



Document of  
**The World Bank**  
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Report No: PP5106

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT PAPER

ON A

PROPOSED GRANT

IN THE AMFOF

US\$ 575,000.00

TO THE

MINISTRY OF FINANCE

FOR A

ETHIOPIA PUBLIC PROCUREMENT SYSTEM STRENGTHENING PROJECT

August 1, 2022

Governance Global Practice  
Eastern And Southern Africa Region

## CURRENCY EQUIVALENTS

Exchange Rate Effective Jul 09, 2022

Currency Unit = United States  
Dollar

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1 = US\$1

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## FISCAL YEAR

January 1 - December 31

Regional Vice President: Hafez M. H. Ghanem

Country Director: Ousmane Dione

Global Director: Arturo Herrera Gutierrez

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## ABBREVIATIONS AND ACRONYMS

BoF	Bureau of Finance
CPF	Country Partnership Framework
DA	Designated Account
DFIL	Disbursement and Financial Information Letter
e-GP	Electronic Government Procurement
ESF	Environment and Social Framework
ESS	Environment and Social Standard
FM	Financial Management
FY	Fiscal Year
PPPA	Public Procurement and Property Authority
GBV	Gender-Based Violence
GDP	Gross Domestic Product
GoE	Government of Ethiopia
GRS	Grievance Redress Service
GPP MDTF	Global Procurement partnership Multi-Donor Trust Fund
IBRD	International bank for Reconstruction and Development
IDA	International Development Association
IFMIS	Integrated Financial Management and Information System
IFR	Interim Financial Report
MAPS	Methodology for Assessing Procurement System
MDB	Multilateral Development Banks
M&E	Monitoring and Evaluation
MoF	Ministry of Finance
OHS	Occupational Health and Safety
PDO	Project Development Objective
PP	Procurement Plan
PPSD	Project Procurement Strategy for Development
STEP	Systematic Tracking and Exchanges in Procurement
ToR	Terms of Reference
WBG	World Bank Group



**BASIC INFORMATION**

Is this a regionally tagged project? No		Country (ies)
Financing Instrument Investment Project Financing		Classification Small Grants
Approval Date 18-Jul-2022	Closing Date 30-Jun-2023	Environmental and Social Risk Classification Moderate
Approval Authority CDA	Bank/IFC Collaboration No	

Please Explain

**Proposed Development Objective(s)**

Contribute for strengthening public procurement system and performance in Ethiopia by supporting issuance of new and revised legal framework, upgrading skills and producing tools and evidence on key aspects of the procurement system as identified in the MAPS recommendation.

**Components**

Component Name	Cost (USD Million)
Component 1: Support the preparation and dissemination of procurement legislation in the newly established Sidama and Southwest Regions and procurement skill upgrading.	0.38
Component 2: Technical support for evidence-based decision making and issuance of documents in key procurement areas	0.20

**Organizations**

Borrower :	Ministry of Finance
Implementing Agency :	Public Procurement and Property Authority



**PROJECT FINANCING DATA (US\$, Millions)**

**SUMMARY**

<b>Total Project Cost</b>	0.58
<b>Total Financing</b>	0.58
<b>Financing Gap</b>	0.00

**DETAILS**

**Non-World Bank Group Financing**

Trust Funds	0.58
Global Procurement Partnership Multi-Donor Trust Fund	0.58

**Expected Disbursements (in USD Million)**

Fiscal Year	2022	2023
Annual	0.28	0.30
Cumulative	0.28	0.58

**INSTITUTIONAL DATA**

**Financing & Implementation Modalities**

**Situations of Urgent Need of Assistance or Capacity Constraints**

Fragile State(s)    
 Fragile within a non-fragile Country    
 Small State(s)    
 Conflict    
 Responding to Natural or Man-made Disaster

**Other Situations**

Financial Intermediaries (FI)    
 Series of Projects (SOP)

Performance-Based Conditions (PBCs)    
 Contingent Emergency Response Component (CERC)



Alternative Procurement Arrangements (APA)

Hands-on Expanded Implementation Support (HEIS)

**Practice Area (Lead)**

Governance

**Contributing Practice Areas**

**OVERALL RISK RATING**

**Risk Category**

**Rating**

Overall

● Moderate

**COMPLIANCE**

**Policy**

Does the project depart from the CPF in content or in other significant respects?

Yes  No

Does the project require any waivers of Bank policies?

Yes  No



**Environmental and Social Standards Relevance Given its Context at the Time of Appraisal**

<b>E &amp; S Standards</b>	<b>Relevance</b>
Assessment and Management of Environmental and Social Risks and Impacts	Relevant
Stakeholder Engagement and Information Disclosure	Relevant
Labor and Working Conditions	Relevant
Resource Efficiency and Pollution Prevention and Management	Relevant
Community Health and Safety	Relevant
Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
Biodiversity Conservation and Sustainable Management of Living Natural Resources	Relevant
Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
Cultural Heritage	Relevant
Financial Intermediaries	Not Currently Relevant

**Legal Covenants**

Sections and Description

The recipient shall furnish quarterly financial statement within 45 days after the end of the quarter.

Sections and Description

The recipient shall submit an audited financial statement within 6 months of the year-end.

**Conditions**

Type	Financing source	Description
Effectiveness	Trust Funds	The grant agreement will be effective upon counter signing of the grant agreement by the Recipient.



**PROJECT TEAM**

**Bank Staff**

Name	Role	Specialization	Unit
Demelash Demssie	Team Leader(ADM Responsible)		EAERU
Anjani Kumar	Team Leader		EAERU
Mogesie Ayele	Procurement Specialist(ADM Responsible)		EAERU
Meron Tadesse Techane	Financial Management Specialist(ADM Responsible)		EAEG1
Solomon Soroto Tanto	Social Specialist(ADM Responsible)	Social	SAES2
Tamene Tiruneh Matebe	Environmental Specialist(ADM Responsible)		SAEE2
Ayalew Kebede Belew	Team Member		EAERU
Binyam Bedelu Mekbib	Team Member		EAERU
Gizework Zewdie Mekuria	Team Member		AECE3
Shimelis Woldehawariat Badisso	Team Member		EAERU

**Extended Team**

Name	Title	Organization	Location
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ETHIOPIA  
ETHIOPIA PUBLIC PROCUREMENT SYSTEM STRENGTHENING PROJECT

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## I. STRATEGIC CONTEXT

### A. Country Context

- 1) Ethiopia is one of the world's fastest growing economies (6.1 percent growth rate in 2021) and the second most populous country in Sub-Saharan Africa (118m population; 80 percent rural). With an estimated per capita income of US\$890 (2021), Ethiopia remains one of the poorest countries in the world but has achieved substantial progress in economic, social, and human development over the past three decades. Despite these gains, around 30 million people in Ethiopia lived on less than US\$1.90 (2016).
- 2) The GoE has embarked on an economic reform program that is more ambitious than has been seen in recent past. The "Homegrown Economic Reform" program, initiated in 2018, aims to (i) accelerate income growth of both rural and urban households and thereby further reduce poverty and ensure food sovereignty (the right of Ethiopians to define their own food systems and access healthy and culturally appropriate food); (ii) promote structural transformation of the economy that builds on rapid growth in agriculture but envisions greater dynamism in the industrial and service sectors; (iii) promote job creation for a growing labor force given a demographic profile where close to 70 percent of the population is under 30; and, (iv) foster a climate resilient and green economy. Increased focus on the role of the private sector and on regional trade integration are noteworthy features of the reformed approach.
- 3) The conflict in the northern parts of the country which started in November 2020 and worsened around November 2021 has shown significant improvement over the last few months. With the improvement of overall security, the nationwide State of Emergency which was declared in November 2021 has been lifted in February 2022. There have been positive developments that hold promise for national reconciliation and building sustainable peace. The government has established a commission for national dialogue as part of its efforts to promote unity and establish a common ground on contentious issues. In recent weeks, the GoE established a negotiation team to bring peace to the northern part of the country. There is a high expectation among the public that the ongoing efforts of the different players will lead to sustainable peace and stability in Ethiopia.

### B. Sectoral and Institutional Context

- 4) Ethiopia established basic procurement system and capacity at federal and sub national level. The federal government and the sub national states issued procurement proclamations, Directives and manuals. They also use Standard Bidding Documents. The country follows both decentralized and centralized procurement structure with public bodies delegated to carry out their own procurement needs. The procurement positions are recognized in the civil service structure and each of the federal and the regional states established agency that carries out procurement of common user items centrally through framework contracts. There is robust oversight structure both at federal and subnational level. Procurement audits are carried out regularly by external auditors, internal auditors and procurement regulatory bodies at different level of scope, depth and reporting structure.
- 5) The country carried out procurement system assessment using MAPS II tool in collaboration with the World Bank and other stakeholders. The assessment came up with areas that require improvement (i) There are inconsistencies among key documents in the procurement legal framework (ii) The system lacks required level of transparency both in terms of legal provisions as well as practice (iii) The functions and duties of the



Procurement Regulatory Bodies are wide ranging, lacking proper segregation of duties and thus leading to actual or perceived conflicts of interest (iv) The procurement of SOE's not covered in the procurement legal framework and not regulated (v) e-GP is only under pilot implementation and no roadmap to implement to wider public bodies and subnational states (vi) Procurement function and positions are identified in the civil service structure. But job requirements are generically defined and not based on competencies. Besides, the training programs are not integrated and aligned with job requirements and are not considered for placement or promotion (vii) Procurement records, including payment documents, are not complete and accessible. There is no security protocol to protect records (viii) There is no mechanism and practice to carry out meaningful market assessment that informs selection of optimal procurement approach (ix) the local market is limited and hampered by different systemic challenges including shortage of foreign currency and capacity (x) Sustainable procurement is not yet introduced in the procurement legal framework and (xi) Oversight agencies are not coordinated, and audit recommendations are not enforced.

- 6) Following the assessment, the Public Procurement and Property Authority in collaboration with the World Bank prepared procurement reform strategy document and action plan. The action plan has helped to identify priority actions and quick wins, resource requirements, timetable and structure to implement key recommendations of the MAPS assessment. However, the sector is constrained with lack of adequate capacity to implement the action plan. The project will provide financial resource and technical support to implement some of the priority activities.

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

- 7) The country partnership framework (2018-2022) targeted two interlinked objectives related to procurement; strengthening the procurement system in the country and enhancing fiduciary oversight on Bank financed projects. The CPF specifically mentions support for procurement capacity assessment, establishment of E-GP system and other related activities. During the CPF period, procurement capacity assessment (MAPS) was carried out followed by preparation of the action plan that have identified the above actions as priority to strengthen the procurement system in the country.
- 8) Likewise, the 10 year's development plan of the country aims at addressing procurement capacity limitation and rent seeking behavior on government contract and lack of transparency. The above priority actions are instrumental to address the procurement capacity in terms providing modern and up to date procurement legal framework, addressing systemic issues affecting procurement performance including transparency and efficiency.

## **II. PROJECT DEVELOPMENT OBJECTIVES**

### **A. PDO**

9. Contribute for strengthening public procurement system and performance in Ethiopia by supporting issuance of new and revised legal framework, upgrading skills and producing tools and evidence on key aspects of the procurement system as identified in the MAPS recommendation.

### **B. Project Beneficiaries**

- 10) Under component 1, the direct beneficiaries are Ministry of Finance, Public Procurement and Property



Authority and Bureau of finances (BoF) in the regional states and procurement experts who will receive training. Likewise, the direct beneficiaries under component 2 are procuring entities and procurement experts who directly benefit from the output of the various studies aimed at streamlining the procurement processes.

**C. PDO-Level Results Indicators**

- 11) The following are PDO level indicators identified for the project
  - a. Procurement Legislation prepared in Sidama and Southwest Regional States
  - b. Procurement staff in the regulatory and public bodies trained
  - c. Evidence based procurement recommendations prepared on key procurement aspects covered under component 2

**III. PROJECT DESCRIPTION**

**A. Project Components**

- 12) **The project will provide support under the following two components;**
  - a. Component 1: Support the preparation and dissemination of procurement legislation in the newly established Sidama and Southwest Regions and procurement skill upgrading (USD375,000). The support will include providing advanced training to procurement staff in the regulatory bodies and awareness training to staff and decision makers in public bodies on the newly revised proclamations and directives, as appropriate. The grant under this component shall cover payment for consulting services, operating cost mainly workshop and training related costs including payment of per diem, travel costs, accommodation costs for training and workshop participants, payment for Hotels and petty procurement of office supplies and printing services.
  - b. Component 2: Technical support for evidence-based decision making and issuance of documents in key **procurement** areas (USD 200,000); This component will provide technical support to improve record management system, to prepare emergency procurement procedure, study to enhance the participation and responsiveness of domestic market in procurement, to streamline the process of placing an Ad in the newspaper and study sustainable procurement. The grant under this component shall cover payment for consulting services, operating cost mainly workshop and training related costs including payment of per diem, travel costs, accommodation costs for training and workshop participants, payment for Hotels and petty procurement of office supplies and printing services.

**B. Project Cost and Financing**

Project Components	Project cost	Trust Funds	Counterpart Funding
<b>Total Costs</b>	\$575,000.00	\$575,000.00	\$0
Total Project Costs			



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## Total Financing Required

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### IV. IMPLEMENTATION

#### A. Institutional and Implementation Arrangements

- 13) PPPA is the focal agency in implementing the project. Other procurement regulatory agencies located in the regional states will also take part in implementing the works relevant to their respective regional states. PPPA is established as an independent procurement regulatory body responsible for developing and ensuring the application of modern procurement system, follow up compliance by federal public bodies, building procurement capacity in the country. Though there are positions that are vacant, currently PPPA employ around 138 staff of which 40% are technical experts working on the core responsibility of PPPA at different capacity. PPPA has long years of experience in working and benefiting from Bank financed projects including the recently closed Public Financial Management project (P150922) and the ongoing Enhanced and Shared Prosperity for Equitable Services (P161373). Besides, the planned activities in the project envisage recruitment of individual consultants beefing up PPPA's capacity to implement the project.
- 14) The Procurement Directorate, which is responsible for managing procurement reform activities in PPPA, with guidance from the heads of the PPPA, will be the responsible for implementing and reporting the activities financed under the grant. The Procurement Directorate will coordinate with other departments in PPPA, Public Bodies and regional BoF who are beneficiaries of the grant. The respective units in the Procurement, Finance, and Property Administration Directorate implement Procurement and Financial Management activities of the grant.

#### B. Results Monitoring and Evaluation

- 15) PPPA shall assign M&E staff to help in collecting, consolidating, and reporting the data to track the implementation and progress the outcomes of the system and to monitor the project indicators. An M&E plan to be prepared during the first 3 months of the project outlining the data sources, frequency of reporting, responsibility for collecting data, and the flow of information for indicators including the PDO indicators.
- 16) As part of the implementation supervision missions, quarterly progress reports will be submitted to the World Bank which will include status on the progress on project indicators.

#### C. Sustainability

- 17) The project provides much needed support to upgrade the skill of staff in the procurement regulatory bodies. The newly acquired skills will help the staff to provide support in sustaining the project objectives particularly in planning and conducting research in various procurement areas and generating evidence-based policy recommendations. Besides, FPPAA shall assign counterpart staff to work with consultants and share experience in the different areas of the project support. The participation of staff from regional procurement regulatory bodies will help the regional states to conduct future updating of procurement legislation using internal resource.



## V. KEY RISKS

### A. Overall Risk Rating and Explanation of Key Risks

18) The overall Project Risk is “Moderate”: The internal conflict and instability in the country disrupt government function at federal and regional level. This might impact the timely implementation of the different activities of the project. In particular, the issuance of procurement legislation in the newly established Sidama and Southwest regions, require the active involvement of regional policy makers including final endorsement by the respective council. This is coupled with the limited time frame of implementing the project that cannot be extended beyond June 30, 2023, because of the closure of the parent MDTF. Thus, advance preparation and ensuring readiness in PPPA and the respective regional authorities is critical. The Environment and Social Management risk and FM risks are rated as “Moderate” while procurement risk is rated as “Low”.

## VI. APPRAISAL SUMMARY

### A. Legal Operational Policies

	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No



## **Fiduciary**

### **B. Financial management**

- 19) A Financial Management assessment was conducted at PPPA in accordance with the Financial Management Manual for World Bank Investment Project Financing Operations issued on February 10, 2017 and supporting guidance note (February 28, 2017). Small grant guideline has also been consulted. The conclusion of the assessment is that the project's financial management arrangements meet the Bank's minimum requirements under Bank Policy and Bank Directive on IPF and FM Manual.
- 20) The project will inherit the various strengths of the country's PFM system. Several aspects of the PFM system function well, such as the budget process, budget classification system, roll out of IFMIS at federal Level, compliance with financial regulations and satisfactory government's internal system. Several reforms are being undertaken to improve the country's PFM systems through the government's PFM strategy and the support of development partners (such as the PFM project funded by WB). PPPA doesn't have direct experience in managing bank financed operations. However, it has been a beneficiary and implementing entity in other Bank-financed operations.
- 21) The FM risk of the project is Moderate. The preliminary mitigating measures proposed in the action plan will help to reduce the risk of the project once implemented and applied during project implementation. The details of the assessment, proposed FM arrangement, risks and mitigation measures is attached in Annex (1)

### **C. Procurement management**

- 22) Applicable procurement regulation. Procurement under the project will be carried out in accordance with the World Bank's Procurement Regulations for IPF Borrowers; Procurement in Investment Project Financing for Goods, Works, Non-Consulting, and Consulting Services, dated July 1, 2016, and updated November 2020 (as amended from time to time). Furthermore, the World Bank's Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants, revised as of July 1, 2016; and the provisions stipulated in the Standard Conditions of the Legal Agreement shall apply.
- 23) Project Procurement Strategy for Development (PPSD), Procurement Plan (PP) and Systematic Tracking of Exchanges in Procurement (STEP). The Recipient has prepared the PPSD and PP for the first 18 months of project implementation. The PPSD identifies the fit-for-purpose procurement approach through an analysis of the market, procurement risks and capacity and recommends suitable procurement arrangements. The key procurement under the project includes selection and employment of individual consultants, low-value low risk consultancy and non- consultancy services and low value capacity building items. The Recipient will use the World Bank's online tool (STEP) for procurement planning, processing, monitoring, contract management, reporting and record keeping. The PP will be updated by the Recipient (subject to World Bank no-objection) as required.
- 24) Procurement implementation arrangements. The PPPA is the implementing agency of this project. The Bank has conducted procurement capacity and risk assessment of the implementing agency and found that the agency has a good structure including procurement unit, endorsing committee, internal audit unit and reasonable number of procurement staff. However, the assessment has also identified few risks which needs to be mitigated in the course of the project implementation. The key risks identified are (i) the agency has limited experience in the preparation of comprehensive procurement plan, preparation of procurement documents, evaluation of bids/quotation and contract management, (ii) the procurement unit, endorsing committee and procurement staff do not have experience on world Bank financed project, (iii) the internal audit unit's involvement in the



procurement audit is limited, (iv) procurement records are not kept in a chronological order. The recommended mitigation measures are (i) assign a dedicated procurement staff for the project from the existing staff (ii) providing training on procurement planning, processing, evaluation of bids and contract management, record keeping to all involved in the project procurement including internal auditors. The major risks and mitigation measures are detailed in Annex 2.

## B. Environmental and Social

25) The activities to be financed by the project are technical assistance to update procurement proclamation and directive as well as preparation of relevant procurement guidance and studies without any on-the-ground activity with potential negative, significant environmental risks or impacts. However, occupational health and safety (OHS) concerns are anticipated to be a relevant risk as a result of the project activities if procurement activities are not properly implemented. Hence, under the World Bank's ESF the environmental risk of the project is moderate and, therefore, the client is expected to develop environmental risk management instruments as described in ESS1 section below, including the development of a OHS plan to guide TA activities.

26) Given the available information at this stage, the potential social risk of the project is rated as moderate based on the nature of the activities, and the geographical coverage of the project which mainly involves technical assistance to the Public Procurement and Property Authority (PPPA). The Project will not include any civil works; thus there will be no risks and impacts related to land acquisition and involuntary resettlement. Again, it is also not expected to involve in activities that require any direct interaction with communities. Requirements for engagement will also be limited to the public sectors and significant grievances are not expected as the main beneficiary is the PPA. However, as the project is anticipated to be implemented throughout the nation, the contextual risks of security situation in the country may impact the TA activities and the project workers' safety and security. In addition, as the PPA involves a large number of staff in the reform activities, there could be potential risks related to labor and working conditions including risks around discrimination/exclusion based on gender and ethnicity, Occupational Health and Safety (OHS), workers security, and related risks of gender-based violence (GBV). However, labor influx is not anticipated and there would be no issues related to forced labor and child labor.

## VII. World Bank Grievance Redress

**27) Grievance Redress.** Communities and individuals who believe that they are adversely affected by a project supported by the World Bank may submit complaints to existing project-level grievance mechanisms or the Bank'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 complaint to the Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted to the AM at any time after concerns have been brought directly to the attention of Bank Management and after Management has been given an opportunity to respond. For information on how to submit complaints to the Bank's Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the Bank's Accountability Mechanism, please visit <https://accountability.worldbank.org>.





**VII. RESULTS FRAMEWORK AND MONITORING**

**Results Framework**

**COUNTRY : Ethiopia**

**Ethiopia Public Procurement System Strengthening Project**

**Project Development Objectives**

Contribute for strengthening public procurement system and performance in Ethiopia by supporting issuance of new and revised legal framework, upgrading skills and producing tools and evidence on key aspects of the procurement system as identified in the MAPS recommendation.

**Project Development Objective Indicators**

Indicator Name	Corporate	Unit of Measure	Baseline	End Target	Frequency	Data Source / Methodology	Responsibility for Data Collection
<b>Name:</b> Procurement legislation prepared in Sidama and Southwest regions		Number	0.00	2.00			
Description:							
<b>Name:</b> Procurement staff in the regulatory and public bodies trained		Number	0.00	200.00			



Indicator Name	Corporate	Unit of Measure	Baseline	End Target	Frequency	Data Source / Methodology	Responsibility for Data Collection
Description:							
<b>Name:</b> Evidence based procurement recommendations prepared on key procurement aspects covered in component 2		Number	0.00	5.00			
Evidence based procurement recommendations issued on sustainable procurement		Number	0.00	1.00			
Emergency procurement procedure prepared		Number	0.00	1.00			
Description:							
<b>Name:</b> Draft report prepared on how to enhance use of domestic market in public procurement		Number	0.00	1.00			
Description:							
<b>Name:</b> Guidance on streamlines placement of procurement ad prepared		Number	0.00	1.00			



Indicator Name	Corporate	Unit of Measure	Baseline	End Target	Frequency	Data Source / Methodology	Responsibility for Data Collection
Description:							
<b>Name:</b> Guidance on procurement record management prepared		Number	0.00	1.00			
Description:							

**Intermediate Results Indicators**

Indicator Name	Corporate	Unit of Measure	Baseline	End Target	Frequency	Data Source / Methodology	Responsibility for Data Collection
<b>Name:</b> Draft Procurement legislation prepared for Sidama and Southwest regions		Number	0.00	2.00			
Description:							
<b>Name:</b> Procurement training materials developed		Number	0.00	3.00			
Description:							
<b>Name:</b> Draft reports		Number	0.00	3.00			



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Indicator Name	Corporate	Unit of Measure	Baseline	End Target	Frequency	Data Source / Methodology	Responsibility for Data Collection
covering evidence based recommendations prepared on key aspects of procurement targeted under component 2							
Description:							



**Target Values**

**Project Development Objective Indicators**

<b>Indicator Name</b>	<b>End Target</b>
Procurement legislation prepared in Sidama and Southwest regions	2.00
Procurement staff in the regulatory and public bodies trained	200.00
Evidence based procurement recommendations prepared on key procurement aspects covered in component 2	5.00
Evidence based procurement recommendations issued on sustainable procurement	1.00
Emergency procurement procedure prepared	1.00
Draft report prepared on how to enhance use of domestic market in public procurement	1.00
Guidance on streamlines placement of procurement ad prepared	1.00
Guidance on procurement record management prepared	1.00

**Intermediate Results Indicators**

<b>Indicator Name</b>	<b>End Target</b>
Draft Procurement legislation prepared for Sidama and Southwest regions	2.00
Procurement training materials developed	3.00
Draft reports covering evidence based recommendations prepared on key aspects of procurement targeted under component 2	3.00



## Annex I.

### Financial Management

#### INTRODUCTION

1. A Financial Management assessment was conducted at Public Procurement and Property Administration Authority (PPPA) in accordance with the Financial Management Manual for World Bank Investment Project Financing Operations issued on February 10, 2017 and supporting guidance note (February 28, 2017). Small grant guideline has also been consulted. The objective of the financial management assessment is to determine whether the Authority implementing Bank-financed projects has acceptable financial management arrangements which are capable of recording correctly all budgets, transactions and balances, supporting the preparation of regular and reliable financial statements, safeguarding the entity's assets, and are subject to auditing arrangements acceptable to the Bank. The arrangements include the entity's system of planning and budgeting, accounting, internal controls, funds flow, financial reporting, and auditing.
2. The project will inherit the various strengths of the country's PFM system. Several aspects of the PFM system function well, such as the budget process, budget classification system, roll out of IFMIS at federal Level, compliance with financial regulations and satisfactory government's internal system. Several reforms are being undertaken to improve the country's PFM systems through the government's PFM strategy and the support of development partners (such as the PFM project funded by WB). PPPA doesn't have direct experience in managing bank financed operations. However, it has been a beneficiary and implementing entity in other Bank financed operations.
3. The FM risk of the project is low. The mitigating measures proposed in the action plan will help to strengthen the fiduciary arrangements of the project. This will be reviewed during supervision and the risk will be updated.

#### COUNTRY CONTEXT-PUBLIC FINANCIAL MANAGMENT

4. At federal level, Public financial management is mainly governed by the financial administration proclamations, procurement and property administration proclamation, federal budget and accounting manuals and related directives and Manuals. Public Financial Management reform in Ethiopia has shown some progress. In the last 18 years, the GoE has been implementing a comprehensive public financial management (PFM) reform through the Expenditure Management and Control sub-program of the Government's Civil Service Reform Program. Legal framework is established; reforms have been made on various areas such as Medium-Term Expenditure Framework, government budget preparation and administration, cash management and disbursement, government accounting and reporting, procurement and property administration, internal audit, information system (IBEX & IFMIS) and financial transparency and accountability. To further enhance these reforms and introduce new reforms, the Government (led by MoF) has prepared and is implementing a five-year PFM strategy for the period of 2017/18-2021/22 which is financed by the government and



#### Development Partners.

5. The Public Expenditure and Financial Accountability (PEFA) for 2018 has been conducted for Ethiopia. The PEFA assessment covered Federal Government (FG) and 6 regions (Oromia, Tigray, Amhara, SNNPR and Somali and the City of Addis Ababa). The Federal PEFA assessment covered federal government budgeted units, extra budgetary units, Office of Federal Auditor General (OFAG), Parliament. And Civil Society Organizations. The 2018 PEFA assessment for the federal government in general notes good performance in the areas of budget classification; comprehensiveness of financial reports on government operations; good recording and reporting of debt; strong internal controls on non-salary expenditure and credibility and integrity of the financial data. Weaknesses remain in the areas of expenditure composition outturn; public access to financial information; fiscal risk reporting; public investment management; lack of medium-term perspective in expenditure budgeting.

#### PROJECT FINANCIAL MANAGEMENT ARRANGEMENTS

##### Planning & Budgeting

6. Budget preparation: PPPA budgeting process follows the Federal Government of Ethiopia's budgeting procedure and calendar. The authority will prepare annual work plan and budget for this project and seeks no objection from the Bank. The budget should also be incorporated in the Authority's overall budget and proclaimed as such. As this project will become effective after the budget for the government has been processed, specific approval should be sought from MoF to properly reflect the budget in the government system and ultimately in IFMIS.

7. Budget performance: the regular budget allocation for the Authority is between the range of ETB 20-26 million with the exception of FY 2022 which had extra budget for maintenance of ETB 26 million. Performance for the ninth ended April 10, 2022, has been 74% of the adjusted annual budget. In terms of project implementation, through ESPES IPF and implementation of UIIDP, the Authority managed approximately ETB 100 million Birr. The allocation through this project equals to the regular annual allocation for the authority, hence its implementation requires close follow up.

8. Budget control: IFMIS has budget control module and no expenditure or commitment to expenditure can be made without having sufficient budget in a line item. Monthly budget execution reports are prepared direct from the systems The assessment noted that at the authority, budget availability is checked before payments are affected and procurements are processed. At reporting level, the budget utilization of the project will be monitored at least quarterly. The budget variances will be adequately explained and justified through the quarterly IFRs.

##### Accounting & staffing



9. Basis of accounting: The authority follows the government accounting system. The Ethiopian Government follows a double entry bookkeeping system and modified cash basis of accounting, as documented in the government's accounting manual . this project will follow the government accounting procedures.
10. Accounting manual: -The government's accounting manual provides detailed information on the major accounting procedures . At both ministries, the financial administration proclamation, regulation and all related directives, and accounting manuals are available in both soft and hard copies for references. This manual will be used for the implementation of this project.
11. Accounting system: Integrated Financial Management Information System (IFMIS) is in use at the authority. The same system is used for other projects; hence it will be used for this project. Necessary documents such as receipts, payment vouchers, journal vouchers and others will be printed by the authority specifically for the project.
12. Staffing: the finance and procurement directorate at the authority is responsible for the accounting and reporting tasks. The finance unit is currently classified into project finance, regular finance and budget units. Under the project finance, there is one senior finance officer, 1 finance specialist and a position for 1 junior accountant which is under recruitment. The same project finance team will handle this project. No additional staff would be required for this project.

#### Internal Control and Internal Audit

13. Internal control: Internal control comprises the entire system of control, financial or otherwise, established by management in order to: (i) carry out the project activities in an orderly and efficient manner; (ii) assure adherence to policies and procedures; and (iii) safeguard the assets of the project and secure as far as possible the completeness and accuracy of the financial and other records. In the external audit reports of the authority, internal control weaknesses such as long outstanding advances and payables; underutilization of budget; posting errors; among others. The authority prepares action plan to rectify the findings and submits the same to OFAG regularly. The Government internal control procedures will be applied for the project.
14. Internal Audit: the authority has an internal audit unit which is currently staffed with 2 people – one director and another senior auditor. The unit is understaffed by one auditor as per the approved structure. The unit reviews both treasury and project accounts. The latest internal audit report shared is for the period of second quarter of FY 2021/2022. The audit has revealed gaps in procurement processes and full information lacking on new replacement goods and payroll for daily laborers. The findings are presented to the management for rectification although taking actions on such findings take time. For the project, the audit unit will review the project and share with the Bank the audit report and actions taken during supervision or as requested. Copies of the project documents will be provided to the internal auditors for references.





#### Funds flow

15. At federal level, once budgetary units received the annual budget notification from MoF, they prepare annual cash flow and action plan and submit to MoF. The annual cash flow is updated by MoF and the budgetary units quarterly. MoF notifies the monthly ceiling amount (that can be paid from the zero account in the month) to budgetary units. Budgetary units can pay up to their monthly limits. The unutilized bank balances are cleared to the Treasury Central Account at the close of each working day. PPPA is obtaining funds from MoF as per the budget allocation in a timely, orderly and predictable manner.

16. Funds flow and disbursement arrangements for the project: - The project will follow channel two fund flow mechanism of the government whereby fund from IDA will flow directly to PPPA. IDA funds will be deposited into a separate designated account to be opened by the PPPA at the National Bank of Ethiopia (NBE). The authorized ceiling of the Designated Account will be two quarters of forecasted expenditure based on the approved annual work plan and budget. Fund from the designated US\$ account will be further transferred in to pooled Birr account to be held PPPA. Regions will receive resources from PPPA in the form of advance and they have to report back to PPPA with their documents showing physical and financial performance based on the format that will be prepared and circulated by PPPA.

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

18. Disbursement methods: The project will use report-based disbursement method. Disbursement will be made quarterly and cover cash requirements for the next six months based on the expenditure forecast to be reported in the IFRs. The project may follow one or a combination of the following disbursement methods: Designated Account, Direct Payment, Reimbursement and Special Commitment.

#### Financial Reporting

19. Budgetary units at federal level prepare monthly financial reports and submits to MoF within two weeks after the end of the month. The monthly financial reports include revenue and expenditure reports, receivables, payables reports, transfers and trial balances. Bank statements and bank reconciliation statements are also incorporated in the reports.

20. For the project, quarterly Interim Financial Reports (IFRs) will be required from the project. The PPPA will prepare this report and submit to the Bank within 45 days after the end of the quarter. The contents of the IFR will include narration report, statement of sources and uses of funds, statement of uses of funds by project activity/component, designated account activity statements, cash forecast statements, schedule for expenditure documentation, trial balances and other related schedules. The format and content of the IFR is attached to Annex I.



21. The project will also prepare project's annual accounts/financial statements within three months after the end of the accounting year in accordance with accounting standards acceptable to the Bank and submits to the project's external auditors.

#### External Auditing

22. The Office of the Federal Auditor General (OFAG) audits the annual financial statements of the federal budgetary units. PPPA is audited by Office of Federal Auditor General. For the year ended July 7, 2021, the authority had qualified audit opinion due to cut off problems, long overdue advances and payable balances and low budget utilization. The authority prepares action plan and submits the same to OFAG.

23. For the project, annual audited financial statements and audit reports (including Management Letter) will be submitted to the World Bank within 6 months from the end of the fiscal year by PPPA. The audit TOR is attached to Annex II. The annual financial statements will be prepared in accordance with the standards indicated in the audit TOR to be agreed. 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 the Bank. The audit will be carried out in accordance with the International Standards of Auditing (ISA) issued by the International Federation of Accountants (IFAC). The project will prepare action plan and status report for rectification of audit findings (if raised) as per the recommendation of the Bank in its audit review letter. In accordance with the Bank's policies, the Bank requires that the client disclose the audited financial statements in a manner acceptable to the Bank; following the Bank's formal receipt of the statements from the client, the Bank makes them available to the public in accordance with The World Bank Policy on Access to Information.

#### RISK ASSESSMENT AND MITIGATION

24. As indicated below, the FM residual risk for the project is rated as Moderate. The project will follow the government system for budgeting and accounting. It will use existing staff for the project. IFR templates and audit TORs will be agreed with the Bank. Initial briefing will be conducted by the Bank to mitigate any risk that may arise from lack of managing bank financed operations.



25. Based on the arrangements, the following action plan has been agreed

	<i><b>Action</b></i>	<i><b>Date Due By</b></i>	<i><b>Responsible</b></i>
1	The project Annual Work Plan and Budget for the following year is finalized and submitted to the Bank for no objection	At the beginning of the project	PPPA
2	Assign one accountant at PPPA	Throughout the life of the project	PPPA
3	Print necessary documents for recording the project transactions	July 31, 2022	PPPA
4	Recruit the internal auditor for the vacant position.  Audit the project annually and share the report and action taken with the Bank as required	September 30, 2022  Annually	PPPA  PPPA
5	IFR/Report issues Trainings will be provided by the Bank Quarterly submission of IFRs	At project launch workshop and other modalities Within 45 days of the end of quarter	WB PPPA
6	Audit issues Recruitment of external auditors at early stages of the project. Project annual financial statements will be prepared on time and on timely closure of accounts will be made. Submission of annual audited financial statements and audit report including the management letter. Disclosure-In accordance with Bank Policy, the Bank requires that the client disclose the audited financial statements in a manner acceptable to the Bank. Following the Bank’s formal receipt of these statements from the client, the Bank makes them available to the public in accordance with The World Bank Policy on Access to Information.	Before the end of each fiscal year Within 3 months of year end Within 6 months of the end of each fiscal year Annually	1-3. PPPA 4- PPPA &WB



## FM COVENANT AND OTHER AGREEMENTS

26. The FM related covenants will include the following:

- (i) Maintaining satisfactory financial management system throughout the life of the project,
- (ii) Submitting Interim financial reports (IFRs) within 45 days of the quarter end.
- (iii) Submitting audited financial statements within 6 months of the year end.

## SUPERVISION PLAN

27. Financial Management supervision missions will be an integral part of the project's implementation reviews to ensure the continuing adequacy of the financial management arrangements and to ensure that expenditures incurred under project parts remain eligible for the Bank's funding. As the FM risk for the project is rated as substantial, the project will be supervised twice per year. After each supervision risks will be recalibrated accordingly. Supervision activities will include: On-site visit at the PPPA. The visit would include a review of the controls and the overall operation of the FM system; review of internal audit, selected transaction reviews, and sample verification of existence and ownership of assets; reviews of IFRs and follow-up on actions needed and review of Audit Reports and Management Letters and follow up on action needed.

## CONCLUSION OF THE ASSESSMENT

28. The conclusion of the assessment is that the project's financial management arrangements meet the Bank's minimum requirements under Bank Policy and Bank Directive on IPF and FM Manual



## Annex 2:

### Procurement Management

- 1) Applicable procurement regulations. Procurement under the project will be carried out in accordance with the World Bank's Procurement Regulations for IPF Borrowers; Procurement in Investment Project Financing for Goods, Works, Non-Consulting, and Consulting Services, dated July 1, 2016, and updated November 2020 (as amended from time to time). Furthermore, the World Bank's Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants, revised as of July 1, 2016; and the provisions stipulated in the General Conditions of the Legal Agreement shall apply.
- 2) Project Procurement Strategy for Development (PPSD), Procurement Plan (PP) and Systematic Tracking of Exchanges in Procurement (STEP). The Recipient has prepared the PPSD and PP for the first 18 months of project implementation. The PPSD identifies the fit-for-purpose procurement approach through an analysis of the market, procurement risks and capacity and recommends suitable procurement arrangements. The key procurement under the project includes selection and employment of individual consultants, low value low risk consultancy and non- consultancy service and low value capacity building items. The Recipient will use the World Bank's online tool (STEP) for procurement planning, processing, monitoring, contract management, reporting and record keeping. The PP will be updated by the Recipient (subject to World Bank no-objection) as required.
- 3) Procurement implementation arrangements. The PPPA is the implementing agency of this project. The Bank has conducted procurement capacity and risk assessment of the implementing agency and found that the agency has a good structure including procurement unit, endorsing committee, internal audit unit and reasonable number of procurement staff. However, the assessment has also identified few risks which needs to be mitigated in the course of the project implementation. The key risks identified are (i) the agency has limited experience in the preparation of comprehensive procurement plan, preparation of procurement documents, evaluation of bids/quotation and contract management, (ii) the procurement unit, endorsing committee and procurement staff do not have experience on world Bank financed project, (iii) the internal audit unit's involvement in the procurement audit is limited, (iv) procurement records are not kept in a chronological order. The recommended mitigation measures are (i) assign a dedicated procurement staff for the project from the existing staff (ii) providing training on procurement planning, processing, evaluation of bids and contract management, record keeping to all involved in the project procurement including internal auditors
- 4) Procurement activities: The grant will finance recruitment of individual consultants that will provide technical support in the preparation of various documents and evidence based recommendation in different procurement aspects. Though the activities are low value low risk activities, the impact of hiring unqualified individual consultants could impact the outcome of the grant. Thus, PPPA is required to ensure that the Terms of References are prepared by qualified experts and cleared by appropriate officials and submitted for Bank's review and clearance before initiating the selection process. The selection process should be carried out with due diligence and by qualified team of experts and in



accordance with the requirements of the TOR.

- 5) Procurement Risk: Given that the activities financed by the grant are low value and low risk activities of hiring of individual consultants and trainings, the procurement risk is considered as “Low”. However, to improve the procurement performance and achieve the intended grant outcome, the procurement capacity assessment has come up with the following findings and recommendations:

Risk	Mitigation measure	Responsible body	Timeframe
Hiring unqualified individual consultants impede the achievement of the project object	Prepare quality TOR, ensure that it is reviewed and cleared by authorized bodies including WB and conduct the selection process following the agreed procedure and requirement of the TORs	PPPA	Ongoing
Lack of experience in procurement in Bank financed projects may lead to noncompliance	Assign a focal procurement expert for the project and Provide training on selection of individual consultants	PPPA	Within one month after effectiveness