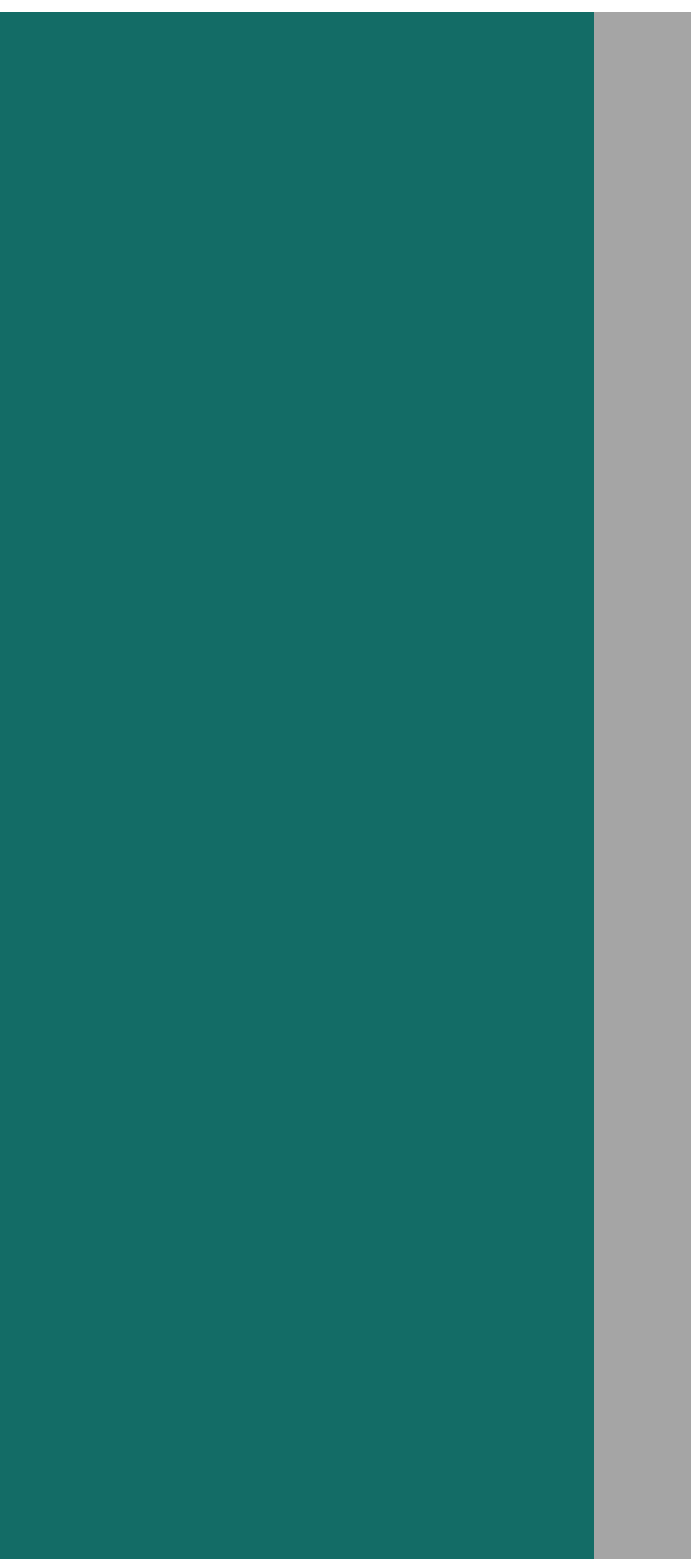




WATER RESOURCES DEVELOPMENT FUND

Programme Implementation Manual

August 2015



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Acronyms and abbreviations

| | |
|---------------|--|
| | |
| AFD | Agence Française de Développement |
| BADEA | Bank of Arab for Economic Development of Africa |
| BoQ | Bill of Quantity |
| Business Plan | Terms encompasses the Project Feasibility study, Detail Design reports and other documentation submitted at the time of making application by the TWU. |
| CRIS | CRISIL Risk and Infrastructure Solutions Limited |
| DBSA | Development Bank of Southern Africa |
| DCCO | Date of Commencement of Commercial Operations |
| DoP | Delegation of Power |
| DP | Development Partner |
| DSCR | Debt-Service Coverage Ratio |
| EIA | Environmental Impact Assessment |
| ESIA | Environmental and Social Impact Assessment |
| EIB | European Investment Bank |
| EIRR | Economic Internal Rate of Return |
| EMP | Environmental Management Plan |
| ENPV | Economic Net Present Value |
| Expert Staff | Can comprise WaSH Engineers, Finance Specialists, Procurement Experts, etc. as per the requirements of the RWBs |
| FDRE | Federal Democratic Republic of Ethiopia |
| FPPAD | Finance, Procurement and Property Administration Directorate |
| GNPA | Gross Non-performing Loans |
| GoE | Government of Ethiopia |
| HR | Human Resources |
| IBF | Investment Basket Fund |
| IDC | Italian Development Cooperation |
| IIA | Institute of Internal Auditor |
| IRR | Internal Rate of Return |
| KPI | Key Performance Indicator |
| LAAS | Loan Accounting and Administration System |
| LC | Letter of Credit |
| M&E | Monitoring and Evaluation |
| MFMA | Municipal Finance Management Act |

| | |
|------------------|--|
| MIS | Management Information System |
| MoFED | Ministry of Finance and Economic Development |
| MoU | Memorandum of Understanding |
| MoWIE | Ministry of Water, Irrigation, and Energy |
| MRR | Monitoring Review Report |
| MUDF | Municipal Urban Development Fund |
| NPA | Non-Performing Loan |
| NPV | Net Present Value |
| NBE | National Bank of Ethiopia |
| NRW | Non-Revenue Water |
| NWI | National WaSH Inventory |
| OECD | Organization for Economic Co-operation and Development |
| OFAG | Office of the Federal Auditor General |
| O&M | Operations and Maintenance |
| PIM | Programme Implementation Report |
| PPLRED | Project Payment and Loan Return Execution Department |
| PPR | Programme Presentation Report |
| PSSAD | Project Study Support and Appraisal Department |
| RWB | Regional Water Bureau |
| Sanitation | Refers to system for collecting, conveying, treating and disposing sewage. It does not include effluent / liquid discharges from industries. |
| SBD | Standard Bid Documents |
| SEE | Social, Economic, and Environmental |
| SMT | Small and Medium Town |
| TABF | Technical Assistance Basket Fund |
| ToR | Terms of Reference |
| TWU | Town Water Utility |
| WaSH | Water, Sanitation, and Hygiene |
| WB | World Bank |
| WRDF | Water Resources Development Fund |
| Management Board | WRDF's Board of Directors |

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1. Background to the PIM

This chapter provides the context of the PIM and the proposed basket funds

1.1 About WRDF

The Water Resources Development Fund (WRDF) was established by the GoE in January 2002, by proclamation number 268/2002, as a semi-autonomous body on behalf of the Ministry of Water, Irrigation and Energy (MoWIE). WRDF's main objective is to promote the development of viable water and sanitation services in Ethiopia.

(WRDF provides long-term loans as per the proclamation for the development of WaSH infrastructure to town water utilities (TWU) or grants for capacity-building activities. Until date, WRDF has extended loans to 36 TWUs with a total estimated project cost of Birr 3,632 million. Loans are for a period of 20 to 25 years with an exception of 15 & 40 years for Aksum & Harar respectively excluding the grace period of 5 to 7 years at 3.0–5.0% fixed interest. Of the 36 towns, 8 TWUs have begun making loan repayments. The remaining 31 towns are at different stages of development. The total cost of the project is funded by two sources: loan from WRDF and other being borrower own sources. WRDF contributes to a maximum of 80% of the project cost, while the rest is contributed as the matching fund. WRDF receives funding from Development Partners (DPs) such as Agence Française de Développement, European Investment Bank, Italian Development Cooperation, World Bank, etc. for the same.

The key objectives of WRDF comprise:

- Enabling water supply and sanitation service providers to be self-sufficient in providing reliable and sustainable services to the community
- Expanding and ensuring sustainable irrigation development with the aim to achieve food self-sufficiency
- Ensuring fair and equitable allocation of funds among different regions
- Ensuring fair access and benefits using transparent and consistent operational guidelines

1.2 Overview of the contents of the PIM

The PIM operationalizes the Basket Fund mechanism. Basket fund, as the name suggests, will allow pooling of funds from different development partners. The funds in the basket will then be disbursed **using a common single process as set forth in the PIM** for creation of urban water and sanitation infrastructure in TWUs.

The basket fund will comprise two funds: Investment Basket Fund (IBF) and Technical Assistance Basket Fund (TABF). A brief description is given:

- **IBF:** The funds deposited in the IBF account will be used for the development of water and sanitation infrastructure. These funds will be given on loan by WRDF to TWUs. The TWU (borrower) must repay these loans back to WRDF, along with interest as per the terms of the agreement.

- **TABF:** Funds deposited in the TABF account will be used for the development of technical capacities of WRDF, Regional Water Bureaus (RWBs) and TWUs and will be provided as grants to all.

The details of various activities included in this PIM document are as follows:

- **Key Features of IBF:** The section presents details of the terms and conditions at which loans can be provided by WRDF.
- **Appraisal Process:** This section details out the various processes to be followed by WRDF for technical appraisal, SEE appraisal, financial and managerial appraisal in terms of viability and design of proposed projects or capacity building.
- **Disbursement:** The section describes the process to be followed prior to disbursing loans by WRDF. It also details agreements that need to be signed and collateral to be obtained prior to disbursing the loan to the TWU.
- **Monitoring Process:** This section describes activities required to be undertaken during the construction and operation of the project to facilitate appropriate utilization and prompt repayment of the funds lent to the TWUs.
- **Procurement:** This section describes role that WRDF would play in TWUs' procurement-related process for water and sanitation infrastructure in the context of the basket fund.
- **Key Features of TABF:** The section presents details on the areas that will be provided by the technical assistance (TA), allocation of the TA and methodology for disbursing and monitoring the utilization of the TA.
- **Asset Quality:** This section describes the various norms for loan classification that should be followed by WRDF to appropriately represent its financial status.
- **Investment Management:** This section describes the various steps to be taken by WRDF to effectively manage its corpus and generate an additional revenue stream.
- **Auditing and Management Information System (MIS) Procedures:** This section describes the various control procedures to be followed by WRDF for the efficient management of fund.
- **Annexure** provides information on a number of subjects such as Financial Management Guidelines, Agence Française de Développement's (AFD) Statement of Integrity, Eligibility and Social and Environmental Responsibility and European Investment Bank's (EIB) Covenant of Integrity and guidelines for Monitoring and Evaluation of Projects among others.

The above listed activities will help WRDF to successfully manage the funding and operate basket funds.

1.3 Objective of the Manual

The objectives of the manual are as follows:

1. Formalize and standardize operational guidelines

The manual details process / guidelines for appraisal, disbursement, monitoring, and procurement management, among others thus establishing a standardized operational methodology. This standardized operational methodology can be utilized by WRDF for disbursing loans and technical assistance across Development Partners.

2. Enable training of employees

This manual serves as a key tool for training/reference material for the WRDF staff. It will ensure that the concerned officials have a common understanding of the lending operations.

3. Facilitate audit of processes

The manual will act as a benchmark to auditors when they are required to assess the conformance of the practices followed to those set in the manual.

4. Establish corporate governance

The processes detailed in the manual consist of a number of checks and balances to ensure appropriate deployment of the basket fund.

1.3.1 Target Audience

The present manual is intended primarily for use by WRDF staff in general and for the MoFED, MoWIE, DPs, RWB and TWUs to deepen their understanding of WRDF operations.

1.3.2 Updating the Manual

The manual may be revised whenever required to improve the relevance of processes contained therein, strengthen their effectiveness, and reflect the experiences and lessons learned during its implementation.

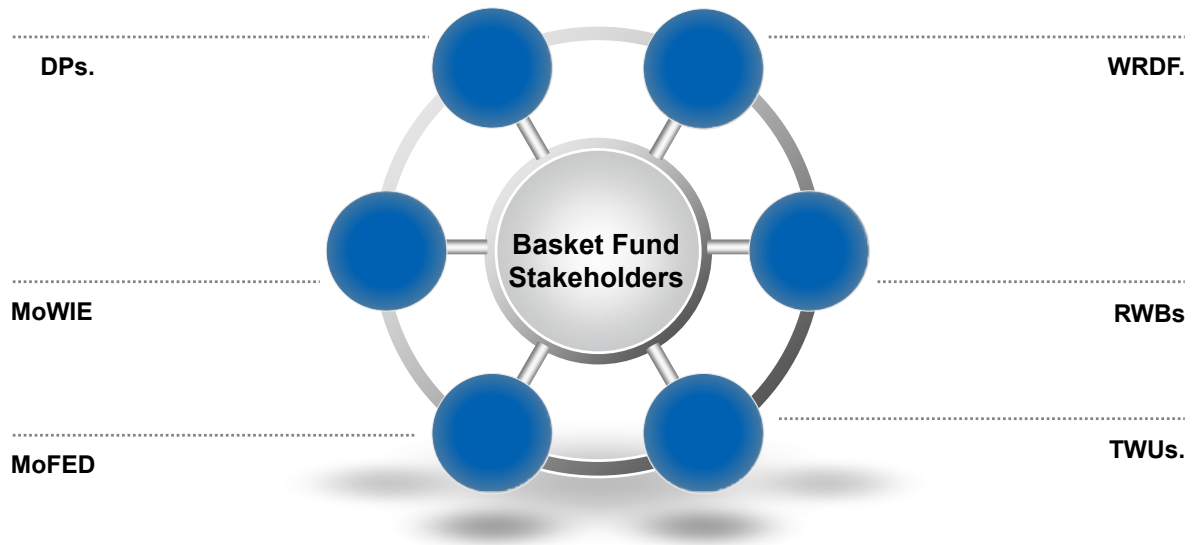
2. Roles of Stakeholders in the Operation of the Basket Fund

This chapter identifies and details the roles and responsibilities of various stakeholders in the context of the basket fund and its utilisation for creation of urban water and sanitation infrastructure in Ethiopia.

It is envisaged that a number of stakeholders shall be associated with the proposed basket fund, across the processes of fund flows, appraisals (including financial, technical, and SEE), disbursement, monitoring, and collection, procurement, and corporate governance (and thereby for corporate governance the WRDF as a whole), and monitoring. Stakeholders would include ministries at the federal level, regional governments and bureaus, zonal administration and town municipalities, development partners, WRDF, TWUs, and communities. It is imperative that each of these roles is clearly understood and executed appropriately towards sound implementation of the basket fund. The proposed roles, while individually important, will also be collectively significant, as the implementation of the basket fund will reflect not only the harmonization of funds but also harmonization of efforts under the new mechanism of basket funding, for the creation of the much needed urban water and sanitation infrastructure in small and medium towns of Ethiopia.

The figure below illustrates the various identified stakeholders of the proposed basket fund.

Figure 1: Stakeholders associated with the proposed basket fund

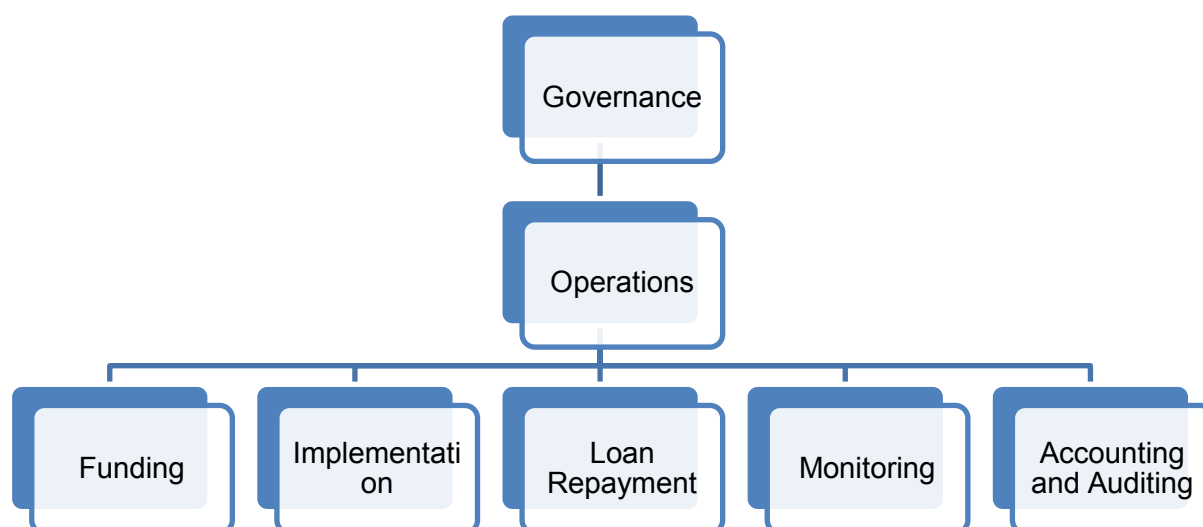


The composite roles and responsibilities of the identified stakeholders in the utilization of the basket fund will be governed by the laws and regulations of Ethiopia. The following section details the key responsibilities of stakeholders shown in Figure 1 at two levels, i.e., governance and operations.

Governance (for the purpose of this section only) implies determining the priorities of the basket fund at a strategic level, and operations would include all activities starting from the release of funds to the utilization of the funds, including the revolving fund.

The figure below illustrates the various stakeholders.

Figure 2: Clustering the roles and responsibilities of the stakeholders



1. Development Partners (DP)

The roles and responsibilities of DPs are stated below:

- **Governance**
 - ◆ Approve the criteria and processes that will be followed by WRDF to lend and collect loans and grants under the basket fund
 - ◆ Facilitate the procurement that meet the World Bank's procurement guidelines, in line with the statements of integrity from AFD and Covenant of Integrity from EIB, and is as per the requirements of this PIM.
- **Funding**
 - ◆ Ensure timely release of funds to the WRDF.
- **Monitoring**
 - ◆ Monitor the disbursement of funds released through IBF and TABF
 - ◆ Review the utilization of IBF and TABF by TWUs.

2. MoFED

The roles and responsibilities of MoFED are stated below:

- **Funding**
 - ◆ Review, provide suggestions and approve annual plan of the utilization of the IBF and TABF / funds provided by Development Partners for creating urban water and sanitation infrastructure.
- **Monitoring**
 - ◆ Monitor the disbursement of funds through IBF and TABF
 - ◆ Review the utilization of IBF and TABF by TWUs.
- **Others**
 - ◆ Review, provide suggestions and approve the policy for utilization of WRDF's corpus (e.g.i.e. investments in treasury bills, interest yielding bank deposits, etc.)

- ◆ Allocate grants and subsidies to WRDF as per GOE policies.

3. MoWIE

The roles and responsibilities of MoWIE are stated below:

- **Monitoring**
 - ◆ Approve annual plan of the TABF
 - ◆ Monitor the disbursement of funds through IBF and TABF
 - ◆ Review the utilization of IBF and TABF by TWUs
 - ◆ Monitor the overall performance (including physical & financial progress of the Programme).
- **Funding**
 - ◆ Assist WRDF as required in seeking funds from DP's.

4. WRDF

The roles and responsibilities of WRDF are stated below:

- **Governance**
 - ◆ Update the PIM as necessary including seeking consensus among the stakeholders regarding the criteria and processes that ought to be followed by WRDF to lend, monitor, and collect loans and grants under the basket fund
 - ◆ Oversee all activities stipulated in WRDF as per proclamation number 268/2007
 - ◆ Undertake activities as required to facilitate operating of the basket fund.
 - ◆ Develop work plan (physical work plan, procurement work plan, financial work plan and other plan) on proposed disbursements of funds from IBF and TABF
 - ◆ Determine the funding priorities for the basket fund in context of GoE's WaSH sector priorities
 - ◆ Develop an annual plan of disbursement from the basket fund.
- **Funding**
 - ◆ Make requisitions for funds for IBF and TABF from the different contributors (DPs, government, etc...) as per its annual work plan
 - ◆ Undertake appraisal of the selected towns
 - ◆ Release funds to selected TWUs as per disbursement policies and processes detailed in this PIM
 - ◆ Take measures/steps for augmenting the size of IBF.
- **Implementation**
 - ◆ Appraise project documentation submitted by TWUs and determine if loan or technical assistance can be provided to them for constructing urban water and sanitation infrastructure.
 - ◆ Review procurement undertaken by TWUs and ensure that it is as per guidelines mentioned in this PIM.
- **Monitoring**
 - ◆ Monitor the utilization of the funds provided to TWUs under TABF and IBF
 - ◆ Monitor the operations of TWUs upto the completion of the project.
- **Loan repayment**
 - ◆ Collect loans from TWUs as per the agreed loan repayment schedules
 - ◆ Follow up with defaulting TWUs and collect unpaid loans.

- **Accounting and auditing**

- ◆ Maintain accounts of the basket funds as per requirements of GoE and WRDF's loan accounting
- ◆ Audit the operations of the basket fund as per requirements of GoE
- ◆ Prepare the MIS statements.

5. Regional Water Bureaus (RWB)

The following roles and responsibilities of RWBs are stated below. If required, additional Expert Staff¹ will be recruited by the RWBs to undertake them.

- **Project development**

- ◆ Assist TWUs in preparing business plans, feasibility reports, and other documentation required for obtaining loans/grants from WRDF.

- **Funding**

- ◆ Provide the matching fund for funding the grant component of the project cost
- ◆ Provide the matching funds for funding the cost of work supervision (if not initially included in the overall project cost)
- ◆ Facilitate provision of loan grantee from the regional government.

- **Procurement and Implementation**

- ◆ Assist TWUs in undertaking the procurement process for identifying the contractors for goods/works/services
- ◆ Assist the TWUs in administering the contracts for procuring goods/works/services
- ◆ Assist the TWU in managing the construction of water and sanitation networks/systems
- ◆ Assist the TWUs in generating reports at appropriate frequency for tracking the physical and financial progress during the construction of the project
- ◆ Assist the TWUs operate the water and sanitation infrastructure through timely intervention of staff/training/etc.
- ◆ Assist the TWU to generate reports of the operations of the water and sanitation infrastructure.

- **General**

- ◆ Undertake training/capacity building related to procurement, contract management, overall financial management and operational efficiency to further train/advice TWUs on these aspects during project development and implementation.

6. TWUs

The roles and responsibilities of TWUs are stated below:

- **Funding**

- ◆ Prepare documentation (business plans, design studies, feasibility studies, etc.) for seeking funding under IBF and TABF as per the requirements of the PIM, with the assistance of consultants/RWBs
- ◆ Prepare application for the release of loans/grants from IBF and TABF.
- **Implementation**
 - ◆ Procure goods/works/services to construct water supply and sanitation systems
 - ◆ Undertake contract management during project implementation
 - ◆ Commission and takeover operations of the water supply and sanitation systems
 - ◆ Engage with communities as required
 - ◆ Submit monthly and quarterly progress report and other reports as required under the PIM
- **Loan Repayment**
 - ◆ Repay loans as per the loan repayment schedule.

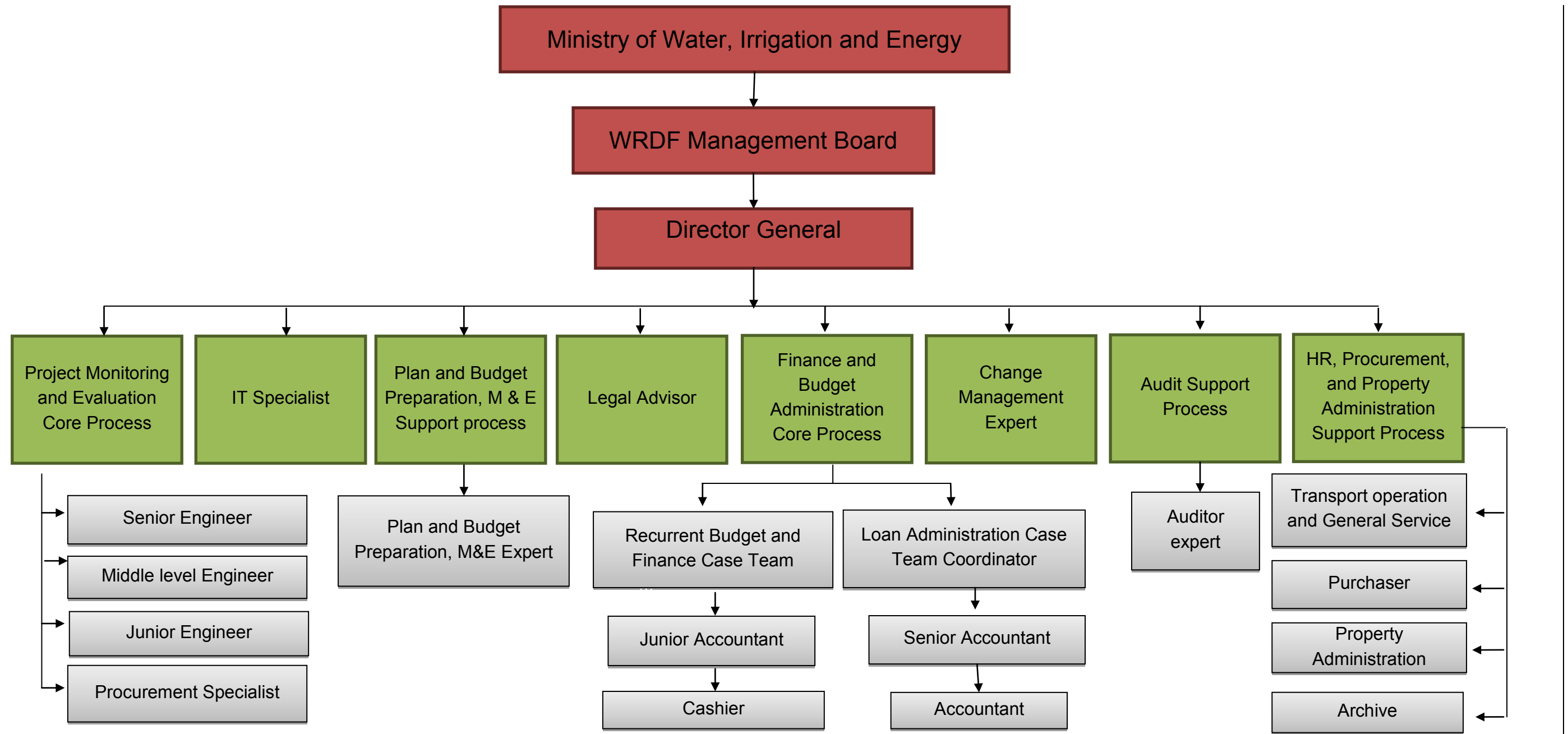
Subsequent chapters of the PIM factor in the above-mentioned roles while determining the processes to be followed for project appraisal, disbursement, procurement, MONITORING, and collection of loans.

3. Organizational Structure and Roles and Responsibilities

The chapter describes the organizational structure of WRDF and various roles and responsibility of staff of WRDF with respect to appraisal, monitoring, and disbursement.

WRDF is a GoE agency and a representative of MoWIE created for financing projects in the water and sanitation sector and for irrigation development in Ethiopia. WRDF is primarily governed by the Proclamation 268/2002 of the Federal Democratic Republic of Ethiopia (FDRE).

Figure 3: WRDF's current organization structure



The roles and responsibility of various departments are as follows:

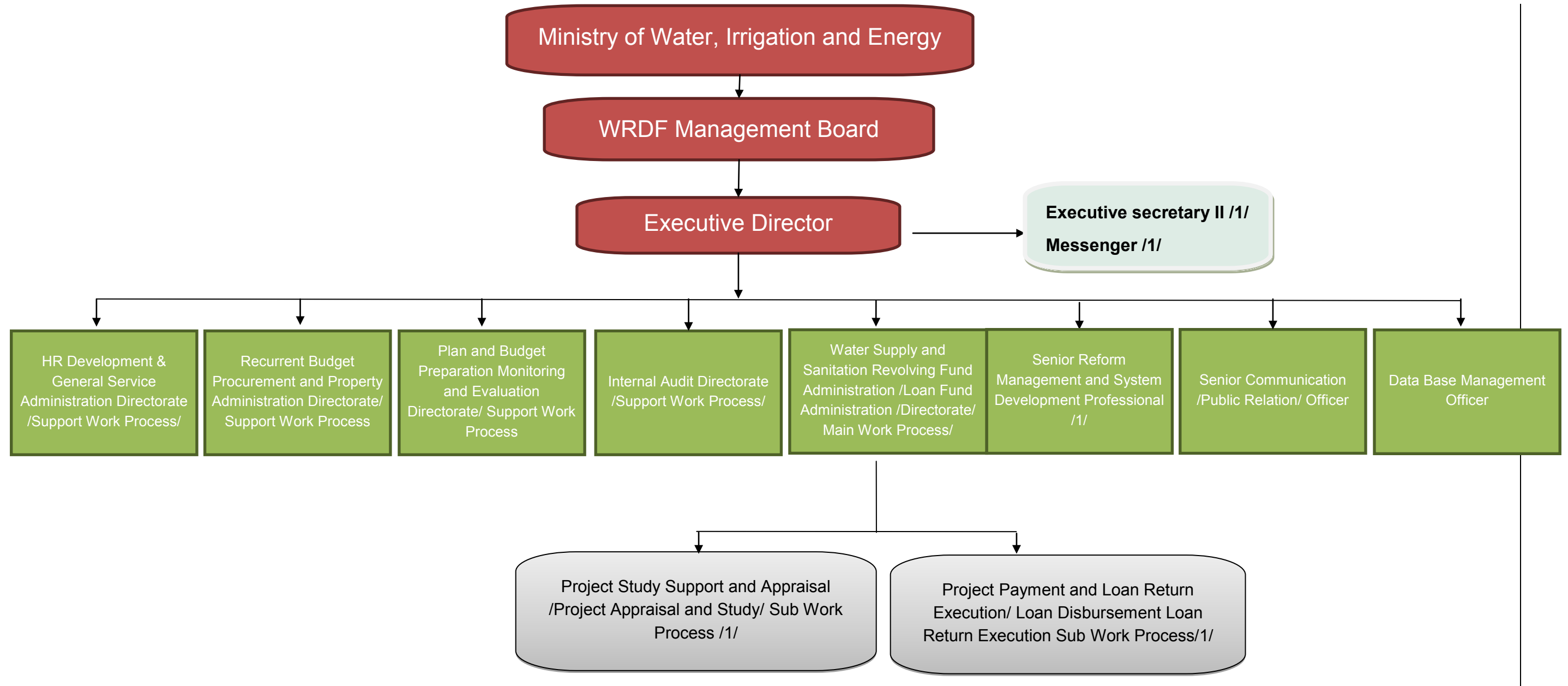
- **WRDF's Management Board** is responsible for the overall administration of WRDF, issue directives for appraisal, disbursal, collection, monitoring and evaluation of the audit report and budget of the WRDF.
- **WRDF's Director General**, in accordance with the general directives issued by the Board, is responsible for planning, directing, and administering the activities of the office.
- **Project monitoring and evaluation core process** – This department houses engineers at junior, middle, and senior levels and is responsible for reviewing and technically appraising design studies that the TWUs submit to seek loans. The department is also responsible to carry out a few procurement functions such as providing no-objections to the various stages of procurement undertaken by TWUs and RWBs. This department also monitors the construction of the projects funded by WRDF;
- **IT specialist** – This internal support function is meant to help manage the information technology (IT) set up and network for the WRDF office premises;
- **Plan and budget preparation, M&E support process** –. This department undertakes preparation of 5 years strategic plan, 3 years Program Budget, annual action plan, economic appraisal, and review of business plans.
- **Legal advisor** – This internal support function helps manage legal aspects in functioning of the WRDF office;
- **Finance and budget administration core process** – This department performs functions including (i) preparing and maintaining WRDF's accounts in line with the Generally Accepted Accounting Principles (GAAP) and comply with the government and DPs' reporting requirements; (ii) disbursing, monitoring, and collecting loans to and from TWUs; and (iii) conducting a financial appraisal of the business plans and feasibility studies submitted by TWUs;
- **Change management expert** – This internal support function is required to hand hold WRDF manage changes (in terms of resources, facilities, business process re-engineering etc.) within the organization. It is headed by a 'reform implementation expert';
- **Audit support process** – This internal support function conducts financial and performance audits of various functions of the WRDF, maintains internal control, and supports WRDF's external audit process; and
- **HR (human resources), procurement, and property administration support process** – This internal support function is responsible for recruitment, training, and staff welfare, internal material procurement (such as that of office supplies and vehicles), record keeping, and administration of WRDF's property. An 'Administrator' heads this department.²

3.1 Organizational Structure and Roles and Responsibilities for the Purpose of PIM

For the purpose of PIM, the various roles and responsibility of staff of WRDF with respect to appraisal, monitoring, and disbursement are explained in detail below.

² For details on current employees and their office/positions, please see annexure.

Figure 4: Proposed organization structure



Source: WRDF

The above organizational structure is as per the Business Process Reengineering Document 2014 prepared by WRDF. In addition to the above, it is suggested the following additions:

- Sub-committees of the Board of Directors:
 - ◆ Investment Committee
 - ◆ Audit Committee

It is understood that the formation of the above sub-committees will take time, as a number of stakeholders will have to be consulted prior to their formation. Hence, until then WRDF's Management Board can perform the functions of these sub-committees. *The IC and Audit Committee comprise WRDF's Board Members. The Board Members being part of the IC and Audit Committee are expected to bring special focus on appraisal process (as part of IC) and ensuring compliance with policies determined by the Management Board (as part of the Audit Committee).*

- Procurement Supervisory Department

This department will oversee and guide as required the TWUs in procuring goods and services for constructing the water and sanitation assets.

The roles and responsibilities of various departments are outlined below.

3.1.1 Investment Committee (IC) of the Management Board

IC's **duties and responsibilities** shall be as follows:

Appraisal

1. Ensure that projects undergo a thorough appraisal for their financial profitability, economic and technical viability, and social and environmental desirability
2. Provide opinions and/or recommendations on granting of loans. That is, the committee shall approve or reject loans, including loan additions, extensions, and additional terms of credit, in accordance with the limits of authority set by the Management Board of WRDF and ascertain whether the full cost recovery principle is being adhered to.
3. Ensure that the TWU eligibility criteria are clear to all stakeholders and are transparently applied. That is, decisions on funding awards shall be publicized to enable stakeholders observe that awards are consistent with criteria.

Monitoring

4. Evaluate and review the performance report of the loan portfolio of WRDF, including timely collection of loan repayments etc.
5. Review the costs of WRDF's operations in various segments, including procurement, contract management, appraisals, and monitoring from time to time and make recommendations to the Management Board
6. Review the loan policy of WRDF (including methods of prioritizing regions/TWUs for extending loans to) once every twelve (12) months and provide inputs in policy formulation/revision
7. Review the effectiveness of the credit control systems once every twelve (12) months
8. Review (along with legal experts) any MoUs/concept notes/similar documents received from funding institutions and provide opinions and recommendations for the Management Board regarding such projects

System and processes

9. Set up a consolidated reporting system of the basket fund utilization and performance to the contributors to the WRDF.

Support

10. Assist the Management Board in decision-making regarding such projects and set up decision implementation guidelines for the management of WRDF

3.1.2 Audit Committee

Audit Committee **duties and responsibilities** shall be as follows:

1. Reviewing internal control and annual financial statements of the WRDF before submission to the Management Board for approval and for discussing with auditors the accounting policies to be adopted;
2. Oversee the WRDF's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient, and credible;
3. Recommend to the Management Board, the appointment, reappointment and, if required the replacement or removal of the external auditors and fixing of audit fees. It shall also suitably meet its obligations towards the Office of the Federal Auditor General (OFAG);
4. Discuss the nature and scope of their audit with external auditors regarding the nature and scope of their audit, going forward, as well as post-audit discussions to determine concern areas, if any;
5. Approve payments to external auditors for their audits and other services rendered;
6. Review the adequacy of the internal audit function, including coverage and frequency of internal audits. Importantly, it shall monitor that the internal audit findings comply with loan policies;
7. Review findings of any internal investigations by the internal auditors into matters where there is suspected fraud, irregularity, a failure of internal control systems of a material nature and reporting such matters to the Management Board;
8. Examine the reasons for any substantial defaults in loan re-payments to the WRDF;
9. Convene meetings with the management and external parties including with the public accounting firm in order to gather the relevant information to fulfill its responsibilities;
10. Oversee duties of the Management Board through regular meetings with the internal auditors; and
11. Seek any information from any employee and obtain legal or other independent professional advice and to secure services of outsiders with relevant expertise and experience, when necessary.

3.1.3 Project Study Support and Appraisal Department

The main function of Project Study Support and Appraisal Department (PSSAD) is to receive loan application and undertake appraisal and monitoring and appoint third party/external consultants for undertaking social, economic, and environmental (SEE) appraisal (if required)³. The roles and responsibilities of various teams are stated below:

- **PSSAD**
 - ◆ Undertake the technical, , economic, management and financial appraisal and assess implementation of social and environmental safeguards
 - ◆ Prepare the Appraisal Note after integrating all appraisal
 - ◆ Submit the note to support staff.
 - ◆ Participate in presentation of Appraisal Note to IC and Incorporate the suggestions given by IC / Management Board if any, and submit the updated Appraisal Note
 - ◆ Stay abreast of latest techniques in undertaking appraisals and social and environmental safeguards assessment
- **Support Team**
 - ◆ Collect all the loan applications along with documents submitted by TWUs
 - ◆ Undertake preliminary assessment of the documents submitted and assess the TWUs eligible for loan
 - ◆ Communicate the decision of the preliminary assessment to TWUs
 - ◆ Submit the documents to PSSA,
 - ◆ Send the Appraisal Note to IC / Management Board
 - ◆ Convey the decision of loan approval/rejection to TWUs
 - ◆ Archive all documents relied for undertaking the appraisal

3.1.4 Project Payment and Loan Return Execution Department

The roles and responsibilities of Project Payment and Loan Return Execution Department (PPLRED) are as follows:

Disbursal & collection

- Applying for disbursement of the Basket Fund to the contributors
- Preparing/vetting of all documentation pertaining to contractual agreements between WRDF and TWUs
- Securing release of the matching grant from the TWUs
- Disbursing loans (from the IBF) and technical assistance (from the TABF) to the TWU
- Securing the repayment of the funds lent to the TWUs
- Communicating with RWBs for guarantying the availability of the matching grant

Monitoring

- Construction Stage

³If WRDF recruits the Social and Environmental Experts then the social and environmental appraisal / safeguards assessment can be taken by the experts.

- ◆ Review the physical and financial progress of the project vis-à-vis that committed in the project report
- ◆ Review the construction completion report
- ◆ Monitor compliance of the developer with the terms, conditions, and covenants stipulated in the loan agreement pertaining to project construction
- Operations Stage
- ◆ Review the operational performance of the project post commissioning
- ◆ Prepare the monitoring review report and submit it to IC / Management Board

3.1.5 Internal Audit Directorate

The roles and responsibilities of the Internal Audit Directorate are as follows:

- Internal audit of quarterly and annual reports prepared by WRDF
- Evaluation of the internal monitoring/controlling mechanism of WRDF
- Evaluation of adherence by WRDF to proclamation, lending procedures, and other rules and regulations
- Preparing of the internal audit report and submitting it report to WRDF Board

3.1.6 Finance, Procurement and Property Administration Directorate

The roles and responsibilities of the Finance, Procurement and Property Administration Directorate(FPPAD) are as follows:

Planning

- Undertaking accounting and preparing the annual report

Accounting

- Helping and supporting the auditor during auditing and giving explanations as requested

MIS

- Ensuring that WRDF's interests in all transactions are protected through creation of appropriate charges
- Preparation of MIS and submitting it to IC / Management Board
- Preparation of the monthly account report to be sent to MoFED
- Preparation of the semi-annual account report to be sent to DPs

3.1.7 Procurement Supervisory Department

The roles and responsibilities of the Procurement Supervisory Department are as follows:

- Approve the TWUs' procurement plans for the IBF and TABF;
- Issue Standard Bid Documents (SBD) to TWUs;
- Provide no-objections for various stages of procurement such as approval for draft tender document, bid securities, and the TWUs' bid evaluation reports; and
- Generally act as the reviewer and facilitator of TWUs' procurement decisions until the award of contracts.

The following sections details the activities undertaken by the above departments in appraising, disbursing and monitoring loans and grants by WRDF keeping in mind their roles and responsibilities.

4. Key Features of IBF

This chapter describes the key features of the funding provided under IBF covering the eligible borrowers, eligible funding areas, and loan terms.

4.1 Core Lending Principle

WRDF will provide debt funding under IBF to projects found viable after a comprehensive technical, social, economic, environmental, and financial appraisal.

4.2 Eligibility Areas for Funding under IBF

WRDF will fund investment by goods and works developing/expanding/refurbishing water supply and liquid waste (i.e. sewage / waste-water)⁴systems. These include the costs for the following:

- Civil works including building, drilling of bore holes, procurement of materials and laying of pipelines, construction of reservoirs and other structures
- Procurement of electrical and mechanical equipment and equipment required for metering
- All civil works and equipment (not covered in points 01 and 02 above) as required for water extraction, water treatment, transmission and distribution.
- Waste water collection, treatment and sludge management.

Loans are not advanced for funding the VAT cost, project studies and capacity building i.e. VAT cost and sanitation facility will be covered by matching fund. Costs towards project development and capacity building will be financed from the technical assistance / TABF⁵.

4.3 Eligible Borrowers

The loans under IBF can be provided to any urban water supply service provider that is recognized as per the laws and regulations of GoE.

⁴ Does not include effluent /industrial waste

⁵For the AFD, EIB and IDC EUR 81 million programme, studies and detailed design for instance will not be covered by the TABF. It will have to be covered by the TWUs of the regional matching funds

4.4 Terms of Loan

The terms and conditions on which loan is provided by WRDF are presented in the below table.

Table 1: Terms of loans provided by WRDF

| | | |
|---|--|---|
| | | |
| 1 | Maximum funding provided by WRDF as a proportion of project cost | Up to 80% for small and medium towns ⁶ based on the appraisal results |
| 2 | Repayment period/tenor | Up to 25 years inclusive of 5 years grace period |
| 3 | Grace period (moratorium period) | 5 years Grace Period commences from the date of the first disbursement by WRDF to the TWU |
| 4 | Interest rate (Based on guidelines of MoFED) | 3% (revised periodically by WRDF Board) |
| 5 | Instalment cycle | Equated semi-annual instalments |
| 6 | Penalty charges | 1/3 rd of interest |
| 7 | Security | Guarantee by the regional government |
| 8 | Matching grant | As per WRDF's recommendation, Commitment Letter for the matching grant from the Town Administration/Regional Government/Other Authorities is to be provided by the TWU to WRDF. |

1. Funding balance portion of project cost

WRDF can contribute maximum of 80% for medium and small town of the project cost, while the rest is contributed as the matching grant from the TWU, Town Administration, and regional government. The matching grant can be utilized for paying VAT and other taxes and other elements of the project cost not funded by WRDF.

2. Interest rate

Interest rate is charged from the borrowers based on the guidelines of MoFED. This is currently 3% per annum.

3. Grace period

The grace period for the loan is 5 years inclusive of the repayment period of 25 years.

4. Repayment period

The repayment period for term loans are up to 25 years.

5. Lending agreement and Loan guarantee

WRDF signs the lending agreement with the TWU and the regional government undertakes guarantee for the loan provided to the TWU.

⁶population size: 20 001 to 100 000

6. Cost Overrun

In case there is an escalation in project cost over the amount mentioned in the Lending Agreement then the same shall be funded by the Project Proponent, the TWU or the TWU's stakeholders, the Town Administration and Regional Government.

7. Penalty charges

In the case of default and deviation from the agreed terms and conditions by the borrower, a penalty interest rate will be charged. The penalty interest rate is one-third of the interest rate per annum in addition to the predetermined interest rate.

The following sections details the policies and processes that WRDF will follow to disburse loans with the above features.

5. Overview of loan provision and disbursement process under IBF

The chapter describes the steps to be taken by WRDF before and after providing loans.

WRDF will appraise the project, and it is the responsibility of the TWU to provide WRDF with a comprehensive study related to the project. WRDF's role is to review the project and to verify the contents, and if required undertake its own due diligence and financial assessment to identify that the TWU meets the criteria set for providing loan.

The following table presents a summary of the steps to be taken for loan investments.

Table 2: Steps for providing loans

| Details | | |
|---------|----------------------------------|---|
| 1 | Initial Project Screening | <p>The TWU provides application form accompanied with various documents to WRDF.</p> <p>WRDF:</p> <p>Step 1: Screens that all documents are submitted</p> <p>Step 2: Prepares the Project Description</p> <p>Step 3: Undertakes TWU eligibility and credibility</p> <p>Step 4: Checks whether the project fulfils the minimum financial, social, and economic criteria and is aligned with GoE's water sector priorities</p> <p>Approval: WRDF processes the loan file when it meets the initial screening requirements.</p> |
| 2 | Project Appraisal | <p>WRDF:</p> <p>WRDF verifies and appraises:</p> <p>Activity 1: Technical assessment</p> <p>Step 1: Existing situation</p> <p>Step 2: Future demand and supply analysis</p> <p>Step 3: Design assessment</p> <p>Step 4: Capital and operating cost estimates</p> <p>Activity 2: Social and environmental assessment</p> <p>Step 1: Social and environmental impact</p> <p>Step 2: Affordability and willingness to pay</p> <p>Activity 3: Financial and economic assessment</p> <p>Step 1: Project cost</p> <p>Step 2: Project revenues</p> <p>Step 3: Model assumptions</p> <p>Step 4: Base case model</p> <p>Step 5: Sensitivity analysis</p> <p>Step 6: Economic Analysis</p> <p>Step 7: Model results</p> <p>Activity 5: Institutional Arrangement and Management Appraisal</p> <p>Step 1: Accounting and auditing/control system</p> |

| Details | | |
|---------|---|--|
| | | <p>Step 2: Managerial capability</p> <p>Based on the composite review of a project's technical, social, economic, and financial aspects, an Appraisal Note is prepared. The note is submitted to IC / Management Board for review.</p> |
| 3 | Approvals | IC / Management Board reviews the appraisal and if satisfied approves provision of loan and grant under IBF to the TWU. |
| 4 | Documentation and Disbursal | <p>WRDF and the TWU complete all documentation and disbursal.</p> <ul style="list-style-type: none"> ▪ Preparation and signing of the loan agreement by WRDF with TWU ▪ Completion of disbursement steps and documentation <p>Further, RWB will support TWU if they will not have the technical capacity and it will be stated in the agreement before the disbursement is made.</p> |
| 5 | Monitoring, Evaluation and Reporting | WRDF undertakes monitoring, evaluation, and reporting during the project construction stage and project operation stage. This ensures that the funds and grant provided to the project are appropriately utilized and the loan is repaid by the TWU. |

6. Application Process under IBF

The chapter provides information about the application and documents to be submitted by TWUs for loan.

WRDF requires TWUs to make an application and provide detailed information about the project to undertake appraisals. The following documents (indicative list) must be submitted to the Support Team:

- Application form
- Detailed Design Report, Business plan (along with financial model of project viability) and annual reports
- Supporting documents (such as registration proof, water permits, guarantor proof, etc.)

The initial information submitted enables WRDF to systematically appraise the project. The Support Team after reviewing the above documents should make an entry into WRDF's system. This will ensure that a record of leads sourced is maintained.

6.1 Application Form

The applicant seeking loans from WRDF has to complete the application form and submit it to the WRDF Support Team. The application form to be filled and submitted by the applicant is provided in Annexure 17.1.

6.2 Business Plan of the project

The TWU has to submit the business plan to the WRDF. Note the words 'Business Plan' has been used to encompass the Project Feasibility study and Detail Design reports submitted at the time of making application by the TWU.

WRDF will review the business plan for technical, social, economic, environmental, and financial appraisal of the project. The business plan must fulfil the following requirements:

- Ensure that the project is in accordance with predetermined needs and is the most suitable technical solution to the needs;
- Provide information about costs (explicit and hidden) and revenues and give an indication of financial viability;
- Consider how the project will be financed;
- Contain a financial model establishing key investment ratios and capable of running scenario and sensitivity analyses;
- Consider the economic rationale for the project;
- Allow for the identification, quantification, mitigation, and allocation of risks associated with its whole life cycle; and
- Consider whether the project is affordable to the government and or the end user of the services in terms of explicit and contingent fiscal obligations.

The business plan should be based on a design along with an appropriate level of detail that meets good engineering design practices and the construction standards⁷ as specified by GoE or other standards/best practices accepted in Ethiopia, as well as in accordance with the relevant laws, decrees, regulations, ordinances, and circulars of GoE.

The following table presents a summary of the main items to be included in the business plan.

Table 3: Content of business plan

| Sr. No. | Sections | Details |
|---------|---|---|
| 1 | Introduction | <ul style="list-style-type: none"> ▪ About the TWU ▪ About the city, i.e., location, area, population ▪ Objective of the report ▪ Approach ▪ Financial summary (total cost, financial structure, loan required from WRDF, loan from other financial institutions, and TWU's own fund (matching grant) and source |
| 2 | Status of existing water supply and sewage infrastructure | <ul style="list-style-type: none"> ▪ System details including source, transmission, distribution, area of supply, population covered, hours of supply ▪ Number of connections and types of consumers ▪ Condition of the existing infrastructure ▪ Billing and collection ▪ Tariff structure ▪ Existing arrangements for collecting, conveying and treating sewage |
| 3 | Demand and supply analysis | <ul style="list-style-type: none"> ▪ Population projections ▪ Total estimated water demand in future ▪ Total supply required accounting for NRW |
| 4 | Design study/technical plan | <ul style="list-style-type: none"> ▪ Source of supply including capacity, water quality and sustainability of the water source ▪ How water will be pumped ▪ Treatment facility ▪ Transmission and distribution network required ▪ Alternative design considered |
| 5 | Tariff study | <ul style="list-style-type: none"> ▪ Current tariff ▪ Socio economic survey including detailed analysis of ability and willingness to pay ▪ Expected tariff taking into consideration the socio-economic survey ▪ Formula for indexation of tariff |
| 6 | Financial management | <ul style="list-style-type: none"> ▪ Accounting system |

⁷Such as minimum standards for rural areas as at least 15 litres of safe water per person per day within 1.5km of their home and minimum standards for urban areas as at least 20 litres of safe water per person per day within 0.5km of their home

| | | |
|----|--|---|
| | | <ul style="list-style-type: none"> ▪ Auditing system ▪ Staff and managerial capacity |
| 7 | Cost estimate | <ul style="list-style-type: none"> ▪ Bill of quantity as per the design ▪ Estimated total cost including local and foreign currency cost, escalation, and contingencies ▪ Operating cost including direct and indirect cost |
| 8 | Environmental and social impact assessment | <ul style="list-style-type: none"> ▪ Environmental and social impact ▪ Ways to reduce the impact ▪ Certification obtained or required |
| 9 | Economic assessment | <ul style="list-style-type: none"> ▪ Project impact on society in terms of health, employment ▪ Estimated economic cost ▪ Model: base case, risk adjusted sensitivity analysis ▪ Key variables such as ENPV and EIRR |
| 10 | Financial assessment | <ul style="list-style-type: none"> ▪ Model assumptions ▪ Project revenues, i.e., costs of the TWU after commissioning of the project ▪ Project cost, i.e., costs of the TWU after commissioning of the project ▪ Project's financial statements ▪ Model: base case, risk adjusted sensitivity analysis ▪ Key variables such as NPV, IRR, and DSCR |

6.2.1 Financial model of the project

The TWU should submit an Excel based model, which forecasts the financials of the TWU after completion of the project.

6.3 Supporting documents of the project

The TWU should submit following documents to the Support Team along with the application form:

- a. Organizational information
 - a. Registration certificate
 - b. Proclamation/memorandum and articles of association
- b. Permits
 - a. Water right licence
 - b. Any other documentation providing information of water source capacity, quality and sustainability
 - c. Environmental and social clearance (if any)
 - d. Water withdrawal rights (if any)
- c. Project level information
 - a. Support letter from the regional bureau for procurement and necessary capacity building if required
 - b. Details of various technical persons and staff of the board of the TWU along with their CV, experience, and qualification
- d. Source of finance for TWU's own contribution
- e. Power of attorney

- f. Evidence for the establishment and availability of an active and functional board of management with appropriate representation of stakeholders
- g. Evidence of availability of a reliable loan guarantor
- h. Evidence of authority from the regional government for potential TWU to borrow and capacity to pay back the loan
- i. Past three years' annual report
- j. Other documents as required

7. Preliminary Assessment under IBF

The chapter describes the practices that shall be followed by WRDF for preliminary assessment of the project to assess its eligibility for undertaking an appraisal.

The project preliminary study seeks to provide a quick assessment on the practicality of the project. Substantial resources (time, money, and people) are required to undertake a detailed feasibility study. The Support Team will undertake the preliminary study. A preliminary assessment is undertaken only to assess if all documents are in place and the project meets the eligibility criteria of WRDF.

At the completion of this task, WRDF will have a well-defined description of the proposed project, eligibility, initial financial viability, and what further actions are required to complete the project preparation and by whom. This will then provide a good basis for further pursuing the project. The Support Team will communicate to the borrower about the acceptance/rejection of the application. The team needs to complete the following form to ensure that all major components of the preliminary study have been completed. While undertaking the preliminary assessment following will be assessed.

Table 4: Checklist for preliminary assessment

| No. | Parameter | Response |
|---|---|----------|
| Required Documents | | |
| 1. | Application form duly filled | Yes / No |
| 2. | Required certificates | Yes / No |
| 3. | Business plan | Yes / No |
| 4. | Annual reports of last 3 years | Yes / No |
| Borrower Creditability and Eligibility | | |
| 1. | Beneficiary institution with a legal personality providing water supply services | Yes / No |
| 2. | Loan is taken for initial investment, refurbishment and expansion of water supply project | Yes / No |
| Viability of the Project Concept | | |
| 1. | Has Borrower secured the water source/s? | Yes / No |
| 2. | Does the Business plan/Documentation submitted by the TWU contain <ol style="list-style-type: none"> 1. Drawings of the Proposed System 2. BOQ of the Proposed System 3. Operating Costs of the Proposed System 4. Economic Appraisal 5. Environmental and Social Safeguard Assessment 6. Financial Appraisal | Yes / No |
| 3. | IRR greater than equal to 3% | Yes / No |
| 4. | Minimum DSCR greater than equal to 1.1 | Yes / No |
| 5. | NPV positive discounting at 3% | Yes / No |

| | | |
|----|--|----------|
| 6. | Does Business Plan/Documentation submitted by the TWU have a component dedicated to Sanitation i.e. collecting, conveying and treating sewage? | Yes / No |
|----|--|----------|

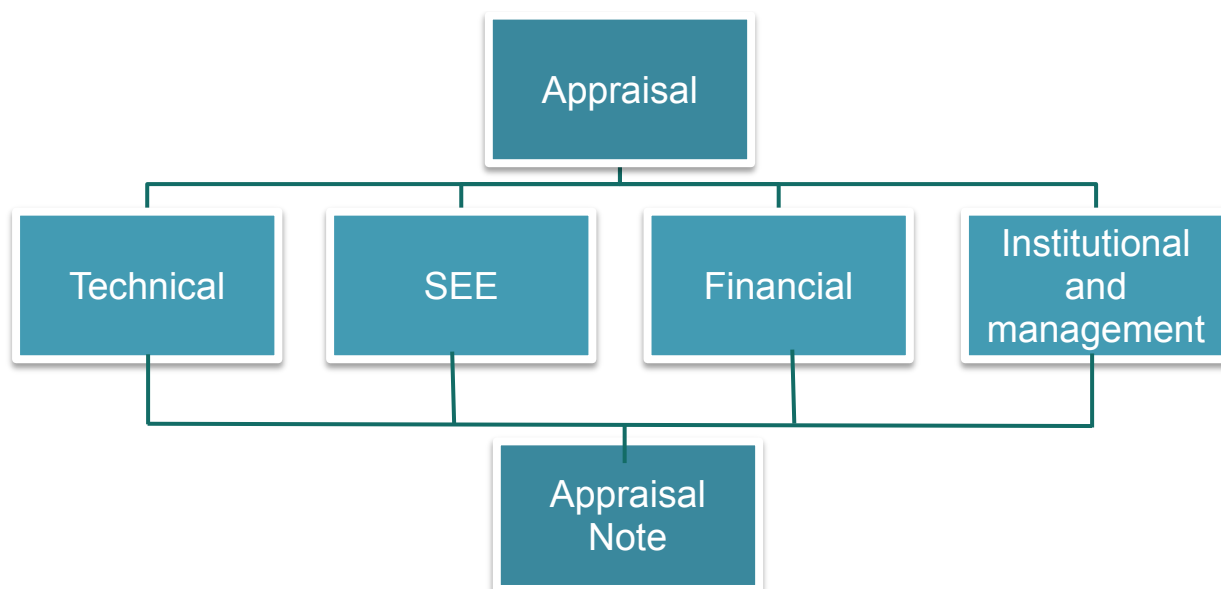
After the preliminary assessment, once the project is found to be eligible for loan and meet the loan criteria, then a detailed appraisal will be undertaken. The Support Team will send the documents to the PSSAD for the detailed appraisal.

8. Detailed Appraisal of the Project under IBF

The chapter describes the practices that shall be followed by WRDF for appraisal of TWUs before providing loan for the development of water facilities.

The purpose a project appraisal is to assess whether the project is technically, socially, environmentally, economically, and financially feasible. A project appraisal is an important part and should be undertaken judiciously. The effects of a project appraisal are long reaching and have very definite long-term effects because of the capital investment that is always required in any project and it ensures limited resources are utilized in an efficient manner.

Figure 5: Types of appraisals



The activities to be covered in the appraisal once the project has met the preliminary assessment requirements are:

- Technical appraisal
- SEE appraisal
- Financial appraisal
- Institutional arrangement and management appraisal

WRDF will prepare the Appraisal Note based on the appraisal conducted of the project by reviewing the document submitted by the TWU. The note presents a comprehensive analysis conducted by WRDF's PSSAD and is the key document based on which WRDF would make decisions on its investments in the project. Further, WRDF employees must declare conflict of interest if any, while undertaking appraisal activities.

8.1 Appraisal Note

The Appraisal Note is a decision-making tool that presents a comprehensive analysis conducted by WRDF's PSSAD and is the key document based on which WRDF will commit its resources to investments in the proposed project. As mentioned earlier, appraisals would be carried out at WRDF in four distinct but related areas including technical, SEE, financial, and institutional. On completion of all appraisals, it is necessary to collate all information gathered and assessed, which would facilitate an investment decision.

WRDF should ascertain the independence of the appraising staff (i.e., no familial or friendly relationships with the TWUs of any staff or any conflict of interest thereof such as procurement team at the TWU and the PSSAD) and the appraising staff's capabilities to present the Appraisal note for approval by the Investment committee.

The detailed Appraisal Note should be prefixed with an executive summary providing an overview of the project and snapshot of the investment term sheet. The items to be included in the executive summary⁸ are:

- a. Project file number
- b. Project name
- c. Project description: *A brief technical description*

Table 5: Checklist to be enclosed in executive summary of Appraisal Note

| Technical Appraisal | | | |
|---------------------|--------------|---|----------|
| 1. | Water Demand | Year 1 | |
| | | Year 5 | |
| | | Year 10 | |
| | | Year 15 | |
| | | Year 20 | |
| 2. | Source | What is the capacity of the water source? | |
| | | Does the TWU have required permit to use water source? | Yes / No |
| | | Is it sufficient to meet the projected demand requirements? | Yes / No |
| 3. | Design | Does the system design from water extraction, transmission, and distribution factor in the water demand for the project period? | Yes / No |
| | | Does the treatment method allow for water quality as per Ethiopian norms? | Yes / No |
| | | Have secondary sources of power been considered considering the availability of power at the project site? | Yes / No |

⁸ Please note that the above is an indicative list and the WRDF appraising team may add more parameters, if required

| | | | |
|----|-------------------------------------|--|----------|
| 4 | Implementation Plan | | |
| | Land | Is land required for project construction available with the TWU? | Yes / No |
| | Permits | Have all the environmental clearances and water extraction permits been obtained? | Yes / No |
| | Construction Plan | What is the construction period? | |
| | Procurement Plan | Is procurement plan is as per the procurement standards? | Yes / No |
| 5 | Sanitation | Does the project provide for system of collecting, conveying and treating sewage? | |
| | | Is the sanitation system design as per Ethiopian regulations? | |
| 6 | Costs | | |
| | Project Cost | What is the project cost? | |
| | | Does the project cost factor the cost of the sanitation component? | |
| | | What is the project cost / design capacity m3/day? | |
| | Operating Cost | What is the operating cost / per m3/day of design capacity? | |
| | | Do the operating costs factor in the cost of operating the sanitation system? | |
| | SEE Appraisal | | |
| 7 | Social | Whether the project will result in reduction of water borne diseases and mortality rate? | Yes / No |
| | | Whether tariff is calculated based on willingness to pay survey? | Yes / No |
| | | Whether social issues are arising from expropriation, resettlement and livelihood restoration? | |
| 8 | Environment | Whether EIA has been undertaken? | Yes / No |
| | | Will the proposed sanitation system prevent surface /ground water pollution? | |
| 9 | Economic | Whether ENPV and EIRR are calculated? | Yes / No |
| | | Whether project is feasible as per economic analysis? | Yes / No |
| | Financial Analysis | | |
| 10 | Review of TWU's existing financials | What is the average collection efficiency for last 5 years? | |
| | | What is the average billing efficiency for last 5 years? | |
| | | What is the average non-revenue water level for the last 5 years? | |
| | | What is the average operating ratio for last 5 years? | |
| 11 | Financial Parameters | Is minimum DSCR greater than equal to 1.1? | Yes / No |

| | | | |
|----|---|--|----------|
| | | Is IRR greater than equal to 3%? | Yes / No |
| | | Is operating ratio greater than 1.1? | Yes / No |
| | Institutional and Management Appraisal | | |
| 12 | Staff roles and responsibilities | Are the roles and responsibilities of the staff adequately defined? | Yes / No |
| | | Does the staff have adequate capacity and strength to execute the mandate? | Yes / No |
| 13 | Accounting and Auditing | What is the system of accounting? | |
| | | Whether computerized technology is used for billing? | Yes / No |
| | | Does TWU have adequate procedures for control, i.e., internal and external audit? | Yes / No |
| 14 | Equipment | Does TWU have adequate infrastructures such as computers, printers, office furniture, tools required for operations, etc.? | Yes / No |

After summarizing the various important parameters in the executive summary, the Appraisal Note will provide details all aspects appraised during appraisal and recommendations should be provided. The table below presents the indicative chapters of WRDF's Appraisal Note after the executive summary.

Table 6: Appraisal note format excluding executive summary

| No. | Chapters |
|-----|---|
| 1. | Introduction and background to project |
| 2. | Technical Appraisal including design study / technical plan and feasibility |
| 3. | Environmental and Social Appraisal including Tariff study |
| 4. | Economic Appraisal |
| 5. | Institutional and management appraisal |
| 6. | Financial Appraisal |
| 7. | Terms of loan |
| 8. | Summary conclusion of the appraisal including clear recommendations on approvals and rejections |

Please note that the above is an indicative list, and the WRDF appraising team may add more sections to the note, if required.

The Appraisal Note prepared by the PSSAD and is further submitted to the IC/Management Board for review.

The Appraisal Note should be prepared in a way that audits or inspections find the least or nil shortcomings in them. Therefore, appraisal quality is essential to prevent issues such as superficial analysis due to paucity of the necessary information to conduct a good appraisal or hurriedly done appraisals with the assumption that the loan facility would be extended irrespective, because the town has been pre-selected. An Appraisal Note should be independent of these risks and issues. To that

extent, the nurturing of an 'appraisal culture' is important so that PSSAD at WRDF values the exercise for the objectives that it shall meet such as justifying the commitment of financial resources to a project and contributing to the long term sustainable development of a town.

8.2 Methodology for Appraisal

To undertake a thorough appraisal of the project, PSSAD should undertake:

- Site visits;
- Review of all documents; and
- Comparative study with other similar projects.

In the case of WRDF, the purpose of the appraisal is to provide an assessment of risks of the loans advanced. Based on this analysis, WRDF would be in a position to incorporate appropriate risk mitigation measures in the loan conditions that can be incorporated in the loan agreements.

The guidance for undertaking appraisal is provided in subsequent sections.

8.3 Technical Appraisal

Technical appraisals of projects at the TWU level are critical to evaluating if the proposed project water supply and sanitation infrastructure projects can be implemented. Technical or design studies are typically conducted by the consultants of TWUs. Subsequently, TWUs submit their reports to WRDF to enable conduct technical appraisals.

Technical appraisals are required to assess the need for the project and technical conditions and components of the proposed project. Further, technical appraisal components provide information and support other appraisal processes. The following parameters must be assessed under technical appraisals:

Note: The detailed checklists on various aspects that need to be assessed by experts for undertaking technical appraisal are provided in Annexure 17.2. A snapshot has been provided below.

- Status of the water supply infrastructure as on date of the appraisal
- ◆ Check the existing capacity and condition of the TWU's water supply infrastructure
- ◆ Check the existing system for sanitation i.e. collecting, conveying, treating and disposing sewage
- ◆ Check whether the project background and physical location of the project are described
- Water demand
- ◆ Check whether proper demand projections are backed by quantitative analysis
- Water source
- ◆ Check whether the assessment of the capacity of water source(s) has been undertaken and its sufficiency in context of the demand for water has been assessed
- ◆ Check whether the quality, capacity and sustainability of the water source has been assessed
- ◆ Check whether measures for replenishing the water source have been factored
- Water and Sanitation System Design study
- ◆ Check whether the project has appropriate design criteria and standard design is adopted

- ◆ Check whether different alternatives are considered and properly assessed in terms of investment, unit cost, employment, technology, and infrastructure
- ◆ Check whether assessment of all likely technical and operational risks has been undertaken
- ◆ Checking whether the design horizon of the project will serve the entire project life
- Project cost of the water supply and sanitation system
- ◆ Check that all the cost estimates of engineering or other parameters on which they are based are realistic and ensure that physical contingencies and price increases during project implementation are sufficiently considered
- Implementation plan
- ◆ Check whether the project has a proper implementation plan
- ◆ Confirm that the proposed projects' procurement arrangements meet WRDF's financial requirements
- ◆ Check whether procurement plans are in-line with the feasibility study and procurement guidelines prevalent in Ethiopia.

The comprehensive analysis thus conducted and subsequent recommendations should be presented in the technical Appraisal Note. The Appraisal Note should clearly indicate whether the project is technically implementable and whether it qualifies for the WRDF loan. If the project is technically not implementable or modifications are required, then PSSAD should advise the TWU to undertake appropriate modifications.

8.4 Social, Environmental and Economic (SEE) Appraisal

SEE appraisal is critical (important) as it helps to ascertain whether the project is socially (for community), environmentally (comprehensive information on the environmental consequences of the development), and economically (overall country impact and maximize the efficient use of the nation's scarce resources) feasible. As per the laws in Ethiopia, the environmental and social impact assessments (ESIA) to be carried out for the water projects by its sponsors in small and medium sized towns.

The appraisal is done to ascertain that ESIA provides a supplementary approach by incorporating techniques to monetize non-priced impacts (such as improved health). The approach permits estimates of the likely size of potential impacts, which can be incorporated into an overarching cost benefit analysis of specific project projects. Monetization of impacts, which a cost benefit analysis incorporates, thereby provides a common basis for comparing alternative project options having diffuse sets of costs and benefits.

The assessment of EIA will be undertaken by the WRDF appointed representative, until the Government of Ethiopia operationalizes the policy of the approval of EIA from Ministry of Environment.

The SEE appraisal will cover the following points.

Note: A snapshot of the aspects to be examined is provided below; the detailed checklist is provided in Annexure 17.3.

Social

- Check whether the project results in reduction of water-borne diseases and monetary benefits of the same are assessed⁹
- Check if the project leads to better availability of water, i.e., previously un-served areas being brought into the ambit of the water system
- Check if the sanitation component in the project leads to prevention in ground water/surface water pollution and benefits of the same are quantified.
- Check whether the affordability analysis and willingness to pay analysis have been undertaken
- Check whether social issues are arising from expropriation, resettlement and livelihood restoration?

Environmental

- Check whether the environmental impact assessment (EIA) report for the project has been prepared

Economic

- Check whether the economic cost and benefit have been calculated
- ◆ Impacts on economic activity arising from reduced costs, i.e., increased investment resulting in growth in economic activities, expansion in incomes, prevention of water pollution on account of sanitation, agglomeration benefits, economies of scale (second round or multiplier effects)¹⁰
- Check whether ENPV and EIRR have been calculated and the project is feasible as per ENPV and EIRR

To undertake a thorough assessment of the project, the private consultant or WRDF staff (social expert) in PSSAD should review all the documents. The results of comprehensive analysis and recommendations should be presented in the Appraisal Note. The Appraisal Note should clearly indicate whether the project is socially, environmentally and economically feasible, with additional suggestions if any.

⁹Quantification techniques are relatively simple. Post-project implementation days lost at work through water borne diseases, for example, can be compared to the pre-project base case. The reduction in the numbers of days lost multiplied by the average wage rate provides a ready estimate of the benefit. Similarly, lower hospitalization costs can be estimated by comparing pre- and post-project hospital stays arising from water-borne diseases multiplied by unit hospital costs for treatment. Reduced mortality from water-borne diseases can be estimated by comparing pre- and post-project death rates from water-borne diseases. The net number of cases found in this way can then be monetized by estimating the present value of the potential remaining life incomes, which are foregone as a result of death, i.e., value of life estimates.

¹⁰Note that benefits arising from improved employment and incomes have been included in the economic analysis where estimates of economic impacts have included wage costs. To count them again separately would be double counting. Employment and incomes can additionally however be treated as a "merit goods" in the social analysis, i.e., valued in their own right – "feel good factor".

8.5 Financial Appraisal

The financial appraisal is to be undertaken after factoring in the impact of the project's revenues and costs on the TWU's financials. The financial appraisal is undertaken by the PSSAD of WRDF. The following things will be assessed in the financial appraisal:

Note: A snapshot of the aspects to be examined is provided below; the detailed checklist is provided in Annexure 17.4.

- Revenues
 - ◆ Check whether project revenues take into consideration the supply of water to different consumers and tariff study appraised in SEE appraisal
- Project Costs
 - ◆ Check whether all the costs (capital and operating) as assessed in the technical appraisal are included
 - ◆ Check whether the interest on loan and depreciation is considered
 - ◆ Check if replacement costs have been factored in
- Ratio Analysis
 - ◆ Checking financial soundness of the project in terms of debt-service coverage ratio (DSCR) and internal rate of return (IRR)
- Review of Financial Statements
 - ◆ Check whether the TWU is generating positive / negative cash-flows from its operations
 - ◆ Analyse the annual report and assess the operating ratio of TWU, NRW levels, billing efficiency, and collection efficiency for the last five / three years prior to the date of applying for a loan from WRDF

The results of the comprehensive analysis and recommendations should be presented in the Appraisal Note. The Appraisal Note should clearly indicate whether the project is financially viable and qualifies for the loan or not, with additional suggestions if any.

8.6 Institutional Arrangement and Management Appraisal

Institutional arrangement and management appraisal is an important aspect of the entire appraisal process. It is carried out to assess the policies, systems, and processes that the TWU has to legislate, plan, and manage the project efficiently and effectively. Further, it also helps to ascertain the capability of the staff to execute projects and manage organizational problems. The institutional arrangement and management appraisal is undertaken by the PSSAD of WRDF. The following aspects are assessed:

Note: A snapshot of the aspects to be examined is provided below, the detailed checklist is provided in annexure 17.5.

- Staff and managerial capacity
 - ◆ Review the organizational structure such as organization chart, roles and responsibilities, spans of control, and delegation of authority/power
 - ◆ Review staff capacity to successfully complete the project

- Accounting and auditing system
- ◆ Ensure that TWU has proper accounting systems, budgeting systems, audit mechanisms, reporting/management information systems (MIS) etc.
- Office Equipment
- ◆ Ensure that TWU have adequate equipment such as computers, printers, office furniture etc. for the successful implementation of the project

8.7 Next Steps

The Appraisal Note comprising the technical, SEE, financial, and institutional Appraisal and containing a clear recommendation of the viability of the project is prepared and submitted to the IC / Management Board for review.

9. Loan Disbursement and Collection under IBF

The chapter describes the process of loan disbursement and collection and monitoring of disbursement and collections.

On completion of appraisals, the Appraisal Note is submitted to IC / Management Board for deciding whether to grant or not grant loan to the project. If IC/Management Board approves providing a loan to the project, a loan agreement is signed and funds are disbursed.

9.1 Monitoring the Disbursement and Collection

The following are the key variables that need to be assessed for reviewing WRDF's loan disbursement and collection operations:

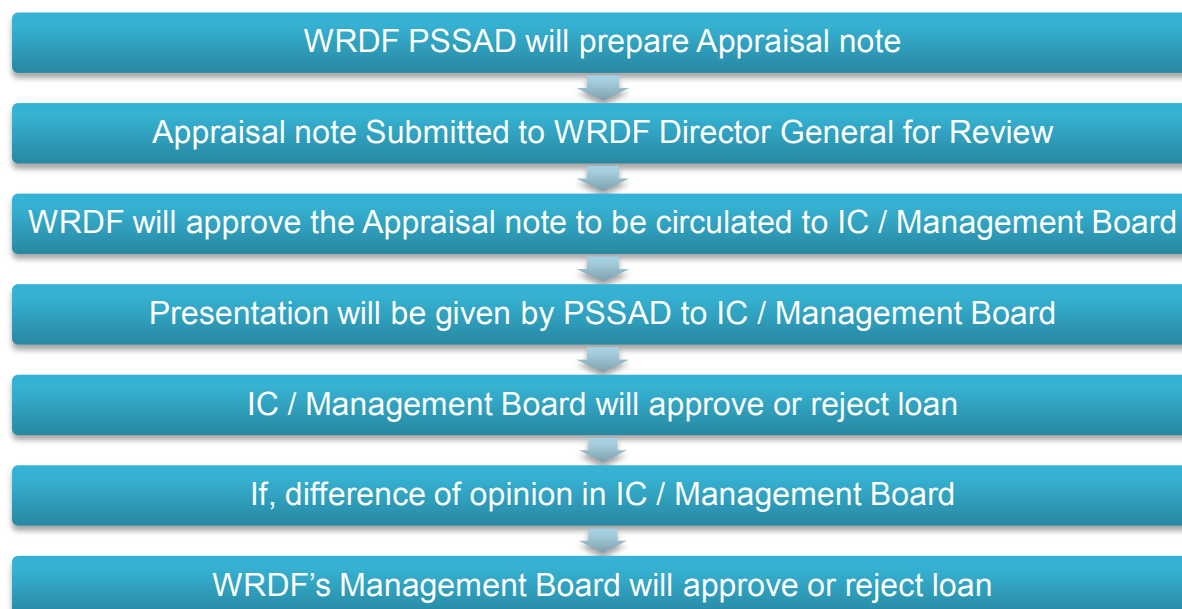
- Before 1st disbursement
 - ◆ IC / Management Board approval for disbursing loan for the project
 - ◆ Amount sanctioned
 - ◆ Terms of loan (tenor, interest, grace period)
 - ◆ Signing of loan agreement
 - ◆ Details of matching grant received
 - ◆ Guarantee from Regional Government and the executed Escrow Agreement
Note: WRDF is expected to obtain Escrow Agreements post consultations with MoFED, MoWIE and other stakeholders. After WRDF has started seeking Escrow Agreements from the TWUs, then the same shall need to be obtained prior to the first disbursement.
- During implementation
 - ◆ Amount disbursed
 - ◆ Amount utilized
 - ◆ Physical and financial progress of the project (reasons in case of time and cost overruns)
- During operations
 - ◆ Total amount collected
 - ◆ Delays in collections from plan (reason for delays)
 - ◆ Operations of the project as per the business plan (reasons in case of any discrepancies)

The following section incorporates tracking of the above variables and suggests the loan disbursement and collection process.

9.2 Loan approval process

The following figure describes the process of loan approval.

Figure 6: Loan approval process



9.2.1 Approval of WRDF Director General

The Appraisal Notes, which meet the eligibility criteria of WRDF and are eligible for loan, are forwarded to the WRDF Director General for further review. The WRDF Director General reviews the Appraisal Note and provides his/her suggestion if any. The Director General can approve/reject the note to be forwarded to IC / Management Board. In case of rejection, the Director General should provide the reason.

9.2.2 Circulation of Appraisal Note

After approval by the Director General, the Appraisal Note is circulated by PSSAD to the members of IC / Management Board for further review. The documents should be sent 7 days prior to the meeting to give them sufficient time for review.

9.2.3 Loan approval by the IC/Management Board

A presentation will be made to IC/Management Board on all projects that are presently under consideration. The presentation will be made by PSSAD, which has appraised the project. PSSAD will provide clarifications to any issues raised by the board members during the meeting. IC / Management Board will deliberate whether to approve the loan or not.

The IC/Management Board's decision regarding approving/rejecting a loan must be unanimous. The reason for approving and rejecting the loan should be clearly stated by IC/Management Board. Under circumstances wherein committee members are unable to take a unanimous decision, the IC/Management Board could meet at the most twice more (within a span of 15 working days). After this step, the proposal along with the Chairman's opinion of IC/Management Board (on

approval/rejection of the loan/for the project) would be referred to the WRDF's Management Board for arriving at the final decision.

9.2.4 Process of the Loan Post Approval/Rejection

The decision taken by IC / Management Board, as the case may be, will be conveyed by PSSAD. If the loan is rejected, PSSAD will convey the same to the TWU.

When the loan is approved by IC / Management Board, PSSAD will prepare the term-sheet and approval letter (2 copies) and PPLRED will prepare the draft agreement. PSSAD will hold a meeting with the representative of the TWU and hand over the approval letter and draft agreement. An acknowledgement of handing over of the approval letter is obtained from the representative of the TWU on the copy of the approval letter.

The TWU is expected to submit the resolution of its board on loan acceptance signed by the Councillor (Head of Board) within 30 days.

9.3 Signing of Agreement

After the loan has been approved, a loan agreement will be signed between the WRDF Director General on behalf of WRDF and the authorized signatory of the TWU. Indicative clauses that shall be included in the loan agreement are provided below:

1. Basic information on the parties involved with their addresses
2. Facility and purpose for which it is granted
3. Detailed description about the project
4. Implementation plan
5. Capacity building plan of TWU for project implementation including the role of RWB.
6. Obligations of the TWU such as procurement and E&S standards
7. Capital cost of the sanitation component and funding of the same (i.e. from the loan component or from matching grant component)
8. Amount of matching contribution to be made and parties to it. Further, the agreement should be signed by all the stakeholders contributing to the matching fund.
9. Disbursement schedule and procedure
10. Stipulations related to the loan, including loan amount and currency, maturity, lending rate, usage, repayment, conditions for maturity extension, pre-payment stipulations, loan default, loan rescheduling, and additional loan
11. Conditions precedent to utilization/disbursement (providing guarantee for regional government, escrow account, and deposit of matching fund)
 - ◆ *Note: Escrow Account to be sought as a Condition Precedent only after there in MoWIE, MoFED DPs and other stakeholders on the need for introducing the escrow account mechanism.*
12. Representations of the TWU
13. Terms on charges
14. Details about collateral
15. Suggestions in the Appraisal Note that the TWU must fulfil/undertake (desired NRW level, desired collection and billing efficiency level, financial management system, operational efficiency of the staff, etc.)
16. Covenants of the TWU (restriction on taking another loan)

17. Events of default
18. Remedies in the event of default
19. Integrity/Money Laundering
20. Provisions for penalties and liquidated damages
21. Amendments and waiver provisions
22. Set-off clause
23. Addresses for notices
24. Non-financial commitments, including restrictions on asset disposal, business alteration, information disclosure
25. Breaches and settlement
26. Drawdown schedule
27. Loan collection schedule
28. Escrow agreement.
29. Not to engage in any prohibited conducts.

Once the legal officer in PPLRED of WRDF prepares and vets the loan agreement, the TWU and the WRDF would sign the loan agreement.

After signing of the agreement, a copy of the same would be sent to the archive department (data base management) and PPLRED.

9.4 Creation of Security

Once the agreement is signed, the TWU has to submit the loan within 15 days of the agreement, the security to WRDF. The following securities should be taken by WRDF:

- The letter from the respective regional government guaranteeing to repay the loan obtained by the TWU
- The Escrow account should be opened by the TWU. All the revenues received by the TWU will be deposited into this account. The WRDF will have prior charge over the Escrow account and TWU cannot withdraw the amount until the time loan is repaid. If TWU defaults in payment, WRDF can en-cash the amount equalling to instalment unpaid along with interest.

9.5 Processing of the Disbursement

9.5.1 Matching Fund

The TWU has to submit the matching grant to WRDF as the TWU contribution to the project.

As a condition precedent to initiating the loan disbursement, the TWU should deposit the matching grant in WRDF's special account. When the loan is approved, the TWU must transfer at least 25% of the matching grant within 25 days from the signing of the agreement to WRDF account. PPLRED should communicate with RWB for early discharge of matching grant. The funds can only be discharged when the said percentage of the matching grants are received.

As the matching fund is also deposited with WRDF, the total amount as stated in the business plan has to be released by WRDF. Matching funds and the loans will be released by WRDF proportionate to the percentage of contribution for loan and the matching fund ascertained.

9.5.2 Approval of Disbursement

On signing of the loan agreement and receipt of security and matching fund, the drawdown of the loan will take place. WRDF's PPLRED will prepare the disbursement documents stating that the agreement has been signed and security and matching fund has been received along with the copy of documents attached. The documents need to be approved/attested by WRDF's Director General. Once the documents are approved/attested, PPLRED loan can be disbursed as per the procedure.

Further, disbursement will be made only if RWB commits their support to TWU that do not have the technical capacity.

9.5.3 Method of Disbursement

Currently, WRDF follows the following two disbursement processes: cash flow method and payment to contractor. Going forward, WRDF shall utilize cash flow method for disbursement. Further, if TWU does not have the requisite capacity to disburse funds received from WRDF, then the Expert Staff recruited by the RWB will step in. WRDF will disburse funds to RWBs who will then utilize the Expert Staff to manage the release of funds to contractors.

The process of disbursement is initiated after the submission of disbursement request along with supporting documents. Further, the disbursement request shall be accompanied by a covering letter signed by the authorized representative of the TWU and has to be submitted to the PPLRED of WRDF.

9.5.3.1 Making disbursements using the cash flow method

In the case of first disbursement, the disbursement request should be accompanied by documents (procurement contract signed by the contractor undertaking work for the construction of water/sewerage facility) certifying the investment made by the TWU.

In case of subsequent disbursements, the disbursement request would also be accompanied by documents (utilization/expenditure report, i.e., the cash flow statement stating the amount utilized and the progress report stating the percentage of project completed, which needs to be verified by an independent engineer and approved or endorsed by the utility manager) certifying the investment made by the TWU.

9.5.4 Time for Disbursement

The first disbursement of the loan is released within 15 days from the submission of the disbursement request (for first and subsequent disbursements) stated above. For clarification, if any discrepancies are found in the Disbursement Request during Compliance for the subsequent disbursement, the amount will be disbursed once the discrepancies are addressed.

9.5.5 Compliance with Disbursement Conditions

9.5.5.1 Compliance for first disbursement of the loan

PPLRED will see if the loan and escrow agreement has been signed and security and matching grant required for the project have been provided.

9.5.5.2 Compliance for the subsequent disbursal

For subsequent disbursements, PPLRED would need to examine compliance with regard to the documentary evidence submitted and the availability of sufficient matching grant.

In addition, PPLRED would be required to examine compliance with the conditions that emerge on account of the 'monitoring' (refer Section 10) of the loan. For instance, if there has been a time overrun in completing a certain milestone; then WRDF may decide that the subsequent drawdown will be disbursed only after the milestone has been completed.

9.5.6 Record of Disbursements and Filing

PPLRED will maintain the record of disbursement for each project and check that the total disbursement does not exceed the approved amount. This will need to be facilitated by appropriate software that links the approval and the disbursement with adequate in-built escalation features. All other supporting documents relating to disbursement shall be kept in the same file.

9.6 Collection of Loan

9.6.1 Process of Loan Collection

WRDF should draw the exact schedule of the loan repayment schedule (the amount of the loan to be repaid by the TWU as per semi-annual instalment should be drawn in excel) and should be a part of the loan agreement. This means that WRDF's PPLRED and the TWU will have to complete the schedule of repayment of every loan.

Further, in case of any changes in the loan collection schedule due to any reasons such as project not completed, the approval of IC / Management Board should be taken, and the new schedule will become the part of the agreement.

Before repayment of a loan falls due, PPLRED will intimate the TWU 15 days before of the due date of repayment. If the TWU makes a prompt payment, the FPPAD will do the relevant book entries for loan. If the TWU does not pay by the due date, relevant records for past due loans need to be updated by the FPPAD. Thereafter, the person in-charge in PPLRED will be responsible to follow-up on payments with the TWU.

Further, in case of further non-payments on part of the TWU, the information needs to be passed on to the FPPAD. The FPPAD will refer to past records of payment and decide on the classification of the loan as per loan classification norms. In case it is a bad loan and is likely to default, PPLRED needs to initiate steps to deal with bad loans.

9.6.2 Dealing with Bad Loans

The person in-charge in PPLRED should send reminders to the TWU in case of non-repayment of loan after 15 days of the due date and wait for the response. If the response is not received within the next 15 days, a reminder will be sent again with a copy of the letter sent to the RWBs.

Further, if no response is received from the TWU, the letter will be sent to the RWB, asking RWBs to ask TWUs to pay or in case of insufficient funds with TWUs, asking RWBs to pay on their behalf.

9.7 Monitoring of Disbursal and Collection

9.7.1 Preparation of MIS Report

WRDF as an entity has the responsibility of building its own corpus, i.e., the revolving fund to provide loans to other TWUs. Therefore, WRDF must have in place mechanisms for monitoring disbursal of loans to TWUs and being able to recover of loans from the TWUs to avoid any discrepancies.

FPPAD should prepare the MIS reports and submit the same semi-annually to its IC / Management Board. The format of the statements is provided in the Section 16.

9.7.2 Review of MIS Report by IC / Management Board

FPPAD will circulate the MIS report to the IC / Management Board members. The report will be reviewed by and discussed in the meeting of IC / Management Board.

The IC/Management Board is expected to deliberate on problematic loans. The IC/Management Board shall ensure that a review is made of the quality of the WRDF's loans or advances portfolio on a regular basis, but no less than once in every calendar quarter. A few of such steps have been presented below:

- Steps in which loan can be recovered i.e. restructuring or realization of security
- Reason of variation of Disbursal from the plan

Further, the IC/Management Board also ensures that adequate loan classification has been done for problematic loans and assures the adequacy of the provisions.

9.7.3 Statement to be submitted to TWUs

WRDF should send the annual loan statement once a year to TWUs stating the outstanding loan amount. Further, on payment of complete loan a 'no due certificate' should be issued by WRDF to TWUs.

10. Monitoring of TWUs under IBF

The chapter describes the practices that shall be followed by WRDF for monitoring of the loan during implementation and operation of the project.

Monitoring begins on completion of appraisals and disbursement of loans to TWUs and once projects are contracted out by TWU and project construction begins. Monitoring and evaluating project progress is essential and is primarily the responsibility of WRDF as it supports these projects financially. Monitoring should take place in the project construction as well as project operations phase in infrastructure projects by the PPLRED. This ensures that construction contracts are managed appropriately and that any concerns are flagged and plugged during the project operations period as well. In the absence of suitable monitoring, projects are likely to derail in terms of costs, time, and quality, and subsequently project objectives could be compromised. Hence, monitoring is essential, also to develop better judgement, accountability, and ownership of project results. After monitoring, WRDF will prepare the monitoring note.

10.1 Monitoring Note

WRDF's PPLRED will prepare the monitoring note based on the monitoring reports reviewed by it. The monitoring note should be submitted to IC/Management Board for review. The report will state the following major aspects in respect of the problematic loans (i.e., loans that have cost and time overrun during construction or loans, which are declared as non-performing loans during operations :

- Construction Period
 - ◆ Physical progress of projects
 - ◆ Financial progress of projects
 - ◆ Reason and comments
- Operations Period
 - ◆ Payment status of the loans funded by WRDF
 - ◆ Status of upkeep of the loans funded by WRDF
 - ◆ Reason and comments

10.2 Monitoring Methodology

To undertake the thorough monitoring of TWUs, WRDF will undertake:

- Site visits
- Review of reports submitted by TWUs
 - ◆ Physical and financial progress reports during construction
 - ◆ Construction completion report
 - ◆ Operation period progress report
 - ◆ Financial report

10.3 Construction Period Monitoring

The monitoring of the activities during construction is very important to assess whether the construction is being undertaken as per the design, cost, and implementation plan stated in the business plan.

10.3.1 Tools for Monitoring

During the execution of the project, physical progress, expenditure incurred, source and utilization of funds, etc., shall be ascertained by obtaining quarterly progress reports from the TWU and by conducting a site inspection.

10.3.1.1 Review of Reports Prepared by External Agencies and TWU

PPLRED is expected to review the reports generated by external agencies (e.g., consultants or independent engineer if any). Details of the reports generated, frequency of generation, and indicative contents have been provided below.

Implementation Period Progress Reports

The implementation period progress report should be sought from the TWU on a quarterly basis. The reports reveal the progress made in the implementation of the project (physical and financial progress) vis-à-vis the schedule envisaged details of capital expenditure and means of finance, status of approvals, implementation of design and adherence to recommendations etc. at the time of appraisal of the project. Reasons for delays if any should be determined and the TWU should be advised to initiate corrective action. Such fund utilization should be verified by the independent engineer (if present) or endorsed by the utility manager.

Project Completion Report

On completion of the project, a project completion report would need to be obtained from the TWU, which will act as an important tool of feedback for future appraisal of similar projects. The report should provide details of the project cost (actual vs. envisaged), rationale for variations, impact on the project economics, and means of financing the project costs. The project completion report should be accompanied by a certificate from the utility manager and independent engineer (if present) certifying the completed project cost as per the design and the means of finance for the same.

10.3.1.2 Periodic Visits

PPLRED should undertake a periodic site visit to each TWU at least once a year. The team should physically verify the progress of the project, manner of utilization of funds, organizational setup, etc., and at random, check the correctness of the progress reports submitted by the company. Further, while conducting the site visit, the WRDF officials shall hold meetings with the TWU to discuss the project status, constraints facing the project, etc.

If the risk profile of the project is high, a physical site inspection is recommended every quarter or semi-annually, whereas for low risk projects, an annual site inspection is recommended.

10.4 Operation Period Monitoring

The monitoring of the activities during operation is very important to understand that the TWU is able to achieve operation performance as per the business plan.

10.4.1 Tools for Monitoring

After execution, the quarterly progress report and financial reports should be obtained. An annual review of the performance of each TWU shall be undertaken, which will also include review of the financial model and project appraisal.

10.4.1.1 Review of Reports Prepared by External Agencies and TWU

PPLRED is expected to review the reports generated by external agencies (e.g., consultants or independent engineer). Details of the reports generated, frequency of generation, and indicative contents have been provided below.

Operation Period Reports

The operation period progress report should be sought from the TWU on a quarterly basis. The report provides information to WRDF about the TWU water and sanitation system operations – water supplied, NRW Levels, sewage collected and safely disposed, and Tariff, DSCR, etc.), and reasons for any adverse conditions. The same should be ascertained and remedial/corrective steps should be initiated.

Financial Statements

The TWU shall furnish the quarterly and half-yearly un-audited/audited results (profit and loss account, balance sheet, and cash flow statement) within 60 days from the end of the quarter/half-year to WRDF.

The TWU shall also furnish to WRDF a copy of its audited annual accounts/annual report within a period of 90 days from the end of the given financial year.

10.4.1.2 Periodic Visits

PPLRED should undertake a periodic site visit to each TWU at least once in two years. The team should physically verify that project operations and check the correctness of the reports submitted by the company. Further, while conducting the site visit, the WRDF officials shall hold meetings with the TWU to discuss the project status, constraints facing the project, etc.

If the risk profile of the project is high, a physical site inspection is recommended every quarter or semi-annually or annually, whereas for low risk projects, once in two years inspection is recommended.

Complaints should be lodged against the utility manager who has certified the project erroneously (if any misrepresentation is discovered) and required action should be taken.

10.5 Monitoring Review Report

10.5.1 Preparation of Monitoring Review Report

The reports generated by the external agencies and the TWU, site visits etc. will be used by PPLRED for preparing the monitoring review report (MRR). The MRR is expected to be prepared on a quarterly basis. The MRR will be used by WRDF for monitoring problematic/tricky loans. The indicative contents of the MRR are as follows.

Table 7: Monitoring review report

| Sr. No. | Particulars | Reason and comments | |
|--|--|---------------------|---------------------|
| Portfolio Review | | | |
| 1 | Total number of projects in the portfolio that are under construction | | |
| 2 | Total number of projects in the portfolio that are under construction and delayed by more than 1 year vis-à-vis original schedule under construction | | |
| 3 | GNPA ratio | | |
| 4 | Number of loans classified as non-performing loans | | |
| Sr. No. | Particulars | TWUs | Reason and comments |
| Problematic Project Review | | | |
| Construction Period (Loans with time and cost overruns) | | | |
| 1 | Physical Progress of Projects | | |
| | | | |
| | | | |
| 2 | Financial Progress of Projects | | |
| | | | |
| | | | |
| Operation Period (Loans declared NPA) | | | |
| 3 | Payment status of the loans funded by WRDF | | |
| | | | |
| | | | |

10.5.2 Review of MRR by IC / Management Board

PPLRED will circulate the MRR to the IC / Management Board members. A presentation will be made on each loan under review by IC / Management Board. The presentation will be made by the concerned officer of PPLRED.

The IC/Management Board is expected to deliberate on factors that are impacting/likely to affect WRDF. Some of these factors may include:

- Time/cost overruns
- Delay in servicing the loan and
- Non-compliance with project covenants.

IC / Management Board would need to take a series of measures for safeguarding WRDF's exposure to problem loans.

The measures taken by IC / Management Board for protecting WRDF's exposure will depend on the prevailing circumstances. An indicative list of such measures is provided below:

- Cost overrun – TWU could be called upon for financing the same.
- Restructuring/Recovery from security the loan as per lending procedure guidelines
- Appointing another contractor to complete the project

10.6 Monitoring by Steering Committee

Steering Committee can be formed to evaluate the progress made in deploying the basket fund and its impact. The Committee will consist of representatives from DP's and WRDF board. The Committee should hold a meeting half yearly and should review the following:

- Progress towards achievements of various activities as per Road map
- Disbursement of IBF and TABF by WRDF
- Physical and financial progress of the project
- Repayment of IBF by TWU
- Adherence/alignment with national sectoral policies;
- Endorsement of the WRDF's annual operational plan;
- Review the implementation of the PIM.

Loan Classification will provide a key input in undertaking monitoring by WRDF and its stakeholders MoFED, MoWIE and DPs. The process for undertaking the same is provided in the subsequent section.

11. Loan Classification

This chapter describes the norms for the classification of various loans based on their repayments of the amount due.

'**Loan classification**' means a type of loan classification depending on the credit quality of the particular loan/TWU and whose principal and accrued interest is questionable.

"**Loans**" or "**advances**" mean any loans of WRDF arising from a loan/advance given/provided to the TWU for the development of the water facility. The term does not include accrued, but uncollected interest or discounted interest.

Purpose of Loan Classification

- Loans or advances are regularly reviewed and classified in a manner consistent with the regulatory standards;
- Loans or advances that are not performing in accordance with the contractual repayment terms are recognized and reported as past due in a manner consistent with regulatory standards;

"**Non-performing**" means loans or advances whose credit quality has deteriorated such that full collection of principal and/or interest in accordance with the contractual repayment terms of the loan or advance is questionable. That is the loan remains unpaid beyond a particular period (duration of the period has been indicated below) even after WRDF has solicited assistance the Regional Government to collect the loan repayment due to it.

WRDF should follow loan classification norms as it helps in ascertaining the credit risk and loan quality and shows the exact financial position of WRDF. Loan classification helps in representing the realistic view of the loans of WRDF in terms of loan recoverable, ascertaining the amount of funds available for revolving fund

11.1 Classification of Loans or Advances

Loans are classified into four categories: pass (loans and advances fully secured and not significantly risky), substandard (which are unduly risky and, may be risky in future); doubtful, (whose collection is highly questionable and are risky), and loss (which are considered uncollectable).

11.1.1 Pass

Further, the debt, i.e., principal and interest will categories as pass loan and shall be given a special mention if it remains out standing for 30 (thirty) consecutive days or more beyond the scheduled payment date or maturity, but less than 90 (ninety) days.

11.1.2 Substandard

The following non-performing loans and advances at a minimum shall be classified as substandard loans if the debt, i.e., the principal and interest remain outstanding for 90 (ninety) consecutive days or more beyond the scheduled payment date or maturity, but less than 180 (one-hundred-eighty) day.

11.1.3 Doubtful

The following non-performing loans and advances at a minimum shall be classified as doubtful loans if the debt, i.e., the principal and interest remains outstanding for 180 (one-hundred-eighty) consecutive days or more beyond the scheduled payment date or maturity, but less than 360 (three-hundred-sixty) days.

11.1.4 Loss

The following non-performing loans and advances at a minimum shall be classified as loss loans if the debt, i.e., the principal and interest remains outstanding for 360 (three-hundred-sixty) consecutive days or more beyond the scheduled payment date or maturity.

11.2 Classification of NPA in case of construction delays

WRDF must fix the date of commencement of commercial operations (DCCO) for all project loans at the time of sanctioning of the loan. A loan will be classified as an NPA if it fails to commence commercial operations within two years from the original DCCO, unless it is restructured.

11.3 Renegotiated Loans

Without prejudice to the classification criteria used for the sub-standard category set out under 11.1.2 above, the renegotiated non-performing loans and advances shall be categorized as substandard if the TWU defaults in repayment of at least 2 (two) instalments.

If multiple loans are outstanding to a single TWU, then the bank shall prepare a current written evaluation of the TWU's creditworthiness, evidencing that repayment prospects for the other loans or advances are reasonably assured.

Once the loan is classified as a non-performing loan, the instalment due for that loan will not be recognized for estimating the future cash inflows.

12. Technical Assistance Basket Fund Features, Allocation, Disbursement and Monitoring

This chapter describes the criteria, allocation, disbursement, monitoring of the Technical Assistance Basket Fund by WRDF.

12.1 Eligible recipients

The TABF will be provided to strengthen the technical, financial, administrative and managerial capacities of the WRDF, the RWBs and the TWUs so that they can function as pro-active and efficient entities. TABF funds will be provided in the form of grant. For the TWUs, the grants under the TABF will be provided based on the recommendations of the appraisal team of the WRDF.

12.2 Eligible areas for funding under the TABF

The eligible areas for funding under the TABF include (but not exhaustively):

- Providing technical assistance for project development including; Developing project development, design review, construction supervision and contract administration and various aspects of project appraisal e.g. Affordability and willingness to pay analysis, Tariff analysis and cost recovery, Capital Investment Planning¹¹.
- Training Staff in areas that include: O&M Practices; Metering, Billing and Collection; Double Entry Accounting using manual procedures, appropriate modern accounting system and IT systems; Managerial capacity of the Board members & TWU
- Streamlining existing operations
- ◆ Technical Studies for reducing Non-Revenue Water (NRW) and funding equipment for NRW Reduction e.g. water meters, handheld meter readers and leak detection equipment.
- ◆ Financial Management Systems e.g. financing Computerized billing systems
- Rain Water Harvesting: Funding the studies and creation of assets to allow for rainwater harvesting.

12.3 Disbursing the TABF

The TABF funds will be disbursed in a manner similar to the IBF i.e. via the Cash-flow Method wherein or the Direct Payment to the Contractor method. The Cash flow method provides funding based on the project's requirements and utilization certificates and the Direct Payment to Contractor payment is made based on completion of pre-agreed milestones. This has been detailed in section 9.5.

Further, the MIS reports to be generated for monitoring the TABF have been provided in section 16.

¹¹ For the AFD, EIB and IDC EUR 81 million programme, studies and detailed design for instance will not be covered by the TABF. It will have to be covered by the TWUs of the regional matching funds

12.4 Monitoring the TABF

The TABF funds will be monitored in a manner similar to the construction period monitoring of the IBF. The monitoring would be undertaken through a combination of:

1. Site Visits

Site Visits to monitor the utilization of funds and the usage of the assets / capacities created in the operations of the TWUs and the RWBs.

2. Implementation Period Progress Reports

The beneficiaries of TABF funds will provide an Implementation Period Progress Report. The report will track the physical and financial progress of assets / capacities created vis-à-vis the schedule envisaged and details of expenditure and means of funding

3. Project Completion Report

A project completion report should be obtained from the beneficiaries of TABF funds certifying the completion of the project undertaken using the TABF funds. The project completion report should provide details of the project cost (actual vs. envisaged), rationale for variations and means of financing the project costs. A certificate should accompany the project completion report from the Utility Manager certifying the completion of the project.

13. Procurement

Detailed in this chapter is the facilitator and reviewer role that WRDF would play in TWUs' procurement-related process for water and sanitation infrastructure in the context of the basket fund.

13.1 WRDF's proposed role in procurement

This chapter discusses WRDF's proposed future role in procurement of goods, works, and services for water supply networks and sanitation projects for targeted TWUs.

The WRDF's role in procurement draws from its mandate to extend loans¹² to pre-selected TWUs to develop infrastructure for water and sanitation projects. At WRDF, procurement is the stage after the WRDF's Management Board accepts the proposed project and the loan agreement is prepared.

WRDF is not required to be fully involved in the entire procurement¹³ process of goods, works, and services for TWUs. **As such, responsibilities for any procurement under the extended loan rest entirely with the TWU¹⁴** as the borrower/implementing agency and aligned with the loan agreement that the particular TWU signs with the WRDF. TWUs are required to indicate procurement authority (their legal personality) to the WRDF and are the ones to sign contracts with the successful bidder. TWUs can seek assistance from the RWBs in the bidding process, procurement, and in the management of the contract.

Since they are mostly aligned with the GoE guidelines and are recognized as international standards, it is proposed **that the World Bank guideline be adopted as the common single procurement guideline in the context of the basket fund.** See Annexure 17.7 for a comparison between GoE and WB guidelines and detailed conclusions on why the WB guideline should be preferred over that of the GoE for the implementation of the basket fund.

The PIM aims also at being aligned on the national WASH policy defined in the OOWNP which refers to the WB procurement guidelines procedures¹⁵.

The following figure shows WRDF's future role in procurement, and serves three purposes:

1. Its standardizes the role undertaken by WRDF in procurement across TWU projects;
2. It positions the WRDF as a key reviewer of TWUs' procurement decisions; and
3. It makes the WRDF a facilitator of improved service delivery by the TWUs¹⁶.

¹² Projects may be fully or partially financed by the WRDF. Projects may be co-financed by RWBs by way of matching grants.

¹³ Procurement for materials and laying pipelines, procurement of electrical and mechanical equipment, procurement of services etc.

¹⁴ This is in line with 'DETERMINING PROCEDURES OF PUBLIC PROCUREMENT AND ESTABLISHING ITS SUPERVISORY AGENCY PROCLAMATION OF THE FEDERAL DEMOCRATIC REPUBLIC GOVERNMENT OF ETHIOPIA' Proclamation 430/2005, Article 7. Subsequently, Proclamation 430/2005 has been repealed by a new Proclamation titled: The Ethiopian Federal Government Procurement and Property Administration Proclamation 649/2009. Article 8 of the new proclamation has similar provisions to that of Article 7 of the repealed one.

¹⁵ It is to be underlined that in the scope of the EIB, IDC, AFD Programme, after negotiation with MoFED and WRDF, it was agreed, to follow both World Bank procurement guidelines and EIB's threshold for International Competitive Bidding (cf. Appendix 17.9.1- table 10).

¹⁶ In addition the World Bank procurement guideline should be complemented with both the **AFD declaration of integrity** and the **EIB Covenant of Integrity**. This declaration is as follows: The full texts are respectively reproduced in Appendix 17.11 and 17.13.

Figure 7: WRDF’s proposed role in procurement of TWU water projects



As per the above figure, the WRDF’s role is elaborated within procurement stages as below:

1. Establishing Procurement Supervisory division/department:

16 As a procuring and main implementing entity, it is the responsibility and accountability of the TWU to perform procurement functions in compliance with The Ethiopian Federal Government Procurement and Property Administration Proclamation 649/2009.

- a. The WRDF would have a Procurement Supervisory¹⁷ division/department within the organization structure. This division would understand procurement modalities for the proposed project on behalf of the WRDF and be the guidepost to the borrower TWU during the procurement process as and when required. WRDF can consider deploying a portion of the technical assistance, that it will receive under the basket fund to establish a procurement supervisory division/department. This supervisor's role would kick in immediately after the WRDF Board accepts a proposed project and the loan agreement is prepared.
2. **Preparation and review of the procurement plan¹⁸:**
- a. For the IBF, **the WRDF will review the procurement plan as submitted to it by the borrower TWU¹⁹** with which it intends to sign the loan agreement. The procurement plan shall be reviewed by the WRDF on various parameters such as objective and brief description of procurement, mode of procurement/method of selection, schedule for each procurement activity (advertising/posting of tender; launching of tender, pre-bid conference; submission and receipt of bids; bid evaluation; award of contract; and contract preparation, delivery/completion and acceptance), source of funds (WRDF loan, matching funds etc.), and estimated project cost.²⁰ The WRDF shall also review the TWUs' procurement plans for the TABF with regard to capacity building of TWUs, supervision of works, institutional reforms, etc.
 - b. **The WRDF would approve the TWU's procurement plan and shall issue 'no-objection'** for the TWU to proceed with next step in procurement.
 - c. The WRDF will also be notified by the borrower TWU of any delay or other circumstances that would change the schedule of the agreed procurement process, and significantly impact the time and successful implementation of the contracts.
 - d. The WRDF's procurement supervisory arm shall be responsible to ensure that the procurement processes conducted, hereafter, meet the following basic requirements:
 - i. The economy and efficiency in the implementation of the project, including the procurement of the goods and works involved;
 - ii. Give all eligible and qualified bidders an opportunity to compete in providing goods and works financed by the DPs via the WRDF;
 - iii. Ensure transparency and ethical standards in the procurement process; and
 - iv. In case of consulting services, the high quality of services delivered.

3. **Issuance Standard Bid Document:**

¹⁷ The procurement supervisory function would not be the same as the contract manager (as that would be appointed by the borrowing/implementing agency). The former would be exclusively that of WRDF's and the latter of the TWUs.

¹⁸ Procurement plan: This routine will have to be dealt with in accordance with government directives issued to be used by all agencies. Hence a procurement plan has not been provided here.

¹⁹ The supervisor shall receive procurement arrangements and plans from TWUs simultaneously when the loan appraisal team would receive the TWUs' business plan and design studies.

²⁰ The supervisor shall review Ethiopia-specific issues and recommend modifications/approve the procurement arrangements and plans: for example, margin of preference for Ethiopian nationals or for domestic production as prescribed in Article 25 of The Ethiopian Federal Government Procurement and Property Administration Proclamation 649/2009), check for conformity to World Bank guidelines, and proposed implementation modalities (especially to assess whether the plan fits into the GTP targets up to 2014-15 and any subsequent revision thereof, WaSH targets, the Ethiopian water policy, follows the equitable distribution principle, and the concerned sponsoring DP's or GoE's targets) of the TWUs who would be legally responsible in undertaking investment projects or in utilization of TABF disbursements.

- a. On approval of the procurement plan, **WRDF would issue the WB's Standard Bid Document (SBD)** to the procuring TWUs. This SBD would be for procurement of good or works, based on the description of the same in the procurement plan. The TWU would minimally modify the SBD only to the extent necessary to contextualize the SBD to Ethiopia- specific and/or project-specific issues as stated in Annexure 3

4. Preparation of the bid/tender document:

- a. In case where pre-qualification²¹ is pursued, the borrow TWU would furnish the WRDF with the draft content of the invitation to prequalify, the evaluation criteria, and information on the advertising methods intended to be used, prior to floating invitation for prequalification. **The WRDF would approve/disapprove the list of pre-qualified bidders** based on the statements of qualifications or disqualifications of any bidder as submitted by the TWU. Subsequent to this process, the TWU shall be entitled to convey its decision on pre-qualification to the pre-qualified bidders. The borrower TWU would then follow processes as per point b below.
- b. In a non-pre-qualification process, the borrower TWU would prepare the tender document based on the SBD issued to it. The TWU can choose to pursue this task on its own or via consultants. The TWU would seek approval of the WRDF on draft tender documents, prior to launch of bids regarding its level of clarity and relevance of content. **The WRDF would approve**, inter alia, aspects such as the invitation to bid, the procurement method used, criteria for preference of domestic bidders as prescribed by the WB, instructions to bidders including basis of bid evaluation and award of contract, conditions of contract, specifications of goods or works to be contracted, list of goods of bill of quantities (BoQ), advertising process of bidding, and the time provided for preparation of bids as per WB procurement guidelines, inclusion of a clause on anti-bribery pledge etc.

5. Advertisement of tender:

- a. On approval of the tender document as above, the TWU would launch the tender by advertising it in line with the WB guidelines. Issuance of tender documents could take place at the zonal level, Regional Water Bureau (RWB) level, or at TWUs. The WRDF would receive a copy of such advertisement.

6. Issuance of tender:

- a. The borrower TWU would issue the tender, with the exact same information to all prospective bidders and furnish a list of such bidders to the WRDF.

7. Retention of bid securities:

- a. The borrower TWU would retain bid securities from all bidders in the form of a certified check, a letter of credit (LC), or a bank guarantee. **The WRDF would receive the list of such bid securities retained by the borrower TWUs.** The TWU would **seek advice from the WRDF regarding the amount of bid security** so as

21 The WB guidelines state that pre-qualification is usually necessary for large or complex works, or in other circumstances in which the high costs of preparing detailed bids could discourage competition, such as custom-designed equipment, industrial plant, specialized services, and contracts to be let under turnkey, design and build, or management contracting. The process also ensures that bids are extended only to prospective bidders, having adequate capabilities and resources and also to determine eligibility for preference for domestic contractors.

not to keep it too high to discourage bidders as well as not too low to protect against several irresponsible bids.

8. Pre-bid conference:

- a. The TWU may call for a pre-bid conference with regard to complex supply contracts or works, particularly for refurbishments of existing infrastructure. The purpose of such conference will be for the potential bidders to meet the TWU representatives to seek clarifications. **The WRDF as well as the prospective bidders will be furnished with the Minutes of such conference.**

9. Respond to bidder queries:

- a. TWUs would consolidate all bidder queries received within the stipulated period and send a copy of the same to the WRDF. The WRDF would also receive a copy of the responses provided by the TWU to the bidders.

10. Receipt and evaluation of bids:

- a. The TWU (with or without the support of the RWB, as required) would receive, evaluate, and compare bids and furnish a **detailed report to the WRDF for its review about the evaluation and comparison of the bids** along with recommendations for the award of contract. Should the WRDF establish that the intended award might be inconsistent with the loan agreement, it would promptly instruct the TWU of the same with its reasons. Subsequently and based on such reasons an Evaluation Committee Report shall be prepared.
- b. Furthermore, the **WRDF would be responsible for issuing 'no-objection' for extending bid validity** on TWU's request, up to a certain threshold value of the project, after which the 'no-objection' for the same would be sought from either the MoWIE, or the concerned DP/s, or the World Bank (as per the defined delegation of power (DoP)).
- c. The **WRDF's prior approval or 'no-objection' shall be obtained to reject all bids, to solicit new bids, or to enter into negotiations with the lowest evaluated bidder.**
- d. Here too, as required and depending on threshold value of bids, 'no-objections' will be provided by the next levels in the DoP after the WRDF i.e., MoWIE and subsequently the Development Partner. At present, the WRDF approves of projects with a value of up to Birr 20 million. It may be jointly decided between the WRDF, MoWIE, and DPs whether this threshold would remain the same or change so that project approval progresses along the DoP, accordingly.

11. Award of contract:

- a. After having followed WB guidelines regarding bid-opening procedures, providing clarifications to bidders, and evaluation and comparison of bids, the TWU will notify award of contract decisions, negotiate and sign contracts with the preferred bidder and notify WRDF of the same.

A confirmed copy of the **awarded contract shall be furnished to the WRDF** for its records. Similarly, a copy of all amendments to the awarded contract shall be furnished to the WRDF for its records.

The WRDF shall be the custodian of all original payment certificates for payments made to contractors, either directly by DPs or by the WRDF or by the TWUs.²²

12. Capacitating the TWUs

- a. In addition to the above roles, WRDF can explore holding regular training programs to familiarize the TWUs the procurement process, procurement documents and any other pertinent matter related to procurement.

13.2 Cross-cutting roles of the procurement supervisory division/department

In the above section, the procurement supervisory division/department's role has been described as per stages of the procurement process. However, as a facilitator and reviewer of procurement, the supervisory arm's role can be stage-agnostic. To that extent, it will pro-actively pursue the following activities as well:

1. If the loan appraisal department requires a second opinion on any contractual aspect, then it can obtain it from the Procurement Supervisory division/department.
2. The supervisor shall be updated about any complaints received by bidders regarding the procurement process and the TWU shall, in consultation with the procurement supervisor, resolve tendering complaints.
3. The supervisor shall direct the targeted TWUs to carry out procurement audits after entire procurement process has been concluded and submit reports to WRDF for onward submission to the sponsoring body²³/DPs;
4. The supervisor shall direct the procuring TWU to carry out a performance audit after each contract completion and submit reports to WRDF for onward submission to the sponsoring body/DPs;
5. The supervisor shall organize and maintain a database of TWU procurement plans and a record of achieved procurement targets on the WRDF's website or adopt any other source of public information to disseminate such information on a continuous basis and on an open public forum;
6. As part of its MIS responsibilities, the supervisor shall produce and share procurement progress reports on a quarterly basis (in line with the National WaSH Implementation Framework-WIF guidelines on procurement) for the WRDF, DPs, the Regional Water Bureaus (RWB), and the MoWIE on the basis of a pre-defined checklist of procurement milestones;

22 A performance-based contract has not been explored thus far in the Ethiopian water sector. However, to ensure that procurement is effective and per procurement plan, it is necessary to induce incentives in contractors. Currently, WRDF adopts both cash flow payment basis and direct payments to contractors. In either case, a performance or milestone-based payment may be introduced. In the cash flow system, the WRDF's procurement supervisor shall ensure that the TWU releases contractor payments on achieved milestones only and the same procedure could be applied for the direct-payment-to-contractor method.

23 This may be a DP proposing the basket fund, the World Bank, the UNICEF, the GoE, or any other funding body.

7. The supervisor shall keep abreast of updates and revisions in the WB procurement guidelines and ensure that TWU procurement plans and proposals incorporate any such changes from time to time;
8. The procurement supervisor shall be responsible to record and report the borrower's material default in following any prescribed and agreed procurement procedures to the WRDF, to the sponsoring body, and to the MoWIE, as mis-procurement;
9. The supervisor shall identify any fraudulent, corrupt, mismanaged, or wrong practices engaged in by personnel of the borrower TWU or by the preferred bidder/appointed contractor, and report the practices to the WRDF, the sponsoring body, and to the MoWIE to impose applicable sanctions on either party;
10. In accordance with of Article 23 of Proclamation 649/2009, the procurement department ('supervisory department' as proposed in the context of the WRDF) will ascertain that the borrower TWU retains all procurement records and documents for such period of time as is determined by the directive to be issued by the Minister from the date of concluding a project's procurement. In this context, it is recommended that the records be maintained for a period of two (02) years minimum;
11. The supervisor shall be responsible to maintain confidentiality of all information in custody and shall seek prior approval of the Director General of the WRDF and the sponsoring bodies before acting upon confidential information in any manner;
12. The supervisor shall report procurement reviews on any platform, through a single common reporting format.
13. The supervisor shall extend its coordination support for capacity building Regional Water Bureau (RWB) regional government level. RWB/regional governments are more suited for procurement-related training as they are in a position to assist in greater number of procurements vis-à-vis a TWU. This will in turn, improve the capacities of the TWUs for procurement and strengthen Evaluation Review Committee (ERC) reports.

13.3 Exclusions from the WRDF role during procurement

1. For settlement of disputes between TWUs and contractors, the WRDF shall not be named the arbitrator or be asked to name an arbitrator. It will be the responsibility of the TWU to provide for such arbitration;
2. The WRDF shall not enter into any discussions or correspondence with any bidder during the evaluation comparison, and review process of the procurement, until contract award has been notified by the TWU; and
3. The obligations of procurement supervisor would end with the award of the project; hence, it will not be directly responsible for contract management.

13.4 Checklist for procurement function

The following checklist shall be used by the WRDF's procurement supervisory arm during various stages of the procurement process. This checklist shall be adopted for self-assessment of the division/department. It will enable the team verify whether all aspects of each procurement have been adequately covered. Based on such verifications, the division/department will be able to fully comply with procurement processes, develop comprehensive reports, and improve on any shortcomings in future procurement of water and sanitation projects of TWUs.

| Checklist Parameters | Response (Yes/No/ Remarks) |
|--|----------------------------------|
| <ol style="list-style-type: none"> 1. Are members of the procurement supervisory division/department appropriately qualified and trained to carry out procurement support activities and review procurement decisions of TWUs? 2. Has the proposed project procurement met with WaSH targets? 3. Has the WRDF issued a 'no-objection' certificate for approving the procurement plan? 4. Has the SBD, issued to the TWU, been modified in any way? 5. If yes to the above question, has the modified SBD adhered to Ethiopian and project-contexts? 6. Has the WRDF approved/disapproved the list of pre-qualified bidders, in case of a pre-qualification process? 7. In a non-pre-qualification process, has the WRDF approved draft tender documents, prior to launch of bids regarding its level of clarity and relevance of content with regard to the project? 8. Has WRDF received a copy of the tender advertisement? 9. Has the WRDF received the list of bid securities retained by the borrower TWUs? 10. Has the TWU consulted the WRDF to decide on a reasonable amount of bid security? 11. Has the WRDF received the Minutes of the pre-bid conference? 12. Has the WRDF received a copy of the responses provided by the TWU to the bidders for addressing their queries? 13. Has the WRDF received a detailed report from the TWU for its review about the evaluation and comparison of the bids? 14. Has the WRDF issued a 'no-objection' certificate for extending bid validity, in case there was a requirement to extend the bid validity? 15. Has the WRDF provided prior approval or 'no-objection' to reject all bids, to solicit new bids, or to enter into negotiations with the lowest evaluated bidder? 16. Has the WRDF received a confirmed copy of the awarded contract? 17. Has project (IBF) procurement taken place as per the procurement plan? 18. Has TABF procurement taken place as per the procurement plan? | |

14. Fund Management

This chapter describes the fund management policy that WRDF can put in place for earning revenues from corpus.

14.1 Fund Management Policy

The objectives of the Fund Management Policy shall primarily be targeted towards ensuring that the corpus available with WRDF are investment in an efficient, safe, and profitable manner.

The macro objectives of fund management are:

- Manage liquidity (time for which funds are invested)
- Manage financial risk (riskiness of the instruments in which funds are invested)
- Optimize the return (returns of the instruments in which funds are invested)

The previously mentioned objectives have to be achieved after ensuring compliance with the legal and regulatory requirements.

The policy will be reviewed at least on a semi-annual basis to take cognizance of changes in market and regulatory realities.

14.2 Types of instruments

WRDF should make investments in the following types of financial instruments:

- Bank deposits/securities
- Nation Bank of Ethiopia/Central Bank of Ethiopia Treasury bills
- Government of Ethiopia securities
- ◆ 2000 Millennium Bond - for sale to the Diaspora by the Ethiopian Electric Power Corporation. This bond sale has been going on since the new Ethiopian millennium over 2 years ago.
- ◆ Ethiopian Government Saving Bond, for the Great Renaissance Dam Project.

14.3 Authority to put through deals

The WRDF boards along with IC/Management Board will define the list of approved group of securities and define the maximum exposure per security/group of securities.

14.4 Composition of portfolio

The WRDF portfolio should be constructed in manner that assists it meeting the liquidity, risk, return, and needs of the business. The securities that comprise of WRDF's portfolio should be evaluated based on the following parameters:

- Risk, i.e., likelihood of suffering a capital loss when investing in the respective security
- Liquidity – the ability to liquidate the security over a short period of time at minimal transaction costs

- Optimum return of the portfolio

The underlying philosophy of the portfolio composition is not to fix a number for each cell, but to give a guidance on the *minimum liquidity requirements* (cumulative totals in rows) and the minimum (which is actually resulting in stipulating a limit on the maximum risk assumed) risk requirement (cumulative totals in columns). "Minimum" is a key word. This implies that *at least 50%* (i.e., it can be more than 50% but not less) should be maintained in "high" liquidity securities (first row total); at least 100% should be between ("High" + "Medium") liquid securities (total of first and second row). Further, WRDF has the flexibility to determine the value on the individual cells. An indicative process for determining the portfolio allocation has been provided below.

- Identify potential securities e.g. Treasury bills, Government Bond for each cell of the above table.
- Percentage of allocation of the portfolio to the cell is will be arrived at by multiplying the Column and Row Totals.

This calculation has been explained in the following table:

Figure 8: Portfolio allocation illustration

| Risk | Low | Mid | High | Cumulative Investment % |
|-------------------------|--------------------|-----|------|-------------------------|
| Liquidity | | | | |
| High | Cell Reference = A | | | 50% |
| Mid | | | | 60% |
| Low | | | | 100% |
| Cumulative Investment % | 90% | 10% | 0% | |

- Securities Identified for A = Treasury Bills and Government Bond
- Percentage of portfolio allocated to A = 50% [Column Total] X 90% [Row Total] = 45%

WRDF investment in low risk/high liquidity securities should be maintained at a level such that it can meet the payments that are expected to arise in the next 0.3-1 year.

WRDF investment in medium risk/medium liquidity securities taken together with its investment in low risk/high liquidity securities (cumulatively 100% presently) should enable it to meet all payments that are expected to arise in 1-3 year period.

15. Audit practices at WRDF

Detailed here are WRDF's audit practices, both internal and external, related concerns, and possible additionalities to WRDF's internal audit guidelines/practises.

15.1 WRDF's audit practices

This chapter²⁴ discusses WRDF's audit practices. Audit is a form of internal control. Two types of audits are performed at the WRDF, including financial audits and performance audits²⁵.

Several activities comprising compilation of information and findings, preparation of timely reports, organization, and dissemination of the same to relevant stakeholders are considered as secondary activities of the WRDF office²⁶. Amongst these, audit-related activities by the office include preparation and presentation of financial audit reports, and preparation and submission of performance audit reports.

Moreover, as per article 8(2) of WRDF's establishment proclamation 268/2002, the WRDF is expected to get its accounts audited externally as well (the internal and external audit processes are described in the sub sections below).²⁷

WRDF's Audit Directorate is responsible for monitoring internal control functions and performing internal audit functions. Currently, the WRDF has on its payrolls an internal auditor and an audit expert for audit support process. The staff²⁸ reports directly to the Director General of the WRDF²⁹.

In the context of the proposed basket fund, WRDF's auditing functions will relate to auditing the operations of the basket fund as per requirements of the GoE and in doing so, demonstrate an effectively managed government agency.

15.1.1 Scope of this chapter

This chapter has intended to include the description of current auditing practises, both internal and external. Furthermore, it states guiding principles, as opposed to being a manual. It does not attempt to capture all aspects or functions that should be carried out by an internal auditor, rather it captures the elements and processes which the WRDF's internal auditor and Audit Committee/Management Board *ought not to leave out* and thereby ensure that both the internal and external audits and internal controls are further strengthened.

²⁴ A few references in this chapter draw from the Basel Committee recommendations on internal audit for banks from its published document titled: "Internal audit in banks and the supervisor's relationship with auditors." However, processes and procedures of internal audit may be common to government agencies such as the WRDF; hence this reference has been used here.

²⁵ It is understood that compilation of internal audit findings contains reform audit, property audit, as well as special audit.

²⁶ Source: Water Development Fund – 2013/14 Budget Year, Revised Work Plan, Part 1, February 2014.

²⁷ As per the Financial Administration Regulation of the country (federal and regional states), public bodies shall close and submit their accounts to the Auditor General within three months from the end of the fiscal year. The fiscal year is from 01 July EFY to 30 June EFY.

²⁸ The audit support function staff's qualifications are Bachelor of Arts in Accounting and Finance including 'Principles of Audit'.

²⁹ An assessment on the adequacy and quality of staffing will be carried out in the Roadmap deliverable of the consultant team.

The guidelines apply, in parts, to the internal audit staff, management of the WRDF, Management Board of the WRDF, and to the auditees, which include other departments of the WRDF and borrower TWUs.

15.1.2 Internal audit

Internal audit is part of the on-going monitoring of the system of internal controls. To that effect, main functions of the WRDF's Internal Audit Directorate are as follows:

1. Undertake internal audit of quarterly, semi-annual, and annual reports prepared by the WRDF;
2. Evaluate internal monitoring/controlling mechanism of the office of the WRDF;
3. Evaluate adherence by WRDF to the proclamation, lending procedures, and other rules and regulations; and
4. Prepare internal audit report and submit its report to the WRDF's Management Board.

At the WRDF, internal financial audit is conducted on the basis of training imparted by the MoFED's Internal Audit Training Module³⁰ which in turn is based on the internal audit procedure manual of the Ministry as of November 2005 and 2006 (Amharic year)³¹.

The second document that the WRDF staff refers to, for preparing the internal financial audit reports, is 'rules and regulations' prepared by MOFED in Amharic year 2003 which relates to information on accounts, budget, cash management, disbursement, financial accountability, internal audit, equipment and service price, property, and employee rules and regulations.

The internal audit report is submitted to the Director General (DG) of WRDF, the inspection directorate of the MoFED and to the Management Board of the WRDF for approvals.

15.1.3 Performance audit

During a typical budget year, the WRDF prepares quarterly, semi-annual, and annual financial audit and implementation reports for presentation to the MoFED. The team is also responsible to prepare and submit a performance auditing report to the Ministry. The official language of preparing these reports is Amharic.

The performance audit is done to ensure that the activities under the Finance and Budget Administration Main Work Process/unit are being executed in line with government rules and regulations. For this audit, interviews are conducted with relevant supervisors and staff members, and documents are reviewed.

15.1.4 External audit

As per article 8(2) of WRDF's establishment proclamation 268/2002, WRDF is expected to get its accounts audited by the Office of the Federal Auditor General (OFAG) or alternatively by designated auditors of the OFAG, on an annual basis. Therefore, WRDF closes its accounts and subsequently requests the OFAG to appoint an independent auditor. In the event that OFAG permits WRDF to appoint an independent auditor on its own, such appointment is the responsibility of the Management

³⁰ Based on Internal Audit Standards of Public Bodies of the Government of Ethiopia that are contained in the Audit Procedural Manual issued by the MoFED.

³¹ Amharic years 2005 and 2006 (September-August) are equivalent to English calendar years 2012 and 2013.

Board of the WRDF. The Board in turn is permitted to delegate such power to the Director General of the WRDF.

The WRDF's establishment proclamation also stipulates, within article 8(2), that the audit report shall be submitted to the Management Board of the WRDF within six months of the end of each fiscal year.³² It is imperative to take into account this official deadline to set the timing to close the accounts, to address the selection and appointment of auditors, and to conduct of the audit itself.

The World Bank's procurement guidelines are used for selection of the external audit firm. However, the audit service is not entirely procured as per the regular procurement process. The OFAG maintains a list of authorized auditors. The WRDF appoints an evaluation committee to evaluate a short list of a minimum of five reputable independent auditors, from the list issued by the OFAG, to select one rather than extend an open tender invitation.

Independent auditors submit two proposals for audit in response to the bid request including technical and financial proposals.³³ The selection of the external auditor is based on 'best value for service'. In this process, firms with high technical competence tend to be preferred over firms, which quote a low audit fee. The invitation to the auditor seeks, inter alia, the following information:

1. The firm's experience in similar audits;
2. The staff's qualification to carry out the particular work;
3. The time to finalize the audit; and
4. The firm's fee for the audit.

On selection of the auditor, an audit Terms of Reference (ToR) is prepared and agreed with the auditor. The ToR follows the needs of the WRDF and those of other stakeholders' party to loan agreements. Inter alia, the ToR typically states that the auditor shall³⁴:

1. Analyse whether WRDF is adhering to relevant proclamation and policies;
2. Conduct the audit as per the WRDF's accounting procedures manual;
3. Review the audit reports submitted by the borrowers (TWUs); and
4. Separately report on weaknesses of internal control, if any, which the external auditor would observe while conducting the audit and subsequently recommend areas of improvement.

Concerning point three above, a crucial input to the audit is the borrowers' (TWUs) audit report as external auditors tend to observe the financial management process of the borrowers. It is all the more important because WRDF is constrained by time to check the accounting records and transactions of each borrower, hence is required to be dependent on borrowers' timeliness of getting their accounts audited by an independent auditor and passing them on to the WRDF at the completion of the accounting year.

It is the FPPAD responsibility to coordinate and facilitate the audit process. Moreover, all other WRDF staff is responsible for extending full cooperation to external auditors by providing required documentation and explanation, during the external audit processes. The FPPAD is also responsible to hold discussions regarding the draft audit report, and arrange a meeting with the WRDF's management and the Board, if necessary, to discuss the audit report further before its finalization.

³² In Ethiopia the fiscal year extends from June to July.

³³ Source: WRDF's accounting manual.

³⁴ Source: WRDF's accounting manual, page 95.

Typically, the following accounts statements are prepared by the WRDF and presented to the external auditor³⁵:

1. Balance sheet;
2. Income account report;
3. Regular expense account report;
4. Capital expense account report;
5. Receivable accounts reports;
6. Payable accounts reports; and
7. Transferable accounts reports.

During the process of closing the books, when WRDF prepares and presents draft accounts to the auditors, the latter may recommend adjustments to certain accounts. Alternatively, while such audit is in progress, WRDF's accountants may also come across a few adjustments. Adjustments, if any, can be posted to the accounts prior to making final closing entries so that the WRDF's ledgers can agree with the audited accounts.

In accordance with WRDF's establishment proclamation 268/2002, the WRDF's Management Board is further expected to evaluate the audit report, ensure that adequate measures are taken in accordance with audit reports, and ensure that the audited annual reports are publicly disseminated.

Furthermore, as per policy and procedures for 'other expenditures' category in its accounting procedures, WRDF may need to incur costs, which cannot be covered by the recurrent budget allocated to it by the Government. One such cost is the audit cost, which is paid to get an annual audit of the fund by an independent auditor.

15.2 WRDF's internal audit practices

15.2.1 Audit Committee role in internal and external audits

Note: until the formation of an Audit Committee, WRDF's Management Board will undertake the following role.

1. The Programme Presentation Report (PPR), the consultant's previous deliverable, has recommended a modified corporate governance structure including establishing an Audit Committee. Representatives of the statutory auditors and internal auditors shall be permanent invitees to this Committee. Financial reports prepared by the internal auditor shall be presented to this committee from time to time. This would ensure a formal oversight of the WRDF's financial reporting process, disclosure of financial information, and strengthen the overall internal control process of the WRDF.
2. Audit reports would also witness significant improvement if they were to be presented to the Audit Committee as the Committee would mandatorily review, along with the management, the annual financial statements before submission to the Management Board for its approval, with specific attention to major accounting entries involving estimates based on the management's judgement and any significant adjustments made in the financial statements if

35As per 2012/2013 Budget year Accounts Audit Report of the Fund Office, Office of the Federal Auditor General (OFAG) February 2014, Page 04.

arising out of audit findings or any audit qualifications.³⁶ Having direct supervision of the Audit Committee (in addition to the direct control of the WRDF's Director General) would ensure the internal audit function's independence from the audited activities and from the day-to-day internal control process. Besides, this practise would also ensure that the internal auditors do not have conflict of interests, of any kind, with the WRDF/auditee.

3. The Audit Committee shall be responsible to appoint and sign the contract with the external audit firm and cover the following aspects in its contract: audit scope, objective, and purpose, deadlines for work to be performed, audit fee, report format, type and timing of support to be provided to the auditor by the WRDF, and chart out the professional auditing standards to be followed while performing the audit. The Committee shall maintain an audit trail regarding the selection of contractors. Lastly, the Committee shall monitor the work of the external auditor. Any adverse comments of the external auditor shall be addressed by the Audit Committee, which in turn will seek its information from the internal auditor/team. The Audit Committee shall not be authorized to transfer any of these powers to the Director General of the WRDF.

15.2.2 Management's role in internal and external audits

1. Within the provisions of the Civil Service Law, the management shall be responsible to align the audit head's compensation with the salaries of audit heads of other similar organizations.³⁷ Moreover, the compensation structure for internal auditors shall be determined in line with the objectives of the internal audit.
2. The WRDF Board shall be responsible to ensure that objectivity and impartiality is maintained in the external audit department, and any conflicts of interest are avoided. Therefore, the same external auditor firm cannot be consecutively appointed for at least three years. This rotation must be accomplished in a manner that does not jeopardize the independence of the external auditors.
3. Given that the basket fund will be the largest external funding to be administered by the WRDF, thus far, there will be several accounting transactions recorded, going forward. Therefore, the WRDF would need to continuously rely on an adequate internal audit function appropriate to its increasing size and to the nature of its operations. Considering that the current staff of two, is overstretched to conduct both financial and performance audits, the management shall provide for appropriate resources (such as relevant IT software e.g., Loan Accounting and Administration System (LAAS)) and staffing (with the relevant professional competence) to the internal audit department to achieve its objectives and become more efficient.
4. The management shall further ensure that systematic and continuous training is imparted to the internal audit team to maintain and enhance their competence levels regarding auditing techniques and banking activities.

³⁶ Refer to the chapter on Corporate Governance in the Programme Presentation Report (PPR), which enumerates the roles and responsibilities of the Management Board and its committees, including the Audit Committee.

³⁷ Source: WRDF: Salary Scale Improvement Study (Unpublished) cited in 'Legal assessment of the Water Resources Development Fund', Final Report, Hywas Engineering Consultants, 01 August 2012 – an evaluation study commissioned by the AFD.

15.2.3 Checklist for internal audit function

The following checklist shall be used by the WRDF's internal audit team before, during, and after conducting the audit process³⁸ and before finalizing the audit report to verify whether all additional aspects of audit are adequately covered. This will enable the team develop comprehensive reports and fully comply with audit and internal control processes.

The internal audit team will fill in this checklist before submitting reports to the Audit Committee/Management Board. The completed checklist will be submitted to the Committee along with reports. The Audit Committee / Management Board in turn will scrutinize the completed checklist for compliance to the suggested guidelines/practices within the checklist. The Committee's satisfaction on compliance with the checklist will be conveyed to the internal audit team, In case the Committee expresses dissatisfaction over any aspect of the reports, it shall make comments against the checklist, and request the audit team to look into the deficiencies cited. The internal audit team will be responsible to address these deficiencies and resubmit improved reports. The Audit Committee / Management Board will validate the quality of the internal audit reports on the basis of the completed checklist and thereby finally approve (or disapprove) reports.

This checklist has been prepared considering overall audit objectives of completeness, security, utilization, disclosure, and measurement³⁹ and shall be used quarterly. The checklist's parameters are described below:

| S N | Category | Checklist Parameters | Response (Yes/No/ Remarks) |
|--------|---|---|----------------------------------|
| I | Completeness | | |
| | Process adherence, internal controls | a) Are timelines given to all departments for sourcing information for the purpose of audit? b) Has every activity of the WRDF fallen within the scope of the audit and none excluded from audit's scope of investigation? c) Has the audit been conducted as per audit plan? d) Has the audit plan encompassed appropriate risk-based planning and also quality assurance? e) Has the internal audit's plan been drawn up in consultation with the WRDF's Director General, and the Management Board with the approval of the Audit Committee / Management Board? f) Has the internal audit activity complied with The Institute of Internal Auditors' (IIA) Standards ⁴⁰ ? g) Has the WRDF achieved the annual plan as | |

³⁸ It may be noted that the PIM's audit chapter refers to audit of consolidated accounts of the WRDF and not of any one particular funding, credit line, programme or project. To that effect, individual and independent donor-related audits for their projects will be the prerogative of the concerned DPs from time to time and may be conducted in consultation with WRDF as required. The TWUs will get their accounts audited and audited reports will be submitted to the WRDF. Furthermore, monitoring and evaluation will form a part of TWU audit.

³⁹ Although these parameters are usually used for banks, several of them are applicable to the WRDF as well; hence the checklist is categorized accordingly.

⁴⁰ The web link to Institute of Internal Auditors (IIA) standards is [http://www.mofed.gov.et/m/Resources/Internal%20Audit%20Manual%20\(English\).pdf](http://www.mofed.gov.et/m/Resources/Internal%20Audit%20Manual%20(English).pdf).

| | | | |
|--|---|--|--|
| | | <p>prepared by planning department?</p> <p>h) Are accounting records readily available for scrutiny?</p> <p>i) Have timely and periodical financial and performance audits been conducted as per prevailing policies?</p> <p>j) Have the WRDF's management and staff implemented measures recommended by the internal and external auditors, including recommendations received from independent auditors of DP-financed projects?</p> <p>k) Have internal and external audit reports been submitted to the Audit Committee / Management Board to be reviewed as a measure to monitor the control process and the adequacy of the system of internal controls?⁴¹</p> <p>l) Has the WRDF acted upon any significant deficiencies in design or operation of internal controls that have emerged during external and internal audits?</p> <p>m) Has the auditor performed independent and objective examinations and reviews of the effectiveness of the control processes of the WRDF and presented its analyses to the management and staff for possible improvement?⁴² For example, has there been an audit and inspection of the PSSAD's Appraisal Note?</p> <p>n) Has the auditor conducted a risk analysis of the WRDF's internal control systems? This includes: (i) the reliability (including integrity, accuracy, and comprehensiveness) and timeliness of financial and management information; (ii) the continuity and reliability of electronic information systems; and; (iii) the functioning of the staff departments?</p> <p>o) Have audits and inspections by designated community members been conducted to ensure transparency, fairness, responsibility, and accountability in the management of the water supply and sanitation infrastructure?</p> <p>p) Have accountants adopted the use of LAAS⁴³, consistently, to generate automated reports about loan accounting and administration activities?</p> | |
| | Adherence to accounting policies | a) Has it been verified whether all commitments are genuine, and relevant agreements have been | |

41 A survey cited in the 'Internal Audit Training Module- Based on the internal audit procedure manual' of the MoFED, November, 2005, states that "the prevalence of limited scope of work of internal auditing was attributed to, inter alia, the prevalence of weak internal control systems in organizations in which internal audit is an integral part."

42 Source: The Development Bank of Southern Africa (DBSA's) internal control policy document, February 2013.

43 Loan Accounting and Administration System (LAAS) is a software, wholly owned by the WRDF, to practice automated loan accounting and administration activities by allowing the WRDF to record, store, retrieve, update, access, summarize, and generate reports of loan accounting and administration activities by interfacing with Peachtree accounting software. Source: 'LAAS System User Manual Version: 1:0', Date December 24, 2014 (date is as per cover page of soft copy of the manual), prepared by TABY Engineering Private Limited Company.

| | | | |
|------------|--------------------|--|--|
| | | <p>disclosed within financial records and towards meeting agreed project objectives?(in case of DP-sponsored projects)</p> <p>b) Has a representative sample of payments/transactions of and within the projects been examined for its accuracy (for example, record of matching funds)?</p> <p>c) Has the auditor ascertained that the loan is provided based on the terms stated in lending policies?</p> <p>d) Has compliance been verified with the appraisal, disbursements and procurement procedures (as per adopted procurement guidelines)?</p> <p>e) Has collection of loans been accurately accounted for?</p> <p>f) Have loan disbursements and collections been done as per plan?</p> <p>g) Has the WRDF obtained financial statements for each financial year from TWUs regarding WaSH projects, financed by respective DPs?</p> <p>h) Has the basis of preparation of the special purpose financial statements been made clear/justified in the notes to the statements? (For example, use of modified cash basis etc.)</p> <p>i) Have financial statements shown WRDF's accurate position?</p> <p>j) Have investments and borrowings been reviewed, and is it ensured that they are all appropriately recorded on the accounting system?</p> <p>k) Have foreign currency transactions (both receipts and payments) been recorded on the rate ruling on the date of the transaction?</p> <p>l) Have payments to contractors and/or supplies recorded and verified?</p> <p>m) Have details of long term loan receivables been appropriately recorded and verified?</p> <p>n) Has ageing analysis of long term loan receivables been made?</p> <p>o) Are financial statements free of all material misstatement or error?</p> | |
| II | Security | | |
| | | <p>a) Has the internal audit function conducted or assisted in internal investigations for frauds⁴⁴, corruption or other unethical practices?</p> <p>b) Has data on LAAS been adequately backed up and kept secure, at all times?</p> | |
| III | Utilization | | |

⁴⁴ Frauds are also often IT-related hence when IT systems would be in place to strengthen the audit reports, there will also emerge a need to identify and critically analyze them in the internal audit reports.

| | | | |
|-----------|------------------------------|---|--|
| | | <p>a) Has the audit process examined and reviewed the new accounting entries and codes generated via application of the WRDF's new investment policy with regard to the basket fund and revolving fund?</p> <p>b) Have the annual rates of return on investments, made from corpus, been calculated and compared to current interest rates, and investigation carried out where returns are below expectations?</p> <p>c) Have interest rates on all loans been reviewed periodically, and the possibility of early redemption or loan consolidation been considered?</p> <p>d) Are the nature and number of bank accounts held subject to regular review, with a view to consolidating accounts where possible?</p> <p>e) Has the external auditor consulted with the internal as well as external audit resources to ensure their effective and complimentary use and mitigation of any duplication of efforts by both functions?</p> | |
| IV | Disclosure | | |
| | | <p>a) Has the external audit report been made public, for example been published on the WRDF's website or via other media?</p> <p>Have the performance audit / audit reports of the TWUs been made public via the WRDF's website?</p> | |
| V | Measurement/Valuation | | |
| | | <p>a) Have bank account reconciliations been undertaken regularly and reviewed by senior accountants.⁴⁵ Has the balance on each bank account, according to the bank statement, been independently reconciled to the figure expected from financial records, at least on a monthly basis? (<i>This may be relaxed for accounts with few transactions</i>).</p> <p>b) Has cash count been undertaken regularly (daily, weekly, monthly, or quarterly?)</p> | |
| VI | General | | |
| | | <p>a) Has the internal audit team been working in separate sub-teams for carrying out financial audit and performance audit and avoiding any overlaps in their respective roles?</p> | |

⁴⁵ As per the sample quarterly internal audit report (2013/14 Second Quarter Regular and Project Audit Report), bank reconciliations are done every quarter. However, additional checks are being recommended in this checklist.

The guidelines mentioned in this chapter may be reviewed by the WRDF every two years or at planned intervals when material changes occur, so that the guidelines are up to date at all times and reflect the WRDF's requirements.

16. MIS

This chapter provides the MIS formats, which can be used to monitor key variable such as disbursement of loans, technical assistance, status of the projects funded, status of procurement and non-performing loans among others.

16.1 MIS for the IBF

The following table provides details of the types of MIS that will be generated by WRDF for monitoring the performance of the Investment Basket Fund. It should be noted, the listing below is indicative and WRDF may add to it based on its, MoWIE, MoFED, DP and other stakeholder requirements.

Table 8: Type of MIS to be generated by WRDF for the IBF

| # | Report Type | Report Name | Description | Frequency | Responsibility | Report submitted to |
|---|--|---|---|------------------------|----------------|--|
| 1 | Limit/ Exposure wise report | Project Information MIS for IBF | This is a comprehensive MIS on all the projects with the information like Total Project Cost (TPC), Sanctioned Amount, Disbursed Amount, % of utilization, % of TPC, Date of sanction, Interest charged etc. | Quarterly | FALD | IC / WRDF Board |
| 2 | Application and Sanction Statement | Statement of proposals sanctioned MIS | The MIS captures the statement of the sanctions for various proposals including information like applications received, sanctioned and disbursed for the IBF. | Quarterly | FALD | IC / WRDF Board |
| 3 | Tracking | Tracking stressed assets | This MIS track the project progress/ slippage into NPA based on delay in making loan repayments to WRDF. | Quarterly | LAMT | IC / WRDF Board |
| 4 | Asset Status report | Asset Classification Status MIS | This MIS will capture at a portfolio level the changes that have taken place of WRDF's assets under management based on their repayment track record. | Monthly / Quarterly | FALD | Director General / IC and WRDF Board |
| 5 | Portfolio Level Details | Portfolio level MIS | The Portfolio Snapshot MIS provides an overview in number and value terms, details of WRDF's assets under management. Details provided include projects funded, projects under construction, projects impacted by time and cost overrun and NPAs. | Quarterly | FALD / LAMT | IC / WRDF Board |

| | | | | | | |
|---|-------------------------|--------------------------|--|-----------|---|----------------------|
| 6 | Investment Level Detail | Investment Portfolio MIS | This MIS will provide details of the avenues where WRDF has invested its surplus funds and its earnings from the same. | Quarterly | FALD | IC / WRDF Board |
| 7 | Procurement | Procurement progress MIS | The MIS will provide a status of all on-going procurement. | Quarterly | Procurement Supervisory Team - Support Team | IC / WRDF Board/ DPs |

1. Project Information MIS for IBF

This is a comprehensive MIS on all the projects with the information like Total Project Cost (TPC), Sanctioned Amount, Disbursed Amount, percentage of utilization, percentage of TPC, Date of sanction, Interest charged etc.

| # | Name of the project | Total Project cost | Sanctioned Amt. | Disbursements | Utilization | % Utilization | % Disbursed | Date of agreement | Int. Rate (%) | Const. Period | Grace Period | Re-Payment pr. | Disbursement Start Date | Disbursement End Date | Repayment start Date | Asset Classification | Comments |
|---|---------------------|--------------------|-----------------|---------------|-------------|---------------|---------------|-------------------|---------------|---------------|--------------|----------------|-------------------------|-----------------------|----------------------|----------------------|----------|
| | A | B | C | D | E | (E) / (D) - 1 | (D) / (C) - 1 | F | G | H | I | J | K | L | M | N | O |
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2. Application and Sanction MIS

The MIS captures the statement of the sanction for various proposals including information like number of sanctions reported, sanctioned etc.

| | Applications Received | | Applications Sanctioned | | Applications Disbursed | | Sanctioned but not disbursed | | Sanctioned to Application Received (%) | | Loan Disbursed to Sanction (%) | |
|-----------|-----------------------|--------|-------------------------|--------|------------------------|--------|------------------------------|--------|--|---------------|--------------------------------|---------------|
| | (A) | (B) | (C') | (D) | (E') | (F) | (G) | (H) | (C') / (A) - 1 | (D) / (B) - 1 | (E') / (G) - 1 | (F) / (H) - 1 |
| | Number | Amount | Number | Amount | Number | Amount | Number | Amount | Number | Amount | Number | Amount |
| Quarter 1 | | | | | | | | | | | | |
| Quarter 2 | | | | | | | | | | | | |
| Quarter 3 | | | | | | | | | | | | |

3. Tracking stressed assets MIS

This MIS track the project progress/ slippage into NPA based on the delay in making loan repayments to WRDF.

| # | Name of the project | Limit Sanctioned | Amount Disbursed | Amount Utilized | Balance Outstanding | Overdue Amount | Type of Irregularity* | Irregular since (date) | Comments/ Remarks |
|---|---------------------|------------------|------------------|-----------------|---------------------|----------------|-----------------------|------------------------|-------------------|
| | | | | | | | | | |
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*The irregularity can be e.g. Time Delays, Cost Overrun, or any other reason, which is preventing repayment of the loan.

4. Asset Status classification MIS

This MIS will capture at a portfolio level the changes that have taken place of WRDF's assets under management based on their repayment track record.

| Asset class | Amount Beginning of the year | Amount Year to Date | Change | % change | Remarks |
|---------------------|---------------------------------|------------------------|-----------|--------------|---------|
| | (A) | (B) | (B) - (A) | (B) / (A) -1 | |
| Loan assets | | | | | |
| Pass asset | | | | | |
| Sub-standard assets | | | | | |
| Doubtful assets | | | | | |
| Loss assets | | | | | |

5. Portfolio Snapshot MIS

The Portfolio Snapshot MIS provides an overview in number and value terms, details of WRDF's assets under management. Details provided include projects funded, projects under construction, projects impacted by time and cost overrun and NPAs.

| Particulars | Number | Values |
|--|--------|--------|
| Total number of projects fund | | |
| Total number of projects under construction | | |
| Total number of loans are which have time and cost overruns (exceeded construction year by 1 year or 10% of the project costs) | | |
| Percentage of project under construction which have time and cost overruns | | |
| Total number of projects under Operation | | |
| Gross Non-Performing asset | | |
| GNPA percentage | | |



6. Investment Portfolio MIS

This MIS will provide details of the avenues where WRDF has invested its surplus funds and its earnings from the same.

| Instrument Type | Fund Invested | Date of Investment | Period of Investment | Maturity Date | Interest Rate (%) | Total Interest Earned |
|---------------------|---------------|--------------------|----------------------|---------------|-------------------|-----------------------|
| Instrument category | | | | | | |
| T bills | | | | | | |
| Total | | | | | | |
| Bank Deposits | | | | | | |
| Total | | | | | | |
| Government Bonds | | | | | | |
| Total | | | | | | |
| Grand Total | | | | | | |

7. Procurement

The MIS will provide a status of all on-going procurement for the IBF and TABF. This MIS is common to both the IBF and TABF.

| # | Name of the project | Name of the TWU | Total Project Cost | IBF or TABF | Nature of procurement (Good, works, services) | Value of Procurement | Has the WRDF issued no-objection for the procurement plan? (Yes/No) | Has WRDF approved the tender document? (Yes/No) | Has the tender been launched? (Yes/No) | Has WRDF approved the TWU's bid evaluation report? (Yes/No) | Has the awarded contract been signed? | Comments/Remarks |
|---|---------------------|-----------------|--------------------|-------------|---|----------------------|---|---|--|---|---------------------------------------|------------------|
| | | | | | | | | | | | | |
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16.2 MIS for TABF

The following table provides details of the types of MIS that will be generated by WRDF for monitoring the performance of the Technical Assistance Basket Fund. It should be noted that the listing below is indicative and WRDF may add to it based on its, MoWIE, MoFED, DP and other stakeholder requirements.

Table 9: MIS for monitoring performance of the TABF

| # | Report Name | Description | Frequency | Responsibility | Report submitted to |
|---|------------------------------------|---|-----------|----------------|---------------------|
| 1 | Project Information MIS for TABF | This is a comprehensive MIS (similar to the Project Information for IBF) that provides data on important parameters for projects receiving assistance under the TABF. | Quarterly | FALD | IC |
| 2 | Application and Sanction Statement | The MIS captures the statement of the sanctions for various proposals for the TABF, data provided include information like applications received, sanctioned and disbursed. | Quarterly | FALD | IC |
| 3 | Monitoring | This MIS tracks the utilization of the TABF. | Quarterly | LAMT | IC |

1. Project Information MIS for TABF

This is a comprehensive MIS (similar to the Project Information for IBF) that provides data on important parameters for projects receiving assistance under the TABF.

| # | Name of project | Date of Contract | Project period | Total Project cost | Sanctioned Amount | Disbursements | Utilization | % Utilization | % Disbursement | Comments |
|---|-----------------|------------------|----------------|--------------------|-------------------|---------------|-------------|------------------------|------------------------|----------|
| | | | | (A) | (B) | (C') | (D) | $\frac{(D)}{(C')} - 1$ | $\frac{(C')}{(B)} - 1$ | |
| | | | | | | | | | | |
| | | | | | | | | | | |
| | | | | | | | | | | |



2. Application and Sanction Statement

The MIS captures the statement of the sanctions for various proposals for the TABF, data provided include information like applications received, sanctioned, and disbursed.

| | Applications Received | | Applications Sanctioned | | Applications Disbursed | | Sanctioned but not disbursed | | Sanctioned to Application Received (%) | | Grant Disbursed to Sanction (%) | |
|-----------|-----------------------|--------|-------------------------|--------|------------------------|--------|------------------------------|--------|--|---------------|---------------------------------|---------------|
| | (A) | (B) | (C') | (D) | (E') | (F) | (G) | (H) | (C') / (A) - 1 | (D) / (B) - 1 | (E') / (G) - 1 | (F) / (H) - 1 |
| | Number | Amount | Number | Amount | Number | Amount | Number | Amount | Number | Amount | Number | Amount |
| Quarter 1 | | | | | | | | | | | | |
| Quarter 2 | | | | | | | | | | | | |
| Quarter 3 | | | | | | | | | | | | |
| Quarter 4 | | | | | | | | | | | | |

3. Monitoring

This MIS tracks the utilization of the TABF.

| # | Name of the project | Limit Sanctioned | Amount Disbursed | Amount Utilized | Comments/ Remarks |
|---|---------------------|------------------|------------------|-----------------|-------------------|
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
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| | | | | | |

16.3 MIS for tracking utilization of funds provided by the DPs

The following MIS will track the utilization of the loans and technical assistance that has been disbursed by WRDF.

| # | Year | Funds Disbursed under IBF during the Year | Funds Disbursed under TABBF during the Year | Cumulative IBF Funds Disbursed | Percentage of Total Funds allocated to the IBF | Cumulative TABF Funds Disbursed | Percentage of Total Funds allocated to the TABF |
|---|------|---|---|--------------------------------|--|---------------------------------|---|
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |

17. Annexure - I

17.1 Application Form

The application form to be provided by the TWU's is provided below:

I. General Information

| Sr. No. | Description | |
|---------|--|--|
| 1 | Date of application | |
| 2 | Town /Enterprise Name | |
| 3 | Enterprise Address: | |
| | Region | |
| | Zone | |
| | Woreda | |
| | Kebele | |
| 4 | Year of establishment of the enterprise | |
| 5 | Population: | |
| | Male | |
| | Female | |
| | Total | |
| 6 | Total number of households in the town | |
| 7 | Average monthly income per household (Birr) | |
| 8 | Type & number of public institutions in the town | |
| 9 | Type & number of commercial entities in the town | |
| 10 | Type & number of industries in the town | |

II. Water Related Information

| Sr. No. | Description | |
|--|--|--|
| Information on existing water supply system | | |
| 1 | Source of existing water supply | |
| | Borehole | |
| | Spring | |
| | River | |
| | Other Sources | |
| | Total Supply | |
| 2 | Water Supply system | |

| | | |
|----|--|--|
| | Gravity | |
| | Pumped | |
| | Total | |
| 3 | Treatment Facility | |
| | Transmission | |
| 4 | Pipe material | |
| | diameter (mm) | |
| | length (km) | |
| | Reservoir facilities | |
| 5 | Number | |
| | Material | |
| | Total capacity (m ³) | |
| | Distribution | |
| 6 | Pipe material | |
| | diameter (mm) | |
| | length (km) | |
| 7 | Water production (m ³ /y) | |
| | Consumption (m ³ /y) | |
| | Average consumption (m³/y) | |
| 8 | House connection | |
| | Yard connection | |
| | Institutional (govt.) | |
| | Industrial | |
| | Commercial | |
| | PF | |
| | No. of connections | |
| 9 | Domestic | |
| | Institutional (govt.) | |
| | Industrial | |
| | Commercial | |
| | PF | |
| 10 | Tariff Structure (Birr/M ³) | |
| 11 | Number of backlogged applicant | |
| 12 | Major problems of the existing water supply system | |
| 13 | Per capita water supply | |
| 14 | Hours of water supply | |

| Key ratios of existing water supply system | | |
|---|---|--|
| 1 | Coverage of water supply system | |
| 2 | Operating Ratio (average of last 5 years) | |
| 3 | Proportion of cost recovered (cost recovery) | |
| 4 | Collection Efficiency of water charges | |
| 5 | Unaccounted water (%) | |
| 6 | Metering (%) | |
| Existing Sanitation System | | |
| 1. | Sewage collected (m ³ /day) | |
| 2. | Method of treatment | |
| 3. | Operating | |
| Requested Project to be financed | | |
| 1 | Status of water supply project requested | |
| | Rehabilitation | |
| | Expansion | |
| | New | |
| 2 | Source of water supply | |
| 3 | Proposed capacity of water source | |
| 4 | Expected increase in production capacity from the present: (m ³ /y) to (m ³ /y) | |
| 5 | Expected increase in connection | |
| | House connection | |
| | Yard connection | |
| | Institutional (govt.) | |
| | Industrial | |
| | Commercial | |
| | PF | |
| 6 | Distance of source from the city | |
| 7 | Availability and location of the land | |
| 8 | Treatment Facility | |
| 9 | Transmission and Distribution | |
| | Pipe material | |
| | diameter (mm) | |
| | length (km) | |
| 10 | Reservoir facilities | |
| | Number | |
| | Material | |

| | | |
|----|--|--|
| | Total capacity (m ³) | |
| 11 | Sanitation System | |
| | Method adopted for treating sewage (sludge drying beds/treatment plant) | |
| | Length of sewage transmission pipelines (if any) | |
| | Diameter of sewage transmission pipelines (if any) | |

III. Financial Information

| Sr. No. | Description | |
|---------|---|--|
| 1 | Total project cost estimate to be implemented | |
| 2 | Financial Structure of the project | |
| | Loan from WRDF | |
| | Loan from Other Financial institution | |
| | Matching fund | |
| 3 | Additional amount the TWU is seeking to borrow (Birr) and will be committed to pay with the associated interest | |
| 4 | Indicate (if any) other partners to support the project (name of the partners and kind of support) | |
| 5 | Duration in which project will be completed | |

IV. Institutional Information

Attach legal enterprise establishment certificate or authorization letter from Regional Water Bureau
List down the name of the board members in the following format

| Sr. No. | Name of the board member | Sex | Representation | Position in the Board |
|---------|--------------------------|-----|----------------|-----------------------|
| 1 | | | | |
| 2 | | | | |
| 3 | | | | |
| 4 | | | | |
| 5 | | | | |
| 6 | | | | |
| 7 | | | | |

- Number of staff of the enterprise: Technical_____, Finance and administration_____ and others_____.
- Name of staff of Enterprise Manager_____ and contact details_____.
- Name of Finance and Administration Chief_____ and contact details_____.
- Frequency of Board Meeting _____ per year

Certification

We, the undersigned water board members of (insert water service enterprise name) assure on behalf of the water supply service enterprise that the information provided above is correct, and commit to

improve the water supply service of the town and increase the tariff structure based on the federal government and regional policies to enable the enterprise to recover both the loan payment and operation & maintenance costs. We are ready to conduct any preliminary discussion and ready to provide additional clarification or information as required.

| Sr. No. | Full Name | Position | Signature |
|---------|-----------|----------|-----------|
| 1 | | | |
| 2 | | | |
| 3 | | | |
| 4 | | | |
| 5 | | | |
| 6 | | | |
| 7 | | | |

The (insert region name) Regional Water Bureau hereby certify that the (insert name of the water supply service enterprise) can borrow money for the implementation of the water supply project and be a guarantor for the loan from the WRDF.

(Name and Signature of the Bureau Head and official seal)

Date:

Place:

17.2 Checklist for Technical Appraisal

The details of various parameters to be ascertained in technical appraisal are provided below:

| Sr. No. | Particular | Parameter | Questions | Response |
|---------|------------------------------------|-----------|---|----------|
| 1 | Existing Situation Analysis | | Check whether the status of existing infrastructure in terms of the coverage, total water supply, hours of water supply, unaccounted water, and number of connections are adequately described? | |
| | | | Check whether existing source has the capacity to meet the water demand and same can be further developed? | |
| | | | What is the existing quality of water supplied? | |
| 2 | Water Demand | | Check whether the population is projected using various statistical tools such as arithmetic/geometrical progress and incremental increase method? | |
| | | | Check whether population growth considers various factors such as natural increase and immigration and floating population is adequately considered? | |

| | | | | |
|----------|--|--------------------|---|--|
| | | | Check whether both domestic and non-domestic (industrial, commercial, institutional etc.) demands under different mode of services are considered and values used for each consumer category is compared to standards of per capita water demand set by the ministry? | |
| | | | Check the value for the maximum day and peak factors in comparison to national standard or others? | |
| | | | Check whether demand considers economic activities and trends in the sphere of influence and their Impacts of economic trends on incomes, inward and outward migration, and population growth? | |
| | | | Water demand for year 1, year 5, year 10, year 15 and year 20 | |
| | | | | |
| 3 | Water Sources | | What is the capacity of the aquifer/water source? | |
| | | | Is the capacity enough to meet the demand? | |
| | | | Are water extraction permits available with TWU? | |
| | | | Is the water source secure from pollution from surrounding urban settlement? | |
| | | | Have provision for re-charging the aquifer been made? | |
| | | | Check whether the percentage value of the water loss (i.e., NRW) on the average demand is considered adequately to estimate the quality of water to be sourced to meet the demand? | |
| | | | | |
| 4 | Water Supply and Sanitation Design study/ Technical study | General Parameters | Check whether the project meets the nation's objective Demand and supply analysis? | |
| | | | Check whether the engineering design is adequately described? | |
| | | | Whether design values used for different aspects of the project are in line with Urban WS Design and Sanitation Criteria of MoWIE or other similar criteria for water supply and sanitation schemes? | |
| | | | Whether the design criteria used are in line with the nature of the project to address the end beneficiaries and is as per Ethiopian standards? | |
| | | | Whether water supply and sanitation system design can be considered to be simple and cost effective | |

| | | | | |
|--|--|----------------|--|--|
| | | | design? and appropriate technology, | |
| | | | Whether the technology proposed for the water supply and sanitation system design can be considered to be appropriate given the Ethiopian context? | |
| | | Piping | Check the size of the intake pipe against the design flow including safety factor? | |
| | | | Check whether the proposed pipe material is suitable for the site condition and operation of the intake? | |
| | | Pumping System | Check the size of the pumping station to accommodate the required number of pumps? | |
| | | | Check whether the pumping station accommodates the entire necessary safety requirement such as ventilation, free from flooding, drainage system, and sufficient space for location of control equipment? | |
| | | | Check whether the capacities of the proposed pumps are as per the required water demand and the design criteria? | |
| | | | Check the size of the collecting/balancing chamber against the required purpose and volume? | |
| | | | Check whether the location of the balancing/collecting chamber is accessible and optimized in terms of pumping head or balancing the pressure? | |
| | | Treatment | Check whether the water quality ⁴⁶ in terms of salts such as fluoride etc. is ascertained as per Ethiopian standards? | |
| | | | Check the appropriateness on the type and technology of the treatment plant considered against the quality of the raw water to be treated and the required output quality? | |
| | | | Check whether the capacity of the proposed treatment plant is able to treat the entire quantity of water sourced including the filtration rates? | |
| | | | Check whether the technology selected for dosing of chemicals for water treatment are appropriate with the required type of treatment plant and operational capacity of the TWU staff? | |
| | | | Check availability of chemicals for water treatments? | |
| | | Storage | Is the size and capacity of the service reservoirs is adequate considering the design flow including safety factor? | |
| | | | Is the location of reservoir is suitable and in line | |

⁴⁶ Ethiopian water quality standards (www.eah.org.et/docs/Ethiopian%20water%20quality%20standard.doc)

| | | | | |
|----------|---------------------------|--------------|---|--|
| | | | with the technology of transmission? | |
| | | Transmission | Is the size of gravity/transmission main pipe against water distributed? | |
| | | | Is the size of the gravity/transmission main pipe aligned with the design flow including safety factor? | |
| | | | Is the proposed pipe material is suitable for the site condition, pressure class and operation of the gravity / transmission main? | |
| | | | Do the transmission facilities cover the geographical limit of the project? | |
| | | Distribution | Is the size of the distribution network aligned with the design flow including safety factor? | |
| | | | Is the proposed pipe material is suitable for the site condition, pressure class and operation of the distribution network? | |
| | | | Are adequate number of public fountains are established and adequately provided and located in the town to supply water to the poor? | |
| | | | Does the distribution network considered cover the geographical limits of the Project? | |
| | | Power | Check whether adequate power supply is available for pumping/transmission etc. with respect to water to be sourced and supplied? | |
| | | Others | Check whether the consideration of ground water replenishment such as rainwater harvesting? | |
| | | | Check if buildings are provided for all necessary operational activities such as office, store, pumping station, chemical dosing room, guard house, toilets, treatment plant operation building etc.? | |
| | Sanitation | | Sewage generated in year 1, year 5, year 10, year 15 and year 20 | |
| | | | Is geographical coverage of the sanitation system aligned with the coverage of the water supply system? | |
| | | | Is the diameter of sewage transmission pipelines (if any) aligned with that of sewage generated? | |
| | | | Will proposed sanitation system treat the sewage as per the standards prescribed by Government of Ethiopia? | |
| 5 | Alternative design | | Check whether different water sources such as groundwater, surface water, and spring sources are considered and the most appropriate alternative is chosen? | |
| | | | Check whether the design is cost effective and appropriate as per Ethiopian standards? | |
| | | | Check whether estimate of the net impacts of project proposals compared with 'Do Nothing', 'Do | |

| | | | | |
|----------|------------------------------|--|---|--|
| | | | Minimum' or 'Do Something' alternatives is considered? | |
| | | | Check whether Lifecycle costs covering all proposed alternative options meeting demands (i.e. streams of investment and maintenance costs formulated over the lifetime of the project discounted by the opportunity cost of capital are calculated? | |
| 6 | Land acquisition plan | | Is land required for the project available with Project Authorities? | |
| | | | What is the extent of Land Acquisition to be undertaken? | |
| | | | What is the cost of the Land Acquisition? | |
| | | | Necessary approval for extraction of water has been obtained? | |
| | | | | |
| 7 | Project Cost | | Check whether project cost is estimated correctly? | |
| | | | Check whether bill of quantity (BoQ) of items/materials are provided as per project design for the proposed water supply and sanitation system? | |
| | | | Check whether detailed breakup of the capital cost in terms of type of asset and local and foreign currency cost is provided for the proposed water supply and sanitation system? | |
| | | | Check whether escalation in capital cost is provided as per inflation rate in Ethiopia? | |
| | | | What is the Project Cost? | |
| | | | What are the Project Cost / Design Capacity m ³ /day? | |
| | | | The cost estimated should show costs including and excluding taxes. | |
| | | | | |
| 8 | Implementation Plan | | Check whether the design years and phases are described? | |
| | | | Check whether the implementation plan is prepared considering all activities to be implemented and the proposed time frame is realistic and in line with activities to be implemented i.e., check whether the construction schedule can be practically implemented? | |
| | | | Check whether procurement plans is inline with the feasibility study and procurement guidelines prevalent in Ethiopia? | |
| | | | | |

| | | | | |
|---|----------------|--|---|--|
| 9 | Operating Cost | | What is the operating cost / per m ³ /day of design capacity? | |
| | | | Have the cost towards meeting shortfall in power availability been factored in the operating costs? | |
| | | | Have all operating costs of both the water supply and sanitation system been included? | |
| | | | Check whether escalation to the operating cost is provided as per inflation rate in Ethiopia? | |
| | | | Check whether all costs relate to historical cost information where available, or utilize realistic expected costs based on other similar projects within Ethiopia? | |

17.3 Checklist for SEE Appraisal

The details of various parameters to be ascertained in SEE appraisal is provided below:

| Sr. No. | Particulars | Questions | Response |
|---------|---------------|---|----------|
| 1 | Social | Check whether the projects results in reduction of water borne diseases and mortality rate? | |
| | | Check whether the monetary value is calculated for improved health resulting from reductions in water borne diseases and improved employment and incomes? | |
| | | Check if the monetary value of improved sanitation systems on account of benefits such as prevention of ground water and surface water pollution has been factored. | |
| | | Check whether affordability and 'willingness to pay' studies are undertaken? | |
| | | Check whether tariff are ascertained as per affordability and 'willingness to pay' studies? | |
| | | Check whether the willingness and ability to pay of the community at different levels of service are properly described in the report? | |
| | | Check whether the tariff setting takes into account the poor and disadvantages people? | |
| | | Check whether the attitude of the community towards the proposed project is stated? | |
| | | Check whether the poor and marginalized will be accommodated/ addressed/ within the project? | |
| | | Check whether social issues are arising from expropriation, resettlement and livelihood restoration? | |
| 2 | Environmental | Check whether the environmental impact Assessment (EIA) is undertaken? | |

| | | | |
|----------|-----------------|--|--|
| | | <p>Check whether following are considered in environmental impact assessment and there monetized estimates are calculated</p> <ul style="list-style-type: none"> ■ Negative short term environmental impacts during construction covering;⁴⁷ <ul style="list-style-type: none"> ◆ Clearing of obstacles, excavation of trenches, laying of pipelines ◆ Impacts on public health and safety ◆ Damage to properties ◆ Loss of agricultural land ◆ Rehabilitation and relocation of people ■ Negative longer term environmental impacts including for⁴⁸; <ul style="list-style-type: none"> ◆ Reduced air quality resulting from increased power required for pumping water and wastewater through collection and distribution systems and for running treatment plants ◆ Severance of communities resulting from dams, pipelines and facility structures ◆ Impacts on flora and fauna ◆ Impacts on indigenous people ■ Positive environmental impacts <ul style="list-style-type: none"> ◆ Reduced pollution of aquifers and riverine water sources due to project related improvements in abstraction policies and procedures or improved sanitation facilities ◆ Improved longer term sustainability of aquifers and riverine sources | |
| | | Check whether the project is in line with the national /regional policies ⁴⁹ and legal framework? | |
| | | Check whether the Environmental approvals are taken if any? | |
| | | | |
| 3 | Economic | Check the impact of the project on national programs and project is towards achieving the same? | |
| | | Check whether the impacts on economic activity arising from reduced costs, i.e. increased investment resulting | |

⁴⁷ Monetized impacts can be estimated on the basis of indicated mitigation measures and costs; e.g. the costs of clearing up or through other relevant measures such as “screening and greening” following excavation or the laying of pipelines etc. Monetizing damage to properties can simply be based on costs of repair and compensating accordingly. Similarly for loss of land, the market price of land can be used to assess compensation or alternatively the discounted present value of the crop sales foregone over a relevant time period can be used.

⁴⁸ Monetizing impacts on wildlife, flora and fauna and impacts on indigenous people can be estimated using “willingness to pay”, “willingness to accept”, contingent valuation methods or just plain judgment – See Appendix for explanations. Similarly estimates of the benefits of reduced pollution of aquifers can be based on the cost of treating the polluted water to a clean condition assuming the “Without Project” base case.

⁴⁹ One wash national program (<http://www.mowr.gov.et/index.php?page=10&pagehgt=1000px>)

| | | | |
|--|--|---|--|
| | | in growth in economic activities, expansion in incomes, agglomeration benefits, economies of scale is calculated? | |
| | | Check whether the economic values of costs and benefits is adjusted based on market prices using shadow prices (economic resource costs) | |
| | | Check that relevant conclusions about the project projects result from an overall assessment of all potential costs and benefits arising from the project whether priced or un-priced have been provided? | |
| | | Check that the net economic and/or social justifications are sufficient to bridge any potential financing gap arising (as identified in the Financial Analysis)? | |
| | | Check whether the ENPV and EIRR is calculated and project is feasible as per ENPV and EIRR i.e. at the hurdle rate of 5%? ⁵⁰ | |
| | | Check whether scenario analysis that assesses the sensitivity of the project's EIRR and ENPV to changes in tariff levels, investment costs, and O&M costs is undertaken? | |

17.4 Checklist for Financial Appraisal

The details of various parameters to be ascertained during the financial appraisal are provided below:

| Sr. No. | Parameters | Questions | Response |
|---------|---|--|----------|
| 1 | Analysis of the TWU's Annual Report/Existing Financials of the TWU | Undertake the review of the annual report of the TWU to analyse trends of the revenue and expenditure. | |
| | | Check whether the average of the operating expenses of last 3 years is greater than 1. | |
| | | What is the existing Collection Efficiency (Average of last 3/5 years)? | |
| | | What is the Billing Efficiency (Average of last 3/5 years) | |
| | | What are the NRW levels for the last 3 / 5 years? | |
| 2 | Assumptions | | |
| | | Check whether tariffs are ascertained based on the socio | |

⁵⁰i.e. additional economic, social and environmental benefits outweigh the financial shortfall and so make the case for providing a subsidy where indicated (e.g. matching grant)

| | | | |
|----------|-----------------------------|--|--|
| | | economic survey and affordability analysis undertaken and appraised during the SEE appraisal? | |
| | | Undertake careful examination of the rationale behind assumptions made? | |
| | | | |
| 3 | Project Revenues | Check whether tariffs are increased based on indexation or inflation rate prevalent in Ethiopia? | |
| | | Check whether revenues are ascertained considering different types of consumers such as household, industry, institutional and commercial? | |
| | | Check whether revenues collected is taken into account by considering various ratios such as billing ratio, collection ratio and debtor collection period? | |
| | | Whether all sources of income is accurately ascertained? | |
| | | | |
| 4 | Costs | Check whether model should account for capital costs in the year in which they occur? | |
| | | Check whether capital cost includes preliminary cost, contingencies and interest during construction | |
| | | Check whether capital and operating cost are taken based on the cost appraised during the technical study? | |
| | | Whether the cost of operating the sanitation system has been included in the operating cost? | |
| | | Check whether interest cost is properly accounted for based on the interest rate and loan repayment schedule? | |
| | | Check whether operating and capital cost is escalated based on inflation rate prevalent in Ethiopia? | |
| | | | |
| 5 | Financial Soundness | Check whether forecasted profit and loss, cash flow statement and balance sheet are prepared correctly? | |
| | | Is IRR greater than equal to 3%? | |
| | | Is Minimum DSCR greater than equal to 1.1? | |
| | | Is NPV positive discounting at 3%? | |
| | | Is the operating ratio (last 5 years) greater than 1? | |
| | | Is Operating Ratio greater than 1.1? | |
| 6 | Sensitivity Analysis | Check whether sensitivity analysis is undertaken for increase in operating and capital cost, reduction in revenues, varying levels of NRW and various risks? | |
| | | Check whether various ratios such as operating ratio, IRR, DSCR and NPV are calculated based on the sensitivity analysis? | |
| | | Check whether ratios meet the minimum criteria laid down as per the PIM? | |

17.5 Checklist for Institutional and Management Appraisal

The details of various parameters to be ascertained in institutional and management appraisal are provided below:

| Sr. No. | Parameter | Questions | Response |
|---------|--|---|----------|
| 1 | Staff and Managerial capacity | Check whether TWU has adequate guidelines to describe the roles, responsibilities, and authority of staff? | |
| | | Check whether the Board is established to govern the TWU and whether Board has adequate members will requisite qualifications and experience? | |
| | | Check whether the TWU has adequate staff terms of their number (conducting the reading of the meter), and technical capacity? | |
| 2 | Accounting and Auditing system | What is accounting system used? | |
| | | Check whether finance staff participates in planning, budgeting, and controlling activities? | |
| | | Check the method recording fixed assets and stocks? | |
| | | Check the technical capacity of staff to prepare plan (MIS) and budget? | |
| | | Check that TWU is adhering to Government accounting policies? | |
| | | Check the adequacy of the financial statements, notes to the accounts and other disclosures by the TWU? | |
| | | Check whether computerized technology is used for generation of bills, accounting and record keeping? | |
| | | Check whether the TWU staff has adequate years of experience and ability to manage the independent audit – both internal and external? | |
| | | Check TWU has adequate internal controls in recording revenues, expenses, and assets of projects? | |
| | | Check whether TWU has adequate internal control systems? | |
| | Check the existence of external auditor to get the accounts audited and the system of appointing the external auditor (for example, short lists of external auditor provided by the OFAG office and the bid evaluation system for selecting the external auditor)? | | |
| 3 | Policies and Procedures | Check whether TWU is adhering to the policies and procedures of federal and regional governments? | |
| | | Review that legal and compliance requirements and | |

| | | | |
|---|-------------------------|---|--|
| | | systems are in place and are being followed by the TWU? | |
| | | | |
| 4 | Office Equipment | Check whether TWU have adequate soft equipment's such as computers, printers, office furniture etc. for the successful implementation of the project? | |

17.6 Requisitioning funds from the DPs

The WRDF's FPPAD needs to prepare an annual plan for fresh/new loans to be provided by WRDF to borrower. The funding requirement can be met by WRDF own sources i.e. revolving credit or arranging fresh sum from DP's.

To obtain funds from DPs the WRDF will have to make a requisition. Contributions (loans or grants) from DPs channelled through the MoFED will require a specific monitoring by MoFED and DPs as well as on reporting from the WRDF.

WRDF is formed to provide loans to TWUs to meet the nation's objective of 99% coverage in water and sanitation in Ethiopia. The WRDF's Director General and IC / Management Board will review into following:

- Adequacy of Annual Budget / Plan
- Submission of timely application
- Money received from DP;s as per plan
- Monitoring reports to MoFED and DP's

In following section provides the details from requisition of fund from DP's to monitoring of funds by DP's.

17.6.1 Preparation of Annual Plan

The WRDF will prepare their annual funding plan. The annual plan will be prepared by FPPAD and will be reviewed by the WRDF's Director General and further, will be submitted for IC / WRDF's Board for review.

The annual plan should be approved 1 month before the end of the year. The annual plan will clearly state the funding requirement that can be met by WRDF internal resources (revolving fund) and fund requirement from DP's. For funds to be utilized from revolving fund WRDF will get the approval for WRDF's board and for fund requirement make request to DP's.

| | Qtr 1 | Qtr 2 | Qtr 3 | Qtr 3 | Annual |
|---|-------|-------|-------|-------|--------|
| Annual Plan (New loans) | | | | | |
| Funds from revolving credit (commitment of new funds) | | | | | |
| Funds from DPs | | | | | |

17.6.2 Application for Requisition

Once the annual plan is prepared and the funding requirement from DP's is ascertained, WRDF will make the request for funding to DPs and will get the approval of DPs for the commitment of fund for

the projects envisaged in the budget. Further, the request should be accompanied by the audited financial and technical report should 70% of the IBF and TABF previous tranche has been spend.

Further, once approval of funding is received, the WRDF will also have to make an application for the money required by them every year to provide loan to TWU. The WRDF should make a timely application to MoFED so that MoFED can further raise the requirement to WRDF, resulting in timely transfer of funds.

WRDF Director General and IC / Management Board will monitor the application so that delays in making application can be avoided and disbursement occurs as per timelines.

17.6.3 Fund Flow from DP's to WRDF

DPs will channel the funds directly to WRDF's foreign currency bank account.

The complete process of transfer of funds from donors to WRDF is provided below:

- DPs will sign a bilateral agreement with MoFED and individual donors.
- DPs' will provide funds to foreign currency account of WRDF.

Further, the changes in Fund Flow can happen based on the policies and practices in Ethiopia.

Once the money is received from the DPs, the accountant from FPPAD will update records and submit the updated to statement of bank (bank account statement showing money received along with the plan) to the WRDF General Director and IC.

17.6.4 Submission of monitoring reports to MoFED and DPs

Funds are provided by DPs with the aim that funds are utilized judiciously as per agreed plan and for the nation's objective for 99% coverage in water and sanitation activities. Therefore, to ascertain that funds are used in manner as directed by DPs and MoFED, WRDF's FPPAD prepares the reports to be submitted to DPs and MoFED. The following reports are submitted by WRDF:

- WRDF submits the monthly account report to MoFED as per the agreed format.
- WRDF will submit DP's the following:
 - ◆ A brief update on the technical description, explaining the reasons for significant changes vs. initial scope;
 - ◆ Update on the date of completion of each of the main project's components, explaining reasons for any possible delay;
 - ◆ Update on the cost of the project, explaining reasons for any possible cost increases vs. initial budgeted cost;
 - ◆ Audit reports prepared by auditors on the utilization of funds (as loans or grants) provided by the DPs
 - ◆ A description of any major issue with impact on the environment;
 - ◆ Update on procurement procedures;
 - ◆ Update on the project's demand or usage and comments;
 - ◆ Any significant issue that has occurred and any significant risk that may affect the project's operation;
 - ◆ Any legal action concerning the project that may be on going.
 - ◆ Update on the financial situation of the two basket funds.

Update on the financial situation of the two basket funds.

17.7 Ethiopian Environmental and Social Compliance Standards

17.7.1 Ethiopian Environmental Impact Assessment Guidelines

The EIA⁵¹ Guidelines, approved by the Ethiopian Environmental Protection Agency (EPA) do not include social assessment in the title although these are covered in the document. The Guidelines were based on World Bank advice in 2000. The ESMP⁵², which is summarized further makes more specific references to social assessment. Taken together therefore the Ethiopian EIA and ESMP's are considered to provide a comprehensive basis for project appraisal work in the Ethiopian small and medium sized towns context⁵³.

17.7.1.1 Summary of the Ethiopian EIA approved process

In conducting the EIA, a proponent may be required to appoint technical specialists to prepare certain aspects of the Environmental Impact Statement (EIS). These specialist studies should be prepared in the form of specialist reports and appended to the EIS. It is important that the EIA report is clearly and concisely documented, so that key issues can quickly and efficiently be identified by decision makers. An EIS⁵⁴ should contain the following information:

- An executive summary (This summary has to be concise and highlight the main issues pertinent to decision making on the project). The summary should be developed in non-technical terms such that it may be readily understood by decision-makers and other stakeholders)
- List of consultants: Names and qualification of members of the study team.
- A description of the development project covering:-
 - ◆ Need
 - ◆ objectives
 - ◆ Technical details
 - ◆ Size, location, input and other relevant requirements
- An outline of the main development alternatives.
- A description of the baseline environmental, socio-economic and health conditions such as fauna, flora, habitats, soil, water, air, cultural artifacts, and socio-cultural, socio-economic and health considerations.
- An account of the prediction and assessment of each impact at all stages of the project cycle for each alternative. As much as possible impact prediction should be expressed quantitatively. Information for each impact must be provided on:
 - ◆ The methodology used.
 - ◆ The magnitude of immediate and cumulative impacts – long and short term (expressed in appropriate units)
 - ◆ Whether it is adverse or beneficial

⁵¹ *Environmental Impact Assessment*

⁵² *Environmental and Social Management Plan*

⁵³ The EIB Guidelines would probably need to be simplified and consolidated into one clear document to make them user friendly in the Ethiopian context. They are complex and rather demanding requiring much cross referencing to EU environmental policies and laws, a process which would seem unlikely to gain traction with Ethiopian project proponents in the foreseeable future.

⁵⁴ *Environmental Impact Statement*

- ◆ Whether it is reversible or irreversible
- ◆ Likelihood of its occurrence “with and without” scenarios
- ◆ The time span for which impacts are predicted and the geographic boundaries selected to define the study area
- ◆ Description of measures to prevent or reduce significant adverse impacts or enhance beneficial effects and an assessment of their likely outcome.
 - A description of residual impacts, which cannot be mitigated or can only be mitigated partially.
 - A description of proposed monitoring schemes.
 - A discussion of potential uses of the environment which will be prevented or rendered less productive due to adverse impacts.
 - Description of relevant national and/or international legal reports, and guidelines used. In the absence of Ethiopian standards, the EIA should include a description of the standards and an overview as to why a specific standard was used.
 - Statement on the extent of involvement.
 - Identification of information gaps and uncertainties.
 - The budgetary implications and financial measures to be taken to ensure that mitigation measures can be adequately carried out.

Of greatest importance in the EIS is the assessment and description of impacts. In this regard, it may be useful to present results of the assessment in the form of a matrix summary, whereby the different activities and associated impacts on the environment are weighted with a scoring system. The scoring system is not necessarily used for comparative purposes but for a simple approach towards describing the significance of each impact. Impacts must be described according to the following criteria:

- *Nature of the impact* - this reviews the type of effect that a proposed activity will have on the environment and should include “what will be affected and how”.
- *Extent*⁵⁵ - this should indicate whether the impact will be locally extending as far as the site and its immediate surroundings, or whether the impacts may be realized regionally, nationally, or even internationally.
- *Duration* - this should review the lifetime of the impact, as being short term (0-5 years), medium term (5-15 years), long terms (where the impacts will cease after the operation of the site) or permanent.
- *Intensity* - here it should be established whether the impact is destructive or innocuous and should be described as either low (where no environmental functions and processes are affected), medium (where the environment continues to function but in a modified manner) or high (where environmental functions and processes are altered such that they temporarily or permanently ceased).
- *Probability* - considers the likelihood of an impact occurring.

Mitigation measures should be clearly spelt out in the EIS. Mitigation measures aim to minimize or eliminate negative impacts and enhance the benefits wherever possible. The mitigation measures should be prepared as an operational management plan and could include:

- Changes in project planning and design (particularly where the change in design may eliminate or reduce an impact);

⁵⁵ A significant weakness encountered in the Ethiopian Town Water Utility environmental and social assessments which have been reviewed was an apparent inability to express project impacts in incremental terms compared to a “Without Project” base case. Thus the stated impacts are immeasurable both qualitatively and quantitatively.

- Improving monitoring and management; and
- Monetary compensation.

Review of EIS's of proposed projects will be made based on the EIA guidelines, appropriate environmental quality standards, and the relevant legislation. Impacts identified in the document should be reviewed in terms of the EIS and include:

- Socio-economic context and potential benefits;
- Effect on public health or risk to life;
- Scale;
- Geographical extent;
- Duration and frequency;
- Reversibility or irreversibility;
- Ecological context;
- Regional, national or international importance; and
- Degree of uncertainty.

17.7.1.2 Ethiopian EPA⁵⁶ Guidelines to Prepare Project Based Environmental and Social Management Plans (ESMP's)

The EPA Guidelines were prepared in 2004 based on World Bank advice. An important objective of environmental assessment is to develop procedures and plans to ensure that the mitigation measures and monitoring requirements approved during the environmental compliance review will actually be carried out in subsequent stages of the project.

As a result, EPA places strong emphasis on the preparation and proper implementation of ESMPs.

The environmental assessment proclamation and related procedures thus require the proponent or their consultants to prepare an ESMP as a major output of the environmental assessment. Where appropriate, the key contents of ESMPs are incorporated into the condition of the approval.

EPA requires that an ESMP be included as part of the EIAs and IEE's⁵⁷. The ESMP is carefully reviewed to ensure environmental safeguard compliance throughout the project cycle.

Contents of the ESMP

At minimum, the contents of an ESMP should include and describe positive and negative significant impacts that result from implementation of the proposed project or action. These impacts can be direct, indirect, cumulative, synergistic, immediate, long term, temporal or permanent. They can relevant impacts on the following:

- Human health and safety
- Social and economic wellbeing of the society
- Economy of the country,
- Occupational health and safety
- Physical environmental conditions
- Appropriate technology
- Biodiversity resources, etc.

Proposed Mitigation Measures

⁵⁶ Ethiopian Environment Protection Agency

⁵⁷ Initial Environmental Examination

This section should set out clear and achievable targets, and quantitative indicators of the level of mitigation required and costs. Each measure should be briefly described in relation to the impact and conditions under which it is required. These should be referred to designs, development activities, equipment descriptions, and operating procedures and implementation responsibilities.

17.7.2 EIB⁵⁸ Approach - Assessment and Management of Environmental and Social Impacts and Risks

The EIB approach is built on EU compliant environmental policies and guidelines. The AFD approach also emphasizes EU compliance so is very similar. The EIB requirements are complex and so must be seen as longer term compliance objectives by the Ethiopian Government rather than ones, which can be implemented in full immediately. In this regard also, the EIB Guidelines emphasize that projects should be judged in the context of locally driven environmental policies and standards, though in the longer term it is expected that compliance policies and standards will converge as institutional capacities and financial resources expand.

In general, the Ethiopian Guidelines are more focused and easier to understand and they do seem to be sufficiently comprehensive. The EIB Guidelines are not self-contained. They require a lot of cross-referencing to other documents contained elsewhere, notably to EU policies and legislation. The Guidelines seem not to be user friendly in the Ethiopian context whereas the Ethiopian EPA Guidelines seem more so. The EIB Guidelines are opaque in comparison. They do nevertheless permit other approaches to be used provided they meet “EIB standards” – according to EIB’s own assessment.

A Summary of the EIB Guidelines

The assessment of environmental and social impacts and risk, including their significance and materiality, as well as the development of adequate management plans and programmes are key tools for achieving sound environmental and social performance. In this respect, all EIB-financed operations shall comply with national legislation and international conventions and agreements ratified by the host Country.

All operations shall comply with national legislation and regulations as well as any obligations and standards in the relevant international conventions and multilateral agreements to which the host country is party.

When the EIB is co-financing in partnership with other IFIs that have developed, and apply their own environment and social (E&S) policies, adequate implementation of those policies may prove enough to meet the EIB E&S standards, pursuant to EIB’s own assessment. Such possibility does not relinquish the EIB’s own environmental and social due diligence duty and any gaps between that and other lenders’ shall be duly accounted for.

Environmental and Social Assessment of Impacts and Risks

The promoter shall carry out an environmental and social assessment for any project, which is likely to have significant environmental and social impacts and risks. The promoter shall be responsible for putting in place its own systems that will allow for a comprehensive and rigorous environmental and social assessment of impacts and risks, using an integrated approach in order to achieve a high

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European Investment Bank,
http://www.eib.org/attachments/strategies/environmental_and_social_practices_handbook_en.pdf

Bank,

level of protection of the environment taken as a whole.

Identification of Significant Impacts and Risks

The promoter shall establish and maintain throughout the life cycle of the project a process for identifying the environmental and social impacts and risks of the project. The process will consider all relevant environmental and social impacts and the stakeholders who are likely to be affected by the project.

Assessment Area

The environmental and social impacts will be assessed in the context of the project's area of influence that encompasses one or more of the following, as appropriate:

- The assets or facilities and or associated works directly owned or managed by the promoter that can be considered as an integral part of the main project intervention, by virtue, inter alia, of their purpose, nature, characteristics or location;
- Supporting/enabling activities, assets or facilities owned or under the control of parties contracted for the operation of the promoter business or for the completion of the proposed project (such as sub-contractors);
- Associated facilities and businesses that are not funded as part of the project and that would not have been constructed or expanded if the project did not exist, and that are essential for the successful operation of the project;
- Areas and communities likely to be affected by: cumulative impacts that result from the incremental impact, on areas or resources used or directly impacted by the further planned development of the project or other sources of similar impacts in the geographical area, any existing project and/or condition, and other project-related developments than can realistically be expected at the time when the assessment is undertaken;
- Areas and communities potentially affected by impacts from unplanned but predictable developments caused by the project that may occur later or at another location.

Determining the Need for a Comprehensive Environmental and Social Assessment

A comprehensive environmental and/or social assessment is carried out for projects classified under Annex I of the EUEIA Directive, and/or where an ESIA is required by national legislation or for projects where likely significant impacts and risks on the environment, population, human health, and well-being have been determined. These projects require specific formalized and participatory assessment processes.

For those projects classified as Annex II of the EUEIA Directive or else where in the national legislation, the need to carry out an environmental and social assessment is determined on a case-by-case analysis and/or based on the application of certain criteria or thresholds.

As part of the impacts and risks identification process, the promoter should collect and provide, at a minimum, the following information:

- The project description, including the physical characteristics of the whole project and, where relevant, its area of influence, during the construction and operational phases;
- A description of the location of the project, with particular regard to the environmental sensitivity of the geographical area likely to be affected and social aspects;
- A description of the environmental and social aspects, including impacts on human rights, likely to be significantly affected by the proposed project;
- An analysis of the communities likely to be impacted by the project, and of other relevant stakeholders of the project;

- An assessment of the likely significant effects of the proposed project on the environment, population and human health resulting from: (i) the expected residues, emissions and the production of waste, (ii) the use of natural resources, in particular soil, land, water, and biodiversity, including any hydro-morphological changes, (iii) any expropriation, land acquisition and easements and/or involuntary resettlement of people and likely restrictions on access to land, shelter and/or livelihood and subsistence strategies;
- A description and justification of the measures foreseen to avoid, prevent or reduce any significant adverse effects on the environment, human health, and well-being.

In determining the need for a comprehensive environmental and social assessment, the promoter will take in to account the following criteria in to the analysis:

- Characteristics of the project, with particular regard to:
 - ◆ Its size and, where relevant, its area of influence;
 - ◆ Aggregation with other projects and activities;
 - ◆ The use of natural resources;
 - ◆ The production of waste;
 - ◆ Pollution and nuisances;
 - ◆ The natural and man-made disaster risks and risk of accidents;
 - ◆ Impacts of the project on climate change, contribution of the project to improved resilience, and the impacts of climate change on the project;
 - ◆ Impacts of the project on the environment;
 - ◆ The risks to human health;
 - ◆ Impact of the project on cultural heritage and landscape

- Location of the project considering the environmental sensitivity of the geographical area and social aspects likely to be affected, with particular regard to:
 - ◆ The existing and planned land use, including land take and fragmentation;
 - ◆ The relative abundance, availability, quality and regenerative capacity of natural resources in the area;
 - ◆ Areas in which there has already been or is likely to be a failure to meet the environmental quality standards;
 - ◆ Densely populated areas;
 - ◆ Areas for which the criteria and requirements described in Standards 6 to 9 are relevant;
 - ◆ Landscapes and sites of historical, cultural, or archaeological significance.*

- Characteristics of the potential effects of the project and determination of their significance, with particular regard to:
 - ◆ The magnitude and spatial extent, the nature, including the trans-boundary nature, the intensity and complexity, the probability, the duration, frequency and reversibility of the impacts;
 - ◆ The speed of onset of the impacts.

Content of a Comprehensive Environmental and Social Assessment Study

Where a comprehensive environmental and social impact assessment is required, the promoter shall prepare an environmental and social study that will, at a minimum, include:

- Current knowledge and methods of assessment, as well as the applicable laws and regulations of the jurisdictions within which the project operates and that relate to environmental and social matters. Gap analysis between the relevant national legislation and standards and the applicable international framework;
- Description of the methodologies applied in the assessment;
- The characteristics, technical capacity and location of the project, alternatives to the proposed project and the extent to which certain matters (including the evaluation of alternatives) are more appropriately assessed at different levels (including planning level - using the out comes of the SEA, if applicable), or on the basis of other assessment requirements (e.g. biodiversity assessment, human rights impact assessment, etc.);
- The description of the baseline scenario – adequate and appropriate quantitative and qualitative, primary and secondary data on the relevant aspects of the existing state of the environment and social context and the likely evolution thereof without implementation of the project, paying attention to any area of particular environmental and social importance and the use of natural resources;
- The description of the environmental and social aspects likely to be affected by the proposed project and the assessment of the significance of the identified impacts based on clear and predetermined criteria articulated in the assessment methodology;
- Assessment of the likely significant effects of the proposed project on environmental and social aspects, including human rights, resulting from *inter alia* the existence of the project, the use of natural resources, the risks to human well-being, cultural heritage or the environment, and the aggregation of effects with other projects and/or activities. The description should cover the direct effects and any direct, secondary, cumulative, trans-boundary, short-, medium- and long-term, permanent and temporary, positive and negative effects of the project;
- Description and justification of the measures foreseen to prevent, reduce and where possible, compensate/remedy any significant adverse effects on the environment and human well-being, and where appropriate any proposed monitoring arrangement or post-project analysis as part of the overall promoter's environmental and social management plan;
- Arrangements for monitoring and evaluation of the effectiveness of impact management measured as part of the over all promoter's environmental and social management plan and system, which shall include appropriate qualitative and quantitative indicators and draw on feedback from both internal and external sources, including affected stakeholders;
- Comprehensive and context-specifics take holder identification and analysis, including identification of individuals and communities actually and potentially impacted by the project, in particular vulnerable individuals or groups, as well as other relevant stakeholders. Description of the precise engagement and consultation activities undertaken with different groups of impacted individuals, communities and other relevant stakeholders as part of the impact assessment process, including details on information sharing, timing and formats of engagement, numbers and types of stakeholders consulted, feedback received and details on how feedback was taken in to consideration in the identification and assessment of impacts, design of project alternatives, impact mitigation and monitoring;
- Arrangements for grievance mechanisms and for steps that will be taken to ensure effective access to remedy for affected stakeholders;
- Description of information sharing, reporting and disclosure undertaken as part of the impact assessment;
- Assessment of the natural, man-made disaster and accidental risks to which the project could be vulnerable and, where appropriate, descriptions of the measures foreseen to prevent such

risks, as well as measures regarding preparedness for and response to emergencies, to be included as part of the overall promoter's environmental and social management plan; and,

- An on-technical summary of the information provided under the above-mentioned headings.

Projects involving in voluntary resettlement, impacts on vulnerable groups, Indigenous Peoples, minorities, and/or cultural heritage will require an assessment, in addition to any other environmental or social assessment studies that may be required.

The environmental and social impact assessment will take in to account all relevant stages of the project cycle, including: pre construction, construction and operations, decommissioning and reinstatement, ensuring that mitigation measures and actions are identified so that all relevant stages of the project operate in compliance with applicable laws and regulations and EIB Standards.

To guarantee the completeness and sufficient quality of the information included in the environmental and social study, specifically for those projects that require a long-term preparation process, and where the prediction of the impacts were carried out at an early stage in the project's design, when relevant data may not have always been easily available, the promoter should ensure that the information required under paragraph is up to date, in particular with respect to the measures envisaged to prevent, reduce, and where necessary, compensate/remedy any significant adverse impacts:

- Either by providing an update of the environmental and social study based on updated studies as necessary. The exact scope of the additional information to be provided by the promoter will be agreed with the EIB on a case-by-case basis; and/or,
- By providing a statement from the relevant authority, confirming that the information included in such document remains accurate and relevant and properly reflects *inter alia* the baseline conditions, legal requirements, current knowledge, and methods of assessment.

Environmental and Social Management Plans

Taking in to account the findings of the environmental and social assessment and the outcomes of the consultation with affected individuals, communities and other relevant stakeholders, the promoter will develop and implement an environmental and social management plan (ESMP) that, in sum, will describe the mitigation of environmental and social impacts and risks, the performance improvement as well as the opportunities. The level of detail and complexity of the ESMP and the priority of the identified measures and actions shall be commensurate with the nature and magnitude of project's impacts and risks, and will take account of the outcome of the engagement process with affected stakeholders, as appropriate.

The ESMP shall document key environmental and social impacts and risks, and the measures to be taken to address them adequately following the mitigation hierarchy. Thus, the ESMP is expected to:

- Prevent the negative impacts that could be avoided;
- Mitigate the negative impacts that could not be avoided but could be reduced;
- Compensate/remedy the negative impacts that could neither be avoided nor reduced; and,
- Enhance positive impacts.

All compensatory and remedial measures will be addressed in the ESMP. Where stakeholders were identified as disadvantaged, marginalized, or vulnerable during the assessment process, the ESMP will include differentiated measures so that adverse impacts do not fall disproportionately on them, and they are not disadvantaged in sharing any development benefits and opportunities resulting from the project. Additionally, the ESMP should be developed as a tool to assess the implementation and the expected effectiveness of the mitigation and compensation measures and to identify any unforeseeable adverse effects.

In order to implement the ESMP, the promoter shall put in place an integrated environmental and social management system (ESMS). The ESMS will outline the set of management processes and procedures, such as human resources management, environmental management and occupational health and safety management, that allow the promoter to identify, avoid, minimize, mitigate and offset or remedy any environmental and social impacts of the operation.

Some Conclusions

In reviewing the two main approaches summarized above one is inclined to conclude that the WRDF/Town Utilities should continue to follow the Ethiopian Guidelines for the time being as the EIB Guidelines are less clear and are cross referenced to somewhat complex policies and standards which are unlikely to be compatible with Ethiopian institutional proclivities and capacities for quite some time.

The Ethiopian Guidelines are nevertheless rather vague on some specific impacts such as:

- Expropriation
- Resettlement
- Livelihood restoration

On the other hand, the Ethiopian Guidelines are less prescriptive. From perspectives such as these, they are more likely to be compatible with local capacities and hence more likely to be followed. Some updating of the Ethiopian Guidelines is nevertheless indicated. Cross-fertilization from the EIB Guidelines is probably indicated and with growing vigor as institutional capacities develops. The style of the Ethiopian Guidelines should probably be maintained however as they are in plain English, easier to understand and more realistic.

17.8 Social Appraisal may address the poor and marginalized within the programme

As a first principle it should be considered that pro poor provision of water services should not be independent of welfare policies and programmes defined in the wider national or regional contexts.

Whilst towns may have some leeway to subsidize the water tariffs of the poor and marginalized, experience elsewhere has shown that such subsidies need to be properly justified and calibrated in the context wider welfare policies. If not they can have potentially pernicious impacts on the economic sectors, e.g. if industrial firms are required to subsidize the water costs of the poor, the firms in question may be inclined to invest less in productive resources at the margin. Productivity may be impacted negatively, investments and the hiring of labour likewise. The overall result being less employment and lower wages at the margin could be contrary to what the intended policy sought to achieve in the first place.

Town water utilities in other words may not be the most qualified institutions to make judgments about subsidy policy. If other sector utilities, e.g. energy and transport are also pressured into providing subsidies to their clients the result may be not appropriate of unrelated subsidies having rather negative impacts on incentives, productivity, and the overall performance of the regional and national economies.

The arguments for encouraging water utilities to provide direct subsidies to the poor tend to focus on the following logic:

- Wider social welfare policies are too remote, don't get close enough to people's needs

- Income support programmes overlook the possibility that marginal groups cannot be relied upon to budget wisely
- Hence services, like water need to be subsidized at source

Thus to the extent that pro poor water subsidies can be justified in the above contexts, utility providers may be expected to subsidize water provision directly.

Such subsidies policies usually take two directions:

- Affordability studies, which demonstrate that poor households just cannot afford to pay the water tariff from income, usually defined when the water tariff as a proportion of is above 3% to 5% of this. In such circumstances, the water utility will meet the difference, usually by charging higher income households and/or industrial and commercial enterprises more than their cost of provision and charging lower income households less than their cost of provision. This may include the cross subsidy option which is widely used but which does not come without criticism for the reasons mentioned above
- A decision is made to make direct provision of water services to poor or marginalized members of the populace. One solution is to provide standpipes in strategic locations in towns usually at no cost to the citizens who wish to use them. One problem with this approach is that no distinction can be made between users whether wealthy or poor. In general however it can be expected that most users, most of the time, will be the poor and marginalized.

17.9 Comparing GoE and World Bank procurement guidelines

Over the past couple of years, the Government of Ethiopia issued new procurement laws and guidelines that aim to meet most of the basic international public procurement standards. The main national documents that are applicable for the administration and management of public procurement are: The Ethiopian Federal Government Procurement and Property Administration Proclamation No.649/2009; Public Procurement and Property Disposal Service Establishment Council of Ministers Regulation No. 184/2010; MoFED's Public Procurement Directive of 2010; and the Public Procurement & Property Administration Agency's Public Procurement Manual of 2011. Currently these documents have to be strictly followed by the government agencies that are using government budget for any procurement of goods, works, and non-consulting services. But the Minister of Finance and Economic Development (MoFED) may, in the interest of national security or national defense, decide to use a different procedure of procurement and property administration, in which case the Minister shall define by a directive the method of procurement and property administration to be followed in order to serve the interest of economy and efficiency.⁵⁹ The Proclamation clearly provides for possibilities of use of other procurement guidelines if the source of funding for the work is a different source than the Ethiopian Government's budget. The most commonly used procurement guidelines used by many agencies is the World Bank public procurement guidelines.

As such, the Ethiopian Government public procurement guidelines are in line with most of the World Bank's (WB) public procurement principles and guidelines. For instance, the basic rules of public procurement such as public accessibility, records of procurement, eligibility, and non-discrimination, form of communication, qualification of candidates, use of approved list of suppliers, technical specifications, rejection of bids, proposal and quotation, etc., are the common elements of the WB Guidelines and the Ethiopian Public Procurement and Property Administration Proclamation and the

⁵⁹Article 3 of Proclamation No 649/2009.

Procurement Manual.⁶⁰ Procurement planning and procurement methods are also regulated in almost a similar manner in both documents. The Ethiopian Public Procurement Proclamation tries to embrace some of the internationally accepted principles, including the WB guidelines with the objectives to: achieve the maximization of value for money, ensure non-discrimination, ensure decision-making is transparent to all concerned parties, ensure accountability and encourage, and support local producers and companies. It could be said that the Ethiopian procurement laws and guidelines are systematic adoptions of the WB procurement guidelines. An assessment of key clauses of both the guidelines to support this conclusion is provided below.

17.9.1 Assessing key aspects of the WB and Ethiopian Procurement Guidelines

1. National Competitive Bidding Guidelines

The World Bank public procurement guidelines considers the National Competitive Bidding (NCB) as a competitive bidding procedure normally used for procurement of goods, works, and non-consulting services which, by their nature or scope, are unlikely to attract foreign competition. However, if foreign firms wish to participate in NCB they shall be allowed to do so on the prevailing NCB terms and conditions that apply to national bidders according to the World Bank guidelines⁶¹.

The Ethiopian Procurement guidelines are also along similar lines. They state, “Required objects of procurement can only be procured from local suppliers and the value of the procurement is below the threshold established for international competitive bidding.” The value above which international competitive bidding (ICB) must be followed is provided below.

The PIM follows the OWNPN procurement guidelines and threshold.

However, in the scope of EIB, IDC and AFD’s Programme, it was agreed, after negotiation with MoFED, to follow both World Bank procurement guidelines and EIB’s threshold for International Competitive Bidding detailed in the table here-below.

| | ICB thresholds | NCB thresholds |
|----------|---|---|
| Services | More than 400 001 € per contract for firms More than 100 001 € for individual consultant | Less than or Equal to 400 000 € per contract for firms Less than or Equal to 100 000 € for individual consultant |
| Goods | More than 400 001 € | Less than or Equal to 400 000 € |

⁶⁰Article 11 of Procurement and Property Administration Proclamation No 649/2009, Paragraphs 2.1-2.9 of the Federal Procurement Manual (pp.22-37 of the English version, 2011) and Section C of Chapter II of the World Bank Guidelines on PROCUREMENT OF GOODS, WORKS, AND NON-CONSULTING SERVICES (2011).

⁶¹Section 3.4 (last sentence) of the World Bank Public Procurement Guidelines.

| | | |
|-------|-----------------------|-----------------------------------|
| Works | More than 5 000 001 € | Less than or Equal to 5 000 000 € |
|-------|-----------------------|-----------------------------------|

2. Preference for domestic bidders

Both the World Bank and Ethiopian Procurement Guidelines allow for a provision of preference for domestic bidders. The conditions to be eligible to be qualified as “domestic” and methodology for providing ‘preference’ to domestic bidders are aligned.

For instance, both World Bank and Ethiopian guidelines state that a company producing ‘goods’ will be considered domestic if more than 30% (WB) and 35% (Ethiopian) of the total value of such products is added in Ethiopia. For procuring contractors for construction services, the WB Guidelines allows the borrower⁶² to define what constitutes a ‘domestic contractor’. The definition will be reviewed by WB and post acceptance can be followed for procuring domestic contractors. Thus, WB will align with the definition of a domestic contractor as per Ethiopian Procurement Guidelines.

Both the procurement guidelines provide a similar domestic preference mark-up to the prices provided by the international bidders, 15% in the case of goods, and 7.5% in case of contractors.

3. Pre-qualification Criteria

The philosophy underlying the need to pre-qualify bidders and determining the pre-qualification criteria is similar as per the WB and Ethiopian procurement guidelines. Both the procurement guidelines require pre-qualification for large or complex works, such as

- Design, manufacturing or installation of a very high value or complex nature, or
- Turnkey contracts
- Acquisition of machinery or Information technology

Both the guidelines state that the pre-qualification criteria should be set in a manner that is relevant for the work to be undertaken and examines the borrower’s financial capability, see the following table.

Table 10: Pre-qualification criteria as per WB and Ethiopian Procurement Guidelines

| | |
|---|--|
| Prequalification shall be based entirely upon the capability and resources of prospective eligible bidders to perform the particular contract satisfactorily, taking into account objective and measurable factors, including: (a) relevant general and specific experience, and satisfactory past performance and successful completion of similar contracts over a given period; (b) financial position; and, where relevant, (c) capability of | Bidders under prequalification screening shall be required to produce evidence in proof of the following facts to demonstrate their qualification: <ul style="list-style-type: none"> a) The experience of the bidder enterprise in producing the good, rendering the service or executing the work required; b) The capability of the enterprise to deliver the required object of procurement, (goods, works or services,) in terms of |
|---|--|

⁶² Borrower refers to country that has / will be borrowing from WB to fund the procurement of Works/Goods/Services.

| | |
|--|---|
| <p>construction and/or manufacturing facilities.</p> | <p>having adequate human power, machinery, equipment and complete infrastructure,</p> <p>c) The amount or quantity of works the enterprise is presently executing or goods it is manufacturing,</p> <p>d) That the enterprise has good reputation and financial standing that enables it to perform its obligations under the contract.</p> |
|--|---|

4. Mandatory Registration as Supplier

Ethiopian Procurement Directive requires any bidder who wants to participate in any public procurement, to be registered in the suppliers list of the Public Procurement Agency (PPA) and with additional requirement of submitting trade license and certificates issued by different Ethiopian Government agencies.⁶³ According to the information sought from MoFED, the World Bank standard documents do not require or support mandatory registration in the suppliers list and such practice shall not be used to access bidders' qualification. The World Bank upholds that a foreign bidder need not be required to be registered to qualify for submitting its bid.

5. Time for the Preparation of Bids

WB and Ethiopian procurement guidelines differ on the time provided for preparation of bids. WB procurement guidelines provide for more time to prepare a bid.

The minimum period for preparation of a bid document as per the World Bank guidelines is six weeks for any bid and 12 (twelve) weeks for complex works from the date of availability of the bidding documents.⁶⁴ The minimum numbers of days of these periods are 42 and 84 days. The Ethiopian procumbent directive limits the period for the preparation of bid documents for works, goods and other services are generally 35 days for non-complex bid and 45 days for the complex ones.

6. Rejection of All Bids

WB and Ethiopian Procurement guidelines are aligned on the basis on which bids can be rejected. The reasons for bid rejection can be bidders not meeting the bid criteria, lack of competition, bids are not responsive, or the quote received is higher than was budgeted. The following table reproduces the clauses pertaining to rejection of bids as per the two procurement guidelines.

| WB Procurement Guidelines | Ethiopian Procurement Guidelines |
|--|---|
| <p>Rejection of all bids is justified when there is lack of effective competition, or all bids are not substantially responsive, or no bidder meets the specified qualification criteria, or the bid price of the lowest evaluated winning bid is substantially higher than the Borrower's updated estimated cost or available budget.</p> | <p>Public bodies may reject in whole or in part bids where:</p> <p>a) There is proof of error in the procurement proceeding which could affect the outcome of the bid;</p> <p>b) It is ascertained that the procurement has</p> |

⁶³Articles 33.2 and 33.2 of the Procurement Directive.

⁶⁴Paragraph 2.44 of the World Bank Guidelines.

| | |
|--|--|
| | <p>no use in enabling the public body to obtain a better technical or economic advantage as a result of a change of work-plan or another alternative representing a better option to meet the requirement of the public body;</p> <p>c) Bidders fail to meet the minimum criteria set forth in the bid document;</p> <p>d) The minimum price offered in the bid does not match with the market price circulated by the Agency and the public body expected that it can get a better price advantage by re-advertising the bid;</p> <p>e) The price offered by the successful bidder exceeds the budgetary allocation made for the procurement and the public body cannot make up for the deficiency from any other source;</p> <p>f) It is proved that the bidding is not sufficiently competitive because of connivance among candidates.</p> |
|--|--|

7. Anti-Bribery Pledge

Ethiopian Public Procurement law requires bidders to sign an anti-bribery pledge or statement of undertaking to observe Ethiopian law against corruption and other forms that must be completed and signed to be included in the bidding documents. According to the Bank's guidelines these arrangements will have to be acceptable by the Bank. The Bank may agree, if requested by the Borrower, that bidding documents include a clause rendering ineligible for Bank financing a firm, or an individual, of the Borrower country that is under a sanction of debarment from being awarded a contract by the appropriate judicial authority of the Borrower country and pursuant to its relevant laws, provided that the Bank has determined that the firm, or the individual, has engaged in fraud or corruption and the judicial proceeding afforded the firm or the individual adequate due process.

8. Way forward on procurement by WRDF

As the basic principles and operating provisions of the Ethiopian Public Procurement Proclamation, Public Procurement Directive and the Procurement Manual are in line with the World Bank Procurement Guidelines it could be said that the existing Ethiopia procurement system is more or less the similar to that prescribed by World Bank.

WRDF may consider using the WB's guidelines and standard bidding documents as:

- The Ethiopian and WB Procurement guidelines are similar.
- The WB guidelines are well accepted globally. International players will have greater comfort in the procurement process and tender documents prepared as per WB guidelines. Thus allowing for greater competition in the procurement processes that need to be facilitated by WRDF.
- WRDF is likely to deal with multiple donor agencies for financing the urban WaSH sector requirements. These agencies are likely to repose greater trust on procurement undertaken as per WB's procurement guidelines.

The Ethiopian procurement law provides for use of other procurement guidelines if the source of funding for the work intended is not the Ethiopian Government budget, in which case the guidelines suggested by the funding agency shall be used.

17.10 Web links to procurement-related documents

1. **Standard Bidding Document for procurement of works – March 2012 – to be used for major works contracts estimated to cost greater than USD 10 million:**
<http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/PROCUREMENT/0,,contentMDK:23151679~menuPK:84284~pagePK:84269~piPK:60001558~theSitePK:84266~isCURL:Y,00.html>
2. **Standard Bidding Document for procurement of small works – December 2012:**
<http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/PROCUREMENT/0,,contentMDK:23339250~menuPK:84284~pagePK:84269~piPK:60001558~theSitePK:84266~isCURL:Y,00.html>
3. **Standard Bidding Document for procurement of goods through International Competitive Bidding (ICB) – March 2013:**
<http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/PROCUREMENT/0,,contentMDK:23384556~menuPK:84284~pagePK:84269~piPK:60001558~theSitePK:84266~isCURL:Y,00.html>
4. **World Bank procurement guidelines- January 2011, revised July 2014:**
<http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/PROCUREMENT/0,,contentMDK:20060840~pagePK:84269~piPK:60001558~theSitePK:84266,00.html>
5. **AFD statement of integrity:**
http://www.afd.fr/webdav/site/afd/shared/L_AFD/Opportunités_d'affaires/Directives-Passation-Marchés-Etats-Etrangers-va.pdf
6. **Covenant of integrity from EIB Guide to Procurement - updated version of June 2011 - Annex 3:** http://www.eib.org/attachments/thematic/procurement_en.pdf.

17.11 Statement of Integrity, Eligibility and Social and Environmental Responsibility

Source: AFD's "Guidelines for the Procurement of AFD-Financed Contracts in Foreign Countries", Pages 27-29, April 2015.

Reference name of the Bid : _____ (The "Contract")

To: _____ (The "Contracting Authority")

1. We recognise and accept that *Agence française de développement* ("AFD") only finances projects of the Contracting Authority subject to its own conditions which are set out in the Financing Agreement which it has entered into with the Contracting Authority. As a matter of consequence, no legal relationship exists between AFD and our company, our joint venture or our subcontractors. The Contracting Authority retains exclusive responsibility for the preparation and implementation of the contract procurement and its subsequent performance.
2. We hereby certify that neither we nor any other member of our joint venture or any of our subcontractors are in any of the following situations:
 - 2.1) being bankrupt, wound up or ceasing our activities, having our activities administered by the courts, having entered into receivership, reorganisation or being in any analogous situation arising from any similar procedure;
 - 2.2) having been convicted, within the past five years by decision of a court decision, which has the force of *res judicata* in the country where the project is implemented, of

- one of the acts mentioned in sections 6.1 to 6.4 below or of any other offense committed during the procurement or performance of a contract⁶⁵;
- 2.3) being listed for financial sanctions by the United Nations, the European Union and/or France for the purposes of fight-against-terrorist financing or threat to international peace and security;
- 2.4) having committed serious professional misconduct within the past five years during the procurement or performance of a contract;
- 2.5) not having fulfilled our obligations regarding the payment of social security contributions or taxes in accordance with the legal provisions of either the country where we are established or the Contracting Authority's country;
- 2.6) having been convicted, within the past five years by a court decision, which has the force of *res judicata*, of one of the acts mentioned in sections 6.1 to 6.4 below or of any other offense committed during the procurement or performance of an AFD-financed contract;
- 2.7) being subject to an exclusion decision of the World Bank since 30 May 2012, and being listed on the website <http://www.worldbank.org/debar>⁶⁶;
- 2.8) having committed misrepresentation in documentation requested by the Beneficiary as part of the contract procurement procedure.
3. We hereby certify that neither we, nor any of the members of our joint venture or any of our subcontractors are in any of the following situations of conflict of interest:
- 3.1) being an affiliate controlled by the Contracting Authority or a shareholder controlling the Contracting Authority, unless the stemming conflict of interest has been brought to the attention of AFD and resolved to its satisfaction;
- 3.2) having a business or family relationship with a Contracting Authority's staff involved in the selection procedure or the supervision of the resulting contract, unless the stemming conflict of interest has been brought to the attention of AFD and resolved to its satisfaction;
- 3.3) being controlled by or controlling another bidder or being under common control with another bidder, or receiving from or granting subsidies directly or indirectly to another bidder, having the same legal representative as another bidder, maintaining direct or indirect contacts with another bidder which allows us to have or give access to information contained in the respective bids, influencing them or influencing decisions of the Contracting Authority;
- 3.4) being engaged in a consultancy activity, which, by its nature, may be in conflict with the assignments that we would carry out for the Contracting Authority;
- 3.5) in the case of a works or goods procurement procedure:
- i. having prepared or having been associated with a consultant who prepared specifications, drawings, calculations and other documentation that are subject of the bid;

⁶⁵ In the event of such conviction, you may attach to this Statement of Integrity supporting information showing that this conviction is not relevant in the context of this AFD-financed contract.

⁶⁶ In the event of such exclusion, you may attach to this Statement of Integrity supporting information showing that this exclusion is not relevant in the context of this AFD-financed contract.

- ii. having been recruited (or being proposed to be recruited) ourselves or any of our affiliates, to carry out works supervision or inspection for this contract;
4. If we are a government-owned entity, we certify that we have legal and financial autonomy and that we operate under commercial laws and regulations⁶⁷.
5. We undertake to bring to the attention of the Contracting Authority, which will inform AFD, any change in situation with regard to points 2 to 4 here above.
6. In the context of procurement and performance of the contract:
 - 6.1) We have not and we will not engage in any dishonest conduct (act or omission) deliberately intended to deceive others, to intentionally conceal items, to violate or vitiate someone's consent, to make them circumvent legal or regulatory requirements and/or to violate their internal rules in order to obtain illegitimate profit.
 - 6.2) We have not and we will not engage in any dishonest conduct (act or omission) contrary to our legal or regulatory obligations or our internal rules in order to obtain illegitimate profit.
 - 6.3) We have not promised, offered or given and we will not promise, offer or give, directly or indirectly to (i) any person who holds a legislative, executive, administrative or judicial mandate within the State of the Contracting Authority regardless of whether that person was nominated or elected, regardless of the permanent or temporary, paid or unpaid nature of the position and regardless of the hierarchical level the person occupies, (ii) any other person who performs a public function, including for a State institution or a State-owned company, or who provides a public service, or (iii) any other person defined as a Public Officer by the national laws of the Contracting Authority, an undue advantage of any kind, for himself or for another person or entity, for such Public Officer to act or refrain from acting in his official capacity.
 - 6.4) We have not promised, offered or given and we will not promise, offer or give, directly or indirectly to any private person who occupies an executive position in a private sector entity or works for such an entity, regardless of the nature of his/her capacity, any undue advantage of any kind, for himself or another person or entity for such private person to perform or refrain from performing any act in breach of its legal, contractual or professional obligations.
 - 6.5) We have not and we will not engage in any practice likely to influence the contract award process to the detriment of the Contracting Authority and, in particular, in any anti-competitive practice having for object or for effect to prevent, restrict or distort competition, namely by limiting access to the market or the free exercise of competition by other undertakings.
 - 6.6) Neither we nor any of the members of our joint venture or any of our subcontractors shall acquire or supply any equipment nor operate in any sectors under an embargo of the United Nations, the European Union or France.
 - 6.7) We commit ourselves to comply with and ensure that all of our subcontractors comply with international environmental and labour standards, consistent with laws and regulations applicable in the country of implementation of the contract, including the fundamental conventions of the International Labour Organisation (ILO) and international environmental treaties,. Moreover, we shall implement environmental and social risks mitigation measures such as specified in the environmental and social

⁶⁷Item to be deleted, as the case may be, if the contract is awarded to a state-owned company without competitive process.

management plan or, if appropriate, in the environmental and social impact assessment notice provided by the Contracting Authority.

7. We, as well as members of our joint venture and our subcontractors authorise AFD to inspect accounts, records and other documents relating to the procurement and performance of the Contract and to have them audited by auditors appointed by AFD.

Name: _____ In the capacity of: _____

Signature: _____

Duly empowered to sign the bid in the name and on behalf of⁶⁸: _____

Dated: _____ In the day of: _____

17.12 Financial Management Guidelines

17.12.1 Statement of objective, policy and principles

17.12.1.1 Objective

The main objectives of this financial management manual are:

1. To become a reference for each staff member regarding the processes and practices of the finance department.
2. To become guidance for each staff member of finance department in conducting financial management on sound principles and procedures.
3. To prepare and submit timely, adequate and appropriate reports and requirements as expected by the management, shareholders, multilaterals and various regulators.

17.12.1.2 Financial management policy

It will be the financial management policy of WRDF to adopt financial practices, processes and procedures to do the following:

- To prepare and maintain correct, complete and appropriate financial statements, accounting system and other supporting records;
- To ensure that the financial statements are to be prepared to comply in all material respects with the mandatory Accounting Standards prevalent in Ethiopia.

⁶⁸ In case of joint venture, insert the name of the joint venture. The person who will sign the bid on behalf of the bidder shall attach a power of attorney from the bidder.

- To adhere to the principles of consistency, materiality and transparency;
- To provide flexibility to the operating managers while ensuring requisite control and accountability;
- To ensure adequate feedback and internal controls relating to delegation of authority, every accounting transaction to route through maker – checker process. Inbuilt checks and balances will also be followed.
- To provide for adequate systemic controls and to ensure seamless integration between the operating process and control by adopting appropriate systems and processes;
- To ensure that appropriate budgets will be made and budgetary controls will be followed.

17.12.2 Financial budgeting

17.12.2.1 Timing of the budget exercise

The budgeting exercise should be synchronized with the financial year of the WRDF and should ideally start at least one quarter before the closure of the year. An institution like WRDF would require around 3 months preparing the annual budget. Before the financial year begins, the enterprise budget should be ready for execution. The budget should be kept in kept in readiness and any significant policy pronouncements by the Government of Ethiopia (GoE) should be incorporated if having any relevance.

From the planning horizon perspective, there could be two ways to do budgeting. Either the enterprise can budget for a long term (3-5 years), which is then broken up into smaller annual budgets, which are called rolling budgets. However, most banks and financial institutions budget on an annual basis and that is what is recommended for WRDF.

Usually the budgeting exercise can be driven by a top down approach (usually adopted in a scenario of aggressive growth strategy) or a bottom up approach (usually adopted in a scenario where the strategy is to remain at a sustenance level). However, for WRDF a hybrid approach is recommended. Ideally, the following sequential steps need to be followed over a period of about 2 months:

1. The macro level targets in line with the national policies being formed, market conditions, economic scenario and WRDF's own vision and strategic intents;
2. These targets will then be communicated in a trickling manner to every operations and departmental heads;
3. The heads of department will further disseminate these targets to their respective departments with a view to collating information on:
 - a. individual and group targets,
 - b. plans to achieve those targets, and
 - c. requirements to achieve the same
4. This information then flows upward in the organization and at every step the following happens:
 - a. The information from every department gets aggregated;
 - b. At every controller-reporting stage input-output commitments and the timing for the same are finalized
5. The outcome of this exercise is the aggregate of all the information, which is the budget for the next year. This will be presented to the Board for their approval.

17.12.2.2 Developing the budget

The overall strategic business plan would lead to estimation of the budgeted figures for the financial year. This has to be broken down into quarterly and monthly plans, which are not necessarily arithmetically divided by realistically divided across quarters and months.

The business plan will be converted into revenues and expenditure figures that will be monitored over the financial year. The overall budget will be broken down into the following:

- a. Revenue Budget
- b. Credit
- c. Operating expenses budget
- d. Capital Expenditure (Capex) budget

17.12.2.3 Budget details

The budget details are detailed below:

| | |
|---------------------|--|
| | |
| Revenue | <ul style="list-style-type: none"> ▪ Interest repayments from existing assets under management ▪ Funds allocated by GoE to meet expenses ▪ Technical assistance grant from DP's |
| Credit Budget | <ul style="list-style-type: none"> ▪ Funds to be received for GoE and DP's ▪ Loans targeted to be sanctioned ▪ Targeted loans disbursements ▪ Net outstanding assets under management ▪ Repayments |
| Operating Expenses | <ul style="list-style-type: none"> ▪ Staffing needs and costs ▪ IT needs and costs ▪ General & Administrative Expenses (Employee Costs, Office Expenditure, Rent, Communication Costs, etc.) – This shall be a cumulative figure of individual departmental budgets plus the corporate budget ▪ Depreciation ▪ Corporate overheads – IT / legal/ audit fees |
| Capital Expenditure | <ul style="list-style-type: none"> ▪ Capital Expenditure – Immovable Assets ▪ Movable Assets ▪ IT – Hardware outlay ▪ IT – Software outlay ▪ Telecommunication needs |

17.12.2.4 Budget formulation

Based on accepted financial year the annual budget of WRDF will be prepared based on following:

All the department heads will prepare their independent budgets based on their business plans, which will incorporate funds required and disbursement plans. The respective departmental budgets shall

read like a budget of a profit centre with specific income and expenditure heads that will roll up into the income statement. The budget will be collated.

17.12.2.5 Budget execution

The various departments will apportion the approved annual budget into various quarters for all the departments and send it to the finance department. On month on month, the finance department will collate the inputs and present it before the Director General and the Board the performance of the individual departments against their budgeted targets. The positive and the negative variances are analyzed and the rationale for such variations is recorded. Comments and remedial actions suggested by the Board are recorded to initiate suitable action. The budget vs. performance report is circulated to the relevant heads of departments with the comments of the Board.

In the monthly budget monitoring exercise as described above, the data (budgeted numbers, actual numbers, and the variances) should be collected by the finance team before the fifth of every month and presented to the Board of Directors by the 15th of the month. The Board should respond with their comments within a week.

17.12.2.6 Budget revision

As a general principle, revisions to budgets should be done only on an exception basis. There needs to be a mid-term (semi-annual) review of the budgets. Revisions (increase or decrease) to the budget figures may be made provided there is substantial change in the external factors/ parameters (e.g. change in macroeconomic scenario affecting the business volumes thereby affecting the expenditure levels, rates and taxes, fees, etc.) and these increases/ decreases could not be foreseen at the time of the preparation of the budget. Revisions can be initiated by the department who were the source of information for the relevant figures that forms the basis of preparation of the budget.

These revisions have to be approved by the same hierarchy who has approved the original budget. Minor variations in environment will not necessitate revision in the budget. If the environment as foreseen has not undergone any change, but there is a shortfall in performance it should be recorded as such.

17.12.2.7 Budget review mechanism

The budget figures for will be reviewed with the actual figures at the end of the month. The completeness of each expense account in the accounting system should be ensured before the compilation process is started i.e. to ensure that all transactions for the relevant period have been provided in the books of accounts.

The expense heads should be compiled as per the mapping done at the time of budgeting at the start of the period under review. The process would be faster if the budgeted figures are in the accounting system. The actual figures should be benchmarked against budgeted figures and the variations derived. Any variation more than 10% should be explained. The details of the variation in the relevant cost drivers should be requested from the respective departments. Even if there is a positive variance, it might be required to be explained as to whether it is a sustainable development.

The monthly budget statement (with actual) should be approved by the department heads It will be presented in the Board meeting imminent to the budget review statement.

The time aspect of budget reviews is critical, so that any course correction can be effected at the earliest. This is because by the time the budget for the last quarter is reviewed considerable time would have already elapsed in the following quarter. Ideally, budget review for a quarter should be

within two weeks from the close of the quarter and the necessary actions should be under implementation within 4 weeks.

17.12.3 Accounting

17.12.3.1 Accounting system

The accounting system should be completely computerized. The Information Technology will have the role of providing complete support in the installation and maintenance of such system. Adequately sophisticated, up-gradable, and scalable software should be installed for this purpose. There should be minimum human intervention in the accounting system and the calculations. The system should be advanced enough to have the checks and balances and should have the flexibility to be able to produce accounting reports based on the accounting policies and standards. The ownership of the system should vest with the accounts unit only and access to the system should be restricted.

17.12.3.2 Accounting requirements

WRDF's various accounting principles should comply with the needs of the GoE. However, the accounting standards as defined by in Ethiopia from time to time shall be the primary principle guiding choice of the accounting treatment.

17.12.3.3 Annual financial statements

The annual financial statements will be the most important document to be prepared by the finance department. WRDF will follow the points below while performing this function:

- At the end of each fiscal year, the WRDF will prepare the financial statements including relevant accompanying notes.
- Board shall release Annual Report and Annual Accounts within four months of the end of the financial year
- Annual Report shall contain a declaration by the Board in respect of the adequacy of the internal risk management and control systems.

The financial statements will comprise of (1) summary of Sources and Uses of Funds (2) summary of Expenditures both for the current fiscal year and accumulated to date (3) Balance Sheet showing accumulated funds, bank balances and other assets and liabilities and (4) notes to the statements.

Income Stream

The operational income streams of WRDF are expected to be from GoE allocation and technical grant from DP's.

The investment income of WRDF will stem from investments in Government securities, other investments that are deployment of surplus funds for a temporary period.

Expenses Head

The main expense item of WRDF will be the travel, employee, and establishment expenses.

17.12.3.4 Recommendation post review of WRDF's Loan Accounting Manual

A review of WRDF Loan Accounting Manual was undertaken. Key recommendations that WRDF can considered to be incorporated in the accounting manual are stated below

1. Detailed description of the present process followed for accounting:

a. Set of accounts prepared

WRDF prepares two set of accounts

- ◆ The accounts prepared for the funds allocated to meet the operational cost. These accounts are maintained as per the Government of Ethiopia Accounting system.
- ◆ The accounts prepared for the funds allocated to be allocated to WRDF to be used as a revolving fund to be on lent to borrowers. These accounts are maintained as per the Accounting Procedures Manual for Loan and Other Transactions.

b. Aspects:

i. Journal entries for

- Loan Received
- Loan disbursed
- Loan collected
- Expense
- Income

ii. Budget & MIS

iii. Auditing

iv. Reporting to DP's

2. Additions that can be included in Accounting undertaken by WRDF

a. Budgeting & MIS

b. Interest on Loan (Now charged on principal but should be charged on the principal plus interest not paid)

c. Short term investment staff to earn revenue

d. Reporting to DP's

3. Strengths and areas of further strengthening of Accounting undertaken by WRDF

WRDF currently faces the staff shortage both in terms of the capacity and strength of the staff.

- ◆ WRDF should appoint accounting experts for proper scientific budgeting of the loans and disbursements on time
- ◆ Capacity building of the existing staff should be undertaken for improvement in the accounting skills
- ◆ Building an effective and efficient data management at both WRDF and urban water and sanitation service providers is recommended to streamline loan administration. To enhance loan administration the need to build well-organized data management system is vital to conduct productive project appraisal, contract management, project implementation and supervision as well as loan repayment.

Providing tailored training and introduces appropriate loan management software to attain more efficient and effective loan management and fund administration is very timely. As WRDF office experience in Fund management is limited and has staff shortage, the need to provide tailored training to manage the intended Basket Fund is critical. The need to introduce appropriate loan management software is indispensable to equip the staff with state of the art IT.

17.12.4 Financial controls and processes

17.12.4.1 Principles of financial controls

Financial Control system provides framework for appropriate financial management and correct and fair financial statements of WRDF. The financial control system is based on:

- Good corporate governance framework and practices
- Prudent and fair financial policies and procedures
- Adequate bookkeeping
- Integrity of staff
- Independence of audit function
- Strong reporting system
- Compliance with applicable laws and regulations
- Addressing directions of Board
- Meeting requirements of stakeholders

It is envisaged that the financial controls and system should flow seamlessly with the workflow given the size and scale of the operations of WRDF.

17.12.4.2 Segregation of Duties and Responsibilities

To segregate duties and responsibilities of different staff members to maintain the integrity of the financial functions financial control and accountability some basic principles are to be followed:

- Control over finances will be divided up so that one person does not have too much control or power over the money. Such controls should at the minimum adhere to the “four-eye principle” and the “concept of maker-checker.”
- Clarity will be established on who is responsible for each task or area of activity. This will enable better controls and facilitate easy trace of mismanagement.
- Duplication of responsibilities will be avoided and no activities will be left without allocation of responsibility.
- Necessary skills would be identified within personnel before allocating roles and responsibilities.

17.13 Covenant of Integrity

Source: EIB’s “Guide to Procurement”, June 2011, Annex 3, Pages 30/36 to 31/36.

COVENANT OF INTEGRITY

To the Promoter from a Tenderer, Contractor, Supplier or Consultant to be attached to its Tender (or to the Contract in the case of a negotiated procedure).

“We declare and covenant that neither we nor anyone, including any of our directors, employees, agents, joint venture partners or sub-contractors, where these exist, acting on our behalf with due authority or with our knowledge or consent, or facilitated by us, has engaged, or will engage, in any Prohibited Conduct (as defined below) in connection with the tendering process or in the execution or supply of any works, goods or services for [specify the contract or tender invitation] (the “Contract”) and covenant to so inform you if any instance of any such Prohibited Conduct shall come to the attention of any person in our organization having responsibility for ensuring compliance with this Covenant.

We shall, for the duration of the tender process and, if we are successful in our tender, for the duration of the Contract, appoint and maintain in office an officer, who shall be a person reasonably satisfactory to you and to whom you shall have full and immediate access, having the duty, and the necessary powers, to ensure compliance with this Covenant.

If (i) we have been, or any such director, employee, agent or joint venture partner, where this exists, acting as aforesaid has been, convicted in any court of any offence involving a Prohibited Conduct in connection with any tendering process or provision of works, goods or services during the five years immediately preceding the date of this Covenant, or (ii) any such director, employee, agent or a representative of a joint venture partner, where this exists, has been dismissed or has resigned from any employment on the grounds of being implicated in any Prohibited Conduct, or (iii) we have been, or any of our directors, employees, agents or joint venture partners, where these exist, acting as aforesaid has been excluded by the EU Institutions or any major Multi-lateral Development Bank (including World Bank Group, African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, European Investment Bank or Inter-American Development Bank) from participation in a tendering procedure on the grounds of Prohibited Conduct, we give details of that conviction, dismissal or resignation, or exclusion below, together with details of the measures that we have taken, or shall take, to ensure that neither this company nor any of our directors, employees or agents commits any Prohibited Conduct in connection with the Contract *[give details if necessary]*.

In the event that we are awarded the Contract, we grant the Project Owner, the European Investment Bank (EIB) and auditors appointed by either of them, as well as any authority or European Union institution or body having competence under European Union law, the right of inspection of our records and those of all our sub-contractors under the Contract. We accept to preserve these records generally in accordance with applicable law but in any case for at least six years from the date of substantial performance of the Contract.”

For the purpose of this Covenant, Prohibited Conduct includes,

- Corrupt Practice is the offering, giving, receiving, or soliciting, directly or indirectly, anything of value to influence improperly the actions of another party.
- Fraudulent Practice is any act or omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit or to avoid an obligation.
- Coercive Practice is impairing or harming, or threatening to impair or harm, directly or indirectly, any party or the property of any party to influence improperly the actions of a party.
- Collusive Practice is an arrangement between two or more parties designed to achieve an improper purpose, including influencing improperly the actions of another party
- Obstructive Practice is (a) deliberately destroying, falsifying, altering or concealing of evidence material to the investigation; and/or threatening, harassing or intimidating any party to prevent it from disclosing its knowledge of matters relevant to the investigation or from pursuing the investigation, or (b) acts intended to materially impede the exercise of the EIB's contractual rights of audit or access to information or the rights that any banking, regulatory or examining authority or other equivalent body of the European Union or of its Member States may have in accordance with any law, regulation or treaty or pursuant to any agreement into which the EIB has entered in order to implement such law, regulation or treaty;
- Money Laundering is defined in the Bank's Anti-Fraud Policy
- Terrorist financing is defined in the Bank's Anti-Fraud Policy
- Project Owner means the person designated as such in the tender documents or the Contract.

Note: This Covenant must be sent to the Bank together with the contract in the case of an international procurement procedure (as defined in article 3.3.2). In other cases, it must be kept by the promoter and available upon request from the Bank. The Covenant is not mandatory for contracts awarded prior to Bank involvement in the project. Nevertheless, promoters who are seeking or may seek EIB involvement in a project are advised to include it in order to promote integrity among the tenderers/contractors. This is particularly relevant in the case of a promoter who has already implemented a number of previous Bank financed projects and is considering further EIB financing.

17.14 Institute of Internal Auditors

The web link to Institute of Internal Auditors (IIA) standards is [http://www.mofed.gov.et/m/Resources/Internal%20Audit%20Manual%20\(English\).pdf](http://www.mofed.gov.et/m/Resources/Internal%20Audit%20Manual%20(English).pdf)

Refer to Part Two – Internal Audit Standards and Code of Ethics, specifically pages 33, 34, and 35 with respect to frauds.

17.15 Additions in PIM

Provisions of the PIM which are additions to WRDF's existing processes / policies / guidelines, are highlighted in the following table.

Table 11: Additions to the PIM

| | | |
|----|-------------------------------|---|
| 1. | Application process under IBF | <p>Key additional points suggested are:</p> <ul style="list-style-type: none"> ▪ Application Form: Need for providing information on operational and financial details of existing water supply system ▪ The details of the contents of business plan and DPR are stated. This will enable standardize the contents of the business plans and DPRs submitted by the TWU to WRDF. It will also act as a checklist for the TWUs. |
| 2. | Preliminary assessment | <p>The preliminary assessment process is introduced which ascertains that only those TWU are appraised that provide the required documents for undertaking an appraisal. This saves time for WRDF as WRDF undertakes detailed appraisal only when the data is available for the same.</p> |
| 3. | Technical appraisal | <p>To strengthen the technical appraisal process the various additional parameters added are:</p> <ul style="list-style-type: none"> ▪ Assessing Existing System <ul style="list-style-type: none"> ◆ Assessing the status of existing infrastructure in terms of the coverage, total water supply, hours of water supply, unaccounted water, number of connections, billing efficiency and collection efficiency. ◆ Quality of water supplied ▪ Water Source <ul style="list-style-type: none"> ◆ Assessing water quality of proposed sources ◆ Assessing if approvals for extraction of water has been obtained |

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| | | <ul style="list-style-type: none"> ◆ Providing for re-charging the aquifer been made ▪ Land Acquisition <ul style="list-style-type: none"> ◆ Assessing extent of land to be acquired acquisition and cost thereof ▪ Project Cost <ul style="list-style-type: none"> ◆ Factoring of replacement costs ◆ Benchmarking of Project Cost / Design Capacity m3/day with other water supply projects ▪ Other Aspects <ul style="list-style-type: none"> ◆ Benchmarking of Operating cost / per m3/day of design capacity with other water supply projects ◆ Assessing Availability of chemicals for water treatments ◆ Assessing if the distribution network proposed covers the geographical limits of the Project |
| 4. | Financial appraisal | To strengthen the financial appraisal, CRIS has suggested a detailed review of the existing financial status of TWU is undertaken. The key ratios to be examined during this analysis include Operating Ratio, Billing Efficiency, Collection Efficiency, DSCR (if there are any existing loans) for the past 3-5 years |
| 5. | Models for undertaking financial and economic appraisal | CRIS has provided Financial and Economic models which can be used by WRDF for undertaking financial and economic appraisal. |
| 6. | Loan agreement | <p>The additional clauses that should form the part of the agreement are stated which will helps in strengthening the loan agreement. Few clauses that are stated are:</p> <ul style="list-style-type: none"> ▪ Conditions precedent to utilization/disbursement (providing guarantee for regional government, escrow account, and deposit of matching fund) ▪ Details about the collateral ▪ Suggestions from the Appraisal Note that TWU has to undertake (desired level of NRW, desired level of collection and billing efficiency, financial management system, operational efficiency of the staff, etc.) ▪ Covenants of the TWU (restriction on taking another loan) ▪ Non-financial commitments, including restrictions on asset disposal, business alteration, information disclosure ▪ Loan collection schedule ▪ Escrow agreement |
| 7. | Security | Opening of the escrow account as security mechanism. All the revenues received by the TWU will be deposited into this account. The WRDF will have prior charge over the Escrow account and TWU cannot withdraw the amount until the time loan is repaid. |
| 8. | Monitoring the operations of the TWU post commissioning of the Project | The PIM details the process to be followed by WRDF for monitoring the operational and financial performance of the TWU post commissioning of the project. |
| 9. | Loan classification | The loan classification norms were stated which would help in |

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| | | ascertaining the quality of WRDF's assets, the appropriate financial position of WRDF and accrual of funds to the Basket Fund. Further, it also helps in identification and monitoring of problematic loans. |
| 10. | Allocation and monitoring of Technical Assistance (TA) provided by WRDF | Detailed analysis of the allocation of Technical Assistance funds to the TWUs and the monitoring thereof has been proposed as a part of the PIM. |
| 11. | Procurement | <p>The PIM clearly defines the role of WRDF in undertaking procurement. The PIM provides the following details:</p> <ul style="list-style-type: none"> ▪ The activities to be undertaken by WRDF during procurement as a supporting and supervisory entity to TWUs, wherein the latter undertakes primary procurement responsibility. ▪ Annexure to this chapter provides web links to access the World Bank's relevant Standard Bid Documents (SBDs), the AFD's declaration of integrity concerning procurement, and the EIB's covenant of integrity concerning procurement in foreign countries. ▪ The chapter provides a detailed checklist for rigorous monitoring of the procurement function. |
| 12. | Fund management | The PIM provides the framework for investing WRDF's corpus. The corpus comprises loans repaid by the TWU, which are not deployed as loans. These can be invested by WRDF to earn additional income. |
| 13. | Auditing | <p>The PIM provides the following recommendations as options to streamline the WRDF's audit function:</p> <ul style="list-style-type: none"> ▪ WRDF to comply with the Institute of Internal Auditors (IIA) code of ethics (a web link to access the IIA's standards are reproduced in the annexure to the final PIM); ▪ WRDF to establish an audit committee; and ▪ WRDF to address capacity constraints in the internal control and audit functions. <p>Besides, the audit section provides a detailed checklist to guide WRDF's internal control and audit process.</p> |
| 14. | MIS | The PIM also provides excel files of various MIS formats that can be utilized by WRDF for monitoring the application, appraisal disbursement and process of funds provided under the IBF and TABF. |

17.16 Overview of the facilitation provided Expert Staff recruited by RWBs

Given the involvement of multiple stakeholders (i.e., several DPs, several TWUs, and RWBs in various regions of the country) and the extensive coverage of the basket fund, a single point contact and mentorship is required for TWUs for the purpose of project development.

The WRDF has so far been involved extensively in project development (such as data collection from TWUs for appraisal). However, this practise represents conflict of interest as project development and appraisals are meant to be firewalled activities. Universally, as well, it is a good practice to have either different entities pursue these activities or have watertight departments within the same entity to perform both functions. Given this norm, it would be advisable for WRDF to wean off the project development role for TWUs.

The vacuum by WRDF moving away from the project development role will be filled by the Expert Staff recruited by the RWBs. The Expert Staff are expected to be recruited at every RWB under whose jurisdiction there will be TWUs receiving funds under the basket fund. The TABF component of the basket fund could be utilized for the recruitment and payment of salaries and administrative expenses of the Expert Staff. The Expert Staff will be responsible for undertaking project development, enabling the TWUs respond to WRDF queries during the appraisal process, undertake procurement of goods and services for constructing the project and manage the construction and commissioning of the project.

17.17 Undertaking Monitoring and Evaluation the Project

It is important to undertake a post commissioning analysis of the impact created by the project. Ideally, this should be undertaken after 3-5 years post commissioning of the project. This period will allow the operations of the TWU to stabilize and realization of the benefits of the project. A list of parameters to assess project impact has been provided below.



| | Assessing impact of TWU water project | | | | | | | | | |
|----------------------------|---|----------|--------|----------------------------------|--------|--------|--------|--------|--------|-------------------------|
| | Parameter | Baseline | Target | Actual during project operations | | | | | | Reason/s for variations |
| | | | | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year n | |
| Technical | Improvement in availability of water (MLD) | | | | | | | | | |
| | Reduction in NRW to below 30%, and 20% by year 5 of operation | | | | | | | | | |
| | Improvement in water quality (for example, level of salts such as fluoride) | | | | | | | | | |
| | Greater geographical coverage of water transmission and distribution (area) | | | | | | | | | |
| Social and Economic | Number of public fountains for water supply to the poor | | | | | | | | | |
| | Reduction in water borne diseases in the geographical area covered by the project (%) | | | | | | | | | |
| | Assess EIRR of project and see how it compares with the Project Appraisal EIRR. <i>(Project's EIRR assessment is not an annual exercise. It should be calculated only when the Monitoring and Evaluation Exercise is undertaken)</i> | | | | | | | | | |
| Environmental | Improvement in longer term sustainability of aquifers and riverine sources | | | | | | | | | |

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| Financial | Financial soundness of project: Operating ratio greater than 1 | | | | | | | | | | |
| | Financial soundness of project: Debt Service Coverage Ratio is greater than 1 | | | | | | | | | | |
| | Financial soundness of project: Collection efficiency (average of last 5 years) not below 90% | | | | | | | | | | |
| | Financial soundness of project: Billing efficiency (average of last 5 years) not below 90% | | | | | | | | | | |
| Institution al | Is an accounting and auditing systems in place? (Yes/No) | | | | | | | | | | |
| | Are the TWU's accounts being audited annually?(Yes/No) | | | | | | | | | | |



17.18 Loan Statement Template

A template that can be used by WRDF for reporting the outstanding balance as well as details of the principal and interest repaid by the TWUs has been provided below.

Table 12: Loan Statement Template

| Particulars | Details |
|---|----------------|
| Name of TWU | |
| Loan Taken | |
| Loan Amount out-standing in the beginning of the year | |
| Principle Paid | |
| Loan Amount out-standing (Closing Balance) | |
| Interest Paid | |

18. Annexure II - EIB TA to the WRDF.

18.1 About WRDF

For the purpose of financing projects under the IBF, the WRDF will be supported by the “EIB TA”. The Terms of Reference for this TA have been agreed between the WRDF and all Development Partners. The scope of services described in this ToRs should be seen in the context of this PIM and understood as supporting WRDF in all its functions and roles described in this PIM.

18.2 EIB TA to the WRDF

Overall objective

The objective of this technical assistance is to give support to the WRDF in its core operations of appraisal, monitoring, fund management, procurement supervisory and reporting. It shall ensure that under this Programme:

- the projects are properly appraised to comply with good industry practices and are “fit-for-purpose”
- the loans are only disbursed on properly appraised projects;
- The basket funds are sustainably managed to meet the intended objectives;
- the projects are monitored during construction and operational stages;
- the procurement of experts under the TABF is done in line with the provisions of the PIM;
- WRDF is supported to prepare documents for auditing, training modules, annual operational plans etc.

Purpose

The technical assistance assignment is to give support to the WRDF in its core activities by providing expert advice and capacity building in its core functions of appraisal, monitoring, fund management, procurement supervisory and reporting. This will be an international consultancy that will work together with the WRDF staff to enhance the technical capacity of the WRDF.

The IDC-EIB-AFD funded Programme will provide additional technical assistance including recruitment of national experts to work as contract staff at the WRDF, staffing and organisation of operational teams at the RWBs, project preparation support at TWUs level, vocational training and capacity building etc. These activities that will contribute to the implementation of the Road Map will be financed by AFD and IDC grant contributions, which will partly be channelled through the TABF

Target groups

The target groups and identified stakeholders of the Programme are:

- Water Resources Development Fund (WRDF)
- Ministry of Water, Irrigation and Environment (MOWIE)



- Town Water Utilities (TWU)
- Regional Water Bureaus (RWB)
- Local Authorities
- The population affected by the Programme
- Civil Society
- Relevant NGOs.

18.3 Role of the Technical Assistance within the WRDF

In line with the agreed Terms of Reference for the “EIB TA” the “EIB TA” will support WRDF with the preparation of the described appraisal documents.

Within its described role and responsibility for procurement WRDF will ensure that all procurement of goods, services and works will be in line with the relevant stipulations of the individual Finance Contracts concluded with each contributor to the TABF and IBF. In particular WRDF will make available and compile with the assistance of the Technical Assistance Consultant all information necessary to provide evidence of compliance with the afore mentioned stipulations in the Finance Contracts.



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