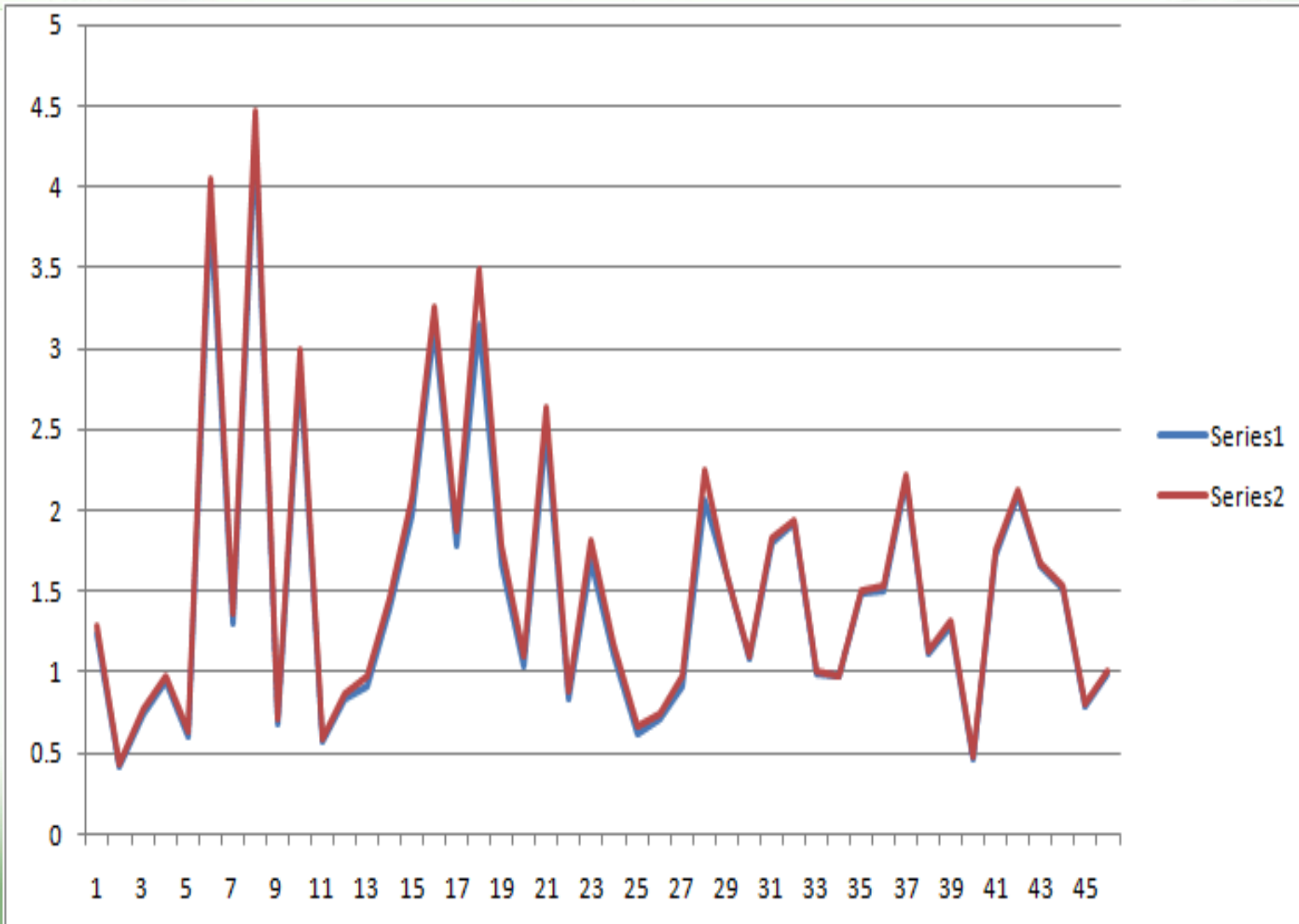
Netherlands	20%
Japan	30%-50%

All cartels 25%



COST ESTIMATE VS. WINNING BID

US\$ Millions



EXAMPLES: FREUD AND CORRUPTION IN WORLD BANK PROJECTS

- **Indonesia** – road 40% less thick than contract specified
- **Indonesia** – 13% less asphalt than required
- **India** – False variation orders raised price 25%
- **Bangladesh** – lane markers omitted
- Other examples: drainage & guard rails poorly constructed or omitted



REMEDIAL MEASURES UNDER REVIEW (1)

Policy Measures

- Stiff penalties for cartelization/collusion
- Incentives to expose cartels
- Bid packages that maximize competition

Project/Sector Specific Measures

- Strengthen Engineer's role
- Independent watchdogs
- Civil society monitoring
- Better cost estimates
- Wealth checks of procurement staff
- Certificates of Independent Price Determination



REMEDIAL MEASURES UNDER REVIEW (2)

Experimental Measures

- Bid ceilings
- Negotiated procurement
- Independent procurement agents

Bank reforms

- Revise procurement rules
- Develop cost estimating/collusive bid expertise
- More anticorruption resources
- Staff with engineering background





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THANK YOU. QUESTIONS?

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