February 10, 2015

Daw Elizabeth Khin Hnin Hlaing
IFI Watch Myanmar Coordinator
Yangon, Myanmar

Dear Daw Elizabeth Khin Hnin Hlaing,

Subject: Response of Department of Rural Development to the Report of IFI Watch Myanmar on Community Driven Development Project in Namhsan Township, Shan State

We refer to the your report submitted to the World Bank about the monitoring activities that were carried out by representatives of the IFI Watch Myanmar in collaboration with their local partner-members in the Namh Sam Township, Shan State with on-site project monitoring between the 19th and 22nd of September 2014, entitled "Verifying World Bank Claims About CDD - A Report on the Namh Sam Township Project" (hereafter "the IFI report").

We appreciate the efforts undertaken by IFI Watch Myanmar to monitor the National Community Driven Development Project implemented by DRD. We consider your work relevant and important as it contributes overall to the achievement of quality in project implementation, to transparency and accountability.

The IFI report includes general observations and recommendations which we will follow up in order to continuously improve project results. Namely in Namhsan, the block grant allocation can happen earlier than last year, allowing more time for sub-project implementation before the rainy season. Furthermore, all involved stakeholders like DRD officers, facilitators and community members have higher capacities and more experience as compared to the first year. Finally, the operations manual has been refined and monitoring forms have been simplified. This will allow better quality of the implementation of sub-projects in the second year.

More importantly, DRD has undertaken a thorough investigation of the two specific fraud and corruption (F&C) allegations cited in the IFI Watch report, namely (i) the misuse of MMK40,000 for the subproject closing ceremony in Ho Chaung Village, and (ii) inflated prices for bricks procured for the subproject in Man Nauk village.

For this, DRD appointed a team of DRD staff and Union TA to conduct a field review to cross check and assess the facts about the matters reported in the report of IFI Watch. The team comprised fourteen members with the Finance Director of DRD as the team leader. In summary, the team did not find evidence of fraud and corruption in these cases.

In the case of Ho Chaung Village, DRD's investigation concluded that the village tract had decided to use MMK40,000 to have a closing ceremony of subprojects, financed from the administrative expenses budget of the block grant, and that the CF had used this money to buy noodle soup and coffee for about 80 people. However, the CF kept this money for several months and led the process without involving VPSC. This is not acceptable.

In the case of Manauk village, the community implemented only a 1,200 feet concrete footpath, where it was not required to use the bricks as claimed by IFI Watch. (It is possible the village name was not correctly recorded). However, the DRD team inquired the brick price in Ho Chaung village, as

it has implemented a school fencing construction project and used 2,210 bricks. Suppliers there said they sold each brick for 300 kyats, and that bricks costing 250 Kyats are rather small and not of good quality.

Please refer to further details in the attached Report on Findings of IFI Watch prepared by the DRD team.

We would also like to mention that we take up your feedback and use it for further capacity building. For example, the recommendations that you provide at the end of the IFI report have been converted into a simple training material for facilitators. This session material will be used in the Training of Facilitators program in the new townships. DRD also instructed the township DRD Team, township TA team members on a range of points that came out of the above discussed cases.

For the purpose of transparency, we will upload the IFI report as well as the reply by DRD and by the WB to the project´s web site.

Again, we appreciate the work and monitoring activities of IFI Watch with the focus on increasing level of transparency and good governance during the implementation of CDD and remain open to receive further suggestions.

With best regards,

U Khant Zaw

Deputy Chief Engineer

Department of Rural Development

Ministry of Livestock, Fisheries and Rural Development

Report on Findings of IFI Watch

Background

On receipt of the report from IFI watch and the advice of the Task Team of the World Bank, DRD management decided to conduct a review of the findings and make appropriate follow-up actions and strategy to mitigate and avoid the nature of risks that IFI Watch reported.

Findings of IFI Watch

Below are the findings in ***Man Nauk Village Tract*** *[Ho Chaung, Man Nauk, Man Karn and Kya Kyein]*, as reported by IFI Watch. DRD considered findings as serious with regard to fiduciary principles of CDD and that may undermine the trust among the recipient communities of the Block Grants and as a whole the NCDD project implemented by DRD.

The finance and procurement committee members were absent from the meeting as they were in the fields.

Ho Chaung Village: implemented school fencing project

Although the disbursements were provided in April, Ho Chaung Villae did not receive any grant as the Community Facilitator [CF] told the committee to wait while she worked on procurement. Even though there was a Procurement Committee, this was a new experience for the village so they waited until July to receive that grant. As nothing moved forward, one of the committee members went to Namh Sam DRD office with a complaint letter asking the DRD office to solve this problem. The next day the responsible persons held a meeting at the village and the community received their grant.

It was very difficult to complete implementation within a month due to the financial mismanagement of the CF in procuring materials for the project. They have refused to continue working with the same CF so as not to have a repeat of this situation.

In addition to the above-mentioned challenges, when the village was given forty thousand Kyats to mark the successful completion of the sub-project, the CF took the cash and misused it by inflating the event-related costs.

Man Nauk Village: implemented concrete footpath project

The CF held frequent meetings with committee members. This CF only chose to work with the few committee members, who were on good terms with her. Though these committee members interviewed were never called for meetings, they received information from other members. She did not invite the administrator for meetings either.

The finance committee only had to sign the documents whereas she handled the cash and did the procurement. She did not train anyone and put forward the notion that she had to do everything as the villagers lacked the capacity. Regarding procurement, the villagers had to depend on the supplier she contracted and even when there were many delays and the materials procured were of low quality. The work was done by her and one other skilled labourer but no one knew his fee. Although the actual rate of a brick was 250 kyats, she stated that it costs 300 kyats at the meeting.
The interviewees do not like her condescending and rude way of engaging with the community and her incompetence. Relationship is not good either. In the next cycle, the villagers have refused to work with her if she cannot work more professionally.

The communities stopped participating when they became confused and lost track of the situation and this resulted in delays and incomplete implementation of the project. [5]
Though there is a complaint mechanism, no one dares to complain due to fear of her retaliation. Committee members were not included in the meetings and did not receive any information, so the committees were dismantled eventually.
From the other two villages, the CF's attitude and the work done were almost the same.

DRD's Approach

DRD management appointed a team of DRD staff and Union TA to conduct a field review to cross check and assess the facts about the matters reported in the report of IFI Watch.

The DRD team comprised the following members:

Union Level

1. Daw Nyo Nyo Win - Investigation Team Leader, Finance Director of DRD
2. Daw Mee Mee Htwe - Deputy Director of DRD (Namhsan TSP Focal Point for DRD Union)
3. U Zaw Min Kyi - Assistant Finance Director of DRD
4. Daw Thin Yu Hlaing - Assistant Finance Director of DRD and Accountant for CDD
5. U Banyar Tun - Grievance Handling Officer of the Union TA
6. U Win Zaw Tun - DRD Staff Officer of DRD
7. U Ye Win Aung - Grievance Assistant of DRD

Township Level

8. U Myint Htwe Win - Namhsan Staff Officer of DRD
9. U Kyaw Zin Latt - DRD Staff Officer
10. U Myo Thant - Communication Specialist of Township TA
11. U Kyawswar Win - Financial Specialist of Township TA
12. U Kyaw Myo Htike - Procurement Specialist of Township TA
13. U Myo Myint - Community Facilitator
14. U Aung Zaw Myint - Technical Facilitator

In this process, DRD team visited the Village Tract on November 15 & 16, 2014 and met the members of the VTPSC and the Finance Sub Committee and discussed the concerns raised by them. At this point, the DRD team learned that all these were discussed for few times at DRD TSP office since July and addressed these issues. In conducting this review, following questions were asked to assess and determine the size and the nature of the issue.

1. In Ho Chaung Village, the 40,000 kyats was given to whom by whom for what and how it was used?
2. In Manauk villages, did CF make the procurements by herself and did she hire a contractor by herself?
3. In Manauk village, did CF raise the price of brick actually 250 kyats to 300 kyats?
4. How does the Grievance Handling Mechanism operate in both villages; and
5. How does the Disclosing Mechanism operate in both villages

In conducting the review and investigation, the following actions were taken by DRD Team.

1. **Wages Log:** The wages log was reviewed to identify the recipient of wages (skilled and unskilled) and determine the rate of wages for a day, the amount of wages received by them and the dates the recipients worked for the project. DRD Team also met with the particular skilled labourer and obtained written confirmation how much he/she received from the CF.
2. Payment vouchers and supporting documents: These documents were reviewed to verify the nature of payments, the number of bricks purchased, unit rates for a brick, the amounts paid, people involved in the payment process and the recipient of such payments.

3. The grievance reports prepared by Township DRD and TA including these two cases among the other cases were thoroughly studied.

In addition, DRD team conducted:

i) A market survey by checking in few shops about the prices of brick and interviewed the shop owner from the bricks were purchased.
ii) Discussions with members of VTPSC and FSC about the payment process and their opinion how this can be improved
iii) The team also visited to the sub-project and met with some of communities members and queried whether they were aware of the procurement plan, their participation during implementation and the benefit they expected from the sub-project and their involvement.
iv) Interview with few CFs and TFs **including this particular CF**, as not to raise any suspicion or alert the CF to once again manipulate the members of VTPSC. In this interview questions were asked how the contracts are made and how the processes of payments are conducted and what are their roles in these activities.
v) Interview with suppliers of construction materials

Thereafter, DRD team held meetings with the DRD TSP staff officer and TSP TA Team Leader and shared with them the following findings.

Meetings and Interviews

DRD Team conducted meeting with (34) people from Manouk village tract including VTPSC, VPSC, Village/ Tract Administrators, suppliers and villagers. Team inquired the information through group discussion and individual interview. The following is the list of people who participated in the discussion.

VT/ VPSC - 14
Volunteer - 3
Village/ Tract Administrator -3
Villager - 8
Village elder - 3
Supplier - 3
Skilled labour (also function as Village Grievance Focal)

Summary DRD's Review Findings

1. Administration cost 40,000 was spent on sub-project completion and handing over ceremony were for the following items:
   - Mont Hin Gar (noodle soup), (no receipt)
   - Coffee (no receipt)

   Serving Mo Hin Gar and Coffee was confirmed by the committee memebrs though no receipts were available.

   Each village from Manauk village track received 40,000 kyats from underspend administration expense to celebrate the sub-project completion ceremony. At that time, many committee members were busy and CF decided to arrange the ceremony. She kept that money for 3 months and twenty days. She arranged to feed Mot Hin Gar to the people by the time VPSC made complaint on her. She went and bought the Mot Hin Gar (noodle soup) with one of villagers (named Daw Hnin Hnin Yawe) and treated about 80 people including some school children, teacher and villagers at school. This

40,000 kyats was spent for the event on sub-project successful completion and handing over. However, this activity was conducted without allowing the VPSC to leading and involvement of VPSC and thus created unhappiness among the members of VPSC.

2. Manauk village implemented only a 1,200 feet of concrete footpath, which was not required to use the bricks as claimed by IFI Watch. (May be, IFI Watch recorded wrong village name). However, DRD team inquired the brick price in Ho Chaung village as it has implemented a school fencing construction project and used 2,210 bricks. Ho Chaung committee members bought the bricks from 3 suppliers (2000 + 150 + 60). During the trip, DRD team have met with 2 suppliers who sold (2,000+150) bricks as the other supplier was on trip and not available when DRD visited the village. The suppliers said they sold each brick for 300 kyats. In fact, the suppliers have had no desire to sell those bricks, as they made it for themselves. Those suppliers informd that the brick with the price of 250 Kyats is quite small and not very good quality.

3. Manauk village tract is composed of 10 villages. With the agreement of each village committee, CF organized the procurement process of eight villages, as 2 villages did not follow on her arrangement. CF engaged with one supplier from Man Lwal village, who has a truck, purchased the cement bags and bricks from Kyaukme town and distributed to eight villages. CF collected money from those villages and paid to the supplier/ truck owner when materials were distributed. Only one truck was involved in distributing the materials to eight villages. Further, the rainy season created the sub-project implementation delay for two months. The supplier/ truck owner (U Kyaw Thein) said he charged the transportation cost of materials, which are 150 kyats per brick and 2,500 kyats for a cement bag. He said, his wife and CF usually managed and worked out the materials list and payment process (during the meeting his wife was in the tea farm). One of the village committee members from Kyauk Phyu Aw said they satisfied with the price of materials purchased by CF, as they have no experience in procurement, and their village is difficult to access by truck, the materials were carried by horses.

   It was found that, CF did not hire the contractor for Manauk village's footpath construction as this sub-project was implemented through community force account (may be IFI Watch recorded wrong village name). From the the communities, both male and female worked as construction labour with 3,000 kyats of daily wages. The same as for Ho Chaung village school-fencing project, it was constructed by five villagers, they were assigned by VPSC and the head Mason received 5,000 kyats while other unskilled workers got 3,500 kyat per day.

4. In terms of grievance handling system, the suggestion box has been fixed in both villages; people understood how to raise their complaint as well as the committee know the office phone number. During cycle one, including a sensitive case was raised by Ho Chaung village, total four complaints were received from both villages.

5. Regarding the disclosure element, both villages do not have proper information sharing system as there are no transparency boards available in villages. Village committee members said they disseminated the project's updated information through the village meetings. The procurement plan, financial disclosure and other project related information had not been posted, villagers are also do not aware these activities. However, all project's posters are hanged in front of village administrator house.

Additional Findings

6. Observing the attitude of CF, it was found that CF is from Ho Chaung village and does not get along well with many committee members including village tract Administrator. She is a trained midwife (health) from the government and provides this service to her community. She always influences to the communities and always bossing, thus, majority of people do not like her attitude and do not want to work with her any more.

7. According to the Community Facilitator Daw Moe Moe San's responses and the results of reviewing documents such as cross checking between withdrawal amount 830,000 kyats and the payment list, it was found that all money was paid. Payment of 495,000 kyats cheque to the supplier from Nauk Lwi village and 335,000 kyats cheque to the committee members named U Aung Thein and U Aung Nay Oo. For the materials cost 495,000 kyats, the committee did not agree to pay 50% of advance money and this created disagreement between CF and Custodian in terms of purchasing materials, which has resulted in delay of procurement process.

8. Township has handled the above grievances from Ho Chaung committee toward CF in early July 2014. Thereby, DRD Township addressed this problem and the village received the money within few days and was able to commence the sup-project. Regarding this complaint, township feedback committee gave verbal warning to CF and re-assigned her assignment to another village tract since August 2014.

Conclusion

- In summary, the DRD concludes that the particular CF influenced some of the VPSC/ VTPSC members to a certain extent particularly for the procurement process in the eight villages.
- MMK 40,000 was spent for sub-project completion cerebration; however, CF kept this money for several months and led the process without involving VPSC is unacceptable.
- IFI Watch findings for Manauk village such as increase brick price and CF hired the contractor were found to be not true.
- When enquired about the price of brick in Ho Chaung, it was found that, although the brick price was 50 kyats more than Namhsan town, the quality is better and the size is bigger.
- Grievance handling system has been fixed in both villages and during Cycle 1 a total of four grievances were received from those village, including one sensitive case. The information disclosure form both villages is weak as community are not shared with procurement list and other updated information.

DRD's Response and Future Strategy

The findings including the conclusions and future strategy were reviewed, discussed and approved by Administration Department of DRD.

DRD team strictly instructed the TSP DRD Team, Township TA Team members:

i) To follow the procedures stated in Operational Manual

ii) No TF or CF would be involved in making procurement decision or handling cash and the CF and TFs are expected to facilitate the process and educate the members of VTPSC about the procedures

iii) All the member of TSP DRD and TSP TA would perform their tasks in line with the Code of Conduct established under CDD and no members will participate or collude in any malpractices. If found they will be terminated from any further potential employment with the DRD and the World Bank projects

iv) The particular CF is warned in writing by Mercy Corps head office and decided to be re-assigned for other Village Tract during Cycle 2.

v) The transparency of all project activities including Information discourse element should be reinforced in all villages.

vi) In future, township feedback committee should handle such kind of serious grievance by informing to the union level in timely manner.

vii) Union Level DRD should issue the instruction in order to prevent the same problem not to be occurred in other project townships.

viii) Union level DRD will make monitoring visits during Cycle 2 and ensure no such issues are repeated.

Actions taken

- Since township DRD and TA has received the grievance, they handled and resolved it through 4 meetings with VTPSC and VPSC at village tract
- Township DRD and TA gave a verbal warning to CF and CF is under three months probation period from Aug-Nov 14.
- CF has already been re-assigned for other village tract.

Daw Nyo Nyo Win
Finance Director and Investigation Team Leader
Department of Rural Development

Date: 21 November 2014

Annex: Persons met during the investigation

Annex: Persons met

Manauk Village Tract, Manauk village

No.	Name	Responsibility
1	U Thein Aung	Village Tract Administrator
2	U Sein Win	Villager (Nouk Lawl)
3	U Min Thien	Villager (Nouk Lawl)
4	U Aung Thein	Villager (Phyu Kone)
5	U Yan Naing	Villager (Phyu Kone)
6	U Win Myint	VPSC Chairman (Mannouk)
7	U Maung Maung	VPSC Chairman (Nouk Lawl)
8	U Kyaw Thein	O&M (Manouk)
9	U Soe Myint	Vulunteer (Manouk)
10	U Phoe Chit	Village Elder (Kya Kyine)
11	U Mya Maung	VPSC Chairman (Kyauk Phyu Aon)
12	U Tun Naing	Volunteer (Kin Ka Paung)
13	U Aik Maung	Procurement (Kin Ka Paung)
14	U Tun Shein	VPSC Chairman (Ho Chaung)
15	U Kyaw Win Maung	Village Elder (Ka Din Ta Late)
16	U Pen Nyein	Village Elder (Ka Din Ta Late)
17	U Sein Win	Villager (Ta Kha Yet)
18	U Aik Than	Head of Financial (Ka Din Ta Late)
19	Maung Thura Oo	Procurement (Kyauk Phyu Aon)
20	U Aung Thein	Procurement (Takhayet)
21	U Ba Shwe	VPSC Chairman (Phyu Kone)
22	U Kyaw San	Pyout Kone
23	U Win Thant	Volunteer (Kyauk Phyu Aon)
24	Daw Wai Mein	M&E (Kyauk Phyu Aon)
25	U Cha Aung	VPSC Chairman (Ho Chaung)
26	U Aung Thein	O&M (Ho Chaung)
27	U Than Nyunt	M&E (Ho Chaung)
28	U Min Naung	Village Administrator (Manouk)
29	U Kyan Aye	Village Administrator (Ho Chaung)
30	U Kyaw Thein	Supplier/ Tract Owner

Manouk Village Tract, Ho Chaung Village

No.	Name	Responsibility
1	U Thein Nyunt	M&E (Ho Chaung)
2	U Saw Lon Maung	Grievance Focal (Ho Chaung) (worked as skilled labourer)
3	U Tun Shein	VPSC Chairman (Ho Chaung)
4	U Aik Than	Financial Sub-Committee (VT)
5	U Aik Nyunt	Villager
6	Daw Hnin Hnin Ywe	Villager
7	Daw Khin Htwe	Villager
8	U Thein Aung	VT Administrator
9	U Aung Thein	Supplier

Some people participated in meeting at both villages.