Report Number: ICRR0023248

1. Project Data

Project ID	Project Name	
P150922	Ethiopia PFM Project	
Country	**Practice Area(Lead)**	
Ethiopia	Governance	
L/C/TF Number(s)	**Closing Date (Original)**	**Total Project Cost (USD)**
IDA-57660	07-Apr-2020	28,857,466.65
Bank Approval Date	**Closing Date (Actual)**	
26-Feb-2016	07-Mar-2022	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	33,000,000.00	0.00
Revised Commitment	33,000,000.00	0.00
Actual	28,857,466.65	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
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2. Project Objectives and Components

a. Objectives

The PDO of this project is to improve efficiency, transparency, and accountability of public expenditure management at the federal and regional levels.

b. Were the project objectives/key associated outcome targets revised during implementation?

No

c. Will a split evaluation be undertaken?

No

d. Components

1. **Expenditure Management and Information Systems Support** (US$22.5 million at appraisal, US$20.12 million at closure). This component aims to support the government in implementing the next generation of PFM reforms through the government-funded IFMIS rollout plan.
2. **Strengthening Accountability Institutions** (US$9.4 million at appraisal, US$7.67 million at closure). This component aims to support accountability institutions in performing their tasks.
3. **Project Management, Monitoring, and Evaluation** (US$1.1 million at appraisal, US$1.07 million at closure). The objective of this component is to support program management and coordination-related tasks to ensure proper project implementation, effective monitoring and evaluation of results, and a consistent and effective approach to capacity development.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

The actual disbursement was 87 percent of the project cost (US$28.8 million). The ICR attributes this to efficiency in implementing some activities. For example, the project supported the Federal Ethics and Anticorruption Commission (FEACC) with less than 60 percent of the planned budget.

3. Relevance of Objectives

Rationale

While the government had significantly improved the legal framework of PFM in Ethiopia, many areas for improvement persisted at the central and woreda (district) levels that were binding constraints on delivering quality public services. At the central level, weak areas were the unavailability of well-qualified professional accountants, audit quality and the need for adequate training facilities, and oversight by an enforcement authority. At the district level, these included poor infrastructure; weaknesses in internal audit; weak property management; weak cash control and delays in bank reconciliation; high staff turnover; delays in budget notification; low financial audit coverage and audit backlogs; and inadequate training. Most IDA resources from the former Protection of Basic Services (PBS) and other larger IDA-financed projects, such as the Productive Safety Nets Project (PSNP), flowed to district levels. Thus, PFM system strengthening needed to be accompanied by measures to promote transparency and accountability at the woreda (district) level.

Hence this project focused on supporting the introduction of an eGP (e-Government Procurement) system by linking the eGP system to the IFMIS to improve efficiency and accountability in the procurement process and to reduce costs. Further, the project intended to support capacity gap assessments and capacity-building activities to address fraud, corruption, and data quality issues and increase public awareness of fraud and corruption at the local government level.

Both the Country Program Strategy (CPS) at design and the Country Partnership Framework (CPF) at closure identify governance, accountability, and transparency as critical areas for the development of Ethiopia. The CPF 2018-2022 includes as one of the three focus areas, "Supporting Institutional Accountability and Confronting Corruption" (p. 39), recognizing the rising demand for government accountability in the country. This objective is aligned with the Government of Ethiopia's (GoE) Second Growth and Transformation Plan (GTP II), which emphasizes strengthening governance.

Rating
High

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective
Improve the efficiency of public expenditure at the federal and regional levels

Rationale
The PAD did not develop a theory of change (TOC), but the ICR developed one for this objective. The activities supporting this objective (rollout of Integrated Financial Management Information System, improvements in Integrated Budget and Expenditure System, capacity building, implementation of audit software) were expected to increase the efficiency of the PFM system by reducing cash float, by disclosing fiscal documents promptly, and by improving capacity. Additional activities (building PFM capacity, increasing financial management awareness, training in debt management, reorganization of internal audit structure, improve transparency) were expected to improve fiscal management, improve the realism of the budget and instill fiscal discipline by increasing budget execution rate and rolling out a new Chart of Accounts. The design drew from several analytical reports that a strong PFM was necessary for improved service delivery in Ethiopia (e.g., IFMIS for PFM Efficiency, Effectiveness & Transparency! Ministry of Finance Ethiopia, 2021; Public Expenditure and Financial Accountability (PEFA) Federal Democratic Republic of Ethiopia (Federal Government) Performance Assessment report, Final report November 13, 2019).

The underlying assumptions of the TOC were: political stability of Government, no external shocks, readily available funds for implementation of the envisaged interventions, and close follow-up and collaboration within the various implementing entities. Some of these assumptions still need to materialize. During project implementation, frequent changes in the State Minister and turnover of key Ministry of Finance and Economic Cooperation (MOFEC) directors led to initial slow implementation. Collaboration was hampered initially by limited commitment and misunderstanding of the impacts of the interventions by top management. Unexpected events such as the pandemic and the onset of the war in the North also impacted the project, such as the achievement of the indicator on the number of contracts with 180 days benchmark.

The project used three indicators to measure the achievement of this objective, (1) The cash float reduced for the Federal and Regional Governments (in percent of the annual federal budget). The baseline was 22 percent, the target was 18.7 percent, and the actual was 16.75 percent. (2) Target agencies progressively increase the number of contracts awarded within the agreed benchmark of 180 days for works contracts> US$ 5 million & Goods >US$500,000. The baseline was 10 percent, the target was 50 percent, and the actual was 33 percent. (3) The number of Direct Beneficiaries who receive the standardized training the project provides. The baseline was 47,000 beneficiaries, the target was 84,000, and the actual was 86,484 beneficiaries. At the regional level, the budget execution rate of Health, Education, Agriculture, and Water increased from 55 percent in 2016 to 92.16 percent in 2021. The contracts for works and goods above US$5 million increased in 2020. Still, they fell significantly in 2021, largely due to the conflict in the northern part of the country, which implied a significant reduction in capital expenditures. Targets were reasonable, and indicators were appropriate. External factors (e.g., the war in the North) did not allow the full achievement of the indicator on 180 days benchmark for public contracts.

Thanks to the Integrated Financial Management Information System (IFMIS) rollout and improvements made with Integrated Budget and Expenditure System (IBEX), the project achieved the objective of improving the efficiency of public expenditures at the federal and regional levels. At closure, 111 federal headquarters and 62 branches used IFMIS, and over 19,000 end users received training. After IBEX was updated and the project provided training, the quality of financial statements significantly improved at the regional level, according to interviews conducted by the ICR. IFMIS covers 78 percent of the federal budget, and IBEX is operational in over 2,100 places nationwide. In addition, the June 2022 Audit report from the Office of the Federal Auditor General (OFAG) reported a 12 percent increase in audit reports with unqualified audit opinions and an eight percent decrease in adverse opinions.

Rating
High

OBJECTIVE 2

Objective
Improve transparency of public expenditure at the federal and regional levels.

Rationale
The PAD did not develop a TOC, but the ICR developed one for this objective. Based on repeated assessments (e.g., IFMIS for PFM Efficiency, Effectiveness & Transparency! Ministry of Finance Ethiopia, 2021; Public Expenditure and Financial Accountability (PEFA) Federal Democratic Republic of Ethiopia (Federal Government) Performance Assessment report, Final report November 13, 2019) indicating that audit and oversight institutions were the weakest link in the PFM chain in Ethiopia, the activities of this component (e-GP for public procurement, capacity development for OFAG, improved media engagement on audits activity, professional certifications, capacity building of Federal Ethics and Anticorruption Commission) were expected to increase efficiency, transparency, and accountability of public expenditure, by increasing the number of contracts awarded promptly and with competitive bidding, increasing in audits performed, increasing the capacity of auditors and members of the Finance and Budget Standing Committee, and simplification of reports published.

Assumptions of the TOC were: political stability of Government, no external shocks, readily available funds for implementation of the envisaged interventions, and close follow-up and collaboration within the various implementing entities. Some of these assumptions still need to materialize. During project implementation, there was political instability and frequent leadership turnover, such as frequent changes in State Minister and turnover of key MOFEC directors led to initial slow implementation; also, collaboration was hampered initially by limited commitment and misunderstanding on the impacts of the interventions by top management.

The indicator used for measuring the achievement of this objective was the timely disclosure of key fiscal/budget documents. The baseline was 24 months, the target was nine months, and the actual was six months. In about 893 woredas, the IBEX system is connected to regional-level data centers. Execution and additional debt reports, Finance Transparency and Accountability reports, and various audit reports are now available on the updated and upgraded MOFEC website, providing timely information. Similarly, the MOFEC website provides bi-annual budget execution and audited financial statements. Targets were reasonable, and indicators were appropriate.

The project supported upgrading the Debt Management and Financial Analysis System (DMFAS), which allowed the Debt Management Directorate to generate timely and quality debt-related reports, including Public debt statistics and Debt portfolio reports. In addition, the project helped integrate debt payments and collection into the accounting and reporting system thanks to the IFMIS. The online availability of debt collection and repayments allows the Government Accounting Directorate to include information on debt in the government's annual financial statements. Overall, the project improved the reliability of the Debt Management and Financial Analysis System database and enabled the Debt management department to publish Public Sector Debt Statistical Bulletins in line with best practices.

Rating
High

OBJECTIVE 3

Objective
Improve accountability of public expenditure at the federal and regional levels.

Rationale
There was no TOC in the PAD for this component. The activities sponsored by this component aim to support project management and coordination across tasks to achieve proper implementation, monitoring, and achievement of objectives.

The indicator used for measuring the achievement of this objective was an Increase in the percentage of audits conforming to International Standards of Supreme Audit Institutions. The results framework didn't indicate a baseline or target. The ICR reports that in 2021 the African Branch of the International Organization of Supreme Audit Institutions (AFROSAI) conducted the audit quality assurance without reporting any percentages.

Members of woreda councils' finance and budget committees received training to allow them to scrutinize proposed budgets submitted by the executives to ensure that they align with strategic priorities and assumptions and also enable them to evaluate the performance of the executives. The project suspended such training in 2020 because of COVID-19, and it was impossible to ascertain if it had resumed. Simplified budget execution reports produced by woredas increased to 95 percent in 2020 but declined to 89 percent in

2021 due to COVID-19 and the conflict. Competitive procurement methods in awarding public contracts increased in the first three years of the project implementation period. Still, later COVID-19 and the conflict in the North had a negative impact. The project supported the Accounting and Auditing Board of Ethiopia (AABE). AABE's capacity improved after implementing the Practice Review Manual, Financial Reporting & Monitoring Review manual, and Audit Quality manuals. AABE reviewed three audit firms and 12 financial statements and delivered an International Auditing Standard training for 152 audit firms. The Federal Ethics and Anticorruption Commission (FEACC) trained over 513 ethics officers on fraud and corruption prevention from three regional states. The training enhanced the woreda-level ethics officers' capacity to record and report fraud and corruption cases, as demonstrated by a qualitative review of documents and interviews that improved the quality of fraud and corruption recording and reporting. Because of weak follow-up by OFAG and a failed procurement contract, the project couldn’t complete some planned activities, such as an exercise to improve the audit quality, strengthening the training center, and strengthening the Audit Service Corporation. However, the OFAG improved the audit quality thanks to a gap analysis and an Audit Quality Assurance assessment by the African Branch of the International Organization of Supreme Audit Institutions (AFROSAI). The Internal Audit function quality improved after adopting the risk-based internal audits method. However, the client could not establish a baseline to measure the achievement of the objective and did not because of procurement rules and the political economy (senior leadership turnover).

Rating
Modest

OVERALL EFFICACY

Rationale
The Bank achieved most of the project objectives, including the objectives of component 1, which absorbed 2/3 of the project expenditures.

Overall Efficacy Rating

Substantial

5. Efficiency

The ICR and PAD presented some estimates of savings. The financial model in the PAD suggested an Internal Rate of Return (IRR) of 27 percent over 20 years and a positive net present value (NPV) at discount rates of 10 percent, 15 percent, and 20 percent. The Bank estimated the NPV at 10 percent was US$408 million. The ICR didn’t validate these values stating that direct attribution of economic and financial benefits of PFM reforms is challenging but endorses the above estimates reported in the PAD (p. 45). In addition, the ICR reports that estimated saving from the decrease in cash float would be about US$428 million per annum from interest on government borrowing.

Yet, the project presented several inefficiencies: low disbursement, high staff turnover, and procurement challenges. Throughout its life, the project had a low implementation pace, resulting in low budget utilization and a low disbursement rate. The Bank extended the project deadline twice, although the second extension was due to COVID and the internal war in the North, factors not attributable to the project. Staff turnover was both internal – with 3 TTLs assigned to the project, and on the client's side, which was more difficult to handle and had a higher impact on the efficiency of the project. Procurement delays also reduced the efficiency of the project. Further, the Federal Ethics and Anticorruption Commission successfully implemented the project's activities with less than 60 percent of the budget, implying that resources were not efficiently planned. Finally, while procurement procedures were followed, the Channel one Program Coordination Directorate (COPCD) failed to upload procurement process documents for Post Review on time.

Efficiency Rating

Modest

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal	✓	27.00	100.00 ☐ Not Applicable
ICR Estimate	✓	27.00	100.00 ☐ Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

The project achieved most of its objectives, and systems and capacities improved, notwithstanding the onset of COVID and the internal war. Relevance is rated high because the project supported critical reforms at the central and woreda levels. Efficacy is rated substantial because the project achieved most of its objectives. Efficiency is rated modest because of several inefficiencies related to procurement, low disbursement, and staff turnover. Combining these indicates an overall outcome rating of Moderately Satisfactory.

a. Outcome Rating

Moderately Satisfactory

7. Risk to Development Outcome

The ICR identified three potential risks to the Development Outcomes. First, high staff turnover can jeopardize the achievements of e-Government Procurement (e-GP), IFMIS, program budgeting, and website maintenance. Second, there are doubts about the resources needed to achieve the additional activities required, such as security and network monitoring licenses and the rollout of the e-GP beyond the pilot. Finally, the conflict and other pressing political issues might take precedence over the activities sponsored by this project. Project team members acknowledged that the Bank was aware of the high staff turnover and suggested that the client pay higher salaries to technical specialists to reduce or eliminate such risk. While political uncertainty remains due to the potential instability of the recent peace accord, the other two risks are less likely to occur, given that the PAD recognized that the GoE provided its resources to reform PFM. The Bank is also committed to supporting PFM in Ethiopia with other projects.

8. Assessment of Bank Performance

a. Quality-at-Entry

The project was consistent with the government priorities at the design time, as identified in the Growth and Transformation Plan (GTP II). The ICR claims that the project design drew from analytical products and referred to PEFA and other reports (e.g., FMIS for PFM Efficiency, Effectiveness & Transparency – annex 7). Interviews with team members revealed that many analytical reports on PFM in Ethiopia represented the analytical underpinning of several FM projects and were also used for this project, although not directly mentioned in the PAD. An interview with the ICR's TTL revealed that field staff interviews and document reviews show that the design considered technical and financial factors, including procurement and financial management. The Bank also considered lessons from previous projects, including lessons from an IMF review, and included mitigating measures.

Yet, the Bank didn't identify several challenges during the appraisal stage: lack of expertise, focal point, poor infrastructure, and inadequate budget estimates.

Quality-at-Entry Rating

Moderately Satisfactory

b. Quality of supervision

The Bank allocated sufficient budget and staff for supervision, conducted regular missions and reports, and alerted the client to problems as they occurred. A local co-TTL supported the two international TTLs, and the Bank team identified performance indicators and proposed solutions to problems. For example, Bank staff assisted the client in tailoring the procurement support structure to their specific needs; they engaged proactively in supervision by going beyond a simple review of reports; and notwithstanding the extended implementation period, TTL's turnover was minimal.

Quality of Supervision Rating

Satisfactory

Overall Bank Performance Rating
Moderately Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design
The PAD did not include an explicit TOC, which is important in a Fragile, Conflict, and Violence country (ICR, p. 62), although it was not required. The indicators were appropriate to monitor progress. The PDO didn't include project beneficiaries, but the PAD mentioned them.

b. M&E Implementation
At the beginning of the implementation, monitoring was insufficient because of a lack of staff. Later a project task force was established and conducted periodic meetings to monitor the project. Implementing units were required to submit a progress report to the task force. Weekly or bi-weekly meetings identified issues and discussed them with representatives of the implementing units to explain progress and challenges. The meetings agreed upon action plans to address these issues.

c. M&E Utilization
The task force would review the progress report in each meeting, discuss findings, identify remedies, and assign responsibilities. This helped regions support poorly performing woredas and sector bureaus.

M&E Quality Rating
Modest

10. Other Issues

a. Safeguards
The project did not trigger any safeguard as it involved capacity-building activities.

b. Fiduciary Compliance
The project complied with fiduciary covenants. The project had internal controls, maintained adequate records, and followed procurement guidelines. Initially, the project had a Satisfactory FM rating, which later became MS and MU because of low disbursement, staff turnover, and unreconciled differences. Finally, the rating returned to MS.

c. Unintended impacts (Positive or Negative)

No

d. Other

The project was not gender tagged, but 41 percent of civil servants participating in the training sessions were women.

11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Satisfactory	Moderately Satisfactory	
Bank Performance	Satisfactory	Moderately Satisfactory	The Bank didn't identify several challenges at the design stage.
Quality of M&E	Modest	Modest	
Quality of ICR	---	Modest	

12. Lessons

When a government assigns procurement responsibilities to multiple agencies, it is critical to ensure close coordination (for example, with secondment arrangements across agencies) and to set up a clear dispute-resolution mechanism to avoid delays. In this project, OFAG had technical responsibility for procurement, and MOFEC had selection responsibility. Lack of coordination among these agencies and political economy factors generated delays in procurement.

To improve disbursement in the early years and improve project performance, the project should frontload some activities during design, such as ToR design. In this project, limitations in ToR and a weak follow-up of the OFAG contributed to the failed contract.

To avoid or limit the impact of turnover in senior leadership on project implementation, it is advisable to delegate project responsibilities to more junior government officials. In this project, there was significant senior leadership turnover in the first two years, which significantly impacted the project's pace of implementation.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR provides a good account of the project design, implementation, and achievement of its objectives. The analysis was mostly impartial. At times the ICR could have presented better evidence. For example, the ICR could have included clear tables on the indicators and achievement of objectives. The ICR refers to background material without indicating which or where it could be found. Lessons could have been better articulated, focusing more on ‘how’ problems can be solved in similar circumstances.

a. Quality of ICR Rating

Modest