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CHINA

GUANGXI POVERTY REDUCTION PROGRAM FOR RESULTS (P153892)

FIDUCIARY SYSTEM ASSESSMENT

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World Bank

Contents

Section 1: Conclusions **3**
1.1 Reasonable assurance 3
1.2 Risk assessment 3
1.3 Procurement exclusions 5
Section 2: Scope **5**
Section 3: Review of Public Financial Management Cycle **5**
3.1 Planning and Budgeting 5
3.1.1 Adequacy of budgets 5
3.1.2 Procurement profile of the Program 7
3.2 Budget Execution 8
3.2.1 Treasury management and funds flow 8
3.2.2 Accounting and financial reporting 8
3.2.3 Procurement processes and procedures 9
3.2.4 Contract administration 11
3.3 Internal Controls 12
3.3.1 Internal controls 12
3.3.2 Internal audit 13
3.3.3 Program governance and anticorruption arrangements 13
3.4 Auditing 15
3.4.1 Coverage 15
3.4.2 Staffing 15
3.5 Procurement and Financial Management Capacity 16
3.5.1 Staffing should be adequate in both numbers and experience 16
Section 5: Risks and mitigation actions proposed **16**
Section 6: Implementation Support measures **18**
Section 7: Fiduciary Action Plan **19**
Section 8: Summary of Findings and recommendation of the assessment on key procurement indicators **19**
Guidance note.

Section 1: Conclusions

1.1 Reasonable assurance

Pursuant to World Bank policy and directives for Program-for-Results Financing (July 10, 2015) and the Program-for-Results Fiduciary Systems Assessment Guidance Note (June 30, 2017), the World Bank's fiduciary team assessed whether the Program's fiduciary systems provide reasonable assurance that financing proceeds will be used for the intended purposes, with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability. Based on the assessment and agreed upon actions to strengthen the system, which are reflected in the Program Action Plan (PAP), and other mitigation measures, the Program's fiduciary systems are considered broadly adequate to meet the requirements in the Bank's PforR Policy and Directive.

1.2 Risk assessment

The key FM risks and mitigation measures are:

1) Appropriations of higher level earmarked grants are sometimes received late in the year reducing funding visibility and jeopardizing implementation quality, particularly since investment project implementation is somewhat seasonal. This risk is mitigated by a strong pipeline of substantially ready projects that are small and can be implemented in a short period. The one-year budget carry over period to complete investment projects also enable counties to achieve relatively satisfactory budget execution rates. 2017 was also the first year of the consolidated fund for all PforR counties and performance should improve in 2018 and onward.
2) The Program monthly financial report lacks managerial content, the method used by counties to extract Program transactions from the budget execution system varies widely and inconsistencies in financial classifications risk the accuracy of program financial reporting. This risk is mitigation by proposed changes to the design of the Program monthly financial report and the preparation of instructions to counties on good practices in preparing the Monthly Program financial report.

Result Area 3 (DLIs 7 and 8) supports the improvement of institutional arrangements and capacity through the introduction of poverty reduction program budgeting and enhanced monitoring and evaluation systems, with an aim to enable the governments to better align budget allocation with the expected output/outcomes and timely monitor the progress, efficiency and effectiveness of program implementation.

The key procurement risks and mitigations actions are:

1) The intervention of multiple agencies, such as finance bureaus, development reform committees, housing and construction, transport, water and ethic and religions affairs bureaus might be challenging to the implementation of the program. The mitigation actions are that the regional program implementation agencies and the county poverty reduction development leading groups oversight and supervise the program implementation, the rights and obligation of each agency be cleared defined as to (i) limit overlapping of responsibilities, (ii) define the role of each agency and (iii) avoid undesirable delays, and a procurement agent be hired to assist with competitive bidding processes.
2) Multiple implementation agencies involved in procurement transaction might not be aware about the lists of debarred and suspended firms declared by the World Bank and

other Multilateral Development Banks. Although most of the contracts are of small size, and it is unlikely that these contracts would be awarded to firms debarred or under temporary suspension by the World Bank or other Multilateral Development Banks to avoid this risk : (a) Guangxi Zhuang Autonomous Region shall, upon project loan effectiveness, issue an official instruction to cause the implementation agencies at county levels and township government to ensure that no contract will be awarded to a firm or individual which is in the debarred list or under temporary suspension; (b) the updated lists of the debarred and temporarily suspended firms and individuals be shared on regular basis and whenever the list is updated with the agencies in charge of procurement ; and (c) the TOR for annual audit of the program request that auditors check on randomly basis whether any contract has been awarded to ineligible firm or individual.

3) The Bank may not be informed of any credible and material allegations of fraud and corruption issues during the program implementation. The proposed mitigation is that Guangxi Region inform the Bank of any credible and material allegations of fraud and corruption in the program progress report.
4) Municipal public resources transaction centers (PRTC) during busy seasons are short in rooms for conducting bid opening and evaluation sessions, implementation agencies have to queue for rooms space, leading to delay in the procurement processes, affecting negatively the implementation of the program. The proposed mitigation is that the implementation agencies plan the procurement activities ahead and book as early as possible the bid opening and bid evaluation rooms.
5) The program will be implemented at township and county level. Most of the program's activities comprise simple works geographically spread for the construction and/or rehabilitation of small basic infrastructure. The procurement will most often be conducted through direct contracting, due to the contract's tiny value, and thus limited interest of contractors, consulting supervisions or design consulting firms to participate. Unfortunately, no information on the number of direct contracting was available. To avoid abuse in the adoption of non-competitive processes, the proposed mitigation actions comprise (i) county government and line bureaus should advertise procurement information on newspaper, broadcasting, television and/or government websites right after the consolidated funds are approved by the regional government, to allow firms to show interest and be registered, (ii) the county government shall maintain a long list of registered firms, contractors and suppliers, to have a wide range of options for inviting firms ; and (iii) whenever possible community participation approach should be adopted for constructing simple and small value works, this approach is also encouraged by the regional government through Document (2016) no 28 issued on March 22, 2016; (iv) the county government shall enhance data collection and when possible add procurement method in the IT-based infrastructure project management system.
6) The payment terms of works contract stipulate that 80-90% (depending on contract value) of the contract amount be paid after completion and acceptance of the works, 5-15% of the contract amount be paid after completion of the settlement audit. We see two problems on this payment schedule: i) contractors would be short of cash flow, as payment will be only made upon the completion of works (even though advance payment is allowed, contractors normally do not apply for due to complicated payment procedures) and ii) completion settlement audit takes normally 12 to 18 months from the completion of works, this will cause that program funds, which should be utilized by June of the next year, would not be disbursed timely. The proposed mitigation measure is that implementation agencies (i) allow contractors to receive an advance payment with

simplified procedures and (ii) either do not include in the contract any payment linked to the completion settlement audit, just to the satisfactory completion of the works or speed up completion settlement audit if payment is linked to the completion audit. This is allowed by the regional Document (2017) No. 42, which requires that the audit should be carried out within the same year of the construction but this is not seen as sufficient.

1.3 Procurement exclusions

Given the nature of the program, it is not envisaged that the program will finance any contract for works, goods and consulting services above the Bank's Operational Procurement Review Committee (OPRC) thresholds[1]. In fact, in 2017 the total consolidated funds allocated for each county were as follows: Tengxian county is CNY342.97 million (USD53.59 million equivalent), CNY645.47 million (USD100.85 million equivalent) for Du'an county and CNY304.36 million (USD47.56 million equivalent) for Tianlin county. It is unlikely that the program will finance any OPRC level contract, as these funds will server to finance thousands of projects/contracts.

Section 2: Scope

The scope of the Fiduciary System Assessment is based on the defined boundary and Program Expenditure Framework, i.e. Poverty Reduction Expenditures of the Consolidated Poverty Reduction Fund for the 28 poor counties of Guangxi Zhuang Autonomous Region included in the PforR (captured principally, but not exclusively, in budget code 21305). The fiduciary team assessed the fiduciary systems of the key implementing agencies at regional and county level, including Regional Finance Department (FD), Development Reform Committee (DRC), Poverty Reduction Office (PRO), Agriculture Department, Water Department, Transport Department and Audit Office. Among the 28 poor counties, 3 counties namely Tengxian County, Du'an County and Tianlin County were selected as representative sample, and the following agencies of each county were assessed: Finance Bureau, Development Reform Bureau, PRO, Agriculture Bureau, Water Bureau, Transport Bureau, Housing and Urban-Rural Construction Bureau, Forestry Bureau, Animal Husbandry Bureau as well as the Audit Office.

Section 3: Review of Public Financial Management Cycle

3.1 Planning and Budgeting

3.1.1 Adequacy of budgets

The Program budget is prepared with due regard to government policy, and implemented in an orderly and predictable manner. There is a reasonable expectation that the required resources will be appropriated in the financial years when required.

Budget preparation: Budgets are prepared at each level of government. At the county level where the PforR will be carried out, sector entities prepare and submit their budget proposals to the corresponding technical division of the county Finance Bureau for review in early September. Both operating and capital budgets are reviewed for consistency and alignment with higher level government priorities and policies. A "two up, two down process" is followed to arrive at the final budget proposal which is presented to the county's People's Congress, generally in February. Four budgets are presented: 1) operating, 2) investment, 3) government fund (social security) and 4)

[1] OPRC thresholds for substantial risk projects are USD 115 million for works, USD 75 million for goods, information technology and non-consulting services, and USD 30 million for firm consultants

State-owned assets. The People's Congress typically makes little or no adjustments to the proposed budget as it is consulted during the budget preparation process and its requests, if any, are considered in the final draft budget. This low level of political influence in the budget is assessed as a positive.

Investment budgets can be executed during the budget year and one additional year as investment projects often have a long implementation period and earmarked funds from higher level governments may arrive late in the budget year. This two-year implementation period is adequate for poverty alleviation program investments as they are relatively small. There is no carry over period for recurrent budget expenditures.

Each level government in the Region follows a similar process which is relatively standardized throughout China. The budget preparation process at the Region's county level appears to be carried out in an orderly and predictable manner. Spending quotas for the Poverty Alleviation Program are issued typically in December of the preceding year so that formal budget approval by the People's Congress in February of the budget year does not delay program implementation. The three counties assessed received 27–65% of their budget allocations in December 2016 and over 90% by August 2017. Funding visibility was therefore assessed as a risk, partially compensated by policy that permits counties to carry over investment budget to the following year.

Annual Financial Poverty Alleviation Consolidated Fund Usage Plan (AFUP): Following the Regional 13th five-year plan of poverty reduction, each county governments prepares a five-year plan of poverty reduction to define activities and investments in achieving the target. For each year's implementation, the county government formulates an investment plan.

The annual budget however disaggregates program expenditures by the implementing agencies that receive poverty alleviation funds and no overall picture of the poverty alleviation program can be seen in the annual budget. Partially in response to this situation and to improve spending efficiency, a Consolidated Fund (CF) of poverty alleviation program funding sources was piloted in selected counties in 2016 and established for all counties in 2017. The CF permits a view of both the poverty alleviation program plan and its execution. The inability to provide a clear, holistic presentation of the overall poverty reduction program in the budget document however is considered an important budget management system weakness. The CF compensates for this weakness but at a significant cost of inefficiency.

Each county prepares an Annual Financial Poverty Alleviation Consolidated Fund Usage Plan (AFUP) which clearly defines the specific purpose of the funds, location, responsible agency, investment cost, and implementation timeline. Preparation and approval of each county's AFUP is done in parallel with preparation of the annual budget.

The basis for the CF Usage Plan are county databases of projects to be financed by poverty alleviation funds. These databases use a variety of technologies ranging from manual to Excel to custom designed systems. Each county prepares the AFUP using a template provided by the Agriculture Division of the Regional Finance Bureau, which coordinates the CF. The 2017 county AFUPs were submitted in hard copy form to the FB's Agriculture Division in September 2017 and a Circular providing final approval of the plans was issued on January 23, 2018.

AFUPs are updated semi-annually when clearer information on higher level funding becomes available. In 2017, the first year of the CF, counties did not always have a clear picture of the overall funding envelope.

Strengths of the CF planning process include: 1) community participation at the village level, 2) county authority to reallocate funding to priority poverty alleviation activities, 3) multi-tiered discussions that align community needs and higher-level priorities, and 4) a strong pipeline of pre-prepared projects ensuring that funds made available are used efficiently. However, the 2017 presentation of hardcopy plans, was indicative of the embryonic nature of the new CF planning process and the need for IT tools to support the process going forward.

3.1.2 Procurement profile of the Program

Procurement Overview: The PforR program will cover all kinds of procurement, i.e. works, goods and consulting services and will comprise construction, rehabilitation and upgrading of small village roads, construction of simple drinking water systems, supply of water pipes, acquisition of simple furniture for farmer field schools, procurement of engineering design and construction supervision services and selection of vocational school for farmer skills training.

Procurement Regulatory Framework:

The Procurement legal framework comprises two national laws, several regulations, and numerous orders issued at national, provincial, and county levels. **At national level,** the Tendering and Bidding Law (TBL)[2] of 1999, and its procedures lay out in the Tendering and Bidding Law Implementation Measures (TBLIM) of 2011, are key normative pieces for regulating the bidding processes of the procurement of works and related design and supervision services under this PforR. The procurement of goods and other consulting services, will be governed by the Government Procurement Law (GPL)[3] of 2002, and its procedures outlined in the Government Procurement Law Implementation Measures (GPLIM) of 2014. **At regional level,** Doc. (2017) No. 42, Guangxi Financial Special Poverty Reduction Funds Management Approach regulates the consolidated funds utilization; Guangxi Zhuangzu Autonomous Region Tendering and Bidding Law Implementation Measures (GTBLIM) passed through 12th Regional People's Congress Notice No. 12 on December 10, 2015 governs tendering activities in Guangxi, Instructions of Promoting Private Build Public Help, Villages Force Account for Financial Support Agriculture Investment issued by Guangxi regional government on March 22, 2016 [Document (2016) No. 28] encourages community/village participation in construction, rehabilitation and upgrading of village roads and in the establishment of drinking water supply facilities. **At regional line agency level,** PPRO Doc. (2016) No. 23, Poverty Reduction Funds Advertisement and Publication Management Approach requires that all projects under the consolidated fund be advertised widely such as at: the regional government website, Guangxi poverty Reduction information website and line agency website, township/village notice board, newspapers, broadcasting and television. **At county level,** each county issues Financial Consolidated Poverty Reduction Funds Management Approach which regulates the consolidated funds utilization in county. The county government also regulates and establishes thresholds for open bidding, limited bidding and direct contracting.

[2] TBL: http://www.npc.gov.cn/englishnpc/Law/2007-12/11/content_1383557.htm

[3] Art. 2 of the GPL

3.2 Budget Execution

China is in a process of piloting accrual based financial accounting in each province and autonomous region. Statutory accounting and financial reporting however is still done on a cash basis. The primary financial report at each level of government is therefore the budget execution report. Despite program expenditures being principally investment projects and low visibility throughout the year of the arrival of earmarked funds from higher level grants, budget execution was approximately 94% in 2017. Seven of the 28 counties had budget execution rates over 98% while only two had rates below 90%, the national minimum standard for the CPRF.

3.2.1 Treasury management and funds flow

Adequate funds are available to finance Program implementation as planned.

Funds availability: Higher level government send appropriation circulars or funding quotas to the sector divisions of the county Finance Bureau which are subsequently forwarded to the Agriculture Division which is responsible for the Consolidated Fund. The county government reviews appropriations received, reallocates funding to meet poverty alleviation priorities, if necessary, and allocates funds to investment projects in the county CF Usage Plan. The county FB Economic Development Division logs the allocated quota in the budget system which enables project implementing agencies to apply for payment following established procedures.

Payment processing: A payment plan for each contract is entered and approved in the system. The payment plan indicates the threshold for Direct and Authorized payments, the two payment modalities in the China treasury system. Supporting documents for Direct payments, applicable to larger payment amounts above the threshold, are reviewed and approved by the relevant FB sector division and signed off by management before payment through the treasury system. Authorized payments for amounts below the threshold are entered in the treasury system by the budget entity and payment is made by the commercial bank and cleared overnight. Vendor or contractor invoices include vendor bank account number and other relevant information to make the payment. The budget entity retains the original documents.

Treasury: Each county maintains a Treasury Single Account (TSA) and makes payments through a network of commercial banks. Provincial level treasury can transfer funds to counties at the time of quota allocation, through monthly transfers or can monitor payment plans in the system and transfer sufficient funds for counties to cover payments.

Counties participating in the assessment indicated that they had not experienced cash shortages. Indicators to measure cash flow availability were not observed. The lack of such indicators is not considered a weakness, however, given the program's strong funding and availability of cash when needed. Continued strong growth in China's economy suggest that national and provincial governments will continue to make cash available to the program as needed.3.2.2 Accounting and financial reporting

For purposes of financial reporting on the Poverty Alleviation CF, each county completes a monthly reporting template provided to it by the Agriculture Division of the Regional FB. The template combines information on sources of funding and functional expenditures. Notably, the report provides incomplete managerial information partially aligned with the primary objectives

and sub-activities of the program. DLI7 has been agreed with the regional government to strengthen financial reporting to support program decision making.

County government financial information systems are not designed to do program reporting. Each county therefore has devised a way to extract program expenditures from its system to complete the monthly Excel CF financial report. Each of the three counties sampled in carrying out the FSA used a different method. One used a hard copy file of program payments, one used a dummy budget entity to capture all program transactions, and the other used an intermediate solution. In one of the sample counties, the Excel skill level in generating the monthly CF report appeared low. A risk exists that one or more of the 28 PforR counties may use methods that generate inaccurate program reporting. Regional reporting guidelines produced under DLI7 will increase the standardization of reporting methods.

A review of the Monthly CF Financial Reports also identified inconsistencies among counties in the classification of financial information on the report. This situation may result from the lack of instructions accompanying the report template. The DLI7 regional reporting guidelines should reduce these classification inconsistencies. County Monthly CF Financial Reports (Excel spreadsheets) are sent monthly to the Agriculture Division of the Regional FB for consolidation. The Agriculture Division also prepares a similar but more summarize CF Financial Report for MOF every two months.

For preparing the PforR Program financial statements, it will be relatively easy to include only the 28 counties included in the boundary of the PforR. Other counties' Monthly Report will simply be left out of the PforR consolidation. Excluded expenditures often correspond to excluded projects. There is sufficient detail in county financial information systems to identify such projects and therefore the related payment transactions, if material to the financial statements, that should be excluded from the PforR consolidation.

3.2.3 Procurement processes and procedures

The procurement methods allowed by the TBL and GPL include open competitive bidding, limited bidding (shopping) and direct contracting. Based on the assessment contracts were quite small and widely spread, thus unfeasible to be bundled. They were procured through shopping or direct contracting. Only in a few exceptional cases, lots were packed together and procured through open bidding following the thresholds set out in official documents established by the county government. **Table 1 – Procurement thresholds. - Unit: CNY million[4]**

	Works			Goods			Services			
	Open Bidding	**Limited Bidding**	**Direct Contracting**	**Open Bidding**	**Limited Bidding**	**Direct Contracting**	**Open Bidding**	**Limited Bidding**	**Shopping**	**Direct Contracting**
Tengxian	≥2	0.5-2	<0.5	≥1.2	0.1-1.2	<0.1	≥0.5	0.1-0.5		<0.1
Du'an	≥2	1-2	<1	≥0.8	0.2-0.8	<0.2	≥0.5	0.2-0.5	0.1-0.2	<0.1
Tianlin	≥2	0.2-2	<0.2	≥1.2	0.1-1.2	<0.1	≥0.8	0.1-0.8		<0.1

[4] 6.3 CNY = 1 USD

Public Resources Transaction Center (PRTC):

All open and limited bidding are being processed through county or municipal public resources transaction center (CPRTC/MPRTC). Among the 28 program counties, 8 counties have such a center. In these counties bidding processes would be carried out at the CPRTC, in the rest 20 counties bidding processes should be processed at MPRTC. While some transaction centers account with an electronic platform for publishing procurement notices and issuing bidding documents, others do not provide such facility.

Bidders are required to register in the transaction center's platform to acquire bidding documents, submit clarifications, be informed about any addenda, and submit bids and bid securities. Registration is an easy process, just in few cases a fee is required but it is of a small value. Alternatively, bidders can opt to submit bids by courier or in person.

PTRC also provide appropriate facilities for conducting bid opening and bid evaluations. Bid evaluations are carried out by a bid evaluation committee constituted by 5-7 evaluation experts randomly selected from a comprehensive expert database maintained by the regional government administrative affairs office. The staff of the transaction center and of the line agency authority supervise the bid evaluation process to guarantee its integrity and if the event arises, clarify any doubt on the bidding document, but they are not allowed to take part in the bid evaluation process.

PRTC also provides a website for publication of the intended contract award recommendation.

At municipal and county level, there are many certified and qualified procurement agents. For example, there are about 200 procurement agents at regional level and about 160 procurement agents in Hechi municipality.

Implementing agencies (IAs) are responsible for preparing the bidding documents with the support of engineering design firms who will be hired by the PIAs such as county poverty reduction office, county transport bureau, etc. to prepare technical specifications, bill of quantities and drawings. The supervision of the contract is outsourced to engineering firms.

Procurement methods should be chosen in accordance with the established procurement thresholds. Open bidding processes are mandatorily required to be conducted at the PRCT while limited Bidding processes can be conducted by the IAs if they found themselves capable to do it otherwise they could hire a procurement agent.

Invitations for limited competitive bidding or shopping should be sent to at least three qualified bidders or published on government and PRTC website and at least three bids/quotations should be received and evaluated.

Since the regional government requires advertising, the program information of the consolidated funds is published at different means such as regional, municipal and county government website, Guangxi poverty Reduction information website and line agency website, township/village notice board, newspapers, broadcasting and television, etc., any interested bidder can express its interests to the relevant PIAs. Consequently, for direct contracting or limited bidding each IAs choose bidders from that list and/or directly invite any of the firms that had previously performed a contract satisfactorily. Unfortunately it was not possible to obtain information on the number of direct contracting processes.

Community Participation: in Du'an county, community participation approach was adopted for procurement of small value works (below CNY500,000), such as for the rehabilitation and

construction of roads and water supply systems. This procurement procedure is encouraged by the regional government [Document (2016) no 28 issued by the regional government]. In 2018, the community participation threshold is increased to CNY 1 million (US$160,000 equivalent).

3.2.4 Contract administration

After the contract is awarded, the IAs will sign the contract with selected bidder. The IAs will take over the contract administration responsibility throughout the contract implementation period. Given the small value of the contracts, it is not envisaged that the contractor, supplier or consultant re-assigns the contract to other party. Subject to prior concurrence of the IAs, the contractor or consultant may sub-contract works which are not critical to another specialized contractor or consultant. Given the contract's small and simpler scope, the construction period lasts from 1 to 6 months and have been completed within the contractual construction period.

Table 2 - Timeliness of completion of contracts and costs overrun

County	IAs	Number of contracts surveyed	Number of contracts completed within initial contract period and the actual final account is completed	Number of contracts in which there was cost overrun against awarded contract price	Time delay against initial contract period	Range of percentage of cost overrun or Savings
Tengxian	Water Bureau	28	28	0	none	Savings 8.6%
	PRO	20	20	0	none	
	Tengzhou Township	36	36	0	none	
Du'an	Water Bureau	8	8	0	none	Savings 18%
	Finance Bureau	10	10	0	none	
Tianlin	Transport Bureau	9	9	0	none	
	PRO	10	10	0	none	
	Water Bureau	6	6	0	none	

The regional document No. (2017) 42 specifies that disbursement of the annual consolidated funds should occur by June 30th of the following year. This means that all contracts should be completed and paid before that date, except 5% of the contract value, which is retained, in works contracts, for the defects guarantee period.

Contract variations, when needed, were handled in accordance with the terms and conditions of the contract and in an expeditious manner. Contract variations were firstly certified by the project supervision engineer and endorsed by the relevant IAs and subsequently submitted to relevant line bureau for clearance and finally submitted to county financial bureau for approval.

The supervision engineer and the line bureau are responsible for regular daily quality control. Final acceptance and final inspection of the works are jointly conducted by representatives of relevant government agencies including county finance bureau, development reform bureau, transport bureau, water bureau, PRO, housing and urban-rural development bureau, quality and technology supervision bureau, township and village government, etc. The acceptance is conducted in accordance with the technical specifications of the contract. The regional

government will annually and randomly check the quality of the works. The data provided by the relevant county line bureaus reveal that Contractors performed reasonably well.

IA's follow payment's contract conditions. Normally, payment is made within 15 days after the payment application is certified by the IA. Payment for large value contract occur in three to four batches, i.e. 30% of the contract amount is paid to the contractor upon signing and commencement of the contract, 80-90% of the contract amount would have been paid upon completion and acceptance of the works , the remaining amount will be paid as follows, 5-15% of the contract amount upon completion settlement audit and other 5% be paid upon completion of the defect liability period. For small value contracts, payment is made in two tranches (95% upon completion and acceptance and 5% upon completion of the warranty period) to reduce application procedures. The major issue is that 5-15% of the contract amount will be made upon completion of the final audit, which may cause delay in the payment.

Efficient contractual dispute resolution procedure is in place in each contract. In case of contractual dispute, the dispute is first settled by the contractual parties amicably. If the parties fail to reach agreement in amicable way, the dispute is referred to relevant government supervision authorities for adjudication. If either party is dissatisfied with the recommendation of the adjudication, either party can refer the dispute to either local arbitration commission or the court. Normally each contract provides both options for the parties to finally invoke the arbitration or the legal suit. However, the cases with adjudication, arbitration or legal suit are very rare partially due to the local culture in China. Contractual remedies are specified in the signed contract. The IA is entitled to terminate the contract in case of the default of the Contractor, Supplier or Consultant, with required written notification served in due course by the PIA to the other party.

3.3 Internal Controls

3.3.1 Internal controls

For beneficiary programs such as the poverty alleviation program, a key control is 1) ensuring ineligible persons do not access the program and 2) ensuring eligible beneficiaries are not incorrectly excluded. As described in the PAD Country Context section, poverty households, villages and counties are accurately targeted through the National Poverty Registration System (NPRS). Strong program community controls at the village level help ensure the integrity of the NPRS. To enter the program, beneficiaries must appear before a panel of community members. Beneficiary houses are clearly marked and indicate the program benefits received. Benefits are also recorded and monitored monthly. Moreover, as described in the PAD and Technical Assessment, Program activities largely consist of adequately controlled small investment projects and training, rather than cash transfers, which are more difficult to control.

A strong control environment was perceived during the assessment, reflecting the high central and provincial government priority given to this program. Coverage of inspections, performance reviews and audits are substantially higher than most or all other programmatic areas in China.

There is adequate control over and stewardship of Program funds, with well-defined delegation of authorities.

To properly and efficiently manage the Consolidated Poverty Reduction Funds, following the national policy, Guangxi Regional Government issued a series of regulations regarding funds management, implementation measures, performance evaluation, etc. Based on the implementation status of year 2017, the Regional Finance Bureau also provided detail requirement in Annual Funds Use Plan preparation and accelerating implementation progress. For each county, the funds management regulation and implementation measures were issued by county government to guide and regulate the usage of Consolidated Poverty Reduction Funds including procurement and contract management.

Hence, the internal control system is in place at regional, county and township level, which ensures the efficient use of the Consolidated Poverty Reduction Funds. Internal controls are comprehensive covering major processes, including program policies, planning, procurement, activity implementation, final project acceptance and payment. For each payment, sufficient reviews and checks and oversight are carried out by Internal Audit and Finance Bureaus.

3.3.2 Internal audit

Guangxi Region Internal Audit falls under the Guangxi FB Supervision Division. In 2017, 20 program counties, a relatively high number in China, were subject to inspections/internal audit, with contractors that included CPAs and engineers. Central level government agencies are active in identifying counties to be inspected/audited and reviewing inspection/audit reports. Audit findings are followed up during subsequent reviews and disciplinary actions taken in cases of more serious cases. Inspection/Internal audit work however is primarily of a compliance nature. This includes responsibility audits when leaders leave their positions to ensure that they have discharged their functions and responsibilities according to the relevant laws and regulations.

3.3.3 Program governance and anticorruption arrangements

Complaint handling mechanism

The TBL provides two tiers of complaint mechanism. Under the first tier, the bidder can lodge a complaint to the client. The intended contract award recommendation is required to be disclosed for at least 3 calendar days. The complaint regarding the intended contract award recommendation shall be submitted within the period established in the laws and regulations. The client should respond within 3 calendar days. Under the second tier, the bidder can lodge a complaint to relevant government supervision authority within 10 calendar days from the awareness of the issue. Within 3 working days, the government supervision authority shall determine whether the complaint is valid. If the complaints accepted, within 30 working days, the government supervision authority shall issue its written judgment and determination. In Procurement following GPL, a third tier of applying for administrative reconsideration or lodging an administrative lawsuit in a people's court is added. During the assessment, the sample county/municipality was asked to provide information about the complaints received in its public resources transaction center. The data is summarized in the following table.

Table 3 - Number of complaints received						
Transaction Center	Number of complaints at the first tier			Number of complaints at the second tier		
	2015	2016	2017	2015	2016	2017
Regional Transaction Center	N/A	18*		0	0	0
Hechi Municipality	0	1	0	0	0	2
Baise Municipality	0	0	0	11	10	13
Tengxian County	N/A	N/A	3	N/A	N/A	0
Du'an County	0	0	0	0	0	0

Note: * in 18 question cases, 4 were turned down, 7 were valid, 3 were withdrawn, 3 are under processing.

Compliance with ACGs

The government has established different controls at different levels (county line bureaus, township government, procurement agent companies, public resources transaction centers) for combating fraud and corruption. These agencies are empowered to prevent, report, detect, investigate and prosecute to sanction. These controls are exercised by representatives of the Discipline Inspection commissions and the Ministry of supervision. In addition, more control is exercising by the anti-corruption bureaus located at the people procuratorates at central, provincial, prefectural and county level.

Moreover, all IA involved in procurement are subject to yearly external independent audits. All IAs have comprehensive mandate to combat fraud and corruption while carrying out procurement. In addition, any bidder or any party can report fraud and corruption issues to any of these government agencies. There is a risk that the Bank may not be informed of any credible and material allegations of fraud and corruption issues during the implementation of the program. Thus, specific mitigation measures are proposed in the action plan. The Government will abide with the PfoR Anticorruption guidelines. However, there is a risk that most of the parties may not be aware about the lists of the debarred and temporarily suspended firms and individuals declared by the World Bank and other Multilateral Development Banks. Therefore, there is a potential risk that contracts be awarded to debarred or suspended firms or individuals. The government has agreed that Guangxi Zhuang Autonomous Region shall, upon program loan effectiveness, issue an official letter or official instruction to cause the implementation agencies at county levels and township government to ensure that no contract will be awarded to a firm or individual which is in the debarred list or under temporary suspension and the implementation agencies and procurement agents shall check and share the updated lists of the debarred and temporarily suspended firms and individuals on regular basis and whenever the list is updated. In addition to that the TOR for annual audit of the program shall include the assignment of selecting the awarded contracts on random basis and checking whether any contract has been awarded to ineligible firm or individual. The progress report will indicate whether any contract has been awarded to a debarred or suspended firm.

3.4 Auditing

3.4.1 Coverage

In 2017, CNAO carried out a special audit of the poverty alleviation program in 29 counties. In 2018, audits are planned of the remaining 25 poverty counties. This work is ongoing. Currently, audits of five poverty cities is being carried out. Poverty programs have been audited every year since 1985 when the Provincial Audit Office was established. 100% audit coverage is almost unprecedented in China given the size of the country. Again, this appears to reflect the extremely high priority the national government places on the poverty reduction program.

A review of a 2017 CNAO audit report on the use of 2016 poverty reduction funds (RMB 2.1 billion. USD 330 million) in five key national poverty Guangxi counties revealed that poverty reduction funds had played a positive role in promoting infrastructure and people's livelihood. Issues noted included (i) untimely financing from counties, (ii) approximately 500 unregistered beneficiaries, (iii) weaknesses in fund review and checking resulting in USD 130,000 paid to ineligible recipients, (iv) approximately USD 1 million paid for administrative expenditures of poverty reduction offices, (v) funds were not used on a timely basis, (vi) three poverty reduction projects were not effective, and (vii) bribes for approximately USD 50,000. In total, approximately 0,6% of funding was not used appropriately. These findings appear consistent with our assessment that controls over geographically dispersed and fractionalized expenditures are reasonable. The audit report confirmed that all inappropriately or illicitly obtained funds were paid back by the responsible officials, indicating relatively effective and efficient actions are taken based on audit reports.

The Regional Audit Office will be responsible for the financial audit of the program financial statements. Audit work will be coordinated with county level auditors, be based on an audit TOR used in other China PforRs, and be supported by CNAO. The Guangxi Regional Audit Office has extensive experience with financial statement audits of Bank-financed projects and has sufficient personnel, skills and experience to carry out the PforR audit using the agreed upon PforR audit TOR and CNAO's audit methodology.

3.4.2 Staffing

The Provincial Audit Office has approximately 205 auditors but also uses auditors from lower level governments.

3.4.3 Audit Methodology

The external audit methodology used by provincial, municipal and county auditors is established by CNAO. It includes an annual department audit work plan, risk assessment, audit work programs, sampling methodologies, reports for each audit engagement, quality assurance, follow-up on recommendations made in previous audit reports, and electronic workpapers, among others. Auditors at all levels of the government appeared knowledgeable about the unit's audit methodology and enthusiastically endorsed it. Its consistent use throughout the government is a audit system strength as it improves audit quality at lower level of government where skill and experience levels are often lower. It also facilitates communication and coordination among audit units at different levels in the government as the methodology provides a common language among these auditors. The common audit methodology will assist the Provincial Audit Office,

responsible for issuing the PforR financial audit opinion, coordinate audit work with county auditors.

3.5 Procurement and Financial Management Capacity

3.5.1 Staffing should be adequate in both numbers and experience

The public financial management functions in the three counties reviewed during the FSA indicated they had adequate budget and staffing to carry out their functions. No delays in budget preparation, budget execution/financial reporting, treasury operations or inspection/auditing were noted that would indicate a shortage in personnel.

For procurement, the county line agencies are adequately staffed, for example, Tengxian county PRO has 5 staff taking care of consolidated fund utilization, county water bureau is staffed with 60 management civil servants, and Tengzhou Township in Tengxian county assigns 15 staff to undertake poverty reduction work; Du'an county PRO has designated 34 staff to taking care of consolidated funds utilization. Tianlin PRO nominated 12 staff to work in the infrastructure division. They supervise the construction every 10 days, Lizhou township in Tianlin county comprises 43 staff and implement 34 programs (29 gravel roads and 5 drinking water supply facilities) in 2017. Design firms and supervision companies have been hired by the relevant line agencies to prepare the technical specifications/drawings/bill of quantities and supervise contract execution, procurement agents have been hired to carry out procurement process in the public resources transaction centers.

Section 5: Risks and mitigation actions proposed

Risk	Mitigation action	Timing	Type of action (PAP, DLI, etc.)
1. Appropriations sometime received late in the year reducing funding visibility and jeopardizing implementation quality.	Strong pipeline of substantially ready projects and carry over period for investment projects enable counties to achieve high budget execution. Performance from first year of CF expected to improve. Results area 3 will introduce program budgeting and enhance the monitoring and evaluation of the implementation of poverty reduction activities through better utilization of various Guangxi's poverty databases	Recurrent	N/A
2. Program monthly financial report lacking managerial content, method of preparation inconsistent and inconsistencies in financial classifications risk consistency and accuracy in program financial reporting.	Program monthly financial report to be redesigned and preparation instructions written to improve the quality and reliability of financial reporting	September 2018	DLI, PAP

3. Multiple agencies are involved in procurement of the program, such as finance bureau, development reform committee, housing and construction, transport, water and ethic and religions affairs bureau, this may make the program implementation challenging.	the regional program implementation agencies and the county poverty alleviation development leading groups shall oversight and supervise the program implementation, and procurement agent shall be hired to assist with competitive bidding processes.	Always	N/A
4. Since the ceiling budget of the contract will be disclosed in the bidding document and any bid which offers a price higher than the celling budget will be rejected, there may be potential risk that the bids may be rejected unjustified because the celling budget prepared earlier is not reliable and/or is obsolete. As most of the procurement will be conducted following limited tendering or direct contracting, a realistic budget is not only beneficial for the open competitive process, but also for other processes where negotiations might take place.	when the procurement plan is prepared, the implementation agencies shall carry out market analysis, check the historic records of the works, goods, and services procured, and work out a reliable celling budget for the contracts. Before approving the procurement plan, relevant government administration offices should check the budget against the market prices to ensure that the celling budget is reliable. Prior to issuing the bidding document, the implementation agencies should update the budget based on the latest market information. An instruction in this regard should be issued by the line ministry.	Always	N/A
5. Municipal public transaction centers lack of sufficient rooms for conducting bid opening and bid evaluation sessions.	Implementation agencies shall plan procurement activities as early as possible in order to block the bid opening and bid evaluation rooms.	Always	N/A
6. Payment terms of works contract: works contract stipulates that totally 95% of the contract amount would be paid to contractor after acceptance and completion of the settlement audit, audits take normally 12 to 18 months, this may cause that program funds could not be disbursed timely.	It is desirable to allocate an advance payment to guarantee sufficient cash flow to contractors and that Implementation agencies either do not take completion settlement audit as a payment condition which was also allowed by the regional Document (2017) No. 42 or the completion settlement audit be carried out and completed within a short time, the regional Document (2017) No. 42 requires that the audit should be carried out within the same year of the construction.	Always	During supervision missions.
5. Although no specific data was possible to be obtained, it was noted a certain overuse of direct contracting. Community	It is desirable that more counties adopt community participation procedures.	As possible	PAP

participation procurement was successfully implemented in one county. This is a good alternative to overcome overuse of direct contracting.			
6.Fraud and corruption	Promptly inform the Bank of any credible and material allegations of fraud/and/or corruption regarding the Program as part of the overall Program reporting requirements; and ensuring that persons or entities debarred or suspended by the Bank are not awarded a contract by verifying the same prior to award under the Program during the debarment or suspension period. TOR for audits firms will include the requirement to assess on randomly basis whether any contract has been awarded to a suspended or debarred firm.	Semiannual and one time basis for the TOR	LA

Section 6: Implementation Support measures

The proposed fiduciary implementation support includes:

- Work with the team to review implementation progress, examine the achievement of the program results and implementation of proposed action plan;
- Work with the team to assess the timeliness and adequacy of the program funds appropriation as approved budget;
- Continue assess and monitor the performance of the financial management and procurement systems (including transaction centers) under the Program and provide suggestions for enhanced efficiency and effectiveness;
- Monitor implementation of the application of the PforR anti-corruption guidelines;
- Monitor the PforR financial statement reporting process and assist the clients as necessary;
- During supervision mission guide the clients to resolve implementation issues related to procurement processes and contract management;
- Agree on a PforR audit TOR, liaise with auditors, review audit reports, and monitor that key audit findings and weaknesses receive appropriate and timely corrective actions by auditees;
- Monitor changes in fiduciary risks of the program and, as relevant, compliance with the fiduciary provisions of legal covenants;
- Monitoring Financial Management Performance over Program Period. The Bank will assist Guangxi Regional Program Implementation Agency to set up reporting mechanism to monitor the sources and usage of Program funds, and its timely availability. And Program financial audit report and completion settlement audit if individual road/water supply facility will also be used to monitor the fiduciary performance.

Section 7: Fiduciary Action Plan

Action Description	DLI #*	Responsibility	Recurrent	Frequency	Due Date	Completion Measurement**
Exchange of experiences of using community participation in procurement which was adopted in Du'an county for procurement of small value works (below CNY500,000. in 2018, the threshold is increased to CNY 1 million) in other counties by organizing workshops. RPRO to issue Community Participation Manual to guide county government, county line bureaus, township government and villages involved in the program to adopt community participation.	-	RPRO Participants: County government, county line bureaus, township government and villages involved in the program	Provincial Program Implementation Agency	Once a year for workshops	Manual issued by March 31, 2019	Workshops conducted and reported to the Bank; Manual issued by RPRO and a copy sent to the Bank
Program progress report should indicate if any contract has been awarded to a suspended or debarred firm.		Guangxi Poverty Reduction Office	Provincial Program Implementation Agency	Progress report		Program Progress Report.

Section 8: Summary of Findings and recommendation of the assessment on key procurement indicators

	Measure	**Indicator measures performance related to:**
Average length of procurement Processes	Number of days between date of award and date of invitation to bid: The time from publication of the procurement notice to the deadline for bid submission and opening is 20 calendar days. The bid evaluation is normally completed in one day. After the evaluation is completed, the intended 3	The minimum time is 21 days and the maximum is 65 days. No need to set a performance indicator.

	recommended candidates for contract award are disclosed to all the bidders for 3 days, and notification of contract award is published for one day in the official website of government and the website of the public resources transaction center. If no complaint is received, the contract will be signed promptly.	
Time for preparation of bids	Number of days between invitation to bid and bid opening: The TBL and GPL require the number of days between invitation to bid and bid opening shall not be less than 20 days.	20 days is the minimum requirement, for large and complex contract, longer time is encouraged. No need to set a performance indicator.
Time for bid evaluation	Number of days between bid opening and publication of award: Bid evaluation is normally completed within one day, and the intended recommendation candidates will be published immediately after completion of the bid evaluation. For large and complex contact, more time will be allowed for bid evaluation.	This is very efficient. No need to set a performance indicator.
Processes cancelled	Percent of bid processes declared null before contract signature: The cases of cancellation and re-bidding varies from zero cancellation in two counties to 5% in two municipalities. The reasons for cancellation and re-bid include less than 3 bids receives, none of the bidders meeting the qualification requirement, the lowest evaluated responsive bid price exceeding the cost estimate significantly, etc.	Cancellation of process is normally due to the requirement of the law and not to inadequate performance of the procurement system. NO performance indicator is needed.
Distribution of awards by procurement method	Number of processes awarded by procurement methods: Given the nature of the program, the consolidated funds server to finance thousands of projects/contracts with small value, and multiple implementation agencies involve in procurement, no data is available in this regard.	Contracts were quite small and widely spread, thus unfeasible to be bundled. They were procured through shopping or direct contracting. Only in a few exceptional cases, lots were packed together and procured through open bidding following the thresholds set out in official documents established by the county government. No need a performance indicator.
Direct contracting	Percent of contracts (by number and value) awarded on a sole source basis: See above. In Du'an county, community participation approach was adopted for procurement of small value works (below CNY500,000), such as for the rehabilitation and construction of roads and water supply systems.	Community participation procedure is encouraged by the regional government [Document (2016) no 28 issued by the regional government] It would be desirable to see that some counties adopt community participation PAP

Bidders participation	Average number of bidders submitting a bid in each bid process. For open bidding, most of the cases, 3-5 bidders submitted bids, and few cases with 10-20 bidders.	Ample participation of bidders, no need a procurement performance indicator.
Delayed final payments to contractors because audit settlement takes normally 12-18 months after finalization of the contract.	It is suggested to accelerate the final audit or to proceed with the final payment upon successful completion of the contract.	To be followed up during supervision mission by interviewing contractors.
Number of contracts with cost increases over award amount	Cost increases due to amendments and change orders: Given the contract's small and simpler scope, the construction period lasts from 1 to 6 months and have been completed within the contractual construction period. The data in the table of Timeliness of completion of contracts and Cost overrun confirms the timely execution of the contract surveyed, with no cost overruns.	Contracts are of small value; no overruns or contract modifications have been identified. No performance indicator is needed.

Guidance Note for Procurement Action Plan

This guidance note is designed to assist the Guangxi Government in implementing the PAP action related to procurement. The FSA report provides further rationales and background for this PAP action.

This guidance note covers two parts:

a. Exchange of experiences of adopting community participation in procurement by organizing workshops; and
b. Issuance of a manual on community participation in procurement.

Rationale: During the program fiduciary assessment, it was identified that in Du'an county, community participation approach was adopted for procurement of small value works (below CNY500,000), such as for the rehabilitation and construction of roads and water supply systems, the threshold of community participation is increased to CNY 1 million (US$160,000 equivalent) in 2018. Community participation in procurement gives farmers more property rights and ownership, promotes equal exchange of urban and rural elements and balanced allocation of public resources, allows farmers to participate in the modernization process and share modernization achievements. Villagers chosen, self-build, self-manage, and self-use can better integrate local realities, save construction costs, be more responsible for maintenance, and achieve standardization in construction, and management, and overall improve the use of the poverty reduction funds. This procurement procedure is encouraged by the regional government [Guizhengbanfa (2016) no 28 issued by the regional government].

Details of the actions and the measurement indicators are provided below:

Part A: Exchange experiences of adopting community participation in procurement by organizing workshops.

The Regional Poverty Reduction Office (RPRO) will organize workshops to share good practices of community participation in procurement adopted in Du'an and any other counties within 28 program counties.

Participants: At least one staff from each of the different agencies involved in the implementation of the program in the 28 counties, such as representatives form County Poverty Reduction Offices, Finance Bureaus, Development Reform Committees, Housing and Rural Urban Construction Bureau, Transport Bureaus, Water Bureaus and Ethic and Religions Affairs Bureaus.

Procedure:

- RPRO prepares workshop invitation, agenda, registration form, and collects examples of good practices and experiences sharing of community participation from counties, and prepares/supervises the presentations and workshops materials.
- Invites community development experts to deliver training on community participation concept and detailed procedures;
- Counties present their good practices of community participation in procurement;
- Discussion;
- Q&A and recap;

Timeline: The workshop will be held once a year with a duration of not less than two days.

Measurement: During the PforR supervision, the Bank team will monitor the implementation of the procurement recommendation. To facilitate such monitoring, the Guangxi PRO will prepare by the end of each year a brief report to the Bank. Such report should contain, but not limited to, workshop invitation, agenda, registration form signed by the participants, training materials prepared by the experts and the presentations shared by counties, as well as the participant's feedback on the training.

Part B: Issuance of a manual on community participation in procurement.

To guide the program implementing agencies to adopt community participation in procurement for small value contracts and to strengthen the knowledge and capacity of staff working at county agencies, township government and villages, the Regional Poverty Reduction Office (RPRO) will prepare and issue a Manual on Community Participation in Procurement by March 31, 2019.

Overall content of the Manual:

- Implementation arrangement

- Implementation procedures: county implementing agencies sign Implementation Agreement with village committee, village committee publish the program details, villagers discuss implementation arrangement:

    1. **Overview of the procedures for executing the work by Community Force account,** such as to describe procedures for villages to acquire construction materials, rent equipment if needed, and to construct following the construction standards agreed in the Implementation Agreement;
    2. **Overview of the procedures for executing the works by a contractor:** Such as village selects reputable contractor who has carried out similar works in the past, issues invitation for quotation, contractor offers price, village evaluate the quotation and negotiates contract and sign.
    3. **Overview of the procedures for the supervision and payment of the works executed by force account or by a contractor.**

- **The content of Implementation Agreement** should include but not limit to the following: (1) Approved funds use plan; (2) Scope of work to be carried out; (3) Total cost of said work; (4) Technical standards to be followed; (5) Works implementation schedule; (6) Supervision, verification and acceptance procedures to be followed; (7) Schedule of payments and conditions for such payments.

Timeline: The Manual on Community Participation in Procurement should be issued by March 31, 2019.

Measurement: The manual was issued and a copy of the manual sent to the Bank.