



int
Integrity

WORLD BANK GROUP
World Bank • IFC • MIGA

People's Republic of China

Second Guangdong Pearl River Delta Urban Environment Project
Yunnan Urban Environment Project
Nanning Urban Environment Project

Redacted Report

February 2016

Statement of Use and Limitations

This Report was prepared by the World Bank Group (the WBG) Integrity Vice Presidency (INT). It provides the findings of an INT administrative inquiry (the Investigation) into allegations of corrupt, fraudulent, collusive, and/or coercive practices, as defined by the WBG for purposes of its own policies, rules and procedures (the WBG's Framework regarding Anti-corruption), in relation to the WBG-supported activities. The purpose of the Investigation was to allow the WBG to determine if the WBG's Framework regarding Anti-corruption has been violated.

This Report is being shared to ensure that its recipients are aware of the results of the INT Investigation. However, in view of the specific and limited purpose of the Investigation underlying this Report, this Report should not be used as the sole basis for initiating any administrative, criminal, or civil proceedings. Moreover, this Report should not be cited or otherwise referred to in the course of any investigation, in any investigation reports, or in any administrative, civil, or criminal proceedings.

This Report is provided without prejudice to the privileges and immunities conferred on the institutions comprising the WBG and their officers and employees by their respective constituent documents and any other applicable sources of law. The WBG reserves the right to invoke its privileges and immunities, including at any time during the course of an investigation or a subsequent judicial, administrative or other proceeding pursued in connection with this matter. The WBG's privileges and immunities cannot be waived without the prior express written authorization of the WBG.

Executive Summary

This report provides the findings of an administrative inquiry by the World Bank Group Integrity Vice Presidency (INT) into allegations that Company A and its subsidiary, Company B, may have engaged in misconduct in connection with the Second Guangdong Pearl River Delta Urban Environment Project, the Yunnan Urban Environment Project, and the Nanning Urban Environment Project in the People's Republic of China.

The Second Guangdong Pearl River Delta Urban Environment Project. Evidence indicates that Company A and Company B submitted inflated invoices and offered study tours to several government officials in connection with this Project.

The Yunnan Urban Environment Project (the YUEP). Evidence indicates that (i) Company A, Company B, and the YUEP Project Management Unit entered into an undisclosed agreement to circumvent the World Bank's limit on reimbursable training expenses; (ii) Company A and Company B misrepresented their staff's availability; and (iii) Company A and Company B gave things of value to the YUEP Project officials to influence the procurement and execution of a contract under the YUEP.

The Nanning Urban Environment Project. Evidence indicates that Company A misrepresented the availability of its key personnel in its technical proposals submitted under this Project.

The World Bank imposed sanctions of debarment with conditional release on Company A and Company B, which extend to any legal entities that are directly or indirectly controlled by Company A or Company B.

Background

The Second Guangdong Pearl River Delta Urban Environment Project (the Foshan Project)

The Foshan Project aimed to assist the Borrower in reducing water pollution in the Pearl River system originating from Foshan and Jiangmen Municipalities.

The Yunnan Urban Environment Project (the YUEP Project)

The YUEP Project aims to assist Yunnan Province in improving the effectiveness and coverage of critical urban infrastructure services in selected counties, and the effectiveness of lake basin management in Dianchi.

The Nanning Urban Environment Project (the Nanning Project)

The Nanning Project's objective is to assist Nanning Municipality in arresting further deterioration of surface water quality in selected urban centers by expanding the coverage of wastewater treatment services, carrying out environmental rehabilitation of rivers, and improving the institutional and regulatory capacities of municipal agencies.

Allegations

The World Bank Group Integrity Vice Presidency (INT) received allegations of misconduct from multiple sources, including anonymous sources. Sources alleged, in part, that Company A and Company B paid a bribe in exchange for obtaining a contract addendum under the YUEP Project; and misrepresented the qualifications of the consulting team it proposed to the Nanning Project Management Office.

Methodology

INT's investigation consisted of, among other things, reviewing Project documents, as well as documents and statements obtained from the Nanning Project Management Office, Company A, Company B, and the parent company of Company A and Company B.

Findings

- 1. Evidence indicates that Company A and Company B submitted inflated invoices and offered study tours to several government officials in connection with the Foshan Project.**

Under the Foshan Project, Company B was a subconsultant to the signatory, Company A, to deliver a consulting contract (the Foshan Contract). As stipulated in the relevant special terms and conditions thereof, Company B received all payments made under the Foshan Contract. A senior official of Company B (the Company B Official) signed the Foshan Contract for and on behalf of Company A.

Evidence indicates that the Company B Official submitted invoices to the Project Management Unit for the Foshan Project (the Foshan PMU) that inflated the inputs of five Company A international staff members and eight Company B local staff members.

In addition, evidence suggests that Company B financed two study tours that Foshan PMU officials requested. Evidence indicates that the study tours were not mentioned in the Foshan Contract, and were approved by Company A. Evidence indicates that Company A issued invitation letters at the request of the local management of Company B, which claimed that it was echoing the demands of the Foshan PMU officials.

Evidence also indicates that the Foshan PMU did not disclose to the World Bank that Company B would be financing its study tours, and instead requested and received World Bank funds for the same study tours.

2. Evidence indicates that Company A, Company B, and Company A's successor engaged in misconduct in connection with the YUEP Project.

- a. Evidence indicates that Company A, Company B, and the YUEP Project Management Unit entered into an undisclosed agreement to circumvent the World Bank's limit on reimbursable training expenses.*

Under the YUEP Project, Company A and Company B, represented by the Company B Official, entered into a contract (the YUEP Contract) with the YUEP Project Management Unit (the YUEP PMU).

The YUEP Contract limited reimbursable training expenses for the client's personnel to a certain sum. However, evidence indicates that Company A, Company B, and YUEP PMU agreed to substantially deviate from the limitation on training expenses, as evidenced by a separate, contradictory contract (the MoU).

Evidence suggests that the MoU, signed by Company A and the YUEP PMU, substituted 80% of the international input foreseen for a senior water specialist (the Water Specialist) named in the YUEP Contract as a local expert. Evidence further indicates that the MoU reallocated the resulting savings to the expenses for the training of YUEP PMU personnel. This was contrary to the YUEP Contract's stated limitation on such expenses. The MoU was not disclosed to the World Bank.

Evidence indicates that, in furtherance of these misrepresentations and to facilitate the implementation of the MoU, Company A and Company B entered into a consortium agreement. The consortium agreement named Company B as the leading partner of the consortium, and documented the substitution of 80% of the Water Specialist's input.

Evidence further indicates that Company A's successor continued the misrepresentations when it agreed with the YUEP PMU on two addenda to the YUEP Contract and submitted the addenda to the World Bank for its no-objection. Both addenda continued to list the Water Specialist as an expert under the YUEP Contract, and failed to mention the partial substitution of his or her input and the MoU.

- b. Evidence indicates that Company A and Company B misrepresented staff availability.*

The YUEP Contract listed two freelance consultants who would work on the YUEP Contract. However, evidence suggests that neither consultant worked on the YUEP Contract or had an employment agreement with Company A or Company B. Evidence indicates that the Company B Official said that it was not company practice to get written confirmation from all freelance consultants.

- c. Evidence indicates that Company A and Company B gave things of value to the YUEP Project officials to influence the procurement and execution of the YUEP Contract.*

Accounting records provided by the parent company of Company A and Company B show a number of expenses described as: “*Gifts for Yuep [sic],*” “*Gifts to client for YUEP,*” “*YUEP contract gift,*” and “*Gifts for YUEP contract negotiation.*” The records indicate that the expenditures took place throughout the procurement process and implementation of the YUEP Contract. Evidence indicates that Company B’s manager oversaw most of the expenditures and sought the Company B Official’s approval for transactions. The records also include other expenses—such as payments to hotels, restaurants, and travel agencies—made by Company B on behalf of YUEP PMU personnel.

When asked by INT, the parent company of Company A and Company B acknowledged that there had been expenditures which appear as gifts related to the YUEP Project, and stated that gift-giving is an accepted commercial practice in China.

The Company B Official denied his involvement in the alleged events. However, according to an email allegedly exchanged between a Company B staff member and the Company B Official, the Company B staff member requested that the Company B Official consider paying certain amounts to the project officials, and the Company B Official replied “this is too much.” Additionally, when INT asked the Company B Official about transactions related to gifts in the aforementioned accounting records, evidence indicates that the Company B Official stated that the gifts were linked to proposals as “business development.”

3. Evidence indicates that Company A misrepresented the availability of key personnel in its technical proposals submitted under the Nanning Project.

The Borrower’s procurement agent sent a Request for Proposals to short-listed firms interested in bidding for a contract (the Nanning Contract) under the Nanning Project, including Company A. The Company B Official submitted a Technical Proposal on behalf of Company A to the Nanning Integrated Urban Environment Project Management Office (the Nanning PMU). The Technical Proposal listed certain individual as the Project Team Leader/Contract Management Expert (the Expert), included his or her curriculum vitae (CV) and signature, and indicated that the Expert was a Company A employee. After the bid evaluation report failed to receive a no-objection from the World Bank, Company A submitted another, substantially identical Technical Proposal, which contained the same information on the Expert’s employment status and his or her availability for the Nanning Project.

Following an allegation that Company A misrepresented the Expert's availability, the Nanning PMU conducted an investigation and concluded that Company A had misrepresented the Expert's availability.

INT's further investigation, based on the Nanning PMU's investigation, indicates that the Expert had not been a Company A employee at the time of the Technical Proposals submission. Evidence further indicates that, although the Company B Official had corresponded via email with the Expert about the Nanning Project before the Technical Proposals were submitted, Company A never obtained express authorization to use the Expert's CV or signature therein.

As a result of these findings, the Nanning PMU terminated all negotiations for the Nanning Contract with Company A.

Follow Up Action by the World Bank

The World Bank imposed sanctions of debarment with conditional release on Company A and Company B, which extend to any legal entities that are directly or indirectly controlled by Company A or Company B.