

ASIAN DEVELOPMENT BANK

FOLLOW-UP REVIEW ON THE IMPLEMENTATION OF PROJECT PROCUREMENT-RELATED REVIEW RECOMMENDATIONS

LOAN 2368-SAM(SF), GRANT 0087-SAM(SF), GOVERNMENT OF AUSTRALIA GRANT 0101-SAM, AND JICA LOAN 8232: Power Sector Expansion 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 2015

ABBREVIATIONS

EPC	-	Electric Power Corporation
ICB	-	international competitive bidding
MOF	-	Ministry of Finance
OAI	-	ADB Office of Anticorruption and Integrity
PARD	-	ADB Pacific Department
PMU	-	project management unit
PPRR	-	project procurement-related review
PSEP	-	Power Sector Expansion Project
SPSO	-	ADB South Pacific Subregional Office
TEC	-	technical evaluation committee

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 verify compliance with applicable ADB policies, guidelines, and the grant and project 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* (<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 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.

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EXECUTIVE SUMMARY

1. In June 2012, the Office of Anticorruption and Integrity (OAI) of the Asian Development Bank (ADB) issued the project procurement-related review (PPRR) report on Samoa's Power Sector Expansion Project (PSEP or the Project). The PRR report provided 18 recommendations.
2. In 2013, Samoa's Electric Power Corporation (EPC) and the project management unit (PMU), in collaboration with ADB South Pacific Subregional Office (SPSO), developed an action plan to address recommendations. The Action Plan with implementation status as of February 2014 was approved by the Ministry of Finance's (MOF) Project Steering Committee in August 2014. The Action Plan has continuously been updated.
3. From 10 to 21 November 2014, OAI together with SPSO and engaged engineers (the review team) conducted a follow-up review to assess the implementation of the PRR recommendations, including an asset inspection of selected subprojects. The results of the follow-up review indicated that of the 18 recommendations, 8 were addressed, 7 were not addressed (6 by MOF/EPC/PMU and 1 by ADB SPSO), and 3 were no longer relevant or applicable. Based on the on-site inspection of 14 subprojects, the quality of the infrastructure, equipment and civil works was generally satisfactory. The completed works appeared to be well maintained and equipment inspected was in good condition.
4. The review team worked closely with the stakeholders to address, where relevant, the remaining recommendations. In brief, these emphasized to MOF/EPC/PMU (1) the need to continue enhancing transparency in the bid collection and opening, bid evaluations and documentation, and award publications of international competitive bidding contracts; (2) the need to regularly undertake full reconciliation of subprojects to contracts awarded, donor records and disbursements; and (3) the need for ADB PARD (through SPSO) to more thoroughly review ICB procurements by carefully scrutinizing technical evaluation reports and validating information in bids submitted.
5. It is noted that project supervision and contract management have generally improved. EPC is advised to apply the PRR recommendations to the subsequent project – the Renewable Energy Development and Power Sector Rehabilitation Project, which is also administered by MOF and implemented by EPC, and to similar future ADB-financed projects in Samoa.
6. The review team commends the collaborative efforts of MOF, EPC, PMU and ADB SPSO in developing, approving, and monitoring EPC's Action Plan to address the PRR recommendations.

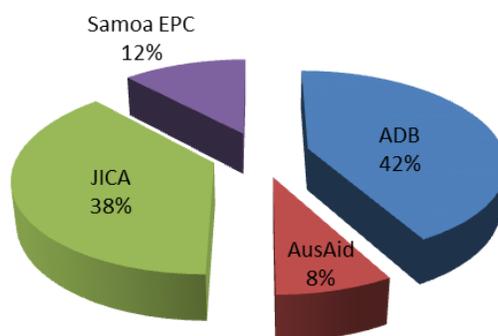
OVERVIEW

1. The Office of Anticorruption and Integrity (OAI) of the Asian Development Bank (ADB) conducted a project procurement-related review (PPRR) of Samoa's Power Sector Expansion Project (PSEP, the Project) in 2011.¹ The PPRR report issued in June 2012 provided 18 recommendations.
2. By 2013, EPC and the PMU had initiated addressing the PPRR recommendations and prepared an action plan. The Action Plan with updated status on actions taken to address the recommendations was approved by the Project Steering Committee, chaired by the Ministry of Finance in August 2014. The Action Plan has continuously been updated .
3. From 10 to 21 November 2014, OAI, together with ADB South Pacific Subregional Office (SPSO) and engaged engineers, (the review team) conducted a follow-up review to assess the actions taken by EPC to implement the PPRR recommendations and to assist in addressing the remaining recommendations. The review team also conducted asset inspection of selected subprojects.² This report presents the results of the follow-up review.

Background

4. PSEP is valued at \$100 million and co-financed by ADB through Loan 2368(SF) for \$26.5 million and Grant 0087(SF) for \$15.5 million, the Government of Australia through ADB-administered Grant 0101 for \$8 million and the Japan International Cooperation Agency through Loan 8232 for \$38 million. The remaining \$12 million is financed by Samoa's EPC. PSEP fund sources are in **Figure 1**. The ADB-financed and administered loan and grant agreements signed on 11 December 2007 are scheduled to close on 31 December 2016. The Ministry of Finance (MOF) is the executing agency and EPC is the implementing agency.

Figure 1: PSEP Fund Sources



5. The PSEP aims to (i) support EPC's Project Investment Plan to meet growing electricity demands, (ii) improve operational efficiency of EPC, (iii) improve financial performance of EPC, and (iv) establish effective regulation of the power sector in Samoa. As of 31 October 2014,

¹ The Project was administered by PARD in 2011 and transferred to SPSO.

² The engaged engineers were from the Asian Institute of Technology, Thailand.

about 85% of the subprojects had been completed, with 4 subprojects expected to be completed by end of 2016. Project savings were re-allocated to fund additional subprojects.

Follow-up Review Coverage

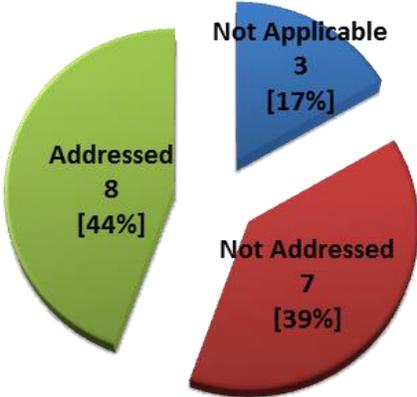
6. Of the 18 PPRR recommendations, 12 pertained to international competitive bidding (ICB) contracts, 1 to shopping contract, and 5 to internal controls. Since January 2013, PSEP awarded 13 contracts, of which the review team selected 8 to evaluate actions taken in addressing the 18 PPRR recommendations. These comprised four each of ICB and shopping contracts and represented 85% in terms of contract value.³ The review team’s engineers visited the sites of 14 subprojects to conduct the asset inspection.

7. The follow-up review focused on relevant project documentation and procedures to ascertain actions taken to address the PPRR recommendations. The inspection of project assets included works and goods, adequacy of equipment committed by contractors, site safety, quality assurance and control procedures, and project management. The preliminary results were discussed with MOF, EPC and the PMU at the end of the fieldwork.

RESULTS

8. Of the 18 PPRR recommendations, 8 were addressed, 7 were not addressed, and 3 were not applicable (**Figure 2**).

**Figure 2: Snapshot of PPRR Recommendations
(In Figures and Percentages)**



³ The 13 contracts awarded aggregated to \$4.5 million, of which 8 amounting to a total of \$3.9 million were selected for PPRR follow-up assessment.

A. Recommendations addressed

9. EPC has taken steps to enhance project implementation and manage risks with regard to implementation delays of critical processes by retaining a Project Manager.⁴ The PMU ensures that the implementation of each subproject is monitored and supervised by an assigned PMU engineer to each subproject to improve contract management. Each PMU engineer conducts weekly site meetings, prepares site inspection reports, and updates the Project Manager on the subproject's progress and work schedule.

10. Below are the actions taken to address 8 of 18 recommendations relating to ICB procurement.

- The technical evaluation committee (TEC) complied with ADB's Guide on Bid Evaluation by evaluating all proposals for substantial responsiveness, and evaluating in detail substantially responsive bids that have reasonable chance of becoming the lowest evaluated bid.
- The clarifications sought by the TEC and received from bidders were recorded either in the minutes of the TEC meetings or evaluation reports. The review team further confirmed that the addenda issued were received by bidders as the information therein was considered in the bidders' bid submissions.

11. Project files are now centralized in the EPC main office where the PMU is located. Based on the 30 withdrawal applications reviewed, the review team confirmed that claims for payment of goods and civil works were supported by goods/civil works inspection and receiving reports and price schedules. These supporting documents were duly verified and signed by the PMU systems planner or PMU engineer. In addition, the PMU provided the review team with documentation to substantiate the travel expenditures of the EPC officers in relation to the tender funded by EPC.

12. The asset inspection engineers of the review team noted that there were no major defects on the concrete slabs of the constructed building of the Fiaga subproject. Based on the independent laboratory test results sighted, most of the sample test results for concrete strength exceeded the design standards.

B. Recommendations not addressed

13. Seven recommendations were not addressed.⁵ These recommendations pertain to enhancing transparency in the procurement process, primarily in documenting procurement-related decisions, without which could lead to awarding of future contracts to unqualified bidders and/or cause implementation delays.

⁴ The Project Manager has been engaged as consultant under ADB Grant 0087-SAM(SF), whose contract ended on 25 February 2015, and further extended until the closing of PSEP on 31 December 2016.

⁵ A recommendation is considered as "not addressed" if the recommendation is not implemented in at least one of the sample contracts reviewed. For example if only three of four ICB contracts reviewed complied with the recommendation and one contract did not, then the recommendation is considered as "not addressed".

14. **Need for proper documentation of bid evaluation decisions.** Based on the validation of sample contracts, the TERs of 4 ICB contracts did not reflect proper justifications of acceptance of deviations from bid requirements (e.g., a bidder possessed 2 years' experience when bid requirement was 5 years and 3-year average annual construction turnover indicated in the bid form when the bidder has been in operation for only 2 years).⁶ The TER is the basis for inquiries by stakeholders before approving any recommendation to award the contract. Thus, it is imperative that TERs should correctly document all relevant information. Moreover, while ADB SPSO has been proactive in guiding the PMU on procurement-related concerns, there were no written records of feedback on some identified lapses in the TERs before no objections were provided. PARD and SPSO staff are advised to properly document such concerns, so as to enhance transparency in ADB procurement.

15. **Non-compliance to ADB's Procurement Guidelines.** Non-compliance to ADB's *Procurement Guidelines*, which pertain to incomplete information of the bid opening records⁷ as well as non-publication of the results of the evaluation, has an adverse impact on the transparency of the procurement process.

16. **Ensuring TERs are signed.** The TERs for three ICB contracts were not signed by some or all of the committee members and had no documented justification. Having all committee members sign off ensures that each of them agrees with and confirms accountability for the evaluation results.

17. **Enhancing project monitoring records.** Considering that a subproject is completed through several contracts, the absence of a record clearly linking each contract with the subprojects to donor records and associated disbursements will not provide a single and accurate overview of PSEP's financial picture, which may cause unexpected cost overruns.

18. The review team met with MOF and worked closely with the PMU and ADB SPSO to assist on actions to be taken to address these recommendations.

C. Recommendations no longer relevant or applicable

19. Two recommendations were no longer relevant at the time of the follow-up review. One, which pertained to a proposed mandatory requirement for bidders to submit audited financial statements where the ICB contract values and associated financial risks are significant, is redundant as this is embedded in the standard bid document. The other, which pertained to safety issues in the construction of a subproject, could no longer be validated during asset inspection as construction had been completed.

20. The other recommendation considered not applicable pertained to the use of direct contracting instead of shopping when conditions justify the same. At the time of the follow-up

⁶ In their response to the preliminary draft report, the PMU indicated that while the TER may be brief, the PMU prepared and submitted the evaluation report, with a separate paper summarizing all details to the EPC board, Government Tender Board and Cabinet. When the TER was submitted to ADB for no objection, ADB would request for additional information. During discussions and meetings of the evaluation committee, especially when this comprised of representatives from the Office of the Attorney General, Ministry of Finance, EPC and PMU, the PMU indicated that all requirements had been considered. The PPRR team was not provided with any documentation of such discussions during the evaluation committee meetings.

⁷ The bid opening records for the four selected ICB contracts did not have the names of the National Tender Board members and bidders who attended the bid opening.

review, the use of shopping for contracts sampled was determined to be the appropriate procurement method and did not qualify for direct contracting procurement mode.

D. Asset inspection

21. On-site inspection of the 14 subprojects revealed that the quality of the infrastructure, equipment and civil works was generally satisfactory. The completed works appeared to be well maintained and equipment was in good condition.

WAY FORWARD AND ACKNOWLEDGMENTS
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22. The review team values the collaboration between MOF, EPC, PMU and ADB SPSO and their efforts in addressing the PPRR recommendations. The review team expects the EPC (through the PMU) and SPSO to monitor the implementation of the remaining recommendations, and to provide OAI a copy of the updated Action Plan at least after every Project review mission until all recommendations are fully addressed.

23. For future projects, PARD and SPSO should provide the EA and PMU appropriate briefing on, among others, the importance of documenting procurement-related decisions and compliance with ADB's *Procurement Guidelines*.

24. The review team acknowledges the cooperation and assistance from MOF, EPC and PMU. The PMU's untiring efforts to provide the necessary information for the follow-up review to meet its objectives as well as its proactivity in collaborating with the review team on necessary actions to address the remaining recommendations are admirable and appreciated.

25. The review team is grateful to the steadfast support and collaboration from ADB's SPSO representative. OAI remains available for consultation on any matters in this report or in addressing the remaining recommendations.