

**ASIAN DEVELOPMENT BANK**

**TAR: BAN 34039**

**TECHNICAL ASSISTANCE**

**TO THE**

**PEOPLE'S REPUBLIC OF BANGLADESH**

**FOR THE**

**CORPORATIZATION OF THE DHAKA ELECTRIC SUPPLY AUTHORITY**

**November 2002**

## CURRENCY EQUIVALENTS

(as of 4 November 2002)

Currency Unit	–	taka (Tk)
Tk1.00	=	\$0.0174
\$1.00	=	Tk57.60

## ABBREVIATIONS

ADB	–	Asian Development Bank
BPDB	–	Bangladesh Power Development Board
DESA	–	Dhaka Electric Supply Company
DESCO	–	Dhaka Electric Supply Company
kWh	–	kilowatt-hours – 1,000 watt-hours
MEMR	–	Ministry of Energy and Mineral Resources
MW	–	Megawatts – 1,000,000 watts
PSRB	–	Power Sector Reforms in Bangladesh
TA	–	technical assistance

## NOTES

- (i) The fiscal year (FY) of the Government and its agencies ends on 30 June. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2000 ends on 30 June 2000.
- (ii) In this report, "\$" refers to US dollars.

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## I. INTRODUCTION

1. In May 2001, the Government of Bangladesh requested the Asian Development Bank (ADB) for technical assistance (TA) to conduct studies and to facilitate the corporatization of the Dhaka Electric Supply Authority (DESA). The TA is included in the 2002 country assistance program. Fact-finding was carried out in August 2001 and, in a letter dated 11 December 2001, the Government confirmed the aide-memoire of the Fact-Finding Mission. The TA framework is given in Appendix 1.<sup>1</sup>

## II. ISSUES

2. In 1994, the Government, adopted a policy paper titled Power Sector Reforms in Bangladesh (PSRB) as the basis for restructuring its power sector. As per the PSRB, the long-term structure of the power sector will feature (i) a separation of sector regulation and operation; (ii) autonomy and commercial orientation of the sector entities; (iii) unbundling of generation, transmission, and distribution; and (iv) increased private sector participation. Under such a structure, a new regulatory authority is to be responsible for (i) setting electricity tariffs and determining the corresponding performance norms; (ii) collecting, verifying, and disseminating sector statistics; (iii) reviewing and approving long-term power planning; (iv) creating and maintaining a nondiscriminatory and commercial business environment in the sector; and (v) adjudicating disputes between sector entities. While the transmission segment is to remain in the public sector, generation and distribution assets will have both public and private ownership. The objective is to eliminate monopolies and instill competition, so as to have commercial discipline and good customer service. Over the last 8 years, the reform program has progressed slowly but steadily, forming a sound basis for more rapid changes in the sector. One of the goals of the reform is to corporatize (restructure as a company under the Companies' Act, 1994) distribution assets in the sector, thereby providing more autonomy and concomitant responsibility, which will lead to improved operations and savings in the cost of electricity supply.

3. Since 1991, the organizational setup of the distribution subsector has undergone a major change. Before 1991, all distribution was with the Bangladesh Power Development Board (BPDB) except for the rural areas serviced by the rural electric cooperatives. On account of the special need for reforming the distribution subsector in the Dhaka area which accounted for over 40% of all electricity supply in Bangladesh, in 1991 DESA was established as a separate organization to handle BPDB's operations in the Dhaka area. However, DESA has made little improvement over the last decade since its governance structures and rules of business were basically the same as those of BPDB. In 1997, DESA's distribution territory was rationalized to include only the core metropolitan areas of the city, and a subsidiary company, the Dhaka Electric Supply Company (DESCO),<sup>2</sup> was established to first take over DESA's operations in the Mirpur area and later on in the whole of Dhaka City. However, the Government subsequently decided that it would be better to have competition among the distribution entities by having at least two separate companies servicing the Dhaka area – DESCO covering the northern part of the city and corporatized successors to DESA servicing the south.<sup>3</sup> Given that the present

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<sup>1</sup> The TA first appeared in *ADB Business Opportunities* in July 2001.

<sup>2</sup> DESCO is a company incorporated under the Companies' Act, 1994 with an independent board of directors and professional management on contract appointment. In 4 years of operations, it has reduced its distribution losses from 43% to 26% in the Mirpur area.

<sup>3</sup> Even after this bifurcation, each entity would be servicing a peak load of about 500 megawatts (MW) out of a countrywide peak load of about 3,000 MW. In terms of energy, each entity would be importing 2,300 million

structure and internal procedures of DESA are not conducive to rapid absorption of new routines, staffing norms, and internal discipline, a new corporate entity is required. The Government has agreed to incorporate the new company prior to the fielding of the consultants for the TA.

### III. THE TECHNICAL ASSISTANCE

#### A. Purpose and Output

4. The TA will assist the Government and DESA to (i) corporatize DESA, (ii) introduce modern management information systems in the new company, and (iii) integrate the new company into the power network as a distinct power distributor. It will define the new company's relationship with other sector entities. Appendix 2 gives the outline terms of reference.

#### B. Methodology and Key Activities

5. By the time the consultants are fielded, it is expected that Government approval for incorporating the new company will have been received, and necessary documents such as the memorandum and articles of association filed with the Registrar of Joint Stock Companies of Bangladesh. The company's new board of directors will also have been constituted, and the process for selecting the new management initiated. Thus the consultants will be working with the new management right from inception of the work. The key activities will be to devise appropriate strategies for (i) evaluating assets, (ii) establishing a viable financing plan, (iii) formulating personnel policies, (iv) organizing for the transfer of assets and staff to the new company, (v) organizing the voluntary separation scheme for eligible staff of DESA, (vi) examining and organizing for sale DESA's shareholding in DESCO, and (vii) implementing financial and management information systems.

6. There are no major risks at the start of this TA since the handing over of the northern areas of DESA to DESCO has already been scheduled.<sup>4</sup> Risks to the completion of the TA include noncooperation of DESA staff with the consultants, but this risk is small – several companies have now been established in the power sector as part of the reform process and there has been no major incident.

#### C. Cost and Financing

7. The total cost of the TA is estimated at \$1,100,000 equivalent, comprising \$730,000 in foreign exchange costs and \$370,000 equivalent in local currency costs. The full foreign exchange costs of \$730,000 and \$120,000 of the local currency costs for a total of \$850,000 will be financed on a grant basis by the ADB's TA funding program. The Government and DESA will provide the remaining \$250,000 in kind, to cover costs of office accommodation, transport, salaries of counterpart staff, administrative support, and contingencies. Detailed cost estimates are presented in Appendix 3.

#### D. Implementation Arrangements

8. The Ministry of Energy and Mineral Resources (MEMR) of the Government and DESA will be the Executing Agencies for the TA. For smooth implementation of the study and transfer

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kilowatt-hours (kWh) out of a national total of about 9,700 million kWh, which makes the two entities the largest electricity distributors in the country.

<sup>4</sup> This transfer is scheduled in December 2002 and is a condition for selecting consultants for this TA.

of knowledge, a task force with suitably qualified and experienced staff and facilities will be set up before the consultants are fielded. MEMR and DESA will provide, free of charge to the consultants team, (i) office accommodation and facilities,<sup>5</sup> and (ii) transport within Bangladesh. MEMR and DESA will assist the consultants in data gathering, preliminary analysis, and report writing. The entire work, including report writing, will be done in Bangladesh to maximize transfer of knowledge to DESA managers, engineers, accountants, and other staff. The consulting firm will make its own arrangements for personal computers and other facilities for producing of its reports.

9. The TA will require about 22 person-months of input of an international consulting firm with expertise in financial and management information systems, legal drafting of power purchase agreements, and cost accounting. The international consultant will be supported by domestic consultants (30 person-months) in asset valuation, computerization of information systems, consulting and human resources management (especially beneficiary consultations). The international consulting firm will be selected in accordance with simplified technical proposals following ADB's *Guidelines on the Use of Consultants* and other arrangements satisfactory to ADB for engaging domestic consultants. The consultant will be responsible to ADB for the total scope of the work. ADB's quality and cost based selection system will be applied in selecting the firm.

10. Consulting services are expected to begin in January 2003 and be completed within 14 months. The consultant will submit inception, midterm, draft final, and final reports 1, 6, 10, and 12 months, respectively, after its appointment. The first tripartite meeting of MEMR, DESA, the consultant, and ADB will review the inception report to give the direction of the study. The second tripartite meeting after the submission of the midterm report will establish the parameters for corporatizing DESA. After submission of the draft final report, the final tripartite meeting will confirm the results of the TA and establish follow-up actions by the Government and DESA. The consultant will also organize (i) a workshop after the second tripartite meeting to brief stakeholders – concerned ministries of the Government, chambers of commerce and industry, staff associations, and financiers – and to receive their feedback on the corporatization program; and (ii) a seminar at the conclusion of the TA to brief stakeholders on the outcome of the studies. In addition, numerous consultations with employees, Government, management of DESA, customers of DESA, bankers, and investors will be held to formulate and implement specific actions required for the corporatization process.

#### **IV. THE PRESIDENT'S DECISION**

11. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$850,000 on a grant basis to the Government of Bangladesh for the Corporatization of the Dhaka Electric Supply Authority, and hereby reports this action to the Board.

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<sup>5</sup> Some of the facilities, such as the computer hardware and software for implementing the management information systems, will be purchased under ADB's Loan 1730-BAN(SF): *Dhaka Power System Upgrade Project*, approved on 21 December 1999 for SDR54.319 million.

## TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Project Targets	Project Monitoring Mechanisms	Risk/Assumptions
<p><b>Goal</b></p> <p>Increase efficiency of the state power system, particularly distribution companies in Dhaka</p>	<p>Improve the quality of service of power utilities in Dhaka</p> <p>Expand service to cover more of the population</p> <p>Eliminate financial losses in electric distribution</p>	<p>Operation and performance reports of utilities</p> <p>Commercial operations data of utilities</p> <p>Financial statements of utilities</p>	<p>Establishment of an effective regulatory agency</p> <p>Government's willingness to introduce reforms</p> <p>Political interference</p>
<p><b>Purpose</b></p> <p>Corporatize Dhaka Electric Supply Authority (DESA)</p> <p>Commercialize its operations and introduce modern management</p> <p>Establish financial sustainability of operations</p>	<p>Draft legal company documents, appoint independent board of directors, recruit professional managers</p> <p>Execute commercial agreements with energy suppliers</p> <p>Reduce distribution losses to 20% of import by FY2004</p>	<p>Articles of association, appointment papers</p> <p>Power purchase agreements</p> <p>Operations data</p>	<p>Political will</p> <p>Recruitment of competent managers, rationalization of tariff</p>

Design Summary	Project Targets	Project Monitoring Mechanisms	Risk/Assumptions
<p>Establish competition with Dhaka Electric Supply Company (DESCO)</p> <p><b>Components/Outputs</b></p> <p>New corporation established</p> <p>Computerized financial and management information systems established</p> <p>Financial restructuring proposed</p> <p>Strategy for divesting DESA's shares in DESCO formulated</p> <p>Financial action plans for DESCO and new company prepared</p>	Computerize billing and collection	Computerized bills	<p>Availability of trained personnel</p> <p>Enforcement by courts</p> <p>Political will</p>
	Establish financial controls and international accounting standards	Financial statements	
	Have greater labor discipline	Commercial work contracts	
	Establish appropriate financing structure	Operation reports	
	Divest DESA's shares in DESCO	Sale deed	
	Benchmark efficiency parameters	Regulatory decision	
	Incorporation documents		
	Systems manuals and usage		
	Consultant's report		
	Consultant's report		
Consultant's report			

Design Summary	Project Targets	Project Monitoring Mechanisms	Risk/Assumptions
Personnel policies drafted	Consultant's report		
<b>Inputs</b>  22 person-months of international consulting services  30 person-months of domestic consulting services  Inputs from the Ministry of Energy, DESA, DESCO and ADB staff			

## OUTLINE TERMS OF REFERENCE

### A. Scope of Work

1. The work is divided into two parts. The first part involves devising the overall strategy for corporatizing Dhaka Electric Supply Authority (DESA): details of legal transfer of assets and personnel, as well as proposals for financial restructuring including evaluation of options for divestment of DESA's shares in Dhaka Electric Supply Company (DESCO); drafting of commercial agreements between DESA and other power sector entities; drafting of personnel policies; and preparation of a financial and commercial action plan. The second part involves actual implementation of the financial and management systems, and support to the new company to assimilate the new management systems and procedures.

2. In part 1, the consultants will work out the details for corporatizing DESA, and commercializing and improving its operations:

- (i) Design a project strategy, devise activities and time schedule, and plan the participation of agencies involved in implementing corporatization.
- (ii) Identify legal steps to be taken to transfer assets and personnel from DESA to the new company and wind up DESA, draft the necessary legal documents.
- (iii) Define the financial status of the company; identify assets and liabilities, existing contracts and obligations, and investment needs; and prepare a financial restructuring plan and starting financial statements.
- (iv) Review and design an effective organizational and management structure for DESA and institutionalize organizational and hierarchical autonomy.
- (v) Establish performance criteria, and develop a business plan on how to improve performance in core areas.
- (vi) Identify transactions between DESA and other entities in the power sector after corporatization to formalize them, and prepare legal documents.
- (vii) Develop management systems for the new corporatized company, such as (a) computerized daily and monthly reporting formats for the management information system, (b) personnel development plan, and (c) employee social impact evaluation.
- (viii) Prepare a strategy paper for divestment of DESCO's shares held by DESA.
- (ix) Prepare financial action plans for DESA and DESCO for the next 5 years.
- (x) Prepare the first tariff proposals of the new company and DESCO for filing with the regulator.

3. In part 2, consultants will help implement all the management systems, financial accounting systems, and personnel management systems devised in part 1.

## **B. Implementation Arrangements**

4. The work will start in January 2003 and be completed by February 2004. The consultants will submit these reports:

- (i) an inception report, within 1 month of the start of the TA, which will outline the detailed work program for corporatizing DESA;
- (ii) monthly progress reports;
- (iii) report on the DESCO divestment options, within 3 months after the start of the TA, which will consider how to divest DESA's shares in DESCO, the desirability and feasibility of the options, and a strategy for achieving divestment by the potentially most successful method;
- (iv) a draft final report, within 12 months after the start of the TA, with consultants' findings and recommendations. In addition, a summary of the draft final report in electronic format and suitable for web site posting will be provided; and
- (v) a final report, which will analyze the success of the project and incorporate comments and revisions submitted by the Executing Agency and the Asian Development Bank. This will be a formal report produced both in hard copy and in electronic version.
- (vi) A presentation summarizing the salient features of the work done under the TA, as a form of case study.

**COST ESTIMATES AND FINANCING PLAN**  
(\$'000)

Item	Foreign Exchange	Local Currency	Total Cost
<b>A. Asian Development Bank Financing<sup>a</sup></b>			
1. Consultants			
a. Remuneration and Per Diem			
i. International Consultants	600.0	0.0	600.0
ii. Domestic Consultants	0.0	120.0	120.0
b. International and Local Travel	25.0	0.0	25.0
c. Reports and Communications	10.0	0.0	10.0
2. Training, Seminars, and Conferences			
a. Facilitators	5.0	0.0	5.0
b. Training Program	10.0	0.0	10.0
3. Representative for Contract Negotiations	3.0	0.0	3.0
4. Contingencies	77.0	0.0	77.0
<b>Subtotal (A)</b>	<b>730.0</b>	<b>120.0</b>	<b>850.0</b>
<b>B. Government Financing</b>			
1. Office Accommodation and Transport	0.0	50.0	50.0
2. Remuneration and Per Diem of Counterpart Staff	0.0	150.0	150.0
3. Others	0.0	50.0	50.0
<b>Subtotal (B)</b>	<b>0.0</b>	<b>250.0</b>	<b>250.0</b>
<b>Total</b>	<b>730.0</b>	<b>370.0</b>	<b>1100.0</b>

<sup>a</sup> Financed by ADB's TA funding program.  
Source: Asian Development Bank estimates.