

CASE STUDY

Ensuring Integrity in Public Procurement through a Proactive Review

In Mongolia, project procurement-related reviews helped safeguard a health project from corruption, fraud, and other integrity risks.

Overview

Fighting corruption, fraud, and other integrity risks in public procurement is one of the priorities of the Asian Development Bank (ADB) in promoting the United Nations' Sustainable Development Goals (SDGs). No matter the sector (transport, energy, health, water, etc.), the success of a project hinges on the commitment and capacity of concerned individuals and agencies to deliver outputs while mitigating integrity risks.

A key initiative in preventing integrity risks is the project procurement-related review, also known as proactive integrity review. It is a proactive tool that helps ensure project funds are used for their intended purpose. A project procurement-related review was carried out for the Fifth Health Sector Development Project in Mongolia to protect project finances and assets from unscrupulous activities.

The review process was crucial in improving the capacity and performance of Mongolia's Ministry of Health and its project implementation unit in preventing and detecting integrity violations.

Project snapshot

Dates	<ul style="list-style-type: none">• 10 Dec 2012: Approval Date• October to November 2016: Fieldwork for project procurement-related review• September 2018: Follow-up review• 31 Dec 2018: Closing Date (original)• 28 Feb 2021: Closing Date (revised)
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<p>Cost</p>	<ul style="list-style-type: none"> • \$38.38 million: Total Project Cost • \$30.00 million : Loan (ADB) • \$7.71 million : Counterpart Funding (Government of Mongolia) • \$0.67 million : Grant (German Federal Ministry of Health, World Health Organization)
<p>Institutions and Stakeholders</p>	<p>Financing</p> <ul style="list-style-type: none"> • Asian Development Bank, Government of Mongolia, German Federal Ministry of Health, World Health Organization <p>Executing agency</p> <ul style="list-style-type: none"> • Ministry of Health (MOH), Mongolia <p>Implementing agency</p> <ul style="list-style-type: none"> • Project Implementation Unit, MOH

Challenges

Corruption and other integrity violations undermine Sustainable Development Goals.

Each instance of corruption, abuse, fraud and misappropriation of public resources takes away from the gains of the SDGs. This is why corruption is a crosscutting theme in the SDGs. Goal 16 explicitly highlights the role of anticorruption and integrity in promoting “peaceful and inclusive societies.”

Public integrity is essential to the economic and social well-being and prosperity of individuals and societies. For this reason, transparency, accountability, and anticorruption processes in the public sector are part of the foundation to achieving the SDGs.

Funds in procurement are vulnerable to corruption.

Procurement is the process through which governments buy goods and services, and build infrastructure, such as roads and hospitals. The extensive volume of transactions between private and public sectors creates opportunities for corruption, typically during procurement. Corruption and other integrity risks often increase, as projects grow larger in scale and complexity.

In a study by the World Bank (2015), the funds spent on procurement alone account for about 15% to 20% of the gross domestic product in developing countries. However, a huge chunk— studies estimate 20% to 25%— of the public contracts’ value may be lost through corruption and other integrity vulnerabilities.

ADB recognizes that effective procurement is vital to the delivery of public services and the attainment of the SDGs. Through the integrity review process, corruption risks are tackled and mitigating measures are put in place to ensure an effective and corruption-free procurement.

Vulnerabilities and red flags pose threats to a health project in Mongolia.

In 2016, ADB’s Office of Anticorruption and Integrity (OAI) led the project procurement-related review of a \$38.38 million initiative to upgrade Mongolia’s life-saving facilities with state-of-the-art technology and modern laboratories. Projects subject to this review tend to be complex or implemented in a difficult environment, which increases the risk of exposure to fraud and corruption.

OAI identified project vulnerabilities on reviewed contracts that value \$5.58 million. The main findings were related to unclear bidding documents, inconsistent evaluation of bids, and inadequate monitoring of contracts—all of which could lead to the misuse of project funds.

If not addressed in an adequate and timely manner, the vulnerabilities could also directly impede progress toward improving patients' and health workers' safety in hospitals in Mongolia, and undermine the outputs of the project.

Context

Health reform in Mongolia during transition

Until the early 1990s, Mongolia's health system depended almost entirely on centrally managed, hospital-based health services. As the country shifted to a decentralized model, a health sector review was conducted in 1992 by the Ministry of Health in collaboration with ADB, World Bank, and World Health Organization. Following the review, the Government of Mongolia requested ADB to approve the Health Sector Development Program, then a complex reform-based program in a country that was just beginning to transition to a market economy.

In the early days of the program, insufficient collaboration and coordination between ADB, the Ministry of Health, and the Government of Mongolia created vulnerabilities in establishing an effective monitoring mechanism for health projects and ensuring transparent procurement and financial management capacity at all times and at all levels. The local governments' lack of experience and managerial capacity in resource allocation, particularly in the health sector, also added to the challenges in implementation. Moreover, Mongolia's frequent changes in government and leadership styles threatened to disrupt the project, as management in the Ministry of Health and Project Implementation Unit changed with each new administration.

Lessons from multiple reviews

Procurement is the process through which governments buy goods and services, and build infrastructure, such as roads and hospitals. The extensive volume of transactions between private and public sectors creates opportunities for corruption, typically during procurement. Corruption and other integrity risks often increase, as projects grow larger in scale and complexity.

It must be noted that the Health Sector Development Program is composed of several phases; the current project is its fifth iteration. In sum, there have been three project procurement-related reviews and one follow-up review of recommendations for the entire duration of the program.

Key lessons learned from the project procurement-related reviews of the Second and Third Health Sector Development Projects (conducted in 2008 and 2009 respectively) were applied in the fifth project. This enhanced preventive capability through better transparency in the consultant recruitment process and improved management of procurement and financial records.

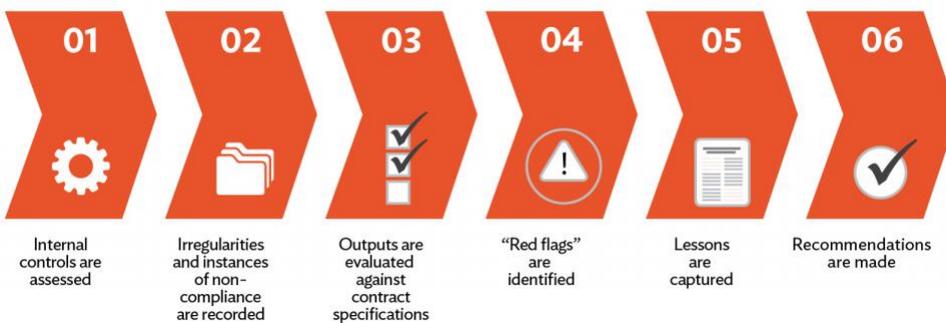
Solutions



Hospital equipment issued were tagged for proper inventory. Photo credit: ADB.

Use project procurement-related reviews to pinpoint vulnerabilities to corruption and other integrity violations.

The Project Procurement-Related Review Process



The project procurement-related review is a tool that is both preventative and diagnostic. Proactive tools are one of the most effective control mechanisms at addressing integrity risks and project vulnerabilities.

Project procurement-related reviews are not investigations but aim to improve project management,

enhance project implementation, and replicate lessons learned in future projects.

The review usually proceeds in the following manner:

- Internal controls are assessed.
- Irregularities and instances of non-compliance are recorded.
- Outputs are evaluated against contract specifications.
- “Red flags” are identified.
- Lessons are captured.
- Recommendations are made.

This approach improves the preventive capability of future projects.

Engage stakeholders in a collaborative review process.

Collaboration is key to the success of the project procurement-related review. Engagement with the Ministry of Health and Project Implementation Unit was integrated throughout the review process, especially during the fieldwork and reporting phase.

“The project procurement-related review is a collaborative process. We engage with stakeholders at all stages of the review. From the input of stakeholders, we develop mitigating measures that address the root causes of these findings and hopefully build better defenses to fight against fraud and corruption,” says Rona Marie P. Yngson, ADB Integrity Officer.

In fact, the implementation of the review’s recommendations is in large part determined by the eagerness and commitment of those who will be leading the enforcement. In this instance, key individuals took the spirit of the recommendations and ran them to their full course. Project analyst Bayarmaa Tsetsgee prepared an extensive review of contracts that went beyond the scope of the project procurement-related review in 2016. With the coordination of senior procurement officer Battsengel Jamsranjav, multiple procurement trainings for the Ministry of Health and the Project Implementation Unit staff were conducted to bolster local capacities.

Additionally, ADB’s Mongolia Resident Mission agreed to enhance its supervision to ensure that the review findings are effectively addressed. The resident mission also worked closely with the Ministry of Health to improve the overall project management. ADB’s East Asia Department indicated that it “will continue collaborating with the government, through MNRM, to strengthen its commitment to promote transparency, fairness, and accountability in ADB-funded projects in Mongolia.”

Without an all-encompassing approach toward the implementation, the review’s recommendations cannot be fully realized.

Apply lessons learned to improve operations and services.

Building on the findings of the project procurement-related review, ADB made further efforts to help the Ministry of Health improve its procurement process and contract oversight, as well as its financial and

asset management processes. Strengthening the capacity of all stakeholders involved in procurement was prioritized to implement a robust system effectively.

“Lessons learned from this inspection, like proper servicing and maintenance of equipment, will help protect and improve our operations,” says Dr. Shinebayar Davaajav, director of Baganuur District Hospital in Mongolia.

“The written recommendation was very useful for me especially when the government is changing so fast. [The project procurement-related review showed that] these were our lessons learned; we made these mistakes before and we cannot do it again,” said Dr. Munkhtaivan Adya, project coordinator of the Project Implementation Unit.

Assess implementation progress through a subsequent review.

In 2018, ADB carried out a second review to check whether the recommendations have indeed been implemented. The follow-up review confirmed the efforts of the Ministry of Health and Project Implementation Unit, particularly in the following:

- training all bid evaluation committee members on ADB procurement guidelines;
- developing an annual monitoring plan;
- conducting routine monitoring visits to project sites; and
- closely working with project hospitals.

There was one issue that the project procurement-related review already identified but was not sufficiently fixed: the lapse of advance payment securities before the delivery of the relevant goods. This could expose the project to potential losses. As a remedy, the Ministry of Health committed to extend payment securities in all ongoing and future contracts.

Project Outputs



The project procurement-related review team presents their recommendations to the Ministry of Health in Mongolia. Photo credit: ADB.

To mitigate integrity risks in procurement, financial management and asset management, the review team evaluated the project's adherence to the three core principles of project integrity: (a) transparency, (b) fairness, and (c) accountability and control.

Highlights from the 2016 project procurement-related review

In 2016, the project procurement-related review resulted in the following key recommendations:

- Issue bidding documents that provide clear and consistent eligibility and qualification requirements.
- Evaluate the bidders' qualification statements and technical proposals consistently and thoroughly to ensure contract implementation was in accordance with the terms and specifications.
- Comply with the policies and procedures in selecting the bid evaluation committee members and document any subsequent changes.
- Enforce the contract conditions to ensure that suppliers fulfil their obligations.
- Improve the asset management system.

Highlights from the 2018 follow-up review of recommendations

The follow-up review confirmed the implementation of 10 out of the 11 recommendations. The Ministry of Health improved its procurement process and contract oversight, as well as its financial and asset management processes.

This is no easy task because of Mongolia's frequent changes in government and leadership styles. The Mongolia Resident Mission organized capacity-building trainings, workshops, and coordination meetings with the Ministry of Health and Project Implementation Unit to ensure the faithful application of recommendations. Over the years, the resident mission nurtured good relationships with them, which contributed to positive project outcomes.

Perhaps the most important feedback came from the project beneficiaries themselves who shared how happy they were with the project outcomes. For example, before the project, hospitals would use domestic refrigerators to store blood. This meant that blood was only safe to use for 3 days. With the new industrial refrigeration units provided by the project, blood can now be safely stored for 1 year.

"In the past, the hospitals did not have sufficient blood reserves for emergency cases. Today, all hospitals have sufficient supply," says Sarangerel Davaanjantsan, Mongolia's Minister of Health. All 26 blood banks in the country's 21 provinces now have enhanced collection and supply, and the availability of blood products increased five-fold at the national level.

The success of this project is a testament to the strong, collective efforts by all stakeholders to protect assets and finances from integrity violations.

"The monitoring and evaluation conducted by ADB was necessary and helpful in ensuring that project outputs continuously benefit the citizens," says Davaanjantsan.

Lessons

This project offers three lessons in preventing fraud and corruption in public procurement.

Proactive processes such as the project procurement-related review are effective control mechanisms in mitigating corruption and other integrity violations.

- The proactive integrity review helps prevent and detect integrity violations.
- It improves preventive capability against fraud and corruption.
- It supports strong project oversight and accountability.

Tackling integrity risks proactively helps ensure high-quality public services as well as broad development results.

- Lessons from the project procurement-related review are built into project documents and operations procedures.
- Project funds are safeguarded from corruption and other integrity violations.

Collaboration between project stakeholders is crucial to the success of anticorruption efforts.

- Collaboration between main actors—ADB (OAI, East Asia Regional Department, and Mongolia Resident Mission) and Mongolia's Ministry of Health and its Project Implementation Unit—led to a stronger anticorruption response.

This case study, written by ADB consultant Alaysa T. Escandor, is based on inputs from the following resource persons:

- *Bayarmaa Tsetsgee, Project Analyst;*
- *Battsengel Jamsranjav, Senior Procurement Officer;*
- *Dr. Munkhtaivan Adya, Project Coordinator of the Project Implementation Unit;*
- *Sarangerel Davaanjantsan, Mongolia's Minister of Health;*
- *Dr. Shinebayar Davaajav, Director, Baganuur District Hospital in Mongolia; and*
- *Yolanda Fernandez Lommen, former Mongolia Resident Mission Country Director.*

Resources

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Eduard Avetisyan is with the Review and Outreach Division and leads OAI's project procurement-related reviews in Viet Nam, Mongolia, Papua New Guinea, Indonesia, and Nepal to identify vulnerabilities in projects and recommend appropriate measures. He has 20 years of experience in financial control, performance measurement, management reporting, and internal control systems for design and operational effectiveness.



Asian Development Bank (ADB)

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