

## FINANCIAL MANAGEMENT ASSESSMENT REPORT

### A. Introduction

1. **Objectives.** This financial management assessment (FMA) report evaluates Infrastructure Development Company Limited's (IDCOL) capacity to technically, managerially, and financially implement the proposed ADB program. Particularly, this FMA report (i) assesses IDCOL's relevant institutional capacity to implement that ADB program,<sup>1</sup> (ii) identifies IDCOL's relevant institutional development needs—both project specific and general, and (iii) reviews the adequacy and sustainability of IDCOL's financial management system.

2. **Financial intermediation loans.** The proposed project is a financial intermediation loan (FIL), in which the ADB regular ordinary capital resources (OCR) and concessional OCR will be channeled through IDCOL to subborrowers for financing eligible infrastructure subprojects. IDCOL will bear the associated subborrowers' credit risk. The borrowing cost to the subborrowers will be market-based to ensure sufficient market demand, while reflecting (i) IDCOL's funding costs and margin, and (ii) subborrowers' credit quality.

3. **Detailed FMA assessment.** In the context of ensuring IDCOL's capacity to implement the ADB FIL, this FMA report first reviews the country and macroeconomic environment in which IDCOL operates. Subsequently, the FMA also reviews IDCOL's (i) experience in managing and implementing similar development projects; (ii) governance and management structure; (iii) accounting and internal control procedures; (iv) credit review, approval, disbursement, and monitoring process; (v) risk management; (vi) liquidity, investments, and cash management; (vii) information technology system; (viii) disclosure and reporting; (ix) fund flows; and (ix) supervision plan, human resources policy and guidelines.

4. **Various sources of information.** In developing its findings and conclusions, the FMA draws from various sources to include multiple documents shared by IDCOL during ADB's due diligence, an FMA questionnaire completed by IDCOL during the processing of the Third Public–Private Infrastructure Development Facility (PPIDF 3, Appendix 1) and an earlier FMA on IDCOL prepared for a 2014 World Bank facility.<sup>2</sup>

### B. Project Description

5. PPIDF 3 is a \$526 million sovereign-guaranteed multitranche financing facility (MFF) which includes a \$500 million regular OCR loan component and a \$26 million concessional OCR loan component. The implementation period for the first periodic financing request (PFR1) comprising a \$250 million regular OCR loan and a \$10 million concessional OCR loan is during April 2017–April 2020 while the second PFR comprising the remaining \$250 million regular OCR loan and a concessional OCR loan of \$16 million is during April 2020–December 2023.

6. The regular OCR loan will provide IDCOL with additional resources for long-term financing, given the huge market requirements and the need to scale up the availability of long-term financing for infrastructure projects. The proceeds from the regular OCR loan will be used by IDCOL to finance subprojects in the infrastructure and renewable energy sector with a total project cost of \$10 million and more. The concessional OCR loan will finance medium-sized to

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<sup>1</sup> ADB will administer the implementation of the capacity development technical assistance (CDTA).

<sup>2</sup> World Bank. Rural Electrification and Renewable Energy Development II Additional Financing. <http://www.worldbank.org/projects/P150001?lang=en>

large energy efficiency and renewable energy interventions with a total cost of up to \$10 million per projects in the following sectors: (i) grid-connected solar projects, solar mini grids, solar irrigation pumps, wind and other RE installations; (ii) energy efficient projects including brick kilns, waste, and effluent treatment plants; (iii) recycling plants; (iv) waste to energy solutions; and (v) biogas and biomass-based power plants. IDCOL will provide funding under both tranches directly to the subprojects.

7. The subproject selection criteria under PPIDF 3 will follow a well-established appraisal process developed by IDCOL to determine its technical, economic, and commercial viability. Subprojects must also conform to ADB's environmental, safeguard, and other requirements as specified in the loan agreement that ADB and IDCOL would enter. Additionally, subborrowers will be required to meet ADB requirements and follow the subproject approval procedure details stipulated in the loan agreement, framework financing agreement, and the facility administration manual.

8. The Ministry of Finance, acting through its Economic Relations Division (MOF-ERD), will be the executing agency while the Finance Division (MOF-FD) will be the financial management agency, and IDCOL will be the implementing agency of the proposed PPIDF 3. Policy direction and strategic oversight will be provided by IDCOL's Board of Directors. IDCOL's project management unit, established under PPIDF 1, will (i) monitor the implementation of the facility and corresponding subloans; (ii) build capacity within IDCOL in areas of monitoring exposure limits, process improvements, risk assessment, and analysis; and (iii) ensure compliance with state and national policies and IDCOL's environmental and social safeguard framework, which ensures compliance with ADB safeguard policies and national norms.

9. MOF-FD takes the foreign exchange risks by disbursing the ADB (USD) funds in local currency<sup>3</sup> and IDCOL faces credit risks related to its borrowers, i.e. to the sponsors of its infrastructure projects for defaulting on the loan repayments. MOF-FD, through the central bank (Bangladesh Bank), is able to hedge its foreign exchange exposure and reflects the cost of funds of its local currency onlending to IDCOL.

### **C. IDCOL's Financial Management Capacity**

10. IDCOL was established on 14 May 1997 by the Government of Bangladesh (the Government). The Company was licensed by the Bangladesh Bank as a nonbank financial institution (NBFI) on 5 January 1998. Since its inception, IDCOL is playing a major role in bridging the financing gap for developing medium to large-scale infrastructure and RE projects in Bangladesh. The company now stands as the market leader in private sector energy and infrastructure financing in Bangladesh. IDCOL has developed in-depth knowledge and processes on financial assessment and due diligence to choose the most creditworthy institutions as evidenced by its low nonperforming loan ratio.

11. ADB has reviewed the financial management capacity of IDCOL to ensure that sound and transparent business processes and management systems are in place to mitigate any potential risks and vulnerabilities. IDCOL is a professionally managed company with a limited mandate and functional responsibility. Its operations are governed by the Companies Act

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<sup>3</sup> In the case of the regular ordinary capital resources (OCR) loan, Infrastructure Development Company Limited (IDCOL) has the option to receive the proceeds in USD rather than in local currency and to onlend these funds in USD to subprojects which have the capacity to absorb USD. In such a case, there is no foreign currency risk for the Government or IDCOL.

(Bangladesh), 1994, and the segregation of policy making, implementation, functional responsibilities and the absence of loan origination within the organization point toward a corporate governance structure that legally incorporates international best practices. IDCOL intends to self-regulate and has incorporated best practices of nonbanking finance companies. In addition, IDCOL has been rated AAA by the Credit Rating Agency of Bangladesh as of 31 December 2015, the highest rating given to any local financial institution in the country for its compliance with best international practices.

12. Although IDCOL has acquired significant experience in ADB and other development financial institution's financial management procedures and requirements, ADB's assessment notes certain weaknesses on IDCOL's financial management which were discussed during due diligence. These include: (i) increasing level of non-performing and rescheduled loans indicate weaknesses in credit risk management, loan recovery and workouts; (ii) quantity and quality of risk management staffing; (iii) the need for integrated risk, treasury, and resource management platforms; and (iv) certain internal control and compliance weaknesses identified in the auditor's letter to the management for the year ended 30 June 2015 which are being addressed by IDCOL though such issues present no material effect on the information reported in the financial statements. Various financial management action plan and conditions identified in the subsequent sections of this report have been agreed with IDCOL to further strengthen its internal control and risk management.

### 1. Overall risk assessment

13. Overall, IDCOL's financial management is found to be adequate to manage its operation and undertake project financial management activities. IDCOL has an established and strong record of implementing ADB facilities with the (near) full utilization and disbursement of the two previous loans well ahead of their completion dates. The assessment of its overall financial management risk is **moderate**.

**Table 1: Financial Management Internal Control and Risk Assessment**

<b>Risk</b>	<b>Risk Assessment</b>	<b>Risk-Mitigation Measures</b>
<b>Inherent Risk</b> 1. Country-Specific Risks (Bangladesh)	(Low) <b>Accounting and reporting systems.</b> There is no significant weakness in the budgetary process or in the public sector accounting and reporting system. Public and private sector auditing standards and capacity are adequate. There could be weaknesses in the implementation of incorporating the audit findings.	The capacities of the Government of Bangladesh (GOB) and Infrastructure Development Company Limited (IDCOL) are considered satisfactory. Supporting infrastructure development is a major GOB priority. Bangladesh has a relatively strong budgetary position to support the sector development. Currently, Bangladesh Bank (BB) is implementing Basel III to improve the regulation, supervision, and risk management within the banking sector. The credit rating system is also relatively strong with 4 domestic ratings agencies active in the country. However, none of them is associated with an international company.
	(Medium) <b>Political/security risks.</b> A political unstable future situation could result in serious hampering of economic development and negatively	The program design intentionally does not place restrictions on the sectors or types of infrastructure projects that can be supported as long as they are in

Risk	Risk Assessment	Risk-Mitigation Measures
	affect possible investments in the infrastructure sector.	<p>accordance with ADB's and national safeguards policies. Furthermore, all major political parties in Bangladesh emphasize the need for infrastructure development and IDCOL is a well-respected organization.</p> <p>The political situation in Bangladesh has been stable since the general elections held in 2014. However, there has been recently an increase of politically and religiously motivated terrorist attacks.</p> <p>ADB may put funding of the Third Public-Private Infrastructure Development Facility (PPIDF 3) subprojects on hold in the event that the country becomes politically unstable or the security situation further deteriorates.</p>
2. Entity-Specific Risks (IDCOL)	<p>(High) <b>Deterioration of the collection efficiency in IDCOL's Solar Home System Program.</b> IDCOL's Solar Home System (SHS) program has observed negative growth since the end of 2013 because of market saturation, entry of unregulated private sector providers who offer SHS installations at lower quality, and cost and competition from the Government which provides SHS at free of charge under some of its inclusive finance programs. Out of 56 loans to participating organizations (POs) under the SHS program, IDCOL has rescheduled loans to 2 of its participating organizations (POs) amounting to Tk3,824 million and 9.0% of all loans to its POs are classified loans in the substandard category.<sup>a</sup> The classification of PO loans has a substantial impact on IDCOL's overall profitability as PO loans account for 70.0% of the total loan portfolio of IDCOL.</p> <p>(High) <b>Rising nonperforming loan levels.</b> Although nonperforming loan (NPL) ratios of IDCOL, i.e. gross and net NPL ratio at 1.6% and 0.2%, are considered lower than most banks and industry peers, it showed an overall increasing trend, i.e. gross NPL increased from Tk198.8 million in FY2014 to Tk568.5 million in FY2015. There are concerns on the</p>	<p>IDCOL has been quick in identifying the collection problems in its SHS portfolio and is taking corrective measures to address the main concerns. In January 2016, IDCOL established the Collection Efficiency Improvement Program (CEIP) to support its POs under its SHS program. The CEIP is a joint effort of IDCOL and POs to improve the collection performance in areas with poor collection efficiency. The objectives of the CEIP are to ensure regular customer visits by the POs and thereby ensuring after sales service, increase the collection from overdue customers, and improve the coordination between the IDCOL inspection team and POs' field staff.<sup>b</sup></p> <p>Furthermore, no SHS installations will be financed under PPIDF 3. The ADB facility will concentrate entirely on commercially-feasible infrastructure, energy efficiency and renewable energy projects.</p> <p>IDCOL has adopted a number of proactive measures to mitigate these risks such as pursuing the defaulting debtors through legal proceedings, increasing its debt recovery efforts, and preparing detailed restructuring plans.</p> <p>To further intensify these efforts, IDCOL has agreed to establish a loan recovery unit by hiring a senior staff member who</p>

Risk	Risk Assessment	Risk-Mitigation Measures
	deterioration of its asset portfolio given the volume of rescheduled loans comprising of 5 loan accounts with a portfolio value of Tk5,268 million as of June 2016.	will report to the head of IDCOL's credit management department.  IDCOL will also strengthen its internal control and risk management process and capacity to ensure that sound financial management practices are in place. To do so, it will appoint a senior manager with background in risk management as the Credit Management Head and to be a voting member in IDCOL's Credit Risk Management Committee. The appointment of these senior staff members will have to be completed prior to ADB loan effectiveness under tranche 1 of PPIDF 3.
	(Medium) <b>Concentration risks.</b> IDCOL's investment portfolio has major concentration risk in terms of single sector and/or product exposure. At present, about 60.0% of its lending is in the RE sector, in particular in the solar energy subsector.	Although IDCOL's exposure to the RE sector has decreased over the last 2 years, the company needs to intensify its efforts to diversify its portfolio into different sectors/products. Going forward, the share of the power sector is expected to increase with the approval of several large loans for power generation projects that are currently in the pipeline. In line with the principle of diversification, IDCOL will also continue to explore investments in sectors other than power such as transport, urban infrastructure, energy efficiency, and information technology.
3. Project-Specific Risks (Subprojects)	(Medium) <b>Capacity to develop public-private partnership subprojects.</b> The Seventh Five-Year Plan (FY2016–FY2020) recognizes that the public-private partnership (PPP) initiatives have not taken off as expected. GOB has therefore committed to reinvigorate PPP efforts to bridge infrastructure deficiencies. Poor capacity of line ministries has been cited as a key constraint in the development of bankable PPP deals. In the absence of such capacity in line ministries, the generation of bankable PPP subprojects will remain inadequate.	PPIDF 3 builds on synergies with the ongoing efforts of ADB's PPP office which has been providing transaction advisory services to the Government's PPP Authority (PPPA) to develop bankable PPP deals. <sup>c</sup> The PPPA has developed a pipeline of more than 40 PPP subprojects in different infrastructure subsectors and stages of development. IDCOL has also developed a list of close to 30 PPP subprojects that it intends to finance under PPIDF 3.
	(Low) <b>Insufficient demand and diversification.</b> Private investment in the power sector has been a success story in Bangladesh. PPIDF 1 has funded almost entirely subprojects in this sector and PPIDF 2 committed a majority of its funds in the same	IDCOL will conduct awareness raising campaigns to attract investors from diversified sectors and work closely with the PPPA for the development of transactions. ADB's Office of the Public-Private Partnership (OPPP) is also working closely with the PPPA for

Risk	Risk Assessment	Risk-Mitigation Measures
	sector. It is necessary for PPIDF 3 to diversify in other priority sectors of the Government, such as, transport, urban services, and economic zones. Given the absence of any tested business, commercial, legal, and financial framework, the demand could be muted from other priority sectors.	the development of bankable deals in transport and other sectors.
<b>Overall Inherent Risk</b>	(Medium) Although investments in the infrastructure sector in Bangladesh are still challenging, the subprojects that IDCOL will finance are typically safeguarded by the strong government support and commitment for infrastructure development.	There is also a rapidly growing interest from the private sector in infrastructure as evidenced by the large deal pipeline. IDCOL's internal financial and risk management and other operating procedures could help manage the inherent risks.
<b>Control Risk</b> 1. Internal Controls	(Medium) IDCOL's capacity in financial management is largely satisfactory. As an experienced, fully government-owned non-bank financial institution, IDCOL has a structured and well established competent finance, accounting, and technical (operations) divisions. Proper controls are in place concerning IDCOL's financial and risk management.	IDCOL will use the same administrative and oversight arrangements that were put in place under the previous 2 ADB facilities. The company has an experienced project management unit (PMU) that has managed several funding facilities from various development partners. The associated capacity development technical assistance (CDTA) will help IDCOL to strengthen its capacity in other aspects of the project implementation, operations, and management.
2. Funds Flow	(Low) Fund flows are clearly spelled out and transparent.	IDCOL will open an imprest account with Bangladesh Bank and the operating accounts will be opened with other commercial banks in Bangladesh. ADB would either disburse to IDCOL's imprest account which would, in turn, disburse directly to the subproject accounts and directly to the subprojects using the direct payment procedure.
3. Staffing	(Medium) Staff retention and turnover rate could increase and weaken the corporate structure of IDCOL.	IDCOL is the only public sector institution in the country that is able to offer competitive remuneration packages in comparison with private sector institutions. In addition, IDCOL provides stable job prospects and other non-fringe benefits, and is able to retain the highest performing talents in its organization. As part of the conditions attached to PPIDF 3, IDCOL has agreed to hire 4 new positions which will enhance the company's capacity in areas such as: loan review, processing and monitoring/risk management/audit/loan recovery.

Risk	Risk Assessment	Risk-Mitigation Measures
4. Accounting Policies and Procedures	(Medium) IDCOL uses accrual accounting and follows the local accounting standards in Bangladesh. Subprojects are required to adhere to local accounting standards, report quarterly on contractual expenditures, and provide annual audited financial statements.	The accounting policies and procedures of the project will be governed by the existing IDCOL accounting policy. All project-related transactions—i.e., all sources (ADB, GOB and IDCOL)—will be accounted for separately by IDCOL following double-entry bookkeeping principles and on a cash basis.
5. Internal Audit	(Medium) The internal audit structure of IDCOL is adequate. The internal auditor reports to the audit committee quarterly.  However, the head of IDCOL's internal audit unit has recently resigned from his job.	IDCOL has a relatively strong Internal Audit Department, which is fully independent of executive control. The Head of Internal Audit reports to the Board Audit Committee. IDCOL's Internal Audit Department carries out audits of projects funded by ADB as well as development partners such as the Japan International Cooperation Agency (JICA) and the World Bank at least once a year.  IDCOL has agreed to hire an internal auditor at senior level to head its internal audit unit reporting directly to the IDCOL Board. This will have to be completed prior to ADB loan effectiveness under tranche 1 of PPIDF 3.
6. External Audit	(Low) IDCOL retains a chartered accountancy to provide external audits. Audits are annual and must be concluded within 6 months at the end of the fiscal year. The audits are done in accordance with Bangladeshi Accounting Standards.	The Foreign Aided Projects Audit Directorate (FAPAD) of the Office of the Controller and Auditor General will conduct an audit of the project's annual financial statements within 6 months from the end of the fiscal year. The Project Director will be responsible for audit follow-up and for taking remedial actions. Meetings to resolve audit objections must be held within 3 months of receipt of the external audit report from FAPAD. Recent audits have not identified any material concerns.
7. Reporting and Monitoring	(Medium) IDCOL has a preventive monitoring system tool for detecting early warning signals to prevent and/or minimize loan losses. In addition, the company has a well-defined loan review mechanism which brings quality improvements in credit administration.  IDCOL submits a number of reports to various regulatory authorities like Bangladesh Bank, GOB, and rating agencies. IDCOL is compliant with the regulatory requirements.	The ADB CDTA will support IDCOL's improvement on facility implementation and reporting.  The ADB CDTA will help ensure the timely submission of all required institutional and ADB program audit reports.

Risk	Risk Assessment	Risk-Mitigation Measures
	Strengthening of the existing monitoring and review report system under the ADB assistance needs to be carried out.	
8. Information Systems	(Low) IDCOL's information systems are sufficient to handle the current level of operations. However, they will have to be enhanced to cope with the increased investment and monitoring activities expected to take place under PPIDF 3. In particular, a more sophisticated management information system needs to be put in place.	Despite the existence of a working IT system, IDCOL could benefit from additional investment to strengthen the current IT system by developing more sophisticated enterprise financial and operating system.  The ADB CDTA would look into possible IT system improvement during the ADB program implementation.
9. Bangladesh Regulations	(Low) There is strong institutional framework for financial oversight in Bangladesh. Bangladesh Bang regulates banks and some nonbank financial companies. Jurisdiction of the regulators is generally well demarcated but there remain gaps and areas of overlap.  IDCOL complies with Bangladesh Bank's prudential norms for nonbank financial institutions as applicable to the company.	IDCOL's compliance with the local financial norms is not perceived as an issue.
<b>Overall Control Risk</b>	(Medium) As a financial institution experienced in handling development projects funded by numerous development partners, IDCOL is capable of maintaining sound financial and risk management systems and complying with regulatory supervision, and ADB's reporting requirements.	The associated CDTA will help IDCOL to strengthen its capacity in project implementation, operations, and management and will assist the company in expanding its balance sheet in a prudent and risk-measured manner

<sup>a</sup> As per the classification of Bangladesh Bank, classified loans in the substandard category are loans past overdue for 3 months or beyond but less than 6 months.

<sup>b</sup> IDCOL has also instituted the following measures: (i) appointment of a consultant financed by the World Bank to support participating organizations (POs) facing difficulty in installment collection; (ii) appointment of program managers for poor performing POs; (iii) organization of district level conferences in areas with poor collection performance; (iv) involving the POs in the safety net programs of the Government; (v) introduction of the pay-as-you-go technology; (vi) establishment of a national standard for solar home system (SHS); (vii) arrangement of a nationwide awareness campaign for IDCOL's SHS program to increase the awareness level of potential customers about buying quality SHS products; and (viii) coordination with the Rural Electrification Board on its plan for grid expansion.

<sup>c</sup> The Office of the Public-Private Partnership (OPPP) has been mandated by PPP Authority (PPPA) of Bangladesh in June 2016 for providing transaction advisory service for the Rampura-Amulia-Demra PPP Road Project, an initiative of the Roads and Highways Department of the Ministry of Road Transport and Bridges.

Source: Asian Development Bank.

## 2. Country-level Issues

14. **Country policy and institution assessment.** World Bank publishes a country policy and institutional assessment (CPIA) for all its developing member countries. The CPIA structural



policies cluster average attempts to quantify the quality of a country's policies and institutions and in particular a country's trade, financial sector, and business regulatory environment. As of the published rankings, at 3.2, 3.2, and 3.0 Bangladesh has been the lowest ranking among the developing member countries in South Asia from 2013–2015 (Table 2).

**Table 2: Country Policy and Institution Assessment  
Structural Policies Cluster Average, 2013–2015**

Countries	2013	2014	2015
Bangladesh	3.2	3.2	3.0
Bhutan	3.2	3.3	3.2
India	3.5	no score	no score
Maldives	3.7	3.7	3.5
Nepal	3.5	3.5	3.5
Sri Lanka	4.0	4.0	3.7

Note: One is the minimum and six is the maximum score.

Source: World Bank Group, Country Policy and Institution Assessment database.

<http://data.worldbank.org/data-catalog/CPIA>

15. Transparency International publishes a corruption perception index indicating the perceived level of public sector corruption relative to the other countries in the index. Similar to the CPIA index, Bangladesh is ranked 139th overall out of 168 countries in the ranking, with the lowest ranking and Corruption Perception Index score among the South Asian countries in the index (Table 3).

**Table 3: Corruption Perceptions Index, 2015**

Countries	Corruption Perceptions Score	Overall Ranking
Bangladesh	25	139
Bhutan	65	27
India	38	76
Maldives	No score	Not ranked
Nepal	27	130
Sri Lanka	37	83

Note: Corruption Perceptions Index score 0 is "highly corrupt" and 100 is "very clean," highest rank is 1.

Source: Transparency International. Corruption Perceptions Index.

<http://www.transparency.org/cpi2015>

16. **Accounting standards.** In terms of number of members and role, the Institute of Chartered Accountants of Bangladesh (ICAB) dominates the profession, and is a member of the International Federation of Accountants (IFAC). ICAB was established under the Bangladesh Chartered Accountants Order 1973 with the sole authority to serving as both standards-setter and regulator of the profession. As of January 2013, a version of all International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA) issued by the International Accounting Standards Board (IASB)<sup>4</sup> was adopted as Bangladesh Financial Reporting Standard (BFRS) and Bangladesh Accounting Standards (BAS), respectively, by ICAB. While the National Board of Revenue (NBR) has no direct regulatory function, it is a major user of audited financial statements of taxpayers and reports non-compliance to ICAB for disciplinary action. Some of the regulators, i.e. BSEC, Insurance Development and Regulatory Authority Bangladesh (IDRA) and Bangladesh Bank require the use of some or all standards

<sup>4</sup> The International Accounting Standards Board is an independent accounting standards-setter based in London, United Kingdom.

issued by IFRS and ISAs in their regulated entities. Hence, listed accompanies must apply to BFRS while banks and other financial institutions are required to apply part of BFRS.

17. A World Bank report on Bangladesh's accounting and auditing standards<sup>5</sup> revealed that the design of accounting standards was inconsistent as there was not a single set of standards applicable for financial reporting by companies leading only to references to “standards applicable to Bangladesh” in financial statements and audit report which can be confusing to users and may lack specific information. The same report recommended strengthening the regulatory framework of accounting and audit profession by (i) establishing an oversight body that adopts principles set by the international forum of Independent Audit Regulators, and benefits from international collaboration on audit regulation issues; and (ii) reframing of the ICAB's governance structure as sole regulator of accountancy and audit profession without an independent oversight body.

18. **Financial institution regulations.** Bangladesh Bank was established as the Central Bank of Bangladesh in December 1971 through the enactment of Bangladesh Bank Order 1972 and regulates and supervises banking companies and financial institutions. IDRA is the regulator of insurance industry and operates under the MOF. Regulation of capital market intermediaries and issuance of capital and financial instruments by public limited companies is done by the Securities and Exchange Commission (SEC). The Microcredit Regulatory Authority (MRA) ensures transparency and accountability of microfinance operations of non-government microfinance institutions (MFIs) and is empowered under the Microcredit Regulatory Authority Act, 2006 the licensing, supervision, and enforcement of sanction to MFIs.

### 3. IDCOL Institution and System

19. IDCOL is an NBFIs incorporated in May 1997 as a government-owned public limited company under the Companies Act 1994. IDCOL was licensed by Bangladesh Bank as an NBFIs in January 1998. IDCOL's primary objective is to promote significant private sector participation in investment, operation, ownership, and maintenance of new infrastructure facilities in Bangladesh. The company is the market leader in private sector-led energy (including RE) and infrastructure financing in Bangladesh.

20. IDCOL provides long-term debt financing to viable privately-owned and operated infrastructure projects which are included in the Government's priority sector using proven technology. The priority sectors include power generation, telecommunications, information and communication technology, ports, social infrastructure, gas and gas-related infrastructure, water supply toll roads and bridges, shipyards and shipbuilding, hotel and tourism, mass transportation systems, urban environmental services, among others. IDCOL's RE program comprise solar home systems (SHS), domestic biogas plants, improved cook stoves, and small-scaled RE-based power plants.

#### (i) Experience in development assistance

21. IDCOL has worked with the World Bank and the Global Environment Facility (GEF) since the start of its SHS program in 2003, initially to finance 50,000 SHS, with other development partners providing refinancing and grants support. IDCOL provides soft loans and

<sup>5</sup> World Bank. 2014. Bangladesh Report on the Observance of Standards and Codes (ROSC)—Accounting and Auditing. <http://documents.worldbank.org/curated/en/890461479708805505/pdf/96307-ROSC-P149852-OUO-9-Box391449B-ACS.pdf>

manages grants for the development of rural infrastructure in RE with a target to finance 6 million SHS by 2020. This project has brought significant changes in the lives of rural Bangladesh through the access to electricity. The biogas program in Bangladesh has also been implemented by IDCOL since 2006, with the support of SNV Netherlands Development Organization, KFW German Development Bank, and the World Bank since 2012. After a restructuring in 2013, the program had a revised target to install 100,000 domestic size biogas plants by 2018. IDCOL also has access to resources provided by ADB, Japan International Cooperation Agency, Department for International Development, Islamic Development Bank, German Development Cooperation, United States Agency for International Development, and the Government for the development of infrastructure and RE projects.

## **(ii) Corporate governance**

22. IDCOL practices the principles of sound corporate governance with its Board laying emphasis on transparency, accountability, and integrity. IDCOL's corporate governance protects the interests of stakeholders while respecting the duty of the Board and Management to oversee the company and promote its long-term growth and profitability. IDCOL is managed by a 7-member independent Board of Directors comprising four senior government officials and three prominent private sector entrepreneurs nominated by the Government, and an appointed full time Executive Director (ED) and Chief Executive Officer (CEO). The Board complies with the guidelines issued by Bangladesh Bank regarding responsibility and accountability of the Board, its Chairman and CEO. The Board, headed by its Chairman and CEO Mohammad Mejbahuddin, Secretary of the Economic Relations Division, MOF, sets out its strategic focus and oversees the business and related affairs of the company. The Board approves all loan proposals by the management team, takes decisions and provides guidance and directions to management for smooth operations.

23. The existing board committees of the IDCOL Board comprise: (i) the Audit Committee has four members of the Board which ensures the independence of IDCOL's internal control functions and audit activities are in compliance with requirements of development credit agreements, agency and administration agreements, various project agreements and the Board's decisions. The Audit Committee is responsible for overseeing IDCOL's internal auditor, defining the scope of the audit and manage violations raised by its internal and external auditors; (ii) the Credit Committee comprised five Board members, ED and CEO of IDCOL, is responsible for reviewing all final term sheets and project appraisal reports before submission to the Board for approval and makes pricing recommendations for all IDCOL loans. The Credit Committee guides the Board as lender of last resort in private sector infrastructure projects; (iii) the Organization Committee comprised four members headed by the Chairman who oversees the overall human resources strategy and policies of IDCOL. In addition to the above committees, a panel of lawyers and law firms assist the Board by providing legal advice and support with different agreements and other valuable documents of the company.

## **(iii) Accounting and auditing**

24. IDCOL's Annual Report 2016 reports that its financial statements are prepared in compliance with IAS and/or BAS and/or IFRS and/or BFRS. The financial statements of the company were audited by the chartered accountant, Ms. Acnabin, who has certified that the financial statements were prepared and presented in accordance with BFRS, the Bank Companies Act 1991, the Companies Act 1994, the Securities and Exchange Rules 1982, and other applicable laws and regulations.

25. The Audit Committee ensures the independence of IDCOL's internal control functions and audit activities in compliance with required agreements and the Board's decisions. The Audit Committee monitors the integrity of the company's financial statements and announcements, reviewing internal financial control, monitoring of internal audit function, recommending appointment or replacement of external auditors, and reviewing their work and to develop and implement policies for on the use auditors for non-audit services.

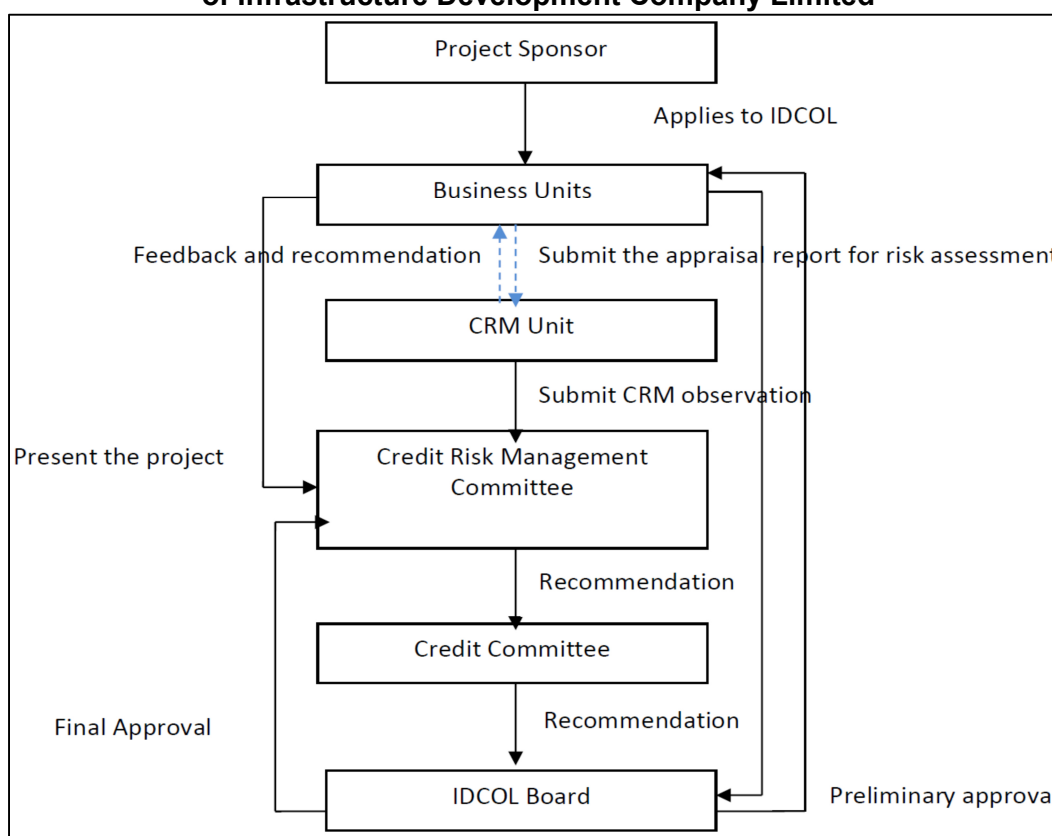
26. **Staffing.** IDCOL has an internal auditor who at senior level heads the company's internal audit unit reporting directly to the IDCOL Board. This position is currently vacant. IDCOL has agreed with ADB to hire a person for this position prior to ADB loan effectiveness under tranche 1 of PPIDF 3.

#### **(iv) Credit review and approval process**

27. IDCOL has a separate credit policy and detailed strategy guidelines for appraising and conducting loan approvals. For foreign sponsors seeking credit facilities from IDCOL, a local project company needs to be formed and the credit facility can be extended only to the local company. Beginning with IDCOL's receipt of a sponsor's completed loan application form, it issues a loan sanction letter after its investment team agrees with the sponsors about the following: eligibility criteria for IDCOL loans, loan application procedure, approval process and timeline, general terms and conditions, and environment and social safeguards framework (ESSF).

28. IDCOL has structured its credit approval process to ensure in-depth project due diligence addressing associated risks and formulating mitigants. The credit approval process has the following steps: (i) after receipt of the credit application, the relevant business unit discusses proposals in the credit risk management committee meeting for management consent, then presents to the Board for approval; (ii) upon Board clearance, the business unit conducts project due diligence which includes financial feasibility study, technical analysis, risk analysis, environmental and legal impact and appraisal report and submits its recommendations to the CRM committee for independent risk assessment; (iii) the CRM unit conducts risk assessment, provides feedback in appraisal report, and submits recommendations to the CRM committee to assist in the proposal evaluation; (iv) the CRM committee reviews proposal and recommends to the credit committee, if satisfied; (v) the credit committee, if satisfied, recommends project to the Board; (vi) the business unit presents the project to the Board, and when satisfied, the Board takes final investment decision, (vii) the Board may delegate certain approval authorities to other committees and/or to the management from time to time.

**Figure 1: Loan Review Process and Approving Authorities of Infrastructure Development Company Limited**



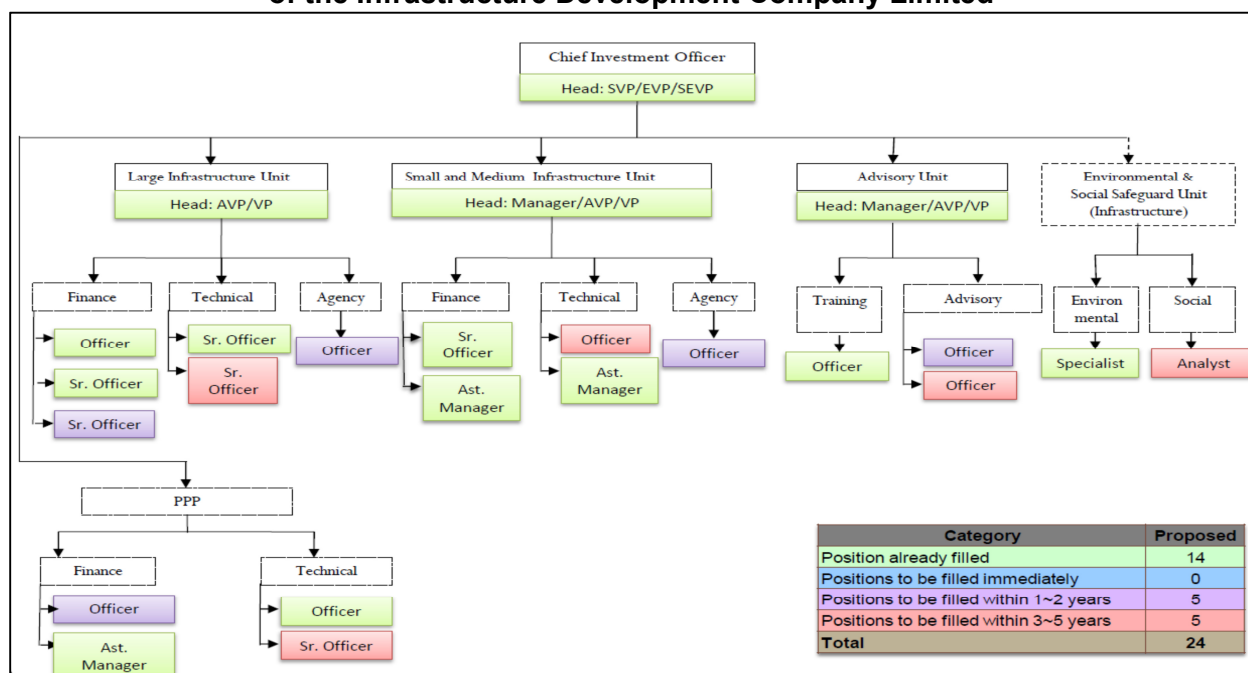
Source: Infrastructure Development Company Limited.

29. **Monitoring.** IDCOL monitors the financed projects throughout its tenor to anticipate upcoming risks and to take possible risk mitigation measures. Quarterly reporting is done by business units and assessed by CRM unit to monitor project status.

30. **Staffing.** IDCOL's infrastructure department, which will review most of the infrastructure subprojects to be funded under PPIDF 3 (the other department is IDCOL's RE department who will process some of the smaller energy efficiency and renewable energy interventions to be financed under the concessional OCR loan) has currently five business units, namely: (i) large infrastructure unit, (ii) small and medium infrastructure unit, (iii) advisory unit, (iv) environmental and social safeguard unit (infrastructure), and (v) public-private partnership (PPP) unit (Figure 3 below).

31. The total manpower of IDCOL's infrastructure department is currently 14 staff member, while 10 positions will have to be filled over the next 1–5 years. The large infrastructure unit which is expected to review, structure, price, and submit for proposal to the CRM committee of IDCOL has presently only three officers (of which only two officers process investment proposals) and is managed by a unit head. Given the large deal pipeline, this staffing arrangement is not sufficient to handle all new investment proposals that are expected to be processed under PPIDF 3. IDCOL has therefore agreed with ADB to add, prior to ADB's loan effectiveness under tranche 1 of PPIDF 3, a senior officer with project finance background to the large infrastructure unit.

**Figure 2: Organization Chart of the Infrastructure Department of the Infrastructure Development Company Limited**



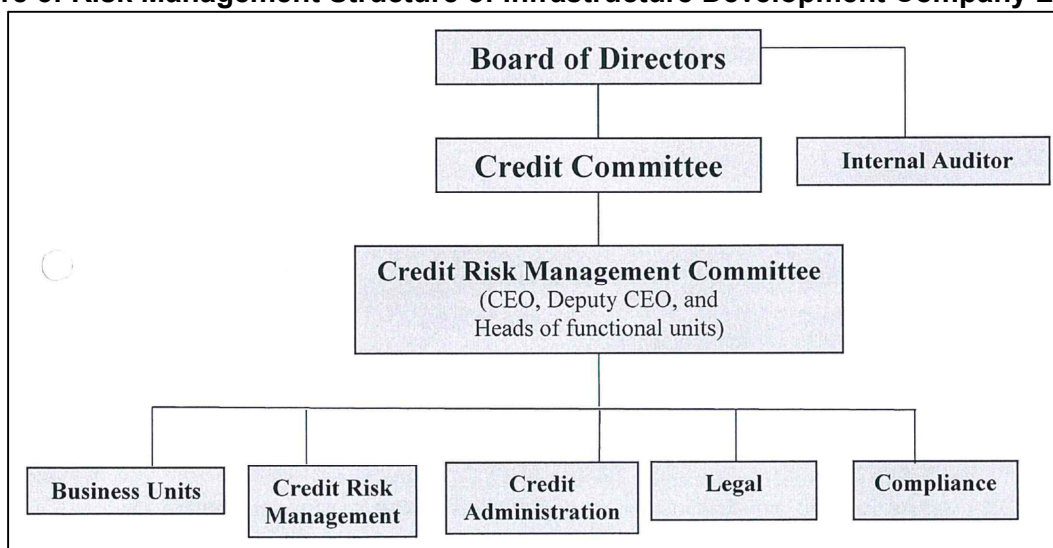
Source: Infrastructure Development Company Limited.

#### (v) Credit review process

32. IDCOL will follow a 2-tier approval process with ADB. For the first three subprojects to be financed under the regular OCR loan and for subprojects with total project cost in excess of \$5 million equivalent, it will provide ADB with the concept paper which will include preliminary data and information on the project, its sponsors, and the proposed financial terms. After ADB reviewed and approved the concept paper, IDCOL will carry out a detailed due diligence and will provide ADB with the following documents which are collected from the sponsor and will submit them to ADB for approval: (a) a detailed information memorandum or business plan, (b) a copy of the extract of the relevant minutes from the meeting of IDCOL's board or credit committee through which the subloan was approved, (c) compliance with respect to ADB's procurement guidelines, (d) a copy of the subloan agreement, and (e) any other relevant information that will help ADB arrive at an informed view on the proposed intervention.

#### (vi) Risk management

33. **Credit risk.** The independent CRM unit implements the framework that has been established by IDCOL in line with Bangladesh Bank's guidelines on CRM, internal policies, industry best practices, and risk management criteria of its development partners. Proposals are reviewed by IDCOL's CRM unit, CRM committee, Credit committee, and Board of Directors as part of risk governance in the company (Figure 3, IDCOL's risk management structure).

**Figure 3: Risk Management Structure of Infrastructure Development Company Limited**

Source: Infrastructure Development Company Limited.

34. IDCOL Board of Directors will have the overall responsibility for management of risks. The Board will decide the risk management policy of IDCOL and set limits for liquidity, interest rate, foreign exchange, and equity price risks.

35. The Credit Committee will be a sub-committee including CEO and members of the Board of Directors. In general, all credit proposals shall originate from the investment department of IDCOL. The CRM committee shall conduct a thorough credit and risk assessment prior to forwarding any proposal to the credit committee. Nevertheless, the credit proposal should clearly state that all instructions and guidelines of the credit policy have been complied with.

36. The Credit Committee shall analyze the credit proposal to see whether the proposal is consistent with IDCOL's credit policies and credit norms, guidelines and/or regulations of Bangladesh Bank and relevant laws and has been presented observing all the required formalities. The Committee, in the light of its analysis shall consider the positive and negative sides of the proposal and shall give its opinion and/or recommendation. It is to be mentioned here that the Credit Committee shall only give recommendation and/or opinion about a proposal—credits will be finally approved by IDCOL Board.

37. The CRM committee will be headed by the CEO and will comprise the Deputy CEO, heads of investment, loans, accounts, and legal affairs. The functions of the CRM committee will be as under:

- (i) responsible for the implementation of the credit risk policy and/or strategy approved by the Board;
- (ii) monitor credit risk and ensure compliance with limits approved by the Board;
- (iii) recommend to the Board, for its approval, clear policies on standards for presentation of credit proposals, financial covenants, rating standards, and benchmarks;
- (iv) taking decisions in terms of capital allocation and defining limits in line with the risk strategy;
- (v) decide delegation of credit approving powers, prudential limits on large credit exposures, standards for facility collateral, portfolio management, facility review

- mechanism, risk concentrations, risk monitoring and evaluation, pricing of facilities, provisioning, regulatory and/or legal compliance;
- (vi) lay down risk assessment systems, develop management information system (MIS), monitor quality of facility and/or investment portfolio, identify problems, correct deficiencies, and undertake facility review and/or audit; and
- (vii) undertake portfolio evaluations and conduct comprehensive studies on the environment to test the resilience of the facility portfolio.

38. Responsibility is clearly segregated between the origination of business and approval of the transaction to maintain independence and integrity of the credit decision-making process. Risks identified in the operation level are reported to the risk management team who subsequently notifies management about the identified risk including mitigation measures undertaken or to seek management support when necessary.

39. IDCOL uses an asset risk rating policy—a credit risk grading scale for both new and existing borrowers. It consists of eight categories, with categories one to five representing grades of acceptable credit risk, and six to eight ratings unacceptable credit risk. Clients with at least with six grade may be considered for a loan. Client risk grades are reviewed at least once a year and when required allowing management to monitor changes in risk levels and manage properly to optimize returns. IDCOL has a strong monitoring process comprising of regular reports on all accounts and documentation status. Quarterly management meetings are also held to determine milestones to control overdue positions.

40. **Market risk.** IDCOL's asset liability management committee (ALMC) observes interest rate market trends and matches interest risks of its assets so that obligations can be met with no losses. The ALMC ensures that potential losses from exposures to interest rate changes are covered with appropriate capital. IDCOL's management ensures that lending and borrowing currency are balanced so that the company will minimize foreign currency risks.

41. **Operational risk.** IDCOL has established an internal control and compliance unit to manage operational risks. IDCOL provides training for capacity building of employees and ensures active participation of senior management in identifying and mitigating key operational risks. Proactive communication between the revenue producing units and independent control and support units helps build a network of systems throughout the firm to facilitate the collection of data that can be used in the analysis and assessment of operational risk exposure.

42. **Financing risk.** IDCOL is not dependent on short-term financing given its access to long-term stable funding through multilateral development loans. In FY2015, 60.0% of total funding came from the International Development Association (IDA) and/or World Bank followed by ADB (25.0%), and Japan International Cooperation Agency (JICA, 12.0%). The weighted average cost of fund was around 2.7%. IDCOL's operations generate sufficient cash flows to meet interest expenses. The ratio of earnings before interest, tax, depreciation, and amortization (EBITDA) to interest expense was 2.9x in FY2015 and indicates that IDCOL will be able to rollover the maturing debt.



**Table 4: Liquidity Profile of Infrastructure Development Company Limited  
(as of 30 June 2015, Tk. million)**

Item	Up to 1 Month	1–3 Months	3–12 Months	1–5 Years	Above 5 Years	Total
Assets	1,791	17,850	19,651	19,583	3,577	62,453
Liabilities	-	187	3,846	13,960	39,214	57,213
Net liquidity gap	1,791	17,663	15,805	5,624	(35,642)	5,240
Cumulative liquidity Gap	1,791	19,454	35,259	40,882	5,240	-
Gap as % of liability	-	9,423	411	40.3	(90.9)	9.2

(-) = not applicable.

Source: Credit Rating Agency of Bangladesh Limited.

43. IDCOL actively participates in call market operations and was a net lender throughout FY2015. The liquidity profile of IDCOL shows positive liquidity gap in all the buckets within one year. Whilst NBFIs in Bangladesh are allowed to mobilize term deposit only, term liabilities are subject to a statutory liquidity requirement (SLR) of 5.0% inclusive of average 2.5% (at least 2.0% in each day) cash reserve ratio on bi-weekly basis. IDCOL, being a 100% government entity, is exempted from maintaining SLR. IDCOL's total liquid assets were 38.0% of total assets and 45.0% of total deposits and borrowings at the end of FY2015.

44. **Staffing.** IDCOL's CRM unit comprises currently only two staff members and none of them is a member of the company's CRM committee. This staffing arrangement does not provide sufficient capacity to carry out all necessary credit review and monitoring functions as described above. IDCOL has therefore agreed with ADB to appoint prior to ADB's loan effectiveness under tranche 1 of PPIDF 3 a senior manager with background in risk management as the Credit Management Head and to be a voting member on IDCOL's CRM committee.

45. Furthermore, IDCOL has agreed to establish a loan recovery unit by hiring a senior staff member who will report to the head of IDCOL's credit management department. The set-up of a dedicated loan recovery unit will help intensify the loan work-out efforts already in place at IDCOL.

#### **(vii) Liquidity management**

46. IDCOL has established strategies, policies, and practices to manage liquidity risk in accordance with risk tolerance and to ensure sufficient liquidity. The asset liability management committee (ALMCO) of IDCOL—comprising of four members and headed by the CEO—meets regularly to actively monitor and control market and liquidity exposures. By managing liquidity and interest rate risk of the company, ALMCO reviews risk elements within the business by understanding the company's market position, latest position and cost of deposits, interbank dependency, mobilization of wholesale funds, interest rate of peer companies, nonperforming loans position, among others.

#### **(viii) Disclosure and reporting**

47. IDCOL is supportive of transparency and free flow of information. It follows a structured monitoring and review process of disclosing relevant information on environmental and social safeguards of RE projects. Appendix 2 lists all documents and reports that IDCOL submits to its regulator on regular basis.

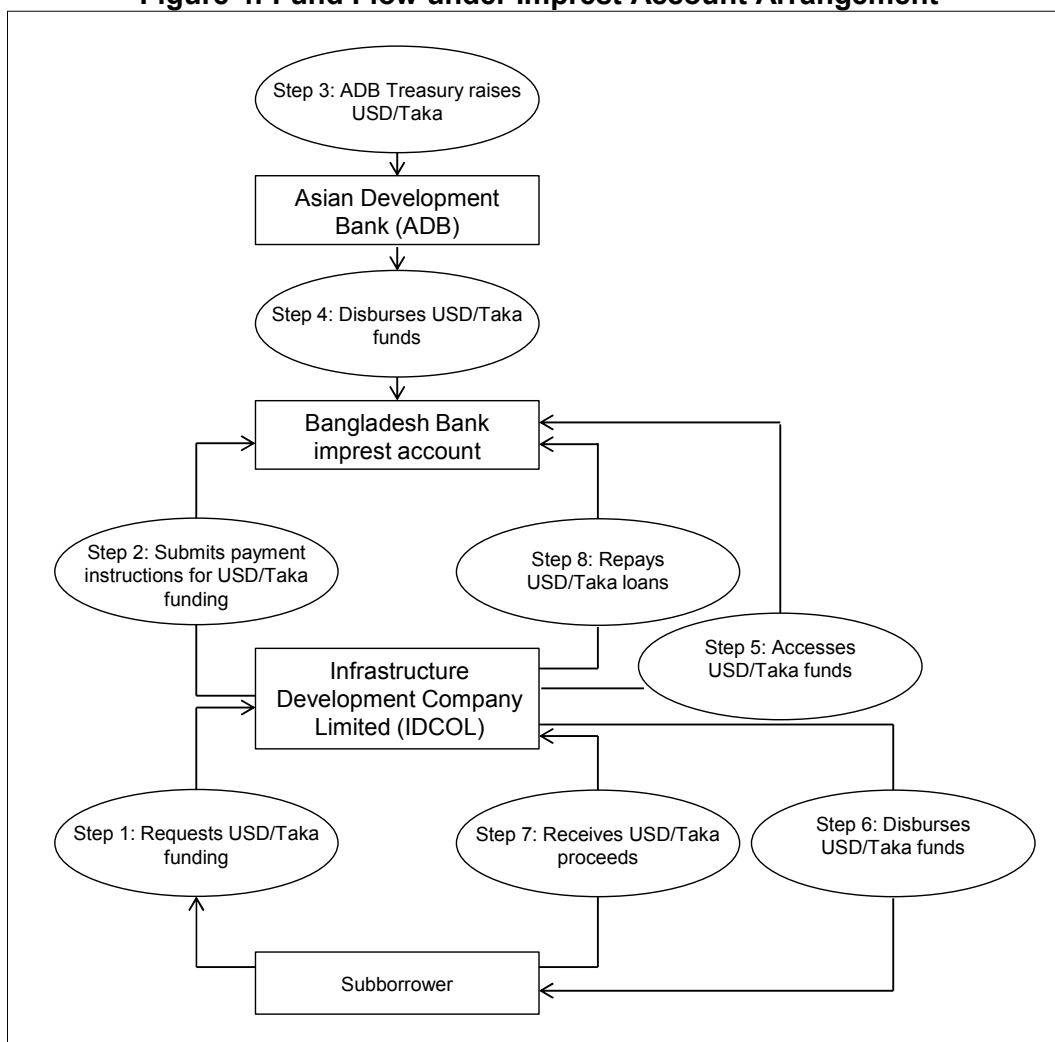
**(ix) Disbursement arrangements and fund flow mechanism**

48. PPIDF 3 will follow ADB imprest account arrangements and also allow direct payment procedure from ADB to the subprojects to permit maximum flexibility and accommodate IDCOL's preference. The fund allocation will be made available to IDCOL through a subsidiary loan agreement with MOF-FD.

49. **Imprest account arrangement.** Under the imprest account arrangement, IDCOL will open, administer, and maintain one imprest account in US dollars and one imprest account in Taka with Bangladesh Bank specifically for the purpose of operating the ADB facility. The uses of the two imprest accounts are strictly for the purpose of the ADB facility. The imprest accounts should be maintained without restriction on withdrawing funds at any time (e.g., current account) and will be opened in the name of IDCOL.

50. **Regular OCR loan.** Under the regular OCR loan, IDCOL will also open subaccounts on the following terms: (i) a US dollar account with a commercial bank, acceptable to MOF-FD and ADB, to receive the advance in US dollars from the imprest account under the regular OCR loan for onlending by IDCOL; and (ii) a Taka account with a commercial bank, acceptable to MOF-FD and ADB, to receive the advance in Taka from the imprest account under the regular OCR loan for onlending by IDCOL.

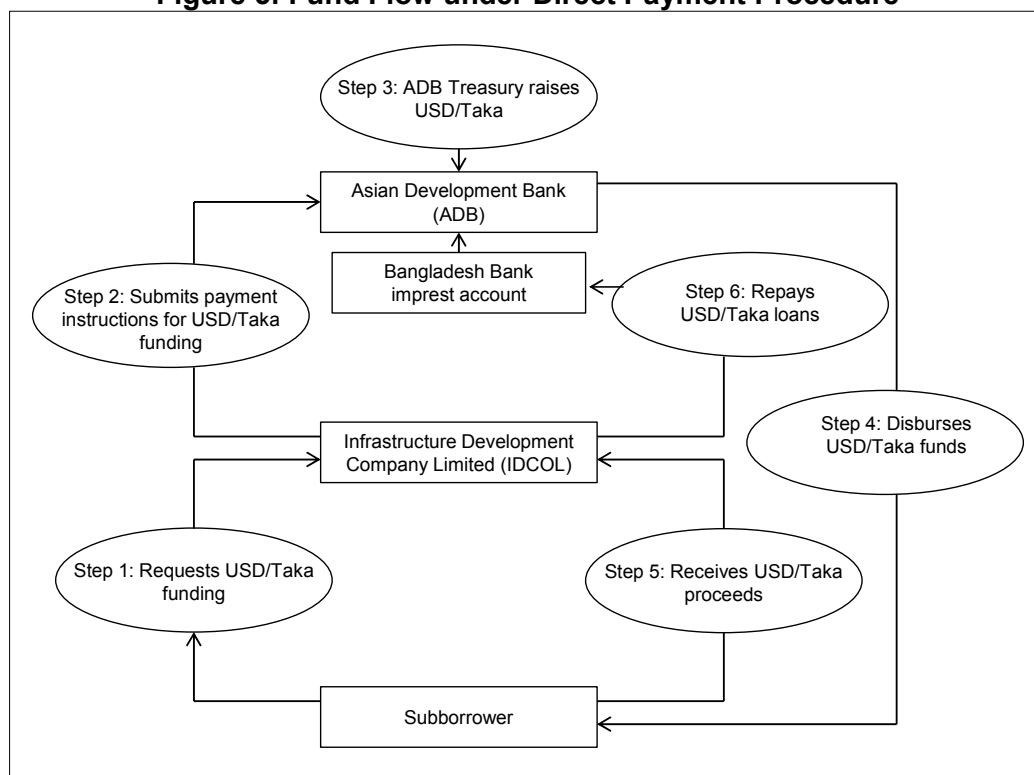
51. **Concessional OCR loan.** Under the concessional OCR loan, IDCOL will also open a subaccount in Taka with a commercial bank, acceptable to ADB and the MOF-FD, to receive the advance in Taka from the imprest account under the concessional OCR loan for onlending by IDCOL.

**Figure 4: Fund Flow under Imprest Account Arrangement**

Source: Asian Development Bank.

52. **Direct payment procedure.** Under the direct payment procedure, IDCOL will submit to ADB the payment instructions for the disbursement of the funds (in US dollar or Taka) directly to the account of the relevant subprojects.

53. Further details on the two disbursement arrangements have been described in the FAM of PPIDF 3.

**Figure 5: Fund Flow under Direct Payment Procedure**

Source: Asian Development Bank.

#### **(x) Information technology system**

54. IDCOL has an information technology (IT) which ensures that adequate infrastructure and security platforms are in place. IDCOL's present capacity is commensurate to the current level of its operation. However, with the business expansion and growth in the large infrastructure loan portfolio, enhancements to IDCOL's IT systems are critical to cope with additional financing activities and move towards integrated MIS for reporting to all stakeholders, including its Board, the Government, and ADB.

55. The technical assistance (TA) piggybacked to PPIDF 3 will review IDCOL's present IT infrastructure and carry out a comprehensive needs assessment. The TA will also help identify and contribute to the procurement of an appropriate integrated software and hardware solutions for assessment, management, and monitoring of credit risk, operational risk, asset-liability risk, risk-based pricing, loan management, and processing schedule as required for an international standard infrastructure finance company to manage risks and exposures efficiently and effectively. The final objective is to install a functional MIS to develop reports and analyses required for an infrastructure financing company to evaluate performance and manage risks.

#### **(xi) Supervision plan and human resource policy and guidelines**

56. As of August 2016, the total number of staff of IDCOL is 59. IDCOL has a staffing plan—approved by its Board—to increase the number of its regular staff to 124 within the next 5 years along with adequate number of temporary staff. 21 positions are to be filled immediately while 25 new staff will be hired within 1–2 years and the remaining 19 vacancies to be filled until 2021 (Table 5).

**Table 5: Manpower Plan of Infrastructure Development Company Limited**

Category	Proposed	Renewable	Investment	Finance and	Credit Risk	Operation
				Accounting	Management	
Position already filled	59	25	11	8	7	4
Positions to be filled immediately	21	11	2	2	5	-
Positions to be filled within 1–2 years	25	11	6	1	3	4
Positions to be filled within 3–5 years	19	3	5	3	6	2
<b>Total</b>	<b>124</b>	<b>50</b>	<b>24</b>	<b>14</b>	<b>21</b>	<b>10</b>

Source: Infrastructure Development Company Limited.

57. IDCOL will use the same financial management arrangements for the project—to be administered by IDCOL—that are already in place from the earlier PPIDF 1 and PPIDF 2 interventions of ADB. A project management unit (PMU) will be established, headed by a project director, concurrently IDCOL's director (investment) and head of advisory. The head of the PMU will liaise with ADB and be responsible for the overall supervision of the project and will report directly to the CEO of the company (Figure 6). The alternate project director, concurrently the unit head of IDCOL's large infrastructure unit will be the central coordinator of PPIDF 3 and will be responsible for all infrastructure investment—except energy efficiency and renewable energy facilities. The head of IDCOL's renewable energy unit will act the business head for all energy efficiency and renewable energy interventions. The head of IDCOL's financial reporting and accounting unit will oversee the budgeting, accounting, and reporting of all financial transactions related to implementing the facility. One environment specialist will be assigned to PPIDF 3 for all issues related to environmental and social concerns.

**Figure 6: Project Management Unit  
under the Third Public–Private Infrastructure Development Facility**



Note: All communication to be made to Central Coordinator with a copy to the Project Director and Head of Project Monitoring Unit, unless otherwise notified by Infrastructure Development Company Limited who may add other business units such as Small and Medium Infrastructure Unit, Public–Private Partnership Unit in the PMU, if needed.  
Source: Infrastructure Development Company Limited.

## D. Agreed Action Plan and Conditions

58. IDCOL and ADB have agreed to an action plan to address issues that the FMA identified (Table 6).

**Table 6: Financial Management Action Plan**

Agreed Action	Responsible Party	Agreed Completion Date
1. Appoint a senior risk manager as head of credit management and a voting member on IDCOL's Credit Risk Management Committee	IDCOL	Condition for loan effectiveness of Tranche 1 loan
2. Appoint a unit head to manage IDCOL's newly established loan recovery unit reporting to the Credit Management Head	IDCOL	Condition for loan effectiveness of Tranche 1 loan
3. Appoint an internal auditor at senior level reporting directly to the IDCOL Board	IDCOL	Condition for loan effectiveness of Tranche 1 loan
4. Appoint a senior officer for IDCOL's large infrastructure unit	IDCOL	Condition for loan effectiveness of Tranche 1 loan
5. Submit independent consultant's assessment report on IDCOL's risk management, treasury, and resource management, including details on implementation plan as approved by IDCOL Board (and supported under the piggybacked technical assistance to PPIDF 3)	IDCOL	Within 12 months from effectivity of Tranche 1
6. Pilot integration of management information system as recommended under the resource management plan	IDCOL	Prior to loan effectiveness of Tranche 2

IDCOL = Infrastructure Development Company Limited, PPIDF 3 = Third Public-Private Infrastructure Development Facility.

Source: Asian Development Bank.

## E. Financial Covenants

59. ADB and IDCOL have agreed to the following financial covenants. IDCOL will:

- (i) Comply at all times with the prudential norms as made applicable to IDCOL<sup>6</sup> by Bangladesh Bank and other relevant authorities;
- (ii) IDCOL will have no arrears in repayment of its current debt obligations; and
- (iii) IDCOL will lend to subprojects on market-based terms that are adequate to cover all associated costs and risks premium.

## F. Monitoring Plan

60. The monitoring criteria of the facility include (i) details of the subproject that receive the ADB financing, including their eligibility, technical, credit, risk assessments, and share of ADB

<sup>6</sup> As per Bangladesh Bank Circular, IDCOL is exempted from compliance of sections 4(d), 6,9,14(1)(b), 14(1)(d),14(1)(e),14(1)(f), 16, 17, 18, 19, and 25(3) of the Financial Institutions Act 1993. These exemptions provide Government guarantees and enhance IDCOL's capacity to sustain as a viable nonbanking financial institution in Bangladesh.

financing; (ii) facility performance evaluation by using the targets, indicators, assumptions, and risks in the design and monitoring framework, including how subborrowers are involved in the facility monitoring; (iii) compliance monitoring by verifying that the facility's regulatory, environmental, social, financial, and other covenants are complied with; and (iv) procurement procedures undertaken by subborrowers that are complied with.

61. The abovementioned monitoring activities are carried out at three distinct levels: MOF-ERD, IDCOL, and ADB.

62. IDCOL will prepare monitoring and review (progress) reports to ADB on a regular basis. ADB will review the financial management condition and performance of IDCOL and include this assessment in its supervision report, including progress made under the TA on institutional strengthening.

63. ADB has the discretion to conduct its own independent assessments to verify the results of the monitoring reports submitted by IDCOL. A tripartite review meeting will be held among the Government, ADB, and IDCOL at least twice during each tranche disbursement. The timing of the completion of the monitoring reports will be the 10th day of the month following the completion of the operation of the previous 6 months.

## **G. Conclusion and Recommendations**

64. MOF-ERD, MOF-FD, and IDCOL have successfully undertaken (or are currently undertaking) similar lines of credit from numerous development partners (including the WB and ADB). As a result, the financial management capacities of the executing and implementing agencies are developed to a satisfactory level to ensure smooth functioning of the project. However, IDCOL needs to further strengthen its capacity and staff strength in risk management, subproject assessment, pricing, treasury operations, and environmental and social impact assessments. The attached TA will provide capacity development support in this area.

## FINANCIAL MANAGEMENT ASSESSMENT QUESTIONNAIRE

Topic	Response	Potential Risk Event
<b>1. Executing and/or Implementing Agency</b>		
1.1. What is the entity's legal status and/or registration?	<p>Infrastructure Development Company Limited (IDCOL) is registered as a public limited company under the Companies Act 1994 and registered with the Registrar of Joint Stock Companies and Firms, Bangladesh.</p> <p>IDCOL is licensed by the Bangladesh Bank, the central bank, as a nonbank financial institution.</p>	
1.2. How much equity (shareholding) is owned by the Government?	Fully owned by the government.	
1.3. Obtain the list of beneficial owners of major blocks of shares (nongovernmental portion), if any. <sup>a</sup>	Not applicable.	
1.4. Has the entity implemented an externally-financed project in the past? If yes, please provide details.	<p>IDCOL has implemented and/or implementing the following externally-financed projects in the past, which includes but not limited to:</p> <ul style="list-style-type: none"> <li>• Private Sector Infrastructure Development Project (financed by International Development Association [IDA]);</li> <li>• Rural Electrification and Renewable Energy Development Project (financed by IDA);</li> <li>• Participation in the financing of Improving Rural Households Livelihood through Solar Energy Program in Bangladesh (financed by Islamic Development Bank [IDB]);</li> <li>• Public–Private Infrastructure Development Facility (financed by ADB);</li> <li>• Renewable Energy</li> </ul>	



Topic	Response	Potential Risk Event
	<p>Program (financed by Kreditanstalt für Wiederaufbau [KfW]); and</p> <ul style="list-style-type: none"> <li>National Domestic Biogas and Manure Program (financed by KfW).</li> </ul>	
1.5. Briefly describe the statutory reporting requirements for the entity.	IDCOL periodically submits multiple statutory reporting to regulators and/or authorities apart from reporting to the development partners as and when required.	
1.6. Describe the regulatory or supervisory agency of the entity.	Bangladesh Bank	
1.7. What is the governing body for the project? Is the governing body for the project independent?	<p>IDCOL is a 7-member Board of Directors represented by both public and private sectors. Three of its directors are from public sector and four are from private sectors.</p> <p>The Board is largely independent from the management.</p> <p>The management is responsible for implementing the decisions of the Board. The Board does not get involved in the day-to-day operations of the company.</p>	
1.8. Obtain current organizational structure and describe key management personnel. Is the organizational structure and governance appropriate for the needs of the project?	The detailed organization charts of the company are provided separately.	
1.9. Does the entity have a code of ethics in place?	No separate policy in place but code of ethics is practiced as part of the human resource policies.	IDCOL might need to establish its own code of ethics.
1.10. Describe (if any) any historical issues reports of ethics violations involving the entity and management. How were they addressed?	N/A	

Topic	Response	Potential Risk Event
<b>2. Funds Flow Arrangements</b>		
2.1 Describe the (proposed) project funds flow arrangements in detail, including a funds flow diagram and explanation of the flow of funds from ADB, the Government, and other financiers to the Government, executing agency (EA), implementing agency (IA), suppliers, contractors, ultimate beneficiaries as applicable.	Funds flow arrangement in Appendix 3	
2.2 Are the (proposed) arrangements to transfer the proceeds of the loan (from the Government and/or Finance Ministry) to the entity and to the end-recipients satisfactory?	Yes, IDCOL would need to sign a subsidiary loan agreement with the Finance Division of the Ministry of Finance (MOF). These are established precedents for IDCOL and practiced during the first and second Public–Private Infrastructure Development Facility (PPIDF 1 and PPIDF 2).	
2.3 Are the disbursement methods appropriate?	Yes.	
2.4 What have been the major problems in the past involving the receipt, accounting, and/or administration of funds by the entity?	No major problems encountered so far.	
2.5 In which bank will the imprest account (if applicable) be established?	The imprest account will be opened with the Bangladesh Bank and the operating accounts will be opened with other commercial banks.	ADB needs to be satisfied with the financial soundness, quality, and reputation of the selected commercial banks. ADB will have the right to approve each such bank.
2.6 Is the bank in which the imprest account is established capable of: <ul style="list-style-type: none"> <li>• executing foreign and local currency transactions?</li> <li>• issuing and administering letters of credit (LC)?</li> <li>• handling a large volume of transaction?</li> <li>• issuing detailed monthly bank statements promptly?</li> </ul>	Yes.	
2.7 Is the ceiling for disbursements from the imprest account and statement of expenditure (SOE) appropriate and/or required?	Proposed ceiling of \$200,000 for imprest account and SOE procedure is considered appropriate.	
2.8 Does the (proposed) project implementing unit (PIU) have experience in the	Yes. IDCOL has successfully managed	

Topic	Response	Potential Risk Event
management of disbursements from ADB?	PPIDF 1 and PPIDF 2.	
2.9 Does the PIU have adequate administrative and accounting capacity to manage the imprest fund and SOE procedures in accordance with ADB's Loan Disbursement Handbook (LDH)? Identify any concern or uncertainty about the PIU's administrative and accounting capability which would support the establishment of a ceiling on the use of the SOE procedure.	Yes.	
2.10 Is the entity exposed to foreign exchange risk? If yes, describe the entity's policy and arrangements for managing foreign exchange risk.	Foreign exchange risks will be handled by the Government of Bangladesh (GOB). Besides, the spread between lending and borrowing rate will help manage the foreign exchange risks better.	
2.11 How are the counterpart funds accessed?	<p>The debt-to-equity ratio of projects financed by IDCOL usually varies between 60:40 to 80:20, as deem fit by IDCOL Board.</p> <p>As per latest IDCOL Lending Policy, the maximum allowable investment limit of IDCOL for an infrastructure project is up to 60% of the project costs (but not exceeding \$80 million) with the remaining financing meant to come from the sponsors' own sources (equity) and other local banks and financial institutions.</p> <p>As for renewable energy projects and for some specific sectors, the debt-to-equity ratio varies between 85:15.</p>	PPIDF 3 will impose a maximum exposure limit of 40%. For subprojects with a very high developmental impact and where long-term funds are not available, an exposure limit higher than the stipulated 40% might be considered on a case-by-case basis but in any case not exceeding 60% of total subproject cost. Such a change will be subject to ADB's review and approval
2.12 How are payments made from the counterpart funds?	The sponsors are required to fund at least 15% of the total project cost.	

Topic	Response	Potential Risk Event
2.13 If project funds will flow to communities or nongovernmental organizations (NGOs), does the PIU have the necessary reporting and monitoring arrangements and features built into its systems to track the use of project proceeds by such entities?	Yes. The participating organizations (NGOs and private entities) under IDCOL's Solar Home System Program are required to submit account bank statements with each disbursement request. Additionally, IDCOL conducts audit of project specific accounts by both external auditor and Foreign-Aided Project Audit Directorate (FAPAD).	
2.14 Are the beneficiaries required to contribute to project costs? If beneficiaries have an option to contribute in-kind (in the form of labor or material), are proper guidelines and arrangements formulated to record and value labor or material contributions at appraisal and during implementation?	For IDCOL renewable energy programs, the beneficiaries need to contribute at least 10% of the systems cost in the form of equity.	
<b>3. Staffing</b>		
3.1. What is the current and/or proposed organizational structure of the accounting department? Attach an organization chart.	Headed by the Chief Financial Officer (CFO), 8 more staff are currently working under the Finance and Accounts Department including 2 unit heads, 2 assistant managers, 3 senior officers, and 1 accounts officer.	
3.2. Will existing staff be assigned to the project or will new staff be recruited?	Existing staff will be assigned for financial management under the proposed project.	
3.3. Describe the existing or proposed project accounting staff, including job title, responsibilities, educational background, and professional experience. Attach job descriptions and curriculum vitae (CVs) of key existing accounting staff.	IDCOL has an efficient finance and accounts team comprising of 9 members with adequate educational and professional background as well as experience of handling similar project accounts.	
3.4. Is the project finance and accounting function staffed adequately?	Yes.	
3.5. Are the project finance and accounting staff adequately qualified and experienced?	Yes.	
3.6. Are the project finance and accounting staff trained in ADB procedures, including	Yes. They are equipped with experience in handling	

Topic	Response	Potential Risk Event
the disbursement guidelines (i.e., LDH)?	PPIDF 1 and PPIDF 2 accounts financed by ADB.	
3.7. What is the duration of the contract with the project finance and accounting staff?	All the staffs have been appointed as per IDCOL's Personnel Policy. All the jobs are contractual in nature. The contract term is for 2 years with a provision of extension depending on satisfactory performance.	
3.8. Identify any key positions of project finance and accounting staff not contracted or filled yet, and the estimated date of appointment.	Not applicable.	
3.9. For new staff, describe the proposed project finance and accounting staff, including job title, responsibilities, educational background, and professional experience. Attach job descriptions.	Not applicable.	
3.10. Does the project have written position descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff?	The project will be implemented by the existing staffs of IDCOL. IDCOL has a comprehensive Administrative Manual including Personnel Policy. The manual includes position descriptions defining duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff.	
3.11. What is the turnover rate for finance and accounting personnel (including terminations, resignations, transfers)?	Not applicable.	
3.12. What is the training policy for the finance and accounting staff?	IDCOL provides rigorous on-the-job training to its employees under the supervision of the respective departmental heads. Besides, the staffs are sent to external trainings imparted by regulators, and development partners. IDCOL has recently instituted a Tuition Reimbursement Policy for its employees to encourage them to obtain	

Topic	Response	Potential Risk Event
	complementary professional degree.	
3.13. Describe the list of training programs attended by finance and accounting staff in the last 3 years.	<ul style="list-style-type: none"> <li>• Training on tax and value-added tax (VAT) policy</li> <li>• Project finance arranged by IDCOL</li> <li>• Workshop on disbursement management organized by the World Bank, Japan International Cooperation Agency (JICA), and ADB.</li> </ul>	
<b>4. Accounting Policies and Procedures</b>		
4.1 Does the entity have an accounting system that allows proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds (in particular, the legal agreements with ADB)? Will the project use the entity accounting system? If not, what accounting system will be used for the project?	<p>Yes.</p> <p>The Accounts Department prepares information on the financial position, performance, and change in financial position of the company. To maintain international standards, all financial statements are prepared in accordance with internationally accepted standards (IAS) and International Financial Reporting Standards (IFRS).</p> <p>Yes, the existing accounting system will be used for the proposed PPIDF 3.</p>	
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	Yes, the accounts are prepared and maintained in an automated accounting system, ensuring valid and necessary control.	
4.3 Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories? Obtain a copy of the chart of accounts.	Yes. The chart of accounts of IDCOL is flexible enough to incorporate new account codes and titles, as and when required.	
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Yes.	
4.5 Are the general ledger and subsidiary ledgers reconciled monthly? Are actions taken to resolve reconciliation	Yes.	

Topic	Response	Potential Risk Event
differences?		
4.6 Describe the EA's policy for retention of accounting records including supporting documents (e.g., ADB's policy requires that all documents should be retained for at least 1 year after ADB receives the audited project financial statements for the final accounting period of implementation, or 2 years after the loan closing date, whichever is later). Are all accounting and supporting documents retained in a defined system that allows authorized users easy access?	Yes. IDCOL retains all accounting and supporting documents on a permanent basis which provided easy access to authorized users.	
4.7 Describe any previous audit findings that have not been addressed.	Not applicable.	
<b>Segregation of Duties</b>		
4.8 Are the following functional responsibilities performed by different units or persons: (i) authorization to execute a transaction, (ii) recording of the transaction, (iii) custody of assets involved in the transaction, and (iv) reconciliation of bank accounts and subsidiary ledgers?	Yes. These functions are performed separately. Internal controls are in place to ensure segregation of duties and avoid conflict of interest.	
4.9 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	Yes. There is a procurement team in place to make the order as well as to ensure the receipt as per specification. Accounts team, on the other hand, is responsible to make the payment and for accounting based on approval from the procurement team.	
<b>Budgeting System</b>		
4.10 Do budgets include physical and financial targets?	Yes.	
4.11 Are budgets prepared for all significant activities in sufficient detail to allow meaningful monitoring of subsequent performance?	Yes. Periodic budgets are prepared and monitored on a regular basis to evaluate divisional performances.	
4.12 Are actual expenditures compared to the budget with reasonable frequency? Are explanations required for significant variations against the budget?	IDCOL prepares its annual budget for the next fiscal year. The budget is revised in the current fiscal year where the budget is adjusted for significant variations with maintaining adequate explanations.	
4.13 Are approvals for variations from the	Yes. It is subject to final	

Topic	Response	Potential Risk Event
budget required (i) in advance, or (ii) after the fact?	approval of IDCOL Board of Directors.	
4.14 Is there a ceiling, up to which variations from the budget may be incurred without obtaining prior approval?	Yes. Deviation up to 20% from the budget is allowed subject to retrospective approval from the Board.	
4.15 Who is responsible for preparation, approval, and oversight and/or monitoring of budgets?	Chief Financial Officer (CFO)	
4.16 Describe the budget process. Are procedures in place to plan project activities, collect information from the units in charge of the different components, and prepare the budgets?	Yes.	
4.17 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?  Is there evidence of significant mid-year revisions, inadequate fund releases against allocations, or inability of the EA to absorb and/or spend released funds?  Is there evidence that government counterpart funding is not made available adequately or on a timely basis in prior projects?  What is the extent of over- or under-budgeting of major heads over the last 3 years? Is there a consistent trend either way?	Yes. The annual budget is prepared by the Unit Head, Accounts and Financial Planning and reviewed by the CFO. Thereafter, it is put in the management meeting before presenting to the Board to make sure that the budget is aligned with divisional targets and/or assumptions.  Notably, no major deviations were observed in IDCOL's budget in recent years.	
<b>Payments</b>		
4.18 Do invoice-processing procedures require: (i) Copies of purchase orders and receiving reports to be obtained directly from issuing departments?; (ii) comparison of invoice quantities, prices and terms, with those indicated on the purchase order and with records of goods actually received?; (iii) comparison of invoice quantities with those indicated on the receiving reports?; (iv) checking the accuracy of calculations?; and (v) checking the authenticity of invoices and supporting documents?	Yes.	
4.19 Are all invoices stamped PAID, dated, reviewed, and approved, recorded/entered into the system correctly, and clearly marked for account code assignment?	Yes.	



Topic	Response	Potential Risk Event
4.20 Do controls exist for the preparation of the payroll? Are changes (additions/deductions/modifications) to the payroll properly authorized?	Yes.	
<b>Policies And Procedures</b>		
4.21 What is the basis of accounting (e.g., cash, accrual) followed (i) by the entity?, and/or (ii) by the project?	Accrual basis.	
4.22 What accounting standards are followed (International Financial Reporting Standards [IFRS], International Public Sector Accounting Standards—cash or accrual, or National Accounting Standards (specify) or other?	IFRS and Bangladesh Accounting Standards (BAS).	
4.23 Does the project have adequate policies and procedures manual(s) to guide activities and ensure staff accountability?	Yes.	
4.24 Is the accounting policy and procedure manual updated regularly and for the project activities?	Yes. It is updated as per the requirement of the project.	
4.25 Do procedures exist to ensure that only authorized persons can alter or establish a new accounting policy or procedure to be used by the entity?	Yes. Any change in accounting policy is made in accordance with BAS. Besides, such changes are subject to approval from IDCOL Board.	
4.26 Are there written policies and procedures covering all routine financial management and related administrative activities?	Yes.	
4.27 Do policies and procedures clearly define conflict of interest and related party transactions (real and apparent) and provide safeguards to protect the organization from them?	Yes, there are core risk management guidelines adopted by IDCOL as per instruction of the Bangladesh Bank, ensuring adequate safeguards for the organization.	
4.28 Are manuals distributed to appropriate personnel?	Yes.	
4.29 Describe how compliance with policies and procedures are verified and monitored.	The internal control and compliance (ICC) of IDCOL monitors the compliance with policies and procedures.	
<b>Cash and Bank</b>		
4.30 Indicate names and positions of authorized signatories for bank accounts. Include those persons who have custody over bank passwords, USB keys, or equivalent for online transactions.	All bank accounts are operated jointly by at least 2 executives from the senior management, including the Executive Director and Chief Executive Officer.	

Topic	Response	Potential Risk Event
4.31 Does the organization maintain an adequate and up-to-date cashbook recording receipts and payments?	Yes.	
4.32 Describe the collection process and cash handling procedures. Do controls exist for the collection, timely deposit, and recording of receipts at each collection location?	All types of collections are deposited and recorded on a daily basis. Collections are usually made vide pay orders or account payee cheques. Cash transactions are generally discouraged.	
4.33 Are bank accounts reconciled on a monthly basis? Or more often? Is cash on hand physically verified and reconciled with the cash books? With what frequency is this done?	Yes. Bank accounts are reconciled on a monthly basis. IDCOL has a tiny 'petty cash fund' which is physically verified and reconciled every week.	
4.34 Are all reconciling items approved and recorded?	Yes.	
4.35 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	Yes. All reconciliations are done by an executive from the Finance and Accounts Department and reviewed by the Unit Head, Finance and Accounts. If any unusual item is found, it is immediately communicated to IDCOL management for remedial action.	
4.36 Are there any persistent and/or non-moving reconciling items?	No.	
4.37 Are there appropriate controls in the safekeeping of unused cheques, USB keys and passwords, official receipts and invoices?	Yes. They are kept in appropriate custody having officers responsible for each account.	
4.38 Are any large cash balances maintained at the head office or field offices? If so, for what purpose?	No. All transactions are generally dealt vide banking channel.	
4.39 For online transactions, how many persons possess USB keys (or equivalent), and passwords? Describe the security rules on password and access controls.	Not applicable.	
<b>Safeguard over Assets</b>		
4.40 What policies and procedures are in place to adequately safeguard or protect assets from fraud, waste, and abuse?	Proper verification and monitoring systems are adopted for proper management and maintenance of assets.	

<b>Topic</b>	<b>Response</b>	<b>Potential Risk Event</b>
4.41 Does the entity maintain a fixed assets register? Is the register updated monthly? Does the register record ownership of assets, any assets under lien or encumbered, or have been pledged?	Yes. The fixed asset register is updated on occurrence of any transaction with regard to fixed assets and reviewed on a monthly basis.	
4.42 Are subsidiary records of fixed assets, inventories, and stocks kept up-to-date and reconciled with control accounts?	Yes, on a yearly basis handled by accounts and administration audited by external and internal auditor.	
4.43 Are there periodic physical inventories of fixed assets, inventories, and stocks? Are fixed assets, inventories, and stocks appropriately labeled?	Yes.	
4.44 Are the physical inventory of fixed assets and stocks reconciled with the respective fixed assets and stock registers, and discrepancies analyzed and resolved?	Yes.	
4.45 Describe the policies and procedures in disposal of assets. Is the disposal of each asset appropriately approved and recorded? Are steps immediately taken to locate lost or repair broken assets?	Yes. Assets are revalued time to time. The disposal of each asset is appropriately approved and recorded.	
4.46 Are assets sufficiently covered by insurance policies?	Yes.	
4.47 Describe the policies and procedures in identifying and maintaining fully depreciated assets from active assets.	Depreciated assets are maintained and recorded separately and are tagged to identify easily.	
<b><i>Other Offices and Implementing Entities</i></b>		
4.48 Describe any other regional offices or executing entities participating in implementation.	Not applicable.	
4.49 Describe the staff, their roles and responsibilities in performing accounting and financial management functions of such offices as they relate to the project.	Not applicable.	
4.50 Has the project established segregation of duties, controls, and procedures for flow of funds and financial information, accountability, and reporting and audits in relation to the other offices or entities?	Not applicable.	
4.51 Does information among the different offices and/or implementing agencies flow in an accurate and timely fashion? In particular, do the offices other than the head office use the same accounting and reporting system?	Not applicable.	
4.52 Are periodic reconciliations performed among the different offices and/or implementing agencies? Describe the project reporting and auditing	Not applicable.	

Topic	Response	Potential Risk Event
arrangements between these offices and the main EAs and IAs.		
4.53 If any sub-accounts (under the imprest account) will be maintained, describe the results of the assessment of the financial management capacity of the administrator of such sub-accounts.	Not applicable.	
<b>Contract Management and Accounting</b>		
4.54 Does the agency maintain contract-wise accounting records to indicate gross value of contract, and any amendments, variations and escalations, payments made, and undisbursed balances? Are the records consistent with physical outputs and/or deliverables of the contract?	Yes. Separate accounting records are maintained for each contract to indicate the gross value of contract, amount of payments, undisbursed amount.	
4.55 If contract records are maintained, does the agency reconcile them regularly with the contractor?	Yes.	
<b>Other</b>		
4.56 Describe project arrangements for reporting fraud, corruption, waste, and misuse of project resources. Has the project advised employees, beneficiaries, and other recipients to whom to report if they suspect fraud, waste, or misuse of project resources or property?	Yes, to the CEO of IDCOL.	
<b>5. Internal Audit</b>		
5.1. Is there an Internal Audit Department in the entity?	Yes.	
5.2. What are the qualifications and experience of the internal audit staff?	<ul style="list-style-type: none"> <li>The head of Internal Auditor is a Certified Internal Auditor (CIA) and is a member of the Association of Chartered Certified Accounts (ACCA)</li> <li>Members of the audit team are partly qualified of chartered accountancy profession and post graduates</li> <li>Professional expertise in audit field for 2/3 years</li> </ul>	
5.3. To whom does the head of the internal audit report?	Audit Committee (Subcommittee of the Board of Directors)	
5.4. Will the internal audit department include the project in its annual work program?	Yes. All ongoing projects have already been included in the annual audit plan.	

Topic	Response	Potential Risk Event
5.5. Are actions taken on the internal audit findings?	Yes.	
5.6. What is the scope of the internal audit program? How was it developed?	<p>The audit department has reviewed all businesses and departments of the company with development partner related projects, partner organization activities, project office and regional office activities of IDCOL.</p> <p>It was developed through rigorous risk management process across the organization. During internal audit plan, we also consider the Board of Directors and management concern and any other emergent issues which will affect the company's overall business performance to develop the annual audit plan.</p>	
5.7. Is the Internal Audit Department independent?	Yes, as the Internal Audit Department directly reports to the Audit Committee.	
5.8. Do they perform pre-audit of transactions?	Yes.	
5.9. Who approves the internal audit program?	The Head of Internal Auditor.	
5.10. What standards guide the internal audit program?	The International Standards for the Professional Practice of Internal Auditing published by the Institute of Internal Auditors.	
5.11. How are audit deficiencies tracked?	By comparison with the target and plan set in the audit plan and company's risk register. We also try to identify the control gap and other deficiencies through walk through test and substantive test during audit field work. Besides, the control test is also performed to identify the control gap, if any.	
5.12. How long have the internal audit staff members been with the organization?	Since the beginning of the establishment of the	

Topic	Response	Potential Risk Event
	company.	
5.13. Does any of the internal auditor staff have an information technology (IT) background?	Have skill and experience at moderate level. If required, the IT expert is outsourced or engaged, as and when required.	
5.14. How frequently does the internal auditor meet with the audit committee without the presence of management?	Quarterly.	
5.15. Has the internal auditor identified and/or reported any issue with reference to availability and completeness of records?	Reported.	
5.16. Does the internal auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	Obtained sufficient knowledge.	
<b>6. External Audit (entity level)</b>		
6.1. Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Yes. At present, Hoda Vasi Chowdhury and Co., one of the leading and top ranked audit firms in the country, has been appointed as the independent auditor for FY2016.	
6.2. Are there any delays in audit of the entity? When are the audit reports issued?	Audit is initiated immediately after closing of each financial year. On completion of the audit, financial statements along with an independent audit report are issued every year.	
6.3. Is the audit of the entity conducted in accordance with the International Standards on Auditing, or the International Standards for Supreme Audit Institutions, or national auditing standards?	The audit of the entity is conducted in accordance with BSA.	
6.4. Were there any major accountability issues noted in the audit report for the past 3 years?	No.	
6.5. Does the external auditor meet with the audit committee without the presence of management?	Yes	
6.6. Has the entity engaged the external audit firm for any non-audit engagements (e.g., consulting)? If yes, what is the total value of non-audit engagements, relative to the value of audit services?	No.	

Topic	Response	Potential Risk Event
6.7. Has the external auditor expressed any issues on the availability of complete records and supporting documents?	No.	
6.8. Does the external auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	Yes.	
6.9. Are there any material issues noted during the review of the audited entity financial statements that were not reported in the external audit report?	No.	
<b>External Audit (project level)</b>		
6.10. Will the entity auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	The entity auditor will audit the project accounts.	
6.11. Are there any recommendations made by the auditors in prior project audit reports or management letters that have not yet been implemented?	No.	
6.12. Is the project subject to any kind of audit from an independent governmental entity (e.g. the supreme audit institution) in addition to the external audit?	Yes. The project is subject to the audit of FAPAD which is an independent government entity.	
6.13. Has the project prepared acceptable terms of reference for an annual project audit? Have these been agreed and discussed with the EA and the auditor?	Yes.	
6.14. Has the project auditor identified any issues with the availability and completeness of records and supporting documents?	No.	
6.15. Does the external auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	Yes.	
6.16. Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	No.	
(For second or subsequent projects) 6.17. Were past audit reports complete and did they fully address the obligations under the loan agreements? Were there any material issues noted during the review of the audited project financial statements and related audit report that have remained unaddressed?	No.	
<b>7. Reporting and Monitoring</b>		
7.1. Are financial statements and reports	Yes.	

Topic	Response	Potential Risk Event
prepared for the entity?		
7.2. Are financial statements and reports prepared for the implementing unit(s)?	Yes.	
7.3. What is the frequency of preparation of financial statements and reports? Are the reports prepared in a timely fashion so as to be useful to management for decision making?	Yes. Financial statements and reports are prepared annually.	
7.4. Does the entity reporting system need to be adapted for project reporting?	Yes.	
7.5. Has the project established financial management reporting responsibilities that specify the types of reports to be prepared, the report content, and purpose of the reports?	Yes.	
7.6. Are financial management reports used by management?	Yes.	
7.7. Do the financial reports compare actual expenditures with budgeted and programmed allocations?	No.	IDCOL's financial reports should be enhanced to allow a gap analysis between actual and budget expenditures.
7.8. How are financial reports prepared? Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	Financial reports are prepared by both the automated accounting system and by spreadsheets.	
7.9. Does the financial system have the capacity to link the financial information with the project's physical progress? If separate systems are used to gather and compile physical data, what controls are in place to reduce the risk that the physical data may not synchronize with the financial data?	No.	
7.10. Does the entity have experience in implementing projects of any other donors, cofinanciers, or development partners?	Yes. IDCOL has experience in implementing projects of other development partners such as the Department for International Development (DFID), Gesellschaft für Internationale Zusammenarbeit (GIZ), IDB, JICA, KFW, and The World Bank.	
<b>8. Information Systems</b>		
8.1. Is the financial accounting and reporting system computerized?	Yes.	
8.2. If computerized, is the software off-the-shelf, or customized?	IDCOL is using customized	



Topic	Response	Potential Risk Event
	enterprise resource planning (ERP) software.	
8.3. Is the computerized software standalone, or integrated and used by all departments in the headquarters and field units using modules?	Yes. It is an ERP having access to multiple modules for use by different departments.	
8.4. How are the project financial data integrated with the entity financial data? Is it done through a module in the enterprise financial system with automatic data transfer or does it entail manual entry?	Project financial data is integrated with the entity financial data through IDCOL management information system (MIS), an ERP solution.	
8.5. Is the computerized software used for directly generating periodic financial statements or does it require manual intervention and use of excel or similar spreadsheet software?	The periodic financial statements are generated from IDCOL MIS.	
8.6. Can the system automatically produce the necessary project financial reports?	Yes.	
8.7. Is the staff adequately trained to maintain the computerized system?	Yes.	
8.8. Do the management, organization, and processes and systems safeguard the confidentiality, integrity, and availability of the data?	Yes.	
8.9. Are there back-up procedures in place?	Yes.	
8.10. Describe the backup procedures—online storage, offsite storage, offshore storage, fire, earthquake, and calamity protection for backups.	MIS data are stored in central IDCOL database which is an online storage solution with back-up storage in different locations.	

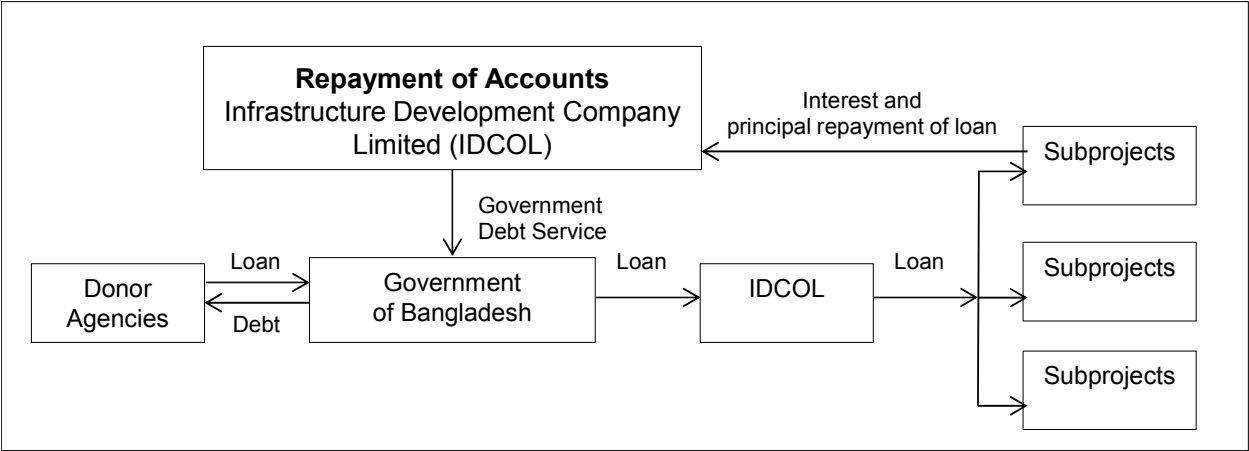
<sup>a</sup> In such cases, consult OAI on the need for integrity due diligence on nongovernmental beneficial owners.

**LIST OF REPORTS AND STATEMENTS TO BE SUBMITTED TO BANGLADESH BANK**

<b>No.</b>	<b>Particulars</b>	<b>Concerned Department (Submission)</b>	<b>Frequency</b>
1	Statement of Call Money Market Transaction	Forex Reserve and Treasury Management Department	Daily
2	Minutes of the Board Meeting	Department of Financial Institutions and Markets (DFIM)	Monthly
3	Statement on Cash Reserve Requirement (CRR)	DFIM	Monthly
4	Statement on Statutory Liquidity Reserve (SLR)	DFIM	Monthly
5	Statement of Write Off Account	DFIM	Quarterly
6	Statement of Rescheduled Account	DFIM	Monthly
7	Credit Information Bureau (CIB) Report	Department of CIB	Monthly
8	Statement of Liquidity Profile	DFIM	Monthly
9	Statement of Affairs	DFIM	Quarterly
10	Risk Management Paper	DFIM	Monthly
11	Interbank Transaction Matrix	Financial Stability Department (FSD)	Monthly
12	Base Rate System	DFIM	Monthly
13	Financing Brick Kiln Efficiency Improvement Project (ADB Refinance)	Sustainable Finance Department	Monthly
14	Cash Transaction Report (CTR)	Bangladesh Financial Intelligence Unit (BFIU)	Monthly
15	Suspicious Transaction Report (STR)	BFIU	Monthly
16	Central Database for Large Credit	Financial Stability Department (FSD)	Monthly
17	Distribution of Small and Medium Enterprise (SME) Loan among women entrepreneurs	SME and Special Programs Department	Quarterly
18	Money Laundering Prevention	BFIU	Quarterly
19	Statement of Top 10 Defaulters	DFIM	Quarterly
20	Statement of Top 10 Defaulters	Department of CIB	Quarterly
21	Statement of Disbursement in Small and Medium Enterprise (SME) Sector	SME and Special Programs Department	Quarterly
22	Statement of Business Activities	DFIM	Quarterly
23	Large Loan and/or Lease	DFIM	Quarterly
24	Statement of Interest Rate of Lending and Deposit	DFIM	Quarterly
25	Classification of provision on Lease and Loan	DFIM	Quarterly
26	Capital Adequacy and Market Discipline (CAMD)	DFIM	Quarterly

Source: Infrastructure Development Company Limited.

FUND FLOW ARRANGEMENT



Source: Infrastructure Development Company Limited.