REPUBLIC OF INDIA

Food and Drugs Capacity Building Project

REDACTED REPORT

April 13, 2012
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Executive Summary

This Report provides the findings of an administrative inquiry (the investigation) by the World Bank’s Integrity Vice Presidency (INT) into indicators of fraud identified in INT’s Detailed Implementation Review of the India health sector (India DIR) related to the procurement of laboratory equipment under the Food and Drugs Capacity Building Project (FDCBP or Project).

INT’s investigation focused upon four companies that bid for FDCBP equipment supply contracts. All four of these companies were identified in the India DIR as having submitted performance certificates or statements of performance that exhibited indicators of falsity, such as inexplicable similarities in language, font, handwriting, signatures, and dates. INT’s investigation found evidence indicating that, when bidding for FDCBP contracts, all of the investigated companies submitted forged performance certificates or, in the case of one company, false performance statements. Specifically:

- Two companies that purportedly issued to Company A performance certificates informed INT investigators that the certificates submitted in their names were forged;
- Five companies that purportedly issued to Company B performance certificates informed INT investigators that the certificates submitted in their names were forged;
- One company that Company C cited in its performance statements as a previous customer informed INT investigators that it had never purchased any equipment from Company C; and
- An official on another government health project informed INT investigators that not only did the project official not issue a performance certificate to Company D, but also that the certificate contained other factual misrepresentations.

INT initiated sanctions proceedings against each of the respective companies and the World Bank Sanctions Board held a hearing on each company’s case. Following the hearings, the World Bank announced the debarment of each of the four companies for a period of up to three years.
Background

The Food and Drugs Capacity Building Project (FDCBP or Project) was a nationwide project designed to improve the quality and safety of food and drugs in India by strengthening the regulatory framework and incorporating components of consumer education and public-private partnerships. The FDCBP was financed by a US$54 million International Development Association (IDA) credit, with US$18 million in co-financing from the Government of India, that became effective in October 2003 and closed in June 2008.

The Project sought to, among other things, improve the capacity of laboratories at the central and state levels in India to test food and drugs. To do this, a procurement support agency, in conjunction with Project officials, procured equipment for use in food and drug testing laboratories. The contracts for the equipment were funded by the IDA credit. In these tenders, the bidding documents required bidders to demonstrate that they met certain qualification criteria, including the satisfactory supply, in any one of the three prior years, of 80% of the contract volume of the to-be-supplied (or similar) equipment. To comply with this criterion, bidders provided “Client Certificates” issued by their customers (performance certificates), or else provided statements of their past performance.

In 2006 and 2007, the World Bank’s (Bank’s) Integrity Vice Presidency (INT) conducted a Detailed Implementation Review of the India health sector (the India DIR) to evaluate five Bank-financed projects, including the FDCBP, for indicators of fraud and corruption. The India DIR revealed indicators of fraud in the procurement of FDCBP laboratory equipment—specifically, that four companies may have misrepresented their past performance when bidding for FDCBP contracts. The DIR-identified fraud indicators included irregular similarities in language, handwriting, signatures, dates, and/or a lack of company letterhead. In one case, the Bid Evaluation Report stated that a submitted performance certificate was false.

To determine the validity of these indicators, INT conducted an administrative inquiry (the investigation) into the past performance claims of these four companies.

Methodology

INT’s investigation involved three steps. First, INT engaged a local accounting firm to confirm the authenticity of the submitted certificates with the purported performance certificate issuers. Second, in some cases, INT investigators interviewed representatives of the purported certificate issuers to confirm the submitted certificates’ authenticity. Third, INT investigators confronted the four investigated companies with its findings and provided them with an opportunity to respond to those findings.

Findings

1. Company A

Company A bid for and received a FDCBP contract, worth approximately Indian Rupees (Rs.) 250,000 (US$5,500), to supply a certain type of laboratory equipment to the Project. One of Company A’s performance certificates was in the name of Firm Z, and stated that Firm Z had purchased one unit of the to-be-supplied laboratory equipment that was working satisfactorily. INT sent a copy of the performance certificate to Firm Z for verification, and Firm Z replied that the certificate was not authentic and that Firm Z did not use any Company A product.
Company A also submitted a second performance certificate in the name of Firm Y that purportedly was signed by a Firm Y director. This certificate stated that Company A had supplied laboratory equipment to Firm Y, and that this equipment was working satisfactorily with satisfactory after-sales service. INT sent a copy of this performance certificate to Firm Y for verification, and Firm Y replied that the signature on the certificate did not match the signatures of any Firm Y director.

At INT’s meeting with Company A, a Company A representative denied that the company had submitted any forged documentation. The representative acknowledged that it would be improper for Company A to prepare a performance certificate on another firm’s behalf for its own equipment, but when INT investigators showed the Firm Y and Firm Z certificates to the representative, the representative stated that the certificates were authentic. This claim was directly contradicted by Firms Y and Z.

2. Company B

Company B bid for and received a contract, worth approximately Rs. 8 million (US$175,000), to supply another type of laboratory equipment to the Project. Company B’s bid included a number of performance certificates, five of which were undated. INT investigators interviewed representatives of each of the five firms that purportedly issued the undated performance certificates. After an opportunity to thoroughly review the performance certificates, each representative attested that: (i) his or her company did not prepare or sign the performance certificate; and (ii) company records also stated that the company did not prepare or sign the performance certificate.

When INT presented these findings to Company B, Company B explained that an Assistant Manager in one of its offices prepared the bid, and that it had terminated the Assistant Manager when the forgery was discovered. Company B also provided INT with documents that showed that, despite the forged certificates, it had supplied the equipment to the five companies that allegedly issued the certificates. These attachments did not, however, speak to the equipment’s quality or performance.

3. Company C

Company C bid for and received two contracts, combined worth approximately Rs. 300,000 (US$7,000), to supply two different types of laboratory equipment to the Project. Company C’s bids contained performance statements, prepared and signed by Company C, stating that it previously had supplied and delivered satisfactorily-performing laboratory equipment to other firms.

Both performance statements claimed that Company C had supplied equipment to Firm X. INT investigators interviewed a senior manager of Firm X, and he attested that Firm X never purchased any equipment from Company C nor had any business dealings with Company C. The manager also subsequently confirmed that he had never purchased equipment from Company C under Company C’s other trade names. INT was unable to verify whether the remaining information in Company C’s performance statements was accurate.

When INT informed Company C that INT had received information that Company C never sold equipment to Firm X, Company C disputed the accusation and told INT that it would provide INT with proof that it did, in fact, supply equipment to Firm X. However, despite follow-up inquiries from INT, Company C never provided INT with any evidence of the sales.

4. Company D

Company D bid for a contract to supply equipment to the FDCBP. Although Company D did not include any performance certificates in its bid, at some point after bid submission it provided a performance
certificate that purportedly was issued by officials from another government health care project stating that Company D had satisfactorily supplied equipment to that project.

The FDCBP procurement agency contacted a senior official for this other project to verify that Company D’s performance certificate was authentic. The senior official replied that the performance certificate was not issued by his office, and that the signature on the performance certificate was not the signature of anyone in his office. The FDCBP procurement agency subsequently recommended another company for the award of the contract.

INT interviewed the senior official of the other project, and he confirmed that he had prepared and signed the earlier response to the FDCBP procurement agency. He further stated that although Company D had been awarded a contract under the project, Company D did not finish supplying the equipment to the project until two years after it submitted its FDCBP performance certificate. Furthermore, the senior official informed INT that his office had not issued the performance certificate included in company D’s bid.

When INT presented Company D with these findings, Company D responded by denying that its performance certificate was fraudulent and providing explanations and documents regarding the other project’s purchase and receipt of some, but not all, of the equipment. These documents included the contract award notification, transporter certificates, a quality assurance certificate, and other materials. However, none of these documents proved that the performance certificate itself was genuine, nor did any prove that Company D had satisfactorily supplied all of the equipment at the time of its FDCBP bid. Company D’s responses thus failed to rebut the information provided by the senior official of the other project.

5. Post Investigation Proceedings

As a result of sanctions proceedings initiated by INT against Companies A, B, C, and D, respectively, all four companies were debarred by the World Bank’s Sanctions Board from being awarded any Bank-financed contracts or otherwise participating in the preparation or implementation of Bank-financed projects for periods of up to three years.