



Loan 3131-BAN(COL): Skills for Employment Investment Program – Project 1

Office of Anticorruption and Integrity

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ASIAN DEVELOPMENT BANK



ADB

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CURRENCY EQUIVALENTS

(as of 31 July 2017)

Currency unit – Bangladesh taka (BDT)

BDT1.00 = \$0.0123984874

\$1.00 = BDT80.65500

ABBREVIATIONS

ADB	-	Asian Development Bank
BDT	-	Bangladesh taka
BRM	-	Bangladesh Resident Mission
FMM	-	Financial Management Manual
IPA	-	implementing partner agency
MOF	-	Ministry of Finance
OAI	-	Office of Anticorruption and Integrity
PPRR	-	project procurement-related review
PTC	-	partner training center
SARD	-	South Asia Department
SDCMU	-	Skills Development Coordination and Monitoring Unit
SEIP	-	Skills for Employment Investment Program
TMS	-	training management system

NOTES

- (i) The currency equivalents above were used unless otherwise stated.
- (ii) In this report, \$ refers to US dollars.

Project Procurement-Related Reviews

Mandate:

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, under 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 Office of Anticorruption and Integrity (OAI) conducts project procurement-related reviews (PPRRs) or proactive project integrity risk reviews to help prevent and detect integrity violations (i.e., fraud, corruption, collusion, coercion, abuse, conflict of interest, and obstruction).

Objective:

A PPRR assesses project integrity risks through the (i) examination of processes, procedures, and documentation related to procurement, financial management, and contract implementation/management, and (ii) inspection of outputs. OAI recommends enhancements to mitigate or eliminate opportunities for integrity violations.

OAI conducts follow-up reviews on selected PPRRs to (i) assess the implementation progress of the PPRR recommendations, and (ii) assist the executing/implementing agencies and ADB in implementing any remaining recommendations.

A PPRR is neither 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.

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

EXECUTIVE SUMMARY

This report presents the findings and recommendations resulting from the project procurement-related review (PPRR) of Project 1 of the Skills for Employment Investment Program (SEIP) in Bangladesh, conducted by the Office of Anticorruption and Integrity (OAI) of the Asian Development Bank (ADB) in August and November 2017.

PPRR Objective

The objective of the PPRR is to assess the integrity risks in the project and recommend measures to manage these risks. To achieve this objective, the PPRR team verified the project's adherence to the three pillars of project integrity: transparency, fairness, and accountability and control.

Project Background

The \$138.5 million project, \$100 million of which is funded by ADB Loan 3131-BAN(COL), aims to increase employment in priority sectors and skills for the workforce by (i) delivering market-responsive inclusive skills training (output 1) and (ii) strengthening quality assurance system, institutions, and skills development monitoring and management (outputs 2, 3 and 4). The Finance Division of the Ministry of Finance (MOF) is the executing agency, and the Skills Development Coordination and Monitoring Unit (SDCMU), within MOF, is the implementing agency.

To deliver the trainings (output 1), SDCMU partnered with agencies in the public and private sector (implementing partner agencies or IPAs). SDCMU engaged the IPAs to undertake the enrolment, training, and job placement activities. The IPAs undertake these activities either through (i) their own training centers or (ii) partner training centers (PTCs).

Results

The significance of integrity risks varied across 19 contracts reviewed depending on SDCMU's degree of involvement in implementing the contracts. Nine contracts totaling \$4.98 million (3 consulting, 5 goods, and 1 works), which SDCMU directly implemented, did not pose significant integrity risks. SDCMU's strong procurement and contract management capacity enabled the smooth implementation of these nine contracts. In addition, the inspected project assets of the five goods contracts were used for their intended purposes.

However, the PPRR identified significant integrity issues in the other 10 contracts reviewed (training grants totaling \$48.27 million), as summarized in Table 1. The activities in these 10 contracts were undertaken largely by the IPAs and PTCs. The diffusion of responsibilities in implementing these contracts weakened the accountability and control mechanisms in output 1.

The PPRR team commends SDCMU for taking prompt actions to address some of the findings. SDCMU should take further steps to address the other findings to mitigate project integrity and reputational risks. Also, SDCMU should apply the lessons learned from this PPRR in Projects 2 and 3 of SEIP.

Table 1: Findings, Implications and No. of Affected Implementing Partner Agencies

Finding	Resulting Risks	No. of Affected IPAs^a
Weaknesses in Accountability and Control		
Limited accountability of partner training centers (PTCs): deficient contracts with PTCs	Undetected integrity violations and other noncompliance resulting in waste of project funds	 7
Weak management of enrolment, assessment, and job placement records	Funding of ineligible activities	 9
Limited controls in the enrolment, job placement, and PTC monitoring processes	Payments to ineligible trainees, trainers, and assessors	 10
Weak controls over project expenditures	Funding of ineligible expenditures	 9
Conflict of interest issues	Perceived attempts or actual override of controls	 6
Threats to Transparency and Fairness		
Concerns in the selection of PTCs, trainers and assessors	Selected PTCs, trainers, and assessors undermining the quality of the training programs	 10

^a Out of 10 IPAs

The majority of these findings relate to fiduciary risks that were identified during the concept design stage by the reviewing ADB departments which highlighted the weak fiduciary capacity of the IPAs. To mitigate these risks at the time they were identified, ADB and SDCMU established guidelines, controls and systems including:

- (i) controls embedded in the business plans developed by the IPAs;
- (ii) the Financial Management Manual (FMM);
- (iii) the Training Management System (TMS), and
- (iv) multiple audits including periodic fiduciary reviews and monitoring and evaluation reviews.

However, these controls were not consistently implemented to mitigate the fiduciary risks, given that SEIP's training modality was relatively new to all IPAs and PTCs.

Recommendations

To prevent the recurrence of these issues, SDCMU should:

- Establish accountability of the PTCs through written agreements with IPAs that include the significant clauses on audit, anticorruption, and records retention;
- Enhance quality of the trainings and assessments by improving processes and documentation for engaging PTCs, trainers, and assessors;
- Enhance processes, including TMS controls, and documentation for the core training activities to accurately report project outputs;
- Enforce compliance with the FMM by training the IPAs and PTCs, and tightening controls over cash transactions; and

- Strengthen project monitoring by enhancing the monitoring checklist to include verification of financial activities and following up in a timely manner any issues identified during monitoring visits.

Furthermore, ADB's South Asia Department (SARD), through Bangladesh Resident Mission (BRM) should enhance its supervision to ensure that the issues are effectively addressed to enable the project to achieve its objectives. BRM should work closely with SDCMU to improve the overall project management.

Potential Integrity Violations

The PPRR team identified instances where ADB's Anticorruption Policy may have been violated. These were referred to OAI's Investigations Division for assessment and further verification in accordance with ADB's Integrity Principles and Guidelines.

Concluding Remarks

All findings were discussed with and acknowledged by SDCMU and SARD. Their feedback on the findings submitted to the PPRR team were suitably incorporated in this report. SDCMU indicated that corrective measures were undertaken to address all the findings from the PPRR and that lessons learned from it will be applied to strengthen the integrity of project implementation going forward. OAI will verify the actions taken in a follow-up review in 2020/2021.

I. BACKGROUND AND REVIEW SCOPE

A. Review Objective

1. This report presents the results of the project procurement-related review (PPRR) of Project 1 of the Skills for Employment Investment Program (SEIP) in Bangladesh. The Office of Anticorruption and Integrity (OAI) of the Asian Development Bank (ADB) conducted the PPRR to (i) assess the integrity risks in the project's procurement, financial management, and asset management, and (ii) recommend measures to mitigate these risks to ensure that the project funds are used for intended purposes.¹ To achieve this objective, the PPRR team verified the project's adherence to the three pillars of project integrity: (i) transparency, (ii) fairness, and (iii) accountability and control.

B. Project Background

1. Target Impact, Outcome, and Outputs

2. The project aims to increase employment in priority sectors and skills for males and females in Bangladesh.² Table 1 presents the project's target impact, outcome, and outputs.

Table 1: Project's Target Impact, Outcome and Outputs

Impact	Outcome	Outputs
Increased income and productivity of the working population aged 15 and over	Increased employment in priority sectors and skills for males and females	1 Delivered market-responsive inclusive skills training 2 Strengthened quality assurance system 3 Strengthened institutions 4 Strengthened monitoring and management

2. Financing

3. The project is the first in a 10-year investment program (SEIP), for which \$350 million will be funded by ADB through a multi-tranche financing facility. Project 1's total cost is \$138.5 million, \$100 million of which is financed by ADB Loan 3131-BAN.³ Figure 1 presents the project's financing structure.⁴ The project's closing date is 30 June 2020.⁵

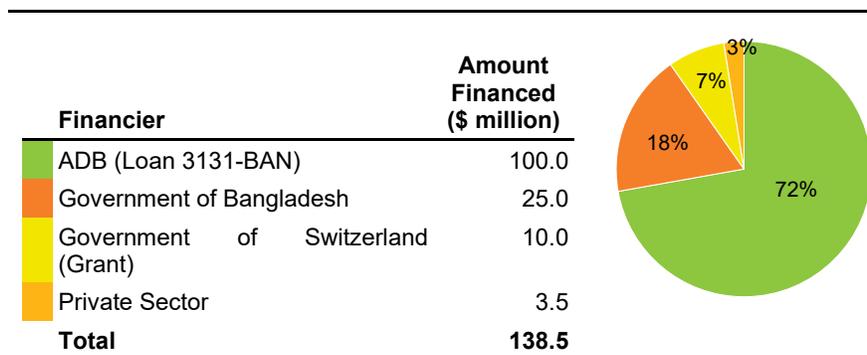
¹ OAI conducted the PPRR fieldwork in August and November 2017. Due to the expanded scope of the PPRR and the inherent complexity of a large-scale project (the PPRR examined 19 contracts with a total value of \$53.25 million and the related disbursements totaling \$18.25 million), OAI performed further review and analyses after the fieldwork. The extended review and analyses were necessary to firm up the findings, assess the significance of the resulting integrity risks, and formulate practical recommendations that will effectively mitigate these risks.

² Aligned with the National Skills Development Policy of Bangladesh

³ Tranche 1 financing is denominated in special drawing rights (SDR) equivalent to \$100 million at the time of loan negotiations.

⁴ Additional details can be obtained from <https://www.adb.org/projects/42466-015/main>.

⁵ The original closing date was 30 June 2018.

Figure 1: Project Financing

3. Implementation Arrangements

4. The executing agency is the Finance Division of the Ministry of Finance (MOF) of Bangladesh, and the implementing agency is the Skills Development Coordination and Monitoring Unit (SDCMU), within MOF. The progress of output 1, i.e., delivery of market-responsive inclusive skills training, is tracked through the training management system (TMS).

5. To deliver the trainings, SDCMU partnered with agencies in the public and private sector (implementing partner agencies or IPAs). These partnerships were formalized through training grant contracts.

6. SDCMU engaged the IPAs to undertake the trainee enrolment, training, and job placement activities. The IPAs undertake these activities either through (i) their own training centers or (ii) partner training centers (PTCs). IPAs must comply with the project's Financial Management Manual (FMM) in conducting these activities.⁶

7. The IPAs established project implementation units (PIUs) to separate the project activities from their regular operations. In this report, references to the IPAs pertain to the PIUs, unless otherwise indicated.

8. SDCMU disburses the grants to the IPAs based on the achievement of the three milestones as presented in Figure 2. For example, if for the period covered by a claim, there are 100 trainees enrolled for a particular course for new entrants and the applicable unit cost is BDT2,000 per trainee; then, the IPA can claim BDT80,000, i.e., 100 trainees multiplied by 40% (the payment ratio for enrolment) and the unit cost of BDT2,000 per trainee.⁷

⁶ The FMM sets out the standard financial management procedures to be applied for the project by the IPAs.

⁷ The disbursement arrangements between the IPAs and PTCs vary. Some IPAs retain a small proportion of the unit cost, mainly for administration expenses, and pass the significant proportion to the PTCs. Some IPAs retain a significant proportion of the unit cost and pass a small proportion to the PTCs to cover enrolment, material, rent, and utility expenses.

Figure 2: Milestones of Payment by SDCMU to the Implementing Partner Agencies

Program Type	Percentage of Unit Cost to be Paid for Each Milestone		
	Milestone 1: Enrolment	Milestone 2: Assessment	Milestone 3: Job Placement/ Advancement ^a
New entrants			
Upskilling			

^a The trainee should be placed on a job within six months after certification and should be retained in the job for six months. This milestone payment is only made when at least 70% of the trainees have been placed on jobs.

C. Review Scope

9. The PPRR team reviewed 19 contracts with a total value of \$53.25 million (equivalent to 81.52% of the value of contracts awarded as of 31 July 2017) and the related expenditures totaling \$18.25 million (34.27% of the 19 contract amounts). The 19 contracts consist of 10 training grant, 3 consulting, 5 goods, and 1 works contracts.

10. The PPRR:

- (i) assessed the capacity of and internal controls at SDCMU, IPAs, and PTCs;
- (ii) scrutinized the procurement processes and related documentation;
- (iii) verified the eligibility of the project expenditures;
- (iv) examined the implementation of the 10 training grant contracts listed in Table 2; and
- (v) inspected goods procured under the 5 goods contracts.

Table 2. Training Grant Contracts Reviewed

Implementing Partner Agency/ Training Grantee	Contract Amount (\$ thousand)	Disbursements up to 31 Jul 2017 (\$ thousand)
A	1,964.35	395.80
B	5,703.42	3,260.35
C	5,225.30	2,009.69
D	5,828.26	1,687.55
E	2,030.87	963.61
F	6,450.99	2,529.27
G	8,606.51	1,333.07
H	4,038.97	1,221.50
I	1,117.45	241.32
J	7,301.47	2,494.66
Total	48,267.59	16,136.82

II. RESULTS

11. The significance of integrity risks varied across the 19 contracts reviewed depending on the degree of involvement of SDCMU in implementing the contracts. The PPRR did not identify significant integrity concerns in 9 contracts totaling \$4.98 million (3 consulting, 5 goods, and 1 works), which SDCMU directly implemented. SDCMU's strong procurement and contract management capacity was evident in the implementation of these nine contracts. In addition, the inspected project assets of the five goods contracts were used for their intended purposes.

12. However, for the other 10 contracts reviewed (training grants totaling \$48.27 million), the PPRR identified significant integrity issues, mostly weaknesses in accountability and control, as summarized in Figure 3 (p. 5). These integrity issues were partly attributable to the devolution of responsibilities in implementing the contracts, as the activities in these 10 contracts had been undertaken, to a large extent, by the IPAs and PTCs.

13. The majority of these findings relate to fiduciary risks that were identified during the concept design stage by the reviewing ADB departments which highlighted the weak fiduciary capacity of the IPAs. To mitigate these risks at the time they were identified, ADB and SDCMU established guidelines, controls and systems including:

- (i) controls embedded in the business plans developed by the IPAs;
- (ii) the Financial Management Manual (FMM);
- (iii) the Training Management System (TMS), and
- (iv) multiple audits including periodic fiduciary reviews and monitoring and evaluation reviews.

14. However, these controls were not consistently implemented, hence have been mostly ineffective in mitigating the fiduciary risks, given that SEIP's training modality was relatively new to all IPAs and PTCs.

15. OAI recognizes the actions taken by SDCMU, SARD, and BRM to address many of these concerns. This report also discusses these actions, which OAI will verify in a follow-up review in 2020/2021.

Figure 3: Findings by Implementing Partner Agency

Finding (Grouped by Integrity Pillar Compromised)	Implementing Partner Agency (IPA)									
	A	B	C	D	E	F	G	H	I	J
Integrity Pillar: Accountability and Control										
A1 Limited accountability of PTCs: contract deficiencies		■			■	■	■	■	■	■
A2 Weak records management										
A2a Training-related records not kept		■		■		■	■	■		■
A2b Training-related records not available for the PPRR	■	■	■	■	■	■	■	■		■
A3 Inadequate operational controls										
A3a Control lapses in the enrolment process	■	■	■	■	■	■	■	■	■	■
A3b Weak controls in job placement monitoring	■	■	■	■	■	■	■	■	■	■
A3c Inadequate monitoring over PTCs	■			■	■		■		■	■
A4 Weak financial management controls										
A4a Breaches of the cash withdrawal limit and required payment mode			■	■	■	■		■	■	
A4b Unsubstantiated and questionable trainee stipend payments	■	■	■	■		■	■	■	■	■
A4c Gaps in PTC's funds management		■		■						■
A5 Conflict of interest issues	■				■	■	■	■	■	
Integrity Pillar: Transparency and Fairness										
B Concerns in the selection of PTCs, trainers and assessors										
B1 Concerns in PTC selection	■	■			■	■	■	■	■	■
B2 Concerns in trainer and assessor selection	■	■	■	■		■		■	■	■

Legend: ■ Issue noted in the IPA

PPRR = project procurement-related review, PTC = partner training center

A. Weaknesses in Accountability and Control

1. Limited accountability of PTCs

16. The accountability mechanism for PTCs was not robust considering their significant role in project implementation.⁸ All of the 108 reviewed PTC contracts across 6 IPAs lacked standard provisions to ensure PTCs' accountability (e.g., audit, anticorruption, and records management clauses) and compliance with relevant guidelines (e.g., ADB's procurement and disbursement guidelines, FMM). While some PTCs were able to provide requested records to the PPRR team even if such provisions were absent in their contracts, PTCs could have declined in the absence of contractual requirements.

17. Primarily, these contractual deficiencies negated the obligation of the PTCs to maintain and allow review of records that would evidence their compliance with anticorruption, operational, and financial management guidelines. This would have resulted in an inadequate audit trail of PTCs' operations and financial management thereby making any integrity violations, noncompliance, and other irregularities undetectable.

18. In addition, another IPA did not have written agreements with all of its 70 PTCs. SDCMU indicated that these PTCs conduct factory-based upskilling training courses for which there are no financial transactions between the IPA and PTCs. Thus, written agreements were not previously deemed necessary.

19. **Action taken.** SDCMU, with SARD's assistance, developed a standard contract between the IPAs and PTCs covering significant provisions including ADB's right to audit, compliance with ADB's anticorruption and other guidelines, and records retention. SARD and SDCMU indicated that post-PPRR, all IPAs and PTCs had signed these standard contracts.

2. Weak records management

a. Training-related records not kept

20. Six IPAs did not keep records of training activities (including enrolment, assessment, and job placement) and were unable to demonstrate that they had performed any review of these records. They indicated that PTCs keep the records. However, when the PPRR team visited 15 PTCs of 3 of these 7 IPAs, the training-related records were not available in 7 PTCs.

21. IPAs' review of the training-related records is necessary because project outputs are reported and project disbursements are determined based on the number of trainees enrolled, assessed, and placed in jobs. Such review will not be effective if the records are not kept by IPAs and/or PTCs.

22. **Action taken.** SARD indicated that the IPAs had started to collect the training-related records from their PTCs. Given space limitations, the IPAs were devising a practical system of record storage and retrieval.

b. Training-related records not available for the PPRR

23. Nine IPAs were unable to provide complete training-related records for 1,831 sample trainee records or 80% of the records requested by the PPRR team because either these

⁸ The number of trainees under PTCs is 85,236, representing 79% of the total number of trainees as of 24 August 2017.

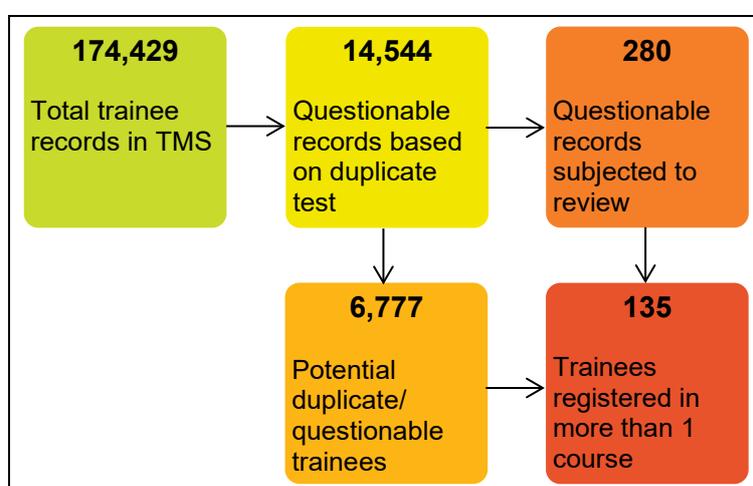
records (i) were not stored or could not be retrieved in the IPAs during the PPRR fieldwork or (ii) were not maintained by the IPAs.

3. Inadequate operational controls

a. Control lapses in the trainee enrolment process

24. The review of enrolment records (paper and TMS) showed that the IPAs' and PTCs' vetting of enrollees was not rigorous.⁹ The PPRR identified 14,554 questionable records (8%) out of the 174,429 total trainee records in TMS.¹⁰ In particular, the PPRR team noted that 6,777 of these 14,554 records were potential duplicate trainee records. The PPRR team reviewed 280 of these 14,554 records and found that 135 trainees were registered in more than one course. Trainee duplication results in ineligible payments to the IPAs and PTCs and inaccurate project output reporting. Figure 4 shows the mapping of these potential duplicate/questionable trainees.

Figure 4: Mapping of Potential Duplicate Trainee Records



25. Under the project, a trainee can only enroll in one course. To ensure that a trainee did not enroll in more than one course, TMS was supposed to use the trainee's national identification (NID) number as the primary key, i.e., the TMS was not supposed to allow entry of a trainee with NID that had been already registered. Though this control may have reduced the risk of record duplication, the PPRR also identified the following control lapses:

- Almost 52% of the trainee records in TMS were recorded using Birth Certificate Number (BCN) instead of NID number.¹¹ Duplicate records in the TMS were identified, where the trainee was enrolled either using the same BCN or changing the NID and/or BCN of the trainees such as (i) same NID used multiple times, once by year of birth prefixed to the NID and the other time with year prefix removed from NID; (ii) same number once used as NID and second time as BCN and; (iii) same NID/BCN number used by changing one or two digits in the 17-digit number (examples shown in Box 1).

⁹ For this particular review procedure only, all IPAs (18), both in the private and public sectors, are included in the duplication tests.

¹⁰ Since TMS could not generate records as of a specified date, e.g., as of 31 October 2017 (month-end date closest to the second fieldwork dates), the PPRR team reviewed the TMS records as of the date of data extraction, i.e., 17 November 2017.

¹¹ The PPRR team conducted this analysis during the first fieldwork and used TMS data as of 24 August 2017, when the total TMS records were 111,423 and records registered using BCN were 57,454.

Box 1: Examples of Potential Trainee Duplications

- (i) Same NID used multiple times, once by year of birth prefixed to the NID and the other time with year prefix removed from NID

IPA	TMS Registration No.	Trainee Name	NID No.
F	0700006XXX	Trainee A	2617XXXXXXXXXX
	0700024XXX	Trainee A	19632617XXXXXXXXXX

- (ii) Same number once used as NID and second time as BCN

IPA	TMS Registration No.	Trainee Name	Identification No. Used
B	500007XXX	Trainee B	BCN 19975425XXXXXXXXXX
	1900001XXX	Trainee B	NID 19975425XXXXXXXXXX

- (iii) Same NID/BCN number used by changing one or two digits in the 17-digit number

IPA	TMS Registration No.	Trainee Name	NID No. (emphasis added)
C	0400000XXX	Trainee C	199367XXXXXXXXXX65
	0400000XXX	Trainee C'	199367XXXXXXXXXX64

- The PPRR team checked the veracity of the BCN used in 200 out of 57,454 trainee records registered using BCN as of 24 August 2017 (footnote 16). The PPRR team found that the BCN used in 171 out of these 200 sample trainee records could not be verified with the online Birth Registration Information System (http://bris.lgd.gov.bd/pub/?pg=verify_br).
- In one IPA, 102 out of 150 trainees in one sample batch were registered twice in TMS and all 102 erroneous records in TMS were marked as 100% attendance and declared competent with 100% job placement.

26. In implementing the recommendations in para. 62 (iii-vi) to resolve the identified gaps in TMS controls, SDCMU should prioritize the 3 IPAs with the highest incidence of potential duplicate trainee records: F (25%), K (24%), and H (15.51%).¹²

27. **Action taken.** SARD indicated that (i) SDCMU had required NID, as a condition for enrolment, for all trainees who are least 20 years old, and (ii) NIDs are verified using the NID database to avoid duplicate/ineligible trainees. BCN is still acceptable in other cases.

b. Unclear basis for verifying the job placement milestone

28. The FMM needs to clarify the records required to support job placements and retention of the trainees in new entrant courses and job advancement (promotion or salary increase) of the trainees in upskilling courses. The PPRR team noted that the records maintained by the IPAs were not sufficient to establish that (i) the trainees had actually been employed within six months after completing the training (8 IPAs) and (ii) they remained employed for six months (10 IPAs). Thus, milestone 3 payments may have been made for ineligible trainees.

29. For example, IPAs C, D, and E maintained only summary sheets of job placements or trainee job placement/feedback forms and did not obtain evidence from employers. Also, for upskilling courses under IPAs F and G, the job advancement records were summary letters from PTCs listing the number of trainees that completed the courses. IPAs F and G did not obtain evidence of the promotion or salary increase of the trainees from the PTCs to support claims for the job placement milestone.

¹² Percentage of the total potential duplicate trainee records (14,554)

30. **Action taken.** SDCMU indicated that IPAs have started maintaining documentation to support job placements such as certificates of employment and reports on salary increases and promotions.

c. Inadequate monitoring procedures over PTCs

31. The IPAs are required to develop a robust system to monitor the training activities, which includes conducting field visits. A monitoring log is one of the useful tools to track the outcomes of these visits.

32. Six IPAs did not keep a log of the monitoring team's visits to the training centers. Thus, the PPRR team could not verify the frequency of monitoring visits made and any follow-up actions made to address issues identified in the visits.

33. **Action taken.** To enhance the IPAs' role in the monitoring activities, SARD indicated that SDCMU has introduced a detailed clause on monitoring arrangements in the new standard contract between the IPAs and PTCs. Also, the IPAs have maintained monitoring logs as required by SDCMU.

34. In addition, SDCMU indicated that it has introduced monitoring and self-appraisal guidelines to further strengthen monitoring activities. Under these guidelines, on a quarterly basis, the IPAs conduct field visits (around 200) and send reports to SDCMU. Also, to further improve the monitoring system, a monitoring module has been introduced in TMS.

4. Weak financial management controls

a. Breaches of the cash withdrawal limit and required payment mode

35. In multiple instances during the period April 2015–August 2017, five IPAs withdrew cash from the project bank account, wherein each withdrawal amount exceeded the limit prescribed by the relevant rules, i.e., BDT 25,000.¹³ These withdrawals total BDT 13.86 million (\$171,826).

36. The five IPAs used these cash withdrawals to pay training costs including trainers' and assessors' salaries, trainee stipends, and material costs. This practice constituted a breach of expenditure controls as these training costs should have been paid through banking channels and not in cash.¹⁴

37. These control breaches exposed the project to potential fund leakage since cash payments were more susceptible to irregularities. Paying large expenditures in cash impaired the ability to determine the end-recipient, particularly in cases where there was a lack of supporting documents or where the supporting documents were inadequate.

38. The PPRR team recognizes that some payees did not have bank accounts during the early stages of project implementation. Nevertheless, if these arrangements were unavoidable in the circumstances, the IPAs should have implemented controls to ensure that payments were actually received by the payees at the correct amounts.

¹³ Section 15.1 of FMM – Policy on cash management; Section (vi) of Grant contract between the IPAs and SDCMU

¹⁴ Section 10.4 – Standard procedure of transactions (from FMM); Section (vi) of grant agreement between the IPAs and SDCMU

39. **Action taken.** SARD indicated that since the completion of the PPRR fieldwork, the IPAs have made payments only through banking channels.

b. Trainee stipend payment issues

40. Nine IPAs were unable to demonstrate that 68% of the total monetary value of the sample stipends were (i) paid to eligible trainees or (ii) received by these trainees.¹⁵ The PPRR team was unable to verify that the stipends were paid to the trainees because the following documents were unavailable: (i) updated list of the trainees' bank account numbers;¹⁶ (ii) certification that the trainees meet the attendance requirement;¹⁷ (iii) bank acknowledgement on the transfer request and/or confirmation on successful transfer to eligible accounts; and/or (iv) trainees' stipend receipt acknowledgment.

41. Also, the PPRR team noted instances where trainee stipend payments could have been paid to ineligible trainees, as summarized in Table 3. Regarding the second stipend payment issue in Table 3 (payments to multiple trainees using the same account number), the PPRR team recognizes that some trainees may not have bank accounts; thus, for them to receive stipends, they were inclined to use other persons' bank accounts. Nevertheless, if these arrangements were unavoidable in the circumstances, the IPAs should have implemented controls to ensure that stipends were actually received by the trainees and trainees should not have been allowed to use bank accounts of IPAs/PTCs or their staff.

Table 3. Trainee Stipend Payment Issues

Trainee Stipend Payment Issue	No. of Affected IPAs	No. of Trainees Affected	Total Amount (BDT)	Total Amount (\$)
Payments to bank accounts not registered in TMS	7	4,315	20,925,910	259,450
Payments to multiple trainees using the same account number	5	501 ^a	2,497,260	30,962
Proportionate payments prior to achieving 80% attendance rate ^b	1	206	642,720	7,969
Total			24,065,890	298,381

^a 221 unique trainees

^b Stipends should be paid to the trainees after achieving 80% attendance rate.

IPA = implementing partner agency, TMS = training management system

42. **Action taken.** SARD and SDCMU indicated that (i) stipend payments are made online to the accounts of the eligible trainees, and (ii) a module had been added to TMS to check whether eligible trainees receive their full stipends.

c. Gaps in PTCs' funds management

43. As indicated in para. 16, the contracts between IPAs and PTCs did not include provisions to ensure that project funds were used for the intended purposes, e.g. record-keeping and maintenance of separate project accounts. These contractual deficiencies could have contributed to the occurrence of gaps in PTCs' funds management as discussed in the paras. 44–45.

44. Three IPAs did not obtain financial records from 96 PTCs, such as bank statements and expenditure records. These PTCs used a significant portion of project funds of the three

¹⁵ Section 10.4 – Standard procedure of transactions (from FMM)

¹⁶ Stipends which are paid through the banking channel are paid to the mobile banking account number/rocket account number of the respective trainee. The mobile banking account number/rocket account number is a 12-digit account number consisting of 11-digit mobile number of the trainee and one digit affixed to this mobile number.

¹⁷ Section 10.4 – Standard procedure of transactions (from FMM); Section (vi) of grant agreement between the IPAs and SDCMU

IPAs.¹⁸ The lack of these records impaired the ability of the IPAs, SDCMU, and reviewers such as OAI, to review the eligibility of the project expenditures by the PTCs.

45. Also, in the review of a sample of project bank account transactions of 14 PTCs, the PPRR identified 153 large cash withdrawals (i.e., those exceeding the petty cash limit of BDT25,000) totaling BDT 15.73 million (\$195,020). As pointed out in para. 37, these control breaches exposed the project to potential fund leakage because cash payments are more susceptible to irregularities given the resulting inadequate audit trail.

46. While standard unit costs were used in computing the disbursements of the loan proceeds, periodic reviews of the actual expenditures enabled ADB and SDCMU to determine if the standard unit costs needed to be revised. The IPAs' monitoring of expenditures, coupled with full access to financial records, therefore, were critical for such review to be effective. The effective monitoring of expenditures could have ensured that the standard unit costs were sufficient to cover the training costs necessary to uphold the quality of the courses. Conversely, this monitoring could have determined excessive standard unit costs, where any 'savings' or 'excess' could have been used to enroll more trainees in the courses or fund courses that required more financial support.

47. **Action taken.** SARD indicated that SDCMU has enforced PTCs' compliance with the FMM, including conducting trainings for PTCs on FMM compliance and monitoring. In addition, SDCMU indicated that the maintenance of separate project bank accounts and books of accounts is now a mandatory requirement in the contracts between IPAs and PTCs.

5. Conflict of interest (COI) issues

48. The PPRR established that 38 staff from 6 IPAs have financial interests in 63 PTCs. Eleven of these 38 staff were also authorized to approve payments to PTCs. Nevertheless, SDCMU noted that staff directly related to PTCs were not allowed to authorize payments to those PTCs.

49. The IPAs did not manage these COI situations.¹⁹ These unmanaged COI situations could create opportunities to override controls, thus, should be managed and resolved immediately.

B. Issues in Transparency and Fairness

50. The PPRR identified instances that diminished the transparency and fairness in the selection of PTCs, trainers, and assessors. These concerns raised doubts on the eligibility of the PTCs, trainers, and assessors. These could have undermined the quality of the training programs, and project funds could have been used to pay ineligible PTCs, trainers, and assessors.

1. Concerns in the selection of PTCs

51. The rigor of the selection method and process of PTCs varied across IPAs. The business plans for three IPAs did not specify both quantitative and qualitative criteria in PTC selection.²⁰ In addition, the business plans for three IPAs did not include quantitative criteria

¹⁸ 83% of the 3 IPAs' funds, using weighted average unit costs

¹⁹ Section 4.4 of FMM – Conflict of Interest

²⁰ Business plan is one of the documents attached with the grant agreement between SDCMU and IPAs (referred to as Schedule I). This document includes: (i) the background of the IPA; (ii) rationale, impacts and outputs of the project; (iii) targeted number of trainees and criteria for trainee selection; (iv) selection of trainers and assessors; and (v) course curriculum.

and guidelines on how to evaluate the specified qualitative criteria. Further, six IPAs were unable to show that PTCs were selected in accordance with the business plans.

52. The PPRR team noted that one IPA could not demonstrate that six PTCs met the training capacity required in the relevant business plan. Further, 8 IPAs did not maintain any background records of 322 PTCs.

53. **Action taken.** SARD indicated that SDCMU had developed a template, which is used by the IPAs in PTC selection, for assessing the PTCs' capacity.

2. Concerns in the selection of trainers and assessors

54. **Inadequate records for trainers and assessors' background.** Three IPAs did not maintain the personal files and appointment letters/contracts for trainers and assessors. These IPAs indicated that the records were maintained by the PTCs. However, the selected PTCs visited for IPAs D and J did not maintain the required trainers' and assessors' records. Of the remaining seven IPAs, the records of trainers and assessors requested on a sample basis were either not available, or the personal files/records provided were incomplete.

55. Due to unavailability of key documents such as appointment letters, contracts, curriculum vitae, qualification certificates, and work experience letters, the PPRR team was unable to determine whether trainers and assessors engaged by the IPAs/PTCs were properly vetted and adequately qualified.

56. **Unqualified trainers and assessors.** Due to the inadequate documentation as per paras. 54-55, the PPRR team was only able to verify the eligibility of trainers and assessors based on limited information (primarily TMS data). However, the review established that 61 trainers (26% of the sample) and 98 assessors (64% of the sample) were ineligible primarily because they did not meet the education and/or work experience criteria.

57. **Action taken.** SARD indicated that (i) the business plans of all IPAs had been updated to include the qualification requirements for trainers and assessors, and (ii) SDCMU had tasked its quality assurance team to monitor compliance with these requirements.

Potential Integrity Violations

58. The PPRR team identified instances where ADB's Anticorruption Policy may have been violated. The PPRR team has referred these matters to OAI Investigations Division for assessment and further verification in accordance with ADB's Integrity Principles and Guidelines.²¹

III. RECOMMENDATIONS

59. The recommendations outlined in the following paragraphs should be implemented immediately in Projects 1 (to the extent practicable), 2 and 3 of SEIP. SARD and BRM should monitor the implementation status of the recommendations (e.g., through their regular review missions) and provide periodic updates to OAI. As mentioned in para. 15, OAI will conduct a follow-up review in 2020/2021 to assess the implementation status of the recommendations.

²¹ Should the results of further verification establish any wrongdoing by the parties, these may be referred to the Integrity Oversight Committee for consideration of remedial measures (e.g., reprimand, warning, temporary suspension) or debarment. Debarred parties shall be ineligible to participate in ADB-financed, -administered, or -supported activities.

60. To establish accountability of the PTCs, SDCMU should require the IPAs to (i) enter into standard contracts and (ii) revise the existing contracts with PTCs, to include the significant clauses on audit, anticorruption, records retention, and compliance with the relevant guidelines.
61. To enhance the quality of the trainings and assessments, SDCMU should:
- (i) document (and implement) the processes for engaging PTCs, trainers, and assessors; and
 - (ii) assign monitoring and evaluation and quality assurance consultants to assist PTCs in vetting trainers, assessors and trainees.
62. To ensure accurate reporting of project outputs, SDCMU should:
- (i) document (and implement) the processes for the core training activities, i.e., enrolment, assessment, and job placement;
 - (ii) review the procedures taken in determining the acceptability of TMS;
 - (iii) take prompt corrective actions to resolve discrepancies identified in TMS;
 - (iv) enforce quality-at-entry of TMS data, including training the PTCs on how to properly input trainee information in the TMS, especially numerical fields like birth dates, NID numbers, BCNs, etc;
 - (v) recalibrate the existing TMS trainee duplication controls to ensure the robustness of the primary keys (i.e., NID number and BCN) and to maximize the use of secondary fields/filters (e.g., trainee name, birthdate, address) in detecting trainee duplicates; and
 - (vi) perform a periodic validation of TMS data.
63. To enforce compliance with the FMM, SDCMU should:
- (i) train the IPAs and PTCs on FMM, especially on cash and expenditure controls, COI situations, and records management;
 - (ii) document and implement a process where documents supporting milestone claims are reviewed before payment is made (e.g., a tracking sheet indicating sign-offs of preparer, reviewer, and approver, and the documents reviewed);
 - (iii) resolve the COI situations identified by the PPRR;
 - (iv) require IPA staff to sign a COI declaration annually;
 - (v) perform COI checks on current and future key officers of IPAs, especially those with authority to approve payments;
 - (vi) document (and implement) measures to mitigate COI situations that may be identified by SDCMU after doing (v);
 - (vii) document (and implement) policies on cash transactions to ensure that they are appropriately justified and documented to enable review of such transactions; and
 - (viii) require IPAs to retain adequate and correct documentation for training activities and expenditures.
64. To improve the controls over stipend payments, SDCMU should ensure that the IPAs:
- (i) document any changes in the stipend recipient information before making payments;
 - (ii) confirm from banks that funds are transferred to trainees' accounts; and
 - (iii) require that the recipient bank account should be limited to the account of the trainee or the trainee's immediate family and should not be the account of the IPAs/PTCs or their staff.
65. To strengthen project monitoring, SDCMU should (i) enhance quality of monitoring activities, including maintaining monitoring logs and adding the verification of financial activities in the monitoring checklist, and (ii) timely follow up any issues identified during monitoring visits.

66. The SDCMU should revise the terms of reference of future periodic fiduciary reviews to prioritize risk areas as identified by this PPRR.

IV. CONCLUDING REMARKS

67. Strong procurement and project management controls and compliance to relevant guidelines and contract terms mitigate the risk of improper use of project funds, maximize development effectiveness, and deter fraud and corruption. SARD, through BRM, is encouraged to continue collaborating with the Government of Bangladesh to strengthen its commitment in promoting transparency, fairness and accountability in this project, other existing projects implemented by SDCMU or other executing agencies, and future ADB-financed projects in Bangladesh.

68. OAI appreciates the cooperation and assistance of SDCMU during the PPRR, and SARD, specifically BRM, for their valuable support and inputs to the PPRR team. OAI acknowledges the inherent complexity and difficulties in managing such a large-scale project. OAI remains available for consultation on any matters in this report or issues that may affect the integrity of project implementation.