REDACTED REPORT

Rural Land Management Project
Land Administration Project
Forests and Rural Productivity Project

Republic of Honduras

August 2008
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BACKGROUND

In April 2006, the Bank conducted Procurement Ex-Post Reviews (Ex-Post Reviews) of two Bank-financed projects, the Land Administration Project (PATH) and the Forests and Rural Productivity Project (PBPR) in Honduras: the Ex-Post Reviews uncovered potential indicators of collusion, contract steering and misrepresentation in the bidding for and execution of these projects. Consequently, between August and September 2006, information uncovered by the Ex-Post Reviews regarding these indicators was forwarded to INT.

The PATH and PBPR were implemented by the Unidad de Coordinación de Proyectos (UCP), an office created by the Honduran government in January 2004 to coordinate the implementation of projects financed by international credits and grants. In addition to the PATH and PBPR, the UCP was entrusted with the implementation of two other Bank-financed projects from January 2004 through March 2006. During the course of its investigation, INT determined that the allegations of collusion, contract steering and misrepresentation that it had received in relation to the PATH and PBPR also impacted a third Bank-financed project that was implemented by the UCP. This third project was the Rural Land Management Project (PAAR), the predecessor project to PATH and PBPR.

The Affected Projects

a. **PAAR**: PAAR was a land administration modernization and natural resources management project financed by a US$34 million credit (IDA Credit No. 2940), which was approved by the Bank’s Board of Directors (the Board) on March 20, 1997, entered into by the RoH and the Bank on June 10, 1997, and which became effective on September 8, 1997. On August 2, 2001, the Bank approved a US$8.3 million supplemental credit for PAAR that was signed on November 22, 2001, and became effective on July 30, 2002. Management and implementation of the supplemental credit was entrusted to UCP from its inception, with the project being extended through January 31, 2004.

b. **PATH**: PATH is a land administration management project financed by a US$25 million credit (IDA Credit No. 3858), which was approved by the Bank’s Board on February 26, 2004, entered into on August 18, 2004, and which became effective on December 2, 2004. PATH is scheduled to close on April 30, 2008.

c. **PBPR**: PBPR is an environmental services project financed by a US$20 million IDA credit (IDA Credit No. 3940) that was approved by the Bank’s Board on June 24, 2004, and which became effective on December 21, 2004. PBPR is scheduled to close on January 31, 2010.

INT’s investigation focused specifically on the following allegations received from the Ex-Post Reviews and during the course of its investigation:

1. **UCP’s award of several contracts for works and the supply of goods was affected by a collusive scheme.**

   The Ex-Post Reviews conducted on the PATH and PBPR uncovered potential indicators of fraud, collusion and misrepresentation in the award of five contracts financed under PATH and two contracts financed under PBPR. In particular, the Ex-Post reviews uncovered a high number of similarities in the bid submissions made by four companies in their bids for contracts that were financed by these projects. The procurement for these contracts was to be conducted in accordance with national shopping procedures (NSP), as outlined in the governing credit agreements and the corresponding operative Procurement Guidelines of the World Bank. In light of the indicators exposed by the Ex-Post Reviews, INT reviewed all contracts awarded under NSP by the UCP, including those awarded under PAAR.
2. UCP’s award of goods contracts was affected by a collusive scheme and conflict of interest. During the course of its investigation, INT received additional allegations that UCP officials fabricated documents to make it appear that procurement processes had taken place in relation to contracts for the supply of goods financed under the three projects. These documents were allegedly fabricated to justify the award of contracts to a company owned by relatives of a former high level UCP official.

METHODOLOGY

The INT investigation consisted of a review of relevant project documentation, and interviews with UCP officials, representatives of winning and losing bidders, as well as Bank staff. INT also conducted quantitative and qualitative analysis of the bidding documents collected to determine if there existed patterns indicative of collusion activity. Specifically, INT’s investigation focused on documentation and other evidence related to the award and implementation of 30 contracts financed under the aforementioned projects.

FINDINGS

INT’s investigation found evidence that UCP officials and certain contractors engaged in a scheme of collusion, contract steering and misrepresentation in the award and implementation of contracts financed under the PAAR, PATH and PBPR. Specifically, the information that INT reviewed in the course of its investigation indicated that:

a) UCP officials awarded 15 of 18 works and goods contracts financed under the PAAR, PATH and PBPR to three companies owned and/or controlled individually or jointly by two individuals, and either fabricated documents or knowingly accepted fictitious quotes to create the appearance that these contracts were awarded as the result of competitive processes; and
b) UCP officials awarded 12 contracts for the supply of goods financed under the PAAR, PATH and PBPR to a company owned by the relatives of the former high level UCP official, and either fabricated documents or knowingly accepted fictitious quotes in relation to 10 of these contracts to create the appearance that these contracts were awarded as the result of competitive processes.

The information reviewed by INT in the course of its investigation indicated the following:

1. Of the 18 Bank-financed works and goods contracts awarded by UCP using national shopping procedures, 15 showed a pattern of collusive activities, namely:

a. While 12 companies were invited to bid on various of these 15 contracts, only three companies won the contracts. These three companies were owned and/or controlled individually or jointly by two individuals who are related. INT also found that two of these companies shared a facsimile number, and that the telephone number listed in one of the company’s bids was actually the phone number for another.

In seven instances, the three winning companies that were invited to bid in each of these instances took turns in submitting bids, thus avoiding competing amongst themselves.
b. Some losing bidders consistently submitted quotations that resulted from multiplying winning bidders’ quotations by a fixed, constant factor. INT analyzed the quotations submitted by losing bidders in the 15 NSPs. This analysis revealed that seemingly individual quotations submitted by these losing bidders were actually the result of consistently multiplying line items of the winning bidders’ quotations by a specific factor.

Moreover, for bidding rounds in which they all participated, three losing bidders were always the second, third and fourth lowest bidders, respectively.

c. The very same typing mistakes and inconsistencies contained in winning bidders’ quotations were also found in losing bidders’ quotations. The bid submitted by the winning bidder for one contract contained a different price for the same line item in two different sections of its bid. This inconsistency was also found in two losing bidders’ quotations for the same tender.

INT discovered a similar inconsistency in the bids submitted for another contract. In its bid for this contract, the winning bidder submitted two different price quotations for a certain line item. This same inconsistency was also found in the quotations submitted by three losing bidders in this tender.

Representatives of both the losing and winning bidders were unable to provide any explanation for the correlation between their submitted quotations or how the identical mistakes could have been repeated.

d. Two of the losing bidders were shown to be linked to the winning bidders. The name given to INT by an employee of one of the winning bidders as the legal representative of that bidder was the same individual who signed the bids submitted by one of the losing bidders for some of the contracts in question. Furthermore, representatives of another losing bidder told INT that one of the winning bidders was its local representative in Tegucigalpa.

2. Former UCP officials and current procurement officials on the relevant projects informed INT that the procurement processes documenting the contract awards in question were fictitious, and were created after UCP had already contracted these companies and the work under the contracts had begun.

These officials stated that the procurement documents for these contracts were fabricated to create the appearance that the contracts had been awarded following a competitive process. These witnesses told INT that as the procurement processes were fabricated after the UCP had already received vendors’ invoices and payment requests, UCP staff pre-dated the fabricated invitations to bid and bid evaluation reports. According to witnesses, these fictitious processes were created at the direction of, or with the knowledge of the former high level UCP official. UCP staff also identified the owner of one of the winning bidders, who has apparent interests in the two other winning bidders, as a close friend of the former high level UCP official.

The former high level UCP official accepted INT’s findings from the document review, asserting that he had not identified any patterns and he did not involve himself in administrative details. He acknowledged that while some work may have commenced before the procurement process was completed, he attributed this to failings by UCP staff.
3. UCP officials steered 10 contracts for the supply of goods to a company owned by relatives of the former high level UCP official, and either fabricated documents or knowingly accepted fictitious quotes to create the appearance that these contracts were awarded as the result of competitive processes.

UCP awarded 12 contracts to a company owned by relatives of the former high level UCP official. INT established that 10 of these shopping procedures were fictitious and were created to justify purchases that had previously been made. For example, the company had delivered the items required under one of the contracts 38 days prior to UCP issuing a formal request for this equipment. Indeed, former UCP officials told INT that most procurement processes supporting contracts awarded to the company were fabricated. According to these witnesses, the former high level UCP official and other UCP officials would find an item that they liked, and then purchase the same item from the company. Witnesses stated that thereafter, UCP staff would fabricate the procurement process including fabricating invitations to bid for these items, to create the appearance that the items had been procured in accordance with the Bank’s procurement guidelines.

In nine of the fictitious processes, UCP officials admitted creating the quotations purportedly submitted by two other bidders in the tender. They further admitted that these two companies were entities that they had operated prior to taking up positions with UCP. Another UCP official stated that the quotations submitted in the name of a third bidder were also fictitious. In the tenth shopping procedure, a former UCP official told INT that he had already purchased the items tendered for directly from the company and that the procurement process documents were fabricated to create the appearance that a competitive process was followed.

INT’s review of documents identified a number of irregularities supporting the oral testimony of the witnesses regarding the fictitious procurement process. By way of example, warranties issued by the company and internal UCP documents recorded dates that showed delivery of “procured items” had occurred before the procurement process had been initiated.

Several UCP employees stated to INT that the former high level UCP official was aware of the fabrication of documents to legitimize purchases from the company. They further stated that when a UCP staff member suggested to him that the company should not participate in UCP processes because of the close family link, he denied that this company was owned by his relatives. When interviewed by INT, the former high level UCP official claimed not to have known his relatives’ company was supplying UCP equipment until one of his relatives complained to him about late payments.