



WARNING **SIGNS**

**of Fraud and Corruption
in Procurement**



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There are multiple warning signs that can help identify the risk of fraud, corruption, collusion or coercion in procurement. If you spot any of these warning signs (also known as “red flags”) in a World Bank Group (WBG) funded project, there may be reason for concern. For complaints related to possible fraud or corruption on WBG-funded projects please contact the Integrity Vice Presidency (INT) using the online form provided on the WBG public website: <https://www.worldbank.org/integrity>



1. COMPLAINTS

Complaints may come from different sources, but the World Bank Group (WBG) takes all complaints seriously.

Bidders, Bank staff, Project officials or disgruntled employees of winning companies may lodge complaints which can help prevent and identify fraud and corruption. For example, a complaint might be related to procurement, such as narrow technical specifications that only one bidder can meet, potentially indicative of bid rigging or collusion.



2. MANY SMALL CONTRACTS

Sometimes large bidding packages are split up to enable many small local firms to compete for contracts.

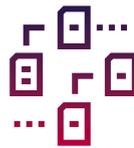
However, **sometimes contract splitting is done to avoid competition from larger firms, thereby creating opportunities for fraud, corruption or collusion**, because the smaller packages do not usually justify a high level of scrutiny. Whatever the purpose, multiple smaller packages can create a lot more administrative work and can put serious strain on a project.



3. OVERPRICING

Investigations have shown that the money used for bribes often comes from overpricing of contracts through quite simple frauds, so **ensuring value for money can help reduce integrity risks**. For example:

- An international contractor hires a local agent to assist with marketing, but the agent uses the fees to pay bribes on behalf of the firm.
- Office equipment is ordered at a price that seems reasonable, but the seller provides substandard or used equipment and the illicit profit is used to bribe project personnel.
- The rent of the project office is very expensive, but some of the rent is channeled back to high level officials for preferential treatment to an associated firm.



4. BIDDING PATTERNS

A group of companies working together to rig bids is sometimes referred to as a “collusive ring”. Collusive rings can preselect (or “designate”) a winner, and the whole bidding process is made to look competitive by the companies secretly cooperating. The designated winner might prepare the bids of the other bidders in the collusive ring, and even dictate the prices they will bid. In other cases, the designated winner might use fake companies, or its own subsidiaries or affiliates, to submit bids that will lose in the evaluation process. Collusion can significantly inflate costs above reasonable estimates and if left unchallenged it can undermine competition and disrupt whole markets.

- Companies might not want to waste a lot of time preparing bids that will lose, so a lot of copying often happens and **a close review of bid documents can often reveal unlikely similarities between bids**, such as identical formatting or identical grammatical and spelling mistakes. In some cases, the same people might appear in key positions in competing bids.
- Other examples of warning signs can include **unusual similarities among bid estimates** (for example competing bids differ by an exact percentage); **unexplained inflated bid prices**, (i.e. total bid price or components of the bid seem unjustifiably higher than the cost estimate); **a large proportion of identical unit prices** for the same items included in bids submitted by different bidders; **or unusually large last-minute discounts**.
- **Some signs of abuse can only be spotted across several bids**, for example: when a losing bidder(s) becomes a subcontractor to its “competitor(s)” or when there is an apparent “rotation” of winning bidders, where firms in a collusive ring take turns in winning contracts.



5. SUSPICIOUS BIDDERS

A fake or “shell” company is a company that exists in name only and usually has no formal registration number, no substantial assets, no permanent business facilities or employees. Some investigations have found fake firms that were set up by project personnel.

- Many fake companies can be identified through simple checks such as searching for a company website, checking for the company name in the telephone directory or checking the legal existence through corporate registries.
- If no information can be found on a company in these searches, then something is probably wrong.
- Prospective employers should carry out specific reference checks with entities that have been listed as previous employers: call them and follow up with an email where appropriate.



6. VIABLE BIDS REJECTED

When bids are rejected without good reasons, this can indicate that someone is trying to rig the bidding process. A company might be bribing an official to put pressure on the Bid Evaluation Committee to alter

the scoring or find excuses for bid rejection. Sometimes the pressure is from a higher ranking official, on behalf of a friend or relative.

Value for money is important and the lowest bids are not always the best, so it is important that all bids are evaluated carefully and fairly. **No viable bid should be rejected from a bidding process without good reason nor should less technically qualified bids be accepted or weaknesses in less qualified bids be overlooked.**



7. MANY AWARDS TO ONE COMPANY

There can be something seriously wrong when a company wins many contracts unless it has some very clear market advantage. This could be a problem of weak

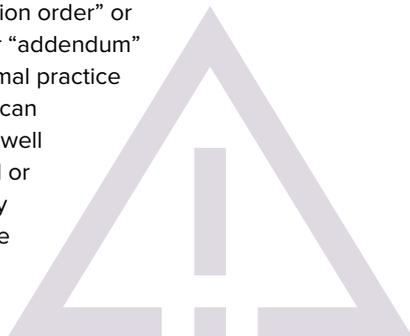
competition, or perhaps the client prefers one company over the others because of previous experience, but such situations need to be very closely reviewed—especially if there is a request for an exception to the approved procurement plan to allow that single bidder to gain multiple contracts within one project. **If the bidding process seems repeatedly skewed towards one company or the same bidder loses repeatedly, this could be due to fraud, corruption, collusion or even coercion.**



8. CHANGES IN CONTRACT TERMS AND VALUE

Significant changes to a contract can be justified post award, but these changes always require careful review. Aspects that can be abused might include: amount or

type of services; contract value; number of units for a specific component or aspect, and; increased unit costs. In some cases, the price increases without real justification. In other cases, the cost stays the same, but the agreed quality or quantity of outputs is lowered. In one scheme an element is dropped on which the winning bidder had bid much lower than others, knowing well in advance that the element would ultimately not have to be provided. All too often a “change order” or “variation order” or “contract amendment” or “addendum” is just considered as normal practice and not scrutinized. This can result in inefficiencies as well as opportunities for fraud or corruption. Be particularly concerned where a single contract attracts multiple unplanned changes or extensions.



9. “BAIT AND SWITCH”

Bidding processes can take a long time to complete, and a firm might have to make changes to its staff, equipment or facilities in the interim. **Sometimes, however, a firm might enter a bid under false pretenses, promising things that it knows it cannot deliver. This is fraud.**

For example, a consultancy firm might promise a certain team knowing that those people will not really be available to carry out the contract. **This kind of fraud, often referred to as “bait and switch”, may occur soon after contract signing suggesting that the intent to substitute was known beforehand.** The client often feels obliged to continue the contract, especially if a rebid or reselection would be subject to high level reviews or take a long time.



10. UNCLEAR OR SUBVERTED PROCESSES

Except in emergency situations, bidding processes should follow planned, or pre-agreed steps. **Extremely fast or slow processes in one or more of these steps can**

indicate wrongdoing. Examples of serious warning signs might include a long or intentional delay in the evaluation of the bids, or where overall delays are so extreme that bid guarantees need to be extended multiple times. For government teams, it is good practice to have the steps of the procurement process carefully defined in terms of number of days for each, as well as clear allocations of roles and responsibilities, so that routine checks can be made as the process progresses.



11. POOR QUALITY OF WORKS OR SERVICES

All contracts need to avoid creating undue risks such as those related to health, safety and environmental damage. These types of risks often emerge in situations affected

by fraud, corruption, collusion or coercion. Investigations have provided many instances of such risks linked to poor quality resulting from fraud and corruption, e.g. when a contractor pays bribes to win a contract, and then tries to recover the costs by delivering lower-quality than specified in the terms of the contract.

Good contract management is essential to mitigate the risk of fraud and corruption. **From contract award to completion, it is important to have effective monitoring in place, with appropriate checks on quality and quantity.** Determining the right award decision also needs to be cognizant of **abnormally low pricing**, where a bid price is so low that it is questionable whether the contractor or supplier can deliver the contract for the price quoted. In such situations, contractors may seek to cut costs, health, safety, environmental and/or quality standards, or make claims to recover their costs and profit margins. The Bank has issued guidance on identifying and dealing with abnormally low bids available at www.worldbank.org/procurement

WARNING SIGNS OF FRAUD AND CORRUPTION IN PROCUREMENT

This brochure is designed for task teams and other practitioners working on development projects to help them identify the most common warning signs or “red flags” of fraud and corruption in procurement:



COMPLAINTS



MANY AWARDS TO ONE COMPANY



MANY SMALL CONTRACTS



CHANGES IN CONTRACT TERMS AND VALUE



OVERPRICING



“BAIT AND SWITCH”



BIDDING PATTERNS



UNCLEAR OR SUBVERTED PROCESSES



SUSPICIOUS BIDDERS



POOR QUALITY OF WORKS OR SERVICES



VIABLE BIDS REJECTED

To report possible fraud or corruption issues related to the World Bank Group, please use the Online Integrity Complaint Form:
<https://www.worldbank.org/fraudandcorruption>

This brochure was prepared by the Integrity Vice Presidency (INT). With special thanks to Enzo De Laurentiis, Chief Procurement Officer (OPCS) and Anna L. Wielogorska, Lead Procurement Specialist (EFI). Their contributions were fundamental in the preparation of this brochure.



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