

## **FIDUCIARY SYSTEMS ASSESSMENT**

### **FOREST ECOSYSTEM IMPROVEMENT IN THE UPPER REACHES OF YANGTZE RIVER BASIN PRGRAM**

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## **Abbreviations and Acronyms**

ACG	Anticorruption Guidelines
BEC	Bid Evaluation Committee
CG	County Government
CNAO	China National Audit Office
CFB	County Forestry Bureau
CPRTC	County Public Resources Transaction Center
DLIs	Disbursement-linked Indicators
FM	Financial Management
FSA	Fiduciary Systems Assessment
FB	Finance Bureau
GFMIS	Government Financial Management Information System
GPL	Government Procurement Law
GPLMM	Management Measures for Tendering Goods and Services under GPL
GPLIR	Implementation Regulations of GPL
MOF	Ministry of Finance
PAO	Provincial Audit Office
PAP	Program Action Plan
PforR	Program-for-Results
PRC	People's Republic of China
SFGB	Sichuan Forestry and Grassland Bureau
TBL	Tendering and Bidding Law
TOR	Terms of Reference
WTO	World Trade Organization

## **SECTION 1: CONCLUSIONS**

### **1.1 Reasonable Assurance**

1. Pursuant to the World Bank Policy and Directive for Program-for-Results (PforR) Financing (July 10, 2015) and the World Bank PforR Fiduciary Systems Assessment Guidance Note (June 30, 2017), the World Bank (the Bank) fiduciary team has carried out fiduciary systems assessments for the proposed Bank finance's Forest Ecosystem Improvement in the Upper Reaches of Yangtze River Basin Program (the Program). Based on the assessment and agreed upon actions to strengthen the systems, which are reflected in the Program Action Plan (PAP), and other mitigation measures, the Program's fiduciary systems are considered adequate to meet the requirements in the Bank's PforR Policy and Directive, and have positively confirmed that the Program's fiduciary systems, including procurement and financial management (FM) system and governance system, can provide reasonable assurances that the Program financing proceeds will be used for the intended purposes, with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability.

### **1.2 Risk Assessment**

2. The main FM risks have been identified as follows: (a) There are some gaps on internal controls of provincial forestry bureau, especially on internal audit, public funds inspection and budget performance management; (b) The Program is not one of elements on budget classification in China and many budget line items are used to account for funds invested in forestry sector, and it may be difficult to prepare a consolidated program financial report; (c) Government auditors do not audit the forestry sector annually when they conduct an annual budget expenditure audit. In addition, the annual budget audit is carried out as a compliance audit which may not meet the Bank's audit requirements for a PforR financing audit. The proposed mitigation measures include: (a) Agreed actions will be taken by Sichuan Forestry and Grassland Bureau (SFGB) to strengthen its internal controls on managing public funds to ensure the funds could be used for the intended purposes; (b) Several budget line items which are closely relevant with the expenditures associated with the PforR have been determined to account for activities under the Bank's support's Program. 35 Program counties will prepare the Program financial report by using their annual budget execution report which containing these budget line items determined, then the financial reports will be consolidated by SFGB; and (c) The Bank will cooperate with China National Audit Office (CNAO) and Sichuan Provincial Audit Office to prepare an audit TOR for the Program audit.

3. An assessment of the existing procurement management systems and arrangements for government procurement found them to be generally satisfactory. The main procurement risks identified are: (a) the use of less competitive procurement methods; (b) the subjective application of technical scoring criteria in bid evaluation; (c) the limited time for bid evaluation process; (d) no cautious verification of past contract experiences submitted by the winning bidder; and (e) non-application of Bank debarment/temporary suspension lists which may result in unacceptable contract awards to suppliers under temporary suspension or cross debarment by the Bank or other Multilateral Development Banks. Mitigation measures to address the potential risks identified have been discussed

and agreed with program agencies for implementation, which are heighted in the Program Action Plan (PAP).

4. Taking into consideration of the above-mentioned FM and procurement risks and the proposed mitigation measures, the overall fiduciary risk rating is assessed as “*Moderate*”.

### **1.3 Procurement Exclusions**

5. Ninety nine percent of the government program expenditures will be allocated to plantation activities which will be implemented by various kinds of plantation entities through subsidies payments subject to a series of formal inspection and acceptance procedures agreed in plantation implementation agreements which is out of procurement system. Only a small fraction of the implementation of the programs will require the procurement of small or low value goods. Seedlings are the main goods to be procured collectively and distributed to the plantation entities only in a limited number of counties, as well as some small amount of nursery equipment, office equipment, inspection and testing equipment to be procured for program use by county forestry bureaus. There will be no program activities to be carried out by the provincial level implementing agencies which will only play a leading and coordinating role under the program. As such, no large contracts valued at or above the Operational Procurement Review Committee (OPRC) thresholds are envisaged under the program.

## **SECTION 2: SCOPE**

6. The scope of the FM assessment is based on the defined boundary and Program Expenditure Framework, i.e. the budget line items selected for the Program. The fiduciary team has assessed the fiduciary systems of the key program implementing agencies in Sichuan Province, including the Provincial Finance Department, Provincial Forestry and Grassland Bureaus, and Provincial Audit Offices. Program activities will focus in 10 priority prefectures/cities including all 35 counties. Jingde County was selected as representative sample, and the following agencies in county were assessed: county finance bureau, county forestry bureau and county audit office.

7. The procurement assessment scope includes the assessment of the local procurement laws and regulations, rules, orders, circulars, etc. issued at central, provincial, municipal and county levels which will be complementarily used for the program procurement, as well as the procurement capabilities assessment of all the implementing agencies who will get involved in the procurement of program activities, including county forestry bureaus as the client of procurement activities, public resources transaction centers at county levels as platform where the procurement is conducted, and the procurement agents who will provide procurement services for the whole procurement processes, as well as relevant procurement administrative and supervisory authorities who provide reviews, approvals, supervisions, as well as deal with antifraud and corruption issues for the program procurement process.

## **SECTION 3: REVIEW OF PUBLIC FINANCIAL MANAGEMENT CYCLE**

### **3.1 Planning and Budgeting**

#### **3.1.2 Adequacy of Budgets**

8. 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.

9. Budget preparation: The budget revenue and expenditure of SFGB was increased by 23% each year from fiscal year 2016 to 2018. Sichuan province has been approved its Provincial 13<sup>th</sup> five-year plan of forestry development. Detailed government programs have been identified to meet the objectives and goals of the plan. Each year the county forestry bureaus are required to submit their proposal based on the preliminary instruction from the provincial forestry department. After considering the detailed work plan and the funds available, the SFGB approves the detailed annual work plan for each county before the end of the year.

10. The funds invested in forestry sector are from various financing sources, including earmarked grants from central and provincial governments, the input from county government budget, and the contributions from state-owned forestry farms and farmers. The funding composition of central, provincial and county government is around 60%, 20% and 20% respectively. The earmarked grants from central and provincial governments are predictable and reliable comparing with the other sources. Government funds are delivered to the farmers and forestry farms in the form of subsidy (result-based approach), and the subsidies are given only when the completed plantation is verified and accepted.

11. The SFGB and finance departments maintain close coordination on budget management; the forestry department focuses more on forestry program management and finance department focus more on funds management, and they share information and reconcile data for consistency. Under most circumstances, the budget allocation quotas of the earmarked grants from central and provincial governments are distributed to the county government together with the annual work plan. Even though in many cases the budget quota was not issued with the work plan, it was distributed before the payment to the beneficiaries. Spending quotas for the forestry programs 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 the program implementation. The counties normally receive about 70-80% of earmarked budget allocations from central and provincial government in December and the remaining 30-20% could be received by August of the following year.

### **3.1.3 Procurement Planning**

12. County Forestry Bureau, as the implementation agency at each county, prepares the procurement plan based on the available budget allocated from the government or self-raised funds. The procurement plan is submitted to its supervision authority and the county finance bureau for review and clearance. Since the procurement plan comes from the implementation agency which is responsible for the implementation of the program activities, it is linked closely with the objective needs of the forestry programs.

### **3.1.4 Procurement profile of the Program**

13. The Program funding will mainly be used as subsidies for plantation and forest management activities through implementation agreement signed between county forestry bureau and each plantation entity which are mainly comprised of state-owned forestry farms, farmer cooperatives, village forestry farms, households, etc. The actual plantation activities, including buying seedlings in

the majority of the counties, will be carried out by those plantation entities but not government implementation agencies, and the subsidies which account for only a small portion of the direct plantation cost will be paid by the government to the plantation owners based on the inspection and acceptance standards as specified in the signed plantation agreements. As such, provincial and county forestry departments are only responsible for the management, organization and coordination of the program implementation, including raising program funding, plantation management, plantation technical support and guidance, plantation inspection and acceptance, supervision and monitoring, as well as subsequent payments. In addition, technical inspection and acceptance services, plantation and tending technology research and promotion, plantation technical design will be implemented directly by the subsidiary institutions of the government. These plantation activities and related inspection and acceptance activities will also be outside of the procurement system assessment.

14. Therefore, procurement activities will only include small or low value contracts of goods, including but not limited to, supply of seedlings, office equipment, testing and monitoring devices and instruments, plantation and nurturing related equipment under the program for some counties but not all. The procurable costs will only account for a very small fraction of the program expenditures.

### **3.2 Budget Execution**

#### **3.2.1 Treasury management and funds flow.**

15. The budget execution audit carried out by government auditors indicted that adequate funds were available to finance the Program implementation as planned. The total budget expenditures of SFGB were about RMB 10.22 billion in the year 2017, of which 40% was basic expenditures and 60% was program expenditures.

16. Funds availability: The budget quotas of earmarked grants from central and provincial government are normally distributed to the county government around the end of current year either together with annual work plan or separately. Under quite few circumstances, the earmark grants were delivered to the county government in two tranches, that is., around year end and in the middle of the next year, but the funds were always distributed before the payment to the beneficiaries.

17. Treasury and Payment processing: County governments allocate funds to each forestry project and the County Finance Bureau logs this quota in the budget system under the respective implementing agencies for the project. Once the plantation is completed and verified, the forestry bureaus submit required supporting documents to the Finance Bureau's sector division. The sector division reviews the documentation and approves the payment within the allocated quota. In Sichuan Province, the funds are transferred to the special accounts maintained by the county forestry bureaus first and then paid to the farmers (through "one card" system) and the forestry farms.

18. Budget performance management: In recent years, the national government has put more attention on the budget performance management to ensure that the public funds were used efficiently. In 2016, Ministry of Finance (MOF) and the former State Forestry Administration (now called the National Forestry and Grassland Administration) jointly issued a regulation on budget performance management for the forestry reform and development funds. However, such regulation only refers to certain specific budget funds; the overall budget performance management system has not been established. Following recent institutional reform in SFGGB, it was decided that the financial division

of SFGB will take the responsibility of budget performance management. To standardize related procedures and requirements, a series of decrees or regulations will be prepared and issued by SFGB to enhance its capacity to properly manage budget performance. It is expected that the framework for fully implementing budget performance management will be prepared and issued by the SFGB in the year of 2019 and the manual for public budget performance management including the performance assessment indicator system will be developed and issued by SFGB in the year 2020.

### **3.2.2 Accounting and financial reporting**

19. Budget execution, including detailed payment information, is maintained in the unified budget system throughout the entire province.

20. Government Financial Management Information System (GFMIS): The GFMIS is used throughout the government system at provincial, municipal and county levels. The budget appropriation, quota input, funds application, payment review, and treasury payment are all processed in the system. However, the system at county level is quite simple and is mainly used to deal with the payment transactions. In addition, the special purpose accounts maintained by the line bureaus still exist in some counties.

21. Reporting: Original supporting documents such as the verification reports prepared by different reviewers are maintained by the sector agencies. The forestry bureau is using public sector accounting regulations to account for and report its activities. Many budget line items are used to account for the funds invested on forestry sector. But since the specific program is not a budget classification element, the program consolidated financial reporting could not be prepared. By reviewing the sectoral budget execution report prepared by the SFGB, for the year 2018, 9 budget line items which closely relevant to the activities under the proposed Program were identified as the basis to account for and report Program expenditures (see Table 1). Accordingly, the budget execution report containing these line items will be presented as the financial reporting of the proposed Program. However, since government budget line item might be changed slightly year by year, SFGB will communicate with the Bank and determine each year's budget line items before preparing the Program financial reporting.

**Table 1: Budget Line Items under the Program**

<b>Budget code</b>	<b>Budget Line Item</b>
2130106	Science and Technology Transfer and Extension Service
2130205	Silviculture
2130206	Forestry Technology Promotion and transfer
2130207	Forest Resource Management
2130208	Forest Resource Monitoring
2130219	Forestry Engineering and Project Management
2130223	Forestry Information Management
2130225	Forestry Funds Auditing
2130234	Forestry Disaster Prevention and Mitigation

### **3.2.3 Procurement processes and procedures**

#### **3.2.3.1. Procurement Regulatory Framework**

22. Since 2000, China has established a complete set of laws and regulations governing the public procurement that reflect its transition towards a market-based economy and its membership in the World Trade Organization (WTO). Following the Constitution of the People's Republic of China, there have been 2 procurement laws enacted by the National People's Congress which form the second level of government legislation. The two national laws regulating government procurement in the People's Republic of China (PRC) namely are the Government Procurement Law (GPL) and the Tendering and Bidding Law (TBL). The GPL was adopted on June 29, 2002 and came into effective on January 1, 2003. It was revised in 2014. The GPL, administered by MOF, plays a fundamental role for governmental entities at all levels that use fiscal funds to procure works, goods and services, listed in a centralized procurement catalogue or above a certain price threshold but not listed in the centralized procurement catalogue. The catalogue is issued by MOF, or provincial department of finance, or sometimes by municipality or county department of finance as per the authorizations of higher-level finance department and is periodically revised.

23. The PRC's Public Procurement Laws also include secondary legal regulations and measures adopted by various ministries, local governments at provincial, municipality and county levels. Over the years, numerous regulations, rules, orders, measures, circulars and opinions etc. issued at ministerial, provincial, municipal and county levels based on the GPL, respectively, have been adopted to supplement and implement the primary national laws. As supplements to the GPL, MOF promulgated GPL Implementation Regulations (GPLIR) through State Council Order of the People's Republic of China on December. 31, 2014 and Bidding and Tendering Management Measures for Goods and Services of Government Procurement through MOF Order on July 11, 2017, in which detailed procurement methods and bidding procedures are specified to follow by the government procurement entities. Those secondary procurement regulations form the backbone of the PRC's Public Procurement Legal Framework.

24. GPL and its supplementary rules are based on international best practices and principles, require the use of competitive bidding as the main procurement method, define the conditions under which other procurement methods can be applied, and have articles dealing with budget planning, procurement planning, procurement methods, bidding process and procedures, internal control, administrative supervision and inspection, complaint handling, anti-fraud and corruption, legal liabilities, contract administration. The procurement legal framework supports non-discriminatory participation, transparent tender processes (including advertisement, tender documentation, tender evaluation, complaints mechanism). There is also no fundamental difference between the PRC's procurement laws and the procurement policies of the Bank. Their basic principles and objectives converge.

25. Given the procurement of the Program will include only goods, the GPL and its supplementary regulations and rules shall apply to all such procurement activities under the Program.

#### **3.2.3.2 Procurement methods, procedures and the conditions for their use, thresholds of Open bidding**

26. Open bidding is the main procurement method under GPL. Any deviation from open bidding needs to be justified and requires ex-ante approval by relevant authorities. Any negotiation procedures are prohibited. Under the GPL, government procurement may be made in any of the following ways: (i) open bidding; (ii) Restricted bidding; (iii) competitive negotiations, (iv) single-source purchase, (v) shopping, (vi) other ways of procurement as organized by the departments of the State Council in charge of the supervision and administration of procurements. Any contract may be procured through other procurement methods when the circumstances meeting the conditional requirements as specified by the GPL Article 25, such as restricted bidding, competitive dialogue or single source selection. Some of these procurement methods are described below:

27. The following conditions for using Restricted bidding shall be met: (i) there are limited number of suppliers; and (ii) The cost of using open bidding takes a very high proportion of the contract total cost. Procuring entities shall select randomly at least 3 suppliers from a list of qualified suppliers and issue invitation for bids.

28. Competitive negotiations may be used under the following instances: (i) no bids or responsive bids have been received, and/ or rebidding has failed; (ii) due to technical complexity or particular nature, it is difficult to specify specifications or detailed requirements; (iii) the bidding time is too long to meet the urgent need of the purchaser; and (iv) it is hard to estimate the price beforehand. The detailed procedures include: (i) setting up a negotiation group; (ii) formulating negotiation document; (iii) determining the list of suppliers who will be invited to attend the negotiation; (iv) conducting negotiations; and (v) determining the winning bidder.

29. Competitive consultation is a new type of method for government procurement, which MOF introduced in late 2014. Buyers and government procuring entities form a competitive consultation team to negotiate with qualified suppliers on purchasing goods, works and consulting services. Suppliers submit responsive documents and costs in accordance with the requirements specified in the consultation documents. Procuring entities determine the supplier from a suppliers list proposed by the consultation team. The consultation team will have consultations with each of the responsive bidders, and the bidders may choose to submit updated bids including revised bid prices in accordance with the consultations. The consultation team will evaluate the updated bids by applying rated criteria with 30-60% weightings for financial scoring (in terms of goods) and 100 points for the lowest bid price as base value. The bid with the highest overall score after the combined financial and technical evaluation will be recommended for contract award. The main difference between the competitive negotiation and the competitive consultation is that the responsive bid with the lowest financial price will be recommended for contract award.

### **3.2.3.3. Procurement Institutional arrangement**

30. In terms of institutional framework for procurement, the implementation agency in each county is forestry bureau which will be implementing procurement related activities. The forestry bureau will prepare the budget or cost estimate. Each client will hire an independent procurement agent to assist in the preparation of the commercial part of the bidding document, technical specifications will be prepared by forestry bureau or its subsidiary institutes. During the bid evaluation, one staff from the implementing agency will be a member of the bid evaluation committee. The implementing agency will sign and oversight the execution of the contract being responsible for the entire contract management from time, cost and quality control perspectives. The procurement agent will also be

responsible for publishing the invitation for bids, issuing the bidding document, opening the bids publicly, and organizing the bid evaluation, but it will not be allowed to participate in the bid evaluation.

31. The government at each level (normally the finance departments of central government and provincial government, sometimes at municipality and county levels) issues notices on a yearly basis regarding Government Centralized Procurement Catalogues for goods, works and services and determine Procurement Thresholds for those activities not included in the Government Centralized Procurement Catalogues (Decentralized Procurement). The finance departments instruct that all goods, works and services included in the Government Centralized Procurement Catalogues and those not included in the Government Centralized Procurement Catalogues but with values above specified procurement thresholds be procured by following specified procurement threshold as per approved procurement plan through the platform of the local public resources' transaction center.

32. In accordance with the Notice issued by Sichuan Provincial Finance Department regarding the Government Centralized Procurement Catalogues (Centralized Procurement) as well as the Procurement Thresholds for those which are not included in the centralized procurement catalogues (Decentralized Procurement) for the fiscal year 2018-2019, the threshold for decentralized procurement of goods and services at provincial level is CNY 0.2 million, and threshold for decentralized procurement of works at provincial level is CNY 0.5 million. However, these thresholds at municipality and county levels are CNY 0.1 million and CNY 0.3 million, respectively. The procurement of such activities for the above the specified thresholds must be carried out in an approved procurement method through the designated government procurement platform.

33. The mandatory threshold of open bidding method for procurement of goods and services at provincial government level is CNY 2 million, however, the opening bidding threshold for goods and services at municipality or county level is CNY 1 million.

34. If the value of any contract/activity under decentralized procurement is less than the specified thresholds, the procurement is not required to be conducted in the public resources transaction center, and the client can decide and conduct the procurement by itself and at its own discretion.

#### **3.2.3.4. Procurement Cycle Management**

35. Except for carrying out plantation by various kinds of plantation entities through subsidies payment upon final inspection and acceptance, all procurement activities involving goods will only be carried out by county forestry bureaus under the Program. As such, the procurement processes and procedures in each county will be generally elaborated on as below for the purpose of procurement system assessment.

36. In each county, there is a public resources transaction center. The transaction center provides electronic platform for the client to publish the advertisement and issue the bidding documents. All bidders are required to register through the transaction center information system in order to acquire the bidding documents, any subsequent clarifications and addenda to the issued bidding documents, and finally submit the bid securities and the bids either electronically or by hand. The transaction center also provides physical facilities for bid opening and evaluation. The staff of the transaction center assume supervision and monitoring function during the bid evaluation. However, they do not

participate in the bid evaluation. The bid evaluation is carried out by a bid evaluation committee comprising 5-7 evaluation experts (one from the client) which are randomly selected from the expert database maintained by various government agencies. The transaction center also provides the website for publication of the intended contract award recommendation.

37. **Standard bidding documents.** In Sichuan province, there are standard bidding documents ready for use for each kind of procurement method. In some municipalities, the use of standard bidding documents is mandatory. Based on the bidding documents provided, these documents have been well prepared, the bidding procedures, requirements and contract conditions follow best global practices, and very similar to the Bank procurement procedures, including standard invitation for bids, instructions to bidders and bid data sheet, bid evaluation and qualification criteria, bidding forms, technical specifications, eligibility requirements, general conditions of contract, particular conditions of contract, contract forms, etc. According to GPL Implementation Regulations, cost estimate shall be indicated in the issued bidding document. Bidding document shall be prepared based on the standard bidding document issued by the relevant finance departments.

38. In accordance with the GPL and relevant implementation regulations, the bidding document shall not contain biased qualification and experiences requirement and biased technical requirements. Reference to specified manufacturers/brand names, patent right is also not allowed.

39. **Procurement notice advertisement.** The procurement notice is published in the websites of public resources transaction centers at county level, municipality level and provincial level simultaneously as well as the designated media of the finance departments at provincial and higher level. The procurement notice also is published automatically at the procurement website of the central government. After publication of the procurement notice, at least 5 calendar days are made available for the potential bidders to acquire in person or by mail or download directly the bidding documents from the county level transaction center website for free. The procurement notice contains the information of activities to be procured, quantity of activities/goods, location of the project/destination for delivery, required completion time / delivery schedule, name, address and contact of the client, how to acquire the bidding procurement, the qualification and experience requirement, deadline for bid submissions, etc.

40. The selling price of the bidding document shall only cover the costs for printing and mailing the bidding document, no more overcharge is allowed. In most of the cases now, the bidding document is issued for free. Request for clarifications to the bidding document should be sent no later than 10 calendar days prior to the deadline for bid submission and opening. The client is required to provide response to such request for clarification within 3 calendar days. Any clarification or addendum shall be issued in writing to all the bidders not later than 15 days prior to the deadline for bid submission and opening. In case of any clarifications or addendum to be issued within less than 15 days, the deadline for submission of bids shall be extended accordingly. The time between the availability of the bidding document and the deadline for bid submission and opening is normally no less than 20 calendar days.

41. All bids received by the deadline for bid submission and opening, which are properly sealed, are opened and read out at the presence of all bidder's representatives who may choose to attend the bid opening ceremony. Any bid which is not properly sealed may be rejected, unopened and not read out. Bid opening record will be published in the website of all transaction centers. The amount of bid

security is not exceeding 2 percent of the cost estimate. The validity of bid security is the same as the validity of the bids. For shopping, competitive negotiation and competitive consultation, if the bid security is required by the Purchaser, the above requirements for the bid security should be followed.

42. In accordance with the GPL and relevant implementation regulations, if the number of bids received is less than three or the number of substantially responsive or qualified bids is less than 3, the client shall reject all bids and conduct a re-bidding process or request for other procurement methods.

43. The whole procurement process shall be confidential, the client, the procurement agent or any other personnel involved shall not disclose to any third party the names of bidders who has obtained bidding documents, number of bidders or any other procurement related information that may affect the fair competition of the procurement process.

44. According to the Bidding and Tendering Management Measures of GPL issued by MOF on July 11, 2017, the implementing agency is responsible for organizing the bid evaluation process, but bid evaluation affairs shall be taken charge of by the bid evaluation committee. For example, the client shall verify the identity of the bid evaluation experts, announcing bid evaluation disciplines and conflict of interest COI requirements, chairing election of bid evaluation committee leader, maintaining bid evaluation order, explaining bidding documents and government procurement policies in case of need, monitoring the evaluation process, obstructing or rectifying any preferences or illegal action, verifying the evaluation results. The bid evaluation committee shall carry out review of the bids and determine if they are substantially responsive to the bidding document requirements, requesting clarifications from bidders, conducting assessment and comparisons of bids, determining on winning bidder candidates or the winning bidder as per authorization of the client, reporting any noncompliance activities to the client, the procurement agent or relevant government departments.

45. The bid evaluation committee shall comprise no less than 5 members (odd number only), one representative is from the implementing agency and the others shall be selected randomly from official government expert databases maintained regularly by various government authorities at the central or provincial levels. The number of bid evaluation experts shall be no less than two thirds of total bid evaluation members. The names of bid evaluation committee members shall be kept confidential before bid evaluation results have been disclosed to the public. Any bid evaluation expert who has COI with the procurement shall be avoided according to the government procurement laws and regulations.

46. According to Goods and Services Bidding and Tendering Management Measures of GPL, there are 2 kinds of bid evaluation methods, one is called Lowest Evaluated Bid Price method which is similar to the World Bank's lowest evaluated bid price approach, i.e. the bidder whose bid meets all substantial requirements of the bidding documents and whose bid price is the lowest, and also post qualified shall be recommended for contract award. Lowest Evaluated Bid Price method is normally applied to standardized goods and services contracts.

47. The other bid evaluation method is called Comprehensive Scoring Method in which the bid rated as the highest scores shall win the contract which is similar to the Rated Evaluation Criteria as used in the Bank's Procurement Regulations for IPF Borrowers. i.e. the bidder whose bid meets all substantial requirements of the bidding documents and obtained the highest total scores shall be

recommended for contract award. Total financial score weighting of goods contract shall not be less than 30% of total scores, shall not less than 10% for services contract. See the Table 2 for an exemplar.

**Table 2: An exemplar comprehensive scoring criteria for open bidding**

No.	Evaluation Factor and Weighting	Total Score Points	Evaluation Criteria
1	Price 40%	40	The lowest bid as benchmark price shall be assessed as 40 points, the score of any other bid = benchmark price/bid price) ×40%×100.
2	Seedling Quality 6%	6	The seedling of good quality and suitable for the project area shall be given 6 points, the seedling passing evaluation shall be given 4 points, otherwise, no score shall be given.
3	Samples 18%	18	Seedling nutrient soil as light matrix shall be given 6 points, ordinary nutrient soil is given 2 points. Degradable materials used as seedling nutrient bag or cup shall be given 6 points, otherwise, ordinary bag is given 2 points. The diameter of seedling nutrient bag no less than 10cm shall be given 6 points, diameter between 10cm and 8 cm shall be given 3 points, diameter between 8cm and 6cm shall be given 1 point, diameter less than 6 cm is given zero.
4	Seedling Nursery 10%	10	When the seedlings are provided from the bidder's own nursery production base and comply with requirements, the bid shall be given 10 points. When the bidder's production capacity could not meet supply requirements, but can organize the supply outsourced, the bid shall be given 4 points. When the bidder does not have its own production base, but can supply required seedlings, the bid shall be given 1 point.
5	Transport Distance 6%	6	The distance within 50 km shall be given 6 points, the distance between 50 km and 100 km is given 4 points, distance between 100km and 200 km is given 2 points, distance more than 200 is given zero.
6	Bidder's Credit 6%	6	The bidder who obtained credit certificates for 3 years between 2014-2016 is given 6 points, otherwise, 2 points shall be deducted from 6 points for each past year without any credit certificate. The bidder without any certificate is given zero.
7	Similar Experiences 6%	6	The bidders will be ranked as per the total past values for supply of rare species for government plantation projects since 2015: the first ranked bidder is given 6 points, second is given 4 points, the third one is given 2 points, any bidder from fourth ranking with experiences is given 1 point, the bidder without any experiences is given zero.
8	Technical Capability 6%	6	① When the bidder provides at least 1 full time senior forest expert or uses the services of professorate forest expert, the bid shall be given 6 points. ② when the bidder provides at least 1 full time forest expert or uses external services of part time senior forest expert, the bid shall be given 3 points.

			(3) When the bidder provides at least 1 full time junior forest engineer or use external services of forest expert, the bid shall be given 1 point. (4) otherwise, no point shall be given.
9	Completeness of Bid document 2%	2	Complete bid shall be given 2 points, 0.5 point shall be deducted for each deviation until the score is deducted to zero.
	Total Scores	100	

48. Any evaluation criteria not included in the issued bidding document shall not be used in the bid evaluation process.

49. As for abnormally low bid, when the bid evaluation committee determines that the price of a bidder is lower than the prices of other bids that have substantially meet the requirements of the bidding documents, and this may potentially have negative impact on the product quality or potentially cause the bidder fail to perform the contract well, the bidder shall be requested to submit clarifications in writing within a reasonable time during the bid evaluation period, and when necessary, provide relevant supporting documents. If the bidder could not prove the reasonableness of its price, the bid evaluation committee shall treat the bid as invalid and reject the bid.

50. Bid evaluation members shall sign in the bid evaluation report for which she/he should take legal liabilities. In case of disagreement, the disagreement shall be described and explained in the biding evaluation report (BER) and signed by the same person. Otherwise, he should be deemed to have accepted the bid evaluation results.

51. The procurement agent shall submit the BER to the client within 2 workings days after completion of the bid evaluation process, and the client shall decide on the winning bidder within 5 working days upon receipt of the BER. Upon determination of the winning bidder, the procurement agent shall issue the bid award notice to the winning bidder and publish bid evaluation results simultaneously within 2 working days in the media designated by provincial or a higher finance department. The period for bid evaluation result disclosure is one day.

52. Bid evaluation result notice shall include the following information: the name, address and contact details of the client and its procurement agent, contract description and reference number, the name, address and price of the winning bidder, the descriptions, specifications or model number, quantity, unit prices and service requirements of the main goods, expiration date of the bid result disclosure notice, as well as the names of bid evaluation experts.

53. Within 5 working days upon issuing bid award notice to the winning bidder, the client or procurement agent shall return bid securities of the other bidders other than the winning bidder Within 5 working days of contract signing, the client shall return the bid security of the winning bidder. The

contract shall be disclosed to the public at the media designated by the provincial or a higher finance department within 2 working days of contract signing.

54. Within 30 calendar days after contract award, the client and the successful bidder shall sign the contract. The successful bidder will furnish the performance security if so, required in the bidding document. The amount of performance security normally does not exceed 10 percent of the contract price.

55. The client shall set up a complete set of procurement documents management system and have all procurement related documents filed properly for auditing purpose.

### **3.2.4 Contract administration**

56. Each contract will be signed between each county forestry bureau and the supplier provider, the country forestry bureau will be responsible for the performance management and payment of those contracts within its jurisdiction area until all goods under each contract have been delivered properly as per the signed contract conditions.

57. Based on the contract conditions, the supply scope, detailed technical requirements, the rights and obligations of both parties, quality inspection and acceptance, contract price, quantities measurement and payment terms, risk allocations, variations, delivery time, suspension and termination of contract, performance and advance payment guarantee, the liabilities of both parties etc. are well specified in the signed contract provisions. The contract prices of goods normally are lump sum, the payments normally are made based on completion and acceptance of a specific milestone deliverable in accordance with the signed contract provisions.

58. According to the GPL and its relevant regulations, the client and the supplier shall fulfill their obligations in accordance with the signed contract, the performance of the contract, penalties and liabilities, dispute resolution should also comply with the Contract Law of People's Republic of China. The client shall carry out inspection and acceptance in a timely manner. The client also should strengthen contract management and make do payments to the supplier as per contract conditions timely.

59. Given all goods contracts under the Program are all small or low value and conventional contracts for supply of seedlings, office equipment, plantation equipment etc., each county forestry bureau has sufficient technical and contract management staff who are very familiar with the implementation of such contracts in the past, and contract management approaches normally are simple, i.e. inspection and acceptance upon delivery of goods, therefore there will be no major contract performance risks that will have impact to the program development objectives.

60. Based on the contract performance survey of some typical county forest bureaus, the contract management performance has been doing well, and all goods have been delivered and corresponding payments have been made timely as per the signed contract provisions.

### **3.3 Internal Controls**

#### **3.3.1 Internal controls**

61. There is adequate control over and stewardship of Program funds, with well-defined delegation of authorities.
62. Following the national policy and regulations issued by MOF, National Development and Reform Commission and National Forestry and Grassland Administration (NFGA), the provincial government issued a series of regulations regarding funds management, implementation measures, verification procedures, and other relevant issues. For each payment, adequate reviews and checks have been maintained by implementing agencies and finance bureaus.
63. As the government funds are delivered to the beneficiaries in the form of subsidy (result-based payments), the verification is an important measure to ensure that the program funds are used for the intended purposes. It was noted that although each forestry program had issued its own verification procedures including detailed technical criteria and size of sampling, the following three-step verification procedures had been established to verify the completion and quality of all forestry programs:
64. *First step.* Once the plantation is completed, the county forestry bureau is responsible for conducting the verification first. The county forestry bureau could carry out the verification by its expert team or delegated county forestry investigation and planning group. The verification should cover all program areas, sampling is not allowed. By reviewing the county verification report, some issues were disclosed, such as some unqualified areas needed to be replanted, the signed contracts were irregular, and the published materials were incomplete. Related entities were required to take action to address these issues.
65. *Second step.* The provincial forestry and grassland bureau is responsible for verifying the works implemented by county once its verification is completed. It normally delegate the provincial forestry investigation and planning institute to do the verification. Such verification is conducted based on sampling, but the size of sampling varies among programs. The verification includes both field visits and document reviews. By reviewing the verification report prepared by the institute for the tending of forests for 2016, the following issues were found and disclosed for a few cases, which include: unqualified areas were noted in some places; the quality of some plantations could not meet the required technical standards; and the quality of plantation design needed to be improved. The related actions were also recommended in the report and it was reported that the correction activities had been taken.
66. *Third step.* The NFGA would also carry out its random verification based on related verification procedures and its work plan for the activities financed by central government budget. Such verification is also conducted based on sampling basis.

67. In Sichuan Province, the farmers and forestry farms can receive the subsidies once the verification conducted by the county level is finished and need not to wait for the verifications carried out at provincial and central level. In addition, the disclosure and complaints system has been set up to ensure any violations can be identified in a timely manner. In addition, detailed procedures have been enacted for how to deal with the complains.

68. The SFGB has completed its institutional reform recently in line with national government requirement. The public funds inspection has been assigned to the financial division of the SFGB. With this responsibility being clearly defined, it is planning to revise related inspection regulations to ensure that enough resources would be allocated to this task and efficient follow-up conducted to ensure the remedial actions could be taken to address the issues disclosed during the inspection.

### **3.3.2 Internal Audit**

69. Following the latest government institutional reform, an internal audit division was established within SFGB and the internal auditors have been recruited. After the institution restructuring and staffing are completed, the provincial forestry bureau will update its related internal audit regulations to comply with the new government requirements. In addition, the annual audit program will be prepared and approved by SFGB each year since 2019 and the completion rate of annual program will be gradually improved from 80 percent to 100 percent within three years. Previously, the SFGB jointly worked with the municipal forestry bureaus to conduct the internal audit on the works carried out by the county forestry bureaus. All counties in the province could be audited within 5 years in line with the work plan of SFGB. Sometimes the accounting firms were hired to assist SFGB to fulfill its supervision responsibility. A review of the summarized internal audit report for 2016 revealed the following issues:

- Program implementation lagged the plan;
- The verification was not carried out seriously in some counties;
- Funds were not delivered timely and in line with related requirements;

70. At the county level, the internal audit function has not been established in county forestry bureau. Although the supervisory and inspection unit has been set up in county finance bureau, their main responsibility is to review the compliance of internal control system within the finance bureau rather than supervise the use of program funds.

### **3.3.3 Program Governance and anticorruption arrangements.**

71. **Complaints and reviews.** Basic provisions on complaints and reviews are given in Chapter 6 of GPL (Queries and Complaints). The financial departments and many other relevant administrative departments are involved in handling complaints. The main channel of review involves a review system with four tiers: (i) Procuring Entity Review: an aggrieved supplier may submit a written challenge to the procuring entity or its procuring agency within the time limit (Articles 52 and 54 of GPL). (ii) Administrative review: according to Article 55 of GPL, suppliers who are unsatisfied with the reply of the procuring entity or its agent, or receive no reply within the prescribed time limit, may seek further administrative review from the administrative department supervising government procurement. GPL explicitly designates the financial departments at all levels as the competent

authority for supervising government procurement and handling procurement complaints (Article 13 of GPL). (iii) Administrative reconsideration: in accordance with Article 58 of GPL, if the complaining supplier disagrees with the competent financial department's decision, or the latter failed to make a decision in due time, it may further apply for administrative reconsideration, or bring an administrative litigation before the court. (iv) Administrative litigation: Administrative litigation may be brought by the complaining supplier after receiving the administrative review body's decision, or in case no decision is reached, as an alternative to applying for administrative reconsideration.

72. **Remedies.** Different remedies available under different circumstances and at different stages of review: (i) Suspension: According to Article 57 of GPL, the financial departments in charge of handling procurement disputes are empowered to suspend the award process in certain circumstances. The period of suspension must not exceed 30 days. Whether to suspend the procurement process at the stage of administrative review is at the discretion of the financial department concerned. (ii) Setting aside: the administrative review body can set aside a procuring entity's illegal decisions. Under GPL (Article. 73.2) this remedy applies also to concluded contracts, provided they have not been performed. If the contact has been signed but has not been performed yet, the financial department shall order the annulment of the contract and order the procuring entity to carry out a new procurement activity. (iii) Damages. Article 73(3) of GPL states that if the procuring entity or its agency's illegal behavior (such as negotiating with certain bidders in the procurement process, treating suppliers differentially and colluding with certain suppliers) has affected or may affect the results of selecting the winning supplier, in the case that the contract has been performed and has caused loss to the supplier, the procuring entity or its agency shall bear the responsibility to pay compensation. In this case, the administrative review body should award damages to the aggrieved supplier if an unlawful procurement contract has been signed or performed.

73. Article 25 of GPL provides that the parties concerned in government procurements may not collude with each other to impair the lawful rights and interests of the state or the general public or other parties concerned and may not exclude the competitions of other providers by any means. Providers may not seek to win bids or conclude transactions by offering bribes to the purchaser, procurement agency, any member of the Bid Evaluation Committee (BEC), any member of the competitive negotiating group, any member of the inquiry group or by any other unfair means. In addition, procurement agencies are prohibited from obtaining unlawful benefits from the procurement parties by bribe or any other illicit means.

74. **Sanctions.** Chapter 8 of GPL (Legal Liabilities) provides for a framework for sanctioning corrupt behavior. Blacklists are established by trading centers. The number of published administrative penalty decisions debarring unethical contractors also appears running well in relation to perceived incidents of corruption, most of which are related to the submission of fabricated documents in bids, and sometimes bid collusion. The Transaction Centers maintain a blacklist of bidders who have provided fake information. The blacklist is publicly available. Blacklisted companies are debarred from the market for periods between one and three years.

75. **Applicability of the World Bank ACG for the Program.** As part of the fiduciary assessment, the degree to which the Program systems can handle fraud and corruption risks, including complaint mechanisms, has been assessed. Systematic country-wide issues from the World Bank's portfolio include misrepresentation by bidders on experience, past performance, and technical and financial resources; use of fraudulent documents such as bid and performance securities, financial and bank

statements, qualification and test certificates; over invoicing; collusion; conflict of interest; and complaints.

76. The government of Sichuan Province is fully committed to ensuring that the Program's results are not affected by fraud or corruption. Through the Program's legal documents, the recipient of the loan is formally committed to the obligations under the ACG for PforR operations. In the context of this Program, the implementing agencies have agreed to promptly inform the World Bank of any credible and material allegations of fraud and/or corruption regarding the Program as part of the overall Program reporting requirements. The World Bank will inform the recipient about any allegation that it receives.

77. Sichuan province will instruct all the relevant agencies to comply with the requirements of the ACG, including all the contractors, procurement agents, and county forestry bureaus and various plantation entities under the Program. The TOR for audits under this Program will request a sample checking of the Bank's suspension and debarment list for completed procurement.

### **3.4 External auditing**

78. The province and counties receive various audits and inspection throughout the year, the scope of these audits primarily covers the proper usage of public funds. The audit findings of the annual audit on budget execution conducted by the provincial audit office were included in its report to the Provincial People's Congress and the full audit report was published in the Provincial Audit Office (PAO)'s official website. However, due to the shortage of manpower in the audit offices, the forestry bureaus were not audited annually. The audit strategy for government auditors is "one audit covering multiple years". Provincial audit office did not audit the budget execution of SFCB in the last two years. The budget execution audit for the year 2017 has just completed and the audit report has not been disclosed yet.

79. The proposed Program audit will be conducted by Sichuan provincial audit office. Besides conducting the audit on budget execution and other provincial level entities, provincial audit office has been the auditor of Bank financed projects in Sichuan province for about two decades and has extensive experience. It is one of auditors the Bank accepted in China. The first year's audit report issued by the provincial audit office is subject to the quality review conducted by CNAO.

80. To gain reasonable assurance on the proper usage of Program funds, the CNAO and Provincial Audit Office will agree on an audit TOR with the World Bank and conduct an annual Program financial statement audit that will be publicly disclosed. CNAO and Provincial Audit Office will adopt the audit approach and coordination mechanism being used in other Bank financed PforR operations. Provincial Audit Office will coordinate internally to ensure no overlap between various audits conducted. The auditors will conduct the financial audit on the Program financial statements in accordance with the audit TOR to meet the Bank's audit requirement. The audit report will be submitted to the Bank within nine months after calendar year-end.

81. The proposed Program financial reporting arrangements of using the selected budget line items associated with program activities from government annual sectoral budget execution report was discussed and agreed with the provincial audit office. In addition, it was agreed that the Program audit would focus on the following aspects:

- Whether the subsidies from central and provincial government have been delivered to the county timely and completely;
- Whether the stipulated verification procedures and requirements are fully complied by related entities;
- Whether the Program funds are used properly and in line with related regulations and procedures by sampling some program counties.

82. In addition, besides conducting the Program audit, the external auditors will be responsible for verifying the achievement of disbursement-linked indicators (DLIs) associated with strengthening the management and internal control of SFGB. The verification result will be presented in program annual audit report.

### **3.5 Procurement and Financial Management Capacity**

83. The financial division of SFGB are equipped with qualified staff and all of them get the required certificate being engaged in the financial related business. In each county visited, 2-3 staff, including the unit chief, are recruited in the forestry bureau. Most of the staff are familiar with the business operation, including required procedures, reporting, annual fund use plan preparation and implementation, appropriation status, etc. For counties visited, the necessary documents including copy of each appropriation circular, regulatory documents issued by provincial, municipal and county governments are all systematically filed. The SFGB also provide regular training to county staff to strengthen their capacity.

84. The agencies involved in the procurement in each county include the county forestry bureau, the professional procurement agent, bid evaluation experts randomly selected from official expert database maintained by the government departments, and the public resources transaction center, as well as various supervisory departments, including development reform commission, finance department, disciplines inspection department, etc. During the assessment, it is found that in general all the agencies involved are adequately staffed.

85. Each county level public transaction center is equipped with all set of facilities for the procurement process. Each procurement transaction center is an organization/institute owned and funded with the government budget and equipped with sufficient number of professional procurement management and operational staff experienced with local procurement laws, regulations, procedures, etc. to provide the platform and related services for conducting government procurement activities.

86. With the assessment conducted for whole procurement system, a sample procurement operation is present as the following Table 4 to Table 7.

**Table 4: Average annual procured values of goods works and services in Jianwei County (2014-2016)**

**Unit: CNY in Million**

Province	County	Annual Total Transaction Amount in the past 3 years		
		2014	2015	2016
Sichuan	Jianwei	193	544	1489

**Table 5: Procurement Operation of Jianwei County Public Resources Transaction Center (2014 -2016)**

Procurement Method		2014	2015	2016
Open Bidding	Numbers of Contracts	26	31	16
	Total value (CNY)	27,850,000	31,000,000	33,570,000
	Number of Bidders under each contract	5	5	5
	Average days from IFB to Deadline for bid opening	23	23	21
Limited Bidding	Number of contracts	3	4	21
	Total Value (CNY)	2,310,000	5,710,000	10,440,000
Shopping	Number of contracts	67	55	51
	Total value (CNY)	10,510,000	11,860,000	11,430,000
Competitive Negotiation	Number of contracts	89	117	100
	Total value (CNY)	145,390,000	146,100,000	592,780,000
Single Source	Number of contracts	12	8	22
	Total value (CNY)	3,990,000	64,700,000	33,420,000
Average Ratio of signed contract price and cost estimate		0.90	0.84	0.88
Number of contracts to be rebid		2	0	3
Number of contracts due to different reasons	All nonresponsive			
	Complaint			
	Less than 3 bids received			2
	Higher than budget			
	Others	2		1

**Table 6: Geographical Distribution of Winning Bidders in 2016 Procurement in Jianwei County**

County	From within County	From within Municipality but outside of County	From within Province but outside of Municipality	From Outside of the Province
Jianwei County	25%	21%	45%	10%

**Table 7: Sample Seedling Supply Contracts Collected since 2015 in Hanyang and Luzhou Naxi Counties**

County	Contract No.	Description	Quantity	Cost Estimate	Bid evaluation method	Contract Price (CNY)	Procurement Method	Number of Bids
Hanyuan	2016-006	Erythrina	22,890	961,380	Combined scorings	534,023	Open bidding	3

Hanyuan	2017-016	Seedling	Various		Lowest bid	158,937	Shopping	3
Hanyuan	2016-030	Seedling	Various		Lowest bid	190,504	Shopping	3
Hanyuan	2017-094	Seedling	Various		Lowest bid	189,531	Shopping	3
Hanyuan	2015	Seedling	Various		Lowest bid	189,845	Shopping	3
Hanyuan	2017-094	Seedling	Various		Lowest bid	189,531	Shopping	3
Hanyuan	2017-014	Seedling	Various	309,35 0	Lowest bid	159,100	Shopping	3
Naxi	5105032 0170002 33	Phoebe	274,227	1,064,00 0	Combined scorings	1,064,00 0	Open Bidding	6

87. Based on the above collected contracts' information, it can be observed that most of the seedling supply contracts are of small values, and the procurement methods used for most of the contracts are shopping and open bidding, and lowest evaluated bid criteria is normally used for shopping, and comprehensive scoring method is used for open bidding.

88. Finance departments, development reform commissions, local universities and other relevant bidding and tendering associations at each government levels conduct regular procurement training programs, workshops, conferences, seminars etc. to enhance procurement capabilities of the government procurement officials, to promote government procurement laws, regulations, rules, procedures issued by each level of governments, which have significantly enhanced the implementation capabilities of procurement staff from various procurement institutions.

89. Based on the assessment of performance information and institutional arrangements, the fiduciary systems adopted have sufficient capabilities to ensure the successful implementation of the Program and achieving the Program development objectives.

#### **SECTION 4: PROGRAM SYSTEMS AND CAPACITY IMPROVEMENT RISKS AND MITIGATION MEASURES.**

90. The overall fiduciary risk is rated as *Moderate* upon proper implementation of the below proposed mitigation measures. The risks and proposed mitigation measures are presented in Table 8.

**Table 8: Fiduciary Risks and Mitigation Actions**

<b>Risk</b>	<b>Mitigation Action</b>	<b>Timing</b>	<b>Type of Action (PAP, DLI, etc.)</b>
Use of less competitive and less transparent procurement method.	The county forestry bureaus shall strictly follow the current monetary thresholds when selecting procurement method, that is, open bidding for contracts valued at more than a specified value by the government authorities.	Implementation	
No verification of past contract experiences claimed by the winning bidder.	The BEC shall conduct due diligence in further assessing the past contract experiences of the winning bidder.	Implementation	
Subjective application of technical scoring criteria in bid evaluation.	The county forestry bureaus are required to establish clear criteria in the issued bidding document and ensure that the Bid Evaluation Committee applies evaluation criteria consistently to all bids, or in the case of small value and simple contracts, lowest evaluated bid criteria shall be used.	Implementation	

<p>Non-application of Bank debarment/temporary suspension lists which may result in unacceptable contract awards to contractors, consultants and/or suppliers under temporary suspension or cross debarment by the Bank or any other Multilateral Development Banks.</p>	<p>Promptly informing 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. The TORs for audit firms will include the requirement to assess on a random basis whether any contract has been awarded to a suspended or debarred firm and no parties debarred or suspended by the Bank shall benefit from the Program funds.</p>	<p>Implementation</p>	<p>PAP</p>
<p>The financing sources invested in the forestry sector are various, including both government budget and inputs from private sector, some funds are not predictable and reliable</p>	<p>The budget funds from central, provincial and county government in 35 project counties will be counted as financing sources of the Program to be financed by the IBRD loan.</p>	<p>Implementation</p>	

<p>Many budget line items are used to account for funds invested in forestry sector, it is hard to prepare a consolidated program financial reporting</p>	<p>Several budget line items which are closely relevant with the expenditures associated with the Program have been determined to account for activities under the Bank-financed Program. The annual sectoral budget execution report prepared by county forestry and grassland bureaus and consolidated by SFGB which contains these line items will be used as the financial reporting for the Program.</p>	<p>Implementation</p>	
<p>The Program's financial audit is different from the government's annual compliance audit and should be further defined.</p>	<p>To gain reasonable assurance on proper usage of the Program funds, the CNAO and Provincial Audit Office will agree on audit TORs with the World Bank and conduct an annual Program financial statement audit that will be publicly disclosed. The audit report will be submitted to the World Bank within nine months after the end of the calendar year-end.</p>	<p>Implementation</p>	<p>PAP</p>

Current annual verifications conducted at the central and provincial level could not significantly improve the quality of plantation and were less efficient and cost-effective.	The SFGB should strengthen its internal audit function and verification framework to create more efficient and cost-effective verification procedures within the province to ensure that the county can properly fulfill its verification responsibility and that the verification done by the SFGB is more efficient and effective.	Implementation	PAP
There are some gaps in internal controls of the SFGB, especially related to internal audit and budget performance management	(i) Annual internal audit plan is prepared and approved by SFGB since 2019 and the completion rate of annual audit plan achieves from 80percent to 100 percent within 3 years; (ii)The framework for fully implementing the budget performance management in SFGB and the manual for budget performance management including detailed performance assessment indicators is prepared and issued by SFGB in 2019 and 2020 respectively.	Implementation	DLI

## **SECTION 5: IMPLEMENTATION SUPPORT**

91. During the Program implementation, 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;
- Continuously assess and monitor the performance of the financial management and procurement systems under the program and provide suggestions for enhanced efficiency and effectiveness;
- Monitor the performance of fiduciary system and audit report, including the implementation of PAP;
- Monitor the Program financial statement reporting process and assist the clients they needed;
- Help client to resolve implementation issues and to carry out institutional capacity building;
- Assist the provincial audit office and CNAO in strengthening audit arrangements;
- Monitor changes in fiduciary risks of the Program and, as relevant, compliance with the fiduciary provisions of legal covenants.