



# **United Republic of Tanzania**

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Dar es Salaam Water Supply and Sanitation Project

**Redacted Report**

March 2018

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## **Executive Summary**

This Report summarizes the findings of an administrative inquiry by the World Bank Group's Integrity Vice Presidency (INT) into allegations that a Joint Venture (the JV) of Company A, Company B, and Company C engaged in misconduct in connection with a contract (the Contract) under the Dar es Salaam Water Supply and Sanitation Project (the Project) in Tanzania.

Evidence indicates that: (i) Company A and Company B repeatedly misrepresented their relevant prior project experience in the JV's proposal; (ii) Company A attached a forged power of attorney to the proposal; and (iii) all three members of the JV collaborated to pay approximately US\$ 170,000 to at least four government employees in exchange for receiving the Contract and expediting payment of the JV's invoices.

The World Bank Group imposed sanctions on Company A and its Owner A, Company B and its Owner B, and Company C. The sanction extends to any legal entity directly or indirectly controlled by Company A, Owner A, Company B, Owner B, or Company C.

## **Background**

The Dar es Salaam Water Supply and Sanitation Project (the Project) aimed to provide reliable, affordable, and sustainable water supply service and improve the sewerage and sanitation in Dar es Salaam and the surrounding regions, which are prone to cholera outbreaks and other water-borne diseases. The Project was implemented by the Project Coordination Unit (PCU). The Project was financed by the International Development Association (IDA),<sup>1</sup> among other donors. The Project became effective in July 2003 and closed November 2010.

## **Allegations**

The World Bank Group Integrity Vice Presidency (INT) conducted an administrative inquiry into allegations that a Joint Venture (the JV) consisting of Company A, Company B, and Company C, engaged in misconduct during the execution of a Project contract (the Contract).

## **Methodology**

INT attempted to exercise the World Bank's inspection (audit) rights at the JV's offices. Company A and Company B objected to, and blocked, the audit. Thereafter, INT obtained limited access to the JV's records with the assistance of Company C.

## **Findings**

### **A. Evidence indicates that certain JV partners made misrepresentations in the JV's proposal documents.**

#### **1. Evidence indicates that Company A, the lead member of the JV, misrepresented its size and legal status in the JV's proposal documents.**

In the JV's Technical Proposal, Company A claimed that it was a multidisciplinary partnership with staff resources of over 1,000 experts, operating out of offices in many countries in Europe, Africa, and Asia. Contrary to these representations, evidence indicates that Company A was essentially a one-man company operated by Owner A out of a Post Office Box.

According to Company A's business files, Company A was formed by Owner D and Owner A. Owner A formerly was employed by another company. Owner D held his/her interest in Company A through a company in which s/he and his/her spouse were the sole employees, and Owner A held his/her interest through a shell company that s/he controls. INT was unable to learn the percentage ownership of each partner in Company A.

Contrary to its Technical Proposal, Company A's files state that it was an "ad hoc," "informal" association of companies that marketed members' services under Company A's name, or

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<sup>1</sup> IDA is one of the five institutions comprising the World Bank Group. The International Bank for Reconstruction and Development (IBRD) and IDA constitute the World Bank. IDA and the World Bank are used interchangeably throughout this Report.

individually, in exchange for fees to the owners. Company A's largest client was Owner A's former employer.

Further, public records state that Company A was not incorporated until three years after it submitted its proposals under the Project. In its proposal, the JV submitted the Certificate of Incorporation for a different company, in which Owner D held an interest. Evidence indicates that this submission was a further misrepresentation of Company A's corporate status, and internal correspondence indicates that Company A made the misrepresentation knowingly. Evidence indicates that Owner D asked his/her accountant to sign a statement saying that Company A was in good standing, so that Company A could pre-qualify for another project. Evidence further indicates that, in doing so, Owner D told the accountant that Company A does not really exist.

**2. Evidence indicates that Company A misrepresented its prior experience in the JV's proposal documents.**

In response to the requirement in the Request for Proposals (RFP), the JV's Technical Proposal contained Project Reference Sheets in which Company A claimed that it had provided relevant services to over 10 water and sanitation projects over a 25-year period. However, at least 10 witnesses with direct, personal knowledge of the projects stated that other consulting firms, not Company A, provided these services. Several witnesses said that most of the projects were performed by Owner A's former employer.

According to Company A's counsel, Company A was entitled to list the projects because various "corporate members" of Company A had been involved in each of the projects in their individual capacities. For example, Company A's counsel indicated that Company A listed a certain project because a consultant to a former Company A corporate member provided some training under the project. However, evidence indicates that this claim was erroneous. The JV's proposal documents reveal that Company A did not engage any of its "corporate members" on the Project under investigation; rather, it only included a former consultant, who worked on another project.

**3. Evidence indicates that Company A submitted a forged Power of Attorney in its proposal documents.**

In the JV's Technical and Financial Proposals, Company A included copies of a Power of Attorney, purportedly signed by Owner D, which purportedly authorized Owner A to sign the Proposals.

INT was unable to interview Owner D about the Power of Attorney because s/he died before INT's investigation began. However, a witness familiar with Owner D's signature inspected a copy of the Power of Attorney, and said that the signature definitely was not that of Owner D. The witness added that Owner D and Owner A had a falling-out; that Owner D objected to Owner A's use of Company A's name; and that Owner D would not have authorized Owner A to use Company A's name for this Project.

#### **4. Evidence indicates that Company B misrepresented its relevant past experience in the JV's proposal documents.**

Evidence indicates that Company B made a number of misrepresentations in the JV's Technical Proposal regarding its prior experience on water and sanitation projects. Specifically, in the JV's Technical Proposal, Company B described consulting services that it claimed to have provided on several projects, however, other evidence appears to contradict these experience claims.

First, Company B claimed experience on a water supply and sewerage engineering project in association with Company C. However, a Company C employee stated that Company B did not work with Company C on this project. Consistent with this claim, Company C's project documents did not reflect Company B's involvement in the work.

Second, Company B claimed experience working on a water supply project in association with Company C. Contrary to this representation, a Company C employee stated that Company B's owner/managing director (Owner B) worked on this project as an individual consultant to Company C—not, as claimed in the proposal, as Company B. Further, the employee also identified a number of other misrepresentations in the JV's proposal:

- 1) Owner B was not the Project Manager as claimed; rather, s/he only did the design work, which was a small part of the project.
- 2) The Company B staff listed on the Project Reference Sheet did not participate in the project, and therefore the claim that Company B staff spent months on the project was also a misrepresentation.
- 3) Company B did not earn a US\$ 65,000 fee on the project, as claimed; rather, the total contract value was about US\$ 150,000, of which Owner B received five percent. Company B itself did not work on the project, and thus earned nothing from it.

Third, Company B claimed experience on a construction supervisory contract in association with the Associated Company. Company B claimed that its Owner served as the contract engineer. And, fifth, Company B claimed experience on a hydro power project, with a company official named as contract engineer (in association with the Associated Company).

However, employees of the Associated Company stated that Owner B was involved in these projects as an employee of the Associated Company, and not as an employee of Company B. The employees added that Owner B significantly overstated the man-months that s/he worked on the project.

Further, the JV included Owner B's curriculum vitae (CV) in its Technical Proposal. Evidence indicates two discrepancies between this CV and Company B's Project Reference Sheets:

- 1) In his/her CV, Owner B stated that s/he worked on four separate projects as an employee of the Associated Company. This is consistent with the Associated Company employees' statements, but is contrary to the Project Reference Sheets, which claimed that the work was performed by Company B.

- 2) In his/her CV, Owner B stated that s/he had worked on a water supply project as a consultant to Company C. This is consistent with the statements of Company C, but is contrary to the Project Reference Sheets, which claimed that the work was performed by Company B.

**5. Evidence indicates that Company A and Company B made misrepresentations in the JV's Technical and Financial Proposals.**

In a document included in the JV's Technical and Financial Proposals—signed by Owner A, as Director of Company A—Owner A certified that neither the firm, nor any person acting on its behalf, had offered any gift, in any form, to any project or public official as an inducement for action or inaction regarding the Contract's procurement. In the Technical and Financial Proposals Owner B made an identical certification on Company B's behalf.

However, as detailed below, evidence indicates that the JV paid at least US\$ 170,000 to government employees, in exchange for receiving the Contract and expediting payment of the JV's invoices.<sup>2</sup>

**B. Evidence indicates that the JV made payments to government employees in exchange for winning the Contract and receiving expedited payment of its invoices.**

**1. Evidence indicates that the JV made payments to government employees that the JV classified as "Commercial Expenses" ("CE") in its accounting records.**

INT received an internal investigation report from Company C, which stated that the JV paid at least US\$ 170,000 to government employees, in exchange for receiving the Contract and expediting payment of the JV's invoices.

Appended to the report was an e-mail from Owner A to Company C with the subject line, "Status CE." The email attached a two-page spreadsheet itemizing approximately US\$ 65,000 in "CE payments" that had been, or were scheduled to be, paid by the JV to persons, identified by initials, whom Company C believed were government employees. In a four-page follow-up report captioned "Notes CE," Company C recalculated the payments as totaling approximately US\$ 170,000, and said that it appeared that the payments were meant to equal 5% of the JV's total contract remuneration.

The above reports, and related accounting records, indicate that the JV made a series of 12 CE payments. Accounting records indicate that: (i) five CE payments were made by Company B and reimbursed by the JV; (ii) another five CE payments were made from a JV bank account and were authorized by Owner B; and (iii) two CE payments were made from the same JV bank account, but were authorized by an employee of Company C.

According to Company C's records and interviews with Company C employees, Company B made the CE payments on behalf of the JV from its own accounts until the JV opened its own U.S. Dollar bank account. Company C did not have any documentation or information regarding how

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<sup>2</sup> Company C also signed such a certificate, but INT found no evidence that it participated in, or knew of, the payments at the time that it signed the JV's bid documents.

Company B made the CE payments, and Owner B refused to provide any Company B records to INT.

Company C's records and employee interviews indicate that the JV made the CE payments through checks drawn on the JV's U.S. Dollar bank account. Evidence suggests that Owner B signed the checks. The checks were payable to a JV Project Accountant. According to Company C, the JV Project Accountant cashed the checks, and gave the cash to a minority owner of Company B for distribution to government employees. Subsequently, the same procedure was followed, but a Company C employee, and a different Company B official, signed the checks.

JV accounting records reflect payments of approximately US\$ 90,000 in cash to Company B's minority owner, which were classified as "Sundry Debtors" and "Accounts Receivable" from the minority owner. This is inconsistent with Company B's and Owner A's claims that this cash was used to pay legitimate project-related expenses. Under the JV's accounting system, such expenses would have been recorded as "Project Expenses," not "sundry debtors" or "accounts receivable." Moreover, the JV accounting records reflect that the minority owner had not repaid the US\$ 90,000 that had been "advanced" to him/her.

Neither Company C nor INT could identify any documentation that the CE payments were used to pay legitimate project expenses, as claimed by Owner A and Owner B.

Company C further stated that the CE payments were taken from a 10% retention account that was established at the outset of the JV. According to the JV Agreement, the 10% retention was supposed to be used to cover contingencies and non-reimbursable contract expenses. Company C said that after it directed its JV partners to stop paying CE, the retention amount dropped to 5%, indicating that the CE payments were no longer being made. Company C said that no fictitious, fraudulent, or inflated invoices or any other irregular transactions were used to generate funds for the CE payments.

Company C's records reflect that its accounting personnel reimbursed approximately US\$ 90,000 of the CE payments as part of the regular replenishment of the JV Project account. The reimbursement requests identified "CE" as JV expenses, but Company C accounting personnel stated that, prior to Company C's internal investigation, they were unaware that "CE" referred to payments to government officials.

## **2. Witnesses corroborated Company C's statements regarding the JV's payments to government employees.**

Evidence indicates that during the first JV Board meeting, Owner A told a witness that the JV had to make certain "arrangements" to receive the Contract. The witness said that, in the context of the conversation, it was clear that Owner A meant that s/he and Owner B had paid government employees in exchange for receiving the Contract. Around the same time, Owner A and Owner B discussed the CE spreadsheet, and whether it was appropriate to pay different government officials the spreadsheet's large stated amounts. Evidence indicates that either Owner B or Owner A commented that Company B's minority owner would "take care of everything."



According to witnesses, Owner A and Owner B next mentioned the CE payments at a subsequent JV meeting. Owner A and Owner B claimed that they had to pay something to government employees, and had a list of people—identified by their initials—who had to be paid. A Company C employee responded that Company C did not want to be involved in any such payments, and that if Companies A and B wanted to make such payments, they should do so from their share of the funds. Owner A and Owner B replied that Company C was part of the JV, and should contribute to the payments.

According to witnesses, the topic of CE payments arose again at the next JV meeting. Witnesses stated that Owner A and Owner B again produced a list of people to be paid, identified by their initials, and Company C again objected to the payments. Witnesses added that, after delays in payments to the JV, Owner A sent an e-mail asking the JV's Project Accountant to prepare a check for approximately US\$ 15,000 to be cashed. The JV's Project Accountant and Company B's minority owner cashed the check. A witness stated that the money seemed to “unplug the system,” and the government made payments owed to the JV.

A witness said that, later, Owner A again asked the JV's Project Accountant to prepare a US\$ 15,000 check for Company B's minority owner to cash. The witness added that the request appeared prompted by the government's failure to make a payment to the JV, which the witness said was due to problems with a government employee who approved the JV's payments.

**3. Evidence indicates that Owner B planned to make payments to government employees in exchange for the JV's receipt of another Project contract, but Company C intervened; a government employee later complained to Company C about the refusal to pay.**

Several Company C employees stated that Owner B agreed to pay a government employee approximately US\$ 20,000 in exchange for the JV's receipt of another Project contract (the Part Two Contract). Evidence suggests that the promised US\$ 20,000 was not paid because Company C refused to approve any further CE payments. Company C said that, after the CE payments stopped, government employees began to delay the JV's payments. Company C employees said that the JV generated funds for government officials by inflating the cost of one of the Part Two Contract's components.

Two Company C witnesses stated that, following Company C's refusal to approve further CE payments, a government employee appeared unexpectedly at the JV's Project office. This government employee sought to talk to a Company C employee on the JV's Board. According to the witnesses, the government employee stated that there was an agreement with the JV, and demanded “his money”.

Further, a Company C employee said that the same government employee came to see him/her at his/her office during a quarterly JV Board meeting. According to the Company C employee, the government employee complained that Owner A had promised to pay him/her for the Part Two Contract, but had not done so. The government employee admitted that s/he had allowed the lump sum amount for the component to be inflated to cover the cost. Several months later, a Company C employee stated that the government employee visited him/her again, and asked why the JV was not giving the government employee his money.

**4. Consistent with the above, evidence indicates irregularities in the Contract award that appear to favor the JV.**

Project officials issued the Request for Proposals (RFP) for the Contract. Over forty firms expressed interest in the RFP, but only five were invited to submit proposals, including the JV. Two of the firms did not submit proposals.<sup>3</sup> Evidence indicates irregularities in the tender process which appear to favor the JV.

Company A and Company B had prepared the design drawings under a prior, related contract. According to losing bidders, government employees refused to allow bidders to remove the design drawings from the project premises during the proposal preparation period, purportedly because doing so would violate Company A's "copyrights." (However, the government owned the drawings.) Other witnesses stated that Owner B and Owner A, refused to allow the drawings to be released. Another witness stated that the government employees and Company B's refusal to release the drawings improperly excluded other bidders, to the JV's advantage.

In addition, two firms submitted Technical Proposals which government employees stated had shorter validity periods than specified in the RFP. The two proposals were not evaluated. In response, the World Bank recommended that the government technically evaluate all submitted proposals, to increase competition. The two proposals were, however, not evaluated, because other firms had been disqualified on similar grounds in other projects.

**Follow Up Action by the World Bank**

The World Bank Group imposed sanctions on Company A and its Owner A, Company B and its Owner B, and Company C. The sanction extends to any legal entity directly or indirectly controlled by Company A, Owner A, Company B, Owner B, or Company C.

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<sup>3</sup> A complainant stated that one firm did not submit a bid because the result was a foregone conclusion. This firm's local partner similarly stated that it did not submit a proposal because of the "existing arrangements," including that the other bidders could not access the design drawings, which Company A had prepared under an earlier contract. The Proposal Evaluation Report reflects that this company ultimately did not submit a bid, but did request a two week bid submission extension, which the government denied.