Report Number: ICRR0021548

1. Project Data

Project ID	Project Name
P130878	MW-Fin Reporting and Oversight Improveme
Country	**Practice Area(Lead)**
Malawi	Governance

L/C/TF Number(s)	Closing Date (Original)	Total Project Cost (USD)
TF-13825	30-Jun-2016	10,900,341.24
Bank Approval Date	**Closing Date (Actual)**	
07-Mar-2013	30-Apr-2018	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	19,000,000.00	19,000,000.00
Revised Commitment	19,000,000.00	19,000,000.00
Actual	10,900,341.24	10,900,341.24

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

a. Objectives

The Project Development Objective (PDO) was to improve internal controls, accounting, reporting and oversight of the Government of Malawi's (GOM) finances at the central and decentralized levels in its ministries, departments and agencies (MDAs). (Project Appraisal Document [PAD], p.15).

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

Yes

Did the Board approve the revised objectives/key associated outcome targets?

No

c. Will a split evaluation be undertaken?

No

d. Components

Component 1: Accounting and Financial Management. (Appraisal: US$ 9.20m; Actual: US$5.88m)

This component aimed to streamline the accounting systems and financial management in the MDAs at the centralized and decentralized levels by: (i) improving the overall accounting systems and the integrated financial management system (IFMIS); (ii) improving payroll management for all public servants through business process re-engineering (BPR) by expanding the payroll systems into the regions; and (iii) expanding coverage of accounts, audits and reporting through the IFMIS at the district levels by establishing local area networks (LANs).

Component 2: Internal Audit. (Appraisal: US$2.80m; Actual: US$1.43m)

This component was to provide a risk-based audit approach to support the Central Internal Audit Unit (CIAU) and enable the Auditor General to track government income and expenditures efficiently. The component included training of CIAU staff to enhance capacity. It also supported the passage of an improved and enforceable legal framework and adoption of an internal audit policy.

Component 3: External Audit. (Appraisal: US$ 4.70m; Actual: US$1.38m)

This component supported the enhancement and improvement of the operational capacity of the National Audit Office (NAO) through the revision and updating of all audit manuals and procedures. It also targeted strengthening the independence of the NAO by bringing its independent audit standards in conformity with the International Standards for Supreme Audit Institutions (ISSAI).

Component 4: Public Finance and Economic Management Reform Program (PFEMRP). (Appraisal: US$1.60m; Actual: US$2.21m)

This component supported all the activities under the above components, including the procurement of hard-ware and soft-ware.

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

Project Cost: (Appraisal: US$ 19.00m; Actual: US$ 10,90m). The IFMIS was not procured and some project activities were not accomplished—the main reason for the difference between the appraised and actual cost. The project was financed entirely through a multi-donor trust fund (MDTF) which was jointly funded by the UK Department for International Development (DFID), European Union (EU), Ireland (Irish Aid), Norway, and the German Agency for International Cooperation and Development. IDA did not contribute financing for the project, but administered it.

Borrower Contribution: None at project closing.

Dates: The Board approved the project on March 7, 2013. It closed on April 30, 2018 after a 22-month extension. The extension enabled some changes to project activities and introduced intermediate results indicators and revised the PDO level results indicators (baselines and targets).

3. Relevance of Objectives

Rationale

The project objectives aligned with the World Bank's and GOM's general objective stated in Theme 3 of the World Bank's Country Partnership Strategy 2013 -2016: "Mainstreaming Governance for Enhanced Development Effectiveness" (the most current Country Partnership Strategy (CPS) for Malawi). The project supported three areas of the government's PFEMRP, which aimed to improve GOM's macro-fiscal management, accountability and transparency in public financial management (PFM) and public oversight. The "cash-gate" scandal that involved the misappropriation of approximately US$32 million in government funds, in April and September 2013, required the granting of an extension for the project in May 2016. While the project objectives were not changed, the scandal necessitated the introduction of intermediate results indicators and revisions to the PDO level results indicators, and, most importantly, forced a refocus on activities to remedy long standing PFM problems (ICR, Para 2, p.5).

Rating

Substantial

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

To improve the internal controls and accounting within the MDAs both at the central and decentralized levels of government.

Rationale

GOM needed to enhance the operation and implementation of the PFEM system at all levels (PAD, p.12-13) for improved internal controls for producing timely audits and reporting. This required a new and automated IFMIS that would more efficiently capture government revenue and expenditures, improve electronic public payment systems, and improve public accounting standards at the centralized and decentralized levels. Moreover, interfacing the overall systems improvements with the Central Bank of Malawi to improve accounting of government finances, was required to ensure overall checks and accountability of PFEM in a transparent way. In addition, the activities also contemplated the installation of a disaster recovery system and a budget module. These elements were all lacking or lagging prior to the project.

The project targeted four areas to achieve Objective 1: (a) purchasing a new IFMIS to improve overall accounting and financial management within MDAs, its automation to capture government revenue and expenditures efficiently and providing staff training on the new system; (b) improving payroll management by IFMIS business process re-engineering, improving audit coverage of payroll, developing payroll interface within the districts and purchase of hardware for payroll decentralization, including creation of a disaster recovery system and budget module; (c) interfacing the new IFMIS system with the decentralized or district level systems by establishing LANs at the district levels; and (d) improving Information and Communications Technology (ICT) equipment, and providing vehicles to support the automation of audit operations, including installation in the NAO of Audit Management Software (AMS) and Central Audit Assessment Technology (CAAT).

Outcomes

1. Improved Accounting and Financial Controls (PI-25).

Procuring and applying a new IFMIS was critical to better accounting and financial management control , since the existing EPICOR system based IFMIS was outdated and inefficient. At project closing, the new IFMIS had still not been installed, although GOM agreed that they would purchase it with its own resources. Nevertheless, in its absence, the project proceeded to enhance the existing EPICOR system with new hardware and software. Interfaces between the enhanced EPICOR system and other major PFM systems including HRMIS and local authority systems were established, thereby upgrading internal controls and transparency. There was, however, incongruence between the enhanced EPICOR system and the software systems used by the Central Bank. As a result, bank reconciliations, public accounts and consolidation of reports could not be done automatically, and information could be transmitted only manually (ICR p.13-14). Public accountants both at the central and district levels had been trained in International Public Sector Accounting Standards (IPSAS) and were able to produce timely, reconciled financial statements in MDAs following IPSAS standards. Therefore, the GOM has been able to reconcile its public accounts and is now on course to be current on financial statements (ICR p.47-48). The presence of two EPICOR consultants ensured the proper application of the enhanced system, thereby optimizing new security controls with tighter access control methods. The system restricted user rights by eliminating "super" users. The introduction of an audit trail system that captures all the changes made within the system was successfully implemented and was operating. However, the tracking of non-salary expenditures by creating the fixed asset register (to enable oversight over fixed public assets) remained unaccomplished, as was the implementation of the budget module, despite availability of funds (ICR, p.13-14).

The enhanced EPICOR system was rolled out successfully to the districts and councils, including installation of LANS. Training was provided for Management Information Systems Officers (MISOs), This has enabled individual Councils at the District level to produce financial statements for preparation of audits. However, the interfaces are still not optimal and further work needs to be done. Principally, the interface between the enhanced EPICOR system at the central and decentralized levels lacked harmonization with the Chart of Accounts (COA) and remained a serious problem for the efficient, reliable and accurate preparation of financial statements (ICR, p.28).

The baseline 2011 PEFA rating for effectiveness of internal controls for non-salary expenditure (PI-20, after 2016, PI-25) was C+. The revised target to measure this area from the 2016 PEFA framework was a B rating. The indicators for PI-25 measure somewhat different factors than in the 2011 PEFA framework, so ratings cannot be compared without adjustment, and thus the baseline is unknown. The actual achievement for PI-25 was a C rating (ICR, p.62).

2. Improved Payroll Controls/Management (PI-23.4).

Significant improvements were made to the public payroll system; payroll processing times and frequency of errors were reduced drastically, and county-level payroll hubs were installed in six counties. As a result, the payroll system was decentralized effectively allowing public servants to visit the closest hub each month; enter the payroll information and be paid without any delays. Teachers, who make-up over half of the public servants, had previously had payroll delays averaging one to two weeks. These delays have all but been eliminated. The NAO and the Auditor General were able to successfully use the improved system of interfacing the enhanced EPICOR system with HRMIS. As a result, data on all public servants on the government payroll was corroborated effectively, revealing that there were 17,669 ghost workers in public service. The problem was immediately remedied, and accountability and transparency established. However, the disaster recovery center was never established (ICR, p.14)

The Baseline (2011) PEFA rating at the inception for effectiveness of payroll controls (PI-18, after 2016, PI-23.4) was (C+) with a target of B+. Payroll audit was only one of four dimensions comprising the earlier PI-18 rating, and the ICR does not report what the baseline rating was for that dimension. Further, the rating criteria have changed between the 2011 and 2016 payroll audit dimension, so the scores could not be directly compared. The actual result for PI-23.4 for 2018 was a B rating (ICR, p.62).

3. Improved internal audit (PI-26). The introduction of risk based internal audits has modernized the internal audit process, which now conforms with the International Standards for Supreme Audit Institutions (ISSAI) requirements (ICR, p.15). This

has enabled the CIAU to identify the greatest potential for impact during audits. Training of internal auditors has improved the knowledge of audit coverage across MDAs and systems. The capacity of internal audit staff to execute specialized audits, including information technology (IT) audits and risk-based audits had improved significantly. The improvement of skills of internal auditors was supplemented by the updating, development and adoption of Audit Manuals (ICR p.59-60). While substantial improvements were made in the above areas, the roll-out of the continuous auditing soft-ware of the enhanced EPICOR system was only partially completed. The CIAU was unable to establish a training lab to convert all the formal training knowledge into practice (ICR p.15).

Although the CIAU had laid the foundation for the adoption of ERM (Enterprise Risk Management) and emphasized the benefits of its application within the MDAs, at closing, the ERM system had still not been implemented. The guidelines for implementing ERM were not developed. This inhibited Managements of MDAs ability to understand potential risks, prevent future fraud and to respond effectively to audit issues. In addition, a majority of internal audit recommendations made by CIAU to Managements of MDAs were not implemented or were received with marginal interest (ICR p.15).

The baseline 2011 PEFA rating for effectiveness of internal audit (PI-21 after 2016 PI-26) was D. The revised target from the 2016 PEFA framework was a C rating for PI-26. The updated indicator measures somewhat different factors than PI-21 in the 2011 PEFA framework, so ratings cannot be compared without adjustment, and thus the comparable baseline is unknown. The actual achievement for PI-26 was a D+ rating.

Overall, under Objective 1, some gains were made through the activities in improved payroll management and financial statements at the centralized and decentralized level. However, the deficiency in procuring and applying a new IFMIS system affected optimal operations and application of controls. Many of the activities to achieve this objective such as those targeted for internal controls for non-salary expenditures (PI-25) remained unaccomplished. Except for some activities under PI-23.4, the revised PEFA targets of 2016 were not achieved. Efficacy of this overall objective is rated modest.

Rating

Modest

OBJECTIVE 2

Objective

Improve oversight and reporting of Government finances within the MDAs both at the central and decentralized levels of government.

Rationale

Prior to the implementation of the project, there was a serious backlog of external audit reports of MDAs undertaken by the NAO staff. Parliament was reviewing four to five-year-old NAO audit reports. The need to upgrade the audit reporting in a timely, accurate and reliable manner that would enable Parliament to make decisions on public financing was a serious concern.

It highlighted the need for software updates and automation of external audit functions, including the need for upgraded training of external audit staff. These concerns were recognized at appraisal and this project supplemented other projects both by the World Bank and external donors to cure these deficiencies. In addition, legislation and the adoption of an audit policy framework was required to ensure the independence of audit institutions and, more particularly, of the Auditor General. While there existed internal audit regulations and policies in the Internal Audit Charter, the Charter itself was not enforceable or legally binding (ICR, p.15).

The activities focused on achieving the following : (a) preparing the Public Audit Amendment Act and the Bill on public audit policy for approval in Parliament; (b) providing training of Public Accounts Committee (PAC) members (in Parliament) and specialized audit training for external audit staff of the NAO that included IT audits and performance of forensic audits to enable follow-up oversight; and (c) upgrading audit reporting.

Outcome

1. Adoption of Legal and Policy Framework (PI-30): The Public Audit Amendment Act and the Audit Policy Bill had been drafted and has been approved by Parliament. The Act and the Bill, however, awaits implementation [ICR, p.48].

The baseline 2011 PEFA rating for External Audit (PI-28, revised in 2016 as PI-30) was D+. The revised target from the 2016 PEFA framework was a C rating for PI-30. This indicator measures somewhat different factors than PI-26 in the 2011 PEFA framework, so ratings cannot be compared without adjustment, and thus the comparable baseline is unknown. However, the PEFA actual rating has been recorded as C+ and exceeded the target by half a point.

2. Audit Training and scrutiny (PI-30): Audit training, particularly of PAC members, with enhanced capabilities to scrutinize the Auditor General's reports and final audit reports, enabled the effective discussion of current audit issues and timely follow-up (ICR, Para 38, p.15). The specialized audit training for audit staff and the updated automation systems helped in significantly reducing the delays in producing audit reports from 48 months to 3 months (ICR Para 33, p.14). Due to the reduction of external audit report backlogs at the national level, Parliament is now able to make funding decisions based on more recent information. However, performance of one of the key aspects of this component, which was the oversight responsibility of the NAO, stalled for more than a year due to the delay in appointing an Auditor General, which was a pre-condition for disbursement under the project (ICR, Para.20, p.12). Also, as seen below, the quality of the reports was still sub-par and were at times incomplete.

The 2011 baseline for scope, nature and follow-up for external audit (PI-26, after 2016 PI-30) was D+. The revised target in 2016 was C. The actual achievement for PI-30 was a C+ rating. This exceeded the target by half a point.

3. Improved Quality and Reporting of Financial Statements (PI-29): The introduction of updated ICT, AMS and CAAT has resulted in reducing to a great extent the backlog of audit reports. It has enabled the NAO to carry out comprehensive and more accurate audits of MDAs including audits of reports prepared under the enhanced EPICOR and HRMIS. The quality of financial reporting still needs improvement and some bank reconciliation reports were still incomplete (ICR, p.14-15). It was

recognized that more hardware and personnel may be required to enable the gains achieved to be sustained. The ICR also noted that the roll-out of the enhanced EPICOR based IFMIS continuous auditing software was only partially implemented (ICR, p.14) The activities undertaken here were severely hampered by the incurring of an ineligible expense of US$519,142.32 to obtain refurbished computers when the expense required the procurement of new ones (ICR, p. 21). Upon discovery by the World Bank, further disbursements to the project were frozen until the entire amount was reimbursed to the World Bank by the GOM. The reimbursement was only made in 2017.

With regard to improved quality of reporting of financial statements (Pl-25, after 2016, PI-29)) the 2011 PEFA baseline was C+ with a target of B. In 2016, the Bank lowered the baseline target to C. The PEFA actual achievement was a D+ rating for PI-29, well below the baseline target of C set by the World Bank.

Substantial achievements were made under this objective in the areas of adoption of the audit policy and the Act, and the ability of PAC members to review more current audit reports. However, the Act and the audit policy still remained to be implemented. In addition, while more current audit reports for review by PAC were made available, their quality required improvement, with additional soft-ware also required to enhance the quality of reporting (ICR, para 25, p.13). The overall efficacy rating for this objective, is therefore, modest.

Rating

Modest

Rationale

Efficacy of Objective 1 was modest. Under Objective 2, despite substantial achievements in the adoption of the Act and the audit policy, they still remained to be implemented. External audit functions and capabilities of MDAs and PAC also improved substantially, as seen above (PI-30), However, financial reporting (PI-29) still required improvements. Achievements, under Objective 2, in the aggregate, were, therefore, modest. Therefore, overall efficacy in achieving the Objectives was modest (ICR, para 25, p.13).

Overall Efficacy Rating

Modest

Primary reason

Low achievement

5. Efficiency

Economic and financial analysis was not prepared *ex ante* or *ex post.* The PAD did not provide a cost benefit analysis due to the difficulty of quantifying the value of the reforms. The ICR explains that the nature of the activities under the project does not lend itself to standard economic and/or financial analyses to determine value for money (ICR, Para 42, p.16). Instead, the efficiency assessment of the project is predicated on a combination of a qualitative assessment and a description of the project's implementing efficiency such as, delays, underspending/overspending, degree of achievement of objectives and operating costs. An inhibiting issue in this assessment is a lack of data in the ICR. The key project factors for assessing overall efficiency are as follows:

• **Management of Resources**: of the allocated US$19 million project, only 57percent of the allocation had been disbursed at closing, pointing to an overall inefficiency in managing allocated project funds despite the project term being extended by 22 months. Except for activities under Component 4, for which there was a 138 percent increase from the allocated amount, the disbursements for the rest of the components were below what was anticipated, ranging between 29 percent and 64 percent. Many of the activities were either partially or not completed at all (ICR, Paras 43-44 pgs. 16,17).

• **Non-Adjustment of Costs**: The ICR states that one of the key reasons for the project's failure to achieve its objectives was because of the non-allocation of project funds rationally and in a timely manner. It was known to the various implementation units of PFEM that the procurement of a new IFMIS system would result in a concurrent and corresponding reduction of the costs allocated for each of the components. However, the implementing units were not informed by PFEM about the need for cost reductions and, therefore, many activities contemplated for the units were delayed or not implemented, unsure of whether funds were going to be available to complete the activities. As it was, at closing, funds were available for activities under the components but were never spent. This resulted in overall poor management of resources (ICR, Para 45, p.17).

• **Partial Gains from improved PFM through IT**: The current IFMIS structure based on EPICOR has been upgraded and IT upgraded with better internal controls. With the utilization of the enhanced EPICOR system the backlog of financial statements has been vastly reduced (ICR, pgs.14-15). The ICR notes, however, that the quality of financial reporting still needs improvement since they are often incomplete and lack accurate reconciliation (ICR p.14-15). There is improved transparency and timeliness of financial reporting. Improved payroll functions were instituted both at the centralized and decentralized levels, reflecting efficient use of allocated funds for some discrete activities (ICR Para 31, p.14). However, the interface between national, district, and HRMIS is not fully functional and other modules such as the public asset registry and budget were not implemented. Thus, there was no optimization in the use of project funds to fully achieve the anticipated objectives (ICR, Para 47, p.17).

• **Gains in Capacity Building:** The capabilities of the CIAU and the NAO have significantly improved by enhancing human and technology capacity by enhancing the EPICOR system in the absence of procuring a new IFMIS system and providing training. The project provided for appropriate training and additional technology, Both, hardware and software were provided. (ICR, p.14). It is reported in the ICR, however, that many of these gains may not be sustained over time for lack of programs for continuous training and technology maintenance pointing to the ad hoc nature of activities that did not secure the long-term efficiency of systems and personnel (ICR, Para 41, p. 16). Critically, the non-procurement of a new IFMIS, thereby creating a dependence on a failing and unreliable EPICOR system, have already begun to undermine any gains made in the project (ICR, p.25-26). The inefficiency with which the entire process of procuring a new IFMIS was carried out pointed to poor oversight and management of a key component of the entire project.

• **Conformity with legal, security and policy framework**: The NAO's work was greatly enhanced by the adoption of legislation and a security framework that provided for greater independence of the Auditor General. This activity had the result of, at least, laying the groundwork for strengthening the effectiveness of internal auditing and improving reporting for scrutiny by related stakeholders. The project also facilitated the revival of the then dormant audit committees (ICR, p.15). But the internal audit bill and policy and the Public Audit Amendment Act were yet to be implemented at closing. The impact of the Act and the Audit Bill not being implemented has the effect of the high risk of continuous exposure of MDAs to fraud, misappropriation of public funds and absence of accountability, because of the lack of enforceability.

• **Delays in Project Implementation:** The delays in taking account of the "cash- gate" scandal and taking the necessary measures to immediately address the adverse effects, the delays incurred in procuring a new-IFMIS system and the unauthorized procurement of hard-ware, all had the impact on the efficient implementation of the project (ICR, Para 47, p.17).

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		○	○ ☐ Not Applicable
ICR Estimate		○	○ ☐ Not Applicable

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

6. Outcome

Relevance of the overall PDO is substantial. The objective was well aligned with both the Government and the World Bank strategies for the duration of the project. The main objective was aligned with Theme 3: Mainstreaming Governance for enhanced Development Effectiveness, of the World Bank's CPS for 2013-2016. The PDOs directly supported the Government's PFRMRP three-year plan by targeting areas such as GOM Accounting and IFMIS; Local Government and Financial management; GOM payroll management; external auditing and PFEM management (ICR, p.12-13). Activities under the four components sought to improve MDAs human resource capacity and capabilities through rigorous training programs and introduction of new hardware and software (ICR p.19).

Efficacy of the first objective was modest, principally because of the non-acquisition of a new IFMIS. While the second objective achieved substantial gains in the legal and policy framework, training in audit scrutiny and follow-up, their impact was significantly reduced by the non-implementation of the Act and the audit policy as well as the sub-par quality of the audit reports. As observed above, while there was limited success in some areas, many activities that supported the achievement of Objective 2 remained incomplete or not implemented. Significant delays in procuring a new IFMIS system (including litigation in courts), the delays caused by the occurrence of cash-gate and procurement of unauthorized hardware, all undermined the efficacy of the activities and adversely affected outcomes.

Efficiency was modest for the reasons set-forth in the Efficiency section above.

Substantial relevance, modest efficacy and modest efficiency leads to a moderately unsatisfactory outcome.

a. **Outcome Rating**

Moderately Unsatisfactory

7. Risk to Development Outcome

There are many discernible risks to development outcomes, including the risks of sustainability, political commitment and technology failure.

The Government has shown commitment to continue with the current improvements by strengthening the role of audit under the project by enactment of the Public Audit Amendment Act. Any delays in implementation and enforcement of this legislation will expose the PFM system to fraud and continued misuse of public funds. (ICR p.25)

The Government has been cooperating with the World Bank and other development partners to implement projects that would allow it to complete the non-IFMIS related tasks that remained to be accomplished under this project. For example, the Government is pursuing effective decentralizing of payroll processing in collaboration with the World Bank-supported project entitled “Malawi Governance to Enable Service Delivery” that will support continued service delivery in many of the areas that were completed under the project. The Government has committed to and agreed with the World Bank to procure a new IFMIS system. However, continuance, enhancement and sustenance, particularly of hardware and software applications by acquiring the new IFMIS system without delay and strengthening of human resources through additional staff in MDAs and continuous training programs for them, need to be acted on by GOM at the risk of eroding the overall modest gains achieved under the project.(ICR pgs.25-26). It is noted here that the GOM requested another extension to continue with the implementation of the project. But the Bank declined to grant the extension due to reputational risks associated with project, principally after the occurrence of “cash-gate”, legal issues related to the procurement of the new IFMIS system and unauthorized procurement activities. Further, the government’s total commitment to reform is lacking, particularly noting its lukewarm reception to accept and implement the internal audit recommendations (ICR, p.20).

Critically, there needs to be a complete phase-in of a new IFMIS system that the GOM has agreed to procure. The problems associated with interface, coordination and consistency, particularly with the COA, which were encountered, need to be addressed to ensure that error free accounting reports are produced and continuity over time of these activities, is maintained.

Continued reliance on the EPICOR system can only lead to the very high risk of technology failures and to the many related issues identified (ICR, pgs. 25-26).

While a significant decrease in backlog of financial reports has been observed, serious doubts have been raised whether without increased capacity, capability and efficiency of audit staff, maintaining accuracy of auditing and financial reports will be possible over time. Consequently, the need for continuous training and placement of additional trained audit staff in MDAs has to be emphasized (ICR pgs. 25-26).

Overall, the risk to development outcome is substantial.

8. Assessment of Bank Performance

a. Quality-at-Entry

The World Bank provided adequate human and financial resources to ensure quality and preparation and appraisal. Remaining issues from preceding projects, together with PFEMRP that needed to be supported were taken cognizance of in the design and scope of the project. The World Bank established a close working relationship with the borrower during preparation and appraisal of the project (ICR, Para 76, p.24).

The Ministry of Finance (MOF) and Malawi's development partners, including the World Bank, agreed that there was a critical need for a new phase of reforms focused on implementation of new rules and regulations, tighter internal controls and attention to the benefits and advantages that would be gained through a comprehensive PFM system reform. Principally, these reforms required new technology, and institutional and human resource capacity building and all these factors were considered in designing the project. All these elements were taken into account in designing the project (ICR, Paras 1-7).

The PAD also provided appropriate warnings that the risks to implementation were high or substantial at various levels, such as, the country level, implementation entities level, project level, budgeting and accounts and overall FM levels, among others (PAD, pgs. 43,44,45).

The PAD did not have intermediate results indicators until the project restructuring in May, 2016, almost 3 years after the project began when they were introduced. Although intermediate indicators were not required, given the high risks involved, it would have been prudent to introduce them during preparation.

In addition, the design placed reliance on PEFA scores to adjudge results indicators. This impacted the quality of M&E. It was a deficiency in light also of the high or substantial risks identified in the PAD for the project (PAD, Para 9 p.43-45). The PEFA scores had last been used only in 2011 and were not reliable indicators.

Quality-at-Entry Rating
Moderately Unsatisfactory

b. Quality of supervision

The World Bank team conducted routine missions and submission of reports was generally timely. The ICR states that the Bank team remained engaged with the implementation units through regular missions particularly during the early part of the project. However, the ICR observes that the project team failed to increase their procurement support even after the unauthorized procurement of computers came to light and the serious issues that were confronted in procuring the new IFMIS system were reported (ICR, p.24).

The implementation problems resulting in the non-procurement of the IFMIS system, was somewhat assuaged by the constant and consistent presence of two external consultants in the field to advise and manage the upgraded EPICOR system and help in supervision of internal and external audit activities. However, the ICR states that the World Bank's responsibilities were more focused on providing funds for procuring items for training but that there was the absence of a TTL in the field to provide hands-on implementation support for operations in a low-capacity environment (ICR, pgs. 24-25)

The ICR's conclusions that the World Bank did not utilize the project implementation measuring tools in the Implementation Status and Results (ISR) Reports (a total of 9) to realistically gauge performance, can be concurred with (ICR, p.25). ISRs reporting that implementation was moderately satisfactory in several instances, is troublesome (ICR, p.3). In hindsight, the World Bank supervision missions did not have the benefit of the intermediate results and revised PDO results indicators until 2016 when they were first introduced. This points to a design flaw, which undermined supervision.

Finally, the World Bank Team did not make timely use of the opportunity to restructure and strengthen the Results Framework or the new IFMIS procurement despite the occurrence of "cash-gate" barely one month after the project's approval. The present and fourth TTL for the project was appointed only in 2017. These factors had a negative impact on consistent and constant supervision over the project's implementation.

Quality of Supervision Rating
Unsatisfactory

Overall Bank Performance Rating
Moderately Unsatisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

From the very inception, the design for effective M&E of the project was flawed. Three key and inter-related reasons can be cited for this. First, the M&E system for application was based on PEFA methodologies and baselines were adopted based on the 2011 PEFA framework. Since then, no PEFA assessments had been made to guide M&E for the project when it was approved. It is indicated in the ICR that the PFEM unit also lacked manpower to agree on a current and effective PEFA methodology for the project. Second, because of a dependence on a possible outdated PEFA methodology, it was not suitable for gauging any qualitative advances made in the project, particularly in assessing whether PDOs could be achieved. In fact, startlingly, the six intermediate results indicators and revisions to PDOs, were introduced after the project's restructuring close to three years after implementation began and no justifications were provided on how they were linked to the PDOs. Nor were there indications as to how they were to be applied retroactively to those activities already accomplished or to future activities. Third, the original target values of indicators set by increasing scores by one full or half grade were achievable but should have been revised soon after "cash-gate". This event exposed the fact that some of the higher-grade baseline indicators had to be lowered to strive for reasonable and achievable results and lower expectations (ICR, p.62). This was not done in a timely manner.

The "cash-gate" scandal was precisely this type of misappropriation that the project was designed to prevent and made starkly clear about the viability and importance of the project. While the incident did not require the project objectives to be changed, it necessitated the addition of tighter controls and better oversight. Revised intermediate results indicators were introduced such as effectiveness of payroll controls, internal controls on non-salary expenditures, while new indicators such as audit coverage standards, payroll audits and submission of reports for external audits were introduced. (ICR, Table 1, p. 11). Unfortunately, these changes were introduced just one month before the original date for closing of the project (June 30, 2016). Sparse reasons were provided in the ICR regarding why it took such a long time after the scandal to introduce the required revisions. The project, however, was extended by 22 months until April 30, 2018.

b. M&E Implementation

Many of the ISRs concluded that progress was "moderately satisfactory" even as the project was stalled often, and implementation of activities began to lag (ICR p.22 and 23). New results indicators were introduced at restructuring, following the revised, PEFA 2016 framework. Indicators from the new framework were not directly comparable with those from the previous 2011 framework, without adjustment and were not detailed enough to monitor progress of implementation (ICR p.23).

c. M&E Utilization

There was inconsistent reporting of ratings in ISRs, particularly due to the lack of intermediate results indicators from the inception. There was lack of any effective and reliable revisions to the results framework, and dependence on assessment based on PEFA methodologies last used in 2011. All these shortcomings undermined severely the proper utilization of M&E methodologies or tools for evaluating progress under the project.

M&E Quality Rating

Negligible

10. Other Issues

a. Safeguards

The project did not trigger social and environmental safeguards. The project was an environmental assessment Category “C” TA project.

b. Fiduciary Compliance

The entire project was funded by trust fund proceeds and administered by the World Bank. Quarterly interim financial reports (IFRs) and annual audited financial statements were submitted to the World Bank in a timely manner. Procurement procedures were conformed with until the second year, when the unauthorized substandard/refurbished computers were procured. The total amount spent for the unauthorized acquisitions was reimbursed to the Bank.

c. Unintended impacts (Positive or Negative)

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d. Other

The Project did not have a gender component.

11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Unsatisfactory	Moderately Unsatisfactory	

Bank Performance	Unsatisfactory	Moderately Unsatisfactory	There is sufficent evidence of positive factors both at Quality at Entry (ICR, Para 76,pg.24) and Quality of Supervision (ICR, Para 77,pg.24) to merit a higher rating of Moderately Unsatisfactory.
Quality of M&E	Negligible	Negligible	
Quality of ICR	---	Modest	

12. Lessons

This review concurs with the ICR's enumerated lessons and adds to them:

- M&E should be a critical aspect of methodically evaluating a complex project. An implementing unit should continuously review progress and explain to both internal and external stakeholders how the declared interventions are contributing to positive change. The design, at the very inception, of a dependable, realistic and comprehensive results framework, especially suited to the project, with intermediate results indicators, is a *sine qua non* for any complex project.
- Where the procurement of an IT system (new IFMIS) is the foundation for the project and implementation of many of the key activities are under it, every effort and focus must be made to prioritize its timely procurement and operation. The inability and failure to timely procure a new IFMIS was a core reason for the project's lack of success.
- Where procurement and associated training are important factors in the project and involves the introduction of complex information systems and their application, highly experienced technical assistance/support and expertise is always essential. The presence of expertise in design, training, procurement, monitoring of implementation at all stages of implementation and including introduction of disaster retrieval systems, is necessary from the inception to the close of a project especially dedicated to financial reporting and oversight improvement.
- Exogenous risks (such as "cash-gate"), as well as other unanticipated events, require quick mitigating responses. The changes and remedies to be introduced and how they impact on the implementation units must be effectively and quickly communicated to all implementing units. Further, when such exogenous events do occur and clearly impact the project, it may be best to discontinue the project rather than extend it, since the Bank runs a reputational risk to continue to support a project that was precisely designed to prevent the occurrence of this type of event.
- In complex projects, the presence of a TTL on the ground is necessary to oversee critical activities, communicate with stakeholders and suggest restructuring where necessary both for preventive and proactive responses.

- Where the project concerns transformation of MDAs accountability, transparency and ownership to ensure good governance in the public finance sector, it is vitally important to secure the commitment of the GOM at the highest levels to ensure that project activities are completed, that they are well aligned with the Government's policies and to ensure accounting, auditing and reporting are all in conformity with the applicable laws and regulations.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR was overall comprehensive, exhaustive and captured most details that were relevant. The team's effort to develop a results framework and the results chain in line with intermediate results indicators and revised PDO level results indicators mid-stream, was commendable. Conclusions and justifications for the ratings in the ICR were rational and plausible. The lessons learned from the project and iterated in the ICR were equally important and relevant.

However, the ICR has shortcomings:

- The organization and presentation of information was difficult to follow. Details of evidentiary support for the various conclusions had to be searched for throughout the report, including the GOM's own ICR, and elsewhere, to provide a more balanced assessment although the bottom-line ratings were justified. Confusing terms were used. For example, there were references to a IFMIS when the more accurate reference should have been to the EPICOR system (ICR, Para.47, p.17).
- There was also conflicting attribution in assessing the overall outcome rating. For example, the ICR concludes that the biggest contributor to the underwhelming performance was the decision not to formally realign resources and reduce activities and expectations to match the reprioritization for the new IFMIS (ICR, Para 48, p.17-18). But at many other points in the ICR, the failure of the project was attributed to the delays caused and revisions required with the occurrence of "cash-gate"; the lack of a proper M&E framework; the debacle in procuring and activating a new IFMIS system; and other procurement issues.
- It was difficult to logically follow which activities under the discrete components aligned with which of the two Objectives (or, PDOs, of which there were four). Nor was any effort made to identify and explain overlapping activities that impacted on more than one PDO, although this may have been due to the very complicated "Theory of Change" outlined to review progress of the project. For example, the adoption of a legal and policy framework and audit reporting impacted on both Objectives (or PDOs 2,3 and 4 and to an extent PDO 1 as well). Nor was the theory of change coherently explained, or the activities, out-puts, and their links to PDOs/Outcomes clearly described.

- The reasons for over-expenditure by 138 percent for activities under Component 4 were problematic. Nor were the reasons why only 57% of the overall assigned budget was expended for activities under the components despite the extension of 2 years for the project, properly explained. There was no analysis of expenses incurred as was required for the efficiency analysis. The ICR's conclusion that upon realization that additional expenses for procurement of a new IFMIS, project resources had to be reallocated to implementing units and that it was never communicated, or done, is difficult to understand. The ICR does not state, when, during the project's implementation, this was realized and when, and if, these increases or decreases in resources, and in what amounts, were ever communicated to the implementation units. At the close of the project, the resources originally allocated for the 4 components remained the same and the new IFMIS system had not been installed (ICR, Table 3, p.16).
- While the achievements for revised PDO targets based on the 2016 PEFA framework are presented (ICR, Annex 1), the ICR did not use the 2011 PEFA ratings, the PDO revised targets and the PEFA actual ratings as shown in Annex 1 and Annex 6 to assess performance under the project, as required under the PAD (PAD, p.15).

a. Quality of ICR Rating

Modest