

**RWANDA: TRANSFORMATION OF AGRICULTURE SECTOR PHASE 3  
PROGRAM-FOR-RESULTS  
(P148927)**

**INTEGRATED FIDUCIARY ASSESSMENT  
REPORT (IFAR)**

October 9, 2014



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## Acronyms and Abbreviations

ACCA	Association of Chartered Certified Accountants
ACG	Anti-Corruption Guidelines
ASIP	Agriculture Sector Investment Program
BCC	Budget Call Circular
BNR	National Bank of Rwanda
CAADP	Comprehensive Africa Agriculture Development Programme
CFO	Chief Finance Officer
CID	Criminal Investigation Department
COFOG	Classification of Functions of Government
CPA	Certified Public Accountant
DLI	Disbursement-Linked Indicator
DIRP	District Independent Review Panel
DP	Development Partner
EDPRS	Economic Development and Poverty Reduction Strategy
F&C	Fraud and Corruption
FM	Financial Management
FMIS	Financial Management Information System
GAC	Governance and Anticorruption
GCIA	Government Chief Internal Auditor
GFSM	Government Finance Statistics Manual
GoR	Government of Rwanda
IA	Internal Audit
IA-CM	Internal Audit Capability Model
IFA	Integrated Fiduciary Assessment
IFMIS	Integrated Financial Management Information System
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
M&E	Monitoring and Evaluation
MDA	Ministries-Districts-Agencies
MIFOTRA	Ministry of Public Service and Labour
MINAGRI	Ministry of Agriculture and Animal Resources
MINALOC	Ministry of Local Government
MINECOFIN	Ministry of Finance and Economic Planning
MTEF	Medium Term Expenditure Framework
NAEB	National Agriculture Export Board
NBA	Nonbudget Agency
NCB	National Competitive Bidding
NIRP	National Independent Review Panel
NPPA	National Public Prosecution Authority
OAG	Office of the Auditor General
OBL	Organic Budget Law
OM	Office of the Ombudsman
PAC	Public Accounts Committee
PAP	Program Action Plan
PDO	Program Development Objective
PFM	Public Financial Management
PforR	Program-for-Results
PBB	Performance Based Budgeting

PPP	Public-Private Partnership
PSTA 3	Transformation of Agriculture Sector Program - Phase 3
QCBS	Quality and Cost Based Selection
RAB	Rwanda Agriculture Board
RwF	Rwandan Franc
RPPA	Rwanda Public Procurement Authority
SAI	Supreme Audit Institutions
SEAS	Subsidiary Entities Accounting and Financial Reporting System
SP	Subprogram
SPIU	Single Project Implementation Unit
SSP	Sector Strategic Plan
TC	Internal Tender Committee
TI	Transparency International
TSA	Treasury Single Account
UNCITRAL	United Nations Commission on International Trade Law
USAID	United States Agency for International Development

## Executive Summary

- i. An Integrated Fiduciary Assessment (IFA) was conducted for the proposed Transformation of Agriculture Sector Program Phase-3 (PSTA 3) Program-for-Results (PforR) operation. The assessment used the DRAFT Guidance Notes on Program-for-Results Operations and Requirements of OP/BP 9.00, Program for Results, (PforR). The OECD-DAC “four pillars” approach was also used to define the inherent risks in the procurement environment. The assessment covered the institutions directly responsible for the program, namely: Ministry of Agriculture and Animal Resources (MINAGRI), Rwanda Agriculture Board (RAB), and National Agriculture Export Board (NAEB); Rwanda Public Procurement Authority (RPPA); National Public Prosecution Authority (NPPA); Office of the Ombudsman (OM); Office of the Auditor General (OAG); and one District Council from each of the four provinces based on the size of budget transfers and population. The assessment also involved discussions with key nonstate actors and stakeholders, including the Private Sector Federation and member confederations, Transparency International (TI) Rwanda chapter, and the National Cooperatives Confederation of Rwanda.
- ii. As part of EDPRS 2 (Economic Development and Poverty Reduction Strategy), PSTA 3 for the period covering 2013-2018 was approved by the Cabinet in July 2013, followed by immediate program implementation. PSTA 3’s objectives are to transform Rwandan agriculture from a subsistence-based to a knowledge-based sector and accelerate agricultural growth to increase rural incomes and reduce poverty. The strategy encompasses four broad program areas: i) agriculture and animal resource intensification; ii) research, technology transfer, and professionalization of farmers; iii) value chain development and private sector investment; and iv) institutional development and agricultural cross-cutting issues.
- iii. The proposed Program Development Objective (PDO) *is to increase and intensify the productivity of the Rwandan agricultural and livestock sectors and expand the development of value chains*. The proposed operation supports the Government of Rwanda’s (GoR) strategic objectives of PSTA 3 with aims to enhance food security and nutrition contributing to reduction in poverty and inclusive economic growth. The operation supports the same four broad program areas of PSTA 3.
- iv. The fiduciary assessment entailed a review of the capacity of a sample of participating entities on their ability to: i) record, control, and manage all Program resources and produce timely, understandable, relevant, and reliable information for the Borrower and the World Bank; ii) follow procurement rules and procedures, capacity, and performance focusing on procurement performance indicators and the extent to which the capacity and performance support the PDO and risks associated with the Program and the implementing agency; and iii) ensure that implementation arrangements are adequate and risks are reasonably mitigated by the existing framework.
- v. The GoR’s proposed PSTA 3 has both strengths and challenges as revealed in the technical and this fiduciary assessment and as shown in recent reports by various international financiers like USAID.
- vi. The review of the proposed Program’s financial management (FM) arrangements indicated that there is legislative scrutiny of the Finance Law (annual budget) in conformity with the Organic Budget Law (OBL). The budget is formulated through a consultative process involving the ministries and Ministry of Finance and Economic Planning (MINECOFIN) before scrutiny by the legislature and there are limited deviations from budget appropriations. However, sector strategic plans are not specifically aligned to the budget classification formats. Regarding Treasury management and funds flow, there is sufficient predictability of the availability of cash required for program activities.

vii. Assessment of the accounting and financial reporting aspects indicated that periodic expenditure variance analysis is conducted and the government classification system is used for budget preparation and reporting. The accounting systems facilitate the preparation of timely and reliable financial reports. However, the Auditor General has identified erroneous postings, unsupported debtors' balances, and unexplained reconciling items in the case of RAB. In addition, the Districts do not incorporate the transactions of nonbudget agencies (NBAs).

viii. With regard to internal controls, there is adequate segregation of duties in the payment cycle. However, there is scope for improvement in internal controls in light of the main internal audit (IA) findings related to noncompliance with all procurement guidelines, inadequate supporting documentation, gaps in filing accounting records, and overexpenditure on certain budget lines. The IA function across Ministries-Districts-Agencies (MDAs – RAB, NAEB, and the three Single Project Implementation Units/SPIUs) is still at a nascent stage and capacity building is required to enhance expertise in IT audits, Value-for-Money audits, risk management, and payroll reviews. The review of the IA structure also needs consideration to ensure adequate staffing across the public sector.

ix. Concerning external audit, the OAG is responsible for auditing all entities associated with implementation of Program activities. The independence of the OAG is enshrined in the Constitution and it has the mandate to audit all public expenditure. The Auditor General's audit coverage of reported government expenditure increased from 60 percent in 2007 to 75 percent in 2012. The enforcement of accountability at District level is limited given the absence of Public Accounts Committees (PACs) for that tier of government. The Auditor General's report is normally submitted within 10 months after the financial year-end but this period should be shortened to provide more time for legislative scrutiny.

x. The procurement systems' performances were assessed based on the GoR's procurement legal framework and its implementation as to the degree to which the planning, bidding, evaluation, contract award, and contract administration arrangements and practices provide reasonable assurance that the Program will achieve intended results through its procurement processes and procedures. The GoR has an acceptable public procurement legal framework based on the UNCITRAL model; it is quite robust and covers all aspects of public procurement at all levels of government. The GoR is moving toward modernizing its procurement function to improve compliance, efficiency, transparency, fair competition, value for money, and controls in public procurement.

xi. However the assessment revealed that implementation of the procurement law, regulations and procedures has some irregularities and needs strengthening. In this regard, a number of procurement areas were identified for strengthening at the District level, including: contracts awards made through nonopen competitive methods; award of tenders that were not planned; periods for bids preparation and evaluation longer than prescribed in the legal documents; capacity limitations in terms of skilled staff to handle procurement of high-value contracts (although the PforR operation will not have any high-value contracts); lack of adequate written records of all procurement and contract documents; lack of published contract awards on media accessible to the public; and selection of consultants on an "Open Competitive" basis, like bids for goods and works (without requests for expressions of interest).

xii. An assessment of the systems and processes for dealing with fraud and corruption (F&C) issues showed that Rwanda has strong institutional, organizational, and legal frameworks for controlling F&C when it occurs. Rwanda further strengthened its legal frameworks in 2013 with the amendment of the law to allow the OM to prosecute cases of corruption, though there is a transition to enable the OM to prepare to take over prosecution of corruption cases from the NPPA. Rwanda also passed the Whistle Blowers Protection Act, 2013. An Organic Law n<sup>o</sup>61/2008 of 10/09/2008 on the Leadership Code of Conduct is also in place to promote integrity in the public sector. Implementation and enforcement of these laws are



quite robust both in the PforR implementing agencies specifically, and the public sector in general. Severe sanctions are applied to those found guilty of fraud and corruption, including imprisonment, dismissal from office, and publication of names of those convicted in the media and on the OM's website. The PAC of Parliament has also been effective in its oversight role in PFM in response to the Auditor General's report, regularly calling financial managers to account. Reports submitted by the Office of the Auditor General to the PAC are scrutinized and recommendations followed up; these are having a positive impact in enhancing the accountability of public institutions and officials. Consequently, Rwanda has relatively low levels of corruption and the systems in place both at the national level and in the PforR implementing agencies provide reasonable assurance that the resources from the program will be used for the intended purposes with economy and efficiency. Assessment of the implementing agencies of the program (MINAGRI, RAB, NAEB, and Districts) also suggest that the processes and systems for handling and reporting F&C are in place and functioning reasonably well, though in the case of Districts, more needs to be done to improve oversight and internal controls due to capacity constraints. In addition, the OM carries out surprise checks on these agencies. The agencies are obliged to report allegations of F&C for investigation and these are reasonably enforced within the agencies assessed. The OM and the implementing agencies also have in place a well-functioning system for receiving complaints, as does the procurement authority.

xiii. Overall, there are strong political will and institutions dedicated to fight corruption and to promote public integrity and accountability. On TI's Corruption Perceptions Index (CPI), Rwanda was ranked as the 4<sup>th</sup> least corrupt country in Africa out of 53 countries and 49<sup>th</sup> out of 177 countries globally, with a score of 5.3 in 2013. Its score improved significantly, from 2.7 out of 10 in 2007 to 5.3 in 2013. There are also reasonably well-functioning systems for receiving complaints and grievances on F&C and dealing with them both at the national level (the OM, NPPA, and RPPA) and in the PforR implementing agencies, including the Districts. The PforR implementing entities have internal arrangements and requirements for handling complaints and grievances on procurement and allegations of F&C and referring cases to the OM (for corruption), the NPPA (fraud), and the District Independent Review Panels (DIRPs) and National Independent Review Panel (NIRP) (procurement). The assessment noted the existence of third party arrangements for receiving complaints and grievances from citizens and the business community (e.g., TI Rwanda, and the Private Sector Federation and Cooperatives). These complaints are regularly passed on to the public authorities for investigation or response and there are institutionalized arrangements for following up. The implementing agencies are obliged to respond to such complaints and are monitored by the OM, NPPA, and RPPA depending on the nature of the complaint. The NPPA and OM also carries spot checks on these agencies and Districts to ensure compliance.

xiv. However, there are some challenges, including: (i) inadequate arrangements to deal with F&C at the subnational levels where the OM is not decentralized and there is shortage of suitably qualified PFM staff (all Districts have qualified audits); (ii) retention of qualified staff, especially investigators (as at March 2014, two out of the six investigators at the OM had left and have yet to be replaced); (iii) obtaining evidence and lack of information to prosecute allegations of corruption; (iv) problems in contract management that may give rise to opportunities for rent seeking, including suspicious delays in payments of contractors and anecdotal evidence of budget administrators/executive secretaries in the Districts who try to informally influence procurement committees' decisions with the aim of favoring friends or an influential individual who is part of the competition.<sup>1</sup> Overall, while most stakeholders agree that Rwanda has strong institutional arrangements for controlling and prosecuting F&C, there is also agreement that "soft corruption" exists in the ways things are done and there is difficulty in getting information and evidence due to fear. While the Rwanda Bribery Index shows strong public trust in the

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<sup>1</sup> Transparency International Rwanda (2012), Contract Monitoring in Infrastructure at the District Level.

institutions, almost 20 percent of victims or witnesses of corruption do not report and private businesses are even more reluctant to report for fear of not getting government contracts next time.

xv. The assessment reviewed the capacity and commitment of the government to apply the World Bank's Anti-Corruption Guidelines (ACGs) in the PforR Program with the relevant government institutions, including MINAGRI, its agencies, and the oversight bodies (OM, NPPA, and RPPA). In practice, this will mean: i) sharing information on any F&C allegations in the program by the OM and NPPA with the World Bank; ii) undertaking investigations of any F&C allegations by the OM and NPPA, with the World Bank reserving the right to undertake its own investigations; and iii) sharing and using debarment and a list of suspended firms and individuals with procuring entities under the program by MINAGRI. Overall, there is commitment on the part of the government to apply the ACGs and this will be reflected in the legal agreement for the PforR.

xvi. The conclusion of this assessment was that separate DLIs are not necessary for the fiduciary aspect as all the three fiduciary functions feed into other key results areas, and hence they are expressed in other DLIs. However, specific mitigation measures are proposed in the Program Action Plan (PAP) to minimize the opportunity for F&C.

# Chapter 1: Introduction and Context

## 1.1 Introduction

1. The World Bank carried out an Integrated Fiduciary Assessment (IFA) for the proposed Transformation of Agriculture Sector Program Phase 3 (PSTA 3) Program-for-Results (PforR) operation between May and July 2014. The proposed Program Development Objective (PDO) is to increase and intensify the productivity of the Rwandan agricultural and livestock sectors and expand the development of value chains. The proposed operation supports the Government of Rwanda's (GoR) strategic objectives of PSTA 3 with aims to enhance food security and nutrition contributing to a reduction in poverty and inclusive economic growth. The operation supports four broad program areas: i) agriculture and animal resource intensification; ii) research, technology transfer, and professionalization of farmers; iii) value chain development and private sector investment; and iv) institutional development and agricultural cross-cutting issues.

2. PSTA 3 is a five-year program covering the period 2013/14-2017/18; the proposed PforR Program will support a time slice (three out of the five years) of the national program from 2013-2015. The implementing agencies will include: at the national level the Ministry of Agriculture and Animal Resources (MINAGRI), Rwanda Agriculture Board (RAB), and National Agriculture Export Board (NAEB); and all 30 Districts of Rwanda. Other stakeholders from fiduciary aspect of this PforR include: Rwanda Public Procurement Authority (RPPA), Office of the Auditor General (OAG), National Public Prosecution Authority (NPPA), and the Office of the Ombudsman (OM). The PforR Program funds will be primarily used by MINAGRI and its semi-autonomous agencies (NAEB and RAB) and the Districts to meet PSTA 3's program objectives, as laid out in the program's investment menu which will be developed through the technical assessment and program preparation.

3. To prepare this PforR operation, an assessment of the program's fiduciary system is required in accordance with OP/BP 9.00. The assessment will help to determine the suitability of the application of the approach to the operation and to mitigate fiduciary risks of the proposed operation.

4. With respect to procurement, Rwanda's annual procurement expenditure amounts to about US\$0.8 billion. Based on the current records, more than 60 percent of the national annual budget is spent through procurement.

5. The procurement system assessment for this Agriculture PforR (Ag. PforR) was carried out for the main implementers of the PforR Program, namely MINAGRI, RAB, NAEB, Single Project Implementation Units/SPIUs and the 30 Districts. This assessment also made use of the assessment conducted during March 2014 for the Public Governance PforR that covered RPPA, OAG, the Criminal Investigation Department (CID), the OM, and NPPA, as their involvement is a regulatory role and cross-cutting in nature but from a fiduciary perspective. The Ag. PforR will have an associated set of implementation activities, which will include design and construction of Terracing (DLI-1), Irrigations (DLI-2), Storage Facilities & Silos, Package Houses, Cold Houses and procurement of some kind Handling Equipment (DLI-4) and capacity building trainings, as well as an independent annual performance assessment that will determine the disbursements for each implementing agency in a year.

6. The assessment provided a brief overview of the country's legislative and regulatory framework for procurement systems and described potential risks and proposed mitigation measures as captured in the Program Action Plan (PAP).

## 1.2 Country Context

7. **Rwanda is a small (26,000 km<sup>2</sup>) landlocked country with few natural resources, a population of 10.7 million (2012), and a projected population of 13 million by 2020.** Its hilly terrain covers 85 percent of the land mass and the country has the highest population density in Africa, with 416 people per km<sup>2</sup>, 53 percent of them female. Rwanda has made a remarkable transition from genocide to peace and development. Between 2000 and 2012, GDP growth averaged 8.1 percent per year. Development efforts and results have been significant. Rwanda experienced a 14 percentage point reduction in the poverty headcount, from 59 percent in 2001 to 45 percent in 2011, with the remaining poor much closer to the poverty line on average in 2011 than in 2001.<sup>2</sup> Developments in agriculture were key drivers of this poverty reduction, accounting for more than 45 percent of the total, due to increased agricultural production (35 percent) and increased agricultural commercialization (10 percent). Self-employment in small, off-farm, nonagricultural business accounted for an additional 13 percent of the poverty reduction. Part of this self-employment was associated with agriculture value chain employment.

8. **Despite this impressive performance in the last decade and particularly in the last five years, significant challenges remain.** While improving, Rwanda remains a low-income country, with annual per capita income of US\$644 in 2012 (with more than 45 percent below the national poverty line).<sup>3</sup> About one in four rural households lives in extreme poverty. Poverty is still mostly a rural phenomenon: 49 percent of the poor live in rural areas compared to 22 percent in urban areas. Poverty is highest (76.6 percent) among households (often landless) who obtain more than half of their income working on other people's farms. The land distribution is skewed – 36 percent of households own 6 percent of the farm land, with an average of 0.1 hectares (ha) per household (compared to the national average of 0.33 ha per household). Women are more likely to fall into this limited landholding category. In addition, women provide the bulk of labor in the crop sector, but function mainly at subsistence level with insufficient skills, access to markets, and control over land and other agricultural services. If Rwanda is to achieve its targets to reduce the number of people living below the national poverty line to less than 20 percent and to eliminate extreme poverty by the year 2020, continuation of its past strong growth performance will not be sufficient. Further acceleration of inclusive growth is needed, on top of further reductions in inequality.

9. **The strategy for stimulating rapid and sustainable economic growth and reducing poverty is articulated in Rwanda's *Vision 2020*.** *Vision 2020*, the national vision and policy framework, articulates key priorities for the country's development by the year 2020. This vision is further laid out in the Second Economic Development and Poverty Reduction Strategy Paper (EDPRS 2),<sup>4</sup> which delineates agriculture as a key sector and a significant engine of inclusive growth for the country. Likewise, the recent report *Rwanda Economic Update, Maintaining Momentum*<sup>5</sup> states that increasing agricultural productivity is the main driver of poverty reduction in Rwanda. Agricultural transformation, especially through competitive value chain development, is expected to boost growth in both the formal and

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<sup>2</sup> In 2001, the median distance from the poverty line amounted to 41 percent (of the poverty line's value). In 2011, the median distance had decreased to 30 percent. *Rwanda Economic Update, Maintaining Momentum with a special focus on Rwanda's pathway out of poverty*, World Bank, May 2013, Edition No. 4.

<sup>3</sup> Sixty-three percent of the world's population lives on less than US\$1.25 per day using the international poverty line. The World Bank sets the international poverty line at US\$1.25 per day in 2005 prices. This corresponds to the average poverty line of the 15 poorest countries among the 75 developing countries surveyed in Ravallion et al. (2009). The international poverty line provides a standardized benchmark for cross-country comparisons of poverty. Within any given country, however, there can be considerable differences between the national and the international poverty line. In Rwanda, the national poverty line amounts to US\$0.99 per day in 2005 purchasing power parity prices, which is lower than the international poverty line of US\$1.25. This explains the higher poverty headcount when using the international poverty line.

<sup>4</sup> Approved by Cabinet on May 8, 2013; implementation began on July 1, 2013.

<sup>5</sup> *Rwanda Economic Update, Maintaining Momentum with a special focus on Rwanda's pathway out of poverty*, World Bank, May 2013, Edition No. 4.

informal sectors, with the effect of reducing the proportion of the population dependent on agriculture from the present 73 percent (2009) to less than 50 percent in 2020. In addition, while agricultural productivity is increasing, there is considerable potential to accelerate and continue to raise productivity, increase commercialization of agricultural production, increase self-employment in small on- and off-farm businesses, and achieve significant poverty reduction, income gains, and increased prosperity. Gender equity and equality has also been highlighted as a foundational and cross-cutting issue under EDPRS 2 and PSTA 3, building on Rwanda's solid foundation in this area: Rwanda has the highest percent of women in Parliament in the world (64 percent) and a 32 percent rate of women's participation in all decision-making local government bodies. Accordingly, the GoR has made a strong commitment to continue to increase gender equity and equality, particularly at the local level, and is determined to see it well integrated in government policies and programs at all levels.

**10. A significant contributor to the Rwandan economy, agriculture accounted for 33.3 percent of GDP in 2013.** Overall, agriculture sector growth was 5.5 percent per annum (p.a.) between 2000 and 2012. During the five-year period 2008-2012, Rwanda recorded average annual GDP growth exceeding 8.1 percent, with a peak of 11.2 percent in 2008, attributable to exceptionally favorable weather. Rwanda's agriculture sector performance has significantly improved in recent years, but continued food and high-value commodity production and productivity increases are essential to secure further reductions in rural poverty and to convert the largely subsistence sector to a more knowledge-intensive, competitive, and market-oriented sector. This pattern would sustain inclusive growth and add value to production.

**11. As part of EDPRS 2, PSTA 3 for the period covering 2013-2018 was approved by the Cabinet in July 2013, followed by immediate program implementation.** PSTA 3's objectives are to transform Rwandan agriculture from a subsistence-based to a knowledge-based sector and accelerate agricultural growth to increase rural incomes and reduce poverty. The strategy encompasses four broad program areas: (i) agriculture and animal resource intensification; (ii) research, technology transfer, and professionalization of farmers; (iii) value chain development and private sector investment; and (iv) institutional development and agricultural cross-cutting issues. are designed to achieve EDPRS 2's foundational goal of increased food and nutrition security as measured by a target of 90 percent of households having acceptable food consumption. PSTA 3 is supported by a Gender Strategy that requires addressing and mainstreaming gender issues in all phases of planning, implementation, and M&E of PSTA 3 activities. The strategy also stresses that program design will endeavor to avoid inadvertent negative impacts on women's nutrition and control of resources while moving to a cash economy. The four program areas and their operational content comprise 24 complementary subprograms (SPs).

**12. PSTA 3 is implemented by MINAGRI, in line with its current organizational and functional structure and actors:** four departments (Planning, Inspection, Crop Production, and Animal Resources); two Task Forces (Irrigation and Post-Harvest Infrastructure); <sup>6</sup> two semi-autonomous implementing agencies (RAB and NAEB); three SPIUs that implement donor-supported projects (World Bank, IFAD, and African Development Bank); <sup>7</sup> and 30 Districts.

**13. The central government, through MINAGRI, provides policy, coordination, and financing leadership for PSTA 3, including strategic cross-cutting themes. For example, MINAGRI is responsible for implementation of the National Nutrition Plan, which it co-leads with the Ministry of Health and Ministry of Local Government (MINALOC).** Implementation responsibilities rest with the Task Forces, RAB, NAEB, SPIUs, Districts, and partnerships, with the expanded role of the private

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<sup>6</sup> As of July 1, 2014, these two task forces were integrated into the rest of MINAGRI's organizational structure, since they fulfilled their catalytic role, and the activities scaled-up and sustained by other operational units of MINAGRI.

<sup>7</sup> MINAGRI is taking steps in a phased manner to integrate/mainstream these three SPIUs into MINAGRI's organizational structure to achieve enhanced alignment of donor assistance, efficiencies, and sustainability.

sector, including farmers' organizations/cooperatives. Implementation approaches vary, with a mix of national, District, community, and private program delivery.

14. **Rwanda's PSTA 3 is guided by the overall Comprehensive Africa Agriculture Development Programme (CAADP)<sup>8</sup> and operationalized by the Agriculture Sector Investment Plan (ASIP).** Rwanda was the first country to sign a CAADP Compact and to prepare an ASIP for implementation of PSTA 2 that was fully aligned with CAADP. Having fulfilled its first CAADP investment strategy (2008/09 – 2012/13), the country launched the second Rwanda CAADP ASIP based on PSTA 3 in June 2014.<sup>9</sup>

15. **Outcomes from the implementation of PSTA 2 (2008/09-2012/13) were highly favorable, with over 90 percent completion of key objectives and targets.** The key *impacts* achieved related to the contribution of over 45 percent of the 12 percent reduction in poverty (2008-2012); and key *outcomes* achieved were improvements in sustainable land management, increased and improved input utilization, and significant productivity increases resulting from expanded irrigation. PSTA 3 implementation also started out strong in its first 11 months, following the same implementation pace as PSTA 2. PSTA 3 was designed taking into account key lessons from PSTA 2, including: i) developing a strategy for the extreme poor in the lowest quintile; ii) increasing resources for research and extension, with stronger linkages between them; iii) carrying out, and utilizing for priority setting, the economic criteria (economic rates of returns/ERRs and net present values/NPVs) of land conservation, irrigation, and other large investments; iv) pursuing low-cost irrigation options for high-value hillside crops; v) focusing marshland and hillside irrigation investments for high-value crops; vi) pursuing reduction of barriers to local and regional trade; vii) expanding national coverage/scaling up the successful models for the Crop Intensification Program and the Land Use Consolidation Program; viii) improving the quality and use of agricultural production statistics, including a food security information system; and ix) strengthening the use and effectiveness of a sector-oriented M&E system by integrating and aligning project-level M&E systems, including gender-disaggregated data.

16. **Given MINAGRI's demonstrated technical and administrative capacity in implementing the sector's strategic programs,** it is a natural progression to adopt the PforR instrument for this operation, as opposed to another Investment Project Financing (IPF) or Development Policy Lending (DPL). The PforR instrument's key features are to: i) improve the efficiency and effectiveness of government program(s) of expenditures, using program systems, and strengthen them where needed; ii) disburse directly against agreed and monitorable results; iii) help build institutions and capacity under the program(s) supported; and iv) enhance partnerships with other donors in supporting the same government program of expenditures. The proposed PforR operation would help consolidate the existing projects, programs, and sector budget support, as well as provide enhanced support and accompanying reforms to key strategic components of PSTA 3, under one set of coherent results, thereby generating greater sector-wide sustainable impacts. The instrument will also enable the Bank to use its convening power and

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<sup>8</sup> CAADP aims to help African countries reach a higher path of economic growth through agriculture-led development. CAADP's vision is to address policy and capacity issues across the entire agriculture sector and African continent. CAADP is entirely African-led and African-owned and represents African leaders' collective vision for agriculture in Africa.

<sup>9</sup> On June 9-10, 2014, a two day "High Level" meeting was held to mobilize national and international partners around CAADP. This meeting is part of an effort by African governments under the AU/NEPAD initiative to accelerate growth and eliminate poverty and hunger among African countries. Having successfully implemented the first cycle of CAADP, MINAGRI is now embarking on the second cycle of CAADP to operationalize the country's second EDPRS (2013-17) and PSTA 3. At the meeting, the achievements of Rwanda's first CAADP and PSTA 2 were presented along with PSTA 3 strategy, program, Results Framework, and ASIP. Clear sector prioritization of investment needs, funding modalities, harmonization of stakeholder activities for efficient delivery and stronger accountability mechanisms, and policies and priorities related to private sector development were also presented and generally endorsed. A memorandum of understanding (MOU) was signed by the government, private sector, civil society, and development partners, supporting the principles and objectives of PSTA 3/Rwanda CAADP 2.

collaborative working relationships to support the government's efforts to demonstrate to other development partners (DPs) the key benefits of putting their resources into the PforR mechanism. This common approach would reduce the transaction costs for both the government and DPs.

17. **Institutional Setting for PSTA 3:** The overall approach to institutional arrangements is that MINAGRI will have overall responsibility for the efficient and effective implementation of the PforR operation, utilizing existing and strengthened implementation and coordination systems and mechanisms at the central and subnational levels. This would require enhanced monitoring and evaluation (M&E) for PSTA 3 and the ASIP to be operational at central and subnational levels. The PforR funds will flow from the Ministry of Finance and Economic Planning (MINECOFIN) to MINAGRI, RAB, NAEB, SPIUs, and the Districts in accordance with established implementation responsibilities. There will be a comprehensive and operational PAP to strengthen the planning, budgetary, and implementation capacities of the participating entities, including Districts.

### 1.3 Program Background and Rationale for Bank Engagement

18. **PSTA 3 is a five-year program covering the period 2013/14-2017/18. Its strategic objectives are to:** i) intensify, commercialize, and transform the Rwandan agriculture sector to enhance food security and nutrition, reduce poverty, and drive rapid economic growth; and ii) accelerate sustainable increases and an expanded private sector role in production, processing, and value addition and commercialization of staple crops, export commodities, and livestock products.

19. **Under EDPRS 2, PSTA 3's high-level targets are: agricultural growth of 8.5 percent p.a.; the share of agricultural GDP reduced to 25 percent; and the number of households with good food consumption increased to 90 percent.** By increasing rural incomes and ensuring inclusive growth, the objective is for agriculture sector growth to significantly contribute to achieving the EDPRS 2 target of 11.5 percent GDP growth p.a. and poverty reduction from 45 percent to 20 percent by 2020, equivalent to lifting 3 million more Rwandans out of poverty by 2020.

20. **PSTA 3 comprises four strategic program areas and 24 component SPs.** The strategic program areas and their outcomes are:<sup>10</sup>

**Program 1: Agriculture and animal resource intensification:** i) Soil erosion reduced and land sustainably managed; ii) Land productivity for priority crops increased; iii) Animal productivity increased and animal products diversified.

**Program 2: Research, technology transfer and organization of farmers:** i) Improved technologies that are responsive to Rwanda's agro-ecological potential, men and women farmers' needs and resources, and market prospects; ii) Enhanced integrated and market-oriented research, extension, and advisory services, with stronger research-extension linkages, resulting in a higher proportion of farmer adoption of improved technologies for both men and women; and iii) Strengthened inclusive and business-oriented farmers' cooperatives/organizations with enhanced entrepreneurial skills for effective engagement in input and output markets.

**Program 3: Private sector-driven value chain development and expanded investments:** i) Enhanced policy and business environment for expanded agricultural investments and value addition; and ii) Competitive and private sector-driven value chain development and expanded commercialization of production for domestic and export markets, enabled by expanded access to finance, efficient and

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<sup>10</sup> The detailed Results Framework for PSTA 3 shows the baseline and target for each outcome, as well as the underlying results chain.



effective agricultural marketing systems, improved rural infrastructure, and expanded successful public-private partnerships (PPPs).

**Program 4: Institutional results-focused development and agricultural cross-cutting issues:** i) Enhanced capacity of agriculture and livestock sector and its institutions to deliver, facilitate, and manage efficient and effective agricultural services that expand access to both women and men farmers; ii) Improved policy environment for enabling rapid, private sector-driven, and sustainable agricultural growth; and improved and more effective M&E systems for enhanced sector management, coordination, and strategic results; and iii) Enhanced food security and nutrition for a larger proportion of rural and urban households.

21. **The total estimated cost for PSTA 3 public investments under the ASIP’s “medium-cost scenario” is approximately US\$1.2 billion (Table 1), with an additional indicative investment level of about US\$550 million from the private sector (including an estimated US\$137 million for PPP activities).**<sup>11</sup> Overall, this level of funding is consistent with the government’s allocations to the agriculture sector over the past five years (adjusted for inflation), coupled with the projected increases from government and DPs, given the high priority being accorded to the agriculture sector and the role of PSTA 3 in meeting EDPRS 2 objectives and targets. The “medium-cost scenario” also involves improvements in the composition of the proposed expenditure allocations, between and within programs and SPs, and envisions improvements in budgetary planning and execution and M&E.

**Table 1: Projected PSTA 3 Expenditures 2013-2018**

<b>Program</b>	<b>US\$ million</b>	<b>% of Total</b>
(1) Agriculture and animal resource intensification	628	52.3
(2) Research, technology transfer, and professionalization of farmers	86	7.2
(3) Value chain development and private sector investment	382	31.8
(4) Institutional development and agricultural cross-cutting issues	104	8.7
<b>Total</b>	<b>1,200</b>	<b>100</b>

22. **The PforR will support core components and activities of PSTA 3 while recognizing important linkages and synergies across the four programs and SPs.** While 88 percent of the ASIP is allocated to nine SPs (considered core components), it must be noted that accelerated and inclusive agricultural growth is being driven and enabled through strategic and operational linkages between those nine SPs and the other 15; this includes expanded and enhanced market access, agricultural finance, and support to PSTA 3’s institutional framework. As a result, the six core drivers of agricultural growth and poverty reduction, as captured in PSTA 3 results framework, are integrated throughout all four programs and 24 SPs, thus ensuring that PSTA 3’s design is both strategically relevant and technically sound to deliver on the government’s key development objectives and targets. Therefore, the focus of the proposed PforR operation, through the Bank’s and other DPs’ intervention and financing, will be to support the efficient and effective operationalization of the six key “transformational drivers” of inclusive agricultural growth.

#### 1.4 Overview of Fiduciary Aspect of the Program

<sup>11</sup> Based on consultations with the private sector, the GoR expects that the lion’s share of private sector investment will be in irrigation schemes, mechanization, the inputs subsector (primarily seeds and fertilizer), food and export crops (primarily coffee, tea, horticulture, and flowers), livestock, hides and skins; value chain development (food, export crops, dairy/meat), market-oriented infrastructure for post-harvest marketing, and management systems.



23. Rwanda's public financial management (PFM) and procurement systems have been improving steadily in line with the government's commitment to reform.

24. Law N° 79/2013 of 11/9/2013 determines the mission, organization, and functioning of the Office of the Auditor General of State Finances.<sup>12</sup> This Law also governs procedures for auditing state finances. Reports prepared by the Auditor General shall be submitted to the Parliament and considered by the Committee in charge of public accounts. The Auditor General and Deputy Auditor General are appointed by a Presidential Order and their tenure of office is secured with a five-year term renewable only once. However, the Supreme Audit Institutions' (SAI) independence principles in the Lima Declaration are compromised, as their removal from office is by a Presidential Order with notification to both Chambers of the Parliament (as opposed to empowering Parliament to pass a majority vote to remove the Auditor General).

25. The approved national budget is available on the government website ([www.minecofin.gov.rw](http://www.minecofin.gov.rw)). The budget is formulated through systematic consultations with spending ministries and the legislature, adhering to a fixed budget calendar. Policies and priorities are broadly reflected in the budget, with some elements of forward budget planning. The budget classification system is comprehensive and consistent with international standards.

26. The government is currently developing and implementing "SmartGov," an IT system that will further support the integration of procurement into the PFM system. The government has focused primarily on stabilizing the SmartFMS' functionalities whilst developing the conceptual design as the first step in a process that will lead to future procurement of the IFMIS (Integrated Financial Management Information System), and implementation will follow best practices for implementation of information systems in the public sector with due regard to change management factors.

27. In-year budget reports are prepared quarterly with reasonably accurate data, disaggregated to at least program or functional level. Reconciliation of banking and fiscal records is comprehensive and timely at national and District levels with the exception of subsidiary agencies. Even though a consolidated government statement is prepared annually within three months of the end of the fiscal year, essential information is missing, giving rise to an adverse audit opinion on the consolidated government statement. Good progress in meeting the requirements of International Public Sector Accounting Standards (IPSAS) is being made both at the budget agency level as well as at the consolidation level.

28. Implementation of prior year audit<sup>13</sup> recommendations has improved: 60 percent of all recommendations were fully implemented in 2012 compared to 49 percent in 2011. Despite this, 72 percent of the audit reports (97 reports) were qualified, mainly due to avoidable and easily addressed factors. The number of entities that obtained reports with unqualified (clean) audit opinions increased from 11 (9 percent) in 2011 to 37 (28 percent) in 2012.

29. The GoR has an acceptable public procurement legal framework, based on the UNCITRAL model, that is quite robust and covers all aspects of public procurement at all levels of government. The GoR is moving toward modernizing its procurement function to improve compliance, efficiency, transparency, fair competition, value for money, and controls in public procurement.

30. The implementing agencies have an established institutional framework for implementation of procurement activities. At the national level, the Procurement Units in the SPIUs and under the Corporate

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<sup>12</sup> Official Gazette n° 45 of 11/11/2013.

<sup>13</sup> Members of Parliament applaud public funds management.

Service of each respective agency are responsible for handling procurement, while at the District level the Procurement Unit under the Chief Budget Manager (Executive Secretary) is responsible.

31. MINIAGRI will have overall responsibility for the efficient and effective implementation of the PforR operation, while the Program is implemented at national and subnational levels. At the national level MINAGRI is the core implementing agency, while the PforR funds will flow directly from MINECOFIN to the respective implementing agencies: MINAGRI, RAB, NAEB, the SPIUs, and the 30 Districts.

32. Procurements and/or contracts are monitored regularly by RPPA on a sample basis. All procuring entities are required to provide a monthly report to RPPA on the implementation of the procurement plan. RPPA has the overall responsibility to train all new procurement officers as well as new internal tender committees in national procurement procedures as outlined in the Procurement Law. In addition, RPPA provides refresher training to all procurement officers at least once a year. The OAG undertakes compliance auditing in addition to the established financial auditing. The OM provides oversight on an information basis. Each procuring entity both at the national and District level has an internal auditor who reviews financial and procurement operations on regular basis. The Public Procurement Directives provide that implementing agencies are required to comply with the well-defined complaints-handling mechanism and that it is implemented at the national and District level through the National Independent Review Panel (NIRP) and the District Independent Review Panel (DIRP), respectively.

33. Despite having a robust procurement legal framework in place, there are weaknesses that can be mitigated, according to the assessment. Major weaknesses include: the lack of strict adherence to the procurement legal framework and systems due to capacity limitations in terms of skilled procurement and contract administration staff, especially at the District level; and high staff turnover across all implementing agencies. Lack of coordination between RPPA and OAG in procurement auditing has been one of the hindrances to having an adequate control mechanism in place.

34. **Governance and anti-corruption issues. The assessment covered the capacity of Rwanda's governance systems and arrangements to handle risks of F&C, including capacity and commitment to use the Bank's Guidelines on Prevention of Corruption in the PforR financing, the use of complaints-handling mechanisms, and how such risks are managed and mitigated.** The Bank's assessment concluded that Rwanda has relatively sound institutional and legal frameworks to deal with F&C cases. There is a clear division of responsibility between the OM, which deals with cases of corruption, and the CID, which deals with cases of fraud. The NPPA prosecutes cases of F&C after investigations. The NPPA has 12 prosecutors dedicated to the prosecution of F&C and one prosecutor for each of the 30 Districts. The Prevention Directorate of the OM assists public, private, and nonprofit organizations in reviewing their business processes to identify and address gaps that might create opportunities for corruption. It also has the mandate to proactively intervene in organizations to suggest corruption prevention measures. There seem to be good working relationships and understanding among the agencies, with a common purpose of minimizing opportunities for F&C and dealing decisively with it through investigation and prosecution when it occurs.

35. The legal provisions are strong for investigation, prosecution, and prevention of F&C, and implementation of these laws has improved and become more effective over the years. Corruption is comprehensively defined in Article 633 of Organic Law No. 01/2012/OL of 02/05/2012 of the Penal Code, which is complemented by several other laws to help fight, prevent, investigate, and punish F&C. The NPPA has adequate staffing capacity to investigate cases of F&C, with a team of 12 prosecutors, while each District has one prosecutor to handle corruption cases. However, in 2013, the OM was given the power to prosecute cases of corruption to speed up the process. The OM is in the process of setting up

a prosecution unit, which may take some time. In the transition, the NPPA will continue to prosecute corruption cases. Analysis of data provided by the OM shows that out of 453 cases (2009-2013), 307 (about 68 percent) were investigated, with 9 sent to prosecution and 18 transmitted to other institutions, including the police. Many of the complaints received were related to maladministration, followed by complaints about local entities, procurement, and the justice sector.

36. **The Auditor General's report provides pointers to potential cases of F&C, in addition to the public providing information through hotlines and other media.** The OAG produces an annual report on the use of public funds in governmental organs and institutions. This report is sent to Parliament (to the PAC) and a copy is provided to the Prosecutor-General as provided for by Article 184 of the Rwandan Constitution as revised to date. The NPPA then appoints a team to analyze the report and investigate persons suspected of complicity in mismanagement of public funds in general, where necessary. However, the law does not require that a copy of the report be provided to the OM.

37. **Citizens' engagement is reasonably good and multiple sources exist for lodging and recording complaints on F&C in procurement and financial management (FM) through both the OM and the NPPA.** The NPPA and OM have multiple ways to receive complaints, including hotlines, email, letters, and secure complaints boxes in most public organizations and in each of the 30 Districts. Apart from receiving direct complaints from citizens, the implementing agencies for the PforR Program follow the complaints-handling mechanisms for procurement and F&C cases as required by the law. The assessment suggested that these channels work fairly well. However, to strengthen transparency during implementation of the PforR Program, there is a need to improve recordkeeping and to maintain a database of complaints by implementing agencies (MINAGRI, NAEB, RAB, and Districts) for stakeholder and public complaints on F&C and fiduciary issues and how these have been responded to or handled. MINAGRI will aggregate complaints into quarterly reports and share them with the World Bank on a periodic basis. The multiple channels for filing complaints (procurement via NIRP, corruption through the OM, and fraud through NPPA) raise questions of coordination to ensure all complaints are captured, reported, and responded to in the PforR Program. The PAP will need to strengthen mechanisms for capturing feedback and complaints from citizens and key stakeholders such as farmers and private contractors.

38. Concerns that emerged from the assessment of risks of F&C for the PforR Program included: capacity gaps in staffing at the District level; concerns about internal controls; and the fact that all 30 Districts have qualified audits. One mitigating factor is the multiple audits to which Districts and central government agencies are subject, including by the OM, the OAG, RPPA, and NPPA. The Public Sector Governance PforR will support PFM capacity building in Districts to beef up technical competence and professionalization of staff and internal controls, which will have positive impacts on prevention of F&C.

39. Some of the weaknesses identified in procurement and FM pose potential risks for F&C in the PforR Program, including use of nonopen competitive methods to award contracts and not publishing contract awards in media that are widely accessible to the public. Recommended actions in the PAP will help mitigate these risks.

40. The overall fiduciary system performance of implementing agencies was found to be sound and adequate, but with deficiencies in some areas. In view of this, the conclusion of this assessment was that the fiduciary **risk is Moderate before mitigation measures.** Implementation of the mitigation measures will ensure that the systems adequately support PforR operation.

## Chapter 2: Methodology and Scope

41. Fiduciary management under the PforR operation is predicated on an integrated approach of **technical, project management, FM, procurement, related governance aspects, and disbursements inputs provided** by the respective task team members and coordinated by the designated task team leader. This assessment uses the DRAFT Guidance Notes on Program-for-Results Operations prepared by the World Bank’s Operational and Policy and Country Services (OPCS) department. Each team assessment supports the fiduciary aspects within a government program in a manner consistent with the OP/BP 9.00, Program for Results, (PforR). The OECD-DAC “four pillars” approach was used to define the inherent risks in the procurement environment. A recent USAID fiduciary assessment report was also considered.

42. The fiduciary assessment focused on identifying the key strengths and weaknesses of the PFM and procurement systems and measures to tackle F&C in the achieving the overall program development objectives (PDOs). It also helped the Bank identify fiduciary-related risks that will feed into the overall risk assessment for the program, and selected fiduciary areas that may be considered as **Disbursement Linked Indicators (DLIs)**. The assessment was based on the following critical elements of an open and orderly program FM system.

- (i) **Planning and budget preparation.** The program budget is realistic, prepared with due regard to government policy, and implemented in an orderly and predictable manner.
- (ii) **Accounting and financial reporting.** Adequate program records are maintained and financial reports produced and disseminated for decision making, management, and program reporting.
- (iii) **Treasury management and funds flow.** Adequate and timely funds are available to finance program implementation.
- (iv) **Internal controls (including internal audit).** There are satisfactory arrangements to: (a) monitor, evaluate, and validate program results; and (b) exercise control and stewardship of program funds.
- (v) **Program audit.** Adequate independent audit and verification arrangements are in place.

43. A conclusion was drawn on the **residual risk** after combining the inherent and control risks in the country’s PFM system that are mitigated by a combination of the government’s efforts in PFM reforms, proposed mitigation measures, and the Bank’s supervision effort. In line with the FM Sector Board’s FM Practices Manual, the FM risks are rated as Low (L), Moderate (M), Substantial (S), or High (H) (see Annex 1). The assessment was also mindful of the gaps that may exist between form (policies, laws, structures, and instructions/manuals) and actual functionality and practices of the PFM system.

## Chapter 3: Financial Management Risk Considerations

44. Chapter 3 reviews critical FM elements of implementing the PforR operation to assess the capacity of the implementing agencies to record, control, and manage all program resources and to produce timely, understandable, relevant, and reliable financial information for stakeholders and for audit purposes.

### 3.1 Planning and Budget Preparation

Overall FM element objective - the program budget is realistic, prepared with due regard to government policy, and implemented in an orderly and predictable manner.

45. **Consultation with spending ministries in budget formulation. The budget is formulated through systematic consultations with spending ministries and the legislature, adhering to a fixed budget calendar (Organic Budget Law/OBL Article 26).** The Ministry-Districts-Agencies (MDAs) plan their expenditure allocations to their programs and SPs based on their strategic priorities and the national Medium Term Expenditure Framework (MTEF) communicated to them in the Budget Call Circular (BCC).

46. Despite the integration of the MTEF into the budget cycle, the effectiveness of the MTEF process is undermined due to lack of fully costed sector strategies, the weak link between the sector strategies and the budget, and the limited use of the MTEF outer years as basis for the yearly budget preparation. The capacity for budget formulation and preparation in MDAs remains weak, particularly regarding challenges in linking the budget to policy priorities and costing of programs and strategies. Accordingly, there is need for more emphasis on training and capacity building as the main priorities for implementing the MTEF.

47. During the interministerial budget consultation processes, MINECOFIN conducts an analysis of a ministry or budget agency's budget submission to ensure its alignment with the EDPRS over the MTEF period to ensure successful achievement of national priorities. Based on the budget consultation processes, the **Budget Framework Paper** provides proposals for the allocation of resources and budget ceilings over the MTEF period and is submitted to Parliament.

48. Mapping of EDPRS 2 initiatives by Classification Of Functions Of Government (COFOG<sup>14</sup>) is well appreciated but could be more useful in the context of individual and organizational accountability and managing for results if mapping is deepened to the MDA level. This would enable better attribution of the EDPRS 2 outcomes to Sector Strategic Plan (SSP) activities and would further measure MDA/individual performance, hence contributing to the overall performance management system (*Imihigo*). Furthermore, this would show how well the planning, budgeting and allocation system is aligned to judge whether the system allows sufficient linkages between policy, planning, and budgeting; this can be articulated in the **Citizen's Guide to the National Budget**.

49. The Intergovernmental Fiscal Relations Unit (IGFR) in MINECOFIN acts as the coordinating unit between the District and national budget cycle. Districts carry out their own review of the previous year's performance, which is discussed at the Districts' Joint Action Forum in the second month of the financial year (August). Following the finalization of the Budget Framework Paper at the national level, Districts prepare their detailed budget based on final resource envelopes agreed at Districts' Joint Action Forum and on transfers from the central government communicated by MINECOFIN. When the draft

<sup>14</sup> [http://minecofin.gov.rw/uploads/media/ANNEX\\_II-9\\_01.pdf](http://minecofin.gov.rw/uploads/media/ANNEX_II-9_01.pdf)

budget of a decentralized entity is approved by the District Council, it is made public through appropriate media including publication on the entity’s website.<sup>15</sup>

50. The key strength of Rwanda’s planning and budgetary system is that it is comprehensive, clear, and consistent with the overarching national strategic vision.

**Table 2: Planning and Budget Preparation Risk Analysis**

<b>Key Potential Risks</b>	<b>Summary Analysis</b>
(i) Inadequate appropriation for the program in the annual budget	<p><b>The SSPs are not clearly visible as programs/SPs in the budgets of the responsible MDAs.</b> EDPRS 2 informs the process of prioritizing budget allocations towards specific programs and projects. Limited use of the MTEF in outer years as a basis for the annual budget preparation breeds cynicism in the MTEF process and could affect medium-term strategic planning for the PforR operation to meet its objectives.</p> <p>Performance Based Budgeting (PBB) was introduced in 2008 but so far budget presentation captures EDPRS initiatives by the various COFOG elements. During the interministerial budget consultation processes, an analysis is conducted of the particular ministry or budget agency’s budget submission to ensure its alignment with the EDPRS 2 over the MTEF period to ensure the successful achievement of national priorities.</p>
(ii) Delays in approving the annual budget	<p><b>The Finance Law is normally passed on time and follows the requirements of the OBL.</b> The Minister shall prepare and submit to both Chambers of the Parliament, by not later than April 30th of each year, the <i>Budget Framework Paper</i> (OBL Article 32). Parliament’s comments on the Budget Framework Paper are submitted to the Cabinet not later than May 30<sup>th</sup> (OBL Article 32).</p> <p>OBL Article 35: the Minister, following Cabinet’s approval, shall submit the Finance Bill to the Parliament not later than June 15th of each year. Before the approval of the State Budget, the Senate shall submit to the Chamber of Deputies its opinion on the Finance Bill. <b>Chamber of Deputies shall adopt the Finance Law before 30th June of each year.</b> Once the budget is approved by the Chamber of Deputies of the Parliament, it shall be published in the Official Gazette of the Republic of Rwanda.</p> <p>The legislature reviews the budget proposals using procedures that are firmly established and respected and the review covers fiscal policies and aggregates for the coming year as well as detailed estimates of expenditure and revenue.</p>
(iii) Diversion of budget appropriations to other activities/ programs during the year	<p>OBL Article 42: Upon adoption of the annual budget, the Minister shall inform the Chief Budget Manager of each public entity of its approved budget and request a detailed final annual expenditure plan based on the approved budget. <b>Authorization shall be issued on a quarterly basis and on each [budget item].</b> Depending on the available resources, the Minister may decide to issue the authorization on a monthly basis.</p>
(iv) Lack of transparency in the budget process	<p><b>The budget is formulated through systematic consultations with spending ministries and the legislature, adhering to a fixed budget calendar.</b> Budget preparation processes are informed in a timely manner by two BCCs that give ministries and budget agencies necessary insights into preparing their MTEF budgets for consultation processes as well as providing a clear and binding budget calendar for implementation. <b>The Citizen’s Guide to the Budget and uploads of detailed budget annexes provide the public information about the budget.</b></p>
(v) Cursory scrutiny of budget proposals	<p>The OBL requires the “complete inclusion of all revenues, expenditures and budget</p>

<sup>15</sup> <http://www.gasabo.gov.rw/index.php?id=537>

by the legislature	financing in the budget” and is a fundamental principle of PFM in Rwanda. While external finance continues to play a significant role in development, obtaining all the necessary Official Development Assistance (ODA) data for the macroeconomic forecasting model and the MTEF is challenging.
<p><b>Conclusion: Planning and budget preparation risk is assessed as Moderate.</b> The program budget supported by this operation is not properly aligned with the SSPs as disclosed in the budget books but the authorities are able to extract the eligible program expenditure. The SSPs are being implemented in an orderly and predictable manner, as shown in the analysis for Treasury management and funds flow.</p>	

*Mitigation measures*

51. Deepen the mapping of EDPRS 2 initiatives to the MDA level to allow for better attribution of the EDPRS 2 outcomes to MDA performance and hence contribute to the overall performance management system (*Imihigo*).

**3.2 Treasury Management and Funds Flow**

Overall FM element objective - adequate and timely funds are available to finance program implementation.

52. A Treasury Single Account (TSA) concept is in place whereby all entities and autonomous agencies now operate with subaccounts of the main TSA. Each day a notional amount equal to the commitment ceiling would be associated with a subaccount and purchases made through these accounts involve a debit of funds directly from the TSA. Each account operates as a zero balance account. Any payments into these accounts are cleared against the TSA daily. There is a zero-cash handling policy; commitment ceilings are modified daily according to expenditure and revenue flows through the accounts for application at the start of the next day. All cash balances, therefore, are calculated daily and consolidated.

53. Transfers to the subaccount are made mainly for local government where earmarked transfers can be made to Districts’ bank accounts. Large District payments are directly made from the Treasury. Districts prepare and make large payments for the subsidiary organs through the Treasury to improve cash management. However, subnational entities (sectors, pharmacies, schools, etc.) receive transfers as grants, which are expensed at the point of issue. Consequently, the actual expenditure that takes place is not captured by the government’s accounting system. There are challenges in tracking transfers to and through the Districts, which should net off on consolidation. Therefore, although the existing system of funds flow has the ability to track transfers and expenditures at the service delivery units, it has gaps.

54. **Authorization is issued on a quarterly basis and on each budget item.** Depending on the available resources, the Minister may decide to issue the authorization on a monthly basis. Quarterly cash flow plans are then prepared on a quarterly basis, and spending agencies make commitments on the basis of the approved cash flow plans. The strict budget controls ensure that the budget is implemented in accordance with the budget as approved by Parliament.

55. The only acceptable mode of committing expenditure is a duly issued “purchase order” generated by the SmartFMS, thus triggering a “commitment” indicating that the allocated budget has been “ring-fenced” by that amount. After delivery of the goods/services and supplier invoice, the commitment is converted into an actual charge to government expenditure, and is therefore a liability if not yet paid.

56. The PforR will use the same flow of funds through the Treasury. Based on the program expenditure framework and the program funding sources already identified, there are sufficient funds to ensure attainment of the envisaged program results.

**Table 3: Treasury Management and Funds Flow Risk Analysis**

Key Potential Risks	Summary Analysis
(i) Inadequate funds made available for program implementation	Based on expenditure plans submitted by Chief Budget Managers, MINECOFIN authorizes cash allocations on a quarterly basis and on each budget item.  Good cash management and strong commitment controls ( <i>OBL Article 47</i> ) are in place to provide predictability of availability of cash to undertake program activities.
(ii) Diversion of program funds despite the availability of budget appropriation and budget allocation	Whilst aggregate budget deviation is minimal, significant composition variances are observed within administrative and program classifications.  Authorization to incur expenditure is issued on a quarterly basis and on each <u>budget item</u> and this can “ring-fence” program funds.  Unused budgets at the end of year lapse according to the OBL and have to be revoked. However, the assessment revealed that Districts do not return unutilized funds to the Treasury at the end of the financial year.
<b>Conclusion: Treasury management and funds flow risk is assessed as Moderate.</b> The quarterly allocation process complemented by the TSA provides predictability in the availability of funds for commitment of expenditures.	

*Mitigation measures*

57. For the PBB approach to allow budget holders some level of discretion over inputs and be held accountable for program results; authorization at each budget item level is too detailed and needs to be reconsidered at a higher level of program objective and subchapter level of the economic code adhering to the applicable reallocation rules in Article 46 and other virement rules.

**3.3 Accounting and Financial Reporting**

Overall FM element objective - adequate program records are maintained and financial reports produced and disseminated for decision making, management, and program reporting.

58. Article 33 of the OBL dealing with “format of revenue budget appropriation” requires that “*the revenues of Central Government or decentralized entities shall adhere to internationally accepted standards of classification of revenues.*” The budget classification system is comprehensive and consistent with international standards. The budget is prepared in compliance with the IMF’s Government Finance Statistics Manual (IMF-GFSM 2001). The Chart of Accounts is also comprehensive to allow preparation of a full set of financial statements in accordance with the IPSAS. Budget programs and SPs have been mapped to the COFOG standards.<sup>16</sup> The financial statements accounting policies note that financial statements are prepared on a “modified cash basis” whilst the budget is prepared on a cash basis.

59. A complete set of financial statements includes the following components: i) Statement of financial position; ii) Statement of financial performance; iii) Statement of changes in net assets/equity [*consolidated fund*]; iv) Cash flow statement; and v) Accounting policies and notes to the financial

<sup>16</sup> OBL Article 34 “Expenditure estimates of each public entity shall be organized in a programmatic, economic and functional classification, in line with international accepted classification standards of expenditures.”



statements. **A cash flow statement is not included in the consolidated financial statements.** An adverse opinion was given by the OAG on the consolidated financial statements for 2012, citing persistent weaknesses in preparation of financial statements including: errors in books of accounts; unexplained balances reported in state consolidated financial statements; and lack of proper accounting records, especially for embassies.

60. The reporting structure for subsidiary entities (4,869 as of December 2013) is not clearly defined. Expenditure at subsidiary entities level is not captured and included in the financial reports (general ledger) of the respective District. All Districts' transfers to subsidiary entities are expensed from the moment of the transfer; the budget figures for FY 2011/12 and FY 2012/13 show that approximately RwF 51 billion and 45 billion were transferred, respectively, by the Districts and therefore were not adequately accounted for by the respective subsidiary entities. To address this, the central government designed a template at the District level for subsidiary organs to provide financial information for disclosure, although it is not consolidated in Districts' financial statements. Hence the risk of incomplete records persists at the District level.

61. The Auditor General issued a qualified opinion on RAB's financial statements for the financial year ended June 30, 2012; the qualification matters pertained to erroneous postings in various accounts, the lack of sales reports to support reported revenue, unsupported debtors' balances, understated withholding tax payables; and unexplained differences in bank reconciliations.

62. NAEB has a number of legacy accounting issues related to long-outstanding debtors and creditors inherited prior to creation of the Board through the merger of several public enterprises in the agriculture sector. NAEB is addressing these legacy issues so this would not impact the FM of the proposed program.

### **Financial Management Information System (FMIS)**

63. The SmartFMS currently has three core modules in active use: General Ledger; Accounts Payable; and Revenue Management. The SmartFMS is operational in 131 out of 156 Budget Agencies (i.e., 84 percent) and covers 83 percent of government payments. In RAB, IFMIS is used for budgeting and payment processing for government budget allocations, while TOMPRO is used for financial accounting and reporting. NAEB also uses IFMIS for its accounting processes.

64. The government has declared that it wishes to embark on implementation of a new IFMIS, which is expected to lead to the further strengthening of its FM systems. The **full-fledged IFMIS** is seen as an opportunity to modernize and make more effective and efficient the management of Rwanda's PFM. The system shall be comprehensive; i.e., it shall cover all levels of government, all institutions that are part of general government regardless of size and complexity,<sup>17</sup> and all sources and types of funding. **The required infrastructural platform has to a large extent already been created** as part of the development and roll-out of the present SmartFMS, which is also a centralized system accessed by thin web-based clients.

65. To address District-level accounting and reporting challenges, MINECOFIN is taking steps to strengthen the FM function of subsidiary entities through a number of initiatives, among them, implementation of a **Subsidiary Entities Accounting and Financial Reporting System (SEAS)**, which has already been implemented as a pilot in three Districts in Kigali and one each in the other four

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<sup>17</sup> Including all universities and hospitals if it is concluded that, based on the criteria defined in GFSM, they are considered part of the general government sector.

provinces. The system is being used for recording after completing all manual transactions and for issuing of checks.

**Table 4: Accounting and Financial Reporting Risk Analysis**

Key Potential Risks	Summary Analysis
(i) Delays in recording transactions in the accounting system	<p>The Treasury cash book records all receipts and expenses to and from the TSA. Information on expenditures processed centrally (at least 80 percent of the expenditure) is input into the cash book from records of completed payment orders passed on to the National Bank of Rwanda (BNR) for payment.</p> <p>Staff in the Treasury receive daily bank statements from the BNR (each relating to transactions from two days prior) and reconcile the transactions therein with transactions recorded in the cashbook each day. This information is summarized on a monthly basis and a monthly reconciliation statement is prepared.</p>
(ii) Rigidity in the chart of accounts (CoA) prevents the addition of new codes to keep track of program related transactions.	<p><b>The CoA is flexible enough to “slice and dice” program information.</b> OBL Article 34 requires <i>“expenditure estimates of each public entity shall be organized in a programmatic, economic and functional classification, in line with international accepted classification standards of expenditures.”</i> The national budget is approved by Parliament by EDPRS2 priorities, programmatic classification, ministry, budget agency, and economic classification.</p> <p>However, budget presentation does not clearly show how specific SSP pillars link to the EDPRS 2 at the implementing agency level. Furthermore, the summary financial information in the audit report does not provide detailed actual expenditure in the same format as the approved budget to allow direct comparison of budget out-turns vis-à-vis original policy intent.</p>
(iii) Inability to keep track of resource transfers and expenditures of service delivery units	<p><b>Districts continue to prepare their financial statements without incorporating transactions of the nonbudget agencies (NBAs).</b> In the case of sectors, for example, Districts are expected to ensure that funds transferred to them are properly accounted for, and any bank balances not utilized should be accounted for in Districts’ books of account at year end.</p> <p>Budget monitoring and control systems exist, but there are some deficiencies. Budget implementation is monitored through the Quarterly Budget Execution Reports and strict control systems. <b>The SmartFMS functionalities support extensive budget monitoring in terms of administrative, economic, and program classifications.</b></p>
(iv) Inability of the accounting system to prepare timely and reliable financial reports (both management reports and the annual program financial statements)	<p>Under Article 13 12° of the OBL, it is the responsibility of the Minister to <u>prepare the annual consolidated Financial Statements</u> for submission to the Auditor General of State Finances. The public accounts are prepared within 3 months of the end of the fiscal year, but Districts do not reflect bank balances held by sectors in their financial statements and also do not include transactions of other NBAs (schools, health centers, and hospitals) thus rendering District financial statements incomplete and also giving rise to disclaimer audit opinion on the consolidated government statement by the Auditor General. Also, <b>a cash flow statement is not included in the annual financial statement. The consolidated annual financial statement is not available to the public and not included in the audit report published.</b></p> <p>In-year budget execution reports (<b>for recurrent and domestic capital only</b>) are prepared quarterly with reasonably accurate data, broken down to at least program or functional level. Currently, budget execution reports are prepared and published<sup>18</sup></p>

<sup>18</sup> [http://www.minecofin.gov.rw/fileadmin/user\\_upload/Budget\\_Execution\\_Report\\_July-December\\_2013.pdf](http://www.minecofin.gov.rw/fileadmin/user_upload/Budget_Execution_Report_July-December_2013.pdf) , [http://www.minecofin.gov.rw/fileadmin/user\\_upload/July\\_-Dec\\_2013\\_Budget\\_Execution\\_Report\\_Tables.xls](http://www.minecofin.gov.rw/fileadmin/user_upload/July_-Dec_2013_Budget_Execution_Report_Tables.xls)

	within 45 days after the end of each quarter and address issues of revenue collection and budgetary grants, outlays, arrears, financing, and areas of priority expenditure. Classification of data allows comparison with the original budget, <b>but expenditure at commitment stage is not captured in the report.</b>
<b>Conclusion: The accounting and financial reporting risk is assessed as Moderate.</b> The full consolidated annual financial statements are not made public. IA reports show serious concerns about poor records management and this limits the scope of ascertaining the credibility of financial reports for decision making and accountability.	

*Mitigation measures*

66. According to Article 62 of the OBL: Accounting standards: without prejudice to legal provisions, an Order of the Minister shall determine the accounting standards and policies applicable to all public entities. The format, content and frequency of reporting by public entities shall be prescribed in the financial regulations. Therefore, a Ministerial Order to determine the accounting standards and policies applicable to all public entities is needed. **Considering the information systems and human resource challenges, the IPSAS “Financial Reporting under the Cash Basis of Accounting” (the “Cash Basis IPSAS”) is recommended for adoption and implementation over the medium term.** Plans for accrual-basis could be considered after the cash-basis is well implemented and the necessary human and other resources are in place.

67. There is overreliance on vendors for maintaining the current system and this needs to be addressed for the future IFMIS and the SEAS by having in place key staff with the suggested profile in each District; however, a Hub approach could also be considered to provide the much-needed support.

**3.4 Internal Controls (including internal audit)**

Overall FM element objective - there are satisfactory arrangements to: (a) monitor, evaluate, and validate program results; and (b) exercise control and stewardship of program funds.
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*Internal controls*

68. A range of different types of internal controls is in place, but with the new OBL and regulations, current manuals will need to be updated. OBL Article 19 7<sup>o</sup> requires the Chief Budget Manager “*to establish and maintain effective, efficient and transparent systems of internal controls and risk management.*” The government manual lays out the processes and procedures to be followed by the budget agencies to ensure that there is adequate monitoring and safeguarding of assets. The main internal control weaknesses as identified in IA reports include: i) noncompliance with procurement policy and guidelines; ii) poor documentation and filing of accounting records; and iii) overexpenditure on budget lines despite IFMIS’s in-built budget controls; iv) irregular and unauthorized expenditures; and v) noncompliance with tax rules and regulations, among others. Strengthening IA and updating the government FM manual would ensure that the internal control system is sufficient to ensure that the government’s overarching objectives are achieved.

69. The Auditor General also identified critical internal control matters that impact the quality of accounting and financial reporting (Table 5):

**Table 5: Factors Affecting the Quality of Accounting and Financial Reporting**

Implementing Agency	Key Issues
Rwanda Agriculture Board	<ul style="list-style-type: none"> <li>Incompleteness of monthly sales records, accounting errors, unexplained differences in bank reconciliations, long outstanding accounts payables, understatement of withholding tax payables, unsupported debtors' balances, long outstanding receivables, and internal control weaknesses at RAB stations.</li> </ul>
National Agriculture Export Board	<ul style="list-style-type: none"> <li>Absence of journal vouchers and official authorization for material accounting adjustments, long outstanding debtors', nonenforcement of debtors' contract terms and delays in recovery of related payments, long outstanding accounts payable, inaccurate posting of transactions, and unreconciled differences in bank reconciliation statements.</li> </ul>
MINAGRI SPIUs	<ul style="list-style-type: none"> <li>Noncompliance with reporting timelines to the Auditor General for fixed assets and stock reports, weaknesses in information technology controls, and inadequate enforcement of contractual penalties for nonperforming contractors.</li> </ul>
Districts	<ul style="list-style-type: none"> <li>Weaknesses in contract management and enforcement of contractor obligations, lack of consolidation of transactions of NBAs, long outstanding debtors, and inadequate controls over debtor write-offs.</li> </ul>

*Internal Audit (IA)*

70. The capacity and independence of the IA function is critical in ascertaining the efficacy of internal controls that are critical in determining the effective and efficient use of public funds. To discharge its functions effectively, IA units must possess the key twin attributes of professionalism and independence. The IA function is established under OBL Article 70 on Internal Audit function. The Government Chief Internal Auditor (GCIA) shall be responsible for providing indicators for IA and risk management and monitor and coordinate services of internal auditors in public entities. The Minister's instructions shall determine specific responsibilities of the GCIA.

71. **IA is an essential component of a well-functioning internal control system.** The public sector IA capability model (IA-CM<sup>19</sup>) is an internationally accepted benchmark, developed by the Institute of Internal Auditors (IIA), that prescribes six key elements of the IA activity for determining capability level. Starting from a level of between 1-2 in 2010, the Office of the GCIA aims to achieve level 4 by 2017. At this level, internal auditors in various government entities will have fully complied with the IA regulations and implemented the International Standards for the Professional Practice of Internal Auditing (IPPF<sup>20</sup>) and will be a driver of change in government. Through the PFM Basket Fund, IA has improved to level 2-3 of the IA-CM and expects to be at level 4 by 2017.

72. An IA service has been established in all government institutions. An estimated 200 internal auditors currently exist all over the country but only two qualified Certified Professional Accountants (CPAs) are in post. RAB and NAEB have Internal Audit Units with two and three IA staff, respectively. All RAB and NAEB IA staff are currently studying for the Association of Chartered Certified Accountants (ACCA)

<sup>19</sup> IA-CM capability elements are: i) Services and Role of Internal Auditing; ii) People Management; iii) Professional Practices; iv) Performance Management and Accountability; v) Organizational Relationships and Culture; vi) Governance Structures; and (vii) Use of Information Technology.

<sup>20</sup> The components of the IPPF are: the definition of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practices of Internal Auditing (Standards), Position Papers, Practice Advisories, and Practice Guides.

certification. MINAGRI also has an IA function; its audit committee was established in April 2013 to provide oversight for audit and risk management aspects Ministry-wide.

73. The current MINAGRI IA structure does not specify a Head of Unit, which poses a challenge in terms of leadership at the MDA level. The public sector capacity and decentralized service delivery support development policy operation had an expected outcome of at least five qualified internal auditors by June 2014.

74. An extensive IA training program put in place led to 49 internal auditors sitting for ACCA examinations in 2011/12, and plans for a further 45 to sit the exams in the following year. There have also been many courses for specialized audit skills (IT, PFM, risk-based audit, procurement, payroll, etc.). TEAMMATE training has been conducted for about 50 staff and use of the tool is being piloted.

#### *Audit Committee*

75. In July 2012, MINECOFIN published a **model Audit Committee Charter**, followed by a handbook that provides broad guidelines that can be used by audit committees in MDAs and government businesses.

76. The program’s implementing entities’ (NAEB, RAB, and MINAGRI) audit committees hold regular meetings to review IA and risk management issues. The membership of these audit committees was vetted by MINECOFIN to ensure that at least one committee member has significant experience in accounting and FM. Membership of District audit committees comprises elected councilors (politicians). The current challenge is that most lack the required financial background to perform their duties adequately.

77. The IA units of the implementing agencies are all required to submit quarterly reports to their respective audit committees. They primarily report on internal control matters as well as providing a status update on the implementation of previous external and internal audit recommendations.

**Table 6: Internal Controls (including IA) Risk Analysis**

Key Potential Risks	Summary Analysis
(i) Internal control system unable to prevent or detect serious irregularities, misuse, and inefficient use of program funds	Authorization of transactions and signature of checks are clearly delineated to provide adequate segregation of duties. Main IA findings are: i) noncompliance with procurement policy and guidelines; ii) poor documentation and filing of accounting records; and iii) over expenditure on budget lines.
(ii) Weak IT security and back-up arrangements	Absence of a robust business continuity management plan to ensure uninterrupted availability of critical information technology systems.
(iii) IA unable to provide assurance on the robustness of and compliance with internal controls	IA staff number is inadequate at MDAs, as most ministries having only one audit staff. Also, with only 2 internal auditors per District with about 200 subsidiary entities, capacity is constrained.
(iv) Leakages in payroll	The OAG conducted payroll specific audits for FYs 2007 and 2008. In both of these audits, the OAG noted that the majority of issues noted in the prior FY had not been rectified. With regard to “ghost workers,” the OAG did not find this to be a major issue. The assessment team believes this is because the data requirements for accepting a new employee onto the payroll system were so extensive that it was extremely difficult to meet all of the requirements unless

		the entry was genuine.  However, there are control weaknesses to remove employees from the payroll after they leave service, leading to several months of salary payments after their termination date.
(v)	Delayed and irregular accounts reconciliation	Reconciliation of cashbook records with bank statements for the TSA is carried out on a monthly basis. Staff in the Treasury receive daily bank statements from the BNR (each relating to transactions from two days prior) and reconcile the transactions therein with transactions recorded in the cashbook each day. This information is summarized on a monthly basis and a monthly reconciliation statement is prepared.
(vi)	Lack of capacity to effectively monitor, evaluate, and validate program results	IA service is still in its infancy. Sustained capacity building is necessary to create expertise in specialist areas such as IT, value for money, risk management, system audit, procurement, and payroll.  There are still serious concerns about the actual independence of internal auditors.
<b>Conclusion: The internal control (including IA) risk is assessed as Substantial.</b>		

#### *Mitigation measures*

78. **Risk profiling** to be undertaken for PSTA 3 will support the IA planning process that responds to the **Enterprise Risk Management<sup>21</sup> Integrated Framework**.

79. The membership of District Councils' IA committees cannot be easily controlled since they are elected politicians. This can be addressed by co-opting competent members based on an agreed sitting fee.

### **3.5 Program External Audit**

Overall FM element objective - adequate independent audit and verification arrangements are in place, taking into account the country context and the nature and overall risk assessment of the program.

80. In the exercise of his/her duties, the Auditor General must be impartial and must exercise the powers and perform the functions of office without fear, favor, or prejudice in accordance with the International Organisation of Supreme Audit Institutions (INTOSAI), International Standards of Supreme Audit Institutions (ISSA) and its Code of Ethics for auditors in the public sector. The SAI's audit objectives of legality, regularity, economy, efficiency, and effectiveness of FM in the public sector are achieved by the Auditor General reporting directly to Parliament.

81. Under the Rwanda Constitution, the Auditor General of State Finances in Rwanda has the mandate to audit all public expenditures under Law N° 79/2013 of 11/9/2013,<sup>22</sup> which also governs procedures for auditing state finances. Reports prepared by the Auditor General are submitted to the Parliament and considered by the Committee in charge of public accounts. The Auditor General and Deputy Auditor General are appointed by a Presidential Order and tenure of office is secured by the Auditor General and Deputy Auditor General being appointed for a five (5)-year term renewable only once.

<sup>21</sup> Enterprise risk management is a process, affected by an entity's board of directors, management, and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity and to manage risk within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.

<sup>22</sup> Official Gazette n° 45 of 11/11/2013.

82. Timeliness and quality of audits. According to Article 14 1° of Law N° 79/2013 of 11/9/2013, the Auditor General is responsible “to audit State consolidated financial statements for each fiscal year.” In accordance with Article 184 of the Constitution of the Republic of Rwanda of 04 June 2003 as amended to date, the OAG shall submit to both Chambers of Parliament in joint session prior to the commencement of the session devoted to the examination of budget of the following year, a complete report on the balance sheet of the State budget of the previous fiscal year. The OAG reserves a copy to the President, the Cabinet, the President of the Supreme Court, and the Prosecutor General of the Republic. The OAG conducts financial audits in accordance with IPSAS; in the case of special assignment and performance audits, specific INTOSAI standards are applied. According to the budget calendar, the budget is normally presented in the second week of June each year as per the East African Community harmonization. Table 7 provides an analysis of the timeliness of submission of the audit report to Parliament.

**Table 7: Timeliness of Submission of Annual Financial Statements and Audit Reports**

<b>Fiscal Year (Jul-Jun)</b>	<b>Time Taken by MINECOFIN After Year-end to Submit Consolidated Financial Statement to OAG for Audit</b>	<b>No. of Months After Year-end for Submission of Audit Report to Parliament</b>
2009/10	Date submitted: September 30, 2010 3 months after year-end	Date submitted: 27/05/2011 No. of months on receipt of financial statements by OAG from MINECOFIN: 7  <i>Audit report submitted 10 months after year-end.</i>
2010/11	Date submitted: Nov 16, 2011 4.5 months after year-end	Date submitted: 24/05/2012 No. of months on receipt of financial statements by OAG from MINECOFIN: 7  <i>Audit report submitted 10 months after year-end.</i>
2011/12	Date submitted: September 30, 2012 3 months after year-end	Date submitted: 10/05/2013 No. of months on receipt of financial statements by OAG from MINECOFIN: 7  <i>Audit report submitted 10 months after year-end.</i>
2012/13	Date submitted: September 28, 2013 3 months after year-end	Not submitted as of March 28, 2014.

83. After submission of the consolidated audited financial statements to the Speaker of Parliament, the Auditor General makes a presentation on the report to the whole House of Parliament. The presentation in Parliament always triggers a plenary debate where responsible officers are called to account and where applicable legal actions by the Office of the Prosecutor General have been taken based on their recommendations.

84. Public Accounts Committee (PAC) - Article 4 of Law N° 79/2013 of 11/9/2013 states that reports prepared by the Auditor General shall be submitted to the Parliament and considered by the Committee in charge of public accounts. The Committee shall collaborate with the Auditor General of State Finances to consider reports and other documents, conduct hearings, and write reports on all matters connected with State finances and property or finances managed by any public entity. The PAC conducts public hearings on the audit reports<sup>23</sup> and this oversight includes the audit reports for the District Councils. There is no PAC similar to the one in the Chamber of Deputies at the District level. District Council audit committees have yet to start conducting public hearings.

<sup>23</sup> Members of Parliament applaud public funds management -  
<http://www.newtimes.co.rw/news/index.php?i=15401percenta=68177>

85. MINAGRI has fully implemented the prior year audit recommendations, but NAEB, only 50 percent of prior year recommendations have been implemented while RAB has implemented 70 percent. NAEB and RAB’s recommendations mainly relate to legacy issues of the public sector entities that were merged to create the two Boards. MINAGRI had an unmodified (clean) audit report while NAEB and RAB received adverse audit opinions due to these unresolved legacy accounting matters. NAEB and RAB are taking steps to implement the audit recommendations and to resolve the audit qualification issues. All 30 Districts have qualified audit reports.

**Table 8: External Audit Risk Analysis**

Key Potential Risks	Summary Analysis
(i) Inability of SAI to prepare and submit an audit report within a reasonable period after the close of the financial year	<p>Article 23: Auditing standards: The audit shall be conducted <b>in accordance with internationally recognized standards</b>, laws governing the audit of State accounts and property in Rwanda, the Code of Ethics, and such other standards as the Auditor General may deem necessary for the performance of his/her responsibilities.</p> <p>Financial Audits done by the OAG also cover the 3Es (Economy, Efficiency, and Effectiveness) and the OAG has consistently submitted at least four performance audit reports to Parliament. <b>Of particular relevance to this operation is the ongoing governance performance audit.</b></p> <p>Audit reports for the past three years are submitted 10 months after the year-end as opposed to the good practice of within 6 months. The audit report normally posted on the OAG website does not include the consolidated annual financial statements.  <a href="http://oag.gov.rw/IMG/pdf/Annual_Report_2012.pdf">http://oag.gov.rw/IMG/pdf/Annual_Report_2012.pdf</a></p>
(ii) SAI’s lack of independence, capacity, resources, and skills to perform PFM audits	<p>The Auditor General and Deputy Auditor General are appointed by a Presidential Order and their tenure of office is secured by a five-year term renewable only once.</p> <p>The salary and other benefits given to members of the OAG shall be determined by Presidential Order. The statute governing the staff of the OAG shall be laid down by Presidential Order.</p> <p>Removal from office is by Presidential Order with notification to both Chambers of the Parliament (as opposed to empowering Parliament to pass a majority vote to remove the Auditor General), which hampers the chief aim of the Lima Declaration of Guidelines on Auditing Precepts (adopted in October 1977) which calls for independent government auditing by a SAI.</p> <p>Currently OAG only has four professionally qualified auditors. The expectation is that this will increase to about 15 as staff take professional examinations. A total of 91 OAG staff were enrolled in ACCA and CPA programs as of December 2013.</p> <p>The OAG conducts audits of public entities and projects in accordance with International Standards on Auditing (ISA). In the case of special assignments and performance audits, specific INTOSAI standards relating to such assignments are applied.</p>
(iii) Lack of response to, or follow-up on, audit findings and recommendations	<p>Article 69 of the OBL requires that “Parliament, after receiving the report of the Auditor General referred to in this Article, shall examine it and take appropriate decisions within a period not exceeding six (6) months.” <b>There is an improved level of implementation of prior year audit recommendations</b>, attributed to positive changes in the audit environment such as: continued commitment by many Chief Budget Managers to implement audit recommendations; government follow-up of Auditor General’s recommendations through <i>Imihigo</i>; continued oversight by the PAC; continued PFM reforms undertaken by government through MINECOFIN; and continued sensitization of auditees by the OAG. <b>However, PACs have not yet been</b></p>



	<b>established at the District level.</b>
<b>Conclusion: The external audit risk is assessed as Moderate.</b>	

*Mitigation measures*

86. Failure to act on audit queries breeds cynicism in the whole audit process. A follow-up reporting mechanism on the implementation of audit recommendations will be developed by MINAGRI to ensure that audit recommendations are adequately addressed and implemented. The relevant audit committees will provide due diligence on implementation and follow-up.

87. Given the existing legacy issues with NAEB and RAB that significantly contribute to the adverse audit opinion, it is recommended that proper reconciliation of the financial statements before and after merger be undertaken with support of technical assistance to ensure cleanup of the financial statements and subsequent change in the audit opinion.

(1) District Councils shall post on a notice board in a conspicuous place on the premises of the Council and on a notice board in each Sector/Ward for specified period: (a) monthly statements of financial accounts; (b) annual income and expenditure statements; (c) inventories of assets of the District Councils; (d) bylaws and notices relating to tax rates and fees; (e) minutes of council meetings; and (f) development plans.

(2) Copies of the reports, notices and statements shall be made available on official websites and hard copies on request on payment of a fee to be fixed by the District Council.

**3.6 PFM Human Resource and Capacity Building**

88. There is a dearth of suitably qualified officials to handle PFM functions, especially at the District level, where there are serious concerns about high turnover of the few trained staff. It is instructive to note that as of February 2014, the national Internal Audit Department had five vacant posts. More than half of the total number (1,065) of accountants and auditors (internal and external) have a first degree, but only 16 (i.e., 2 percent) are fully-qualified professionals.

**Table 9: Staff Profile for External Auditors, Internal Auditors, and Accountants**  
(as of February 2014)

Rwanda: Staff profile for External Auditors, Internal Auditors and Accountants as at February 2014								
Category	Established positions	Filled/ In post	Full Professional	Intermediate level	Foundation level	IPSAS Certificate	Masters	1st Degree
External Auditors	106	106	3	81	15	-	4	3
Internal Auditors (CG)	148	148	2	20	40	-	2	84
Internal Auditors (SNG)	67	62	-	4	20	-	-	38
Accountants (CG)	439	439	-	32	25	26	36	320
Accountants (SNG)	100	100	1	6	9	11	6	67
Director Administration & Finance (CG)	165	165	1	6	8	6	28	116
Director Administration & Finance (SNG)	31	31	-	-	-	7	4	20
Directors/Director Generals/ Heads of Institutions	9	9	9	-	-	-	-	-
<b>Total</b>	<b>1,065</b>	<b>1,060</b>	<b>16</b>	<b>149</b>	<b>117</b>	<b>50</b>	<b>80</b>	<b>648</b>

For those in post but not taking any professional exam; indicate whether 1st Degree only or Masters  
Professional exams could be ACCA, CPA, ICAEW, ICPAR, CIMA etc

### *Mitigation measures*

89. MINECOFIN will take a policy position to fund staff for the ICPAR (Institute of Certified Accountants of Rwanda) examination since the examination is IES-compliant (International Education Standards), rather than paying for other international examination. Also, a scheme of service should be developed to specify the qualification and experience requirements for the PFM Job Family. An attraction and retention policy and strategy to enhance the capability of the PFM Job Family or cadre is required.

90. Officials in charge of PFM functions in the District Councils are mostly unqualified, despite handling substantial amounts of public funds. PFM performance will be improved and service delivery supported by having in place Chief Finance Officers (CFO) and internal auditors who are at least accounting technicians (depending on the budget size, complexity of the environment, and risk profile) together with knowledgeable and experienced budget officers and procurement officers.

91. Ministry of Public Service and Labour (MIFOTRA) will be engaged to explore how continuous training on PFM (as scarce skills) can be addressed, using lessons learned from the Strategic Capacity Building Initiative (SCBI).

### **3.7 Review of Existing Bank-funded Projects**

92. Table 10 shows the FM risk rating and FM implementation status rating (ISR) for ongoing World Bank-funded projects. Overall, the FM ISR for agriculture sector projects is “Satisfactory.” Therefore, the FM at the project level is in compliance with the Bank’s fiduciary requirements and the control environment enables effective implementation of project activities.

**Table 10: FM Risk and ISR Ratings for Bank-funded Projects**

<b>Project</b>	<b>FM Risk Rating</b>	<b>FM ISR</b>
Rwanda Land Husbandry, Water Harvesting and Hillside Irrigation Project	Low	Satisfactory
Third Rural Sector Support Project	Moderate	Satisfactory

## Chapter 4: Procurement Management Risk Considerations

93. The PforR component of PSTA 3 will use the Bank's PforR lending instrument, which requires the use of government and/or program systems that include procurement, FM, and governance and anticorruption (GAC) aspects. The objective of the fiduciary systems assessment is to understand whether program systems provide reasonable assurance that the financing proceeds will be used for intended purposes, with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability. Thus the Bank carried out a procurement capacity assessment for the proposed PSTA 3 PforR operation between May 5 and 16, 2014. The proposed program development objective (PDO) *is to increase and intensify the productivity of the Rwandan agricultural and livestock sectors and expand the development of value chains* PSTA3 will be implemented over a period of 5 years from 2013 to 2018, while the PforR implementation period is from 2013-2015. The geographic scope of PSTA3 implementation will include MINAGRI, RAB and NAEB at the National level and all the 30 Districts. Other stakeholders, from the perspective of fiduciary, in the PforR implementation are RPPA, OAG, CID and Ombudsman Office. The PforR Program funds will be primarily used by MINAGRI and the Districts to meet the PSTA 3 Program objectives lay out in the Program's investment menu which will be developed through the technical assessment and program preparation.

94. The PforR component of PSTA 3 will use Bank PforR lending instrument, which requires the use of government and/or Program systems that include procurement, FM and governance and anticorruption aspects. The objectives of the fiduciary systems assessment is meant to understand whether Program systems provide reasonable assurance that the financing proceeds will be used for intended purposes, with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability.

95. The assessment found that the GoR has an acceptable public procurement legal framework, based on the UNCITRAL model, that is quite robust and covers all aspects of public procurement at all levels of government. The GoR is moving toward modernizing its procurement function to improve compliance, efficiency, transparency, fair competition, value for money, and controls in public procurement.

96. MINAGRI will have overall responsibility for the efficient and effective implementation of the Agri. PforR operation, while the program is implemented at national and sub-national levels. At the national level MINAGRI is the core implementing agency, while the PforR funds will flow directly from the MINICOFIN to respective implementing agencies; MINAGRI, RAB, NAEB, SPIUs and to the 30 Districts. The program's procurement systems' assessment was conducted at all implementing agencies at the national level and at three sample Districts. That is, the three SPIUs of MINAGRI, the SPIU of RAB, the Corporate Service of MINAGRI and NAEB, and Bugesera, Gakenke, and Ngororero Districts were assessed. Their procurement systems' performances were evaluated based on the government's procurement legal framework as to the degree to which the planning, bidding, evaluation, contract award, and contract administration arrangements and practices provide reasonable assurance that the program will achieve its intended results through its procurement processes and procedures.

97. Despite having a robust procurement legal framework in place, the assessment revealed both strengths and areas for improvement with the procurement system. Each implementing agency visited has an established institutional framework for implementation of procurement activities. At the national level, the Procurement Units in the SPIUs and under the Corporate Service of each respective agency are responsible for handling procurement; at the District level, the Procurement Unit is under the Chief Budget Manager (Executive Secretary).

98. Based on current records, all national implementing agencies and Districts spend more than 60 percent of their annual budget through procurement. The scope of procurement of contracts in terms of

number and value of items undertaken each year by the agencies varies. The total number of contracts procured each year (works, goods and consultancy services) ranges from as low as 14 at MINAGRI's Corporate Service Procurement Unit to as high as 125 at the RAB's Procurement Unit. Procurement of goods contracts takes a major share in terms of number of contracts, while procurement of works contracts stands first in terms of contract value. The average annual value of works contracts handled by the agencies assessed is about US\$16 million, in spite of the big differences between agencies. Some agencies demonstrated experience with handling procurement of a single contract as high as US\$8-13 million for works. No high-value contracts above the current World Bank Operations Procurement Review Committee (OPRC) threshold are expected under the proposed Ag. PforR operation.

**Table 11: Number and Value of Contracts Managed by Program Implementing Agencies**

No.	Agency	Number of Contracts				Annual Procurement Expenditure (US\$ millions)	Maximum Contract Amount (US\$ millions)
		Goods	Works	Services	Total		
1	MINAGRI – SPIU - LWH-RSSP	45	22	38	105	14	8
2	MINAGRI – SPIU – Irrigation & Mechanization	25	18	18	61	27	5
3	MINAGRI – SPIU – Livestock	25	10	20	55	32	13
4	MINAGRI – Corporate Service	8	2	4	14	28.2	2
5	RAB	75	30	20	125	20	1.2
6	NAEB	70	3	10	83	4.5	2.5
7	Bugesera District	35	20	15	70	6.8	0.15
8	Gakenke District	23	15	16	54	3.5	1.1
9	Ngororero District	20	10	25	55	4.06	0.65
<b>Total</b>		<b>326</b>	<b>130</b>	<b>166</b>	<b>622</b>	<b>139.86</b>	<b>13</b>

### Summary of Major Findings

**99. The assessment revealed both strengths and areas for improvement in the procurement environment.** The strengths in the procurement systems and practices are:

- i) MINAGRI's and Districts' procurements are generally sound, entered in IFMIS, and consistent with the budget, and completion reports are prepared;
- ii) Each implementing agency at the national and District level has an established institutional setup for implementation of procurement activities;
- iii) There are adequate suppliers of goods, works, and services at the national and District level;
- iv) Reasonable oversight and accountability exist. Procurements and/or contracts are monitored regularly by RPPA on a sample basis. All procuring entities are required to provide a monthly report to RPPA on the implementation of the procurement plan. RPPA has the overall responsibility to train all new procurement officers as well as new internal tender committees in national procurement procedures, as outlined in the Procurement Law. In addition, RPPA provides training to all procurement officers to refresh their knowledge at least once a year. The OAG undertakes compliance auditing, in addition to the established financial auditing. The OM oversees on an information basis. Each procuring entity at the national and District level has an internal auditor who reviews financial and procurement operations on a regular basis. Provinces sometimes conduct audits, including reviewing procurement operations of Districts (e.g., Western Province);

- v) The Public Procurement Directives stipulate that implementing agencies are required to comply with the well-defined complaints-handling mechanism, which is implemented at the national and District levels through a NIRP and a DIRP mechanism;
- vi) A good number of contracts of works and goods are awarded based on the lowest evaluated bidder (least evaluated responsive bidder);
- vii) A good number of contracts are awarded based on criteria provided in the bidding documents; and;
- viii) A good number of consultancy services contracts are awarded through the Quality and Cost Based Selection (QCBS) procedure.

**100. Key findings on the areas for improvement of procurement system and practices are that:**

- i) There are irregularities in implementing procurement laws, regulations, and procedures in some implementing agencies. The assessment revealed areas to be strengthened, such as: (a) lack of adequate written records of all procurement and contract documents by all procuring entities; (b) lack of publication of contract awards on media accessible to the public as per the requirement of the RPPA procurement procedures; (c) no formal internal approval of contract awards as required by the procurement law. Provisional notification and letter of awards signed by the authorized body are considered as internal contract award approval; (d) delays in payment of executed contracts, especially at the District level, due to delays in budget replenishment by MINECOFIN; and (e) award of contracts through nonopen competitive methods, award of tenders that are not planned, and longer periods for bid preparation than prescribed in the legal documents. These challenges will be mitigated by RPPA through tailored procurement trainings for the Ag. PforR before the start of the Program, twice in the first year, and then annually during the second and third years of the Program.
- ii) RPPA’s staffing capacity is too low to carry out comprehensive procurement audits on an annual basis as part of its regulatory mandate. At the national level, most agencies are audited only once in two years. RPPA should annually audit all MDAs implementing the Program. There is also lack of coordination of procurement auditing between RPPA and the OAG.

101. Proposed risk mitigation measures are detailed as follows:

**Table 12: Procurement Risks Mitigation Measures**

<b>Procurement Risk</b>	<b>Description</b>	<b>Proposed Mitigation Measures</b>
Compliance with procurement legal and procedural frameworks	There is lax compliance with the laws and procedures with regard to use of noncompetitive methods, awarding tenders that are not planned, delays in payment to executed contracts, and selection of consultants without using “Requests for Expression of Interest.”	RPPA will provide reminders to implementing agencies and organize training on procurement laws, procedures, standard bidding documents, and manuals. At least one procurement training session will be provided for staff from all implementing agencies before Program effectiveness. Continued training and clinics will be offered at least twice a year for the first year and once a year for subsequent years. The training should be extended to the TCs, procurement officers, and Chief Budget Managers.
Procurement capacity	There are capacity limitations in terms of skilled staff to handle procurement and contract administration of high-value contracts at the District level. The implementing agencies experience high staff turnover. In most agencies, most procurement staff have been in position for less than two years.	In line with Program requirements, adequate procurement staff at each implementing agency, both at the national and District level, will be maintained throughout the Program. Each participating entity at the national level will maintain at least one qualified procurement specialist dedicated to the PforR. The Program will support training of

		procurement specialists from agencies.
Transparency and fairness	A number of tenders are awarded using noncompetitive methods. Most implementing agencies do not publish contract awards, impacting on transparency and fairness in bid evaluation.	RPPA will provide reminders to implementing agencies and organize training on the use of procurement laws procedures and manuals. At least one procurement training session will be provided for staff from all implementing agencies before Program effectiveness.
Accountability, integrity and oversight	Contract awards lack formal internal approval. Recordkeeping is in place of having adequate written records to cover the end-to-end process of procurement. RPPA has low capacity to conduct procurement audits on an annual basis for all procuring entities. Procurement audits by RPPA and OAG lack strategic coordination.	RPPA will enforce procurement laws to ensure contract awards get formally recorded, appropriate internal approval and procurement recordkeeping. RPPA and OAG will agree and plan on how best to coordinate procurement auditing. RPPA will come up with a comprehensive capacity-building plan that includes capacity building of all Ag. PforR implementing agencies and RPPA itself.

#### 4.1 Pillar-I: Legislative and Regulatory Framework

102. Procurement in Rwanda is regulated by Law No. 12/2007 of March 27, 2007 and its associated regulations, and is based on the UNCITRAL model. RPPA (a public body established on February 20, 2008 by Law No. 63/2007 of December 30, 2007) was established with a mission oriented towards regulation, capacity building, and control. It was created to replace the National Tender Board during a reform process in PFM launched by the GoR, of which public procurement reform was one of the most important components. The GoR revised the Law in 2012 to incorporate comments issued during Phase II of the Use of Country System (UCS) exercise conducted by the Bank. The revised law was gazetted in April 2013. The law is further detailed by: Ministerial Order N°001/08/10/Min Of 16/01/2008 and N° 001/14/10/TC of 19/02/2014, establishing regulations on Public Procurement and Standard Bidding Documents; the law modifying and completing the Law n°12/2007 of 27/03/2007 on Public Procurement (N°05/2013 of 13/02/2013); the Public Procurement User Guide, November 2010; and RPPA and MINECOFIN circulars. Implementing agencies have also developed their own internal procedures and manuals for procurement. The law and regulations governing public procurement as well as standard bidding documents are now available to the public in general and to the users in particular.

103. Under the Law, RPPA is responsible for the procurement oversight function of public procurement both at the central and local government level. It is therefore responsible for setting procurement standards, guidelines, and procedures to ensure transparent, effective, efficient public procurement and to monitor such. The Law provides for the establishment of independent review panels, both at the District and national level (the DIRP and NIRP, respectively). Further, the Law also establishes the institutional arrangement at a procuring entity level, namely; i) a Procurement Unit (PU); ii) an Internal Tender Committee (TC); and iii) an Accounting Officer (Chief Budget Manager). The PU is responsible for carrying out the procurement process from the planning stage to completion of contract execution. The TC is responsible for opening bids, evaluating them, and recommending the award of contracts. The Accounting Officer or SPIU Coordinator approves the reports of the TC and signs contracts on behalf of the procuring entity.

104. The Bank reviewed the Procurement Law and found it acceptable save for the following provisions: i) Rwanda Law requires payment after goods have been received and accepted even for Crop Intensification Program (CIP) (Article 86); and ii) the permissible interest rate under Rwanda Procurement Law is 1/1000 per day on delayed payments, which is about 0.365 p.a., far below the market interest rate of about 18 percent p.a.

105. Procurement regulations and standard bidding documents were established by the Ministerial Order of the Minister in charge of procurement. The procurement manual stipulates the following methods of procurement and thresholds (USAID, March 2012).

- Open Competitive Bidding – must be used in most times except in some options defined by Law (RwF 5 million (US\$8,000) and above).
- Restricted Tendering – open to bidders appearing on the invitation to bid due to complexity and time/cost of evaluating several bidders (between RwF 1 million (US\$1,600) to RwF 5 million (US\$8,000)).
- Request for Quotations – procuring entity obtains at least three quotations. Used to procure readily available goods with standard specifications and established market prices (between RwF 100,000 (US\$165) to RwF 1 million (US\$1,600)).
- Single Source/Direct Contracting – where the cost is below established maximum, additional works whose value does not exceed 20 percent of the original tender, items available from monopoly and procuring to carter for emergency (below RwF 100,000 (US\$165)).

106. The procurement manual also details the process to be followed in open competitive bidding as follows:

- Preparation of an invitation to tender;
- Preparation of bidding documents containing all information to allow for fair competition;
- Advertisement – done when cost estimate is above established thresholds;
- Requests for bid security;
- Submission and receipt of tenders;
- Bids opening – done by at least three members of the Internal Tender Committee (TC);
- Evaluation of bids by the TC;
- Notification of contract awards to successful and unsuccessful bidders; and
- Procurement contract to the successful bidder.

107. RPPA has prepared several tools to facilitate procuring entities to execute procurement efficiently, including: User Guide; standard bidding documents for procurement of works and goods, and standard Requests for Proposals; standard template for bid opening report; and standard template for bid evaluation. All legal and procedural documentation is published on RPPA'S website for public use (<http://www.rppa.gov.rw/>).

108. Important steps have been made toward the integration of public procurement in the broader PFM systems. Public procurement is listed as one of the sector priorities under Pillar 3 of the PFM strategy. The cash flow requirement is updated quarterly in line with the changes on both the demand side (contract implementation) and supply side (revenue collection). Equally, the GoR is moving toward modernizing its procurement function by introducing e-procurement to improve compliance, efficiency, transparency, fair competition, value for money, and controls in public procurement. RPPA's medium-term strategic plan for 2012/13-2014/15 makes reference to e-procurement.

#### **4.2 Pillar-II: Institutional Framework and Management Capacity**

109. Procuring entities are required to prepare annual procurement plans which are submitted to the MINECOFIN together with their work plans as part of the budgeting process, and the Public Procurement Law requires that all budget entities publish an annual procurement plan. RPPA monitors this process and the majority of plans are now prepared and published on the dgMarket website in addition to RPPA's website. Procurement plans are revised once at mid-fiscal year in line with budget revision by the

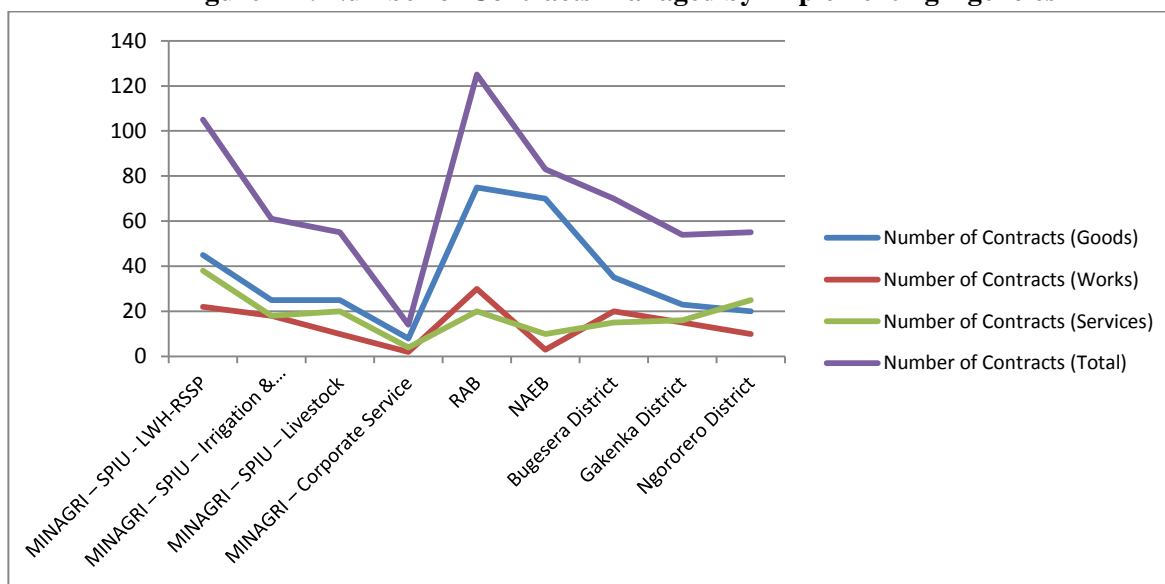


government. It is a requirement that submission of the procurement plan must accompany the budget request.

110. The procurement tools prepared by RPPA have detailed parameters to be included in the Procurement Planning Template, consisting of: description of contract; procurement method, source of funds; lead time for no objection to DBD (from RPPA where required); publication lead time; no objection lead time to contract award; and contract management (delivery period). According to assessment report prepared by RPPA in April 2012, all 135 assessed procuring entities have an annual procurement plan, of which 110 (81.5 percent) confirmed to the standards issued by RPPA.

111. RPPA’s assessment revealed that 53.3 percent of procuring entities awarded 100 percent of their contracts through the planned procurement method.<sup>24</sup>The total number of contracts procured (works, goods and consultancy services), by the assessed nine implementing agencies<sup>25</sup>, in the last fiscal year is 622. Goods is taking the largest proportion with 326 (52.40 percent) contracts, Services is the next largest 166 (26.70 percent) and Works has 130 (20.90 percent) contracts In terms of contract value, works take the largest proportion (US\$78 million or 55.8 percent), goods the second largest (US\$47.8 million or 34.2 percent), and services the least (US\$14.06 million or 10 percent) of the total US\$139.86 million implemented in the 2012/13 budget year by the assessed agencies.

**Figure 4-1: Number of Contracts Managed by Implementing Agencies**



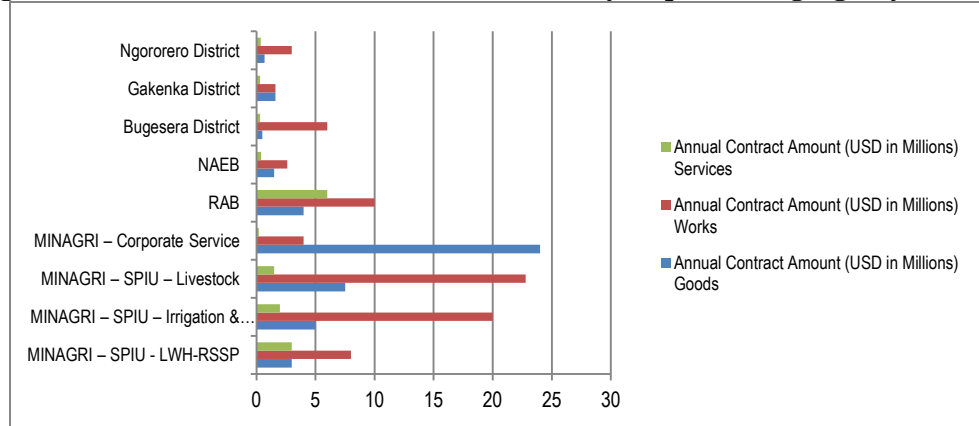
**Table 13: Annual Value of Contracts Distributed by Implementing Agency and Type**

SN	Implementing Agency	Goods (US\$ millions)	Works (US\$ millions)	Services (US\$ millions)	Total (US\$ millions)
1	MINAGRI – SPIU - LWH-RSSP	3	8	3	14
2	MINAGRI – SPIU – Irrigation & Mechanization ...	5	20	2	27

<sup>24</sup> RPPA Report of April, 2012 on “Assessment of Public Procuring Entities on Compliance/Performance with Procurement Law, Regulations and Procedures..”

3	MINAGRI – SPIU – Livestock	7.5	22.8	1.5	<b>31.8</b>
4	MINAGRI – Corporate Service	24	4	0.2	<b>28.2</b>
5	RAB	4	10	6	<b>20</b>
6	NAEB	1.5	2.6	0.4	<b>4.5</b>
7	Bugesera District	0.50	6	0.3	<b>6.8</b>
8	Gakenke District	1.6	1.6	0.3	<b>3.5</b>
9	Ngororero District	0.7	3	0.36	<b>4.06</b>
<b>Total</b>		<b>47.8</b>	<b>78</b>	<b>14.06</b>	<b>139.86</b>

**Figure 1: Annual Value of Contracts Distributed by Implementing Agency and Type**



112. Works contracts are relatively few in number (recall Table 11) but high in value and complex in nature compared to goods and services. The maximum value of a single contract handled by an agency so far is US\$13M by MINAGRI’s SPIU for Livestock; the second highest is US\$8M by MINAGRI’s SPIU for LWH-RSSP. The assessment revealed that Districts have limited experience in handling complex and high-value contracts.

113. For complex and specialized contracts, Procurement Units are supported by relevant professionals from the SPIUs and the technical/user departments of Districts.

114. The Procurement Units of each implementing agency (as defined earlier) are responsible for day-to-day procurement planning and processes. There are seven procurement specialists in the SPIUs and one for the Corporate Service of MINAGRI. RAB and NAEB each have four procurement specialists and officers, while each District has either one or two depending on the volume of transactions. Existing procurement staffing in all agencies is considered to be sufficient for the current work load. However, the need for additional procurement staff may arise depending on contract volume generated as a result of the PforR. The qualification for most procurement officers is a Bachelor’s degree or above, with professional certificates in procurement from the “Chartered Institute of Purchase and Supply.”

115. Contract administration of high-value works contracts is normally managed by an independent consultant. In addition, a “team of staff” from the technical/user department, legal, and procurement units provide oversight to all contracts of works and consulting services. The monitoring team is usually nominated by the heads or deputy heads of the agencies.

116. Goods are normally inspected and received by a “Logistics Committee” of three members and one expert from the relevant department specialized in the area. One challenge is time overrun, which is common for works contracts, although cost increase in most cases is not included.

### 4.3 Pillar-III: Procurement Operations and Market Practices

117. Open competition is a default approach in line with the Procurement Law and Ministerial Orders. National Competitive Bidding (NCB), International Competitive Bidding (ICB), Shopping, Direct Contracting (DC), and Restricted Tendering are the common methods used based on thresholds. However, the predominant procurement methods used by the assessed agencies are NCB and Shopping. A clear and applicable guideline for selection of the procurement method and process is elaborated in the User Guide. In addition, standard bidding documents; a standard template for the bid opening report; and a standard template for bid evaluation are provided by RPPA. Twenty-three out of 30 (77 percent) assessed procuring entities had evaluated all tenders basing on tender documents' criteria and 7 out of 30 (23 percent) procuring entities evaluated at least one tender using evaluation criteria other than those indicated in tender documents. The assessment showed that only 21 out of 30 (70 percent) awarded all contracts based on the least evaluated bid, while the rest did so only for some of the contracts.<sup>26</sup>

118. Single Source contracting is possible only: i) when there is only one supplier; ii) under emergency circumstance; iii) when the addendum  $\leq$  20 percent of the initial contract; iv) for small contracts  $\leq$  100,000 RwF; and v) as provided under Clause 17 of the Procurement Law under extraordinary circumstances justified by the implementing agency and approved by RPPA's Board (now by the DG of RPPA). At the sector level, the request is placed by the Permanent Secretary, backed by the respective Minister.

119. Every implementing agency has a TC comprising seven members. It is vested with responsibility for bid opening, evaluation, and award recommendation for the approval of the accounting officer. The TC normally serves as a standing committee for a duration of two years. According to the business standards in the procurement manual, the average time to prepare a bidding document for goods should be five days and to finalize evaluation, 21 days. The assessment revealed that in practice, the average time to prepare a bidding document is 5-7 days, and 1-4 days for evaluation of relatively small contracts. Contract awards are approved and signed by the DG/DDG of Corporate Service, the SPIU Coordinator, or the Chief Budget Manager, as appropriate.

120. The assessment revealed that there are adequate suppliers of goods, simple and minor works, and consulting services in the country, with the exception of a shortage of bidders encountered for high-value irrigation project contracts.

121. Registration of a suppliers' list is a requirement and is done at Rwanda Development Board (RDB), with a link to Rwanda Revenue Authority (RRA) and Rwanda Social Security Board (RSSB). Registration is not restrictive and can simply be undertaken online.

122. RPPA's practice of providing price references on a regular basis for use by procuring entities has contributed a lot to ensuring the fairness of prices.

123. Standard bidding documents, standard request for proposals, and standard templates issued by RPPA are consistently used by implementing agencies. The standard bidding documents are modeled after the World Bank Standard Bidding Document. The standard bidding documents are accompanied by user guides to assist entities in their completion. The documents were reviewed and considered generally acceptable.

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<sup>26</sup> RPPA Report of April, 2012 on "Assessment of Public Procuring Entities on Compliance/Performance with Procurement Law, Regulations and Procedures."

124. Procurement arrangements provide for wide advertising of bidding opportunities, through local newspapers and online media such as DgMarket, RPPA's website, procuring entities' websites, Client Connection, and UNDB Online, and the implementing agencies have used them appropriately for high-value contracts. According to the procurement regulations and procedures, publication of awarded contracts on the procuring entity's website is mandatory. However only 8 out of 135 (6 percent) procuring entities have published 90-100 percent of their awarded contracts, while 126 out of 135 (93.3 percent) have published less than 70 percent of their awards.

125. The standard bidding documents used for open domestic bidding are comprehensive in nature and contain all the relevant information to enable bidders to prepare responsive bids. The evaluation criteria are generally nondiscriminatory and encourage competition.

126. **Complaints handling.** Bid results are usually notified to all bidders including nonqualifying bidders to enable any complaints to be lodged within seven days from the date of notification. Likewise, a response to the complaints should be given within seven days from the date of filing of the complaint. The procurement law has provided for procedures by which contractual disputes are resolved. The system in place allows for any complaints to be disposed administratively in addition to judicial review. Subsequent engagement of arbitration and judicial reviews are applied when administrative resolution has been exhausted and failed.

127. Procurement-related complaints are first addressed to the Corporate Service DG/DDG, the SPIU Coordinator, or the Chief Budget Manager (Executive Secretary), as appropriate. Following responses from implementing agencies, bidders who have grievances with the procuring entities' procedures have the right to lodge complaints with the NIRP or DIRP. At the District level, a bidder not satisfied with the response of the DIRP can appeal to the NIRP. The final level of appeal is escalation to a court of justice. The NIRP has seven members, one permanent member from RPPA and six members from different government institutions and the private sector. According to the Procurement Law, the number of members from government institutions should not exceed 50 percent so as to ensure fairness.

128. The government's performance in advancing the private sector agenda has been recognized by the World Bank in its *Doing Business* reports, which identify Rwanda as the top reformer worldwide. For example, in the 2010 *Doing Business* report, Rwanda moved up 76 places in the "ease of doing business," from 143 to 67. By fostering improved governance, access to credit, and streamlined regulations for the private sector, Rwanda is creating a favorable, enabling environment for private sector participation in public procurement.

#### 4.4 Pillar-IV: Integrity and Transparency of Public Procurement System

129. Rwanda's Public Procurement Law enacted the establishment of an "Independent Review Panel." As previously described, the NIRP is composed of government agencies and the private sector, with the government share not exceeding 50 percent. The NIRP is also charged with receiving reports of offence from procuring entities against suppliers.

130. Rwanda is recognized for the high priority it places on maintaining a high level of integrity in public administration, and significant progress has been achieved in establishment of mechanisms to support the integrity and transparency of its public procurement system. Some of the advancements are: i) the government signed the UN Convention on Anti-Corruption, so bidders have access to dispute resolution procedures and a complaints-handling mechanism that allows them access to the NIRP; ii) there are provisions and mechanisms to address violations of the law, including those resulting from

conflict of interest and F&C; iii) administrative and criminal remedies are identified in the law and there is evidence that these provisions are vigorously applied. Since its establishment in 2008, RPPA has debarred 29 firms; this is publicized on the RPPA website and cases of violation of the law are brought to justice and widely disseminated.

131. At each visited agency, there is a system of accountability with defined responsibilities and delegation of authority for contract procurement processing, evaluation, approval, and signing of contracts. Procurements and/or contracts are monitored regularly by the RPPA on a sample basis. RPPA is staffed with 54 professionals to carry out investigations on noncompliance issues and to carry out procurement audits. The existing manpower is insufficient to audit all agencies on annual basis. A risk-prone area identified for the procurement function is forgery of bidding documents (for example, bid securities and performance bonds).

132. RPPA plays a key role in procurement oversight, being part of the control systems for public procurement. RPPA conducts annual audits of 30-50 percent of the procuring entities. These comprehensive audits cover the whole procurement cycle (i.e., procurement planning, procurement process, and contract management). Other independent entities involved in oversight of procurement audits include: i) the OAG, established in 1998 to carry out external audits; ii) MINECOFIN, through the Chief Internal Auditor, appointed in 2006; iii) MINALOC; and iv) the OM. However, there is a need to improve coordination among various auditing entities (RPPA, Chief Internal Auditor, Auditor General, OM, and MINALOC) to: avoid overlap and build on existing complementarities; increase the efficiency of the complaints-handling mechanism; improve follow-up by the procuring entities on auditors' recommendations; and make better use of administrative sanctions.

133. RPPA communicates corruption cases to the OM and fraud cases to the CID for further investigation and prosecution.

134. Follow-up on audit findings is underway by the judiciary and the PAC in Parliament. The IA function also ensures that actions are taken by the respective unit of each agency.

135. The GoR has aggressively embarked on a fight against F&C. In addition to the existing institution to fight F&C, the government recently established a "Fraud and Corruption Council (FCC)," led by the Head of the OM and members of other entities like RPPA, CID, and the OAG.

## **Major Findings**

### **136. Strengths of Rwanda's procurement systems and practices:**

- i) MINAGRI, its agencies, and the Districts' procurement practices are generally sound, entered in IFMIS, and consistent with the budget, and completion reports are prepared;
- ii) Each implementing agency at the national and District level has an established institutional setup for implementation of procurement activities;
- iii) There are adequate suppliers of goods, simple and minor works, and consulting services at the national and District level;
- iv) Reasonable oversight and accountability exists. Procurements and/or contracts are monitored regularly by RPPA on a sample basis. The OAG undertakes compliance auditing in addition to the established financial auditing. The OM oversees on an information basis;
- v) The Public Procurement Directives require implementing agencies to comply with the well-defined complaints-handling mechanism and this is adhered to;
- vi) The majority of awarded contracts of works and goods are based on the least evaluated responsive bidder;

- vii) A good number of tenders are awarded based on criteria provided in the tender documents; and
- viii) A good number of consultancy services contracts are awarded through the QCBS procedure.

**137. Weaknesses of Rwanda' procurement system and practices:**

- i) There are irregularities in implementation of the procurement legal framework and systems; (awarded through nonopen competitive methods, award contracts that are not included in the procurement plan, periods for bids preparation that are longer than prescribed in the legal documents);<sup>27</sup>
- ii) There are capacity limitations in terms of skilled staff to handle high-value procurement and contract administration at the District level. The situation is further exacerbated by high staff turnover across all implementing agencies;
- iii) Maintaining adequate written records of all procurement and contract documents is a major weakness area of all procuring entities;
- iv) Procurement procedures require agencies to publish contract awards on media accessible to the public, in principle on similar media used for bid advertisement. The assessment revealed that this is not adhered to at the national level (MINAGRI, RAB, and NAEB) nor at the District level, a finding in agreement with RPPA's April 2012 report ( "Assessment of Public Procuring Entities on Compliance");
- v) RPPA's capacity to carry out comprehensive procurement audits on an annual basis as part of its regulatory mandate is inadequate. At the national level, most agencies are audited only once in two years;
- vi) There is a lack of coordination of procurement auditing between RPPA and the OAG;
- vii) There are sometimes delays in payment of contracts executed, especially at the District level;
- viii) Contracts are awarded without formally recorded internal approval as required by the Public Procurement Law; instead, the signing of a provisional award notification letter is considered internal approval; and
- ix) Selection of consultants is undertaken based on "Open Competitive Bidding" in a similar manner to that of procurement of goods or works. This is contrary to the provisions of the Public Procurement Law.

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<sup>27</sup> RPPA Report of April, 2012 on "Assessment of Public Procuring Entities on Compliance/Performance with Procurement Law, Regulations and Procedures."

## Chapter 5: Fraud and Corruption Considerations

138. Chapter 5 provides more details on the assessment of: Rwanda's legal and institutional arrangements for investigating and prosecuting F&C cases; its ability to apply the Bank's Anti-Corruption Guidelines (ACGs) in the financing for the Ag. PforR; and its complaints- or grievance-handling mechanisms. The assessment examined the capacity of Rwanda's governance systems and arrangements to handle issues of F&C in the program's implementing entities – MINAGRI, its semiautonomous agencies (RAB and NAEB), the SPIUS, and the Districts responsible for implementation of aspects of PSTA 3. Budgets are decentralized to Districts as cost centers and Districts also implement programs on behalf of RAB and NAEB with earmarked funds in the District budgets. The assessment also covered key oversight institutions for F&C, including the OM, the NPPA, and the OAG. Views of nonstate actors (including Transparency International Rwanda, the Private Sector Federation, and the National Cooperative Confederation, which represents federations of unions of about 60,000 primary cooperatives, 80 percent of which are in agriculture) were also taken into consideration. Discussions with nonstate actors focused on how well they perceive the government institutions and systems working to prevent and deal with F&C and related complaints, grievances, and risks.

### 5.1 Adequacy of Legal and Institutional Arrangements for Fighting F&C

139. The assessment suggested that there are relatively strong institutions and arrangements for fighting F&C and for accountability, integrity, and oversight, including the Parliamentary PAC, the OM, and the OAG, who hold public institutions such as MINAGRI and other program implementers to account. The legal and institutional arrangements have improved over the years with clear political will at the highest level. There is a division of responsibilities between the OM, which deals with cases of corruption, and the CID, which deals with cases of fraud, while the NPPA prosecutes cases of F&C after investigations. The NPPA has about 10 prosecutors dedicated to the prosecution of F&C and one prosecutor for each of the 30 Districts. The team's assessment was that these arrangements are reasonably adequate to handle F&C cases in the Ag. PforR Program, but some suggestions for mitigating the weaknesses were offered.

140. The prevention directorate of the OM assists both public and private organizations and nonprofit organizations in reviewing their business processes to identify and address gaps that might create opportunities for corruption. It also has the mandate to proactively intervene in organizations, including MINAGRI, NAEB, and RAB as well as the Districts, to review corruption risks and provide advice on corruption prevention measures. There seem to be good working relationships and understanding among the agencies, with a common purpose of minimizing opportunities for F&C and dealing decisively with it when it occurs through investigation and prosecution.

141. **The legal provisions for investigation, prosecution, and prevention of F&C and enforcement are quite strong and reasonably adequate for the PforR operation.** Corruption is comprehensively defined in Article 633 of Organic Law No. 01/2012/OL of the Penal Code and there are several other laws to help fight, prevent, investigate, and punish F&C<sup>28</sup>. The Law establishing the Office of the Ombudsman was amended in 2013 (Law No. 76/2013) to enable the OM to prosecute cases of corruption in order to speed up the process of prosecution. At the time of the assessment and appraisal, the OM was in the

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<sup>28</sup> The laws include Organic Law N° 61/2008/OL of 10/9/2008 on leadership code of conduct, Organic Law N°23/2003 of 7/8/2003 Concerning Prevention, Organic Law N°12/2007 of 27/3/2007 on national procurement; Organic Law N°12/2013/OL of 12/09/2013 on government property and assets; Organic Law N°76/2013 of 11/9/2013 which is amended law defining powers and mandate of the ombudsman, including the power to prosecute cases of corruption; Ministerial Order N°001/08/10/Min of 16 on national procurement.



process of setting up a prosecution unit and thus the NPPA was still responsible for prosecution of both F&C cases until the OM is ready to take on this responsibility. The OM intends to enter into an MOU with the NPPA with regards to continuous joint working and support to prosecute corruption cases. A Whistle Blowers Protection Act was passed in 2013 to give reasonable assurance and incentives to report cases of F&C. The implementation of these laws have been quite robust and strengthened over the years, with the result that Rwanda is one of the least corrupt countries in Africa and the least corrupt in East Africa. Sanctions are quite severe and have included imprisonment, sackings, and publication/“naming and shaming” policies, whereby persons convicted of corruption have their name, offence, family background, town, and District published in newspapers and at the OM’s website (<http://www.ombudsman.gov.rw>).

**142. The Parliamentary PAC provides effective oversight and checks on public finances.** Even though it is relatively new (established in April 2011), the PAC has proven to be capable and effective in providing oversight of FM. It has regularly called financial managers to account and has earned a reputation among the public for its robustness. Reports submitted by the OAG to the PAC are scrutinized and recommendations followed up; these are having a positive impact in enhancing the accountability of public institutions and officials, including MINAGRI and its agencies (RAB and NAEB). Consequently, Rwanda has relatively low levels of corruption and the systems in place both at the national and in the PforR implementing agencies provide reasonable assurance that the resources from the program will be used for the intended purposes with economy and efficiency.

143. The Procurement Law is complemented by two Ministerial Orders: i) Ministerial Order No. 002/10/10/TC of 25/06/2010, which governs public procurement and tender document issues; and ii) Ministerial Order No. 001/11/10/TC24/01/2011, which establishes professional codes of ethics governing state employees involved in procurement, including annual declaration of their assets. Together, these three documents make provisions to limit the opportunities for corruption in public procurement in general, including in the implementing agencies. Overall, the legal and institutional frameworks give reasonable assurance of the capacity to deal with cases of F&C in the Ag. PforR operation. However, staffing capacity in investigation in the OM is a concern, as two vacancies had yet to be filled due to delays in getting approval from MIFOTRA. As part of the PAP required for this program, the OM should to complete the process of setting up its prosecution unit and appropriately staffing it. The OM may also require more corruption investigators beyond the current established level of five to cover the entire country. The NPPA has the staffing and resource capacity to investigate and prosecute F&C cases.

**144. The OM’s independence is key for operational effectiveness.** The Chief Ombudsman is appointed for a five-year term, renewable once, and two deputies are appointed for four-year terms, renewable once. The OM reports to Parliament and the Office of the President and has independence in its operations. A Steering Committee includes representatives of the private sector and civil society who provide guidance and advice to the OM on priority issues and areas to focus on; this has helped to institutionalize third party voice and participation in the fight against corruption.

**145. The OAG's report provides pointers to potential cases of F&C, in addition to the public providing information through hot lines and other media.** The OAG’s annual report on the use of public funds in governmental organs and institutions is sent to Parliament (the PAC) and a copy is provided to the Prosecutor-General, as provided for by Article 184 of the Rwandan Constitution as revised to date. The NPPA then appoints a team to analyze the report and investigate persons suspected of complicity in mismanagement of public funds in general, where necessary. However, the law does not require a copy of the report to be provided to the OM. With the amendment of the law to enable the OM to prosecute cases of corruption, it is important that a copy of the OAG report be sent to the OM.



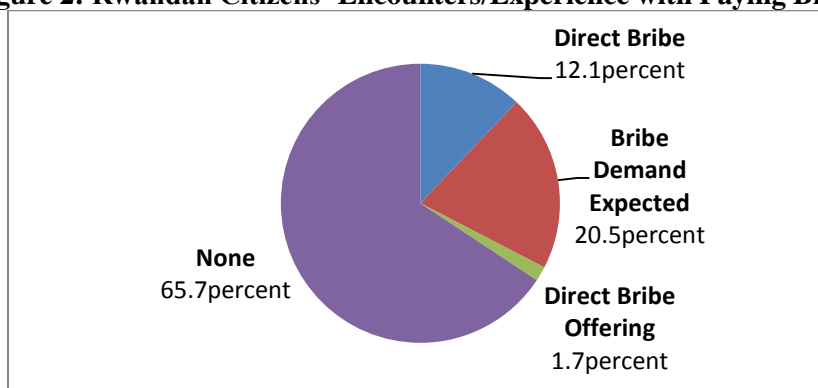
146. Overall, available evidence suggests that the risks for F&C in the PforR Program are Moderate, with Substantial risks at the District level, where FM and procurement capacity are relatively weak. The 2013 Bribe Payer’s Index for Rwanda shows that Districts are second in the list of the top five institutions with the highest probability of a bribe being asked for by officials; Districts also have the second highest number of bribes. Paying bribes at the District level also has the second highest impact on access to services (see Table 15). However, the overall majority of citizens (about 66 percent) do not seem to have encountered or paid bribes (Figure 2).

**Table 14: Top Ranking Institutions in Rwanda for Bribe Payment**

Institutions with the Highest Probability of Asking for a Bribe	Institutions with the Highest Number of Bribes at the National Level
1 Police (8.28 %)	1 Police (43.22)
2 Local government (5.94 %)	2 Local government (24.98)
3 Judiciary (5.08 %)	3 Banks (11.70)
4 Private sector (3.61 %)	4 Judiciary (7.08)
5 Land Bureau (3.47 %)	5 Rwanda Revenue Authority (4.53)

Source: Rwanda Bribe Payers Index 2013.

**Figure 2: Rwandan Citizens’ Encounters/Experience with Paying Bribes**



## 5.2 Assessment of Complaints- and Grievance-Handling Systems

147. Multiple channels exist for making and recording complaints on F&C, including on procurement. There is reasonably good citizens’ engagement and a complaints-handling mechanism for F&C. Both the OM and NPPA have regular press conferences aimed at sensitizing the public at large on corruption to prevent the public from engaging in this and related crimes, since persons found guilty are harshly punished.

148. Handling complaints and grievances related to F&C are reported or redirected to NPPA/CID, while corruption cases are reported directly to the OM or redirected to OM from other agencies such as NPPA or RPPA. On fraud, Chief Prosecutors at all prosecution levels are duty-bound to receive complaints from the public every day on allegations of fraud in any government agency, including MINAGRI, RAB, NAEB, and the Districts. This enables issues to be handled in a timely manner and prevents complainants from using corrupt means to solve their concerns. The Chief Prosecutors in NPPA write monthly reports to the Prosecutor-General informing him of all complaints received and how they were resolved. Prosecutors also have timelines within which they must have taken a decision on each case, for failure of which reasonable cause must be given. A similar process is used in the OM to handle complaints received. The NPPA has a free hotline (3677) that enables anyone with information on corruption or has a complaint can easily communicate to NPPA. The OM also has multiple sources of

receiving complaints, including hotlines, secure complaints boxes in most public organizations and an in each of the 30 Districts, via email and letters. The assessment suggests that these complaint mechanisms work reasonably well.

149. **Complaints of F&C come from multiple sources**, including the public, private bidders, newspaper reports, and the organized private sector and civil society. In terms of systems for making complaints on F&C related to PFM or procurement, the NPPA has: i) dedicated free hotline (3677) that enables anyone with information on corruption or with a complaint to easily communicate to NPPA; ii) complaints boxes in public offices (including MINAGRI, NAEB, and RAB) and in the Districts; iii) dedicated email accounts; iv) newspaper reports/allegations; v) letters – official or anonymous; and vi) third party sources such complaints made through TI Rwanda or the Private Sector Federation (PSF), where members of the public, in some cases, feel more confident and protected to report.

150. A review of the complaints-handling mechanisms within the implementing agencies for the PforR Program (MINAGRI, RAB, NAEB, and the Districts) suggested that they follow similar procedures and mechanisms for complaints on procurement and F&C cases. To strengthen transparency during PforR Program implementation, there is a need to improve implementing agencies' (MINAGRI, NAEB, RAB and Districts) recordkeeping and for them to maintain a database of stakeholder and public complaints on F&C and fiduciary issues and how these are responded to or handled. As already required by Rwanda law, the implementing agencies will report any fraud and corruption allegations to NPPA and the OM, respectively. In agreement with the government, these agencies will report such allegations to the World Bank and share such information with the Bank in real time according to the AGCs.

151. In the specific case of Districts, the PforR Program will use existing channels for complaints (see Figure 5.2). For corruption, there are secured complaints boxes in all districts manned the OM and checked quarterly. Complaints can also be made through phone, emails and letters to the Office of the Ombudsman. The OM also has informants all over the country, including in the Districts, who provide information on possible F&C to its headquarters in Kigali. In addition, the OM carries out surprise checks on these agencies. However, more needs to be done to improve internal controls due to capacity constraints in the Districts. This is part of the PAP for PFM in the PforR operation and is expected to have a positive impact on mitigating the risk of F&C.

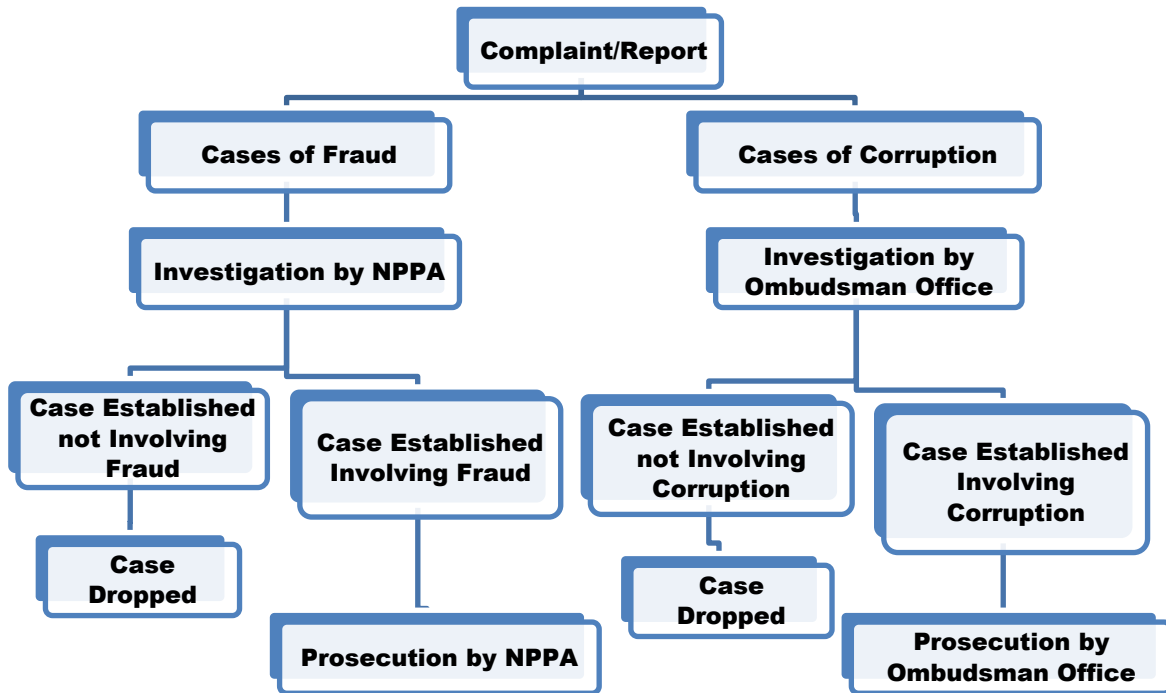
152. The multiple channels for receiving complaints (i.e., procurement via RPPA; corruption through OM; and fraud through NPPA), using various media, provide options to citizens, also raise questions of coordination to ensure that all complaints are captured, recorded, and responded to in the PforR operation. The PAP will need to strengthen mechanisms for capturing feedback and complaints from citizens and key stakeholders such as farmers and private contractors. It is recommended that the PAP include actions to develop and implement communication strategies with farmers and to collect feedback from them and other citizens on various aspects of the program (such as distribution of fertilizers, award of contracts for terracing and their implementation, use of warehouses, and associated complaints).

153. **In the case of corruption**, the assessment suggests that the existing complaints-handling mechanisms (as described earlier) work reasonably well. TI Rwanda, for example, has offices in six Districts and four offices in partnership with other institutions, and has a toll free number (2641) for receiving complaints on F&C, which it consolidates at its head office, reviews, and passes on to the appropriate authorities (the OM, NPPA, or CID) for investigation. TI Rwanda also has a web-based tool for the public to report corruption cases. It has signed an MOU with the OM to share such information for further investigation.

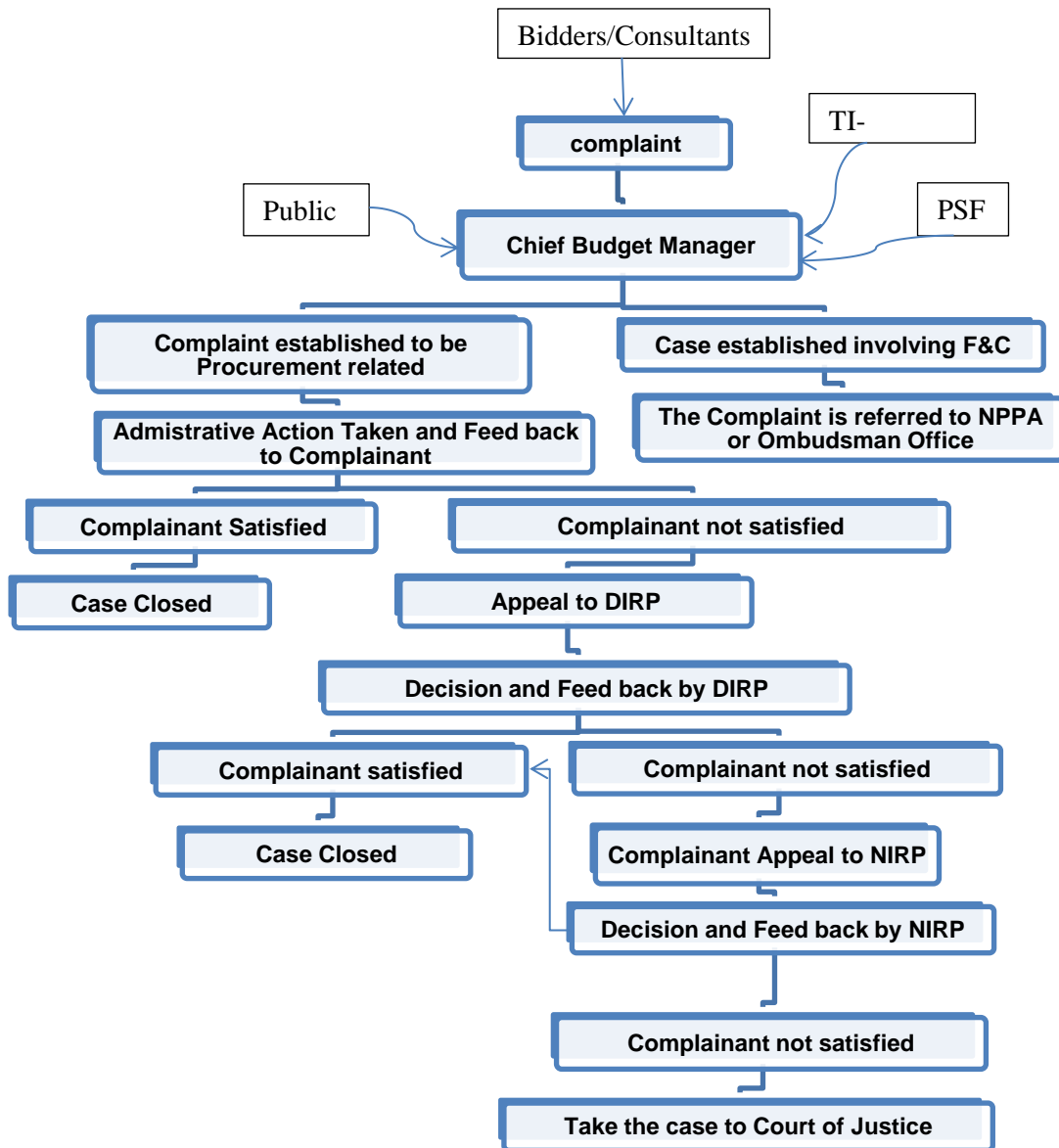
154. Procedures related to complaints on public procurement are stipulated in the Procurement Law and can come from bidders, who have seven days to lodge a complaint or request a review. The reporting system for procurement complaints is adequate for this program. There is also an appeal mechanism for bidders if they are not satisfied. The NIRP and DIRPs review decisions made on procurement complaints. Complaints related to suspected cases of F&C in procurement are referred to the OM and NPPA by the RPPA and review panels for investigation and possible prosecution. Complaints from citizens on suspected cases of F&C are also lodged with the RPPA or directly with the OM or NPPA.

155. Figure 3 summarizes the complaints- and grievance-handling procedures and institutions, while Figure 4 illustrates an example at the District level.

**Figure 3: Process for Complaints-handling for F&C**



**Figure 4: Illustration of a Complaints-handling System for Procurement at the District Level**



156. Table 16 summarizes the number of complaints received on corruption by the OM since 2009/10. Out of 453 cases, 307 were investigated, with only 9 sent to prosecution and 18 transmitted to other institutions, including the police. Many of the complaints received were related to maladministration, followed by complaints about local entities, procurement, and the justice sector. A major challenge noted is the lack of evidence or information to prosecute allegations of corruption. Almost all cases prosecuted have been of petty corruption rather than of grand corruption.

**Table 15: Complaints Received on Corruption by the OM**

<b>Year</b>	<b>Cases Received</b>	<b>Cases Investigated and Concluded</b>	<b>Cases Transmitted to Prosecution</b>	<b>Cases Transmitted to Police and Other Insts.</b>	<b>Pending Cases</b>
2009-2010	225	187	3	12	23
2010-2011	65	24	1	0	40
2011-2012	117	72	3	5	37
2012-2013	46	24	2	1	19
<b>Total</b>	<b>453</b>	<b>307</b>	<b>9</b>	<b>18</b>	<b>119</b>

*Note:* Prosecution of both F&C cases were done by the NPPA until recently, when the law was amended to allow the OM to prosecute corruption cases. This is still a transition phase and the OM was not yet fully ready to exercise its new powers at the time of the assessment.

### 5.3 Program-specific Assessments of Risks of Fraud and Corruption

157. The Auditor General’s report noted some lapses in procurement, in some cases including noncompliance with the Procurement Law in full. Specific examples include nonpublication of contracts in appropriate media, thus weakening transparency and openness, and poor records management for procurement trail and auditing. These lapses are vulnerable to risks of corruption if not addressed comprehensively.

158. Regarding the above risks in procurement, Framework Agreements for transportation of fertilizer inputs need to be made public. There are also contracts for irrigation and the PforR is expected to support small irrigation contracts. In this regard, about six large firms usually bid for irrigation contracts.

159. Table 17 summarizes the PforR’s F&C risks:

**Table 16: Program-specific F&C Risks and Mitigation Measures**

Risks	Assessment of F&C Risks
Risks of F&C in contracts for terracing, irrigation, rural feeder roads, and storage facilities/silos and import of fertilizers	About six large firms have the capacity to bid for irrigation contracts. The limited number of suppliers may create risks of collusion. Other weaknesses in procurement that pose risks for F&C include: the use of limited open competitive methods; award of tenders that are not planned; and limited publication of contract awards in publicly accessible media.
Fertilizer is heavily subsidized by government; the risk is possible capture of and more benefits going to large and rich farmers	Subsidies range between 50-100%. Experience from other countries (e.g., Kenya) suggests that distribution tends to benefit large farmers at the expense of small and poor farmers. Even though Rwanda seems to have good distribution channels, it would be helpful to make the information on distribution more public, to know who gets what and how much.
Weak internal auditing and internal controls with risk of misuse of funds	With capacity gaps in staffing at the District level, concerns exist about internal controls; as all Districts have qualified audits, the risks of F&C in the program remain a concern, mainly at the District level. Audits are only able to cover about 20% of over 100 spending units in the District; cases of misuse of funds have been reported.
Weaknesses in contract management	Specific risks related to contract management include significant delays in payment to contractors (sometimes up to 6-12 months), which in some cases could be due to rent seeking by officials responsible for approving payment, and crafting TORs in favor of specific bidders.

160. Overall, there is difficulty in determining the extent of the potential for F&C in PSTA 3, but the assessment and discussions with some actors and stakeholders suggest the possibility of “soft corruption” in various forms – excessive use of single sourcing, the way TORs are crafted, and delays in the processing of payments to contractors. Even though this is anecdotal evidence, the Ag. PforR Program will include measures to strengthen complaints and grievance and appeal systems and also to strengthen beneficiaries’ awareness of their rights within the program, including farmers and contractors. Based on the assessment and available evidence, including the OAG’s report, **the overall risk for F&C in the program is rated as Substantial without mitigation measures.**

161. **Application of World Bank Anti-Corruption Guidelines:** The assessment also examined the capacity and commitment of the Government institutions to implement the Bank’s ACGs whose measures will mitigate the risks of fraud and corruption in the Agriculture PforR operation. The application to the Agriculture PforR operation, as currently proposed is summarized below,

- i) *Sharing of debarment list of firms and individuals:* MINAGRI will share with the procuring entities list of firms or individuals on the World Bank’s debarment or suspended list and ensure that these are not allowed to bid for contracts or benefit from a contract under the operation during the period of debarment or suspension. Though Rwanda procurement law does not automatically debar firms on the World Bank list from participating in public procurement, the application of the ACGs agreed to by the Government will require the the use of the World Bank list of debarred and suspended firms and individuals. The Office of the Auditor General and RPPA Will check compliance and report to the World Bank every six months as part of the reporting requirement of the operation.
- ii) *Sharing of information with the World Bank on fraud and corruption allegations:* All program managers are required by law to forward any allegations of fraud and corruption to the OM and NPPA respectively. The OM and NPPA will share such information with the World Bank every six months on all allegations of fraud and corruption received from the public and the complaints

system. This is necessary to demonstrate commitment to transparency and openness in the program to the ACGs.

- ii) *Investigation of fraud and corruption*: The OM and NPPA have the legal mandate to investigate any allegations of fraud and corruption and prosecute such cases. As a result, all allegations of fraud and corruption will be investigated by the OM and the NPPA and those found to be credible will be prosecuted by NPPA. The World Bank's Institutional Integrity Vice Presidency (INT) may also investigate any fraud and corruption allegations made against the entire program or part of the program. Thus there are two possible tracks to investigation, depending on the circumstances: (i) The OM and NPPA may undertake their own independent investigations of fraud and corruption allegations that may arise from complaints or sharing of information under the above paragraph; (ii) INT may undertake its own corruption fraud investigations related to the PforR operation. In such cases the Agriculture PforR operation and OM and NPPA will collaborate with INT to acquire all records and documentation that INT may reasonably request from the operation regarding the use of the PforR financing.

162. **In conclusion, the F&C risks for implementing the PforR Program are Moderate, without mitigation measures.** While Rwanda has a strong institutional and organizational capacity to handle issues of F&C in the program, it will have to take action to address the risks areas identified, including having adequate staffing in investigations and PFM at the District level, minimizing delays in payments to contractors, beefing up corruption investigators at the OM, and streamlining complaints- and grievance-handling mechanisms within the implementing entities.

163. To minimize F&C risks in the program, the following mitigation measures are proposed prior to and/or during PforR Program implementation:

- For weaknesses in IA and controls, especially at the District level, the proposed mitigation measure is to recruit and train additional auditors for Districts, especially large Districts with relatively large budgets. Central agencies such as RPPA, the OM, and the OAG perform regular audits and Districts submit regular audit report to the District Councils. These oversight and reporting functions need to be maintained with more regularity.
- On procurement, surprise and spot checks of procurement files by the OM and RPPA need to continue. Improved transparency through the publication of contracts in regular media will help prevent corruption in procurement, especially for high-value contracts in irrigation and supply and distribution of fertilizers.
- As suggested above, the OM needs to beef up its investigation capacity by recruiting staff to fill existing vacancies and expanding its establishment level for investigators to more than six to be able to cover all 30 Districts plus central government agencies. The OM is in the process of hiring staff to fill two vacant positions. Better coordination is needed between the OM and OAG; the OAG needs to officially share its report with the OM, not just the NPPA, as it provides pointers to possible cases of F&C that need follow-up attention.

## Chapter 6: Cross-cutting Program Considerations

### Key Results

164. The assessment revealed that all the three fiduciary aspects (FM, procurement, and GAC) are embedded in and feed into other key Program results areas.

### DLIs

165. The conclusion of this assessment is that separate DLIs are not necessary for the fiduciary aspect as all three fiduciary functions feed into other key results areas, and are hence expressed through other program DLIs.

### Identified Risks and Suggested Program Action Plan

166. The PAP contains priority results-focused capacity development actions in areas that involve identified risks and will be carried out during Program implementation. These priority actions are summarized in Table 18.



**Table 17: Identified Risks and Suggested Program Action Plan**

Risk Sources	Actions Required to Address Weaknesses That Will Support Attainment of Program Objectives	Responsible MDA	Due By
<p><b>1. Accounting and financial reporting</b> - Overall FM element objective: adequate program records are maintained and financial reports produced and disseminated for decision making, management, and program reporting.</p>			
<p><b>Failure to consolidate financial statements for NBAs at the subnational level is the main reason for qualification of District financial statements OBL Article 67: Preparation and submission of consolidated financial statements:</b> The Minister shall prepare and submit to the Auditor General of State Finances, <u>not later than 30 September</u> of the following fiscal year, consolidated financial statements. The consolidated financial statements <u>shall include Central government entities, extra budgetary entities and decentralized entities.</u></p>	<p>Measures to resolve these issues are part of the Governance PforR's broad PFM support to the Districts in the short and long term.</p> <p>Provide on-the-job training to District accounting staff, focusing on the consolidation of NBAs at the District level.</p> <p>Deployment of a task force to assist Districts in the implementation of audit recommendations related to FM.</p>	<p>Auditor General's Department</p>	<p>Annually</p>
<p><b>2. Internal control (including IA)</b> - Overall FM element objective: there are satisfactory arrangements to: (a) monitor, evaluate, and validate program results; and (b) exercise control and stewardship of program funds.</p>			
<p>Established internal controls may be circumvented.</p> <p>The current IA capacities may not be strong enough to deter internal control risks.</p>	<p>Strengthen District Council audit committee membership and co-opt competent members based on an agreed sitting fee.</p> <p>The IA teams supporting the program through the leadership of MINAGRI will assess the risk-prone areas and develop a risk profile to be monitored throughout the program's life, ensuring that timely mitigation measures are undertaken.</p>	<p>MINECOFIN (OGCIA)</p>	<p>June 2015 and annually thereafter</p>
<p><b>3. External audit</b> - Overall FM element objective: adequate independent audit and verification arrangements are in place, taking into account the country context and the nature and overall risk assessment of the program.</p>			
<p>Qualified audit reports at the District level and boards. NAEB and RAB for FYI 2011/2012 and FY 2012/2013 received adverse audit opinions.</p>	<p>A monitoring mechanism is to be developed at MINAGRI on implementation of audit recommendations with the support of the requisite audit committees.</p> <p>A technical assistance consultancy will support RAB and NAEB to reconcile the accounting/financial statements before and after merger.</p>	<p>MINAGRI</p> <p>MINAGRI, RAB, and NAEB</p>	<p>September 2015</p> <p>March 2016</p>

<b>Strategic Objective and Main Activities: Efficient and effective procurement management is put in place to ensure successful implementation of the Program.</b>				
Overall DLIs and related outputs	DLI-1,2,4,6, and 7	i) Public Procurement Law is fully enforced. ii) All program procurements are in compliance with the Public Procurement Law.		
<b>1. Lax Compliance by IAs</b>				
a) Use of noncompetitive methods	Government to disseminate and enforce the Public Procurement Law through regular and structured trainings and oversight.	2014-2015	RPPA	All contracts above the threshold required by the law are awarded on a competitive basis.
b) Award of contracts not in procurement plan	Government to disseminate and enforce the Public Procurement Law through regular and structured trainings and oversight.	2014-2015	RPPA	All implementing agencies have a procurement plan that covers all contracts of the program.
c) Payment delays to executed contracts	Government to revise budget replenishment system so as to ensure Districts have sufficient funds at any given time to pay for contracts executed.	2014	MINEC OFIN	Payments for contracts executed are paid contractually without delay.
d) Consultants' selection without use of Requests for Expression of Interest (REOI) and shortlisting	Government to disseminate and enforce the Public Procurement Law through regular and structured trainings and oversight.	2014-2015	RPPA	All consultants' selections are made though use of REOI and issuing RFPs to shortlisted consultants as per requirement of the law.
<b>2. Procurement Capacity</b>				
a) Delayed procurement processes at District level	Government to organize structured procurement capacity-building trainings.	2014-2015	RPPA	Districts have good procurement capacity to handle tenders including high value contracts
b) Lack of procurement officers due to high turnover	Implementing agencies will make sure adequate procurement staff are deployed before program implementation.	Pre-implementation	MINAG RI	All implementing agencies will have the required procurement officers in place and their retention ensured.
<b>3. Transparency and Fairness</b>				
Contract award decisions are not published on media easily accessible by the public	Government to enforce the Public Procurement Law with regular oversight.	2014-2015	RPPA	Agencies comply with all procurement procedures and legal requirements.
<b>4. Accountability, Integrity and Oversight</b>				
a) Contracts are awarded without formal and recorded internal approval	Government to enforce the Public Procurement Law with regular oversight.	2014-2015	RPPA	Agencies comply with all procurement procedures and legal requirements.
b) Procurement records of the program are not	RPPA to include recordkeeping as one section in the capacity-	2014-2015	RPPA	Implementing agencies have complete, safe, and easily retrieved recordkeeping

complete, chronological, safe, or easily retrieved	building trainings.			systems in place.
c) Lack of procurement oversight on annual basis	RPPA and OAG to coordinate to ensure that all implementing agencies are audited at least once a year.  RPPA to be included in the capacity-building component of the PforR Program.	2014-2015	RPPA & OAG	Capacity for procurement oversight is developed to a level where procurement of every implementing agency is audited annually.
<b>III) Strategic Objective and Main Activities (GAC): Enhanced capacity for investigation and transparency</b>				
a) Inadequate staffing of OM and NPPA to investigate F&C cases	OM to enhance its capacity for investigation by filling existing vacancies and increasing the number of investigators to cover all 30 Districts and central government.	2014-2015	OM NPPA	Additional staff are hired to enhance capacity of OM and NPPA. Investigators are trained.
b) High-value contracts (e.g., irrigation and supply of fertilizers) are not always published in widely accessible media	Contract awards to be published in easily accessible media in accordance with the Public Procurement Law.	From program effectiveness	RPPA and PforR Program implementing agencies	There is improved transparency of contracts and access to procurement information.

**Table 18: Fiduciary Risk Rating**

<b>Risk</b>	<b>Rating</b>	<b>Mitigation</b>
<b>FM Related Risks Rating</b>		
<b>Treasury management and funds flow</b>		
Limited discretion for budget holders in reallocation between budget items	Moderate	Under the PBB approach, authorization at each budget item level should be flexible and needs to be reconsidered at a higher level of program objective.
Diversion of program funds that are unutilized at the end of the financial year	Moderate	Unutilized funds at the District level need to be revoked or refunded to the Treasury.
<b>Accounting and financial reporting</b>		
Financial reporting at the District level does not comprehensively cover and consolidate NBAs	Moderate	Roll-out and conduct training on the SEAS to improve comprehensiveness of financial reporting by Districts.
<b>Internal control and internal audit</b>		
Gaps in documentation of	Substantial	Risk profile to be developed and monitored during the

the critical controls related to commitment and expenditure control		program lifetime to ensure that adequate and timely mitigation measures are undertaken.
Inadequate staffing of IA units	Substantial	Capacity building for the internal auditors supporting the program is recommended.
District audit committees might not have the requisite skill set and District PACs don't exist		The membership of District Council IA committee cannot be easily controlled since they are elected politicians. This can be addressed by co-opting competent members based on an agreed sitting fee. The establishment of District-level PACs will reinforce oversight and bring accountability much closer to the electorate.
<b>External audit</b>		
Poor implementation of audit recommendations by boards and Districts, adverse audit opinion received	Substantial	Monitoring mechanism to be developed by MINAGRI to support and follow-up on implementation of audit recommendations, program risk profiling, and reconciliation of accounting records and financial statements of RAB and NAEB to resolve the outstanding merger issues that contribute to the OAG's adverse audit opinion.
<b>Procurement-related risk rating</b>		
Risk of noncompliance of procurement under the program	Substantial	1. An external body (RPPA/OAG) will undertake procurement performance audit annually. 2. The RPPA in coordination with the Bank will support procurement specialists from agencies to undergo training. 3. MINECOFIN to revise budget replenishment system so as to ensure Districts have sufficient funds at any given time to pay for executed contracts.
Delayed procurement processes at District level	Substantial	The RPPA in coordination with the Bank will support procurement specialists from agencies to undergo training.
Lack of procurement officers due to high turnover	Moderate	MINAGRI to ensure all implementing agencies have the required number and qualification of procurement officers before implementation commences, and that there a retention mechanism is in place.
Transparency of procurement process is compromised due to lack of published contract awards in media widely circulated and accessible by the public	Moderate	Government to disseminate and enforce procurement laws by training and regular oversight,
Contracts awarded without formal internal approval	Low	Government to enforce procurement laws by regular oversight.
Procurement records of the program are not complete, chronological, safe, or easily retrievable	Substantial	Government to disseminate and enforce procurement laws by training and regular oversight.
Lack of procurement auditing on annual basis	Moderate	1. RPPA and OAG to coordinate to ensure that all implementing agencies are audited at least once a year. 2. RPPA to be included in the capacity-building component of the PforR Program.
<b>GAC-related risks rating</b>		
Risk of F&C in program at the District level	Substantial	1. Increase OM and NPPA capacity to investigate complaints at District level by training investigators. 2. Increase IA and controls in Districts with more trained staff and covering more spending units, plus regularity of oversight by OM, RPPA and OAG.

Risk of F&C in program at central agencies	Moderate	Regular oversight by RPPA, OM and OAG and follow-up on implementation of recommendations of OAG and enforcement of procurement law
Risk of F&C in high-value irrigation and fertilizer supply and transportation contracts	Moderate	<ol style="list-style-type: none"> <li>1. RPPA and OM to pay special attention to these contracts.</li> <li>2. Publication of contract awards in easily accessible media.</li> </ol>
Risk of nontransparency about the program and complaints-handling mechanism	Moderate	<ol style="list-style-type: none"> <li>1. MINAGRI to develop and implement a communications strategy to sensitize stakeholders.</li> <li>2. MINAGRI to develop and maintain a database on complaints and responses with implementing agencies and Districts reporting to MINAGRI on a quarterly basis.</li> </ol>

## Annex 1: Definition of FM Risk Ratings

**Table A1.1: FM Risks as Defined by the FM Sector Board’s FM Practices Manual**

Risk Level	Detail
Low	Represents a situation where the structure of the PFM system broadly <b>reflects good international practice and there is routine compliance</b> with the majority of controls within the system. Any remaining weaknesses are being addressed.
Moderate	Represents a situation where the structure of the PFM system broadly reflects <b>good international practice, although there may be some gaps or inefficiencies</b> . There is basic compliance with controls within the system but regular exceptions occur. There is a credible commitment to addressing key weaknesses.
Substantial	Represents a situation where the structure of the PFM system falls short of good international practice in a number of areas and/or there are <b>numerous and/or material weaknesses in compliance with many of the controls</b> within the system. Reform plans may need to be strengthened and prioritized.
High	Represents a situation where the structure of the PFM system shows a <b>significant divergence from good international practice</b> and/or there is <b>widespread lack of compliance with many of the controls</b> within the system. Commitment to a credible reform program.