



## **MILLENNIUM CHALLENGE ACCOUNT – GEORGIA**

# **ACTION PLAN FOR PREVENTING, DETECTING AND REMEDIATING FRAUD AND CORRUPTION IN MCC GEORGIA COMPACT II IMPLEMENTATION**

**November 2017**

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## **MILLENNIUM CHALLENGE ACCOUNT-GEORGIA (MCA-GEORGIA) ACTION PLAN FOR PREVENTION, DETECTION, AND REMEDIATION OF FRAUD AND CORRUPTION**

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### **1. INTRODUCTION**

MCA-Georgia is responsible for implementing the Millennium Challenge Compact (Second Compact) signed between the Government of Georgia and the Government of United States of America, through the Millennium Challenge Corporation (MCC), in July 2013. The objective of establishing MCA-Georgia is to implement the Second Compact in order to reduce poverty through economic growth in Georgia. The objective of the Program is to support strategic investments in general education, technical and vocational education and training and higher education that will strengthen the quality of education in Georgia, with an emphasis on science, technology, engineering, and math (“**STEM**”) education.

### **2. PURPOSE**

The purpose of the Anti-Fraud & Corruption Action Plan (AFC AP) is to establish an appropriate framework that defines how the staff and management of MCA-Georgia will join with its Implementing Entities (IEs) towards effective prevention, detection and remediation of fraud and corruption of any description within MCA-Georgia.

### **3. SCOPE**

The MCA-Georgia’s AFC AP is meant to address all stakeholders involved in the implementation of the Second Compact and covers MCA-Georgia Supervisory Board and staff, Implementing Entities, as well as MCA-Georgia contractors for works, goods and services.

### **4. MCC POLICIES TARGETED AT FRAUD AND CORRUPTION**

To prevent fraud and corruption in all its operations, MCC has Policies and Procedures in place that will apply to the Second Compact. They key ones are described below:

- Policy on Preventing, Detecting and Remediating Fraud and Corruption in MCC’s Operations (MCC AFC Policy).
- Guidelines for Accountable Entities and Implementing Structures. (MCA-Georgia, which serves as the single point of contact on behalf of the Government during implementation of the Program for MCC, other donors, contractors and consultants, as well as the general citizenry, is the Accountable Entity for the Second Compact.)

#### **4.1 Policy on Preventing, Detecting and Remediating Fraud and Corruption in MCC’s Operations (MCC AFC Policy)**

In March 2009, MCC developed a policy on Preventing, Detecting and Remediating Fraud and Corruption in MCC’s operation that requires all MCAs to complete a compact specific Anti-Fraud and Corruption Risk Assessment and to develop and implement a related Action Plan. Research by MCC revealed that corruption retards economic growth by:

- Increasing costs;
- Lowering productivity;
- Discouraging investment;
- Reducing confidence in public institutions;
- Limiting the development of small and medium sized enterprises;
- Weakening systems of public financial management; and
- Undermining investments in health and education.

Corruption also increases poverty by:

- Slowing economic growth;
- Skewing government expenditure in favour of the rich and well-connected;
- Concentrating public investment in unproductive projects; and
- Promoting a more regressive tax system.

MCC’s AFC Policy recognizes six types of fraud and corruption:

- 4.1.1. Coercive practice directly or indirectly harms, impair or threaten individuals or their property with the intention of influencing participation in procurement or affecting the execution of a contract.
- 4.1.2 A collusive practice is defined as a scheme or an arrangement between two or more parties, with or without the knowledge of the Accountable Entity (AE), designed to establish prices at artificial, non-competitive levels or to otherwise deprive the AE of the benefits of free and open competition.
- 4.1.3 Corrupt practice includes offering, giving, receiving, or soliciting directly or indirectly, anything of value to influence the actions of a public official (including the AE, government and MCC staff and employees of other organizations taking or reviewing selection decisions.
- 4.1.4 Obstructive practice is defined as any act that results in the destroying, falsifying, altering or concealing of evidence or making false statements to investigators in order to impede an investigation into allegations of corrupt, fraudulent, collusive, coercive or prohibited practice; and threatening, harassing, or intimidating any party to prevent it from disclosing its knowledge of matters relevant to the investigation or from pursuing the investigation.
- 4.1.5 A fraudulent practice is any act or omission, including any misrepresentation, in order to influence (or attempt to influence) a selection process or the execution of a contract, to obtain a financial or other benefit, or avoid (or attempt to avoid) an obligation.
- 4.1.6 A prohibited practice includes any action that violates Section E (Compliance with Anti-Corruption Legislation), Section F (Compliance with Anti-Money Laundering Legislation) or Section G (Compliance with Terrorist Financing Statutes and Other restrictions) of the “General Provisions Annex” found on the MCC website. Conflicts of interest should be openly and duly managed, as they can open the door to fraud and corruption.

## **5. ANTI-FRAUD & CORRUPTION ACTION PLAN TO COMBAT FRAUD AND CORRUPTION**

- 5.1 In compliance with MCC policy directives, MCA-Georgia developed this AFC AP to address the highest priority risks identified in the Anti-Fraud and Corruption Risk Assessment Matrix.
- 5.2 The AFC AP will describe both the process and results of the AFC Risk Assessment and provide a detailed pathway for implementing additional measures to mitigate risks identified in the assessment.
- 5.3 The AFC AP complements an array of internal policies adopted by MCA-Georgia, in conjunction with MCC, to assure the orderly operation of the Management Unit. The policies discussed below aim to promote good governance, strengthen internal controls, and to deter fraudulent and corrupt schemes in MCA-Georgia operations.

## **6. MCA-GEORGIA POLICIES TARGETING FRAUD AND CORRUPTION**

The MCA-Georgia Management Unit was established as a new organisation. In addition to the Second Compact and Implementation Agreement governing the Management Unit, more detailed subject related policies were developed to govern MCA-Georgia. Some of these policies are described below:

- Fiscal Accountability Plan;
- Program Procurement Rules and Standard Bidding Documents;
- Bid Challenge System;
- Conflict of Interest Policy;
- Compact, Program Implementation Agreement and MCA Bylaws;
- Standard Employment Contract;
- Regular audits; and
- Performance Management System.

### **6.1 Fiscal Accountability Plan**

MCA-Georgia adopted its Fiscal Accountability Plan (FAP) in September 2014 to serve as a set of treasury rules for all financial and procurement actions undertaken by the Management Unit. To remain relevant to the operational requirements of MCA-Georgia, the FAP has been/will be reviewed periodically. MCA-Georgia regards the FAP as an important management tool and has promoted widespread understanding and knowledge of the FAP amongst all staff. Brief presentations on specific sections of the FAP were given occasionally in staff meetings. This familiarization of all staff was well received and increased awareness of strong internal controls. This may have acted as a deterrent for corruption.

### **6.2 MCA-Georgia Compact Procurement Rules**

The MCA-Georgia Program Procurement Rules defined by the Compact, served and continues to serve, as a pillar of good governance bringing the following main attributes to MCA-Georgia:

- Detailed Procurement Processes and Guidelines;
- Clear delegation of staff roles involved in procurement;
- Guidance on treatment of actual and potential conflicts of interest;
- Demarcating the joint approval system between MCC and the MCA-Georgia Supervisory Board in procurement activities; and
- Promotion of transparency through publication of procurements and contract awards on the MCA-Georgia Website and international procurement sites.

### **6.3 MCA-Georgia Bid Challenge System**

The MCA-Georgia Bid Challenge System has been well received by bidders, giving them an opportunity to be heard when doubtful of procurement outcomes. The effective application of the Procurement Rules has been tried and tested via the MCA-Georgia Bid Challenge System. A good number of MCA-Georgia staff members had the opportunity to experience the enquiries of a Bid Challenge Review Panel. This experiential knowledge raised an acute awareness to stay clear of procurement fraud and corruption. The Bid Challenge System played and will continue to play a valuable role to promote transparency, anchoring MCA-Georgia as an organization with an open and internationally acceptable transparent procurement system.

### **6.4 MCA-Georgia Conflict of Interest Policy**

In December 2014 MCA-Georgia adopted a policy to provide for the treatment of conflicts of interest involving staff and Supervisory Board members. The policy has provided valuable guidance in managing conflicts of interests that have arisen during implementation of the Second Compact. Acknowledgment forms and rulings are fully documented in a record kept under the control of the Office Manager and Procurement Department.

### **6.5 MCA-Georgia HR Policy and Standard Employment Contract**

MCA-Georgia adopted and developed an HR Policy and Standard Employment Contract to ensure consistency and equity in human resource specific issues, maintaining a conducive and enabling working environment.

Typical ways in which these management tools target or aim to combat fraud and corruption is by providing clear rules regarding:

- Basic Conditions of Employment to prevent favouritism and nepotism;
- Clear rules on Leave and Compensation Administration;
- Housekeeping rules regarding Telephone costs and Accountability for MCA-Georgia Assets;
- Ethical conduct including guidance on dealing with hawkers, vendors and family members; and
- Acceptance of gifts and favours in the employment situation.

## 6.6 MCA-Georgia Performance Management System

In 2015 MCA-Georgia developed a detailed Performance Management System to manage and incentivize staff performance. The main goal of this management tool is to manage performance and incentivize staff.

## 7. MCA-GEORGIA METHODOLOGY FOR AFC AP

The methodology used in developing the AFC Action Plan towards effective prevention, detection and remediation of fraud and corruption of any description within MCA-Georgia involved the following:

- AFC training provided in Georgia to MCA-Georgia staff and stakeholder representatives
- Establishment of MCA-Georgia/MCC Joint Working Group on Fraud and Corruption
- Kick Off meeting (telephonic) to discuss the draft AFC Risk Assessment Matrix
- MCC field study to MCA-Georgia, meeting with staff, key contractors, Supervisory Board members, and other stakeholders
- Development of MCA-Georgia AFC AP

### 7.1 Organization-wide Anti-Fraud and Corruption Training

A three-day training intervention on fraud and corruption took place in May 2014 with objective to create awareness amongst all staff members regardless of status and designation in MCA-Georgia. The training covered fraud and corruption risks related to Compact Start-up (Project design/Beneficiary selection), Compact Implementation (Procurement, Contract Management, Financial/Administrative Management) and Second Compact Closeout. The participants were presented with case studies to expose them to real life occurrences of fraud and corruption related to their specific daily tasks. They also discussed measures which might be taken to reduce the risk and occurrence of fraud and corruption, and the standard mitigants that have been developed by MCC.

### 7.2 Joint MCC/MCA-Georgia Working Group on Anti-Fraud and Corruption

In 2016, a joint MCC and MCA-Georgia working group was formed to develop and review the Anti-Fraud and Corruption risk assessment matrix. The working group consisted of a core team that worked with MCC and MCA-Georgia technical directors and staff as necessary.

#### The Core Team

- MCA-Georgia staff
- Rick Messick (Senior AFC Advisor, MCC)
- Chris Williams (Senior Director on AFC, MCC)

### 7.3 Kick-Off Activities and Development of AFC Risk Assessment Matrix

In 2016, as the initial stage in the AFC risk assessment process, the Joint Working Group conducted several “kick-off” sessions on fraud and corruption via teleconference. It was agreed that MCA-Georgia would draft a matrix identifying the risks of fraud and corruption in its operations by sector with close involvement of the MCA-Georgia technical staff.



## **7.4 Development of Fraud and Corruption Risk Assessment Matrix**

The sector matrixes were developed by MCA-Georgia Directors after an internal discussion on methodology and development of a template for the AFC risk assessment matrix. The draft matrix identified possible activities of fraud and corruption that may occur in the MCA-Georgia Second Compact per sector, showing the impact and likelihood of the risks on the Compact. It also proposed the appropriate mitigation measures to prevent or limit the impact and likelihood of these risks. MCC Directors and staff independently developed their own version of the AFC risk assessment matrix to encourage creative and wide-ranging consideration of the context relevant to the specific Compact program as well as their professional experience. The consolidated draft matrices were shared between MCA-Georgia and MCC, and then reviewed by the Joint Working Group with the relevant MCA-Georgia and MCC staff in 6 subsequent sessions via teleconference. The matrix was then updated to reflect the discussions and input from representatives of MCC's AFC Team. Directors focused to identify risks which they saw unfolding during the Second Compact Implementation, using their experience in the field to suggest mitigation measures.

## **8. FIELD VISIT TO MCA-GEORGIA**

Mr. Chris Williams MCC Senior Director for Anti-Fraud and Corruption, and Rick Messick, MCC Senior AFC Advisor, arrived in Georgia for a week-long field visit in July-August 2017. Details are provided in Annex A.

### **8.1 Conclusions and Outcomes of Field Study**

- MCC delegates gained valuable insights into progress of the MCA-Georgia Compact Implementation and the realities on the ground.
- The mission embedded the importance of actively driving an anti-fraud and corruption culture with MCA-Georgia leadership, providing tangible measures to develop and implement such culture.
- The MCC/MCA-Georgia Joint Working Group reached final agreement on the high impact risks to be addressed in the AFC AP.

## **9. MCA-Georgia AFC ACTION PLAN**

After careful deliberation of the AFC risk assessment matrix, the MCC/MCA-Georgia Joint Working Group agreed that the fraud and corruption risks in most areas of the MCA-Georgia Compact Implementation have been effectively mitigated. They agreed that the MCA-Georgia AFC Action Plan would focus on the few risks remaining that were judged to have a high likelihood of occurring or a high impact if they did occur. These risks are concentrated in Procurement and Infrastructure Works Construction and are detailed in the Table below.

### **9.1 Disclosure of confidential design or cost information by insider**

Sector Risk	Procurement, Infrastructure
Description of Risk	Disclosure of confidential design or cost information by insider. Design consultant, MCA staff member (engineer, activity officer), procurement staff, or GoG counterpart may disclose confidential internal cost estimate to favourite construction or consulting company.
Factors in Mitigation	Program Procurement Guidelines, other confidential controls
Timing	With every procurement
Additional Cost (if any)	
Staff Member/Office Responsible	Directors Procurement, Infrastructure

### 9.2 Hidden collaboration of technical evaluation panel members with certain bidders

Sector Risk	Procurement, Infrastructure
Description of Risk	Hidden collaboration of technical evaluation panel members with certain bidders and respectively subjective evaluation of proposals leaning towards selecting the favourite company. Technical evaluation panel members may have interest and informally collaborate with certain construction company/companies and act in their interests.
Factors in Mitigation	Program Procurement Guidelines, oversight by MCA-G Procurement Team, “no objection” of significant procurements by MCC
Timing	With every procurement
Additional Cost (if any)	
Staff Member/Office Responsible	Director Procurement, Infrastructure

### 9.3 Preparation of Estimates

Sector Risk	Procurement
Description of Risk	The Price Reasonableness Analysis conducted, consider comparison of the proposed prices with estimates. Thus wrong estimates might be the reason of signing the Contract for unreasonable high or low Contract Price While evaluation of Bid/Proposal price, the reviewer shall be confident that the estimates are accurate and are based on the detailed researches and findings.
Factors in Mitigation	In case of more complicated and specific procurement the wider independent specialists could be involved. Need additional financing, time and good planning
Timing	With every procurement
Additional Cost (if any)	
Staff Member/Office Responsible	Director Procurement

**9.4 Over-specification**

Sector Risk	Procurement
Description of Risk	<p>Over-specification - setting specific technical features regionally available only at certain group of providers of goods or constructions or consulting services.</p> <p>Design consultant, MCA staff member, or GoG technical counterpart might set specific technical features (e.g. owning rehabilitation goods or specific services) regionally supplied only by certain group of companies.</p> <p>In any pre-bid documentation or conferences, MCA-Georgia II's Procurement Team can also inform potential bidders of MCA-Georgia II's Bid Challenge System, which they can use if they believe there is over-specification.</p>
Factors in Mitigation	Set MCA, Implementing Entity, MCC and Independent Engineer clearance procedure.
Timing	With every procurement
Additional Cost (if any)	
Staff Member/Office Responsible	Director Procurement

**9.5 Quality and Quantity Control**

Sector Risk	Infrastructure
Description of Risk	<p>Risk of acceptance of poor quality workmanship or unnecessary work, use of materials that do not comply with specifications, and other technical non-compliance of performed works with general guidelines and specifications (volume 4 of the bid package).</p> <p>Having corrupt intent, supervisor may approve or endorse poor quality workmanship, use of materials that do not comply with specifications, and other technical non-compliance of performed works by the construction company with general guidelines and specifications (volume 4 of the bid package).</p>
Factors in Mitigation	<p>Set MCA, Implementing Entity, MCC and Independent Engineer clearance procedure for completing, reviewing, and accepting construction.</p> <p>Quality control will be done by contractors, while quality assurance is the responsibility of supervising engineers. Routine testing of materials as required under existing contracts.</p> <p>One year defects liability period applied. MCA to make more unannounced visits, spot checks.</p> <p>MCA is going to additionally hire project</p>

	<p>engineers, who will be over sighting activities of construction company on site and checking compliance of performed works with general guidelines and technical specifications (volume 4 of the bid package)</p> <p>On MCA request additional laboratory test may be done by an independent laboratory hired directly by MCA-G.</p> <p>Clear kick-off meetings: MCA to set the tone from the beginning and to clearly communicate to contractors the expectations. To be very strict, rigorous and demanding in accepting the quality of works (everything of sub-standard quality shall be redone immediately, and not to rely upon the liability period).</p>
Timing	With every infrastructure project
Additional Cost (if any)	
Staff Member/Office Responsible	Director Infrastructure

### 9.6 Risk of cooperation supervisor with construction company

Sector Risk	Infrastructure
Description of Risk	<p>Risk of cooperation of supervisor with construction company to approve all the corruption/fraud related activities/deliverables and endorse submitted payments certificates, including false variation orders and hidden works acts.</p> <p>Supervisor may informally cooperate with construction company and approve all the corruption/fraud related activities/deliverables as well endorses submitted payments certificates, including false variation orders and hidden works acts.</p>
Factors in Mitigation	<p>Establish MCA, Implementing Entity, MCC and Independent Engineer clearance procedures for completing, reviewing, and accepting construction. Variation order over a certain threshold to be approved by MCA. MCC technical staff and MCC-contracted Independent Engineers also will provide oversight through spot checks.</p> <p>Careful scrutiny of proposed work as required by Contract conditions. MCA is required to submit variation orders that cumulatively exceed 10% of the original contract value to MCC for formal approval. Independent evaluation of the proposed design changes (e.g. by using short-term experts under construction supervision contracts).</p> <p>MCA is going to additionally hire project engineers, who will be over sighting activities of construction supervisors and approving all certified</p>

	<p>Payment Certificates by analysing in details randomly selected issued engineering documentation.</p> <p>Upon a request by MCA the proposed design changes will be verified by MCA-G and/or by consultants hired to support MCA in project implementation.</p>
Timing	With every infrastructure project
Additional Cost (if any)	
Staff Member/Office Responsible	Contract Manager

## 10. ROLE OF MCA-GEORGIA SUPERVISORY BOARD AND MCC

- The AFC AP shall be submitted to the MCA-Georgia Supervisory Board for information and to MCC for approval.
- The Risks recorded in the AFC Action Plan shall be reported on a semi-annual basis to the Supervisory Board in information session to provide feedback on implementation of mitigation measures.

## 11. REVISION AND MONITORING

- MCA-Georgia Management shall at semi-annual intervals (or upon significant changes to the AFC context) update the AFC AP, to be discussed at Supervisory Board meetings.
- An AFC Action Plan progress report shall be posted semi-annually on MCA-Georgia’s website after approval by MCC. MCA-Georgia’s General Counsel shall be major point of contact in charge of updating AFP AP and other activities related to AFP AP.

Effective risk management requires flexible, responsive, continuous learning of best practices and skills. Lessons learned will contribute to refined oversight strategy in relation to the AFC Action Plan. With this commitment in mind, MCA-Georgia AFC risk assessment matrix and this Action Plan will be revised and improved regularly during their implementation.

The revisions will include different actions, depending the scope and purpose–

- eliminating some risks and mitigants and amending/adding new ones;
- adopting new actions, which will facilitate detection of fraud and corruptions;
- improving the system for responding to fraud and corruption;
- improving the system for prompt and proportional remediation;
- other actions.

Revisions to the AFC Action Plan may also be initiated by MCA management, MCA Project Directors, MCA Supervisory Board, MCC technical staff, and/or MCC Resident Country Director as needed. MCA-Georgia will prepare the final draft for the Supervisory Board’s information and MCC’s final approval. The final versions of revised AFC Action Plan will be made available on the MCA-Georgia website.

## ANNEX A: Field Visit to MCA-Georgia

### A.1 Individual Interviews with MCA-Georgia Staff

The MCC delegates, joined by MCA-Georgia AFC core team members, met with MCA-Georgia staff members. Each section of the AFC risk assessment matrix as compiled by individual members and refined in discussions, was reviewed and discussed in these sessions. The team members agreed on the final description of risks, the mitigation measures most practical at this stage of the MCA-Georgia Compact implementation, and the likelihood and impact of the risks identified. The MCC delegates also advised the MCA-Georgia team members regarding the risks to be addressed in the AFC AP for MCA-Georgia.

### A.2 Interviews with MCA-Georgia Contractors

The MCC team, joined by MCA-Georgia team members, also met with MCA-Georgia contractors, selected to be representative of all MCA-Georgia projects, and secondly depending on the availability of the contractors during the MCC field visit. The purpose of these discussions was to sensitize contractors about the MCA-Georgia stance on corruption and the pro-active measures in place to create an anti-corruption culture in the organization, through training, the development and on-going management of an AFC risk assessment matrix, and the AFC AP. The contractors were also given an opportunity to share their experience and ideas about possible windows of opportunity for fraud and corruption.

The contractors were interviewed in person. They generally welcomed the initiative and actively contributed to the discussions pointing to fraud and corruption risks, proposing prevention measures. The following contractors were interviewed:

	<b>Contractor</b>	<b>Interaction with Joint Team</b>	<b>Contract Name and Number</b>
1	MCA-Georgia's Fiscal Agent Cardno	Fiscal Agent Cardno Office	Fiscal Agent services N48
2	MCA-Georgia's Audit Company - Grant Thornton	MCA-Georgia's Office	Audit Services N97
3	SDSU-Georgia	SDSU – Georgia Office	Collaborative Agreement N122 For the Provision of Degree Accreditation and Institutional Support Initiative for Science, Technology, Engineering and Mathematics
4	PEM Consult	MCA-Georgia's Office	Contract N72 for Consultant's Services For the provision of Industry-led Skills and Workforce Development Project

			Manager
5	Romcatel - Industria	MCA-Georgia's Office	Design-supervision services PP05-A3/GEP/CS/LCS/03/115/TO3-65 PP05-A3/GEP/CS/LCS/03/115/TO4-164 PP05-A3/GEP/CS/LCS/03/115/TO6-123
6	MCC Consultant - Tetrattech	Teleconference	Supervision services

**A3 Field Visit to Project Site**

The MCC delegates, accompanied by the General Counsel, visited the construction sites of Gori Public School #2 and Gori Public School #9 and TVET grant recipient Georgian Aviation University.



# **MILLENNIUM CHALLENGE ACCOUNT – GEORGIA**

**Progress Report No. 1  
May 2019**



## 1. Background

In accordance with Millennium Challenge Corporation's ("MCC") *Policy on Preventing, Detecting and Remediating Fraud and Corruption in MCC Operations*, Millennium Challenge Account – Georgia ("MCA-Georgia") created an Anti-Fraud and Corruption Action Plan ("AFC AP) to serve as a tool for monitoring any activities that may adversely affect the effective and efficient implementation of the Compact and ensure that all MCC funds are utilized for the intended purposes. The AFC AP is based on the assessment of Compact related fraud and corruption risks.

The AFC AP was approved by MCC on January 9, 2018 and by the MCA-Georgia's Supervisory Board on March 19, 2018. The AFC AP is also posted on the MCA-Georgia website ([http://mcageorgia.ge/cms/Uploads/legal\\_acts/Action\\_plan\\_for\\_preventing,\\_detecting\\_and\\_remediating\\_fraud\\_and\\_corruption.pdf](http://mcageorgia.ge/cms/Uploads/legal_acts/Action_plan_for_preventing,_detecting_and_remediating_fraud_and_corruption.pdf)).

MCA-Georgia continues to monitor the high priority fraud and corruption risks in the Compact through the submission of progress reports. This progress report covers a period of one year from March 2018 to March 2019. In addition, MCA-Georgia has continued to implement policies and activities aimed at increasing awareness amongst MCA-Georgia staff and Implementing Entities on integrity, transparency and accountability.

The AFC AP Progress Report provides updates on the monitoring of high priority risks in the MCA-Georgia Contracts and Procurement and Contract Management Processes.

## 2. Progress Report on High Priority Risks

The AFC AP identified MCA-Georgia AFC high priority risks or risks having a high/medium likelihood of occurrence and a medium or high impact on Compact implementation. Such risks are concentrated in Procurement and Infrastructure Works Construction, and are detailed in the Table below.

Each high-priority risk has corresponding proposed actions to mitigate the negative effects of fraud and corruption. To assess the effectivity of the proposed actions and monitor other possible fraud and corruption issues, the AFC Core Team conducted consultations with MCA-Georgia staff on the degree of effectiveness of proposed actions, status of implementation, implementation issues, resolution of issues, and suggestions to improve risk management.

Chris Ackerman and certain members of the MCC Georgia II Country Team contacted MCC's anti-fraud and corruption team on/about July 20, 2018 in response to an allegation by MCA-Georgia Infrastructure Director Kartlos Kipiani of collusion between two MCA consultants: Romcatel and Colliers International. Upon review of the facts, AFC (Chris Williams) determined that there was no collusion as defined in the MCC AFC Policy ("a tacit or explicit agreement between two or more parties to engage in a coercive, corrupt, fraudulent, obstructive, or prohibited practice, including any such agreement designed to fix, stabilize, or manipulate prices or to otherwise deprive the Accountable Entity of the benefits of free and open competition").

This progress report provides an update on the implementation of the proposed actions.

The following high priority risks in the MCA-Georgia procurement process were previously identified in the AFC AP and are highlighted in the table below. The table also provides the status of implementation of actions being implemented by MCA-Georgia in relation to Procurement and Infrastructure Works Construction in general.

<b>Risk 1: Disclosure of confidential design or cost information by insider</b>	
<b>Risk Rating - High Probability/High Impact</b>	
Disclosure of confidential design or cost information by insider.	
<b>Proposed Actions</b>	<b>Status of Implementation</b>
1. Implementation of Code of Conduct and Conflict of Interest Policy mandating disclosure of conflicts of interest by all MCA-Georgia staff. Staff are also required to sign up to confidentiality agreements. Requirement that all procurement sensitive information, including the Procurement Plan be kept confidential and restricting the number of staff with access to the same (strictly need to know basis). Strict adherence to the provisions of the Procurement Operations Manual (POM).	<ul style="list-style-type: none"> <li>This risk has been mitigated.</li> </ul>

<b>Risk 2: Hidden collaboration of technical evaluation panel members with certain bidders</b>	
<b>Risk Rating: High Probability/High Impact</b>	
Hidden collaboration of technical evaluation panel members with certain bidders and respectively subjective evaluation of proposals leaning towards selecting the favorite company.	
<b>Proposed Actions</b>	<b>Status of Implementation</b>
1. Program Procurement Guidelines, oversight by MCA-Georgia procurement team, “no objection” of significant procurements by MCC.	<ul style="list-style-type: none"> <li>This risk has been mitigated.</li> </ul>

<b>Risk 3: Preparation of Estimates</b>	
<b>Risk Rating - High Probability/High Impact</b>	
Wrong estimates might be the reason of signing the Contract for unreasonably high or low Contract Price.	

Proposed Actions	Status of Implementation
<p>1. In case of more complicated and specific procurement the wider independent specialists could be involved. Need additional financing, time and good planning.</p>	<ul style="list-style-type: none"> <li>• This risk has been mitigated.</li> </ul>

**Risk 4: Over-specification**

**Risk Rating: High Probability/High Impact**

Over-specification - setting specific technical features regionally available only at certain group of providers of goods or constructions or consulting services.

Proposed Actions	Status of Implementation
<p>1. Set MCA-Georgia, Implementing Entity, MCC and Independent Engineer clearance procedure.</p>	<ul style="list-style-type: none"> <li>• This risk has been mitigated.</li> </ul>

**Risk 5: Quality and Quantity Control**

**Risk Rating - High Probability/High Impact**

Risk of acceptance of poor quality workmanship or unnecessary work, use of materials that do not comply with specifications, and other technical non-compliance of performed works with general guidelines and specifications.

<b>Proposed Actions</b>	<b>Status of Implementation</b>
<p>MCA-Georgia, MCC and Independent Engineer have set draft rehabilitation designs reviewing and clearance procedure, ensuring required quality, acceptable for all involved parties.</p> <p>MCA-Georgia (agreed with MCC) has set management procedure for overseeing rehabilitation implementation, completion and acceptance, monitored by MCC through Independent Engineer.</p> <p>Quality control is being performed by contractor's internal quality control units, while quality assurance has been performed supervising engineers. One-year defects liability period applied.</p> <p>MCA-Georgia has been performing unannounced visits and spot checks.</p> <p>MCA-Georgia has hired enough engineers, who are additionally overseeing construction company performance on sites and checking compliance of implemented works with general guidelines and technical specifications (volume 4 of the bid package).</p> <p>MCA-Georgia, in case of necessity, may request additional laboratory test by directly hired independent laboratory.</p> <p>Clear kick-off meetings: MCA-Georgia sets the tone from the beginning and clearly communicate to contractors about the expected level of performance, quality of the provided services as well as project management rules and procedures.</p>	<ul style="list-style-type: none"><li>• This risk has been mitigated.</li></ul>

**Risk 6: Risk of cooperation supervisor with construction company**

**Unmitigated Risk - High Probability/High Impact**

Risk of cooperation of supervisor with construction company to approve all the corruption/fraud related activities/deliverables and endorse submitted payments certificates, including false, variation orders and hidden works acts.

<b>Proposed Actions</b>	<b>Status of Implementation</b>
<p>MCA-Georgia (agreed with MCC) has set management procedure for overseeing rehabilitation implementation, completion and acceptance, monitored by MCC through Independent Engineer.</p> <p>Quality control is being performed by contractor's internal quality control units, while quality assurance has been performed supervising engineers.</p> <p>MCA-Georgia has hired enough engineers, who are additionally overseeing construction company's performance on sites and check compliance of implemented works with general guidelines and technical specifications.</p> <p>MCA-Georgia hired engineers perform random cross checks of the technical compliance and performed volumes of coverts acts and performed works volumes with respective documentation endorsed by the supervision consultant as well as provide random checks of the accuracy of the submitted supervisor approved draft interim payment certificates.</p> <p>Variation order over a certain threshold to be approved by MCA-Georgia.</p>	<ul style="list-style-type: none"><li>• This risk has been mitigated.</li></ul>

<p>MCA-Georgia is required to submit variation orders that cumulatively exceed 10% of the original contract value to MCC for formal approval. Independent evaluation of the proposed design changes (e.g. by using short-term experts under construction supervision contracts).</p> <p>MCC technical staff and MCC-contracted Independent Engineers also will provide oversight through spot checks.</p> <p>Upon a request by MCA-Georgia the proposed design changes will be verified by MCA-Georgia and/or by consultants hired to support project implementation.</p>	<ul style="list-style-type: none"> <li>• This risk has been mitigated.</li> </ul>
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