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Executive Summary

This Report provides the findings of an administrative inquiry (the investigation) by the World Bank Group's Integrity Vice Presidency (INT) into allegations of misconduct related to the implementation of a contract under the Dhaka Urban Transport Project (DUTP) in the People's Republic of Bangladesh.

The investigation focused primarily on Company A, which was awarded an infrastructure contract that included an elevated overpass for vehicular traffic and installation of approximately 40 units of a certain key component (the Components).

INT's investigation found:

(a) Evidence indicating that Company A engaged in substandard contract implementation. Company A's bid substantially understated the cost of the Components, possibly because Company A based its bid pricing on the engineer's estimate for the contract. When Company A realized its error, it attempted to recoup its additional costs by engaging in substandard contract implementation.

(b) Evidence indicating that Company A misrepresented that testing had begun on the Components when it actually had attempted to install the Components without testing. Company A attempted to hide part of that substandard implementation by repeatedly misrepresenting whether it had commenced testing the Components prior to their installation pursuant to contractual requirements and directed that the Components should be shipped for installation without testing.

(c) Evidence indicating that Company A initially failed to properly install tested Components. However, at the request of the supervising engineer, these initial installation failures were remedied.

The World Bank Group has debarred Company A together with any organization that Company A directly or indirectly controls for a period of three years.
Background

The Dhaka Urban Transport Project (DUTP) sought to improve urban transport infrastructure and services in the Dhaka Metropolitan Area (DMA), strengthen the DMA’s institutional and policy framework regarding transport, and address the DMA’s long-term transport planning and coordination issues. The DUTP was financed by a US$177 million International Development Association (IDA) credit that became effective in June 1999, and closed in June 2005, after disbursing US$95 million.

In July 2000, the World Bank (the Bank) provided its no-object to the prequalification of ten contractors for a DUTP-financed infrastructure contract (the Contract). Five contractors submitted bids. DUTP officials evaluated the bids, found Company A to be the lowest qualified bidder, and subsequently entered into the Contract with Company A.

Among other obligations, Company A was required to supply and install approximately 40 units of a certain key component (the Components) manufactured by one of four pre-approved suppliers. Company A ultimately chose Company M to supply the Components.

Allegations and Methodology

The Bank’s Integrity Vice Presidency (INT) conducted an administrative inquiry (the investigation) that focused on two allegations:

1. **Company A misrepresented whether testing had begun on some of the Components and attempted to install them without testing.** INT received information indicating that Company A had instructed Company M to ship some of the Components to Bangladesh without testing them.

2. **Company A’s bid underestimated the Components’ cost and apparently attempted to cut costs through improper testing and installation of the Components.** INT received information indicating that: (i) only some of the Components were tested prior to installation; (ii) Company A failed to obtain approval of the Components’ installation manual before installation from the supervising engineer, who is tasked to oversee the work of Company A; (iii) Company A installed the Components without the supervision of an expert, as required by the Contract; and (iv) Company A did not cooperate with the supervising engineer to facilitate an inspection of the Components.

Findings

1. Evidence indicates that Company A’s bid understated the Components’ cost and attempted to cut its costs during contract execution by, among other things, improperly installing some Components.

   a. **Evidence indicates that Company A’s bid understated the cost of the Components.** Company A’s bid allocated approximately Bangladeshi Taka (BDT) 7 million (approximately US$130,000) for the Components. This figure materially understated the Components’ actual cost, which was approximately BDT 55 million (approximately US$1 million). Company A
admitted to INT investigators that its bid price for the Components was well below their prevailing market price, which made Company A’s winning bid price significantly lower than its actual costs.

Company A’s low bid price may have been caused by Company A using the engineer’s estimate to prepare its bid. Like Company A, the engineer’s estimate significantly underpriced the Components: it allocated approximately BDT 8 million (approximately US$150,000) for the Components, which was only 15% of their actual market price. Company A was one of three companies whose bids contained Component prices near the engineer’s estimate, and another supplier told INT that it is common for contractors to purchase engineer’s estimates from DUTP officials. However, Company A denied that it had access to the engineer’s estimate, and stated that it had made an innocent mistake that was not discovered until it sought a Component supplier.

b. Evidence indicates that Company A attempted to cut its costs by not complying with some of the contractual requirements regarding the Components.

Company A admitted that its low bid price prompted the company to seek to reduce its costs. Evidence indicates that Company A sought to lower its costs by attempting to renegotiate certain Components-related contractual requirements while not complying with others. Specifically, there is evidence indicating that Company A:

- Contracted with a non-approved Component manufacturer to supply the Components at a lower price, in non-compliance with the Contract’s Technical Specifications, which only permitted Company A to purchase the Components from one of four named manufacturers;
- Proposed to delete the Components from the Contract altogether and substitute other items as a cheaper alternative;
- Delayed paying Company M, its Components supplier, for the testing of most of the Components, which in turn delayed further Component production and testing;
- Sought to increase the value of its Contract by more than US$150,000 when the supervising engineer insisted that all Components be tested as required by the Contract;
- Tested less than half of the first set of installed Components, in non-compliance with the Contract’s Technical Specifications that required all Components to be tested;
- Installed the first set of Components before obtaining the supervising engineer’s approval of the Components’ installation manual, in non-compliance with the Contract’s Technical Specifications;
- Tasked staff who lacked the proper skills or experience to recalibrate the first set of Components so that the Components could be installed improperly, thereby enabling the bridge to be opened earlier than possible if they had complied with all the technical, safety, and work requirements of the contract;
- Installed the first set of Components without the supervision of a technician from the manufacturer and without the supervising engineer’s approval, in non-compliance with the Contract’s Technical Specifications; and
- Prevented the supervising engineer from completing its inspection of some of the installed Components.

In light of these issues, in November 2004, the supervising engineer wrote to a DUTP official to state that Company A had prevented it from carrying out its duties that it would not take responsibility for the safety of Company A’s work. The supervising engineer added that Company A’s work could be opened to traffic safely only if the first set of Components had been installed correctly. That same month, the supervising engineer signed a qualified Certificate of Substantial Completion for Company A’s work. The Certificate specified remaining issues, work still required, and conditions to be resolved by Company A, including completing the testing and proper installation of the first and second sets of Components.

2. Evidence indicates that Company A represented that testing had begun on some of the Components, although testing had not been started, and attempted to install them without testing.

In November 2004, the supervising engineer received an anonymous e-mail stating that the remaining Components had not been tested because Company A did not wish to pay for any additional testing beyond what had been concluded the previous summer. The supervising engineer and DUTP officials subsequently met with Company A to address the issue.

According to the meeting minutes, at that meeting Company A stated that, as far as it knew, testing had started, but it remained vague and contradictory regarding whether or not it had paid the testing fees. The DUTP official replied that, according to Company M: (i) testing had not started because Company A refused to pay for it; (ii) Company A had instructed Company M to keep the second set of Components in storage until January; and (iii) Company A had instructed Company M not to tell DUTP officials or the supervising engineer about either issue. Company A denied that it refused to pay for testing, or that it was seeking to avoid its testing obligations. Later that day, Company A wrote to the DUTP official to confirm that manufacture of remaining Components was already completed, that testing was underway, and that the work would be completed within two months.

Evidence indicates that Company A’s representation contained false information. In a contemporaneous letter, Company T, the company that was to test the Components, informed the supervising engineer and Company M (the Components’ manufacturer) that it had tested less than half of the original set of Components and had not received authorization to proceed with testing the second set of Components.

The supervising engineer wrote to Company A and, after advising Company A of this correspondence, stated that Company A would have to bear the consequences of the testing delays and urged Company A to make the necessary arrangements to start the testing immediately. The following day, Company A responded by stating that it had noted the supervising engineer’s letter “with a painful shock,” that it was sincere in its efforts and its earlier representations, and that it would install the remaining Components tested and on time.

In contrast to Company A’s claim, shortly thereafter Company T e-mailed the supervising engineer and stated that it was not currently testing any Components for Company A. As a
result, a DUTP official wrote to Company A and requested that Company A resolve the testing issue immediately and inform the DUTP of the testing schedule and expected date of Component installation completion.

Despite the DUTP official’s letter, one month later Company M wrote to the Bank and stated that:

[Company A] has prolonged this project by having us hold up shipment of the [Components], which were completed back in July. [Company A] has not agreed to pay us for the testing of these [items]. We have been sitting on [a set of Components] waiting for [Company A] to decide what they wanted us to do. We have received word recently that [Company A] would like for us to ship the devices without testing.

Shortly thereafter, Company T confirmed Company M’s account, notifying the Bank that Company T had still “not received authorization to proceed” with testing and that “no additional testing ... has been scheduled.” In a subsequent letter to the supervising engineer, Company A stated that it would install the remaining Components under the supervision of an expert and that it had tried “several times ... to contact the supplier for testing” but had received “no reply.” However, this statement was contradicted by contemporaneous correspondence from both Companies T and Z.

Company A also detailed Company T’s testing fees and argued that Company T was “taking ... advantage of the situation and trying to blackmail [Company A.]” Given this, Company A proposed that the testing be conducted in another country. The supervising engineer responded that it was “appalled by [the] proposal” because it would cause further delays and the proposed laboratory was not an internationally recognized facility. The supervising engineer instructed Company A to start testing at the approved Company T lab without further delay.

In late January 2005, more than two months after initially representing that testing was already underway, Company A informed the supervising engineer that testing would start in early February 2005 and be completed by May 2005. Company A completed installation of the Components in August 2005, and the DUTP imposed approximately BDT 15 million (US$240,000) in liquidated damages upon Company A because of the delayed installation. In February 2006, Company A provided the DUTP with certificates from Company M stating that the Components were properly installed and test reports from Company T regarding the second batch of Components.

3. Evidence indicates that Company A’s initial improper installation of the Components threatened the works’ long-term structural integrity, but these installation problems were remedied following the close of INT’s investigation.

As part of INT’s investigation, an engineer retained by INT conducted a comprehensive physical inspection of Company A’s works, focusing particularly upon the installation of the first set of Components. The engineer observed that eight Components were installed improperly—i.e., outside the limits specified in the design—three of them by considerable margins. At least three brackets attached to Components had been cut by a torch to allow them to fit at an extreme
angle; two of the three had corners cut off, while the third was cut into a segment shape. In the engineer’s view, these cuts may affect the brackets’ strength, and the damage to their galvanized finish will reduce their resistance to corrosion.

In addition, the engineer observed that the nuts on three bolts were not tightened adequately and that the concrete of the deck had been cut away in several places to accommodate the Components. The engineer stated that, although they demonstrated the improper installation of the Components, the concrete cuts would not affect the MFO’s structural integrity unless they permitted gradual corrosion of the underlying reinforcements. (The engineer had no way to test whether that would occur in this case.)

By the time the engineer conducted his inspection, all but two of the second set of Components had been tested. Over half of them had failed and had to be returned to Company M for adjustments. Extrapolating from those statistics, it was likely that a large proportion of the first set of Components, which were installed untested, also would have failed testing. The engineer therefore recommended that those units be tested.

Moreover, to ensure that the units would function in accordance with the design, the engineer recommended that all Components be reinstalled in their correct locations after testing is complete.

INT’s engineer concluded that some of these deviations were serious and could be critical to the works’ long-term structural integrity. Although the defects apparently did not present an imminent public safety risk, the engineer concluded that the MFO might sustain damage in case of a severe event, such as an earthquake.

Following the close of INT’s investigation, the Bank learned that the 12 originally installed-but-untested Components had been removed from the works and, at the supervising engineer’s suggestion, tested on-site to verify their function without incurring long delays associated with sending them back to the factory for laboratory testing. The supervising engineer certified that the tests were conducted successfully. The supervising engineer also confirmed that the remaining Components were tested at the laboratory prior to their shipment and installation. In accord with its contract, Company A submitted a 10-year warranty certificate, a certificate of 40-year functionality from Company M, and a certificate of proper installation from Company M.

Conclusion

The World Bank Group subsequently debarred Company A together with any organization that Company A directly or indirectly controls for a period of three years.