



OFFICE OF INSPECTOR GENERAL
EXPORT-IMPORT BANK
of the UNITED STATES

**Report on Ghana Credits:
Ridge Hospital Complex &
Kumawu-Mampong Water
Treatment Works**

March 31, 2015

OIG-INS-15-01

The Export-Import Bank of the United States (“Ex-Im Bank”) is the official export-credit agency of the United States. Ex-Im Bank is an independent, self-sustaining executive agency and a wholly-owned US government corporation. Ex-Im Bank’s mission is to support jobs in the United States by facilitating the export of US goods and services. Ex-Im Bank provides competitive export financing and ensures a level playing field for US exports in the global marketplace.

The Office of Inspector General, an independent office within Ex-Im Bank, was statutorily created in 2002 and organized in 2007. The mission of the Ex-Im Bank Office of Inspector General is to conduct and supervise audits, investigations, inspections, and evaluations related to agency programs and operations; provide leadership and coordination as well as recommend policies that will promote economy, efficiency, and effectiveness in such programs and operations; and prevent and detect fraud, waste, abuse, and mismanagement.

This inspection was conducted in accordance with the 2012 Quality Standards for Inspection and Evaluation as defined by the Council of Inspectors General on Integrity and Efficiency. This report does not constitute a Government audit and therefore, it was not conducted following the Generally Accepted Government Auditing Standards (“GAGAS”).

OFFICE OF INSPECTOR GENERAL
EXPORT-IMPORT BANK *of the* UNITED STATES



To: David Sena, Senior Vice President & Chief Financial Officer
Claudia Slacik, Senior Vice President & Chief Banking Officer

From: Mark Thorum
Assistant Inspector General, Inspections & Evaluations

Subject: Report on Ridge Hospital Complex (AP087225) & Kumawu-Mampong Water
Treatment Works (AP083137)

Date: March 31, 2015

Attached please find the final inspection report on Ridge Hospital Complex (AP087225) and Kumawu-Mampong Water Treatment Works (AP083137). Management agreed to four of the recommendations and disagreed with one. We consider management's corrective actions to be responsive. The recommendations will be closed upon completion and verification of the implementation of those actions.

We appreciate the courtesies and cooperation extended to us during the inspection.

cc: Fred Hochberg, Chairman and President
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Attachment: Inspection Report on Ghana Credits: Ridge Hospital Complex and Kumawu-Mampong Water Treatment Works, OIG-INS-15-01, March 31, 2015

Executive Summary

Inspection Report Ridge Hospital & Water Works
OIG-INS-15-01, March 31, 2015

Why We Did This Inspection

The OIG's inspection seeks to determine the level of due diligence, risk assessment and portfolio monitoring performed by Ex-Im Bank. The Ghana transactions were selected for review due to allegations of cost overruns and overbilling for the Ridge project and Ex-Im Bank's increased emphasis on the sub-Saharan African portfolio.

In writing this report, the OIG recognizes that our findings and recommendations primarily relate to the Ghana financings, and may not necessarily be generalizable to the broader universe of Ex-Im Bank transactions. Our approach is to review transactions from a "lessons learned" perspective and to help identify potential systemic improvements in Ex-Im Bank's policies and procedures.

What We Recommend

1. Ex-Im Bank should conduct a post mortem review of Water Works to identify ways to improve the process for assessing the technical feasibility of a project and to address any technical related matters.
2. Ex-Im Bank should follow OECD DAC Guidelines for developmental projects that contain a Tied Aid component.
3. Ex-Im Bank should consistently adhere to the monitoring requirements set forth in the Credit Agreement.
4. In an effort to enhance communication during the construction and post-construction phases of the project, Ex-Im Bank should establish policies and procedures for borrowers and end-users to address grievances with the Bank directly.
5. Ex-Im Bank should establish a uniform recordkeeping system that provides for a complete historical record of the approval and monitoring process for transactions.

What We Found

The Ghana inspection involved the review of two Ex-Im Bank transactions: the renovation and expansion of the Ridge Hospital Complex ("Ridge") in Accra (AP087225) and the rehabilitation and expansion of the Kumawu-Mampong Water Treatment Works ("Water Works") in Mampong (AP083137).

Ex-Im Bank provided financing in the amount of \$155.4 million to Ridge and Tied Aid in the amount of \$23.1 million to the Water Works. The latter includes a \$7.8 million grant to provide development assistance to Ghana and to allow US exporters to compete with foreign aid offers.

OIG's inspection focused primarily on Ex-Im Bank's performance and adherence to internal policies and procedures. The scope of our work involved a thorough analysis of project documents, engineering reports and industry best practices. We conducted site visits and interviews with representatives of the Borrower and related entities, exporters, outside consultants, lenders and Ex-Im Bank staff.

The inspection found the Ridge transaction to be proceeding on time and on budget with a targeted completion date of March 30, 2017. OIG determined that Ex-Im Bank staff performed an appropriate level of due diligence and monitoring and proactively addressed payment risks through structural enhancements to the transaction. We did not substantiate allegations of cost overruns or overbilling on the project.

The inspection found that while the Water Works Project is operational and provides treated water to the city of Mampong, water distribution to the 22 surrounding communities of Mampong is intermittent. The project's commercial contract and scope of work did not address existing conditions of voltage irregularities and Ex-Im Bank engineering staff did not identify and address these problems during the design, procurement and construction phases of the project. As a result, the completed project does not meet the full scope of work envisioned in Ex-Im Bank's Board Memorandum, nor the development goals of the Tied Aid financing. In addition, OIG found that transaction documentation was not readily available for inspection. At the time of this Report, the project is current in its principal and interest payments. However, the failure to deliver clean water to the 22 surrounding communities exposes Ex-Im Bank to negative publicity and reputational risk.

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ABBREVIATIONS AND GLOSSARY

TERM	DESCRIPTION
AMD	Asset Management Division, Ex-Im Bank
AMD Operating Manual	Asset Management Division Operating Manual: Functions, Resources, Goal and Objectives, Employee Standards, March 2009 (“Monitoring Manual”) sets forth the policies and procedures for monitoring and managing operative credit assets (“credits” or “transactions”) that include loans, guarantees and insurance transactions.
Bank or Ex-Im Bank	Export-Import Bank of the United States
Board	Board of Directors, Ex-Im Bank
Board Memorandum	A memorandum submitted to the Ex-Im Bank Board as part of the process for approving a transaction for Bank support.
Brownfield	A brownfield site is the expansion, redevelopment, or reuse of land which may be complicated by the presence or potential presence of a hazardous substance, pollutant, or contaminant.
BCL	Budget Cost Level (“BCL”) is a rating system that identifies the risk level of each transaction in a sliding scale of one (low risk) to 11 (high risk).
CRTI	Ex-Im Bank acronym which stands for Character, Reputational and Transaction Integrity
CRTI Due Diligence	CRTI due diligence is a process initiated by Ex-Im Bank to vet transaction participants, which consists of analyses of companies and individuals to identify potential fraud, corruption and integrity risks associated with parties to a transaction.
Current Account	The current account is the difference between a nation’s savings and its investment.
E&E	Engineering and Environment Division, Ex-Im Bank
EPC	Engineering, Procurement and Construction. EPC is often used in conjunction with “Contract” or “Contractor” (e.g., EPC Contract).
ECA	Export Credit Agency
GAO	US Government Accountability Office
GAR	Greater Accra Region
GDP	Gross Domestic Product
GDP per capita	GDP per capita is determined by dividing a country’s GDP by its mid-year population.
GOG	Government of Ghana

TERM	DESCRIPTION
Greenfield	Greenfield is land that has not been developed or polluted.
ICRAS	Interagency Country Risk Assessment System. ICRAS is a confidential interagency process through which the credit risk associated with US credit assistance to foreign countries is assessed periodically.
KYC	Know Your Customer (“KYC”) practices are a set of requirements utilized by Ex-Bank lenders in conjunction with transaction due diligence in the assessment of integrity, corruption and bribery risk.
LEED	Leadership in Energy and Environmental Design (“LEED”) is a green building certification program that recognizes best-in-class building strategies and practices.
MOF	Ministry of Finance and Economic Planning, Republic of Ghana
MOH	Ministry of Health, Republic of Ghana
OCFO	Office of the Chief Financial Officer, Ex-Im Bank
OCC	Office of the Comptroller of the Currency
OECD	Organization for Economic Cooperation and Development
OIG	Office of Inspector General, Ex-Im Bank
OMB	Office of Management and Budget
PPA	Public Procurement Authority, Republic of Ghana
Sole-source	Sole-source is an acquisition method where a contract for goods or services is awarded after soliciting with one person or entity.
Sovereign Risk	Sovereign risk is the obligation of the primary source of repayment, which conveys the full faith and credit of the government of the risk country. (Source: Ex-Im Bank Loan Manual)
Turnkey	A turnkey contract is generally defined as a contract under which the contractor is responsible for both the design and construction of a facility, as well as, the implementation of all work, materials and services necessary to enable the client to turn the key and take over an operational facility.
VFM	Value for Money (“VFM”) analysis is an assessment of whether an organization has obtained the maximum benefit from the goods and services it acquires and/or provides, within the resources available to it.

Terms Specific to Ridge Hospital Complex

TERM	DESCRIPTION
Americaribe US (or Americaribe)	Americaribe, Inc. USA, a US subsidiary of BBI, is the exporter for the Ridge Hospital transaction.
Americaribe Ghana	Americaribe Ghana is a subsidiary of Americaribe US
BBI	Bouygues Bâtiment International, a French construction company, is the parent of Americaribe US.
BBG	Bouygues Building Ghana is Americaribe's in-country affiliate and the Ghanaian subsidiary of BBI.
Bouygues Group	Bouygues Group is a French international conglomerate specializing in construction, transportation, media, and telecommunications.
MOH	Ministry of Health, Republic of Ghana
Ridge	Ridge Hospital Complex

Terms Specific to Kumawu-Mampong Water Treatment Works

TERM	DESCRIPTION
GWCL	Ghana Water Company Limited is the end user for the transaction.
UEM US	UEM Inc., USA is the exporter for the Water Treatment Works transaction.
UEM Group	UEM Group is a group of parent and affiliated companies that include UEM US, UEM West Indies, and UEM India (parent).
Water Works	Kumawu-Mampong Water Treatment Works

REPORT ON GHANA CREDITS: RIDGE HOSPITAL COMPLEX AND KUMAWU-MAMPONG WATER TREATMENT WORKS

I. INTRODUCTION

The Ghana inspection involved the review of two separate transactions that are part of Ex-Im Bank's Ghana portfolio: (i) the renovation and expansion of the Ridge Hospital Complex ("Ridge") in Accra (AP087225), and (ii) the rehabilitation and expansion of the Kumawu-Mampong Water Treatment Works ("Water Works") in Mampong (AP083137). In undertaking this inspection, our objective is to determine the level of due diligence, risk assessment and portfolio monitoring performed by Ex-Im Bank in these transactions. In addition, we reviewed the transactions from a lessons learned perspective and to help identify potential systemic improvements in Ex-Im Bank's policies and procedures.

Our research is guided by several broadly-defined Points of Inquiry ("POI"). For each POI, OIG provides the applicable criteria used to assess the performance of the Bank on the individual transaction. Applicable criteria are based on Ex-Im Bank's policies and procedures, US government standards and market best practices. OIG benchmarks its observations with the applicable standards to assess Ex-Im's performance and areas for potential improvement. OIG conducted site visits and interviews with representatives of the Borrower and related entities, exporters, outside consultants, lenders and Ex-Im Bank staff.

Republic of Ghana: Country Profile

With a population of approximately 27 million, the Republic of Ghana ("Ghana") is West Africa's second largest economy after Nigeria. Ghana is considered to be one of the more stable democracies in Africa, with a democratically elected government since 1992.¹ Over the past five years, Ghana's economic growth and favorable business environment have attracted investors and facilitated access to foreign capital for its development projects. In 2010, Ghana achieved "lower middle income economy" status based on a GDP per capita of \$1,363.² Despite a strong record of economic growth in recent years, Ghana faces significant challenges in achieving its development goals including infrastructure deficiencies, currency depreciation, fiscal and current account deficits, increased power shortages and declining prices of its key exports of gold and cocoa.³

¹ For more information see <http://www.doingbusiness.org/data/exploreeconomies/ghana/>.

² For more information see <http://data.worldbank.org/news/2010-GNI-income-classifications>.

³ For more information see http://www.ise.ie/debt_documents/Prospectus%20-%20Standalone_81306221-249c-46e9-b50e-780f10c18194.PDF?v=5112014.

Procurement Process

Ghana's Public Procurement Authority ("PPA") is responsible for overseeing Ghana's use of financial resources for public procurement, including public infrastructure projects. Many of Ghana's public procurement contracts are sole-sourced. Sole-sourced contracts are subjected to a comprehensive review process which includes successive signoffs from the relevant agencies, the MOF, the Cabinet of Ministers and the Ghanaian Parliament. Final approval requires PPA review and the bid proposal is subjected to a value for money ("VFM") analysis.

Crown Agents LTD of the UK ("Crown Agents") performs VFM analyses of public procurement contracts on behalf of the PPA. The VFM analysis measures a contract's value based on five criteria: 1) contractor capacity, 2) contract commercial terms, 3) other conditions with the contract, 4) technical specifications and 5) market comparables. The analysis results in two reports, the first of which is issued by Crown Agents upon completion of the initial contract assessment. This version is used for negotiations between the Government of Ghana ("GOG") and the contractor. Once negotiations are complete, a second and final VFM report is issued. The PPA either approves or disapproves the contractor's bid proposal. Both the Ridge and Water Works transactions were subjected to a VFM analysis performed by Crown Agents.

Ex-Im Bank's Ghana Portfolio

Ex-Im Bank operates under various Congressional mandates, which includes the requirement for the Bank through its loan, guarantee and insurance programs "to promote the expansion of the Bank's financial commitments in sub-Saharan Africa."⁴ Since 2009, Ex-Im Bank has approved approximately \$6.3 billion in financing commitments in the region, including \$2.1 billion in new authorizations in FY 2014. At approximately \$578 million, the Ghana credit portfolio is one of Ex-Im Bank's largest sub-Saharan Africa exposures. The portfolio consists of both direct loans and financial guarantees and is primarily dedicated to meeting the country's infrastructure requirements. During the past six years, Ex-Im Bank experienced periodic payment delinquencies in the Ghana credit portfolio, including the financing associated with the rehabilitation and expansion of Water Works. The delinquency problem was attributed to the MOF's bureaucratic disbursement approval process which requires multiple levels of sign-offs. Further details on the Ghana credit portfolio are provided in Appendix C.

⁴ The statutory requirement for expansion of Ex-Im Bank's financial commitments to sub-Saharan Africa was added by Congress to the Bank's Charter in 1997. [12 USC § 635(b)(9)(A); P.L. 105-121, 111 Stat. 2529. (1997)]

II. RIDGE HOSPITAL COMPLEX (AP087225)

Project Description

The Ridge Hospital Complex in Accra, Ghana (“Ridge”) was originally constructed in 1928 and evolved into one of Ghana’s primary care facilities in the Greater Accra Region. To renovate and expand the current health care facilities to meet the needs of a growing population, the Ghana Ministry of Health (“MOH”) together with support from the MOF embarked on a multi-year renovation of Ridge. The project is to be implemented on a turnkey basis and aims to transform Ridge hospital into a LEED⁵ certified state-of-the-art flagship medical facility in West Africa. Due to funding constraints and to minimize disruptions to ongoing medical services, the project was split into two phases:

- Phase 1 of the Project: Ex-Im Bank is providing approximately \$155.4 million of Phase 1’s financing costs. This phase of the project entails the construction of a new 420-bed medical facility. The new facility will include 1) a comprehensive diagnostic and treatment block with surgery suites, imaging department, labor and delivery unit, accident and emergency unit, neonatal intensive care unit, intensive care unit, and burn unit; 2) a medical support facility that includes a pharmacy, laboratory, and central sterilization; 3) a logistics support unit, which includes a kitchen, laundry, workshop, central stores, technical room, day nursery, and staff changing rooms; and 4) hospital administration and admissions offices. Phase 1 construction officially commenced on April 1, 2014.
- Phase 2 of the Project (West Wing): The financing for Phase 2 of the project has yet to be determined. This phase of the project will comprise: 1) an additional 200 beds; 2) outpatient clinics; 3) a physiotherapy facility; and 4) a non-invasive cardiology unit. Phase 2 is tentatively scheduled to commence on April 1, 2015.

On November 8, 2012, Ex-Im Bank approved a direct loan in the amount of \$155,377,026 to support the sale of equipment, and engineering and construction services to the Republic of Ghana acting through its MOF (“Borrower”), for the renovation and expansion of Ridge hospital in Accra, Ghana. The loan has a final maturity of 12 years and 11 months with a repayment term of 10 years. At the time of Board approval, the transaction was initially categorized as (b) (4)

. However, during the Board deliberations, Bank staff proposed that the loan be assessed as (b) (4) for the purpose of determining the Loan Loss Reserve. Staff’s proposal reflected the Ghana portfolio’s past history of delayed payments. In accordance with this decision, Ex-Im Bank approved an amendment to the transaction, which increased the Loan Loss Reserve from (b) (4) to (b) (4) in January 2, 2013. In addition, the Bank enhanced the transaction’s credit structure with a Pre-Positioning

⁵ Leadership in Energy and Environmental Design certification.

Agreement to further mitigate the Borrower's repayment risk.⁶ A detailed timeline of the transaction is shown in Appendix D.

The following entities are participants in the Ridge project:

- ECA Lender: US Ex-Im Bank. Ex-Im Bank's direct loan of \$155.4 million will support approximately ^{(b) (4)} percent of the Phase 1 transaction expenses.
- Commercial Lender: HSBC Bank Plc (UK) ("HSBC"). HSBC is financing the rest of the Phase 1 transaction expenses with a (b) (4) commercial credit facility. The HSBC facility (b) (4)

The intended use of the facility is to cover costs associated with non-US goods and services. HSBC also serves as the Letter of Credit bank and documentation agent for the transaction.
- Exporter/EPC Contractor: Americaribe of Miami, Florida. Americaribe is the primary Exporter and turnkey contractor responsible for project delivery. Americaribe is an experienced turnkey contractor and the wholly owned US subsidiary of Bouygues Bâtiment International ("BBI"), a French construction company.
- Borrower: Ministry of Finance, Republic of Ghana ("MOF"). The MOF serves as the buyer, borrower and guarantor of the Ridge transaction.
- End User: Ministry of Health, Republic of Ghana ("MOH"). The MOH is the end user of the renovated Ridge facility.
- Local Cost Providers: BBG and Americaribe Ghana are both affiliates of Americaribe. They are responsible for managing local cost services.

A detailed illustration of the Ridge project structure is shown in Figure 1 below.

⁶ HSBC Bank Plc (UK) serves as the administrator for the Pre-Positioning Account, which the Borrower deposits funds in advance of each principal and interest payment due date.

(b) (4)

Figure 1: Ridge Hospital Transaction Structure

Project Scope and Status

As a turnkey contractor, Americaribe's responsibility consists of the design, construction, operation and maintenance of the hospital. In addition, Americaribe will maintain the hospital for the first three years after completion. Americaribe is also responsible for submitting quarterly construction reports to Ex-Im Bank. Pursuant to internal policies, Ex-Im Bank is responsible for quarterly project monitoring,⁷ disbursement signoff, and amending the credit agreements pursuant to the borrower's request.

Phase 1 activities consist of the following:

- Enabling works, such as demolition of existing buildings, excavation, security and preliminary electrical and water works
- Facilities design, including LEED
- Facilities construction
 - Structure and roofing
 - Interior design, including medical equipment installation

⁷ Per Section 9.02(j) quarterly progress report covenant of the Ridge Credit Agreement and the Bank's Loan Manual requirement to monitor progress reports.

- Road works and external works
- Facilities handover and maintenance
 - Testing of medical equipment and facilities

Ridge's quarterly construction progress report dated September 30, 2014, indicated that Phase 1 of the project was on schedule and on budget with incurred costs of approximately (b) (4) (or 10 percent) of the total (b) (4) in project costs for Phase 1. The project in total is approximately six percent complete and construction work is on track with a targeted completion date of March 30, 2017. A breakdown of the transaction's sources and uses of funds is shown in Appendix F and photographs of the construction site appear in Appendix G.

III. KUMAWU-MAMPONG WATER TREATMENT WORKS (AP083137)

Project Description

The Kumawu-Mampong Water Treatment Works ("Water Works") was originally constructed in 1961 with a designed treatment capacity of 2,500 cubic meters ("m³") of water per day. Similar to other Ghana municipal water supply systems, the Water Works facility has experienced significant deterioration in all phases of water services, including water intake, capacity, treatment, and distribution. The deterioration in water services has been further compounded by a significant increase in demand since the initial construction of the water treatment facility. The Water Works Project was designed to service approximately 50,000 individuals residing in Mampong and 22 surrounding communities in the Ashanti Region of Ghana.

The project consists of two parts: (1) the rehabilitation of the existing infrastructure including upgrades to the existing water treatment facility and distribution network, and (2) the construction of a new water treatment facility with enhancements to the distribution network.

On December 5, 2008, Ex-Im Bank authorized financing of \$23.07 million for the rehabilitation and expansion of the Water Works facility. The original authorized amount was changed to \$23.11 million on December 12, 2008, and revised again to \$23.14 million on January 29, 2010. This amount was modified on February 12, 2010, to \$23.11 million to match the transaction amounts authorized by the Ghanaian Parliament. The final Ex-Im Bank Tied Aid financing consists of a \$15.3 million direct loan and a \$7.8 million grant.⁸ Pursuant to Ex-Im Bank's Tied Aid Policy and the overarching OECD guidelines, Ex-Im provided 35 percent of the financing in the form of a grant instead of a loan, and reduced the exposure fee paid by the borrower by 75 percent. These concessions were funded through the Tied Aid Credit Fund, an account administered by the US Department of the

⁸ Ex-Im Bank offered Tied Aid to counter competing financing offers from a Dutch export credit agency.

Treasury.⁹ In addition, the Water Works Project received an extended repayment term of 15 years under Ex-Im Bank’s Environmental Exports Program.¹⁰

The transaction was categorized as (b) (4) for risk classification purposes with a Budget Cost Level (“BCL”) rating of (b) (4). The loan has a final maturity of 17 years and two months with a repayment term of 15 years. A detailed timeline of the transaction is shown in Appendix E.

The following entities participated in the Water Works Project:

- ECA Lender: US Ex-Im Bank. The Bank is the sole lender providing Tied Aid financing in the amount of \$23.1 million (\$15.3 million direct loan and \$7.8 million grant) for the project.
- Exporter/EPC Contractor: UEM. Located in West Palm Beach, Florida (US affiliate), UEM is the primary Exporter and turnkey contractor responsible for project construction and completion. The US affiliate is owned by UEM India through its wholly owned subsidiary UEM Mauritius. Collectively, the parent and affiliates are known as the UEM Group.
- Borrower: Ministry of Finance, Republic of Ghana (“MOF”). The MOF manages the financial resources and public expenditures for the GOG.
- End User: Ghana Water Company Limited (“GWCL”). GWCL is a wholly state-owned corporation responsible for the distribution of water for public and industrial consumption and the development and management of sewage control systems in Ghana.
- Letter of Credit Bank: RZB Finance LLC (“RZB”). RZB serves as the Letter of Credit bank for the transaction.

A detailed illustration of the Water Works transaction structure is shown in Figure 2 below.

⁹ The Tied Aid Credit Fund is dedicated for utilization in countering concessionary, trade distorting offers of Tied Aid by foreign governments.

¹⁰ At the time of credit approval, OECD’s Sector Understanding on renewable energy and water projects allowed for extended repayment terms of 15 years.

Figure 2: Water Works Transaction Structure

(b) (4)

Project Scope and Status

UEM's scope of work included the survey, engineering, design and construction of the water system's intake, treatment and distribution system. In addition, UEM provided training to GWCL staff on how to properly utilize plant machinery and equipment. An additional one-year defects liability warranty was provided by UEM and begins on the construction completion date. The Borrower was responsible for submission of quarterly construction reports to Ex-Im Bank. Pursuant to internal policies, Ex-Im Bank was responsible for quarterly¹¹ project monitoring, disbursement signoff, and amending the credit agreements pursuant to the borrower's request.

Although Ex-Im Bank's Board approved the Water Works Project on December 5, 2008, construction for the project did not start until September 2010. The delay was due to administrative hurdles experienced during Ghana's public procurement review process. The GOG's public procurement approval of the VFM analysis report did not occur until August 2010. The project's inauguration ceremony was held on May 4, 2014, and was attended by Ghana's President John Dramani Mahama.

According to the EPC contractor, UEM, the project was substantially "completed" on December 16, 2013. In 2014 the contractor continued to work on grading the adjacent grounds and planting vegetation. However, during its site visit and related interviews, OIG found that the distribution of treated water to the 22 surrounding communities was intermittent due to the voltage irregularities at the original water treatment facility and booster pump stations (see Finding 3 of this Report). A breakdown of the transaction's sources and uses of funds is shown in Appendix F and photographs of the construction site appear in Appendix G.

¹¹ Per Section 9.02(h) quarterly progress reporting covenant of Kumawu-Mampong Credit Agreement and the Bank's Loan Manual requirement to monitor progress reports.

IV. INSPECTION SCOPE AND POINTS OF INQUIRY

Inspection Scope

The objective of the Office of Inspector General's ("OIG") inspection was to assess the level of due diligence, policy compliance, risk assessment, risk mitigation and portfolio monitoring performed by Ex-Im Bank in approving and managing the subject credits:

- Ridge Hospital Project (AP087225, Accra, Ghana) - \$155.4 million direct loan approved by the Bank on November 8, 2012.
- Kuwamu-Mampong Water Treatment Works (AP083137, Mampong, Ghana) - \$23.1 million in Tied Aid financing (\$15.3 million direct loan and \$7.8 million grant) approved by the Bank on December 5, 2008, and subsequently amended on January 29, 2010, and February 12, 2010.

Specific to the Ridge transaction, the OIG also reviewed allegations of corporate malfeasance and overpricing as reported by the local press and in public statements by the Minority Leader in the Ghanaian government. In addition to the Points of Inquiry outlined below, the scope of the Water Works inspection was broadened to review GWCL's complaint of intermittent water distribution. A more detailed discussion of the inspection methodology is provided in Appendix B of this Report.

Points of Inquiry

The following points of inquiry directed our focus and helped guide our inspection:

POINT OF INQUIRY 1: Did Ex-Im Bank conduct sufficient due diligence and appropriately structure and monitor the Ridge transaction in accordance with Bank policy and applicable standards?

POINT OF INQUIRY 2: Did OIG's inspection substantiate allegations of cost overruns and potential malfeasance pertaining to the Ridge contract?

POINT OF INQUIRY 3: Did Ex-Im Bank conduct sufficient due diligence and appropriately structure and monitor the Water Works Project in accordance with Bank policy and applicable standards?

POINT OF INQUIRY 4: Were transaction events adequately documented and related files readily available for examination?

The OIG conducted this inspection during FY 2014-2015 in accordance with the 2012 Quality Standards for Inspection and Evaluation as defined by the Council of Inspectors General on Integrity and Efficiency. Those standards require that we plan and perform the inspection to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our inspection objective and points of inquiry. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

V. PRINCIPAL FINDINGS AND RECOMMENDATIONS

OIG recognizes that our findings and recommendations primarily relate to the Ridge and the Water Works Project transactions, and may not necessarily be generalized to the broader universe of Ex-Im Bank transactions. Our approach is to review the transactions from a lessons learned perspective and to help identify potential systemic improvements in Ex-Im Bank's policies and procedures. The report is guided by the Points of Inquiry ("POI") listed above. For each of the POIs, OIG provides applicable standards based on Ex-Im Bank's policies and procedures, market best practices, peer entities, as well as rating agent criteria. The report continues with OIG's findings and attendant recommendations to management.

During our inspection, OIG observed differences in the Bank's level of due diligence and monitoring of the Ridge and Water Works transactions. With respect to Ridge, OIG determined that Ex-Im Bank staff performed an appropriate level of due diligence and monitoring and pro-actively addressed payment risks through structural enhancements to the transaction. For example, the Bank's monitoring during the initial construction period included two site visits as well as several meetings with the EPC contractor in Miami. In addition, we found the Ridge transaction to be proceeding on time and on budget. Finally, OIG found no evidence to support allegations of overbilling as stated by the local press in Ghana.

In contrast, OIG found that Bank staff did not perform a sufficient level of project due diligence and monitoring with respect to Water Works Project during the construction phase of the project. The failure to properly monitor Water Works Project is of particular concern as OIG's inspection found the distribution of water to the surrounding 22 communities to be intermittent. Furthermore, transaction files supporting the Bank's approval and monitoring processes for the two projects were incomplete and documentation was not readily available for inspection.

Point of Inquiry 1: Did Ex-Im Bank conduct sufficient due diligence and appropriately structure and monitor the Ridge transaction in accordance with Bank policy and applicable standards?

Applicable Standards

OIG reviewed various Applicable Standards and focused on the following:

1. Ex-Im Bank's policies on risk rating, technical risk assessment and financial risk assessment for sovereign transactions as outlined in *Chapters 2 and 7: Standard Long-Term Preliminary Commitments and Insurance Applications* of the Loan, Guarantee and Insurance Manual, January 2010 and January 2013, respectively ("Loan Manual").
2. Ex-Im Bank sovereign transaction monitoring policies as outlined in *Chapter 22: Post-Operative Monitoring* of the Loan, Guarantee and Insurance Manual, January 2010 and March 2014 ("Loan Manual"); Asset Management Division's Operating

Manual, March 2009 (“Monitoring Manual”); and the Operations and Data Quality Division Manual, January 2013 (“Operations Manual”).

Ex-Im Bank Policies on Risk Rating and Sovereign Risk Assessment

According to Chapters 2 and 7 of the Ex-Im Bank Loan Manual, the Interagency Country Risk Assessment (“ICRAS”) process is used to determine the sovereign and non-sovereign risk rating for a specific country. Ex-Im Bank staff use these risk ratings in determining the budget cost level (“BCL”) for transactions, the level of Loan Loss Reserves, and the minimum pricing allowed under OECD guidelines.

Ex-Im Bank Policies on Technical and Environmental Risk Assessments

In approving long-term transactions, Ex-Im Bank’s policies outlined in Chapters 2 and 7 of the Loan Manual require an assessment of a transaction’s technical and environmental risks. This analysis is conducted by the Engineering and Environmental (“E&E”) staff. The technical risk assessment addresses: (1) “issues associated with the feasibility of the transaction or underlying project,” and (2) the “technical policy matters such as item eligibility issues and related elements pertaining to Bank policies.” The environmental risk assessment involves a review of the “transaction’s or underlying project’s effects on the environment against the Bank’s environmental procedures.”

Ex-Im Bank Sovereign Transaction Monitoring Policies

Within AMD, the Portfolio Management and Control Group (“PMCG”) is responsible for managing all sovereign risk transactions other than those originated by the Transportation Division. According to Chapter 22 of the Ex-Im Bank Loan Manual, PMCG’s responsibilities include: (1) monitoring compliance with the approved transaction terms (Special Conditions, Endorsements, Financial and Non-financial Covenants); (2) periodic assessment of obligor risk, with the scope and frequency of assessments determined by the size and risk rating of the obligor exposure; (3) reviewing and processing post-operative transaction related requests for waivers, consents, and amendments (other than those relating to medium term insurance policies) in a timely fashion, while preserving the value of Ex-Im Bank’s credit assets as well as protecting the Bank’s legal rights in all transactions; and (4) management of troubled/impaired assets (identified as a result of reported late payments or as a result of on-going compliance/financial monitoring) through prompt follow-up with lenders/borrower and formulation of an action plan that may include forbearance and pre/post claim restructuring.

Finding 1: With respect to the Ridge transaction, Ex-Im Bank complied with policy and best practices on due diligence and monitoring, and pro-actively addressed payment risks through structural enhancements to the transaction.

On August 27, 2014, the OIG conducted an onsite inspection of the Ridge project site in Accra, Ghana. OIG observed that the project is proceeding on time and on budget with a targeted completion date of March 30, 2017. OIG determined that Ex-Im Bank staff performed an appropriate level of due diligence and pro-actively addressed payment

risks through structural enhancements to the transaction. For example, Bank staff ascribed a Loan Loss Reserve commensurate with a BCL (b) (4).” This adjustment was done to increase the Loan Loss Reserve amount in response to the higher level of perceived payment risk. In addition, Ex-Im Bank implemented a Pre-Positioning Agreement to ensure timely payments by the Borrower and held meetings with MOF and MOH officials to identify methods to improve the efficiency of their internal payment processes.

OIG found that Ex-Im Bank staff performed an appropriate level of monitoring for the Ridge transaction during the construction phase of the project. Bank staff conducted two site visits of the Ridge project in February and July of 2014. Ex-Im Bank’s trip reports and OIG’s subsequent interviews with Bank staff indicate they are informed of the progress of the project and the difficulties the EPC contractor has experienced working with the GOG Cabinet and the parliamentary approval processes. In addition, Ex-Im Bank staff continues to monitor these issues and engage in dialogue with MOF officials. OIG’s review of the quarterly progress reports received by Bank staff for Ridge indicated that the quality and timeliness of the reports are in compliance with the terms of the Credit Agreement. However, Ex-Im Bank did not ensure the reports were certified “correct” by the Purchaser as required (see Finding 4 of this Report).

OIG makes no recommendations for corrective action based on this finding.

Point of Inquiry 2: Did OIG’s inspection substantiate allegations of cost overruns and potential malfeasance pertaining to the Ridge contract?

Applicable Standards

OIG reviewed various Applicable Standards and focused on the following:

1. Value for Money (“VFM”) analysis and best practices as outlined in OECD¹² and World Bank¹³ publications.
2. Leadership in Energy and Environmental Design (“LEED”) certification requirements as outlined in the US Green Building Council’s (“US GBC”) *Guide to LEED Certification: Commercial*.¹⁴

VFM Analysis and Best Practices

While definitions of VFM vary by jurisdictions, the general purpose of a VFM analysis is to inform a government’s decision on whether to implement a proposed project and whether the proposed project is fairly priced. VFM analysis typically involves a combination of quantitative and qualitative analysis to assess the net economic impact

¹² For more information see <http://www.oecd.org/development/effectiveness/49652541.pdf>.

¹³ For more information see <http://www.ppiaf.org/sites/ppiaf.org/files/publication/VFM.pdf>.

¹⁴ For more information see <http://www.usgbc.org/cert-guide/commercial>.

of the project. According to the OECD (2012), the VFM aims to strike a balance between economy, efficiency and effectiveness. VFM analysis has become more prominent on the development agenda. This is due to expectations that governments manage public funds properly and aid organizations are constantly looking for ways to make financing use more efficient.

LEED Certification Requirements

Developed by the US GBC, the LEED certification program is a set of rating systems for the design, construction, operation and maintenance of green buildings, homes and neighborhoods. LEED is intended to help building owners and operators be environmentally responsible and use resources efficiently. The certification program is a comprehensive third party review process designed to allow owners of eligible projects to apply for and potentially achieve LEED certification.

The certification is based on performance data for both the building and the site for a specific performance period that must satisfy a combination of characteristics necessary for the specific level of certification desired. LEED certification rates projects along several dimensions including sustainable sites, water efficiency, energy and atmosphere, materials and resources, indoor environmental quality, innovation and design process, and regional priority credits.

Finding 2: OIG’s inspection did not substantiate allegations of corporate malfeasance or pricing irregularities in the Ridge construction contract.

According to local Ghanaian media reports and the VFM analysis completed by Crown Agents, the Ridge contract was possibly overpriced by \$142 million.¹⁵ The VFM report assessed an “overall” risk level of “high” to the contract and asserted that the fair value of the total contract price should have been \$165 million, not \$307 million. To address the allegations and justify the project budget, Americaribe submitted a detailed response to the Ghana procurement authorities. The response included an extensive cost analysis of the Ridge project design and information on comparable hospital renovation projects. In October 2013, Americaribe received approval from the Ghana procurement authorities to proceed with the project. Ex-Im Bank officially declared the Ridge transaction as “operative” effective March 26, 2014.

As part of this inspection, OIG reviewed relevant documentation, including Crown Agent’s VFM analysis, the EPC contractor’s response, medical equipment invoices and LEED certification requirements. In addition, OIG conducted interviews with Crown Agents, the EPC contractor, sub-contractors, project design engineers and architects. OIG verified the accuracy of Americaribe’s response to the allegations directly with the MOH and concluded that the allegations of pricing irregularities were not supported by the VFM analysis. Finally, OIG confirmed that factors such as the impact of project phasing and the use of inferior market comparables contributed to the substantial

¹⁵ For more information see <http://news.peacefmonline.com/pages/news/201403/192926.php>.

pricing differences between the actual contract and the VFM “fair value” quoted by the press. For further details see Appendix I of this Report.

OIG makes no recommendations for corrective action based on this finding.

Point of Inquiry 3: Did Ex-Im Bank conduct sufficient due diligence and appropriately structure and monitor the Water Works Project in accordance with Bank policy and applicable standards?

Applicable Standards

OIG reviewed various Applicable Standards and focused on the following:

1. Ex-Im Bank’s policies on risk rating, technical risk assessment and financial risk assessment for sovereign transactions as outlined in *Chapters 2 and 7: Standard Long-Term Preliminary Commitments and Insurance Applications* of the Loan, Guarantee and Insurance Manual, January 2010 and January 2013, respectively (“Loan Manual”). See Point of Inquiry 1 above for a description of these policies.
2. Ex-Im Bank’s policy for Tied Aid as outlined in *Chapter 18: Tied Aid* of the Loan Manual.
3. OECD policies and guidelines on Tied Aid as outlined in *Arrangement on Officially Support Export Credits [TAD/PG (2007)28/FINAL]*, December 21, 2007 (“Arrangement Rules”).
4. Developmental assistance guidelines as set forth in various OECD Developmental Assistance Committee publications including *Managing Aid: Practices of DAC Member Countries*, 2009.
5. WHO guidelines for water treatment and distribution as outlined in *Guidelines for Drinking-Water Quality*, Fourth Edition, 2011 and *Safe Piped Water: Managing Microbial Water Quality in Piped Distribution Systems*, 2004.
6. US federal agency policies, standards and procedures, related to the development of water resources as outlined in US Department of State (“State Department”) and US Agency for International Development (“US AID”) publications. For example, *Feasibility Studies, Economic and Technical Soundness Analysis, Capital Projects*, published by the State Department and US AID Office of Engineering (1964), and *US AID Construction Assessment*, published by US AID (November 21, 2014).
7. US federal agency policies, standards and procedures, related to the management and oversight of federal funded foreign aid as outlined in US AID’s *Management of Direct AID Contracts, Grants, and Cooperative Agreements*, 1986.

Tied Aid Policies and Guidelines

According to Chapter 18 of the Ex-Im Bank Loan Manual, “Tied Aid is a concessional trade-related aid credit, provided by a donor government, to induce the borrower to

purchase equipment from suppliers in the donor's country. Tied Aid is typically offered as a component of development assistance to the recipient country."

Ex-Im's Charter gives the Bank the authority to match foreign tied aid offers, provided the transactions meet specific principles and guidelines as agreed upon by Ex-Im Bank and the US Department of the Treasury. There are five principles that guide the use of Tied Aid, three of which are considered to be particularly significant to the Water Works transaction, as follows:

- Principle #1: Tied Aid is a resource that is governed by the simple standard of purposeful and selective use to deter or defend against foreign tied aid that distorts trade, and is utilized so as to maximize the value of these resources.
- Principle #4: A primary use of the Tied Aid is to defend US exporters in emerging markets from foreign competition supported by tied aid.
- Principle #5: Tied Aid should only be used for projects that meet Ex-Im Bank's environmental guidelines.

Pursuant to the OECD Arrangement Rules on Tied Aid credits,¹⁶ "Tied Aid policies should provide needed external resources to countries, sectors or projects with little or no access to market financing. Tied aid policies should ensure best value for money, minimize trade distortion, and contribute to developmentally effective use of these resources."

The Water Works Project qualifies as developmental financing based on the following eligibility criteria:

- The project is financially non-viable, i.e., the project cannot generate cash flow sufficient to cover the project's operating costs and to service its capital outlay.
- The project is not likely to be financed with export credits on market or Arrangement terms.

As the Water Works Project is related to the supply of water for human consumption, Ex-Im Bank's financing is subject to OECD's Sector Understanding on Water Treatment and Energy Renewable Projects. At the time of credit approval, the Sector Understanding provided for special financial terms and conditions such as a repayment term length of 15 years.¹⁷

International financial institutions and US aid organizations emphasize the importance of donor and recipient responsibility for exercising a higher standard of due diligence and monitoring for developmental projects that provide environmental benefits such as clean

¹⁶ For more information see

[http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?doclanguage=en&cote=tad/pg\(2007\)28/final](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?doclanguage=en&cote=tad/pg(2007)28/final).

¹⁷ The current Sector understanding provides a repayment length of 18 years.

water.¹⁸ In response to OECD's mandate to strengthen the volume and developmental effectiveness of aid, its Development Assistance Committee ("DAC") has set forth policy principles to address aid programming and management that include project appraisal, program assistance and technical cooperation. According to the DAC, "[p]roject performance depends on both donor and recipient action ... both have interest in, and responsibility for, the best use of scarce public funds ..."¹⁹

Additional guidance for the prudent stewardship of public funds used in the implementation of aid and grants is provided by the US Agency for International Development, the US Department of State, and various multilateral aid organizations.²⁰ Among the core principles cited in these publications are the following:

- The project should ensure best value for money and contribute to developmentally effective use of these resources.
- The infrastructure design process should ensure that the recipient country can properly maintain and operate the proposed infrastructure.
- The US agency administering the grant should exercise effective oversight of the project. Suggested best practices include the following:
 - To monitor the substantive and technical performance of the contractor
 - To conduct periodic site visits at the site of the project activity.
 - To assure compliance of the contractor with the terms of the contract and to arrange for corrective action for any deficiencies.

Guidelines for Water Treatment and Distribution

Additional guidelines and standards for water treatment and distribution are provided by the World Health Organization ("WHO"). These guidelines prioritize water supply hygiene and recommend a water distribution network design that (i) identifies and prevents low pressures, especially negative pressures in the system; and (ii) that

¹⁸ For more information see <http://www.oecd.org/env/resources/46228672.pdf> and <http://www.oecd.org/env/resources/OECD%20Work-on-Water-2014%20update%20AUGUST%20web%2027.8.14.pdf>.

¹⁹ For more information see <http://www.oecd.org/development/evaluation/50584880.pdf>.

²⁰ For more information see search results, using terms "standards for water purification projects," from US AID's Development Experience Clearing House at https://decsearch.usaid.gov/search?btnG.x=11&btnG.y=9&client=dec_pdfs&proxystylesheet=dec_pdfs&output=xml_no_dtd&proxyreload=1&image.x=8&image.y=9&sort=date:D:L:d1&entsp=a_dec_results_biasing&wc=200&wc_mc=1&oe=UTF-8&ie=UTF-8&ud=1&exclude_apps=1&site=default_collection&filter=0&getfields=*&emdstyle=true&ulang=en&ip=172.16.1.4&access=p&entqr=3&entqrm=0&q=+standards+for+water+purification+projects++inmeta:Sector%3DWater%2520and%2520Sanitation+inmeta:Document%2520Type%3DReference&dnavs=inmeta:Sector%3DWater%2520and%2520Sanitation+inmeta:Document%2520Type%3DReference&start=10.

minimizes the risks of contamination during operational activities and to avoid water stagnation.²¹

Finding 3: Although the Water Works project is operational, water distribution to the 22 surrounding communities is intermittent and does not meet the full scope of work envisioned in the Board Memorandum.

The Water Works Project is operational, but water distribution to the 22 surrounding communities is intermittent.

On August 28, 2014, the OIG conducted an onsite inspection of the Water Works facility in Mampong, Ghana. OIG found that the rehabilitated Water Works facility was operational and delivered treated water to Mampong residents. However, water distribution to the surrounding 22 communities is intermittent due to existing issues with voltage irregularities and negative water pressure. These issues were not sufficiently addressed in the commercial contract and scope of work completed by UEM. Specifically, OIG observed that the two booster pumps that service the 22 surrounding communities only operate on an intermittent basis due to the lack of a stable supply of electricity. As a result, the surrounding communities are not receiving clean water from the facility on a regular basis as envisioned in the Board Memorandum.

The scope of work and project description outlined in the Board Memorandum provide for the rehabilitation of both the water treatment plant and the water distribution system. In describing the transaction, the Board Memorandum stated the “proposed works associated with the rehabilitation and expansion of [the Water Works Project] are extensive and encompass all aspects of water supply from initial extraction through treatment and final distribution to the public.” Finally, the memorandum states that the treated water would be made available to the town of Mampong and its 22 surrounding communities.²²

According to the project description contained in the Board Memorandum, the existing water treatment facility included three booster stations that were in a state of disrepair. One station was to receive a new pump, while the remaining two inoperable booster stations were to be reactivated. The proposed work also included the replacement of pipe work, electrical and control systems.

In accordance with Ex-Im Bank policies, E&E staff conducted an initial technical review of the project to ensure compliance with Ex-Im Bank policies and to confirm the scope of work and equipment to be purchased met the technical requirements of the project. The results of their review were provided in the “Engineering Evaluation” section of the

²¹ For more information see http://whqlibdoc.who.int/publications/2011/9789241548151_eng.pdf and http://www.who.int/water_sanitation_health/dwq/en/safepipedwater.pdf.

²² On December 5, 2008, the Water Works project was presented to the Ex-Im Board of Directors for approval. Additional support for Board approval was based on the premise that the project would be “environmentally beneficial given its focus on the provision of water for human consumption.”

Board Memorandum. OIG found that although the Engineering Evaluation accurately described some of the existing issues with the Water Works Project infrastructure such as reduced treatment capacity and inoperable booster stations, the Engineering Evaluation did not address these conditions in the evaluation of the commercial contract with UEM. For example, the automatic voltage regulators (“AVR”) were not included in the acquisition list and commercial contract bill of quantities for the rehabilitated plant and two booster stations. Instead, the Borrower purchased a water storage tower that could not be used because of negative water pressure. OIG notes the funds spent on the water storage tower could have been put to better use through reallocation of funds within the budget. For example, the funds for the water storage tower could have been allocated towards the purchase of the necessary AVRs.²³

In a subsequent meeting, Bank Staff informed the OIG that it was not responsible for advising the purchaser on the viability and selection of the equipment.²⁴ Moreover, Ex-Im Bank staff stated the Water Works Project was not subject to DAC guidelines and did not require a higher level of due diligence despite the concessionary nature of the Tied Aid.

According to the UEM project manager, the Water Works Project was completed according to the terms of the commercial contract and there are no additional funds to purchase the required AVRs. Although OIG does not express an opinion on the terms of commercial contracts, OIG learned from UEM that the voltage irregularities could be mitigated through the use of three AVRs at a cost of approximately \$210,000.²⁵ Without the AVRs to regulate the electric current, the booster pumps can only run a couple hours a day and must remain in the off position to avoid damage. The voltage irregularity was confirmed by Bank staff and the problem is further complicated due to the inability to predict the flow of electricity through the grid.

The failure of the booster pumps to remain operational can result in low or negative water pressure throughout the distribution system. Over time, this condition can lead to substantial degradation of the water supply through sewage contamination and improper water storage practices. According to a 2013 study of water quality in Ghana,²⁶ low water pressure caused by intermittent distribution allows contaminants to enter the distribution system. Another study conducted by the World Bank (2011)

²³ See Appendix H of this Report for the “Areas of Concern” provided by GWCL’s Project Manager.

²⁴ Exit conference held with Bank staff on February 5, 2015.

²⁵ The cost is approximately \$210,000 for the purchase and installation of three AVRs, one for the revamped treatment plant and two for the booster stations.

²⁶ For more information see http://web.mit.edu/watsan/Docs/Student%20Theses/Ghana/2013/Thesis_D_Vacs_Renwick_FINAL_5-31-13.pdf.

estimates Ghana's water distribution losses at approximately 50 percent due to aging infrastructure.²⁷

Did not conduct on-site monitoring

OIG confirmed with E&E staff that they had not visited the Water Works Project site in Mampong either before or during the three-year construction period. Instead, they relied on the Contractor to provide periodic updates and met with GWCL senior officials in Accra in 2013 and 2014. According to the (b) (6),²⁸ , OIG's onsite inspection in August 28, 2014 was the first opportunity the (b) (6) had to discuss their concerns with Ex-Im Bank representatives. (b) (6) expressed their frustrations in their inability to communicate their grievances directly to Ex-Im Bank. They presented a list of concerns to OIG outlined in Table 1 below. In addition to not meeting with (b) (6), OIG found that Ex-Im Bank staff did not require the Borrower ("MOF") to adhere to the project reporting requirements as prescribed in the Credit Agreement (see Finding 4 of this Report). Moreover, although GWCL staff acknowledged they reviewed the construction progress with UEM onsite, both parties stated they were not aware of the requirement to submit quarterly construction progress reports to Ex-Im Bank.

Finally, in meetings with the (b) (6),²⁸ OIG learned that GWCL management was not involved with the signoffs of ongoing invoices and disbursements. The invoices for equipment purchases were sent directly to the MOF for sign off and payment by Ex-Im Bank. Closer involvement with GWCL staff during the design and procurement phase may have resulted in a more appropriate selection of equipment to meet the water treatment and distribution requirements of Mampong and the 22 surrounding communities.

²⁷ For more information see <http://www.infrastructureafrica.org/system/files/library/2011/07/CR%20Ghana.pdf>.

²⁸ GWCL's management team at the time of transaction approval was replaced by a new management team. For more information see <http://www.bloomberg.com/news/articles/2013-04-17/ghana-water-company-names-new-managing-director-gna-reports>.

Table 1: GWCL Concerns (Confidential and Proprietary Information)		
Issue	Impact	Details
No provision for Automated Voltage Regulator (“AVR”) for the rehabilitated treatment plant.	Current	Lower treated water capacity due to intermittent water treatment from the rehabilitated treatment plant.
No provision for AVRs for the booster stations.	Current	Intermittent distribution to outlying areas.
No provision for pump parts and control panel for the rehabilitated treatment plant.	Current	Lower treated water capacity due to lower efficiency from the rehabilitated treatment plant.
No Variable Frequency Drive (“VFD”) spares for the new treatment plant.	Future	Potential shortage of treated water if the VFD were to break down.
No AVR spares for the new treatment plant.	Future	Potential shortage of treated water if AVR breaks for the new treatment plant.

Source: Water Works Project – GWCL Concerns (Appendix H of this Report).

At the time of this Report, the Water Works financing is current in its principal and interest payments and is secured by a sovereign guarantee. However, the inability of the water treatment facility to provide safe drinking water to the local communities as envisioned, may give rise to negative publicity and reputational risk to Ex-Im Bank. Failure to fully consider these elements could result in a higher risk of repayment to Ex-Im Bank, particularly in situations where the project is not functioning as originally intended.

Proper monitoring and earlier communications with GWCL staff could have identified issues with voltage irregularity and negative water pressure earlier and may have facilitated revisions in the scope of work during construction.

RECOMMENDATION

OIG recommends that Ex-Im Bank undertake the following:

- Ex-Im Bank should conduct a post-mortem review of the Water Works transaction to identify ways to improve the process for assessing the technical feasibility of a project and to address any technical related matters. For example, the Bank should formally document any potential issues that may prevent a project from being operational and require the Borrower to certify its acknowledgement of those issues.
- Ex-Im Bank should follow OECD DAC Guidelines for developmental projects that contain a Tied Aid component.
- Ex-Im Bank should consistently adhere to the monitoring requirements set forth in the Credit Agreement.
- In an effort to enhance communication during the construction and post-construction phases of the project, Ex-Im Bank should establish policies and procedures for the borrower and end-user (e.g., GWCL) to address grievances with

the Bank directly. This is particularly important in developing countries where formal reporting mechanisms may not exist.

Management Response:

Please see Appendix A, Management Response and OIG Evaluation.

Point of Inquiry 4: Were transaction events adequately documented and related files readily available for examination?

Applicable Standards

OIG reviewed various Applicable Standards and focused on the following:

1. Regulations applicable to federal agencies for direct loan programs: OMB Circular No. A-129, *Policies for Federal Credit Programs and Non-Tax Receivables* and US Department of the Treasury's ("Treasury") *Bureau of the Fiscal Service's Managing Federal Receivables Guide*.
2. Regulations applicable to federal agencies for recordkeeping and related internal control activities: Title 44 USC § 3101, *Records management by agency heads; general duties*, and GAO/AMD-00-21.3.1, November 1999, *Standards for Internal Controls in the Federal Government*; and OMB Circular A-123, *Management's Responsibility for Internal Control* (Effective FY 2006)(Revised December 21, 2004).
3. Ex-Im Bank's Character, Reputational and Transaction Integrity ("CRTI") due diligence policy and procedures as outlined in *Chapter 24: Credit Review and Compliance* of Ex-Im Bank's Loan Manual dated January 2010.

Federal Agency Regulations

Government-wide guidance for federal agencies for the management and operation of direct loan programs includes the following:

1. OMB Circular No. A-129, *Policies for Federal Credit Programs and Non-Tax Receivables*, revised in January 2013: This circular "prescribes policies and procedures for justifying, designing, and managing federal credit programs." It includes policies for credit extension covering applicant screening, creditworthiness assessment, loan documentation, and collateral requirements.²⁹
2. Treasury's Bureau of the Fiscal Service's *Managing Federal Receivables* guide provides federal agencies with a general overview of standards, guidance, and

²⁹ For more information see

http://www.whitehouse.gov/sites/default/files/omb/assets/a129/rev_2013/pdf/a-129.pdf.

procedures for successful management of credit activities, including requirements for evaluating and documenting loan applications.³⁰

Government-wide guidance for federal agencies for records management and related internal control activities includes the following:

1. Title 44 USC § 3101: Ex-Im Bank, through its Chairman, is required to “make and preserve records containing adequate and proper documentation of the organization, function, policies, decisions and essential transactions of the ... [Bank] ... designed to furnish the information necessary to protect the legal and financial rights of the Government and the persons directly affected by the ... [Bank’s] ... activities.”³¹
2. GAO/AMD-00-21.3.1, November 1999: Under GAO’s *Standards for Internal Controls in the Federal Government*, “Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation.” The standards state further that: “Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination.”³²

Ex-Im Bank’s CRTI/KYC Transaction Due Diligence

Ex-Im Bank’s policies for CRTI/KYC transaction due diligence includes the following:

1. Chapters 8 and 24 of the Loan Manual, January 2010 and January 2013, respectively: For each transaction, the Bank’s internal CRTI policies require Bank staff to document the CRTI analysis. Moreover, a physical copy of the supporting documentation is to be maintained in the transaction files.

Finding 4: Ex-Im Bank’s transaction files were incomplete and documentation was not readily available for examination.

Ex-Im Bank’s internal processes require the generation and collection of supporting documentation. OIG found that transaction files for the Ridge and Water Works projects were incomplete and documentation was not readily available for inspection. Furthermore, records reviewed by the OIG were improperly stored. Federal regulations for records management and related internal control activities require transactions to be clearly documented and documentation to be readily available for examination. Absent a complete record of information, there is an increased risk that Ex-Im Bank did not consider all relevant information in approving and monitoring the Ridge and Water

³⁰ For more information see http://fiscal.treasury.gov/fsservices/gov/debtColl/rsrsrcsTools/debt_guidance_mfr.htm.

³¹ For more information see <http://www.archives.gov/about/laws/fed-agencies.html>.

³² For more information see <http://www.gao.gov/assets/80/76455.pdf>.

Works transactions. Moreover, insufficient recordkeeping makes it difficult for the Bank to provide a basis for its decision-making processes. Lastly, incomplete transaction files or unavailable documentation impede the OIG's ability to assess the Bank's performance and adherence to internal policies and procedures. The following table summarizes the recordkeeping issues identified during OIG's inspection.

Table 2: Ex-Im Bank Transaction Recordkeeping Issues (Confidential and Proprietary Information)	
Issue	Details
Records were incomplete	The Water Works Project Board Memorandum did not include any statements regarding the results of the CRTI review.
	For the Ridge transaction, Ex-Im Bank did not disclose the rationale and adjustment to the Loan Loss Reserve in the Board Memorandum documented in the transaction files. The Board's approval of the transaction was contingent upon Bank staff amending the Board Memorandum to document the rationale for the change in Loan Loss Reserve. The change in ascribing a loan loss reserve amount that is commensurate with a (b) (4) was only discovered by the OIG through a review of the Board transcript of the pre-briefing meeting held on November 15, 2012.
	The final acquisition list for the Water Works Project contained "TBDs" (i.e., To Be Determined) as entries for suppliers. Thus, Ex-Im Bank engineering staff did not know the suppliers the Exporter used.
	Quarterly progress reports for both Ridge and Water Works transactions were not certified "correct" by the Purchaser/Borrower as required by the respective Credit Agreement. The Water Works Project progress reports covered "monthly" progress and did not adhere to the required reporting elements.
Records were not readily available	Bank records supporting the conduct of CRTI/KYC due diligence for both transactions were not readily available for examination. The OIG made several requests for the records over a three-month period.
	For the Water Works transaction, Ex-Im Bank did not provide a copy of the commercial contract between the Exporter and the End-user. After submitting several requests, the OIG obtained a copy of the contract from the Exporter.
	The Water Works Project construction progress reports were not collected on a quarterly basis by Ex-Im Bank as required by the Credit Agreement
Records were improperly stored	AMD PMCG call reports for the Ridge transaction located on the Ex-Im Bank shared drive were not uploaded to the AMD Asset Monitoring System.

RECOMMENDATION

- In a prior OIG audit report (OIG-AR-13-05), OIG recommended that Bank staff evaluate its records management practices.³³ The Bank agreed with the recommendation and established a completion target date of March 31, 2015. Therefore, OIG recommends that the Bank ensure it establishes a uniform recordkeeping system that provides for a complete historical record of the approval and monitoring processes for transactions. This would include documenting Bank decisions and the related rationale in the transaction files.

Management Response:

Please see Appendix A, Management Response and OIG Evaluation.

³³ The audit report found that Ex-Im Bank's "loan documentation did not provide an adequate audit trail or evidence to support Ex-Im Bank's decision-making for each loan reviewed" For more information see <http://www.exim.gov/oig/upload/OIG-Final-Report-Audit-of-Ex-Im-Bank-s-Management-of-Direct-Loans-and-Related-Challenges-09-26-13-2.pdf>.

VI. CONCLUSION

The Ghana inspection involved the review of two transactions: the renovation and expansion of the Ridge Hospital Complex (“Ridge”) in Accra, Ghana (AP087225) and the rehabilitation and expansion of the Kumawu-Mampong Water Treatment Works project (“Water Works”) in Mampong, Ghana (AP083137). Ex-Im Bank provided financing in the amount of \$155.4 million to Ridge and Tied Aid financing in the amount of \$23.1 million to the Water Works. The latter contains a \$ 7.8 million grant. At the time of this Report, both financings are current in interest and principal payments. OIG’s inspection focused primarily on Ex-Im Bank’s performance and adherence to internal policies and procedures. The scope of our work involved a thorough analysis of project documents, engineering reports and industry best practices. We conducted site visits and interviews with representatives of the Borrower and related entities, exporters, outside consultants, lenders and Ex-Im Bank staff.

Our inspection found the Ridge hospital transaction to be proceeding on time and on budget with a targeted completion date of March 30, 2017. OIG determined that Ex-Im Bank staff performed an appropriate level of due diligence and monitoring and pro-actively addressed payment risks through structural enhancements to the transaction. Finally, OIG found no evidence to support prior allegations of cost overruns and malfeasance published in the local press.

In contrast, OIG determined that Ex-Im Bank staff did not perform sufficient due diligence and technical monitoring of the Water Works Project during the design, procurement, and construction phases of the project. Specifically, the planned rehabilitation and expansion of the existing water treatment facility failed to address existing voltage irregularities at the water treatment facility and booster pump stations as well as negative water pressure issues. These omissions resulted in a “completed” project that is operational, but delivers water intermittently to the 22 surrounding communities of Mampong. In its current state, the project does not fully comply with the scope of work envisioned in the Board Memorandum or the development goals of the Tied Aid Financing.

Onsite monitoring by Bank staff during the construction phase of the Water Works and earlier communications with local GWCL staff could have identified the above issues earlier, allowed for revisions in the scope of the contract prior to completion, and resulted in a better use of the committed funds. Finally, certain internal due diligence and monitoring procedures had not been observed and transaction documentation was not readily available for inspection when requested.

Our inspection produced several key findings related to the points of inquiry:

Point of Inquiry 1: Did Ex-Im Bank conduct sufficient due diligence and appropriately structure and monitor the Ridge transaction in accordance with Bank policy and applicable standards?

Finding 1: With respect to the Ridge transaction, Ex-Im Bank complied with policy and best practices on due diligence and monitoring, and pro-actively addressed payment risks through structural enhancements to the transaction.

Recommendation: OIG makes no recommendations for corrective action based on this finding.

Management Response:

Please see Appendix A, Management Response and OIG Evaluation.

Point of Inquiry 2: Did OIG’s inspection substantiate allegations of cost overruns and potential malfeasance pertaining to the Ridge contract?

Finding 2: OIG’s inspection did not substantiate allegations of corporate malfeasance or pricing irregularities in the Ridge construction contract.

Recommendation: OIG makes no recommendations for corrective action based on this finding.

Management Response:

Please see Appendix A, Management Response and OIG Evaluation.

Point of Inquiry 3: Did Ex-Im Bank conduct sufficient due diligence and appropriately structure and monitor the Water Works Project in accordance with Bank policy and applicable standards?

Finding 3: Although the Water Works Project is operational, water distribution to the 22 surrounding communities is intermittent and does not meet the full scope of work envisioned in the Board Memorandum.

Recommendations: OIG recommends that Ex-Im Bank undertake the following:

- Ex-Im Bank should conduct a post-mortem review of the Water Works Project to identify ways to improve the process for assessing the technical feasibility of a project and to address any technical related matters. For example, the Bank should formally document any potential issues that may prevent a project from being operational and require the Borrower to certify its acknowledgement of those issues.
- Ex-Im Bank should follow OECD DAC guidelines for developmental projects that contain a Tied Aid component.
- Ex-Im Bank should consistently adhere to the monitoring requirements set forth in the Credit Agreement.
- In an effort to enhance communication during the construction and post-construction phases of the project, Ex-Im Bank should establish policies and procedures for the borrower and end-user (e.g., GWCL) to address grievances with the Bank directly. This is particularly important in developing countries where formal reporting mechanisms may not exist.

Management Response:

Please see Appendix A, Management Response and OIG Evaluation.

Point of Inquiry 4: Were transaction events adequately documented and related files readily available for examination?

Finding 4: Ex-Im Bank's transaction files were incomplete and documentation was not readily available for examination.

Recommendation: In a prior OIG audit report (OIG-AR-13-05), OIG recommended that Bank staff evaluate its records management practices. The Bank agreed with the recommendation and established a completion target date of March 31, 2015. Therefore, OIG recommends that the Bank ensure it establishes a uniform recordkeeping system that provides for a complete historical record of the approval and monitoring processes for transactions. This would include documenting Bank decisions and the related rationale in the transaction files.

Management Response:

Please see Appendix A, Management Response and OIG Evaluation.

APPENDIX A: MANAGEMENT RESPONSE AND OIG EVALUATION



EXPORT-IMPORT BANK
OF THE UNITED STATES

March 26, 2015

Michael McCarthy
Deputy Inspector General
Office of the Inspector General
Export-Import Bank of the United States
811 Vermont Avenue NW
Washington, DC 20571

Dear Mr. McCarthy,

Thank you for providing the Export-Import Bank of the United States ("Ex-Im Bank" or "the Bank") with the final version of the Office of the Inspector General's "Report on Ghana Credits: Ridge Hospital Complex & Kumawu-Mampong Water Treatment Works" (OIG-INS-15-01) on March 24, 2015. Ex-Im Bank expedited its review in order to provide Management's comments on March 26, 2015. The Ex-Im Bank continues to support the OIG's work, which complements the Bank's efforts to continually improve its processes. Ex-Im Bank is proud of the strong and cooperative relationship it has with the OIG as demonstrated by Bank staff consistently providing material on a timely basis throughout the course of this 11 month inspection. The Bank is pleased that the OIG noted the cooperation extended by the Bank during the inspection.

Ex-Im Bank also appreciates that the OIG acknowledges that "Bank staff performed an appropriate level of due diligence and monitoring and proactively addressed payment risks through structural enhancements" in the Ghana Ridge transaction. This is evidence of Ex-Im Bank's continuous efforts to regularly improve its policies and procedures based on lessons learned from prior transactional experiences.

The Ex-Im Bank Board Memorandum for the Ghana Mampong Water project provides,

“The Project will supply water for the town of Mampong and 22 other small communities in the Ashanti region in central Ghana inhabited by approximately 50,000 individuals. The proposed works encompass all aspects of water supply from initial extraction through treatment and final distribution. The Project aims to reestablish effective use of existing infrastructure, which was originally constructed in 1961. Following implementation of the proposed rehabilitation and expansion activities, treated water capacity will be increased to 7000m³/day, surpassing the projected 2020 demand.”

The Ghana Mampong Water project fully meets the scope of work envisioned in the Board Memorandum and it successfully achieved its objectives. The Ghana Mampong Water project now provides consistent potable water to Mampong (67.4% of the region’s population) that meets the quality standards of the World Health Organization, which was the primary objective of the transaction. Additionally, the project has also made water available to 22 surrounding communities that did not have access to clean water prior to the project’s completion.

In accordance with the Board Memorandum, the project has met, and exceeded, the proposed capacity requirement of 7000 cubic meters of water per day and has been deemed fully operational by Ghana Water Company Limited (“GWCL”). The performance certificate was issued last month (February 2015) following the expiration of the 1-year defects liability period during which GWCL had recourse to go back to the exporter (“UEM”) to ask for resolution of issues. In fact, the certification states that the capacity exceeds the expected 7000 cubic meters per day, and UEM “has successfully completed to our full satisfaction and within the contractual time frame, the Mampong Water Supply, Rehabilitation and expansion Project” which included the “Process Design as well as Civil, Mechanical and Electrical Engineering Design to increase the capacity of the Mampong Water Treatment Plant by a further 8000 cubic meters per day and the rehabilitation of the existing plant to restore to its design capacity of 2500 cubic meters per day.” The certification was made by the GWCL Managing Director, the Engineer’s

representative of GWCL's Civil & Planning Group, and GWCL's Project Manager for the Mampong Water Treatment Rehabilitation and Expansion Project. Collectively, they represent the Organizational leadership as well as the on-the-ground technical representative for the project.

It should also be noted that despite the distribution system for the communities beyond Mampong being in need of replacement, GWCL stated that funds should not be used for this purpose so that supply of water to the population center of Mampong would be ensured, further demonstrating that consistent supply of water to Mampong was the main objective of GWCL.

In regard to comments in the report related to tied aid, it is important to note that Ex-Im Bank met all legal obligations as it relates to the tied aid portion in this transaction, and that Ex-Im Bank is not a developmental agency but rather an agency with the mission of supporting U.S. exports. Ex-Im Bank utilized the tied aid structure in this transaction in order to "level the playing field" in competition with non-US exporters and export credit agencies, rather than to act in a developmental capacity per se. By longstanding policy and practice, Ex-Im Bank has been explicit that it employs tied aid structures purely for commercial competition reasons. Irrespective as to whether the underlying project had a development use and/or met development criteria, Exim did not utilize the tied aid matching fund in this transaction for development reasons. The bank is expressly not an aid or development agency. Ex-Im Bank entered into a tied aid arrangement to counter a foreign ECA which had offered tied aid inconsistent with the Arrangement rules and losing this deal could have threatened long run US commercial interests in the country.

The tied aid program was established in Ex-Im Bank's 1986 reauthorization, signed into law by President Reagan. The President's statement at the time of signature included the following:

"I am pleased that this bill gives the Bank the authority for the tied-aid war chest that I requested in September 1985. This authority will give the United States needed leverage for use in negotiations to eliminate predatory financing practices whereby countries mix official export

financing with concessional foreign aid in an effort to undercut bids on major overseas projects.”

Ex-Im Bank’s policies and procedures guiding use of the tied aid matching fund were crafted with high level Treasury engagement and were subject to Congressional oversight. These policies and procedures reflect a clear and strongly noted Congressional intent that this program avoid any inference or association with aid/development goals or practices. Any connection to any kind of aid/development practices risks starting a momentum that could ultimately cost Exim a critical competitive program.

Recommendation 1: OIG recommends that Ex-Im Bank undertake the following:

Ex-Im Bank should conduct a post-mortem review of the Water Works transaction to identify ways to improve the process for assessing the technical feasibility of a project and to address any technical related matters. For example, the Bank should formally document any potential issues that may prevent a project from being operational and require the Borrower to certify its acknowledgement of those issues.

Management Response: Ex-Im Bank concurs with this recommendation.

The Bank has a current standard practice of applying lessons learned from past transactions to current and future transactions. The Bank staff has conducted a post mortem review of the Mampong Water project and the Bank has determined that the process for assessing the technical feasibility was appropriate and sufficient. The Mampong project is performing successfully as contracted, Mampong is consistently receiving potable water, the 22 surrounding areas which were previously not receiving potable water are now receiving potable water intermittently as expected, and both the Government of Ghana and the end-user, GWCL, have expressed their satisfaction with the project.

Recommendation 2: OIG recommends that Ex-Im Bank undertake the following:

Ex-Im Bank should follow OECD DAC Guidelines for developmental projects that contain a Tied Aid component.

Management Response: Ex-Im Bank does not concur with this recommendation.

As explained above, it is not within the scope of the Bank's mission to provide developmental assistance as it is the role of other US Government agencies such as the United States Agency for International Development (USAID) or the Overseas Private Investment Corporation (OPIC). The intent of Ex-Im Bank's financing was to counter concessionary financing provided by a foreign government (the Netherlands), which potentially would have displaced U.S. exporters from the market, not to provide developmental aid to Ghana. Therefore, consistent with the longstanding policy of the Bank, it would not have been appropriate for the Bank to follow OECD DAC Guidelines for developmental projects in this or other cases of tied aid financing by the Bank. Management will be pleased to discuss further with the OIG the basis and rationale for the Bank's consistent longstanding policy and practice on this issue.

Recommendation 3: Ex-Im Bank should consistently adhere to the monitoring requirements set forth in the Credit Agreement.

Management Response: Ex-Im Bank concurs with this recommendation.

It is Ex-Im Bank policy to apply strong monitoring practices throughout the life of transactions. Proper monitoring was conducted on this commercial project. Ex-Im Bank staff's monitoring activities identified compliance/reporting issues which were discussed with the appropriate management officials of the Sovereign and actions were taken to address those issues. The Bank's monitoring staff visited the borrower three times and confirmed with the senior officials overseeing the project the necessity of adhering to the monitoring requirements as set forth in the Credit Agreement. The OIG's findings with respect to the Ridge financing, which was made operative after the Ghana Mampong Water project, illustrate how Bank staff implements the lessons it learns from previous transactions.

Recommendation 4: OIG recommends that Ex-Im Bank undertake the following:

In an effort to enhance communication during the construction and post-construction phases of the project, Ex-Im Bank should establish policies and procedures for the borrower and end-user (e.g., GWCL) to address grievances with the Bank directly. This is particularly important in developing countries where formal reporting mechanisms may not exist.

Management Response: Ex-Im Bank concurs with this recommendation.

Ex-Im Bank has contractual obligations with the borrower and established protocols on relationship management with all parties involved in a transaction. Additionally, throughout this transaction Ex-Im Bank has been in contact with both the borrower and end-user and, on multiple occasions, both have expressed their satisfaction with the project and at no moment has a grievance been communicated to Ex-Im Bank. It would be inappropriate and contrary to the role of the Bank to act as an intermediary between the Sovereign and its own governmental entities which are not parties to the credit agreement with the Bank. Similarly, it is not the Bank's role to determine the sufficiency of, or interfere with, the reporting mechanisms put in place by sovereign governments. Throughout the course of this transaction Bank staff traveled to Ghana to meet with GWCL and the MOF. Monitoring staff traveled to Ghana and met with the GWCL managing director and his team on July 14, 2013, they met with GWCL head of project monitoring on February 25, 2014 and they met the managing director and head of project monitoring again on July 23, 2014. These visits are examples of enhanced communication and opportunities that the Bank provides for project issues to be expressed to monitoring staff.

Recommendation 5: In a prior OIG audit report (OIG-AR-13-05), it was recommended that Ex-Im Bank staff evaluate its record management practices. The Bank agreed with the recommendation and established a completion target date of March 31, 2015. Therefore, OIG recommends that the Bank ensure it establishes a uniform record keeping system that provides for a complete historical record of the approval and monitoring processes for transactions. This would include documenting Bank decisions and the related rationale in the transaction files.

Management Response: Ex-Im Bank concurs with this recommendation and notes that the agreed current target date for the prior OIG recommendation is September 30, 2015. In order to mitigate operational risk associated with records management, the Bank's Enterprise Risk Committee has established a working group to evaluate, develop and implement a records management plan. The working group has designed a pilot project to develop Standard Operating Procedures (SOP) for Transaction Records Management. The pilot project is initially limited to developing the SOP for Transportation Division transactions and will be used as a model for Transaction Records Management SOPs Bank-wide.

In order to establish a uniform record keeping system, newly developed SOPs will be implemented by the Bank divisions. The implementation of the new records management plan will address recommendation 5 of this report.

We thank the OIG for your efforts to ensure the Bank's policies and procedures continue to improve, as well as the work you do with us to protect Ex-Im funds from fraud, waste, and abuse. We look forward to strengthening our working relationship and continuing to work closely with the Office of the Inspector General.

Sincerely,



Charles J. Hall
Executive Vice President and Chief Risk Officer
Export-Import Bank of the United States

OIG Evaluation

On March 26, 2015, Ex-Im Bank provided its management response to a draft of this report, agreeing with four of the OIG's recommendations and disagreeing with one of the recommendations. The response identified the Bank's actions to address the recommendations. OIG considers the Bank's actions sufficient to resolve the reported recommendations, which will remain open until OIG determines that the agreed upon corrective actions are completed and responsive to the reported recommendations.

The Bank's management response to the reported recommendations and OIG's assessment of the response are as follows:

RECOMMENDATION 1

Management Response: Ex-Im Bank concurs with this recommendation. The Bank has a current standard practice of applying lessons learned from past transactions to current and future transactions. The Bank staff has conducted a post mortem review of the Mampong Water project and the Bank has determined that the process for assessing the technical feasibility was appropriate and sufficient. The Mampong project is performing successfully as contracted, Mampong is consistently receiving potable water, the 22 surrounding areas which were previously not receiving potable water are now receiving potable water intermittently as expected, and both the Government of Ghana and the end-user, GWCL, have expressed their satisfaction with the project.

Evaluation of Management's Response: Management's actions are responsive; therefore, the recommendation is resolved and will be closed upon completion and verification that the actions have been implemented.

RECOMMENDATION 2

Management Response: Ex-Im Bank does not concur with this recommendation. As explained above, it is not within the scope of the Bank's mission to provide developmental assistance as it is the role of other US Government agencies such as the United States Agency for International Development (USAID) or the Overseas Private Investment Corporation (OPIC).

The intent of Ex-Im Bank's financing was to counter concessionary financing provided by a foreign government (the Netherlands), which potentially would have displaced U.S. exporters from the market, not to provide developmental aid to Ghana. Therefore, consistent with the longstanding policy of the Bank, it would not have been appropriate for the Bank to follow OECD DAC Guidelines for developmental projects in this or other cases of tied aid financing by the Bank. Management will be pleased to discuss further with the OIG the basis and rationale for the Bank's consistent longstanding policy and practice on this issue.

Evaluation of Management's Response: OIG's recommendation to follow OECD DAC guidelines for developmental projects that contain a Tied Aid component is based on the consideration that these guidelines represent best practices for the prudent stewardship of public funds used in the implementation of Tied Aid, rather than a statutory obligation. These best practices include ensuring best value for money and contributing to

developmentally effective use of these resources, to monitor the substantive and technical performance of the contractor and to conduct periodic site visits at the site of the project activity.

Although OIG acknowledges Ex-Im Bank's inclusion of a Tied Aid component of almost \$8 million was to counter concessionary financing provided by a foreign government, this fact does not absolve the Bank of its responsibility to exercise effective oversight of the project. Proper monitoring and earlier communications with GWCL staff could have identified issues with voltage irregularity and negative water pressure earlier, facilitated revisions in the scope of work during construction and resulted in a fully successful project that distributes clean water to the surrounding Mampong communities as originally envisioned in the Board approval. Finally, OIG notes that the US government is a signatory to the OECD DAC principles and that Tied Aid financing provided by Ex-Im Bank is included in US AID and US Treasury publications as Tied Aid.

OIG considers this recommendation as open or "nonconcurrence."

RECOMMENDATION 3

Management Response: Ex-Im Bank concurs with this recommendation. It is Ex-Im Bank policy to apply strong monitoring practices throughout the life of transactions. Proper monitoring was conducted on this commercial project. Ex-Im Bank staff's monitoring activities identified compliance/reporting issues which were discussed with the appropriate management officials of the Sovereign and actions were taken to address those issues. The Bank's monitoring staff visited the borrower three times and confirmed with the senior officials overseeing the project the necessity of adhering to the monitoring requirements as set forth in the Credit Agreement. The OIG's findings with respect to the Ridge financing, which was made operative after the Ghana Mampong Water project, illustrate how Bank staff implements the lessons it learns from previous transactions.

Evaluation of Management's Response: Management's actions are responsive; therefore, the recommendation is resolved and will be closed upon completion and verification that the actions have been implemented.

RECOMMENDATION 4

Management Response: Ex-Im Bank concurs with this recommendation. Ex-Im Bank has contractual obligations with the borrower and established protocols on relationship management with all parties involved in a transaction. Additionally, throughout this transaction Ex-Im Bank has been in contact with both the borrower and end-user and, on multiple occasions, both have expressed their satisfaction with the project and at no moment has a grievance been communicated to Ex-Im Bank. It would be inappropriate and contrary to the role of the Bank to act as an intermediary between the Sovereign and its own governmental entities which are not parties to the credit agreement with the Bank. Similarly, it is not the Bank's role to determine the sufficiency of, or interfere with, the reporting mechanisms put in place by sovereign governments. Throughout the course of this transaction Bank staff traveled to Ghana to meet with GWCL and the MOF. Monitoring staff traveled to Ghana and met with the GWCL managing director and his team on July 14,

2013, they met with GWCL head of project monitoring on February 25, 2014 and they met the managing director and head of project monitoring again on July 23, 2014. These visits are examples of enhanced communication and opportunities that the Bank provides for project issues to be expressed to monitoring staff.

Evaluation of Management's Response: Management's actions are responsive; therefore, the recommendation is resolved and will be closed upon completion and verification that the actions have been implemented.

RECOMMENDATION 5

Management Response: Ex-Im Bank concurs with this recommendation and notes that the agreed current target date for the prior OIG recommendation is September 30, 2015. In order to mitigate operational risk associated with records management, the Bank's Enterprise Risk Committee has established a working group to evaluate, develop and implement a records management plan. The working group has designed a pilot project to develop Standard Operating Procedures (SOP) for Transaction Records Management. The pilot project is initially limited to developing the SOP for Transportation Division transactions and will be used as a model for Transaction Records Management SOPs Bank-wide.

In order to establish a uniform record keeping system, newly developed SOPs will be implemented by the Bank divisions. The implementation of the new records management plan will address recommendation 5 of this report.

Evaluation of Management's Response: For Recommendation 5, the OIG recognizes the Bank's intent to establish a uniform recordkeeping system that provides for a complete historical record of the approval and monitoring processes for transactions with a target completion date of September 30, 2015. Therefore, the recommendation remains open until Ex-Im Bank provides information to support the actions taken are consistent with the intent of the recommendation, and verification that the proposed actions have been implemented.

Table 3: Summary of Management's Comments on the Recommendations				
Rec. No.	Corrective Action: Taken or Planned	Expected Completion Date ³⁴	Resolved: Yes or No ³⁵	Open or Closed ³⁶
1.	The Bank conducted a post mortem review of the Mampong Water project to identify ways to improve the process for assessing the technical feasibility of a project and to address any technical related matters.	No target completion date provided	Yes	Open
2.	The Bank does not concur with this recommendation.	No target completion date provided	No	Open
3	The Bank agrees to consistently adhere to the monitoring requirements set forth in the Credit Agreement.	No target completion date provided	Yes	Open
4	The Bank agrees to establish policies and procedures for the borrower and end-user to address grievances with the Bank directly, especially in developing countries where formal reporting mechanisms may not exist.	No target completion date provided	Yes	Open
5	The Bank will pilot a project to develop Standard Operating Procedures and establish a uniform recordkeeping system by the end of fourth quarter FY 2015.	9/30/2015	Yes	Open

³⁴ Ex-Im OIG has requested target completion dates for each of the outstanding recommendations.

³⁵ "Resolved" means that (1) Management concurs with the recommendation, and the planned, ongoing, and completed corrective action is consistent with the recommendation; or (2) Management does not concur with the recommendation, but alternate action meets the intent of the recommendation.

³⁶ Upon determination by the Ex-Im OIG that the agreed-upon corrective action has been completed and is responsive to the recommendation, the recommendation can be closed.

APPENDIX B: INSPECTION METHODOLOGY

As part of its review, the OIG's Office of Inspection and Evaluation ("OIE") employed a combination of quantitative and qualitative techniques. The OIE team utilized the following techniques during the research and fieldwork phases:

1. Reviewed the transactions' legal documents, internal Ex-Im Bank reports and correspondence related to the transaction.
2. Interviewed Ex-Im Bank staff from Trade Finance, the Asset Management Division, the Engineering and Environmental, Credit Policy, the OCFO, Country Risk and Operations.
3. Interviewed external parties including representatives of the borrower, exporters, end users, banks, sub-contractors, US government officials located in Ghana, and staff of the VFM provider in London, UK.
4. Analyzed the transactions' budget, disbursement requests, procurement records, invoices and payment history.
5. Reviewed public and open source documents, press releases and related-party analyses.
6. Conducted onsite inspections in August 2014 of the Ridge Project in Accra, Ghana and the Water Works Project in Mampong, Ghana.

To address transaction specific issues as described above under "Objective and Scope," the following additional research and fieldwork was conducted:

1. Researched the impact of single source procurement on Ghanaian project approval and pricing.
2. Reviewed the transactions' VFM reports and Exporter's response to the VFM analysis.
3. Evaluated transaction pricing of Ridge Hospital through the use of market comparables.
4. Reviewed and assessed the proposed Ridge LEED certification.
5. Researched water infrastructure standards for the Water Works Project.

For additional details on interviews conducted during the fieldwork phase of the inspection see Table 4 below.

Table 4: OIG Interviews During Fieldwork Phase (Confidential and Proprietary Information)			
Entity	Ridge Transaction	Water Works Transaction	Timeline
Ex-Im Bank	Bank Staff	Bank Staff	April 2014 – January 2015
Other Lender/ Bank	HSBC	-	July 2014 – August 2014
Exporter/ EPC Contractor	Americaribe USA	UEM USA	Ridge: July – August 2014 Water: July – September 2014
Sub-contractors/ Suppliers	Perkins & Will, SRS Engineering, Symx ³⁷	-	July 2014
Borrower	GOG MOF	GOG MOF	August 2014
End User	GOG MOH	GWCL	August 2014
Local Cost Providers	Americaribe Ghana, BBG	-	August 2014
US Embassy in Ghana ³⁸	Embassy Staff	Embassy Staff	August 2014
VFM Provider	Crown Agents	Crown Agents	August 2014

³⁷ For the Ridge project, Perkins and Will provide architectural services while SRS Engineering provides civil engineering services. Symx is responsible for installation of medical equipment.

³⁸ US Embassy staff include the Economic Officer and Economic Analyst, the Commercial Officer and the Chief of Mission.

APPENDIX C: EX-IM BANK GHANA PORTFOLIO

Table 5: Ex-Im Bank Ghana Portfolio

(b) (4)

³⁹ (b) (4)

APPENDIX D: RIDGE HOSPITAL TRANSACTION TIMELINE

(b) (4), (b) (5), (b) (6)

(b) (4), (b) (5)

(b) (4), (b) (5)

(b) (4), (b) (5)

APPENDIX E: KUMAWU-MAMPONG WATER TREATMENT WORKS TRANSACTION TIME LINE

(b) (4), (b) (5), (b) (6)

(b) (4), (b) (5)

(b) (4), (b) (5)

APPENDIX F: SOURCES AND USES OF FUNDS

Table 6: Ridge Hospital Sources and Uses of Funds

(b) (4)

Table 7: Kuwamu-Mampong Water Treatment Works Sources and Uses of Funds

(b) (4)

APPENDIX G: SITE PHOTOGRAPHS

Ridge Hospital

OIG Site Visit: August 27, 2014

Existing Ridge Hospital



Site of New Ridge Hospital Complex



Foundation Works



Workers Facilities



Construction Progress as provided by Americaribe

June 2014



September 2014



January 2015



March 2017 Goal



Kuwamu-Mampong Water Treatment Works

OIG Site Visit: August 28, 2014

Water Source and Intake



Water Treatment Facilities



Water Treatment Facilities



Water Treatment Facilities



Water Treatment Facilities



Booster Station (Solar Panel)

Booster Station Pumps



Water Tower



APPENDIX H: GWCL CONCERNS⁴²

MAMPONG WATER SUPPLY REHABILITATION AND EXPANSION PROJECT.

AREAS OF CONCERN

1. Provision of Automatic Voltage Regulator (AVR) for the old plant. This is because the voltage at that corridor of power transmission is constantly low. The plant with capacity of (b) (4) cannot operate due to low voltage.
2. No provision was made for the replacement of the 2 No. pumpsets and their control panel for the old plant under the contract.
3. No spares for maintenance of Variable Frequency Drives (VFDs) eg. control board, power board and internal fuses. We wish to state that since commissioning in 2014 the two VFDs became faulty and had to be flown to USA for repairs but were completely replaced instead.
4. No spare parts for the Automatic Voltage Regulator (AVR) under the contract.
5. Under the contract no provision was made for Automatic Voltage Regulator for all the three Booster Stations. Water cannot get to the communities when all the booster stations experience low voltage while the new plant is operating.

The new plant was equipped with Automatic Voltage Regulator (AVR) which can operate when even the voltage is low. Therefore there is the need for AVR for all the three booster stations for continuous water supply to the communities.

⁴² The "Areas of Concern" for the Water Works project were provided by (b) (6)

APPENDIX I: RIDGE HOSPITAL PRICING ANALYSIS

(b) (4)

(b) (4)

APPENDIX J: REFERENCES


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ACKNOWLEDGEMENTS

This report was prepared by the Inspection and Evaluation Group, Office of Inspector General for the Export-Import Bank of the United States. Several individuals contributed to this report including Lilith D. Sanchez, Senior Bank Inspector for Inspections and Evaluations, and Daniel Wong, Bank Inspector.



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