

Fiduciary Systems Assessment - Addendum

Sustainable Rural Water Supply and Sanitation Program (PforR)-Additional Financing (P177128)

The Sustainable Rural Water Supply and Sanitation Program (SRWSP) PforRs has been under implementation for the past three years. The FSA was conducted in line with the Operational Policy/Bank Procedure (OP/BP) 9.00 and the Program-for-Results Fiduciary Systems Assessment Guidance Note, issued June 30, 2017, and effective June 30, 2017. The FSA is applicable for the Additional Financing (AF). The FSA was focused and able to identify the key PFM strengths and weaknesses of the main institutions directly responsible for the implementation of the program. They included the Ministry of Water and Irrigation (MoWI); Ministry of Health, Community Development, Gender, Elderly, and Children (MoHCDGEC); President's Office Regional Administration and Local Government (PO-RALG); and a select sampled participating Local Government Authorities (LGAs). The FSA also considered measures to address fraud and corruption for the PforRs to be able to achieve its development objectives. Though no new entity is involved because of the AF, there have been two major changes since the Effectiveness of the Program. They include: (1) the establishment of the Rural Water Supply and Sanitation Agency (RUWASA); and (2) The recent split of the MoHCDGEC into two: i) Ministry of Health (MoH), and ii) Ministry of Community Development, Gender, Elderly, and Children (MoCDGEC).

The AF will not be impacted by the changes that have since occurred by the Program. The sanitation program by the Program remains with the MoH and will not be affected by the split of MoHCDGEC into two ministries. RUWASA was established early into the Effectiveness of the existing program and incorporated into the program implementation. The RUWASA has since learned the lessons by the implementation, but capacity improvements will be needed by the AF.

The assessment reviewed the capacity of implementing entities as follows: (i) to plan, execute, record, control, and manage the Program resources and to be able to prepare concise, timely, and adequate information for the stakeholders; (ii) to comply with and monitor the procurement rules, procedures, capacity, and the procurement performance indicators; (iii) the extent to which the fiduciary capacity and performance support the PDOs and Program risks; and (iv) ensure that reasonable implementation arrangements are in place adequate and the risks are adequately mitigated for the Program.

The outcome of the review reveals that the fiduciary risk is 'Moderate'. The procurement and financial management are compliant with the Bank Directive Program-for-Results Financing issued on June 20, 2019 and Effective July 1, 2019. The fiduciary risks will not prevent the achievement of the PDO. There are no high-value contracts exceeding the Operational Procurement Review Committee (OPRC) threshold. The ongoing Program has implemented most of the PAP actions. The Bank will continue to support the GoT to be able to implement the remaining PAP including value-for-money audit of the original program. The Program will implement the recurrent and the new PAP by the AF (Table 4).

The budget, planning, and execution framework remains adequate. The analysis of the FY20/21 central government budget reveals that 34.89 TZS trillion was budgeted and about 31.37 TZS trillion was released by the exchequer, representing about 90 percent outturn. The main weakness of predictability and timing of the cash flow have slightly improved by the MoF but more need to be done especially at the LGA level.

Most of the program activities are implemented at the LGA level. However, development grant budget has been decreasing in recent years. The analysis of the development grant budget reveals that the budget improved from 43 percent by the Approval in 2018 to 29 percent by the implementation in 2021. From the Program design to implementation overall, the development grant funds flow has improved by twelve percentage points. On the other hand, the development grant budget has decreased by 14 percent from the design to the implementation phase (Table 1). The analysis of the development fund grant show that that the Program funds will be disbursed by the central government to the LGAs.

Table 1 Government Development Grant Releases (TZS bln)				
	Approved	Actual	Var	Var (%)
2020/21	928	663	(265)	-29
2019/20	958	567	(391)	-41
2018/19	1,259	725	(534)	-42
2017/18	1,061	604	(457)	-43
2016/17	1,079	564	(515)	-48

Source: CAG Annual General Report for LGAs FY2020/21

The analysis of the recurrent grant budget reveals that the budget has remained stabled since design of the program in 2017/18. The recurrent budget has marginally increased from 4.9 TZS trillion in 2017 to 5.0 TZS trillion in 2021, representing a 3 percent increase. The corresponding variance is 0.01 percentage point (Table 2).

Table 2 Government Recurrent Grant Releases (TZS bln)				
FY	Approved	Actual	Variance	Var (%)
2020/21	5,053	4,480	(573)	-11
2019/20	5,059	4,347	(712)	-14
2018/19	5,305	4,343	(962)	-18
2017/18	5,323	4,378	(945)	-18
2016/17	4,899	4,400	(499)	-10

Source: CAG Annual General Report for LGAs FY2020/21

The GoT uses the Development Fund (D-Fund) system software to process the development funds for entities including the Program implementing entities. The system was introduced by the implementation by the MoF. In its deployment in 2019, the system was not unevenly understood by the Program, and it led to funds flow delays ranging to about three to seven months from the central to the subnational level. However, the MoF was able to build the capacity of the D-Fund users and the funds flow situation has since improved to less than three months per transaction cycle. It is expected that the D-Fund will further improve by AF.

The accounting and financial reporting are done using the MUSE and the Epicor IFMISs accounting systems at the central and LGA levels respectively. The systems are used to produce the Program accounts and the system is adequate. The accounts are produced based on the International Public Sector Accounting Standards (IPSAS) using accruals accounting. The IFMISs and the IPSAS accrual accounting will apply for the AF.

The internal control framework is governed by the Public Finance Regulations 2001 (revised 2004). The Local Authority Accounting Manual (LAAM) of 2009 and the Local Authority Financial Memorandum (LAFM) of 2010 governs the internal control procedures at the LGA level. The internal auditors have internal audit program which they implement but the capacity, financing and the lack of tools remains a challenge. There is internal audit unit in each implementing entity at the central level. The key issue remains as follows: (i) compliance to the applicable regulations is weak by the central and LGA level entities; (ii) capacity and inadequate internal audit staffing at the LGAs. The AF will continue to support the capacity building of the internal auditors for the Program.

A DLI achievement verification process is in place, adequate. The monitoring of the DLIs achieved is overseen by the Minister of Water, supported by the Permanent Secretary MoW. The achieved DLIs are verified by an independent verification agent (IVA)-the Internal Auditor General at the MoF. The final review of the achieved DLIs is reviewed by the task team and the approval letter for the achieved DLIs is sent to the Paymaster and Secretary to the Treasury (PST). The DLIs approval letter to the PST is signed by Country Director of the World Bank.

Gaps have been identified in the existing funds flow arrangements but not significant to prevent the achievement of the PDO. The program funds for education and sanitation flows to the LGAs through the MOEST and MoH. However, the LGAs are under the direct administrative supervision of the PO-RALG, and the budgetary funds releases usually flows from the PO-RALG to the LGAs. Channeling the program funds to LGAs through other central institutions than PO-RALG has introduced audit and other administrative bottlenecks for the program. As mitigation measures program funds will rather be channeled the LGAs funds through the PO-RALG. This will apply for the AF.

The external audit arrangements of the Program are adequate. The CAG is constitutionally mandated to audit all government entities. The program implementing entities are audited by the CAG. The audit opinions for each of the implementing entities is unmodified (Table 3). The review of the FY2020/21 CAG central annual audit reports reveal that the audit opinions for each of the implementing entities is unmodified for the past three years as follows:

Table 3 Analysis of Audit Opinions for Implementing Entities

Entity	FY2020/21	FY2019/20	FY2018/19
MOW	Unmodified	Unmodified	Unmodified
MOH	Unmodified	Unmodified	Unmodified
MOEST	Unmodified	Unmodified	Unmodified
PO-RALG	Unmodified	Unmodified	Unmodified
RUWASA	Unmodified	Unmodified	Not in existence

Procurement

Procurement Planning and Execution

The responsibilities for development and sustainable management of rural water supply and sanitation in the LGAs was transferred to the Rural Water Supply and Sanitation Agency (RUWASA) following its establishment on July 1, 2019, through the Water Supply and Sanitation Act, 2019. RUWASA has managed to put in place systems for procurement management with all the organs required for conducting procurement activities in line with the requirements of the PPA and its Regulations.

RUWASA has established Tender Boards and Procurement Management Units in line with the PPA and its Regulations. RUWASA has established the Headquarters' Tender Board with no limit to handle all headquarter based procurements and those from the districts which fall beyond the threshold of the Delegated Regional Tender Boards. RUWASA has also established Delegated Regional Tender Boards in 15 regions with the ability to handle contracts of up to TZS 500m for goods, TZS 1bn for works and TZS 500m for services. Any contracts beyond those thresholds are handled by the Headquarters Tender Board. Procurement activities for districts which fall in regions without Delegated Tender Boards are handled by nearby regions' Delegated Tender Boards. These arrangements have facilitated efficiency in the procurement and implementation of contracts for the water sector in the LGAs.

Procurement planning begins at the district, the lowest level of RUWASA, by identifying activities based on the approved budget to be included in the Procurement Plan. The activities are consolidated into the Procurement Plan and submitted to RUWASA headquarters through the regional set up for further consolidation into one Procurement Plan for the entire RUWASA. Based on the estimated value of the contracts, processing of the contracts is either handled through the Delegated Regional Tender Board or the Headquarters Tender Board.

Capacity enhancement is the main challenge RUWASA is facing. Being a newly established entity, RUWASA is facing a shortage of staff resulting into inability to establish Delegated Tender Boards in all regions. RUWASA is also facing the challenges of having conducive working environment including inadequate space for office and keeping of records as well as office equipment for enhanced efficiency. In addition to implementation of the Program, the Additional Financing should seek to facilitate the establishment of RUWASA including provision of necessary facilities for better performance.

Recent Procurement Initiatives

Due to limitation of procurement officers, RUWASA has taken the initiative of blending procurement officers and engineers in the PMUs in order to enhance the capacity of the PMUs. The involvement of engineers with knowledge in works contracts has helped to speed up processing of works contracts. RUWASA has also made arrangements for contracting Water Authorities to handle procurement activities for districts in some of the regions without Delegated Tender Board.

Plans are under way for strengthening 9 Delegated Regional Tender Boards to enable them handle higher thresholds than those of other Regional Delegated Tender Boards. This initiative will help to relieve the Headquarters Tender Board which is currently handling all contract of value larger than the threshold of the Delegated Regional Tender Boards.

The Program has implemented the PAP actions except the value-for-money audit for the existing Program. The PAPs include: (i) earmarked accounting codes for Program funds; (ii) accounting staff at both the central and local government trained on the use of IPSAS; (iii) support to the strengthening of internal audit units. But the fourth PAP-annual procurement and performance (value-for-money) audits, has not be completed.

Fraud and Corruption Analysis

Combating and preventing fraud and corruption practices in Tanzania is governed by The Prevention and Combating of Corruption Act 2007 among others. The objective of this Act is to provide for promotion and enhancement of good governance and eradication of corruption. The act provides for institutional and

legal framework necessary for prevention and combating corruption. Other supportive frameworks include The Anti-money Laundering Act of 2007, The Economic and Organized Crimes Act Cap. 200 of 2002, The Public Services Act of 2002, The Public Services Regulation of 2003, The Public Services Guidelines of August 2015, The Public Leadership Code of Ethics Act No. 13 of 1995, and The Public Procurement Regulatory Authority Guidelines together with the Government Accounts Guidelines/Manual.

The Code of ethics and conduct for public service made under Section 34 of the Public Service Act, 2002 and Regulations 65(1) of the Public Service Regulations, 2003 further requires public servants to conduct and observe ethical behavior. Public servants shall not offer improper favors, solicit, force or accept bribes from any person whom they have served, they are serving or likely to serve either by doing so personally or through another person. Public servants or members of their families on their behalf, shall not solicit, receive, or give gifts to persons, which might compromise or might be seen to compromise their integrity.

The National Anti-Corruption Strategy and Action Plan-NACSAP III (2017 -2022) takes the fight against fraud and corruption to a further level as a mechanism for institutionalizing good governance across all sectors and institutions. Specifically, the strategy aims at strengthening accountability in services delivery, combating and preventing fraud and corruption practices, and enhancing institutional capacity to deal with fraud and corruption. All public institutions are required to cascade this NACSAP to their respective institutions which include formation of the integrity committee responsible to coordinate and keep inquiry to all issues related to staff ethics and discipline and advise the accounting officers on institutional integrity issues.

In Mainland Tanzania, the Preventing and Combating Corruption Bureau (PCCB) is responsible for taking the necessary measures for prevention and combating of corruption in the public, parastatals, and the private sector at large. The bureau was established under the Prevention and Combating of Corruption Act Number. 11 of 2007 (PCCA 11/2007) that came into force on July 1, 2007. PCCB has offices in all regions and all local government authorities in Tanzania mainland, with a national workforce of more than 1,700 staff of which approximately half are involved in investigation. The bureau has powers to arrest, enter premises, search, detain suspects and seize property where there is a reasonable cause to believe that, an offence involving corruption has been or is about to be committed by the suspect in the premises or in relation to the property. The Bureau investigates any alleged or suspected fraud and corruption, and, subject to the directions of the Director of Public Prosecutions, prosecute offences relating to corruption. PCCB has a program to monitor expenditures on development programs to verify that expenditures are incurred for the objectives intended. Where PCCB finds out that, funds have been diverted for unintended purpose, they launch an investigation to determine whether it is a fraud or corruption incidence warranting prosecution. Where PCCB investigations reveal that a given case is primarily one of fraud rather than corruption, the PCCB refers it to the police for further investigation and prosecution. In this context, fraud and corruption allegations made in respect of Program funds will be referred by the associated implementing agencies to the closest district office of the Police and PCCB, respectively. District PCCB offices report monthly to the Regional Offices on corruption cases and action taken. The PCCB headquarters gets monthly reports from the Regional Offices on corruption and other relevant activities.

Alignment with Anti-Corruption Guidelines for PforR Operations

Sharing of Debarment list of firms and individuals

The Government of Tanzania commits to use the Bank's debarment list to ensure that persons or entities debarred or suspended by the Bank are not awarded a contract under the Program during the period of such debarment or suspension. Companies and individuals debarred by the Bank and the PPA will be posted and updated regularly on the MoW website (<https://www.maji.go.tz/>), PMO-RALG websites (www.pmoralg.go.tz), MoE website (<https://www.moe.go.tz/>) and RUWASA website (<https://www.ruwasa.go.tz/>). Both entities would take responsibility in ensuring that their websites are updated regularly with information on the list of debarred firms and individuals and share this information with all procuring entities in the Program, instructing them to comply by appending the debarment list to the annual transfer of Grant notification which will be made public - and go to all Health Facilities in the Program. The Bank's List of Debarred and Cross-Debarred firms and individuals can be accessed on the World Bank's website (www.worldbank.org/debarr). In addition, the government will also include some disclosure measures in bidding documents for works, goods and services to be financed under the Program, including insisting that the firms and/or individuals declare they have not been debarred or suspended and/or have any links with a debarred entity or individual.

In order to implement the Bank's Anti-corruption guidelines for PforR operations, the Government of Tanzania will immediately inform the Bank of any complaint or claim related to fraud and corruption which the Government through implementing agencies either receives or becomes aware. Unless otherwise agreed by the Bank, the Government of Tanzania will take timely and appropriate action to investigate such allegations and indications; reports to the Bank on the actions taken in any such investigation, and, promptly upon the completion of any such investigation, reports to the Bank the findings thereof. The Government of Tanzania (through PCCB) will provide the Bank with all the records, documentation, and information that the Bank may request with respect to such issues. If the Bank decides to conduct its own investigation, the Bank may request the government (through relevant implementing ministries and agencies) to exercise its legal rights and remedies (under the relevant contract/s) to obtain all information, records, and documentation that the Bank may request, and provide these to the Bank. This process does not limit the rights of the Bank to also make direct requests for information from individuals or firm who are recipients of Bank financing either directly or indirectly. In line with the obligations arising under the Anticorruption Guidelines, the government and all relevant implementing ministries and agencies should ensure that individuals or contractors who are recipients of Bank financing are aware that the Bank may decide to exercise this option.

To further ensure the World Bank's Anti-Corruption Guidelines (ACGs) applicable to PforR operations are met, the government has agreed to (i) share information on corruption allegations with the World Bank immediately (and a bi-annual report even if cases are not arising), while at the same time conducting its own internal investigations. At a minimum, the report should cover; Location of the incidence, Date allegation received, Complainant, Alleged Perpetrator, Description of the allegation, Stage of handling the allegation, Progress status in the investigation, Outcome of the investigation, and Source of finance for the case (ii) preserving the World Bank's right to investigate Fraud and Corruption allegations.

Furthermore, the Government will ensure that all individuals and entities participating in the Program observe the highest standard of ethics. Specifically, the Government will ensure that, all persons and entities involved in the program will take all appropriate measures to prevent and combat Fraud and Corruption, and refrain from engaging in Fraud and Corruption, in connection with the Program. If the Government of Tanzania or the Bank determines that any person or entity has engaged in Fraud and Corruption in connection with the Program, The Government of Tanzania will take timely and appropriate action, satisfactory to the Bank, to remedy or otherwise address the situation and prevent its recurrence,

provided that the action taken will not be in direct contradiction of the applicable law of the Country.

Table 4: Fiduciary Program Action Plan

Action Description	Source	DLI#	Responsibility	Timing	Completion Measurement	Action
Timely transfer of Program funds to IAs including the districts and the RSs	Fiduciary Systems	MoFP, MoW, RUWASA, MoH, and MoEST	Recurrent	Yearly	Within 2 months after fund receipt in the Project Holding Pooled Account.	No Change
FM - a) Activate the asset management module of the system to record all district assets; b) Train all accounting staff at both central and local government on the use of IPSAS; and c) Include subdonor code in MUSE/Epicor to earmark funding	Fiduciary Systems	MoW, PO-RALG, MoH, and MoFP	Recurrent	Continuous	Confirmed through the financial management review	Revised

FM - Set aside Program resources for monitoring and supervision at all levels of implementation.	Other		MoW, MoH, PO-RALG, MoEST, RUWASA	Recurrent	Continuous	Followed-up action from the previous supervision mission	No Change
Procurement Capacity - Conduct tailor-made training courses specifically to address weakness identified in areas of procurement and contract management for technical staff at districts.	Other		MoW, RUWASA, MoH, MoEST	Due Date	30-Jun-23	Training report is submitted to the Bank.	Revised
Procurement Capacity - Establish records keeping/management system	Fiduciary Systems		MoW, RUWASA and MoH	Due Date	30-June 23	Establishment of the system that is satisfactory to the Bank team.	Revised

<p>Procurement Capacity - Adherence to the standard processing times throughout Program implementation. Prepare internal procedures manual to be used by all districts</p>	<p>Fiduciary Systems</p>		<p>RUWASA, MoH, MoEST</p>	<p>Recurrent</p>	<p>Continuous</p>	<p>Internal procedures manual submitted to the Bank</p>	<p>No Change</p>
<p>Procurement Capacity - Carry out procurement and performance (value for money) audits annually.</p>	<p>Fiduciary Systems</p>		<p>MoW</p>	<p>Recurrent</p>	<p>Yearly</p>	<p>Audit reports submitted to the Bank.</p>	<p>No Change</p>
<p>Procurement Capacity - Conduct tailored training to procurement and user department staff to address weakness in these areas</p>	<p>Fiduciary Systems</p>		<p>MoW and PO-RALG</p>	<p>Due Date</p>	<p>30-Jun-23</p>	<p>Training report submitted to the World Bank</p>	<p>Revised</p>

<p>FM- PO-RALG open a dedicated account for the Program and ensure timely disbursement of funds to LGAs in line with PAP of the parent Program.</p>	<p>Fiduciary Systems</p>		<p>PO-RALG</p>	<p>Due Date</p>	<p>30-Sep-2022</p>	<p>Dedicated Program account open at PO-RALG and disbursement of fund occurs as per guidance within the Program operation manual.</p>	<p>New</p>
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