Report Number: ICRR0022104

1. Project Data

Project ID	Project Name
P143197	LS-PFM Reform Support Project
Country	**Practice Area(Lead)**
Lesotho	Governance

L/C/TF Number(s)	Closing Date (Original)	Total Project Cost (USD)
IDA-53550	03-Jul-2017	4,762,821.79
Bank Approval Date	**Closing Date (Actual)**	
06-Feb-2014	03-Jun-2019	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	5,500,000.00	0.00
Revised Commitment	5,241,043.31	0.00
Actual	4,762,821.79	0.00

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

a. Objectives

The project development objective (PDO) was to improve the quality and timeliness of public financial management (PFM) information in support of the Government’s Public Finance Management Action Plan (PFMRAP) to improve budget execution (Project Appraisal Document (PAD), p. 8).

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

No

c. Will a split evaluation be undertaken?
No

d. Components
The project supported three components:

Component 1: Support for improving the stability and reliability of the existing Integrated Financial Management Information System (IFMIS) platform (Approval: US$0.752m; Actual: US$0.53m). This component aimed to improve the stability, performance and reliability of the existing IFMIS platform and support the implementation of the following key activities to address technical and operational challenges, and lay a solid foundation for the expansion and modernization of IFMIS platform: (i) improve existing wide-area network connectivity; (ii) improve primary and backup IFMIS data centers; (iii) activate the Electronic Funds Transfer (EFT) interface with the Central Bank of Lesotho (CBL); and (iv) clean IFMIS databases and improving accounting controls.

Component 2: Support for expansion and modernization of IFMIS platform (Approval: US$3.913m; Actual: US$2.94m). This component aimed to upgrade, configure and extend the use of the existing IFMIS software to support simplified business architecture from a stable and well-performing technology platform. Activities supported were: (i) Information Technology (IT) audit of the IFMIS platform; (ii) PFM business process re-engineering; and (iii) expansion and modernization of the IFMIS platform.

Component 3: Support for change management, training and project implementation (Actual: US$0.834m; Actual: US$1.51m). This component sought to facilitate the provision of technical assistance (TA) to support change management and capacity building requirements of the Office of the Accountant-General, the core IFMIS team, the PFM staff of the selected Line Ministries, the Cabinet, the Public Accounts Committee, the CBL, development partners, and other stakeholders. The component supported implementation of several adaptive initiatives to ensure sustainable capacity to run the system, stakeholder backing/enforcement and sound project implementation including: (i) support for change management & training; (ii) support for Project implementation; and (iii) audit of financial activities.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates
Project cost and financing. The original IDA commitment was SDR 3.6 million (US$5.5 million equivalent). The revised amount was US$5.2 million. The actual disbursed amount was US$4.76 million. At the mid-term review, it was realized that the extension of the IFMIS would hamper the achievement of the PDO, as it was inadequately prepared. Therefore, the Project's scope was reduced at a Level 2 restructuring approved on June 30, 2017, and the extension of the IFMIS into district councils was excluded. This resulted in net savings of around US$1.0 million.

This provided the room to absorb a foreign exchange loss of about UU$0.6 million, and reallocate funds to several training facilities.

Dates. The operation was approved on February 6, 2014; it became effective on May 24, 2016. The original closing date of July 3, 2017. At the Government's request to 'go-live' with the upgraded IFMIS on April 1, 2018, the project was extended to June 3, 2019, to provide adequate time to complete key activities related to the upgrade of the existing IFMIS software.

3. Relevance of Objectives

Rationale

Inefficiencies in Lesotho's public financial management (PFM) had been identified as diminishing the effectiveness of public spending, especially in the social sector. Since 2000, the Government had not had timely and reliable in-year and annual financial information to support budget execution, monitoring and oversight (PAD, p. 2). This project was to help provide the government with the necessary information that is required to improve the effectiveness of public spending. Most notably, the IFMIS platform had only been partially used to support key budget execution functions of the Central Government over several years, as technical and adaptive challenges prevented the system from efficiently supporting daily operations and timely production of reliable data (ICR, p. 4). Pillar 6 of Lesotho's National Strategic Development Plan (NSDP), 2012-2016 emphasized PFM interventions to improve the quality and timeliness of service delivery in an accountable and transparent manner. The Project and the PDO were consistent with Pillar 6 of the NSDP. The PDO was also in line with improving capacity to use public resources to meet NDSP targets, and also those of Vision 2020.

The PDO was fully aligned with the Bank's Country Partnership Framework (CPF), 2016-2020, Focus Area 1 in particular, on improving the efficiency and effectiveness of the public sector. The PDO also supported the PFMRAP, under which the government set up a Reform Secretariat and Steering Committee at the Ministry of Finance (MOF). The Bank's projects incorporate this structure in their implementation plans.

Rating

High

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

Objective 1. Improve the quality of PFM information

Rationale

The IFMIS had been deployed rapidly in 2009 and system implementation had taken place in just 16 months. Despite training of many personnel to support the system, a World Bank assessment had shown several key problems with the system. The theory of change was reasonable: that actions to improve the stability and reliability of the IFMIS platform, along with training and change management, would reduce downtime, reduce the use of commercial bank accounts, and capture more revenue transactions. This would in turn improve PFM quality and timeliness, leading to improved effectiveness of public spending (ICR, p. 9).

The system's activities needed to be sequenced for daily operations and reporting. Overall, in-year budget reporting was unreliable. The three PDO indicators: (i) the availability of budget execution reports in IFMIS; (ii) reconciliation of transactions; and (iii) new TSA bank accounts that are operational and carried forward into the upgraded IFMIS – all measure improvements in the PDO.

PDO indicator 1: Improved reliability of in-year budget execution reports from IFMIS

Outputs: The project trained 90 percent of IFMIS users, against a target of 80 percent and a baseline of 40 percent; upgraded IFMIS servers and end-user equipment for operating the upgraded IFMIS; completed the business process review to support configuration of the new version of IFMIS; improved wide-area network connectivity (uptime) and IFMIS up time; and delivered and implemented the change management training plan.

In-year budget execution reports were considered unreliable, due to lack of bank account reconciliations and no month-end closing of the IFMIS. The project's target was to produce these reports from the upgraded IFMIS that are reliable.

In-year budget execution reports are now available in the upgraded IFMIS. Reliability of government data is supported by reconciling the transactions recorded in the new Treasury Single Account (TSA) revenue and expenditure bank accounts in the upgraded IFMIS with the transaction detail recorded by the CBL. (Although month-end instructions have been issued to line ministries, the closing procedures in the upgraded IFMIS still need to be initiated.) (ICR, p. 32-33).

An intermediate outcome indicator measured capture of line ministry revenue transactions in the IFMIS. The baseline was that non-tax revenues collected by line ministries were not routinely captured in the IFMIS, and there was ineffective monitoring at Treasury to ensure that this happened. While the IFMIS has been adjusted to allow this, actual processing of line ministry revenue transactions hasn't yet begun. The project team told IEG that the vendor's expert was supposed to work on this module in March-April 2020, but the work has been delayed by the COVID-19 pandemic.

PDO indicator 2: Stock of expenditure arrears available in IFMIS

Previously, there was no IFMIS data on the stock of expenditure arrears. The target was to make available the stock of expenditure arrears online in the upgraded IFMIS. The upgraded IFMIS provides reports on invoices recorded but not yet paid. MoF continues to collect data on all outstanding invoices from Ministries, Departments and Agencies (MDAs) and these are recorded for payment in the upgraded IFMIS. The stock of expenditure arrears is now available online in the upgraded IFMIS.

The PDO outcome targets were either met or exceeded, and have contributed to improving the quality of the PFM information system. In the area of initial operational acceptance of the upgraded IFMIS, User Acceptance had been inadequate, as only one test cycle was performed before production (see Section 7 on Risks). The MOF was in the process of migration to the IFMIS web-based version until April 2020. (ICR, p. 17). This indicator has been partially achieved.

PDO indicator 3: New TSA bank balances in the IFMIS

Before the project, no new TSA bank balances were available in the IFMIS. The target was to have new TSA bank accounts that are operational and carried forward into the upgraded IFMIS. Actual: New TSA recurrent and development expenditure bank accounts have been opened at the CBL and in the IFMIS. They are being reconciled on a monthly basis.

Objective 1 is rated substantial.

Rating
Substantial

OBJECTIVE 2

Objective
Objective 2. Improve the timeliness of PFM information

Rationale
There were long delays in preparing the government's financial statements and presenting them to Parliament. No statements had been submitted for audit within 15 months of the end of the financial year for several years, and there was a three-year backlog in preparing statements -- 2008/09, 2009/10, and 2010/11. Findings and recommendations were often outdated by the time of publication. Hence, MDAs faced little risk of public pressure to take any remedial action. The project focused on reducing annual financial report submission time to within the legal timeframe (August 31 of the following year). The target was: that the FY2018/19 annual financial statements for budgetary central government would be under preparation and contain data from the upgraded IFMIS on all financial assets and financial liabilities (ICR, p. 35). In practice, the Government eradicated the backlog of annual financial statements, and submitted consolidated annual financial statements for 2018/2019 within the legal time-frame to the Office of the Auditor General. The upgraded IFMIS has not yet been configured to control and report on public debt transactions in a timely manner. The revised target (which was achieved) is less ambitious than the original one, although reportedly more appropriate because it was in line with areas supported by the project (see Section 9 below on M&E Design).

The outputs mentioned above all contributed to improving the timeliness of PFM information. Objective 2 is rated substantial.

Rating
Substantial

OVERALL EFFICACY

Rationale
The above measures have improved the quality and timeliness of the PFM information system towards strengthening budget execution. The IFMIS was upgraded, and produces in-year budget reports without material concerns about data quality; annual financial statements are complete and submitted within the legal timeframe to the Office of the Auditor General, with all backlogs removed; online data on expenditure arrears are made available in the upgraded IFMIS; and new TSA bank accounts have been opened in the CBL where MDA's accounts are reconciled every month. Both parts of the PDO are rated substantial; hence, overall efficacy is rated substantial.

Overall Efficacy Rating

Substantial

5. Efficiency

It is difficult to carry out reliable cost-benefit and financial analyses of PFM capacity building interventions and overall PFM systems, as the benefits are largely indirect and would be reaped over a longer term. The PAD expected the project's economic and financial benefits to be much higher than the investment of US$5.5 million. The expected benefits from the project include: better PFM governance, implementation and service delivery, as a result of improved budget credibility and resource allocation; efficient and transparent budget management; and improved revenue administration capacity to provide services to the poor. The ICR argues that these benefits could far exceed US$5.5 million (ICR, p. 18).

The ICR adescribes efficiency gains as a result of procurement reforms, in terms of accountability, structural efficiency and system/process efficiency, and infrastructure improvements (ICR, p. 19).

There are some issues remaining with respect to the functioning of the IFMIS. These include; the new Chart of Accounts used in the accounting system (Epicor) still to be fully adopted in the budget module of IFMIS, which limits reporting in a number of areas of the government's financial statistics; and on accounting and reporting, although the accounting operations in Epicor are stable, they are constrained by the number of modules that have not yet been implemented.

Efficiency Rating

Modest

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

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 ☐ Not Applicable

ICR Estimate	0	0 ☐ Not Applicable

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

6. Outcome

The PDO's relevance is high. The quality of PFM information was improved – the IFMIS was upgraded and in-year budget execution reports are now produced using the upgraded IFMIS. The reliability of these reports is supported by reconciling transactions in the new revenue and expenditure bank accounts linked to the upgraded IFMIS. MoF collects data on outstanding invoices and records then in the IFMIS. The timeliness of PFM information has also improved—the three-year backlog in preparing annual financial statements has been eliminated and annual financial statements are now submitted within the legal time-frame to the Office of the Auditor General. Both parts of the PDO were substantially met, and efficiency is rated modest, based on qualitative evaluation. Hence. the overall rating is moderately satisfactory.

a. Outcome Rating

Moderately Satisfactory

7. Risk to Development Outcome

Development outcomes achieved face the following high risks:

Technical risks - The software and hardware need to be regularly updated so there are no disruptions. The ICR states that the software vendor is expected to leave Lesotho and the government has until June 2020 to arrange post-warranty support. Existing and new users need to be trained to maintain the system.. Maintaining linkages between the IFMIS and other systems, such as payroll, and Centralized Budget Management System (CBMS), are critical. The system also faces cybersecurity risk from the outside. Online threats have sharply increased since the start of the COVID-19 pandemic, with increases in hacking, phishing attempts, and ransomware attacks. Authorities need to heighten their vigilance against such threats.

Power system risks - Power and network interruptions can also interfere with sustainable use of the system. The entire system depends on a stable power supply and an efficient back-up system. The ICR describes many areas that can be affected by interrupted power supply. For example, disruptions in the running of the server can leave many tasks incomplete and affect overall data processors on the system. The MoF has acquired technical experts to address these issues and improve available of IFMIS and CBMS.

Financial and economic risks: Vendor contracts need to be managed and budget resources need to be made available for payments on such contracts to properly run and maintain the IFMIS. Low user acceptance of the system can also pose a risk.

8. Assessment of Bank Performance

a. Quality-at-Entry

A high-level workshop hosted by the Minister of Finance that included several ministers, members of Parliament, donors and key staff involved in the project confirmed the support for project implementation, although some users are still skeptical. The Bank team identified the risks of undertaking financial management reforms in a low capacity environment such as in Lesotho, and addressed these risks through extensive implementation support and investment in training. However, the original plan to upgrade IFMIS and extend the information technology infrastructure to the MDAs involved several complex tasks, including redeployment of sub-accountancy staff to the district councils, extension of wide and local area networks to 120+ offices, and profiling functions and system roles of 240+ new users. The challenges of achieving these things within the project timeframe were underestimated at appraisal. As a result, at the MTR, these activities had to be dropped. The project underwent a second restructuring to exclude these activities.

Quality-at-Entry Rating

Moderately Satisfactory

b. Quality of supervision

The Bank team was also led by an experienced PFM professional. There was only one TTL, based in Pretoria, able to provide real-time engagement with the Project Coordination Unit and Treasury Management. The ICR viewed this as critical in providing timely and consistent technical and operational support (ICR, p. 20). Supervision teams included staff experienced in this type of reform, including experts from ADB, UK's Department of International Development and EU technical staff as necessary. The team was proactive and flexible in responding to issues that emerged at the MTR and in restructuring the project accordingly. Technical and fiduciary staff provided regular support, and supervision missions were conducted about every eight months, with nine Implementation Status and Results Reports completed during the project.

Quality of Supervision Rating

Satisfactory

Overall Bank Performance Rating

Moderately Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

The M&E indicators were based on the government's PFM reform agenda to improve the government's capacity to use public resources. The original project design included several public expenditure and financial accountability (PEFA) indicators, where baselines and end targets were PEFA scores. At the mid-term review (MTR), the indicators were slightly revised to better align the targeted outcomes with project activities, and simplified in terms of the PEFA dimensions, i.e. to de-link it from PEFA methodology, and changing the targets from PEFA scores to targets expressed in words. While the ICR (Appendix 1) notes that this did not change the ambition of the original targets. IEG questions this assertion. There are two recent PEFA assessments where results can be compared. In the case of the indicator on quality and timeliness of annual financial statements, for example, there are three dimensions assessed. Two of them, completeness of financial statements and timeliness of submission of the financial statements, both improved from D (2012) to B (2017) ratings (on a D to A scale where A is the highest score). This is in line with the ICR's finding of substantial achievement of the revised target. However, the original target had a third dimension, Accounting standards used, which received D ratings in both assessments. Thus the revised target reduced the ambition of the target by dropping consideration of accounting standards. The ambition was also reduced on some of the other targets. The reason for the changes in targets is reportedly to better align them with work supported by the project, but this is at a cost of reduced ambition.

b. M&E Implementation

As stated above, the results framework was modified during implementation to provide more clarity in measuring achievements supported by the project. However, tracking progress by the PFM Reform Secretariat remained uncoordinated, and only limited details were provided in progress reports. The formats were improved during implementation. The ICR states that the Bank team had to often request data for Implementation Status and Results Reports (ISRs) reporting purposes (ICR, p.26), as the data were not available in progress reports.

c. M&E Utilization

M&E data was primarily used for administrative tasks such as to link bank accounts to the Government Bank Account Portal at CBL, and to enable monitoring of opening and closing of accounts that the government operated. The Portal allowed the Treasury to monitor cash resources available in different accounts (ICR, p. 27). M&E was also used to address connectivity issues in linking district users through fiber connections and the local area network. Overall, the extent to which M&E was used and analyzed was an issue, as the M&E officer had no access to the IFMIS and related data.

M&E Quality Rating

Modest

10. Other Issues

a. Safeguards

The project did not involve impacts related to environmental or social risks. Most activities financed consultant services, goods, training and workshops.

b. Fiduciary Compliance

The project complied with all fiduciary covenants during implementation. FM performance was rated moderately satisfactory due to some delays in submitting quarterly unaudited Interim Reports (IFRs) and the annual audit reports. This, however, did not weaken project performance (ICR, p. 21).

c. Unintended impacts (Positive or Negative)

The project complied with all fiduciary covenants during implementation. FM performance was rated moderately satisfactory due to some delays in submitting quarterly unaudited Interim Reports (IFRs) and the annual audit reports. This, however, did not weaken project performance (ICR, p. 21).

The payroll system was reconfigured even though it was not part of project design. This helped the Chart of Accounts to improve efficiencies in payroll and pensions processing (ICR, p 21).

d. Other

Although the project did not target women, women received support through employment and training. The Treasury Department recruited and trained more women than men (ICR, p. 20).

11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Satisfactory	Moderately Satisfactory	
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	
Quality of M&E	Modest	Modest	
Quality of ICR	---	Substantial	

12. Lessons

These lessons are selected from the ICR (p. 30-31):

- For effective implementation of a project such a PFMRSP, the following factors are important: project scope and activities need to be consistent with country and the government's implementation team's capacity; for efficient functioning of IFMIS activities, there needs to be M&E of each IFMIS activity and its milestones; and a Reform Steering Committee needs to better understand project implementation risks.

- End-user capacity building to improve understanding of core accounting principles is an important aspect of sustainability. Building capacity in contract (vendor) management is also important.

- PFM reform is not just a one-time project. It is a continuous process, where budget resources must to earmarked for maintaining systems and capacities as they evolve.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR is of good quality, and provides a clear discussion of the main aspects, although on the longer side. The discussion of the changes during implementation and the revision of indicators were particularly good. A shortcoming is that the ICR states that the level of ambition of revised PDO indicators after the first restructuring was unchanged. This does not seem correct, as some of the dimensions assessed under the original targets linked to PEFA indicators were dropped.

a. **Quality of ICR Rating**
Substantial