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IDA/R2016-0011/1

February 8, 2016

**Closing Date: Friday, February 26, 2016  
at 6 p.m.**

FROM: Vice President and Corporate Secretary

**Ethiopia - Public Financial Management Project**

**Project Appraisal Document**

Attached is the Project Appraisal Document regarding a proposed credit to Ethiopia for a Public Financial Management Project (IDA/R2016-0011), which is being processed on an absence-of-objection basis.

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Report No: PAD1126

INTERNATIONAL DEVELOPMENT ASSOCIATION  
PROJECT APPRAISAL DOCUMENT  
ON A  
PROPOSED CREDIT  
IN THE AMOUNT OF SDR 23.9 MILLION  
(US\$33 MILLION EQUIVALENT)  
TO THE  
FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA  
FOR A  
PUBLIC FINANCIAL MANAGEMENT PROJECT  
February 3, 2015

Governance Global Practice  
Africa Region

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CURRENCY EQUIVALENTS  
 (Exchange Rate Effective as of December 31, 2015)  
 Currency Unit = Ethiopian birr (ETB)  
 ETB 21.183 = US\$1  
 SDR 1 = US\$1.381

FISCAL YEAR  
 July 8 – July 7

### ABBREVIATIONS AND ACRONYMS

AABE	Accounting and Auditing Board of Ethiopia
AfDB	African Development Bank
ASYCUDA	Automated Systems for Customs Data
BoFED	Regional Bureau of Finance and Economic Development
BPR	Business Process Reengineering
CAS	Country Assistance Strategy
CBE	Commercial Bank of Ethiopia
COA	Chart of Accounts
COPCO	Channel One Programs Co-ordination Office
CPAR	Country Procurement Assessment Review
CPS	Country Partnership Strategy
DMFAS	Debt Management and Financial Analysis System
DPs	Development Partners
DSA	Decentralized Support Activity Project (USAID)
EBO	Extra-budgetary operations
EFT	Electronic Fund Transfer
EFY	Ethiopian Financial Year
e-GP	e-Government Procurement
EMCP	Expenditure Management and Control Program
EPRDF	Ethiopian People's Revolutionary Democratic Front
ERA	Ethiopian Roads Authority
ERCA	Ethiopian Revenue and Customs Authority
ESPES	Enhancing Shared Prosperity through Equitable Services
ETC	EMCP Technical Committee
FEACC	Federal Ethics and Anticorruption Commission
FPPPA	Federal Public Procurement and Property Administration Agency
FPPPDS	Federal Public Procurement and Property Disposal Service
GDP	Gross Domestic Product
GoE	Government of Ethiopia
GTP	Growth and Transformation Plan

HDI	Human Development Index
IBEX	Integrated Budget and Expenditure System
IBRD	International Bank for Reconstruction and Development
ICAE	Institute of Certified Accountants of Ethiopia
ICB	International Competitive Bidding
IDA	International Development Association
IFMIS	Integrated Financial Management Information System
IFR	Interim Financial Report
IFRS	International Financial Reporting Standards
IPSAS	International Public Sector Accounting Standards
IRR	Internal Rate of Return
ISA	International Standards on Auditing
M&E	Monitoring and Evaluation
MCS	Ministry of Civil Society
MDA's	Ministries / Departments / Agencies
MDG	Millennium Development Goals
MDTF	Multi Donor Trust Fund
MoE	Ministry of Education
MOFEC	Ministry of Finance and Economic Cooperation
MoH	Ministry of Health
MOU	Memorandum of Understanding
MTEF	Medium Term Expenditure Framework
NBE	National Bank of Ethiopia
NPV	Net Present Value
OFAG	Office of the Federal Auditor General
ORAG	Office of the Regional Auditor General
PAC	Public Accounts Committee
PAO	Professional Accountancy Organization
PBB	Program Based Budgeting
PBS	Protection/Promotion of Basic Services Project
PDO	Project Development Objectives
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PMO	IFMIS Project Management Office (MOFEC)
POM	Project Operational Manual
PPIT	PFM Project Implementation Team (MOFEC)
PSCAP	Public Sector Capacity Building Project
PVC	Procurement Value Chain Analysis Report (2015)
REACCs	Regional Ethics and Anticorruption Commissions
RFP	Request for Proposal
RRA	Regional Revenue Authority
SNNPR	Southern Nations, Nationalities, and Peoples' Region
SOE	State Owned Enterprises
SIGTAS	Standard Integrated Government Tax Administration
TA	Technical Assistance

TSA	Treasury Single Account
UNCTAD	United Nations Center for Trade And Development
WBG	World Bank Group
WOFED	Woreda Office of Finance and Economic Development

Regional Vice President:	Makhtar Diop
Country Director:	Carolyn Turk
Senior Global Practice Director:	Samia Msadek/James Brumby
Practice Manager:	Renaud Seligmann
Task Team Leader	Eric Brintet
Co-Task Team Leader:	Yoko Kagawa

**PAD DATA SHEET**  
*Ethiopia*  
*Ethiopia PFM Project (P150922)*  
**PROJECT APPRAISAL DOCUMENT**

*AFRICA*  
0000009306

Report No.: PAD1126

Basic Information			
Project ID P150922	EA Category C - Not Required	Team Leader(s) Eric Brintet, Yoko Kagawa	
Lending Instrument	Fragile and/or Capacity Constraints [   ]		
Investment Project Financing	Financial Intermediaries [   ]		
	Series of Projects [   ]		
Project Implementation Start Date 25-Feb-2016	Project Implementation End Date 31-Mar-2020		
Expected Effectiveness Date 24-May-2016	Expected Closing Date 07-Apr-2020		
Joint IFC No			
Practice Manager/Manager Renaud Seligmann	Senior Global Practice Director Samia Msadek	Country Director Carolyn Turk	Regional Vice President Makhtar Diop
Borrower: Ministry of Finance and Economic Cooperation (MoFEC)			
Responsible Agency: MOFEC-ETHIOPIA			
Contact:        Mussa Mohammed		Title:     Director	
Telephone No.: 251-9111204564		Email: infoemcp@mofed.gov.et	
Project Financing Data(in USD Million)			
[   ]    Loan	[   ]    IDA Grant	[   ]    Guarantee	
[ X ]   Credit	[   ]    Grant	[   ]    Other	
Total Project Cost:	33.00	Total Bank Financing:	33.00
Financing Gap:	0.00		

<b>Financing Source</b>	<b>Amount</b>			
BORROWER/RECIPIENT	0.00			
International Development Association (IDA)	33.00			
Total	33.00			
<b>Expected Disbursements (in USD Million)</b>				
Fiscal Year	2017	2018	2019	2020
Annual	5.00	10.00	10.00	8.00
Cumulative	5.00	15.00	25.00	33.00
<b>Institutional Data</b>				
<b>Practice Area (Lead)</b>				
Governance				
<b>Contributing Practice Areas</b>				
<b>Cross Cutting Topics</b>				
<input type="checkbox"/> Climate Change <input type="checkbox"/> Fragile, Conflict & Violence <input type="checkbox"/> Gender <input type="checkbox"/> Jobs <input type="checkbox"/> Public Private Partnership				
<b>Sectors / Climate Change</b>				
Sector (Maximum 5 and total % must equal 100)				
Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Public Administration, Law, and Justice	Central government administration	50		
Public Administration, Law, and Justice	Sub-national government administration	50		
Total		100		
<input checked="" type="checkbox"/> I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.				
<b>Themes</b>				
Theme (Maximum 5 and total % must equal 100)				
Major theme	Theme	%		
Public sector governance	Public expenditure, financial management and procurement	100		

Total		100
<b>Proposed Development Objective(s)</b>		
1. The PDO is to improve efficiency, transparency and accountability of public expenditure at the federal and regional levels.		
<b>Components</b>		
<b>Component Name</b>	<b>Cost (USD Millions)</b>	
Improving Expenditure Management and Information Systems	22.45	
Strengthening Accountability Institutions	9.41	
Project Management, Monitoring and Evaluation	1.14	
<b>Systematic Operations Risk- Rating Tool (SORT)</b>		
<b>Risk Category</b>	<b>Rating</b>	
1. Political and Governance	Moderate	
2. Macroeconomic	Moderate	
3. Sector Strategies and Policies	Moderate	
4. Technical Design of Project or Program	Moderate	
5. Institutional Capacity for Implementation and Sustainability	Substantial	
6. Fiduciary	Moderate	
7. Environment and Social	Low	
8. Stakeholders	Moderate	
9. Other		
<b>OVERALL</b>	Moderate	
<b>Compliance</b>		
<b>Policy</b>		
Does the project depart from the CAS in content or in other significant respects?	Yes [ ]	No [ X ]
Does the project require any waivers of Bank policies?	Yes [ ]	No [ X ]
Have these been approved by Bank management?	Yes [ ]	No [ ]
Is approval for any policy waiver sought from the Board?	Yes [ ]	No [ X ]
Does the project meet the Regional criteria for readiness for implementation?	Yes [ X ]	No [ ]
<b>Safeguard Policies Triggered by the Project</b>	<b>Yes</b>	<b>No</b>
Environmental Assessment OP/BP 4.01		<b>X</b>
Natural Habitats OP/BP 4.04		<b>X</b>



Forests OP/BP 4.36			<b>X</b>
Pest Management OP 4.09			<b>X</b>
Physical Cultural Resources OP/BP 4.11			<b>X</b>
Indigenous Peoples OP/BP 4.10			<b>X</b>
Involuntary Resettlement OP/BP 4.12			<b>X</b>
Safety of Dams OP/BP 4.37			<b>X</b>
Projects on International Waterways OP/BP 7.50			<b>X</b>
Projects in Disputed Areas OP/BP 7.60			<b>X</b>
<b>Legal Covenants</b>			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
EMCP Steering Committee shall meet	Yes		Every six months
<b>Description of Covenant</b> The EMCP Steering Committee shall meet at least once every six months in a fiscal year, and shall be chaired by the Minister of the MoFEC .			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
EMCP PFM Committee shall meet	Yes		Every month
<b>Description of Covenant</b> The EMCP PFM Committee shall meet at least once every month in a fiscal year, and shall be chaired by the State Minister of Public Finance, or in such minister's absence, the Director of the EMCP.			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
Establishment of Project Implementation Team	No	Not later than 3 months after effectiveness	
<b>Description of Covenant</b> The Recipient shall establish, not later than three months after the effectiveness of this Agreement, and thereafter maintain, throughout the implementation of the Project, a project implementation team ("Project Implementation Team" or "PIT") within the MoFEC, with functions, staffing and resources satisfactory to the Association, including the Head of the PIT, at least five PFM and or IFMIS experts at the federal level and eleven experts at the regional level.			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
Preparation of work plan and budget of approved activities	Yes	Not later than March 31 in each calendar year	Annually
<b>Description of Covenant</b> The Recipient shall prepare, under terms of reference satisfactory to the Association, and furnish to the Association not later than March 31 in each calendar year, for the Association's consideration, a proposed work plan and budget of approved activities to be included in the Project for the following			

calendar year, such plan to include an implementation schedule and budget and financing plan therefor.

### Conditions

Source Of Fund	Name	Type

### Description of Condition

### Team Composition

#### Bank Staff

Name	Role	Title	Specialization	Unit
Eric Brintet	Team Leader (ADM Responsible)	Lead Financial Management Specialist		GGO25
Yoko Kagawa	Team Leader	Senior Operations Officer		GGO0S
Binyam Bedelu	Procurement Specialist (ADM Responsible)	Senior Procurement Specialist		GGO01
Meron Tadesse Techane	Financial Management Specialist	Sr Financial Management Specialist		GGO25
Abiy Demissie Belay	Team Member	Sr Financial Management Specialist		GGO25
Asferachew Abate Abebe	Safeguards Specialist	Senior Environmental Specialist	environment	GEN01
Berhanu Legesse Ayane	Team Member	Sr Public Sector Spec.		GGO25
Cem Dener	Team Member	Lead Governance Specialist		GGOGS
Chukwudi H. Okafor	Safeguards Specialist	Senior Social Development Specialist	social	GSU07
Elsa Araya	Team Member	Sr Public Sector Spec.		GGO25
Jose C. Janeiro	Team Member	Senior Finance Officer		WFALA
Marie J. Bolou	Team Member	SENIOR OPERATIONS		GGO19

		ASSISTANT			
Mei Wang	Team Member	Consultant		LLILS	
Mesfin Girma Bezawagaw	Team Member	Economist		GMF07	
Nikolai Soubbotin	Counsel	Lead Counsel		LEGLE	
Yemsrach Kinfe Edey	Team Member	Team Assistant		AFCE3	
Extended Team					
Name	Title	Office Phone	Location		
Ali Hashim	Systems/Informatics Consultant		Washington		
Guy Anderson	PFM Adviser		Dar es Salaam		
Luc De Wulf	Consultant, trade facilitation and customs				
Paul Crow	Consultant		Dar es Salaam		
Rajesh Shakya	Sr. e-Government Procurement Specialist / STC Africa		Washingtonm, DC		
Locations					
Country	First Administrative Division	Location	Planned	Actual	Comments
Ethiopia	Adis Abeba	Adis Abeba Astedader	X	X	
Consultants (Will be disclosed in the Monthly Operational Summary)					



**ETHIOPIA**  
**Public Financial Management Project**  
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## I. STRATEGIC CONTEXT

### A. Country Context

1. **Ethiopia is a large and diverse country.** It is located in the Horn of Africa and is a land-locked country with an area of 1.1 million km. The Ethiopian population is estimated at 96.95 million, with a population growth rate of 2.5 percent (2014). At this rate, Ethiopia's population is estimated to reach 130 million by 2025, and is projected by the UN to be among the world's top ten by 2050. About 18 percent of the population lives in urban centers. Ethiopia is a country of many nations, nationalities and peoples, with about 98 nationalities and peoples, roughly 93 languages. IDA commitments to Ethiopia in recent years have been over US\$1 billion per year. Making progress on the two goals of the World Bank Group (WBG) in Ethiopia is therefore important both for global progress and for the country itself.
2. **Ethiopia's constitution establishes a federal, democratic system.** Ethiopia's current government system was established in the early 1990s by the Ethiopian People's Revolutionary Democratic Front (EPRDF), which took over the country in 1991, after militarily defeating the previous regime. Decentralization of governance to the regional and woreda levels—a woreda is a district with an average population of 100,000—has been actively pursued since 2003.
3. **Ethiopia has experienced strong economic growth over the past decade that helped to reduce poverty substantially.** Real gross domestic product (GDP) growth averaged 10.8 percent over the period 2003/04 to 2014/15, according to official data. This translates into an average of 8 percent in GDP per capita growth per year over the past twelve years. The growth acceleration was driven by services and agriculture on the supply side, and private consumption and investment on the demand side. The services sector has overtaken agriculture as the largest sector in terms of output. The investment rate has increased substantially since the mid-1990s with a commensurate decline in public consumption. From 2000 to 2011 the wellbeing of Ethiopian households improved on a number of dimensions. In 2000, Ethiopia had one of the highest poverty rates in the world, with 55.3 percent of the population living below the international poverty line of US\$1.90, 2011 PPP per day and 44.2 percent of its population below the national poverty line. By 2011, 33.5 percent lived on less than the international poverty line and 29.6 percent of the population was counted as poor by national measures.
4. **But Ethiopia is still one of the world's poorest countries.** The country's per capita income of US\$550 is substantially lower than the regional average of US\$1,646 in 2014 and among the lowest globally. This is mirrored in Ethiopia's comparative position in human development. In 2015 the country ranked 174 out of 188 in the Human Development Index (HDI) of the United Nations Development Program (UNDP). However, Ethiopia made substantial progress towards the attainment of the Millennium Development Goals (MDG). In addition to lowering the rate of extreme poverty, progress has been made in particular in the areas of undernourishment, gender parity in primary education, infant and child mortality, maternal mortality, HIV/AIDS, malaria and water access. Though progress is lagging in primary enrolment and sanitation goals.

5. **GoE is currently implementing the second phase of the Growth and Transformation Plan (GTP II), its development strategy that seeks to turn the country into middle-income status by 2025.** To sustain high growth rates, recent analytical work of the World Bank suggests that the country needs to identify sustainable ways to finance infrastructure, support private investment through credit markets, and tap into the growth potential of structural reforms. GTP II, which will run from 2015/16 to 2019/20, aims to continue improvements in physical infrastructure through public investment projects and transform the country into a manufacturing hub. The overarching goal is to turn Ethiopia into a lower-middle-income country by 2025. Growth targets are comparable to those under the previous plan with annual average GDP growth of 11 percent; in line with the manufacturing strategy, the industrial sector is slated to grow by 20 percent on average.

6. **The WBG Country Partnership Strategy (CPS) for FY 2013–2016 establishes the principles for engagement, within this framework, as recently reviewed in the 2014 CPS Progress Report.** The CPS supports the GoE in implementing the GTP. It includes two primary pillars, and seven strategic objectives. Pillar One (Fostering competitiveness and employment) aims to support Ethiopia in achieving the following strategic objectives: (a) a stable macroeconomic environment; (b) increased competitiveness and productivity (a particular focus for IFC); (c) increased and improved delivery of infrastructure; and, (d) enhanced regional integration. Pillar Two (Enhancing resilience and reducing vulnerabilities) aims to support Ethiopia through: (e) improving delivery of social services; and, (f) comprehensive social protection and risk management. The CPS also has a foundation of: good governance and state building. In line with the growth and transformation plan (GTP), gender and climate change have been included as cross-cutting issues in the CPS. The CPS Progress Report reconfirmed these strategic objectives, while noting that the WBG will place renewed emphasis on: a stable macroeconomic environment; increased competitiveness and productivity; regional integration; and the urbanization process.

## **B. Sectoral and Institutional Context**

7. **Public Financial Management in Ethiopia has been strengthened in conjunction with the country's efforts to improve service delivery for the last fifteen years.** Ethiopia has pushed for the expansion of basic service delivery and attainment of MDGs through a decentralized delivery model. Since about 2004, several development partners (DPs), including IDA, have supported this process of decentralization and local empowerment, initially via direct budget support, and, from 2006, via the multi-donor funded Protection of Basic Services (PBS) programs. Under PBS, donors have pooled funds with the government's own-revenues to finance the Federal Block Grants to sub-national levels. These block grants have, in turn, financed, among others, expansion in the delivery of core basic services. PBS has adopted a two-pronged approach, focusing on the supply-side and demand-side of accountability around public budgets and services, thus, introducing new levels of openness in the public budget system.

8. **GoE has fully recognized that a key tool for improved service delivery is a strong public financial management system. Services can only be delivered with value-for-money** if funds are available in a timely manner to spending units, and there is proper accountability, transparency and reporting. Responsibility for ensuring that the PFM system is designed to achieve these goals rests with the Ministry of Finance and Economic Cooperation (MOFEC).

On expenditures, the reform program has been led by the Director for the Expenditure Management and Control Program (EMCP) - one of the five key reform initiatives under the Civil Service reform program. The vision statement for EMCP is to establish a PFM system that is “modern, efficient, effective, and supportive to economic growth, governed by law and strengthened by skilled manpower and modern technology.”<sup>1</sup>

9. **Funding for this reform initiative was provided through the GoE’s own budget and through bilateral programs such as the Decentralization Support Activity (DSA) project<sup>2</sup> (1996–2006), as well as multilateral programs, such as the Public Sector Capacity Building Project (PSCAP) and PBS.** A large share of the funding for PFM reforms was provided through PBS II (2007–2012) and PBS III (2013–2018). The bulk of funding from the PBS projects was for strengthening PFM systems at the local government level. (This was related to the fact that there are approximately 1,000 local governments in Ethiopia and that PBS funds flow to the five basic sectors<sup>3</sup> in local governments.)

10. **The approach followed by the government is to focus on “getting the basics of PFM right.”** A systematic approach was followed in reforming the system, starting with the legal framework covering all aspects of the PFM cycle, – including: budget preparation; accounting and reporting; cash management; procurement; property management; internal audit; external audit; and legislative oversight. Combined with these reforms was a move from a single-entry to a double-entry basis of accounting, revision of the chart of accounts,<sup>4</sup> and the preparation and roll-out of an IT accounting system-- the Integrated Budget and Expenditure Management (IBEX)--, that is available in four regional languages to approximately 1,900 locations across the country (developed during 1996–2006; operational since 2007). There are 11 regional data centers established to support IBEX operations, and a central database (federal level) is used for consolidating budget execution results and reporting. Two data centers (in Addis Ababa and Tigray) provide access to 407 sites (about 21 percent) for web-based operations (online), whereas the majority of the remaining nine other regional data centers and zone/woreda offices operate as stand-alone sites (offline) where consolidation is performed by transferring data manually or via network to zones and regional data centers. Because of this structure, most of the daily transactions are stored locally, and consolidated budget execution reports can be produced monthly/quarterly from the MOFEC central IBEX database. This system currently forms the backbone of the country’s PFM system. It is used for budget preparation, accounting, cash management and financial reporting.

11. **The result of these initiatives was a steady strengthening of PFM systems.** PEFA ratings for GoE for 2014 are in Annex 7. With these new ratings, Ethiopia has progressed from being ranked in the top half of countries in the Africa region in 2007 to now being ranked in the top 10 percent. The key findings are that, in terms of budget credibility, Ethiopia has improved its performance over the last three years, bills are cleared on time, there are no arrears, payroll systems are robust, the internal control system is comprehensive, the inter-governmental fiscal

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<sup>1</sup> MOFEC, EMCP Action Plan for EFY 2007.

<sup>2</sup> The DSA Project was managed by Harvard University and funded by Development Cooperation Ireland (DCI), the Netherlands Minister for Development Cooperation and the United States Agency for International Development (USAID)

<sup>3</sup> These five sectors are health, education, water, agriculture and rural roads.

<sup>4</sup> This is the coding structure used for budget preparation, and recording of revenues and expenditures.

transfer system works well and cash transfers are predictable up to the local government level. Audit coverage at the Federal level has increased and audit reports are produced in a timely manner. At the federal and regional level, fiscal spending reports are prepared on a monthly basis with no more than a four weeks' lag, and quarterly reports are available after two weeks at the end of the quarter. The main weaknesses identified at the Federal level relate to tax collection, public access to budget information, a medium-term perspective in budgeting, unreported extra-budgetary operations and parliamentary oversight.

**12. As can be expected in a federal structure with nine regional governments, capacity in PFM is variable across the country.** The 2014 PEFA assessments for six regions show major improvements from the baseline in 2007 and the update in 2010. The overall ratings for the Regions are not as strong as those for the federal government, a typical finding in developing countries. Some of the areas that the regions need to focus on are: improving the extent of unreported government operations; effectiveness in collection of tax payments; comprehensiveness of information included in budget documents; weaknesses in multi-year planning; composition of expenditure out-turn compared to the original budget; and, availability of information received by service delivery units. The regional level PEFA assessments were supplemented by the assessments conducted for the Integrated Fiduciary Assessment (IFA) for the ESPES project.

**13. The picture of PFM performance is mixed at the woreda level.** The positive side is that the legal framework is robust; IBEX is rolled out to almost all woredas (to support mainly budget preparation, execution, accounting and reporting needs in stand-alone mode); the Annual Budget is proclaimed and notified as per budget procedures by Regions; budgets and actual expenditures are disclosed to the public in the local language; manuals are available at the woreda level; pool system guidelines have been developed and issued; Audit Committees have been established at 400 woredas; and funds are released to woredas in a timely manner. Segregation of duties on payment is generally satisfactory; the payroll system is strong; timeliness of reports has improved; six out of nine regions closed their books of account by October 2014 and published their consolidated account in readiness for the annual audit for EFY 2005 (2012/13); and audit coverage on average has reached 58 percent- a significant improvement from the situation five years ago.

**14. Despite impressive gains, there are still material areas of weakness at the woreda level.** These relate to: poor infrastructure and network capacity; weaknesses in internal audit; weak property management; weak cash control and delays in monthly bank reconciliation; high staff turnover (primarily due to low salary structures); delays in budget notification; low financial audit coverage and audit backlogs in some regional states; and inadequate training of staff. OFAG has conducted Continuous Audits of over a 1,000 woredas in the last five years. For FY14, the key findings of continuous audits are that there are weaknesses in the majority of the woredas regarding property management, long outstanding advances and payables, delays in bank reconciliation, misclassification of expenditure, weaknesses in managing cash, and weak internal controls on payments. Irregularities continue to remain a major challenge. MOFEC's analysis reveals challenges in fully addressing audit findings.

15. **Woredas play a key and growing role in basic services delivery, which increases their PFM responsibilities.** The GoE provides block grants to woredas for service delivery in the sectors of basic education, primary health care, agricultural extension, water supply and rural road maintenance. The level of financing to woredas is growing exponentially, resulting in the need for urgently building the fiduciary capacity for handling this magnitude of fund flows. Hence, the need for this project, which is complementary to the recently approved (FY16) US\$600 million project titled “Enhancing Shared Prosperity through Equitable Services” (ESPES). The expenditure anticipated for woreda-level service delivery from 2015–2018 is US\$6.1 billion, of which the government is currently expected to finance 86 percent (including the identified financing gap).

**Table 1. Overall Government Program and Contribution of PforR**

(Preliminary costs and financing in US\$, millions)

	2015/16	2016/17	2017/18	Total
Woreda Block Grants Total Value <sup>a</sup>	1,948.5	2,598.0	3,464.0	8,010.5
Government Contribution <sup>b</sup>	1,430.0	1,906.6	2,542.1	5,878.7
IDA Contribution	200.0	200.0	200.0	600.0
Other Development Partners	89.2	84.0	84.0	257.2
IDA Share	10.3%	7.7%	5.8%	7.5%
Financing Gap	229.3	407.4	637.9	1,274.6

Note: <sup>a</sup> Projected based on historical trends; <sup>b</sup> Projected based on past growth rate of government contribution to the block grants.

16. **Several systems- strengthening initiatives are currently underway – a key one relates to information systems and related behavioral changes.** The legacy system (IBEX) has contributed significantly to recent PFM progress, but now faces technical and functional limitations. It does not enable electronic connectivity with the core banking system, offers no support for Electronic Funds Transfer (EFT), no support for program-based budgeting, payroll, commitment control, purchasing or inventory management. Because of these challenges, the MOFEC initiated the development of a modern Integrated Financial Management Information System (IFMIS) in 2010, based on a web-based commercial off-the-shelf software (Oracle e-Business Suite) which includes nine modules.<sup>5</sup> The IFMIS pilot implementation was initiated in 6 federal public Ministries in February 2014, and 5 new pilot federal sites were added in May 2015. Implementation of the nine modules is expected to improve core PFM work processes and related behaviors in areas such as budgeting, accounting, cash management, payroll, inventory management, and management of fixed assets (commitment control is expected to be included during the rollout phase).

17. **Another area of strengthening initiatives is the institutionalization of PFM training.** The plan is to update and revise training materials, develop a ladder of qualifications, focus on improving quality by having the training delivered through certified trainers, and shifting the delivery mechanism to seven management institutions located across the country. This initiative

<sup>5</sup> These comprise: General Ledger; Accounts Payable; Accounts Receivable; Cash Management; Public Sector Budgeting; Purchasing; Payroll; Inventory; and Fixed Assets.

is critical, given the high staff turnover at all levels of government and the need to develop specialized competencies given the move to more sophisticated systems such as the IFMIS.

**18. Ethiopia has made steady progress in reforms and implementation of its procurement framework.** The Federal Public Procurement and Property Administration Agency (FPPPA) is established and functional as a regulatory body for procurement and property management. Regional states have established similar regulatory bodies. About 53 percent of the GoE annual budget is expended through procurement, mostly in transport, energy, water, agriculture and education; this represents an annual expenditure of about US\$3.5 billion. GoE has shown strong leadership to improve procurement systems.

**19. A recent study<sup>6</sup> of 137 large contracts in Ethiopia found that it took, on average, 219 days-- from advertising to contract signature-- to complete the procurement process of a government-financed contract.** Also, that 36 percent of the time was spent on administrative reviews and approvals. All processes are manual and most of them are repetitive for off-the-shelf goods. Market research and data management to monitor performance is weak, oversight over procurement activities is weak with low audit coverage (less than 50 percent at the Federal level, and only recently initiated at the Regional level). The study shows that there are significant delays in International Competitive Bidding (ICB) contracts for goods, works and consultants for government-funded contracts, as well as for Bank-financed projects. There is an urgent need to modernize and automate procurement practices. A priority for the GoE during the next five years is the introduction of an eGP (e-Government Procurement) system – to improve efficiency and accountability in the procurement process and also reduce costs. This intervention will be supported under this project and funding will be provided for linking the eGP system to the IFMIS.

**20. Four other critical PFM areas that are weak in Ethiopia are (a) the professional accountancy profession; (b) external audit; (c) Parliamentary oversight; and, (d) Anti-Corruption agencies.**

**21. The availability of well-qualified professional accountants, willing to work in the public sector can augment the quality of PFM performance.** Until recently, Ethiopia did not have an official professional accountancy organization, making it an outlier within the group of countries of similar size. Accountants who wished to be professionally qualified had to obtain overseas qualifications at high cost; thus, the number of professional accountants was very limited. To address this issue, in June 2014, Parliament approved a Proclamation establishing a new regulatory board-- the Accountants and Auditors Board of Ethiopia (AABE). The Proclamation set international standards applicable to private-sector Small and Medium Enterprises (SMEs), and to charities and societies. International Financial Reporting Standards (IFRS), or International Financial Reporting Standards for Small and Medium Enterprises (IFRS for SMEs) issued by the International Accounting Standards Board (IASB) will be adopted to the private sector and SMEs. The corresponding Regulations were approved in October, 2014. AABE will regulate the profession and issue professional accountancy qualifications that are recognized internationally. This initiative is being supported under this project, as the

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<sup>6</sup> Procurement Value Chain Analysis of August 2015 by SPA Infosuv East Africa Ltd.,

development of the accountancy profession will encourage transparency and accountability in the public sector while also having a positive impact on the business climate.

**22. External audit is an area that has received significant support from the PBS projects and from donors such as UNDP in the past.** There has been progress, especially at the federal government level, but regional performance is patchy. Capacity is weak in some Regions and there is a backlog of audits in regions such as Gambella, Amhara and Southern Nations, Nationalities, and Peoples' Region (SNNPR). All audit offices across the country have been provided training, IT equipment and transport facilities. However, the biggest challenge remains in the area of audit quality and the lack of adequate training facilities focused on audit.

**23. For the accountability function to be effective, oversight needs to be complemented by a solid enforcement function.** The government has a robust legal framework and arrangements for prevention, control and reporting of a wide range of fraud and corruption allegations through the Federal Ethics and Anti-Corruption Commission (FEACC) and Regional Ethics and Anti-Corruption Commissions (REACCs). The number of tip-offs has increased from year to year. The regional data collected for 2013/14 revealed that all the regions have received about 5,931 tip-offs and investigated and/or prosecuted 1,665 (28 percent) cases. The authorities indicated that the percentage corresponded to non-relevant tip-offs that were either administrative or beyond the mandates of the Commissions. The conviction rate by REACCs rose from 16 percent in 2011/12 to 90.9 percent in 2013/14. There are remaining weaknesses regarding the placement of Ethics and Anti-Corruption Officers at the woreda level, local government capacity to address these issues, data quality and public awareness. The project will support capacity gap assessment and capacity building activities as per the findings in the three emerging regions of Afar, Somali and Gambella REACCs. These regions have been chosen because of the existence of a DFID project (Tax Audit and Transparency) providing support for REACC's in the four "Big" regions of Amhara, Tigray, SNNPR and Oromia. Also, this project will build capacity at the local government level to address fraud and corruption issues, data quality issues and increase public awareness of fraud and corruption at the local government level.

**24. Looking back over the last decade, programmatic support has been provided to the government PFM reform efforts mainly through three Bank projects-- PSCAP, PBS II and PBS III.** Going forward, the proposed project will provide the institutional underpinning for supporting the implementation and fund-flow arrangements under the ESPES project-- the follow-on project from PBS III. The core fiduciary challenges identified at the woreda level and included in the ESPES Program Action Plan will be addressed through this project. The details are at Annex 8. In addition, this project will support the implementation of the fiduciary aspects of the Management Action Plan agreed with the Bank's Board of Directors at the time of the discussions around the Inspection Panel report on Gambella in January 2015. The details of this Action Plan are at Annex 9.

**25. A programmatic approach has been adopted for PFM support to GoE.** This project builds on the PSCAP project, as well as the PBS II project. The support provided under this project is complementary and not duplicative of support being provided under PBS III. The focus of this project is primarily at the woreda level and supportive of interventions planned under the ESPES project. PFM, in the government's view, has been a critical tool to support

service delivery. It has performed this role with success, but much more is expected of it as Ethiopia moves towards its goal of becoming a middle income country by 2025.

### **C. Higher Level Objectives to which the Project Contributes**

26. **The project is consistent with the Bank Group's Country Partnership Strategy (CPS) for FY 2013–2016.**<sup>7</sup> This aims to foster competitiveness and employment by supporting a stable macroeconomic environment, increasing productivity, improving delivery of infrastructure, and enhancing regional integration. The CPS states that PFM reforms have made progress over the last decade and a further round of reforms is needed.<sup>8</sup> The CPS has therefore included this project in the pipeline for this CAS period.

27. **The project will contribute to the following high level objectives:** (a) it will improve the efficiency of the government expenditure management system through improved cash management, better monitoring of programs through the roll-out of program budgeting, better reporting, and improved oversight at all three levels of government; (b) it will result in significant cost savings through improved procurement processes, reduced processing time and increased professionalization of procurement staff; (c) it will help establish the regulator and the professional body for accountants and auditors in Ethiopia and thereby provide a key building block for an improved business climate and increased private sector investment in the country, as well as for improved PFM performance; and, (d) it will improve accountability through improving the quality of audits across the country.

28. Ethiopia announced in 2011 its intention to build four large dams on the Nile including one of the largest in the world, the Grand Ethiopian Renaissance Dam, on which construction is now halfway completed. The country is also facing today severe drought with reportedly close to 8 million (just under 10 percent of the population) people at risk. Although not having a direct impact on these overall challenges, the project will indirectly allow the country to deal better with them through a more agile, efficient and resilient PFM system.

## **II. PROJECT DEVELOPMENT OBJECTIVES (PDO)**

### **A. PDO**

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

### **B. Project Beneficiaries**

30. **The public sector has the highest share of GDP spending in Ethiopia, with the level of public spending the third highest of all developing countries.** Public spending, therefore, directly impacts the lives of citizens across Ethiopia, given the fact that the share of the private sector is small. Direct beneficiaries from this project will be the citizens who directly interface with the government systems and are beneficiaries of government payments across Ethiopia.

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<sup>7</sup> CPS-Report No. 71884-ET, August, 2012

<sup>8</sup> CPS (August 29, 2012), pages 7 and 8.



### C. PDO Level Results Indicators

31. **The achievement of the overall PDO will be measured by the following key outcome indicators:**

- (a) Reduced cash float at the Federal and Regional Levels, resulting in substantial reduction in interest costs to government.
- (b) Timely disclosure of key fiscal/budget documents.
- (c) Targeted agencies progressively increasing the percentage of contracts awarded within an agreed benchmark of 180 days for contracts above US\$5,000,000 for works and US\$500,000 for goods.
- (d) An increase in the percentage of audits conforming to International Standards of Supreme Audit Institutions (ISSAI) issued by the International Organization of Supreme Audit Institutions.
- (e) The number of Direct Beneficiaries, who are the recipients of the institutionalized training provided by the project.

## III. PROJECT DESCRIPTION

### A. Project Components

32. The project has three components- identified on the basis of the comparative advantage of the Bank's track record of collaborating closely with the government on PFM reforms in Ethiopia over the last decade.

**Component 1: Improving Expenditure Management and Information Systems**  
(US\$22.5 million)

33. **The objective of this component is to support the government in implementing the next generation of PFM reforms through the government-funded IFMIS roll-out plan.** It will support the roll-out of IFMIS and enhancement of IBEX, provide extensive support to the Project Management Office (PMO), accompany the PFM reforms (coming with the IFMIS roll-out), and fund the establishment of a permanent IFMIS and PFM Academy.

*Subcomponent 1.1: Support for IFMIS rollout and IBEX enhancement* (US\$7.3 million)

34. **This subcomponent will support the IFMIS rollout, monitoring of IFMIS contract, and enhancement of existing IBEX system.** This subcomponent will complement the MOFEC's IFMIS roll-out activities by providing necessary hardware and software. Following an urgent government request, this component will also finance the purchase of the necessary hardware for upgrading the existing IFMIS Data Centre, as the existing one is outdated and has no backup system to implement a continuity and recovery plan. Acquisition and implementation of an audit tool linked to IFMIS, and the installation of related servers and hardware, will also be supported. It will also finance the recruitment of a Quality Assurance Firm to monitor the

bidding process and the IFMIS contract. Finally, it will fund the maintenance and enhancement of the existing IBEX modules and transition to web-based centralized operations at the regional levels, especially at zones and in the woredas to keep the system functional pending the actual IFMIS roll-out.

*Subcomponent 1.2: Support the Project Management Office (PMO) (US\$2.8 million)*

35. **This subcomponent will support the PMO in funding staff and training costs, monitoring of the IFMIS contract, and modernizing the existing system.** It will finance the salaries of contractual staff of the IFMIS PMO, provide specialized IT Training for PMO and Implementation Support Unit Staff, and fund some of the operational costs for the PMO and PFM reforms. It will also complement MOFEC's change management activities.

*Subcomponent 1.3: PFM Systems Strengthening in coordination with the IFMIS roll-out (US\$3.8 million)*

36. **The IFMIS roll-out is intended by the GoE to be a strong driver of change and will develop new functionalities that are currently not covered by the existing IBEX system.** Among these, the main ones are Program-Based Budgeting, Cash Management Module and Treasury Management, reform of the Chart of Accounts, Debt Management, woreda level Payroll Management, Internal Audit and Communication. This subcomponent will accompany these IFMIS-led reforms in providing training and technical assistance, and any other support aimed at implementing the reforms. This will apply to the federal, regional and woreda levels for complete ownership of the reforms. Actions financed at the woreda level will execute the action plan of the ESPES PforR project.

*Subcomponent 1.4: IFMIS & PFM Academy (US\$8.6 million)*

37. **To match the needs of trained staff necessary for IFMIS roll-out, this component will also have a major focus on improving staff capacity.** This will be the fourth major area of intervention. This will be accomplished by assisting in the establishment of the IFMIS Academy for training, developing standardized training materials and a qualifications framework on PFM that will be linked to professional accountancy qualifications. This training will be delivered through identified/qualified Regional Management Institutions and Ethiopian Civil Service University (ECSU) as appropriate. MOFEC has already entered into a contractual arrangement with ECSU for undertaking this task. The subcomponent will also support the activities to increase awareness for government officials involved in PFM tasks.

**Component 2: Strengthening Accountability Institutions (US\$9.4 million)**

38. This component aims at supporting accountability institutions in the performance of their tasks. This component is especially important considering the repeated assessments that indicate that audit and oversight institutions are the weakest link in the PFM chain in Ethiopia.

*Subcomponent 2.1: Strengthening Procurement and Property Management (US\$3.7 million)*

39. **This subcomponent will assist government to** (a) Finance a procurement staff certification program and capacity building activities in procurement and property management

in order to strengthen the competency and skills of staff involved in procurement and property management in targeted sectors at federal and regional levels. This activity will build on ongoing initiatives under PBSIII and complement capacity building requirements to implement program action plans under the proposed Enhanced Shared Prosperity through Equitable Services PforR Program; (b) Assist GoE to enhance the capacity of federal and regional procurement regulatory bodies in market research, data collection and performance monitoring of procurement systems; and, (c) Assist GoE to develop and implement an e-procurement system.

*Subcomponent 2.2: Capacity Building for Oversight Functions (US\$2.3 million)*

40. **The objective of this subcomponent is to strengthen the capacity of the Office of the Federal Auditor General (OFAG) and the Offices of the Regional Auditor General (ORAGs) in order to enable them to fulfil their oversight roles.** Support of these bodies builds on the ongoing support that the Bank has been providing through the PBS project.

41. Audit coverage has substantially improved primarily at the Federal level, but also at the regional level. However, there are major challenges regarding the quality of audit and its timeliness. Therefore, to tackle this challenge, this component will (a) provide support to OFAG for improving the quality of audits at the OFAG level and also in all the regions; (b) help support OFAG's training center regarding curricula design, recruitment of faculty members and other interventions; and, (c) support and strengthen collaboration between OFAG and other institutions that exercise, or contribute to, the oversight functions.

*Subcomponent 2.3: Development of the Accountancy Profession: (US\$2.3 million)*

42. **The objective of this Subcomponent is to support the development of a vibrant accountancy profession in the country, strengthening the institutional capacity of the newly established regulatory public oversight body (AABE).** This component will also support the AABE's efforts to develop a Professional Accountancy Organization (PAO). In coordination with relevant stakeholders, this subcomponent also aims at assisting the implementation of international standards of accounting, auditing, ethics and accounting education, both in the private and public sector. It will provide support in defining the scope of changes required and in the development and implementation of strategies, including the integration of accountancy education. This component promotes local, regional and international collaborations among professional bodies and associations. A key task supported by this component will be creating a professional accountancy qualification-- issued locally, but internationally recognized. It is expected that the first qualification of this type will be issued by 2018.

*Subcomponent 2.4: Support for Strengthening Fraud and Corruption Mitigation activities: (US\$1.0 million)*

43. **The objective of this Subcomponent is to strengthen the institutional arrangements for mitigation of fraud and corruption primarily at the woreda level.** This task will (a) Provide TA support for FEACC (Federal Ethics and Anticorruption Commission) to undertake capacity assessment of the REACCs in the Afar, Gambella and Somali regions, as well as addressing the weaknesses identified by the study; (b) provide cascaded training for REACC

(Regional Ethics and Anticorruption Commission) staffs and Ethics officers at the local level to improve recording and reporting of fraud and corruption cases and also information- sharing; (c) provide training to the concerned woreda council standing committee members on follow-up of audit findings to strengthen internal control and oversight; (d) support regional institutions (REACCs) on disclosure of cases and complaints- handling procedures to the public through media.

### **Component 3: Program Management, Monitoring and Evaluation (US\$1.1 million)**

44. **To ensure project implementation, the effective monitoring and evaluation of results and a consistent and effective approach to capacity development, the project would support program management and co-ordination related tasks.** The first subcomponent would cover tasks such as (a) Financing the staffing of federal and regional coordination units and providing support to the Project Steering Committee and the Technical Committee; (b) Procurement, financial management and safeguard functions; and, (c) Providing goods and equipment to support project management and implementation. This component will finance the establishment of the Project Implementation team (PIT) under EMCP in MOFEC. Some staff of the PIT will be assigned specifically for OFAG.

45. **The responsibilities of the PIT will include assessing the achievement of outputs as agreed in the annual work plans, as well as progress towards outcomes and intermediate results.** They will identify implementation gaps and challenges for proactive corrective actions, and will document and incorporate lessons learned into program implementation. The system will generate, aggregate, systematically record and analyze information/data from various implementation levels as well and from qualitative and quantitative surveys related to the PFM projects- outcome indicators/results. It will analyze such data to evaluate impacts and outcomes, track progress, monitor how well agreed-upon processes are being performed, and identify implementation bottlenecks for direct resolution by implementing agencies.

#### **B. Project Financing**

46. **The lending instrument for the project is Investment Project Financing (IPF),** funded by an International Development Association (IDA) Credit, from the IDA 17 allocation on standard country terms.

#### **C. Project Cost and Financing**

47. **The total cost for the project is US\$33 million.** This is based upon the cost estimates provided by MOFEC and other government agencies during project preparation, as reviewed at appraisal. The cost breakdown for the different components is provided below.

48. **Some activities will have to be started before this project is approved and at the request of the GoE.** In line with the World Bank's policies, it has been agreed that there will be retroactive financing amounting to US\$3 million for payments made prior to the agreement date (the date of the agreement is countersigned) but on or after January 1<sup>st</sup> 2016 (the date of the start of the Appraisal Mission). This will be indicated in the Financing Agreement.

49.

**Table 2. Cost by Project Components**

<b>Components/Subcomponents</b>	<b>IDA US\$, millions</b>
<b>Component 1 Improving Expenditure Management and Information Systems</b>	<b>22.5</b>
<i>1.1 Support for IFMIS roll-out and IBEX enhancement</i>	7.3
<i>1.2 Support for the Project Management Office (PMO)</i>	2.8
<i>1.3 PFM Systems Strengthening in coordination with the IFMIS roll-out</i>	3.8
<i>1.4 IFMIS &amp; PFM Academy</i>	8.6
<b>Component 2: Strengthening Accountability Institutions</b>	<b>9.4</b>
<i>2.1 Strengthening Procurement and Property Management</i>	3.7
<i>2.2 Capacity building for Oversight Bodies</i>	2.3
<i>2.3 Development of Accountancy Profession in Ethiopia</i>	2.3
<i>2.4 Support for Strengthening Fraud and Corruption Mitigation activities</i>	1.0
<b>Component 3: Project Management, Monitoring and Evaluation</b>	<b>1.1</b>
<i>3.1 Program Management and Institutional Arrangements</i>	1.1
<b>Total Cost</b>	<b>33.0</b>

#### **D. Lessons Learned and Reflected in the Project Design**

50. **The design of this project assimilates lessons learned from the successfully concluded PSCAP project, a nationwide program that supported capacity building activities and public sector reforms in a large number of sectors.** Key lessons from the PSCAP project were that political support for these kinds of reforms is critical, there is need to keep the implementation strategy simple and to engage actively with sub-national governments. Key lessons from the IEG review of ICR report are summarized in the box 1.

**Box 1. Lessons Learned from Implementation of the PSCAP Project (2005–2012)**

- **Invest time and effort to align and secure political support:** It would have been difficult for the World Bank to maintain its engagement without significantly aligning with the GoE's own strategic plan, thus securing high level political support, ownership and commitment from the GoE.
- **Engage greater support to sub-national governments, where the bulk of service delivery takes place:** The program was thus able to support decentralization much more effectively as two-thirds of the resources are disbursed to the Regional governments.
- **Innovative use of streamlining client satisfaction surveys in operations helps to provide feedback to influence behaviors in institutions:** Streamlining the Woreda and City Benchmarking Survey was instrumental to assess the effectiveness of reform, particularly at decentralized levels, as part of gauging 'demand'- side customer satisfaction. This has allowed both the donor team and the government to identify gaps and shortfalls, and also areas where there are success stories.
- **The 'learning by doing' approach was a pragmatic approach to reforms:** The project employed an approach to reform where activities had been sequenced, and things were tried out locally to see what worked best before being scaled up.
- **Enforcing "minimum mandatory activities" in framework- type projects** (Given Ethiopia's uneven capacity among regions).
- **Have a simple, implementable strategy for Information, Education and Communication:** A strong campaign of IEC is essential to the satisfactory implementation of public sector reforms.

*Source:* IEG Assessment of the PSCAP Project (2013).

51. **Apart from the PSCAP project, the Bank has gained a lot of additional experience in implementing PFM projects in Ethiopia.** PBSII and PBSIII had large PFM components which built on the good work of PSCAP through strong government commitment, close follow-up and clear results. Both have had strong political support at the Federal and Regional levels, and core teams employed by the projects have been based in the federal and regional levels; implementation and piloting and scale-up has been the approach that has been followed for PFM reforms in Ethiopia for the last ten years. This is also the approach adopted in this project.

52. **Beyond the context of the country, the project incorporates lessons learned from rich experiences with financial management information systems<sup>9</sup>.** Success factors most frequently mentioned in the Implementation Completion Reports of such projects are:

- Proper attention to capacity building and training plans
- Realistic objectives, and early investment in smart indicators to track them
- Close World Bank supervision of the projects
- Strong leadership and a conducive political environment, and

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<sup>9</sup> *Financial Management Information Systems: 25 Years of World Bank experience on What Works and What Doesn't* (April 2011); and *FMIS and Open Budget Date: Do Governments Report on Where the Money Goes?* (September 2013)

- Flexibility in the way the project was designed and managed.

53. **The IMF undertook a detailed study of IFMIS implementation in five African countries.**<sup>10</sup> The main findings were that IFMIS implementation was challenging because of:

- Lack of clarity in system ownership and unclear authority to implement
- Failure to clearly specify basic functionality
- Failure to spend enough time on the design stage
- Failure to re-engineer processes
- Failure to undertake parallel reforms required by IFMIS
- Neglect of “selling” or promoting the system to agencies
- Over-estimating information to be included in the system
- An unrealistically short project timetable
- Required management input often being underestimated
- Lack of incentives for reform
- Prerequisites not existing

#### **IV. IMPLEMENTATION**

##### **A. Institutional and Implementation Arrangements**

54. **The project will be implemented by MOFEC under the Expenditure Management and Control Program (EMCP).** EMCP has been leading PFM reforms since 1996 and it is because of the leadership of EMCP / MOFEC that Ethiopia has achieved such remarkable strengthening of government systems. Implementation of this project will be main-streamed into government systems with minimal additional requirements.

55. **There is an existing EMCP Steering Committee (ESC).** This is a high level PFM policy and implementation review body, chaired by the Minister of Finance. Members of this Committee are the BoFED Heads of the Regions (equivalent to the regional Ministers of Finance and Directors in MOFEC), as well as PFM reform directorates within MOFEC. Membership will be expanded to include the Federal Auditor General, the Director General of the Federal Public Procurement and Property Administration Agency (FPPPA) and the Head of the AABE. This body will continue to meet on a six-month basis, provide policy oversight, approve budgets and monitor progress.

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<sup>10</sup> IMF (2005), “Introducing financial management information systems in Developing Countries.”

56. **The EMCP PFM Committee (EPFMC) will meet on a monthly basis.** It will be chaired by the State Minister of Public Finance and, in his absence, the Director EMCP. Its membership will include the OFAG and AABE, in addition to the existing members of Head of the IFMIS PMO, Head of COPCO, and representatives from, FPPPA, relevant Directors of MOFEC and, as needed, representatives from the Regions. The task of the committee is to follow up on Annual Work Plans, progresses noted on implementation and take proactive troubleshooting tasks to resolve implementation bottlenecks.

57. **Subordinate to the EPFMC will be the PFM Project Implementation Team (PPIT) which will be housed in the EMCP Office.** This team, which is supplement to the team already working on PFM reforms, will be responsible for day to day co-ordination of the project and will include, as needed, staff, including a Head of the PPIT, and at least five subject matter experts (including an expert to be placed at OFAG) at the federal level and eleven experts in the regions who will provide support for project implementation and monitoring. All financial management and procurement issues will be handled through COPCO, which is currently handling all Channel One projects, including the largest projects in the WB portfolio in Ethiopia. COPCO has regional units located in all BOFEDs across Ethiopia. Its establishment, some three years ago, greatly improved fund flows, procurement, reporting and overall implementation. The project will be implemented by EMCP, OFAG, FPPPA, AABE, FEACC and the regions but will be coordinated by the PPIT of EMCP. These implementing agencies will be responsible for preparing their own budgets, work plans and activities and will take the lead in the components already delegated to them.

## **B. Results Monitoring and Evaluation**

58. **Progress toward the PDO will be monitored through PDO and intermediate level results indicators (as detailed in Annex 1).** These indicators have been retained at a reasonable number and are directly linked to component activities, as articulated in the project design. The M&E function under PPIT, and the designated M&E officer, will coordinate soliciting and deriving primary data and information to report on project progress--as outlined in Annex 1. The Annex provides baselines, annual targets, frequency of data collections, data sources and methodology, and responsible institutions for data collection for all indicators. The project's results framework has been customized to measure progress against the PDO, with intermediate indicators designed to reflect performance at component levels.

59. **Reviews of implementation progress will be undertaken annually and used to identify and discuss issues and bottlenecks that may arise and impede achievement of targeted outcomes.** The issues raised will be discussed by project management and Bank implementation support missions; resulting recommendations will become action points for implementation follow-up and subsequent implementation support. The government's Steering Committee will receive and review strategic information on implementation from the PPIT and provide strategic guidance to enable the project to achieve its development objectives.

## **C. Sustainability**

60. **Project design provides reasonable assurances regarding the sustainability of the activities supported and outcomes expected.** The project components are based on a formal



request from authorities as part of the key priorities for GoE. Most of these activities are currently being funded by the GoE through its own resources – especially IFMIS-- the largest component of this project.

61. **PFM reforms are fully owned by the government.** The commitment from the side of the government for PFM system strengthening has been and remains very strong. For example, the authorities led the massive roll out of IBEX across the country from 200 sites in 2007 to over 1,900 sites in 2015 and greatly helped improved budget management, cash control and reporting. IBEX is now rolled out to around 98.7 percent of budget institutions across the country, including woredas, and all these woredas operate the “pool” system” using the IBEX system providing far more efficient services to service delivery sectors across the country. There is strong government commitment for PFM reforms and for this project. Sustainability is therefore not a major challenge as the experience over the last 18 years of PFM reforms in Ethiopia has shown.

## V. KEY RISKS AND MITIGATION MEASURES

### A. Risk Ratings Summary Table

Table 3. Risk Ratings

Risk Categories	Rating (H, S, M or L)
1. Political and governance	M
2. Macroeconomic	M
3. Sector strategies and policies	M
4. Technical design of project or program	M
5. Institutional capacity for implementation and sustainability	S
6. Fiduciary	M
7. Environment and social	L
8. Stakeholders	M
9. Other (Security)	
Overall	M

### B. Overall Risk Rating Explanation

62. **The overall risk to the developmental results of the proposed operation is “Moderate.”** Below is an explanation of the most relevant risks with mitigation measures. (For full risk assessment see Annex 4.)

- (a) **Technical design of project or program:** The two main tasks that are new are support for the IFMIS roll out and enhancement of IBEX, as well as the development of an eGP system. The risk for this activity is classified as **“Moderate”**. This is because of a number of factors: (i) MOFEC’s new IFMIS rollout strategy includes a staged approach (rolling out nine IFMIS modules to about 850 federal and regional sites, and transition to enhanced IBEX online operations or a web portal solution in remaining 1,060 zone/woreda offices gradually) which is far less risky compared to the initially suggested big-bang approach to rollout IFMIS countrywide; (ii) improving the HR capacity, network connectivity and power network to ensure reliable access and adequate support for woreda level operations; (iii) completion of the IFMIS final acceptance following the

Oracle Audit of February 2015, and expansion of pilot IFMIS implementation to 11 federal sites since 2014; and (iv) reduction of the cost for such an extensive rollout plan by minimizing the reliance on software vendor and increasing the MOFEC/PMO contributions for cost effective rollout of the systems at woreda level. Through continuous policy dialogue and technical advice, the Bank team will help the authorities review the pros and cons of the various technical options for the roll-out of the IFMIS and the phase-out or enhancement of IBEX, with a view to benefit from international experiences and maximize cost-effectiveness for the government.

- (b) **Institutional Capacity for Implementation and Sustainability risk:** Although MOFEC does have overall familiarity with WB procedures, capacity limitations exist with regard to experts in IFMIS, safeguards and monitoring and evaluation. The availability of Oracle/IFMIS experts who know the customized system well is limited. Staff turnover may become an issue and may have an impact on project implementation--most importantly, after project closure. Similarly, the AABE is yet to be fully established and capacity gaps are envisaged to exist. Such limitations will contribute to project implementation delays. Heavy reliance on consultants with higher incentives than the civil servant payment rates may also lead to unintended impacts on the GoE's capacity to sustain important functions—and that could negatively affect incentives for the creation of in-house capacity. Unless MOFEC addresses and challenges such capacity constraints the sustainability of the investment is problematic. Risk mitigation planned for the project includes measures to build capacity during implementation, in particular through Component 1.

## VI. APPRAISAL SUMMARY

### A. Economic and Financial Analyses

63. **Direct attribution of economic and financial benefits of PFM reform is challenging, since many of the interventions are difficult to quantify in monetary terms.** For example, in this project it is difficult to quantify economic benefits directly arising from supporting the Federal and Regional Auditor General in improving the quality of audit reports; and also difficult to quantify benefits from interventions planned to help establish the Accounting and Auditing Board to introduce international standards in accounting and auditing.

64. **However, for some of the interventions proposed – namely, the introduction of the Oracle IFMIS, the support and maintenance of the IBEX system and the introduction of e-Government Procurement-- a financial assessment has been conducted.** (Details are in Annex 5). As per the financial model contained in Annex 5, the IRR over a 20-year period is 27 percent and the project has positive NPV at discount rates of 10 percent, 15 percent and 20 percent. The financial IRR from the GoE perspective is estimated at 41 percent and the financial NPV at 10 percent is US\$408 million.

### B. Technical

65. **The PFM project is built on implementation experience with EMCP gained over the last decade.** There are three projects that have worked directly with MOFEC, with EMCP and

the regions in supporting PFM tasks. The first was PSCAP (2004–2012) that helped lay the foundation for PFM interventions at all three levels of government. This was followed by the PBSII project (2007–2012) that supported EMCP interventions across the entire PFM cycle, and facilitated the massive roll-out of training and systems across the country. The third project, which is ongoing, is the PBSIII project (2013–2018) that is supporting PFM capacity building interventions primarily at the woreda level and implementing a massive capacity building program across the country.

66. **The most complex aspect of this project will be its linkages with the roll-out of the IFMIS system to be funded mainly by the MOFEC.** Despite significant slippages in the initiation of pilot implementation of Oracle based IFMIS, 11 sites are currently operational (6 federal level pilot sites since February 2014, and 5 additional sites since May 2015). Three rounds of bidding by MOFEC for the roll out of IFMIS have not been successful (mainly due to ambitious expansion plans). Based upon these experiences, MOFEC has revised its IFMIS roll out (and IBEX enhancement) strategy, and adopted a staged implementation approach. The MOFEC will revise the draft bidding documents for the IFMIS rollout (competitive selection / open contracting process) in line with the new approach to minimize the risks and ensure a gradual transition to online operations at all levels during the project timespan.

67. **The new IFMIS rollout and IBEX enhancement strategy includes several parallel activities which need to be coordinated and sequenced effectively.**

68. The MOFEC will follow a staged approach to expand existing online transaction processing and reporting capabilities to federal/regional and zone/woreda levels through following activities, all of which (except stage (e)) will be funded by the authorities:

- (a) Transition to IBEX online operations in all regions (840 sites) until 2017.
- (b) IFMIS rollout to 245 (out of 490) 11 federal public bodies through vendor support until 2018.
- (c) IFMIS roll-out to 245 (out of 490) federal public bodies using MOFEC PMO capabilities until 2018.
- (d) IFMIS roll-out to 360 regional sector bureaus using MOFEC PMO capabilities until 2019–2020.
- (e) Decision on the enhancement of IBEX or alternative solutions to improve functional capabilities for zones/woredas (in 2017–2018), and integration with IFMIS to support online operations in all regions. The Bank will support this process and the development of requirements for relevant ICT solutions through Component 1 activities.

69. The new IFMIS platform (nine Oracle modules) will be gradually expanded to about 850 federal and regional sites including the branches of public bodies (activities (b), (c), and (d)). In

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<sup>11</sup> There are actually 160 FPBs to be connected to IFMIS. However, the total number of connection sites is 490 including the branch offices of these entities. Similarly, 245 FPB sites (including branch offices) actually correspond to 64 federal public entities to be connected. Also, 360 RSBs include the branch offices of selected public entities.

the meantime, IBEX operations will be improved (transition to online operations in remaining 1,060 zone/woreda offices through activity (a) above). Once all IFMIS and IBEX sites complete the transition to online operations, the MOFEC will decide on the next level of integration at zone/woreda levels either by enhancing IBEX functionalities (to match IFMIS capabilities) or by developing an alternative platform (activity (e)).

70. The revised IFMIS roll-out strategy and revised bidding documents for the FMIS roll-out (to 245 federal sites with vendor support) has been shared with the Bank prior to negotiations, since this project finances some of the components of the IFMIS roll-out plan. The project will assist in improving and implementing MOFEC's IFMIS roll-out strategy, and provide support for quality assurance and independent verification and validation during the contract execution phase of the IFMIS roll-out. The project will also assist in complementing MOFEC's investments on data center hardware, IBEX infrastructure, a new audit-management system, and decisions on integrating IFMIS and IBEX capabilities for gradual transition to online operations in all regions.

### **C. Financial Management**

71. **The FM arrangements for the program (see Annex 3 for details), follow the government's Channel One fund flow mechanism where funds from donors flow directly to MOFEC and from there to OFAG, FPPPA, and BoFEDs.** The project will build on experiences obtained from projects already being implemented by MOFEC and also benefits from the well-functioning elements of the PFM system. One of the components of the project aims at supporting the AABE. However, given that the Board has not yet been established, MOFEC will manage the financial management aspects for the institute. Once established, capacity assessment will be conducted; at which time different financial management arrangements will be proposed.

72. **The project budget will be proclaimed at the federal level under MOFEC with breakdown components or implementing entities as appropriate, facilitating easy monitoring of expenditures.** IFMIS is being used as the accounting software at the MOFEC federal level, but given that project resources will be disbursed regional level operations, standalone IBEX will be used for the project. Additional finance staff will be recruited at both MOFEC and OFAG to further strengthen the system. The project will use Report-based disbursement, with submission of Interim Financial Reports (IFRs)-with two quarters' expenditure forecasts to the Bank and replenishment of project accounts accordingly. The project will have an independent auditor's report every year.

73. **The project will have its own FM Manual as part of the Project Operations Manual (POM), which will describe its budgeting, accounting, internal control, fund flow, financial reporting, and auditing aspects.** The manual will also outline the relationship between all implementing agencies.

74. **The conclusion of the FM assessment specifies that FM arrangements meet IDA's requirements as per OP/BP 10.** FM risk for the project is rated 'Moderate,' after mitigating measures. Action plans were agreed to address some of the weaknesses observed. Detailed FM

arrangements are documented in the FM assessment report, the key aspects of which are shown under Annex 3.

#### **D. Procurement**

**75. Procurement under the project, to be financed through IDA, would be transacted in accordance with Bank procedures and guidelines.** These include (a) "Guidelines: Procurement of Goods, Works, and non-Consulting Services Under IBRD Loans and IDA Credits & Grants by World Bank Borrowers," dated January 2011 and revised in July 2014; (b) "Guidelines: Selection and Employment of Consultants Under IBRD Loans and IDA Credits & Grants by World Bank Borrowers," dated January 2011 and revised in July 2014; (c) "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants," dated October 15, 2006 and revised in January 2011; (d) Introduction of Exceptions to National Competitive Bidding Procedures; and, (e) Provisions stipulated in the Legal Agreements. Bank standard documents will be used for procurement of goods and works through International Competitive Bidding (ICB) and for all consultants exceeding US\$200,000. National competitive bidding will use the government standard bidding documents and procedures subject to the exceptions included in Annex 5.

**76. A Procurement Plan acceptable to the Bank, covering at least the first eighteen months, has been prepared.** For each contract to be financed by the Credit, the different procurement methods or consultant selection methods, the need for pre-qualification, estimated costs, prior review requirements, and time frame would be agreed between the Borrower and the IDA WB task team in the Procurement Plan. The Procurement Plan would be updated at least annually, or as required, to reflect actual project implementation needs and improvements in institutional capacity.

**77. A General Procurement Notice (GPN) will be prepared and published in United Nations Development Business (UNDB), on the Bank's external website and in at least one national newspaper based on the Procurement Plan agreed during negotiations.** Specific Procurement Notices for all goods and works to be procured under International Competitive Bidding (ICB) and Expressions of Interest for all consulting services (costing the equivalent of US\$200,000 and above) would also be published in the United Nations Development Business (UNDB), Bank's external website and the national press.

**78. Procurable items under the project will include numerous consultancy services for TA and feasibility studies in the different components, and goods procurements--particularly related to IT system design and installations.** Channel One Coordinating Office (COPCO) within MOFEC will provide overall coordination and management of procurement activities under the Project. COPCO's procurement unit has gained significant experience in procurement implementation of Bank financed projects and has become well versed in Bank Procurement Policies and Procedures. The proposed Project Implementation Unit will play a key procurement coordination and support role for all components of the project.

79. **Procurement risk assessment of the project was undertaken by the Bank.** The assessment covered procurement cycle practices of COPCO and has made a number of recommendations. The complete assessment report is included in Annex 6. Main risks identified include (a) inadequate staffing; (b) unrealistic and incomplete procurement plans; (c) delays in preparation of TORs, and inadequately prepared bidding documents/RFPs, (d) the possibility of including unqualified firms in shortlists; (e) limitations in technical evaluations, (f) challenges in managing and monitoring numerous Individual Consultants (including contract staff) under the project; and, (g) limitations in contract management. For the identified risks, the main recommendations are: (a) hire and maintain one procurement specialist and one contract administration officer; (b) involve technical experts from respective beneficiary departments during the preparation and update of the procurement plan; (c) develop an accountability framework with defined business standards, coordinate beneficiary technical departments, and involve qualified technical experts with similar experience to prepare the technical specifications and functional requirements of bidding documents and TORs; (d) sensitize evaluators so that they understand that shortlisting unqualified firms will affect the quality of the final outcome, and ensure that qualified firms are shortlisted; (e) beneficiary organizations will be held responsible for selection and management of Individual Consultants, and a TOR for each type of position, deployment schedule, and salary scale will be prepared and submitted for the Bank's agreement; and (f) establish a contract monitoring system, hire a qualified contract administration officer, and assign a technical focal person for consultancy contracts, deliverables-reviews and approval.

#### **E. Social (including Safeguards)**

80. **The project is expected to have positive social impacts through improved public confidence in the government in the management of public funds in a transparent and accountable manner.** Citizen feedback at the local government level has been built into the results framework.

#### **F. Environment (including Safeguards)**

81. **The Public Financial Management Project will focus on enhancing institutional and professional capacities to improve public money expenditure management systems at the Federal, Regional, and Local levels.** Since the project is a capacity building project with activities that will not adversely affect the environment, the Safeguard Category of the project is Category "C".

#### **G. World Bank Grievance Redress Mechanisms**

82. **Communities and individuals who believe that they are adversely affected by a World Bank (WB)-supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS).** The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaints to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank

Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org).

## Annex 1: Results Framework and Monitoring

### Ethiopia

#### Public Financial Management Project (P150922)

#### Results Framework

The PDO is to improve efficiency, transparency and accountability of public expenditure at the federal and regional levels.												
PDO Level Results Indicators*	Core	Unit of Measure	Baseline	Target Values					Frequency	Data Source/ Methodology	Responsibility for Data Collection	Description (indicator definition and so on)
				2017	2018	2019	2020					
<b>Indicator One</b> Reduced cash float for the federal and regional governments (in percent of the annual federal budget)	Y	Percent	22.0	21.9	20.8	19.7	18.7		Annually	FMIS and published budget documents and Annual Financial Statements	MOFEC	Aggregate fiscal discipline
<b>Indicator Two</b> Timely disclosure of key fiscal/budget documents	Y	Months	24	18	15	12	9		Annually	PEFA PI-10	MOFEC	Transparency for the use of public finds
<b>Indicator Three</b> Target agencies <sup>12</sup> progressively increase number of contracts awarded within an agreed benchmark of 180 days for works contracts above US\$5 million and Goods above US\$500,000.	Y	Percent of contracts awarded within 180 days	10	10	20	30	50		Annually	Procurement performance monitoring reports	FPPPA	Efficiency in use of funds

<sup>12</sup> ERA, PPPDS, MoE, MoWE, EEP



<b>Indicator Four</b> Increase in the percentage of audits conforming to International Standards of Supreme Audit Institutions	Y	Percent	TBC <sup>13</sup>						Annually	AFROSAI	OFAG	Accountability
<b>Indicator Five</b> Direct Beneficiaries, who are recipients of the training provided by the project (disaggregated by Gender).	N	Number	47,000 <sup>14</sup>	52,000	60,000	68,000	84,000		Annually	Annual Reporting	MOFEC and BoFED	Direct Beneficiaries
<b>INTERMEDIATE RESULTS</b>												
<b>Intermediate Result (Component One): Improved fiscal management</b> The objective of this component is to improve the realism of the budget and instill fiscal discipline												
<i>Intermediate Result indicator One</i> Increase in budget execution rate in targeted sectors ( <i>Health, Education, Agriculture, and Water</i> ) – in percent of budgeted expenditure in sector at the Regional level	Y	Percent	55	60	65	70	75		Annually	FMIS and published budget documents and Annual Financial Statements of the Regions	BoFED and MOFEC's including six monthly JRIS meetings	Strategic allocation and use of funds for pro-poor sectors <sup>15</sup>

<sup>13</sup> The baseline and target values will be established during the Need and Impact assessment as part of the Support to Improving the Quality of Audit Work Subcomponent. AFROSAI-E will be contracted out to independently assess and report on quality conformity with ISSAI on an annual basis

<sup>14</sup> 47,000 government officials have been trained in the PFM under PBSII. The female ratio of the civil servants in the PFM, who receive training is lower than the female ratio of 25% of the entire civil servants who received training last fiscal year. The target values for the female beneficiaries will be determined by the need assessment to be conducted in the first year of the project.

<sup>15</sup> This breakdown indicator measures the increase in an average quarterly budget execution rate on an annual basis or the increase in budget execution rate at year end for a particular sector by comparing to the baseline which is budget execution rate for this sector in the previous year

<i>Intermediate Result indicator Two</i> Rolling out of the new Chart of Accounts at the Federal Level to facilitate expenditure reporting by PBB	Y	Text	Only approved budget disclosed on PBB basis	At least 20 Federal entities use new COA for reporting expenditure on PBB basis	50 federal entities	70 federal entities	100 federal entities		Annually	FMIS and published budget documents and Annual Financial Statements	MOFEC	Improved reporting for management decision-making and transparency
<b>Intermediate Result (Component Two): Improving accountability</b> The objective of this component is to support the oversight institutions to improve accountability.												
<i>Intermediate Result indicator Three</i> Percent of contracts awarded using competitive procurement methods in targeted agencies	Y	Percent	50	55	60	65	70		Annually	Transparency, competition and complaints mechanisms in procurement (PEFA PI:19)	FPPPA	Public confidence in transparency of procurement processes and systems
<i>Intermediate Result Indicator Four</i> e-GP developed and installed at FPPPA and in targeted agencies at Federal level		Number of Federal agencies	0	0	0	6	6		Annually	Implementation report	FPPPA	Transparency, efficiency and accountability in procurement and use of funds
<i>Intermediate Result indicator Five</i> IT and Forensic audits completed by OFAG		Number	0	0	5	10	15		Annually	External Audit reports	Office of Auditor General	Independent oversight and accountability for use of public funds
<i>Intermediate Results indicator Six</i> Issuance of national professional accountancy qualification certificate at least at a Technician level		Number	0	-	-	50	100		Annually	AABE	AABE	

<i>Intermediate Result Indicator Seven</i> Woredas whose Finance and Budget Standing Committee members are trained to undertake audit follow-up		Percent	10	25	50	75	85		Annual		MOFEC and FEACC	Independent oversight and accountability for use of public funds
<i>Intermediate Result Indicator Eight</i> Woredas posting simplified budget and execution reports to the citizens, incorporating citizens feedback		Percent	90	92	93	94	95		Annual	Report (PBS JRIS)	MOFEC and FEACC	Citizen's engagement

## **Annex 2: Detailed Project Description**

### **ETHIOPIA: Public Financial Management Project (P150922)**

#### **A. Project Description**

1. In order to achieve the Project Development Goals, the project has the following three components:

#### **Component 1: Improving Expenditure Management and Information Systems**

2. The activities financed under this component are the following:

- Support for IFMIS rollout and IBEX enhancement
- Support the Project Management Office
- PFM Systems Strengthening in coordination with the IFMIS roll-out
- Institutionalization of training through an IFMIS & PFM Academy

#### **Component 2: Strengthening Accountability Institutions**

3. There are three Subcomponents under this component:

- **Strengthening Procurement and Property Management:**
  - Support to procurement and property staff certification program and capacity building in procurement and property management
  - Strengthening federal and regional oversight bodies
  - Support to implementation of Framework Contracts at federal level
  - Introducing e-Government Procurement (e-GP)
- **Capacity building for Oversight Function**
  - Support for improving audit quality
  - Support to OFAG's Training Center
  - Stakeholders engagement
- **Development of the Accountancy Profession**
  - Strengthening the Accounting and Auditing Board of Ethiopia
  - Development of Professional Accountancy Organizational

- **Strengthening the Institutional Arrangements for Mitigation of Anti-Corruption Primarily at the Woreda Level**
  - Provide TA support for FEACC to undertake capacity assessment of the REACCs in Afar, Gambella and Somali regions and address the weaknesses identified by the study,
  - Provide cascaded training for REACC staffs and Ethic officers at local level to improve recording and reporting of F&C cases and also information sharing,
  - Provide training to the concerned Woreda Council standing committee members on follow-up of Audit findings to strengthen internal control and oversight at the woreda council level,
  - Support Regional institutions (REACCs) on disclosure of F&C and complaints handling procedures to the public through media.

### **Component 3: Project Management and Monitoring and Evaluation**

- Program Management and coordination
- Monitoring and Evaluation

### **B. Detailed Description of Components**

#### **Component 1: Improving Expenditure Management and Information Systems (US\$22.5 million)**

##### *Background*

4. Ethiopia has a long history of automating PFM processes. Starting in 1996, the GoE has developed and implemented a bespoke Integrated Budget and Expenditure Management System (IBEX) and the system has been operational at the federal, regional, zonal and woreda levels of government since 2007.

5. IBEX is deployed in two configurations: (a) Online version: This is a web-based application where a multi-user version of IBEX is installed in a regional data center (currently two BoFED: Addis Ababa and Tigray) to support online transaction processing for all clients (currently 407 offices; or 21 percent of 1907 IBEX sites) connected to the server on a virtual private network (VPN) established through WoredaNet. (b) Stand-alone (offline) version. This version is used in locations where a reliable wide-area network (WAN) connectivity does not exist. IBEX is being used as a stand-alone system to capture transactions at the zone/woreda level (79 percent of IBEX sites). Nine data centers are currently connected to WoredaNet, and most of the zone/woreda level sites are connected to these regional data centers to transfer consolidated results. This feature was a major asset of the IBEX system in the early days. However, with the rapid expansion of WoredaNet connectivity, the MoFED is now in the process of moving to online operations in all regions benefiting from renovated regional data centers starting from 2016. Expansion of WoredaNet is expected to improve IBEX operations at

the woreda level gradually, until 2017. Additionally, IBEX needs ongoing support till such time that it is replaced by an enhanced version or an alternative solution which will be linked with the IFMIS system. IBEX currently has six modules that are functional. These are: Budget, Accounts, Accounts Consolidation, Budget Control, Budget Adjustment and Disbursement.

6. The fact that IBEX can be operated in the four main regional languages, and is simple and easy to learn and to use, and that it has both the stand-alone (offline) and the networked (online) versions is what accounts for the speed of the roll-out--which is exceptional by any standards. Since the DSA project ended in 2007 (when IBEX had been rolled out to 200 locations), it is now functional in over 1,900 locations at all levels of government and is the backbone of the financial management system of Ethiopia (see table 2.1).

**Table 2.1. Current Status of IBEX Rollout**

No	Region	PB/RSB		Zone		Woreda		Summary			
		Total	IBEX	Total	IBEX	Total	IBEX	Total Sites	IBEX	Regional %	Total %
<b>0</b>	<b>Federal</b>	<b>212</b>	<b>212</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>212</b>	<b>212</b>	<b>100</b>	<b>11.1</b>
<b>1</b>	AA	77	77	40	40	116	116	233	233	100	12.2
<b>2</b>	DD	52	52	0	0	0	0	52	52	100	2.7
<b>3</b>	Afar	38	38	0	0	34	27	72	65	90	3.4
<b>4</b>	Harari	20	20	0	0	9	9	29	29	100	1.5
<b>5</b>	SNNPR	46	46	15	15	158	158	219	219	100	11.5
<b>6</b>	Gambella	49	49	3	3	14	14	66	66	100	3.5
<b>7</b>	Tigray	121	121	0	0	53	53	174	174	100	9.1
<b>8</b>	Benishangul	27	27	3	1	21	21	51	49	96	2.6
<b>9</b>	Amhara	105	103	10	10	167	153	282	266	94	13.9
<b>10</b>	Somali	77	77	9	9	72	72	158	158	100	8.3
<b>11</b>	Oromia	46	46	18	18	309	309	373	373	100	19.6
<b>Total</b>	<b>11</b>	<b>658</b>	<b>656</b>	<b>98</b>	<b>96</b>	<b>953</b>	<b>932</b>	<b>1932</b>	<b>1907</b>		<b>98.7</b>

7. A core team of developers as well as IBEX experts in MOFEC and Regional support teams have, since 2007, been supporting the trouble-shooting, support and rollout of IBEX. An upgraded version of the software, based on SQL 2008, was released in 2013. While IBEX is user-friendly and easy to use, it has severe limitations-- including the limited capability of the core three modules (budgeting, accounting and reporting) which it uses, and poor security features, and no capacity for critical tasks (such as cash management, commitment control, procurement, program-based budgeting, and bank reconciliation or check writing).

8. In 2010, the FGE assessed IBEX as unable to support the introduction of program-based budgeting (PBB). The advent of the Growth and Transformation Plan 2011–2015 (GTP) and the FGE commitment to meet Millennium Development Goals (MDGs) signified the emergence of PBB as a matter of high-priority reform. Since 2011, the annual budgets have been presented in PBB formats, but these have been prepared outside IBEX and are not applied during budget execution.

9. In 2010, GoE acquired Oracle's e-business suite (including enterprise licenses) as the platform for an IFMIS capable of supporting PBB and other PFM reforms. In September, 2010, GoE commenced the IFMIS pilot project with the objective to rapidly replace IBEX-- initially at the federal level.

10. The IFMIS project has been subject to slippage. The original project plan provided for operational acceptance within 18 months of the project being initiated; actual acceptance took more than 30 months, and the contract had to be extended to 42 months. Slippage has occurred because of overly optimistic targets, the complexity of obtaining design consensus, and the unpreparedness of pilot sites (in terms of connectivity, data gathering and staff capacity).

11. IFMIS commenced parallel testing in December, 2012. The pilot testing sought to “prove concept” that the configured Oracle solution could deliver all required functionality. The exercise involved parallel running of IBEX and IFMIS, as well as testing of the new functionality. All nine modules of IFMIS were tested in order to (a) validate end-to-end transaction processing; and, (b) ensure that the system was fit-for-purpose for all government sectors and across all levels of government. Additional objectives concerned using the pilot experiences to inform the design of future roll-out activities. Starting from February 2014 the six pilot federal Public Bodies were required to cease using IBEX and rely on IFMIS as their “system of record.” A recent update of December, 2014 shows that IFMIS is being used and two of the six pilot sites are facing greater challenges than others. Since May 2015, five additional IFMIS sites have migrated to new platforms to use available modules.

12. Going forward, an ambitious roll-out plan has been prepared which entails the roll-out of the system across Ethiopia. This plan is divided into three phases. The first phase only covers Federal Public Bodies. The second phase covers the regions; and the third phase covers the local governments. Lessons learned from the implementation of the first phase will feed into the implementation plans for subsequent phases.

**Table 2.2. IFMIS Rollout Plan**

<b>Phase</b>	<b>Public Bodies</b>	<b>Sites</b>
<b>Phase I: Federal Public Bodies</b>	Public Bodies (including branches)	298
	Public Bodies (without branches)	85
	Universities (Faculties, Schools, colleges and so on)	103
	Federal Hospitals	4
	<b>Sub-Total</b>	<b>490</b>
<b>Phase II: Regional Sector Bureaus</b>	BoFEDs	11
	Regional Sector Bureaus	316
	Special Regional Sector Bureaus (Education, Health, Agriculture)	33
	<b>Sub-Total</b>	<b>360</b>
<b>Phase III: Zones and Woredas</b>	Zones	54
	Woredas	1,006
	<b>Sub-Total</b>	<b>1,060</b>
	<b>TOTAL</b>	<b>1,910</b>

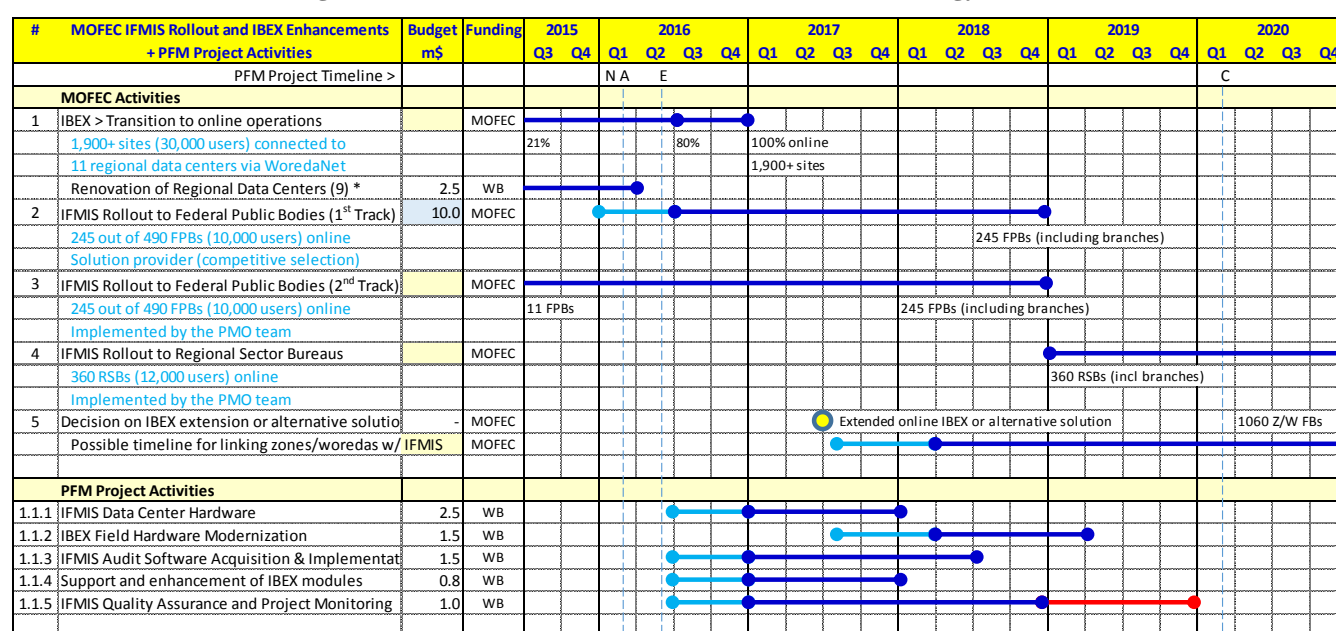
13. The MOFEC’s IFMIS rollout and IBEX enhancement strategies include several parallel activities which need to be coordinated and sequenced effectively.

- (a) Transition to IBEX online operations in all regions (1907 sites) until 2017 (to be funded by MOFEC).

- (b) IFMIS rollout to 245 (out of 490) federal public bodies through vendor support (contract to be funded by MOFEC) until 2018.
- (c) IFMIS rollout to 245 (out of 490) federal public bodies using the MOFEC PMO capabilities (funded through MOFEC budget) until 2018.
- (d) IFMIS rollout to 360 regional sector bureaus using the MOFEC PMO capabilities (funded through MOFEC budget) until 2019–2020.
- (e) Decision on the enhancement of IBEX or alternative solution to improve functional capabilities for zones/woredas (in 2017–2018), and integrate with IFMIS to support online operations in all regions. The Bank will support this process and the development of requirements for relevant ICT solutions through Component 1 activities.

14. The MOFEC's IBEX enhancement and IFMIS rollout plans (see figure 2.1 below) should be coordinated effectively, and this component will provide necessary technical assistance to ensure proper alignment of relevant activities.

**Figure 2.1. IFMIS Rollout and IBEX Enhancement Strategy**



(\*) Ongoing relevant activity funded through another WB project (P128891)

Procurement Implementation Possible extension

15. GoE has funded the acquisition, customization and pilot testing of the Oracle EBS from its own funds. Going forward, the GoE will be using its own funds for almost the entire cost of roll-out-- including funding the vendor's contract, acquiring the hardware, paying for Oracle licenses, and covering the recurrent costs associated with the telecommunication fees for the fiber optic and copper cable network. Additional funding will be provided through the proposed project to improve the data center hardware and network equipment, and develop a new audit management system linked with IFMIS.



16. Funding from this project will not only cover support for the next generation of information technology systems, but also support core PFM reform activities across the entire public financial management cycle- primarily at the federal and regional level.

17. The detailed activities to be supported under this project are the following:

*Subcomponent 1.1: Support for IFMIS rollout and IBEX enhancement (US\$7.3 million)*

- *Hardware for the IFMIS Data Centre* (US\$2.5 million): MOFEC has identified major urgent hardware requirements for the IFMIS Data Centre. This additional hardware will provide the redundancy and capability to ensure that the system has robust operational and backup systems.
- *IBEX Hardware replacement* (US\$1.5 million): IBEX hardware was provided to 1,000 local governments and regions in 2012. The plan is to replace this hardware in 2018 so that local governments and regions have modern and reliable equipment to operate FM systems.
- *IFMIS Audit Software Acquisition and Implementation* (US\$1.5 million): This funding will be used for acquiring an audit tool that will monitor all IFMIS transactions on a real time basis and provide audit capability to both Internal Audit and External Audit. The funds will be used for acquiring the software, and for training over a four year period.
- *Support and enhancement of existing IBEX modules* (US\$0.8 million): The existing IBEX modules need to be updated on a regular basis to enable them to use current technology and systems. The database that IBEX uses was upgraded from SQL 2000 to 2008 in FY 14 and there is now a need to upgrade the database to SQL 2012. Similarly, several features of the existing module need to be fine-tuned on a regular basis.
- *IFMIS Quality Assurance (QA) and project monitoring* (US\$1.0 million): MOFEC plans to hire a specialized firm to provide the QA, with the firm being required to undertake the following tasks: Project Supervision of the IFMIS Rollout, Quality Assurance at all stages, and Project Audit Reviews.

*Subcomponent 1.2: Support the Project Management Office (PMO) (US\$2.8 million)*

18. **This subcomponent will support the PMO in funding staff and training costs, monitoring of the IFMIS contract, and modernizing the existing system.** It will finance the salaries of contractual staff of the IFMIS PMO, provide specialized IT Training for PMO, and fund some of the operational costs for the PMO and PFM reforms. It will also complement MOFEC's change management activities.

- *Project Management Office (PMO) Costs* (US\$1.0 million): The PMO covers support for both IFMIS and IBEX. It is located in MOFEC and the Oracle Division currently has over 80 contractual network and hardware engineers who have been trained in Oracle implementation. They are currently managing the Oracle Data Center at MOFEC, and the Disaster Recovery site in Addis.

- *Technical IT Training* (US\$0.25 million): This funding is for specialized technical training and further professional certification of IT staff at the PMO in highly specialized skills relating to Oracle Certified Training and in SQL (the database used by IBEX).
- *Operational costs for PMO, PFM reform and change management* (US\$1.45 million): PMO staff are required to provide hands-on support to all regions and woredas to address database/software / implementation challenges. They provide level 3 support- if implementation challenges cannot be resolved at the level of the woreda or region. This funding will cover their operational costs for a four-year period, including specific local actions to support PFM reforms and change management.

*Subcomponent 1.3: PFM Systems Strengthening in coordination with the IFMIS roll-out* (US\$3.8 million)

- *Program Based Budgeting and IFMIS Public Sector Budgeting Module (PSB) and (PBB)* (US\$0.45 million): Program Based Budgeting (PBB) has been underway at the federal government level for the last four years. The introduction of the IFMIS PSB module will support this initiative-- since the IFMIS has a coding structure with 28 digits that can support the creation of program budgets. IFMIS pilot sites are fully implementing PBB through the system-- not the manual system-- at present. This activity will finance strengthening the roll-out of PBB to federal public bodies, improving the monitoring and evaluation of the impact of PBB, supporting the roll-out to the three pilot regions—Oromia, SNNPR and Addis Ababa City Administration—and, based upon that experience, will roll out to the rest of the regions in the country.
- *Treasury Management* (US\$0.2 million): MOFEC has implemented a Zero Balance Account (ZBA) System with great success at the federal level for the last few years. However, the system is largely manual with spending units providing rolling, three-month forecasts and supporting documents for the next month's cash requirements. During the pilot phase of the IFMIS, pilot sites have submitted data through the IFMIS system to MOFEC, and MOFEC, in turn, has provided Electronic Fund Transfer (EFT) instructions to CBE for making payments. EFT with NBE will shortly be established which will further strengthen the cash management operations of the Treasury Department. This activity will support the strengthening of that system as well as conducting relevant studies on Treasury Single Account (TSA). .
- *Accounting Reform* (US\$0.2 million): Woredas provide financial management and procurement services for service delivery units through a “Pool” system. The performance of this “pool” has been mixed and a review three years ago indicated that in around 38 percent of woredas key sectors were not happy with the performance of the “Pool”. Improving the performance of the “Pool” is critical to improve service delivery in sectors such as health, education, water, agriculture and rural roads. In addition, this activity will follow up on chronic cases of delays in closing monthly annual accounts, and will follow up on poor quality of monthly accounts and delays in finalizing annual financial statements in regions such as Gambella. This funding will also be used for addressing weaknesses identified in the seven PEFA reports produced in 2014 that covered the federal government and six regions. Eighty two ratings were ranked either C

or below. Some regions, such as Addis, had systemic challenges in areas such as budget credibility. Focused and results-oriented support will be provided to regions to address these weaknesses.

- *Internal Audit* (US\$1.0 million): This component will support the roll-out of risk-based auditing across the country. It will use the functionality provided by the IFMIS Audit Module. It will also continue the support for the functioning of 400 woreda-level audit committees that have been established under PBS III, and it will help to establish an additional 400 woreda audit committees over the next four years. Follow up on audit findings at the woreda level is extremely weak and the oversight by these local audit committees is critical to improve local stakeholder involvement and compliance. Funding from this component will also be used for building the capacity of Budget and Finance Committee members at the woreda level on accountability issues – including issues relating to internal audit, external audit and fraud and corruption mitigation measures.
- *Debt Management and DMFAS/IFMIS* (US\$0.5 million): This activity will support the system/software being used by the Debt Management Directorate of MOFEC. It will help with the implementation and training of the latest version of the DMFAS (6.0) which is developed by United Nations Center for Trade and Development (UNCTAD). This component will support capacity building initiatives including electronic transfer of data between DMFAS and the Oracle IFMIS, undertake a proper data validation of the debt database, and assess the contingent liability of debt of state-owned enterprises. It will also build the link between the DMFAS system and the IFMIS so that information is exchanged on a real-time basis and is fully integrated. This project will further support training expenditure related to debt management and other associated activities which will be delivered by the developer of the system/software.
- *Payroll management at the woreda level* (US\$0.5 million): Significant public spending relates to salary payments. At the regional level, this proportion is even higher, and, at the woreda level in most regions salary payments account for most of overall spending. Monthly acquittance rolls are currently prepared using a mix of manual processes and spreadsheets. The plan is to support and streamline payroll processing at spending units across the country.
- *Data Analysis/Data Access and Public Communications* (US\$1.0 million): this subcomponent aims to improve communication with the public on PFM reforms, to share data more widely and improve access to key fiscal information. This is to be primarily handled through the print media as well as through the MOFEC website. Funding for this activity will cover the areas outlined above and will also be used for sharing budget execution data (BOOST) for the federal government and the Regions in a much more user-friendly manner.

*Subcomponent 1.4: IFMIS & PFM Academy* (US\$8.6 million)

19. For sustaining new initiatives, such IFMIS, and for strengthening systems, MOFEC has clearly identified the need for setting up institutional arrangements that will develop quality

materials, develop a cadre of qualified training, enhance the capacity of identified training institutions and then have the training delivered in a cost-effective manner.

20. MOFEC has identified the need for training 32,000 end users on the IFMIS over the next four years (10,000 users will be trained as a part of IFMIS rollout contract; remaining approximately 20,000 users will be trained through this subcomponent). These officials need a wide variety of training—including, specialized Oracle Training, as well as end-user training. The plan is to use the facilities at the Ethiopian Civil Service University (ECSU) to establish an IFMIS Academy. Currently, the premier civil services training entity in the country is the ECSU. It has some IT training capacity and is the home of the Bank-funded GDLN center. The plan is to arrange with the CSU to establish the IFMIS Academy on its premises and to deliver this training. ECSU has agreed to do so and this arrangement will be somewhat similar to the arrangement that exists at the Kenya School of Government. This Academy will be responsible for all IT-related training in IFMIS Applications/Software, as well as IBEX. An international firm will be hired for developing the ladder of qualifications needed on the IT side, as well as to develop a core team of trainers; this firm will exit after an agreed period once the program is up-and-running. This training will be delivered not just through the ECSU, but also through identified/qualified Regional Management Institutions that have been identified and that will need to be capacitated.

21. Linked to this is the issue of overall institutionalization of training across Ethiopia. MOFEC had hired an international firm in 2012 to advise it of the training needs of the country and the approach to be followed.<sup>16</sup> The firm's assessment was that around 15,000 Department Heads and 85,000 government staff need training in different aspects of PFM training over the next four years.

**Table 2.3. PFM Training Required**

#	Training Focus	Department Heads	PFM Staff	Total
1	Planning and Budgeting	4,872	30,017	34,889
2	Accounts and Finance / IBEX	1,721	16,688	18,409
3	Procurement	1,328	3,992	5,320
4	Property Administration	5,101	25,530	30,631
5	Internal Audit	2,243	7,548	9,791
	<i>Totals</i>	15,265	83,775	99,040

22. The most worrying aspect of the training identified by the report was the lack of qualified trainers, since around 75 percent of the trainers who had been trained up to 2010 have left.

**Table 2.4. PFM Trainers in Place**

#	Region	Number of Trainers Trained	Number of Trainers in Place	% Trainers in Place
1	Federal	92	43	47%

<sup>16</sup> IPE Global and B&M Consultants (July 2013), Federal, Regional States and & City Administration PFM Assessment Synthesis Report.

#	Region	Number of Trainers Trained	Number of Trainers in Place	% Trainers in Place
2	Oromia	98	40	41%
3	SNNPR	82	12	15%
4	Amhara	55	1	2%
5	Afar	50	10	20%
6	Benishengul Gumez	46	1	2%
7	Tigray	38	2	5%
8	Harari	27	2	7%
9	Dire Dawa	26	6	23%
10	Addis Ababa	18	12	67%
11	Somali	4	4	100%
12	Gambella	3	3	100%
	Total:	539	136	25%

*Note:* No ToT has taken place since 2010.

23. MOFEC undertook a detailed assessment of the PFM training requirement of the regions in 2014. It has grouped the training requirements into three categories: (a) training needs of the federal level that can be delivered through the Civil Service University (CSU); (b) training needs to regions that can be delivered through regional management institutes-- these regions are Oromia, Amhara, SNNPR, Somali, B/Gumez, Gambella, Afar and Addis Ababa; and, (c) training that will continue to be delivered in the current manner until a suitable arrangement is found for an alternative option-- this is for Tigray, Harari and Dire Dawa. Currently, training is being delivered to around 16,000 staffs on an annual basis, is of variable quality, and is delivered through a variety of delivery mechanisms and primarily through practitioners.

24. A major shift towards institutionalization of training is planned along the line of the IFMIS Academy. CSU is to take responsibility for (a) improving the curriculum for workplace-based training and for developing the ladder of qualifications for each work stream at the basic/intermediate and expert levels; (b) working closely with AABE to link these workplace-based qualifications with the Accounting Technician and Professional Accountancy Qualifications; (c) undertaking Training of Trainers to amend the gap of over 600 trainers that has been identified; (d) instituting a process of independent quality assurance on the delivery and impact on the workplace of the training provided; and (e) amending the curriculum on the basis of the feedback received and in light of the changing PFM reform priorities of the government. These are the systems-strengthening tasks that will be supported through this project over the next four years. Routine government training will be funded through the government's own resources.

## **Component 2: Strengthening Accountability Institutions (US\$9.4 million)**

25. This component aims at supporting accountability institutions in the performance of their tasks. This component is especially important considering the repeated assessments that audit and oversight institutions are the weakest link in the PFM chain in Ethiopia.

*Subcomponent 2.1: Strengthening Procurement and Property Management (US\$3.7 million)-*

26. This subcomponent will assist the government to: (a) finance a staff certification program and capacity-building activities in procurement and property management in order to strengthen the competency and skills of staff involved in procurement and property management in targeted sectors at the federal and regional levels. This activity will build on ongoing initiatives under PBSIII and compliment capacity building requirements to implement program action plans under the proposed Enhanced Shared Prosperity and Equitable PforR; (b) assist the government to enhance the capacity of federal and regional procurement regulatory bodies in market research, data collection and performance monitoring of procurement systems; and, (c) assist the government to implement e-Government procurement (e-GP) systems.

**Subcomponent 2.1.1: Support to procurement staff for a certification program and capacity-building in procurement and property management (US\$0.5 million)**

27. This subcomponent will build on current initiatives to build the capacity of staff in procurement and property management. Under current PBS III, the government is training 15 Trainers of Trainers (ToT) on procurement and the ToT will train 250 staff from federal and regional agencies at the Basic Competency Level. This project will support 200 staff from selected agencies that will include: Ethiopia Roads Authority; PPPDS; the Ministry of Education; the Ministry of Water and Energy; the Ministry of Urban Housing and Construction; the Ministry of Agriculture; and the Pharmaceutical Fund Supply Agency (PFSA)—drawing upon these selected agencies and ministries to enroll staff in a procurement certification program based on an Essential Competency level. These sectors have been identified based on the level of their annual budget expenditure and their significance in contributing to the GTP. The certification program will focus on professional, behavioral and job-specific competences in procurement of goods, works, and consultants' services. This will be a four-week residential course taking 50 staff at a time. To ensure sustainability, the government has already designated that the Civil Service University will anchor the course and a memorandum of understanding has been signed between the University and Federal Public Procurement and Property Administration Agency. Technical assistance will be provided to CSU in the first year to ensure a smooth launch of the program.

28. In addition to procurement management, the project will also support the training of trainers (ToT) in property management and rolling out training to around 150 staff in property management at the Basic Competency Level. The training will be based on modules developed under PBS III and will cover behavioral, professional and job-specific competencies that will include recording, valuation, disposal and stock management. The target audience for the training will be property management staff in public bodies and property disposal staff at PPPDS.

**Subcomponent 2.1.2: Strengthening federal and regional procurement oversight bodies (US\$0.42 million)**

29. This subcomponent will aim at strengthening procurement oversight functions at federal and regional levels. Activities planned under the proposed project will include:

- **Support to Federal and Regional PPA to develop evidence-based regulatory capabilities:** Market research and statistical information is critical to policy development. Information is important to monitor the behavior of the market (especially anti-competitive trends and market prices) for the implementation of framework contracts and the performance of procuring entities so as to appropriately target capacity-building initiatives. This is an important mandate of the oversight bodies and will aim to address challenges faced in the implementation of framework contracts. FPPPA will work with the Central Statistical Agency (CSA) to hire a consultant to prepare a methodology for determining reference prices and to develop price indices for major procurable items that may be used for price adjustments. Individual consultants will also be hired to work with regional procurement agencies to develop data collection formats, collect initial data and reports, based on performance indicators that the FPPPA have agreed with the regions. Four big regions will be supported with vehicles to improve their mobility for performance data collection and procurement audits. It will also support the updating of websites and building of appropriate data bases on procuring entities, aiming to capture procurement information. This information will enable the FPPPA regional PPAA to start monitoring procuring entities in order to produce annual performance reports on the sampled procuring entities.
- **Communication, behavioral change, and advocacy campaigns:** This component involves two separate, but related, sets of activities. The first focuses on *creating greater public awareness* of the importance of a well-functioning public procurement system and promoting a better understanding of the operations and of the procurement process. The second involves *the initiation of a long-term process* of engaging the public and the private sector in monitoring the implementation of procurement regulations— in other words, are the rules and procedures being followed? Both initiatives aim to support the implementation of reforms in public procurement through inducing behavioral changes that, among others, bring recognition and acceptance of the legitimate role that the general public and the private sector can play in holding government accountable for the proper conduct of procurement; additionally, the initiatives will highlight the willingness of such groups to engage in active monitoring of both procurement processes and outcomes. The subcomponent will support short-term courses (awareness-creation) for policy makers, anti-corruption and judicial officials, and for the media and bidding community. The scope of the training will be limited to the role and/or mandate of the specific stakeholders. The duration of the training will vary, depending on the roles played by specific stakeholders. The information, education and communication (IEC) campaign will aim to disseminate the revised procurement Proclamation, as well as information on procurement reforms, through radio, television and newsletters. It will also assist the government finance public-private sector forums.

**Subcomponent 2.1.3: Introducing e-Government Procurement (e-GP) (US\$2.8 million)**

30. This component will assist the government's implementation of its e-Government Strategy relating to procurement. This subcomponent will: (a) carry out situational analysis and prepare an e-GP strategy and implementation Roadmap for e-GP; (b) streamline procurement processes and practices through Business Process Reengineering (BPR) with standardized workflow and reporting systems strengthening good governance in public procurement; (c) prepare an e-GP Directive for the implementation and oversight of e-GP, and the preparation of business, functional and technical specifications for the e-GP system--including e-Framework agreements; (d) expedite the acquisition of an end-to-end e-GP system; and, (e).support public awareness and capacity- building for the e-GP System.

31. The FPPPA shall take the lead in the implementation of the e-GP system in Ethiopia providing electronic platform for all procurement related activities, and shall be responsible for the day-to-day operations. A dedicated e-GP Unit, headed by an e-GP Project Manager will be established under the project for the operation and management of the e-GP System with a project support team comprising different management and technical consultants and the e-GP Unit is expected to be upgraded later to a full-fledged e-GP Directorate under the FPPPA structure. The World Bank will provide expert support during the whole project to the FPPPA. The e-GP Unit will be reporting to the Director General of the FPPPA in order for it to effectively play this role. Two of the consultants, e-GP Project Manager and Procurement Communication Consultant will be recruited from the very first day of the project. The e-GP Project Manager will be responsible for the day-to-day management of the e-GP implementation under the oversight of the Director General of FPPPA. Procurement Communication Consultant will be responsible for initial communication campaigns on e-GP and its implementation, e-GP readiness assessment data collection and analysis, and supporting other procurement related assignments. The team is expected to include, among others:

- (a) e-GP Project Manager (1)
- (b) Procurement Communication Consultant (1)
- (c) ICT consultant (1)
- (d) Database Administrator (1)
- (e) System Administrator (1)
- (f) Quality Assurance Consultant (1)
- (g) Network and Security Consultant (1)
- (h) Support Engineers (2)
- (i) Senior Web Developer (1)
- (j) Web developers (2)



(k) Helpdesk Support Constants (8)

32. A high-level e-GP Executive Committee of Ministers of different key ministries will be established for top level executive and political buy-in and also promote e-GP across the government. An e-GP Steering Committee chaired by the State Minister for Public Finance in MOFEC will be formed for the facilitation through policy and oversight of the e-GP system implementation, with the members included representing key, relevant agencies. Membership of the e-GP Steering Committee will be comprised of Director General - PPDS, Director – e-Government Directorate under the Ministry of ICT, Central Bank, Private sector, Civil society and Director General of FPPPA being the Member Secretary. Under the Steering Committee, a Technical Committee will be established to support the consultants, and review the deliverables; the Technical Committee will also make recommendations to the Steering Committee concerning policy issues in relation to the e-GP implementation. The Technical Committee will comprise of the members representing procuring entities nominated for the Phase I, National Data Center, PPDS, IT head of FPPPA, representation from IFMIS Unit, Commercial bank, Revenue authority and, Business Registration.

33. The e-GP Unit will be responsible for the day-to-day operation and management of the e-GP System implementation. A dedicated help-desk will support all e-GP users in facilitating the use of the e-GP system and solving user issues. A team of developers and quality assurance consultants will correct application “bugs” and support ongoing enhancements of the e-GP System. A team consisting of a System administrator, Database administrator, Network and Security consultants, and Support engineers will ensure smooth operation, data security in data centers, and high availability of the e-GP system to its users.

34. The introduction of the e-Government Procurement (e-GP) system is expected to enhance good governance, achieve better value-for-money in the public procurement sector, and support the socio-economic development of the country. The introduction of the e-procurement modules is expected to increase market participation in procurement processes and thereby assist the government to achieve better value-for-money. Also, as a result of the implementation of the e-GP System these improvements are expected: greater transparency in the procurement process; ensured accountability; better operation of the rule of law, equity and competitiveness; improved corruption control; and enhanced civil society awareness in regards to public procurement. The scope of the support will include:

- **Subcomponent 2.1.3.1** will assist the government in creating the foundation for the development and implementation of the e-GP system, including the design and preparation of e-GP Strategy and a roadmap for the implementation of the e-GP System.

35. The Federal Public Procurement and Property Agency (FPPPA) will carry out an e-GP Readiness Assessment by sending self-assessment questionnaires to the public and private stakeholders at Federal, Regional, municipal, and woredas levels, as well as, public enterprises at the outset of the project; it will prepare e-GP Readiness Assessment Report with the technical support from the World Bank expert. The e-GP Strategy and Roadmap covers and addresses the interests and contexts of the Federal, Regional, and municipal administrations, and the woredas.

- **Subcomponent 2.1.3.2** will assist the following activities for the implementation of a full-fledged e-GP System in Ethiopia:
  - (a) Business Process Reengineering (BPR) of the procurement processes and practices, incorporating the electronic enablement of procurement processes and practices and efficiency gains.
  - (b) Preparation of the e-GP Directive for providing authenticity of the reengineered procurement processes, practices, organizational structures and new stakeholder relationships created through the introduction of the e-GP System.
  - (c) Preparation of Business, Functional and Technical specifications and bidding documents for the acquisition of the e-GP System.
  - (d) Preparation of an e-Catalog database of Common User Items.
  - (e) Preparation of a data center, and procurement of data center and mirror center servers, network equipment, storage and power solutions, Internet Connectivity and required systems of software and licenses; and,
  - (f) Acquisition, adaptation, installation, configuration and customization, testing and Phase I implementation of the full-fledged e-GP System, which will cover: e-Bidding; e-Framework agreements and management; e-Evaluation; e-Contract Awards; e-Complaints and disputes management; e-Contract Management; e-Invoices and e-Guarantees; e-Public Procurement, Performance Measurement, and Monitoring System (ePPPMMS); e-Workflow; e-Audits trails and Open Contracting Data Standard (OCD) based data publishing and interactive visualization. Hardware, software, Internet connectivity for the Primary Data Center and backup data center will also be procured. The Primary Data Center will be established at the premises of the FPPPA and the backup data center will be hosted at the National Data Center (NDC)

36. The e-Government Procurement (e-GP) system will be implemented in phases, initially starting with the Phase I implementation in selected public organizations and enterprises and gradually roll-out to all the procuring entities across the country. Following organizations are nominated for the consideration for the Phase I of the e-GP implementation:

- (a) Public Procurement and Property Disposal Service (PPDS)
- (b) Ethiopia Road Authority

- (c) Ministry of Water, Irrigation and Energy
  - (d) Ministry of Education
  - (e) Pharmaceutical Fund Supply Agency (PFSA)
  - (f) Addis Ababa University
37. Organizations for the Phase I will be finalized by the e-GP Steering Committee.
- **Subcomponent 2.1.3.3** will finance a public awareness and capacity-building program to maximize the awareness, utilization and sustainability of the e-GP System. The following activities will be supported under this subcomponent:
    - (a) Public awareness and sensitization programs for citizens, as well as political and high-level executive leadership through workshops, seminars, audio, visual, and publication media;
    - (b) Training programs for the users from the procurement entities, public enterprises, and the bidding community;
    - (c) Benchmark study - in the countries already using e-GP Systems; and
    - (d) Operation, maintenance, implementation management and roll-out of the e-GP System by establishing Helpdesks and project management teams.
38. The activities to be carried out in parallel include:

**Table 2.5. Summary of Activities under the Subcomponent 2.1.3**

SN	Activity
1	Establish High-level Executive Committee and e-GP Steering Committee Executive Committee will be formed comprising key ministries headed by the Minister of Finance. Steering Committee will be chaired by – the State Minister for Public Finance in MOFED, Member Secretary - DG FPPPA, Members: Director General - PPDS, Director – e-Government Directorate under the Ministry of ICT, Central Bank, Private sector, Civil society.
2	Establish e-GP Technical Committee Chair –Director General, FPPPA Member Secretary - E-GP Project Manager Members – Focal persons of procuring entities nominated for the Phase I, Representative from National Data Center, PPDS, IT head of FPPPA, representation from IFMIS Unit, Commercial bank, Tax, Business Registration)
3	Establish e-GP Unit in FPPPA with the recruitment of selected staff at for the first two years: (1) e-GP Project Manager, and (2) Procurement Communication Consultant
4	e-GP Readiness Assessment

SN	Activity
	(FPPPA sends out e-GP Readiness Questionnaire to all procuring entities, business community, oversight agencies, and civil societies)
5	Procurement of e-GP Startup Activities Support Consultant (firm) for the following activities: (a) Draft e-GP Strategy and Roadmap (b) Business Process Reengineering (BPR) of Procurement Processes and practices (c) Develop draft e-GP Directive (d) Prepare Business, Functional and Technical Specification (Data Center, e-GP Application, and other related) and Prepare bidding document for the acquisition of the e-GP System (e) e-Catalog for common use items (f) Organize Benchmark Study visit to the countries, where e-GP is implemented
6	Procurement of e-GP System Supplier through International Competitive Bidding for e-GP System, Primary and backup Data Center hardware and software
7	Recruit e-GP Unit remaining Consultants
8	Establish e-GP Help Desk with 24/7 support
9	Recruit Social Accountability, Communication and Change Management Consultant (firm) for Social Accountability, Civil awareness, and e-GP change management activities
10	Data Center Preparation and Internet Connectivity for Primary Data center (Firm)
11	Selection of Capacity building Consultant and provide Training to the Users in nominated entities for the Phase I (Firm)
12	Selection of Independent e-GP system Audit Consultant Firm)
13	Go-Live E-GP System Phase I

*Subcomponent 2.2: Capacity Building to Oversight Function (US\$2.3 million)*

39. The objective of this subcomponent is to support the capacity of the OFAG and ORAGs to strengthen their oversight role with a primary focus on improving quality of audits through technical assistance and through institutionalizing training. The support to these bodies builds on the ongoing support that the Bank has been offering through its projects, particularly the PBS. Care has been taken that Activities being financed by the Bank and other donors are not included in this and OFAG will continue to take extra efforts to ensure that no duplication exists. The implementing entity that is responsible for this component is OFAG, which will work closely with MOFEC/EMCP/COPCO to provide direction and leadership for implementing this component, and for preparing annual work plans and budgets, and reporting on the progress of implementation on a quarterly basis including reporting on the use of financial resources. Three components or activities envisaged to be supported by this Subcomponent include: (a) support to improve the quality of audit work; (b) support to the OFAG's training center; and (c) support for stakeholders' engagement. The details are explained as follows:

40. **Support to improving the quality of the Audit Work** (US\$1.75 million): This will primarily support the OFAG and ORAGs in technical assistance with the main objective of improving the audit quality (processing and output). This component will also support the capacity building initiatives of the Audit Services Corporation. In addition, a need and impact assessment will be conducted to assess the current needs and impact of the reform agenda on the oversight function including a baseline study for quality of audit work. Activities included in this component, therefore, are:

- (a) **Technical Assistance consulting firm:** This component will support the recruitment of a technical assistance consulting firm selected competitively with the main objective of improving the audit quality (process and output) of OFAG and ORAGs. Some of the key initiatives to be covered in this arrangement (which will entail the preparation of detailed TORs) include:
  - (i) *Reviewing working documents and practices:* This may involve drawing on best practices and learning lessons to adopt or scale up best practices with due regard to local context and also in revising strategies, plans, guidelines, procedures, audit manuals and proclamations, as well as working practices, as appropriate;
  - (ii) *Quality Assurance at OFAG and ORAGs:* This component will support the OFAG and ORAGs by embedding high caliber professional consultants or Technical Assistants (TAs) in each institution (OFAG and ORAGs) who will design and deliver/conduct quality assurance models on the audit process and output, i.e. the audit work. This involves the recruitment of consultants who will support the system and provide close hand-holding support to the existing audit staff in the area of quality of audit. A key issue being raised in a number of FM diagnostic works and audit reports is the issue of addressing audit findings. Hence, the consultant is expected to devise Audit finding follow up systems and toolkits. In addition to establishing and delivering a quality assurance model, this component will also devise mechanisms or systems or arrangements of transferring the knowledge and practice of the quality assurance model from these TAs to the existing civil servants;
  - (iii) *IT audit Competency:* This will strengthen the capacity of OFAG and ORAGs in the area of conducting IT audits where there are serious gaps in IT audits, including in the areas of system, capacity, personnel, and guidelines. Further, this component will support the preparation of IT strategy and guidelines in addressing gaps in these areas, including the establishment of IT audit units;
  - (iv) *Fraud and Forensic audit* –This subcomponent will support the establishment of a Fraud and Forensic unit, which will include reorganizing existing structures as well as supporting capacity-building interventions;
- (b) **Advisors to the AG on Operations and Support system:** This component envisages the support to the Auditor General at the Federal level in following up on the main operations and support systems of the OFAG. In this regard, advisors will be recruited reporting directly to the Auditor General. One of their important roles will be to follow up the reform agenda including quality aspects.

- (c) **Institutional capacity-building to Audit Services Corporation:** The Audit Services Corporation (ASC) has recently prepared a strategic plan. This entity is tasked in the auditing of major public enterprises and projects. It is important to support the Corporation to ensure that it delivers on its objectives and that it produces quality output. Therefore, this component will support part of the strategic plan in building institutional capacity. Capacity-building for staff, in the form of external training through correspondence, office equipment, furniture, computers, copiers and printers will be financed.
- (d) **Need and Impact assessment-** This component will support and finance the conduct of needs and impact assessments to understand: (i) the current needs of the oversight function, particularly that of OFAG; (ii) baseline for the quality assessment; and (iii) the impact of the various reform interventions. A consultant firm will conduct the assessment.

41. **Support to Training Center of OFAG (US\$0.45 million)** - The key challenge faced by OFAG and ORAGs is the staff turnover/ staff retention. Investments made in building the capacity of the audit personnel are eroded because of staff turnover, and, as such, it is important to provide continuous training to strength the capacity of audit staff, including new entrants. Thus, this component will aim to support ongoing and sustainable training initiatives, so that this training center can start operating soon. In this regard, this component will focus on supporting the following:

- (a) **Support to development of training curricula/material:** This will focus on the development training curricula and course materials, including printing of course materials;
- (b) **Support to training faculty:** This component will finance key consultants or TAs intended to provide training to the auditors;
- (c) **Knowledge management and sharing** - this component will support activities focused on improving knowledge management platforms. This includes upgrading the existing library with accountancy and audit books, the development of e-library facilities, and a database, and sharing of this knowledge with audit staff;

42. **Stakeholders' engagement (US\$0.15 million):** The audit function on its own will not deliver its objectives unless it is supported with a robust oversight function as well as by other stakeholders. Lessons from the PBS have shown that support to the parliament has contributed to following up with the executive on auditing issues. Thus, it is important to strengthen coordination and collaborations with the various stakeholders. Coordination platforms like annual oversight forums (Auditor Generals forums) will be strengthened. This component will also support the development of media engagement strategies/programs/activities. The details of these activities or Subcomponents are:

- (a) **Coordination strengthening-** This component supports the annual oversight forums (AG forums-that bring together participants from OFAG, ORAGs, the PACs, the Budget and finance standing committees, the FEAC, REAC, and MOFEC);

- (b) **Media engagement programs and publicity-** This component will develop strategies for media engagement and develop media engagement programs including the design of publicity programs. This component will also support enhancement of websites for OFAG and ORAGs.

*Subcomponent 2.3: Development of Accountancy Profession (US\$2.3 million)*

43. The objective of this Subcomponent is to support the development of a robust accountancy profession in country by strengthening the institutional capacity of the regulatory public oversight body (AABE). In addition, this component envisages to support the efforts to develop a strong Professional Accountancy Organization (PAO) in country which will be accredited by the AABE. This component interventions will enable certification programs to be implemented in the country with the issuance of the first internationally recognized national professional accountancy qualification certificate. In addition, in coordination with relevant stakeholders, this subcomponent also aims to assist the implementation of international standards as adopted, adapted or amended by the Board, both in the private and public sectors, by providing support in defining the scope of changes required and in the development and implementation of strategies to effect required changes, including the integration of accountancy education with the practice. This component also promotes local, regional and international collaborations amongst professional bodies and associations.

44. Sustainability is ensured as provided in the Proclamation and Regulation through allocation of annual budget to the Board. In addition, the laws also provide a legal basis for the Board to charge fees or levies or other incomes for the services rendered. The Board will also prepare a strategic plan/roadmap to discharge its duties and responsibilities as stated in the Proclamation.

45. This subcomponent has two main capacity-building components/activities. The first area of intervention is the support to AABE where assistance will be provided to develop and strengthen the institutional framework and capacity of the AABE to fulfil its duties and responsibilities. This includes support in the institutional set-up, including the institutional framework, as in preparing strategies, short/medium to long-term plans, the development of various manuals, rules and regulations, and providing assistance with implementation, and so on. Additionally, it assists in the identification and recruitment of high-caliber, professionally qualified key consultants/contract staff; and capacity-building interventions. It also supports the efforts of the Board to publicize its activities and sensitize the public of its roles and responsibilities. Further, AABE envisages working with relevant stakeholders to revise accountancy and audit curricula aligning accountancy education with practice, to devise focused contextualized practical courses/training on international standards and to deliver these courses.

46. The second area of support of this Subcomponent is that, under the leadership of AABE, this component supports efforts to create a robust, independent Professional Accountancy Organization (PAO). In this regard, this component promotes the coordination and collaboration of existing accountancy and audit associations. Capacity-building support will also be provided to the PAO, including provisions for a twinning arrangement with key, robust international professional accountancy associations recruited internationally to partner with the PAO in the details of establishing the new accountancy body. As noted above, this component supports the

certification programs. Finally, this component also aims to build the capacity of the PAO to provide capacity-building in a continuous, professional development modality to auditors and accountants in thematically selected areas, especially in the application of international standards.

47. It is important to note that all laws are passed<sup>17</sup> and the AABE is formally established and the Director of the Board is assigned and members of the Board of Directors of AABE are appointed by the government. Until AABE is well established, MOFEC will be the implementing entity of this component and will hand it over to the institution once it is formed. The primary target groups envisaged to be supported are the regulatory/accountancy body i.e. AABE; the PAO and accountants and auditors at large. The subcomponent has two main capacity- building components/activities as follows:

48. **Regulatory Public oversight body (AABE)** (US\$1.74 million): This subcomponent aims to develop and strengthen the institutional capacity of the AABE to fulfil its duties and responsibilities. Here, the following are key areas that will be supported:

- (a) **Support of key Consultants/Contractual staff-** To assist in the *identification, recruitment and retention* of high caliber, professionally qualified key consultants/contractual staff. It also supports the design and implementation of regular capacity-building;
- (b) **Support of the Institutional Framework and institutional set up-** To support development/revision and implementation of Proclamations, Rules, Regulations, structures, guidelines, strategic plans, long and medium-term plans, internal/external documents, road- maps, examination/accreditation modalities, procedures for monitoring of accountants and auditors, investigation and enforcement modalities, manuals, toolkits, and so on. This will also support establishing the institution, including offices (office facilities, office equipment/furniture, vehicles, and so on);
- (c) **Public Consultation and Awareness raising-** supports the AABE to publicize its activities and sensitize the public to its roles and responsibilities; and, likewise to the accountancy and auditing professions and to relevant stakeholders. Supports the preparation of media engagement and publicity programs and communication strategies, including the implementation of these programs. This component will support website development and up-keeping;
- (d) **Sustainability interventions-** work with Ministry of Education and higher education institutions to align accountancy education and practice through review and the updating of accountancy and auditing curricula in line with the current national laws, regulations and developments in international standards. It also partners with relevant bodies to develop and approve recognized tuition providers for professional qualification courses. It will also devise strategies for regional presence by consulting with regions and stakeholders. This component will also finance development strategies, guidelines, tools

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<sup>17</sup> Proclamation 847/2014-Financial Reporting Proclamation and Regulation 332/2014-Establishment and Determination of the Procedures of AABE



and toolkits and selected activities to roll out AABE mandated standards to public and private enterprises.

49. **Support to the development of recognized Professional Accountancy Organization (PAO) and support for Capacity-building initiatives, including certification** (US\$0.60 million): Under the leadership of AABE, this component supports efforts to create a robust professional accountancy body which will be accredited by the AABE and internationally. In this regard, this component also promotes local, regional and international collaborations among professional bodies and associations. Further, this component aims to build the capacity of auditors and accountants in thematically selected areas, especially in the application of international standards through PAO by designing capacity-building interventions. This subcomponent also promotes the coordination and collaboration of extant accountancy and audit associations. The key areas of support are as follows:

- (a) **Support efforts to create a recognized PAO-** This component intends to support the development of a strong PAO in collaboration with the few existing local Accountancy and Auditors Associations in the country. To this end, AABE will collaborate with the existing accountancy and auditing institutions and other stakeholders to create regular and systematic coordination platforms or fora which are also venues for addressing practical technical matters. In gaining accreditation from the AABE, as well as internationally, this component will also support the design and implementation of twining arrangements, partnering the local PAO with a twining partner that will be an International Professional accountancy body.
- (b) **Capacity of auditors and accountants-** This component supports the certification programs with the issuance of national, professional accountancy qualifications that is internationally recognized. This component also supports the Continuous Professional Development (CPD) programs- the major one of which is the development capacity-building or training program- and the roll-out of such to existing external auditors and accountants in the private and public sectors. Needs-assessment will be conducted on the basis of which capacity-building programs will be developed. The impact of the program will be assessed.

*Subcomponent 2.4: Support for Strengthening Fraud and Corruption Mitigation Activities:* (US\$1.0 million)

50. GoE has a robust legal framework and arrangement for prevention, control and reporting of wide range F&C allegations through the Federal Ethics and Anti-corruption Commission (FEACC) and Regional Ethics and Anti-corruption Commissions (REACCs). To address F&C and the compliant handling risk, the Bank's PforR programs will be aligned with the "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants," dated October 15, 2006 and revised in January 2011, as well as the National Compliant Handling Proclamation. The MOU signed between the Bank's Integrity Vice Presidency (INT) and the FEACC on October 3, 2011 provides the framework for cooperation and sharing information on fraud and corruption allegations, investigations and actions taken on the Program, including procurement. FEACC has also signed MOU with REACCs in April, 2012 and established a closer relationship in carrying out mutual cooperation

activities, building capacities and compiling country-level reports on F&C that will be reported to the Bank's Integrity Vice Presidency (INT).

51. Accordingly, an Integrated Fiduciary Assessment has been carried out for development of Program-for Result Enhancing Shared Prosperity through Equitable Services (ESPES PforR). The gaps (such as low level operational efficiency, F&C recording and information sharing, capacity limitations of local over-sight bodies, limitation in manpower assignments and logistics at the woreda level for F&C and compliant handling) have been identified.

52. Based on this assessment, the following F&C mitigation and internal controlling system gaps have been identified for action.

- (a) *Provide TA support for FEACC to undertake capacity assessment of the REACCs in the Afar, Gambella and Somali regions, as well as address the weaknesses identified by the study (US\$0.1 million).* The operationalization of REACCs and representations at the woreda level in Afar, Somali, and Gambella Regional States is not good, compared to other Regional States. The fraud and control performances of these Regional States has been lower. In structural areas, for instance, in Afar Regional State, the function of REACC at the zonal level was supported by the delegated Justice and Police Offices and there are no ethics officers assigned at the local level. In Gambella Regional State, Ethics and Anticorruption Liaison Officers operate at the regional level only. In Somali Regional State, a committee consisting of five members from WoFED, Agriculture, Health, Water and Road were working as Ethics and Anti-corruption officers. The committee reports to the administrator and REACC. The structure for controlling F&C at the woreda level requires assessment and implementation of capacity-building activities as recommended by the assessment result. (MOFEC should procure the TA consultant). Note that although in the ESPES PforR document it is stated that the TA for capacity-assessment, as well as implementation of recommendations identified by the outcome of the study, will be made together (at an estimated cost of US\$0.1 million). Because of limitations of resources, this project will only finance part of the TA support. (It is assumed that part of the TA support and implementation of the outcome of the study-- amounting to about US\$0.25 million-- will be financed under PBS III component B.)
- (b) *Provide cascaded training for REACC staffs and Ethics officers at the local level to improve recording and reporting of F&C cases and also facilitate information-sharing (US\$0.2 million).* Sector offices at the woreda level have not yet detected or recorded incidents or allegations of F&C in basic sector performances. Also, the officers have not reported F&C suspects to REACC. F&C complaints registered by WOFED have to be recorded in accordance with the REACC/FEACC complaint registration format (and should be disaggregated by sector and type of case). Thus, this activity requires undertaking cascaded training which consists of ToT training by FEACC to REACCs and training to local level staffs by REACCs.
- (c) *Provide training to woreda council members on follow-up of Audit findings to strengthen internal control and oversight at the woreda council level (US\$0.5 million).* The woreda budget and finance standing committee has relationships or contact with WOFED core processes or with temporally assigned committees for budget allocations; and in some

woredas it contacts internal auditors to discuss findings. The standing committee reviews the budget and ensures fairness of allocations, checks complaints of citizens, and expenditures for projects and so on. The woreda Budgeting and Finance standing Committee of the Woreda Council has limited capacity to provide effective oversight, transparency and accountability of budget and expenditures, with some exceptions. The capacity of the budget and finance standing committee needs to be strengthened in respect to the implementation of the auditors' findings and their recommendations regarding regular reviews and follow-up. Thus, training will be provided by BOFEDs in accordance with the training manual prepared by MOFEC.

- (d) *Support regional institutions (REACCs) concerning the disclosure of F&C and complaints-handling procedures to the public through the media (US\$0.2 million).* Related to the demand side, awareness and engagement of the public in providing tip-offs through the system is vital. The public understanding of procedures for providing F&C tip-offs and addressing mechanisms needs strengthening. Disclosure and information-sharing to the public on F&C activities and their impact at the woreda level is also low. Hence, support will be provided to regional institutions to create awareness on procedures through the media.

### **Component 3: Program Management and Monitoring and Evaluation (US\$1.1 million)**

53. The focus of this component is to ensure project implementation, the effective monitoring and evaluation of results and a consistent and effective approach to capacity development, the project would support: two Subcomponents: (a) program management and co-ordination and (b) monitoring and evaluation.

#### *Subcomponent 3.1. Program Management and Coordination (US\$0.7 million)*

54. The purpose of this subcomponent is to ensure well-functioning institutional arrangements and mechanisms to ensure the effective coordination and management of the project. The subcomponent will support and enhance the capacity of relevant institutions to deliver the project. The project will support institutional arrangements and implementation mechanisms described in Annex 3. More specifically it will finance (a) PPIT staff salaries at federal and regional levels of EMCP and OFAG; (b) the financial management specialists, accountants and Procurement specialists at federal COPCO; (c) support and enhance capacity of the PPITs at all levels through financing operating costs related to technical backstopping by project staff, office equipment and supplies, training costs, per diem and accommodation costs for supervision and monitoring and running costs; (d) the planning activities related to the preparation of the Annual Work Plans and Budgets (AWP&Bs), the implementation review meetings and related activities; (e) capacity building of project staff as well as project's sensitization and awareness activities and workshops including launching workshop; (f) external audit fees for the project; and (g) establishment and operating costs of the various steering and technical committees as well as other required consultations and meetings.

*Subcomponent 3.2. Monitoring and Evaluation (US\$0.4 million)*

55. The project system will assess and document achievement of outputs as agreed in the annual work plans and progress towards objectives outcomes, and intermediate results. It will serve to identify implementation gaps and challenges for proactive corrective actions as well as to document and incorporate lessons learned into program implementation. Achievement and progress towards the project results will be measured by indicators of the Results Framework, additional outcome indicators and various studies/evaluation. This Subcomponent will finance for consultancies and studies required to measure the results indicators.

**C. Summary of Components and Cost Estimates**

56. The summary of the components and their estimated costs for the proposed project is presented below.

**Table 2.6. Breakdown of Project Costs**

<b>No.</b>		<b>Budget</b>
<b>1</b>	<b>Component 1-Expenditure Management and IT Systems Support</b>	
<b>1.1</b>	<b>IFMIS &amp; IBEX</b>	
1.1.1	Hardware for IFMIS Data Centre	2,500,000
1.1.2	Hardware and Software for IBEX : Federal / Regions / Woredas	1,500,000
1.1.3	IT Audit Tool - Acquisition and Implementation	1,500,000
1.1.4	Support and Maintenance of the existing IBEX modules	800,000
1.1.5	Quality Assurance Firm for IFMIS	1,000,000
<b>1.2</b>	<b>PMO Support</b>	
1.2.1	IFMIS PMO Contractual Staffs at MoFED	1,000,000
1.2.2	IFMIS / IBEX Specialized IT Training for PMO / ISU Staff	257,000
1.2.3	Operational costs for IBEX / IFMIS PMO, PFM reforms and change management	1,472,321
<b>1.3</b>	<b>PFM Systems Strengthening in coordination with the IFMIS roll-out</b>	
1.3.1	IFMIS PSB Module and Program Based Budgeting	453,750
1.3.2	IFMIS Cash Management Module and Treasury Management	200,860
1.3.3	Accounts Reform	216,664
1.3.4	Internal Audit	1,000,000
1.3.5	DMFAS / IFMIS and Debt Management	464,950
1.3.6	Woreda level Payroll Management	500,000
1.3.7	Internal and External Communication - including BOOST	1,000,000
<b>1.4</b>	<b>PFM &amp; IFMIS Academy</b>	
1.4.1	IFMIS Academy and Institutionalization of Training	7,000,528
1.4.2	Awareness Creation for officials involved in PFM tasks	473,000
1.4.3	IFMIS Training for 35000 staff	1,110,389
	<b>Sub total component 1</b>	<b>22,449,462</b>
<b>2</b>	<b>Component 2-Strengthening Accountability institutions</b>	
2.1	Procurement Reform	3,723,600
2.2	Professionalization of Accountancy in Ethiopia	2,340,000
2.3	External Audit	2,350,000
2.4	Anti Corruption and Fraud Mitigation	1,000,000
	<b>Subtotal component 2</b>	<b>9,413,600</b>
<b>3</b>	<b>Component 3- Program Management</b>	
3.1	Program Management	761,938
3.2	Monitoring and Evaluation	375,000
	<b>Subtotal component 3</b>	<b>1,136,938</b>
	<b>Grand Total</b>	<b>33,000,000</b>

## **Annex 3: Implementation Arrangements**

### **ETHIOPIA: Public Financial Management Project (P150922)**

#### **Project Institutional and Implementation Arrangements**

##### *Overall Implementation and Institutional Arrangements*

1. The implementation of the EPFMP will rely on the existing GoE structures at the federal and regional different administrative levels. MOFEC, through the Expenditure Management and Control Program (EMCP), will be the lead executing agency with the overall responsibility for coordinating all aspects of the project including contributions by the different ministries and agencies participating in the project's implementation. The overall project management and coordination rests with EMCP whereas the financial management and procurement aspects of the project will be handled by the COPCO. The EMCP will be the focal implementing agency for the project and will work closely with the World Bank's project Task Team during project implementation. To fulfill its responsibilities, the EMCP will use the institutional mechanisms established for the implementation of the project.

#### **Project Oversight**

2. EMCP Steering Committee: There is already an existing EMCP Steering Committee (ESC). This is a high level PFM policy and implementation review body that is chaired by the Minister of Finance or his representative. Members of this Committee are the BOFED Heads of the Regions (equivalent to the regional Ministers of Finance and Directors in MOFEC) and the reform project heads which are directorates within MOFEC. The membership of this body will be expanded to include the Federal Auditor General, the Director General of FPPPA, and the Head of the AABE. This body will continue to meet on a six monthly basis and will be responsible for (a) establishing policy guidelines and providing overall oversight and strategic guidance; (b) review of project's progress towards the PDO; (c) review and approve the Annual Work Plans and Budgets (AWP&Bs) submitted by the EMCP; (d) review and approve annual implementation performance report prepared by the various implementers and consolidated by EMCP and overseeing the implementation of corrective actions; and (e) ensure inter-ministerial coordination, harmonization and alignment among donors.

3. The EMCP PFM Committee: this committee meets on a monthly basis. It is chaired by the State Minister of Public Finance and in his absence the Director of EMCP. Its membership will include the OFAG, and AABE in addition to the existing members of Head of the IFMIS PMO, Head of COPCO, and representatives from, FPPPA, relevant Directors of MOFEC and as needed representatives from the Regions. The task of the committee is to follow up on Annual Work Plans, progresses noted on implementation and take proactive troubleshooting tasks to resolve implementation bottlenecks.

#### **Project Coordination and Implementation of Activities**

4. Ministry of Finance and Economic Cooperation -EMCP: The project will be implemented by MOFEC under the directorate dealing with the Expenditure Management and Control Program (EMCP). EMCP has been leading PFM reforms since 1996 and it is due to the

leadership of EMCP / MOFEC that Ethiopia has achieved such remarkable progress in strengthening government systems. Implementation of this project will be mainstreamed into government systems with minimal additional requirements.

5. *EMCP-PFM Project Implementation Team (PPIT)*: To coordinate and ensure timely and effective execution of the activities of EPFMP, within EMCP, PPIT will be established which will have the responsibility to ensure the day-to-day coordination and management of the project. More specifically, the unit will ensure (a) the overall coordination of the project within the various units of MOFEC, OFAG, FPPPA, and AABE; (b) the annual planning and the preparation of consolidated AWP&Bs and progress reports; (c) the follow-up and reporting on project implementation, including the M&E and learning, the supervision and monitoring of the activities and the evaluation of project impacts; (d) the liaison and coordination with other stakeholders; (e) the project communication; (f) the overall knowledge management, and (g) the strategic staff capacity-building and mobilization. The unit will include needed staff, such as Head of the PPIT, and at least five subject matter experts (of which one will be seconded to OFAG) who will provide support project implementation and monitoring. The PPIT structure and terms of reference for each position within the PPIT will be included in the POM.

6. *Ministry of Finance and Economic Cooperation -COPCO* – being a channel 1 project, all financial management and procurement aspects of the project will be handled through COPCO along with regional COPCOs under BoFEDs which are currently handling all Channel One projects, including the largest projects in the WB portfolio in Ethiopia. COPCO has regional units located in all BOFED's across Ethiopia. Its establishment around three years ago greatly improved fund flows, procurement, reporting and overall implementation. This project has agreed to provide additional staff to federal COPCO to handle the additional responsibilities that this project will impose. The Federal COPCO will be responsible for the release of resources to implementing agencies based on the approved annual work plans. It will also bear the responsibility of consolidating financial reports, submitting the same to the WB, having the accounts of the project audited, handling the procurements required based on inputs from implementing agencies and signing on contracts.

7. *Federal Public Procurement and Property Administration Agency (FPPPA)* – this agency will be responsible for implementing most of component 2.1 (a). The agency will be responsible for preparing its own annual work plan and submission to EMCP, implementation of short term and tailored trainings and preparing TORs and providing technical advice for the various procurements specifically related to Subcomponent 2.1(a) of the project.

8. *Office of Federal Auditor General (OFAG)*: will be responsible for managing component 2.2 at federal level in collaboration with regional ORAGs. It will be responsible for developing the AWP&B of component 2.2 and its submission to EMCP as per agreed timetables. OFAG is also responsible for the financial management and procurement aspects (for individual consultants) of this component and is responsible for submitting physical progress and financial reports to EMCP and COPCO respectively. To ensure the effective coordination of the other components managed by OFAG, the PPIT will second Project manager/coordinator to OFAG to follow up on this project.

9. *Auditors and Accountants Board of Ethiopia (AABE)* – will be responsible for implementing Subcomponent 2.3 of the project. The Board has been established but staff and formation of systems are at the initial stage. Therefore until the board is fully functional in terms of staff capacity and systems, the fund requirement will be managed by MOFEC.

10. *Regional Bureaus of Finance and Economic Development (BoFEDs)/ focal persons:* – the BoFEDs of each region are responsible for managing the resources transferred to them for the region. The bureaus are also responsible for the financial management aspects of the project at a regional level. Each COPCO within the BoFED are also responsible for submitting the financial reports to Federal COPCO and collaborating on the external audit reviews. Furthermore, the project will have a focal person for each region which will be responsible for following up on project activities at the regional level. As the regional wings to EMCP, the PFM committees within BoFED in collaboration with the focal person are responsible for the project implementation at the regional level. These are responsible for contributing to the AWP&B of the project and for producing physical progress reports to EMCP regularly. The eleven experts in regions will be reporting to EMCP PPIT at Federal level.

11. *Federal and Regional Ethics and Anti-Corruption Commissions (F/REACCs):* - the commissions are responsible for implementing Subcomponent 2.4 of the program. The commissions will not be involved in managing resources and procurement. However, they will prepare their work plans and submit the same to EMCP as per agreed timetables and implement the activities indicated in the Subcomponent in collaboration with MOFEC and BoFEDs.

**Table 3.1. Summary Project Implementation Arrangements per Component**

<b>Components</b>	<b>Subcomponents</b>	<b>Responsible Implementing Agency</b>
Component 1	1.1. Supporting the roll out of the Oracle IFMIS system and support for the effective implementation of the IBEX system	EMCP, IFMIS/ IBEX PMO
	1.2. Strengthening Expenditure Management	EMCP, regional PFM teams
Component 2	2.1. Strengthening Procurement and Property Management	FPPPA
	2.2. Capacity building to oversight function	OFAG and ORAGs
	2.3. Development of the Accountancy Profession	AABE
	2.4. Strengthening fraud and corruption mitigation activities	FEACC and REACCs
Component 3	Project Management / Monitoring and Evaluation	EMCP

## **Project Coordination with Aligned Projects**

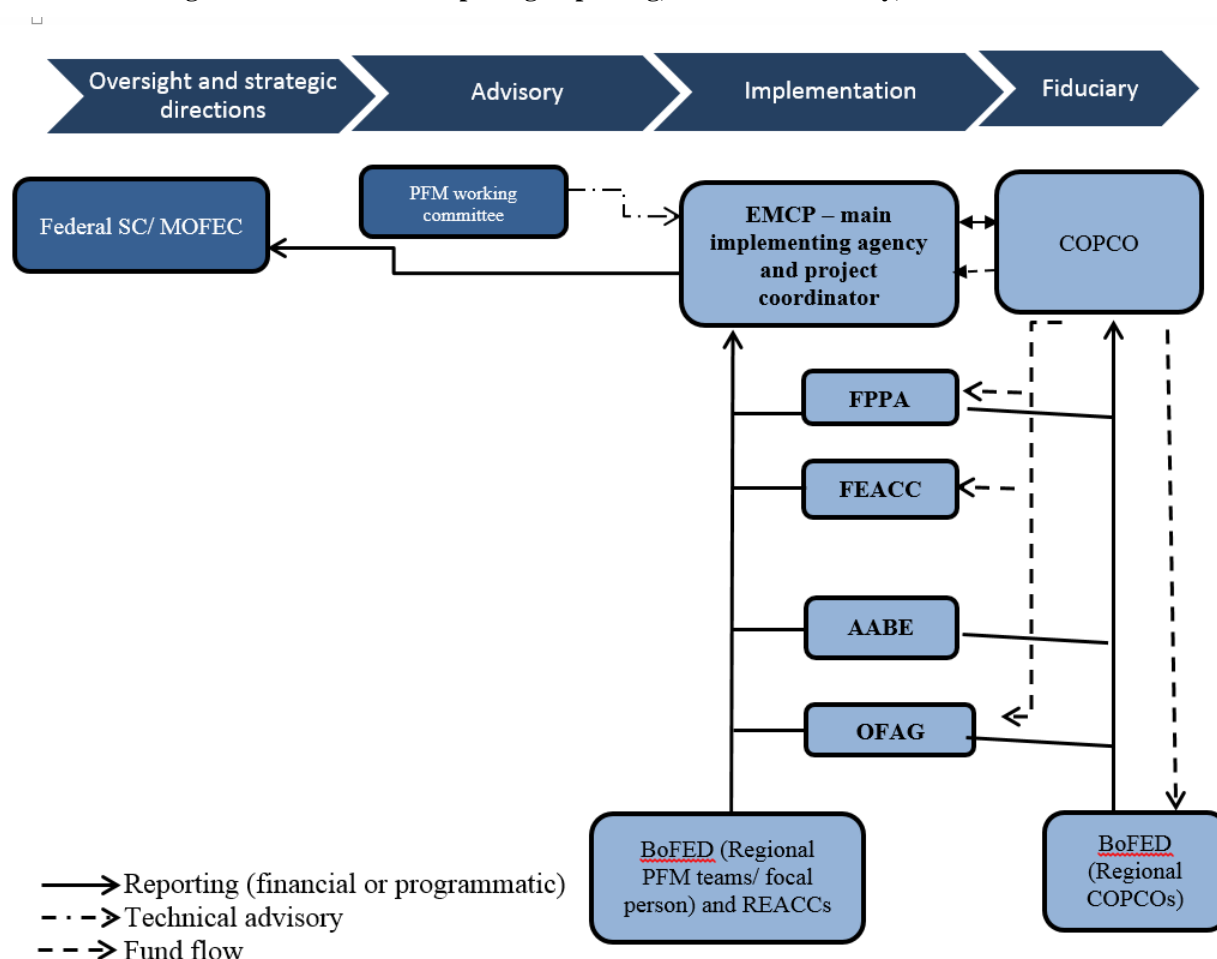
12. Given that the PFM reform in Ethiopia has been and continues to get the support of various donors, it is essential to coordinate amongst ongoing program whilst building up on what has already been achieved. The PFM support under PBS III, DFID's as well as other donors support are the prominent projects that are currently assisting the PFM reform in Ethiopia. Through the PFM sector working group, the coordination of these Donors and their projects will be discussed to ensure that there is no overlap of support within these programs. The PFM reforms being financed by PBS III focuses on supporting woreda based activities, including



woreda PFM and procurement strengthening; system improvement support including IBEX roll-out; regional training; and support for external audit to increase audit coverage and parliament. Various assurances and evidences are made and efforts still are ongoing to ensure that there is complementarity of this project with PBS III and that no duplication exists. One example is the intention to align reviews of the two projects by using already created platform of the PBS's Joint Review and Implementation Support (JRIS) missions which has been agreed with the government.

13. The following diagram presents the implementation arrangement and the coordination for the project.

**Figure 3.1. Flow Chart Depicting Reporting, Technical Advisory, and Fund Flow**



## Financial Management, Disbursement and Procurement

### *Financial Management*

14. A financial management assessment was conducted in accordance with the Financial Management Practices Manual for World Bank financed investment operations issued by the Financial Management Sector Board on March 1, 2010 and supporting guidelines. In conducting

the assessment, the Bank team visited various government offices and implementers of the project<sup>18</sup>. One of the components of the project aims at supporting to the AABE. However, given that the Board has not yet been established, MOFEC will be managing the financial management aspects for the institute and once established, capacity assessment will be conducted at which time different financial management arrangements will be proposed. Supervision reports, financial management in-depth reviews, Interim Financial Reports (IFRs) and audit report reviews of various programs implemented by MOFEC were taken into account for the design of Ethiopia Public Financial Management Project (EPFMP).

## Country Context

15. GoE has been implementing a comprehensive PFM reform with support from DPs, including the Bank, for the last twelve years through the Expenditure Management and Control sub-program (EMCP) of the government's civil service reform program (CSRP). This is being supported by the closed IDA financed Public Sector Capacity building Support Program (PSCAP), the ongoing Promoting Basic Services (PBS) program and other donor financing as well as the government's own financing. These programs have focused on strengthening the basics of PFM systems: budget preparation, revenue administration, budget execution, internal controls, cash management, accounting, reporting, and auditing.

16. The 2014 Ethiopia Public Expenditure and Financial Accountability (PEFA) PFM performance measurement framework assessment is finalized and reports is issued for the federal as well as Addis Ababa city administration, Oromia, Amhara, Tigray, Somali and SNNP regions.<sup>19</sup> The 2014 PEFA assessment has been completed for the federal government as well as Tigray, Amhara, SNNPR, Oromia, Somali regions and Addis Ababa city administration. Good improvements were noted in most of the federal government ratings although the rating differs among regions. Generally, the budget credibility of the country remained to be good supported with continuing robust budget execution and internal control systems. Budget transparency and comprehensiveness has also strengthened since the 2010 assessment. Good performances were noted on arrears management, access by public to fiscal information and revenue administration. Tax audit function is gradually increasing focusing on risk assessment but capacity constraints still remain. Budget execution systems appear to continue to work well. Robust internal control systems remain. Procurement systems are strengthened since the 2010 assessment although publication of procurement information has not progressed as much. Furthermore, effectiveness of scrutiny has strengthened to an extent given that MEFF is being reviewed by relevant legislation unit and strengthened procedure for review of draft budget. Legislative scrutiny of audit reports improved performance on depth of hearing and monitoring implementation of recommendations.

17. Although improvements are noted, strengthening internal audit function has proceeded at a slower pace than expected. The assessment revealed that high staff turnover and capacity constraints remain in Procurement and internal audit capacity. The provision of electronic linkages between the IBEX systems in BoFEDs and those in sector bureaus, where IBEX was

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<sup>18</sup> The Ministry of Finance and Economic Cooperation (MOFEC) – finance and procurement directorate, COPCO, internal audit unit. Office of the Federal Auditor General (OFAG).

<sup>19</sup> As the reports are not yet finalized, the findings are not included in this assessment.

being established on a stand-alone basis remains to be constraint affecting the ratings on accounting and reporting. In addition, timeliness of the preparation of statements and coverage has progressed although regional reports are submitted to federal with delay. The assessment also indicated that external audit has progressed overall but capacity constraints still remain.

## **Project Financial Management Arrangements**

### *Budgeting*

18. *Budget preparation:* the project will follow the government's budget system<sup>20</sup>, recorded in the government's budget manual. The budget for EPFMP will be determined each year based on the annual work and procurement plan and budget to be prepared by all implementers. At regional level, regional BoFEDs will prepare the annual work plan of the BoFED and forward the same to the PFM Project Implementation Team (PPIT) in EMCP within MOFEC. The PPIT will consolidate the project wide annual work plan and budget by getting input from OFAG, AABE, FPPPA, FEACC/REACCs as well as the various departments under it for the components managed by each directorate. The overall annual budget for the project will be discussed by the PFM team and then approved by the EMCP steering committee and also submitted to IDA for review and approval. The detail budget preparation, approval and dissemination process will be discussed in detail on the FM Manual of the project.

19. *Budget proclamation:* The budget for EPFMP will be proclaimed at the federal level under the MOFEC but with detailed breakdown for components or implementing entities as appropriate.

20. *Budget control:* Detailed Project work plans, projected costs, and procurement plans were developed during project appraisal. These have formed the basis for the project costs noted in the PAD (also reflected as the program budget in financial reports). Activities and costs noted in the work plans and budgets would be "eligible expenditures" under the project.

21. The approved budget should be disseminated to all project implementers timely. There is a need to compare actual expenditures with that of the approved budget to monitor progress and identify and impediments. Significant variations should be explained and the analysis used as a management tool to make important decisions. To facilitate for this, the Interim Financial Report (IFR) of the project will have a format for the analysis. In addition, the FM Manual to be developed for the project will provide adequate guidance how the budget controls and monitoring will be done.

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<sup>20</sup> The Ethiopian budget system is complex, reflecting the fiscal decentralization structure. Budget is processed at federal, regional, zonal (in some regions), woreda and municipality levels. The budget preparation procedure and steps are recorded in the government's budget manual. The budgets are reviewed at first by MOFEC then by the Council of Ministers. The final recommended draft budget is sent to parliament around early June and expected to be cleared at the latest by the end of the fiscal year.

## *Accounting*

22. The government's accounting policies and procedures<sup>21</sup> will be largely used for the accounting of the project. The project will have its own FM Manual as part of the Project Operation Manual (POM), which will be prepared under the scope of the country's accounting system with some modifications to specifically align it to the project's needs. The manual should incorporate mechanisms for properly recording transactions, including the allocation of expenditures in accordance with the respective project components, disbursement categories, and sources of funds. The Chart of Accounts for the project should thus be modified to adequately and efficiently account for transactions and to report on project activities. Monthly, quarterly, and annual reports will be produced directly from the financial management system and thus a well-developed Chart of Accounts is crucial.

23. *Accounting system:* MOFEC is currently using IFMIS to record and produce its financial reports. Given that the IFMIS is not yet operational at a regional level, the project will use IBEX as the project accounting system on a standalone basis as is the case for big programs such as PSNP and GEQIP managed by COPCO.

24. *Staffing:* COPCO is currently managing five major programs. All these programs are well supported by financial management specialists and experts both at the federal and regional levels. The unit has strong financial team presence across federal, regional and woreda levels including sector ministries. Based on the preliminary assessments conducted at MOFEC and OFAG, there is a need to increase the existing level of staffing so that the project's FM needs could be well addressed. Accordingly, it has been noted that MOFEC will be recruiting two financial management specialists and an accountant. The accountant will be positioned at the finance and procurement services directorate of MOFEC for smooth facilitation of payments, receipts, preparation of bank reconciliations and similar day to day activities. The directorate has adequate experience in implementing Bank financed operations. The financial management specialists will be placed in COPCO and will be responsible for managing the designated account, consolidation of financial reports, audits and so on. At the regional level, given that the activities to be managed by the regions will not be material, each regional BoFED will assign one staff to oversee the project's FM at the regional level.

25. OFAG will also have one finance expert to be seconded to it by the PPIT to look after the FM aspects of the project and produce timely report of the project. No resource will be transferred to ORAGs although they will benefit from the project. The detail job description and responsibilities of the accountants will be documented in the FM manual of the project. FPPPA will require one accountant to be recruited under the project. FEACC and REACCs will not require accountants at this stage given that the financial management part will be managed by MOFEC and BoFED respectively.

26. *Supervision and monitoring at COPCO:* given that COPCO is managing five big programs, the need to establish a team within COPCO at all levels whose main responsibility is

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<sup>21</sup> The Ethiopian Government follows a double entry bookkeeping system and modified cash basis of accounting. This is documented in the Government's Accounting Manual. This has been implemented at the federal level and in many regions. The Government's Accounting Manual provides detailed information on the major accounting procedures.

to supervise and monitor the overall performance of FM has been discussed and agreed in the already active projects. Accordingly once this function is established and is functional at COPCO, the EPFMP will also be one of the projects to be monitored. In addition, EMCP, OFAG, COPCO and the Bank team will meet at least on quarterly basis to discuss any challenges in the FM of the project to find timely solutions for any impediments.

27. *Accounting centers*: accounting centers for project funds include: (a) MOFEC; (b) OFAG; (c) BoFEDs; and (d) FPPPA. It should be noted that all the major procurements for the implementing entities will be handled by COPCO whereas fund will be released to the implementing entities for costs such as training, operating and recruitment of individual consultants. All these institutions will maintain accounting books and records and prepare financial reports in line with the system outlined in the FM Manual. Detailed arrangements for consolidation of the program financial information are discussed under Financial Reporting below.

28. *Capacity building/training*: as is the case with decentralized operations, training and building the capacity of staff is essential for the success of the project implementation. The training responsibility for the project will be borne by the MOFEC, COPCO, and the Bank. The World Bank will train project staff about Bank FM policies and procedures and will involve the project during the different trainings that it conducts both at the federal and regional levels. COPCO will hold the responsibility to continuously train its accounting staff. Areas for which training is required include the FM Manual, IBEX, Bank policies and procedures, preparation of interim financial reports, among others.

29. *Retaining documents*: Each implementing agency is responsible for maintaining the project's records and documents for all financial transactions occurred in their offices. These documents and records will be made available to the Bank's regular supervision missions and to the external auditors. Detail procedures for maintain and retaining documents will be discussed in the FM Manual.

### **Internal Control and Internal Auditing**

30. Internal control comprises the whole system of control, financial or otherwise, established by management in order to (a) carry out the project activities in an orderly and efficient manner; (b) ensure adherence to policies and procedures; (c) ensure maintenance of complete and accurate accounting records; and (d) safeguard the assets of the project. Regular government systems and procedures will be followed, including those relating to authorization, recording and custody controls. The project's internal controls, including processes for recording and safeguarding of assets, will also be documented in the FM Manual which is to be prepared.

31. *Internal audit*: An internal audit training module was issued by MOFEC in 2005 based on the internal audit manual issued in 2004. In addition, MOFEC issued an Internal Audit Reporting Procedure manual in Amharic in January 2010 and a performance audit manual, standards and implementation guide in July 2013<sup>22</sup>. Performance audit has already commenced

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<sup>22</sup> These manuals are available on the website of MOFEC

after the necessary training has been provided. Although the manuals are prepared and trainings provided, the internal audit units of various budget institutions are understaffed and hence not able to conduct comprehensive internal audit review particularly for donor funded operations.

32. MOFEC has an internal audit directorate which is currently staffed with nine internal auditors of whom five are BA degree holders and the rest Diplomas. Representatives from the unit have attended the Bank organized training on Risk Based Auditing for six weeks. The project is expected to strengthen the capacity of the internal audit function and hence the coverage of the unit can increase by including reviews of donor financed operations. The directorate should include the project in its annual work plan and accordingly review the project accounts based on the risks assessed by the directorate. Any report issued on the project accounts should be accessible to the Bank for supervision and follow up of action taken.

33. *Internal audit at COPCO:* MOFEC has deployed three internal auditors for COPCO whose main responsibility is to assess the external audit reports of programs, the preparation of valid action plans to rectify irregularities, to verify that the actions taken by the regions and woredas is appropriate and to communicate to the COPCO head and DPs on the action taken. The capacity of the internal auditors is being strengthened through the resources of the various programs. There is also a plan to cascade down this arrangement to regional BoFED / COPCO levels. Accordingly this function will also assist this project in ensuring that audit report findings are addressed in a timely manner.

## **Financial Reporting**

34. **Reporting requirements:** The project will prepare Consolidated Interim unaudited Financial Reports (IFR). These will be submitted to the World Bank within 60 days of the end of the quarter. The format and the content, consistent with the World Bank's standards, will be agreed with MOFEC during project negotiation. MOFEC, in the quarterly IFR, will ensure that advances received as well as documentation of expenditure is properly identified and reflected. At a minimum, the report will include: A statement of sources and uses of funds and opening and closing balances for the quarter and cumulative, a statement of uses of fund that shows actual expenditures, appropriately classified by main project activities (categories, components, and subcomponents), actual versus budget comparisons for the quarter and cumulative will also be included, a statement on movements (inflows and outflows) of the project Designated Account, including opening and closing balances, expenditure forecast for the next two quarters together with the cash requirement and Notes and explanations, other supporting schedules and documents.

35. **Reporting timetables and quality:** Financial reports will be designed to provide high-quality, timely information on project performance to project management, IDA and other relevant stakeholders. IBEX is capable of producing the required information regarding project resources and expenditures. Based on the regular reports received from the EMCP, regional BoFED's, OFAG, and FPPPA it is the responsibility of MOFEC/COPCO to prepare consolidated quarterly unaudited IFRs, consolidate annual accounts, and facilitate the external audit of the consolidated accounts. Duties of each implementing entity in preparing regular financial reports will be described in the FM manual.

36. In compliance with International Accounting Standards and IDA requirements, MOFEC will produce annual financial statements similar to the contents of the quarterly IFRs. The annual financial statement will be similar to the IFRs with some modifications as to be indicated in the audit TOR. These financial statements will be submitted for audit at the end of each year.

### **External Auditing**

37. Annual audited financial statements and audit reports (including Management Letter) will be submitted to IDA within 6 months from the end of the fiscal year. The annual financial statements will be prepared in accordance with the standards indicated in the audit TOR agreed during negotiation. The audit will be carried out by the Office of the Federal Auditor General (OFAG), or a qualified auditor nominated by OFAG and acceptable to IDA.

38. The audit will be carried out in accordance with the International Standards of Auditing (ISA) issued by the International Federation of Accountants (IFAC). The auditor should ensure that the implementing agencies get adequate coverage in the yearly audit exercises.

39. Once the reports are issued, MOFEC's COPCO has the responsibility to prepare audit action plans through its internal auditors within one month of the receipt of the annual audit report. The prepared action plan will be disseminated to regional BoFED/COPCO, OFAG, and FPPPA who will be responsible for taking appropriate action and responding back to MOFEC. MOFEC will be responsible to submit the consolidated status report within a maximum of three months after the receipt of the audit report. The status report must address all the findings in detail and must have been reviewed by the internal auditors recruited for COPCO at all levels.

40. In accordance with the Bank's policies, the Bank requires that the borrower disclose the audited financial statements in a manner acceptable to the Bank; following the Bank's formal receipt of these statements from the borrower, the Bank makes them available to the public in accordance with The World Bank Policy on Access to Information.

### **FM-related Costs**

41. Included in the program work plans and budget includes the costs of: (a) Accountants noted above; (b) audit costs; (c) related logistics and supervision costs (for example, transportation, per diem and accommodation while travelling); and (d) providing FM Related trainings, and so on

### **Financial Management Risk Assessment, Strengths, Weaknesses, Lessons Learned, Action Plan**

42. *Risk assessment:* The financial management risk of the project is Moderate. The mitigating measures proposed in the action plan will help to reduce the risk of the project once implemented and applied during project implementation.

43. *Strength and weaknesses:* The program will inherit the various strengths of the country's PFM system. As discussed earlier, several aspects of the PFM system function well, such as the budget process, classification system, and compliance with financial regulations. Significant ongoing work is directed at improving country PFM systems through the government's

Expenditure Management and Control sub-program. The government's existing arrangements are already being used in a number of projects, including PBS, which are under implementation. The program also benefits from the country's internal control system, which provides sufficiently for the separation of responsibilities, powers, and duties. Additional strength for the program is MOFEC's and OFAG's extensive experience in handling Bank-financed projects. Furthermore the availability of a steering committee at the federal level strengthens the oversight within the program.

44. The main weaknesses in FM arrangements continue to be high turnover and a shortage of qualified accountants and auditors, delay in taking appropriate action on audit report findings, persistent internal control weaknesses across the programs implemented in the country and the limited focus of internal audit.

### Financial Management Action Plan

45. Factoring in the above strengths and weaknesses, the inherent and control risk of the project is rated as moderate. However, the following actions are agreed to be performed in view of mitigating the identified risks in the project.

**Table 3.2. FM Action Plan**

	<b>Action</b>	<b>Due by</b>	<b>Responsible</b>
1	(a) Recruit accountants required at MOFEC (3) and OFAG (1) level (b) Until the accountants are recruited both MOFEC and OFAG should assign their regular staff from their	(a) Three months after effectiveness (b) immediately after project effectiveness	MOFEC (COPCO)/ OFAG
2	Increase engagement of internal audits at all levels to identify control weaknesses early. In this respect, workshops or capacity building activities/training will be conducted for auditors at federal and regional level.	Three months after effectiveness Ongoing/ training will be done at least annually together with COPCO accountants	Federal COPCO/regional COPCO MOFEC
3	External audit for EPFMP (a) Recruitment of external auditors at early stages of the project. (b) Closing annual financial statement (c) Submission of the annual financial audit report (d) Prepare audit action plan for all findings reported by the auditor (e) Preparing status report on action taken on audit report findings (f) Disclosure of the audit report as per the World Banks Access to Information policy.	(a) Within 6 months of effectiveness (b) 3 months after the end of the fiscal year (c) six months after the end of EFY (d) 1 month after receipt of the audit report (e) 3 months after the receipt of the audit report (f) Annually	(a) - OFAG/MOFEC (b)–(f) - MOFEC
4	Capacity building : • Ongoing financial management training will be conducted (Budget analysis, basics of EPFMP FM, IFR preparation, IBEX and other themes to be covered.)	Annually	MOFEC



	<b>Action</b>	<b>Due by</b>	<b>Responsible</b>
5	Budget: <ul style="list-style-type: none"> <li>• Annual budget for the project proclaimed at federal level with other implementers breakdown</li> <li>• Follow the budget calendar to prepare budgets</li> <li>• Prepared detailed budget variance analysis to identify bottlenecks and challenges</li> </ul>	Every year following the government budget calendar	MOFEC/OFAG and regions
6	Federal and regional COPCO should conduct regular field visits to support and monitor the performance of regions and other implementers.	Every six months	Federal and regional COPCO
7	Submit quarterly Interim financial reports	Quarterly	MOFEC

## **Financial Management Covenants and Other Agreements**

46. FM-related covenants include:

- (a) Maintenance of a satisfactory FM system for the program;
- (b) Submission of IFRs for the program for each fiscal quarter within 60 days of the end of the quarter by MOFEC.
- (c) Submission of annual audited financial statements and Audit Report within six months of the end of each fiscal year

## **Supervision Plan**

47. The FM risk for the program is rated moderate. The project will be supervised twice per year. After each supervision, risk will be measured and recalibrated accordingly. Supervision will be carried out in coordination with other development partners and will include onsite visits, review of IFRs, audit reports, and follow up on actions during various mission meetings.

## **Funds Flow and Disbursement Arrangements**

### *Designated Account and Disbursement Method*

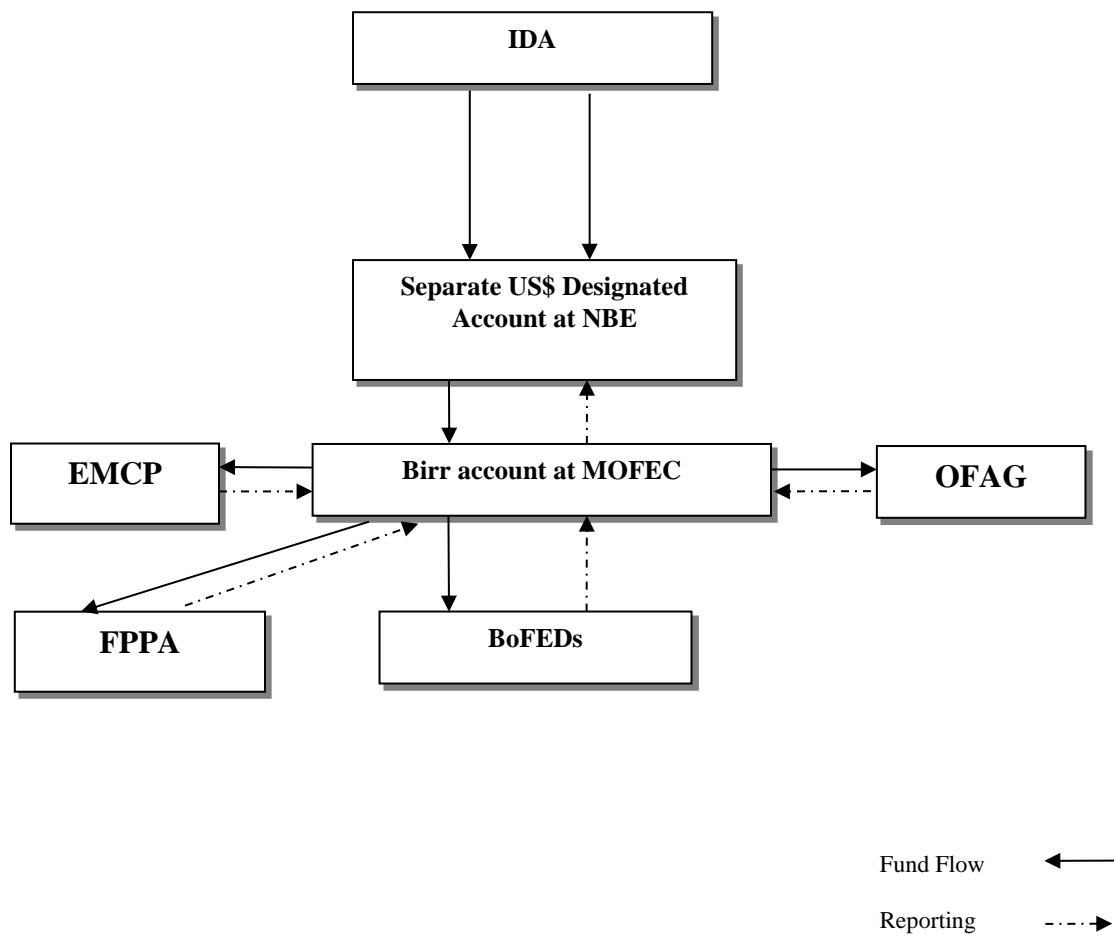
48. Funds flow into the project and within the project among various institutions is depicted in the figure 3.2. IDA funds will be deposited in to a separate designated account to be opened at the National Bank of Ethiopia (NBE) to be opened by COPCO. The authorized ceiling of the Designated Account would be two quarters forecasted expenditure based on the approved annual work plan and budget. Funds from the designated accounts will be further transferred in to pooled Birr account to be held by MOFEC. From the pooled local-currency account, MOFEC will transfer funds to separate local-currency accounts to be opened by the EMCP, Regions, OFAG, and FPPPA. One cash forecast for the program will be used which will be consolidated at MOFEC based on the annual work plan prepared together with all implementers including OFAG.

49. Each of the EMCP, BoFEDs, OFAG, and FPPPA will open separate bank accounts for the program to receive the resources for the program and report on the expenditures. Any implementing entity that does not report in a timely manner on how the advance is expended will not receive additional funds until the initial advance is reasonably settled. OFAG and FPPPA will receive resources for activities other than procurement related since the procurement process will be managed by COPCO. The FEACC and REACCs will not be opening separate bank accounts however they will receive the resources required for the implementation of the activities in the form of advance which will be settled when this commissions submit the relevant source documents. All financial source documents for FEACC and REACCs will be retained at MOFEC and BoFEDs. The FM Manual will indicate in detail the fund flow to each tier of implementing entity.

50. Before transferring any money to the lower level, MOFEC will ensure that separate bank accounts have been opened for the project and there are adequate financial management systems including financial management staff capable of producing the required financial deliverables.

51. The fund flow arrangement for the project is summarized in the following chart.

**Figure 3.2. Flow Chart Depicting Fund Flow and Reporting**



*Note:* FPPPA, OFAG and BoFED's get resources for training, operating costs and recruitment of individual consultants. All other procurements will be handled at MOFEC level.

52. *Disbursement mechanism and Methods:* The project may follow one or a combination of the following disbursement methods: Designated Account, Direct Payment, Reimbursement and Special Commitment. The program will continue to use report based disbursement method with two quarters forecast.

53. The allocation of IDA Credit proceeds will be based on the project components. This will facilitate the monitoring of the project performance indicators as well as financial aspects since expenditures are directly allocated to components. Requests for replenishment of the Designated Account for expenditures incurred under each component will be based on expenditures incurred at the implementing agencies for which justification of utilization has been provided.

## **Procurement**

54. Procurement under the project to be financed through IDA would be carried out in accordance with: (a) "Guidelines: Procurement of Goods, Works, and non-Consulting Services Under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" dated January 2011 and revised in July 2014; (b) "Guidelines: Selection and Employment of Consultants Under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" dated January 2011 and revised in July 2014; (c) "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants" dated October 15, 2006 and revised in January 2011; (d) introduction of Exceptions to National Competitive Bidding Procedures; and (e) the provisions stipulated in the Legal Agreements. Bank standard documents shall be used for procurement of goods and works through International Competitive Bidding (ICB) and for all consultants exceeding US\$200,000. National competitive bidding will use government standard bidding documents and procedures subject to the exceptions included below.

55. A Procurement Plan acceptable to the Bank covering at least the first eighteen months was agreed at Negotiations. For each contract to be financed by the Credit, the different procurement methods or consultant selection methods, the need for prequalification, estimated costs, prior review requirements, and time frame would be agreed between the Borrower and IDA WB task team in the Procurement Plan. The Procurement Plan would be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

56. A General Procurement Notice (GPN) will be prepared and published in United Nations Development Business (UNDB), on the Bank's external website and in at least one national newspaper after the project is approved by the Bank Board, and/or before Project effectiveness. Specific Procurement Notices for all goods to be procured under International Competitive Bidding (ICB) and Expressions of Interest for all consulting services to cost the equivalent of US\$200,000 and above would also be published in the United Nations Development Business (UNDB), Bank's external website and the national press.

## **Procurement Risk Assessment**

57. Procurable items under the project will include numerous consultancy services for TA and other studies in the different components, and goods procurements particularly related to IT system design and installations. Channel One Coordinating Unit (COPCO) within MOFEC will provide overall coordination and management of procurement activities under the Project. COPCO's procurement unit has gained significant experience in procurement implementation of Bank financed projects and has become well versed with Bank Procurement Policies and Procedures. The proposed Project Implementation Unit will play a key procurement coordination and support role for all components of the project.

58. As part of project preparation the Bank has undertaken procurement risk assessment of the project implementation arrangement. Given that the beneficiaries of all project components are entities within MOFEC, the assessment covered only the procurement system of COPCO

taking into consideration that all procurements under the project will be its responsibility. The assessment concludes the procurement risk under the project is substantial.

59. **Accountability, Internal Manual of the Procurement Process:** There are clearly defined responsibilities and delegation of authority within the procurement organization at COPCO. In accordance with the government procurement rules, the unit has its own Bid Endorsing Committee which is delegated to give final decision on procurement decisions above the stated threshold. The procurement decision process follows government procurement directives. However, as happens across most government agencies, officials involved Bid Endorsing Committee members do not have standard time to make procurement decisions, and the accountability for delay is loose.

60. **Record Management System:** COPCO's procurement unit maintains adequate procurement records through assigned staff that is responsible for handling procurement records. However it is difficult to easily locate procurement records including accessing approved procurement plans. There is a need to develop a system that allows one to easily locate and retrieve relevant records. Moreover, the documents are kept in the same office where day to day procurement activities are conducted with clients and suppliers, and this makes the records vulnerable for access to unauthorized persons. Particularly opened bid documents that are ready for evaluation constitutes a risk when placed exposed to access to unauthorized persons. Therefore the record management system needs improvements in terms of having a record retrieving system and ensuring adequate protection from loss and unauthorized access.

61. **Staffing:** COPCO mainly undertakes operational procurement for PBS III Project, and it also provides procurement service for other Channel One projects based on need and demand. The procurement staffs in the unit have experience in Bank financed projects, but are just adequate in number to deal with current procurement demand from ongoing projects. Lack of experience in contract management and inadequate focus on contract administration issues is the weakest link to effectively deal with all activities in the procurement cycle. It is observed that the unit has limitation to track and monitor important contract issues including payment and delivery as well as providing timely response to contractual matters raised by suppliers. It is expected the addition of the project procurement responsibility will burden the existing staff and may lessen its effectiveness. Therefore it is recommended to add to the unit at least one qualified procurement specialist and one contract administration officer to deal with procurement and contract management responsibilities of the project.

62. **Procurement planning:** COPCO has the experience of preparing and updating procurement plans to capture changes in the procurement environment. Past experience shows that COPCO has practice of consolidating procurement requirements and procuring through competitive methods, as this is a requirement in the procurement rule of the government. However, procurement plan preparation is not supported with assessment of supply market issues and risks. In addition, preparing realistic cost estimates of identified contract packages is a challenge as observed in the past. It is recommended that COPCO need to secure close support and guidance from technical experts from respective beneficiary departments during preparation and update of procurement plan.

63. **Bidding documents, shortlisting, and evaluation criteria:** COPCO uses the national SBDs for procurements under NCB procedure. COPCO has modified the national SBD for NCB to accommodate the Banks exceptions, and the Bank has reviewed and cleared the SBD for the PBS III program. The same modified SBD can be used in the project for contracts planned to be procured using NCB method. The usual challenge, however, is preparation of technical aspects of the BDs. There are cases where bids have failed in the past because of inadequately prepared technical specifications and functional requirements, particularly relating to contracts for design, supply and installation of IT systems.

64. Given that the project will involve numerous consultancy services, successfully dealing with the complete cycle of consultancy service selection process is another challenging aspect for the project. Past experience indicates inordinate delays happen in preparation of quality assured TORs. To avoid similar setbacks in the project, accountability framework need to be developed and the unit need to closely coordinate technical beneficiary departments to receive TORs timely. Moreover, during consultancy selection processes, limitations in shortlisting evaluations were observed in the past. There were instances where shortlisting did not result in having qualified firms. Firms that clearly had limitations were included in shortlists. The unit needs to sensitize evaluators that shortlisting unqualified firms will affect quality of the final outcome of the service, and needs to ensure qualified firms having the required core competence and adequate experience are shortlisted. Furthermore the project involves selection of numerous Individual Consultants (that include “contract staff”), and management and monitoring of these Individual Consultants is considered to pose a challenge. To address this challenge, it is recommended that beneficiary organizations shall be responsible for selection and management of Individual Consultants, and as a minimum (a) TOR for each type of position, (b) deployment schedule of individual consultants, and (c) salary scale for each position shall be prepared and submitted for the Bank’s agreement.

65. **Evaluation and Award of contract:** Evaluations are carried out by technical committees comprising of members having technical expertise. COPCO has experience in using the Bank’s standard evaluation template to systematically include essential information for decisions. Successful evaluations have been observed in procurement of goods relating to IT Equipment and Vehicles. However, limitations were observed in consultants’ evaluations, where the involvement of technical experts was not satisfactory. Evaluations of proposals were not sufficiently supported by qualified technical experts who were able to differentiate the pros and cons of different solutions and determine best technical solutions. Most of the time technical evaluations were mechanically oriented with undue emphasis on rigid application of criteria and or specifications stated in the bidding documents without applying professional judgment on level of variances that could substantially affect the outcome of the procurement process. For the project, technical evaluations should be carried out by professionals with technical expertise in the field.

66. **Contract Management and Administration:** The assessment considers contract management is the most challenging aspect in the procurement process. Past experiences show COPCO has limitations in dealing with contract management issues. Adequate mechanisms are not in place for procurement and contract monitoring. Use of procurement plan as procurement monitoring tool is very minimal. Contracts were not monitored to ensure timely delivery and payment. There are instances where contractual issues on delivery of goods remain unresolved

for more than a year. COPCO's team needs to be well conversant of the contractual obligations of the parties and contractual issues need to be resolved timely and properly. To strengthen COPCO's contract management capacity, it is recommended to hire a contracts administration officer who will set up a contract monitoring system, follow up contract progresses, and provide advice to deal with contract issues in a timely and proper manner. Moreover, consultancy contracts are administered by beneficiary departments, and deliverables from consultancy assignments are reviewed and approved by respective beneficiaries. Past experience shows that the timeliness of review of deliverables as well as its quality assurance was a challenge. Hence beneficiary agencies and departments need to hire or assign technical focal persons whose time is dedicated to project activities, particularly to dealing with consultancy contracts administration, and timely review and approval of deliverables.

**Table 3.3. Action Plan for Procurement**

<b>Issue / Risk</b>	<b>Severity and impact on project</b>	<b>Mitigation Measure</b>	<b>Responsible</b>
Inadequate record management system	Moderate	<ul style="list-style-type: none"> <li>Keep records in safe and secured place without exposure to unauthorized personnel</li> <li>Establish record retrieving system</li> </ul>	COPCO
Inadequate Staffing	Substantial	<ul style="list-style-type: none"> <li>Hire and maintain one procurement specialist and one contract administration officer</li> </ul>	COPCO
Unrealistic and incomplete procurement plan	Substantial	<ul style="list-style-type: none"> <li>Involve technical experts from respective beneficiary departments during preparation and update of procurement plan</li> <li>Ensure software, hardware, and service teams are delivered sequentially at IFMIS sites to ensure delay in one will not be obstacle to the other</li> </ul>	COPCO
Delay in TORs, and Inadequately prepared bidding documents /RFPs	Substantial	<ul style="list-style-type: none"> <li>Develop accountability framework with defined business standard, and coordinate beneficiary technical departments</li> <li>Involve qualified technical experts with similar experience to prepare of technical specifications and functional requirements of bidding documents, and TORs</li> </ul>	COPCO / EMCP
Unqualified firms in shortlists	Substantial	<ul style="list-style-type: none"> <li>Sensitize evaluators that shortlisting unqualified firms will affect quality of the final outcome of the service, and ensure qualified firms are shortlisted</li> </ul>	COPCO
Limitations in technical evaluations	Substantial	<ul style="list-style-type: none"> <li>Involve professionals with technical expertise in the field during technical evaluations</li> </ul>	COPCO
Selection and management of numerous Individual Consultants ( contract staff)	Substantial	<ul style="list-style-type: none"> <li>Beneficiary organization shall be responsible for selection and management of individual Consultants</li> <li>TOR for each type of position, deployment schedule, and salary scale for each position shall be prepared and submitted for Bank' agreement.</li> </ul>	

Issue / Risk	Severity and impact on project	Mitigation Measure	Responsible
Inadequate contract management practice	High	<ul style="list-style-type: none"> <li>Establish contract monitoring system</li> <li>Hire qualified contract administration officer</li> <li>Assign technical focal person for consultancy contracts deliverables review and approval</li> </ul>	COPCO / FPPPA / EMCP

## Applicable Procurement Methods and Thresholds

67. **Applicable Procurement Methods:** Selection of procurement methods shall be in accordance to the Bank's guidelines stated above and shall be indicated and agreed for each of the procurement packages in the respective procurement plans of the program.

68. In view of the above, procurement of goods and services above the stated thresholds shall be undertaken through International Competitive Bidding (ICB) procedure using the Bank's latest Standard Bidding Document. Procurement of Goods and Non-Consulting Services which are below the ICB threshold indicated in table 3.4 below can be procured through the National Competitive Bidding Procedure. Procurement of off the shelf goods and commodities of small value contracts of less than US\$50,000 may be procured using Shopping procedures in accordance with paragraph 3.5 of Bank Guidelines. Where it has been determined to be to the advantage of the operation, Procurement of Goods and non-Consulting services under Direct Contracting shall be procured in accordance with paragraph 3.7 of the Bank's Guideline.

69. Selection of Consultant's shall be carried out using Bank's latest Standard Request for Proposal. Consulting firms for services estimated to cost more than US\$150,000 equivalents would be selected through Quality and Cost Based Selection (QCBS) method. Contracts with consulting firms services estimated to cost less than US\$150,000 equivalent may be selected using Selection Based on Consultants' Qualification (CQS) method as well as QCBS method. Individual consultants' will be selected on the basis of their qualification and in accordance with Section V of the Bank's Guideline for Selection and Employment of Consultants. Consulting services for audits and other services of a standard or routine nature may be procured using the Least Cost Selection Method while Single Source Selection may be used when justified in accordance with paragraph 3.8 of the Bank's Guideline. For consulting services of value less than US\$200,000 equivalent, shortlists may comprise entirely of national consultants in accordance with paragraph 2.7 of the guideline. However if the consultancy service is for Engineering and Contract Supervision, shortlists may comprise entirely of national consultants for values up to US\$300,000.

70. **Prior Review Threshold:** The thresholds for Bank's Prior Review, and for International Competitive Bidding (ICB) including the maximum contract value for which the shortlist may comprise exclusively Ethiopian firms in the selection of consultants, are presented in the table below for purposes of guiding the preparation of the initial procurement plan. The procurement capacity of implementing agencies would be reviewed annually and the threshold will be revised according to the improvements or deterioration in the procurement capacity. Additionally, each procurement plan will indicate the number of contracts procured through National Competitive Bidding procedures or selection of consultants having a shortlist of exclusively Ethiopian firms that will be subject to prior review as part of risk mitigation irrespective of the below thresholds.



**Table 3.4. Procurement Thresholds**

<b>Category</b>	<b>Prior Review Threshold (US\$)</b>	<b>ICB Threshold (US\$)</b>	<b>National Short-List Max Value (US\$)</b>
Goods, IT Systems, and Non-consultancy Services	≥1,000,000	≥1,000,000	NA
Consultants (Firms)	≥500,000	NA	≤200,000; ≤300,000 (for Engineering and Contract Supervision)
Consultants (Individuals)	≥100,000	NA	NA

71. **National Competitive Bidding Procedures.** National Competitive Bidding (NCB) shall follow the Open and Competitive Bidding procedure set forth in the Ethiopian Federal Government and Procurement and Property Administration Proclamation No. 649/2009 and Federal Public Procurement Directive issued by the Ministry of Finance and Economic Development dated June 10, 2010, provided, that such procedure shall be subject to the provisions of Section I and Paragraphs 3.3 and 3.4 of the “Guidelines for Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers” (January 2011 and revised in July 2014) (the “Procurement Guidelines”) and the following additional provisions:

- (a) The Recipient's standard bidding documents for procurement of goods and works acceptable to the Bank shall be used. At the request of the Borrower, the introduction of requirements for bidders to sign an Anti-Bribery pledge and/or statement of undertaking to observe Ethiopian Law against Fraud and Corruption and other forms that ought to be completed and signed by him/her may be included in bidding documents if the arrangements governing such undertakings are acceptable to the Bank.
- (b) If pre-qualification is used, the Association's standard prequalification document shall be used;
- (c) No margin of preference shall be granted in bid evaluation on the basis of bidder's nationality, origin of goods or services, and/or preferential programs such as but not limited to small and medium enterprises.
- (d) Mandatory registration in a Supplier List shall not be used to assess bidders' qualifications. A foreign bidder shall not be required to register as a condition for submitting its bid and if recommended for contract award shall be given a reasonable opportunity to register with the reasonable cooperation of the Recipient, prior to contract signing. Invitations to bids shall be advertised in at least one newspaper of national circulation or the official gazette, or on a widely used website or electronic portal with free national and international access.
- (e) Bidders shall be given a minimum of thirty (30) days to submit bids from the date of availability of the bidding documents;
- (f) All bidding for goods and works shall be carried out through a one-envelope procedure.
- (g) Evaluation of bids shall be made in strict adherence to the evaluation criteria specified in the bidding documents. Evaluation criteria other than price shall be quantified in monetary terms. Merit points shall not be used, and no minimum point or percentage value shall be assigned to the significance of price, in bid evaluation.
- (h) The results of evaluation and award of contract shall be made public. All bids shall not be rejected and the procurement process shall not be cancelled, a failure of bidding declared, or new bids shall not be solicited, without the Bank's prior written concurrence. No bids shall be rejected on the basis of comparison with the cost estimates without the Bank's prior written concurrence
- (i) In accordance with para. 1.16(e) of the Procurement Guidelines, each bidding document and contract financed out of the proceeds of the Financing shall provide that: (1) the bidders, suppliers, contractors and subcontractors, agents, personnel, consultants, service providers, or suppliers shall permit the Association, at its request, to inspect all accounts, records and documents relating to the bid submission and performance of the contract, and to have them audited by auditors appointed by the Association; and (2) Acts intended to materially impede the exercise of the Bank's audit and inspection rights constitutes an obstructive practice as defined in the para. 1.16 a (v) of the Procurement Guidelines.

72. **SBDs for NCB:** FPPPA's Standard Bidding Documents will be revised to take into account the above exceptions and the revised documents will be agreed with the Bank. The project's procurement manual will include as an annex revised SBDs that will be applicable for the project. As an alternative the Bank's standard bidding documents can also be used.

**Table 3.5. Procurement Plan**

SN	Description	Estimated Amount (US\$)	Method	Type	Review Type	Procuring Entity	Possible Start Date
<b>Goods and Non Consultancy Service</b>							
1	IT Equipment for IFMIS Data Center	2,500,000	ICB	Goods	Prior	COPCU	Aug-16
2	IFMIS Audit Tool - Acquisition and Implementation	1,500,000	ICB	Goods	Prior	COPCU	Sep-16
3	IT Equipment and Software for IBEX	1,500,000	ICB	Goods	Prior	COPCU	Jun-17
4	Computers and network equipment to implement the procurement performance indicators monitoring (FPPPA)	120,000	NCB	Goods	post	COPCU	Sep-16
5	Implementation of the End-to-End e-Government Procurement (e-GP) System with piloting, and Supply, Delivery, Installation and Commissioning of ICT Infrastructure (hardware, system software, network equipment) for primary and backup Data Centers and data center preparation for the primary site.	2,500,000	ICB	Goods	Prior	COPCU	Dec-17
6	Computers and office equipment for CSU and seven regional management training institutions for institutionalization of training	1,000,000	ICB	Goods	Prior	COPCO	Oct-16
7	Furniture and IT equipment for (a) OFAG / ASC, (b) e-GP unit, (c) COPCU, and (d) AABE/PAB	275,000	NCB	Goods	Post	COPCO	Nov-16
8	Books and reference material for AABE	25,000	Sh	Goods	Post	COPCO	Nov-16
<b>Consultancy Service</b>							
1	Quality Assurance Firm for IFMIS	1,000,000	QCBS	Consultancy	Prior	COPCO	Sep-16

SN	Description	Estimated Amount (US\$)	Method	Type	Review Type	Procuring Entity	Possible Start Date
2	Consultancy firm for IBEX database upgrading and improving functionality of existing modules	800,000	QCBS	Consultancy	Prior	COPCO	Sep-16
3	Consultancy for annual AFROSAI-E result verification	250,000	QCBS	Consultancy	Post	COPCO	Oct-16
4	Debt Management capacity Building Service to MOFEC	465,000	UN Agency	Consultancy	Prior	COPCO	Oct-16
5	Consultant for e-GP startup activities support and preparation of e-GP strategy and roadmap ( including Business process Reengineering ( BPR) , e-GP guidelines and e-catalogue, and preparation and bidding document with business ,functional, and technical requirements for e-GP system and data centers }	300,000	QCBS	Consultancy	Prior	COPCO / FPPPA	May-16
6	Social Accountability, communication and change management Consultant (including communication material) for e-GP	600,000	QCBS	Consultancy	Prior	COPCO / FPPPA	Dec-16
7	Consultancy for preparation of methodology and template for market research reference prices and prices indices for major procurable items	200,000	QCBS	Consultancy	Post	COPCO / FPPPA	Sep-16
8	Technical Assistance consultancy to improve quality of Audits of OFAG	1,400,000	QCBS	Consultancy	Prior	COPCO/ OFAG	Oct-16
9	Consultancy for the development of training curricula/material for Training Center of OFAG	100,000	QCBS	Consultancy	Post	COPCO/ OFAG	Sep-16
10	International consultant partner/firm recruitment as a Twinning partner- to strengthen the PAB to be established by AABE	200,000	QCBS	Consultancy	Post	COPCO/ AABE	Oct-16

SN	Description	Estimated Amount (US\$)	Method	Type	Review Type	Procuring Entity	Possible Start Date
11	Consultancy to design Professional accountancy examinations/accreditatio ns schemes-Certification: (a) Design, (b) Roll out through PAB (c) Roll out through tuition providers	170,000	QCBS	Consultancy	Post	COPCO / AABE	Nov-16
12	Audit quality needs and impact assessment	50,000	QCS	Consultancy	Post	COPCO/ OFAG	Nov-16
13	Support for enhancing performance monitoring system for selected public bodies and regional agencies based on agreed performance indicators( refine methodology for data collection, initial data , trained regulatory bodies staff	150,000	IC	Consultancy	Prior	FPPPA	Aug-16
14	Recruitment of Individual Consultants for e-GP Project Manager	70,000	IC	Consultancy	Prior	FPPPA	Mar-16
15	Recruitment of Individual Consultants for e-GP Communication	48,000	IC	Consultancy	Post	FPPPA	Mar-16
16	Individual consultants for e-GP unit (10 for 30 months)	300,000	IC	Consultancy	Post	FPPPA	Jun-17
17	TA for advising OFAG (2 advisors)	88,000	IC	Consultancy	Post	OFAG	Aug-16
18	Consultancy for development of guidelines/procedures/pla ns, and so on for the various functions of the AABE	50,000	IC	Consultancy	Post	AABE	Sep-16
19	Consultancy for revision of Curricula (one local and one expat) for AABE	65,000	IC	Consultancy	Post	AABE	Sep-16

### *Fraud and Corruption*

73. Corrupt practices at operational level appear to be largely opportunistic and relatively minor in nature capable of being kept under control through professionally managed systems and procedures<sup>23</sup>. Corruption has not been obvious during the implementation of previous projects, and the government has maintained transparent processes, in relation to procurement and contract administration. However, civil society is weak, and there are limited non-governmental

<sup>23</sup> Diagnosing Corruption in Ethiopia: Perceptions, Realities and the Way forward for Key Sectors. Edited by Janelle Plummer, 2009.

social structures available that citizens can call upon if they do encounter fraud and corruption, so the ability to hear about and monitor fraud and corruption is reduced. The government relies mainly on the Federal Ethics and Anticorruption Commission (FEAC) which has recently intensified both its investigative and preventive functions. Ethiopia participated in the pilot program of CoST (Construction Sector Transparency Initiative), and by 2010, at completion of the pilot project, decided to continue to operate beyond the pilot stage, demonstrating its commitment to making public construction projects more transparent and accountable, reducing mismanagement, waste, and corruption.

### *Governance and Accountability Issues*

74. There is a national anti-corruption law and strong national anticorruption commission, which implements the law and looks after public funds misuse matters. Individuals or institutions have the responsibility to report any matter suspected to be misuse of public funds to the commission. Grievances are normally addressed through the judiciary system. Residents that have grievance, including disagreement on compensations related to a project file their case at the Woreda/district court/magistrate. Minor grievances are handled at Kebele/Ward the lowest administrative structure run by elected committee from the local community. Kebeles have a jury system (locally known as *fird shengo*) that constitutes up to three elected members and issue judgments. Any party not accepting the judgment could appeal to the woreda court.

### *Environmental and Social Assessment*

75. The Public Financial Management Project will focus in enhancing institutional and professional capacities to improve public money expenditure management systems at the Federal, Regional, and Local levels. The project is expected to have positive social impacts through improved public confidence in the government in the management of public funds in a transparent and accountable manner. Since the project is a capacity building project with activities that will not adversely affect the environment nor there be land acquisition and or loss of, and/or access to sources of livelihood, no environmental safeguard policy was triggered. The Safeguard Category of the project is Category “C”.

### *Role of Partners*

76. Donor harmonization has long been a strength of the dialogue around PFM issues in Ethiopia. All donors active in PFM (including DFID, USAID, EU, ADB, UNDP, Canada, Irish Aid, and others) all members of the PFM Donor Group in Ethiopia that is Co-Chaired by the World Bank and DFID. This group meets on a monthly basis and discussed progress in PFM reforms not just in PFM funded projects, but across the portfolio at all three levels of government. There is good co-operation and support between donors. DFID, Irish Aid and USAID provided funding to the World Bank in 2014 for it to manage the 2014 PEFA assessment of the federal government and six regional governments. In addition, DFID has provided seed money to the Bank to get some critical tasks funded under an EFO that could subsequently be funded under this project once it is effective. DFID has also expressed strong interest in co-financing this operation in case additional financing is required through a subsequent restructuring of this project.

77. Dialogue with the government is strong and improving. In 2013 the PFM Sector Working Group was created to improve dialogue between the donor community and the government. The PFM SWG is Co-Chaired by the State Minister of Public Finance in MOFEC and the World Bank. Its members are the top five donors in PFM and all Directors in MOFEC as well as the DG of FPPPA. It meets on a quarterly basis and addresses policy and implementation challenges in PFM.

*Alignment with Other PFM Initiatives*

78. The bulk of the funding under this project is targeted for supporting PFM reform activities and systems strengthening at the Federal and Regional levels. This project will therefore complement the initiatives already underway through the PBS III project which is almost exclusively focused on strengthening capacities at the Woreda level. With the reduction of funding for PFM activities (under component B2 of PBS III) due to some reductions in donor funding, the budget for PFM activities under PBS III is being revised. Care will be taken to ensure that there is absolutely no overlap between this project and PBS III which is scheduled for closure in January 2018. Also for the ESPES while there are two DLI's related to PFM and Procurement, there is no funding provided under that project for capacity building activities. There will therefore be no overlap between this project and the ESPES. However this project is critical to the success of the EBS project since strengthening country PFM systems is a precondition to using and continuing to use country systems for resource flows, as is planned under the ESPES.

## **Annex 4: Implementation Support Plan**

### **ETHIOPIA: Public Financial Management Project (P150922)**

#### **Strategy and Approach for Implementation Support**

1. The strategy for implementation support has been developed based on the nature of the project and its risk profile. The approach towards project implementation of this project is to use existing government structures as far as possible with minimal project specific requirements.

#### *Implementation Arrangement*

2. MOFEC will be responsible for the overall implementation of the project. MOFEC has been implementing a number of Bank Financed projects and is familiar with Bank fiduciary and safeguard policies. A Project Implementation Unit will be established at MOFEC to oversee the overall coordination and implementation and this secretariat/unit will coordinate and liaise with other implementing entities.

3. For Component 1- MOFEC will be responsible for the implementation of the IFMIS component and for the initiatives related to the expenditure management component that will be managed through the EMCP program.

4. For Component 2, it is envisaged that PPA will be responsible for the procurement support Subcomponent; OFAG will be responsible for the oversight Subcomponent; and finally MOFEC will be the implementing for the accountancy development Subcomponent until AABE is established.

5. As discussed with MOFEC the existing EMCP Steering Committee (ESC) will provide policy oversight and monitoring for this project. The membership of the ESC will be suitably modified to include key stakeholders and institutions involved in implementing this project. Below that committee will be the EMCP Technical Committee (ETC) that will be chaired by the Head of EMCP. Membership of the ETC will include technical level staff for the institutions charged with responsibility for implementing the different components of this project. This will be a body that will monitor the implementation of the project on a monthly basis, follow up on coordination and address implementation bottlenecks. For purposes of supporting project implementation, under the EMCP Directorate, a PFM Project PIT will be established that will be responsible for managing the implementation of this project with the various implementing agencies. The project administration mechanisms are described in the governance framework below.



**Table 4.1 Roles and Responsibilities for the PFM Reforms Governance Framework**

<b>EMCP Steering Committee</b>	<ul style="list-style-type: none"> <li>The EMCP Steering Committee will provide overall direction, policy advice and oversight for the implementation of the project. The Steering Committee will be responsible for approving budgets and annual work plans, monitor progress and provide high level strategic advice and direction.</li> </ul>	<p><b><u>Chair: Minister or State Minister of Finance</u></b></p> <p>The membership of the EMCP Steering Committee currently includes all BOFED heads and Directors of MOFEC. Its membership will be expanded to cover Head of AABE, the Federal Auditor General and the DG of FPPPA.</p>
<b>EMCP Technical Committee</b>	<p><b><u>EMCP Technical Committee (ETC)</u></b></p> <ul style="list-style-type: none"> <li>The ETC is the technical level committee that will monitor the various components of the project on a monthly basis. ETC will be responsible for providing technical guidance for meeting project objectives and ensuring cohesion and coordination of the various components. It will follow up on AWP and budgets. The TSC shall meet <b><u>at least monthly</u></b> to evaluate progress of the reforms.</li> </ul>	<p><b><u>Chair: Head of EMCP</u></b></p> <p>The committee will include technical level staff from MOFEC, from FPPPA, OFAG and AABE.</p>
<b>PFM Project PIT (PPIT)</b>	<p><b><u>PFM Project PIT (PPIT)</u></b></p> <ul style="list-style-type: none"> <li>Responsible for day-to-day coordination of the reform activities and serve as key interlocutor with the various components to ensure proper implementation and sequencing of activities.</li> </ul>	<p><b><u>Chair: Head of PPIT</u></b></p> <p>Subject Matter Experts from various departments Technical Assistants (TA) - mix of individual consultants and/or firms</p>

6. The Implementation Support Plan (ISP) describes how the Bank and other Development Partners will support the implementation of the risk mitigation measures identified in the risk matrix and provide the technical advice necessary to facilitate in the implementation of project activities in achieving the project development objective. The ISP also identifies the minimum requirements to meet the Bank's fiduciary obligations.

7. The ISP is consistent with the implementation arrangement detailed in Annex 3. Furthermore, it is also consistent with the required and expected procedures and activities designed to mitigate risks as outline in Annex 4. The ISP is further detailed in the Project Implementation Plan (PIM).

### **Implementation Support Plan**

8. Semi - annual Joint Review and Implementation Support (JRIS) Missions will be conducted around April/May and September/October of each year to review overall PFM Project implementation performance and progress towards the achievement of the development objectives. This JRIS has already been created for the PBS project as such it is intended to conduct one JRIS for both projects as the counterpart is the same. This will strengthen the synergies and complementarities of this project and the PBS III and that no duplication of efforts or cost exists. In addition, technical reviews including on fiduciary aspects will be regularly carried out. A Mid Term Review (MTR) will be carried out mid-way in the implementation phase. The MTR will include a comprehensive review of the overall progress with implementation and achievement of PFM activities. The MTR will also serve as the forum for

reviewing any design issues that may require adjustments to ensure the satisfactory achievement of the PFM Projects objectives. Based on needs the World Bank and its DPs will initiate additional analytical, advisory, and knowledge-sharing activities as well as additional third-party reviews.

9. The table 4.2 shows the estimated input requirements for key personnel to carry out the implementation support for the project.

**Table 4.2 Skills Mix Required**

<b>Skills Needed</b>	<b>Number of Staff Weeks</b>	<b>Number of Trips</b>	<b>Comments</b>
Task Team Leader (TTL)	26/ year		Local based staff to provide programme management and implementation support
Oracle IFMIS Expert	30/ year	4 trips/ year	HQ STC with expertise in Oracle eBusiness Suite 12.1.3
IBEX / SQL Expert	30/ year	4 trips/ year	HQ STC with expertise in SQL
eGP expert	30/ year	4 trips/ year	HQ STC with expertise in e Government Procurement
Monitoring and Evaluation Expert	16/ year	4 trips/ year	HQ STC with expertise in M&E indicator tracking, refinement and use
Accounting Expert	16/ year		Local based staff with expertise in design, implementation and management of professional accountancy associations
Procurement Specialist	6/ year		Local based staff with expertise in procurement aspects; procurement plan revision, implementation and monitoring; and procurement audits
Financial Management Specialist	6/ year		Local based staff with expertise in FM aspects, fund flow and FM audits
Public Sector/ Governance Specialist	6/year		Local Based staff with expertise of Governance and Public Sector aspects
Lawyer	1/ year		Legal aspects
Team Assistant	12/ year		Local based staff to support the team

10. It is planned that a significant part of the expertise can be mobilized locally in the Country Office, including team leadership. A mission based approach will not suffice in being able to adequately and timely respond to coordination and implementation issues. Therefore, a significant part of the task team is decentralized and this will continue to enhance implementation support. Fiduciary and safeguards supports are also provided at the country office. In addition to missions and on-call support the task team proposes pro-active monthly or quarterly implementation support meetings. This approach has proven to be effective in other projects in Ethiopia and in other countries.

## Annex 5: Economic and Financial Analysis

### ETHIOPIA: Public Financial Management Project (P150922)

1. The estimation of down-stream service delivery economic benefits of PFM reform is challenging since many of the interventions are difficult to forecast the improvements in public services and to quantify these in monetary terms. For example, in this project it is difficult to quantify the economic benefits directly arising from supporting the Federal and Regional Auditor General in improving the quality of audit reports and also from the intervention planned to help establish the Accounting and Auditing Board of Ethiopia and introduce international standards in accounting and auditing. The methodology for assessing economic and financial impact of PFM projects is still at an early stage. The guidance note is candid regarding the challenges that exist:<sup>24</sup>

*Overall improved PFM systems and FMISs should lead to enhanced public sector performance and aggregate net economic benefit. The challenge is how to estimate these net economic gains. The World Bank Study of FMIS project experience suggests use of Public Expenditure and Financial Accountability (PEFA) ratings, but this is only an intermediate step.....Higher PEFA scores should give the capability or potential for improved net economic benefits, but they do not provide estimates of any level or improvement of such benefits....The greatest challenge to project appraisal exists with green field projects.*

2. The general assumption is that there is positive payback from governance projects as a whole and IFMIS projects in particular. Detailed calculations are normally not available. The guidance from the IFMIS Community of Practice is that:<sup>25</sup>

*The difficulties in measuring the benefits from FMIS vary a great deal among projects in various regions, as one would expect. A comprehensive quantification of costs and benefits is not possible for large scale PFM projects. Regarding the impact on PFM, the usual practice is to derive a measure of the benefits from the revenues or cost savings due to better management of the cash balances.....Due to these operational savings, the typical pay-back period for most FMIS projects is usually less than 5 years (based on data available in the FMIS database for 93 projects).*

3. In the current case - for some of the interventions proposed such as the introduction of the Oracle IFMIS, the enhancement of the IBEX system and the introduction of e-Government Procurement, a financial assessment has been conducted of the internal cost savings to the GoE. These three activities account for the bulk of the project costs.

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<sup>24</sup> PRMPS (September 2013), “Economic Analysis Guidance for Governance and Public Sector Management Investment lending Operations in Select Areas of Public Financial Management”, page 53, page 56.

<sup>25</sup> FMIS CoP, “Measuring the potential impact of FMIS on PFM improvements in IDA countries”, page 3.

4. The assumptions for these calculations are the following:

- General economic and project parameters
  - Financial and economic analysis conducted in US dollars assuming US\$ inflation rate of 2 percent, ETB inflation rate of 9 percent and nominal exchange rate tracking purchasing power parity over project life starting with a 2015 exchange rate of 20.5 ETB/US\$
  - Real economic growth rates follow IMF World Economic Outlook estimates through 2019 and then 8 percent per annum thereafter
  - Economic opportunity cost of capital of 12 percent (central estimate) and related real financial cost of capital of 10 percent assuming an externality of 2 percent per unit of capital invested.
  - Economic opportunity cost of foreign exchange of 9 percent based on an effective net tax rate on trade of 6 percent and effective domestic indirect tax rate on total demand of 4.5 percent.
  - Project costs are based on MOFEC estimates for costs over the investment and operational periods. A general real increase in costs of 2 percent per annum is included in cost projects, additional real increases in specific costs items are noted below and a 10 percent cost overrun contingency is provided for.
  - All Net Present Value and Internal Rate of Return estimates are based on real or constant price net cash forecasts over a project life time of 20 years.
- eGovernment Procurement:
  - E-Procurement System will be procurement as off-the-shelf product through International Competitive Bidding (with perpetual license to use across the government of Ethiopia, and also with the rights to copy, customize and modify codes by the government to meet its requirement in future).
  - e-GP Acquisition, adaptation, installation, configuration and customization, testing and pilot implementation of the full-fledged e-GP System costing would double to 1.5 million and 0.5 million in year 11 and year 12
  - The e-GP shall receive funding of US\$3 million and will be spent across four years in different heads.
  - Project Management, operation and maintenance, and Helpdesk goes up by 15 percent (year 5- year 10), 20 percent (year 10 - year 15) and 5 percent (year 15 - 20)

- Change management, Training, sensitization, workshops, benchmarking goes up by 15 percent (year 5- year 10), 20 percent (year 10 - year 15) and 5 percent (year 15 - 20)
- Independent Third party audit will be done after e-GP is stabilized
- Total of 16,000 bidders will be registered in e-GP System by the end of 5th year
- Bidder registration charge will be US\$50 for the one time registration. (Renewal fee is not considered for the sake of simplicity of calculation). Revenue from e-GP System Bidders registration and revenue from bidding document selling would increase by 8 percent after year 5.
- Total of 14,000 bidding documents will be sold by the end of 5th years, and bidding document fee will be charged US\$20.
- Data Center (Preparation of data center and procurement of data center and mirror center servers, network equipment, storage, power solution, security equipment and software, SSL, Internet Connectivity and required system software and licenses) should be replaced by new equipment and would double every 5 years (year 8 and 9, year 14 and 15, and year 19 and 20).
- IFMIS and IBEX implementation
  - Costs are largely based upon estimates provided by the Project Management Office of MOFEC. These have been indicated at the relevant cost line.
  - Audit tool acquisition and implementation would just have US\$ 50,000 operating cost after the 4th year.
  - MOFEC PMO Technical Staff Capacity Building and other trainings would increase by 15 percent.
  - Costs associated with Rollout Vendor Financing have been halted after 5 years.
  - IBEX Support Fee after the 4th year is just 25 percent of the total amount in 5th year as it is only needed for maintenance after that.
  - Oracle license fee doubles after 4th year.
  - Change management, Training, sensitization, workshops, benchmarking goes up by 15 percent (year 5- year 10), 20 percent (year 10 - year 15) and 5 percent (year 15 - 20)
  - Project Management, operation and maintenance, and Helpdesk goes up by 15 percent (year 5- year 10), 20 percent (year 10 - year 15) and 5 percent (year 15 - 20)

5. Three benefit streams that accrue both financially to the GoE and to the economy as a whole :

- Productivity Savings: These have been estimated on the basis of productivity savings in administrative costs calculated from the introduction of the IFMIS in local governments in Uganda. Average monthly salary of employees in Ethiopia is 2,351 Birr (approximately US\$0.7 per hour) and transaction figures are taken from the MOFEC with the assumption that transactions covered would increase by 5 percent every year
- Savings in cash balances: Based on a conservative estimate of the reduction in cash balances through cash management efficiency gains of 5 percent phased in over 15 years the share of cash balances out of total government expenditures would decrease from a base level of 22 percent down to 20.9 percent.
- eGovernment Procurement Benefits: Saving from administrative efficiency, competition and pooled procurement) 1 percent saving of total expenditure on goods, services and capital expenditure (which is 53.3 percent of total expenditure). Only 10 percent of e-GP adoption is assumed on year 4, 25 percent on year 5, 50 percent on year 6, 75 percent of year 7 and from year 8 all the procurement will be carried out through e-GP System

6. Based on these assumptions of the economic costs and benefits of the project, the real EIRR over a 20 year period is 27 percent and the project has a positive economic NPV of US\$ 332 million (and at a 15 percent discount rate the NPV would drop to US\$ 217 million). It is noted that a number of potential economic benefits were not estimated. These include (a) reductions in transaction costs of contractors and suppliers in using the e-procurement system and being reimbursed through the reformed FMIS; (b) potential reductions in stationery costs if the FMIS allows more paperless transactions and internal communications costs if the FMIS system reduces telecommunications costs; and (c) the economic externality related to financial savings experienced by the GoE (as noted below) that at a marginal cost of public funds of 1.25 would amount to a further increase in the NPV of US\$33 million

7. A financial appraisal of the project from the perspective of the GoE was also conducted based on the project costs assumptions and including the cost savings to the GoE noted above but excluding the economic externalities, but including the procurement system registration fees and cost recovery charges for bidding documents and US\$33 million IDA loan disbursements (as per table 4.2 above) and loan repayments under IDA conditions and with 0.75 percent management fee and 0.25 percent commitment fee. The financial IRR from the GoE perspective is estimated at 41 percent and the financial NPV at 10 percent at US\$408 million.

8. The added value arises mainly from the Bank's technical input based on international experience, particularly on the IFMIS implementation. The World Bank's task team's advice on the Terms of Reference and hands-on advice on the bidding documents for the IFMS with the internal best practices will provide potential cost and time savings.



## Annex 6: Systematic Operations Risk-rating Tool (SORT)

### ETHIOPIA: Public Financial Management Project (P150922)

#### Stage: Board

1. The assessment of risks takes into account both the likelihood of the risk materializing, as well as the severity of its impact on the achievement of the intended results. The SORT focuses on identifying, assessing, and managing risks throughout an operation.

<b>Risk Categories<sup>26</sup></b>	<b>Rating (H, S, M or L)</b>
<b>1. Political and governance</b>	<p><b>Moderate</b></p> <p>There is generally adequate anti-corruption and public sector ethics regulation which is generally enforced. The principles of transparency, accountability and participation are generally adhered to. Cases of high-level corruption were noted in the ERCA which are still under investigation.</p> <p>Risk mitigation: At the operation level, the success of the project or program does not depend on political commitment at the highest level and major decisions having an implication in the operation have been taken by existing leadership at MOFEC.</p>
<b>2. Macroeconomic</b>	<p><b>Moderate</b></p> <p>The government of Ethiopia is pursuing a public investment led growth model, which has delivered very high growth over the past decade. Heterodox macroeconomic policies have been in place to achieve this, including financial repression, real exchange rate overvaluation, low foreign reserves, and a highly expansive fiscal policies increasingly financed by non-concessional external borrowing. The current policy stance is associated with risks related to the realization of contingent liabilities in the banking system, weather related shocks exposing low forex reserves, and heightened risk of debt distress. External risk factors are related to a growth slowdown in advanced and emerging economies (especially China) leading to reduced export demand, declining commodity prices, reduced FDI and external bilateral financing, and remittances.</p> <p>Risk mitigation: The government does not currently have a program with the IMF, as it prefers to maintain economic policy independence and views the current quota too low. The Bank has a regular economic policy dialogue with the government of Ethiopia. This dialogue takes place in various contexts, including through analytical work and the dialogue around the IDA Non-concessional Borrowing Policy. In addition, the Bank chairs the Macroeconomic Discussion Forum convening GoE and DPs. While the policy dialogue has strengthened under the new CPS, it has limitations owing to the independent-mindedness of GoE policy makers and their resistance to advice from the International Financial Institutions. In the case of an economic shock, the government would nonetheless be expected to seek financial assistance from the IMF and the World Bank.</p> <p>From a macroeconomic perspective, IDA financing of the project helps to reduce the cost of financing compared to the alternative of non-concessional external finance. Should any of the above risk scenarios play out, they are unlikely to have a major impact on the implementation of this project.</p>
<b>3. Sector strategies and policies</b>	<p><b>Moderate</b></p> <p>Strategies and policies: Under the Civil Service Reform Program the MOFEC's Expenditure Management and Control Program</p>

<sup>26</sup> In all risk categories the assessment is of the risk to PDO or the risk of unintended consequences associated with the operational engagement, and does not refer to "country level" risk in and of itself.



Risk Categories <sup>26</sup>	Rating (H, S, M or L)
	<p>(EMCP) was one of the five key reform initiatives. GTP has also recognized the role of PFM as one of its fundamental governance objectives under the Civil Service reform program. The current direction of PFM reforms and reform priorities are specified in the EMCP Action Plan for 2013–2015 which are adequate for the purposes of the operation and mostly consistent with the country’s development strategy and objectives. The reforms are yielding results. PEFA of 2007, 2010 and 2014 are showing improvements in PFM. However, there are still challenges and there is still a room for further improvements.</p> <p>Governance arrangement relevant to operation: For this operation, there is a PFM monthly meeting conducted by MOFEC which is predictable. However this does not include institutions outside MOFEC. Quarterly PFM sector working group with donors review PFM reform agenda including this operation.</p> <p>Financial Sustainability: EMCP focusing on the expenditure side was being funded by the government and donors in bilateral programs such as the Decentralization Support Activity (DSA) project (1996–2006) and multilateral programs such as PSCAP and PBS. However, due to numerous challenges including the size of the country and the level of decentralization funding gap remains and donors support is not predictable.</p> <p>Risk mitigation: The MOFEC and donors will devise action plans to address challenges raised in the PEFA reports once finalized. Steering committee involving the overall PFM (including institutions like the oversight function) will be set up for this project. PFM SWG will be the primary forum for dialoged and the experience has been satisfactory. This needs to be sustained though.</p>
<b>4. Technical design of project or program</b>	<p><b>Moderate</b></p> <p>The two main tasks that are new are support for the IFMIS roll out (and enhancement of IBEX) and the development of eGP system. The risk for this activity is classified as “<b>Substantial</b>”. This is due to a number of factors such as the fact that the Oracle Audit of February 2015 has identified a number of tasks that needed to be completed for a complete handover which are reflected in the MOFEC Operational Acceptance Certificate. In addition, the IFMIS roll out plan is ambitious (rolling out nine IFMIS modules to about 850 federal and regional sites, and transition to enhanced IBEX online operations or a web portal solution in remaining 1,060 zone/woreda offices gradually), the network connectivity (online access to IFMIS and IBEX through WoredaNet) and power network should be improved to fully support the roll out to the woreda level, and the HR capacity to operate the Oracle based IFMIS and online IBEX at 1,900 locations could also be a challenge. Moreover, the cost for such an extensive roll out could be high.</p> <p>Risk Mitigation: Key mitigating measures are to: (a) focus on financing value-adding elements such as data center hardware and network equipment for IFMIS, enhancement of IBEX, staffing of the PMO, financing the quality assurance for IFMIS rollout, supporting the acquisition of the audit module, and implementation of the capacity-building strategy, which will be valuable whatever the risks of the approach; (b) provide advisory and hands-on support for the development of a robust rollout design, integration model for IFMIS and IBEX operations, and phased deployment approach which will allow the Bank and the government to learn from the already completed pilot phase; and (c) through continuous policy dialogue and technical advice, the Bank team will also help the authorities review the pros and cons of the various technical options for the roll-out of the IFMIS and the phase-out or enhancement of IBEX, with a view to benefit from international experiences and maximize cost-effectiveness for the government.</p> <p>Moreover, a dated covenant is included: “the recruitment of the Quality Assurance (QA) firm completed three months after project effectiveness”, to ensure that the MOFEC will benefit from necessary advisory support in moving forward.</p>
<b>5. Institutional capacity for implementation</b>	<p><b>Substantial</b></p> <p>Capacity: MOFEC does have familiarity with WB procedures and but apparent capacity limitations are observed in regards to IFMIS experts, safeguards experts as well as monitoring and evaluation experts. So such limitations will contribute to the delay of</p>

<b>Risk Categories<sup>26</sup></b>	<b>Rating (H, S, M or L)</b>
<b>and sustainability</b>	<p>project implementation. The availability of ORACLE/IFMIS experts that know the customized system very well is limited. Staff turnover is also envisaged to become an issue and may have an impact on project implementation but most importantly afterward project closure. Similarly, the AABE is yet to be fully established and capacity gaps are envisaged to exist. Heavy reliance on consultants with higher incentives than the civil servant rates may also lead to unintended impacts on the government's capacity to sustain important functions which could negatively affect incentives for the creation of in-house capacity. Unless MOFEC planned to address such capacity constraints and challenges it may have an implication on sustainability of the investment.</p> <p>Risk mitigation: The project will include measures to build capacity constraints during implementation. Design features that support the sustainability of the project will be introduced.</p>
<b>6. Fiduciary</b>	<p><b>Moderate</b></p> <p>MOFEC COPCO has experience in managing the Bank financed projects and are well conversant on Financial Management and procurement. The government will finance IFMIS Rollout using their own procedure and budget. The Project will finance a Quality Assurance consultant to assist the government in supervision and quality control for the implementation of the IFMIS Roll out. Fraud and corruption in the implementing agencies are rare. Internal audit weakness is apparent. Coordination between the multiple entities to prepare reports can lead to some degree of delays in reporting.</p> <p>Risk Mitigation: Implementation arrangements will clarify roles and responsibilities.</p>
<b>7. Environment and social</b>	<p><b>Low</b></p> <p>There will be no civil works envisaged for the project.</p>
<b>8. Stakeholders</b>	<p><b>Moderate</b></p> <p>Other donors have shown interest in financing this project. There is strong donor co-ordination on the PFM reform agenda. MOFEC and the donor group jointly chair the PFM Sector Working Group.</p> <p>Risk mitigation: There is currently no financing gap. In case additional tasks are identified, there is a possibility that donor financing will be forthcoming to financing such activities.</p>
<b>9. Other</b>	None
<b>Overall</b>	The overall risk rating for the project is <b>Moderate</b> .

## Annex 7: Ethiopia - 2014 PEFA Ratings

### ETHIOPIA: Public Financial Management Project (P150922)

**Table 7.1. PEFA Performance Indicators in the Federal Democratic Republic of Ethiopia (2010–2014)**

	<b>A. PFM OUT-TURNS: Credibility of the budget</b>	<b>Score 2010</b>	<b>Score 2014</b>
PI-1	Aggregate expenditure out-turn compared to original approved budget	<b>B</b>	<b>A</b>
PI-2	Composition of expenditure out-turn compared to original approved budget	<b>C</b>	<b>B+</b>
PI-3	Aggregate revenue out-turn compared to original approved budget	<b>B</b>	<b>B</b>
PI-4	Stock and monitoring of expenditure payment arrears	<b>A</b>	<b>A</b>
	<b>B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency</b>	<b>Score 2010</b>	<b>Score 2014</b>
PI-5	Classification of the budget	<b>B</b>	<b>B</b>
PI-6	Comprehensiveness of information included in budget documentation	<b>A</b>	<b>B</b>
PI-7	Extent of unreported government operations	<b>D+</b>	<b>B+</b>
PI-8	Transparency of Inter-Governmental Fiscal Relations	<b>B+</b>	<b>A</b>
PI-9	Oversight of aggregate fiscal risk from other public sector entities	<b>C+</b>	<b>C</b>
PI-10	Public Access to key fiscal information	<b>C</b>	<b>C</b>
	<b>C. BUDGET CYCLE</b>	<b>Score 2010</b>	<b>Score 2014</b>
	<b>C (i) Policy-Based Budgeting</b>		
PI-11	Orderliness and participation in the annual budget process	<b>A</b>	<b>A</b>
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	<b>C</b>	<b>B</b>
	<b>C (ii) Predictability and Control in Budget Execution</b>		
PI-13	Transparency of taxpayer obligations and liabilities	<b>B+</b>	<b>A</b>
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	<b>B</b>	<b>B</b>
PI-15	Effectiveness in collection of tax payments	<b>NS</b>	<b>C+</b>
PI-16	Predictability in the availability of funds for commitment of expenditures	<b>B</b>	<b>C+</b>
PI-17	Recording and management of cash balances, debt and guarantees	<b>B</b>	<b>B</b>
PI-18	Effectiveness of payroll controls	<b>B+</b>	<b>B+</b>
PI-19	Competition, value for money and controls in procurement	<b>C+</b>	<b>C</b>
PI-20	Effectiveness of internal controls for non-salary expenditures	<b>B+</b>	<b>C+</b>
PI-21	Effectiveness of internal audit	<b>B+</b>	<b>B+</b>
	<b>C (iii) Accounting, Recording and Reporting</b>		
PI-22	Timeliness and regularity of accounts reconciliation	<b>B+</b>	<b>A</b>
PI-23	Availability of information on resources received by service delivery units	<b>NA</b>	<b>NA</b>
PI-24	Quality and timeliness of in-year budget reports	<b>B+</b>	<b>C+</b>
PI-25	Quality and timeliness of annual financial statements	<b>C+</b>	<b>C+↑</b>
	<b>C (iv) External Scrutiny and Audit</b>		
PI-26	Scope, nature and follow-up of external audit	<b>C+</b>	<b>B+</b>
PI-27	Legislative scrutiny of the annual budget law	<b>D+</b>	<b>B+</b>
PI-28	Legislative scrutiny of external audit reports	<b>C+</b>	<b>D+</b>
	<b>D. DONOR PRACTICES</b>	<b>Score 2010</b>	<b>Score 2014</b>
D-1	Predictability of Direct Budget Support	<b>NS</b>	<b>A</b>
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	<b>C</b>	<b>D+</b>
D-3	Proportion of aid that is managed by use of national procedures	<b>C</b>	<b>D</b>

## Annex 8: ESPES Project –Disbursement Linked Indicators

### ETHIOPIA: Public Financial Management Project (P150922)

**Table 8.1. Disbursement Linked Result Indicators**

Category (including Disbursement Linked Indicator as applicable)	Disbursement Linked Result (as applicable)	Amount of the Financing Allocated to each DLI (expressed in SDR)	Amount per DLR
<b>Ensuring equitable access to basic services</b>			
(1) DLI #1: Per capita increase in budgeted Federal Government block grant transfers to Regions, excluding Addis Ababa	DLR #1.1: Federal Government block grant transfers of at least 641 ETB per capita are budgeted to Regions, excluding Addis Ababa, for FY 2015/16, by November 1, 2015	64,725,000	DLR# 1.1: 21,575,000
	DLR #1.2: Federal Government block grant transfers of at least 699 ETB per capita are budgeted to Regions, excluding Addis Ababa, for FY 2016/17, by November 1 2016		DLR# 1.2: 21,575,000
	DLR #1.3: Federal Government block grant transfers of at least 761 ETB per capita are budgeted to Regions, excluding Addis Ababa, for FY 2017/18, by November 1 2017		DLR# 1.3: 21,575,000
(2) DLI #2: Increased proportion of qualified female agricultural development agents (diploma level)	DLR #2.1: At least 16% of agricultural development agents are female and qualified to diploma level, by May 1, 2016	21,575,000	DLR# 2.1: 7,191,667
	DLR #2.2: At least 17% of agricultural development agents are female and qualified to diploma level, by May 1, 2017		DLR# 2.2: 7,191,667
	DLR #2.3: At least 18% of agricultural development agents are female and qualified to diploma level by May 1, 2018		DLR# 2.3: 7,191,666
(3) DLI #3: Increased number of health extension workers who have graduated with a Level 4 qualification	DLR #3.1: At least 3,348 (cumulative) health extension workers have graduated with a Level 4 qualification, by November 1, 2015	21,575,000	DLR# 3.1: 7,191,667

<b>Category (including Disbursement Linked Indicator as applicable)</b>	<b>Disbursement Linked Result (as applicable)</b>	<b>Amount of the Financing Allocated to each DLI (expressed in SDR)</b>	<b>Amount per DLR</b>
	DLR #3.2: At least 5,798 (cumulative) health extension workers have graduated with a Level 4 qualification, by November 1, 2016		DLR# 3.2: 7,191,667
	DLR #3.3: At least 8,248 (cumulative) health extension workers have graduated with a Level 4 qualification, by November 1, 2017		DLR# 3.3: 7,191,666
(4) DLI #4: Increases in total number of students enrolled (net) in grades 5–8, in all Regions, excluding Addis Ababa	DLR #4.1: An increase by 50,000 students from the baseline (as set forth in the Verification Protocol) in the total number of net enrolled students in grades 5 to 8, in all Regions excluding Addis Ababa, by May 1, 2016	43,150,000	DLR# 4.1: 14,383,333
	DLR #4.2: An increase by 50,000 students from the previous year in the total number of net enrolled students in grades 5 to 8, in all Regions excluding Addis Ababa, by May 1, 2017		DLR# 4.2: 14,383,333
	DLR #4.3: An increase by 50,000 students from the previous year in the total number of net enrolled students for grades 5 to 8, in all Regions excluding Addis Ababa, by May 1, 2018		DLR# 4.3: 14,383,334
(5) (a) DLI #5(a): Improved geographic equity in education and health service delivery outcomes, based on Net Enrollment Rate and Penta 3 Vaccine indicators for the bottom 10% of Performing Woredas	DLR #5(a).1: A targeted campaign to increase education awareness and promote enrollment is completed in the bottom 10% of Performing Woredas (Education), by November 1, 2015	43,150,000	DLR# 5(a).1: 14,383,333
	DLR #5(a).2: The Penta 3 Coverage for children under one year of age in the bottom 10% of Performing Woredas (Health) is 50%, by May 1, 2016		DLR# 5(a).2: 10,787,500

Category (including Disbursement Linked Indicator as applicable)	Disbursement Linked Result (as applicable)	Amount of the Financing Allocated to each DLI (expressed in SDR)	Amount per DLR
	DLR #5(a).3: The Net Enrollment Rate (grades 5–8) in the bottom 10% of Performing Woredas (Education) is 24%, by November 1, 2016		DLR# 5(a).3: 10,787,500
	DLR #5(a).4: The Penta 3 Coverage for children under one (1) year of age in the bottom 10% of Performing Woredas (Health) is 51.7%, by May 1, 2017		DLR# 5(a).4: 7,191,667
(5) (b) DLI #5(b): Improved wealth equity in education and health service delivery outcomes, based on Net Attendance Rate and Penta 3 Vaccine indicators for the Bottom Wealth Quintile group.	DLR #5(b).1: Net Attendance Rate (grades 1–8) for the Bottom Wealth Quintile (as determined based on the DHS for the period 2016/2017) is 70%, by November 1, 2017	21,575,000	DLR# 5(b).1: 10,787,500
	DLR #5(b).2: Penta 3 Coverage for children between the ages of 12 and 23 months in the Bottom Wealth Quintile (as determined based on the Ethiopian National Immunization Coverage Survey) is 39.5%, by May 1, 2018		DLR# 5(b).2: 10,787,500
Citizens Engagement and Environmental and Social Management Capacity			
(6) DLI #6: Improved environmental and social management capacity at Woreda level	DLR #6.1: An environmental and social management system operational manual (“ESMS Manual”) has been developed by MoFEC and approved by MoEF, by May 1, 2016	35,958,334	DLR# 6.1: 10,787,500
	DLR #6.2: At least two hundred (200) Woreda-based staff in: (a) two (2) Regions selected from among: Gambella, Somali, Dire Dawa, Benishangul-Gumuz, Harari, and Afar, and (b) two (2) Regions selected from among: Tigray, Oromia, Amhara and SNNP, have been trained in environmental and social management, based on the ESMS Manual, by May 1, 2017		DLR# 6.2: 14,383,334

Category (including Disbursement Linked Indicator as applicable)	Disbursement Linked Result (as applicable)	Amount of the Financing Allocated to each DLI (expressed in SDR)	Amount per DLR
	DLR #6.3: The ESMS Manual has been customized in at least four (4) of the following Regions: Gambella, Somali, Benishangul-Gumuz, Afar and SNNP, , by May 1, 2018		DLR# 6.3: 10,787,500
(7) DLI #7: Enhanced transparency and accountability through citizen engagement	DLR #7.1: MoFEC has issued a directive on the conducting of pre-budget discussions by Woredas, by November 1, 2015	57,533,333	DLR# 7.1: 14,383,333
	DLR #7.2: A road map for the consolidation and scaling up of social accountability has been validated and adopted by the ESAP Steering Committee, by May 1, 2016		DLR# 7.2: 14,383,333
	DLR #7.3: 15% of Woredas have conducted pre-budget discussions, with women constituting at least 25% of the participants in such discussions, by November 1, 2016		DLR# 7.3: 7,191,667
	DLR #7.4: A roll-out plan for social accountability (the “Roll-out Plan”) has been prepared and is operational in two hundred and twenty three (223) Woredas, by May 1, 2017		DLR# 7.4: 7,191,667
	DLR #7.5: At least 80% of Woredas in six (6) Regions have assigned grievance redress staff/officers, by November 1, 2017		DLR# 7.5: 7,191,667
	DLR #7.6: The Roll-out Plan is operational in three hundred (300) Woredas, by May 1, 2018		DLR# 7.6: 7,191,666
Deepending fiduciary aspects of basic service delivery			
(8) DLI #8: Establishment of a government system for benchmarking Woreda public financial management (“PFM”) performance (the	DLR #8.1: An operational guideline (“OG”) for the PFM Woreda Benchmarking Rating has been developed by MoFEC, by May 1, 2016	30,205,000	DLR# 8.1: 7,551,250

<b>Category (including Disbursement Linked Indicator as applicable)</b>	<b>Disbursement Linked Result (as applicable)</b>	<b>Amount of the Financing Allocated to each DLI (expressed in SDR)</b>	<b>Amount per DLR</b>
“PFM Benchmarking Rating”)	DLR #8.2: The Woreda PFM Benchmarking Rating, based on the OG, has been rolled out to all Regions, by November 1, 2016		DLR# 8.2: 7,551,250
	DLR #8.3: An evaluation of the Woreda PFM Benchmarking Rating system is completed, by May 1, 2017		DLR# 8.3: 7,551,250
	DLR #8.4: MoFEC/BoFED provides training for PFM capacity building to 20% of the Woreda finance and procurement staff in the 20% lowest performing Woredas in each Region, as assessed based on the Woreda PFM Benchmarking Rating, by November 1, 2017		DLR# 8.4: 7,551,250
(9) DLI #9: Oversight function of Regional procurement regulatory bodies has been improved	DLR #9.1: A procurement performance monitoring guideline (including performance indicators and data collection formats and templates) (“PPM Guideline”), developed by MoFEC, is customized by the procurement regulatory bodies for each of Oromiya, Amhara, SNNP and Tigray Regions, by May 1, 2016	14,383,333	DLR# 9.1: 2,876,667
	DLR #9.2: Indicator related data collection, based on the customized PPM Guideline, has commenced, in each of Oromiya, Amhara, SNNP and Tigray Regions, by November 1, 2016		DLR# 9.2: 2,876,667
	DLR #9.3: Each of Oromiya, Amhara, SNNP and Tigray Regions has reported on their respective procurement performance in the agriculture, health and education sectors at the Regional level, based on the procurement performance indicators set forth in their respective customized PPM Guideline, by May 1, 2017		DLR# 9.3: 2,876,667



<b>Category (including Disbursement Linked Indicator as applicable)</b>	<b>Disbursement Linked Result (as applicable)</b>	<b>Amount of the Financing Allocated to each DLI (expressed in SDR)</b>	<b>Amount per DLR</b>
	DLR #9.4: Procurement audits have been carried out by the relevant Regional procurement bodies on at least 25% (cumulative) of the Woredas in each of Oromiya, Amhara, SNNP and Tigray Regions, by November 1, 2017		DLR# 9.4: 2,876,666
	DLR #9.5: Each of Oromiya, Amhara, SNNP and Tigray Regions has reported on their respective performance in the agriculture, health and education sectors at the Regional level, and in at least 10% of the Woredas in each of the said Regions, based on the procurement performance indicators set forth in their respective customized PPM Guideline, by May 1, 2018		DLR# 9.5: 2,876,666
(10)(a) DLI #10(a): Strengthened capacity of Woredas to effectively respond to fraud and corruption complaints	DLR # 10(a).1: Ethics officers have been assigned in at least 40% of WoFEDs, by November 1, 2015	21,575,000	DLR# 10(a).1: 7,191,667
	DLR #10(a).2: Ethics officers have been assigned in at least 75% of WoFEDs, by November 1, 2016		DLR# 10(a).2: 7,191,667
	DLR # 10(a).3: Fraud and corruption complaints registered by WoFEDs are recorded in accordance with REACC/FEACC complaint registration formats (including disaggregation by sector and type of case) in at least 75% of Woredas, by November 1, 2017		DLR# 10(a).3: 7,191,666
(10)(b) DLI #10(b): Strengthened capacity of Woreda Council Finance and Budget Standing Committee members to provide effective oversight, transparency and	DLR # 10(b).1: MoFEC has prepared a training manual for Woreda Councils on the process of budgeting, expenditure oversight, and audit follow up, by May 1, 2016	12,945,000	DLR# 10(b).1: 4,315,000

Category (including Disbursement Linked Indicator as applicable)	Disbursement Linked Result (as applicable)	Amount of the Financing Allocated to each DLI (expressed in SDR)	Amount per DLR
accountability for budgets	DLR # 10(b).2: 25% of Woredas have conducted (through their respective BoFEDs) training for the Finance and Budget Standing Committees of their respective Woreda Councils on the process of budgeting, expenditure oversight, and audit follow up, by May 1, 2017		DLR# 10(b).2: 4,315,000
	DLR # 10(b).3: 75% of Woredas have conducted (through their respective BoFEDs) training for the Finance and Budget Standing Committees of their respective Woreda Councils on the process of budgeting, expenditure oversight, and audit follow up, by May 1, 2018		DLR# 10(b).3: 4,315,000
Ensuring quality data access and results			
(11) DLI #11: Improved development information and data for service delivery	DLR #11.1: A data quality assessment on Administrative Data has been implemented in at least one (1) of the four Basic Service Sectors, by May 1, 2016	43,150,000	DLR# 11.1: 8,630,000
	DLR #11.2: A data quality assessment on Administrative Data has been implemented in at least two (2) of the four Basic Service Sectors (cumulative), by November 1, 2016		DLR# 11.2: 8,630,000
	DLR #11.3: A Demographic and Health Survey has been carried out and the results published, by May 1, 2017		DLR# 11.3: 8,630,000
	DLR #11.4: A data quality assessment on Administrative Data has been implemented in at least three (3) of the four Basic Service Sectors (cumulative), by November 1, 2017		DLR# 11.4: 8,630,000

<b>Category (including Disbursement Linked Indicator as applicable)</b>	<b>Disbursement Linked Result (as applicable)</b>	<b>Amount of the Financing Allocated to each DLI (expressed in SDR)</b>	<b>Amount per DLR</b>
	DLR #11.5: A Household Income Consumption and Expenditure Survey has been carried out and the results published, by May 1, 2018		DLR# 11.5: 8,630,000
<b>TOTAL</b>		<b>431,500,000</b>	

**Annex 9: Management Report and Recommendations in Response to the Inspection Panel  
Investigation Report (January 31, 2015)**

**ETHIOPIA: Public Financial Management Project (P150922)**

**Action Plan**

1. The Bank team has been working on reducing systemic risks relating to Financial Management.
2. Steps include:
  - (a) Financial system strengthening programs specific to the PBS will continue, including completing the roll-out of the IBEX management system to all woredas by the end of FY16 subject to power connections.
  - (b) Support for system strengthening will be supplemented through a stand-alone Public Financial Management project, being prepared for Board consideration in late FY15.
  - (c) An action plan will be prepared by the OFAG during FY16 to strengthen the effectiveness of all regional audit offices.
  - (d) The consolidated audit backlog in Gambella has been reduced, and the Bank will work with OFAG, under a specific timeline and with benchmarks to completely eliminate the backlog by FY16.
  - (e) There will be annual benchmarking of public financial management performance for all woredas starting in a few regions in FY16.