

ASIAN DEVELOPMENT BANK

PROJECT PROCUREMENT-RELATED REVIEW

Loan 2670-CAM: Rural Roads Improvement Project and Loan 3151-CAM(SF) and Grant 0401-CAM: Rural Roads Improvement Project II

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
September 2016

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ABBREVIATIONS

ADB	-	Asian Development Bank
BEC	-	bid evaluation committee
BER	-	bid evaluation report
CEC	-	consultant evaluation committee
DDIS	-	detailed design and implementation supervision
ICB	-	international competitive bidding
MEF	-	Ministry of Economy and Finance
MRD	-	Ministry of Rural Development
NCB	-	national competitive bidding
NDF	-	Nordic Development Fund
OAI	-	ADB Office of Anticorruption and Integrity
PDRD	-	MRD Provincial Department of Rural Development
PMU	-	project management unit
PPRR	-	project procurement-related review
PRC	-	Procurement Review Committee
SERD	-	ADB Southeast Asia Department
SETC	-	ADB Transport and Communications Division, Southeast Asia Department
QCBS	-	quality- and cost-based selection

NOTE

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

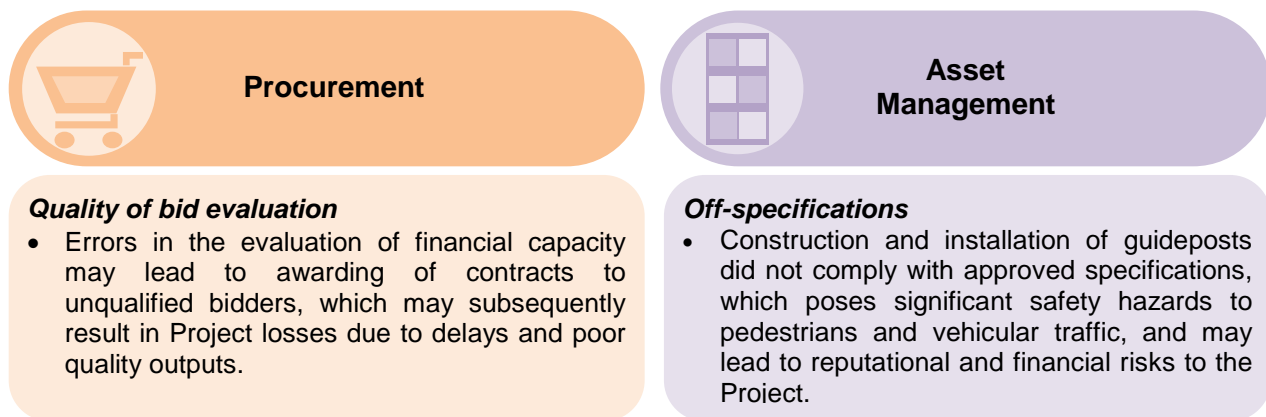
1. The Office of Anticorruption and Integrity of the Asian Development Bank (ADB) conducted a project procurement-related review (PPRR) of Cambodia's Rural Roads Improvement Project and Rural Roads Improvement Project II (collectively, the Projects). The PPRR fieldwork took place in Phnom Penh from 22 February to 18 March 2016, in collaboration with the Nordic Development Fund (NDF), one of the Projects' co-financiers. Further document review and analyses were completed subsequent to the fieldwork in March 2016. This report presents the findings and recommendations from the PPRR.

2. The Projects, with total estimated cost of \$259.71 million, aim to provide beneficiaries access to paved rural roads from provincial towns and agricultural areas to markets, employment centers, and social services in 10 provinces, including undertaking capacity building activities. The overall objective of the PPRR is to verify the Projects' compliance with applicable ADB policies, guidelines, and loan and grant agreements with a focus on preventing and detecting integrity violations. Recommendations from the PPRR are intended to strengthen project oversight, enhance internal controls, and optimize project management.

3. Overall, MRD has established a reasonably effective control environment which provides assurance that the Projects' procurement, financial management, and asset management generally adhere to the relevant policies, guidelines and loan and grant agreements; the Projects' financial information is adequately maintained; and contracts are implemented as specified in the contract terms.

4. Although the issues the PPRR identified would not prevent the accomplishment of the Projects' objectives, these may result in losses to the Projects if they recur. These key issues, summarized in **Figure 1** below, will require prompt remedial actions to improve project implementation and to better protect the integrity of the Projects.

Figure 1: Areas for Improvement Identified in the Review



5. All findings were discussed with and acknowledged by the PMU and their feedback on the preliminary findings submitted to OAI on 25 May, 23 June, and 29 August 2016 were incorporated in this report. Recommendations are presented in paragraphs **32-34** of this report. OAI plans to conduct a follow-up review in 2017 to assess the implementation status of recommendations.

6. Compared to the previous PPRR of a transport sector project in Cambodia in 2012, the capacity of the PMU to implement controls over procurement, financial management, and asset management processes was stronger. MRD expressed keen interest in enhancing their skills to identify and mitigate integrity risks. In response to MRD's request, the PPRR team provided training on due diligence and checklists during the fieldwork in Phnom Penh. Given that RRIP II is expected to be completed in 2020, lessons learned from this PPRR, if adopted, will strengthen the integrity and transparency of project implementation going forward. If replicated, lessons learned from this PPRR will also improve other ADB-financed and/or administered projects in Cambodia.

7. The cooperation of the PMU, bid/consultant evaluation committees, Ministry of Economy and Finance, NDF, ADB's Cambodia Resident Mission, and ADB's Transport and Communications Division, Southeast Asia Department in this exercise is much appreciated. OAI 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 Rural Roads Improvement Project under Loan 2670-CAM, and Rural Roads Improvement Project II under Loan 3151-CAM and Grant 0401-CAM (collectively, the Projects) in Phnom Penh, Cambodia from 22 February to 18 March 2016, in collaboration with Nordic Development Fund (NDF), one of the Projects' co-financiers. Verification of project outputs was jointly performed with stakeholders from the Government of Cambodia,¹ detailed design and implementation supervision (DDIS) Consultant, and NDF from 29 February to 4 March. 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 loan and grant agreements, focusing on preventing and detecting integrity violations, by the executing agency and ADB stakeholders involved in project implementation. The Projects' vulnerabilities and risks in the areas of procurement, financial management, and asset management were identified through the review of sample contracts under the relevant ADB loans and grant.

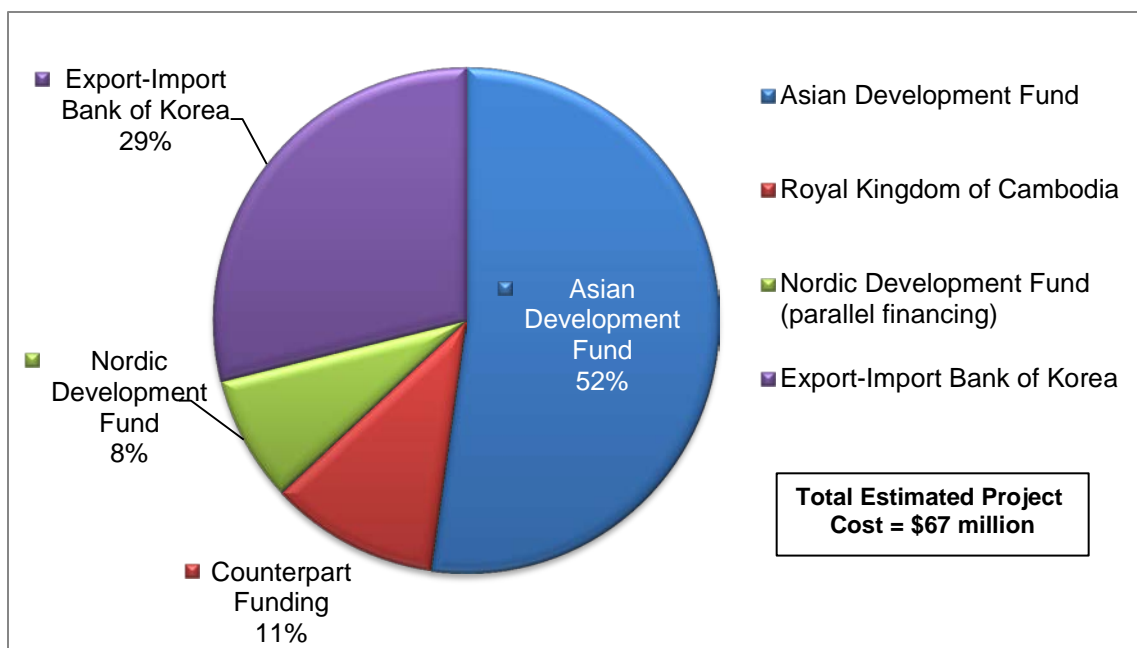
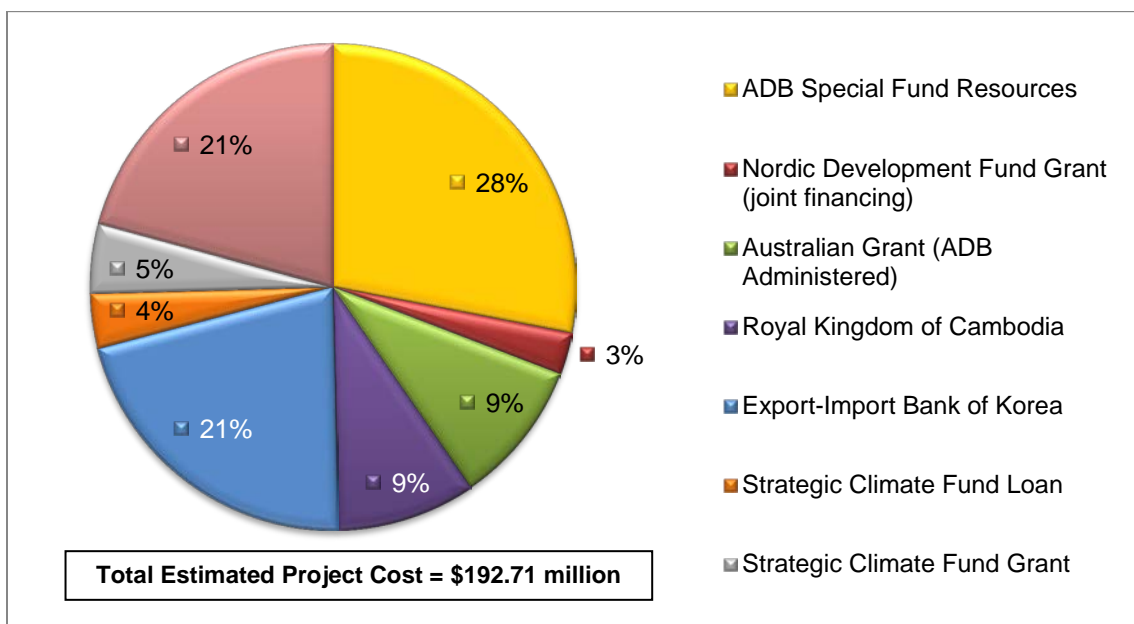
Background

3. Relevant highlights of the Projects reviewed are provided in **Table 1** below, while funding sources are depicted in **Figures 1** and **2**.

Table 1: Projects at a Glance

Project title	Rural Roads Improvement Project	Rural Roads Improvement Project II
Loan/grant number	Loan 2670-CAM	Loan 3151-CAM and Grant 0401-CAM
Total estimated project cost	\$67 million	\$192.71 million
Amount of ADB financing and non-ADB financing	See Figure 1	See Figure 2
Link to Cambodia's 2014-2018 Country Partnership Strategy	Flagship project in line with strategic pillar on promoting rural-urban-regional links	
Executing agency	Ministry of Rural Development (MRD)	
Implementing agency	Project Management Unit within MRD in coordination with Provincial Departments of Rural Development (PDRDs) for execution and monitoring of civil works contracts	

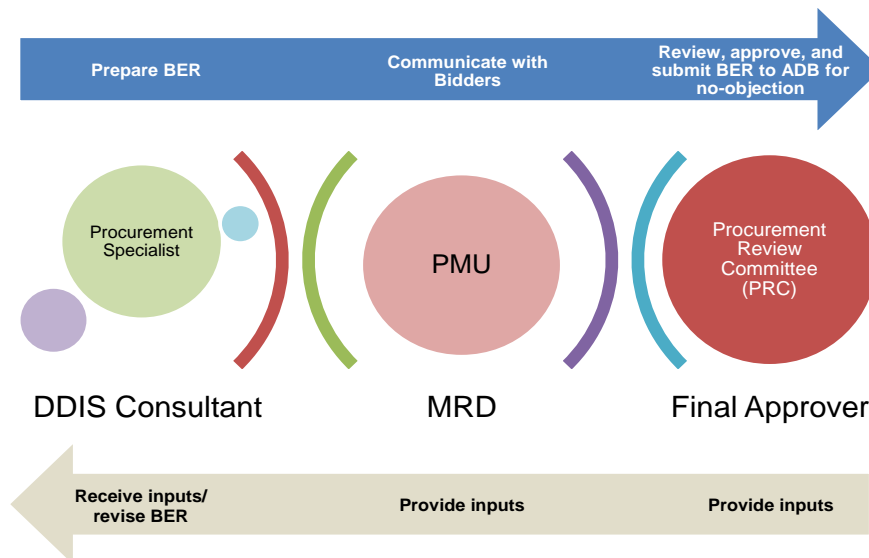
¹ Representatives from the project management unit (PMU) within the Ministry of Rural Development (MRD) and Provincial Departments of Rural Development (PDRDs) joined the asset inspection.

Figure 1: Funding Sources for RRIP**Figure 2: Funding Sources for RRIP II**

Procurement Evaluation Structure

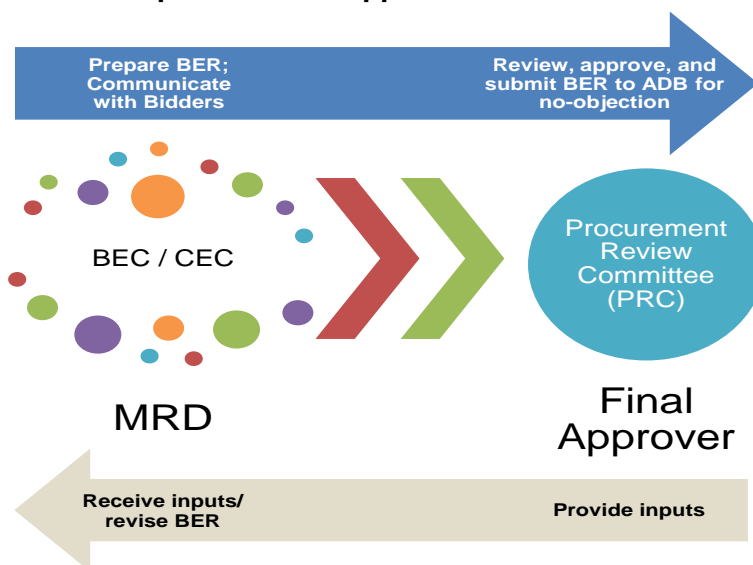
4. Notwithstanding the establishment of the Procurement Review Committee (PRC) to provide high-level inputs and formalize bid evaluation decisions, the evaluation process and the parties that were responsible for undertaking detailed examination of bids were different between RRIP and RRIP II. Under RRIP, the DDIS consultant scrutinized the bids and subsequently conveyed the results to the PRC through the PMU, as depicted in **Figure 3**.

Figure 3: BER Preparation and Approval Process for RRIP Contracts



5. In RRIP II, evaluations of bids and proposals were completed by the Bid Evaluation Committee (BEC) and Consultant Evaluation Committee (CEC), and the results, thereafter, were directly conveyed to the PRC for approval.² **Figure 4** below provides a graphical overview of the bid and proposal evaluation processes under RRIP II.

Figure 4: BER Preparation and Approval Process for RRIP II Contracts



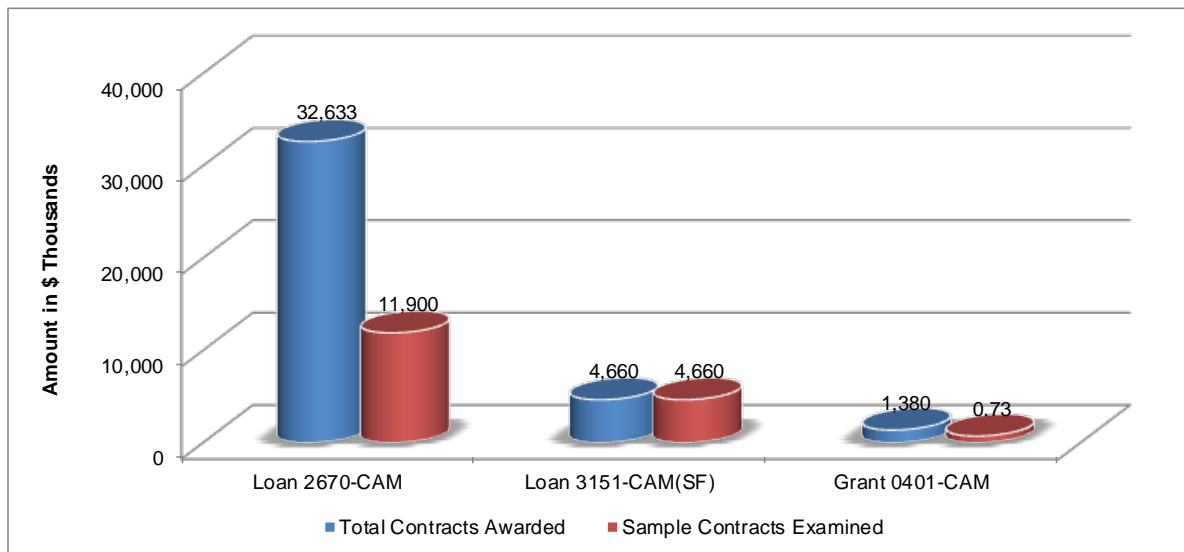
6. The PPRR team reviewed contracts and related expenditures for contracts under RRIP (Loan 2670-CAM) and RRIP II (Loan 3151-CAM(SF) and Grant 0401-CAM).

² The composition of the members of the PRC, BEC, and CEC is prescribed under the Kingdom of Cambodia Procurement Manual: For All Externally Financed Projects/Programs in Cambodia [Volume 1, May 2012].

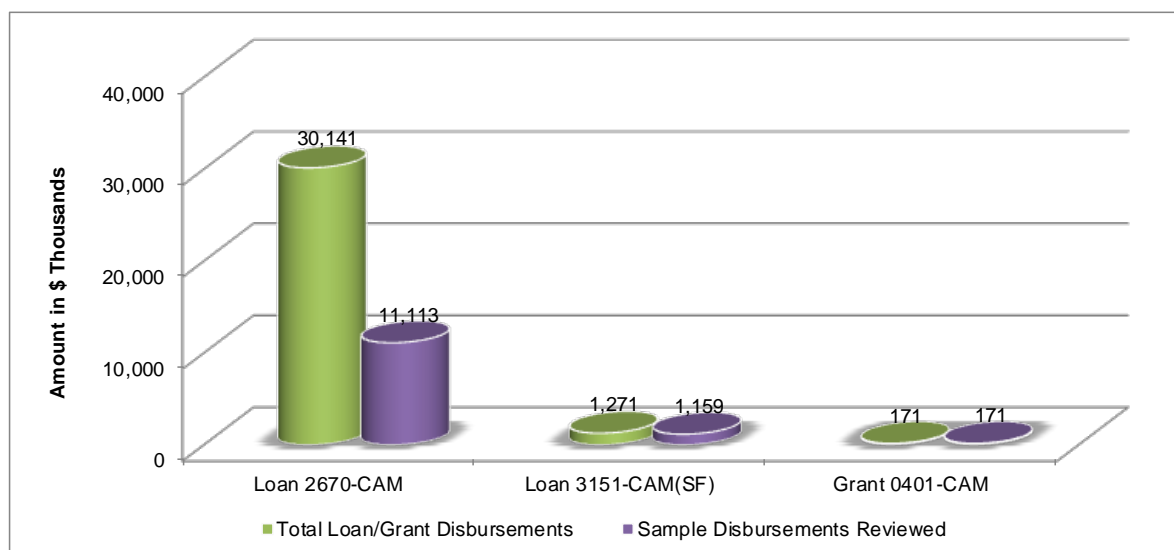
7. The PPRR team performed the following procedures under the scope presented in **Figure 5:**

- a. Assessed the PMU's internal controls and capacity. This included interviewing key officers and personnel to understand their functions and responsibilities with regard to procurement procedures, financial management system, and disbursements. It also included reviewing the organizational structure, experience and qualifications of key project staff, and segregation of duties with respect to project requirements;
- b. Reviewed the procurement processes and the related documentation. This covered all stages of procurement from the preparation of the bidding documents to contract award;
- c. Examined the appropriateness of project expenditures and the related supporting documents; and
- d. Inspected project assets relating to five contracts. This included inspection of goods and works, site safety, quality assurance and control procedures, and project management.

**Figure 5: Total Contracts Awarded vs. Sample Contracts Examined
(\$ in thousands)**



**Figure 6: Total Disbursements vs. Sample Disbursements Reviewed
(\$ in thousands)**



II. FINDINGS

PROJECTS' STRENGTHS

8. **Procurement roles are well defined.** The roles and responsibilities of the PRC, bid evaluation committees, and MRD-PMU procurement staff are clearly defined. There is adequate segregation of duties through the appointment of PRC, BEC, and CEC members. Accountability for procurement tasks was in place, which contributed to improving the transparency of decisions.

9. **System for monitoring contract balances is in place.** Fund reconciliations were undertaken by the PMU's Finance Officer. Also, the PMU's financial monitoring spreadsheets were used to track payment processing.

10. **Contractor/consultant billings were timely endorsed.** The MRD and Ministry of Economy and Finance (MEF) took only an average of five working days to endorse payment of contractor and consultant billings. This good practice enabled smooth cash flows of engaged contractors and consultants.

11. **Good relationship with the DDIS consultant.** Open communication lines were maintained between the DDIS consultant and the PMU staff which was crucial in timely reporting and resolving project implementation issues.

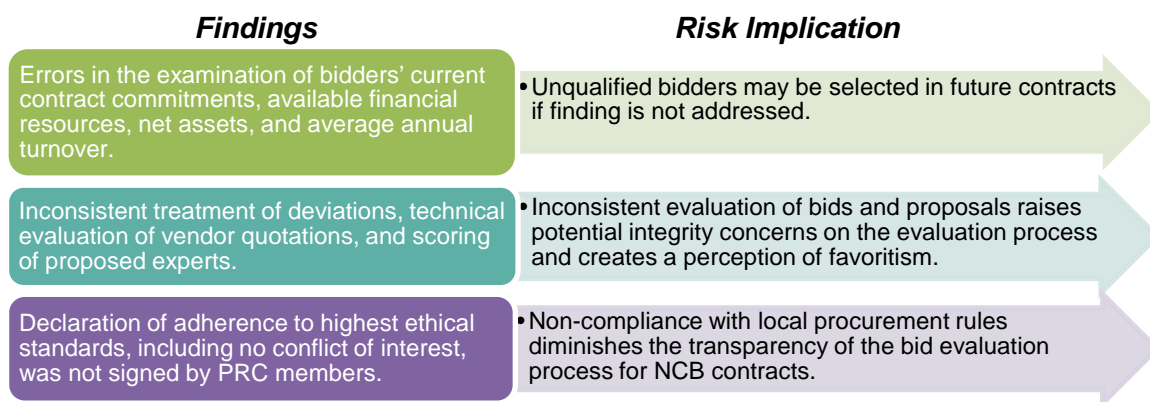
PROJECTS' VULNERABILITIES

12. The PPRR findings are categorized by area: (a) procurement process, (b) financial management and disbursements, and (c) asset management. While these findings are not major issues that would prevent the accomplishment of the Projects' objectives, they may result in financial loss if they recur. Some of these issues were already addressed by the PMU after the preliminary discussions with the PPRR team.

A. Procurement

13. The evaluation committees and PRC had shortcomings as summarized in **Figure 7**.

Figure 7: Summary of Procurement Findings



1. Errors in bid evaluation

14. Shortcomings in the financial evaluation of bids and related documentation were observed across the sample civil works contracts. As discussed in detail below, these errors may lead to flawed bid evaluation results in future contracts if improvements are not made.

NCB Civil Works Contract

15. **Financial capacity.** The winning bidder excluded four ongoing contracts in its bid Form FIN-4 yet this was not detected by the BEC. The bidder would have been disqualified had those four ongoing contracts been included in the analysis of its financial capacity. As explained by the PMU, bidders were evaluated strictly on the basis of current commitments disclosed in their bid Form FIN-4, which bidders may have, at times, failed to update. The PMU, however, did request an update of the bid Form FIN-4 from a disqualified bidder³ to include existing contracts which were deemed to be ongoing. Notwithstanding, the NCB contractor substantially completed the works for the contract.

16. In the same NCB contract, discrepancies between submitted bid Forms FIN-1 and FIN-2 against supporting audited financial statements were noted for 2 disqualified bids.⁴ In these cases, the discrepancies did not affect the final evaluation results.

ICB Civil Works Contract

17. The evaluation of the winning bidder's available financial resources in an ICB contract was erroneous. One of the joint venture partners did not have sufficient available financial resources to meet the financial resources requirement of the bidding documents.

³ In its 25 November 2013 clarification letter to disqualified bidder, the PMU requested the bidder to revise its bid Form FIN-4 to reflect two ongoing contracts identified by the DDIS consultant's international bid evaluation expert.

⁴ There were 8 discrepancies in relation to net assets and turnover figures for 2 disqualified bids.

2. Inconsistencies in applying bid/proposal evaluation criteria

18. Differences in the treatment of deviations, technical evaluation of vendor quotations, and scoring of proposed experts were observed in a number of contracts. Justifications for the adopted treatment were not thoroughly discussed in the BERs either.

Shopping Contracts

19. **Treatment of major and minor deviations.** In one shopping contract, the vehicle proposed by the winning bidder did not meet at least nine specifications of the bidding documents, which the BEC considered minor deviations and did not adequately justify in the BER. The proposed vehicle also exceeded the maximum height requirement, which was not considered as a deviation by the BEC. Moreover, the only other substantially responsive bid was considered non-compliant for not meeting the overall height requirement of the vehicle. The PMU explained that the higher ground clearance of the vehicle offered by the winning bidder was considered an advantage if the vehicle were to be driven on unpaved rural roads. The bidding documents did not clearly distinguish major from minor vehicle specifications, which left room for discretion in evaluation.

20. In another shopping contract, the winning bid fell short of the requirements for curb weight and fly wheel horse power, yet this was treated as a minor deviation by the BEC. The bidding documents did not clearly specify technical requirements that are major or minor. Furthermore, justification for treatment of deviations either as major or minor was not documented in the BER.

21. **Specifications of computer equipment.** The PPRR team observed differences between specifications of computer equipment used in the bidding documents and the BER.⁵ The BEC for the shopping contract explained that specifications for computers were revised to downgrade the proposed requirements. Furthermore, the PPRR team noted that the brand names of the laptop computer and laser jet printer were indicated in Annex C: Quotation Price Schedule, which formed part of the bidding documents. This is non-compliant with ADB's *Procurement Guidelines* as it limits competition.⁶

Consulting Services Contract

22. **Different scores given to same experts.** The scores assigned to the eight experts for the same positions proposed by three bidders were observed to be inconsistent in a QCBS contract. ADB's Transport and Communications Division, Southeast Asia Department (SETC) flagged this issue and required the CEC to revise the scores. Based on the examination of correspondences between the MRD and SETC and inquiries of the PMU, it appears that the MRD submitted incorrect score sheets in its initial submission of technical proposal evaluation results. These inconsistencies would have been avoided if the CEC members strictly complied with the evaluation procedures set forth in the Narrative Evaluation Criteria⁷ and ADB's *Consulting Services Operations Manual*, which emphasizes evaluation of proposals using the consensus approach. Nevertheless, had the inconsistent scores been adjusted, the ranking of

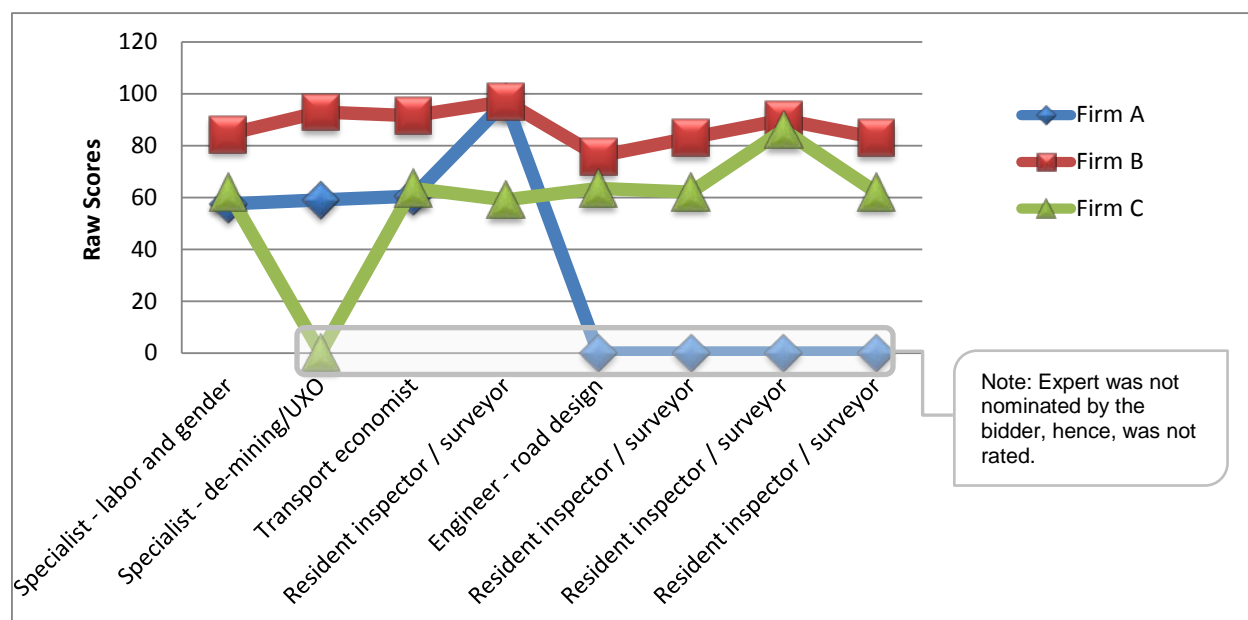
⁵ Discrepancies in specifications were noted for CPUs and monitors.

⁶ ADB *Procurement Guidelines*, para. 2.20 prohibits references to brand names, catalog numbers, or similar classifications that may unnecessarily limit competition.

⁷ This document forms part of the results of evaluation of technical proposals submitted by the CEC for ADB's no-objection.

the proposals would not change. The range of scores given for the experts is depicted in **Figure 8**.

Figure 8: Comparison of CEC Scoring of Same Experts



3. Declarations of adherence to highest ethical standards not signed

23. The review of an NCB contract disclosed that the PRC failed to satisfy the requirements of the Government of Cambodia's Procurement Manual which requires individual members to declare adherence to the highest ethical standards and no conflict of interest for every evaluation of works, goods, and services contracts. The PMU indicated that they will prepare the required declaration, seek PRC members' signatures on the declaration, and attach the same to the BER going forward.

B. Financial Management and Disbursements

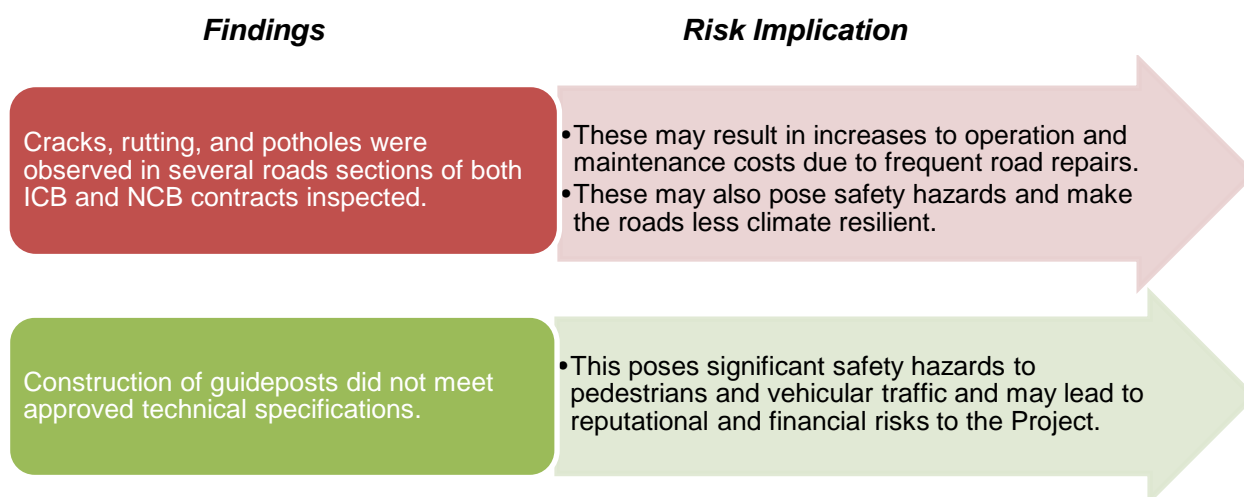
24. Contract implementation issues were observed in relation to processing of payments for consultants and contractors. However, these were assessed to be of low risk. The PMU has started addressing a number of these findings subsequent to communication of the issues during fieldwork.

C. Asset Management

25. Project outputs were generally found to be in order and were used for their intended purpose except for the issues identified below and summarized in **Figure 9**. Some of the defects noted below had already been identified during the issuance of completion certificates⁸ in 2015. Action has been taken to rectify some of the deficiencies subsequent to the PPRR team's asset inspection, as discussed in the **finding addressed** sections, where applicable.

⁸ Completion/taking over certificates were issued for the substantial completion of the NCB and ICB contracts on 6 March 2015 and 4 August 2015, respectively.

Figure 9: Summary of Asset Management Findings



1. Payments for incomplete works

26. Inspection of project roads for an ICB and a NCB civil works contracts showed that installation of road markings has not been completed in several road sections despite the fact that two separate joint inspections conducted by MRD staff and DDIS consultant already flagged the same observation. Some photos of affected road sections are shown in **Figures 10** and **11** below. This contradicted the information given in the Gantt chart prepared by the DDIS consultant,⁹ which indicated that installation of road markings was carried out from November 2014 until March 2015. The PPRR team also noted that payments for these road markings were already made.¹⁰ The DDIS consultant explained that the cost of road markings could not be billed separately since the amount involved was below the \$100,000 minimum ceiling for payment processing. The unfinished road markings, which were already paid, amounted to \$68,018.



Figure 10: Road section of 1BB1 in Battambang without road markings



Figure 11: Road section of 155C in Pursat without road markings

⁹ The PPRR team extracted the Gantt chart from a completion report prepared by the DDIS consulting firm and submitted to the MRD. It also details the actual timing of completion of road works activities.

¹⁰ This pertains only to the ICB contract.

Finding addressed

27. Based on the update provided by the MRD,¹¹ the contractor installed the road markings shortly after the PPRR fieldwork, as shown in **Figures 12** and **13**. Verification of completion of road markings installation and examination of quality will be conducted in a follow-up review to be conducted by OAI in 2017.



Figure 12: Road section of 1BB1 in Battambang with newly installed road markings



Figure 13: Road section of 155C in Pursat with newly installed road markings

28. Numerous guideposts that were unused or neglected by the contractor, as shown in **Figure 14**, were observed during the inspection of road sections 152E and 155C under an ICB contract.



Figure 14: Unused guideposts along 152E and 155C roads in Pursat

Finding addressed

29. Unused guideposts were collected shortly after the PPRR fieldwork as shown in **Figure 15**. Storage and final disposition of unused guideposts will be examined in a follow-up review in 2017.

¹¹ MRD feedback was provided to the PPRR team through an e-mail correspondence dated 23 June 2016, which included photos of the subject road sections.



Figure 15: Collection of unused guideposts along the stretch of road section 155C

2. Cracks, rutting, and potholes to be repaired

30. Indications of poor quality output were observed in both ICB and NCB project roads. These defects, including cracks, rutting, and potholes, were part of the punch list from the inspection prior to turn over of Project assets. The defects liability period for the ICB contract will soon expire, thus, rectification of the issues noted should be promptly carried out by the contractor. Otherwise, retention money should be forfeited.

3. Off-specifications

31. Construction and installation of guideposts¹² did not comply with the approved technical specifications as guideposts lack foundation. As shown in **Figures 16** and **17**, several poorly erected or leaning guideposts were displaced and subsequently removed to prevent crashes.



Figure 16: Actual guidepost in road 152E in Pursat



Figure 17: Actual guidepost in road 154D in Pursat

III. RECOMMENDATIONS

32. To address the asset management findings identified in this PPRR, the PPRR team recommends that the DDIS consultant:

¹² Total payments made for this work item amounts to \$37,184.

- a. immediately instruct the respective contractors to rectify the road construction defects noted (**paras. 30-31**);
- b. coordinate rectification of workmanship issues with the PMU and PDRD's resident inspector to facilitate inspection of materials placed in production; validate laboratory results for materials testing; and monitor collection, installation, and storage of unused guideposts (**paras. 30-31**); and
- c. coordinate site inspections with the PMU prior to final inspection to ensure rectification works are satisfactorily completed and within the defects liability period for the ICB contract. Subject to the MRD's approval, forfeit the contractor's retention money if work defects are not satisfactorily rectified (**paras. 30-31**).

33. To add rigor to bid evaluations and enhance the transparency of the procurement process in future biddings, the PPRR team recommends that:

- a. The BEC/CEC:
 - i. adequately document its determination of bidders' substantial responsiveness and decision to award a contract based on sound justification, which should be anchored on consistent application of evaluation criteria. Further discussion should be presented for bids found to contain deficiencies or conflicting information (**paras. 18-20**);
 - ii. ensure that the BER narratives are complete, accurate, and are reflective of actual documents submitted. (**paras. 19-20**); and
 - iii. consistently assign scores in the evaluation of proposed experts following ADB's consensus approach. CEC should pay particular attention to reviewing evaluation scores for similar experts nominated by competing firms (**para. 22**).
- b. The PMU:
 - i. ensure that the specifications that are mandatory and optional are clearly distinguished in the bidding documents to enhance the fairness and transparency of the bid evaluation process (**paras. 19-20**);
 - ii. ensure that specifications in the bidding documents are up-to-date and are reasonably available in the market to facilitate more efficient procurements. Any changes in specifications to be made must be recorded in the bidding documents (**para. 21**); and
 - iii. avoid references to brand names, catalog numbers, or similar classifications, unless specific needs require such disclosures to be made (**para. 21**).
- c. The PRC ensure its members sign the declaration of adherence to highest ethical standards, including non-conflict of interest, for every contract evaluation. (**para. 23**).

34. The PPRR team also recommends that SETC monitor PMU's implementation of the recommendations in this report and application of lessons learned from the PPRR to future similar projects, and keep OAI periodically updated of the PMU's progress in implementing the recommendations.

IV. CONCLUDING REMARKS

35. Strong procurement capacity and oversight of the PMU and compliance with relevant guidelines are crucial to deter fraud and corruption, mitigate the risk of improper use of project funds, and maximize development effectiveness. While shortcomings were noted above, the PPRR team observed indications of strong commitment of the PMU staff, including a good tone at the top, to effectively manage day-to-day project activities. The PMU's dedication to continue improving their controls was further evident during the discussion of findings. PMU's prompt action to address some of the findings immediately after the PPRR fieldwork and its efforts to ensure that activities are in line with project objectives are acknowledged. Notwithstanding, the PMU's capacity may be further uplifted, with assistance from ADB, by attending trainings on procurement and financial management to increase awareness of ADB's policies and guidelines.

36. The application of lessons learned and recommendations from this PPRR will enhance the implementation of the remainder of the Projects, as well as new similar projects. The PPRR team encourages SERD to continue to work with the Government of Cambodia to strengthen its commitment in promoting transparency and accountability. Implementation of recommendations in this report can only augment results achieved to date.

37. The PPRR team acknowledges and thanks officers and personnel of the MRD, MEF, PDRD, DDIS consultant, and the PMU for their cooperation and assistance during the PPRR. The PPRR team appreciates the support received from ADB's SETC and its Cambodia Resident Mission in the planning and execution of the PPRR. OAI also acknowledges the participation of and inputs from colleagues from NDF in jointly conducting the PPRR. OAI remains available to discuss matters in this report or issues that may affect the integrity of project implementation.