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PRE-FINAL TECHNICAL ASSISTANCE REPORT

ETHIOPIA

Public Investment Management Assessment – PIMA and Climate PIMA

JUNE 2025

Prepared By

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Authoring Department

Fiscal Affairs Department

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Abbreviations and Acronyms

EIH	Ethiopian Investment Holdings
FAD	Fiscal Affairs Department
GDP	Gross domestic product
GHG	Greenhouse gas
HGER	Home Grown Economic Reform Program
IBEX	Integrated Budget and Expenditure system
IMF	International Monetary Fund
IFMIS	Integrated Financial Management Information System
MoF	Ministry of Finance
MoPD	Ministry of Planning and Development
MEFF	Medium term macroeconomic and fiscal framework
NDC	Nationally Determined Contribution
PCN	Project concept notes
PEHA	Public Enterprises Holding and Administration
PIMA	Public Investment Management Assessment
PPP	Public-private partnership
SOE	State-owned enterprise

Preface

At the request of the Ministry of Finance of Ethiopia, a team from the IMF's Fiscal Affairs Department (FAD) and the World Bank undertook a combined Public Investment Management Assessment (PIMA) and Climate PIMA (Climate-PIMA) during the period from March 6-20, 2024. The team was led by Ms. Michelle Stone and comprised Mr. Ed Hearne and Mr. Graham Prentice (FAD), Mr. David Gentry and Mr. Kenneth Cleary (FAD short term experts). The team was supported virtually by Mr. Gabriel Hegab (FAD Fiscal Economist). Mr. Arun Kumar Kolsur from the World Bank participated in the assessment of procurement. This report is based on information available to the team at the time of the assessment visit.

The assessment team met with the State Minister for Ministry of Planning and Development, H.E. Dr. Nemera Gebeyehu and the State Minister for Ministry of Finance Fiscal Policy and Public Finance, H.E. Dr. Eyob Tekalign. From the Ministry of Planning and Development, the team met with staff including Mr. Bereket Fesehatsion Tesfamariam, Director Development Projects Directorate and Dr. Wondafershe Debebe, and the Climate/Environment team.

In the Ministry of Finance, the team met with staff including Mr. Jonse Gedefa, Head of Fiscal Policy Department; Ms. Nateru Wondwosen, Head of Treasury and Government Account; Mr. Tilakun Wolde, Head of Budget Department; Mr. Yohannes Getahun, Director, United Nation Agencies, Climate Resilient Green Economy Facility and Regional Economic Cooperation Directorate; Mr. Zerihun Getu Climate Resilient Green Economy Facility Coordinator; Mr. Aderajew Tamirat, Public Enterprises Holding and Administration; PPP Directorate; Mr. Demeke Gorfe, Economic Reform and Privatization Office; and Mr. Mekonnen Geda, IBEX / IFMIS Project Office Manager.

The team met with senior officials from other ministries and bodies including: Associate Prof Wakitole Dadi of The House of Federation; Ms. Meleket Sahlu, Deputy CEO, Ethiopian Investment Holdings; the Deputy Commissioner, Disaster Risk Management Commission; Ms. Hilina Belachew, CEO Ethiopian Railways Corporation; Mr. Eshetu Gelaye Birhanie, Ministry of Education; Mr. Yohannes Bishaw of the Ministry of Transport and Logistics; Mr. Aweke Tenaw, Auditor General's Office; Mr. Alemu Mengesha, Ministry of Water and Energy; Mr. Tesfaye Woldemichael, Ministry of Urban and Infrastructure; Mr. Gebeyaw Yitayih, Public Procurement and Property Authority; Mr. Balcha Reba, Director General, Ethiopian Communication Authority, and Mr. Ashebir Balcha, CEO of Ethiopian Electric Power,

Outside of the Federal Government the team also met with senior officials including Mr. Getachew Haile Debebe of the Addis Ababa City Administration, Mr. Teshome Mosissa of the Government of Oromia, CoST Infrastructure Transparency Initiative Ethiopia, and Mr. Theodros Zewdie, General Manager of the Construction Contractors Association of Ethiopia. The team met development partners including UNDP, World Bank, USAID, European Union and United Kingdom (FCDO).

The team would like to thank the Government of Ethiopia for their cooperation and their participation in constructive discussions. The team is particularly grateful to Mr. Bereket Fesehatsion Tesfamariam and Dr. Wondafrash Debebe from the Ministry of Planning and Development, and Mr. Anania Ayalew Tefera from the Ministry of Finance for coordinating the team's activities and requests.

Executive Summary

Ethiopia achieved high public investment and economic growth relative to its peers in the two decades to 2020. Public investment ranged between 10 and 20 percent of GDP between 2000 and 2019, consistently exceeding the average across low income developing countries and contributing to its strong relative growth performance. Following 2019, Ethiopia faced a succession of economic shocks, including the COVID-19 pandemic, drought, domestic conflict, and surge in international commodity prices. These events posed substantial fiscal challenges, which had severe consequences and reduced the capacity for public investment. The conflict in the northern part of the country and ongoing security challenges in several regions have exacerbated the challenges for public investment delivery across the country. Ethiopia has low measured access to infrastructure on a per capita basis, particularly electricity and public health infrastructure, and the estimated efficiency of public investment is low compared to peers.

Ethiopia's strong growth has been driven by a series of national plans and strategies that have incorporated the country's climate goals. The 10 Years Development Plan has shaped investments that have supported growth. Ethiopia's climate ambitions are set out in the updated Nationally Determined Contributions and Long-Term Low Emissions and Climate Resilient Development Strategy. The country's Home-Grown Economic Reform (HGER) agenda, launched in 2019 with the goal to safeguard macro-financial stability and rebalance and sustain economic growth, marked a shift away from reliance on public sector investment in favor of a greater role for the private sector. This included strengthening the commercial focus and oversight of state-owned enterprises (SOEs), which still play a substantial role in the delivery of infrastructure. The HGER 2.0, currently being finalized, deepens this policy commitment and includes measures to strengthen public investment management.

The Public Investment Management Assessment (PIMA) finds the strength of Ethiopia's institutions broadly in line with peers, and slightly higher on effectiveness. Most public investment management institutions are ranked as medium for both the quality of their design, and their effectiveness in practice (Table 1). This reflects a mix of good practices and gaps against good international practices. The assessment identified scope to refine and embed institutional leadership in the areas of project monitoring, climate and information systems after a period of institutional change. Ethiopia has a large stock of ongoing projects due to deficiencies in costings and risk management, financing shortages, and large cost escalations; compounded by weaknesses in information and implementation systems that could support more strategic and proactive management of the investment portfolio.

Planning for public investment is assessed as medium in terms of design and effectiveness. The well-developed national and sectoral planning framework is supported by strategies that contain measurable targets that are used extensively. Ethiopia's federal structure, which places limits on formal coordination in infrastructure delivery, contributes to lower scores for coordination. Requirements for project appraisal were established under Proclamation 1210, although there is scope to more fully account for project risk in feasibility studies and to strengthen project preparation with independent input. Policies to increase the role of the private sector in infrastructure sectors are yet to have full effect. While the public private partnership (PPP) framework is solid and a pipeline of projects is under development, few have been contracted and the readiness to manage a larger pipeline is not yet in place.

In the allocation of public investment expenditure, positive features include the prioritization of ongoing investments over new projects, and protecting capital spending during budget implementation. While multi-year projections for capital expenditure are shared with each ministry in the

budget process, they are not published and do not adequately anchor forward planning of the public investment program. Maintenance is clearly defined in the budget classification, however allocations fail to ensure that the productive life of investments is realized. Central scrutiny by the Ministry of Planning and Development (MoPD) in the project prioritization process results in many proposals being returned for refinement. However, budget decisions are not governed by specific, published selection criteria.

The implementation of public investment is characterized by some good practices for project management and portfolio oversight. Under Proclamation 1210, MoPD has taken over responsibility for monitoring public investment and now oversees quarterly monitoring of the portfolio of the largest and most strategic projects. Improvements can be made through embedding aggregate portfolio level analysis in these reports and strengthening arrangements for ex-post project review. Cash plans are prepared in line with appropriations but occasional cash rationing results in project delays and late payments to contractors, undermining the efficient project delivery. It is important that planned procurement reforms are effective in improving openness and competition in public procurement, which lacks transparency. The monitoring and management of public assets once created is largely delegated to public bodies, which means comprehensive information is unavailable, and management practices are not uniform.

Like many countries, there is room to strengthen the alignment between Ethiopia's climate targets for greenhouse gas (GHG) mitigation and climate resilience, and public investment. The Climate-Public Investment Management Assessment (Climate-PIMA) (Table 2 and Figure 2) indicates Ethiopia has a reasonably strong policy and planning framework, supported by guidance and central support for implementation. However, coordination of project level decisions on climate can be strengthened, and the translation of climate objectives into project appraisal, selection and budgeting is not yet complete. Plans are well advanced to track and reporting climate relevant expenditures across the budget, which is expected to be in place by e2018.[1] Natural disaster risk management is well established and strongly coordinated across government, albeit more focused on immediate threats than strengthening resilience against future climate hazards. A budget contingency is available to be used for climate disasters.

The legal framework is generally sound but there is scope to strengthen information systems and staff capacity to implement strong public investment management. Coordination of the numerous planned initiatives for information systems to support budgeting, asset management, public investment monitoring and results frameworks would improve efficiency for users.

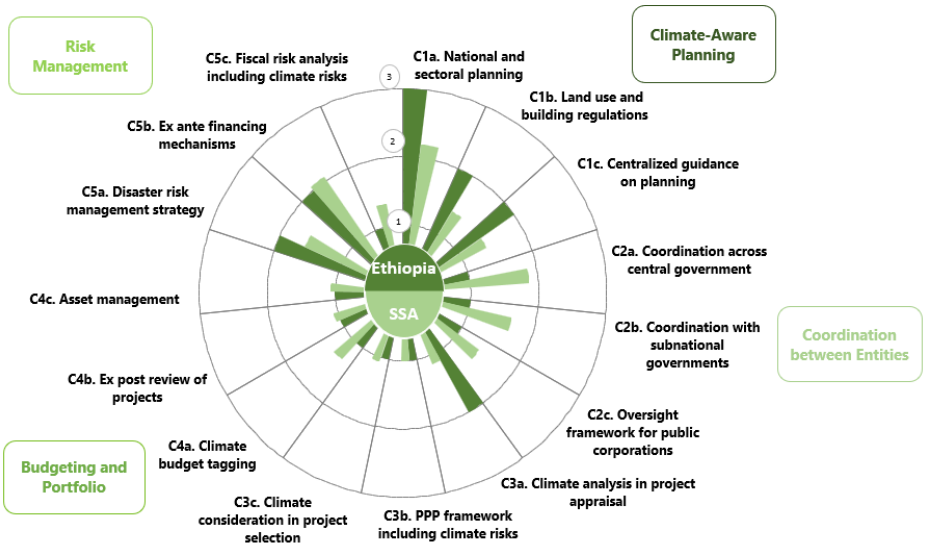
This report makes targeted recommendations to strengthen public investment management and its climate sensitivity. A thorough review of the projects comprising the public investment program is recommended. This should determine the cost of implementing existing projects, identify low value projects to be canceled or de-scoped, and determine the room for new capital projects in the future. Other recommendations include sharpening the focus on the largest projects during planning and implementation (including strengthened quarterly portfolio reporting and risk management); coordinating investment approvals across funding sources; strengthening PPP risk oversight in anticipation of an expanding PPP portfolio and increased exposure to climate risk; improving maintenance practices; improving climate hazard identification and preparedness for public infrastructure management; and ensuring coordination in the development of information management systems. Table 3 summarizes the report's recommendations, which are supported by an Action plan at Annex 1.

[1] Refers to years under the Ethiopian calendar. Ethiopia's calendar is currently seven years back from the Gregorian calendar. Ethiopian year 2016 corresponds with 2024 in the Gregorian Calendar.

Figure 1. Ethiopia PIMA: Institutional Design and Effectiveness

Source: IMF Staff calculations

Figure 2. Ethiopia Climate-PIMA: Institutional Design compared to Sub Saharan Africa



Source: IMF Staff calculations

Table 1. PIMA Summary Assessment for Ethiopia

Phase/Institution			Institutional Strength	Effectiveness	Reform priority
A. Planning	1	**Fiscal targets and rules**	LOW. There is a medium-term fiscal framework but no debt target or permanent fiscal rules.	MEDIUM. The fiscal framework has been moderately effective in guiding capital spending.	**Medium**
	2	**National and sectoral planning**	HIGH. There is a national development plan, sector strategies with measurable targets and some information on project costs.	HIGH. Investments included in the budget are largely in line with plans and output and outcome indicators are used extensively.	**Low**
	3	**Coordination between entities**	MEDIUM. Transfers to regions are rule-based but plans are not coordinated; SOE contingent liabilities are reported, but not for regions and PPPs.	MEDIUM. Informal communication aids coordination but regions are not notified within six months of fiscal year of transfers.	**Low**
	4	**Project appraisal**	MEDIUM. There are standard appraisal methodologies, taking risk into account, but limited central support provided.	MEDIUM. Projects are systematically appraised using the standard methodology but there is inadequate treatment of risk.	**High**
	5	**Alternative infrastructure financing**	MEDIUM. Some markets have opened, PPP policies have been established and there is monitoring of SOE investment.	MEDIUM. Private sector participation and PPP investment are low, but there is good sharing of information on SOE investment.	**High**
B. Allocation	6	**Multi-year budgeting**	MEDIUM. The MEFF includes indicative multiyear capital projections, but the detailed budget has a one-year focus.	LOW. Multi-year ceilings and total project costs are not published but MEFF capital forecasts align with subsequent budgets.	**Medium**
	7	**Budget comprehensive-ness and unity**	MEDIUM. The capital budget is comprehensive, with few extra-budgetary entities, but SOEs and PPPs are excluded.	MEDIUM. Investment by extra-budgetary entities is low; capital and current costs of projects are coordinated.	**Low**
	8	**Budgeting for investment**	MEDIUM. Total project costs are not shown in the budget; virement from capital to current is prohibited; funding for ongoing projects is prioritized for one year only.	MEDIUM. Total project costs are not included, but virement rules are enforced and funding for ongoing projects has been increased.	**Low**
	9	**Maintenance funding**	MEDIUM. Standard methodologies exist for routine and capital maintenance, the chart of accounts identifies maintenance spending, but plans do not.	LOW. Funding for maintenance is less than needed to preserve asset values and the level of maintenance funding is not transparent.	**Medium**
	10	**Project selection**	LOW. Project proposals are scrutinized by the MoPD, but selection criteria are general with no requirement for a project pipeline.	MEDIUM. Standard criteria are not used, but there is effective central project scrutiny, and a project pipeline is being developed.	**High**
C. Implementation	11	**Procurement**	MEDIUM. The law requires competitive tendering and provisions for complaints review, but there is limited information, and the procurement database is incomplete.	LOW. There is a lack of critical relevant data on competitive procurement and no procurement monitoring reports, but the complaints process is timely.	**High**
	12	**Availability of funding**	MEDIUM. Cash forecasts are updated monthly but prompt payment is not protected.	MEDIUM. Monthly cash plans change frequently causing occasional cash rationing; information on donor project funds is readily available.	**Medium**
	13	**Portfolio management and oversight**	MEDIUM. There is monitoring of strategic projects. Provisions to reallocate and requirements for ex-post review exist.	MEDIUM. There is some central portfolio monitoring and management, but ex-post reviews are not conducted in practice.	**High**
	14	**Management of project implementation**	MEDIUM. Governance arrangements for project implementation are required, there are some rules for project adjustment and Auditor General can audit projects.	MEDIUM. Major projects have implementation plans and there have been audits of major projects but rules for adjustment are not routinely applied.	**Medium**
	15	**Monitoring of public assets**	MEDIUM. Regulations require comprehensive asset registers, taking account of asset condition and depreciation, but not regular revaluation.	LOW. Public bodies maintain their own asset registers but there is no consolidated asset register and total asset values are not included in government financial accounts.	**Low**

Table 2. Climate-PIMA Summary Assessment for Ethiopia

Phase/Institution			Institutional Strength	Reform priority
PIMA Climate Change	C1	Climate-aware planning	MEDIUM. Strategies are comprehensive and generally consistent with national targets, though there is scope to improve alignment of urban plans with climate goals.	Low
	C2	Coordination between entities	LOW. There is no formal process for coordinating financing decisions for climate related projects among federal agencies, PPPs, donors, or regions; SOEs are not required to consider climate change in their investment decisions.	Medium
	C3	Project appraisal and selection	LOW. The appraisal of major projects requires some climate analysis, but climate change is not reflected in investment project selection or PPP contract processes.	High
	C4	Budgeting and portfolio management	LOW. There is no identification of climate expenditures in the budget, ex post reviews do not examine the climate performance of projects and there are no policies to estimate the additional maintenance cost caused by climate change.	Medium
	C5	Risk management	MEDIUM. There is a disaster risk management strategy and a contingency budget for unforeseen events, but no analysis of climate risks to infrastructure, or climate related fiscal risk analysis.	Medium

Table 3. Summarized PIMA and Climate-PIMA Recommendations

Investment Planning		
1	Improve clarity of roles and responsibilities for public investment management between ministries. • Prepare a document for ministries describing the coordination mechanisms for public investment and the process to seek budget / other financing approvals (MoPD and MoF, Sept 2024). • Issue regulations to clarify roles of MoPD and MoF in project selection, monitoring and reporting. (MoPD and MoF, Jun 2025). • Review optimal financing of major projects before approval (eg. PPP v external grant/loan v commercial v budget) (MoF, immediate)	High
2	Improve the accuracy of cost and schedule estimates of major projects prior to approval and strengthen contingency management for major projects. (MoPD & MoF, Dec 2024/ MoF, Jun 2025).	High
3	Improve information available on PPP risks; and improve tools and techniques for assessing the risk of guarantee proposals. (MoF, Jun 2025).	Medium
4	Prioritize existing projects in the next budget while undertaking a review of ongoing projects and their costs to complete, canceling low value projects and determining fiscal space for new capital projects. (MoF and MoPD, Dec 2024).	High

Investment Allocation		
5	Improve budget disclosure of the total costs of projects and the evolution of the capital program. (MoF & MoPD, Dec 2025)	Medium
6	Determine a small set of selection criteria to prioritize projects for inclusion in the budget and publish these in a new Public Projects Administration and Management Regulation. (MoF/MoPD, Dec 2024)	High
7	Develop plans for information systems to support capital program management, reporting, monitoring that are coordinated, interoperable and avoid duplication. (MoF and MoPD, Dec 2025)	High
Investment Implementation		
8	Build on the Development Plan Monitoring and Evaluation System to compile a quarterly report on the full portfolio of large projects, including SOEs. (MoPD, Dec 2024)	High
9	Use competitive international procurement as the default in all major investment projects; publish quarterly reports on procurement activity; and publish all tenders and details of contract award immediately on completion of the tender process. (PPA, various)	Med
10	Improve framework for determining maintenance needs and allocations, and establish leadership responsibility in a central government ministry (2026)	Low
Climate-Sensitive Public Investment Management		
11	Improve the role of climate in project feasibility studies and selection decisions. • Adopt and apply a methodology to standardize the quantification and the pricing of GHG emissions in feasibility studies (Low, MoPD, Dec 2024) • Ensure that PPP contracts on infrastructure (particularly power sector projects) are explicit on climate risk allocation (High, MoF and MoPD, Dec 2024) • Include climate in published project selection criteria; include climate information in project profile template; and include climate expertise in advice and review of budget proposals (Med, MoPD, Jun 2025)	Low/ Med/ High
12	Improve tracking of climate expenditures and outcomes. • Implement a system to identify and track climate related expenditures to measure progress against the NDC target (MoF and MoPD, Dec 2025). • Develop estimates of long-run climate fiscal risks and consider publishing as part of a fiscal risk statement (MoF, Jun 2026) • Ensure ex-post reviews include an assessment of major projects against stated climate related objectives (MoPD, end 2025).	Med
13	Expand incorporation of future climate hazards into disaster risk management. • Review need for more frequent natural disaster risk plans (NDRMC, Dec 2026) • Enhance the disaster risk profiling being done at Woreda level to include an assessment of likely future climate hazards (NDRMC, Jun 2025). • Use the data to inform revised provisions on spatial and urban planning that seek to minimize development in areas that may be at high risk of climate hazards (NDRMC with MoPD and Ministry of Urban Infrastructure, Jun 2026).	Med

I. Public Investment in Ethiopia

A. Public Investment, Capital Stock and Fiscal Policy

1. Public investment in Ethiopia is constrained by the prevailing fiscal environment. Since 2004, Ethiopia has achieved impressive and consistently high rates of economic growth (Figure 1.1). While economic growth has slowed recently, it remains high 6.2 percent in 2024).[2] Even so, while gross general government debt has fallen from a peak of 151 percent of GDP in 1994, in more recent years debt has been rising, from 30 percent of GDP in 2008 to 47 percent of GDP in 2022 (Figure 1.2). As a result of an increase in external borrowing and weak export performance that limited access to foreign currency, in 2020, Ethiopia's government acknowledged that the country was in debt distress.[3] In addition, government revenue has fallen to 8.5 percent of GDP in 2022, a level that is well below other countries in Sub-Saharan Africa.[4] External borrowing constraints, high security related expenditure and falling revenues have led to the government taking action to constrain expenditure. This has led to the government cutting public investment to an estimated 5.3 percent of GDP by 2022.[5]

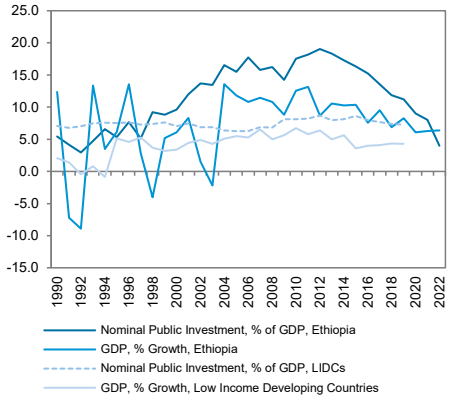
[2] Source: IMF World Economic Outlook, October 2023

[3] Source: Homegrown Economic Reform Agenda, 2020, The Federal Democratic Republic of Ethiopia: Request for an Arrangement Under the Extended Credit Facility—Debt Sustainability Analysis in: IMF Staff Country Reports Volume 2024 Issue 253 (2024).

[4] Source: IMF World Economic Outlook, April 2024.

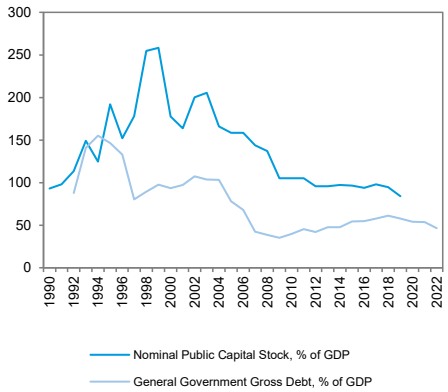
[5] IMF Staff estimate.

Figure 1.1 Public Investment Trends



Sources: IMF International Capital Stock Database, World Economic Outlook (April 2024) and Cepheus Ethiopia Macroeconomic Handbook (2023)

Figure 1.2 Capital Stock and Government Debt



Source: IMF International Capital Stock Database and World Economic Outlook (April 2024)

2. Ethiopia has historically achieved relatively high and stable levels of public investment. Public investment in Ethiopia ranged between 10 and 20 percent of GDP between 2000 and 2019, consistently exceeding the average across low income developing countries over this period of 7.4 percent (Figure 1.3).[6] Between 2014 and 2019, some 48.5 percent of the budget was spent on capital expenditure. Ethiopia's average capital expenditure of 14.2 percent of GDP was the second highest proportion of capital spending amongst low income developing countries between 2014 and 2019.

[7] This comparison is before the impacts of the internal conflict on capital stock which was not estimated in this report.

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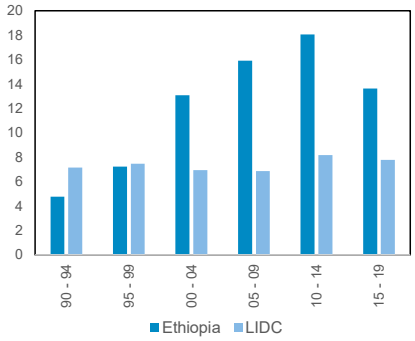
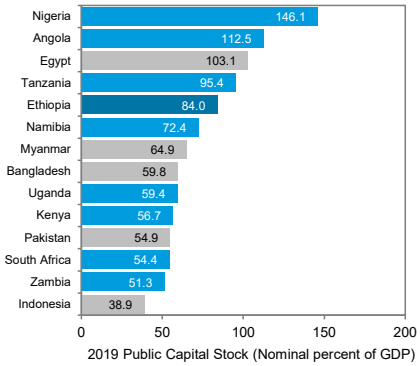
Figure 1.3 Average Public Investment 1990 to 2019 (Percent of GDP)



Source: IMF International Capital Stock Database

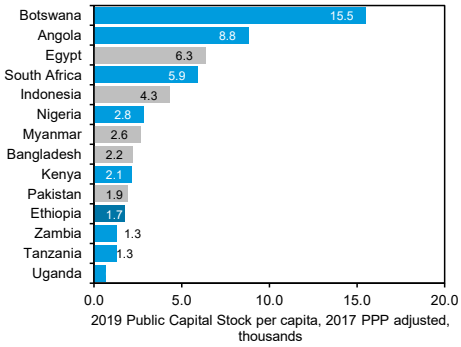
Figure 1.4 Public Capital Stock



Source: IMF International Capital Stock Database

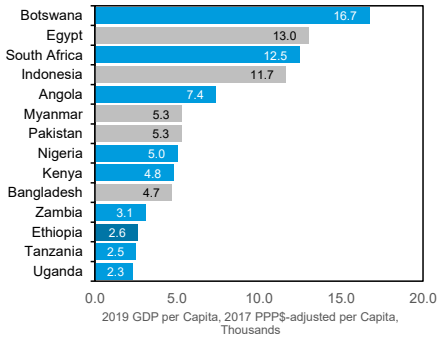
3. Despite high levels investment, Ethiopia's public capital stock is in line with peers (Figure 1.4). At 84 percent of GDP in 2019, Ethiopia's public capital stock places the country in the upper half relative to peer countries in Sub-Saharan Africa (which are shown in blue in the following figures). When comparing on a per capita basis, Ethiopia's public capital stock is towards the lower half amongst peer countries (Figure 1.5), in line with its ranking in in terms of GDP per capita (Figure 1.6).[7]

Figure 1.5 Public Capital Stock per Capita



Source: IMF International Capital Stock Database

Figure 1.6 GDP per Capita

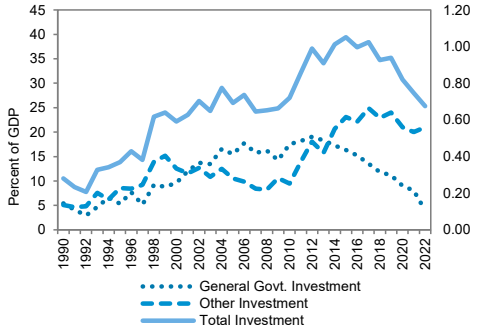


Source: IMF International Capital Stock Database

[7] This comparison is before the impacts of the internal conflict on capital stock which was not estimated in this report.

4. On average over the six years to 2022, 39 percent of public investment was undertaken by SOEs.[8] An IMF report assessing Ethiopia's public sector balance sheet estimated that 37 percent of the stock of public sector capital is owned by public corporations and was valued at 46 percent of GDP in 2020.[9] IMF's Capital Stock Database includes public corporations/SOEs under private sector so while cross-country comparisons will be consistent, this may under-report the full extent of public sector investment. Measures of total investment (including SOE, general government, and private investment) in Ethiopia have generally increased, from 10 percent of GDP in 1990, to 35.2 percent of GDP in 2019 falling slightly to 25.3 percent of GDP in 2022 (Figure 1.7).[10]

Figure 1.7 Investment Trends in Ethiopia



Source: IMF International Capital Stock Database, Cepheus (2023), IMF WEO (October 2023)

5. Ethiopia's HGER announced a shift in the country's reliance on public sector investment growth model in favor of a greater role for private sector development. The reform program was intended to achieve price stability, reduce the risk of debt distress and rebalance the role of the public and private sectors. This includes reforms to increase Ethiopia's attractiveness as a destination for foreign direct investment, steps to liberalize key infrastructure markets like telecoms and power, and other measures to improve public investment performance.[11] Shocks since then, including the COVID-19 pandemic and armed conflict in some parts of the country, have made assessments of progress against the plan difficult. The Government's own review of the HGER noted progress in debt reduction and SOE reforms, but the increased reliance on monetary financing in the context of economic shocks contributed to a higher inflation rate, reaching 34 percent in 2021-22. Constraints on the availability of foreign exchange necessary for delivering infrastructure projects has compounded these challenges. The Government is launching a successor program: "HGER 2.0" to consider changes in the context of recent shocks and build on lessons learned from the first program.

B. Composition and Financing of Public Investment

6. Ethiopia dedicates relatively more of its capital budget to investment in roads and education than the average for low-income developing countries. In 2019, 67 percent of public capital expenditure was allocated to economic infrastructure including roads and transport. A further 27 percent was allocated to social infrastructure (Figure 1.8). This compares to 53 percent for economic

[8] Ethiopia Macroeconomic Handbook 2023, Cepheus Research and Analytics

[9] Source: IMF Ethiopia Public Sector Balance Sheet and oversight of State-Owned Enterprises report (2020)

[10] Source: IMF World Economic Outlook, October 2023

[11] Source: Federal Democratic Republic of Ethiopia. Policy Studies Institute (PSI). Assessment Report of the Homegrown Economic Reform (HGER) Agenda (2019-2022)

infrastructure and 21 percent for social infrastructure on average across low income developing countries (Figure 1.9). However, investment in defense is not captured in the data for Ethiopia and given the recent history of armed conflict so Figure 1.9 presents only non-defense spending. Table 1.1 presents a breakdown of the 10 largest government funded projects and the largest projects across funding sources.

Figure 1.8 Ethiopia: Composition of Public Investment

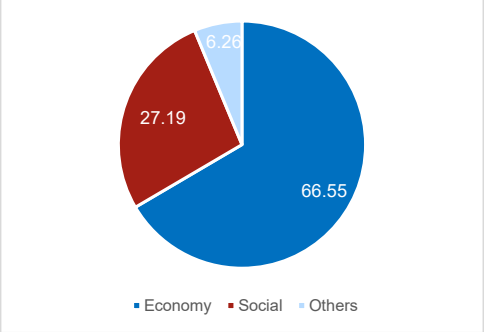
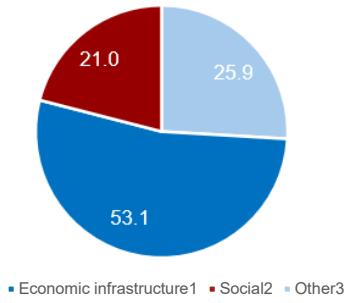


Figure 1.9 Composition of Low-Income Developing Countries Non-Defence Investment, 2019



Notes:
1 Economic infrastructure is proxied by economic affairs & includes public investment for transportation infrastructure & others.
2 Social comprises public investment in education, health, housing, social protection, and recreation and culture.
3 Other includes public investment for general public services, safety and public order, and environment.
Source: IMF International Capital Stock Database, Government of Ethiopia Budget e2014 (data for year e2013).

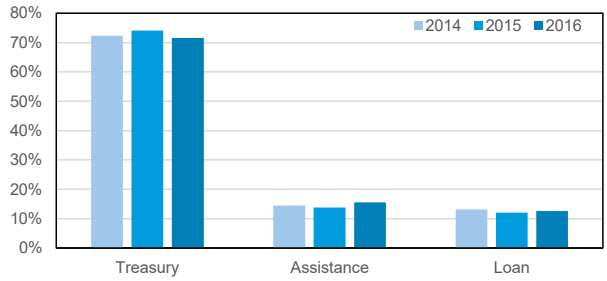
Table 4. Top 10 Projects in the e2016 Budget (USD)

Ministry	Description	Treasury Funded	Grant Assistance	Loan	Total
Ministry of Finance	Rehabilitation Project	352,000,000	0	0	352,000,000
Ethiopian Railway Corporation	Ethiopian Railway Project	70,400,000	0	0	70,400,000
Ministry of Agriculture	Amhara Safety net Project	27,810,774	20,753,432	0	48,564,206
Ministry of Urban and Infrastructure	Government Office Buildings and Housing Construction Project	27,326,155	0	0	27,326,155
Ministry of Agriculture	Oromia Productive Safety net Project	26,288,585	19,550,087	0	45,838,672
Ministry of Water and Energy	Water Supply Project in Drought Prone Areas	25,036,968	26,404	7,080,124	32,143,496
Ministry of Agriculture	Somale Productive Safety net Project	23,383,360	17,882,165	0	41,265,525
Ministry of Culture and Sport	National Stadium Construction	21,224,748	0	0	21,224,748
Hawassa University	Oxygen Plant Project	19,360,000	0	0	19,360,000
Ministry of Urban and Infrastructure	Arsi Negele - Hawassa	19,340,499	0	0	19,340,499
Ministry of Urban and Infrastructure	Addis Ababa Urban Productive Safety net and Job Project	17,217,977	34,957,712	0	52,175,689
Ministry of Urban and Infrastructure	Oromia Urban Productive Safety net and Job Project	15,228,468	30,918,384	0	46,146,852
Ministry of Health	Malaria Prevention and Control	3,611,520	50,536,636	0	54,148,156
Ministry of Water and Energy	23 Towns Sewerage Facilities	233,200	1,779,536	76,760,112	78,772,848
Ethiopian Maritime Authority	Trade Logistics Project	0	0	77,469,600	77,469,600
Ministry of Transport and Logistics	Transport System Improvement Project	0	0	46,550,397	46,550,397

Source: Ministry of Finance, Government of Ethiopia, and staff estimates.

7. Over the past three years (e2014 to e2016), on average three quarters (73 percent) of the capital budget was funded through taxes and retained revenue. A further 15 percent of the capital budget was funded through grants-based assistance and 12 percent was financed through loans from multilateral and bilateral sources (Figure 1.10).[12]

Figure 1.10 Financing of the Federal Capital Budget in Ethiopia

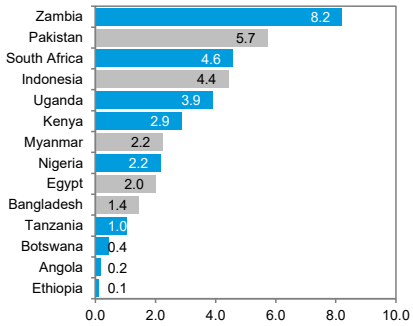


Note: Year is Ethiopian year.
Source: Ministry of Finance, Government of Ethiopia, and staff estimates

8. Over a quarter of the budget is executed by sub-national governments that may raise their own taxes and undertake their own capital investment. In Ethiopian year 2016, 27 percent of the budget was allocated to subsidies to the regions. Regional governments are then fully responsible for developing a budget which is authorized by regional parliaments. In practice, infrastructure in the regions can be implemented both by Federal and regional governments. Infrastructure built by the Federal government using Federal resources can be handed to the regional governments upon completion (eg. schools and hospitals).

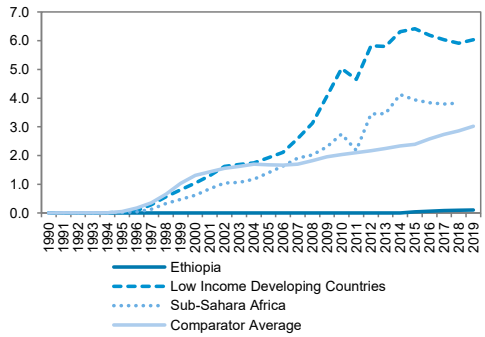
9. Ethiopia has made limited use of PPPs to date, but this is expected to increase. PPP capital stock was estimated at 0.1 percent of GDP in 2019, compared to 6 percent on average across low income developing countries (Figure 1.11, and 1.12).[13] At April 2024, the MoF has developed a pipeline of 34 PPPs at various stages of the project life-cycle and three PPPs are contracted.

Figure 1.11 2019 PPP Capital Stock (Nominal, percent of GDP)



Source: IMF International Capital Stock Database

Figure 1.12 PPP Capital Stock 1990-2019 (Nominal, percent of GDP)



Source: IMF International Capital Stock Database

[12] Source: Federal Republic of Ethiopia, Budget Proclamation Part 2, 2014, 2015, 2016

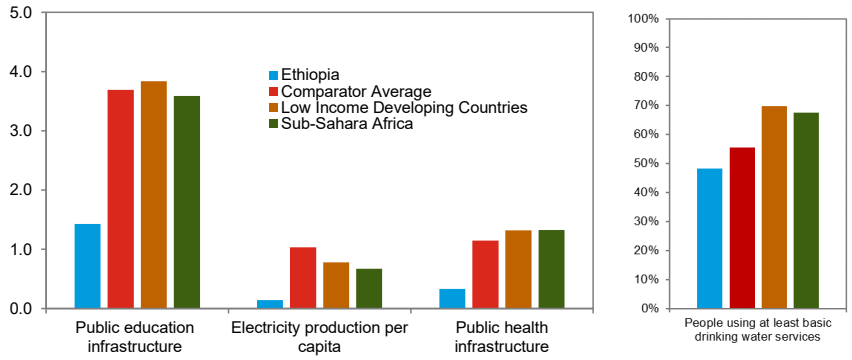
[13] Source: IMF Capital Stock Database

II. The Efficiency of Public Investment

10. The PIMA efficiency assessment is an input-output measure, comparing capital stock per capita (the input) to infrastructure delivered (the output).[14] The results for different countries are plotted, and the countries that achieve the highest scores on infrastructure access and quality perception define the efficiency frontier. Other countries are compared with this efficiency frontier to determine the efficiency gap for each country. The gap reflects how much higher the results of capital investment could be for a given level of capital stock. It is calculated using the information in this section.

11. Access to infrastructure in Ethiopia varies by sector but is generally much lower than in peer countries. Figure 2.1 shows some international proxy measures for access to infrastructure in Ethiopia and peer groups. Despite relatively high levels of public investment, Ethiopia performs well below peers on measures of access to public education, electricity, public health infrastructure, and access to basic drinking water services.

Figure 2.1 Global Measures of Public Infrastructure Access



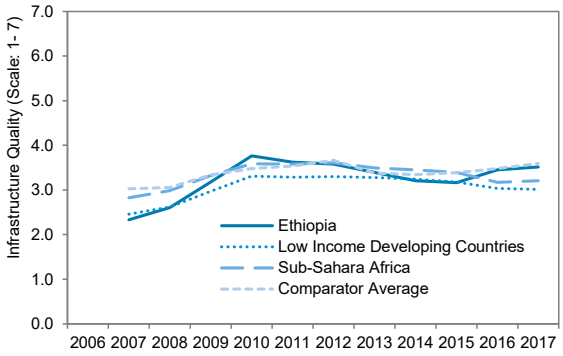
*Units vary to fit scale. Left hand axis: Public education infrastructure is measured as secondary teachers per 1,000 persons; Electricity production per capita as thousands of kWh per person; Roads per capita as km per 1,000 persons; and public health infrastructure as hospital beds per 1,000 persons. Right hand axis: percentage of people using at least basic water services. This indicator encompasses both people using basic water services as well as those using safely managed water services. Basic drinking water services is defined as drinking water from an improved source, provided collection time is not more than 30 minutes for a round trip. Improved water sources include piped water, boreholes or tubewells, protected dug wells, protected springs, and packaged or delivered water.
Source: Word Economic Forum and IMF Staff calculations

[14] See PIMA Handbook section at https://www.elibrary.imf.org/display/book/9781513571829/CH002.xml#CH002fn04

12. Despite low access to infrastructure, Ethiopia achieved relatively high perceptions of infrastructure quality compared to peers. Perceived quality of infrastructure exceeded averages for low income developing countries. Perceptions of infrastructure quality in Ethiopia have also improved over time, and at a faster pace than the average for low income developing countries since 2015 (Figure 2.2).

13. The hybrid public investment efficiency gap in Ethiopia is estimated at 53 percent, which indicates that there is considerable potential to improve the access and quality of its infrastructure (Figure 2.4). The hybrid efficiency gap[15] is a measure of the potential quality and access to infrastructure given the existing level of capital stock per capita. Ethiopia's hybrid efficiency gap exceeds the average efficiency gap against all comparison groups sampled. Despite relatively high levels of investment, Ethiopia's scores for perceived physical infrastructure are within the range for comparable countries, as shown to the right in Figure 2.2. Ethiopia's physical efficiency gap was estimated at 96 percent[16] while its gap for infrastructure quality was marginally better than the average for low-income developing countries at 21 percent.[17] The gap indicates that the country is not fully utilizing capital expenditure to provide optimal access and quality of public services and infrastructure for its population.

Figure 2.2 Perceived Infrastructure Quality



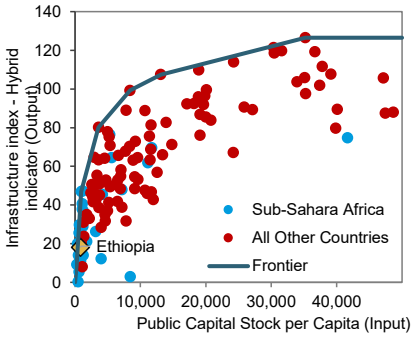
Source: World Economic Forum and staff estimates. The World Economic Forum surveys business leaders' impressions of the quality of key infrastructure services.

[15] See the 2015 IMF Staff Report "Making Public Investment More Efficient" for an outline of the methodology for estimating investment efficiency.

[16] This means that approximately 96 percent of the value of public infrastructure investment is lost through inefficiencies in the investment process compared to the most efficient comparable country on the efficiency frontier.

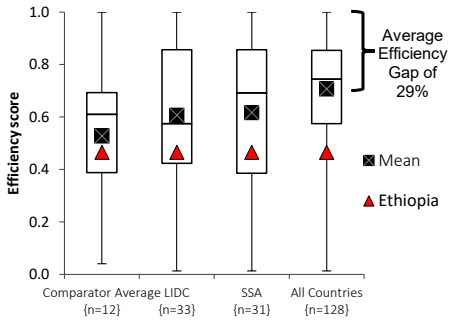
[17] Source: IMF Capital Stocks Database and IMF staff calculations

Figure 2.3 Public Investment Efficiency (Frontier, Hybrid Indicator)



Source: IMF Staff Estimates
Note: The hybrid indicator combines the physical and survey-based indicators into a synthetic index of the coverage and quality

Figure 2.4 Public Investment Efficiency (Benchmark based on Hybrid Indicator)



Source: IMF Staff Estimates
Note: The hybrid indicator combines the physical and survey-based indicators into a synthetic index of the coverage and quality.

III. Public Investment Management Institutions

A. The PIMA Framework

14. The IMF has developed the PIMA framework to assess the quality of the public investment management of a country. It identifies the strengths and weaknesses of institutions and is accompanied by practical recommendations to strengthen them and increase the efficiency of public investment. The tool evaluates 15 "institutions" involved in the three major stages of the public investment cycle (Figure 3.1). These are: (i) planning of investment levels for all public-sector entities to ensure sustainable levels of public investment; (ii) allocation of investments to appropriate sectors and projects, and (iii) delivering productive and durable public assets.

15. For each of these 15 institutions, three indicators are analyzed and scored according to a scale that determines whether the criterion is met in full, in part, or not met (see Annex 2 for the PIMA Questionnaire). Each dimension is scored on three aspects: institutional design, effectiveness, and reform priority:

- *Institutional design* refers to the objective facts indicating that appropriate institutional settings, policies, rules, and procedures are in place. The average score of the institutional design of three dimensions provides the score for the institution, which may be high, medium, or low.
- *Effectiveness* refers to the degree to which the intended purpose is being achieved or there is a clear useful impact. The average score of the effectiveness of the three dimensions provides the effectiveness score for the institution, which may be high, medium, or low.
- *Reform priority* refers to whether the issues contained within the institution are important to be improved in the specific conditions faced by Ethiopia.

Figure 3.1 PIMA Framework

Source: Public Investment Management Assessment Handbook.

The following sections provide a detailed assessment of Ethiopia according to this methodology.

B. Overall Assessment

16. Overall, Ethiopia scores marginally higher in the planning and implementation phases of the public investment cycle than in the allocation phase. One out of fifteen institutions scores highly for design (national and sectoral planning); most (12) are medium; and two are low (project selection and fiscal targets and rules). National and sectoral planning is the only institution with a high effectiveness score; and four institutions are rated as low on effectiveness (multi-year budgeting, maintenance, procurement and monitoring public assets).

17. On average Ethiopia scores marginally more highly for design than effectiveness. This is a trend often seen in PIMAs, reflecting the challenges of implementing good practices even where they have been prescribed. However, the size of the gap between the quality of design and effectiveness varies across institutions in Ethiopia and, in two institutions (fiscal targets and rules, and project selection), the score for effectiveness exceeds that of design. In several areas, past capacity development assistance provided by FAD has supported some of the higher scores.[18]

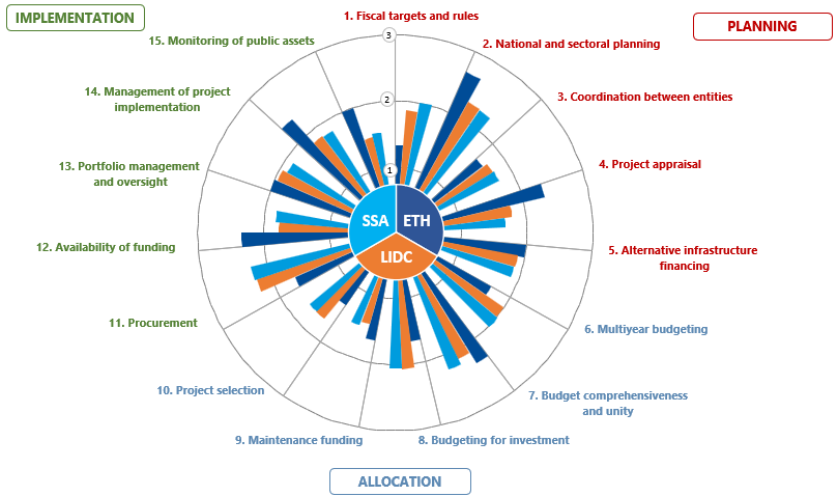
18. Ethiopia's scores for institutional design are in line with peers, but Ethiopia exceeds peers in terms of effectiveness. On institutional design, Ethiopia's performance is in line with the averages for both Sub-Saharan African and Low-Income Developing Country peers for which a PIMA Assessment has been finalized (Figure 3.2). On effectiveness, Ethiopia performs better than the average of peers, across all three phases of public investment management (Figure 3.3).

19. The scores reflect the current practices and frameworks in place in Ethiopia and do not reflect the preparatory work for planned reforms. The assessment focuses on the Federal Government. While the interactions with the regions are examined in the PIMA, an in-depth analysis of practices at the regional or Woreda level is not part of the PIMA.

20. This chapter provides a detailed assessment of Ethiopia's public investment management institutions. The following three sections of this chapter present supporting evidence for these ratings in the areas of planning, allocation and implementation. Chapter V explores cross-cutting issues across the PIMA and Climate-PIMA. The detailed dimension level scores for the PIMA are presented in Annex 3.

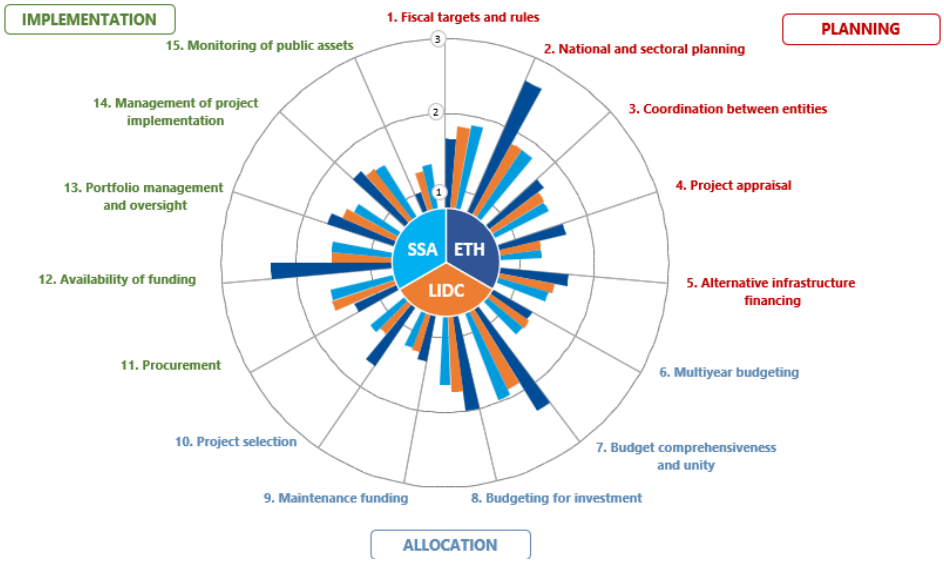
[18] Support from FAD has included PPP Fiscal Risk Management (January 2020); Strengthening the Approval and Oversight of State Owned Enterprise Major Investment Projects (August 2021); and Strengthening Project Appraisal and Selection (October 2021 and December 2022).

Figure 3.2 Design of Public Investment Management Institutions



Source: IMF Staff calculations. Note SSA is Sub-Saharan Africa and LIDC is Low income developing countries.

Figure 3.3 Effectiveness of Public Investment Management Institutions



Source: IMF Staff calculations. Note SSA is Sub-Saharan Africa and LIDC is Low income developing countries.

C. Investment Planning

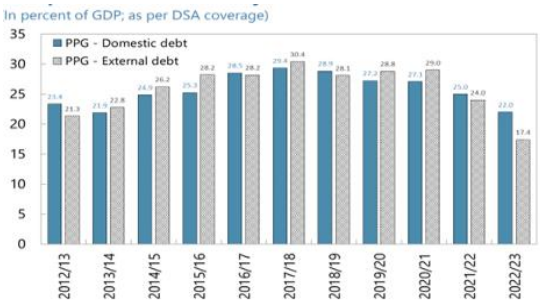
1. Fiscal Targets and Rules (Strength—Low; Effectiveness—Medium; Reform Priority: Medium)

21. A transparent framework and clear objectives to guide fiscal policy can enhance investment efficiency and align budgeting with planning of public investment. Fiscal rules support sustainable public finances that can bring stability to investment spending. The fiscal framework can also enable governments to protect public investment from downturns in the economic cycle. By adopting a medium-term fiscal framework, multiyear targets can be used to identify the resources available for completing existing projects and identifying new priorities.

22. Ethiopia does not have a debt target or permanent fiscal rules, but the MoF does produce a Medium-Term Fiscal Framework. Although Ethiopia undertakes a periodic Debt Sustainability Analysis, there is no formal debt target or limit. An informal deficit target has recently been used to guide budgetary policy, but there are no permanent fiscal rules. Medium-term fiscal aggregates are included in the Macroeconomic Fiscal Framework (MEFF) required under Proclamation 648/2009. The MEFF indicates the aggregate capital allocation for a five-year period but does not distinguish between resources available for new or ongoing projects.

23. The fiscal framework has been moderately effective in guiding capital spending. Although there are no permanent fiscal rules, debt has been reduced in recent years (Figure 3.4). The decline reflected lower disbursements to the Federal government, as official bilateral and market external creditors had mostly halted disbursements in response to Ethiopia's application for a debt treatment under the G20 Common Framework. Analysis of historical MEFFs compared to subsequent budget allocations shows broad alignment.

Figure 3.4 Public and Publicly Guaranteed Debt



Source: MoF and IMF staff calculations

24. The MoF should consider developing the MEFF further in future. A stable and predictable fiscal framework could support ministries in more effectively planning, allocating and implementing public investment. Publishing multi-annual estimates of capital allocations to ministries, and total costs of projects, would provide a better indication of capital costs in the years ahead. This could then be used to plan new and ongoing projects in light of the likely fiscal resources available. See Institution 6 for a further discussion of multi-year budgeting.

2. National and Sectoral Planning (Strength—High; Effectiveness—High; Reform Priority: Low)

25. Public investment should be framed by a strategic plan, incorporating realistic cost estimates and including measurable indicators to track progress and impact. Investment strategies and plans should be published and cover all public investment projects, irrespective of financing source. National plans should set the overall objectives and be supported by sectoral strategies that align with the overall goals. Plans should detail the critical major infrastructure projects to be pursued and include cost estimates, consistent with an overall financial constraint. To guide policy monitoring and evaluation, plans should include clear targets for outputs and outcomes to be realized from public investment.

26. Ethiopia has a national development plan, supported by sector strategies with costs and measurable targets to guide public investment. Chapter 6 of the Ten Years Development Plan identifies investment priorities in the main economic infrastructure sectors (transport, water, energy and innovation and technology) with most major projects identified across all financing sources.[19] The Plan sets out planned infrastructure spending by sector and shows how this fits into the fiscal framework. As part of a medium-term review of the Development Plan, detailed individual investment programs are being developed for each sector but the specific projects to be developed are not yet detailed in a consistent way across sectors. A range of output, result and impact indicators are detailed in the plan (see Box 3.1). These are reported on quarterly to the Office of the Prime Minister and an annual report on performance is prepared by MoPD.

[19] Planning and Development Commission (2020) *Ten Years Development Program – A Pathway to Prosperity, 2021-2030.*

Box 3.1 Objectives, Output and Outcome Indicators in the Ten Years Development Plan

Ethiopia's Ten Years Development Plan includes an Infrastructure Development Plan. Chapter 6 sets out goals across the four sectors of transport, water resources, energy and innovation and technology. Each sector has a set of specific objectives relating to expansion of infrastructure and is supported by a range of output, result and impact indicators. Some examples include:

- **Transport**: Build 102,000 km new roads; upgrade 28,000 km existing new roads; increase railway length by over 3,000 km; reduce road deaths by 70 percent; reduce transport greenhouse gases by 13 metric tons.
- **Water Resources**: Build integrated sewage networks for 100 cities; provide potable water and sanitation to all healthcare and education facilities; reduce the rate of water loss from 39 percent to 20 percent; eradicate excessive fluoride in drinking water.
- **Energy**: Raise power generation capacity from 4,478 megawatts to 19,900 megawatts; increase electricity export from 2,803 GWH to 7,184 GWH; increase the number of electricity customers from 5.8 million to 24.3 million; reduce power loss from 19.6 percent to 12.5 percent.
- **Innovation and Technology**: Build 20 new innovation, research and technology incubation centers and 8 technology centers; increase the potential workforce in the innovation, technology and research subsector to 5.7 million.

Progress against these targets is reported quarterly to the Office of the Prime Minister and an annual update report is also prepared.

Source: Ten Years Development Plan

27. Investments included in the budget are largely in line with plans, have broadly consistent cost estimates and output and outcome indicators are used extensively. While the Ten Years Development Plan has little project-specific information, sectoral plans include more details on the largest projects, and this is broadly consistent with subsequent budgets. Project costs in budgets and plans are broadly similar. Forthcoming ministry-level investment plans will set out three-year investment plans (see Box 3.2). Output and outcome information is extensively used by ministries and MoPD to monitor progress against targets. Each agency is required to report quarterly and annually to the Office of the Prime Minister. Performance is tracked on the Development Plan Monitoring and Evaluation System maintained by MoPD.

Box 3.2 Three-year Public Investment Planning

Ministries are currently preparing three-year investment plans. This is an important step in establishing a bridge between the objectives of the Ten Years Development Plan with budgetary planning over a nearer-term horizon. More detailed project-level information in sectoral plans will be a useful complement to the key performance indicators on outputs and outcomes that are reported on quarterly and annually.

The plans, which are currently being finalized, will be consistent with the MEFF and are expected to be published after the forthcoming budget.

Source: IMF team

28. Improving the comprehensiveness and coverage of public investment plans and strengthening the link between planning and budgeting is a medium reform priority. There should be more project specificity in planning documents, in particular relating to project costs. A strength of the existing approach is its use of a results-based framework. This could be improved-upon by incorporating more information on the specific investment projects that will deliver the desired outputs and outcomes.

Incorporating more detailed project information into investment strategies, particularly forecast project costs, will also tighten the link between planning and budgeting.

3. Coordination Between Entities (Strength— Medium; Effectiveness— Medium; Reform Priority: Low)

29. Coordination of investment plans between government entities with different institutional functions ensures that infrastructure is delivered in the right areas and with appropriate funding. Good coordination between national and local governments around investment planning and budgeting align development objectives and avoid duplication and waste of resources. Since regional governments depend to a large extent on government transfers, reasonable certainty about budget resources available for investment allows them to better plan investments. Given that investment projects are subject to uncertainty and risks that may impact the fiscal position of regional governments, SOEs, and the central government, it is important that these are disclosed and monitored.

30. Mechanisms for intergovernmental coordination of revenue sharing are in place but not for capital spending, while disclosure of contingent liabilities is in place for SOEs but not for regions or PPPs. The Ethiopian Constitution establishes a federal form of government, resulting in regions[20] having a wide latitude for deciding how to spend money. There is no formal intergovernmental arrangement for sharing public investment plans, discussion of those plans, or publishing approved public investment projects.[21] Regions are highly dependent financially on the federal government for a share of concurrent taxes[22] and for federal grants, which together cover 60 to 79 percent of regions' total expenditures on average in recent years. The formula for distributing these funds is determined by the House of Federation and is transparent and rule based. Regions should be notified of the grants they will receive by November 30 each year, about 7 months before the beginning of the fiscal year. [23] With regard to contingent liabilities, domestic borrowing by regions is allowed within limits, and with the prior approval of individual loans by the Minister of Finance.[24] However, there are no requirements for formally reporting regional debt. There are no legal provisions for assessing and disclosing contingent liabilities arising from PPPs being implemented. SOEs are required to report their financial position to the MoF, and to receive prior approval from MoF for major capital projects regardless of financing source.[25]

31. Processes follow system design for intergovernmental coordination, distribution of revenue to regions, and reporting of contingent liabilities, but the notification of revenue sharing

[20] For simplification, the term "regions" shall refer to the 12 regions plus two city administrations (Addis Ababa and Dire Dawa), and their sub-ordinated governmental units.

[21] Intergovernmental coordination mechanisms are not completely absent. A system of intergovernmental coordination that covers a broad range of issues not limited to public investment (see Proclamation 1231 / 2021 GC) is partially implemented at this time. The Ministry of Urban and Infrastructure focuses on coordinating projects, particularly as it relates to individual project implementation (for example, coordination of installation of utilities, such as electricity cables, water pipes, and drainage pipes). Regional presidents have substantial political power and can engage effectively with federal public bodies.

[22] Concurrent taxes are those that can be levied by both the federal and regional governments, which are collected by the federal government and then shared proportionately with regional governments.

[23] MoF directive 2 / 2003 EC.

[24] Proclamation 648 / 2009 EC Article 65.

[25] Established in the SOE proclamation and founding proclamation for the Public Enterprises Holding and Administration Agency.

amounts is delayed. In practice some coordination on public investment between government is taking place. The Ministry of Urban Planning meets quarterly on roads, hydro and communications sector issues with all regional governments, and sector level coordination mechanisms are reportedly working well. Provisions exist in Proclamation 1210 / 2020 assigning responsibility to regions to assist in implementation of federal projects in a region, but not their selection. The total size of the federal grant program to regions, which is not determined by formula, is approved as part of the federal budget just before the fiscal year begins, and regions are notified of their portion according to the distribution formula at that time, not November 30 as required by the directive. The House of Federation closely monitors disbursement of funds under the revenue sharing and grant programs and indicates that there is no pattern of significant delays in disbursement, or deviation in amounts.[26] There are no systematic informal methods of reporting or disclosing regional or PPP contingent liabilities. The system for reporting SOE contingent liabilities is conducted as directed in the legal framework.

32. Future improvements include clarifying roles of central ministries and monitoring of contingent liabilities arising during PPP implementation. Coordination within the Federal Government could be improved by reducing ambiguity about the respective roles of MoF, MoPD and other bodies in public investment management. The government is actively promoting the use of PPPs for financing and operating investments in the public interest. A total of three PPP contracts have been signed to date (one under the guidelines of the recently established PPP unit, and two prior to the PPP unit becoming operational), with at least 33 more under various stages of evaluation. Existing PPP guidelines focus on the process leading up to approval of a PPP contract but do not cover monitoring and reporting implementation of the PPPs. MoF should establish roles and responsibilities for mitigating fiscal risks arising from PPPs after a contract has been signed, which could be substantial.

4. Project Appraisal (Strength—Medium; Effectiveness—Medium; Reform Priority: High)

33. Rigorous, independent project appraisals that incorporate risk and are conducted in line with standard methodologies are a critical ingredient of good infrastructure governance. Major projects should be subject to consistent and systematic appraisal incorporating economic, financial and technical analysis. Project appraisals should be published and should compare the available options to deliver a policy outcome. The detail of analysis should be proportionate to the scale of resources required for the project. Appraisals should be governed by a standard methodology (with sectoral variation where necessary). Given the mounting evidence on the prevalence of cost and schedule overrun and benefits shortfall, project appraisals should make adequate provision for the impact of risk and uncertainty on the case for a public investment project.

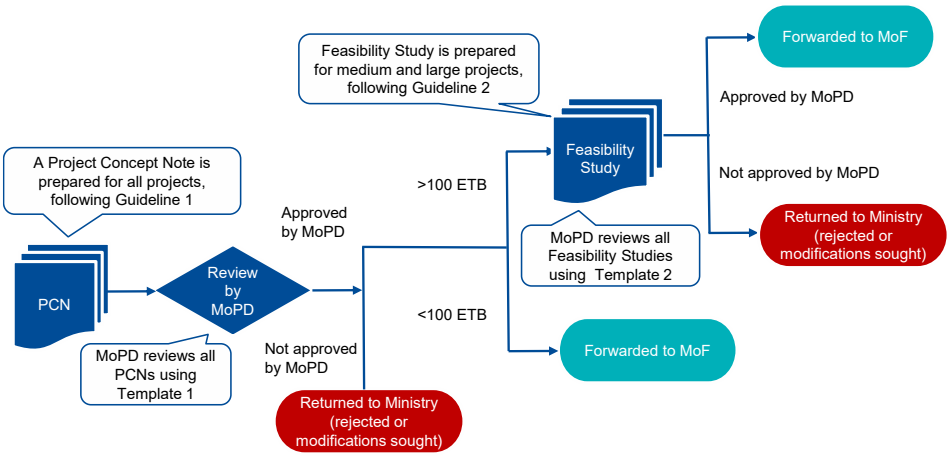
34. Major investment projects are required to be appraised according to standard methodologies, taking risk into account, although there is limited central support provided. Proclamation 1210/2020 details the requirements for appraising projects of all sizes, including both domestically and externally financed projects.[27] A series of Guidelines describes the steps required to prepare Project Concept Notes (PCNs) for all projects and Feasibility Studies for medium and large

[26] House of Federation staff, communicated to the IMF team on March 12, 2024.

[27] Federal Democratic Republic of Ethiopia (2020) *Proclamation No. 1210/2020. The Federal Government Public Projects and Administration and Management Systems*.

projects.[28] The standard methodology includes core components of financial and economic analysis, demand analysis, valuation of costs and benefits and climate screening of investment projects.[29] MoPD reviews PCNs and feasibility studies against a standard checklist. Projects are either forwarded to MoF for consideration in the Budget, returned to the sponsoring Ministry for further work, or rejected (see Figure 3.5). Guidelines provide standard steps for identifying, managing and mitigating project risks. This is supplemented by specific guidance on undertaking Climate and Disaster Risk Screening (see institution C3) and guidance for risk assessment in PPP projects.[30] MoPD has provided some limited support for line ministries and regional states, including training on integrated investment appraisal.

Figure 3.5 Ethiopia's Project Appraisal and Approval System



Source: IMF Analysis of Proclamation 1210/2020, Guidelines 1-6 and Templates 1-6.

35. Projects are systematically appraised using the standard methodology, but there is no evidence that appraisals include assessment of project risk. There is evidence that the appraisal processes provided under Proclamation 1210/2020 are applied and actively being used to screen out weaker proposals (see Institution 10 – Project Selection for further discussion). Assurance activities undertaken by MoPD aim to ensure that the standard methodology is being applied by project proponents. The IMF team did not see evidence that risk was being systematically used in project appraisals in practice.

[28] Small, medium and large and determined by financial thresholds: <100 million ETB; 100 million – 1 billion ETB; and >1 billion ETB respectively.

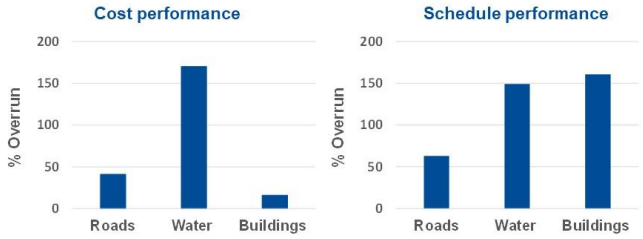
[29] MoPD advised that sector specific project appraisal guidelines/manuals have been under development for the road sector, agriculture sector, and education sector in order to appraise projects as per the sectors specific guidelines/manuals.

[30] Ministry of Finance (2021) *Preparation of General and Sector Specific Implementation Guidelines for Public Private Partnerships*

Box 3.3 Risk and Cost Overrun in Ethiopia

Across all regions there is mounting evidence of the prevalence of cost overrun and schedule delay in major investment projects. Optimism bias and under-estimation of risk during the project preparation phase can lead to unrealistic cost estimates. This phenomenon has also been observed in Ethiopia, as shown below.

Project Cost and Schedule Overrun in Ethiopia



Source: CoST (2016) Aggregation Analysis and Synthesis of Disclosure and Assurance Reports of Construction Projects Covered by CoST Ethiopia

These problems are compounded by macroeconomic uncertainty such as inflation and exchange rate volatility, underscoring the importance of adequate analysis of, and provision for, risk in project appraisal and cost estimation.

Source: IMF team

36. Closer scrutiny of major project risk is a high reform priority. There has been considerable reform of project appraisal practices in Ethiopia in recent years. This should be built upon by incorporating careful scrutiny of project risk into appraisal, selection, and, crucially, budgeting processes for major infrastructure projects.

5. Alternative Infrastructure Financing (Strength—Medium; Effectiveness—Medium; Reform Priority: High)

37. A favorable and stable investment climate for the private sector, PPPs and SOEs can complement good public investment processes and aid delivery of quality infrastructure. Where there is an appropriate regulatory framework, the private sector can invest in contestable markets such as energy and telecoms, increasing overall infrastructure spending and service coverage. Similarly, a consistent legal and regulatory framework can guide the selection, contracting and management of PPP-financed projects. Finally, an important element of the investment planning phase are clear mechanisms for central government to oversee and monitor financial performance of public investment by SOEs.

38. There has been some market liberalization, PPP policies have been established, and steps taken to improve SOE investment monitoring and coordination. The telecommunications market was liberalized as part of the HGER agenda, including announcement of the issuance of new licenses for mobile operators and a partial sale of the government-owned monopoly Ethio Telecom was also

proposed.[31] The Ethiopian Communications Authority was established by law in 2019.[32] In the power sector, Proclamation 810/2013 contains provisions to license various activities including generation, transmission, and distribution.[33] The Ethiopian Energy Authority regulates the market, but previous analysis has found it to be insufficiently independent of government.[34] There is a well-developed PPP framework, comprising laws, directives and guidelines (see Box 3.4). A regulatory requirement for SOEs to provide quarterly and annual updates on investment progress and forward-looking details on investment plans annually have recently been strengthened in an updated SOE law.[35] Limits on foreign investment also constrain public infrastructure development.

Box 3.4 The Policy and Regulatory Framework for PPPs

The PPP framework in Ethiopia is shaped by an overall national policy that is consistent with wider national strategies such as the Home Grown Economic Reform agenda. This is supported by law, directives and guidelines.

Main elements of the Policy and Regulatory Framework for PPPs

Source: IMF team

39. In practice, market penetration by the private sector is low and PPP investment is modest to date although there is good sharing of information on SOE investment. A second mobile phone license was issued in October 2022 and the market share of the new entrant is currently 6 percent.[36] Despite market liberalization in the electricity market, the level of competition is low, and some market conditions continue to inhibit private sector participation.[37] The level of PPP investment is low, although

[31] Federal Democratic Republic of Ethiopia (2020) *A Homegrown Economic Reform Agenda: A Pathway to Prosperity*

[32] Federal Democratic Republic of Ethiopia (2019) *Proclamation No.1148/2019 Communications Service Proclamation*

[33] Federal Democratic Republic of Ethiopia (2013) *Proclamation No. 810/2013 Energy Proclamation*

[34] United Nations Economic Commission for Africa (2021) *Regulatory Review of the Electricity Market in Ethiopia: Towards Crowding-in Private Sector Investment*

[35] Including a provision for the holding entities to establish a system to monitor and evaluate the performance of SOEs using financial and operational performance indicators and publish an annual aggregate report on the performance of SOEs on their websites.

[36] Data received from Ethiopia Communications Authority, March 2024.

[37] United Nations Economic Commission for Africa (2021) *Regulatory Review of the Electricity Market in Ethiopia: Towards Crowding-in Private Sector Investment*

there are currently 34 projects in the pipeline, at various stages of the life-cycle. Ethiopian Investment Holdings (EIH) monitors investment plans and performance of individual SOEs. In 2023 the Public Enterprise Holding and Administration (PEHA) published a consolidated report incorporating the investment plans and progress of the SOEs under its remit.[38] The report provides forward plans and updates against targets but tends to relate to thematic objectives rather than specific projects and is not reported in a standard format.

40. Continuing to foster private investment in infrastructure is a high reform priority for Ethiopia. The HGER agenda contains a range of important actions to incentivize private investment in pivotal sectors such as telecoms, energy and transport. These should be complemented through creating the right regulatory environment for the private sector to operate. In addition, plans to increase the use of PPPs must be accompanied by steps to identify, manage and mitigate the high degree of fiscal risk associated with this financing mode.[39]

Recommendations on Investment Planning

Issue: There is ambiguity about the specific roles of MoF, MoPD and other bodies in public investment management.

Recommendation 1: Improve clarity of roles and responsibilities for public investment management between ministries (MoPD and MoF, Jun 2025, High).

- Prepare a document describing the coordination mechanisms for public investment and describing the process to seek budget and other financing approvals. (MoPD and MoF, Sept 2024).
- Review optimal financing of major projects before approval (eg. PPP v external grant/loan v commercial v budget) (MoF, immediate)
- Issue regulations to give effect to key provisions of Proclamation 1210/2020 and clarify roles of MoPD and MoF in project selection, monitoring and reporting. (MoPD and MoF, Jun 2025).

Issue: There is insufficient consideration of risk in project preparation, costing and budgeting.

Recommendation 2: Incorporate a comprehensive assessment of project risk in major projects (MoPD and MoF, Dec 2024, High).

- Improve the accuracy of cost and schedule estimates of major projects by incorporating realistic assessments of project risk prior to approval (MoPD and MoF, Dec 2024).
- Make provision for contingency within project budgets prior to approval and establish rules for releasing project contingency (MoPD and MoF, Dec 2024).

[38] PEHA (2022) Annual Report - *A Consolidated Financial and Operational Performance Report Prepared by the Public Enterprises Holding and Administration*

[39] For more information see Irwin *et al.* (2018) *How to Control the Fiscal Costs of Public-Private Partnerships*

Issue: There are gaps in the framework for managing fiscal risk from infrastructure.

Recommendation 3: Strengthen monitoring and management of fiscal risks from infrastructure (MoF, Jun 2025, Medium).

- Require quarterly reports from PPP operators to the PPP Directorate, who provide a summary report for fiscal risks management purposes (MoF, Dec 2024)
- Introduce mechanism to regularly share information across governments on PPPs in operation and lessons learned (MoF and regions, Dec 2024)
- Improve tools and techniques for assessing the risk of guarantee proposals (MoF Debt Directorate, Jun 2025).

Issue 4: There is a large portfolio of ongoing projects and limited resources available to complete. Currently information is not compiled on the total cost to complete existing projects. Without this information it is not possible to determine what level of spending on new capital projects will be fiscally affordable. A review of the existing set of projects could update expected costs to complete ongoing projects, and determine which projects will achieve little or no positive net benefit and should be cancelled. Annex 4 contains a discussion of how a review can be conducted.

Recommendation 4: Strengthen prioritization and alignment of the capital program with fiscal capacity (MoF and MoPD, Dec 2024, High).

- Prioritize existing projects in next budget until fiscal capacity for new projects determined (MoF and MoPD, Jun 2024).
- Review ongoing projects and their costs to complete and urgent maintenance backlogs, and cancel low value projects (MoF and line Ministries, Dec 2024).
- Determine fiscal space for new capital projects for future budgets (MoF and line Ministries, Dec 2024).

D. Investment Allocation

6. Multi-year Budgeting (Strength— Medium; Effectiveness— Low; Reform Priority: Medium)

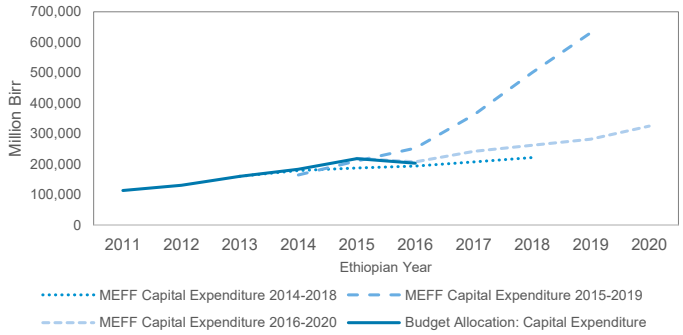
41. **Multi-year budgeting provides line ministries with forward visibility of resource availability and longer-term funding guidance for investment projects.** Major public investment projects take longer than the budget year to implement and have lumpy and volatile cost distributions, complicating capital budgeting. Providing agencies with reliable medium-term capital expenditure ceilings facilitates a more strategic approach to planning government service delivery.

42. **The government publishes a medium term macroeconomic and fiscal framework including indicative multiyear projections of total capital expenditure, but the detailed budget has a one-year focus.** Proclamation No 648/2009 establishes a requirement for the MoF to submit a macroeconomic and fiscal framework including estimates of recurrent and capital expenditure for three

consecutive years. The published MEFF includes 5-year projections of capital and recurrent expenditure. Consistent with the MEFF, MoF shares three-year ceilings for recurrent and capital expenditure with ministries one month ahead of budget preparation. The first year is binding and the detailed budget that is prepared by ministries, approved by parliament and published has an annual focus, in line with legislation. No projections of the total construction cost of major capital projects are published but project templates submitted to the MoF require ministries to report original and revised total project costs.

43. Multi-year ceilings and total project costs are not published, and it was not possible to assess the effectiveness of these ceilings in constraining spending at the ministry level. Aggregate capital expenditure forecasts relatively closely resemble actual budget allocations for capital expenditure. Between e2011 and e2014, aggregate capital expenditure allocations ranged between 86 percent and 124 percent of the MEFF forecast. Figure 3.6 shows the budget appropriations for aggregate capital expenditure and the different vintages of MEFF-projections for capital expenditure. The government does not publish multi-year indicative ceilings for capital expenditure at ministry level, and there was limited evidence that these were used to inform capital planning within agencies. It was also not possible to quantitatively assess the effectiveness of multi-year ceilings issued to ministries in constraining capital spending because this information is not available.

Figure 3.6 Capital Expenditure Appropriations and MEFF-Forecasts



Source: MoF: MEFF

44. Strengthening the multi-year framework to inform medium term capital expenditure planning is a reform priority. The publication in the budget of indicative multi-year capital ceilings for ministries would help increase awareness of the funding available in future years and help ministries more effectively prioritize their capital spending. In addition, MoF could include information in the budget on the total construction cost of major capital projects to aid transparency and accountability.

7. Budget Comprehensiveness and Unity (Strength—Medium; Effectiveness— Medium; Reform priority: Low)

45. Public investment projects, regardless of their financing and procurement methods, should be authorized by the legislature along with funds for operation and maintenance. Decision makers should evaluate spending proposals in light of all proposed projects, regardless of financing

source. This is necessary to select the most beneficial projects when there are financing constraints. Decisions should also consider the need for recurrent funding to operate and maintain capital projects.

46. The budget is somewhat comprehensive with regard to capital projects, with no significant capital spending by extra-budgetary funds, but SOE and PPP projects are not included. Four extra-budgetary entities exist[40]: Road Fund, Infrastructure Development Fund[41], Fuel Price Stabilization Fund, and Pension and Security Fund. None of these funds is currently used to finance significant public investments that would otherwise be in the budget.[42] The funds report their finances annually to the MoF Treasury and are reflected in the national financial statements. MoF directive 2/e2003 requires that the budget document include the following funding sources: treasury (including any domestic funding support for SOEs and PPPs), retained revenue (revenue collected by public bodies), assistance (funding from development partners), and loans. The budget is not required to include expenditures of SOEs from their own resources or PPP private investors. While MoPD prepares a project pipeline (see Institution 10), budget bodies present projects for budget funding along with their current budget request. Budget hearings are held in the MoF covering the full budget request. Therefore, capital and current budget requests are integrated in preparation and presentation of the budget request using a program classification.

47. Comprehensive information on major SOE and PPP projects is available outside budget documents but is not shared systematically, and care must be given to estimates of current costs of completed projects due to persistent project delays. Information on externally financed development projects is consistently presented in budget documents. Outside of budget documents, MoF is informed of SOE investment plans. Proclamations and directives relating to SOE oversight require that SOEs overseen by PEHA and EIH receive prior approval from MoF for major projects (See Institution 3). That said, project information collected in this way is not shared systematically with MoPD or with the MoF Budget Directorate. Given the large role SOEs play in the economy, this omission is significant. The MoF PPP unit seeks comments from the Budget Directorate and MoPD in the evaluation stages of a PPP proposal and thus keeps those units informed of potential PPP projects. Given that project completion is consistently delayed, the timing and size (which may change significantly due to high annual inflation) of expected demands on the current budget for operating the completed facility must be adjusted over time to maintain the usefulness of these estimates.

48. Systematic sharing by MoF of SOE investment plans would improve coordination with federal and regional government investment plans. SOEs comprise a significant share of the national economy. Consequently, much attention has been placed in recent years on adequate oversight of SOEs. This has resulted in the systematic collection by MoF of information on SOE investment projects. This information is useful not only to address fiscal risk to the federal budget but can also be used to enhance

[40] Discussions are ongoing to determine the appropriate classification of the Liability and Asset Management Corporation.

[41] The Industrial Development Fund no longer receives significant funding from SOEs since formation of EIH and the Liability and Asset Management Corporation that assumed most domestic SOE debt (9.3 percent of 2020/21 GDP) at inception, and a further one percent of GDP in loans and accumulated interest of financially weak and loss-making SOEs in May 2023.

[42] All federal road projects are funded through the budget, and while the Pension and Security Fund is used to develop large IT projects, these systems are for internal management of the pension system.

coordination with the general government's investment plans. Systematic and regular sharing of this information with MoF directorates, MoPD, and regions would contribute to this coordination.

8. Budgeting for Investment (Strength—Medium; Effectiveness—Medium; Reform priority: Low)

49. Lack of adequate budget funding may be an important cause of delays even for approved projects. Delays in implementing approved projects reduce budget credibility and increase costs. This is especially true for major projects implemented over multiple years. Delays may occur if decision makers are not aware of the total cost of a project when they first approve a project for inclusion in the budget, or if budget funding is not provided consistent with the original project plan.

50. Outlays are appropriated annually in Ethiopia, ongoing projects are given preference for funding, and capital spending is protected, but there is no information in budget documents on total cost to complete projects. Each project in the approved budget has a project profile, required in Proclamation 1210/2020 and accompanying directives. However, the total cost of a project, and the cost remaining to complete a multiyear project, are not shown for individual projects, or in the aggregate, in budget documents. Budget decision makers are made aware of the total cost of an individual project when discussing new projects for inclusion in the budget. The capital budget is protected during budget execution as transfers from capital to current spending are prohibited.[43] Financial commitments are required[44] but commitments cannot cross fiscal years. Completion of ongoing projects is not formally prioritized under a permanent or yearly rule.

51. Parliament is not informed of the total cost of projects, but virement rules protecting total capital spending are enforced and in practice funding for ongoing projects has been increased. Total costs of new and ongoing projects are not disclosed in any budget related document available to Parliament, either individually or in aggregate. Information on the total cost and implementation schedule for a project is not entered into the information system used to prepare the budget, the Integrated Budget and Expenditure (IBEX) system. As a result, it is not possible to report from the system, even for internal purposes, aggregate remaining cost to complete projects approved in the budget or to measure implementation delays. Rules preventing transfers from capital to recurrent spending are enforced, and there are infrequent supplementary budgets that could be used to achieve such transfers.[45] The government has implicitly acknowledged a disproportionately large number of ongoing projects by deciding to limit the number of new projects for inclusion in the eFY2016 budget but has not published information on the number of ongoing projects or aggregate size in terms of cost to complete.

52. The inability to systematically present the aggregate total cost of new projects and to identify the total amount of money needed to complete all ongoing projects in a timely manner is a significant shortcoming. Knowing the total cost, and the cost of completion, of a single project at any point in time is insufficient to address this problem. Only by viewing the aggregate cost of new projects and cost to complete ongoing projects by year in comparison to the medium-term fiscal forecasts is it

[43] See Proclamation 648 / e2009, Article 23.

[44] See Proclamation 648 / e2009, Article 32.

[45] Over the last three years, there has been one supplementary budget, in FY e2013.

possible to judge the size and affordability of the entire investment program and the scope if any, for new projects. Functional specifications are currently being drafted for a new Public Investment Management information system, in the MoPD, for use in tracking projects through the planning and appraisal process up to the point of budget approval (see Chapter V). At this time, it is unknown if the new system will be able to produce reports on changes to schedule, cost, and scope compared to the original project profile, and the aggregate cost to complete projects approved for budget funding.

9. Maintenance Funding (Institutional Strength—Medium; Effectiveness—Low; Reform Priority: Medium)

53. Adequate maintenance of public infrastructure assets preserves their quality and condition and ensures services through their intended useful life. This requires regular assessments of the condition of all types of infrastructure assets, methodologies to translate these and other factors (eg. road use patterns) into requirements for routine maintenance and major improvements. This information should also be reflected in the budget and planning processes. Asset condition is also impacted by climate change and natural hazards (see Chapter VI).

54. Central guidance has been issued to ensure that maintenance policies required by public bodies for routine and capital maintenance are in place, and funding for maintenance can be identified using the economic but not the program budget classification. Public bodies are required to keep a record of their fixed assets and establish a system of maintenance to ensure its economic and efficient service.[46] Standard routine and capital maintenance procedures have been issued by the Ethiopian Road Administration for federal roads, and by the Ministry of Urban and Infrastructure for federal buildings, which provide a basis for assessing maintenance needs. Road maintenance is carried out by the Ethiopian Road Administration in compliance with its own standards. Building maintenance is the responsibility of the public bodies officially assigned use of buildings. The Ministry of Urban and Infrastructure verifies that the terms of building maintenance contracts issued by public bodies are consistent with building maintenance standards but does not determine building maintenance needs for public bodies or inspect the maintenance carried out by them. Routine and capital maintenance expenses are identified in the economic classification of the IBEX Chart of Accounts codes 6243-45.[47] The program classification does not directly identify maintenance. Standard reports dedicated to budget funding for maintenance are not produced. The MoPD does not systematically identify capital maintenance projects in plans or when evaluating proposed projects, but does try to identify and define the scope and objectives of the engineering/maintenance projects in plans, i.e., ranging from minor repairs to major overhauls where possible.

55. In practice, the need for maintenance is measured for roads but not buildings, and information on budget funding to meet maintenance needs is somewhat available for roads but not buildings. Routine road maintenance needs are assessed using annual surveys and the Road Asset Management System. The Road Fund is dedicated to routine road maintenance and funded maintenance needs at about 60 percent in eFY2016 but data is not available for other sectors. Routine capital maintenance is assessed in the same way as routine maintenance. Capital maintenance funding is from

[46] See Federal Government Property Management, MoF directive 9 / 2003, Article 6.

[47] A different, but parallel, set of codes is used in the IFMIS to identify routine and capital maintenance.

the federal budget, which provided 24 percent of requested amounts in eFY2016, but this information was provided by the Ethiopian Roads Administration and could not be verified in budget documents. Building assessment needs are not systematically estimated and measuring the level of funding compared to need is not possible. Asset information, aside from roads, is not sufficient to provide a basis for assessing maintenance needs on the basis of replacement cost or standards costs. Budget funding for maintenance is transparent but can be attributed to classes of assets only generally through the public body and program under which the maintenance funding is shown. There is no evidence that maintenance is highlighted in budget requests, is a major topic of discussion in budget hearings, or is reported specifically in budget documents.

56. As Ethiopia increases spending on new infrastructure, it must simultaneously maintain those facilities appropriately and transparently to achieve their full benefit. All infrastructure has an engineering design life, and maintenance is necessary for the infrastructure to properly function for that period. If a road, for example, was designed to function for 40 years, but must be reconstructed after 25 years, then efficiency of public investment is reduced dramatically. Maintenance is often under-appreciated when competing for budget funding because many of the benefits of maintenance come in the future, even though the ratio of present value benefits to maintenance cost is high. Systems should be established to overcome the under-appreciation of maintenance which: measure maintenance needs, fund those needs, establish methods for effectively using those funds, and provide accountability for maintenance expenditures.[48]

10. Project Selection (Strength—Low; Effectiveness—Medium; Reform Priority: High)

57. Public investment efficiency and effectiveness are supported by robust and objective procedures to select the infrastructure projects and programs to be funded in the budget. The strongest infrastructure governance systems feature central review of projects and their appraisals prior to their prioritization. In addition to improving the impact of the overall investment portfolio, this can support better identification and management of risk in individual projects. The review process should ideally include input from qualified independent experts. Project selection should be guided by standard criteria and processes that are published and consistent across sectors and applied to a comprehensive pool of potential projects that have been appraised and are candidates for selection.

58. Project proposals are scrutinized by the MoPD, but there are no published selection criteria and there is no requirement for a pipeline of appraised projects. Proclamation 1210/2020 requires review of investment projects by MoPD. There are no specific selection criteria; the law simply refers to taking account of the overall macroeconomic position rather than the relative merit of a project compared to competing investment proposals, and nor are they formally documented anywhere else. There is no formal requirement for a pipeline of appraised investment projects that are available for selection in the budget process.

59. Selection decisions are not informed by standard criteria, although there are effective arrangements for central project scrutiny, and a project pipeline is being developed. Limited fiscal space means that there is little scope to add new projects, however where this happens it tends to be as

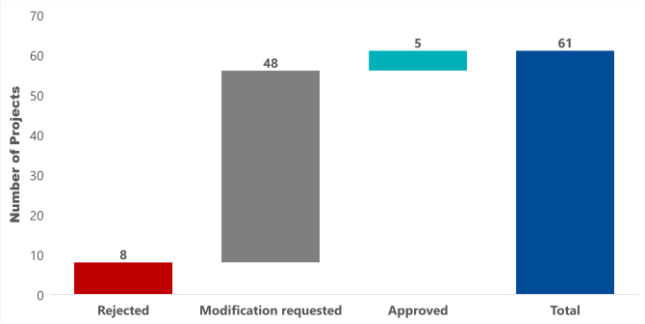
[48] A good model is the approach used by Estonia. See the PIMA Handbook for details.

part of the routine budget hearing process and not guided by established criteria. On the other hand, central review of project concept notes and feasibility studies appears effective in placing a focus on net present value and internal rate of return as well as screening out weak proposals or returning proposals for further refinement by the line ministry (Box 3.5). The MoPD has begun to develop a pipeline of appraised projects, consisting of those projects that progress through all PCN and feasibility stages described under Institution 4 – Project Appraisal. In parallel, the MoF maintains a pipeline of PPP projects at all stages of the lifecycle.

Box 3.5 Central Review of Project Proposals in Ethiopia

For a project appraisal and selection system to be effective, there must be meaningful scrutiny of project proposals and a high degree of rigor in assessing project concept notes and feasibility studies. This is likely to involve a significant number of projects being rejected or returned to a Ministry for further scrutiny. The figure below provides an overview of outcomes of appraisal review in Ethiopia in 2023.

Outcomes of MoPD Scrutiny, 2023



The rate of rejection or return will be substantially higher where processes for appraisal are new. As officials and project promoters build up their technical capacity, the quality of appraisals should increase. While this may lead to a reduction in the rate of rejection or return, a robust investment governance process is always likely to lead to rejection or returns of weaker proposals.

Source: IMF team analysis using data received from MoPD.

60. Establishing a more rigorous project selection process is a high reform priority. Ethiopia has made a lot of progress in project appraisal and selection in recent years. However, this work will only improve investment outcomes if it is used to make decisions about what projects to fund. There is a clear opportunity to build up a pipeline of appraised projects, establish relevant selection criteria and institute a robust and transparent process for selecting the projects that will benefit from scarce public resources.

Recommendations on Investment Allocation

Issue 5: There is insufficient information on public investment projects in the budget

Recommendation 5: Improve information on public investment projects in the budget (MoF & MoPD, Dec 2025, Medium)

- Establish an information system into which data is entered relating to total cost, spending by year, start and end date, and scope of each project as stated in the project profile. The original data must be preserved along with revisions. (Medium)
- Establish standard reports showing aggregate cost to completion of all approved projects, average cost overruns, and average delays in completion. (High)

Issue 6: Project selection is not governed by clear processes and transparent criteria

Recommendation 6: Strengthen project selection (MoF and MoPD, Dec 2024, High)

- Determine a small set of selection criteria to prioritize projects for inclusion in the budget and publish these in a new Public Projects Administration and Management Regulation.
    - E.g., relevance to the Ten Years' Plan / Long Term Low Emission Development Strategy; Economic case; Social impact and alignment with climate goals (MoPD, High, Dec 2024).

Issue 7: There is insufficient information available for decision-makers on the capital program.

Recommendation 8: Improve information available for decision-makers on the capital program (MoF and MoPD, High, Dec 2025)

- Develop plans for information systems to support capital program management, reporting, monitoring that coordinated, interoperable and avoid duplicated costs and effort.

E. Investment Implementation

11. Procurement (Strength—Medium; Effectiveness—Low; Reform Priority: High)

61. Public procurement is playing an increasingly strategic role in building modern infrastructure and delivering public services. Open competition for public procurement opportunities strengthens transparency, enhances efficiency, stimulates the supply side and helps build trust in government. A well-functioning system of information reporting and independent procedures for dealing with procurement complaints can further support better outcomes.

62. The law requires competitive tendering and provisions for complaints review, but there is inadequate publication of key information, and the procurement database is incomplete. Public procurement for federal budgetary bodies is regulated by the Public Procurement and Property Administration Proclamation No. 649/2009.[49] The Proclamation establishes the Federal Public Procurement and Property Administration Authority as the responsible body for regulation and monitoring of federal public procurement activities. The Authority publishes manuals, including relating to the

[49] Federal Government of Ethiopia (2009) *Proclamation No. 649/2009 The Ethiopian Federal Government Procurement and Property Administration Proclamation.* Note that the Regional States and two City Administrations have their own procurement proclamations.

complaints process and use of framework agreements. Ethiopia's public procurement regime has the following features:

- Open, competitive bidding is the default, but there are wide exceptions for use of restricted or direct-award procurements and some inconsistencies in the legal framework.[50]
- The current procurement framework does not mandate publication and disclosure of some key procurement-related documents, information, and decisions such as procurement award decisions.
- A new e-procurement system feeds a procurement database, but coverage is partial, with just 70 of 169 federal procuring agencies using the system at present. Further, not all of the procurement of these entities is through the system.
- The legal framework establishes a two-tier system for review of complaints from bidders. The Proclamation establishes deadlines and time periods for various steps in the review process. The initial review is conducted by the head of the procuring entity and the Complaint Review Board provides a second tier of review. Once a timely complaint has been received, the procuring entity may not award the contract until the complaint has been decided. Analysis by the World Bank shows scope to improve the independence of the process.[51] At present the framework does not mandate publication of outcomes of the complaints process.

63. There is a lack of critical relevant data to evaluate the level of competitive procurement and no procurement monitoring reports, but the complaints process is timely. The database is incomplete and analytical reports to monitor the operation of the system are not produced promptly. The Authority also compiles a high-level annual report on the use of various types of procurement modality, but these are not comprehensive and not timely: the most recent report covers e2013. Complaints are generally reviewed within the required timeframes and an annual report on the operation of the system is prepared by MoF.

64. Reform of public procurement is a high priority. A new procurement proclamation is currently under review. This is an opportunity to address existing short-comings and position the public procurement system to deliver better value for money in public investment. At present, the public procurement proclamation does not state that direct procurement is to be used only in exceptional circumstances. This should be addressed in the new law. Given their systemic importance in the delivery of infrastructure and public services more generally, SOEs should be covered by the new law. The range of inconsistencies in the legal framework identified by the World Bank procurement assessment should also be addressed.

12. Availability of Funding (Institutional Strength—Medium; Effectiveness—Medium; Reform Priority: Medium)

65. To implement public investment projects efficiently, ministries, departments and agencies must have certainty that funds will be made available for contractors to progress projects as

[50] For example, the World Bank's review of procurement in Ethiopia found there are inconsistencies between the dedicated procurement legislative framework and the Civil Code, the anticorruption law, and the Criminal Code.

[51] World Bank (2021) Methodology for assessing Procurement Systems - Assessment of the Public Procurement System, Volume I. Unpublished.

planned. This institution assesses whether ministries and agencies can plan and commit expenditure on capital projects based on reliable cash flow forecasts. When project proponents do not have certainty and payments are delayed, contract implementation can be delayed, project assets can become degraded, government may incur penalties, interest accumulates, and contractor trust in government declines.

66. Ethiopia has limited mechanisms to ensure prompt payment despite a system of annual cash plans, monthly cash flow forecasts, and reliable information on external financing available in the central bank. Cash plans set monthly expenditure limits on public body spending.[52] At the beginning of the fiscal year, each public body submits a plan consisting of 12 monthly estimates of expenditures to MoF, in total equal to the annual appropriation. Cash plans are updated monthly based on cash forecasts covering a rolling 3-month period. While the distribution of cash spending over 12 months may change for a public body, the total will not change unless there is a supplementary budget that alters the annual appropriation. Contracts may be issued that exceed the cash plans with the understanding that disbursements under those contracts will be constrained by the cash plans. While treasury payment procedures are detailed, there are no formal legal mechanisms to enforce prompt payment. For example, payables are defined as debt due in less than one year, resulting in the accounting system not formally identifying late payments.[53] That said, a grace period, or 13th month, has been established to allow, but not require, invoices presented at the end of the fiscal year to be paid in January using appropriation balances from the previous year. Agreements with development partners require project funds to be held in accounts in the National Bank of Ethiopia but outside the treasury single account.

67. In practice, the reliability of cash forecasts is mixed, and cash is sometimes not available when needed for project payments, but information on development partner in-country cash balances is readily available. Cash forecasts are performed monthly, as established in written procedures. Public body monthly cash plans change regularly, either voluntarily by public bodies themselves if their expenditure expectations change, or involuntarily by MoF if short term aggregate revenue estimates are less than expected and cannot be compensated by increased borrowing. When estimates of aggregate cash are lower than previously expected, MoF tends to first cut public body cash plans for capital expenditures. Thus, cash rationing has occurred regularly in the last two fiscal years. The effect on payments is difficult to measure as some construction-related invoices are withheld by public bodies and not entered into the IFMIS system. Because donor funds are held in the National Bank of Ethiopia, information on balances, inflows, and outflows, is up to date and available when required.

68. Attention has been paid to strengthening cash management in recent years but there remains room for improvement. In recent years revenue has been volatile due to internal conflicts and the COVID-19 pandemic. However, cash rationing, or the reduction in spending to meet cash availability, has many causes that are within the control of the government. Specific reform proposals in this area are beyond the scope of this assessment. Because a pattern of late payments will cause contractors to increase prices in anticipation of late payments, addressing this issue is worthwhile.

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[52] Cash plans are authorized and detailed in the Financial Management Proclamation 648 / e2009 Article 31, Federal Government Cash Management MoF directive 3 / e2003, and Financial Administration Council of Ministers regulation 190 / e2010, among others. Cash plans are not as effective as commitments in controlling expenditures, but generally serve the same purpose.

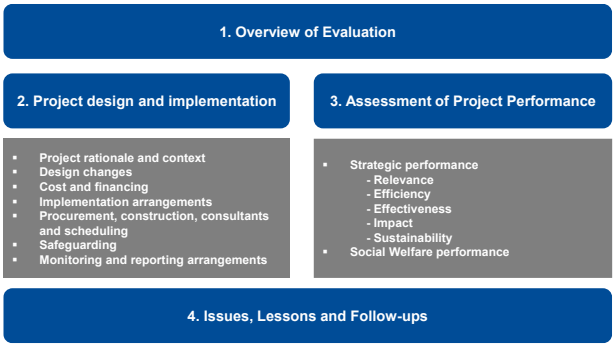
[53] See Federal Government Offices Accounting Guidelines, MoF directive 5 / e2003 definition of terms.

13. Portfolio Management and Oversight (Strength—Medium; Effectiveness—Medium; Reform Priority: High)

69. The portfolio of projects should be monitored during implementation, with mechanisms to reallocate between projects and evaluations to improve future project delivery. Comprehensive monitoring of both financial and physical progress can identify projects experiencing delays and risk of cost overruns or benefit shortfall in time for remedial action to be taken. Where there are delays, budget allocations can be shifted to those progressing ahead of schedule, thereby accelerating overall portfolio implementation. Carrying out structured ex-post reviews can help improve project preparation and implementation in the future.

70. There are legal provisions for central reporting of the portfolio of strategic investments and for reallocations between projects—and requirements for ex-post review. Under Proclamation 1210/2020 it is the responsibility of MoPD to develop a central database of project-related information, in collaboration with MoF.[54] MoF is required to ensure that the physical and financial progress of projects is compiled centrally and entered in the database.[55] Proclamation 647/2009 makes provision for reallocation between projects, although there is no requirement for transfers between projects to be the result of structured portfolio monitoring. There are formal requirements for ex-post review with detailed guidance set out in Guideline 6.[56] Reviews are required to include an assessment of project design, implementation, and performance (see Figure 3.7) and should be carried out at least two years and not more than ten years after the project has been completed. However, such reviews do not formally require independence or follow up.

Figure 3.7 Contents of an Ex-Post Review



Source: Adapted from Development and Planning Commission (2018) *Guideline 6 How to Summarize and Assess Ex Post Evaluation*.

[54] Section 18, Article 9.

[55] Section 19, Article 10.

[56] Development and Planning Commission (2018) *Guideline 6 How to Summarize and Assess Ex Post Evaluation*.

71. In practice, there is some central portfolio oversight and reallocation of funding between projects, but ex-post reviews are not conducted.

- Portfolio monitoring has been ad hoc. The MoPD compiles an update report on some projects deemed to be strategic. While this has led to some improvements in project implementation, this is not routinely used to inform decision-making. An exception is analysis of tertiary education projects by the Ministry of Education. Their review identified problems including budget and schedule overrun and supported decisions to reallocate from lower to higher priority projects. This is a positive use of portfolio-level data; however, the approach has not been systematic.
- Line ministries report cases where funding has been reallocated from one project to another and this has accelerated delivery. In some cases, this has arisen because budget allocations have been made to multiple projects that are not adequate to allow completion, or substantial progress, of all. In these instances, line ministries have themselves re-allocated in order to achieve a more realistic set of projects. A better-functioning project selection and budgeting process could avoid this situation.
- In practice, ex-post reviews are not generally undertaken, although some ministries report plans to address this, in line with Proclamation 1210/2020.

72. Improving portfolio monitoring and management is a high reform priority. There are a number of reporting templates and systems that relate to public investment. Across government, the focus is on quarterly and annual reporting of key performance indicators in the Development Plan Evaluation and Monitoring System. This is a good practice example for tracking progress against strategic national objectives, however it does not constitute a portfolio management system. The MoPD has taken positive steps to address this gap with quarterly reporting on strategic projects but there is ambiguity on responsibilities between central ministries. Addressing this can support improved implementation.

14. Management of Project Implementation (Strength—Medium; Effectiveness—Medium; Reform Priority: Medium)

73. Effective project implementation is required to realize the full benefits of public investment. During project and program delivery, careful management of cost, schedule and quality is pivotal. Increasingly, project governance structures and accountability frameworks are recognized as central to successful project delivery. Because projects rarely go perfectly to plan, it is important to have predetermined procedures for dealing with variations, triggering review, and, where necessary, project re-design or cancellation. Upon completion, independent audit can bolster transparency and help identify room for improvement with future projects.

74. In Ethiopia, project implementation plans are required prior to approval, there are rules for project adjustment and the Auditor General's mandate allows for audit of major projects. Under Section 17 of Proclamation 1210/2020, project sponsors are required to submit a project implementation and monitoring plan prior to approval to proceed. Guidelines set out the required scope of the plan.[57] Implementation plans must pay specific attention to risk mitigation and management. There is guidance on the role of the Senior Responsible Officer and other governance arrangements, but the Senior Responsible Officer is not required to be in place prior to approval. Each implementing body is required to

[57] Development and Planning Commission (2018) *Guideline 3 Implementation Plan and Monitoring Preparation Assessment*.

monitor delivery progress and report to the MoF and MoPD. Where cost increases by 30 percent or more, reappraisal is required under law.[58] The MoF can request reappraisal where the cost increase is lower than this threshold, for example where it is on a path to breach 30 percent. Guidelines and templates support the process.[59] The MoPD is to review project re-appraisals and make a recommendation on how to proceed to the MoF.[60] The mandate of the Office of the Federal Auditor General does not preclude auditing major public projects and publishing the results.

75. In practice, major projects generally have implementation plans prior to approval and there have been frequent audits of major projects, but rules for adjustments are not routinely applied. Line ministries use the MoPD Guidelines for project implementation and some sectors have their own project management structures and guidelines. There are some examples of project de-scoping or cancelation but ministries report that the rules on project re-appraisal under Proclamation No. 649/2009 are not routinely applied. The high-inflation environment of recent years has undermined the usefulness of the provisions and appropriateness of the 30 percent threshold. Using a set of informal selection criteria (such as scale of the project, public profile, cross-regional characteristics and environmental impact) the Office of the Federal Auditor General selects projects for audit.[61] Successive annual audit summaries include high level findings of audit reports on capital projects covering issues such as cost overrun, schedule delay, benefits shortfall, inadequate coordination with other public investment and failure to complete important steps in project preparation, for example feasibility studies and environmental impact assessment.

76. Improving management of project implementation is a medium reform priority. In particular, ministries report that procedures for project re-appraisal and contract adjustment are outmoded and unfit for project delivery given high inflation and challenging exchange rate conditions. Some of these issues also stem from the project preparation and budgeting phases, for instance at the point where costs are estimates, risks identified and planned for, and budget allocated.

15. Monitoring of Public Assets (Strength—Medium; Effectiveness—Low; Reform Priority: Low)

77. Information on the stock of assets, their value, and condition, informs future public investment needs. Monitoring public assets should therefore form an integral part of the investment cycle. Regularly updated and comprehensive information on the nature of existing assets and their condition is an essential component.

78. Regulation requires that public bodies maintain comprehensive asset registers and update them annually, taking into consideration condition and depreciation but not revaluations. Regulation No 17/1997 establishes that inventories of public property held by central government public bodies should be updated annually and provides a comprehensive definition of fixed assets.

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[58] Federal Democratic Republic of Ethiopia (2009) *Procurement and Property Administration Proclamation No. 649/2009.*

[59] Development and Planning Commission (2018) *Guideline 4 Project Adjustment and Re-Appraisal.*

[60] As set out in Section 18 of Proclamation 1210/2020.

[61] The Office of the Auditor General report that these are generally published, however at the time of the mission the website was down due to construction works.

Directive 9/2003 focuses on property management including arrangements for recording property assets and asset management procedures. The Government Owned Fixed Assets Management Manual (2007) applies to all public bodies and provides guidance on the design and management of a register of fixed assets. This guidance sets out comprehensive data requirements and establishes standards for depreciation and reporting to MoF. It only requires assets to be re-valued ahead of a disposal decision when it recommends the public body establishes a valuation committee to pool expertise. The Federal Government Financial Reporting Manual (2007) requires accounts to be produced on a modified cash basis and includes a central government balance sheet template which would require the reporting of the value of total assets annually. Therefore, financial statements do not include total asset valuations or depreciation. More recently, a further Proclamation 1210/2020 establishing a Public Projects[62] Administration and Management System requires project implementing bodies to register the assets of projects under it and provide up to date information to the appropriate governing body, with the MoF required to ensure that there is a national project assets registration database.

79. In practice, public bodies maintain their own asset registers that are not consolidated, and total asset values are not included in central government financial accounts. There is little evidence that the detailed manuals are widely known or implemented. However, public bodies involved in the assessment maintain asset registers that include all major fixed assets that are updated annually with the addition of new fixed assets and condition of existing assets but not valuation. Data on assets and their condition is not readily accessible to MoF and MoPD. At the central level, there is no evidence that either MoF or MoPD systems, such as IFMIS which has an asset register, were actively being used to consolidate asset data. Ethiopia's modified-cash based government financial statements do not include total asset valuations or depreciation. SOEs are required to publish financial accounts in line with IFRS standards. Major SOEs such as Ethiopian Airlines and Ethiopian Electric Power include total asset values on a historic cost basis in financial statements and depreciation in operating statements is based on asset specific assumptions.

80. Clarifying the roles of the MoF and MoPD on asset management and strengthening asset recording to inform public investment decisions is worthwhile. There is room to further clarify roles and responsibilities for asset management, including central oversight. While legislation formalizes a role for MoF in consolidating asset data, MoPD has been assigned in HGER 2.0 to build systems. Comprehensive guidance and supportive legislation exist, but some manuals and directives are outdated (2007), overlapping, and not well known. A more comprehensive and accessible asset register would improve understanding of infrastructure assets across government and inform infrastructure planning. Reporting of asset valuations in government financial statements is not an immediate priority and could be implemented when accrual accounting reforms are pursued.

[62] Defined in legislation as investments carried out by the project implementing bodies for the acquisition or improvement of fixed assets, to accelerate economic growth, fill market failures and ensure equitable benefit of future generation , which is undertaken by limited resource, time and place or economic sectors through the regular federal government budget; projects which are being implemented through public private partnership; and projects which are being implemented by domestic and foreign loan through the Federal Government guarantee;

Recommendations for Implementation Phase

Issue: Portfolio oversight is ad hoc and does not systematically identify and use portfolio level insights to improve project and portfolio implementation.

Recommendation 8: Strengthen portfolio oversight though active quarterly reporting, analysis and portfolio management (MoPD, Dec 2024, High)

- Build on the Development Plan Monitoring and Evaluation System to compile a quarterly report on the full portfolio of large projects, including SOEs. The analysis and report should include:
  - data on financial and physical progress of projects, risk identification and management, governance, industry capacity, organizational capacity and other systemic issues.
  - narrative on the status of delivery across the portfolio.
  - opportunities to speed up delivery including potential reallocations across the portfolio.

Issue: Procurement is frequently uncompetitive and project procurement is not transparent.

Recommendation 9: Strengthen competitiveness and transparency in project procurement (PPA, various, Medium, 2026)

- Use competitive international procurement as the default in all major investment projects.
- Publish quarterly reports on procurement activity including total number of tenders, value, use of different modalities, number of complaints and outcomes.
- Publish all tenders and details of contract award immediately on completion of the tender process.

Issue: There are no standards to assess maintenance gaps.

Recommendation 10: Improve framework for maintenance (MoPD, Medium, 2026).

- For key sectors, establish methods for estimating the need for maintenance to ensure that the design life of the infrastructure will be realized.
- For key sectors, establish rules of thumb for determining appropriate levels of budget funding for routine and capital maintenance, based on the estimates of need.
- Establish responsibility in a central government ministry to support public bodies to establish maintenance standards and guidelines for budget funding for significant infrastructure in their area of responsibility.

IV. The Climate PIMA

A. Climate Change and Public Infrastructure

81. Ethiopia is vulnerable to extreme weather events. The country is bisected by the Great Rift Valley, an 80km wide valley that divides the country into three main climatic zones. The lowlands, concentrated in the northeast, east and the south east, are typically arid, with high temperatures and low rainfall. The highland regions in the center and north of the country experience cooler, subtropical climates, with higher elevations (above 3,200 meters) considered to be Afro-Alpine. Figure 4.1 maps the average temperatures over the past 30 years to Ethiopia's geography. Ethiopia has three rainfall seasons created by the convergence of the Northern and Southern trade winds around the equator, which leads to considerably variability in precipitation, prompting extreme weather events. Since 2019, six rainy seasons have failed in Northern areas of the country, leading to drought-like conditions and widespread food insecurity. In contrast, over the same time period, areas of Southern Ethiopia have experienced heavy rains and flooding that have displaced populaces, damaged infrastructure and led to fatalities, including in the capital, Addis Ababa. Figure 4.2 shows the average annual rainfall over the past 30 years.

Figure 4.1 Ethiopia: Average Annual Temperature (1991-2020, degree Celsius)

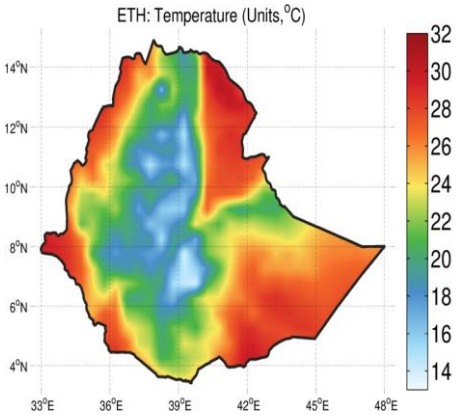
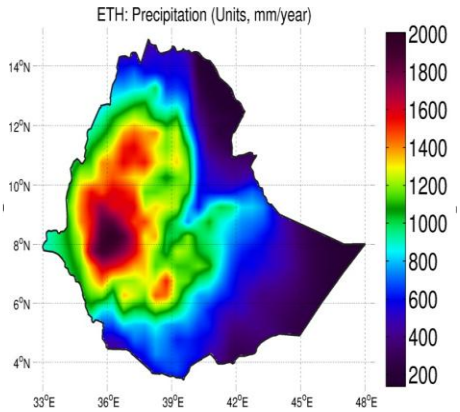


Figure 4.2 Ethiopia: Average Annual Rainfall (1991 – 2020, mm per year)



Source: FAD Climate Dataset (Massetti and Tagklis, 2023), using Climate Research Unit data (Harris et al., 2020).

82. Ethiopia's vulnerability to the effects of climate change will increase over time. Already, average annual temperatures in Ethiopia are estimated to have increased by 1°C since 1960.[63] Virtually all climate models project further temperature increases over time. The degree of the increase is influenced by the scenario chosen. Using the UNFCCC's SSP2-4.5 scenario[64], temperatures in Ethiopia are likely to increase by an average of 1.5°C by 2050 (Figure 4.4). This is projected to drive significant increases in the frequency of days and nights considered "hot" by reference to current climatic conditions. This is likely to have a disproportionate impact on vulnerable groups, particularly the elderly, increasing demand for public health services. Changes in precipitation are more difficult to determine given the complexity of the modelling. The SSP2-4.5 scenario suggests that the country is likely to experience an increase in precipitation (Figure 4.3) but this likely masks considerable regional variation that could increase the risk of extreme weather events like floods in certain areas, while increasing the number of dry days in other areas of the country.

Figure 4.3 Ethiopia: Projected Change in Precipitation by 2050 Under SSP2 – 4.5

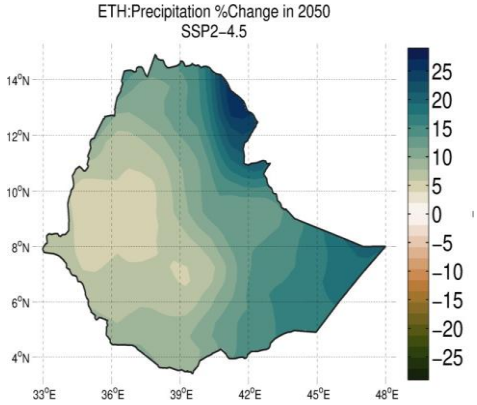
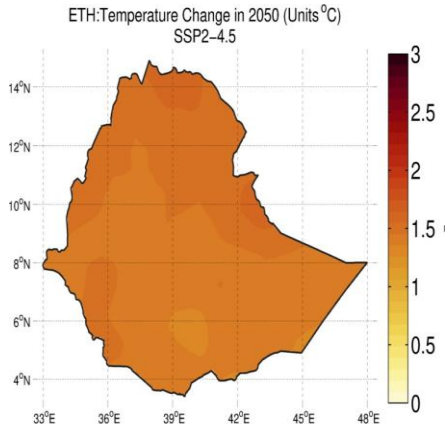


Figure 4.4 Ethiopia: Projected Increase in Temperature by 2050 Under SSP2 – 4.5



Source: FAD Climate Dataset (Massetti and Tagklis, 2023), using Climate Research Unit data (Harris et al., 2020).

83. The agriculture and land use sectors are particularly vulnerable to the effects of climate change. Already current climatic conditions are driving food insecurity In Ethiopia through drought. The World Food Programme estimates that an estimated 20.1 million people in Ethiopia require food assistance.[65] Around 80 percent of the population is dependent on agriculture. Agricultural activity accounts for 40 percent of Ethiopia's GDP, 80 percent of the country's exports and the sector employs approximately 70 percent of the country's workforce. The majority of the sector consists of smallholder farmers with less than two hectares of land, with 90 percent of these farmers dependent on rainfall rather

[63] FAD Climate Dataset (Massetti and Tagklis, 2023), using Climate Research Unit data (Harris et al., 2020).

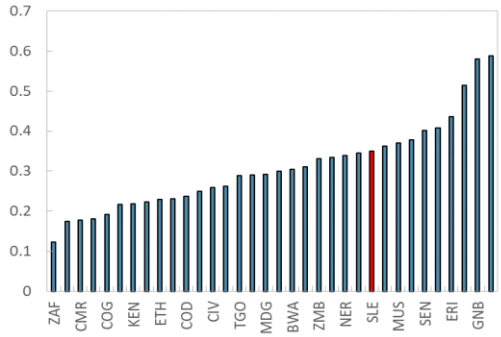
[64] SSP2-4.5 is a Shared Socioeconomic Pathway, a set of which was developed by the Intergovernmental Panel on Climate Change for illustrative purposes. Scenario 2-4.5 is considered to represent a "middle of the road" pathway where emissions remain high until 2050, declining thereafter and other socio-economic factors follow their historical trends.

[65] https://www.wfp.org/countries/ethiopia

than irrigation to support production. The sector is projected to grow at an annual average rate of about 6 percent over the next ten years[66]. Already, analysis by the Fund has found that almost 40 percent of farmers in Ethiopia have been affected by crop damage during the agricultural season, with 70 percent of the farmers attributing the crop damage to climate change.[67] Analysis by the Ethiopian Government suggests that without intervention, more than 10 percent of maximum crop yields will be lost over the period 2020 – 2050. Any impact on food production from changes in climatic conditions therefore risks exacerbating current critical vulnerabilities. Investment in irrigation and water management, is critical to improving climate resilience. Coordinating these investments with other investments in land restoration and afforestation would maximize potential benefits.

84. The risks to public infrastructure from climate change and increasing extreme weather events in Ethiopia are concentrated in the energy, water, sanitation, and transportation sectors. Ethiopia is considered to be water stressed, with increasing population levels increasing demands on water supply for agriculture and sanitation. Hydropower plants, which are responsible for 90 percent of Ethiopia's electricity production, have already been producing below their stated capacity due to lower than expected rainfall. Given the scale and pace of the planned infrastructure rollout to increase electricity generation described in Chapter I, and the risks posed by climate change, ensuring that climate resilience is embedded in this infrastructure development will be critical to avoiding some of the most damaging likely consequences of climate change in Ethiopia. While there are important vulnerabilities in Ethiopia, its infrastructure vulnerability is less than in many sub-Saharan African countries (Figure 4.5).

Figure 4.5 Ethiopia and Sub-Saharan Africa Vulnerability Score, Infrastructure



Source: IMF-Adapted ND-Gain Index.

B. Climate Change Objectives and Strategies

85. Ethiopia's GHG emissions are low, both in absolute and relative terms. The Government has stated that total GHG emissions in 2020 were 300 $MtCO_2e$ (million tons of CO_2 equivalent[68]),

[66] Date from Ethiopia's Long-Term Low-Emission and Climate Resilient Development Strategy - https://unfccc.int/sites/default/files/resource/ETHIOPIA_%20LONG%20TERM%20LOW%20EMISSION%20AND%20CLIMATE%20RESILIENT%20DEVELOPMENT%20STRATEGY.pdf

[67] https://www.imf.org/en/Publications/WP/Issues/2020/06/12/Improving-Crop-Yields-in-Sub-Saharan-Africa-What-Does-the-East-African-Data-Say-49477

[68] There are a number of atmospheric gases that contribute to climatic change and are typically referred to as greenhouse gases. The impact of these gases on global warming is converted to CO2 equivalent missions using 100-year Direct Global Warming Potential values from the UN Intergovernmental Panel on Climate Change.

representing just 0.57 percent of estimated global GHG emissions.[69] In per capita terms, the typical Ethiopian citizen is responsible for just 2.6 tons of GHG emissions.[70] This compares to a global average of 6.7 tons[71] and an average of 10.5 tons among OECD members.[72] Ethiopian GHG emissions have nearly doubled since 2000, rising from 160 $MtCO_2e$, but even this rate of increase is considerably below the level of GDP growth experienced over the same period. GHG emissions in Ethiopia are overwhelmingly attributable to the agricultural (51 percent) and land use (41 percent) sectors. The remaining sectors of energy, transport, industry and waste are collectively responsible for 8 percent of emissions (Figure 4.6).

86. Ethiopia's Third National Communication to the United Nations Framework Convention on Climate Change was submitted in December 2022. This communication updated Ethiopia's Nationally Determined Contribution (NDC) to Article 4 of the Paris Climate Agreement.

- The updated commitment in the NDC is to achieve a reduction in total net GHG emissions of 68.8 percent over the period to 2030, compared to a Business as Usual (BAU) scenario (Figure 4.7). Specifically, Ethiopia is aiming to reduce GHG emissions by at least 278 $MtCO_2e$, compared to projected emissions in 2030 of 404 MtCO2e. In the NDC-aligned scenario set out in Ethiopia's Long-Term Low Emission and Climate Resilient Strategy, total CO_2e emissions reach around 118.5 Mt by 2030 before declining to 61.9 Mt per year in 2040 and –1.2 Mt per year by 2050.

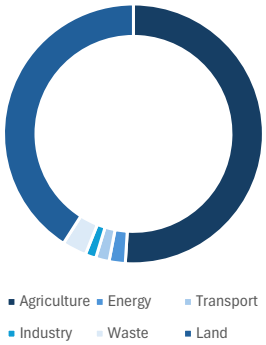
[69] Estimated to have reached 52.4 $GtCO_2e$ in 2020 by the UN Emissions Gap Report 2022 acquired via link.

[70] Based on a total population of approximately 117m as estimated by the United Nations, Department of Economic and Social Affairs, Population Division (2022). World Population Prospects: The 2022 Revision, custom data acquired via link. The UN's estimate differs substantially from the Ethiopian Government's estimates (104m in 2022).

[71] Based on an estimated 2020 global population of 7.8 billion from the same source as above.

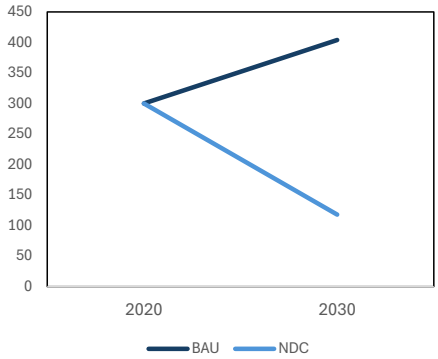
[72] Based on data published by the OECD at https://stats.oecd.org/

Figure 4.6 Source of GHG Emissions by Sector – 2020



Source; Ethiopia's Long Term Low Emissions and Development Strategy

Figure 4.7 Illustrative Pathways Towards the Achievement of Ethiopia's NDC versus BAU



Source: IMF team

- The updated NCD also incorporates adaptation measures focusing on the agriculture land use and forestry, with additional adaptation contributions in water, health, energy, transport and urban settlements. In total 40 adaptation interventions are listed and will be supported by monitoring and evaluation activities.

87. Ethiopia does not have dedicated climate change legislation. However, a range of strategies, governance structures and implementation measures (some based in legislation) have been adopted that place climate obligations on governmental actors. These strategies, along with the institutions central to their implementation, are detailed in Table 4.1 below. A strong policy framework will be needed to align public investment with the Government's climate ambitions. To support this, a reshuffle of ministerial responsibilities took place in 2021. This reshuffle saw the Ministry of Planning assume formal responsibility for strategic coordination on climate change across Government, including responsibility for the Environmental Protection Agency. This involves a shift in policy framework from environment to climate change (Box 4.1).

Table 5. Climate Strategies and Institutions

Key Strategies and Plans	Coverage
10 Years Development Plan, A Path to Prosperity, 2020 – 2030	The 10 Years Development Plan, published in 2020, aims to make Ethiopia an "African Beacon of Prosperity". It aims to achieve this by focusing on economic growth and poverty reduction and sets out a range of macroeconomic, sectoral and structural reforms in 10 sectoral pillars across six key priority areas. Building a resilient green economy is one sectoral pillar that will be achieved through the priority areas of quality and efficient infrastructure development and sustainable urban development.

Updated Nationally Determined Contribution	Ethiopia's Third National Communication to the United Nations Framework Convention on Climate Change was submitted in December 2022. Within this communication, Ethiopia committed to reducing GHG emissions by 68.8 percent by 2030, compared to their assessment of business as usual emissions at that date. It also sets out strategies to improve adaptation and resilience.
Long-Term Low Emission and Climate Resilient Development Strategy (2020 – 2050)	Ethiopia's Long-Term Low Emission and Climate Resilient Development Strategy was published in May 2023. This strategy, underpinned by robust modelling and coordination structures for its development, sets out measures to achieve the national commitment to decarbonization, along with accompanying sectoral plans. It also covers the institutional frameworks that will be used to oversee and assesses the estimated financing needs.
Climate Resilient Green Economy (CRGE) Strategy	Published in 2011, the Climate Resilient Green Economy Strategy is Ethiopia's first comprehensive commitment to building a green economy. This is defined in the strategy as building a country that is protected from the adverse effects of climate change but will also reach middle income status before 2025. It identified and prioritized more than 60 initiatives that it noted would offer positive returns on investments, with the intention of promoting economic growth and creating additional jobs with high value add.
National Adaptation Plan (2019) & Implementation Roadmap (2020)	Ethiopia published a National Adaptation Plan in 2019. The aim of this plan is to reduce Ethiopia's vulnerability to the impacts of climate change by building adaptive capacity and resilience. It identifies eight sectors deemed to be most vulnerable to the impacts of climate change and sets out 18 options and five strategic pillars to improve climate resilience. It was followed in 2020 by the publication of an Implementation Roadmap that sets out 40 specific actions the Government will take to implement the Adaptation Plan.
National Policy and Strategy on Disaster Risk Management 2013 - 2023	Published in 2013, this strategy seeks to shift Ethiopia's approach to disaster risk management from a system mainly focused on drought and supply of life saving relief emergency assistance during a disaster to a comprehensive disaster risk management approach. The strategy also committed to the establishment of a disaster risk management system to support this comprehensive response.
Institutions	**Climate-related Responsibilities**
Ministry of Planning and Development	Proclamation 1263/2021 grants the key strategic coordinating role on climate change to the Ministry of Planning and Development. Specifically, the proclamation allows the Ministry to initiate policies, strategies, and laws on climate change. The Ministry is also required to support the climate and environmental activities of Government. This places the Ministry right at the core of Ethiopia's national response to climate change.
Climate Resilient and Green Economy Ministerial Committee	Co-chaired by the Minister of Finance and the Minister of Planning, this committee is the key high level coordinating body for climate action in Ethiopia. By creating a single, high level committee, the Government aims to ensure coordinated decisions on climate change issues can be made, improving effectiveness and reducing the risk of fragmentation.
House of Federation, Regional Councils and Local Government (Woreda)	Many climate initiatives in Ethiopia will need to be progressed at local level either through the Regional Governments or the level of administration below that (Woreda). As a federal state, Ethiopia's regions have a great deal of autonomy. The Federal Government will therefore need to encourage and support common best practices that can be replicated by the regional and local level so that climate policies can be implemented effectively.
Development Partners	A formal channel for engagement with the Government has been created through the Climate Resilient Green Economy Development Partners Forum. This is managed through a dedicated facility unit in the MoF. As well as providing finance

	to support Ethiopia's climate transition, development partners are an important source of knowledge of best practice and technical assistance.
Line ministries	Line ministries are required to devise and implement the policies and measures necessary to contribute to the achievement of the targets set out in the Long Term Low Emission Development Strategy. This gives them a critical role in the development and implementation and management of climate-relevant infrastructure projects and climate-related rules and regulations.

Source: IMF team

88. There are risks to the achievement of Ethiopia's climate targets. In particular, the investment needs identified in the Long-Term Low Emission Development Strategy are large. Additional investment of USD$55 billion is estimated to be required in the period to 2030 to achieve the Government's target. Given Ethiopia's constrained fiscal circumstances, the strategy notes that the Ethiopian Government can only finance the most cost-effective measures to achieve 20 percent of the required reduction in emissions, leaving the achievement of the remaining 80 percent of this target to be dependent on international financial support.

89. In parallel, there will be considerable upward pressure on GHG emissions as economic development continues. As the economy industrializes, urbanization increases and incomes rise, energy and industrial sources of emissions will grow. While economic development and decarbonization can be achieved in parallel, with significant co-benefits identified in the Climate Resilient Green Economy Strategy, effectively managing the tensions between economic development and sustainability will be critical to the achievement of Ethiopia's climate ambitions.

Box 4.1 Environment, Climate Adaptation and Climate Change Mitigation

As countries increase their focus on sustainability it is helpful to distinguish policy objectives and understand their interaction with public investment.

Improved environmental outcomes have been a focus of government policy for many decades. Environmental impact assessment of infrastructure proposals typically considers factors such as noise, air quality, water quality, flora and fauna, visual impacts, habitats and socio-economic impacts. A requirement to assess new projects in terms of these impacts is legally enshrined in many countries around the world.

Although generally complementary*, climate and environment should be seen as distinct issues and the mere adherence to environmental planning regulations will not be sufficient to achieving climate-informed public investment management in the future. Under the Climate-PIMA framework, the interactions of public investment and climate change are understood in two ways:

Climate change mitigation refers to actions to limit the magnitude and/or rate of long-term climate change. Mitigation generally takes place in two ways:

- Reductions in human-caused emissions of GHGs, for example through a move to renewable energy from fossil-fuel dependence.
- Increases in the use of carbon sinks – for example through afforestation or the use of new carbon-capturing technologies.

Climate-change adaptation refers to the process of adjustment to actual or expected climate change. In planning, allocating and executing public investment, the resilience of infrastructure assets to changing conditions should be fully understood and appraised.

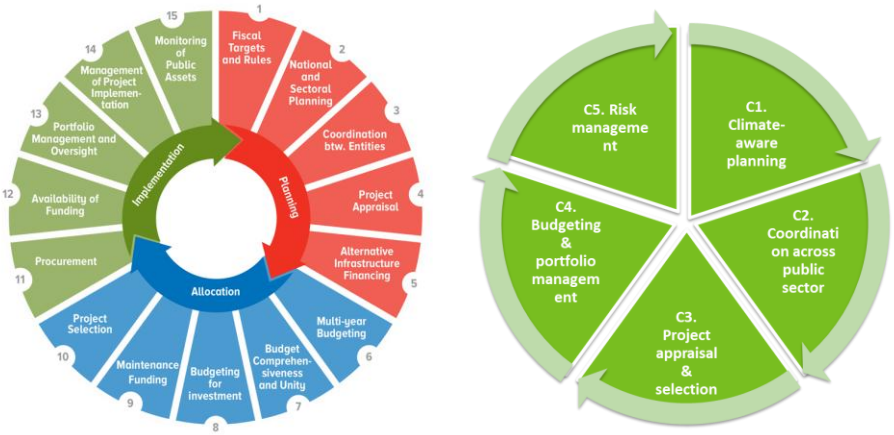
* There are instances where climate and environment objectives have come into conflict, for example where the construction of electricity transmission lines – which are vital for achieving a shift to renewable energy – have been delayed or cancelled owing to challenges in planning relating to environmental impacts.

Source: IMF staff

C. Climate PIMA Framework

90. The Climate PIMA assesses five key public investment management practices from the climate change perspective and is an extension of the existing PIMA framework. Figure 4.8 describes the main elements.

Figure 4.8 Climate Public Investment Management Assessment Framework



91. The Climate PIMA covers the following specific issues (see Annex 5 for the Climate-PIMA Questionnaire):

- **C1. Climate-aware planning:** Is public investment planned from a climate change perspective? This is necessary to ensure that long- and medium-term plans contribute to meeting climate objectives and facilitate effective prioritization and decision-making.
- **C2. Coordination across public sector**: Is there effective coordination of decision making on climate change-related public investment across the public sector? In addition to the central government, regional governments, SOEs and private sector entities play key roles in realizing climate-related public investment. Climate adaptation investments will often take place at the regional level, and both SOEs and private sector entities may play key roles for instance in energy production.
- **C3. Project appraisal and selection:** Do project appraisal and selection include climate-related analysis and criteria? This is necessary to ensure that the most effective and efficient investments are prioritized. This serves to maximize the climate impacts of public investments.
- **C.4 Budgeting and Portfolio management**: Is climate-related investment spending clearly identified in the budget and subject to active management and oversight? Because the climate benefits may be less tangible and more difficult to quantify than other project benefits, systematic and consistent management, and oversight of benefits over the project lifecycle is critical.
- **C5. Risk management**: Are fiscal risks relating to climate change and infrastructure incorporated in budgets and fiscal risk analysis and managed according to a plan? The likelihood of climate related disasters is expected to increase over time. The impacts of these risks on public infrastructure must be systematically assessed and monitored, to facilitate adequate and effective risk mitigation.

D. Detailed Assessment

C1. Climate-aware Planning (Strength—Medium; Reform Priority: Low)

92. Climate objectives, particularly targets for mitigation of GHG emissions and adaptation of public infrastructure to the expected impacts of climate change, should be included in national and sectoral planning processes. This is required to ensure that public infrastructure investment is aligned with the country's commitment to decarbonization and that the risk to infrastructure of likely changes in climatic conditions is minimized where feasible. Government regulations on spatial and urban planning should ensure that new construction minimizes exposure to climate-related risks and building codes should limit the emissions attributable to new buildings. Finally, agencies should be provided with guidance on incorporating climate considerations into their sectoral plans and how to cost such measures, with standard methodologies and support.

93. Ethiopia's national strategies and plans incorporate climate considerations that reflect the targets set in the NDC, but comprehensive sectoral plans typically predate the latest NDC and climate strategy. Responsibility for developing policies, strategies and laws on climate change is assigned to the MoPD in Proclamation 1263/2021. MoPD is also charged with coordinating and supporting all government activities on climate change under the guidance of the Climate Resilient and Green Economy Committee, co-chaired by the MoPD and the MoF. The Long-Term Low Emissions and Climate Resilient Development Strategy[73] published in 2023, sets out the contributions sectors will make towards the achievement of the country's NDC, the governance arrangements that will oversee this process, and the financing likely to be required to implement the policies and measures required. Each ministry is required to develop a five and ten year sectoral strategy. These strategies are required to be aligned with Ethiopia's climate targets. While sectors have not yet completed these plans, previously published sectoral plans have demonstrated alignment with the country's climate targets. For example, Ethiopia's Non-Motorized Transport strategy 2020–29 commits that all projects funded by the national government involving construction of streets will need to incorporate high-quality facilities.

94. Regulatory standards that apply to urban planning and building construction are in place with limited alignment to climate hazards and energy efficiency priorities. General environmental considerations are required to be taken into account in the preparation of national, regional, and urban development plans and before approval of relevant projects.[74] However there appear to be no specific provisions that seek to limit development in areas that might be particularly vulnerable to climate risks. As the frequency of extreme weather events is likely to increase over time, locating buildings in areas that have a low risk of being affected by future climate hazards should be a priority. This is a risk as urbanization will continue to increase in Ethiopia and greater use of land area attributable to urban sprawl suggests that the vulnerability of development and the accompanying public infrastructure to climate risks is likely increasing. Due to climatic conditions, building energy usage is low in Ethiopia and the sector is

[73] https://mopd.gov.et/media/climate-documents/ETHIOPIA__LONG_TERM_LOW_EMISSION_AND_CLIMATE_RESILIENT_DEVELOPMENT_STR_RGJXrpV.pdf

[74] Proclamation No. 574/2008 established a legal framework to regulate and facilitate development activities in urban centers by requiring the development of national, regional, and urban development plans. The Proclamation also requires environmental impact assessments to be conducted for any developments. These impact assessments are conducted in line with Proclamation No. 299/2002.

not a significant source of GHG emissions. The Ethiopian Construction Authority has compulsory standards that apply to all buildings, including temporary structures. The standards include regulations on the thermal properties of buildings. The Ethiopian Standards Agency also issued building spatial design standards in 2015 requiring natural lighting where feasible, open spaces and greenery—which are available on request.[75]

95. The Government has issued guidance to ministries on the integration of climate to public investment management. The latest guidelines issued in 2019 by the Environment, Forest and Climate Change Commission built on previous guidance issued in 2014. The guidelines identify the responsibilities of agencies in mainstreaming climate action, and outline processes to be followed when developing five-year sectoral strategies and annual action plans for adaptation and mitigation. However, the guidance is high level and does not require sectors to demonstrate how the sectoral plans align with the Government's climate targets, nor does it provide support on the costing of planned climate related investments. Aggregate climate investment costs are set out in both the Long-Term Low Emissions and Climate Resilient Development Strategy and the Financing Strategy and Implementation Plan for the updated NDC.[76] These include total and sectoral estimates of investment requirements for climate adaptation and mitigation actions, but not information on the specific projects required. Since the issuance of this guidance, the MoPD has been allocated responsibility for coordinating climate and is required to prepare and issue guidance to other ministries on the integration of climate to public investment management. MoPD has been leading the development of new 3-year development plans (see Institution 2), including through the provision of training and workshops that aim to ensure climate forms part of these new plans.

96. Looking ahead, the structures that Ethiopia has put in place to incorporate climate considerations in planning for public investment are in place but could be improved in key areas. The Long-Term Low Emissions and Development Strategy and new governance arrangements create a firm foundation on which to build an effective whole-of-Government response to climate change. However, developing more advanced guidance on preparing and costing climate initiatives and better guiding the geographical footprint of future development take into account climate hazards are important reform priorities.

C2. Coordination Between Entities (Strength—Low; Reform Priority: Medium)

97. This institution assesses if there is a whole-of-government approach to climate change facilitating the coordination of public investment decision making across all levels of the public sector. Decision making here refers to all the stages of the public investment cycle that take place after national and sector planning. Such coordination needs to take place within and across federal government public bodies for projects supported from all financing sources, and between federal public bodies, regions, and SOEs.

[75] https://www.business.gov.et/assets/files/construction-permit/Compulsory-Ethiopian-Standard-for-Building-Spatial-Design-CES-164.pdf

[76] https://www.epa.gov.et/images/PDF/NDC/Final_Financing%20strategy%20and%20implementation%20plan.pdf

98. The federal public investment decision making process attempts to allocate resources in accordance with national policies but there is no specific focus on climate change. There is no evidence that climate plans are expected to play a major role in allocating money for public investment. The project profile format is not structured to highlight climate impacts of the project or to link the project specifically with a climate related plan. The annual budget instruction issued by MoF does not state a government priority for climate projects. There are also no systematic project selection criteria (see PIMA Institution 10). An important informal criterion for project selection is compliance with the Ten Years Development Plan, which makes reference to climate change, but does not give it priority over other national needs. Part One of the annual budget document published after budget approval does not indicate, in e2016 for example, that climate was given special consideration in the approved budget. Published proclamations and directives for the evaluation of PPPs do not mention climate change. Of the four extra-budgetary entities (see PIMA Institution 3), only the Ethiopian Road Administration generally considers the impact of climate change on new road selection and maintenance of existing roads. While road maintenance is funded through the off-budget Road Fund, new roads are financed through the federal budget and thus are subject to the process noted above for federal public bodies. Externally financed projects often address climate issues and are selected jointly by the donor financing the project and the government. While presented in the budget, externally financed projects are typically selected outside of the regular budget process where domestic funds are allocated.

99. The Constitution gives regions substantial autonomy from the federal government in terms of policies, programs, and activities and funding of them. Regional priorities may be aligned with those of the federal government but there are no formal ways to influence public investment decision making by regions to reflect federal climate priorities. Regional Presidents are members of the Climate Resilient Green Economy Council, and thus have the opportunity to align policies and activities with those of regions. The quarterly meetings between federal government ministries and regions, authorized in Proclamation 1231/2021, are an important forum to coordinate climate objectives and projects, but only as an agenda, established for each meeting, allows. Creation of more focused sectoral fora, enabled by Proclamation 1231, is ongoing; a forum could be established that is dedicated to coordinating actions on climate between the federal government and regions. The Ministry of Urban and Infrastructure plays a coordinating role for public investment. However, its main focus is on project implementation, such as coordinating and sequencing the laying of water pipes, drainage pipes, underground electrical cables, and road surface improvements, rather than project selection.

100. The regulatory and oversight framework for SOEs does not address climate change. Currently, proclamations, directives, and published guidelines governing oversight of SOEs by MoF, PEHA, and EIH, do not address climate change. EIH is working on a climate strategy that will aim to ensure that SOEs within its remit comply with government's climate agenda.[77] EIH also have employed a climate adviser who will help ensure that climate factors are considered in the prioritization and finalization of SOE investment decisions reviewed by the EIH Board. These factors suggest that effectiveness would be higher than design in this area.

101. Strengthening coordination mechanisms would help achieve more resilient infrastructure and is a medium priority. Notwithstanding the constraints in Ethiopia's federal system, strengthening

[77] This is being developed with support from the Tony Blair Institute.

climate coordination with regions remains a worthwhile goal and it is appropriately planned to be pursued in the forthcoming 3-year development plan. Given the centrality of Ethiopia's SOEs in public infrastructure provision, the alignment between their infrastructure planning and the government's climate ambitions should be strengthened, particularly for SOEs outside EIH. This can be achieved by requiring SOEs to align with and report on climate objectives, involving them in coordination mechanisms such as those related to Climate Resilient Green Economy Facility, and/or through more specific interventions on major infrastructure projects.

C3. Project Appraisal and Selection (Strength—Low; Reform Priority: High)

102. Project appraisal and selection should consider the impact of investment in climate change adaptation and mitigation. Incorporating a climate focus as part of the project appraisal and selection phases of the project lifecycle can help ensure that climate-resilient and low-carbon projects are prepared and prioritized. Adequate analysis at the project appraisal stage can also help understand the potential impact of climate change on new infrastructure.

103. Ethiopia's guidelines for feasibility studies include climate risk screening, but there is scope to expand climate appraisal.[78] A Climate and Disaster Risk Screening tool has been developed for five sectors – agriculture, energy, natural resources, transport, water as part of the Climate Resilient and Green Economy initiative.[79] While this can help as part of risk identification, management and mitigation, there is scope to expand the focus on climate across all aspects of appraisal including objective, costs and benefits.

104. Climate change considerations are not explicitly incorporated into PPP contracts. The PPP Guidelines note the ways in which climate change could increase the risk associated with PPP projects and recommend that climate screening and additional analysis may be required in order to calculate the incremental cost to a project owing to climate risk.[80] However, the PPP framework does not set out how risks should be allocated between the private and public sector in PPP contracts. This issue is likely to increase in importance as Ethiopia seeks to build up the pipeline of PPP projects, and as risk and uncertainty associated with climate change also increases. Box 4.2 outlines potential remedial and preventative approaches.

105. Climate considerations are not formally factored into project selection decisions. As discussed under Institution 10 – Project Selection, selection criteria included in Proclamation 1210/2020 refer to the overall macroeconomic position rather than the relative merit of a project compared to competing investment proposals. They do not include reference to climate mitigation or adaptation impacts of an investment proposal. In practice, ministries report some cases where climate impacts have informed project prioritization, though not as part of a formal selection process.

[78] Planning and Development Commission (2018) *Guideline 2 Feasibility Study and Summary Appraisal Submission.*

[79] Development and Planning Commission (2018) *Supplemental Technical Guidance for Feasibility Study Preparation.*

[80] Ministry of Finance (2021) *Preparation of General and Sector Specific Implementation Guidelines for Public Private Partnerships*

Box 4.2 Climate Change and PPP Preparation, Contracting and Implementation

Across all regions, climate change is adding complexity and uncertainty to the process of planning, implementing, and managing public projects. PPP projects can be particularly challenging as the private partner requires a degree of stability and certainty to incentivize investment. In response, the World Bank has developed a wide-ranging toolkit to assist authorities in factoring climate change considerations into the design and management of PPPs. The toolkit provides practical guidance across a range of critical issues at the intersection of climate change and project finance. Core elements are:

Introductory Phase	Phase 1	Phase 2	Phase 3	Phase 4
• climate policies digest, national governance framework on climate change	• project alignment with climate policies • climate considerations in project selection • value of investment accounting for climate actions;	• interactions between climate and PPPs • climate considerations on technical feasibility • climate considerations on commercial feasibility and bankability	• climate considerations on risk allocation • climate considerations on financial structure • integration of climate requirements into the procurement process	• drafting of climate-smart tender documentation.

Adopting the approaches detailed in the toolkit can help improve institutional design for public investment and bolster the chances of attracting private finance to public projects.

Source: The World Bank (2022) *Climate Toolkits for Infrastructure PPPs.*

106. Expanding the climate focus of appraisal and selection processes is a high priority for Ethiopia. Fuller analysis of climate risk at the project appraisal stage can also help understand the potential impact of climate change on new infrastructure. Such considerations can be fundamental to understanding the business case for major projects such as hydropower. To tighten the link between policies and projects, project selection criteria should include climate-related dimensions.

C4. Budgeting and Portfolio Management (Strength—Low; Reform Priority: Medium)

107. Effective management of the government's portfolio of climate-related investment projects at all stages of the project cycle is critical to achieving targets on climate change mitigation and the adaptation of public infrastructure. Good practices in the budgeting, review, and maintenance of public investment improve outcomes and reduce the risk of unanticipated fiscal costs that may arise due to climate change. Defining what constitutes climate-related expenditures and then identifying and tracking expenditures which meet this definition in the budgetary process provides transparency, allowing the government's commitment to climate change to be identified, accumulated, and tracked over time. Effective ex post analysis of climate projects provides insights on the effectiveness of the government's existing suite of climate policies and systematically enable incorporation of any lessons learned into future investment decisions.

108. Climate-related public investment spending is not yet systematically identified and tracked in the budget or related documents in Ethiopia. Ethiopia has already been developing a climate expenditure tagging system.[81] This system, which is to be integrated with the IFMIS, defines climate related expenditures by reference to the definition used by the OECD's Development Assistance Committee, commonly known as the "Rio Markers". The tagging system has been tested but is not yet

[81] This has been supported by the United Kingdom government through the Foreign and Commonwealth Development Office.

operational and further progression of the system (including extending coverage to the aid management system) is waiting on financing being provided by donors.

109. There is no formal requirement to conduct ex-post reviews or audits of actual climate-related impacts of public investments in Ethiopia and the number of such reviews conducted to date is extremely limited. Proclamation 1210 of 2020 requires ex-post project evaluations on selected projects between 2 and 10 years after the project is operational. However, there is no specific requirement to incorporate climate change considerations within these reviews and there are no available examples of completed reviews for domestically funded projects. The Office of the Federal Auditor General in Ethiopia conducts a systematic program of ex-post reviews of public investment projects. The number of these reviews that specifically examine climate mitigation and climate adaptation is limited. For example, a review conducted by the audit office in 2013 on vehicle emissions concluded that the government should establish a strategy to reduce GHG emissions from vehicles.

110. Climate change related risks are not yet generally reflected in the methodologies used for estimating the maintenance needs of public infrastructure assets. The effective implementation of Ethiopia's climate strategies will likely reduce the exposure of new public infrastructure to climate hazards and influence maintenance strategies for existing infrastructure. Future strategies could include that maintenance schedules ensures that the service levels remain high throughout the life of the asset accounting for expected climate variations.

111. Strengthening the management and oversight of climate related spending is a medium priority. Moving ahead with the budget tagging system would allow an assessment to be made as to whether the government is on track to meet its commitments and may also assist in securing climate financing. Embedding climate in the implementation of other reforms in Chapter III, including increasing adherence to ex-post reviews and strengthening maintenance arrangements are warranted.

C5. Risk Management (Strength—Medium; Reform Priority: Medium)

112. Identifying and managing fiscal risks to public infrastructure arising from climate change should be an integral part of the government's risk management. As with other types of fiscal risks, governments need to be aware of climate-related risks of public investments and their potential impact on public finances. To better manage these fiscal risks, it is important for governments to (i) develop and publish a disaster risk management strategy that identifies the exposure of public infrastructure to climate related disasters; (ii) develop mechanisms to mitigate and otherwise absorb the cost of climate-related damages to infrastructure; and (iii) analyze climate-related risks to public infrastructure assets.

113. Ethiopia's national disaster risk management strategy was published in 2013 and is intended to last 10 years.[82] Overall responsibility for disaster risk management lies with the Ethiopian Disaster Risk Management Commission. The Commission has adopted a decentralized and participatory approach to risk management involving ministries, regional and local governments. While the Ethiopia's disaster risk strategy does not include analysis of climate risks to infrastructure, it establishes the requirement for sector ministries to develop sector specific disaster plans. Risk profiles have been

[82] Source: FAO National Policy and Strategy on Disaster Risk Management. | FAOLEX

developed at Woreda level setting out local characteristics and exposures based on historic trend analysis. The "Guidelines for Mainstreaming Disaster Risks into Development Planning Processes and Future Investment Decisions" (2017) [83], provide key sector-specific action plans to support lead ministries to develop their own disaster risk plans including climate risks (see Box 4.3). Some sectors such as water and energy have produced a long term (2030) analysis of value at risk from climate change (2015)[84] but no combined government analysis or mitigation strategy exists.

Box 4.3 Ethiopia's Guidelines for Mainstreaming Disaster Risk in Investment Decisions

Ethiopia's disaster risk management strategy, published in 2013, aims for disaster risk management to be mainstreamed into every sectoral development plan as a key part of building a more resilient system. The strategy identifies two objectives, first, that disaster risk management integration gradually leads to the protection of all existing and new public assets against the impacts of hazard events, and second, by integrating disaster risk management, it seeks to avoid the creation of new forms of risk due to an increase in the exposure or vulnerability of populations and assets.

To support that, Ethiopia's National Disaster Risk Management Commission published innovative "Guidelines for mainstreaming disaster risk into investment decisions" (2017). These guidelines:

- describe the process of disaster risk management mainstreaming and key entry points,
- identify key policies and programs across government to target
- present country and sector level mainstreaming analysis tools
- provide action plans for key risk-sensitive sectors
- provide tailored mainstreaming operational manuals for each key sector.

Ethiopia has produced 338 Woreda-level disaster risk profiles that set out risk exposures, conditions, and population and asset vulnerabilities, which are accessible online. Lead sector ministries have established units to develop disaster risk management strategies and participate in cross-government coordination meetings, which has succeeded in distributing ownership of disaster risk management across government.

Source: IMF staff and FGE "Guidelines for mainstreaming disaster risk into investment decisions" (2017).

114. There is a general contingency appropriation in the annual budget but no other ex-ante financing mechanisms for climate related risks to public infrastructure exist. MoF reports that that this is normally set at 3 percent of the total budget.[85] This is available to meet the costs of climate-related damages to public infrastructure and has been used to meet the cost of past climate related disasters. Alternative disaster finance arrangements identified by MoF include re-prioritization and appealing for donor assistance support. Scope for additional borrowing is limited by Ethiopia's fiscal position and policy to seek only concessional loans. In 2013, the Disaster Risk Management Strategy proposed the development of a disaster response fund, and in discussions, the government mentioned plans to re-establish a specific contingency fund for disasters but there is currently no substantial climate specific ex-ante fund in the Federal Budget.

[83] Ethiopian Disaster Risk Management Commission "Guideline for mainstreaming disaster risks into investment decisions Ethiopia (2017)

[84] Ministry of Water and Energy "Ethiopia's Climate-Resilient Green Economy Climate Resilience Strategy: Water and Energy" (2015)

[85] Source: Ministry of Finance "Macro Fiscal performance in Ethiopia and recent fiscal policy developments" (2021)

115. The government has not conducted and published fiscal risk analysis that explores climate-related risks to public infrastructure assets and there is no legal requirement to produce one. In 2021, MoF published fiscal risk analysis of the impact of weather-related disasters (floods and droughts) on the public finances.[86] This estimated that a flood of the magnitude of 2020 would cost USD 131.67 million due to the reconstruction cost of damaged public assets. Fiscal risk analysis is not routinely published as part of budget documents and MoF does not currently consider the future fiscal costs from adaptation, mitigation, and transition climate-related risks to public infrastructure as part of its fiscal risk analysis.

116. Improving information on key public assets and integrating climate-related risk analysis in economic and fiscal planning should be a priority. Consideration should be given to updating the national disaster risk management strategy more frequently than every 10 years because information on climate change, including the risks involved and the accuracy of climate models, is updated more frequently. A more frequent update cycle, such as every five years, or with each NAP, could ensure that the disaster risk management strategy stays in alignment with the climate change data, analysis and strategies. While a decentralized approach could be more impactful in increasing resilience in the long term, central level analysis of climate risk to public assets is necessary to inform strategies and fiscal responses. The absence of strong systems for sharing relevant asset information with MoF and MoPD in a consistent format limits knowledge of public sector assets at risk from climate change, awareness of potential fiscal costs and consideration of mitigating options. Prioritizing data collection for key sectors and known critical assets could help ensure such an exercise is proportionate and secure the involvement of relevant public bodies. To inform risk scenarios at the center, Ethiopia is currently able to draw on Woreda-level local risk profiles, but their focus on historic risk analysis means they do not currently consider how climate change could affect local risk profiles in the future. These should be extended to cover forecasts for climate change and implications for local assets.

Recommendations on Climate Sensitive Public Investment

Issue. Information on the climate impact of public investments is insufficient to make climate-aware investment decisions.

Recommendation 11: Improve the role of climate in project feasibility studies and selection decisions.

- Adopt and apply a methodology to standardize the quantification and the pricing of GHG emissions in feasibility studies (Low, MoPD, Dec 2024).
- Ensure that PPP contracts on infrastructure (particularly power sector projects) are explicit on the allocation of any costs that may arise due to climate risks prior to finalization (Medium, MoF, Immediate)
- Include alignment with climate goals as a part of budget preparation project selection criteria and publish these in a new Public Projects Administration and Management Regulation. (MoF and MoPD, High, Dec 2024) (Also see Recommendation 6.)

[86] Source: Ministry of Finance "Macro Fiscal performance in Ethiopia and recent fiscal policy developments" (2021)

- Include climate information (eg. GHG emissions) in project profile template and reflect climate expertise in advice and review of budget proposals though Planning's participation in budget hearings (Medium, MoPD, Jun 2025)

Issue. Climate expenditures and outcomes cannot be identified in the budget or in project reporting. A budget tagging system would allow an assessment to be made as to whether the government is on track to meet this commitment and would allow for comparisons to be made over time. A system along these lines may also assist in securing external sources of funding for climate priorities or implementing measures such as a sovereign green bond.

Recommendation 12: Improve tracking of climate expenditures and outcomes and climate fiscal risk assessment (Medium, various)

- Implement a system to identify and track climate related expenditures to measure progress against NDC targets for mitigation and adaptation (MoF and MoPD, Dec 2025).
- Develop estimates of long-run climate fiscal risks and consider publishing as part of a fiscal risk statement (MoF, Jun 2026)
- Ensure ex post reviews include an assessment of major projects against stated climate related objectives (MoPD, end 2024).

Issue. Disaster risk management does not consider future climate risks. Finally, consideration should be given to expanding the systems already in place at local (Woreda) level to gather data on disaster vulnerability to cover assessment of potential climate risks. This could be used to better inform a number of government priorities including estimating additional maintenance costs for public infrastructure due to climate change.

Recommendation 13: Expand incorporation of future climate hazards into disaster risk management (NDRMC with MoPD and Ministry of Urban Infrastructure, June 2025).

- Consider a more frequent update cycle for national disaster strategy to ensure it stays in alignment with the climate change data, analysis and strategies (Medium, NDRMC, Dec 2025).
- Enhance the disaster risk profiling being done at Woreda level to include an assessment of likely future climate hazards (Medium, NDRMC, Jun 2025).
- Use the data to inform revised provisions on spatial and urban planning that seek to minimize development in areas that may be at high risk of climate hazards (Medium, NDRMC with MoPD and Ministry of Urban Infrastructure, June 2026).

V. Cross-Cutting Issues

A. Legal and Regulatory Framework

117. Ethiopia's legal framework for public investment management is reasonably well developed. As referenced throughout this report, proclamations relating to project appraisal, selection and monitoring; public procurement; infrastructure market structure and regulation; SOE governance; and PPPs complement the general PFM legal framework. Legal provisions enacted through proclamations are supported by regulations, directives, and guidelines.

118. There has been a high degree of legislative change in recent years with further changes in progress. Proclamation 1210/2020 is a critical component of the public investment legal framework, setting out rules for project preparation, appraisal, selection, implementation planning and post-project review. The PPP framework has also been expanded in recent years and there are further plans to increase private sector participation in infrastructure markets. At the time of the assessment, two pieces of PIM-relevant legislation were imminent: a new SOE law and a new public procurement proclamation. These present an important opportunity to improve infrastructure governance. The proclamations should be underpinned by directives, regulations and guidelines where needed.

Box 5.1 Gaps and Inconsistencies in the Public Procurement Legal Framework

In 2021 the World Bank conducted a detailed review on Ethiopia's public procurement system. The analysis identified a set of gaps and consistencies in the existing legal framework for procurement. These are:

- Inconsistencies between the procurement legislative framework and the Civil Code, the anticorruption law, and the Criminal Code.
- Uncertainty about the applicability of the framework to SOEs.
- The legal framework does not provide a clear mandate on issues such as procurement planning, introduction and use of e-GP, contract management, extent of transparency.
- The framework does not mandate adequate publication and disclosure of procurement-related documents, information, and decisions.
- Comprehensive, up-to-date information and documents regarding the public procurement system are not publicly available.
- Qualification criteria are not sufficiently precise or relevant to a particular contract and discriminate by setting higher qualification requirements for foreign than for domestic bidders.
- Setting qualification requirements for foreign companies that only large companies with higher cost structures and prices can meet distorts competition while smaller companies, which may be able to deliver more value for money, cannot meet the high qualification requirements.

The ongoing revision of the public procurement law presents an opportunity to address these weaknesses and improve the efficiency, effectiveness and transparency of public procurement.

Source: World Bank (2021) Methodology for assessing Procurement Systems - Assessment of the Public Procurement System, Volume I. Unpublished.

119. There are some ambiguities in the legal framework that should be addressed. Analysis by the World Bank found significant inconsistencies and gaps in the procurement legal framework (Box 5.1). The forthcoming procurement proclamation should comprehensively tackle these issues. In addition, under Proclamation 1210/2020, the respective roles of MoF and MoPD regarding project reporting, maintenance of a central database of projects and investment portfolio oversight are somewhat unclear. This leads to a risk that important tasks may fall between the two bodies. Issuing a regulation to underpin the Proclamation would address this by clarifying which organization is responsible for each task. The regulation could also fill-in important gaps in the existing framework, for example publishing project selection criteria.

B. Information Technology

120. Numerous IT systems are in place or planned in support of public financial management at the federal level. Existing major IT systems are shown in Table 5.1. Enhancements to the IBEX system are underway. The public investment management IT system, currently under development, fills an important gap in PFM systems. During design and implementation of the public investment system, active involvement of managers and other users is essential to determine functions and thus guide the technical IT developers. Effective design, implementation, and reporting of climate strategies are data intensive. It is likely that a new information system, or modification of an existing system, will be needed.

Table 6. Existing major PFM IT Systems (operating and under development)

PFM related IT system	Brief description
Integrated Budget and Expenditure (IBEX)	Used by regions and universities, and until e2016 by the federal government to prepare but not execute its budget. Four modules include: budget preparation, budget control, budget adjustment, and accounting. Enhancements are underway. IBEX exports data to IFMIS. Administered by MoF.
Integrated Financial Management Information System (IFMIS)	Used by the federal government to execute the budget, and beginning in FY e2017 to prepare its budget. Nine modules include: payables, public sector budgeting, asset management, cash management, accounting, and human resource management, among others. Administered by MoF.
Digital Monitoring and Evaluation System	Used by the federal government to track the impact of the Ten Years National Development Plan, with a focus on key performance indicators. It enables real-time data collection, analysis, and visualization. The system is operational but not fully rolled out to public bodies. Administered by MoPD.
Public Investment Management Information System	*Under development*. Intended to cover stages of project planning, appraisal, and selection up to the point of budget approval. Administered by MoPD.
Debt Management and Financial Analysis System	Used by MoF. Designed to monitor and report debt and debt service, including project loans and grants from development partners. Administered by MoF.

Source: IMF team

121. There is no overall strategy for IT systems crossing functions and public bodies. IT systems are expensive to design, implement, operate, and maintain. Each newly proposed system should be carefully evaluated on technical and functional grounds to ensure that money is well spent. Currently, each budget body may propose information systems, which are reviewed in the planning and budgeting process. But no entity with specialized knowledge is assigned responsibility to analyze proposals for

individual information systems and make recommendations regarding how a single proposed system efficiently and effectively fits into the wider context of existing and planned information systems.

122. The potential for duplicate functionality appears to exist. Notably, asset management is included in the IFMIS, is provisionally included in the public investment management IT system (HGER 2.0, Deepening Public Investment Management System) and is commonly included in climate information systems internationally to identify assets that are vulnerable to climate change.

123. Efficient system design and data consistency are achieved through sharing of data across systems. Integration is a key element of an IT strategy. Well executed integration simplifies systems, reduces data entry workload, and ensures consistent data. For example, if asset data is entered into the IFMIS asset management module and in the public investment system, the data may be entered at different times, have occasional data entry errors, or have slightly different definitions of data so that the same query or report will have different results from the different systems. Such lack of consistency creates doubts about the reliability of all the systems involved, as a reader cannot know which is correct. Currently, IBEX shares data with IFMIS, DMFAS is being upgraded to exchange data with IFMIS, but the Digital Monitoring and Evaluation System does not share data with other systems. It is anticipated that the new public investment system will share data with IFMIS. The principle of minimizing data entry applies equally when reporting is not fully automated. For example, MoPD should draw financial information directly from IFMIS when monitoring strategic project implementation, even as public bodies submit information on physical progress manually.

C. Capacity

124. Staff capacity is a critical supporting factor for effective public investment management. Across the public investment lifecycle, a variety of specialist skills and knowledge are required. This is compounded by the need to integrate climate change considerations into infrastructure governance, as well as fiscal planning and budgetary policy.

125. There has been good progress in reforming institutional arrangements for public investment and this can be reinforced with greater organizational clarity and training and development. Proclamation 1210/2020 introduced a series of new arrangements for project preparation, appraisal, selection, monitoring and ex-post review. These are positive changes. To fully embed the new practices, there should be adequate training to support implementation across the public investment life cycle. The next phase of HGER is expected to contain important commitments to improve public sector capability. In common with many countries, Ethiopia faces challenges in attracting and retaining appropriately qualified public servants. Providing specialist training can both drive capacity and support staff retention.

126. It is important to ensure organizational clarity and appropriate staff capacity regarding climate-sensitive public investment management. Responsibility for the Ethiopian Environmental Protection Agency and the Ethiopian Statistics Service was recently transferred to MoPD. As well as the staff of these agencies, the ministry has a dedicated climate unit. MoPD should ensure full clarity on the responsibilities of various bodies and offices and ensure sufficient resources have been allocated in response to the new functions.

Annex 1. PIMA and Climate-PIMA Action Plan

Recommendations	Action	Priority	Responsibility	Timing	Feedback from the Government	Remark
Planning Sustainable Levels of Public Investment						
Improve clarity of roles and responsibilities for public investment management between ministries	Issue operational procedures to give effect to key provisions of Proclamation 1210/2020 and provide operational procedures for MoPD and MoFD in project selection, monitoring and reporting.		MoPD and MoF	Jun-27	Given that roles and responsibilities are clearly defined, it is crucial to establish internal operational guidelines for both ministries to effectively perform their functions and enhance coordination.	
Incorporate a comprehensive assessment of project risk in major projects	provide guidance on project risk assessment and estimating cost risk	Medium	MoPD and MoF	Dec-26		
	Change process within MoPD to increase scrutiny of cost estimates and risk identification mitigation for new major project proposals	High	MoPD and MoF	Dec-26		
	As part of the project review at 4, consider the creation of a contingency for existing mega projects to deal with expected cost risk.	High	MoPD and MoF	Dec-26	Already PPA law captured this issue	
	Determine a process for managing major project contingency and its release for new mega projects	Medium	MoPD and MoF	Dec-26	will be done as proposed	
Strengthen monitoring and management of fiscal risks from infrastructure	Require quarterly reports from PPP operators to the PPP Directorate, who provide a summary report for fiscal risks management purposes	Medium	MoF	Dec-24		
	Introduce mechanism to regularly share information across governments on PPPs in operation and lessons learned	Medium	MoF and regions	Dec-24		
	Improve tools and techniques for assessing the risk of guarantee proposals	Medium	MoF Debt Directorate	Jun-25		

Recommendations	Action	Priority	Responsibility	Timing	Feedback from the Government	Remark
Strengthen prioritization and alignment of the capital program with fiscal capacity	Review ongoing projects and their costs to complete and urgent maintenance backlogs, and identify low value projects	High	MoPD, MoF and line Ministries	Oct 2026		
Ensuring Public Investment is Allocated to the Right Sectors and Projects						
Improve information on public investment projects in the budget	Establish an information system into which data is entered relating to total cost, spending by year, start and end date, and scope of each project as stated in the project profile. The original data must be preserved along with revisions	High	MoF & MoPD,	June -2026		
	Establish standard reports showing aggregate cost to completion of all approved projects, average cost overruns, and average delays in completion	High	MoF & MoPD,	June -26		
Strengthen project selection criteria.	Determine a small set of selection criteria to prioritize projects for inclusion in the budget publish these in a new Public Projects Administration and Management directive	Medium	MoF and MoPD	July-26		Project selection criteria directive will be prepared
Improve Information on capital program	Determine coordination and governance of IT systems to ensure that systems are coordinated, interoperable and avoid duplicated costs and effort	High	MoPD and MoF	Dec-26		
	Develop plans for information systems to support capital program management, reporting, monitoring that coordinated, interoperable and avoid duplicated costs and effort.	Med	MoPD, MoF	Dec2027		
Investment Implementation						
Strengthen portfolio oversight though active quarterly reporting and management	Build on the Development Plan Monitoring and Evaluation System to compile a quarterly report on the full portfolio of large projects, including SOEs.	High	MoPD ,EIH,MoF	June 2026		DPMES Project Dashboard
	Include data on financial and physical progress of projects, risk identification and management, governance, industry capacity, organizational capacity and other systemic issues. Include narrative on the status of delivery across the portfolio, identify					

Recommendations	Action	Priority	Responsibility	Timing	Feedback from the Government	Remark
	opportunities to, to speed up delivery including potential reallocations					
Improve framework for maintenance	Establish responsibility in a central government ministry to support public bodies to establish maintenance standards and guidelines for budget funding for significant infrastructure in their area of responsibility.	Med	MoF,MoPD	Dec-2027		
	For key sectors, establish methods for estimating the need for maintenance to ensure that the design life of the infrastructure will be realized.	Low	MoF,MoPD	Dec-2027		
	For key sectors, establish rules of thumb for determining appropriate levels of budget funding for routine and capital maintenance, based on the estimates of need.	Low	MoF,MoPD	Dec-2027		
Climate sensitive public investment						
improve the role of climate in project feasibility studies and selection decisions	Adopt and apply a methodology to standardize the quantification and the pricing of GHG emissions in feasibility studies	Low	MoPD	Dec-25		Already Legal framework is established
	Include alignment with climate goals as a part of budget preparation project selection criteria (see above)	High	MoF and MoPD	Dec-26		
	Include climate information (eg. GHG emissions) in project profile template and reflect climate expertise in advice and review of budget proposals though Planning's participation in budget hearings	Medium	MoPD	Jun-25		
Improve tracking of climate expenditures and outcomes	Implement a system to identify and track climate related expenditures to measure progress against the NDC target	Medium	MoF and MoPD	Dec-26		
	Ensure ex post reviews include an assessment of major projects against stated climate related objectives	Medium	MoPD	Dec-29		Impact might take a bit longer time

Annex 2. PIMA Questionnaire

Indicator		Scoring		
		1 = To no or a lesser extent	2 = To some extent	3 = To a greater extent
A. Planning Sustainable Levels of Public Investment				
1. Fiscal targets and rules: Does the government have fiscal institutions to support fiscal sustainability and to facilitate medium-term planning for public investment?				
1.a.	Is there a target or limit for government to ensure debt sustainability?	There is no target or limit to ensure debt sustainability.	There is at least one target or limit to ensure central government debt sustainability.	There is at least one target or limit to ensure general government debt sustainability.
1.b.	Is fiscal policy guided by one or more permanent fiscal rules?	There are no permanent fiscal rules.	There is at least one permanent fiscal rule applicable to central government.	There is at least one permanent fiscal rule applicable to central government, and at least one comparable rule applicable to a major additional component of general government, such as subnational government (SNG).
1.c.	Is there a medium-term fiscal framework (MTFF) to align budget preparation with fiscal policy?	There is no MTFF prepared prior to budget preparation.	There is an MTFF prepared prior to budget preparation but it is limited to fiscal aggregates, such as expenditure, revenue, the deficit, or total borrowing.	There is an MTFF prepared prior to budget preparation, which includes fiscal aggregates and allows distinctions between recurrent and capital spending, and ongoing and new projects.
2. National and Sectoral Planning: Are investment allocation decisions based on sectoral and inter-sectoral strategies?				
2.a.	Does the government prepare national and sectoral strategies for public investment?	National or sectoral public investment strategies or plans are prepared, covering only some projects found in the budget.	National or sectoral public investment strategies or plans are published covering projects funded through the budget.	Both national and sectoral public investment strategies or plans are published and cover all projects funded through the budget regardless of financing source (e.g. donor, public corporation (PC), or PPP financing).
2.b.	Are the government's national and sectoral strategies or plans for public investment costed?	The government's investment strategies or plans include no cost information on planned public investment.	The government's investment strategies include broad estimates of aggregate and sectoral investment plans.	The government's investment strategies include costing of individual, major investment projects within an overall financial constraint.
2.c.	Do sector strategies include measurable targets for the outputs and outcomes of investment projects?	Sector strategies do not include measurable targets for outputs or outcomes.	Sector strategies include measurable targets for outputs (e.g., miles of roads constructed).	Sector strategies include measurable targets for both outputs and outcomes (e.g., reduction in traffic congestion).

Indicator		Scoring		
		1 = To no or a lesser extent	2 = To some extent	3 = To a greater extent
3. Coordination between Entities: Is there effective coordination of the investment plans of central and other government entities?				
3.a.	Is capital spending by SNGs, coordinated with the central government?	Capital spending plans of SNGs are not submitted to, nor discussed with central government.	Major SNG capital spending plans are published alongside central government investments, but there are no formal discussions, between the central government and SNGs on investment priorities.	Major SNG capital spending plans are published alongside central government investments, and there are formal discussions between central government and SNGs on investment priorities.
3.b.	Does the central government have a transparent, rule-based system for making capital transfers to SNGs, and for providing timely information on such transfers?	The central government does not have a transparent rule-based system for making capital transfers to SNGs.	The central government uses a transparent rule-based system for making capital transfers to SNGs, but SNGs are notified about expected transfers less than six months before the start of each fiscal year.	The central government uses a transparent rule-based system for making capital transfers to SNGs, and expected transfers are made known to SNGs at least six months before the start of each fiscal year.
3.c	Are contingent liabilities arising from capital projects of SNGs, PCs, and PPPs reported to the central government?	Contingent liabilities arising from major projects of SNGs, PCs, and PPPs are not reported to the central government.	Contingent liabilities arising from major projects of SNGs, PCs, and PPPs are reported to the central government, but are generally not presented in the central government's budget documents.	Contingent liabilities arising from major projects of SNGs, PCs, and PPPs are reported to the central government, and are presented in full in the central government's budget documents.
4. Project Appraisal: Are project proposals subject to systematic project appraisal?				
4.a.	Are major capital projects subject to rigorous technical, economic, and financial analysis?	Major capital projects are not systematically subject to rigorous, technical, economic, and financial analysis.	Major projects are systematically subject to rigorous technical, economic, and financial analysis.	Major projects are systematically subject to rigorous technical, economic, and financial analysis, and selected results of this analysis are published or undergo independent external review.
4.b.	Is there a standard methodology and central support for the appraisal of projects?	There is no standard methodology or central support for project appraisal.	There is either a standard methodology or central support for project appraisal.	There is both a standard methodology and central support for project appraisal.
4.c.	Are risks taken into account in conducting project appraisals?	Risks are not systematically assessed as part of the project appraisal.	A risk assessment covering a range of potential risks is included in the project appraisal.	A risk assessment covering a range of potential risks is included in the project appraisal, and plans are prepared to mitigate these risks.

Indicator		Scoring		
		1 = To no or a lesser extent	2 = To some extent	3 = To a greater extent
5. Alternative Infrastructure Financing: Is there a favorable climate for the private sector, PPPs, and PCs to finance in infrastructure?				
5.a.	Does the regulatory framework support competition in contestable markets for economic infrastructure (e.g., power, water, telecoms, and transport)?	Provision of economic infrastructure is restricted to domestic monopolies, or there are few established economic regulators.	There is competition in some economic infrastructure markets, and a few economic regulators have been established.	There is competition in major economic infrastructure markets, and economic regulators are independent and well established.
5.b.	Has the government published a strategy/policy for PPPs, and a legal/regulatory framework which guides the preparation, selection, and management of PPP projects?	There is no published strategy/policy framework for PPPs, and the legal/regulatory framework is weak.	A PPP strategy/policy has been published, but the legal/regulatory framework is weak.	A PPP strategy/policy has been published, and there is a strong legal/regulatory framework that guides the preparation, selection, and management of PPP projects.
5.c.	Does the government oversee the investment plans of public corporations (PCs) and monitor their financial performance?	The government does not systematically review the investment plans of PCs.	The government reviews the investment plans of PCs, but does not publish a consolidated report on these plans or the financial performance of PCs.	The government reviews and publishes a consolidated report on the investment plans and financial performance of PCs.
B. Ensuring Public Investment is Allocated to the Right Sectors and Projects				
6. Multi-Year Budgeting: Does the government prepare medium-term projections of capital spending on a full cost basis?				
6.a.	Is capital spending by ministry or sector forecasted over a multiyear horizon?	No projections of capital spending are published beyond the budget year.	Projections of total capital spending are published over a three to five-year horizon.	Projections of capital spending disaggregated by ministry or sector are published over a three to five-year horizon.
6.b	Are there multiyear ceilings on capital expenditure by ministry, sector, or program?	There are no multiyear ceilings on capital expenditure by ministry, sector, or program.	There are indicative multiyear ceilings on capital expenditure by ministry, sector, or program.	There are binding multiyear ceilings on capital expenditure by ministry, sector, or program.
6.c.	Are projections of the total construction cost of major capital projects published?	Projections of the total construction cost of major capital projects are not published.	Projections of the total construction cost of major capital projects are published.	Projections of the total construction cost of major capital projects are published, together with the annual breakdown of these cost over a three-five-year horizon.

Indicator		Scoring		
		1 = To no or a lesser extent	2 = To some extent	3 = To a greater extent
7. Budget Comprehensiveness and Unity: To what extent is capital spending, and related recurrent spending, undertaken through the budget process?				
7.a.	Is capital spending mostly undertaken through the budget?	Significant capital spending is undertaken by extra-budgetary entities with no legislative authorization or disclosure in the budget documentation.	Significant capital spending is undertaken by extra-budgetary entities, but with legislative authorization and disclosure in the budget documentation.	Little or no capital spending is undertaken by extra-budgetary entities.
7.b.	Are all capital projects, regardless of financing source, shown in the budget documentation?	Capital projects are not comprehensively presented in the budget documentation, including PPPs, externally financed, and PCs' projects.	Most capital projects are included in the budget documentation, but either PPPs, externally financed, or PCs' projects are not shown.	All capital projects, regardless of financing sources, are included in the budget documentation.
7.c.	Are capital and recurrent budgets prepared and presented together in the budget?	Capital and recurrent budgets are prepared by separate ministries, and/or presented in separate budget documents.	Capital and recurrent budgets are prepared by a single ministry and presented together in the budget documents, but without using a program or functional classification.	Capital and recurrent budgets are prepared by a single ministry and presented together in the budget documents, using a program or functional classification.
8. Budgeting for Investment: Are investment projects protected during budget implementation?				
8.a.	Are total project outlays appropriated by the legislature at the time of a project's commencement?	Outlays are appropriated on an annual basis, but information on total project costs is not included in the budget documentation.	Outlays are appropriated on an annual basis, and information on total project costs is included in the budget documentation.	Outlays are appropriated on an annual basis and information on total project costs, and multiyear commitments is included in the budget documentation.
8.b.	Are in-year transfers of appropriations (virement) from capital to current spending prevented?	There are no limitations on virement from capital to current spending.	The finance ministry may approve virement from capital to current spending.	Virement from capital to current spending requires the approval of the legislature.
8.c	Is the completion of ongoing projects given priority over starting new projects?	There is no mechanism in place to protect funding of ongoing projects.	There is a mechanism to protect funding for ongoing projects in the annual budget.	There is a mechanism to protect funding for ongoing projects in the annual budget and over the medium term.

Indicator		Scoring		
		1 = To no or a lesser extent	2 = To some extent	3 = To a greater extent
9. Maintenance Funding: Are routine maintenance and major improvements receiving adequate funding?				
9.a.	Is there a standard methodology for estimating routine maintenance needs and budget funding?	There is no standard methodology for determining the needs for routine maintenance.	There is a standard methodology for determining the needs for routine maintenance and its cost.	There is a standard methodology for determining the needs for routine maintenance and its cost, and the appropriate amounts are generally allocated in the budget.
9.b.	Is there a standard methodology for determining major improvements (e.g. renovations, reconstructions, enlargements) to existing assets, and are they included in national and sectoral investment plans?	There is no standard methodology for determining major improvements, and they are not included in national or sectoral plans.	There is a standard methodology for determining major improvements, but they are not included in national or sectoral plans.	There is a standard methodology for determining major improvements, and they are included in national or sectoral plans.
9.c.	Can expenditures relating to routine maintenance and major improvements be identified in the budget?	Routine maintenance and major improvements are not systematically identified in the budget.	Routine maintenance and major improvements are systematically identified in the budget.	Routine maintenance and major improvements are systematically identified in the budget, and are reported.
10. Project Selection: Are there institutions and procedures in place to guide project selection?				
10.a.	Does the government undertake a central review of major project appraisals before decisions are taken to include projects in the budget?	Major projects (including donor- or PPP-funded) are not reviewed by a central ministry prior to inclusion in the budget.	Major projects (including donor- or PPP-funded) are reviewed by a central ministry prior to inclusion in the budget.	All major projects (including donor- or PPP-funded) are scrutinized by a central ministry, with input from an independent agency or experts prior to inclusion in the budget.
10.b.	Does the government publish and adhere to standard criteria, and stipulate a required process for project selection?	There are no published criteria or a required process for project selection.	There are published criteria for project selection, but projects can be selected without going through the required process.	There are published criteria for project selection, and generally projects are selected through the required process.
10.c.	Does the government maintain a pipeline of appraised investment projects for inclusion in the annual budget?	The government does not maintain a pipeline of appraised investment projects.	The government maintains a pipeline of appraised investment projects but other projects may be selected for financing through the annual budget.	The government maintains a comprehensive pipeline of appraised investment projects, which is used for selecting projects for inclusion in the annual budget, and over the medium term.

Indicator		Scoring		
		1 = To no or a lesser extent	2 = To some extent	3 = To a greater extent
C. Delivering Productive and Durable Public Assets				
11. Procurement				
11.a.	Is the procurement process for major capital projects open and transparent?	Few major projects are tendered in a competitive process, and the public has limited access to procurement information.	Many major projects are tendered in a competitive process, but the public has only limited access to procurement information.	Most major projects are tendered in a competitive process, and the public has access to complete, reliable and timely procurement information.
11.b	Is there a system in place to ensure that procurement is monitored adequately?	There is no procurement database, or the information is incomplete or not timely for most phases of the procurement process.	There is a procurement database with reasonably complete information, but no standard analytical reports are produced from the database.	There is a procurement database with reasonably complete information, and standard analytical reports are produced to support a formal monitoring system.
11.c	Are procurement complaints review process conducted in a fair and timely manner?	Procurement complaints are not reviewed by an independent body.	Procurement complaints are reviewed by an independent body, but the recommendations of this body are not produced on a timely basis, nor published, nor rigorously enforced.	Procurement complaints are reviewed by an independent body whose recommendations are timely, published, and rigorously enforced.
12. Availability of Funding: Is financing for capital spending made available in a timely manner?				
12.a.	Are ministries/agencies able to plan and commit expenditure on capital projects in advance on the basis of reliable cash-flow forecasts?	Cash-flow forecasts are not prepared or updated regularly, and ministries/agencies are not provided with commitment ceilings in a timely manner.	Cash-flow forecasts are prepared or updated quarterly, and ministries/agencies are provided with commitment ceilings at least a quarter in advance.	Cash-flow forecasts are prepared or updated monthly, and ministries/agencies are provided with commitment ceilings for the full fiscal year.
12.b	Is cash for project outlays released in a timely manner?	The financing of project outlays is frequently subject to cash rationing.	Cash for project outlays is sometimes released with delays.	Cash for project outlays is normally released in a timely manner, based on the appropriation.
12.c	Is external (donor) funding of capital projects fully integrated into the main government bank account structure?	External financing is largely held in commercial bank accounts outside the central bank.	External financing is held at the central bank, but is not part of the main government bank account structure.	External financing is fully integrated into the main government bank account structure.

Indicator		Scoring		
		1 = To no or a lesser extent	2 = To some extent	3 = To a greater extent
13. Portfolio Management and Oversight: Is adequate oversight exercised over implementation of the entire public investment portfolio				
13.a	Are major capital projects subject to monitoring during project implementation?	Most major capital projects are not monitored during project implementation.	For most major projects, annual project costs, as well as physical progress, are monitored during project implementation.	For all major projects, total project costs, as well as physical progress, are centrally monitored during project implementation.
13.b	Can funds be re-allocated between investment projects during implementation?	Funds cannot be re-allocated between projects during implementation.	Funds can be reallocated between projects during implementation, but not using systematic monitoring and transparent procedures.	Funds can be re-allocated between projects during implementation, using systematic monitoring and transparent procedures.
13.c	Does the government adjust project implementation policies and procedures by systematically conducting ex post reviews of projects that have completed their construction phase?	Ex post reviews of major projects are neither systematically required, nor frequently conducted.	Ex post reviews of major projects, focusing on project costs, deliverables and outputs, are sometimes conducted.	Ex post reviews of major projects focusing on project costs, deliverables, and outputs are conducted regularly by an independent entity or experts, and are used to adjust project implementation policies and procedures.
14. Management of Project Implementation: Are capital projects well managed and controlled during the execution stage?				
14.a	Do ministries/agencies have effective project management arrangements in place?	Ministries/agencies do not systematically identify senior responsible officers for major investment projects, and implementation plans are not prepared prior to budget approval.	Ministries/agencies systematically identify senior responsible officers for major investment projects, but implementation plans are not prepared prior to budget approval.	Ministries/agencies systematically identify senior responsible officers for major investment projects, and implementation plans are prepared prior to budget approval.
14.b.	Has the government issued rules, procedures and guidelines for project adjustments that are applied systematically across all major projects?	There are no standardized rules and procedures for project adjustments.	For major projects, there are standardized rules and procedures for project adjustments, but do not include, if required, a fundamental review and reappraisal of a project's rationale, costs, and expected outputs.	For all projects, there are standardized rules and procedures for project adjustments and, if required, include a fundamental review of the project's rationale, costs, and expected outputs.
14.c.	Are ex post audits of capital projects routinely undertaken?	Major capital projects are usually not subject to ex post external audits.	Some major capital projects are subject to ex post external audit, information on which is published by the external auditor.	Most major capital projects are subject to ex post external audit information on which is regularly published and scrutinized by the legislature.

Indicator		Scoring		
		1 = To no or a lesser extent	2 = To some extent	3 = To a greater extent
15. Monitoring of Public Assets: Is the value of assets properly accounted for and reported in financial statements?				
15.a	Are asset registers updated by surveys of the stocks, values, and conditions of public assets regularly?	Asset registers are neither comprehensive nor updated regularly.	Asset registers are either comprehensive or updated regularly at reasonable intervals.	Asset registers are comprehensive and updated regularly at reasonable intervals.
15.b	Are nonfinancial asset values recorded in the government financial accounts?	Government financial accounts do not include the value of non- financial assets.	Government financial accounts include the value of some non- financial assets, which are revalued irregularly.	Government financial accounts include the value of most nonfinancial assets, which are revalued regularly.
15.c	Is the depreciation of fixed assets captured in the government's operating statements?	The depreciation of fixed assets is not recorded in operating statements.	The depreciation of fixed assets is recorded in operating statements, based on statistical estimates.	The depreciation of fixed assets is recorded in operating expenditures, based on asset-specific assumptions.

Cross-cutting issues	
A	**IT support**. Is there a comprehensive computerized information system for public investment projects to support decision making and monitoring?
B	**Legal Framework**. Is there a legal and regulatory framework that supports institutional arrangements, mandates, coverage, procedures, standards and accountability for effective PIM?
C	**Staff capacity.** Does staff capacity (number of staff and/or their knowledge, skills, and experience) and clarity of roles and responsibilities support effective institutions?

Annex 3. Detailed PIMA Scores

The following color coding is used in presenting the scores:

Score	1	2	3
Color			

A. Planning		
	Institutional Design	Effectiveness
1.a.	1	2
1.b.	1	1
1.c.	2	2
2.a.	3	3
2.b.	2	2
2.c.	3	3
3.a.	1	2
3.b.	3	2
3.c.	1	1
4.a.	2	2
4.b.	2	2
4.c.	3	1
5.a.	1	1
5.b.	3	2
5.c.	2	2

B. Allocation		
	Institutional Design	Effectiveness
6.a.	2	2
6.b.	2	1
6.c.	1	1
7.a.	3	3
7.b.	1	1
7.c.	3	3
8.a.	1	1
8.b.	3	3
8.c.	1	2
9.a.	2	1
9.b.	1	1
9.c.	2	2
10.a.	2	3
10.b.	1	1
10.c.	1	1

C. Implementation		
	Institutional Design	Effectiveness
11.a.	2	1
11.b.	1	1
11.c.	2	2
12.a.	3	2
12.b.	2	2
12.c.	2	3
13.a.	2	2
13.b.	2	2
13.c.	2	1
14.a.	2	2
14.b.	3	1
14.c.	2	2
15.a.	2	1
15.b.	2	1
15.c.	2	1

Annex 4. Public Investment Program Reviews

The objectives and principles for a capital project portfolio review could include efficiency, equity and effectiveness (Table A1).

Table A1: Potential principles for a project portfolio review

Objective	Principles
Efficiency	Cuts to target projects with low benefit to cost
Equity	Impact of the cuts on different groups/sectors to be consistent with policy priorities
Effectiveness	Net cuts to contribute to required fiscal adjustment

The possible decision criteria for projects to cancel and/or postpone would typically include the following:

- **Overall value** - Low benefit to cost ratio – using original/updated appraisal, or alternatively using cost effectiveness, multicriteria.
- **Size** - Larger projects rather than smaller to make the most impact
- **Stage of implementation** – projects that have no ground broken or are in the early stages are good candidates to be cancelled
- **Implementation challenges and updated knowledge** – projects that have implementation difficulties and where assumptions appear to have been too optimistic
- **Role of the project in infrastructure networks** – to what extent will cancellation or postponement or a project negatively impact other assets, systems and jurisdictions
- **Contractual constraints and penalties** – what type of penalties will the government incur from cancellation or postponement. This involves a legal review of contracts.
- **Donor impacts** – to what extent is the decision dependent on external financing and what potential financial fall out could there be from not going ahead.

It is a good idea to involve independent and technical experts in the review. Committing to transparency over the review, its objectives and its outputs can also improve the outcome.

A number of countries have implemented portfolio reviews, for example:

Ireland (2009):

- Review in 2009 of rationale and appraisal for all major projects after the Global Financial Crisis
- Projects that made sense five years earlier no longer had positive economic case.

- Specific criteria used: e.g., protect employment, promote regional balance, ensure environmental sustainability.
- In tandem:
  - Assessment of capacity and demand in all sectors. e.g., demand for energy had reduced in line with economic contraction, weakening the need for further investment; but there had been under-investment in water, so this was relatively protected.
  - Smaller scale works and regionally distributed maintenance projects were protected as they were labor-intensive (in a time of increasing unemployment)
  - Funding was protected for projects with contractual commitments.
  - Project preparation for future investment continued, so that there would be a pipeline once funding was available

Zambia (2021):

- The authorities undertook a review of public infrastructure projects with a view to canceling, rescoping and postponing projects to reduce expenditure and strengthen fiscal sustainability.
- The criteria for the review included determining where contracts had been signed and the legal consequences of not proceeding.
- The authorities also established a Public Investment Board, responsible for project scrutinization to improve the quality of future projects that are approved.

Australia (2023):

- Independent strategic review of the Infrastructure Investment Program (IIP) was commissioned to be undertaken within 90 days by three experts.
- Among the objectives:
  - (i) assess funded projects and make recommendations on the merits of projects continuing;
  - (ii) recommend or not the transitioning the IIP to a sustainable 10-year rolling pipeline that targets appropriately costed, nationally significant infrastructure projects budget to integrate findings of this review
- The executive summary of the review was published.[87] 82 projects were recommended to be cancelled.

Uganda:

- Uganda undertook a gradual clean up of Public Investment Program over many years.
- Establishment of a Development Committee to act as gate keeper for new investment projects.

[87] https://www.infrastructure.gov.au/department/media/publications/independent-strategic-review-infrastructure-investment-program-executive-summary

Annex 5. Climate-PIMA Questionnaire

Indicator		Scoring		
		1 = To no or a lesser extent	2 = To some extent	3 = To a greater extent
C1. Climate-aware planning: Is public investment planned from a climate change perspective?				
C. 1. a	Are national and sectoral public investment strategies and plans consistent with NDC or other overarching climate change strategy on mitigation and adaptation?	National and sectoral public investment strategies and plans are not consistent with NDC or other overarching climate change strategy.	National public investment strategies and plans are consistent with NDC or other overarching climate change strategy for ***some*** sectors.	National and sectoral public investment strategies and plans are consistent with NDC or other overarching climate change strategy for ***most*** sectors.
C. 1. b	Do central government and/or sub-national government regulations on spatial and urban planning, and construction address climate-related risks and impacts on public investment?	Central government and/or sub-national government regulations on spatial and urban planning, and construction do not address climate-related risks and impacts on public investment.	Central government and/or sub-national government regulations on spatial and urban planning, ***or*** construction (through building codes) addresses climate-related risks and impacts on public investment.	Central government and/or sub-national government regulations on spatial and urban planning, ***and*** construction (through building codes) address climate-related risks and impacts on public investment.
C. 1. c	Is there centralized guidance/support for government agencies on the preparation and costing of climate-aware public investment strategies?	There is no centralized guidance/support for government agencies on the preparation and costing of climate-aware public investment strategies.	There is centralized guidance/support for government agencies on the ***preparation*** of climate-aware public investment strategies.	There is centralized guidance/support for government agencies on the ***preparation and costing*** of climate-aware public investment strategies.
C2. Coordination between entities: Is there effective coordination of decision making on climate change-related public investment across the public sector?				
C. 2. a	Is decision making on public investment coordinated across central government from a climate-change perspective?	Decision making on public investment is not coordinated across central government from a climate-change perspective.	Decision making on public investment is coordinated across budgetary central government from a climate-change perspective.	Decision making on public investment is coordinated across all central government, including externally financed projects, PPPs and extra-budgetary entities, from a climate-change perspective.

Indicator		Scoring		
		1 = To no or a lesser extent	2 = To some extent	3 = To a greater extent
C.2.b	Is the planning and implementation of capital spending of SNGs coordinated with the central government from a climate-change perspective?	The planning and implementation of capital spending of SNGs is not coordinated with the central government from a climate-change perspective.	The central government issues guidance on the planning and implementation of capital spending from a climate-change perspective and information on major climate-related projects of SNGs is shared with the central government and is published alongside data on central government projects.	The central government issues guidance on the planning and implementation of capital spending from a climate-change perspective, information on major climate-related projects of SNGs is shared with the central government and is published alongside data on central government projects, and there are formal discussions between central government and SNGs on the planning and implementation of climate-related investments.
C.2.c	Does the regulatory and oversight framework for public corporations ensure that their climate-related investments are consistent with national climate policies and guidelines?	The regulatory and oversight framework for public corporations does not promote consistency between their climate-related investments and national climate policies and guidelines.	The regulatory and oversight framework for public corporations promotes consistency between their climate-related investments and national climate policies and guidelines.	The regulatory and oversight framework for public corporations requires that their climate-related investments be consistent with national climate policies and guidelines.
C3. Do project appraisal and selection include climate-related analysis and criteria?				
C.3.a	Does the appraisal of major infrastructure projects require climate-related analysis to be conducted according to a standard methodology with central support?	The appraisal of major infrastructure projects does not require climate-related analysis to be conducted according to a standard methodology.	The appraisal of major infrastructure projects requires climate-related analysis to be conducted according to a standard methodology.	The appraisal of major infrastructure projects requires climate-related analysis to be conducted according to a standard methodology, and a summary of appraisals is published or subject to independent external review.
C3b	Does the framework for managing longer-term public investment contracts, such as PPPs, explicitly address climate-related challenges?	The referred framework does not include explicit consideration of climate change for risk allocation or contract management.	The referred framework includes explicit consideration of climate change with respect to how risks are allocated between the parties in infrastructure contracts.	The referred framework includes explicit consideration of climate change with respect to how risks are allocated between the parties in infrastructure contracts, and contract managers in government departments and agencies are mandated to address climate-related challenges.

Indicator		Scoring		
		1 = To no or a lesser extent	2 = To some extent	3 = To a greater extent
C.3.c	Are climate-related elements included among the criteria used by the government for the selection of infrastructure projects?	Either there are no explicit selection criteria or climate-related elements are not included among the criteria used by the government for the selection of projects for financing.	Climate-related elements are included among the criteria used by the government for the selection of all major budget-funded projects, and the criteria are published.	Climate-related elements are included among the criteria used by the government for the selection of all major projects, including externally financed projects, projects financed by extra-budgetary entities, and PPPs, and the criteria are published.
C.4 Budgeting and portfolio management: Is climate-related investment spending subject to active management and oversight?				
C.4.a.	Are planned climate-related public investment expenditure, sources of financing, outputs and outcomes identified in the budget and related documents, monitored, and reported?	Planned climate-related public investment expenditure are not identified in the budget and related documents.	Some planned climate-related public investment expenditure are identified in the budget and related documents, including investment expenditure funded externally, by extra-budgetary entities, and PPPs.	Most planned climate-related public investment expenditure, sources of financing, and outputs and outcomes are identified in the budget and related documents, including investment expenditure funded externally, by extra-budgetary entities, and PPPs, and expenditure on these projects is monitored and reported.
C4.b.	Are ex-post reviews or audits conducted of the climate change mitigation and adaptation outcomes of public investments?	No ex-post reviews or audits are conducted of the climate change mitigation and adaptation outcomes of public investments.	Ex-post reviews or audits are conducted for selected major public investments of either the climate change mitigation or adaptation outcomes.	Ex-post reviews or audits are conducted and published for selected major public investments of both the climate change mitigation and adaptation outcomes.
C4.c.	Do the government's asset management policies and practices, including the maintenance of assets, address climate-related risks?	Neither the government's asset management policies and practices nor methodologies for estimating the maintenance needs of climate change-exposed infrastructure assets address climate-related risks.	Methodologies prepared by the government for estimating the maintenance needs of some climate change-exposed infrastructure assets address climate-related risks.	Methodologies prepared by the government for estimating the maintenance needs and associated costs of most climate change-exposed infrastructure assets address climate-related risks, and government asset registers include climate-related information of these assets.

Indicator		Scoring		
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C5. Risk management: Are fiscal risks relating to climate change and infrastructure incorporated in budgets and fiscal risk analysis and managed according to a plan?				
C5.a.	Does the government publish a national disaster risk management strategy that incorporates the potential impact of climate change on public infrastructure assets and networks?	Either there is no published national disaster risk management strategy, or the strategy does not identify the key climate-related risks to public infrastructure assets and networks.	The government publishes a national disaster risk management strategy that identifies the key climate-related risks to public infrastructure assets and networks in terms of hazards, exposure, and vulnerability.	The government publishes a national disaster risk management strategy that identifies and analyses the key climate-related risks to public infrastructure assets and networks in terms of hazards, exposure and vulnerability, and includes the government's plans to mitigate and respond to these risks.
C5.b.	Has the government put in place ex ante financing mechanisms to manage the exposure of the stock of public infrastructure to climate-related risks?	The government has not put in place any ex-ante financing mechanisms to manage the exposure of the stock of public infrastructure to climate-related risks.	There is an annual contingency appropriation in the budget or other financing mechanisms that is available to meet the costs of climate-related damages to public infrastructure.	There is an annual contingency appropriation in the budget and other financing mechanisms that are available to meet the costs of climate-related damages to public infrastructure.
C5.c.	Does the government conduct and publish a fiscal risk analysis that incorporates climate-related risks to public infrastructure assets?	The government does not conduct a fiscal risk analysis that incorporates climate-related risks to public infrastructure assets.	The government conducts and publishes a fiscal risk analysis that incorporates a qualitative assessment of climate-related risks to public infrastructure assets over the medium term.	The government conducts and publishes a fiscal risk analysis that incorporates a quantitative assessment of climate-related risks to public infrastructure assets over the medium term and policies to mitigate these risks, and a qualitative assessment of the risks that may arise over the long-term.
Cross-cutting issues				
A	**IT support**. Is there a comprehensive computerized information system for public investment projects to support decision making and monitoring?			
B	**Legal Framework**. Is there a legal and regulatory framework that supports institutional arrangements, mandates, coverage, standards and accountability for effective			
C	**Staff capacity.** Does staff capacity (number of staff and/or their knowledge, skills, and experience) and clarity of roles and responsibilities support effective			