

CAMBODIA

SUMMARY OF FIDUCIARY REVIEW

INTRODUCTION

1. This document summarizes the findings, conclusions and recommendations of a Fiduciary Review of a sample of World Bank-financed projects in Cambodia.

2. The Fiduciary Review (FR) is a proactive instrument used to assess the effectiveness of fiduciary controls at different stages of the project cycle and to propose specific measures to improve them. The Fiduciary Review is part of the World Bank's overall strategy to strengthen its supervision and fiduciary responsibilities to its shareholders and is a key component of the World Bank's new Country Assistance Strategy for Cambodia, which focuses on improvement of the governance environment. Likewise, the Royal Government of Cambodia (RGC) has supported the FR because it promotes transparency and accountability, two core values of the RGC Rectangular Strategy for Development. To promote transparency, the World Bank and the RGC have taken the additional step of making a summary of the Fiduciary Review available to the public.

3. In collaboration with the RGC, the Fiduciary Review was conducted in two stages by a World Bank team over the period July-December 2004. Four ongoing projects representative of the World Bank's portfolio were selected for review. The selection was based on considerations of a mix of centralized and decentralized implementation arrangements, wide-ranging procurement methodology, well advanced implementation, and the existence of adverse comments in project audit reports. Prior to undertaking the Fiduciary Review, there had been no specific prior allegations of fraudulent or corrupt activity in any of the four projects selected. The sample projects, implemented by eight ministries and one inter-ministerial task force through their project implementation units (PIUs), were:

- Biodiversity and Protected Areas Management Project (BPAMP)
- Flood Emergency Rehabilitation Project (FERP)
- Road Rehabilitation Project (RRP)
- Rural Investment and Local Governance Project (RILGP)

4. During the first stage of the Fiduciary Review, basic data on a total of 632 contracts, randomly selected, were entered into a special database, which was then analyzed to produce a list of 257 contracts with areas of possible concern. In the time available for the second stage, 119 of these contracts were reviewed in depth, including the following aspects: available documentation relating to procurement, financial management and implementation; interviews with project staff, contractors, consultants, and beneficiaries; and site inspections of completed works and facilities.

FINDINGS

5. The Fiduciary Review confirms that works, goods and services reviewed under the four projects have been delivered and have contributed to the achievement of the projects' development objectives. However, the approach taken by the World Bank and the RGC to project design, implementation and supervision should be improved to address the following important issues:

- The procurement procedures outlined in the project agreements were not always strictly followed. For example, in some cases, incorrect procurement methods were used and in some others, contract terms differed from those in the Bank "no objection" letters. In one case, some bids were not opened and read out at the bid opening session. The review also uncovered indicators of actions that may have taken place to provide the appearance of competition, namely, possible collusion, bid manipulation, or, biased bid evaluation. Recurrent indicators include similarities in bid prices, different bids under the same format and including the same mistakes, different contractors using the same bank accounts, unjustified rejections of bids, possible fake quotations and appearance of conflicts of interest. Some contractors also appear to have engaged in fraudulent practices through the provision of falsified bid securities and other documents.
- The projects' financial management systems and project audit requirements do not give enough attention to management control issues and consequently could not be expected to reveal significant breakdowns or irregularities.
- In many cases, the quality of completed sub-projects inspected exhibited poor quality or below-specification workmanship.
- Many contractors interviewed alleged that they had to bribe government officials at various hierarchical levels to secure contracts and/or to facilitate contracts payments.
- Apart from program-specific guidelines applied under the Rural Investment and Local Governance Project, there are neither general rules for disclosure of information on the project cycle to civil society, nor rules for receiving and remedying complaints from any aggrieved party.
- The RGC's existing legal instruments that provide for investigations, prosecution and sanction of civil servants involved in corrupt and fraudulent activities are vague and not enforced.
- The "country fiduciary systems" including budgeting, procurement, accounting, reporting, treasury and internal/external controls are still weak.

6. In cases where there are significant indicators of irregularities, further investigations are being undertaken by the World Bank's Department of Institutional Integrity (INT)¹ that is charged with investigating allegations of fraud and corruption in Bank-financed projects. In line with the World Bank's Disclosure Policy, documents and records whose disclosure might prejudice these investigations are not publicly available. The sanctions process is an internal administrative process within the World Bank.² If corruption or fraudulent activities are substantiated in the course of an INT investigation, individuals and/or firms can be debarred, either indefinitely or for a stated period of time, from being awarded a Bank-financed contract. In addition, if the World Bank considers that laws of member countries may have been violated, information relating to such a violation may be referred to authorities of the countries involved.

REMEDIAL MEASURES

7. In consultation with other interested development partners and members of civil society, the World Bank and the RGC have agreed to develop and implement the following set of measures to address the main issues identified by the Fiduciary Review:

7.1 Support the strengthening of the country financial management systems through the implementation of the Public Financial Management Reform Program launched by the RGC in December 2004. The program focuses on building a more credible budget and improving internal controls and fiduciary accountability. The development of the latter would be supported through the strengthening of RGC's national audit authority and national procurement system.

7.2 Identify specific anti-corruption measures as part of project preparation. These would include identifying and addressing project-specific fiduciary risks, empowering beneficiaries and civil society to monitor project performance and outcomes, enhancing transparency and information flows to facilitate such monitoring and oversight, and evaluating the internal financial control environment. For projects or programs requiring the extensive use of "country fiduciary systems", as in the cases of development policy operations, projects whose implementation is decentralized, and sector wide approaches, effective safeguards

¹ The World Bank's Department of Institutional Integrity Department (additional information can be found at <http://www.worldbank.org/integrity>) reports directly to the President of the World Bank and is staffed by a multinational team of more than 40 professionals, including investigators, forensic accountants, procurement specialists and experienced Bank project managers. Independently from the World Bank operations teams, INT will undertake additional detailed investigations on priority cases which may lead to sanctions against some individuals and firms.

² The sanctions process provides for due process of all parties involved in a dispute (for more information on procurement and sanctions (see <http://www.worldbank.org/procure>). Sanctions, if any, will be disclosed. More information on the World Bank's anti-corruption policies and activities is available on the related Bank's website (<http://www.worldbank.org/anticorruption>). Allegations of fraud and corruption related to World Bank-financed projects can be reported to 1-800-831-0463, 24 hours a day, and an international AT&T operator with international translation is available. To reverse charges (collect calls) dial 704-556-7046. Reports may be anonymous, and can also be made in person or online at: investigations_hotline@worldbank.org

including special fiduciary arrangements will be incorporated to mitigate fiduciary risks and to support the steady progress on the public financial management reform agenda.

7.3 Strengthen procurement mechanisms in project design and implementation through:

- *Rationalization of responsibility for procurement decisions* by continuing to implement the recommendations of the Country Procurement Assessment Report (CPAR) of August 2004;
- *Tighter procedures for national competitive bidding* to ensure wider advertising, removal of geographic restrictions and utilization of post-qualification rather than pre-qualification or pre-registration processes;
- *Changed threshold for shopping* through a lower threshold that restricts utilization, requiring mandatory advertising and submission of sealed bids, public bid openings and utilization of the United Nations procurement agency (IAPSO) whenever possible;
- *Revised procurement thresholds to increase the use of more transparent and competitive methods*;
- *Elimination of bid securities for small contracts* (below \$100,000) and replacement with automatic debarment of selected bidders refusing to sign a contract;
- *Establishment of mechanisms for complaints and remedies* and mandating them on a project-by-project basis until such time as a countrywide system is implemented;
- *Rationalization of the composition of bid evaluation committees* and changes in procedures that require early disclosure of bid evaluation results and participation of end users/beneficiaries in the procurement process; and
- *Improvement of procurement post review procedures* by extending them beyond review of the normal paper trail by looking at the quality, price and timeliness of delivery, and include techniques used in this Fiduciary Review.

7.4 Strengthen financial management systems in project design and implementation. This would include improving financial management systems, focusing on strong internal controls for revenue and expenditure processing and management, and relevant and timely reporting; bundling most project audits under one single contract to increase timeliness and quality of project audits; ensuring audits include a review of the internal control environment, internal financial controls and systems, and the reliability of financial statements and compliance; and supporting the involvement of the National Audit Authority in contracting for and receiving the results and reports of audits of the World Bank-funded projects and activities.

7.5 Ensure consistent enforcement through defining roles and responsibilities more clearly in project documents for line agency staff and consultants during project implementation; systematic follow-up on cases of non-compliance, integrity issues and audit

findings; implementation of remedial measures including misprocurement and the issuance of sanctions if applicable.

7.6 **Enhance disclosure** through the design and implementation of a phased, project-level “umbrella disclosure agreement” between the World Bank and the RGC. The agreement would go beyond the World Bank’s current disclosure requirements by routinely disclosing annual procurement plans, annual financial statements and audit reports and mid-term review reports, and enhance understanding and awareness of the information being disclosed to encourage participation on the part of civil society to monitor integrity and project outcomes.

7.7 **Improve project management** practices through the use of Standard Operating Procedures, including a Financial Management Manual, Procurement Manual and Standard Bidding documents that contain specific requirements for record-keeping and ethical guidelines for line agency procurement officers.

7.8 **Review and retrofit the existing portfolio** to include, if applicable, the above mitigation measures for all projects having at least one year remaining before credit/grant closing date.

8. For more information regarding this report, you may contact Mr. Denis Robitaille, Operations Manager, World Bank Office in Bangkok (Phone: 662-686-8340; email: drobotaille@worldbank.org) or Ms. Kimberly Versak, Communications Officer, World Bank Office in Bangkok (tel: 662-686-8324; email: kversak@worldbank.org).