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# **Prevention of Fraud and Corruption: Facilitating Competition in World Bank-financed Projects**

**By:**

**Anna Pinto Hebert**

**Senior Operations Officer, Prevention  
World Bank Group Integrity Vice Presidency**

# Promoting Fair Competition

The World Bank uses Anti Corruption Guidelines (ACG) to help ensure that its financing is used for intended purposes, and, together with Procurement Guidelines seek to achieve a “level playing field.”

- During the procurement process, the ACG is attached to related documents;
- The ACG is also referred to in financing agreements to cover the entire project cycle -- fraud and corruption may occur outside of procurement (or during implementation, such as the use of false invoices to support claims for reimbursement).

In practice, the ACG alerts firms and agencies to specific fraudulent and corrupt acts that may be investigated in the event complaints are reported.

# Uncompetitive effects

Firms and individuals who undertake these acts can be sanctioned for:

- Corrupt Practice
- Fraudulent Practice
- Collusive Practice
- Coercive Practice
- Obstructive Practice

Transparent and fair competition is hindered when the above are resorted to; these can also lead to higher costs, or lower quality works and provision of supplies and services. They can impede the introduction of more efficient or effective tools or technologies by more competent firms who are crowded out by corrupt actors or fraudsters. These acts can also undercut development.

# Prevention

In WB, the Integrity Vice Presidency (INT) is tasked with looking into allegations of those practices as these affect projects or programs financed partly or wholly by the Bank group. The Prevention unit of INT takes investigation findings and incorporates these into advice, training, and outreach to project teams, clients, and firms.

At the project level, the Preventive unit assists project teams and/or advises clients about safeguards against risks that are presented by fraudulent and corrupt schemes.

In outreach efforts like today, we endeavor to raise awareness about sanctionable practices and also explain how unfair competition is perpetrated by corrupt firms or fraudsters.



# Prevention Activities

Engagement Type	Activities (examples)
1. Advisory Engagements	<ul style="list-style-type: none"><li>▪ Advice on integrity management in high-risk operations</li><li>▪ Input into Country Assistance Strategies and analytical work</li><li>▪ Technical assistance to client countries on building national integrity systems</li></ul>
2. Thematic Integrity Reviews	<ul style="list-style-type: none"><li>▪ Sector/Practice: agriculture, roads, health</li><li>▪ Instrument: local development (PPP planned)</li><li>▪ Country: country integrity profiles and surveys</li><li>▪ Region: Overviews of INT results from investigations, allegations, advice</li></ul>
3. Staff Training	<ul style="list-style-type: none"><li>▪ Integrity Clinics (including for Executive Directors and staff)</li><li>▪ On-boarding (Bank-wide)</li><li>▪ Outreach and training of field staff</li></ul>
4. Capacity Building	<ul style="list-style-type: none"><li>▪ Training of Project Implementation Units in detection of red flags</li><li>▪ Capacity building for national oversight agencies</li><li>▪ Training and awareness raising among private contractors and CSOs</li></ul>
5. Knowledge Products	<ul style="list-style-type: none"><li>▪ Fraud and Corruption Awareness Handbook</li><li>▪ Red Flags Brochures and Online Red Flag Tool</li><li>▪ Self-Assessment of GAC Risks</li><li>▪ Checklists</li></ul>
6. Corporate Strategy & Policy	<ul style="list-style-type: none"><li>▪ Co-lead on GAC secretariat with PREM and OPCS</li><li>▪ Member of the Operations Committee</li><li>▪ Advisor to Senior Management</li></ul>
7. Investigative Support	<ul style="list-style-type: none"><li>▪ Prepare recommendations in Investigation Reports for operations' follow-up</li><li>▪ Input into the intake prioritization process</li><li>▪ Follow-up on complaints not being investigated</li></ul>

# How unfair competition can happen

- “Kickbacks”
- Substitution of substandard materials or ingredients (results in lower quality construction or supply of medicines, for example)
- Firms seek favor with key decision-makers through undisclosed agents
- Firms form cartels or engage in collusion to prevent market entry by new or alternative suppliers/contractors.

Several recent wide-ranging investigations spanning various countries (but involving the activities of the same firm) show how agents, in particular, who are paid to influence how contracts are awarded or how payments are facilitated have become especially damaging to efforts to “level the playing field.” Their actions can shut out well-qualified firms from effectively competing.

# Developing networks and partnerships

- The “hydra-headed” nature of fraud and corruption has encouraged INT to develop cooperative relationships that include prevention activities with anti-corruption authorities. INT also refers its investigative findings to national authorities in order that authorities may develop their own investigations.
- The “international corruption hunter’s alliance” has become an important platform on this topic – this network is comprised of enforcement and anti-corruption authorities of both developed and developing countries across the globe. It includes the US DOJ and SEC, the Chinese Ministry of Supervision and Supreme Procuratorate, India’s CVC and CBI, the UK SFO, and others. ICHA has expanded to private sector organizations, such as the Maritime Anti-Corruption Network, as well as CSOs like Transparency International. Firms are interested in the development of customized integrity standards across a number of sectors and markets.

# Dialogue with firms and the private sector

- This is an important pillar for prevention: client agencies say they need the private sector's help to be more effective in preventing fraud and corruption, [Idea of “two to tango” to prevent, and not just to corrupt.] hence the importance of outreach and dialogue with **Indian firms as they become more active in WB-financed contracts.**
- Dialogue with debarred firms, including Siemens, Macmillan, Oxford University Press, Alstom, has proven to be invaluable for both parties.
- Getting out of debarment requires compliance with a set of international integrity standards. These standards are consistent with existing national frameworks, the UN, as well as newer frameworks, such as India's Companies Act. Firms report the process has been beneficial for their business activities.



# 11 Principles of WBG Integrity Compliance Guidelines: **May be helpful in Prevention also**

- 1. Prohibition of Misconduct** (financial, contractual obligations, decision-making processes)
- 2. Responsibility** (leadership, individual, compliance function)
- 3. Program Initiation, Risk Assessment, and Reviews**
- 4. Internal Policies** (vetting employees, conflict of interest, gifts, hospitality, entertainment, travel, political contributions, charity, facilitation payments, recordkeeping, and fraudulent, collusive and coercive practices)
- 5. Business Partners** (due diligence, informing partner of integrity commitment, reciprocal commitment, proper documentation, appropriate remuneration, monitoring/oversight)
- 6. Internal Controls**
- 7. Training & Communication**
- 8. Incentives** (positive, disciplinary measures)
- 9. Reporting** (duty to report, advice, **whistle blowing/hotlines**, periodic certification)
- 10. Remediate Misconduct** (investigating procedures, respond)
- 11. Collective Action**