

# **ASIAN DEVELOPMENT BANK**

## **PROJECT PROCUREMENT-RELATED REVIEW**

**Loan 3199-MYA(COL): Maubin-Phyapon Road Rehabilitation Project**

**This report has been redacted in accordance with Asian Development Bank's Public Communications Policy (PCP) issued in 2011. In particular, it excludes confidential and other information in accordance with paragraph 70 of the PCP.**

**Office of Anticorruption and Integrity**  
June 2017

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## **CURRENCY EQUIVALENTS**

(as of 28 February 2017)

Currency unit	–	Kyat (MK)
MK1.00	=	\$0.0007326
\$1.00	=	MK1,365

## **ABBREVIATIONS**

ADB	-	Asian Development Bank
ADF	-	Asian Development Fund
APFS	-	audited project financial statements
BEC	-	bid evaluation committee
BER	-	bid evaluation report
COL	-	ordinary operations (concessional) loan
CSC	-	construction supervision consultant
DOH	-	Department of Highways
FS	-	financial statements
ICB	-	international competitive bidding
JV	-	joint venture
LOI	-	letter of intent
MOC	-	Ministry of Construction
MOPF	-	Ministry of Planning and Finance
OAI	-	ADB Office of Anticorruption and Integrity
PAM	-	Project Administration Manual
PMU	-	project management unit
PPRR	-	project procurement-related review
SERD	-	ADB Southeast Asia Department
SETC	-	ADB Transport and Communications Division, Southeast Asia Department

## **NOTES**

(i) The currency equivalents above were used unless otherwise stated.

(ii) In this report, \$ refers to US dollars.

**A project procurement-related review is**

a review undertaken by OAI on ongoing ADB-financed projects to assess compliance with applicable ADB policies, guidelines, and the loan/financing agreements, with a focus on preventing and detecting integrity violations (<http://www.adb.org/site/integrity/integrity-violations>) involving ADB-related activities as defined under ADB's *Anticorruption Policy* as amended (<http://www.adb.org/documents/anticorruption-and-integrity-policies-and-strategies>) and ADB's *Integrity Principles and Guidelines* (<http://www.adb.org/documents/integrity-principles-and-guidelines>) as amended from time to time.

ADB's *Anticorruption Policy* requires all parties, including borrowers, beneficiaries, bidders, consultants, suppliers, contractors, and ADB staff to observe the highest ethical standards when participating in ADB-related activities. The Policy supports ADB's obligation, in accordance with Article 14 (xi) of the Agreement Establishing the Asian Development Bank, to ensure that the proceeds of ADB financing are used only for intended purposes.

The PPRR assesses internal controls in place, identifies irregularities and instances of non-compliance, inspects the project outputs, and recommends enhancements to mitigate or eliminate opportunities for fraud, corruption, or abuse of resources and to help improve development effectiveness of future projects.

**A project procurement-related review is not**

an investigation of fraud and corruption nor an evaluation to assess development effectiveness of ADB-funded projects. It does not review project outcomes or development impact, which can only be assessed after the completion of a project.

OAI conducts **follow-up reviews** on selected PPRRs to assess the progress of the implementation of PPRR recommendations and to assist the executing/implementing agencies and ADB in addressing remaining recommendations.

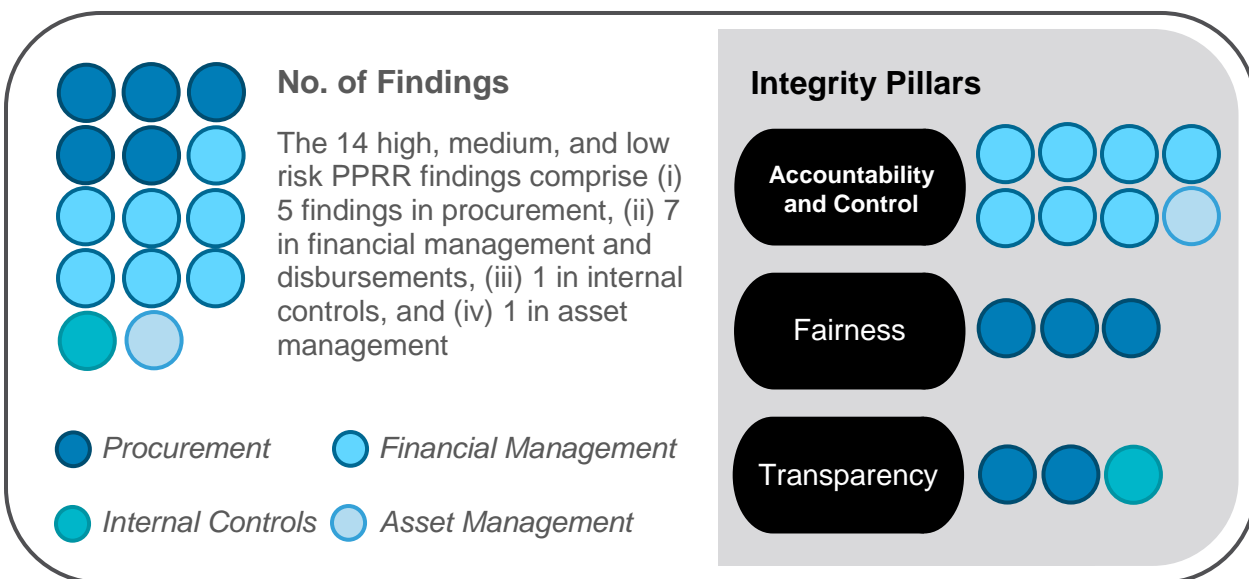
## EXECUTIVE SUMMARY

1. The Office of Anticorruption and Integrity of the Asian Development Bank (ADB) conducted a project procurement-related review (PPRR) of the Republic Union of Myanmar's Maubin-Phyapon Road Rehabilitation Project (the Project). The Project is financed by Loan 3199-MYA(COL) in the amount of \$80 million. This is the first PPRR on ADB-financed infrastructure projects in Myanmar since ADB's re-engagement in 2012. Re-engagement involved ADB undertaking the following, among others: (i) resuming lending operations, (ii) building a significant operational program, (iii) establishing a strong country presence, and (iv) providing knowledge and capacity-building support. The PPRR fieldwork took place in Yangon, Myanmar from 5 to 22 March 2017, with further review and analyses completed subsequent to the fieldwork. This PPRR report presents the findings and recommendations.

2. The Project aims to improve economic opportunities in the eastern seaboard of the country's Ayeyarwaddy Delta. It plans to improve the north-south road link connection in the delta and to connect it with the major east-west road leading to Yangon. The PPRR's overall objective is to verify the Project's compliance with applicable ADB policies, guidelines, and loan agreements with a focus on preventing and detecting integrity violations. To achieve this objective, the PPRR team evaluated the Project's adherence to the three core principles of project integrity: (a) transparency, (b) fairness, and (c) accountability and control. Recommendations from the PPRR are set out in **paras. 33-37**.

3. The PPRR identified a total of 14 findings. The nature and number of the findings are presented in **Figure 1**.

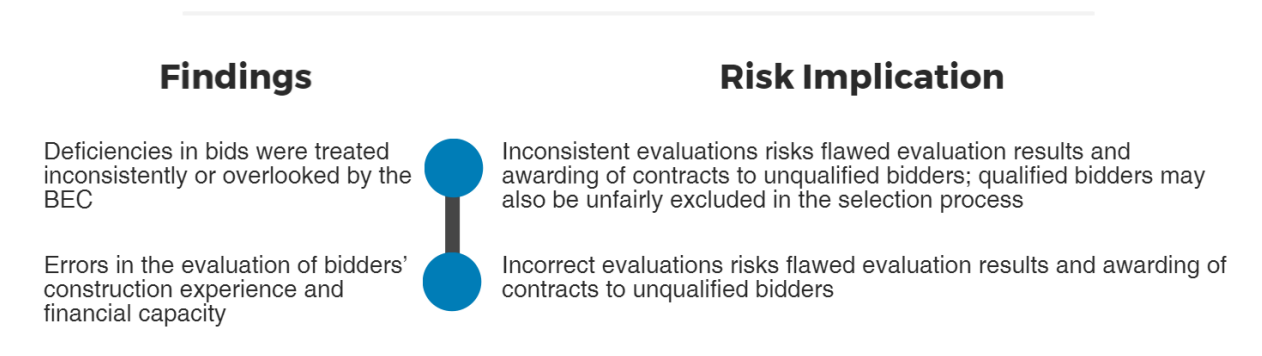
**Figure 1: Snapshot of PPRR Findings per Integrity Pillar**



4. The PPRR noted that the Project Management Unit (PMU) has, for the most part, implemented controls to ensure that the Project's procurement, financial, and asset management, adhere to the relevant policies, guidelines, and loan agreements. The shortcomings in procurement and contract implementation are rectifiable and do not prevent the Project from achieving its objectives. However, if they are not addressed and rectified there is a potential that

these may result in financial losses and/or impairment of Project's integrity. The key findings are summarized below.

**Figure 2: High-Risk Findings and Impact**



**5. Deficiencies in bids were treated inconsistently or overlooked by the BEC.**

Deficiencies were inconsistently treated or overlooked by the bid evaluation committee (BEC) in two civil works contracts reviewed. There were shortcomings in technical bids that were treated as grounds for disqualification of some bids, but were not considered in others. In addition, bid evaluation criteria were not strictly applied. Despite the weaknesses noted, the evaluation outcome would not have changed since bidders were disqualified for other bid deficiencies. The PMU needs to ensure that the BEC reviews this finding and ensures strict observance of ADB policies and guidelines, by including other critical factors considered in the bid evaluation in the bidding documents such as (i) availability of qualified key personnel and equipment from the lead JV partner, and (ii) track record of participating local bidders. The BEC should also adequately document all procurement-related decisions in the bid evaluation report, including grounds for disqualification and bid rectifications undertaken by the bidder, where allowed.

**6. Errors in the evaluation of bidders' construction experience and financial capacity.**

The BEC should ensure that all its members have the necessary expertise (technical, procurement, financial, etc.) to evaluate submitted bids and provide appropriate guidance. Errors in the evaluation of construction experience and financial capacity were identified. In particular, the finding involves joint ventures (JV) wherein some bids were inappropriately disqualified despite a JV partner meeting the requirements of the bidding documents. Whereas, other bids were considered to be substantially responsive despite a partner in the JV not complying with the requirements.

7. All findings were discussed with and acknowledged by the PMU and ADB Southeast Asia Department. Their feedback on the findings was suitably incorporated in this report. OAI plans to conduct a follow-up review in 2018 to assess the implementation status of the recommendations.

8. The PPRR team also provided due diligence and checklists (procurement, financial management and asset inspection) training to the Ministry of Construction (MOC), the executing agency, and PMU officials during the fieldwork in Yangon to enhance their skills to identify and mitigate integrity risks during Project implementation.

9. Lessons learned from this PPRR, if adopted, will strengthen the integrity and transparency of project implementation going forward. If replicated, they will also improve other ADB-financed and/or administered projects in Myanmar.

10. OAI appreciates the cooperation of the Department of Highways, PMU, construction supervision consultant, contractors, Ministry of Planning and Finance, Myanmar Resident Mission, and ADB Transport and Communications Division, Southeast Asia Department in this PPRR. OAI also values the courtesy and support extended to the PPRR team.

## I. OVERVIEW

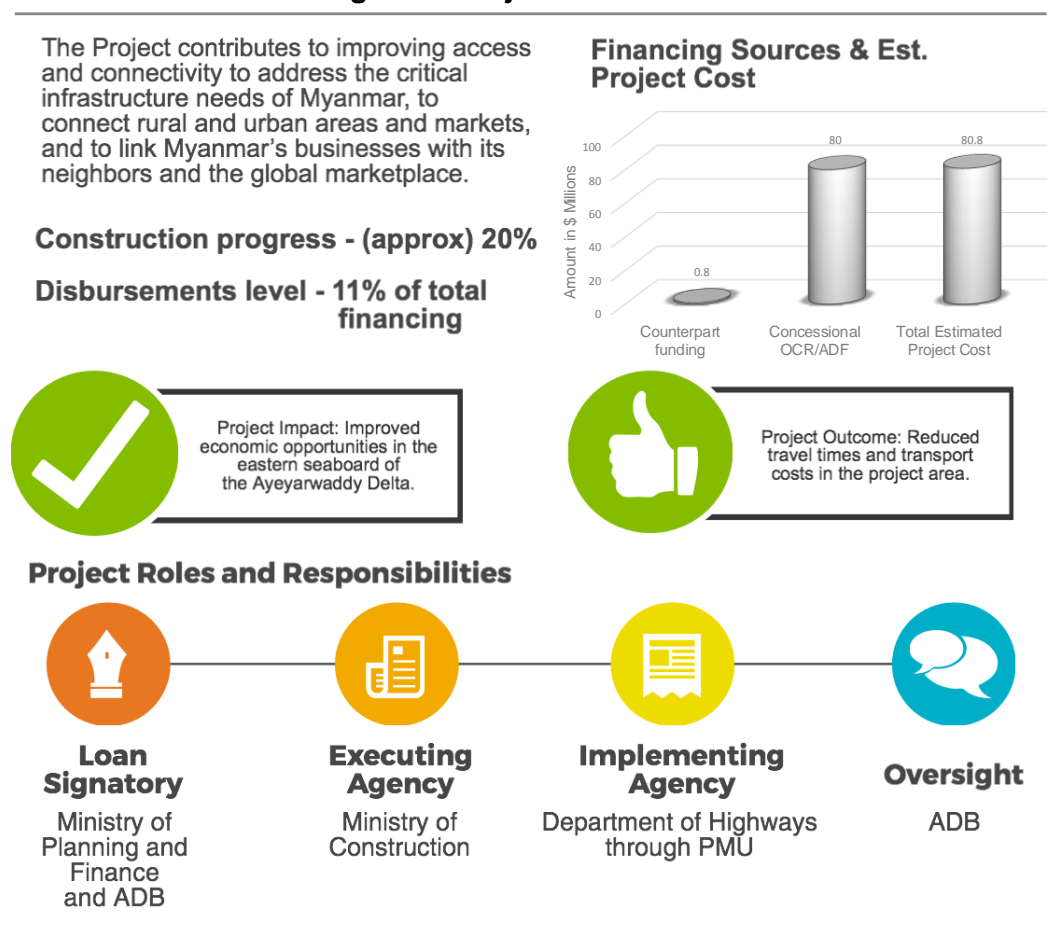
1. The Office of Anticorruption and Integrity (OAI) of the Asian Development Bank (ADB) conducted a project procurement-related review (PPRR) of the Maubin-Phyapon Road Rehabilitation Project under Loan 3199-MYA(COL) [the Project] in Yangon, Myanmar from 5 to 23 March 2017.<sup>1</sup> This report presents the findings and recommendations resulting from the PPRR.

2. The overall objective of the PPRR is to verify compliance with applicable ADB policies, guidelines and the loan agreement, focusing on preventing and detecting integrity violations, by stakeholders involved in project implementation. The Project's vulnerabilities and risks in the areas of procurement, financial management, and asset management were identified through the review of sampled contracts awarded as at 28 February 2017.

### Background

3. Relevant aspects of the Project reviewed, including funding sources, are provided in Figure 1.

**Figure 1: Project at a Glance**



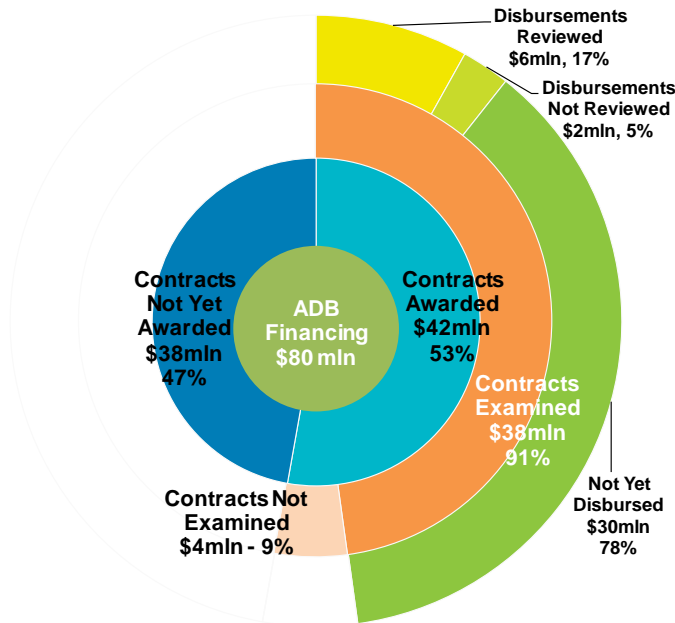
<sup>1</sup> OAI was assisted by an engaged consulting firm (collectively, the PPRR team), in this PPRR.



### PPRR Scope and Review Methodology

4. The PPRR covered two out of three contracts awarded and related expenditures for these contracts under the Project as of the PPRR cut-off date.<sup>2</sup> Both were civil works contracts procured using the international competitive bidding (ICB). In addition to the two contracts, the Project Management Unit's (PMU) imprest fund and related disbursements were also examined. **Figure 2** below shows a graphical representation of the PPRR samples vis-à-vis ADB Financing.

**Figure 2: ADB Financing, Contracts Awarded, and Contracts and Disbursements Reviewed**



5. The PPRR (a) assessed the PMU's internal controls and capacity, (b) examined the procurement processes and related documentation for all procurement stages, (c) verified the appropriateness of project disbursements and related documentation, and (d) inspected the progress of works in two civil works contracts, including geo-tagging of project outputs and other assets at the Project site.<sup>3</sup>

## II. OBSERVATIONS

### PROJECT'S STRENGTH

6. **PMU resilient and receptive to change.** The PMU is comprised of officers and staff who showed keen interest in pushing ADB projects forward in spite of their limited proficiency in the ADB's policies, guidelines, and processes. It appeared from the review of Project records and interviews of PMU officers that the PMU took ownership of Project deliverables, outputs, and implementation issues. With notable resource constraints and placement of some key PMU staff

<sup>2</sup> The PPRR cut-off date is 28 February 2017.

<sup>3</sup> This involves the process of adding geographical identification metadata to photographs of Project outputs and assets for presentation purposes on a map.

in a relatively remote location, the PMU was able to operate a functioning Project office in Yangon. Open lines of communications were maintained with the construction supervision consultant (CSC) and ADB Project team to timely seek appropriate direction and guidance.

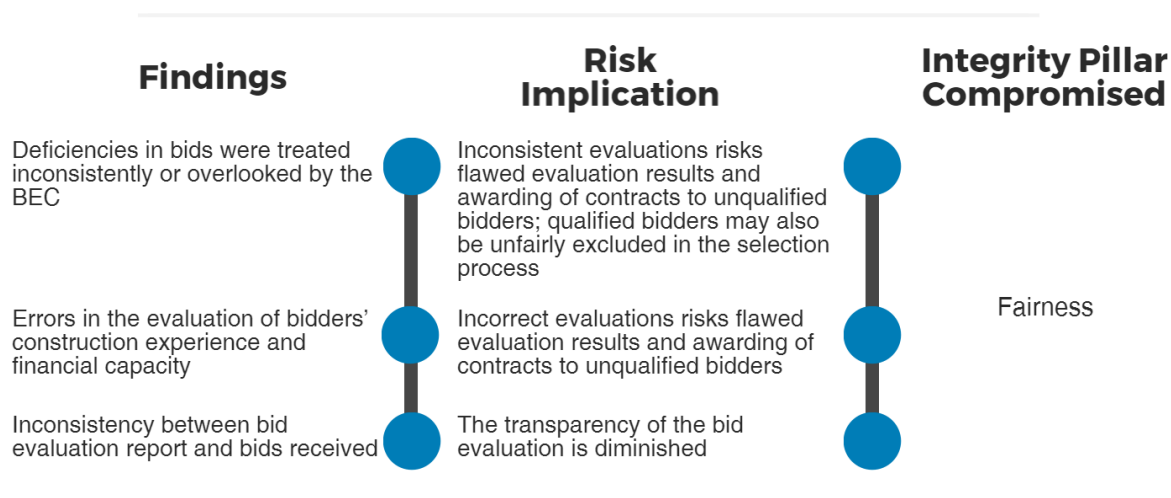
### **PROJECT'S VULNERABILITIES**

7. There is a total of 14 findings in the samples reviewed. They comprise (i) 5 in procurement, (ii) 7 in financial management and disbursements, (iii) 1 finding in internal controls and (iv) 1 in asset management and, are presented accordingly. Each finding was assigned a risk rating (high, medium, or low) to guide the PMU and ADB, as applicable, in prioritizing commensurate corrective actions.<sup>4</sup> Only findings that were rated as high and medium are presented in this report. To prevent financial loss, these findings should be addressed.

#### **A. Procurement**

8. There were deficiencies noted in bid evaluation reports (BERs) and lapses in evaluation of technical bids as summarized in **Figure 3**. While these would not have changed the outcome of the biddings, collectively, the observations diminished the transparency of the bid evaluations.

**Figure 3: Summary of Major Procurement Findings**



#### **High-Risk Findings**

9. **Deficiencies in bids were treated inconsistently or overlooked by the BEC.** In both ICB civil works contracts reviewed, there were deficiencies in technical bids that were incorrectly considered as grounds for disqualification. The bid evaluation committee (BEC) also did not strictly apply the evaluation criteria to all bids, as set out in the examples below.

<sup>4</sup> **High:** Immediate attention and prompt corrective action are required since failure to take action could result in major adverse impact on the project and ADB's reputation. **Medium:** action is required since failure to take action could result in negative consequences on the project and ADB's reputation. **Low:** An existing system may continue to operate but corrective action will result in increased efficiencies in processes.

## 1. JV agreement and/or letter of intent to form a JV association

10. The bidding document<sup>5</sup> for an ICB civil works contract requires bidders, that wish to participate in the bidding as a joint venture (JV), to execute a JV agreement or a letter of intent (LOI) to form a JV. The document supporting the JV must include an undertaking that all JV partners will be jointly and severally liable to execute the contract.

11. The joint and several liability clause was not included in the JV agreements submitted by bidders of two disqualified bids, and was deficient in another losing bid. These defects in the JV agreements were appropriately considered as a ground for the bids' disqualification. Thus, the BEC no longer sought clarification from the concerned bidders on the defective JV agreements. However, in another bid with a similar defect, which was considered to be technically responsive, upon BEC's advice the LOI was revised and resubmitted. This rectified the defect but there was no mention of the corrected LOI in the BER.

## 2. Equipment

12. The bidding documents of both ICB civil works contracts allowed corrections in bids for equipment prior to contract awarding.<sup>6</sup> The review identified, however, that three technical bids were rejected because of deficiencies in their proposed equipment. The bidders did not provide equipment rental agreements or other documents to substantiate the equipment availability. In one instance, the BEC incorrectly disqualified one bidder due to one JV partner not proposing its own equipment.<sup>7</sup> The PPRR did not see evidence of the BEC's clarification of any of these deficiencies. Despite these findings, the evaluation outcome would remain unchanged, since all three bids were disqualified for other bid deficiencies.

13. Other deficiencies in proposed equipment were observed in six other technically compliant bids across two ICB civil works contracts as identified below:

- Proof of equipment ownership and/or rental that was either inadequate or non-existent in two bids.
- Location of equipment in Africa in the winning bid, that was not questioned.<sup>8</sup> This was one of the contributing factors for the delay in project implementation of the civil works contract.
- Non-compliance of proposed equipment in three bids with the minimum rated capacity. There was no indication in the BERs that these were flagged during bid evaluations.

The above observations underscore inconsistencies and errors in bid evaluations.

<sup>5</sup> Para. 4 Eligible Bidders, Clause 4.1 specifically states, "A Bidder may be a natural person, private entity, government-owned entity - subject to ITB 4.5 - or any combination of them with a formal intent to enter into an agreement or under an existing agreement in the form of a Joint Venture (JV). In the case of a JV: (a) all partners shall be jointly and severally liable, and (b) the JV shall nominate a Representative who shall have the authority to conduct all business for and on behalf of any and all the parties of the JV during the bidding process and, in the event the JV is awarded the Contract, during contract execution."

<sup>6</sup> Section 3 – Evaluation and Qualification Criteria, Clause 1.1 Adequacy of Technical Proposal states the following, "Non-compliance with equipment and personnel requirements described in Section 6 (Employer's Requirements) shall not be grounds for bid rejection and such non-compliance will be subject to clarification and rectification prior to contract award."

<sup>7</sup> The bidder executed a joint venture agreement indicating joint and several liability of all its partners. On the same basis ADB Transport and Communications Division, Southeast Asia Department (SETC) also disagreed, during its prior review of the BER, with the BEC's decision to disqualify the bidder on the basis of deficient equipment. ADB SETC's dissenting feedback was not reflected in the approved BER. The bidder was, ultimately, disqualified on the ground of inadequate financial capacity.

<sup>8</sup> Relocation issues encountered by this bidder/contractor eventually resulted in contract implementation delays.

### 3. Personnel

14. Inconsistent evaluation of personnel requirements was observed in the same ICB civil works contracts. There were deficiencies in the relevant construction experience that were overlooked in some bids, while considered as disqualification grounds for others. Similar to the requirements of the ICB civil works bidding documents for equipment, proposed personnel deficiencies are allowed to be rectified prior to contract awarding. There was no evidence the BEC clarified any of the deficiencies. It is noted that the findings do not relate to any of the winning bids. The evaluation outcomes remain unchanged.

15. **Errors in the evaluation of bidders' construction experience and financial capacity.** Deficiencies in bidder's construction experience and financial capacity may be considered grounds for bid disqualification. There were deficiencies in the evaluation of bidders' construction experience and financial capacity. Below presents such deficiencies.

#### 1. Construction experience

16. In one ICB contract, a bid was incorrectly disqualified, although a JV partner met the required construction experience. The bidder executed a JV agreement wherein each partner had joint and several liability to fulfill contractual obligations. The bidding documents permit bidders to present sufficient experience of any single JV partner, and do not strictly require all JV partners to present experience, to meet the minimum requirements. Based on the BER, the BEC compared the pro-rata share in the works contract of each JV partner against submitted proof of construction experience to determine individual JV partners' capacity to undertake works.

17. In another ICB contract, a JV partner did not provide documents to substantiate completed contracts. This was not flagged by the BEC. However, since another JV partner met the required construction experience and provided adequate substantiation, the evaluation result would remain unchanged.

#### 2. Financial capacity

18. In two ICB contracts, the same losing bidder submitted the financial statements (FS) of the parent company of one of its JV partners, instead of the JV partner's own audited FS. Consequently, the related bid Forms FIN-1, FIN-2, and FIN-3 of this JV partner captured the FS relevant financial information of the parent company. The BEC overlooked the incorrect submission and considered the bidder's technical bids to be technically responsive in both bids.

19. Furthermore, in one of the ICB civil works contracts, a number of deficiencies in the substantiation and evaluation of financial capacity of bidders were observed. None of the deficiencies were detected by the BEC.

- In one instance, the line of credit of one JV partner was not substantiated.
- Two bidders also did not provide notes to the FS, and it was unclear whether one of the FS was audited.<sup>9</sup>
- Instead of using the pro-rated amount, the BEC incorrectly scrutinized the financial capacity of all JV partners against the total amount of financial resources requirement.<sup>10</sup> The bid evaluation outcome would not change had the correct amounts been used.

20. Other deficiencies were observed in the evaluation of a substantially responsive bid in another ICB civil works contract. The bidder's JV partner did not have sufficient available financial resources to meet the requirements of the bidding documents. Whereas, the other JV partner was unable to meet the annual construction turnover requirement of \$17 million. There was no indication the BEC noted and considered these.

#### Medium-Risk Finding

21. **Inconsistency between bid evaluation report and bids received.** In one instance in an ICB civil works contract, the bid evaluation narrative conflicted with the BER attachment and actual bids received. In this case, bid form LIT-1: Pending Litigations were submitted by all partners of a JV of four firms.<sup>11</sup> However, the BER incorrectly noted the JV comprised of two firms, where one partner did not provide the form.

### **B. Financial Management and Disbursements**

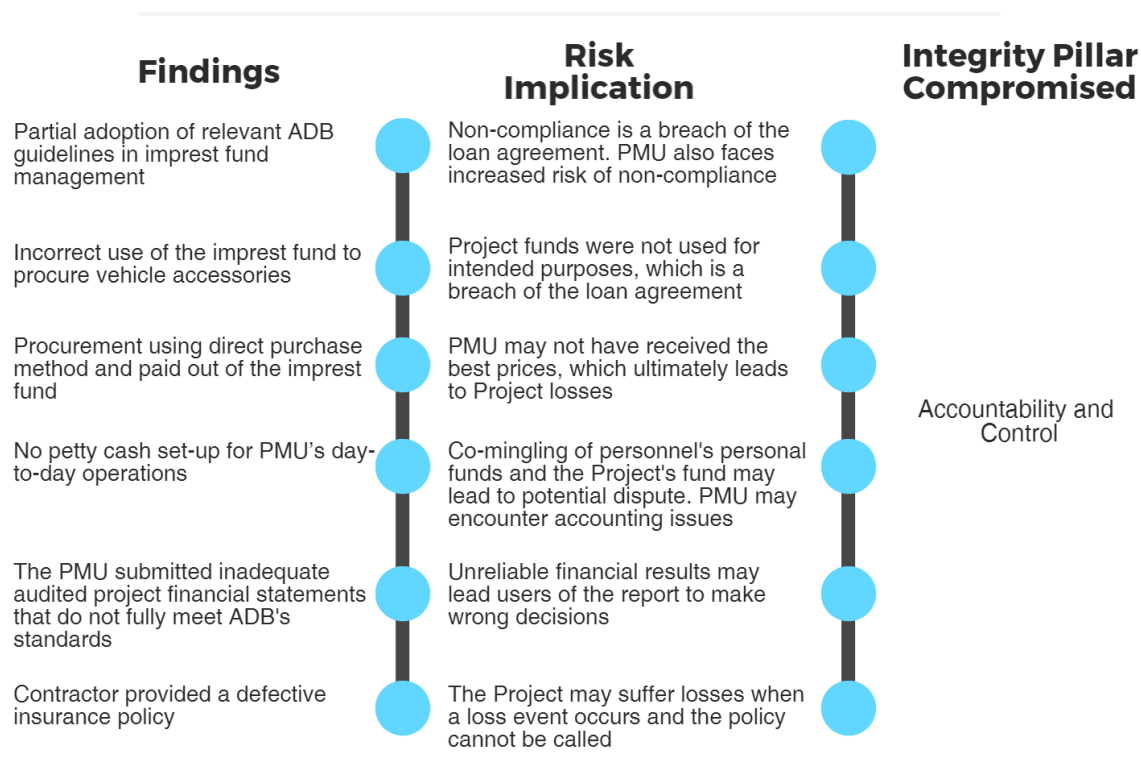
22. Disbursements to pay contractors and for PMU's operating expenses were adequately supported. The same were promptly processed. However, there were findings on imprest fund management and adherence to ADB procedures that may result in Project losses if not addressed. In particular, the PMU needs to devote significant effort in addressing issues relating to imprest fund management for its day-to-day operating expenses. A summary of these findings is in **Figure 4**.

<sup>9</sup> Winning bidder and a joint venture partner presented financial statements that cannot be ascertained to be audited since the audit opinion and accompanying notes to financial statements were not provided.

<sup>10</sup> As defined in Section 3 – Evaluation and Qualification Criteria, Clause 2.3.3: Financial Resources, each joint venture partner must meet 30% of the \$1,390,000 total financial resources requirement or \$417,000. In addition, at least one JV partner should have available financial resources to meet 40% of the requirement or \$556,000. The full amount of \$1,390,000 total financial resources requirement applies only to single entity bidders.

<sup>11</sup> The bid form captures a bidder's disclosure of ongoing lawsuits, and the monetary impact against its net assets, if any.

**Figure 4: Summary of Financial Management Findings**



### Medium-Risk Findings

23. **Partial adoption of relevant ADB guidelines in imprest fund management.** Adherence to ADB's guidelines and processes on procurements and disbursements is required under the loan agreement. The PMU observed the \$80,000 ceiling or maximum aggregate amount of expenses to be submitted for liquidation of imprest fund and for obtaining initial advance against the fund, which was prescribed in the Project Administration Manual (PAM).<sup>12</sup> However, there were instances when the PMU managed its imprest fund account in the absence of documented guidelines aligned with ADB's policies and procedures. Instead, the PMU used both the government's and ADB's guidelines and procedures on imprest fund management. For example, the PMU adopted Myanmar government's guideline, which requires a competitive bidding to procure goods valued over MK10 million (\$7,326 equivalent), using the imprest fund. However, in a related finding in para. 26 below, direct contracting was used. This is significantly lower than ADB's threshold, which requires competitive bidding for procurements equal to or greater than \$100,000. For amounts lower than \$100,000, ADB requires the use of shopping method. Thus, the PMU's practice reduces risk but increases inefficiency.

24. The CSC prepared a draft financial management manual for the PMU in 2016, which covers imprest fund management.<sup>13</sup> However, the financial management manual is yet to be finalized and relevant PMU staff have yet to receive adequate training on the use of the manual.

<sup>12</sup> Project Administration Manual for Project Number 47086-002 dated September 2014, para. 25.

<sup>13</sup> Preparation of the procurement and financial management manuals formed part of the capacity building component of the contract between the Department of Highways (DOH) and the CSC.

25. **Incorrect use of the imprest fund to pay for vehicle accessories.** The PMU procured vehicle accessories totaling \$11,399.35 equivalent to improve safety and longevity of five Project vehicles. Said vehicles were purchased under an ICB civil works contract. The cost of accessories was booked as expended under the imprest fund account. However, such costs should be reclassified to the appropriate ICB contract since these are attributable to vehicles procured under that contract. As there are no variation orders to adjust the cost of the vehicles, ADB's explicit approval for the purchase has not yet been obtained.<sup>14</sup>

26. **Procurement using direct purchase method and paid out of the imprest fund.** Contrary to the provisions of the Project's Procurement Plan, where the PMU needs to apply shopping method to procure goods and works below \$100,000, the PMU uses direct contracting (single source).<sup>15</sup> Review of PMU expenses showed that furniture, fixtures, and computer equipment totaling \$21,631 equivalent were purchased directly from local suppliers.<sup>16</sup> The PMU may not have received the best value for money by not comparing prices from different suppliers.

27. **No petty cash set-up for PMU's day-to-day operations.** Due to prohibition on holding cash advances under Myanmar's local rules, PMU staff currently pay day-to-day petty cash expenses from their personal funds. Staff reimburses the expenses, which range from \$2 to \$3,200 equivalent, periodically from the imprest account. While individual expenses are screened by the Deputy Project Director and Accountant Officer and substantiated upon liquidation, the practice of using staff's personal funds translates to poor cash management.

28. **Inadequate Audited Project Financial Statements (APFS).** Myanmar's OAG audits the annual Project's FS. Review of the 2015 APFS, however, disclosed some quality issues that require closer monitoring by the ADB Project Team.<sup>17</sup> For example, the APFS do not contain (i) notes to FS, and (ii) imprest account FS. The latter indicates incomplete or inadequate review of the PMU's imprest fund expenses. Moreover, the audit opinion assumed and did not categorically state that Project costs were used in accordance with the loan agreement between ADB and DOH. These conditions contravene the auditing and public disclosure requirements defined in the loan agreement<sup>18</sup> and PAM.<sup>19</sup> A review of the APFS submitted to ADB had been completed by the ADB Project Team, however, discussion of ADB's findings had yet to be completed as of the date of fieldwork. PPRR team's observations were similar to the ADB Project Team's findings.

29. **Contractor submitted a defective insurance policy.** In an ICB civil works contract, the insurance policy obtained by the contractor for the Project is defective as it indicates the contractor's name instead of the Ministry of Construction (MOC) as the beneficiary.

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<sup>14</sup> While there were three variation orders to the contract, none of these pertain to adjusting amounts allocated to vehicles to cover installation of accessories. Variation order number 1 effected the change of vehicle type from type 2 to 4, with monetary impact totaling MK90,000,000 or \$65,934 equivalent.

<sup>15</sup> The latest revised version of the Project's Procurement Plan is dated 25 November 2016.

<sup>16</sup> Total purchase value of MK29,526,200 converted using the ADB exchange rate \$1=MK1,365.

<sup>17</sup> The audit report covers the PMU's fiscal year ending 31 March 2016. The first audit report of the Project.

<sup>18</sup> Loan Agreement (Special Operations) for Maubin-Phyapon Road Rehabilitation Project between Republic of the Union of Myanmar and Asian Development Bank dated 10 February 2015, Article IV Particular Covenants, Sub Clause 4.02.

<sup>19</sup> Project Administration Manual for Project Number 47086-002 dated September 2014, paras. 29 and 30.

### C. Asset Management

30. Project outputs for the ICB civil works contracts were in locations as per the Project plans and generally conformed to the contract specifications.<sup>20</sup> However, cumulative project delay of 8.93% as of March 2017,<sup>21</sup> was noted in one of the ICB civil works contracts. Delays were primarily caused by standing water during the wet season, which hampered asphaltting works. This is corroborated by the commencement of works shortly after contract awarding in September 2015, which is historically still part of the wet season in Myanmar. Although not highlighted in the CSC's progress reports, other factors that may have contributed to the delays were (i) challenges in relocating contractor's heavy equipment to the Project site and (ii) the replacement of the contractor's Project Manager.<sup>22</sup>

### D. Internal Controls

31. The PMU's record-keeping system of filing both soft- and hard-copy procurement records needs improvement. Although bids and general correspondence were made available during fieldwork, working papers supporting bid evaluations and summary of BEC discussions were not seen. These records are required to enable verification of bid evaluation outcomes that were not clear or justified. In addition, not all procurement-related e-mail correspondence were turned over by the procurement consultant to the PMU for filing. Retrieval of e-mails, in general, could also have been more efficient with the aid of incoming/outgoing logs. During fieldwork, an initiative by the MOC to retain soft-copy archives of PMU documentation was at the initial stages of implementation. The PMU staff had yet to be provided access to the semi-automated archiving system.

### **GEOTAGGED PROJECT ASSETS**

32. Geo-tagging was undertaken to portray a more detailed picture of project progress as of the inspection date.<sup>23</sup> Actual photographs taken of Project outputs and assets in their respective locations can be viewed in Google maps via a web link.<sup>24</sup> There were no adverse findings from the geo-tagging that required the contractors' attention.

<h3><b>III. RECOMMENDATIONS</b></h3>
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33. To add rigor to bid evaluations in future biddings and enhance the clarity of bid evaluation reports, it is recommended that:

The PMU:

<sup>20</sup> The assets reviewed include road sections, crushing/batching plant, and labor camps.

<sup>21</sup> Based on the CSC's monthly progress report no. 16 dated February 2017 covering implementation updates up to the month of February 2017. The cumulative project delay was confirmed by the contractor in a discussion meeting with the PPRR engineer.

<sup>22</sup> These were corroborated by interviews of key PMU staff during fieldwork.

<sup>23</sup> The PPRR engineer, together with representatives from the PMU, CSC and contractors inspected ICB1 and ICB2 outputs and assets on the entire stretch of Maubin-Phyapon Road at Section from KM 0+00 to KM54+500 on 16 March 2017.

<sup>24</sup> Detailed information on each photo can be accessed via url link:  
[https://www.google.com/maps/d/viewer?mid=1ZynvQQPXIxOraX\\_\\_osLPhNs9qtE&ll=16.53221405813487%2C95.64191352606201&z=11](https://www.google.com/maps/d/viewer?mid=1ZynvQQPXIxOraX__osLPhNs9qtE&ll=16.53221405813487%2C95.64191352606201&z=11).



- i. ensures that the findings in paras. **9-21** are reviewed by the BEC,
  - ii. ensures that other critical factors considered in the bid evaluation are included in the bidding documents to enhance the fairness and transparency of the evaluation process (**paras. 9-20**); and
  - iii. appropriately informs the BEC to:
    - a. adequately document all procurement-related decisions in the bid evaluation report. Any grounds for automatic disqualification due to deficiencies should be clearly documented and justified in the bid evaluation report. If the bid document allows certain deficiencies to be rectified (not grounds for automatic bid disqualification), the bid evaluation report needs to clearly document the bid rectification/s undertaken by the bidder. (**paras. 9-20**);
    - b. obtain clarifications from bidders on discrepancies where possible and allowed under the procurement guidelines, and retain documentation of feedback sought and received (**paras. 9-20**); and
    - c. ensure that all the BEC members have the necessary expertise (technical, procurement, financial, etc.) to evaluate submitted bids and provide appropriate guidance. Specifically, consider involving a BEC member with Finance background and training in the evaluation of bidders' financial capacity (**paras. 18-20**); and
    - d. ensure consistency and accuracy of bid evaluations and reports, supporting attachments, and bids received by implementing quality-control procedures, such as through internal/peer reviews of BERs (**para. 21**);
34. To ensure best-quality and value-for-money purchases, and that payments are made only for eligible expenses, it is recommended that the PMU:
- i. fully adopts ADB's loan disbursement policies and procedures and complies with the relevant provisions of the PAM with respect to procurements and disbursements made under the imprest fund (**paras. 23-24 and 26**); and
  - ii. ensures that the contractor submits to the PMU the revised insurance policy that indicates MOC as the beneficiary (**para. 29**).
35. To strengthen the Project document retention and in keeping good practices, it is recommended that the PMU (**para. 31**):
- i. prepares and retains summaries of discussions of meetings held by the BEC and PMU;
  - ii. maintains a log of all incoming and outgoing e-mail correspondences similar to the current practice observed for hard-copy correspondences; and

- iii. retains Project records following the terms of the contracts and ADB's Loan Disbursement Handbook.

36. To assist in more realistic and practicable reporting of project progress, the PMU needs to ensure that the contractor submits a revised construction schedule, which accounts for possible future delays due to inclement weather, availability of equipment, and design changes, among others (**para. 30**).

37. It is also recommended that ADB SETC:

- i. provides additional capacity-enhancement trainings to further strengthen the skills of the PMU and its future BEC members (**paras. 9-21**);<sup>25</sup>
- ii. considers supporting the PMU on a long-term basis given current capacity levels (**paras. 9-21**);
- iii. coordinates with the PMU to assess appropriateness of the charging of the vehicle accessories procured, where ADB's disallowance should be followed by the return by the PMU of funds to the Project (**para. 25**);
- iv. discusses with the Ministry of Planning and Finance (MOPF) and the PMU on how to best handle small value purchases (**para. 27**), due to government's regulation disallowing petty cash, and continues to provide detailed guidance and support to the PMU in improving the quality of APFS (**para. 28**); and
- v. monitors PMU's implementation of the recommendations and application of lessons learned from the PPRR to future similar projects. PPRR team needs to be periodically updated of the PMU's progress in implementing the recommendations.

#### IV. CONCLUDING REMARKS

38. Strong procurement capacity, oversight by the executing agency and implementing agency, and compliance with relevant guidelines are crucial to (i) deter fraud and corruption, (ii) mitigate risk of improper use of project funds, and (iii) maximize development effectiveness. Given the technical support received from ADB SETC and engaged consultants, and acknowledging that the Project is the first one in the country and under the PMU, the PMU was able to undertake procurement activities timely and smoothly. The PMU has continued to learn ADB's systems and processes while implementing the Project.

39. Controls over disbursements of funds to contractors also appear to be effective. However, there is an urgent need to further improve the PMU's capacity to undertake procurements and monitor project progress. Currently, the PMU is still heavily dependent on consultants' and the

<sup>25</sup> Training on procurement and ADB's systems had been provided by the ADB's Operations Services and Financial Management Disbursement Department to the PMU before the first procurement took place. However, the training may have been more effective if it had been conducted while the first procurement was progressing, as the PMU could have applied concepts learned immediately, and received on-the-job feedback.

ADB Project team' close guidance to ensure compliance with ADB's policies, guidelines, and procedures. ADB SETC is strongly encouraged to provide continuing trainings on ADB's policies and guidelines on procurement and financial management. Swift and steadfast guidance from the ADB Project team on implementation issues will also effectively boost PMU's confidence in ADB's support systems. This includes assisting the PMU in working out more collegial interactions with the CSC. Consequently, this may contribute to building a stronger relationship with the PMU, and in facilitating smoother project implementation.

40. The application of lessons learned and recommendations from this PPRR will enhance the implementation of the remainder of the Project, as well as new projects. The PPRR team encourages SERD to continue to work with the government of Myanmar to strengthen its commitment in promoting transparency and accountability. Implementation of recommendations in this report would only augment results achieved to date.

41. The PPRR team acknowledges and appreciates the cooperation and assistance of officers and personnel of the MOPF, MOC, DOH, and PMU-DOH during the PPRR. The PPRR team also appreciates the support received from ADB SETC and its Myanmar Resident Mission in the planning and execution of the PPRR. OAI remains available to discuss matters in this report or issues that may affect the integrity of project implementation.