

# TECHNICAL ASSISTANCE COMPLETION REPORT<sup>1</sup>

Division : SAEN

TA No./ Country and Name		Amount Approved: \$850,000		
TA 3978-BAN : Corporatization of the Dhaka Electric Supply Authority		Revised Amount: N.A.		
Executing Agency: Ministry of Energy & Mineral Resources, and Dhaka Electric Supply Authority (DESA)		Source of Funding:  TASF	Amount Undisbursed: \$241,954.37	Amount Utilized: \$608,045.63
TA Approval Date:	TA Signing Date:	Fielding of First Consultant(s):	TA Completion Date Original: 28 Feb 2004	Actual: 30 Sep 2008
07 Nov 2002	23 Aug 2004	15 May 2005	Account Closing Date Original: 28 Feb 2004	Actual: 27 Feb 2009
<p><b>Description:</b></p> <p>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.</p> <p>The main objectives of the TA were to 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. This was expected to define the new company's relationship with other sector entities.</p>				
<p><b>Expected Impact, Outcome and Outputs:</b></p> <p>It was expected that by the time the consultants are fielded, Government approval for incorporating the new company would have been received, and necessary documents such as the memorandum and articles of association would have been filed with the Registrar of Joint Stock Companies of Bangladesh. It was also expected that the company's new board of directors would have been constituted, and the process for selecting the new management initiated. Consultants would be working with the new management right from inception of the work.</p> <p>The TA was divided into two parts. The first part was to devise the overall strategy for corporatizing DESA; part 2 was for the consultants to help implement management systems, financial accounting systems, and personnel management systems devised in part 1.</p> <p>It was estimated that the TA would 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. Support from domestic consultants would be about 30 person-months in the area of asset valuation, computerization of information systems, consulting and human resources management (especially beneficiary consultations).</p>				
<p><b>Delivery of Inputs and Conduct of Activities:</b></p> <p>The TA was approved on 22 November 2002; however, the Government signed the TA agreement only on 23 August 2004 because of the delay in the approval of Technical Assistance Project Proforma (TAPP). Hence, contract with an international consulting firm was only finalized and signed on 21 April 2005. Consultant's work commenced on 15 May 2005 and was completed in 30 September 2008.</p> <p>The consulting firm provided a total of 21.86 person months of international and 26.85 person-months of domestic services for a total contract amount of \$608,045.63. While the actual input of person months and costs were very</p>				

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close to the original projection, the completion period of the TA was extended 3 times.

DESA was registered as a company on 25 October 2005 and in September 2007, a new DESA management had been appointed.

The design of the Project was adequate, the terms of reference were appropriate and the Project was completed within the original budget. The consultants carried out their activities satisfactorily and produced high quality reports. Overall, the performance of the consultants is rated satisfactory.

ADB had fielded several review missions to supervise the TA progress and implementation with the participation of consultants and executing agency.

#### **Evaluation of Outputs and Achievement of Outcome:**

The draft inception report was submitted on time; however, it was not finalized as scheduled due to DESA staff's concerted opposition and DESA management's neutral stance to corporatization.

Corporatization of DESA was fulfilled when Dhaka Power Distribution Company Limited (DPDC) was registered as a company on 25 October 2005. However, appointment of directors with delegated powers took almost two years, partly due to some internal problems, political unrest and travel restrictions in Bangladesh. For the same reason, consultants' services were also suspended in October 2005. It was only in May 2007 that the appointment of managing director, director (technical), director (finance) and company secretary was finalized. It was also at this stage that the consultants were requested to resume services. The Project was restarted in August 2007, by which time the company's new Chairman and Executive Directors had been appointed. A clearer set of requirements was presented by the Power Secretary, and the consultant's Terms of Reference were accordingly modified. In November 2007, a report setting out a migration plan, with particular focus on HR issues, was submitted by the consultant. On 3 April 2008, the consultant submitted the Draft Final Report which was deemed finalized on 18 July 2008. DPDC finally took over the operations of DESA in July 2008 as a distinct power distributor.

Through the detailed study that its experts conducted, the consulting firm:

- developed a financial model of DESA/DPDC's activities;
- developed a range of detailed recommendations on good governance;
- identified the principal activities where customer service could be improved; and
- identified the processes which the management information system should provide, drafted the FMIS statement requirements for a two-stage bidding procurement process, and provided an indicative budget and ICT project timeline.

The consultant likewise made detailed recommendations that would guide DESA/DPDC in:

- monitoring and achieving its financial plans;
- meeting its target staffing needs and performance, adopt market practice with regard to staff pay and benefits, and ensure improved governance and smooth migration from the old to the new organizational structure;
- improving its customer service; and
- ensuring the smooth implementation of the management information system project.

The Government and DESA/DPDC accepted the TA's findings and recommendations, and are in the process of implementing them.

#### **Overall Assessment and Rating**

Despite the significant delay, the scope, cost estimates and financing plan, implementation arrangements, and terms of reference are considered. Implementation of the TA in two stages is considered appropriate in achieving the TA objectives. Although the TA has fully met its objectives, it is rated partly successful due to the significant delay.

#### **Major Lessons**

Migration from the old DESA to DPDC could have been achieved by 31 December 2007 as originally planned. However, the initial concerted opposition by DESA staff and the neutral stance of DESA management, the political unrest, and travel restrictions to Bangladesh in 2006 all contributed to the delay in project implementation by 60 months. It would be useful if in future TAs involving complicated and sensitive sector reforms, management and staff are made fully aware at an early stage of the rationale behind the corporatization process to ensure timely completion and success of any project. These types of politically sensitive projects must include a specific risk assessment in the preparation stage and address any issues in the project design.

#### **Recommendations and Follow-Up Actions**

Closely monitoring on the part of ADB and the Government should ensure that DPDC continuously improve the financial and operational viability. A comprehensive review of the DPDC's performance about three years after completion is deemed necessary.