



Report and Recommendation of the President to the Board of Directors

Project Number: 39295
June 2014

Proposed Loan and Administration of Loan People's Republic of Bangladesh: Third Urban Governance and Infrastructure Improvement (Sector) Project

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 2 June 2014)

Currency unit – taka (Tk)

Tk1.00 = \$0.01288

\$1.00 = Tk77.63

ABBREVIATIONS

ADB	–	Asian Development Bank
CPS	–	country partnership strategy
DPHE	–	Department of Public Health Engineering
GAP	–	gender action plan
LGED	–	Local Government Engineering Department
MDS	–	management, design, and supervision
OFID	–	OPEC Fund for International Development
O&M	–	operation and maintenance
PIU	–	project implementation unit
PMO	–	project management office
TLCC	–	town-level coordination committee
UGIAP	–	urban governance improvement action program
UGIIP	–	Urban Governance and Infrastructure Improvement (Sector) Project
WLCC	–	ward-level coordination committee

NOTES

- (i) The fiscal year of the Government of Bangladesh and its agencies ends on 30 June.
- (ii) In this report, “\$” refers to US dollars.

Vice-President	W. Zhang, Operations 1
Director General	J. Miranda, South Asia Department (SARD)
Director	Y. Fei, Urban Development and Water Division, SARD
Team leader	N. Saito, Principal Urban Development Specialist, SARD
Team members	C. Damandl, Senior Counsel, Office of the General Counsel
	M. David, Operations Assistant, SARD
	M. Islam, Senior Project Officer (Urban), Bangladesh Resident Mission, SARD
	E. Ravancho, Operations Assistant, SARD
	N. Selim, Social Development Officer (Gender), Bangladesh Resident Mission, SARD
	I. Setyawati, Safeguards Specialist, SARD
	S. Shafiq, Financial Management Specialist, SARD
	R. Slangen, Urban Development Specialist, SARD
Peer reviewer	J. Huang, Senior Urban Development Specialist, Regional and Sustainable Development Department

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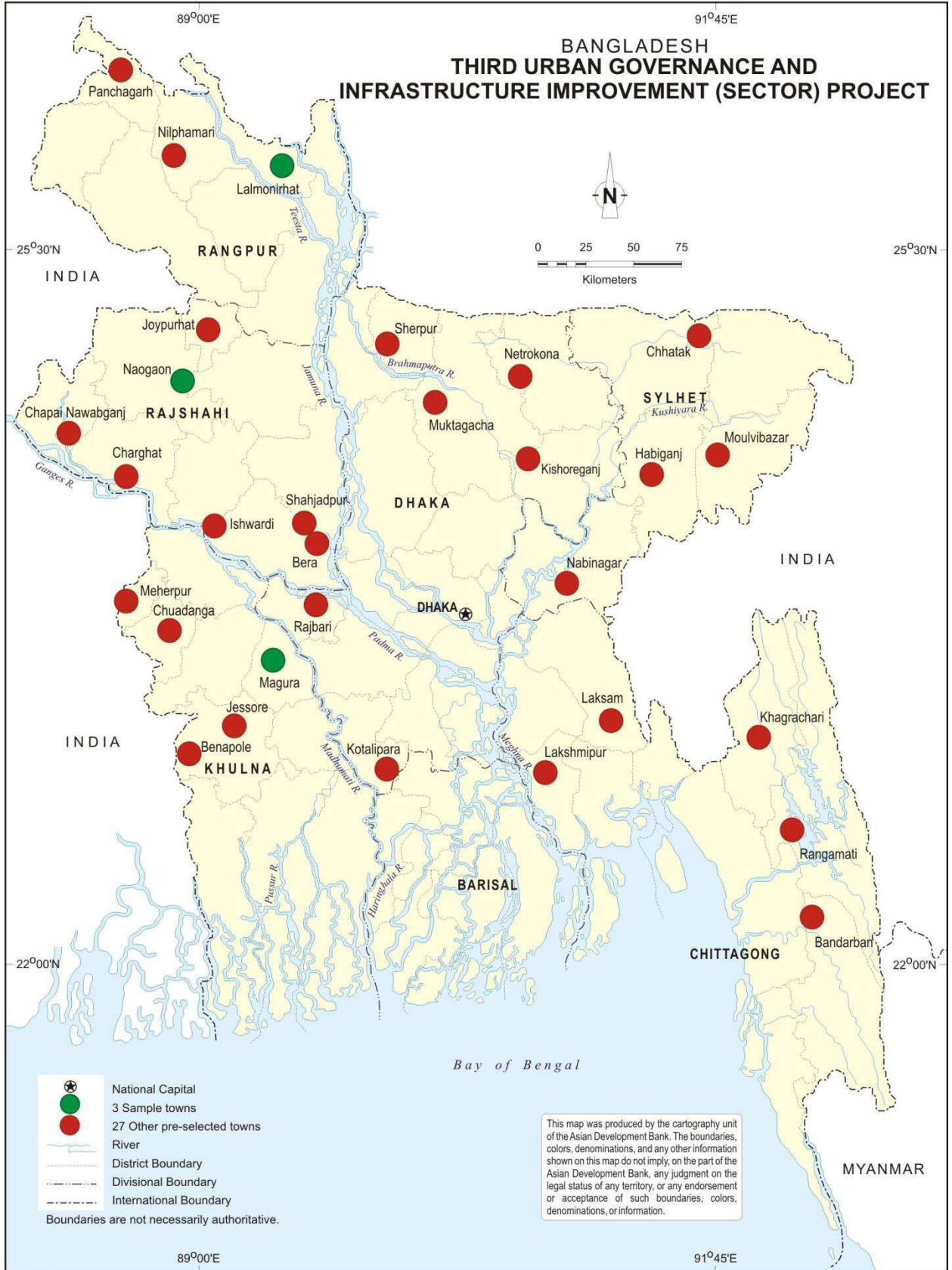
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PROJECT AT A GLANCE

1. Basic Data		Project Number: 39295-013	
Project Name	Third Urban Governance and Infrastructure Improvement (Sector) Project	Department /Division	SARD/SAUW
Country	Bangladesh	Executing Agency	Department of Public Health Engineering, Local Government Engineering Department
Borrower	People's Republic of Bangladesh		
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Water and other urban infrastructure and services	Other urban services		12.50
	Urban flood protection		35.00
	Urban policy, institutional and capacity development		15.00
	Urban sanitation		5.00
	Urban slum development		5.00
	Urban solid waste management		7.50
	Urban water supply		15.00
Transport	Urban roads and traffic management		30.00
		Total	125.00
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Adaptation (\$ million)	15.00
Environmentally sustainable growth	Global and regional transboundary environmental concerns	Mitigation (\$ million)	5.00
	Urban environmental improvement	CO ₂ reduction (tons per annum)	10,000
		Climate Change impact on the Project	Low
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development	Civil society participation	Gender equity (GEN)	✓
Partnerships	Organizational development		
	Implementation		
	International finance institutions (IFI)		
5. Poverty Targeting		Location Impact	
Project directly targets poverty	No	Urban	High
6. Risk Categorization:	Low		
7. Safeguard Categorization	Environment: B Involuntary Resettlement: B Indigenous Peoples: C		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		125.00	
Sovereign Sector loan: Asian Development Fund		125.00	
Cofinancing		40.00	
OPEC Fund for International Development		40.00	
Counterpart		71.00	
Government		68.90	
Others		2.10	
Total		236.00	
9. Effective Development Cooperation			
Use of country procurement systems		Yes	
Use of country public financial management systems		Yes	

BANGLADESH THIRD URBAN GOVERNANCE AND INFRASTRUCTURE IMPROVEMENT (SECTOR) PROJECT



I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on (i) a proposed loan, and (ii) proposed administration of a loan to be provided by the OPEC Fund for International Development (OFID), both to the People's Republic of Bangladesh for the Third Urban Governance and Infrastructure Improvement (Sector) Project.¹

2. The project will strengthen urban governance and improve urban infrastructure and service delivery in 30 *pourashavas* (municipalities) in Bangladesh. Building upon the successful implementation of earlier phases,² the project will provide investment funds to *pourashavas* based on their governance performance. Under the project, towns with high growth potential will be developed in an integrated and holistic way, both in terms of governance and infrastructure, with an aim of making them model towns of the country. In addition to the focused interventions to these towns, application of governance performance criteria linked to fund allocation will be rolled out to all class-A *pourashavas*³ in the country.⁴

II. THE PROJECT

A. Rationale

3. **Urbanization.** Out of the total population of about 150 million, the urban population has grown rapidly, from 20% in 1991 to 28% (42 million) in 2011. The current annual urban growth rate is 3.1%, which is more than double the 1.1% annual growth rate of the entire population.⁵ At existing growth rates, the country's urban population will reach 63 million, or 36% of the population, by 2025.⁶ Rapid urbanization is widening the deficit in infrastructure and services. Although urban poverty was reduced to 21.3% in 2010,⁷ many of the urban poor live in substandard housing conditions with poor infrastructure, often in disaster-prone areas.

4. **Urban governance.** *Pourashavas* typically have been characterized by inadequate governance and lack of community participation in the planning, implementation, and management of projects and programs. There have been limited incentives to improve governance in areas such as accountability and transparency, promotion of gender equity, poverty reduction, and financial management and sustainability. However, with the introduction of a performance-based fund allocation strategy through the urban governance improvement action program (UGIAP) in the Urban Governance and Infrastructure Improvement (Sector) Project (UGIIP) funded by the Asian Development Bank (ADB), *pourashavas* supported under the UGIIP significantly improved their governance (footnote 2). Major achievements under the UGIIP include (i) establishment of town-level coordination committees (TLCCs) and ward-level coordination committees (WLCCs), which are key vehicles for ensuring citizens' participation

¹ The design and monitoring framework is in Appendix 1.

² ADB. 2002. *Report and Recommendation of the President on a Proposed Loan and Technical Assistance Grant to the People's Republic of Bangladesh for the Urban Governance and Infrastructure Improvement (Sector) Project*. Manila; ADB. 2008. *Report and Recommendation of the President on a Proposed Loan to the People's Republic of Bangladesh for the Second Urban Governance and Infrastructure Improvement (Sector) Project*. Manila.

³ The Asian Development Bank (ADB) provided project preparatory technical assistance.

⁴ Bangladesh has 321 *pourashavas* as of February 2014. There are three classes; A, B, and C, according to the level of own-source annual revenues, with A being the highest, although the rules are not strictly followed. There are 126 class A *pourashavas*.

⁵ Bangladesh Bureau of Statistics. 2012. *Population and Housing Census*. Dhaka.

⁶ United Nations Department of Economic and Social Affairs, Population Division. 2012. *World Urbanization Prospects: The 2011 Revision*. New York.

⁷ Bangladesh Bureau of Statistics. 2011. *Household Income and Expenditure Survey 2010*. Dhaka.

including representation of women and the poor; (ii) development and implementation of a *pourashava*-level gender action plan (GAP); (iii) computerization of tax and accounting records; and (iv) an increase in the average collection of holding tax.⁸

5. **Urban infrastructure.** *Pourashavas* are struggling to provide their citizens with key services including drinking water supply and sanitation, roads, solid waste management, drainage systems, and other municipal services such as kitchen markets, street lights, and bus terminals. Although drinking water supply coverage reached 86% in urban areas in 2012 (85% for the whole country), access to piped water supply in household premises is provided to only 32% of the urban population, requiring significant improvement in service levels.⁹ Only 55% of the urban population had access to improved sanitation facilities in 2012 (57% for the whole country), which is lower than the average in South Asia. The situation is even more serious in slums, as access to sanitation is highly correlated with wealth. Solid waste management is not systematic and wastes are often dumped in open areas, creating public health risks. Many urban roads are dilapidated because of increasing traffic and lack of maintenance. Drainage is underdeveloped and poorly maintained, resulting in frequent waterlogging. Although improvements have been made through earlier projects, including the UGIIP, most *pourashavas* still need significant investment support to improve their service delivery.

6. **Model towns development.** The two largest cities—Dhaka and Chittagong—account for nearly 50% of the urban population in Bangladesh. To avoid further congestion in these largest cities and reduce regional disparities, it is essential to develop livable urban centers with good municipal governance and which are equipped with adequate infrastructure and services, which will trigger local economic development. In its Sixth Five-Year Plan (2011–2015) the government thus prioritizes (i) improving city governance, (ii) promoting balanced development of urban centers, and (iii) mobilizing urban resource.¹⁰ In line with this policy direction, the project will support 30 *pourashavas* selected on the basis of (i) population, (ii) population growth between 2001 and 2011, (iii) municipal own-source revenue target, and (iv) population density, with a priority on district headquarters towns.¹¹ Being major administrative, trade, and economic centers and serving as transportation and distribution hubs, district headquarters towns can play an important role for balanced development. Thirty towns have a total population of 2.2 million, including 20 district headquarters towns. The project intends to develop these towns into model towns of the country, featuring (i) improved municipal service delivery, with at least 95% water supply and sanitation coverage including continuous piped water supply systems in core urban areas (towards 100% metered connections with volumetric tariff structure), regular solid waste collection in core urban areas and safe disposal at a designated site, and core urban areas free from waterlogging; (ii) financial sustainability, with adequate operation and maintenance (O&M) funding and debt servicing (if any) fully recovered by own-source revenue; (iii) citizen participation, accountability, inclusiveness, and transparency, with *pourashava* development plans, urban master plans, GAPs, poverty reduction action plans, and annual budget developed through consultation and disclosed to the public; and (iv) urban development control, with buildings constructed in accordance with the approved plan.

⁸ ADB. 2012. *Completion Report: Urban Governance and Infrastructure Improvement (Sector) Project in Bangladesh*. Manila.

⁹ World Health Organization and United Nations Children's Fund. 2014. *Progress on Drinking Water and Sanitation: 2014 Update*. New York.

¹⁰ Government of Bangladesh, Planning Commission. 2011. *Sixth Five-Year Plan (2011–2015)*. Dhaka.

¹¹ *Pourashavas* that have received or will receive substantial investment support from other projects are excluded. Several *pourashavas* are included based on special considerations such as strategic importance to the country's development and support to less-developed regions.

7. **Lessons.** Lessons from similar projects suggest that (i) governance-led infrastructure improvement is indeed possible and desirable, (ii) use of the sector lending modality is highly appropriate for performance-based fund allocation through a phased approach, and (iii) good quality and front-loading capacity building support is required for *pourashavas*.¹² Thus, the project adopts the sector lending modality,¹³ and capacity building support has been provided during project preparation and will be continued during implementation. The allocation of less than \$3 million to each *pourashava* for infrastructure improvement in earlier projects was grossly inadequate to meet the demand for improved services. The preselected *pourashavas* will receive more substantive investment funding upon fulfilling the UGIAP requirements, depending upon actual needs and within their capacity. The project will introduce performance-based fund allocation to all class A *pourashavas* to provide incentive for governance reform.

8. The project is fully consistent with ADB's urban operational plan and Bangladesh country partnership strategy (CPS).¹⁴ The project will address inclusiveness, environmental sustainability, and competitiveness—the three pillars of the urban operational plan. The urban sector is one of the six priority sectors in the CPS, and the project will also address key thematic drivers of the CPS including good governance, capacity development, and gender equity.

B. Impact and Outcome

9. The impact will be an improved living environment in project towns. The outcome will be improved municipal service delivery and urban governance in project towns. Thirty preselected towns will be supported in an integrated manner under the project.

C. Outputs

10. **Output 1: Municipal infrastructure improved and made gender and climate responsive.** The project will provide funding to *pourashavas* through two windows. Window A will focus on the 30 preselected towns, and the fund for infrastructure improvements will be made available in phases upon fulfillment of three phases of the UGIAP (para. 12). The maximum amount that each *pourashava* will receive will mainly depend on its population.¹⁵ Once the entry criteria are fulfilled, the first set of priority subprojects amounting to 20%–25% of the ceiling will be supported (phase 1). Upon substantial progress of such investments and fulfillment of intermediate criteria, additional priority investment subprojects amounting to about 60% of the ceiling will be implemented (phase 2). Meeting the advanced criteria and progress of earlier subprojects will make these *pourashavas* eligible for additional investment support amounting to 15%–20% of the ceiling (phase 3). This phased approach, which has proven effective in earlier projects, will ensure motivation for continued governance reform while creating tangible development impacts in an integrated and holistic manner. In addition, the performance-based fund allocation will be rolled out to all class A *pourashavas* under Window B, where class B and C *pourashavas* can also voluntarily participate. Funding of about \$1 million for infrastructure improvement will be provided to each of about the top 10 *pourashavas* in the governance performance assessment, which will be conducted twice during the project.

¹² ADB. 2012. *The Urban Governance and Infrastructure Improvement Project in Bangladesh: Sharing Knowledge on Community-Driven Development*. Manila.

¹³ A sector development plan is included in the project administration manual (accessible from the list of linked documents in Appendix 2).

¹⁴ ADB. 2012. *Urban Operational Plan, 2012–2020*. Manila; ADB. 2011. *Country Partnership Strategy: Bangladesh, 2011–2015*. Manila.

¹⁵ This will generally be \$80 multiplied by the population in 2011, but will be determined based on actual needs and absorption capacity of each *pourashava*.

11. **Subprojects.** Although the selection of subprojects will generally follow the priorities set by each *pourashava*, the project will focus on key infrastructure such as roads, drainage, water supply and sanitation (including septage management), solid waste management, and slum improvements. Other municipal facilities such as kitchen markets and bus terminals will be supported if O&M arrangements are clearly planned. Subprojects under phase 1 will not include revenue-generating subprojects, other than small-scale water supply subprojects (e.g., rehabilitation of existing systems). Subprojects implemented in each phase are stand-alone so as to avoid the risk of *pourashavas* not proceeding to the next phase because of poor governance performance. The project will support climate-responsive development through measures such as strengthening urban drainage systems that will accommodate additional run-off due to increased rainfall intensity, and minimizing methane gas generation from landfill sites by promoting waste segregation at source and organic waste composting. Infrastructure to be improved will be also gender-responsive by taking into account women's needs in the design.

12. **Output 2: Improved capacity of *pourashavas* in urban service delivery, planning, and financial management.** The implementation of the UGIAP will strengthen the capacity of *pourashavas* in the areas of (i) citizen awareness and participation, (ii) urban planning, (iii) gender equality and social inclusion, (iv) local resource mobilization, (v) financial management and accountability, (vi) administrative transparency, and (vii) provision of essential services.¹⁶ *Pourashavas* will need to fulfill more complex and stringent requirements when moving from the entry criteria to intermediate and advanced criteria. Intensive support will be provided to the Window A *pourashavas* by the governance improvement and capacity development consultants engaged under the loan. If the criteria are not fulfilled within the stipulated time frame, *pourashavas* will lose entitlement to proceed to the next phase of infrastructure improvement. A separate set of performance criteria using simple, objective, and measurable governance indicators has been prepared as the UGIAP under Window B. This will scale-up urban governance reforms in the country.

13. **Output 3: Project management and administration system in place.** Support will be provided for smooth and effective project implementation and operation by the central government and project *pourashavas*. The project management office (PMO) in the Local Government Engineering Department (LGED), with staff from the LGED and the Department of Public Health Engineering (DPHE), will manage overall project implementation, assisted by the management, design, and supervision (MDS) consultants and individual consultants. The project implementation units (PIUs) in each project *pourashava* will be responsible for infrastructure and governance improvement, assisted by the governance improvement and capacity development and MDS consultants.

D. Investment and Financing Plans

14. The project is estimated to cost \$236.0 million (Table 1).

¹⁶ The UGIAP is detailed in the project administration manual (accessible from the list of linked documents in Appendix 2).

Table 1: Project Investment Plan
(\$ million)

Item	Amount ^a
A. Base Cost^b	
1. Municipal infrastructure improvement	164.8
2. Capacity improvement of <i>pourashavas</i> (municipalities)	13.6
3. Project management and administration	27.8
Subtotal (A)	206.2
B. Contingencies^c	19.7
C. Financing Charges During Implementation^d	10.1
Total (A+B+C)	236.0

^a Includes taxes and duties of \$11.8 million to be financed from government resources.

^b In end-2013 prices.

^c Physical contingencies computed at 8% for civil works, equipment, consulting services, and recurrent costs. Price contingencies computed at 1.0%–2.3% on foreign exchange costs and 6.5%–7.2% on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

^d Includes interest and service charges. Interest during construction for the Asian Development Bank loans has been computed at 2.0% and for the OPEC Fund for International Development (OFID) loan at 1.5%. Service charge for the OFID loan is 1%.

Source: Asian Development Bank estimates.

15. The government has requested a loan in various currencies equivalent to SDR81,128,000 from ADB's Special Funds resources to help finance the project. The loan will have a 25-year term, including a grace period of 5 years, an interest rate of 2.0% per annum during the grace period and thereafter, and such other terms and conditions set forth in the draft loan agreement. The loan from ADB will finance (i) infrastructure subprojects by *pourashavas*, (ii) consulting services, (iii) capacity building, (iv) incremental recurrent staff costs, and (v) financing charges during construction. The government will provide \$68.9 million equivalent as a grant to cover (i) part of the infrastructure subproject costs in *pourashavas*, (ii) land acquisition and resettlement, (iii) part of the incremental recurrent staff costs, and (iv) taxes and duties. The government has also requested OFID to finance a part of civil works with a loan of \$40 million. The OFID loan, to be partially administered by ADB, will have a maturity of 20 years with a grace period of 5 years, and carry interest of 1.5% per annum and a service charge of 1.0%. Project *pourashavas* will provide \$2.1 million equivalent to cover part of the land acquisition and resettlement costs.

16. The financing plan is in Table 2. Part of the funds provided by ADB and OFID will be relent to the project *pourashavas*. Revenue-generating subprojects, including water supply, bus and truck terminals, and kitchen markets, will be financed by a combination of grant and loan, with a grant–loan ratio satisfactory to ADB. The subloan will have an interest rate of 6% for 20 years, including a 5-year grace period, and will be denominated in local currency. The government will bear the foreign exchange risk in repayment to ADB. Other subprojects will be funded 100% by grant.

Table 2: Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Special Funds resources (loan)	125.0	53.0
OPEC Fund for International Development (loan)	40.0	16.9
Government (grant)	68.9	29.2
<i>Pourashavas</i> (municipalities)	2.1	0.9
Total	236.0	100.0

Source: Asian Development Bank estimates.

E. Implementation Arrangements

17. The LGED and DPHE will be the executing agencies, and project *pourashavas* will be the implementing agencies. The implementation arrangements are summarized in Table 3 and described in detail in the project administration manual.¹⁷ All procurement of goods and civil works will follow ADB's Procurement Guidelines (2013, as amended from time to time). National competitive bidding will follow the government's Public Procurement Act, 2006 and Public Procurement Rules, 2008, with modifications and/or clarifications agreed between the government and ADB, as set out in the procurement plan. Since ADB administers cofinancing resources for operations financed by Asian Development Fund resources, universal procurement will apply.¹⁸ Consulting services will be engaged using ADB's Guidelines on the Use of Consultants (2013, as amended from time to time).

Table 3: Implementation Arrangements

Aspects	Arrangements		
Implementation period	July 2014–June 2020		
Estimated completion date	30 June 2020		
Management			
(i) Oversight body	Interministerial project steering committee Chair: Secretary of the Local Government Division Members: Local Government Engineering Department, Department of Public Health Engineering, Department of Environment, Economic Relations Division, Finance Division, Implementation Monitoring and Evaluation Division, Local Government Division, Ministry of Housing and Public Works (Urban Development Directorate), Ministry of Women and Children Affairs, Municipal Association of Bangladesh, Planning Commission (Physical Infrastructure Division), Power Division		
(ii) Executing agencies	Local Government Engineering Department, Department of Public Health Engineering		
(iii) Key implementing agencies	Project <i>pourashavas</i> (municipalities)		
(iv) Implementation unit	<i>Pourashavas</i> (total 30), 11 staff each		
Procurement	International competitive bidding	7 contracts	\$7.2 million
	National competitive bidding	About 170 contracts	\$142.0 million
	Shopping	7 contracts	\$0.4 million

¹⁷ Project Administration Manual (accessible from the list of linked documents in Appendix 2).

¹⁸ ADB. 2013. *Blanket Waiver of Member Country Procurement Eligibility Restrictions in Cases of Cofinancing for Operations Financed from Asian Development Fund Resources*. Manila. Since two consulting packages were initiated under advance contracting before confirmation of cofinancing, ADB member country procurement eligibility restrictions applied to those packages.

Aspects	Arrangements		
Consulting services	QCBS	3,958 person-months	\$10.5 million
	Individuals	744 person-months	\$1.9 million
Retroactive financing and/or advance contracting	Advance contracting is for the recruitment of consultants and procurement of goods and works relating to phase 1 subprojects under Window A. Retroactive financing will apply up to 20% of the loan amount for the above contracts and the establishment and operation of the PMO and PIUs incurred prior to the effectiveness of the loan agreement but not earlier than 12 months prior to the signing of the loan agreement.		
Disbursement	The loan proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2012, as amended from time to time) and detailed arrangements agreed upon between the government and ADB.		

ADB = Asian Development Bank, PIU = project implementation unit, PMO = project management office, QCBS = quality- and cost-based selection.

Source: Asian Development Bank.

III. DUE DILIGENCE

A. Technical

18. Sample subprojects developed during project preparation confirmed technical viability, with due consideration of local capacity for implementation and O&M. The same approach will be followed for subprojects to be prepared during project implementation in accordance with the subproject selection and design criteria.¹⁹ To strengthen urban climate resilience, urban drainage designs will accommodate additional flow caused by more intense rainfall due to climate change, and key facilities such as water treatment plants and production tubewells will be built with freeboard above the highest recorded flood level.²⁰

B. Economic and Financial

19. **Economic analysis.** The project will significantly improve the living environment in project *pourashavas*. The expected economic benefits consist of (i) reduced vehicle operating costs and travel time cost savings for roads; (ii) reduced damage to properties due to flooding; (iii) health benefits, resource savings from fetching water from nonpipied sources, and consumer satisfaction for water supply, quantified by the beneficiaries' willingness to pay; and (iv) productivity gains and avoided medical costs for solid waste management. The results of the economic and sensitivity analysis of the subprojects show that the proposed subprojects are economically viable. Their base economic internal rates of return range from 12.03% to 27.86%, above the economic opportunity cost of capital of 12.00%. The sensitivity analysis indicates that the proposed subprojects are most sensitive generally to a reduction in benefits. These results, however, are most likely underestimated since the subprojects have benefits that are not easily quantifiable and not accounted for in the analysis. Subprojects to be prepared during implementation will need to meet the economic and financial criteria (footnote 19).

¹⁹ The subproject selection and design criteria are detailed in the project administration manual (accessible from the list of linked documents in Appendix 2).

²⁰ Project Climate Risk Assessment and Management Report (accessible from the list of linked documents in Appendix 2).

20. **Financial analysis.** Financial analysis was conducted in three sample towns for subprojects with a cost-recovery objective by estimating the incremental costs and revenues over the project life. Financial internal rates of return for subprojects compare favorably with the weighted average cost of capital, estimated at 4.60%. Financial internal rates of return for water supply range from an estimated 4.67% to 6.75% and are also favorable for market development, community centers, and bus and truck terminals. Sensitivity analysis confirms that the subprojects are robust. For nonrevenue-generating subprojects, the analysis focuses on sample towns' financial capacity to meet and sustain recurrent O&M costs of each subproject. The overall financial position of each sample town is projected reflecting incremental revenue and expenditures and debt service. The projected financial position confirms that, with some government subsidy, sample towns have the financial capacity to meet O&M costs and other requirements to sustain infrastructure and service delivery for all subprojects supported under the project.

C. Governance

21. Bangladesh's overall governance has improved with key governance and anticorruption reforms, including the constitution of the independent Anti-Corruption Commission in 2004 and the enactment of the Right to Information Act in 2009, the Whistleblower Protection Act in 2011, and the Money Laundering Prevention Act in 2012. A comprehensive national integrity strategy was adopted in 2012 to address corruption holistically and strengthen governance institutions in a phased manner. The financial management assessment of the LGED, DPHE, and sample *pourashavas* indicated that, with the support of a dedicated consultant in financial management in the PMO and a dedicated accountant in each PIU, there will be adequate financial management capabilities and support for implementing the project. The LGED has proven experience in procuring goods, works, and consulting services in accordance with ADB procedures and requirements. Since project *pourashavas* have limited experience in ADB-financed projects, PIUs will be supported by the PMO and procurement specialists in MDS in bid document preparation and evaluation. This will be supplemented by regular training on procurement and accounting for PIU and other relevant staff. Other measures to ensure transparency include the presentation of detailed information on procurement at public meetings to supplement web-based disclosure.

22. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government. The specific policy requirements and supplementary measures are described in the project administration manual (footnote 17).

D. Poverty and Social

23. Key social issues that affect the poor and marginalized groups at *pourashava* level include weak participation and representation in *pourashava* governance and lack of access to basic urban services. The project will enhance inclusiveness of poor and marginalized groups by ensuring their sufficient representation in TLCCs and WLCCs, preparation of a poverty reduction action plan by each *pourashava*, formation of slum improvement committees, and basic service improvement in slums. The implementation of poverty reduction action plans, including *pourashavas*' own budget allocation, will be monitored through the implementation of the UGIAP.

24. **Gender.** The project is classified as having a gender equity theme. The project will contribute to enhancing women's decision-making capacity in *pourashavas* and increasing the female focus of service delivery and infrastructure at all levels of *pourashavas*. More

specifically, TLCCs and WLCCs will have sufficient female representation to ensure women's participation in *pourashava* governance. Developing water supply and sanitation will reduce the burden on women, who traditionally collect water and manage sanitation. Each *pourashava* under Window A will develop a town-specific GAP based on the project's GAP, and their implementation including budget allocation will be monitored through the implementation of the UGIAP. Resources are allocated for implementation and monitoring of the project's GAP.²¹

E. Safeguards

25. **Environmental safeguards.** The project is classified category B for environmental safeguards. Five draft initial environmental examinations were prepared for representative infrastructure investments including water supply, solid waste management, markets, roads, and drainage in accordance with ADB's Safeguard Policy Statement (2009) and government laws. Subprojects are located outside sensitive and protected areas, and any construction impacts will be mitigated through implementation of environmental management plans included in contract documents. Significant environmental impacts are not foreseen in future subprojects, which will be guided by environmental subproject selection criteria outlined in the environmental assessment and review framework and monitored as part of the semiannual safeguards monitoring report. Environmental safeguard implementation capacity of the executing agencies is sufficient from past UGIIP projects, and will be supported by consultants for carrying out environment-related tasks.

26. **Social safeguards.** The project is categorized B for involuntary resettlement. No permanent land acquisition or physical displacement is identified from three sample towns. The involuntary resettlement impacts identified for phase 1 of the sample towns are mostly from the road and drainage subprojects. The main impacts come from 73 semipermanent and permanent structures, most of which are shops or business stalls. Among the 71 shop owners whose livelihood will be affected by the subprojects, one will have to move out permanently from the current location and the remaining 70 will only experience temporary relocation. Three draft resettlement plans were prepared in consultation with the affected people to mitigate the impacts.²² The draft resettlement plans will be updated and finalized during detailed engineering design of subprojects. A resettlement framework was prepared to provide guidance for other subprojects or in the event of unidentified involuntary resettlement impacts during the project implementation period. The project is categorized C for indigenous peoples impacts in the three sample towns. An indigenous peoples planning framework was prepared to provide guidance and appropriate mitigation measures to the ethnic minority (Adivasi) that may be located in other towns if their livelihood and dignity are affected by the project activities.²³ A stand-alone indigenous peoples plan document will be prepared following the indigenous peoples planning framework when the impacts are significant, or else the plans can be incorporated into resettlement plans as specific actions for the affected communities and/or peoples.

F. Risks and Mitigating Measures

27. Major risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.²⁴ As risks can be mitigated to a managerial level, the intended benefits and impacts are expected to outweigh the costs.

²¹ Gender Action Plan (accessible from the list of linked documents in Appendix 2).

²² Resettlement Plan: Lalmonirhat Phase 1, Resettlement Plan: Magura Phase 1, and Resettlement Plan: Naogaon Phase 1 (accessible from the list of linked documents in Appendix 2).

²³ Indigenous Peoples Planning Framework (accessible from the list of linked documents in Appendix 2).

²⁴ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigating Measures
Budget allocation is insufficient to meet the increased demand for O&M of facilities built by the project	The UGIAP requires each <i>pourashava</i> (municipality) to (i) improve property tax collection efficiency to 70% and increase the collection of indirect taxes, fees, rentals, and lease charges by 5% per annum, under the intermediate criteria; and (ii) improve the same to 85% and increase by at least official inflation rate per annum, under the advanced criteria. <i>Pourashavas</i> that do not meet the requirements will not proceed to the next phase of physical investments. It also requires each <i>pourashava</i> to prepare O&M plans including budget provision. Consultants will support <i>pourashavas</i> in achieving the above criteria, as well as raise awareness of the public regarding payment of taxes and other charges.
Prolonged process for land acquisition will cause implementation delay	Advanced action to be taken by <i>pourashavas</i> to begin land acquisition immediately after DPP approval. Progress will be closely monitored by the PMO and ADB. Subprojects that require land acquisition will not be selected in phase 1.
Limited financial management capacity in <i>pourashavas</i> will lead to improper financial management	Capacity building in financial management, internal auditing, and ADB financial management requirements will be provided to staff of PMO and PIUs to ensure robust and transparent project financial management. All PIU subaccounts will be audited every year. Governance criterion requires audit reports by the standing committee to be presented to TLCC and <i>pourashava</i> council and sent to PMO within 3 months from the end of each fiscal year.

ADB = Asian Development Bank, DPP = development project proforma, O&M = operation and maintenance, PIU = project implementation unit, PMO = project management office, TLCC = town-level coordination committee, UGIAP = urban governance improvement action program.

Source: Asian Development Bank.

IV. ASSURANCES

28. The government assured ADB that implementation of the project shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the project administration manual and loan documents. The government has agreed with ADB on certain covenants for the project, which are set forth in the loan agreement.

V. RECOMMENDATION

29. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve

- (i) the loan in various currencies equivalent to SDR81,128,000 to the People's Republic of Bangladesh for the Third Urban Governance and Infrastructure Improvement (Sector) Project, from ADB's Special Funds resources, with an interest charge at the rate of 2% per annum during the grace period and thereafter; for a term of 25 years, including a grace period of 5 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board; and
- (ii) the administration by ADB of the loan not exceeding the equivalent of \$40,000,000 to the People's Republic of Bangladesh for the Third Urban Governance and Infrastructure Improvement (Sector) Project, to be provided by the OPEC Fund for International Development.

Takehiko Nakao
President

24 June 2014

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p>Impact Improved living environment in project towns^a</p>	<p>By 2023: Features of a model town^b achieved in 20 towns (baseline: zero)^c</p>	<p>Reports issued by UMSU</p>	<p>Assumptions The government increases performance-based budget allocation to <i>pourashavas</i> (municipalities)</p> <p>Population in urban areas grows at a manageable rate</p> <p><i>Pourashavas</i> continue to commit financial resources to service delivery</p>
<p>Outcome Improved municipal service delivery and urban governance in project towns</p>	<p>By 2020: 40,000 households have new or improved access to piped water supply</p> <p>40,000 households have improved solid waste collection services (at least twice a week)</p> <p>85% holding tax collection efficiency achieved in 25 towns (baseline: 5 towns)</p> <p><i>Pourashava</i>-specific GAPs have at least 1% municipal revenue budget earmarked for implementation, of which 50% spent (target: 20 towns; baseline: 5 towns)</p>	<p>For all indicators: project-specific monitoring and evaluation survey (reports issued by <i>pourashavas</i> and LGED)^d</p>	<p>Assumption O&M capacity of municipalities is strengthened</p> <p>Risk Losing momentum for improvement because of change in <i>pourashava</i> leadership</p>
<p>Outputs 1. Municipal infrastructure improved and made gender and climate responsive</p>	<p>By 2020: 300 km of roads improved or rehabilitated</p> <p>120 km of drains built or improved</p> <p>120 km of pipes installed or upgraded for water supply with 40,000 individual meters</p> <p>Slum improvement subprojects are completed in all project towns that have slums</p> <p>Sludge management facilities built in 10 towns</p>	<p>For all indicators: annual reports issued by <i>pourashavas</i> and LGED</p>	<p>Assumptions UGIAP requirements are fulfilled by most project towns</p> <p>Timely acquisition of required land</p>

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
	<p>Final solid waste disposal sites built or improved in 15 towns (total capacity 150 tons/day)</p> <p>Climate issues considered in designing 80% of subprojects and incorporated if found necessary</p> <p>Approximately 10,000 tons of CO₂ emission reduced^e</p>		
2. Improved capacity of <i>pourashavas</i> in urban service delivery, planning, and financial management	<p>For towns under Window A (except the last target) TLCCs (target: at least 33% women) and WLCCs (target: 40% women) formed in 30 towns by 2015 (baseline: 5 towns)</p> <p>Urban master plans developed through gender-inclusive processes are gazetted in 30 towns by 2017^f (baseline: zero)</p> <p>WCA and PRSI standing committees operational in 30 towns by 2016 (Target: 40% women representation; baseline: zero)</p> <p>PDP, GAP, and PRAP approved in 30 towns by 2017 (baseline: 5 towns)</p> <p>Annual O&M plan approved and own budget allocated for implementation in 30 towns by 2017 (baseline: 5 towns)</p> <p>Computerized tax records and billing system made functional in 30 towns by 2018 (baseline: 18 towns)</p> <p>Top-performing <i>pourashavas</i> under Window B awarded for subproject funding by LGD by 2017</p>	<p>Annual reports issued by <i>pourashavas</i> and LGED</p> <p>Gazetted urban master plans</p> <p>Annual reports issued by <i>pourashavas</i></p> <p>Approved PDP, GAP, and PRAP</p> <p>Annual reports issued by <i>pourashavas</i> and LGED</p> <p>Annual reports issued by <i>pourashavas</i></p> <p>Evaluation reports issued by LGD</p>	<p>Assumption Municipal staff acquiring new skills through training remain in their positions</p> <p>Risk Alternative funding sources become available, undermining the incentive mechanism of performance-based fund allocation</p>
3. Project management and administration system in place	<p>PMO and PIUs established with core staff appointed by August 2014</p> <p>Quarterly progress reports and audit reports meet ADB requirements and submitted on time, beginning Q4 2014</p> <p>Project is implemented on time and within budget</p> <p>All relevant staff oriented on gender and trained on collection and</p>	<p>Reports issued by LGED</p> <p>Reports and audit reports issued by LGED and FAPAD</p> <p>Quarterly progress reports issued by LGED</p> <p>Reports issued by LGED</p>	

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
	monitoring of sex-disaggregated data by 2016		
Activities with Milestones		Inputs	
<p>1. Municipal infrastructure improved and made gender and climate responsive</p> <p>1.1 Prepare phase 1 subprojects in first 10 project towns (Q4 2014)</p> <p>1.2 Procure works for phase 1 subprojects in all project towns that meet the entry criteria (Q4 2015)</p> <p>1.3 Procure works for phase 2 subprojects in all project towns that meet the intermediate criteria (Q1 2017)</p> <p>1.4 Procure works for phase 3 subprojects in all project towns that meet the advanced criteria (Q2 2019)</p> <p>1.5 Procure works for towns receiving support under Window B (2016–2018)</p> <p>2. Improved capacity of <i>pourashavas</i> in urban service delivery, planning, and financial management</p> <p>2.1 Conduct performance assessments (entry criteria in Q3 2014, intermediate criteria in Q3 2016, and advanced criteria in Q3 2018)</p> <p>2.2 Conduct performance assessments under Window B (from Q3 2016)</p> <p>2.3 Provide governance improvement and capacity building support to project towns (continuous until 2020)</p> <p>3. Project management and administration system in place</p> <p>3.1 Establish PMO and PIUs and appoint core staff (Q3 2014)</p> <p>3.2 Mobilize loan consultants (Q4 2014)</p> <p>3.3 Develop project performance management system considering poverty, gender, and social development issues (Q2 2015)</p> <p>3.4 Undertake project management and monitoring including training (continuous until 2020)</p>		<p>Loans</p> <p>ADB \$125.0 million</p> <p>OFID \$40.0 million</p> <p>Government \$68.9 million</p> <p><i>Pourashavas</i> \$2.1 million</p>	

ADB = Asian Development Bank, CO₂ = carbon dioxide, DPHE = Department of Public Health Engineering, FAPAD = Foreign Aided Project Audit Directorate, GAP = gender action plan, km = kilometer, LGD = Local Government Division, LGED = Local Government Engineering Department, OFID = OPEC Fund for International Development, O&M = operation and maintenance, PDP = *pourashava* development plan, PIU = project implementation unit, PMO = project management office, PRAP = poverty reduction action plan, PRSI = poverty reduction and slum improvement, Q = quarter, TLCC = town-level coordination committee, UGIAP = urban governance improvement action program, UMSU = urban management support unit, WCA = women and children affairs, WLCC = ward-level coordination committee.

^a Project towns refers to 30 preselected towns supported under Window A.

^b Features of a model town comprise (i) improved municipal service delivery, with at least 95% water supply and sanitation coverage including continuous piped water supply systems in core urban areas, frequent solid waste collection in core urban areas and safe disposal at a designated site, and core urban areas free from waterlogging; (ii) financial sustainability, with adequate O&M funding and debt servicing fully recovered by own-source revenue; (iii) citizen participation, accountability, inclusiveness, and transparency with PDP, master plan, GAP, PRAP, and annual budget developed through consultation and disclosed to the public; and (iv) urban development control, with buildings constructed in accordance with the approved plan.

^c All baseline data as of early 2014.

^d Reports issued by the Implementation Monitoring and Evaluation Division will also be used if available.

^e This target is indicative only, and assumptions are detailed in the project administration manual (accessible from the list of linked documents in Appendix 2).

^f Gender-inclusive processes will be ensured in 15 towns where master plan will be prepared under the project.

Source: Asian Development Bank estimates.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=39295-013-3>

1. Loan Agreement
2. Sector Assessment (Summary): Water and Other Urban Infrastructure and Services
3. Project Administration Manual
4. Contribution to the ADB Results Framework
5. Development Coordination
6. Financial Analysis
7. Economic Analysis
8. Country Economic Indicators
9. Summary Poverty Reduction and Social Strategy
10. Gender Action Plan
11. Initial Environmental Examination: Lalmonirhat Roads Subproject (Phase 1)
12. Initial Environmental Examination: Lalmonirhat Water Supply Subproject
13. Initial Environmental Examination: Magura Kitchen Market Subproject
14. Initial Environmental Examination: Magura Solid Waste Management Subproject
15. Initial Environmental Examination: Naogaon Drainage Subproject (Phase 1)
16. Environmental Assessment and Review Framework
17. Resettlement Plan: Lalmonirhat Phase 1
18. Resettlement Plan: Magura Phase 1
19. Resettlement Plan: Naogaon Phase 1
20. Resettlement Framework
21. Indigenous Peoples Planning Framework
22. Risk Assessment and Risk Management Plan

Supplementary Documents

23. Municipal Development Sector Development Plan
24. Financial Management Assessment
25. Project Climate Risk Assessment and Management Reporting