

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA21757

Project Name	Ethiopia PFM Project (P150922)
Region	AFRICA
Country	Ethiopia
Sector(s)	Central government administration (50%), Sub-national government administration (50%)
Theme(s)	Public expenditure, financial management and procurement (100%)
Lending Instrument	Investment Project Financing
Project ID	P150922
Borrower(s)	Ministry of Finance and Economic Cooperation (MoFEC)
Implementing Agency	MOFEC-ETHIOPIA
Environmental Category	C-Not Required
Date PID Prepared/Updated	26-Dec-2015
Date PID Approved/Disclosed	30-Dec-2015
Estimated Date of Appraisal Completion	27-Nov-2015
Estimated Date of Board Approval	25-Feb-2016
Appraisal Review Decision (from Decision Note)	

I. Project Context

Country Context

Ethiopia is a large and geographically diverse country, with 98 nationalities and peoples, 93 languages, a total population of about 90 million, and a population growth rate of 2.6 percent (2013). At that rate, the United Nations (UN) estimates that Ethiopia's population will reach 130 million by 2025, and it is projected to be among the world's ten largest countries by population in 2050. 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.

Ethiopia has achieved high levels of economic growth, and made substantial progress on social and human development over the past decade. However, it remains one of the world's poorest countries with a per capita income substantially lower than the regional average and among the ten lowest per capita incomes worldwide. The GoE is currently implementing its ambitious Growth and Transformation Plan (GTP; 2010/11-2014/15), with a long-term goal of Ethiopia becoming a middle-income country by 2025, with growth rates of at least 11.2 percent per year during the plan

period. To achieve these goals and objectives, the GoE has followed a “developmental state” model with a strong role government role in many aspects of the economy. It has prioritized key sectors, such as industry and agriculture, as drivers of sustained economic growth and job creation. The GTP also reaffirms the GoE’s commitment to human development.

The WBG Country Partnership Strategy (CPS) for FY2013-2016 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: (i) a stable macroeconomic environment; (ii) increased competitiveness and productivity (a particular focus for IFC); (iii) increased and improved delivery of infrastructure; and, (iv) enhanced regional integration. Pillar Two (Enhancing resilience and reducing vulnerabilities) aims to support Ethiopia through: (v) improving delivery of social services; and, (vi) comprehensive social protection and risk management. The CPS also has a foundation of: (vii) good governance and state building. In line with the 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.

Sectoral and institutional Context

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 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 inter alia 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.

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). 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.”

PEFA ratings for GoE for 2014 shows that 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 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.

The 2014 PEFA assessments for six regions show major improvements from the baseline in 2007 and the update in 2010. However, 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.

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, which includes nine modules. The IFMIS pilot implementation was initiated in 6 federal public bureaus 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.

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 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.

A recent study found that Ethiopia needs to improve procurement system--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. 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. Four other critical PFM areas that GoE tries to improve with support from the project are: (i) the professional accountancy profession; (ii) external audit; (iii) Parliamentary oversight; and, (iv) Anti-Corruption agencies.

II. Proposed Development Objectives

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

III. Project Description

Component Name

Expenditure Management and Information Systems Support

Comments (optional)

The objective of this component is to support the government in implementing the next generation of PFM reforms

Component Name

Accountability Institutions

Comments (optional)

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.

Component Name

Program Management, Monitoring and Evaluation and Capacity Building

Comments (optional)

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.

IV. Financing (*in USD Million*)

Total Project Cost:	33.00	Total Bank Financing:	33.00
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
BORROWER/RECIPIENT			0.00
International Development Association (IDA)			33.00
Total			33.00

V. Implementation

The project will be implemented by MoFEC under the division 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.

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. Members of this Committee are the BoFED Heads of the Regions as well as PFM reform directorates within MoFEC. The membership of this body will be expanded to include the Federal Auditor General, the Director General of the Federal Public Procurement and Property Administration Agency (FPPA) and the Head of the AABE.

The EMCP PFM Committee (EPFMC) will meet on a regular basis.

Below the EPFMC will be the PFM Project Implementation Team (PPIT) which will be housed in the EMCP Directorate. This team will be responsible for the day to day co-ordination of the project and will include as needed staff, including a Head of the PIU, and at least nine subject matter experts (including experts to be placed at OFAG) who will provide support 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 BOFED's across Ethiopia. Its establishment around three years ago greatly improved fund flows, procurement, reporting and overall implementation. The project will also be implemented by OFAG, FPPA, FPPPDs, AABE and the regions but will be coordinated by the PPIT.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01		x
Natural Habitats OP/BP 4.04		x
Forests OP/BP 4.36		x
Pest Management OP 4.09		x
Physical Cultural Resources OP/BP 4.11		x
Indigenous Peoples OP/BP 4.10		x
Involuntary Resettlement OP/BP 4.12		x
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

Comments (optional)

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