



The World Bank

Additional Financing Ethiopia Electrification Program (P178895)

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INTEGRATED FIDUCIARY ASSESSMENT FOR THE
ADDITIONAL FINANCING ETHIOPIA ELECTRIFICATION
PROGRAM(P178895)

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Practice Manager: Erik Magnus Fernstrom | Task Team Leader(s): Maria Alejandra Arango Campo, Lara Born

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ACRONYMS AND ABBREVIATIONS

ACG	Anti-corruption Guidelines
AF	Additional Finance
BOFED	Bureau of Finance and Economic Development
CIFA	Country Integrated Fiduciary Assessment
CoA	Chart of Accounts
CPAR	Country Procurement Assessment Report
CSA	Central Statistics Agency
CSRP	Civil Service Reform Program
DoE	Director of Electrification within MoWE
DLI	Disbursement-Linked Indicator
DPs	Development Partners
EAPP	East Africa Power Pool
EEA	Ethiopian Energy Authority
EC	Ethiopian Calendar
EEP	Ethiopian Electric Power
EEU	Ethiopian Electric Utility
EFY	Ethiopian Fiscal Year
EMCP	Expenditure Management and Control sub-program
EOI	Expression of Interest
ERCA	Ethiopian Revenues and Customs Authority
ETB	Ethiopian Birr
FEACC	Federal Ethics and Anti-Corruption Commission
FPPA	Federal Public Procurement Agency
FY	Fiscal Year
GAC	Governance and Anti-Corruption
GC	Gregorian Calendar
GoE	Government of Ethiopia
GTP II	Growth and Transformation Plan II
ICB	International Competitive Bidding
IDA	International Development Association
IFAC	International Federation of Accountants
IFR	Interim Financial Review
IMF	International Monetary Fund
INT	Institutional Integrity Unit (World Bank)
MoF	Ministry of Finance
MoWE	Ministry of Water and Energy
MoU	Memorandum of Understanding
NBE	National Bank of Ethiopia
NEP	National Electrification Program
NEP-IRM	NEP Implementation Roadmap
NES	National Electrification Strategy
OFAG	Office of Federal Auditor General
PBS	Protection of Basic Services (Program)



PEFA	Public Expenditure and Financial Accountability (Rating)
PFM	Public financial management
PSCAP	Public Sector Capacity Building Support Program
REF	Rural Electrification Fund
REOI	Request for Expression of Interest
SOE	Statement of Expenditure
TA	Technical Assistance
TOR	Term of Reference
UEAP	Universal Electricity Access Program
USD	United States Dollar
WB	World Bank



A. Introduction

1. **Introduction:** A Fiduciary System Assessment (FSA) for the first Additional Financing of Ethiopia Electrification Program (ELEAP) was carried out on the Ministry of Water and Energy (MoWE) and Ethiopian Electric Utility (EEU), the agencies implementing the additional financing consistent with WB Policy, Directive and Fiduciary Systems Assessment Guidance Note for Program-for-Results Financing. The objective of the FSA is to conclude whether the Program fiduciary systems provide reasonable assurance that the financing proceeds will be used for the intended purposes, with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability.

2. **Reasonable assurance:** The FSA concludes that the Financial Management, Procurement and Governance systems capacity and performance continue to be adequate to provide reasonable assurance that the funds will be used for the intended purposes with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability.

3. **Risk assessment:** The overall fiduciary risk of the program continues to be High for the AF. For financial management, the key risks identified include staffing constraints both in numbers and capacity (at finance and internal audit) and that there continues to be internal control inadequacies. Budget preparations and control are of reasonable capacity, but the utilization of budget for the program is lagging at MoWE. EEU's budget approval by the Board is usually delayed. MoWE's quarterly financial reports are also delayed, and the quality needs improvement across both the entities. Program audit is up to date for both the agencies and audit opinions are unqualified. However, internal control weaknesses are reported at MoWE. EEU has finalized the implementation of IFRS and ERP. However, the ERP system is not enabled for ELEAP reporting. Hence, program reports are prepared off the system. There is a back log of entity audit at EEU. The audit report for the year ending July 7, 2019, is completed with considerable delay in April 2022, while the audit for the years ending July 7, 2020, and 2021 are still outstanding. Internal audit unit of EEU has not reviewed the financial activities of the program. To address this risk, mitigation measures are proposed which are included in updated Program Action Plans and restructured DLI.

4. The procurement system both at EEU and MoWE had been governed by their applicable procurement laws. MoWE is governed by the Federal Government Public Procurement proclamation /Regulations issued by the Federal Public Procurement and Property Administration Agency with Proclamation (No. 649/2009) and Directive issued in June 2010 and amended in December 2015. The federal PPA is now working on the revision of the public procurement proclamation to accommodate emerging developments and addressing gaps noted in the existing proclamation including the procurement regulation and monitoring of State - Owned Enterprises that was not covered under the scope of the original procurement proclamation. However, EEU as a State-Owned Enterprise is not governed by the Federal Government Public Procurement Proclamation of 649/2009. EEU has its own procurement guidelines and manuals prepared based on the Federal Procurement law, World Bank procurement procedures, and other best practices. During the original IFA preparations, EEU's procurement manuals were reviewed, and revisions were made a part of the POM. Accordingly, EEU issued a revised procurement manual and circulated it to be used in all regional bureaus. The EEU's Board of Directors continues to provide both oversight functions to the procurement activities of the EEU. Though, there are still residual and prevailing procurement risks, which affect EEU's performance,



improvements have been made with EEU procurement performances through several capacity building trainings given for EEU's procurement staff, Bid endorsing committees and EEU's management staff at different levels. MoWE, on the other hand, still faces a challenge in having a fully functional central procurement unit. Bank financed projects are handled by the project coordination units through procurement experts employed on a contractual basis, and there is little to no interaction between the project coordination units and the central procurement unit of MoWE. As a result, it has been difficult to have a significant impact on procurement performance of MoWE. MoWE will be supported to strengthen its central procurement function and improve communication between PCUs and the central procurement unit to streamline the procurement function and consolidate the limited procurement resources of the Ministry as well as to keep its institutional memory for sustainable procurement capacity development.

5. Program procurement and contracts administration risks identified during the AF assessment include (a) the EEU is not governed by national procurement proclamation and directives, even though FPPA is under revision of the current procurement proclamation to govern SOEs in its law; (b) inadequate procurement capacity at the EEU and MoWE is still a concern. Procurement Complaints including allegations of corruption, possible breach of confidentiality in the bidding process, lack of independent complaint handling, bid approval, oversight, and suspension and debarment mechanisms were among the main challenges with EEU; (c) delayed organization and staffing, and strengthening the central(engineering) procurement directorate of MoWE); (d) competitiveness issues as the result of other state-owned entities' involvement in tenders and application of direct contracting and different preferential treatment to medium and small enterprises (MSEs); and (e) inadequate contracts administration and the inefficient resolution of contractual disputes. Consequently, the procurement management risk rating continues to be High. To mitigate the risks, specific actions have been included in DLIs and the Program Action Plan. The risk mitigation measures under this AF are included in updated Program Action Plan to address the observed gaps. In addition, DLR focusing on revised minimum entry conditions and procurement performance is proposed as well.

6. The assessment as well as the different bi-annual fraud and corruption reports, which is the program requirement of the parent program, revealed that despite the progress made in tackling Fraud and Corruption in the electricity utility, petty corruption is still widespread. Petty corruption is largely expressed in the form of bribery, fraud, theft, and embezzlement. Appropriate systems to handle the risks of fraud and corruption, including effective complaint-handling mechanisms, that have been agreed on and established in the parent Program will continue for the AF as well. The application of the ACG as a program requirement will also apply to the AF.

7. **Emerging risks:** As disclosed in the Program Paper, there is no major change to the Program expenditure framework other than to scale it up. It will also include office construction work for MoWE maintaining the exclusion threshold¹ provided in the Financing agreement not to be financed by the PforR instrument. No additional institutions will be included in the institutional arrangements of the operation. Therefore, there is no change to fiduciary (financial management and procurement) arrangements from the original program. These arrangements will continue to be applicable for this AF. A key emerging risk is that of conflict, which limits supervision and monitoring and impacts project fiduciary aspects as well.

¹The amount of the threshold is as follows the procurement of: (i) works, estimated to cost US\$50,000,000 equivalent or more per contract; (ii) goods, estimated to cost US\$30,000,000 equivalent or more per contract; (iii) non-consulting services, estimated to cost US\$20,000,000 equivalent or more per contract; or (iv) consulting services, estimated to cost US\$15,000,000 equivalent or more per contract.



8. **Key systems and changes:** As noted above, there is no change to fiduciary (financial management and procurement) arrangements from the original program. These arrangements will continue to be applicable for this AF. However, there are some PAP actions that are proposed and DLIs are strengthened to address risks and challenges observed. Please refer to these below under table 10 and 11.

B. Scope

9. The scope of the FSA is based on the existing boundary of the program and expenditure framework as disclosed under expenditure framework. As disclosed in the Program Paper, the AF will scale up the existing DLIs, with emphasis on increasing grid connections, and extend the duration of the program by 3 years. The type of expenditures supported under the AF remains the same as in the parent operation. A new DLI will be introduced to support strengthening the utility's performance.

10. The AF will rely on the same institutional and implementation arrangements as the parent operation. As with the parent operation, the EEU will be mandated to implement the main activities related to capital expenditures (on-grid electrification). MoWE will continue to provide coordination, reporting, and Program oversight for the Program. MOWE will be responsible for achieving the targets of ELEAP. Under MOWE, the Electrification and Energy Information Lead Executive will be responsible for Program oversight and monitoring progress. The Electrification Development & Monitoring Coordination Desk of the Electrification and Energy Information Lead Executive will play a supporting role under the leadership of the Lead Executive. MOWE will rely on other sector agencies, including the EEU, to facilitate successful implementation of the goals and objectives of the ELEAP. No additional institutions will be included in the institutional arrangements of the operation. The AF updated the parent program expenditure framework to include office construction works for MOWE (in support of maintaining and achieving further results under DLI 3).

Institutional Arrangements

11. For FM, the AF will continue to use the EEU and MOWE systems in the Parent program and both will continue to be responsible bodies for managing and coordinating the FM activities of the Program including the AF. Specific FM responsibilities under the PforR will continue to include: i) directly supervising, reviewing, and monitoring progress of all including FM aspects of PforR implementation, ii) ensuring timely fulfillment of actions in the Implementation Support Plan, iii) handling overall and daily FM related issues including disbursement, iv) managing budgeting in compliance with the Expenditure Framework, and v) following up with FM DLRs and PAPs.

12. The implementation arrangement for procurement will continue to follow the parent program. However, strengthening and refinement will be made in procurement complaint handling and procurement approval procedures of EEU. MOWE is governed by the government procurement laws, and EEU as a SOE has its own procurement policy, procedures and manuals revised through ELEAP implementation programs and will continue to use its revised procurement policy, procedures, and manuals. EEU also circulated its revised procurement policy and manuals to all regional offices. Federal Public Procurement and Property Administration Agency (FPPA) is responsible for procurement oversight of MOWE. The regional bureaus under the support and supervision of the head office is responsible for their respective local procurements. In order to reduce delays, improve confidentiality, check and balance,



and accountability, and professionalize the procurement function, and in line with the Federal Public Procurement procedures, procurement approval will be done by the Procurement Endorsing Committee. Hence, EEU's management will delegate its procurement approval function to the Procurement Endorsing Committee. As EEU lacks independent complaint handling mechanism, complaints, which are not resolved at the CEO level, will be handled by the Board of EEU. In order to strengthen enforcement of this procedure, Procurement Guidelines and Bidding Documents of EEU will include this requirement. The detailed description and responsibility identified and explained in the IFA for the first AF is functioning without change.

13. For Fraud and Corruption and compliant handling mechanisms, the Bank will rely on the Government's system of fraud and corruption prevention and control. The structural arrangement for the control of fraud and corruption covers the FEACC, Anti-corruption Directorate at MOWE and EEU at the Federal level as well as REACCs and Ethic officers existing in the implementing institutions at the branch office at the regional level. The system will address all types of public complaints arising during service delivery including mal-administration, and bidders' complaints related to procurement.

14. All the implementation arrangements, processes, and procedures will be reflected in the Program Operations Manual (POM), which will be revised to cater for this AF. As some procurement processes are being amended, the revision of the POM will be an effectiveness condition.

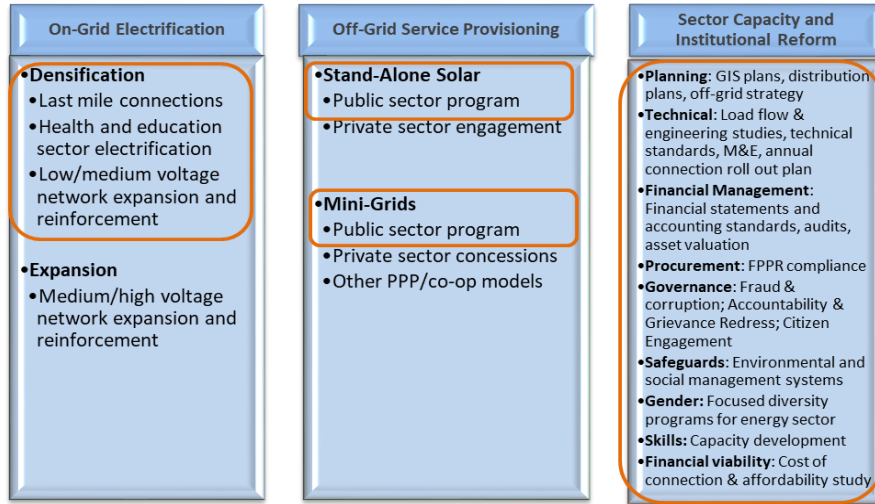
Expenditure Framework

15. It is to be recalled that the parent Program was intended to support the Government of Ethiopia's (GoE) National Electrification Program (NEP) in scaling-up electricity connections. The GoE prepared and endorsed a National Electrification Strategy (NES) which translated the GTP II targets into an actionable strategy in June 2016. Based on the NES, the GoE initiated the NEP. The NEP is organized into three pillars addressing the dominant challenges of the sector: (i) Pillar 1: On-grid Electrification; (ii) Pillar 2: Off-grid service provisioning; and (iii) Pillar 3: Sector capacity and institutional reform. Each of the pillars provides a specific menu of activities to be carried out to reach universal electrification. Pillar 1 comprises: (a) Densification and (b) Grid expansion and Pillar 2 comprises: (a) Solar PV roll out and (b) Mini-grid roll out.

16. The PDO of the proposed ELEAP is to increase access to electricity in Ethiopia and to enhance institutional capacity for planning and implementation of the Government's electrification program. The NEP-Phase I covers from 2018 – 2022 and the total program cost for this period was estimated to be US\$1,472 million. The Parent Program (ELEAP) was designed as sub-set of the NEP and was envisaged to finance from Pillar 1 Densification, from Pillar 2 Stand-alone solar and mini grid the public sector program element and almost all of Pillar 3 of capacity and institutional reform. This can be seen under figure 1 below.



Figure 1: Program Boundaries for the Proposed ELEAP



17. The Program boundary is changed for the AF as follows which basically envisaged to cancel the financing to Off grid Service Provisioning.

Table 1: Program Boundaries

Government program ²		Original PforR		With AF	
Results Area	US\$	Area, note exclusions	US\$	Area, note exclusions	US\$
1. On-grid Electrification	2,100M	Densification (all included): <ul style="list-style-type: none"> - Last mile connections - Health and education sector electrification - Low/medium voltage network expansion and reinforcement Expansion (excluded): <ul style="list-style-type: none"> - Medium/high voltage network expansion and reinforcement 	324 M	Same as original PforR	205
2. Off-grid Service Provisioning	2,500 M	Stand-Alone Solar <ul style="list-style-type: none"> - Public sector program (included) 	14.5 M	Cancelled	-

² Presents total investments including GoE contribution (US\$1,500) and syndication (US\$3,150). Source: NEP 2.0



		<ul style="list-style-type: none"> - Private sector engagement (excluded) Mini-Grids - Public sector program (included) - Private sector concessions (excluded) - Other PPP/co-op models (excluded) 			
3. Sector Capacity and Institutional Reform	50 M	No exclusions	36.5 M	Same as original PforR with the addition of financial and operational performance of the utility	45 M
Total	4,650 M		375 M		250 M

18. The Parent Program’s expenditure framework following the program boundary included the on-grid (i.e., LV/MV extensions and service drops, but not upstream investments, such as, generation/transmission), off-grid rollout expenditures (SAS systems and mini-grids) and capacity building which was estimated to be about US\$676.5 million for the duration of the program as follows.

Table 2: Program Expenditures under Parent Program (US\$ million)

Allocation for 2018-2022	
<i>Cost Items (corresponding account codes)</i>	<i>Amount</i>
Service drops	
(i) Material for customer connection (5118)	300.0
(ii) Salaries, wages, and other allowances (5200-5299)	24.5
LV/MV extension/rehabilitation and mini-grids	
(ii) Material and equipment (1500-1519)	300.0
(iii) Salaries and wages (1520-1529)	20.0
(iv) Other costs (1530-1539)	15.0
Stand-alone solar systems (new)	7.0
Operating expenditures (MoWIE)	
(i) Operational and consultancy costs	10.0
Total	676.5

19. For the AF, the overall expenditures estimated to be about US\$413.7 million as can be shown below.



Table 3: Program Expenditures under AF (US\$ million)

Allocation for 2023 – 2026	Amount
Cost Items (corresponding account codes)	
Service Drops	
(i) Material for customer connection (500101-500121)	92.3
(ii) Salaries, wages, and other allowances (500500 - 500649)	66.3
LV/MV extension/rehabilitation (150003)	199.2
Strengthen sector planning, operational and financial performance of the EEU (500650-500859)	52.9
Expenditures at MOWE	
(i) Operational and consultancy costs (2111000-2251102)	1.1
(ii) Institutional Strengthening (2311100-2311150)	2.0
Total	413.7

20. Regarding financing, from the total US\$413.7 million envisaged, IDA is expected to finance US\$250 million of the total expenditure and the rest by Government (US\$93.40 million) and connection fees (US\$70.30 million). Table showing financing is below.

Table 4: Program Financing (US\$ millions)

Financing Source	Parent Program (M US\$)	AF Program (M US\$)	Total (M US\$)
GoE	247.5	93.40	340.9
Connection Fees	54.0	70.30	124.3
IDA	375.0	250.0	625.0
TOTAL	676.5	413.7	1090.2

21. Assessment of the program expenditure framework. The Technical assessment included an assessment on Program expenditure framework for (a) Expenditure on budget/COA and system; (b) Performance Funding predictability; (c) Performance on adherence to budgeted Program expenditure and execution of NEP priorities; and (c) Performance on Efficiency of Program expenditures. Please refer to the annex to the Technical Assessment on these areas.

C. Review of Performance of the Public Financial Management Cycle

Overall Country PFM, Public Procurement and Governance

22. Since the preparation of the Parent Program, the PEFA 2018 and MAPS have been completed for Ethiopia. PFM reform strategy has been developed and implemented at the federal level. All regions and the two-city administration have adopted the federal PFM reform strategy and implemented it. The worda PFM bench marking assessment continues to improve the system at the lower level. Assessment



on improvement of selected indicators (cash management and bank reconciliation), introduced in the first AF, is conducted and the PFM bench marking assessment has been repeated. Both were under verification by OFAG (the verifier).

23. The Public Expenditure and Financial Accountability assessment for FY 2018 indicate that while most indicators remained the same compared to previous years, the Debt Department has improved the recording of income and expenditure information in donor-funded projects, information to sub-national governments on their budget allocations is communicated on time and considered reliable, systems are in place for contracting loans and issuance of guarantees, and financial statements are compiled and submitted on time. Budget discipline at the aggregate level continues to be reasonably assured. Macroeconomic forecasting and fiscal forecasting are performing well, and payroll management and internal control continue to be reasonable. Audit coverage and quality have improved significantly, although the same unaddressed findings persist year after year. The main weaknesses identified at the federal level are in tax collection, public access to budget information, medium-term perspective in budgeting, unreported extra-budgetary funds, and limited parliamentary oversight. Low tax collection by international standards is related to significant constraints in tax administration, both in terms of system shortcomings and poor capacity affecting implementation and compliance. Regarding policy-based budgeting, Ethiopia does not have a medium-term expenditure framework, limiting the Government's ability to plan beyond a one-year horizon. Fiscal risk monitoring is weak and lacks complete and timely financial information, especially from SOEs, and there are challenges in the management and control of assets and liabilities including shortcomings in undertaking independent economic analysis for major public investments. Public procurement processes are also characterized by several weaknesses which undermine procurement efficiency and effectiveness, including limited regulatory capacity of FPPA, delays in procurement processes, inadequate application of evaluation criteria, uneven use of standard bidding and contract documents, and weak contract administration capacity and practices. After acknowledging these public procurement limitations, the government of Ethiopia launched Maps II assessment (Methodology for Assessing Procurement System) as public procurement performance improvement in 2020, the primary objective of undertaking MAPS II assessment was to assess the quality and effectiveness of the public procurement systems in Ethiopia, identifying strengths and areas for improvement that would enable the Government to undertake the need to reform for the adoption and implementation of modern, efficient, sustainable, and more inclusive procurement system. The limitation of the MAPS II study was that it did not include SOEs like EEU. MAPS II assessment identified several limitations on the procurement legislation and practices such as, overlapping, inconsistent/ contradictory provisions in the procurement legislation, lack of clarity on relationship between dedicated procurement legislative framework and other laws, such as Civil Code/Civil Procedure Code, Anti-corruption law, and Criminal Code. The procurement framework does not mandate publication and disclosure of key procurement-related documents, information, and decisions. The functions and duties of the Regulatory Bodies (Agency) are wide ranging, lacking proper segregation of duties that leading to actual/ perceived conflicts of interest. The Public Procurement Proclamation not expressly included or excluded coverage and scope of State-Owned Enterprises. Capacity building and professionalization in public procurement is not integrated and aligned with job requirements. There is no legal requirement or existing practices to use sustainable procurement. The Federal Complaints Review Board established under the auspices of the Minister of Finance does not have full independence. There are close links between the PPA and the Complaint Review Board. It is not clear whether arbitration can be used to resolve dispute under the procurement contracts. Legal framework does not provide provisions on enforcement of the procurement code of ethics. The Regulatory Bodies are given the functions of auditing and monitoring with limited



capacity. OFAG/ORAG also conducts public body audits including procurement every year and it duplicates the functions of the regulatory body, but still findings of both Regulatory Bodies and OFAG/ORAG are not addressed timely. No alignment of fraud and corruption definitions in the procurement legislative framework and anti-corruption law and Proclamation. Public Procurement Proclamations mixes administrative and criminal wrongdoing. The Maps II assessment provided recommendations for Government public procurement reform agenda, the post MAPS II reform projects to be conducted after MAPS recommendation are underway with the World Bank and other multilateral financiers. The project implementing agencies. MoWE and EEU will generally benefit from the procurement reform projects.

Planning and Budgeting

24. **Budget:** Both MoWE and EEU will continue to use the existing budget system of their respective entities; MoWE will use the Federal Government of Ethiopia budgeting procedure while EEU uses the entity's budgeting procedures. The Director of Electrification (DoE) under MoWE is responsible for the ELEAP budget preparation, while at EEU, the Project Portfolio Management Office (PPMO), which manages all projects under EEU, will be responsible for the budget preparation. EEU uses top down and bottom- up approach in preparing its annual work plan and budget (AWPB) where targets are provided from head office and subsequently matched with the implementation capacity and realities at the region/district and each working unit level. Physical plans are adequately costed and AWPB are sufficiently detailed. The ELEAP budget is not separately prepared, reviewed and approved by the management and Board at EEU; instead, it is included and considered as part of the EEU's annual distribution budget. Hence, the ELEAP budget is not separately entered into the ERP system. The Director of Electrification (DoE) under MoWE is responsible for the ELEAP budget preparation. The ELEAP budget, the part implemented by MoWE, is prepared, approved, and proclaimed as part of MoWE's budget. During program preparation, it was envisioned that the overall ELEAP program budget (both EEU's and MoWE's) will be consolidated at DoE; reviewed/discussed with DoE, National Steering Committee for Electrification and the sector working groups comprised of DPs. However, this has not been done.

25. **Fiscal transparency:** - During program preparation, disclosing the entity and ELEAP budget and financial statements to the public through the MoWE and EEU's website (this includes budgets, yearly budget execution reports, and audit reports) was agreed and included as part of the program action plan. However, such disclosures have not been made. To enhance transparency, the budget and financial information need to be disclosed to the public through the MoWE and EEU's website or through other means.

26. **Procurement planning:** Preparation of annual procurement plan (APP) and approval of the same is a requirement by the Federal and Regional Public Procurement Directives, similarly EEU's revised procurement policy and procedures also requires preparation of annual procurement Plan at the beginning of each fiscal year. Procurement Plan is required to be prepared by each procuring unit and it shall be approved by the CEO; as per the procurement policy, the Regional offices annual procurement plan is also approved by the respective regional directorates and reported to the CEO. The policy and procedures also indicate that any procurement activity not included in the approved PP shall not be made, except for some exceptional cases where the procurement shall be made after review and approval of the CEO. Likewise, the procurement directorate of MoWE prepares procurement plan through consolidating the procurement requirements of each directorate of the Ministry. The PP is then approved by the Minister after reviewed and endorsed by the Procurement Endorsing Committee. The quality of the



procurement plan prepared by the EEU as well as MoWE is adequate with few limitations mostly on follow-up and updates of the actual dates for few milestones of the procurement activities, otherwise key information like procurement methods, sources of fund, planned dates for key milestones including procurement lead times are indicated in the procurement plan. The arrangement in the parent project will continue to apply to the AF. Procurement plan shall also be used to evaluate procurement performance, by comparing the plan versus actual with respect to time, quantity, estimated cost and appropriateness of procurement method used, and it will help in identification of areas for future improvements in the procurement management.

Budget Execution

27. **Treasury management and funds flow:** For the program, at the request of the Government, foreign currency bank account for each of EEU and MoWE are opened at the National Bank of Ethiopia. In addition, EEU has opened local currency bank account at Commercial Bank of Ethiopia to receive counterpart funds from EEU for the program. MoWE has also opened local bank accounts at the National Bank of Ethiopia which is mainly used to transfer funds from the DA account to pay for the expenditures denominated in birr. IDA funds will continue to be deposited to the MoWE and EEU foreign currency accounts upon the achievement of their respective DLIs. As of July 7, 2022, the program has disbursed 99.07 percent and 28.7 percent under IDA 61580 and IDA 61570 respectively. The credit information for the program is summarized in table 5.

Table 5: Bank Disbursement

	Loan: IDA 61570 (FSLNI)	Loan: IDA 61580 (IDA)
Loan Information	Amount in US\$	Amount in SDR
Signed Amount	125,000,000.00	176,900,000.00
Disbursed	35,872,300.00	175,254,730.33
Disbursement rate (%)	28.7	99.07

28. During program design, the financing source consisted of funding from the Government's own resources of US\$247.5 million, connection fees from new customers of US\$54 million and the World Bank contribution of US\$375 million. The total financing on July 7, 2022, is shown in table 6 below.

Table 6: Total program financing

Source	Planned US\$	Disbursed US\$		
		EEU	MoWE	Total
GoE	247.5	25.57	-	25.57
Connection Fees	54.0	198.57	-	198.57
IDA	375.0	276.83	4.86	281.69
Total Program Financing	676.5	500.97	4.86	505.83

29. The comparison of actual and plans (Program expenditure performance) as of July 7, 2022, over the past three years are shown in table 7 below. While EEU performed as per the plan, MoWE's performance is very low.

Table 7: Program expenditure performance (in million US)



	Plan	Actual	Performance
EEU	368.23	330.21	90%
MoWE	3.80	1.09	29%
Total	372.03	331.30	89%

In addition, three years of expenditure in Birr are as follows;

	EFY 2013			EFY 2012			EFY 2011		
	Plan (ETB)	Actual (ETB)	Performance (%)	Plan (ETB)	Actual (ETB)	Performance (%)	Plan (ETB)	Actual (ETB)	Performance (%)
EEU	4,183.06	4,050.80	97	6,658.77	3,237.45	49	1,327.84	1,150.41	87
MoWE	25.76	0.27	1	44.03	4.23	10	36.14	7.32	20
Total	4,208.82	4,051.07	96	6,702.80	3,241.68	48	1,363.98	1,157.73	85

30. As indicated above, the Bank disbursement as of October 10, 2021, US\$282.69 million did not exceed the net program expenditure US\$331.30 million.

31. **Accounting and financial reporting:** Both MoWE and EEU will continue to use their arrangements for accounting and financial reporting. MoWE and EEU use Peachtree and ERP-SAP, respectively. The EEU chart of accounts in ERP-SAP is not mapped to enable the system for ELEAP reporting (e.g. maintaining ELEAP as a profit center in the chart of accounts to identify related transactions and extract trial balance). Hence, additional analysis is required on the data generated from the ERP-SAP to prepare financial reports. As agreed with the EEU finance team, mapping needs to be done and the ERP-SAP set-up accordingly to enable full utilization of the system for program recording and reporting. The POM for the program is revised to account for the system (the adoption of ERP system) and finance unit structural changes mainly at EEU. However, further revision is needed in view of the AF. Quarterly IFRs are prepared on time by EEU but with delay at MoWE, with acceptable quality by both implementing entities. However, the following issues that are recurring on financial reporting need to be resolved:

- a. Narration on Program performance – Both entities do not analyze budget variances and provide adequate and relevant justification for variances including actions taken or planned to be taken to rectify issues as part of each IFR;
- b. Schedule of receivables - No schedule showing the breakdown of the receivables, or an aging analysis is attached with the IFR;
- c. MoWE to recognize funding and expenditures under the program from government and other sources - MoWE has not yet started to capture the expenditures covered by the government such as salaries of the permanent employees working on the program into the program reports. Expenditures covered by the government and other sources in relation to the program should be fully recorded in the program accounts.

Procurement processing and procedures

32. **Publication of procurement opportunities:** Government procurement procedure requires public bodies to advertise their bids in a widely circulated newspaper when using national and international competition procurement methods. Accordingly, EEU as well as MoWE uses a widely circulated national newspaper such as Addis Zemen, and Ethiopian Herald. EEU started advertising on the UNDB online for international competitive bidding advertisements, as recommended in the original IFA report and project PAP. The government procurement procedure allows a minimum of 15 to 30 days for bid floating time



while procurement is to be conducted using the national market, and 30-45 days when using international market approaches. The content of the procurement notice in providing necessary information to bidders is found adequate in both implementing agencies, description about the procuring entity, the item or service to be procured, the source of finance, the bid closing and opening date/time/place, bid security amount are included in the procurement notice. In some cases, exact bid closing/opening dates are not exactly determined in the bid notice, mainly due to lack of information on the date in which the procurement notice is published in the newspaper but included later during issuing of bidding/RFP documents. MoWE and EEU shall continue using the international website for ICB advertisement and widely circulated newspapers for NCB contract.

33. **Procurement methods:** Open competitive bidding through NCB and ICB is the most applicable procurement methods in both MoWE and EEU, However, according to the EEU revised procurement policy and procedures, as long as required Works, Goods and Service can be procured locally with the required quality, quantity and can be delivered in the required time, the policy requires to use national competitive bidding, Nevertheless, when effective competition cannot be obtained unless foreign firms are invited to bid, then the policy provides provision to use International Competitive bidding. Unlike the government procurement directives, EEU's procurement manual doesn't provide provisions for threshold limits for the use of NCB methods over ICB. International contracts are procured by EEU headquarter procurement units and regions conduct national competitive biddings based on their threshold limits of the delegation of power to conduct procurements. From the assessment, it was noted that almost all the procurements conducted so far by EEU through ELEAP is conducted through international competitive bidding even if ELEAP threshold limits are set in the POM to use national competitive bidding. In the parent IFA, it was noticed that EEU's regional offices were conducting direct contracting of small works contracts with fixed unit rate to regional MSEs established in the regions. Direct contracting to SOEs was also a common practice in EEU and it affects transparency, fairness, and value for money. Based on the recommendation in the parent IFA, EEU revised the conditions on the use of direct procurement method in its procurement manual, where direct contracting shall be conducted after due process of justifications for its use. Thus, non-MSEs with the same level of capital and qualification with the existing MSEs and other (non-SOE) private companies will have equal opportunity to participate in tenders along with the existing MSEs and SOEs. However, based on the current IFA assessment in Addis Ababa, Oromia, and Amhara regional offices of EEU, regions still outsource directly to MSEs as lottery chances among themselves with fixed unit rates which is against the EEU revised procurement policy and procedures on direct procurement methods. In addition, local contractors who have been working with EEU regional offices are still getting direct contracts with the regional offices whenever they complete the projects subject to getting approval on their performance on the completed projects. These local contractors are working with EEU regional office since EEU's universal access program started more than 10 years ago. Thus, from the assessment it was noticed that there were no open procurement methods implemented at the regional level of the EEU other than direct outsourcing of the contracts for MSEs as well as local contractors who had a long work relationship with EEU. This indicates the procurement principles of competitiveness, fairness and transparency were not taken into consideration.

34. **Bidding Documents:** The EEU has developed its own customized SBD using the FPPA's SBDs for all its procurements conducted centrally at its head office and sample standard bidding documents for procurement of goods and works along with specifications are distributed to all regional offices. EEU also uses world bank SBD while conducting procurements of international competitive bidding. Bidding document preparation takes one week to one month. MoWE also uses the FPPA's SBDs for projects



financed by the Government and for those projects financed by Development Partners, the respective financier's SBDs are used. Apart from use of standard BDs, the critical challenge during preparation of bidding documents is preparation of selection and evaluation criteria including compressive design and specification documents. From the assessment, it is noticed that, even if EEU made necessary modification for all sections that need amendments while using world bank SBDs during international competitive bidding, certain qualification requirements included in the bidding documents keep on confusing the bidders and evaluators during the selection and evaluation procedures. These requirements are Manufacturers Authorization, Laboratory Test Reports, ISO Certifications, and Technical Specifications/Guaranteed characteristics. Repeated clarification requests were raised by the bidders in each bidding process. In addition, the clarification responses created confusion during evaluation and selection process, and most of the clarifications should have been given by EEU through an addendum to bid as the clarifications relate to modification of the bidding documents. All missed specifications and additional design data are given as clarifications. EEU should thoroughly review its design and technical specifications including Employer's requirements. A capacity building consultancy service planned under ADELE will provide the required support to address the problem. Furthermore, EEU's bidding documents do not consistently include the complaint handling procedures.

35. Moving forward EEU shall develop standard bidding documents with clear and consistent requirements specially with respect to required laboratory tests, manufacturer authorizations, relevant certificates, guaranteed Technical Specifications and complaint handling procedures. The standard bidding documents shall also be revised from time to time to accommodate any encountered challenges and the measures/directions given by the Procurement Endorsing Committee. EEU shall also give consideration to revising and standardizing its Technical Specification taking into consideration the current technological advancement and best accepted international standards. In general, it will be helpful to continue providing the capacity building support for EEU as well as MoWE on selection and use of SBDs, preparation of bidding documents, such as bid data sheet, evaluation and qualification criteria, special condition of contracts, technical specifications and design data.

36. **Bid Opening:** In EEU, the tender committee opens the bids in the presence of interested bidders' representatives. Internal auditors also participate as observers. The tender committee is assigned from procurement, finance, and user departments. Bid opening data is recorded in the minutes of bid opening. Bid opening information includes bidders' full names, address, readout bid prices, discount offered, bid securities, and submittal of the required technical and financial copies with the original documents. MOWE also has similar Bid opening practices that follow the provisions set in the FPPA. However, bid opening committee shall be given appropriate training to understand their responsibility in the procurement processes, and discharge their responsibilities with due diligence and professional manner. Thus, bid opening committee shall record all the challenges and information that happened during bid opening without making preliminary assessments and decisions while opening.

37. **Evaluation:** Bid evaluation is conducted by ad-hoc committee assigned by the CEO or by the PPMO director when the subject procurement is under Project Portfolio Management Office. Evaluators are selected based on their technical knowledge and skills related to the subject bid evaluation. Evaluation reports are submitted to EEU's Bid Endorsing committee for reviews and endorsement. Bid endorsing committees have five members from Procurement, Finance, HR, law, and Engineering units with management level. Evaluation reports and contract awards are finally submitted to EEU Executive Management Teams for approval through the PPMO director. There are 27 executive management team



members, and the CEO is the chairperson of the executive management team.

38. From the assessment, it's noted that, in EEU, evaluations are conducted based on the selection and qualification criteria set out in the Bidding Documents and evaluation reports are adequately prepared. However, bidders are rejected for minor and non-material deviations contrary to the clauses defined for substantial responsiveness of bids in the bidding documents, Such minor deviations observed in the evaluation reports are: not submitting manufacturer's authorizations while the bidders discloses producer name; ISO certificates while the bidders submitted ISO certifications for the major delivery items; deviations from the guaranteed Technical specifications without analyzing the impacts of the deviations whether it has a minor or major impacts on the overall performance; bid securities submitted in different formats than specified in the bid but the bid security is equivalent and accepted to grant the Client's right to enforce the bid security when the bidder defaults; when bid security is submitted in different currency than specified in the bidding document and having a minor difference when converted to the specified currency; power of attorney not submitted but the bid is duly signed and addressed; laboratory test results not submitted for few non-major deliveries and etc. As per the substantial responsiveness assessment requirements, minor deviations shall be rectified through clarification, unless the rectification of the minor deviation is not limiting in a substantially way the rights of the Employer and the scope and quality of the product or service and affects the competitive position of other bidders. Thus, to improve the quality and competences of the evaluation procedures and processes, EEU shall implement the following mitigation plans. There may also be an apparent breach of confidentiality in the bidding process. It was observed, in some procurements, repeated complaints of irregularities of the procurement process including allegations of corruption, were addressed to the Bank including INT.

- a. Evaluators who have most related experience and exposure to the subject procurement shall be assigned, and one of the evaluators shall be assigned as Team leader, based on his/her seniority and related experience on the technical knowledge of the subject procurement. The team leader shall be responsible for the quality and completeness of the evaluation report. In addition, the TLs shall make sure that comments and directions given by the Procurement Endorsing Committee on any other bid evaluation and selection process shall be implemented consistently in the subsequent bid evaluations.
- b. Evaluators shall sign an ethical code of conduct before commencing the evaluation process. The ethical code of conduct shall be to conform and take responsibility to perform the evaluation with due diligence, professionalism, ethics and to keep the integrity of the evaluation process. Standard form for declaration of ethical code of conduct will be prepared and included in the ELEAP AF revised POM.
- c. Evaluators shall carry out discussions as a team to narrow down differences of their views on the technical evaluation criteria and their assessment outputs as the overall evaluation results should be reasonably close for the same evaluation and selection criteria. Whenever necessary, evaluators shall seek expert advice on the technical challenges and problems they have faced.
- d. When procurements have more than one lot, there shall be discussions on the evaluation criteria and procedure among evaluation teams across the lots at the beginning of the evaluation so that bidders will not be disqualified or qualified for same deviations,
- e. Evaluators shall give due attention for Materials Deviations interpretations as per the definition specified in the bidding documents relevant clauses. While conducting evaluations, evaluators shall seek expert advice, if necessary, in deciding minor and major material deviations.
- f. The Management Team should delegate its procurement approval role to the Procurement Endorsing Committee to professionalize the approval process, reduce the chain of approval



process to maintain confidentiality and improve check and balance.

- g. Take Administrative and legal actions on personnel who breach confidentiality of the procurement process and exhibit unethical processes.
- h. Continue the inclusive procurement training started in the parent project.
- i. The Procurement Endorsing Committee shall exercise its duties as per the roles and responsibilities defined by the Federal Public Procurement system for Procurement Endorsing Committees.

39. **Contract Award Recommendation:** In EEU, evaluation reports are first submitted to the procurement endorsing committee for reviews and recommendations. After reviewing the report, procurement endorsing committees submit the same to PPMO directorate director with their recommendations. PPMO director then presents the evaluation report to the executive management team after reviewing both recommendations from evaluation committee and the procurement endorsing committee including the directorate's review and recommendation. Finally, the Executive management teams provide approval on the evaluation report and award recommendations after reviewing the evaluators, procurement endorsing committees and the directorate recommendations and suggestions on the report. From the assessment, it is observed that, the evaluation report reviews and recommendations pass through multiple reviews and recommendation stages, but comments and revisions of the evaluation report is not done until the Executive Management teams commented to do so. Neither the procurement endorsing committee reviews, nor the PPMO director recommendation will help to give direction and guidance for evaluators to improve the quality and completeness of the evaluation outcomes till it is decided by the Executive managements Team, rather the confidentiality and integrity of the evaluation outcomes falls at risk as it passes through the different review processes.

40. In the ELEAP parent POM, it was recommended that the EEU shall follow the Federal Public Procurement procedures for the approval of evaluation outcomes and award recommendation by establishing procurement endorsing committees with similar duties and responsibility defined in the Federal procurement directives. The suggested duties and responsibilities of the PEC were also attached in the ELEAP parent POM as Annex for EEU's ready reference and implementation of the same. But as observed in the assessment, EEU's current procurement endorsing committee's duties and responsibilities is limited only to providing reviews and recommendations. However, according to the Federal Procurement Directives, the Procurement Endorsing Committees shall give endorsement and approval of the evaluation reports and award recommendations. In addition, EEU's newly issued revised procurement manual does not have a provision as to who has the power and responsibility to provide evaluation and award recommendation approvals. The responsibilities of the procurement endorsing committees are defined only for providing review and approval recommendations including giving guidance, technical support and clarifications during bid evaluation processes. Thus, EEU shall review its procurement policy and procedure manual to include the procurement endorsing committee as a responsible body for approval of evaluation reports and award recommendations in line with the Federal Procurement directives provisions for the evaluation and award approvals. To this effect, the revised POM of the ELEAP AF will include the duties and responsibilities of the Procurement Endorsing Committee regarding review and approval of evaluation and award procedures. MOWE follows the approval procedure stipulated in the directives of the Federal PPPAA where the Procurement Endorsing Committee is empowered to give the final approval for award of contracts.

41. In general, even though several trainings and discussions were already provided, on Bid evaluation



and contract award procedures, there is still a limitation with the capacity and understanding of the materiality principles in bid evaluations and award processes and it affects the overall project procurement performance. Staff, engaged in the evaluation process shall have briefings on standardized bid evaluation format and evaluation procedures in advance. Further trainings shall also be devised to strengthen the overall selection and award procedures of the implementing agencies.

42. **Complaint Handling:** EEU's newly issued revised procurement manual includes provisions for complaint handling implementation mechanisms, as the previous procurement manual did not address complaint handling procedures. Complaint handling requires proper organization, capacity, working procedure, and most importantly creating trust among the bidding community. To this end, the complaint handling system shall be independent and transparent to the bidders. Staff who are involved in the procurement processes shall not be part of the complaint handling system to independently review the submitted complaint without bias. In EEU, complaints are first submitted to Project Portfolio Management Office (PPMO) Director, and if not resolved, the complaint will be submitted to the CEO for final decisions. Thus, independence of the entity receiving complaints is not yet ensured in EEU. On the other hand, in ELEAP parent POM, complaint handling procedures for the project was designed to follow the federal public procurement complaint handling system and all procurement complaints are to be resolved by the Federal Complaint handling board in the same way other government bodies do even if EEU is a state-owned enterprise. However, from the assessment, it's observed that EEU was not practically following the same as the Federal Public Procurement procedures do not include SOEs and EEU was of the view that EEU should follow its own procedures in handling complaints. All reviewed Bidding documents did not include provisions for to present their complaint to the federal complaint review board if they are not satisfied with the complaint response of EEU CEO. Rather the bidding document provides bidders with a provision to submit their complaint to the project manager/procurement units issuing the bidding document. This affects bidders' confidence and trust on the procurement complaint handling system of EEU. As the procurement complaint submission procedures were not included in bidding documents, bidders' knowledge and awareness on the overall complaint submission bodies, time and procedures were not created. As a result, EEU received frequent bidders' complaints during bidding processes. Thus, to improve the EEU's procurement performances and bidder awareness on procurement related complaint processes and procedure, EEU shall consider the following:

- a. EEU shall establish an independent procurement handling subsystem of its own and shall encourage bidders to participate in EEU bidding environment.
- b. The Board of Directors of EEU will handle the complaint review as they have no involvement in the day-to-day procurement operations. Detailed procurement related complaint handling procedures will be prepared and included in ELEAP AF POM for ready reference and implementation.
- c. EEU shall include procurement complaint handling procedures in its SBD and make sure its inclusion in all bidding documents issued. This will be a minimum condition in the DLIs.
- d. EEU shall submit Procurement performance progress reports to world bank on quarterly and yearly bases for follow-up and monitoring progress. In this report, EEU shall submit sample issued bidding documents, evaluation reports and procurement complaints, and responses provided to the complaints to verify the recommendation and suggestion specified in the project POM by the Bank is implemented.

43. MOWE follows the complaint handling mechanisms of the FPPA. However, the complaint handling procedures are not independent. Complaints are reviewed by those who are involved in bid evaluation



and award procedures. In general, EEU and MOWE shall work towards establishing a clear independent complaint handling mechanism and create a trusted procurement environment.

44. **Contract award publication:** in normal practices, evaluation outcomes are communicated to all bidders through a formal letter, and in some cases evaluation results are posted in notice boards. After the standstill periods are elapsed, the winning bidders are notified through official letters for contract signature. Thus, both EEU and MoWE do not have contract award publication practices, other than communicating successful bidders through letters. However, publication of contract awards in public media shall be done to ensure transparency in procurement processes. This will be considered in the AF.

45. **Contract management:** Project implementations units of EEU for each project under the PPMO are mainly responsible for overall contract management of the contracts together with the procurement units. Procurement units under PPMO handles contract administration of goods procurement and works and consultancy services are managed by contract administration units of each project PIU. Specific to ELEAP project, there are three units, Contract administration, Works, and M & E under the project coordinator. The Contract administration unit manages contracts for all goods procurement, and the Works unit handles all construction and consultancy services contracts over all management and administration. Contracts are implemented in accordance with the terms and conditions of the specific contract. Corrective measures and acceptable deviations are also implemented as per the contract conditions. The revised procurement manual of EEU also provides guidance and procedures for contract management and administration. Since the beginning of ELEAP, a significant number of EEU staff have been trained in the Ethiopian Management Institute but there is still a need to further improve and develop skill in contract management and administrations specially on preparation of contract document, Claim managements, variation/change management, payment certificate approvals and on dispute resolution mechanisms. In addition, detailed and relevant contract management manuals shall be prepared for day-to-day ready reference for contract management.

Internal control and internal audit

46. **Internal controls:** - The financial managements at MoWE and EEU have enough controls to ensure authorization, recording and custody control. In addition, control procedures relevant to the program are documented in the Program Operational Manual (POM). MoWE uses government internal control procedures for the program while EEU follows its procedures which are documented in its manuals. EEU's manuals are updated in connection with the adoption of IFRS. In connection with the implementation of the ERP-SAP, EEU has automated the preparation of payroll and started using the system for inventory and fixed assets control, which has been maintained on AS400. Accounts receivables subsidiary ledgers are also maintained in the system but the issue of abnormal balance on receivables is not fully resolved. The assessment noted that for the program, there is adequate segregation of duty at both entities. External audit did not identify internal control weaknesses on the program financial audit of EEU, while they reported the following issues in the program audit of MoWE for the year ended July 7, 2021: low budget utilization; advance not settled on time; advance made to FRDE Ethics and Antic-Corruption Commission without a contract and memorandum of understanding; recording errors and payment documents not stamped "PAID". The program management is required to make an effort to resolve these issues.



47. **Internal audit:** - EEU has an internal audit directorate that reports to its Board. It has an audit charter approved by its Board and working manuals prepared by the chief auditor and distributed to audit staff. The directorate is understaffed and continues to suffer from staff turnover. The unit is well-organized, subject to staffing gap, and has independence in exercising its responsibility. The structure of the PPMO does not allow for an internal auditor unit. The activities of the project are being reviewed as part the entity audit, but no separate audit of the project has been conducted. The management of EEU should consider creating an internal audit under PPMO, which reports to the internal audit directorate, to enable better and closer review of transactions of projects. MoWE has an internal audit directorate which performs financial and performance audits. The directorate uses the Internal Audit Manual issued by MoF. It conducts audit and report findings quarterly. It suffers from severe understaffing. Of the structures that require 11 auditors, only five are currently on board. We noted that the directorate has not reviewed the program's account though it has included it in its audit plan of EFY 2014. The internal audit units of MoWE and EEU need to be strengthened to ensure that ELEAP is included in their plan and audits are conducted at least once a year.

48. **Governance and Anticorruption:** There is a robust legal framework for addressing F & C risks in Ethiopia. FEACC and REACCs in cooperation with the Federal Attorney-General have adopted both preventive and curative approaches to combating corruption in the country. FEACC will concentrate on the preventive side of expanding and promoting ethics and anti-corruption education, while Federal Attorney General focuses on the curative side of the prosecution of alleged corruption offences. FEACC has signed MOU with REACCs in April 2012 and with the Federal Attorney General and Federal police on August 2019 which established a closer relationship in carrying out mutual cooperation activities, building capacities, and compiling country-level reports on F & C that will be reported to the Bank's Integrity vice Presidency (INT).

49. The assessment as well as the different bi-annual reports submitted by the parent program verified that the ethics officers at Federal and the Regional branch offices of the implementing institutions level are in place. These officers have received basic training on complaint recording and reporting and as a result, it has been verified that the system existed but recommended that continues capacity-building programs requires.

Auditing

50. **Program audit:** Annual audit of the program will continue to be performed by an independent external auditor. The program audit reports for the years ended July 7, 2020, and 2021 disclosed unqualified audit opinion for both implementing entities. While the management letter of EEU did not disclose any internal control weaknesses, the management letter of MoWE disclosed findings in both years with respect to low budget utilization; advance not settled on time; advance made to FRDE Ethics and Antic-Corruption Commission without a contract and memorandum of understanding; recording errors and payment documents not stamped "PAID". The program management of MoWE is required to prepare action plan and resolve these issues timely.

51. **Entity audit:** EEU's entity audit reports of the year ended July 7, 2018, and 2019 were submitted with delay. The audits for the year ending July 7, 2020, and year ending July 7, 2021, are still overdue/outstanding. The audit work is underway for 2020, while 2021 has not begun. This is due to delays in preparing entity financial statements and delays in adopting International Financial Reporting



Standards (IFRS). Updating EEUs audit should be a top priority by the management. Furthermore, EEU will need to complete the closing of accounts and get the IFRS compliant statements audited, both in a timely manner, which will help it to achieve this DLI. The most recent audit (for 2019) is IFRS compliant and is issued with a clean audit opinion. Management letters of the past years had a lot of internal control issues. The Management letter for 2019 is not yet issued as the auditors informed them that they will only issue one for all the years (2019-2021).

52. **Procurement Audit:** As per the government public procurement Law, Public Procurement oversight and auditing function is the responsibility of the FPPA, and the respective regional PPA bodies, but currently EEU has no oversight from the Federal government procurement oversight body as it is not governed under the Federal Procurement Law, and therefore FPPA has no jurisdiction over EEU on procurement oversight and monitoring. Hence, EEU's own internal technical and administrative controls in the areas of performance audit, and quality control should be strengthened. EEU's Internal auditors are to carry out a dedicated annual procurement audit as a requirement in the parent IFA. But the key challenges with respect to procurement audit and supervision is lack of follow up and enforcement of implementation of recommended actions. On the other hand, MoWE as government entity, is audited by the Federal Auditor General at least once a year, in addition, the Federal government regulatory body, FPPA also carries out procurement audit on MoWE, and established internal auditors at directorate level, but the efficiency and effectiveness of internal auditors had always been a concern when it comes to procurement audits. Hence, the internal audit units will be strengthened to continue their procurement audit function as provided in the parent IFA.

53. The parent IFA requires to carry out Independent (External) Procurement Audits every year and to submit to MoWE and EEU the report six months after the year ended. Accordingly, independent procurement audits were carried out twice. This arrangement worked well but it needs to be strengthened in the AF to closely identify procurements which do have complaints and allegations of corruptions. The aspect of follow up and verification of implementation of audit recommendations will be strengthened. The Independent (External) audit TORs will require the Consultant to include in its samples all procurements with complaints from bidders. In addition, the Bank procurement team undertook a review of the procurement performance during supervision missions and provided feedback. Internal and external Audits of both implementing agencies shall be strengthened and continued in the additional finance.

Financial and Procurement Management Capacity

54. **Financial management-Staffing:** The FM staffing arrangement for the program at EEU is adequate. There is an ELEAP project unit under PPMO of EEU which leads the physical implementation and overall coordination of the program. The financial management function of ELEAP is handled as part of the normal EEU financial management process while dedicated finance staff from the PPMO of EEU are assigned for ELEAP reporting. The staffing shortage at MoWE which was reported in the previous assessment is now resolved with the assignment of a financial management specialist who has sufficient experience in WB financed projects. The Bank has provided hands on support on FM and disbursement requirements to the assigned accountants from both EEU and MoWE.

55. **Procurement-Staffing:** Procurement staff level and compositions has shown significant improvements from the original IFA assessments in both MoWE and EEU including its regional offices.



EEU had reviewed its procurement staff job description and qualifications, based on the recommendation in the parent IFA. The current review of the procurement staff in EEU shows, 7 senior and 10 junior procurement staff assigned at headquarter, and minimum of two procurement officers at regional offices of EEU. In addition, there are 6 procurement officers under the PPMO procurement directorate and currently new procurement director is assigned for the project portfolio management office procurement unit responsible for all project procurement centrally. Similarly, 7 procurement officers are assigned in MOWE, and 3 of them are senior procurement specialists. The assigned procurement officers have adequate qualifications and experience for the required assignment. In addition, several procurement related trainings have been provided at different times by the Bank and at Ethiopia Management Institute in the last three years of the project implementation period to improve the procurement performances of both EEU and MOWE. As new Bank projects are developed, the workload at EEU and MoWE will increase. Hence, there is a need to assign additional new procurement staff on a need. Procurement training through technical assistance for capacity development will continue through the ADELE project.

D. Status of Risk and Mitigation Measures

56. As far as risks and mitigation measures are concerned, for financial management, similar risk profiles are noted. The ELEAP budget is not separately prepared, reviewed and approved by the management and Board at EEU. The overall ELEAP program budget (both EEU's and MoWE's) is not consolidated at DoE; reviewed/discussed with DoE, National Steering Committee for Electrification and the sector working groups comprised of DPs. EEU has not enabled the ERP for ELEAP recording and reporting. Project activities are not subject to internal audit review at EEU. These are more or less similar to the past issues and risks. FM PAP and DLIs are updated taking on board unfulfilled actions and are more focused on key issues like budget, transparency and internal audits.

57. Likewise, similar risks that were identified in the initial assessment were also identified in the current assessment regarding procurement performance and the management system. Even if EEU had revised its procurement policy and manuals based on the recommendation in the original IFA, efforts on its proper implementations, awareness, and refreshment trainings on the use and applications of the revised procurement policy and manuals are not conducted. Procurement and contract management training for all EEU staff including the regional office staff is partially conducted and manuals on contract management implementation are not prepared. In general, the procurement and contract management system of EEU shall be strengthened and enhanced. An independent procurement complaint handling system is not yet established in both implementing agencies. Transparency on procurement handling systems and bidders' awareness and knowledge of complaint handling is not adequately implemented. The website for exchange of debarment lists and disclosure of complaints is not yet used in both IAs. The assessment noted that most PAP recommendations in the initial assessment were implemented. however, several procurement related complaints are logged to EEU for several procurements conducted through the ELEAP project. In this regard, it is noticed that lack of quality and competency in EEU bid evaluation procedures, including evaluation report and award recommendation approvals are the newly identified risks of the project.

58. In relation to the status of the PAP actions incorporated in the parent program to mitigate the governance risk, we find that most of the actions are implemented. Ethic officers have been assigned in the 11 Regional branches of EEU but the same should happen in the institutions below the regional branches. The complaint investigation procedure has been issued but requires further updating to fit the



PforR requirements and to clarify the responsibilities of each of the institutions in complaints handling and reporting. Training has been provided for 2016 managers and employees on Ethical principles, and corruption prevention mechanisms in all 11 regions in collaboration with FEACC. The FEACC report also recommends continuous further capacity building.

59. Thus, the fraud and corruption and complaint handling mechanism system which is strengthened progressively starting from the parent program will continue through the additional financing stage. Accordingly, capacity-building activities that had been started during the parent program implementation including assigning Ethic officers at sub-national implementing institutions will continue so that the program is able to apply the ACG of the Bank by submitting bi-annual compliant handling and Fraud and Corruption reports on time.

60. Based on the above reasons, the fiduciary risk for this AF operation is rated as “Substantial”.

61. Some of the Parent Program PAP and DLRs will continue to be applicable as noted in the table 8 and 9 below. In addition, new PAP and DLIs are identified in table 8 and 9 respectively below:

Table 8: Status of Program Action Plan

FM Actions	Due Date	Status	Continue/Cancelled
<p>Planning and Budgeting</p> <ol style="list-style-type: none"> 1. Address the delay of annual budget approval by EEU Board - align the budget calendar of the EEU and Board regular meeting dates with that of the Federal Government. 2. Produce budget execution reports based on actual expenditure data and according to planned physical activities from the system regularly addressing current backlog. 3. Amend the CoA structure to capture expenditures according to Program activities. 	Continuous	<ol style="list-style-type: none"> 1. Not yet resolved - Budget approval by EEU Board continued to be delayed. 2. Resolved 3. Not yet completed – The chart of accounts is not amended as per SAP. 	Actions 1 and 3 will continue in the AF.
<p>Transparency: Disclose entity and ELEAP budget and financial statements to the public through the MoWE and EEU’s website (this includes budgets, yearly budget execution reports, and audit reports).</p>	Continuous	Not done except for the program audit report of ELEAP	This action will continue in the AF.
<p>Treasury management and fund flow: Unpredictability of program funds should be addressed - financing gap should be carefully considered and addressed by the Government/MoFEC.</p>	Continuous	Not resolved -Although budgeted, the financing expected from the Government/MoF have not been contributed as planned	This action will continue in the AF.



<p>Accounting and financial reporting:</p> <ol style="list-style-type: none"> 1. Resolve the absence of an updated FM manual - engage a consultant firm to assist transition to IFRS and update the procedure manuals. 2. Engage a consultant firm as planned to assist on fixed asset count and valuation. Clear backlog reconciliations. 3. Fill the vacant posts and design a capacity-building mechanism. 	<p>June 30, 2018</p>	<ol style="list-style-type: none"> 1. Done – An FM manual based on IFRS is developed. 2. Done – The fixed asset count and valuation are completed. 3. Partially done – there are still vacant posts at each entity 	<p>Action 3 will continue in the AF.</p>
<p>Internal controls:</p> <ol style="list-style-type: none"> 1. MoWE and EEU resolve internal control inadequacies as reported in external audit reports and internal audit findings. 2. Clear recording backlogs of material consumption data and bank reconciliations by program effectiveness and resolve issues noted in the audit report and report the status to the World Bank on a quarterly basis. 3. Internal auditors conduct internal audits on the entity and on the Program and report to management on findings and follow up to have them resolved. 	<p>Continuous</p> <p>As per dates stated in action plans</p> <p>Continuous</p>	<ol style="list-style-type: none"> 1. Not fully resolved – The entity internal audit reports of both entities show unresolved issues that need to be addressed. The EEU’s external auditors have not issued a Management Letter as part of the recent audit, thus status of the issues not yet known. We were informed that the auditors expect to issue a Management Letter once the backlog audits are cleared. The weaknesses noted in the internal audit reports of the entities are not fully resolved but actions are being followed by the internal audit units of both entities. 2. Partially done – backlogs on bank reconciliations cleared. ERP-SAP helped to clear backlogs of material consumption data. Issues in the audit report are not fully resolved and status update is not being submitted to the World Bank. 3. Partially done – Internal audits are conducted on the entity and but not on the program. MoWE 	<p>All actions will continue in the AF.</p>



			internal audit unit has audited the program in EFY 2013. Internal audit findings are being resolved by the respective work units by preparing action plan & the EEU management monthly evaluates the performance of each work unit on this issue.	
Procurement Actions	Due Date	Responsible Party	Status	Continue/Cancelled
<p>Weaknesses in the procurement legal framework and procedures</p> <p>There are weaknesses in the procurement policy and procedures of EEU</p>	Continuous	EEU	<p>1. EEU Revised its Procurement Policy and Procedures, most of the comments given in the previous EEU manual is amended in the revised. Done.</p> <p>2. Debarment under the Program shall be done following the Bank's debarment procedures and the firms debarred by the Bank shall be ineligible to participate. EEU agreed and included the debarment policy in its SBD and implementation of the same shall continue in the AF. Done</p>	Action 2 will Continue through the AF
<p>Procurement capacity:</p> <p>There are capacity limitations in terms of skilled staff to handle procurement and contract administration (incomplete procurement plans, bidding documents, bid evaluations and poor contract management system).</p>	Continuous	EEU	<p>3. Both EEU and MoWE availed the minimum required number of skilled procurements staffing during verification of the minimum entry conductions. Due to restructuring activities in MoWE, the required procurement staff were not assigned for longer period for the central procurement units which were established during the new Ministry organizational structure Currently, MoWE assigned the procurement staffs but their number and</p>	Action 3,4,8,9 will Continue through the AF it shall be implemented through the first year of the AF



			<p>technical adequacy is not adequate. EEU project portfolio management office established a central procurement directorate responsible for all projects of EEU, currently the procurement director is assigned but other required staff shall be assigned, and the directorate shall be fully and effectively engaged in each PIU project procurement performances. Partially Done</p> <p>4. Procurement and Contract management training is given to 100 EEU regional staff through EMI but it is not adequate. Partially done</p> <p>5. Preparation of a comprehensive Project Operating Manual for day-to-day guidance of staff. Done</p> <p>6. EEU reviewed the job level for procurement staff. Done</p> <p>7. EEU established procedure for advance orientation of staff in procurement and contract management. Done</p> <p>8. Establishment of procurement and contract management and monitoring system. Pending</p> <p>9. TA to support comprehensive improvement on procurement and financial</p>	
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			management issues. Pending	
<p>Transparency and Fairness: Limited advertisement of invitation to bids, use of incomplete bidding documents without preset qualification and evaluation criteria and complete conditions of contract for the tender which would impact on transparency and fairness in bid evaluation and contract administration.</p> <p>Use of direct contracting without sufficient justifications and appropriate safeguards</p>	Continuous	EEU	<p>10. EEU starts publishing procurement notices for ICB contracts through international media like UNDB online. Done</p> <p>11. EEU developed SBD adapted from FPPPAA SBDs, with preset evaluation and qualification criteria guidance. Not Done, and will be included as Revised Minimum condition for AF</p> <p>12. EEU includes detailed procedures for use and application of direct procurement methods in its revised procurement policies. The procurement manual outlines cases where direct procurement is used and requirements of adequate justification before using direct procurement. But practically EEU's Regional offices conducted direct procurements to MSE and local contractors who were engaged with EEU for a long period of time without adequate justifications and safeguards. Partially Done and will be included as Revised Minimum condition for AF.</p>	All actions continue through the AF
<p>Competitiveness: There are some government owned enterprises in sectors of supply of goods, works and services and there have been observed preference to use them on direct contracting basis.</p>	Continuous	EEU	<p>13. EEU still outsources directly to MSEs and Local contractors who have a long work relation with EEU regional offices, throughout ELEAP project. EEU still did not follow its direct</p>	All actions continue to be implemented through the AF.



<p>Application of High margin of preference are applied in bids evaluation and in many regional offices, there are mandatory provisions to support medium and small enterprises through reservations or preferences. Though this approach may have a strategic benefit in terms of sustainability, it has to be balanced with the principle of fairness to non-SOE and non-MSE competitors' as well.</p>			<p>procurement procedure set in the revised procurement manual even if the revised procurement manual is distributed to all regions for implementations. Not Done.</p> <p>14. EEU agreed to allow participation of non-MSEs with same level of capital and qualification with the existing MSEs but still it is not materialized in all regional offices of EEU. Not Done</p> <p>15. The agreed procedures to involve MSEs is reviewed and included in Program Operating Manual but not implemented. Not Done</p>	
<p>Accountability, integrity, and oversight:</p> <ul style="list-style-type: none"> • Lack of use of committee systems for approval/endorsement of contract award. • Do not have independent and effective institutional setup for handling of complaints. • Contract management, including contracts delivery quality and cost controls, and resolution of contractual disputes are not adequate. • Procurement facilities and 			<p>16. EEU established bid endorsing committees who are responsible to review and endorse the evaluation and selection process, but practically evaluation and contract awards approval are done by EEU senior management not by the endorsing committee. Partially Done.</p> <p>17. EEU has not established a well-functioning independent complaint handling system. Pending and will be included as revised minimum conditions</p> <p>18. TA to prepare Contract Management Guidelines. Pending</p> <p>19. Necessary facilities and secured spaces for</p>	<p>Action 16 & 17 are included in the Revised Minimum entry conditions and DLI, action 18 & 20 will be implemented in the first year of the AF, and all actions under action 21 will continue throughout the FA</p>



<p>Record keeping are poor.</p> <ul style="list-style-type: none"> • Lack of internal and external audits for procurement • Bank debarred firms are operating locally and may participate in bidding processes locally. 			<p>procurement staff through the Program Action Plan (PAP). Done</p> <p>20. Annual Performance Audit & Independent procurement audits together with management corrective measures to the findings of the audit will address the residual risks. Partially done</p> <p>21. The EEU agreed to exclude Bank debarred firms from participating in the program. Bidding documents will include provisions on exclusion due to Bank debarment and established a system for follow-up. Done</p>	
F&C Actions	Due Date	Responsible Party	Status	Continue/Cancelled
<p>MOWE to submit Compliant Handling and F&C bi-annual report on the program to FEACC and FEACC in turn verify and submit it to the Bank</p>	<p>Bi-annually</p>		<p>This is the program requirement in the application of the ACG of the Bank. This action still needs to be continued in this AF</p>	
<p>Provide training to Ethic officers working at a different levels of the program implementation on compliant handling and F&C recording and reporting mechanism</p>	<p>Year 1-2, of the AF</p>		<p>This action still needs to be continued in this AF</p>	



Table 9: Status of the Fiduciary DLI

DLR	Amount	Deadline	Status
DLR # 5.1: Submission of EEU EFY18 audited financial statements	US\$1.2	January 7, 2019	Not achieved
DLR # 5.2: Submission of EEU EFY19 audited financial statements	US\$1.2	January 7, 2020	Not achieved
DLR # 5.3: Submission of EEU EFY20 audited financial statements	US\$1.2	January 7, 2021	Not achieved
DLR # 5.4: Submission of EEU EFY21 audited financial statements	US\$1.2	January 7, 2022	Not achieved
DLR # 5.5: Submission of EEU EFY22 audited financial statements	US\$1.2	January 7, 2023	Not achieved
DLR # 5.6: Establishment of Minimum Entry Conditions	SDR 708,000	July 7, 2018	Achieved
DLR # 5.7: Minimum Entry Conditions maintained during period July 8, 2017, through July 7, 2018, and internal and external procurement audits.	SDR 565,200	January 7, 2019	Achieved
DLR # 5.8: Acceptable performance (according to criteria set out in POM) of procurement processes and (internal and external) audit system during period July 8, 2018, through July 7, 2019.	SDR 565,200	July 7, 2019	Achieved
DLR # 5.9: Acceptable performance of procurement processes and (internal and external) audit system during period July 8, 2019, through July 7, 2020.	SDR 565,200	July 7, 2020	Achieved
DLR # 5.10: Acceptable performance of procurement processes and (internal and external) audit system during period July 8, 2020, through July 7, 2021.	SDR 565,200	July 7, 2021	Not achieved
DLR # 5.11: Acceptable performance of procurement processes and (internal and external) audit system during period July 8, 2021, through July 7, 2022.	SDR 565,200	July 7, 2022	In the Process
DLR 10: (c) .1: 100 woredas use electric record keeping (excel or more advanced systems) and use this system to report to BoF on F&C cases/tip offs according to the agreed format.	US\$1x789--0	Nov-18	Achieved
DLR 10: (c) .2: 25 percent of woredas where at least one F & C case has been recorded with the ethics officer have referred the cases to REACCs for action.	US\$15	Nov-20	Outstanding. This DLI will continue in the 2nd AF



Proposed New PAP and DLRs

Table 10: Proposed new Program Action Plan

Action	When
Financial Management	
Address the delay of annual budget approval by EEU Board - align the budget calendar of the EEU and Board regular meeting dates with that of the Federal Government.	Before the beginning of the fiscal year EFY 2015
Amend the CoA structure to capture expenditures according to Program activities	
Disclose entity and ELEAP budget and financial statements to the public through the MoWE and EEU’s website (this includes budgets, yearly budget execution reports, and audit reports).	Annually
Unpredictability of Program funds should be addressed - financing gap should be carefully considered and addressed by the Government/MoF	Continuous
Fill the vacant posts and design a capacity-building mechanism. Improve the program reporting by including adequate analysis of variance.	EFY 2015
Procurement	
EEU shall prepare standard bidding document for each procurement categories encompassing the complaint handling procedures and other necessary amendments that reflect the procurement categories. The bidding document shall also include a guidance note to bidders to report any procurement related fraud and corruption cases whenever they experience during procurement process to FEAC, Federal Police and Auditor General so that these three entities will investigate and take the necessary actions.	Year 1
EEU shall revise its procurement policy and procedures manual to accommodate the responsible body to approve evaluation reports and contract award recommendations. The body responsible for review and approval of the same shall be EEU’s procurement endorsing committee in line with the federal public procurement directives PEC duties and responsibilities.	Year 1
EEU shall reestablish and strengthen its procurement endorsing committee in a way that the procurement endorsing committee shall be entitled to give the final approval and guidance in the evaluation and selection process.	Year 1
EEU’s complaint handling shall be handled by the EEU Board if the complaint is not resolved at the CEO level. EEU confirms that its Board of directors are impartial and independent to handle procurement complaints independently with fairness and integrity.	Year 1
Procurement Performance progress reports shall be submitted to the World Bank on a quarterly and yearly basis for follow-up and monitoring of progress. In this report, EEU shall submit sample used bidding documents, evaluation process reports and procurement complaints, and issued response to the complaints, to verify the recommendation and suggestion specified in the project POM by the Bank is implemented.	Year 1-2
F&C	



MOWE to submit complaint handling and F&C bi-annual report on the program to FEACC and FEACC, in turn, verify and submit it to the Bank. (This is the program requirement in the application of the ACG of the Bank)	Bi-annually
Provide training on complaint handling and F&C recording and reporting mechanisms to Ethics Officers working at different level of the program implementation.	Year 1-2
Maintain call centers for anonymous hot lines and vigilance offices and ensuring that the bi-annual reports include cases and actions taken by these offices	Ongoing

Table 11: Proposed new Disbursement Linked Results (DLRs)

Action	Target	Remark on baseline, Scalability, Verification protocol
FM DLRs		
Submission of EEU IFRS compliant entity audited financial statements for the year ended July 7, 2021, to the WB timely and with clean or qualified audit opinion.	April 30, 2023	Not scalable. IVA will be based on audit report prepared by independent auditor
Submission of EEU IFRS compliant entity audited financial statements for the year ended July 7, 2022, to the WB timely and with clean or qualified audit opinion.	July 31, 2023	Not scalable. IVA will be based on audit report prepared by independent auditor
Submission of EEU IFRS compliant entity audited financial statements for the year ended July 7, 2023, to the WB timely and with clean audit opinion.	January 7, 2024	Not scalable. IVA will be based on audit report prepared by independent auditor
Submission of EEU IFRS compliant entity audited financial statements for the year ended July 7, 2024, to the WB timely and with clean audit opinion.	January 7, 2025	Not scalable. IVA will be based on audit report prepared by independent auditor
Submission of EEU IFRS compliant entity audited financial statements for the year ended July 7, 2025, to the WB timely and with clean audit opinion.	January 7, 2026	Not scalable. IVA will be based on audit report prepared by independent auditor
Procurement DLRs		
<p><i>Revised Minimum Conditions:</i> Minimum Entry Conditions are fulfilled, and Acceptable performance of procurement processes are during period July 8, 2023, through July 7, 2024, and (internal and external) audit to be completed by January 7, 2025</p> <p><u>The minimum conditions shall include:</u></p> <p>(i) EEU shall revise its standard bidding document with appropriate requirements including clearly specified selection and evaluation criteria; EEU shall set procedures to specify and assess repeatedly requested requirements such as laboratory tests, manufacturer authorizations, relevant certificates, guaranteed Technical Specifications in the bidding document that will be used as a guide during evaluation. The standard bidding document shall include detailed complaint handling procedure. (ii)</p>	January 7, 2025	Verification Protocols and its procedures and deliverables will be revised taking in to account the parent project verification reports outcome and shortcomings. In addition, the responsibility of selecting the procurement verification Consultant will be transferred to MoWE from CSA, as CSA does not have the inhouse capacity to discharge the procurement verification, on way forward for the additional finance MOWE will select qualified procurement consultant for ELEAP AF procurement verification. The consultant will be responsible to conduct the verification with due diligence and in a professional manner.



<p>EEU shall revise and standardize its Technical Specification and design manuals taking into consideration technological advancement and best accepted international standards, (iii) EEU shall revise its procurement policy and procedures manual to include evaluation and contract award procedure and authorities, the responsible body for review and approval of the same shall be EEU's procurement endorsing committee in line with the federal public procurement directives PEC duties and responsibilities,(IV) EEU shall reestablish and strengthen its procurement endorsing committee duties and responsibility in a way that the procurement endorsing committee shall be authorized to provide final approval and guidance on bid evaluation and selection process (V) EEU's complaint should be handled by EEU Board of Directors if not resolved at EEU CEO level. shall review and approve EEU confirms that its Board of directors are impartial and independent to handle procurement complaints independently with fairness and integrity,</p>		
<p>Minimum Entry Conditions are maintained and Acceptable performance of procurement processes during the period July 8, 2024, through July 7, 2025, and (internal and external) audit 0, completed by January 7, 2026.</p>	<p>January 7, 2026</p>	<p>IVA conducted through consultant hired by MoWE and its based-on procurement performance documents/reports of EEU, and MoWE</p>
<p>F&C DLRs: No new DLRs are envisaged</p>		

E. Implementation Support

62. The Bank fiduciary team will continue to follow up implementation progress of the program by reviewing quarterly financial reports, quarterly continuous audit reports, annual program audit reports and relevant progress reports on the implementation of PAP and DLIs. In addition, fiduciary specialists will participate in supervision mission and regular Implementation Support Mission. The objective of the implementation support is to assess the achievement of agreed actions and DLIs, the continuing adequacy of systems, to monitor risks and mitigation measures and covenants and agreements.