

SUMMARY OF PROJECT PERFORMANCE

A. Background

1. On 17 July 2014, the Asian Development Bank (ADB) approved a loan of \$125 million equivalent from its Special Funds resources for the Third Urban Governance and Infrastructure Improvement (Sector) Project, which became effective on 4 November 2014. The OPEC Fund for International Development (OFID) approved a \$40 million loan to cofinance the project on 10 June 2014. ADB administers procurement and disbursement of the OFID loan. The Government of Bangladesh is financing \$72 million equivalent for the project. The closing date for both loans is 31 December 2020. The project was designed to strengthen urban governance and improve urban infrastructure and service delivery in *pourashavas* (municipalities) in Bangladesh. Building upon the successful implementation of earlier phases,¹ the project provides investment funds to *pourashavas* based on their governance improvement performance. Under the project, *pourashavas* with high growth potential are developed in an integrated way, including both governance and infrastructure improvement.

2. The impact of the current project is improved living environments in project *pourashavas*. The outcome is better municipal service delivery and urban governance in project *pourashavas*. The project has three outputs:

- (i) **Output 1: Municipal infrastructure improved and made gender and climate responsive.** The project provides funding to *pourashavas* through two windows. Window A focuses on 30 preselected *pourashavas* with infrastructure improvements funded in three phases upon fulfillment of performance criteria defined in the Urban Governance Improvement Action Program (UGIAP).² Under window B, funds are allocated based on well-defined performance criteria on a competitive basis to all remaining *pourashavas* in the country. Funding of up to \$2 million for infrastructure improvements is provided to the top 20 *pourashavas* in the governance performance assessment, to be conducted twice during the project.³
- (ii) **Output 2: Capacity of *pourashavas* in urban service delivery, planning, and financial management improved.** The implementation of the UGIAP strengthens the capacity of *pourashavas* in (a) citizen awareness and participation, (b) urban planning, (c) gender equality and social inclusion, (d) local resource mobilization, (e) financial management and accountability, (f) administrative transparency, and (g) the provision of essential services. *Pourashavas* need to fulfill more complex and stringent requirements when moving from the entry criteria to intermediate and advanced criteria. Loan-funded consultants with expertise in governance improvement and capacity development provide intensive support to window A *pourashavas*. If the criteria are not fulfilled within the stipulated time frame, *pourashavas* will lose their entitlement to proceed to the next phase of infrastructure improvement. A separate set of performance criteria using simple,

¹ ADB. 2002. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Technical Assistance Grant to the People's Republic of Bangladesh for the Urban Governance and Infrastructure Improvement (Sector) Project*. Manila; ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the People's Republic of Bangladesh for the Second Urban Governance and Infrastructure Improvement (Sector) Project*. Manila.

² The UGIAP is detailed in the Project Administration Manual (accessible from the list of linked documents in Appendix 2).

³ The first assessment was conducted in August 2016.

objective, and measurable governance indicators has been prepared as the UGIAP under window B.

- (iii) **Output 3: Project management and administration system in place.** Support will be provided for smooth and effective project implementation and operation. The project management unit (PMU) in the Local Government Engineering Department (LGED), with staff from LGED and the Department of Public Health Engineering, will manage project implementation. Management, design, supervision, and other loan-funded consultants will assist the PMU. Assisted by the loan consultants, the project implementation unit (PIU) in each *pourashava* will be responsible for infrastructure and governance improvements.

B. Performance of the Project

3. The project is performing well according to the ADB's additional financing policy⁴ and is likely to be completed on schedule. The executing agency, LGED, is experienced and received ADB's award for best performing project in Bangladesh for the Second Urban Governance and Infrastructure Improvement (Sector) Project⁵ in 2011, 2013, and 2015 (jointly with the Third Urban Governance and Infrastructure Improvement [Sector] Project). In 2016, the project received the Infrastructure for Livable Cities award from ADB's urban sector group.

4. **Delivery of expected outputs.** The project is expected to meet or exceed the targeted outputs as stipulated in the design and monitoring framework (Table 1).

Table 1: Achievement against Output Targets

Performance Targets and Indicators	Achievements
Output 1: Municipal infrastructure improved and made gender and climate responsive	
300 km of roads improved or rehabilitated.	On track. 95 km completed; another 120 km to be completed by June 2017.
120 km of drains built or improved.	On track. 45 km completed; another 50 km to be completed by June 2017.
120 km of pipes installed or upgraded for water supply with 40,000 individual meters.	On track. Scheduled for procurement in phases 2 and 3 of the project as planned.
Slum improvement subprojects completed in all project towns that have slums.	On track. Scheduled for procurement in phases 2 and 3 of the project as planned.
Sludge management facilities built in 10 towns.	On track. Scheduled for procurement in phases 2 and 3 of the project as planned.
Final solid waste disposal sites built or improved in 15 towns (total capacity 150 tons/day).	On track. Scheduled for procurement in phases 2 and 3 of the project as planned.
Climate issues considered in designing 80% of subprojects and incorporated if found necessary.	Ongoing.
About 10,000 tons of carbon emissions reduced.	Will be monitored during project phases 2 and 3 of the project.
Output 2: Improved capacity of <i>pourashavas</i> in urban service delivery, planning, and financial management	
Town coordination committees (target: at least 33% women) and ward committees (target: 40% women) formed in 30 towns by 2015.	Completed.

⁴ ADB. 2010. *Additional Financing: Enhancing Development Effectiveness*. Manila. Para. 41 of the policy paper describes measures to determine whether a project is performing well: (i) delivery of expected outputs, (ii) satisfactory implementation progress, (iii) satisfactory compliance with safeguard policy requirements, (iv) successful management of risks, and (v) an on-track rating.

⁵ ADB. 2008. *Report and Recommendations of the President to the Board of Directors: Proposed Loan to the People's Republic of Bangladesh for the Second Urban Governance and Infrastructure Improvement (Sector) Project*. Manila.

Performance Targets and Indicators	Achievements
Urban master plans developed through gender-inclusive processes gazetted in 30 towns by 2017.	On track. To be completed by the end of 2017.
WCA and PRSI standing committees operational in 30 towns by 2016 (target: 40% women representation).	Completed.
PDP, GAP, and PRAP approved in 30 towns by 2017.	Completed.
Annual O&M plan approved and own budget allocated for implementation in 30 towns by 2017.	Completed.
Computerized tax records and billing system made functional in 30 towns by 2018.	Completed.
Top-performing <i>pourashavas</i> under window B awarded for subproject funding by LGD by 2017.	First batch of <i>pourashavas</i> selected. Remaining second batch will be done by 2017.
Output 3: Project management and administration system in place	
PMU and PIUs established with core staff appointed by August 2014.	Completed.
Quarterly progress reports and audit reports meet ADB requirements and submitted on time, beginning in Quarter 4, 2014.	Quarterly progress reports are submitted regularly. The audit reports for FY2015 and FY2016 ^a were submitted on time. No audit observation is pending.
Project is implemented on time and within budget.	On track.
All relevant staff oriented on gender and trained on collection and monitoring of sex-disaggregated data by 2016.	Completed.

ADB = Asian Development Bank, GAP = gender action plan, km = kilometer, LGD = Local Government Division, LGED = Local Government Engineering Department, O&M = operation and maintenance, PDP = *pourashava* development plan, PIU = project implementation unit, PMU = project management unit, PRAP = poverty reduction action plan, PRSI = poverty reduction and slum improvement, UGIAP = Urban Governance Improvement Action Program, WCA = women and children affairs.

^a The fiscal year (FY) of the Government of Bangladesh and its agencies ends on 30 June. "FY" before a calendar year denotes the year in which the fiscal year ends, e.g., FY 2017 ends on 30 June 2017.

5. **Output 1: Municipal infrastructure improved and made gender and climate responsive.** With fulfillment of the UGIAP entry criteria, the first set of priority roads and drainage subprojects has been supported, i.e., phase 1 of the project has been completed. With the end of phase 1 in June 2016, and based on the UGIAP evaluation, all 30 window A *pourashavas* fulfilled the intermediate criteria, and became eligible for additional priority investment subprojects (phase 2). Under phase 1, 215 kilometers (km) of roads and 95 km of drains are substantially completed. Bidding for phase 2 works is ongoing and on track.

6. **Output 2: Improved capacity of *pourashavas* in urban service delivery, planning, and financial management.** The implementation of UGIAP, as well as the level of achievements against target activities with specific time frames for entry-, intermediate-, and advanced-level criteria, determines the amount of investment funds for each *pourashava*. The executing agency effectively mobilized the project team, which made substantial progress in UGIAP implementation. In all 30 window A *pourashavas* (i) town coordination and ward committees are established with an average of 38% female representatives; (ii) citizen charters are displayed at suitable places; (iii) individual reassessment of holding tax is being carried out, with full reassessment due for six *pourashavas* that have completed the process to become effective from 1 July 2017; (iv) holding tax collection efficiency reached 79% by the end of June 2016; (v) a computerized tax and billing system was introduced and is in use; (vi) 13 *pourashavas* cleared 100% of their electricity bills, and the remaining *pourashavas* made at least 80% of their current bills and 50% of their arrears; (vii) water tariff collection efficiency of 24 *pourashavas* with piped water supply system was 73% in June 2016; and (viii) other essential services—including solid waste collection, disposal, and management; cleaning and maintaining drains; functional street lights; and operation and maintenance (O&M) of built infrastructure—are in place and functional.

7. **Output 3: Project management and administration system in place.** The PMU is

established and fully functional with experienced staff and a highly qualified project director. PIUs are established in all project *pourashavas* with adequate consulting support. The PMU arranged several project-orientation sessions for *pourashava* mayors and other senior officers; it also conducted training sessions for PIU officials. Project monitoring and reporting systems are established and quarterly progress reports are submitted regularly. A system to monitor and evaluate benefits is functional, and the first benefit monitoring evaluation report was submitted in July 2016. Auditing for FY2015 and FY2016 was done on time, and the audit reports were submitted to ADB and OFID on time.

8. **Satisfactory implementation progress.** The project is on schedule and implementation progress is considered satisfactory. With 45% of project time elapsed as of 15 June 2017, contracts worth \$94.55 million (or 84% of the \$112.19 million ADB loan amount) had been awarded and disbursements of \$50.34 million (45%) had been achieved.⁶ Details are provided in Table 2.

Table 2: Contract Awards and Disbursements of ADB Loan by Category
(as of 15 June 2017, in US Dollars)

	Allocation ^a	Contract Awards	Disbursement	Undisbursed Balance
Civil works	66,222,907	75,633,469	29,859,031	36,363,876
Equipment and vehicles	9,201,407	5,449,976	3,212,936	5,988,471
Consulting services	11,165,273	12,885,868	5,196,373	5,968,900
Capacity development	7,181,151	326,487	309,802	6,871,349
Incremental costs	1,974,326	249,550	249,550	1,724,776
Interest charges	6,367,972	0	550,685	5,817,287
Unallocated	10,234,963	0	0	10,234,963
Imprest	(158,064)	0	11,000,000	(11,158,064)
Total	112,189,935	94,545,350	50,378,377	61,811,558

() = negative, ADB = Asian Development Bank.

^a United States dollar equivalent value.

Source: ADB.

9. **Satisfactory compliance with safeguard policy requirements.** The project has satisfactorily complied with ADB's and the government's safeguard policy requirements. Based on ADB's Safeguard Policy Statement 2009, the project is classified category B for involuntary resettlement and category C for indigenous people based on the initially envisaged subprojects. Only minimal impacts were identified during land acquisition and resettlement for some subprojects under implementation. Additional land acquisition may be required for solid waste management subprojects, and resettlement plans will be prepared for the identified impacts in accordance with the agreed resettlement framework. Subprojects in six⁷ project *pourashavas* could affect indigenous people, as these districts have significant indigenous populations compared to other parts of the country.⁸ The executing agency is aware and committed to taking adequate steps on issues affecting indigenous people during subproject selection and implementation. The project is classified as category B for the environment. The project is generally compliant with ADB's Safeguard Policy Statement on environmental safeguard requirements. Initial environmental examinations with environmental management plans were

⁶ Of the \$40 million equivalent amount of the OFID loan (Loan 8285[OFID]-BAN), contract awards as of 15 June 2017 totaled \$15.98 million (40%) and disbursements were \$11.23 million (28%). Cumulative contract awards for ADB loan and the OFID loan totaled \$110.52 million (73%), while disbursements were \$61.61 million (41%).

⁷ Bandarban, Rangamati, Khagrachari, Sherpur, Netrokona, and Naogaon.

⁸ A family of an indigenous people group from Khagrachari complained to ADB that the *pourashava* had taken their personal land for construction of a subproject road. A court case filed by the aggrieved family was withdrawn in January 2017. Consequently, the PMU drafted a corrective action plan to mitigate the involuntary resettlement impact. The plan will be finalized after detailed land measurement and submitted to ADB for approval.

prepared for all subprojects and included in the bid and contract documents. Semiannual social and environmental safeguard monitoring reports are submitted to ADB regularly and disclosed.

10. **Successful management of risks.** The executing agency has successfully managed project risks. Significant risks include the following: (i) budget allocation is insufficient to meet the increased demand for O&M of facilities built by the project, (ii) prolonged land acquisition process will cause implementation delays, and (iii) limited capacity in *pourashavas* will lead to improper financial management.

11. With support from the PMU and governance improvement and capacity development consultants, all 30 window A *pourashavas* met the intermediate UGIAP criteria, including increases in tax collection efficiency and preparation of O&M plans with budget provisions. Only subprojects with clear land available were included in phase 1; subprojects requiring land acquisition will be included in phases 2 or 3, giving sufficient time to obtain administrative land acquisition approvals. The PMU, with support from the loan consultants, is continually providing guidance and training to local authorities and the PIUs in financial management, internal auditing, and ADB financial management requirements. This helps promote robust and transparent project financial management. Financial audits for FY2015 and FY2016 were completed with no pending audit observation reported.

12. **Financial and economic viability of subprojects.** Subproject appraisal reports prepared by the management, design, and supervision consultants for phase 1 subprojects (urban roads and drains) confirmed the economic viability with the *pourashavas* making satisfactory progress in generating their own revenue sources. For the first direct revenue-generating subprojects in phase 2, the financial internal rates of return were calculated as part of the subproject appraisal reports and confirmed that O&M costs and debt service can be fully recovered as per the projections for the *pourashavas*.

13. **On track rating.** Based on ADB's performance rating system, the project is rated *on track*.

14. **Scope of additional financing.** The proposed additional financing will cover (i) the shortfall from the underestimation of the investment requirements under the current project⁹ to enable the continued financing of (a) priority infrastructure and governance improvements in 30 window A *pourashavas*, and climate and disaster resilience aspects¹⁰ under output 1; and (b) infrastructure support for qualifying window B *pourashavas* under output 2; and (ii) the scaling up of the current project by (a) supporting additional activities under output 1 and (b) adding five window A *pourashavas*.

C. Conclusion

15. Given the successful performance of the current project and the government's request to include five additional *pourashavas* under window A, additional financing was included in the latest country operations business plan.¹¹

⁹ The design of the current project envisaged additional financing. Additional financing is even more critical as all 30 window A *pourashavas* have performed well, meeting the intermediate criteria for phase 2.

¹⁰ Project preparation, which followed an integrated, consultative process to mainstream climate change adaptation and mitigation in *pourashavas* included (i) climate risk and vulnerability assessments for wards; (ii) updates of urban master plans, incorporating climate and disaster risks and priority interventions; (iii) capacity building; and (iv) feasibility studies for priority subprojects, including climate-responsive engineering designs.

¹¹ ADB. 2016. *Country Operations Business Plan: Bangladesh, 2017–2020*. Manila.