Detailed Implementation Review (DIR) of Two World Bank-Funded Transport Projects

Findings and Implications

The World Bank in Vietnam
Hanoi, May 28, 2007
What Is a DIR?

- A process to determine a project’s susceptibility and possible exposure to corruption or waste
- Focuses on project contract procurement, financial management and implementation
- Contracts are considered to be at risk based on indicators of irregularities
- A tool to strengthen the design, implementation and supervision of projects
What a DIR is Not

• It is not an investigation aimed at allocating responsibility to specific individuals of firms

• It emphasizes statistical regularities over case-by-case analysis

• When examples are provided, the contracts are identified by a non-traceable number only

• It should not be used as a basis for initiating any administrative, civil or criminal proceedings.
Why this DIR?

- Due to concerns about possible fraud and corruption in PMU 18, which managed two World Bank funded projects.

- To identify risks of fraud, waste and misuse of resources in those projects, and adopt corrective measures if necessary.

- To learn more generally about weaknesses in project implementation and use the findings to strengthen project design and management.
Rural Transport Project 2 (RTP2)

- Included 1,820 road-links covering 7,600 km and 1,029 bridges
- Involved 40 provinces, and was implemented in a decentralized way
- Aimed at improving access for 1,062 communes with 6 million people
- Sought to strengthen the management of the rural road network

Closed in 2006
Road Network Improvement Project (RNIP)

- Preserving 1,100 km of national roads and improving standards over 600 km
- Strengthening asset management at the Vietnam Road Authority
- Improving planning, budgeting and financing of road maintenance
- Piloting performance-based contracts and public-private financing

More recent, progress is slow
The DIR Methodology

• Preliminary review of bidding and procurement documents to identify contracts with indicators of irregularities

• Contracts at risk are subject to detailed review to confirm preliminary indicators (or not) and to identify any additional indicators of irregularities.

• The detailed review encompasses the contract’s procurement, financial management and implementation activities.
The Vietnam DIR

- Data are from 742 contracts issued since 2004, out of a total of 856
- 1376 companies and 1145 individuals were involved in these contracts
- Contract documentation was reviewed for preliminary indicators of irregularities
- Contracts identified as at risk were followed up through detailed document examination.
- Procurement documentation was reviewed
- Financial management was reviewed and sites were visited to assess implementation
Some Basic Terms

• Irregularity (Bắt thường) (i) the misuse of Bank funds or their diversion from their intended purposes, or (ii) improper or unsatisfactory implementation.

• Indicator (Đầu hiệu) An event, document, statement, correlation or observation suggesting that an irregularity may have occurred.

• Corruption (Tham nhũng) The offering, giving, receiving or soliciting, directly or indirectly, of anything of value to influence project decisions improperly.

• Collusion (Thông đồng). A collusive practice is an arrangement between two or more parties designed to achieve an improper purpose, including influencing improperly the actions of another party.

• Fraud (Gian lận). A fraudulent practice is any action or omission including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit or to avoid an obligation
Examples of Irregularities (1)

Some indicating a questionable intention:

- Bidders on one contract submitting bid securities from the same bank with sequential security numbers
- Issuance of completion certificates for bridges where work had barely started
- Separate bid proposals with identical format, layout, font, spelling mistakes and punctuation errors.
- Sloppy preparation of losing bids, suggesting that their only purpose was to create the illusion of competition.
Examples of Irregularities (2)

Some reflecting poor management:

- Limited supervision (lack of vehicles or funding for petrol).
- Accounting following government procedures correctly, but not applying those of the World Bank.
- Lack of an integrated accounting system.
Findings Related to PMU 18

• The DIR found no evidence supporting allegations of fraud and corruption against PMU 18 officials

• The DIR identified areas where fiduciary controls in PMU 18 should be strengthened
  – Lack of integrated accounting systems
  – Submission of withdrawal applications with misleading information
  – Time to effect payments excessively long
  – Extended time gap between submission of Site Visit Reports and Payment Certificates
  – Alterations on payment documentation not properly treated
Findings Related to Provincial PMUs

• **Procurement.** Indicators that there was a risk of the following irregularities occurring: fraud and misrepresentation, collusion among bidders, deviation from Bank’s procedures, and influencing contract award.

• **Financial Management.** Weak financial management capacities.

• **Implementation.** Questionable workmanship in contract implementation especially in relation to the long-running RTP2. Sites visited showed design and construction irregularities.
Rural Transport Project 2 (RTP2)

708 contracts awarded since 2004 ($43.6 mn)
269 with preliminary indicators ($17.7 mn)

<table>
<thead>
<tr>
<th>In-Depth Reviews</th>
<th>Contracts Reviewed/ Sites Visited</th>
<th>Contracts/ Sites with Confirmed Indicators of Irregularities</th>
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</thead>
<tbody>
<tr>
<td>Procurement</td>
<td>84 ($5.9 mn)</td>
<td>76 ($5.5 mn)</td>
</tr>
<tr>
<td>Financial Management</td>
<td>64 ($4.8 mn)</td>
<td>29 $(2.3 mn)</td>
</tr>
<tr>
<td>Implementation</td>
<td>48 ($2.7 mn)</td>
<td>35 ($2.2 mn)</td>
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## Road Network Improvement Project (RNIP)

34 contracts awarded since 2004 ($53.9 mn)
16 with preliminary indicators ($22.8 mn)

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<tr>
<td>Procurement</td>
<td>16 (&quot;$22.8 mn&quot;)</td>
<td>9 ($10.0 mn)</td>
</tr>
<tr>
<td>Financial Management</td>
<td>13 (&quot;$17.1 mn&quot;)</td>
<td>2 ($1.7 mn)</td>
</tr>
<tr>
<td>Implementation</td>
<td>3 (&quot;$5.5 mn&quot;)</td>
<td>3 ($5.5 mn)</td>
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Completion Assessment of RTP2
by the World Bank office

Satisfactory development results

• Directly benefited 1 million poor and by one estimate lifted 0.2 mn of them from poverty
• Raised private sector activity in local civil works from 35 percent to 100 percent in 5 years
• Closed in 2006, on time, after 6 years of implementation, within budget (U$145 mn)
Main Recommendations

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<th>Short term</th>
<th>Medium term</th>
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<td>• Develop an action plan to combat the risk of corruption in the</td>
<td>• Strengthen the mechanisms for handling complaints</td>
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<td>implementation of ODA projects in the transport sector in Vietnam</td>
<td>• Expand public disclosure of project information</td>
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<td>• Strengthen the financial management practices within the PMUs</td>
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The Way Forward (1)
Enhancing the Fiduciary Framework in RNIP

Procurement
• Closer scrutiny of procurement actions

Financial Management
• Improved financial management and accounting with software and aligned monitoring tool

Implementation
• Upcoming Mid-Term Review (June 2007) will strengthen transparency and accountability
The Way Forward (2)
Moving from RTP2 to RTP3 in rural roads

Procurement
• Action Plan for improving fairness and transparency: identifies indicators of collusion, makes bid committees responsible, clear line of reporting if collusion suspected

Financial Management
• “One system approach”: integrated with PMU systems, linked to treasury system and physical outputs

Implementation
• Focus on results: more post reviews, emphasis on integrated audits, annual monitoring of performance
The Way Forward (3)

Dealing with decentralization

• Increase provincial authority and clarify responsibility between central and provincial authorities
• Greater user involvement, including beneficiaries and private sector
• Increased transparency by using transparent allocation formulas
• Compare performance across provinces and allocating additional finance based on improvement

Revising the cost norms system
Does the DIR Affect the Engagement of the World Bank in Vietnam?

• There will be no declaration of mis-procurement and no request for further investigation, although the World Bank reserves that possibility if problems arise in the future.

• Efforts will focus on working with government towards better systems to manage and implement ODA-funded projects and public investment projects more generally.

• The engagement of the World Bank in Vietnam continues to be guided by our Country Partnership Strategy for 2007-2011, approved earlier this year.
Current and Forthcoming Events in the Cooperation with Vietnam

- May 17: Signing of RTP3 project, to be implemented by MOT
- May 21: Negotiation of PRSC 6, supporting the reform agenda of Vietnam
- May 22: Approval of the Mekong Transport Infrastructure Project
- June 1: Mid-term CG meeting, co-chaired by Government and the World Bank
- June 20-26: US$ 465 million in concessional credits to be approved