

FINANCIAL MANAGEMENT ASSESSMENT

A. INTRODUCTION

1. This Financial Management Assessment (FMA) has been prepared in accordance with Asian Development Bank (ADB) Guidelines for the *Financial Management and Analysis of Projects* (2005) and *Financial Due Diligence: A Methodology Note* (2009) and focuses on fund flows, staffing, accounting policies and procedures, internal controls, financial reporting and monitoring, and internal and external audit. The FMA considered the following:

- (i) Local Government Engineering Department (LGED), in its role as the project executing agency (EA) with the project management unit (PMU),
- (ii) Department of Public Health Engineering (DPHE) as co-executing agency responsible specifically for water supply and sanitation (WSS) components, and
- (iii) four pilot *pourashavas* (Amtali, Galachipa, Mathbaria, Pirojpur) which will be implementing agencies (IA) with their respective project implementation units (PIUs).

2. A key aspect of the FMA is evaluating the risks associated with project financial management arrangements. ADB's principal concern is to ensure that project funds are used economically and efficiently for the purpose intended. In support of this, it seeks assurance that the EA and IA financial management systems can report on the source and use of project funds. This assessment is based on the results of a FMA questionnaire, discussions with EA officials, discussions with officials of the four pilot *pourashavas* and information available through various reports, including LGED Annual Report (2012), DPHE Annual Report (2012) and past ADB project reports.

3. This FMA was conducted to (a) assess EA capacity to monitor, manage and support financial management under the overall program, (b) assess IA capacity to implement and manage investments and (c) propose ways and means to strengthen the capacity of EA and IAs. Specifically, the objective is to enhance competence levels to achieve the government's goals of improved access to municipal services and increased climate resiliency in coastal towns, especially as beneficiary *pourashavas* will receive large amounts of investments to support these goals. Therefore, a FMA of the four pilot *pourashavas* was also carried out with a 20 year projection of operational performance. The assessment together with the forecast outlines the financial environment of IAs and the financial risks that may affect the project impact and sustainability.

B. COUNTRY LEVEL ISSUES

4. The identification of country-level issues is based on the Diagnostic Studies of Accounting and Auditing (DSAA), the World Bank Country Financial Accountability Assessments (CFAA), Reports on the Observance of Standards and Codes (ROSC) and others. The country issues that potentially impact project financial management include a weak public financial management (PFM) environment and management and skills capacity issues.

5. **Public financial management environment.** The Country Policy and Institutional Assessment (CPIA) for transparency, accountability and corruption in the public sector rating (1=low to 6=high) in Bangladesh was last reported at 2.9 in 2012 (World Bank 2012).¹

¹ Available at <http://data.worldbank.org/indicator/IQ.CPA.PUBS.XQ>.

Transparency, accountability, and corruption assessments in the public sector determine the extent to which the government can be held accountable for its use of funds and for the results of its actions by the electorate and by the legislature and judiciary, and the extent to which public employees are required to account for administrative decisions, use of resources, and results obtained. The main dimensions assessed here are the accountability of the government to oversee institutions, and of public employees for their performance, and access of civil society to information on public affairs by narrow vested interests.

6. **Governance.** Bangladesh has implemented key governance and anti-corruption reforms in the recent years. These include constitution of an independent Anti Corruption Commission (ACC) in 2004, enactment of a law on right to information (RTI) and establishment of the Information Commission in 2009, enactment of a law on whistle blower protection in 2011, and anti money laundering act in 2012. It has also implemented extensive PFM and procurement reforms including introduction of medium term budgetary framework (MTBF) for budget formulation, uniform procurement laws for all public sector agencies and e-procurement for selected agencies, including the EA of the project, LGED. It has approved recently a comprehensive National Integrity Strategy (NIS) to address corruption holistically and strengthen country's watchdog institutions by formulating phased actions for each of them. Under this, all line ministries have established an Ethics Committee and a focal point to undertake preventive measures to control corruption. At the national level, a National Integrity Advisory Committee has been formed with the Prime Minister as the chair to steer anti-corruption drive in the country.

7. **Capacity.** In common with many DMCs, Bangladesh has a shortage of skills in general management, financial management, financial analysis and management accounting. In particular, few accounts staff have practical skills beyond basic bookkeeping. The impact of these skills shortages on government operations is amplified by high demand for financial skills from the private sector, which pays higher remuneration and, in most cases, provides better working conditions.

C. RISK ANALYSIS

8. The risk assessment rating below is based on existing circumstances, staffing and procedures, assuming no mitigation measures. Corresponding project mitigation measures are explained in the table as well as subsequent sections.

9. **Inherent Risk.** Is the susceptibility of the project financial management system to factors arising from the environment in which it operates, such as country rules and regulations and entity working environment assuming absence of any counter checks or internal controls.

Table 1: Inherent Risk Summary

Risk	Risk Assessment Rating ²	Risk Mitigation Measures
1. <u>Country-Specific:</u> Increasing political instability, hampering economic development and possible	Substantial	ADB will closely monitor the political situation of the country.

² Risk assessment rating is based on a no-mitigation measure scenario.

Risk	Risk Assessment Rating ²	Risk Mitigation Measures
investments in municipal infrastructure projects.		
<p>2. <u>Entity-Specific (LGED):</u> There is limited risk since LGED has internal control rules and requirements.</p> <p><u>Entity-Specific (pourashavas):</u> A lack of ring-fenced account systems to separate revenue generating operations (e.g. water supply) in <i>pourashavas</i> is the common practice of municipalities in Bangladesh, creating a risk to sustainability of revenue generating operations.</p>	Substantial	The project includes ring-fencing of water supply accounts as a loan covenant. A separate ring-fenced accounting system for collection and expenditure of volumetric water supply tariffs and sanitation revenues will be established in each project <i>pourashava</i> . Capacity building will be provided by loan consultants.
<p>3. <u>Project-Specific:</u> The low revenues of <i>pourashavas</i> creates risk to O&M and to the sustainability of urban development in municipalities. There is a need to improve municipal revenues through (i) increased property tax collection rates (average 50%) and (ii) a gradual increase in tariffs for revenue generating services (e.g. water supply and sanitation).</p>	Substantial	The project will improve capacity to enhance municipal financial systems through consultant support, and similar to other ADB urban sector projects in Bangladesh, the project will implement a performance-based funding approach to incentivize governance reforms including municipal financial improvements (e.g., increasing tax collection efficiency, computerization of municipal accounts). The target for property tax collection rate is a minimum of 80%. Tariff increases and a cost-recovery ratio are included as loan covenants.
Overall Inherent Risk	Substantial	Political unrest may destabilize the willingness of <i>pourashavas</i> to increase taxes and tariffs in the initial years during and after election season (expected in early 2014), which may possibly affect their financial situation. ADB will closely monitor. The project will address specific capacity gaps with financial and governance improvement support and provide incentives for municipal reforms through a performance-based approach to investment as successfully done in similar and ongoing ADB urban sector projects in the country. ³ Measures are in place to reduce these risks to a low to moderate level.

ADB = Asian Development Bank, EA = executing agency, FM = financial management, IA = implementing agency, MIS = management information systems, O&M = operations and maintenance.

³ ADB implemented two successful urban projects using the performance-based funding approach for governance reforms, namely the Urban Governance and Infrastructure Improvement Project (UGIIP I and II), which has been replicated by other development partners, namely the World Bank and JICA.

10. **Control Risk.** This is the risk that the project's accounting and internal control framework are inadequate to ensure project funds are used economically and efficiently and for the purpose intended, and that the use of funds is properly reported.

Table 2: Control Risk Summary – LGED and DPHE

Risk Type	Risk Description	Risk Assessment Rating ⁴	Proposed Mitigation Measures
1. Executing Entity	Two external reports (2012, 2009) ⁵ highlight that accounting staff in LGED lack sufficient qualifications to properly manage internal controls leading to improperly recorded transactions, or improperly accounted for and controlled assets, or a lack of focus on the highest priority projects.	Substantial	<ul style="list-style-type: none"> Capacity support to PMU on FM. Regular external audits by FAPAD Annual internal project audits outsourced to an A-listed chartered accounting firm throughout project period. Anti-corruption training Random audits by ADB
2. Funds Flow	While LGED and DPHE have rich experience in managing fund flows for ADB urban sector projects with multiple accounts and implementing agencies, project officials will require refresher training in ADB project financial management requirements, such as financial and technical auditing.	Moderate	<ul style="list-style-type: none"> Capacity building for project financial management Dedicated project FM staff in PMU supported by FM consultant Regular external audits by FAPAD
3. Staffing	While there is limited risk since LGED and DPHE Finance Sections are adequately staffed with experienced personnel, project officials will require refresher training in ADB project financial management requirements, such as financial and technical auditing to ensure adequate accounting and internal control capacity.	Moderate	Project will ensure that all FM positions are filled and that staff are trained on ADB requirements. Support is provided by FM specialists on consultant team.
4. Accounting Policies and Procedures	There is limited risk since accounting policies and procedures are well documented; and LGED and DPHE use GOB accounting standards.	Low	PMSC will provide oversight and support.

⁴ Risk assessment rating is based on a no-mitigation measure scenario.

⁵ Transparency International Bangladesh. 2012. Local Government Engineering Department: Problems of Good Governance and Way Forward; and World Bank. 2009. Operational Risk Assessment (ORA) for Local Government Engineering Department (LGED) Bangladesh. Final Implementation Plan.

Risk Type	Risk Description	Risk Assessment Rating ⁴	Proposed Mitigation Measures
5. Internal Audit	<ul style="list-style-type: none"> Two external reports (2012, 2009)⁶ highlight that accounting staff in LGED lack sufficient qualifications to properly manage internal controls leading to improperly recorded transactions, or improperly accounted for and controlled assets, or a lack of focus on the highest priority projects. DPHE does not have an internal audit cell; but they have a part-time auditor seconded from CAG. 	Substantial	<ul style="list-style-type: none"> Capacity support to PMU on FM. Annual internal project audits outsourced to an A-listed chartered accounting firm throughout project period. Anti-corruption training ADB also reserves the right to undertake periodic, random audits
6. External Audit	There is limited risk since the Foreign Aided Project Audit Directorate (FAPAD) of CAG has the constitutional mandate to conduct external audits of donor funded projects and related accounts, including all sub-accounts. Annual audit reports are typically produced within 6 months of the end of the financial year.	Low	Regular external audits by FAPAD with clear statement of audit needs. ADB also reserves the right to undertake periodic, random audits
7. Reporting and Monitoring	Studies related to LGED FM have indicated poor reporting and monitoring practices (or irregularities), although comprehensive monthly and quarterly FM reporting systems are in place; and routine reports are produced from the accounting system using the Unified Financial Management Software (UFMS).	Substantial	PMSC will build capacity of PMU staff to produce automated reports using existing accounting software. Random ADB audits will verify reports.
8. Information Systems	No major risks since LGED's accounts are computerized under the UFMS.	Low	Not applicable
Overall Control Risk	<p>As indicated by external studies, LGED has weakness with its internal control practices, particularly in the capacity of its accounting staff to adequately manage internal controls.</p> <p>DPHE's financial management practices and procedures are considered to be adequate for managing a subaccount for recurrent administrative costs.</p>	Substantial	Internal and external audits conducted by third parties for monitoring and validation. Project funds will be managed and audited separately from LGED funds; and project FM performance will be closely managed and scrutinized. Additional support of a dedicated consultant in financial management in the PMU, and dedicated

⁶ Transparency International Bangladesh. 2012. Local Government Engineering Department: Problems of Good Governance and Way Forward; and World Bank. 2009. Operational Risk Assessment (ORA) for Local Government Engineering Department (LGED) Bangladesh. Final Implementation Plan.

Risk Type	Risk Description	Risk Assessment Rating ⁴	Proposed Mitigation Measures
			accounts officers in the PMU and PIUs indicates adequate financial management capabilities and support for project implementation. The capacity of LGED's and <i>pourashava</i> finance and accounting staff will be further strengthened through training programs conducted under the project. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and the LGED and DPHE. Measures are in place to reduce these risks to a low to moderate level.

CAG = Comptroller and Auditor General, DPHE = Department of Public Health Engineering, FAPAD = Foreign Aided Project Audit Directorate, FM = financial management, GOB = Government of Bangladesh, JICA = Japan International Cooperation Agency, LGED = Local Government Engineering Department, PMU = project management unit, PMSC = project management and supervision consultant, UFMS = Uniform Financial Management System.

Table 3: Control Risk Summary – Pourashavas⁷

Risk Type	Risk Description ⁸	Risk Assessment	Proposed Mitigation Measures
1. Implementing Entity	While most of the <i>pourashavas</i> have experience in donor funded projects, the key limitation is capacity and limited experience with bigger sized investments.	Substantial	<ul style="list-style-type: none"> • A dedicated PIU will be established in each <i>pourashava</i> to manage technical and NCB procurement processes with capacity support from consultants. • Subaccounts are subject to external audits by FAPAD and project internal audits • Internal audits of PIUs
2. Funds Flow	Low capacity of <i>pourashava</i> accounting staff to manage donor funded projects.	Substantial	<ul style="list-style-type: none"> • Subaccounts are subject to external audits by FAPAD and project internal audits • Internal project audits

⁷ This assessment looks at the four sample *pourashavas* (Galachipa, Pirojpur, Amtali, Mathbaria) studied under the PPTA.

⁸ Risk assessment rating is based on a no-mitigation measure scenario.

Risk Type	Risk Description ⁸	Risk Assessment	Proposed Mitigation Measures
			<p>of PMU and PIUs.</p> <ul style="list-style-type: none"> • ADB reserves the right to randomly audit all project subaccounts.
3. Staffing	<ul style="list-style-type: none"> • Amtali, Galachipa and Pirojpur: <u>No major risks</u> – Finance Section staff are competent, appropriately qualified and experienced. The Sections can provide professional quality service to PIUs. • Mathbaria: <u>Substantial risk</u> - Accounts Officer position is vacant. Other staff are competent, appropriately qualified and experienced. 	<p>Amtali, Galachipa, Pirojpur - Moderate</p> <p>Mathbaria: Substantial</p>	<ul style="list-style-type: none"> • Training will be provided on ADB project procedures for all <i>pourashava</i> FM staff. • Mathbaria to fill Accounts Officer position prior to project commencement. LGED and ADB to closely monitor.
4. Accounting Policies and Procedures	No major risks as policies and procedures are well documented; and PIUs have adopted GoB accounting standards.	Moderate	The capacity building consultant will strengthen accounting functions of PIU.
5. Internal Audit and controls	Internal <i>pourashava</i> audit committee is not operational.	Substantial	Annual internal project audits outsourced to A-listed chartered accounting firm. Capacity building consultant under the project will provide support to operationalize and strengthen capacity of this <i>pourashava</i> internal audit committee.
6. External Audit	Pourashava accounts are audited by CAG, however, due to limited staffing of CAG and high number of pourashavas in the country, these frequently delayed. For example, the last externally audit report produced by CAG for Mathbaria was for FY 2008.	Moderate	External audits by FAPAD with clear statement of audit needs of all PIU accounts. PMU to submit consolidated auditing report to ADB. ADB to liaise with CAG and request timely auditing of all project <i>pourashavas</i> be done.
7. Reporting and Monitoring	<i>Pourashavas</i> require capacity strengthening in modern computerized FM systems to produce spreadsheet reports and more closely monitor accounts.	Moderate	Capacity building consultant under the project will provide support to strengthen capacity of <i>pourashavas</i> in modernized FM systems including billing, reporting, and monitoring.
8. Information Systems	Limited risk as PIUs' accounts are already computerized but capacity to operate such systems requires strengthening.	Low	Capacity building consultant under the project will provide support to strengthen

Risk Type	Risk Description ⁸	Risk Assessment	Proposed Mitigation Measures
			capacity of pourashavas in computerization and modern FM systems.
Overall Control Risk	Limited experience with larger sized donor supported projects, and capacity constraints create risks to FM at <i>pourashava</i> level.	Substantial	Capacity building in financial management will be provided to the <i>pourashavas</i> by consultants. External audits will be conducted by FAPAD and ADB to closely review and monitor audit reports and findings. Annual internal audits outsourced to A-listed chartered accounting firm. Measures are in place to reduce these risks to a low to moderate level.

CAG= Comptroller and Auditor General, DPHE= Department of Public Health Engineering FAPAD= Foreign Aided Project Audit Directorate; FM = financial management; GOB= Government of Bangladesh, JICA= Japan International Cooperation Agency, LGED= Local Government Engineering Department, PIU= project implementation unit, PMU= project management unit, UFMS= Uniform Financial Management System.

D. PROJECT FINANCIAL MANAGEMENT SYSTEM: STRENGTHS AND WEAKNESSES

1. EXECUTING AND IMPLEMENTING AGENCIES

11. **Strengths:** The main strength of the existing project financial management is that both EAs (LGED and DPHE) and some of the *pourashavas* (e.g., Pirojpur, Amtali, Galachipa) have valuable experience and exposure over the last decade in financial management of donor funded projects (ADB, DANIDA). They also have well documented accounting policies and procedures and use electronic accounting software. However, there are a number of weaknesses. These and the accompanying mitigation measures to be introduced by the project are summarized below.

12. **Weaknesses:**

A. LGED

- (i) **Low capacity and accountability.** LGED has weaknesses with its internal control practices, particularly in the capacity of its accounting staff to adequately manage internal controls. Some LGED staff lack sufficient qualifications to properly manage internal controls leading to improperly recorded transactions, or improperly accounted for and controlled assets, or a lack of focus on the highest priority projects. Capacity building in financial management, internal auditing, and ADB requirements will be provided to project staff by loan consultants and PMU to ensure robust project financial management.

B. Pourashavas

- (i) **Low capacity.** The biggest risk in terms of financial management at the *pourashava* level is inexperience implementing large investment projects. PIUs will receive financial management capacity building support from financial management specialists on the consultant team, including automated software. Internal auditing of PIUs to be done. LGED also has experienced staff in project financial management who will support capacity building of PIUs.
- (ii) **Lack of internal audit.** The internal *pourashava* audit committees are not yet operational. These are meant to be an extra layer of checks to the *pourashavas'* internal controls and external audits. The loan capacity building consultant will provide support to operationalize and strengthen these committees. PIUs are also subject to internal audits by third party A-listed chartered accounting firm hired under the project.

2. IMPLEMENTING ARRANGEMENTS

13. The structures envisaged to manage and oversee project implementation are designed to encourage accountability and minimize corruption risks. An inter-ministerial project steering committee at national level, chaired by the Secretary LGD, will provide overall policy guidance and oversight to the project. The committee will include key government stakeholders,⁹ including local government representatives from the project *pourashavas*. The Ministry of Local Government, Rural Development and Cooperatives (MLGRDC) acting through its Local Government Engineering Department (LGED) and the Department of Public Health Engineering (DPHE) will be the Executing Agencies of the project. The Local Government Engineering Department (LGED) is the lead executing agency (EA), and the Department of Public Health Engineering (DPHE) is the co-executing agency (for water supply and sanitation components). Overall coordination of the project will be provided by a Project Director from LGED who heads the PMU. The PMU will have three deputy project directors, including two from LGED for municipal infrastructure and governance, and one deputy project director from DPHE to provide technical support for water supply and sanitation components. The participating *pourashavas* are the implementing agencies and they will each establish a project implementation unit (PIU) within the *pourashava* structure. Local LGED and DPHE offices will provide further technical support to PIUs during project implementation and operation and maintenance stages.

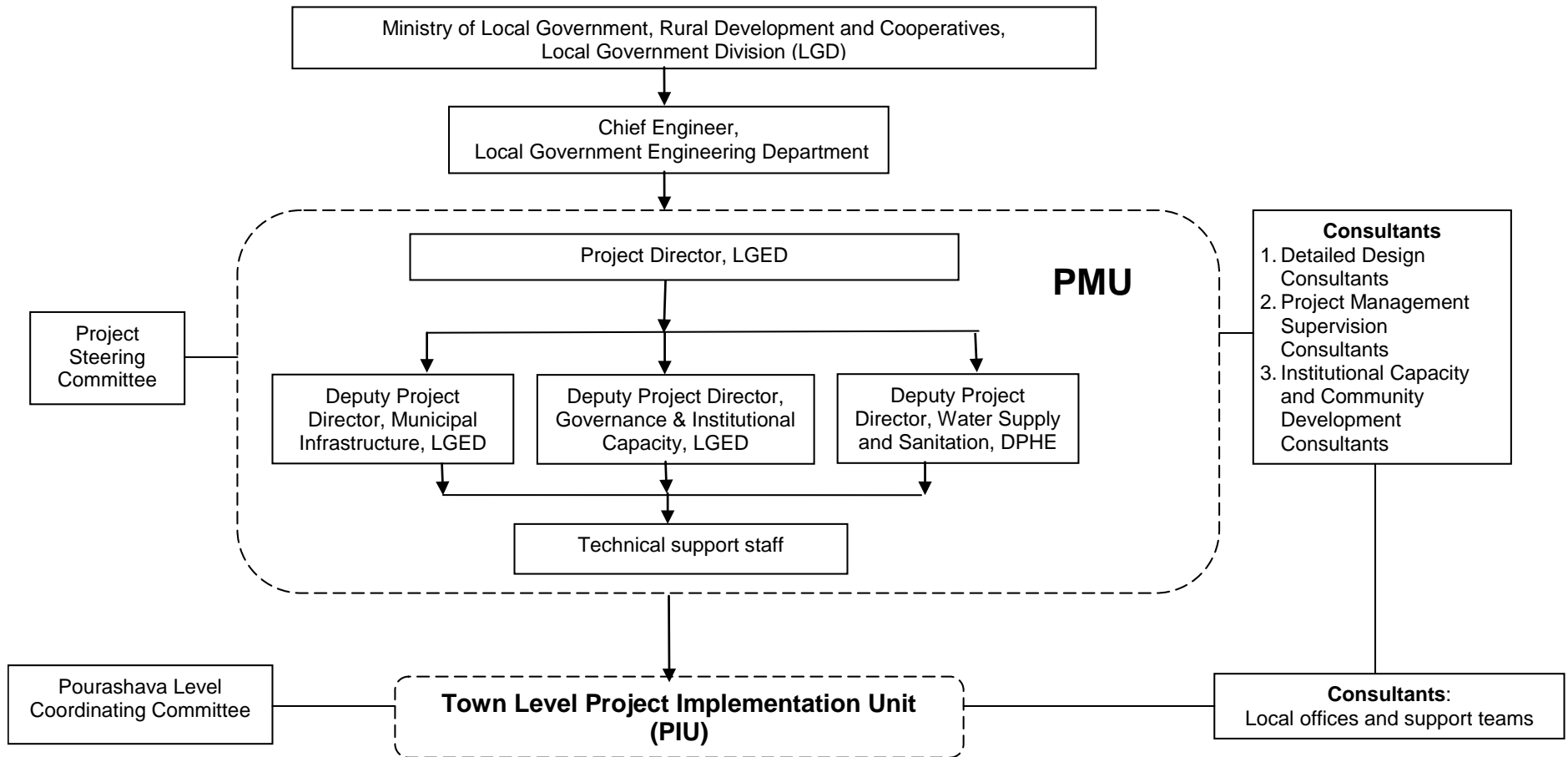
14. The PMU will tender and manage all international competitive bidding (ICB) contracts; and PIUs will tender and manage all national competitive bidding contracts (NCB). However, the PIU will forward all ICB contractor invoices to PMU for payment. The PMU will also engage all technical assistance (TA) consultants under the project: (i) Detailed Engineering Design Consultants,¹⁰ (ii) Project Management and Supervision Consultants (PMSC), and (iii) Institutional Strengthening and Community Development Consultants (ICCDC). LGED will have a project account. DPHE will have its own subaccount for small office expenses. To foster sustainability, and in keeping with Paris and Kavieng Declaration commitments, Government procedures and documentation will be used in all implementation stages. In addition to direct implementation roles, consultants will build capacity in key technical and management functions by training PMU and PIU staff.

15. The proposed organizational structure is shown in Figure 1 below.

⁹ Please refer to PAM for full list of Steering Committee members.

¹⁰ Detailed Engineering Design Consultants will be financed through the Project Design Advance (PDA).

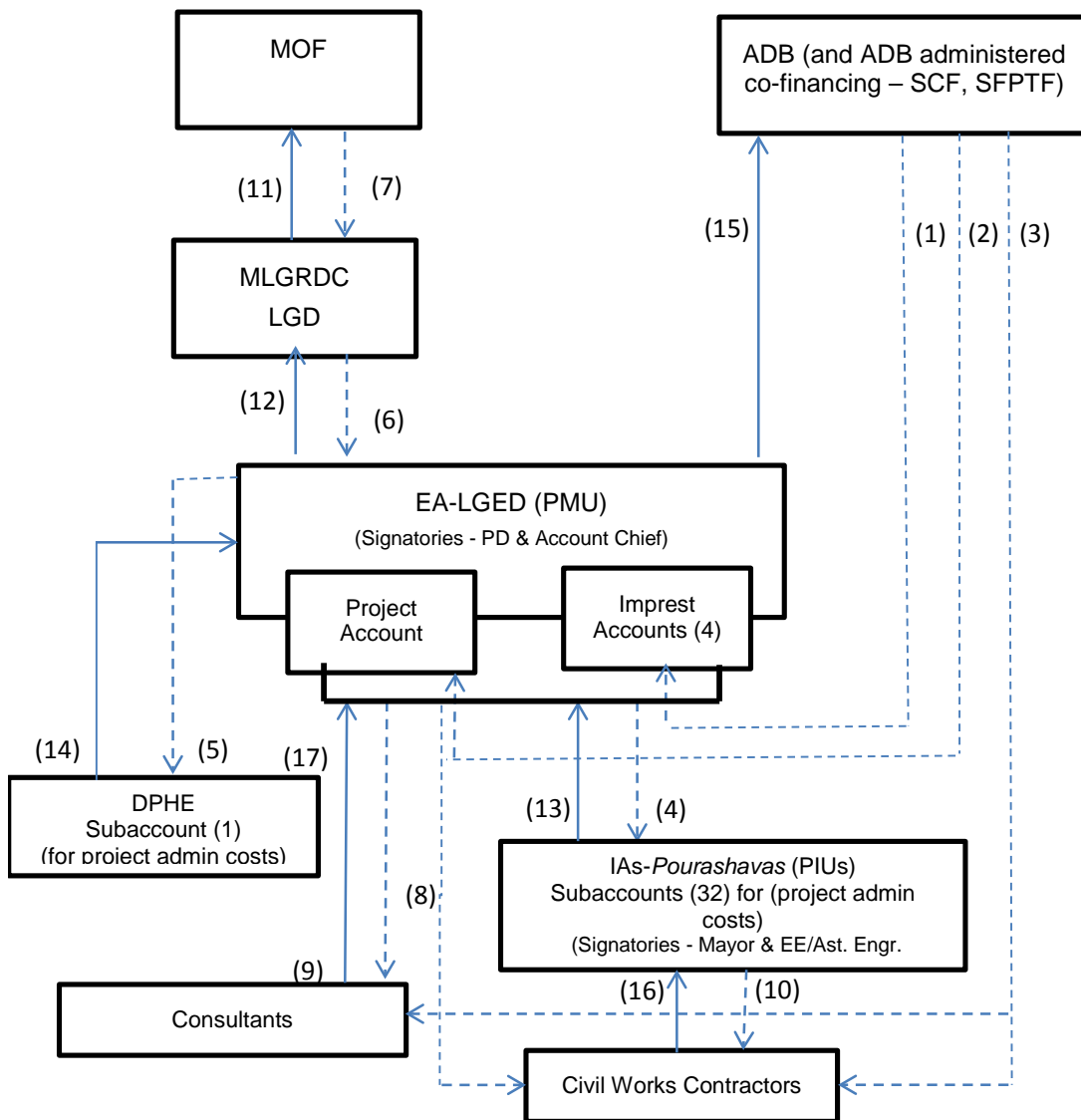
Figure 1 Project Management Organization Structure



G. FUND FLOW MECHANISMS

16. The project specific fund flow mechanism is illustrated below. The government will be responsible for implementing the project according to the loan agreement and other project agreements. ADB will monitor the project and review its progress to ensure that loan proceeds are spent as previously agreed. When a loan becomes effective, a loan account will be opened in ADB's books in the name of the borrower and the loan amount is credited to that account. All disbursements under the loan will be carried out in accordance with ADB's Loan Disbursement Handbook (2007, as amended from time to time). The last disbursement under the project will be made by 30 November 2020.

17. ADB disburses loan proceeds to the GOB account in the Bangladesh Bank. GOB will make funds available to LGED on a quarterly basis through the Treasury. LGED, as head of the PMU, will manage all payments to consultants and contractors. The PMU will open four imprest accounts (one for each type of fund received – ADB, SCF loan, SCF grant, and SFPTF). Each PIU will have four separate subaccounts (one for each funding source) for payments to NCB contractors and day-to-day project administration costs. DPHE will have a subaccount for day-to-day project administration costs. Payments will be made by ADB direct payment when suitable. Other payments will be covered through statement of expenditure procedures and reimbursement procedures from the four project imprest accounts. PIUs will collect invoices from contractors and forward to PMU for payment for larger sized ICB contracts. Expenditures are consolidated and reviewed on a monthly basis by the PMU and PIUs and reimbursement claims are submitted to ADB for review and approval.



ADB = Asian Development Bank, DPHE = Department of Public Health and Engineering Department, IA= Implementing Agency, LGD = Local Government Division, LGED- Local Government Engineering Department, MLGRDC = Ministry of Local Government, Rural Development and Cooperatives, MOF = Ministry of Finance, PMU = project management unit, PIU= project implementing Agency

Fund Flow - - - ->

- (1) Disbursement Procedure: Advance/Replenishment of Imprest Account
- (2) Disbursement Procedure: Reimbursement
- (3) Disbursement Procedure: Direct Payment / Commitment
- (4) Advances
- (5) Advances
- (6) Budget allocation
- (7) Budget allocation
- (8) Payment to Contractors
- (9) Payment to Consultants
- (10) Payment to Contractors

Document Flow ———>

- (11) Budget request
- (12) Budget request
- (13) Liquidation
- (14) Liquidation
- (15) Withdrawal Applications
- (16) Invoice of Contractors
- (17) Invoice of Consultants

H. PERSONNEL

18. The PMU will have a dedicated accountant and three accounts officers and each PIU will have a dedicated accounts officer. PMU FM staff will be drawn from LGED finance department, line agencies and contract employees as required. They will receive support from the international and national financial management specialists on the loan consultant team.

19. *Pourashava* staff will need to be trained on ADB disbursement procedures and to strengthen their budgeting, expenditure and financial reporting capacity. Loan consultants will build financial and accounting capacity of PIUs as will the government through its National Institute of Local Governance (NILG).

I. ACCOUNTING POLICIES AND FINANCIAL REPORTING

20. Project financial statements shall be prepared to achieve maximum alignment with Cash-Basis International Public Sector Accounting Standards (IPSAS). The cash basis of accounting will be adopted, with additional disclosures.

J. INTERNAL AUDIT

21. LGED's Internal Audit Cell reports to the head of agency, the Chief Engineer. Internal audit tests whether:

- (i) transactions are executed in accordance with management's authorization,
- (ii) transactions and other events are promptly recorded in the correct amount, in the appropriate accounts, and in the proper accounting period,
- (iii) access to assets is permitted only in accordance with management's authorization, and
- (iv) recorded assets are compared with the existing assets at reasonable intervals and appropriate action is taken regarding any differences.

22. LGED 2011-2012 Annual Report mentions that there were 147 new, unresolved cases of audit objections on foreign funded projects for FY11-12. In total, there are 432 unresolved cases for foreign funded projects and 145 unresolved cases for GOB funded projects. ADB will work closely with PMU to ensure high quality financial management and quickly address any issues highlighted in FAPAD reports and ensure there are no unresolved issues related to the project.

23. DPHE does not have an internal audit department. However, one accountant from CAG's office is posted in DPHE on a part-time basis. The accountant reviews all transactions. This system is found adequate to manage a subaccount account associated with small recurrent project administration expenditures. DPHE will be subject to the project procedures for financial management, including regular submission of financial reports to PMU, and FAPAD audit (see next section).

24. *Pourashavas* do not have an internal audit department; and LGD does not undertake an internal audit of *pourashavas*. Each *pourashava* is however meant to have an audit and inspection standing committee that works on a needs basis and reports to their respective mayors. The project will support *pourashavas* to operationalize these internal audit committees as done under similar ADB urban projects working in the *pourashavas*. The PMU will request this committee to undertake internal audit of the PIU's activities and transactions to complement the external audit. All PIU subaccounts will also be subject to

random FAPAD review (see next section) and internal audits under the project. The project will outsource annual internal project audits to an A-listed chartered accounting firm for duration of project.

K. EXTERNAL AUDIT

25. All state entities (including LGED, DPHE and *pourashavas*) are subject to external audit of the Office of the Comptroller and Auditor General (CAG) of Bangladesh. Every year, CAG reviews and comments on state entities' financial reporting and records and compliance with GOB accounting rules. The external statutory Audit Report is required to be submitted within six months from the end of each financial year although it is often delayed.

26. The scope of the external audit includes:

- (i) adequacy of the accounting and internal control systems,
- (ii) ability to maintain adequate documentation for transactions,
- (iii) eligibility of incurred expenditures,
- (iv) basis of estimates, and
- (v) an opinion concerning the fairness of the accounts

27. For development projects, a project audit is performed by the FAPAD unit of the CAG. This unit is specifically trained on loan procedures and loan negotiation documents. This unit reviews if the project is being implemented according to the approved loan agreements and also reviews tax payments, deviations from the loan agreements, authorizations, and disbursements. FAPAD will prepare a single, consolidated project financial statement and will select a sample of *pourashavas* to audit as part of its due diligence. FAPAD will issue a management letter for the consolidated project financial statements and may also choose to issue a separate management letter for each entity.

28. For the Project, one set of the consolidated project financial statements audited by FAPAD shall be submitted on an annual basis to ADB by the PMU within six months of the financial year end.

L. PROCUREMENT

29. LGED, DPHE and project *pourashavas* need to comply with both government and ADB procurement rules and guidelines applicable to procurements of all goods, works, and services. The PMU and PIU will receive relevant training on ADB requirements. The project will also support third party post-procurement reviews of all awarded contracts.

30. Procurement of goods and services under government financing is conducted under the Public Procurement Act 2006 and the guidelines of the Public Procurement Rules (PPR) 2008 following a competitive bidding process. Tenders for works and services follow a two-stage process of shortlisting by evaluating the qualifications and capacity of interested bidders and through a review of the technical and financial positions of bids.

31. LGED is one of four pilot agencies engaged in the current government initiative, E-government procurement (E-GP), to transfer all government procurement processes to e-systems. This applies to the acquisition of goods, works and consultancy services. It currently applies only to NCB contracts. The project will build capacity of *pourashavas* to use e-procurement for acquisition of goods, works and consultancy services funded by the project; and build awareness of e-procurement system among contractors, including through business fairs organized by PMU and PIU.

32. The PMU accountant with support from technical specialists on the project consultant team,¹¹ will review the following financial issues related to procurement:

- (i) whether the PPR has been followed
- (ii) suppliers' bills
- (iii) material receiving reports (MMR) from store keeper whether quality has been certified by relevant experts
- (iv) whether any earlier payments have already been made
- (v) security deposits
- (vi) whether deductions at sources have been made (VAT-Taxes-IT)

33. The PIU accountant with support from technical specialists on consultant team will review the following financial issues related to procurement:

- (i) whether the PPR has been followed
- (ii) suppliers' bills
- (iii) material receiving reports (MMR) from store keeper
- (iv) quantity/quality of materials in relation to specifications
- (v) whether quality has been certified by relevant experts
- (vi) whether any earlier payments have been already made
- (vii) security deposits
- (viii) whether deductions at sources have been made (VAT-Taxes-IT)

M. ASSURANCES/COVENANTS

1. Right of Audit

34. LGED, DPHE and project *pourashavas* will ensure that contracts financed by ADB will include provisions specifying the right of ADB to audit and examine the records and accounts of LGED, DPHE and project *pourashavas* and all contractors, suppliers, consultants, and other service providers as they relate to the Project (e.g. see ADF Loan Agreement, Schedule 5, para 22).

2. Financial Management

35. An independent auditor (FAPAD) will produce an annual, consolidated project financial statement and management letter. This audit focuses on project funds. Audit reports shall be available within 6 months of the fiscal year end (e.g. see ADF Loan Agreement, Article IV, Section 4.03). The PMU will appoint a project management and supervision consultant to support overall project management, performance monitoring and reporting (e.g. see ADF Loan Agreement, Schedule 1, Part 3).

3. Governance and Anticorruption

36. The Borrower and *pourashavas* shall (a) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to (i) investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to the Project; and (ii) suspend or cancel the Loan if ADB determines that corrupt, fraudulent, collusive or coercive practices have been engaged in with relation to the Project; and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation. The Borrower shall also ensure that the anticorruption provisions acceptable to ADB are included in all bidding documents and

¹¹ PMSC Engineering staff will provide support to PIU accountant for engineering related tasks (e.g. verifying quality of materials).

contracts, including provisions specifying the right of ADB to audit and examine the records and accounts of the executing and implementing agencies and all contractors, suppliers, consultants, and other service providers as they relate to the project (e.g. see ADF Loan Agreement, Schedule 5, para 21 and 22).

4. Financial Sustainability

37. The Borrower shall cause each of the participating *pourashavas* with water and sanitation subprojects to ringfence their water supply and sanitation (WSS) accounts from general *pourashava* accounts and prepare and implement a comprehensive operations and maintenance plan which shall include (i) a sanitation and volumetric water tariff reform plan based on a financial model acceptable to ADB, and (ii) a debt repayment plan acceptable to ADB (e.g. see ADF Loan Agreement, Schedule 5, para 3). The achievement of performance criteria is requisite to accessing funds (see ADF Loan Agreement, Schedule 5, para 8 and 9) and Stage 2 performance criteria requires property tax collection to be at least 80 percent.

N. CONCLUSIONS

38. A positive finding of the FMA is that the EAs have a sound record of experience with ADB and donor lending procedures and projects and have implemented several projects and programs; and some IAs have experience with donor projects (e.g. ADB, DANIDA). The FMA also indicates that there are substantial FM risks associated with the current capacity of the EA and the IAs if gone unmitigated. Consequently, the project has proposed a series of targeted mitigation measures to manage and monitor these risks, especially to ensure transparency and accountability in project financial management and adherence to GOB and ADB standards for financial management.

39. Mitigation measures include (i) dedicated FM staff in the PMU and PIUs; (ii) financial management oversight and capacity support from project consultants to PMU and PIU; (iii) internal and external audits including post procurement reviews; (iv) random ADB audits for project accounts, (v) anti-corruption training, (vi) training on ADB procedures, (vii) support to operationalize PIU internal audit committees; and (viii) centralized financial management structure (e.g., payments to consultants/contractors by PMU). There are also a number of loan covenants related to financial management and financial sustainability.

40. Given the scale of the planned investments for these towns and expected increase in O&M costs for project *pourashavas* in the coming years, EA and IA officials will be required to give more attention, with capacity support from the project, to financial management capacity strengthening and improvements in own source revenue, and make available the required resources to mitigate any financial management risks.

ANNEX 1

1. Financial Performance - Amtali

BDT Million

Head of Accounts	Actual				
	2007-08	2008-09	2009-10	2010-11	2011-12
Recurring Income					
Holding tax- current	0.6	0.6	0.4	0.6	0.8
Holding tax- arrears					
Immovable property transfer fee	0.4	0.4	0.7	0.9	1.9
Professional license/ fees	0.3	0.4	0.4	0.5	0.6
Income from properties	3.0	3.1	4.0	2.1	6.6
Water User Charges	1.0	1.6	2.5	2.8	4.0
Others	0.2	0.1	0.3	0.1	0.2
Total Recurring Income	5.4	6.1	8.4	6.9	14.2
GoB Revenue / Other Grant	0.3	0.2	0.2	0.2	0.2
Additional Income _UGIIP					
Total Income	5.7	6.3	8.6	7.2	14.4
Expenditure					
Establishment cost					
Honoraria	0.3	0.3	0.3	3.0	0.8
Salaries and allowances	1.3	1.7	2.1	2.7	3.7
General administration	0.8	1.0	1.9	1.3	2.2
Electricity	0.1	0.1	0.1	0.1	0.1
Other costs and disbursements	2.2	1.7	1.4	0.4	3.8
Water Operation Maintenance	0.6	1.2	1.7	2.1	2.6
Total Operating Expenses	5.3	6.0	7.5	9.6	13.1
Revenue Surplus (deficit)	0.4	0.4	1.1	-2.5	1.3
Operating Ratio	0.9	0.9	0.9	1.3	0.9

BDT = Bangladeshi Taka, UGIIP = Urban Governance and Infrastructure Improvement Project.

Source: Amtali financial statements.

2. Financial Performance - Galachipa

BDT Million

Head of Accounts	Actual				
	2007-08	2008-09	2009-10	2010-11	2011-12
Recurring Income					
Holding tax- current					
Holding tax- arrears					
Total Collection - Holding					
Tax	0.5	0.9	0.6	0.8	0.9
Immovable property transfer fee	0.4	0.5	0.4	1.1	1.6
Professional license/ fees	0.6	0.3	0.4	0.4	0.4
Income from properties	3.4	2.7	2.2	4.1	6.7
Water User Charges	1.7	1.9	2.5	3.0	4.0
Others	0.2	0.2	0.2	0.3	0.2
Total Recurring Income	6.7	6.5	6.3	9.6	13.8
GoB Revenue / Other					
Grant	0.2	0.2	0.2	0.2	0.2
Additional Income _UGIIP					
Total Income	7.0	6.7	6.4	9.9	14.0
Expenditure					
Establishment cost					
Honoraria	0.2	0.2	0.2	0.2	1.0
Salaries and allowances	1.7	1.7	2.4	3.5	3.1
General administration	0.6	0.6	0.6	1.0	1.1
Electricity	0.0	0.0	0.0	0.0	0.0
Other costs and disbursements	0.8	1.4	2.4	2.5	3.2
Water operation maintenance	1.1	1.6	1.9	4.7	2.8
Total Operating Expenses	4.4	5.4	7.4	11.9	11.3
Revenue Surplus (deficit)	2.6	1.3	-1.0	-2.0	2.7
Operating Ratio	0.6	0.8	1.2	1.2	0.8

BDT = Bangladeshi Taka, UGIIP = Urban Governance and Infrastructure Improvement Project.

Source: Galachipa financial statements.

3. Financial Performance - Mathbaria

Head of Accounts	BDT Million				
	2007-08	2008-09	2009-10	2010-11	2011-12
Recurring Income					
Holding tax- current					
Holding tax- arrears					
Total Collection - Holding Tax	2.1	2.6	1.3	2.7	8.4
Immovable property transfer fee	1.2	1.7	2.2	3.0	5.7
Professional license/ fees	0.8	0.7	0.6	1.1	1.6
Income from properties	4.5	6.1	6.3	8.7	7.4
Others	0.2	0.2	0.7	0.2	0.6
Total Recurring Income	8.8	11.3	11.1	15.7	23.8
GoB Revenue / Other Grant	5.1	0.2	0.3	0.3	0.2
Additional Income – UGIIP					
Total Income	13.9	11.5	11.3	16.0	24.0
Expenditure					
Establishment cost					
Honoraria	0.3	0.3	0.2	2.3	1.7
Salaries and allowances	3.5	4.2	4.4	6.2	11.1
General administration	2.2	1.5	0.5	1.1	1.8
Electricity	0.2	0.0	0.2	0.1	0.6
Other costs and disbursements	8.3	4.9	5.4	6.0	8.6
O&M of UGIIP Projects					
Total Operating Expenses	19.2	14.6	16.8	19.0	24.8
Revenue Surplus (deficit)	-5.3	-3.1	-5.5	-3.0	-0.8
Operating Ratio	1.4	1.3	1.5	1.2	1.0

BDT = Bangladeshi Taka, UGIIP = Urban Governance and Infrastructure Improvement Project.

Source: Mathbaria financial statements.

4. Financial Performance - Pirojpur

BDT Million

Head of Accounts	Actual				
	2007-08	2008-09	2009-10	2010-11	2011-12
Recurring Income					
Holding tax- current					
Holding tax- arrears					
Total Collection - Holding Tax	6.0	4.2	4.7	5.1	5.9
Immovable property transfer fee	2.5	3.2	3.9	7.0	10.5
Professional license/ fees	2.5	2.0	2.6	2.7	3.8
Income from properties	4.5	2.5	3.5	3.4	3.4
Water User Charges	7.9	10.5	8.8	9.7	12.3
Others	0.3	0.3	0.3	0.2	0.4
Total Recurring Income	23.7	22.7	23.7	28.0	36.4
GoB Revenue / Other Grant	13.0	0.5	0.4	0.2	0.3
Additional Income _UGIIP					
Total Income	36.8	23.2	24.1	28.3	36.7
Expenditure					
Establishment cost					
Honoraria	0.3	0.1	0.2	0.1	0.4
Salaries and allowances	7.5	6.9	8.0	9.1	11.0
General administration	1.7	2.1	2.8	3.4	4.4
Electricity	1.4	0.6	0.4	0.4	0.4
Other costs and disbursements	14.0	2.5	2.8	3.4	4.5
Water operation maintenance	7.8	11.3	7.7	8.2	12.5
Total Operating Expenses	38.0	32.0	26.8	26.7	36.6
Revenue Surplus (deficit)	-1.2	-8.8	-2.6	1.6	0.0
Operating Ratio	1.0	1.4	1.1	0.9	1.0

BDT = Bangladeshi Taka, UGIIP = Urban Governance and Infrastructure Improvement Project
Source: Pirojpur financial statements.

ANNEX 2

Table 1: Amtali financial performance – with assumptions but without project costs

Amtali Pourashava Particulars	Projections in BDT Million											
	Actual 2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2022-23	2027-28	2032-33	2037-38	2042-43
A. Amtali Pourashava (Revenue Account)												
Opening Balance		1.3	3.8	4.9	5.8	6.7	7.7	15.4	38.9	90.6	65.9	(73.5)
<u>Revenue Income</u>												
Tax Revenue	0.8	2.2	0.8	0.9	0.9	1.0	1.0	1.4	1.7	2.3	3.2	4.0
Non Tax Revenue	13.4	14.6	15.9	17.4	19.1	21.0	23.1	38.7	67.1	98.9	130.7	221.4
Grants & Contribution	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.4	0.4	0.5
Total- Revenue Income	14.4	17.0	16.9	18.4	20.1	22.2	24.3	40.3	69.1	101.6	134.3	225.8
<u>Revenue Expenditure</u>												
Salaries & Allowances	6.6	7.3	8.0	8.8	9.7	10.7	11.8	18.9	30.5	49.1	79.1	127.4
Operation and Maintenance	2.7	3.0	3.3	3.6	4.0	4.4	4.8	7.8	12.5	20.1	32.4	52.2
Other Expenditure	3.8	4.2	4.6	5.0	5.5	6.1	6.7	10.8	17.4	28.0	45.1	72.6
Total- Revenue Expenditure	13.1	14.5	15.9	17.5	19.2	21.2	23.3	37.5	60.4	97.2	156.6	252.2
Revenue Surplus /(Deficit)	1.3	2.5	1.0	1.0	0.9	1.0	1.1	2.8	8.7	4.4	(22.2)	(26.3)
Closing Balance	1.3	3.8	4.9	5.8	6.7	7.7	8.8	18.2	47.6	95.0	43.7	(99.9)

Notes:

1. Property tax: Coverage (i.e. number of tax payers) assumed to increase by 1% per annum; Increase in property value assumed to increase 15% every four years from FY2016-17 to 2042-2043.
2. Non tax revenues assumed to grow at 12.75% per annum. Present five year compounded annual growth rate (CAGR) is 29.0 per cent.
3. All revenue expenditure assumed to grow at 10% per annum.

Table 2: Amtali financial performance – incremental project revenue and expenses

Amtali Pourashava Particulars	Projections in BDT Million												Total
	Actual 2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2022-23	2027-28	2032-33	2037-38	2042-43	
B. Amtali Pourashava (CTIIP Account) WITH CCR													
Opening Balance				(0.0)	0.1	0.2	0.1	(13.7)	(17.2)	0.2	44.0	118.1	
<u>Sources of Fund</u>													
Debt Drawdown			4.7	9.9	10.1								
Govt. Grant			26.4	55.9	57.5								
Water Supply													
- Income -Existing													108.6
- Income - Incremental						7.7	8.1	13.0	19.1	31.2	37.9	45.9	672.5
-New Connection Fees				0.2	0.1	1.8	0.8	0.6	0.6	0.8	0.8	0.8	19.9
Public Toilets						3.62	3.9	4.9	7.4	11.3	17.0	25.8	291.5
Total- Inflow			31.1	66.0	67.7	13.1	12.9	18.5	27.1	43.2	55.7	72.5	1,092
<u>Disposition of Funds</u>													
Equity Drawdown													
Project Capex			31.1	65.8	67.6								
Water Supply, Sanitation and Solid waste													
- Debt - Principal BMDF			0.0	0.0									
- Debt - Principal Project								1.2	1.2	1.2	1.2		24.7
- Debt - Interest								0.9	0.6	0.3	0.1		11.3
Water Supply													
- Expenditure - Existing													219.2
- Expenditure - Incremental						9.3	9.8	13.0	16.8	21.2	26.5	32.8	523.2
Drainage						0.3	0.3	0.4	1.0	1.3	1.8	2.5	31.0
Roads						2.3	2.4	3.3	4.6	6.3	8.6	11.7	157.3
Bridges													
Sanitation						1.0	1.1	1.5	2.0	2.8	3.8	5.3	70.6
Solid Waste						0.0	0.0	0.0	0.1	0.1	0.1	0.1	1.8
Cyclone Shelters						0.4	0.4	0.6	0.8	1.1	1.5	2.1	28.2
Total- Outflow			31.1	65.8	67.6	13.3	14.1	21.0	27.1	34.4	43.7	54.6	1,067
Net Cash Flow			(0.0)	0.2	0.1	(0.2)	(1.3)	(2.4)	0.1	8.9	12.0	17.9	25.1
Closing Balance			(0.0)	0.1	0.2	0.1	(1.2)	(16.2)	(17.2)	9.0	56.1	136.0	
Cumulative Closing Balance	1.3	3.8	4.8	6.0	6.9	7.8	7.6	2.0	30.5	104.0	99.7	36.1	
Net Profit Ratio													2.3%

^a Cumulative closing balance combines figures of Table 1 and 2.

Table 3: Galachipa financial performance – with assumptions but without project costs

Galachipa Pourashava Particulars	Projections in BDT Million											
	Actual 2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2022-23	2027-28	2032-33	2037-38	2042-43
A. Galachipa Pourashava (Revenue Account)												
Opening Balance		2.7	5.5	9.9	19.8	26.2	35.7	59.3	67.1	43.8	(38.0)	(84.6)
<u>Revenue Income</u>												
Tax Revenue	0.9	1.3	3.3	9.2	6.2	10.0	7.1	8.7	10.7	14.8	20.2	25.0
Non Tax Revenue	12.9	13.7	14.6	15.5	16.5	17.6	18.8	26.6	38.9	57.9	89.8	220.2
Grants & Contribution	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.4	0.4	0.5
Total- Revenue Income	14.0	15.2	18.0	24.9	22.9	27.8	26.1	35.6	49.9	73.1	110.4	245.7
<u>Revenue Expenditure</u>												
Salaries & Allowances	5.3	5.8	6.4	7.0	7.7	8.5	9.3	15.0	24.2	38.9	62.7	100.9
Operation and Maintenance	2.8	3.1	3.4	3.8	4.1	4.6	5.0	8.1	13.0	21.0	33.8	54.4
Other Expenditure	3.2	3.5	3.9	4.3	4.7	5.1	5.7	9.1	14.7	23.7	38.1	61.3
Total- Revenue Expenditure	11.3	12.4	13.7	15.0	16.5	18.2	20.0	32.2	51.9	83.5	134.5	216.6
Revenue Surplus /(Deficit)	2.7	2.8	4.4	9.9	6.4	9.6	6.1	3.4	(1.9)	(10.4)	(24.1)	29.1
Closing Balance	2.7	5.5	9.9	19.8	26.2	35.7	41.9	62.7	65.2	33.4	(62.1)	(55.5)

Notes:

1. Property tax: Coverage (i.e. number of tax payers) assumed to increase by 1% per annum; Increase in property value assumed to increase 15% every four years from FY2016-17 to 2042-2043.
2. Non tax revenues assumed to grow at 9.25% per annum. Present five year compounded annual growth rate (CAGR) is 20.0 per cent.
3. All revenue expenditure assumed to grow at 10% per annum.

^a Cumulative closing balance combines figures of Table 3 and 4.

Table 5: Mathbaria financial performance – with assumptions but without project costs

Mathbaria Pourashava Particulars	Projections in BDT Million											
	Actual 2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2022-23	2027-28	2032-33	2037-38	2042-43
A. Mathbaria Pourashava (Revenue Account)												
Opening Balance		0.3	1.1	0.4	1.9	2.0	4.2	10.1	21.3	31.4	26.4	0.3
<u>Revenue Income</u>												
Tax Revenue	8.4	6.2	7.7	10.2	9.0	11.4	10.6	13.8	17.1	23.7	32.2	39.9
Non Tax Revenue	15.4	19.9	18.5	20.3	22.3	24.4	26.8	42.6	67.8	108.0	171.9	295.8
Grants & Contribution	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Total- Revenue Income	24.0	26.3	26.5	30.7	31.5	36.1	37.6	56.7	85.2	131.9	204.4	335.9
<u>Revenue Expenditure</u>												
Salaries & Allowances	14.6	16.1	17.7	19.6	21.6	23.8	26.3	43.0	70.4	115.2	188.5	308.6
Operation and Maintenance	0.6	0.6	0.7	0.8	0.8	0.9	1.0	1.7	2.9	5.0	8.4	14.1
Other Expenditure	8.6	8.7	8.8	8.9	9.0	9.1	9.2	9.6	10.1	10.6	11.2	11.8
Total- Revenue Expenditure	23.8	25.4	27.2	29.2	31.4	33.8	36.5	54.4	83.5	130.8	208.1	334.4
Revenue Surplus /(Deficit)	0.3	0.9	(0.8)	1.5	0.1	2.2	1.1	2.3	1.7	1.1	(3.7)	1.5
Closing Balance	0.3	1.1	0.4	1.9	2.0	4.2	5.4	12.3	23.0	32.5	22.6	1.8

Notes:

1. Property tax: Coverage (i.e. number of tax payers) assumed to increase by 1% per annum; Increase in property value assumed to increase 15% every four years from FY2016-17 to 2042-2043.
2. Non tax revenues assumed to grow at 10.0% per annum. Present five year compounded annual growth rate (CAGR) is 22.9 per cent.
3. All revenue expenditure assumed to grow at 10% per annum.

Table 6: Mathbaria financial performance – incremental project revenue and expenses

Mathbaria Pourashava Particulars	Projections in BDT Million											Total	
	Actual 2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2022-23	2027-28	2032-33	2037-38		2042-43
B. Mathbaria Pourashava (CTIIP Account) with Climate Resilient Measures													
Opening Balance				(0.3)	(0.6)	(0.9)	5.5	18.4	26.7	30.5	33.9	45.2	
<u>Sources of Fund</u>													
Debt Drawdown			12.1	26.8	28.0								
Govt. Grant			68.8	151.8	158.5								
Water Supply													
- Income - Incremental						15.6	16.3	19.8	22.5	28.8	33.3	39.4	
-New Connection Fees						0.1	0.1	0.1	0.1	0.1	0.1	0.2	
Public Toilets + Desludge Hire													
						3.5	3.8	5.7	8.3	11.8	16.6	23.2	
Total- Inflow			81.0	178.6	186.5	19.2	20.2	25.6	30.9	40.8	50.1	62.7	1,005.4
<u>Disposition of Funds</u>													
Equity Drawdown													
Project Capex			81.0	178.6	186.5								
Water Supply, Sanitation, Solid Waste													
- Debt - Principal BMDf			0.3	0.3	0.3	0.3							
- Debt - Principal Project								3.3	3.3	3.3	3.3		66.9
- Debt - Interest								2.4	1.7	0.9	0.2		32.1
Water Supply													
- Expenditure - Incremental						5.9	6.3	8.3	10.7	13.5	16.9	20.9	333.9
Drainage													
						0.8	0.9	1.2	3.0	4.1	5.8	8.1	96.1
Roads													
						2.1	2.3	3.2	4.5	6.2	8.7	12.2	157.2
Bridges													
						0.4	0.4	0.6	0.8	1.2	1.6	2.3	29.7
Sanitation													
						3.2	3.4	4.7	6.6	9.3	12.9	18.1	233.3
Solid Waste													
						0.0	0.0	0.0	0.1	0.1	0.1	0.2	2.0
Cyclone Shelters													
						0.1	0.1	0.2	0.2	0.3	0.4	0.6	7.7
Total- Outflow			81.3	178.9	186.8	12.8	13.4	24.0	30.9	39.0	50.1	62.4	958.8
Net Cash Flow			(0.3)	(0.3)	(0.3)	6.3	6.8	1.6	0.1	1.8	0.0	0.3	46.65
Closing Balance			(0.3)	(0.6)	(0.9)	5.5	12.3	20.0	26.8	32.3	33.9	45.5	
Cumulative Closing Balance	0.3	1.1	0.1	1.3	1.1	9.7	17.7	32.4	49.8	64.8	56.6	47.4	
Net Profit Ratio													4.6%

^a Cumulative closing balance combines figures of Table 5 and 6.

Table 7: Pirojpur financial performance – with assumptions but without project costs

Pirojpur Pourashava Particulars	Projections in BDT Million											
	Actual 2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2022-23	2027-28	2032-33	2037-38	2042-43
A. Pirojpur Pourashava (Revenue Account)												
Opening Balance		0.0	6.0	6.4	6.9	7.8	9.7	30.5	84.1	159.1	155.1	120.0
<u>Revenue Income</u>												
Tax Revenue	5.9	11.8	6.0	6.1	6.1	6.9	7.1	9.7	12.0	16.7	22.7	28.1
Non Tax Revenue	30.4	33.1	36.1	39.4	43.0	46.9	51.2	80.4	127.4	178.5	258.3	413.9
Grants & Contribution	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Total- Revenue Income	36.7	45.2	42.4	45.7	49.4	54.1	58.7	90.4	139.8	195.5	281.3	442.3
<u>Revenue Expenditure</u>												
Salaries & Allowances	15.8	17.3	19.1	21.0	23.1	25.4	27.9	45.0	72.5	116.7	188.0	302.7
Operation and Maintenance	12.9	13.9	15.0	16.2	17.4	18.8	20.3	29.7	43.4	63.6	93.3	136.8
Other Expenditure	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Total- Revenue Expenditure	36.6	39.2	42.0	45.1	48.5	52.2	56.2	82.6	123.9	188.3	289.2	447.5
Revenue Surplus /(Deficit)	0.0	6.0	0.3	0.6	0.8	1.9	2.5	7.8	15.9	7.1	(7.9)	(5.2)
Closing Balance	0.0	6.0	6.4	6.9	7.8	9.7	12.1	38.3	100.0	166.3	147.2	114.8

Notes:

1. Property tax: Coverage (i.e. number of tax payers) assumed to increase by 1% per annum; Increase in property value assumed to increase 15% every four years from FY2016-17 to 2042-2043.
2. Non tax revenues assumed to grow at 10.0% per annum. Present five year compounded annual growth rate (CAGR) is 14.5 per cent.
3. All revenue expenditure assumed to grow at 10% per annum.

Table 8: Pirojpur financial performance – incremental project revenue and expenses

Pirojpur Pourashava Particulars	Projections in BDT Million											
	Actual 2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2022-23	2027-28	2032-33	2037-38	2042-43
B. Pirojpur Pourashava (CTIIP Account) with Climate Resilience Measures												
Opening Balance				(0.5)	(0.9)	(1.4)	(2.9)	(8.5)	(15.4)	(34.8)	(50.6)	(54.4)
<u>Sources of Fund</u>												
Debt Drawdown				2.6	1.9							
Govt. Grant				14.5	10.6							
Sanitation						4.8	5.3	8.1	12.5	19.4	29.9	46.2
Total- Inflow				17.0	12.5	4.8	5.3	8.3	12.7	19.4	29.9	46.2
<u>Disposition of Funds</u>												
Equity Drawdown												
Project Capex				17.0	12.5							
Sanitation												
- Debt - Principal - BMDf			0.5	0.5	0.5	0.5						
- Debt - Principal - Project								0.2	0.2	0.2	0.2	
- Debt - Interest								0.2	0.1	0.1	0.0	
Drainage						2.46	2.63	3.68	9.07	12.69	17.75	24.84
Roads						4.5	4.82	6.75	9.44	13.21	18.48	25.86
Bridges						0.0	0.03	0.04	0.06	0.08	0.11	0.15
Sanitation						2.7	2.88	4.02	5.63	7.88	11.02	15.43
Solid Waste						0.0	0.03	0.05	0.07	0.09	0.13	0.18
Cyclone Shelters						0.7	0.74	1.04	1.46	2.04	2.85	3.99
Total- Outflow			0.5	17.5	13.0	6.4	6.3	9.2	16.6	23.1	32.1	44.6
Net Cash Flow			(0.5)	(0.4)	(0.5)	(1.5)	(1.1)	(0.9)	(4.0)	(3.6)	(2.2)	1.7
Govt Subsidy for Tariff												
Net Cash Flow (after subsidy)			(0.5)	(0.4)	(0.5)	(1.5)	(1.1)	(0.9)	(4.0)	(3.6)	(2.2)	1.7
Closing Balance			(0.5)	(0.9)	(1.4)	(2.9)	(3.9)	(9.5)	(19.3)	(38.4)	(52.7)	(52.7)
Cumulative Closing Balance	0.0	6.0	5.9	6.0	6.4	6.8	8.2	28.8	80.6	127.8	94.4	62.1

^a Cumulative closing balance combines figures of Table 7 and 8.