

# Project Administration Manual

Project Number: 45273  
Loan Number(s): {LXXXX}  
February 2012

People's Republic of Bangladesh: Financing Brick  
Kiln Efficiency Improvement Project

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### **Project Administration Manual Purpose and Process**

The project administration manual (PAM) describes the essential administrative and management requirements to implement the project on time, within budget, and in accordance with Government and Asian Development Bank (ADB) policies and procedures. The PAM should include references to all available templates and instructions either through linkages to relevant URLs or directly incorporated in the PAM.

Ministry of Finance and Bangladesh Bank are wholly responsible for the implementation of ADB financed projects, as agreed jointly between the borrower and ADB, and in accordance with Government and ADB's policies and procedures. ADB staff is responsible to support implementation including compliance by the Ministry of Finance and Bangladesh Bank of their obligations and responsibilities for project implementation in accordance with ADB's policies and procedures.

At Loan Negotiations the borrower and ADB shall agree to the PAM and ensure consistency with the Loan agreement. Such agreement shall be reflected in the minutes of the Loan Negotiations. In the event of any discrepancy or contradiction between the PAM and the Loan Agreement, the provisions of the Loan Agreement shall prevail.

After ADB Board approval of the project's report and recommendations of the President (RRP) changes in implementation arrangements are subject to agreement and approval pursuant to relevant Government and ADB administrative procedures (including the Project Administration Instructions) and upon such approval they will be subsequently incorporated in the PAM.

## Abbreviations

ACFID	–	Agricultural Credit and Financial Inclusion Department
ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
BFID	–	bank and financial institutions division
CEFPF	–	clean energy financing partnership facility
CO <sub>2</sub>	–	carbon dioxide
DOE	–	Department of Environment
DPP	–	development project proposal
EA	–	executing agency
FCK	–	fixed chimney kiln
GHG	–	greenhouse gas
GIZ	–	German Agency for International Cooperation
HHK	–	hybrid Hoffman kiln
IA	–	implementing agency
MOEF	–	Ministry of Environment and Forests
MOF	–	Ministry of Finance
OCR	–	ordinary capital resources
PAM	–	project administration manual
PFI	–	participating financial intermediary
PMU	–	project management unit
RRP	–	report and recommendations of the President
SOE	–	statement of expenditure
TA	–	technical assistance
TPP	–	technical project proposal
UNDP	–	United Nations Development Programme
VSBK	–	vertical shaft brick kiln

## **I. PROJECT DESCRIPTION**

1. The brick manufacturing process is energy intensive and is a major source of greenhouse gas emissions and fine particulate pollution in Bangladesh. The proposed project intends to establish a credit facility of \$50 million equivalent in local currency at Bangladesh Bank (central bank) for relending to participating financial intermediaries (PFIs) for the purpose of constructing more energy-efficient and environmentally superior brick kilns. The credit facility has two components: (i) to upgrade existing polluting brick kilns to a transitional design to preserve sector welfare while immediately reducing pollution, and (ii) to promote the most advanced brick kiln pilots to demonstrate their operational and commercial viabilities in Bangladesh. The combined efforts will help build more energy-efficient brick manufacturing capacities in Bangladesh to transform the sector to a modern and efficient industry.

2. The project impact is improved environmental conditions in Bangladesh. The project outcome is replacement of polluting FCKs with more energy-efficient kilns in Bangladesh's brick sector. The outputs are (i) a designated credit facility, by catalyzing domestic resources, to finance upgrade to and construction of more energy-efficient brick kilns; and (ii) mitigated adverse working and social welfare conditions in ADB-funded brick kilns.

## II. IMPLEMENTATION PLANS

### A. Project Readiness Activities

Indicative Activities	Months (April 2012 being Month 1)						Who responsible
	1	2	3	4	5	6	
Establish project implementation arrangements	X						MOF, ACFID, MOEF, DOE
Identification of Initial PFIs	X						ACFID
Drafting and signing of participating agreement		X					ACFID
Preparation of lending terms to PFIs		X					ACFID
ADB Board approval		X					ADB
Loan signing			X				ADB and MOF
Government legal opinion provided			X				MOF, ACFID, MOEF, DOE
Loan effectiveness					X		ADB and MOF

ACFID = Agricultural Credit and Financial Inclusion Department (Bangladesh Bank), ADB = Asian Development Bank, DOE = Department of Environment, MOEF = Ministry of Environment and Forests, MOF = Ministry of Finance, PFI = participating financial intermediaries.

Source: Asian Development Bank

3. Bangladesh Bank Agricultural Credit and Financial Inclusion Department (ACFID) will ensure that a project readiness filter is in place. This includes (i) ADB's utilization of capacity development TA7826-BAN: Support for Climate Change Mitigation and Renewable Energy Development (prior to the proposed capacity development TA approval) to conduct workshops to drive the demand; (ii) Bangladesh Bank's pre-selection of a number of PFIs in accordance with the eligibility criteria in this PAM, including commercial banks of Agrani Bank, Janata Bank, Rupali Bank, and Sonali Bank and nonbank financial institutions of Infrastructure Development Company Limited; (iii) Bangladesh Bank's preparation of the participation agreement draft to be shared with ADB to include the required environmental, social, labor, and gender safeguard measures satisfactory to ADB; (iv) Bangladesh Bank's ongoing dialogues with prospective PFIs to prepare for the immediate signing of the participating agreement; (v) Ministry of Finance's preparation to establish a project steering committee; and (vi) Bangladesh Bank's preparation for the detailed relending terms from Bangladesh Bank to PFIs.

4. ADB is concurrently processing a separate, capacity building technical assistance (TA) grant to support the loan implementation. The capacity development TA is expected to be approved in the third quarter of 2012.<sup>1</sup> Prior to the approval of the proposed capacity development TA, additional funds will be provided by capacity development TA7826-BAN: Support for Climate Change Mitigation and Renewable Energy Development.

<sup>1</sup> ADB's capacity development TA will undergo government's development project proposal (DPP) process, which could take an average of 6 months to obtain the government approval. Therefore, the capacity development TA will only be approved by the ADB Board in the second half of 2012.

## B. Overall Project Implementation Plan

Year	2012				2013				2014				2015			
Quarter	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
<b>A. ADB Internal Processing Schedule</b>																
MRM																
Loan Negotiation																
Expected Loan Approval																
<b>B. Separate TA Processing</b>																
Government TPP process																
Confirmation of TA funding source																
Negotiation with donor partners on the brick center concept																
TA processing																
Availability of TA funds																
Establishment of brick center with WB, UNDP, and GIZ																
Operationalization of the brick center to support the loan																
<b>C. Loan DMF</b>																
Output 1 Upgradation of 500 FCKs to improved zigzag kilns			Continuous													
Output 2 Financing of 40 VSBKs and 10 HHKs and tunnel kilns			Continuous													
Activity 1: ADB lends the fund to the Government																
Activity 2: Bangladesh Bank establish the credit facility																
Activity 3: MOEF establishes the steering committee																
Activity 4: ACD establishes the PMU																
Activity 5: ACD manages disbursement of fund			Continuous													
Activity 6: PFIs maintains quarterly monitoring and review			Continuous													
Activity 7: ACD maintain quarterly monitoring and review			Continuous													
Activity 8: Gender action plan activities			Continuous													
Activity 9: DOE provides technical backstopping																
<b>D. Management Activities (Supported by the TA)</b>																
Procurement of equipment purchases and other logistics			Continuous													
Consultant selection procedures			Continuous													
Environment management plan key activities			Continuous													
Gender action plan key activities			Continuous													
Project completion report																

ACFID = Agricultural Credit and Financial Inclusion Department (Bangladesh Bank), ADB = Asian Development Bank, DOE = Department of Environment, FCK = fixed chimney kiln, GIZ = German agency for International Cooperation, HHK = hybrid Hoffman kiln, MOEF = Ministry of Environment and Forests, MRM = management review meeting, PFI = participating financial intermediary, PMU = project management unit, TA = technical assistance, TPP = technical project proposal, UNDP = United Nations Development Programme, VSBK = vertical shaft brick kiln, WB = The World Bank.

### III. PROJECT MANAGEMENT ARRANGEMENTS

#### A. Project Implementation Organizations – Roles and Responsibilities

Project implementation organizations	Management Roles and Responsibilities
<ul style="list-style-type: none"> <li>➤ Ministry of Finance, Bank and Financial Institutions Division – <b>Executing Agency (EA)</b></li> </ul>	<ul style="list-style-type: none"> <li>➤ Provide overall guidance on the project implementation in accordance with the loan and project agreements and the administration agreement.<sup>2</sup></li> <li>➤ Manage the overall project administration and coordination (including among implementing agency, ADB, project steering committee members, development partners, and other relevant stakeholders).</li> <li>➤ Conduct reviews on the project implementation, including the achievement of designed project environmental objectives and safeguard compliances.</li> <li>➤ Responsible for overall project performance review, monitoring, reporting, and audits.</li> <li>➤ Manage treasury functions of the ADB US dollar funds in local currency, including the management of foreign exchange exposure and maturity gap risk.<sup>3</sup></li> <li>➤ Make proposals to ADB after a joint review whether the ordinary capital resources (OCR) component that supports FCK's upgrade to improved zigzag kiln must be redirected towards support for construction of more advanced brick kilns.</li> <li>➤ Submit the performance review reports to ADB.</li> </ul>
<ul style="list-style-type: none"> <li>➤ Bangladesh Bank; Bank and Financial Institutions Division (BFID), and Economic Relations Division(ERD) of Ministry of Finance (MOF); Department of Environment (DOE); Ministry of Environment and Forests (MOEF); Ministry of Industries; and other relevant agencies, chaired by the secretary of</li> </ul>	<ul style="list-style-type: none"> <li>➤ Guide overall ADB project implementation in accordance with the stated developmental objectives.</li> <li>➤ Support the relevant policy and regulatory reform process with concerned ministries (e.g. Ministry of Environment and Forests and Department of Environment).<sup>4</sup></li> <li>➤ Take corrective action to guide BFID and Bangladesh (and DOE) on project implementation, including recommending to Bangladesh Bank to disqualify if any PFI does not comply with ADB loan and project agreements and other implementation guidelines, environment and social safeguards, gender mainstreaming requirements, and core labor</li> </ul>

<sup>2</sup> Including monitoring that an equivalent of \$30 million OCR in local currency is used for upgrading FCKs to improved zigzag kilns and an equivalent of \$20 million ADF in local currency is used for constructing VSBK, HHK, and tunnel kilns.

<sup>3</sup> Any change in Bangladesh Bank's funding cost that will negatively affect PFIs and sub-borrowers on their investment in advanced brick kilns shall be communicated to ADB at the earliest possible time and is subject to ADB for review and approval.

<sup>4</sup> This component is supported by the separately process capacity building technical assistance (TA).



**BFID – Project Steering Committee**

- standards.
- Review whether the OCR component that supports FCK's upgrade to improved zigzag kiln must at any time be redirected towards support for construction of more advanced brick kilns, based on a change in market condition.
- Guide the relendings terms (to PFIs) according to the market condition to meet the brick sector modernization and development objectives, including the modification of interest spread and other financing terms to PFIs to incentivize their access of the credit facility, without causes to market distortion.

**Department of Environment<sup>5</sup>**

- Measure the reduction in numbers of the FCKs in the country and the increased numbers in improved zigzag kiln, VSBK, HHK, and tunnel kiln.
- Review the standard design specifications for improved zigzag kilns,<sup>6</sup> and help formulate the standard designs for VSBK, HHK, and tunnel kiln.<sup>7</sup>
- Review and approve PFIs' submission of funding requests to Bangladesh Bank on the compliance with brick kilns' technical standards.
- Conduct periodic (at least annually) environmental testing on the air quality surrounding the project sites and on a national basis, per loan agreement, to verify project performance. The tests include but not limited to carbon dioxide (CO<sub>2</sub>) emission level, suspended particulate matter level.

➤ **Bangladesh Bank Agricultural credit and financial inclusion department (ACFID) – Implementing Agency (IA) and Project Management Unit (PMU)**

- Bangladesh Bank manages an equivalent local currency fund of \$50 million to the PFIs in Bangladesh for financing more energy-efficient brick kilns of (i) upgrade cost from fixed chimney kiln (FCK) to improved zigzag kiln<sup>8</sup> and (ii) construction of more advanced vertical shaft brick kiln (VSBK), hybrid Hoffman kiln (HHK), and tunnel kiln. The total financing cost includes land rental up to 3 years, materials, equipment, civil construction, installation, and initial working capital not covered by the commercial banks.
- Enter into an administration agreement with Bank and

<sup>5</sup> Department of Environment (DOE), a member of the steering committee, will undertake additional role to provide technical backstopping to Bangladesh Bank, including the certification of standard brick kiln designs and environment monitoring. DOE will be supported by a separately processed capacity building technical assistance (TA).

<sup>6</sup> The work for confirmation and standardization of improved zigzag kiln is being undertaken by the World Bank. The work is expected to be completed within 2012.

<sup>7</sup> The proposed ADB capacity development TA will provide an assessment on the need to provide the standard designs for VSBK, HHK, and tunnel kiln. To support the proposed project implementation, and before the standard design of VSBK, HHK, and tunnel kiln can be finalized, the approval of design standards will be conducted by DOE on a case-by-case basis, supported by the capacity development TA consultant.

<sup>8</sup> Improved zigzag kiln design standard will be developed by the World Bank within 2012. Prior to the availability and the adoption of improved zigzag kiln design standard, upgrade will be determined on a case-by-case basis.

Financial Institutions Division (BFID), Ministry of Finance (MOF) on the borrowing of the ADB fund.

- Establish relevant accounts including the project imprest accounts and maintain close monitoring of the account activities. Propose PFIs based on the eligibility criteria set out in the legal agreements relating to (i) financial standing, (ii) willingness and capacity to undertake the qualified lending to support Bangladesh's brick sector development, (iii) relevant lending volume and experience in energy efficiency projects, (iv) willingness and capacity to comply with and enforce the required ADB environment and social safeguards, gender mainstreaming requirements, and core labor standards at subproject level, and (v) a qualified project pipeline.
- Propose appropriate relending terms to PFI by drawing lessons learned from its management of a similar hybrid Hoffman kiln credit facility to maximize the brick sector development effectiveness.<sup>9</sup> This includes the provisions of (i) an attractive interest spread (e.g. > the current 4% market spread) to PFIs to access the credit facility and (ii) a flexible lending cap.
- Sign participation agreements with all qualified PFIs.
- Avail the ADB fund on a first-come, first-serve basis.
- Ensure that PFIs use the fund for the intended purposes in brick development.
- Ensure no single sub-borrower avail more than 1 loan from all PFIs.
- Ensure that refinance and retroactive finance are not permitted.
- Manage the single project borrowing limit at \$10 million (for which ADB fund could finance up to \$5 million) and comply with ADB single project free limit of \$2 million (total project cost at \$4 million).
- Monitor PFIs' compliance with the applicable national laws and regulations and ADB loan and project agreements, including environment and social safeguards, gender mainstreaming requirements, core labor standards, and ADB prohibited investment activities, at Bangladesh Bank and at PFI levels.
- Suspend any further disbursement and undertake other appropriate measures if PFIs do not comply with the participation agreements (between Bangladesh Bank and PFIs) and ADB loan and project agreements and other relevant guidelines.
- Conduct regular audits on the project accounts.
- Prepare the submit quarterly reports on the fund

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<sup>9</sup> ACFID has the experience of managing an existing Tk. 30 crore (\$4 million) Bangladesh Bank hybrid Hoffman kiln (HHK) credit facility (see sector assessment for details). The onlending rate should be based on market conditions and not to distort the brick sector development.

utilization to ADB, including detailed subloan information: type of technology funded, borrowers, subloan amount, interest rate, tenor, repayment terms, amortization schedule, intended purposes, subsequent audit and compliance (on the loan covenants) reports, subsequent delinquency, arrears, late payment, and default, and the overall portfolio performance.

- ADB
- Provide the funds to Ministry of Finance (BFID), which will sign an administration agreement with Bangladesh Bank to provide the US dollar funds under the same terms and condition to the Bangladesh Bank: \$30 million from the ADB's OCR and \$20 million from ADB Asian Development Fund.

## B. Key Persons Involved in Implementation

### Executing Agency

Ministry of Finance, Bank and  
Finance Institutions Division

Officer's Name: Arijit Chowdhury  
Position: Joint Secretary  
Telephone: +880 8 716 8305  
Email address: arijitc@finance.gov.bd  
Office Address: Bangladesh Secretariat  
Dhaka-1000, Bangladesh

### Implementing Agencies

Bangladesh Bank

Officer's Name: S. M. Moniruzzaman  
Position: Executive Director  
Telephone: +88 02 7120340  
Email address: sm.moniruzzaman@bb.org.bd  
Office Address: Motijheel C/A  
Dhaka 1000, Bangladesh

Bangladesh Bank  
(Agricultural Credit and Financial  
Inclusion Department)

Officer's Name: Nirmal Chandra Bhakta  
Position: General Manager  
Telephone: +88 02 712 0947  
Email address: nirmal.bhakta@bb.org.bd  
Office Address: Motijheel C/A  
Dhaka 1000, Bangladesh

### ADB

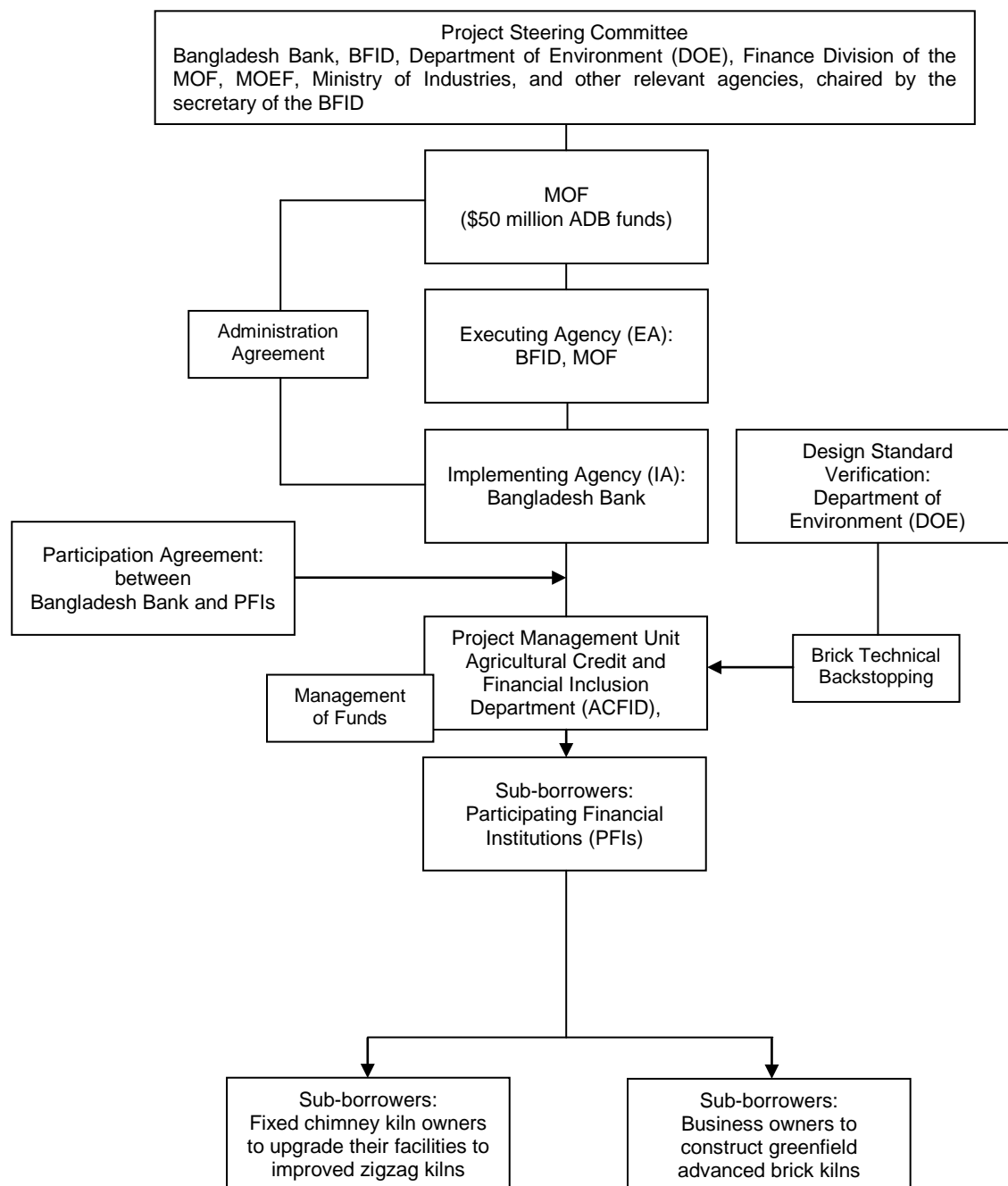
Public Management, Financial  
Sector and Trade Division  
(SAPF)

Staff Name: Bruno Carrasco  
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Mission Leader

Staff Name: Anqian Huang  
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### C. Project Organization Structure



5. BFID, acting through MOF, will be the executing agency. Bangladesh Bank will be the implementing agency. BFID will establish a project steering committee, consisting of senior officials from Bangladesh Bank, BFID, DOE, Finance Division of the MOF, MOEF, Ministry of Industries, and other relevant agencies, chaired by the secretary of the BFID. The credit facility will be administered by Bangladesh Bank's ACFID, where the project management unit will be established because of its experience in managing the \$4 million equivalent HHK credit

facility.<sup>10</sup> DOE will be a part of the project implementation arrangement to provide relevant (brick and environment) technical support, including verifying brick kiln technical design and monitoring environmental benefits (e.g., CO<sub>2</sub> emission reduction), to Bangladesh Bank. The implementation arrangements are summarized in Table 3 and are described in the project administration manual (PAM).<sup>11</sup>

6. Bangladesh Bank will sign an administration agreement with BFID for access to the ADB funds at the original ADF and OCR loan terms. Bangladesh Bank will be responsible for the repayments of the ADB loans. BFID will be responsible for managing the associated foreign exchange risk and maturity risk. Bangladesh Bank will establish two imprest accounts for the ADF and OCR funds and subsequently two local currency accounts, corresponding to the ADF and OCR imprest accounts, for relending to PFIs.

7. Bangladesh Bank's relending terms to PFIs (i) include interest rates that reflect Bangladesh Bank's cost of funds and the prevailing market conditions, and a repayment period of 5 years, inclusive of a grace period of at least 6 months; and (ii) permit early repayment without penalty. Selection of PFIs and disbursement to PFIs and sub-borrowers will be guided by Bangladesh Bank's internal procedures and ADB's eligibility criteria and disbursement guidelines.<sup>12</sup> PFIs' onlending terms to sub-borrowers will be determined by the same market conditions to ensure sub-borrowers' demand for funds without discouraging domestic resource mobilization or causing market distortions.

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<sup>10</sup> Performance of the \$4 million HHK credit facility is discussed in the Sector Assessment (Summary): Brick (accessible from No. 3 of the linked documents in Appendix 2). The lessons learned are factored into the design of the project.

<sup>11</sup> Project Administration Manual (accessible from No. 4 of the Linked Documents in Appendix 2).

<sup>12</sup> Initially proposed PFIs include commercial banks of Agrani Bank, Janata Bank, Rupali Bank, Sonali Bank, and nonbank financial institutions of Infrastructure Development Company Limited.

#### IV. COSTS AND FINANCING

8. The total financing plan is \$100 million (Table 2). The government has requested a loan of \$30 million from ADB's OCR and a loan of \$20 million from ADB's Special Funds resources to help finance the project. The OCR loan will have a 25-year term, including a grace period of 5 years, an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility, a commitment charge of 0.15%, and such other terms and conditions set forth in the draft loan agreement. The Asian Development Fund (ADF) loan has a fixed 32-year maturity including a grace period of 8 years, a 1.0% interest charge during the grace period and 1.5% during the amortization period, and equal amortization.

**Table 1: Financing Plan**

<b>Source</b>	<b>Amount (\$ million)</b>	<b>Share of Total (%)</b>
ADB ordinary capital resources	30.00	30
ADB Asian Development Fund	20.00	20
Sub-borrowers (equity)	30.00	30
Participating financial intermediaries	20.00	20
<b>Total</b>	<b>100.00</b>	<b>100</b>

ADB = Asian Development Bank.

Source: Asian Development Bank estimates.

9. ADB will finance up to 50% of the total subproject cost. The sub-borrowers will contribute at least 30% of the total subproject cost in the form of equity. PFIs will contribute the remaining (at least) 20% of the total subproject cost from other funds at their disposal. The credit facility will comprise two revolving funds, administered by Bangladesh Bank's Agricultural Credit and Financial Inclusion Department (ACFID), for up to 25 years and 32 years, matching the maturities (and amounts) of the respective ADB OCR and Special Funds sources (also see footnote 10). Bangladesh Bank's relending terms to PFIs will be designed flexibly to adjust to the changing market conditions and meet PFIs' demand for funds.

10. Bangladesh Bank's relending term to PFIs is 5 years' tenor, at least 6 months' grace period, without prepayment penalty. Bangladesh Bank's relending interest rate to PFIs will be determined by the ongoing market conditions to ensure PFIs' demand for funds to promote the brick sector development. Selection of PFIs and disbursement to PFI and sub-borrowers will be guided by Bangladesh Bank's internal procedures and ADB's eligibility criteria and disbursement guidelines.<sup>13</sup> PFIs' onlending terms to sub-borrowers will be determined by the same market conditions to ensure sub-borrowers' demand for fund without discouraging domestic resource mobilization or causing market distortions.<sup>14</sup>

11. Although the improved zigzag kiln is not the most energy-efficient, it provides a practical solution to immediately comply with the government's directive to phase out FCKs while preserving sector employments and business livelihoods.<sup>15</sup> Construction of more advanced VSBKs, HHKs, and tunnel kilns is a long-term solution to support the eventual modernization of the brick sector. ADB's funding priority from Special Fund resources will be given to most advanced tunnel kilns.

<sup>13</sup> Initially proposed PFIs include commercial banks of Agrani Bank, Janata Bank, Rupali Bank, and Sonali Bank and nonbank financial institutions of Infrastructure Development Company Limited.

<sup>14</sup> Operations Manual (OM) Section D6 *Financial Intermediation Loans* on the onlending rate will be observed.

<sup>15</sup> Because the improved zigzag kiln is only a transitional and intermediary technology, at a future point when the government stops supporting such a technology, the project steering committee will determine how to utilize the revolving credit facility to support other more efficient brick kilns.

12. To increase the financial viability of the project, ADB will also propose harnessing the greenhouse gas emission reductions resulting from the project by selling the certified carbon credits under the clean development mechanism of the United Nations Framework Convention on Climate Change.

**Table 2: Project Investment Plan**  
(\$ million)

<b>Item</b>	<b>Amount</b>
<b>A. Debt Cost</b>	
1. FCK upgrade funded by ADB OCR	30.00
2. Construction of VSBKs, HHKs, and tunnel kilns funded by ADF (SDR equivalent)	20.00
3. Supplementary commercial bank finance	20.00
<b>B. Equity Cost</b>	
1. Sub-borrowers' own equity	30.00
<b>Total</b>	<b>100.00</b>

ADB = Asian Development Bank, ADF = Asian Development Fund, FCK = fixed chimney kiln, HHK = hybrid Hoffman kiln, OCR = ordinary capital resources, SDR = special drawing right, VSBK = vertical shaft brick kiln.

Source: Asian Development Bank estimates.

### A. Detailed Cost Estimates by Expenditure Category

Item	(\$ Million)		Total Cost	% of Total Base Cost
	Foreign Exchange	Local Currency		
<b>A. Investment Costs</b>				
1 Civil Works	0.00	42.72	42.72	42.7%
2 Mechanical and Equipment	16.72	0.00	16.72	16.7%
3 Land Rental	0.00	10.92	10.92	10.9%
4 Pre-operating Expenses	0.00	1.08	1.08	1.1%
5 Installation of Equipment	1.46	0.00	1.46	1.5%
6 Office and Other Expenses	0.00	1.30	1.30	1.3%
7 Working Capital	0.00	15.72	15.72	15.7%
<b>Subtotal (A)</b>	<b>18.18</b>	<b>71.56</b>	<b>89.90</b>	<b>89.9%</b>
<b>B. Recurrent Costs</b>				
1 Salaries	0.00	0.00	0.00	0.0%
2 Accommodation	0.00	0.00	0.00	0.0%
3 Equipment Operation and Maintenance	0.00	0.00	0.00	0.0%
<b>Subtotal (B)</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.0%</b>
<b>Total Base Cost</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.0%</b>
<b>C. Contingencies</b>				
1 Physical	0.00	0.00	0.00	0.0%
2 Price	0.00	0.00	0.00	0.0%
<b>Subtotal (C)</b>	<b>1.84</b>	<b>8.26</b>	<b>10.10</b>	<b>10.1%</b>
<b>D. Financing Charges During Implementation</b>				
1 Interest During Implementation	0.00	0.00	0.00	0.0%
2 Commitment Charges	0.00	0.00	0.00	0.0%
<b>Subtotal (D)</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.0%</b>
<b>Total Project Cost (A+B+C+D)</b>	<b>18.18</b>	<b>81.82</b>	<b>100.00</b>	<b>100.0%</b>

Source: Asian Development Bank



## B. Detailed Cost Estimates by Outputs/Components

(\$ million)

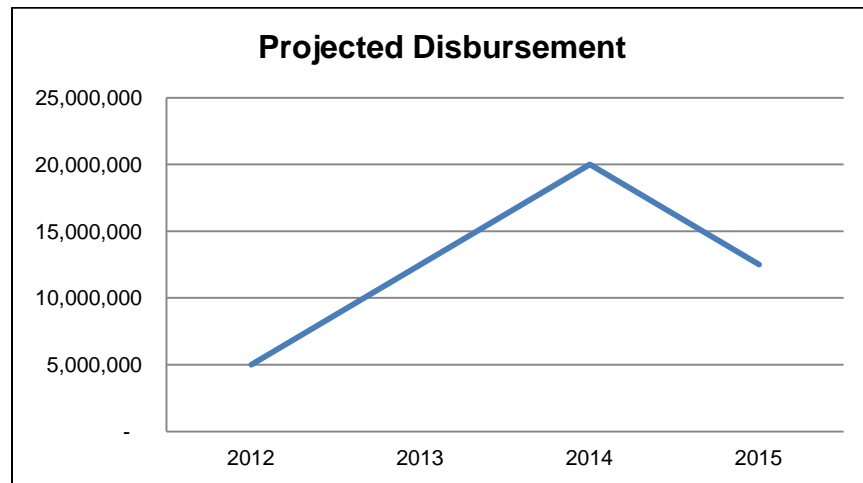
Item	Total Cost	Output/Component 1		Output/Component 2	
		Amount	% of Cost Category	Amount	% of Cost Category
<b>A. Investment Costs<sup>b</sup></b>					
1 Civil Works	42.72	32.90	32.9%	9.82	9.8%
2 Mechanical and Equipment	16.72	1.38	1.4%	15.34	15.3%
3 Land Rental	10.92	2.64	2.6%	8.28	8.3%
4 Pre-operating Expenses	1.08	0.66	0.7%	0.42	0.4%
5 Installation of Equipment	1.46	0.66	0.7%	0.80	0.8%
6 Office and Other Expenses	1.30	0.66	0.7%	0.64	0.6%
7 Working Capital	15.72	13.16	13.2%	2.56	2.6%
<b>Subtotal (A)</b>	<b>89.90</b>	<b>52.04</b>	<b>52.0%</b>	<b>37.86</b>	<b>37.9%</b>
<b>B. Recurrent Costs</b>					
1 Salaries	0.00	0.00	0.0%	0.00	0.0%
2 Accommodation	0.00	0.00	0.0%	0.00	0.0%
3 Equipment Operation Maintenance	0.00	0.00	0.0%	0.00	0.0%
<b>Subtotal (B)</b>	<b>0.00</b>	<b>0.00</b>	<b>0.0%</b>	<b>0.00</b>	<b>0.0%</b>
<b>Total Base Cost</b>	<b>0.00</b>	<b>0.00</b>	<b>0.0%</b>	<b>0.00</b>	<b>0.0%</b>
<b>C. Contingencies</b>					
1 Physical <sup>c</sup>	0.00	0.00	0.0%	0.00	0.0%
2 Price <sup>d</sup>	0.00	0.00	0.0%	0.00	0.0%
<b>Subtotal (C)</b>	<b>10.10</b>	<b>7.96</b>	<b>8.0%</b>	<b>2.14</b>	<b>2.1%</b>
<b>D. Financing Charges During Implementation<sup>e</sup></b>					
1 Interest During Implementation	0.00	0.00	0.0%	0.00	0.0%
2 Commitment Charges	0.00	0.00	0.0%	0.00	0.0%
<b>Subtotal (D)</b>	<b>0.00</b>	<b>0.00</b>	<b>0.0%</b>	<b>0.00</b>	<b>0.0%</b>
<b>Total Project Cost (A+B+C+D)</b>	<b>100.00</b>	<b>60.00</b>	<b>60.0%</b>	<b>40.00</b>	<b>40.0%</b>

Source: Asian Development Bank

### C. Detailed Cost Estimates by Year

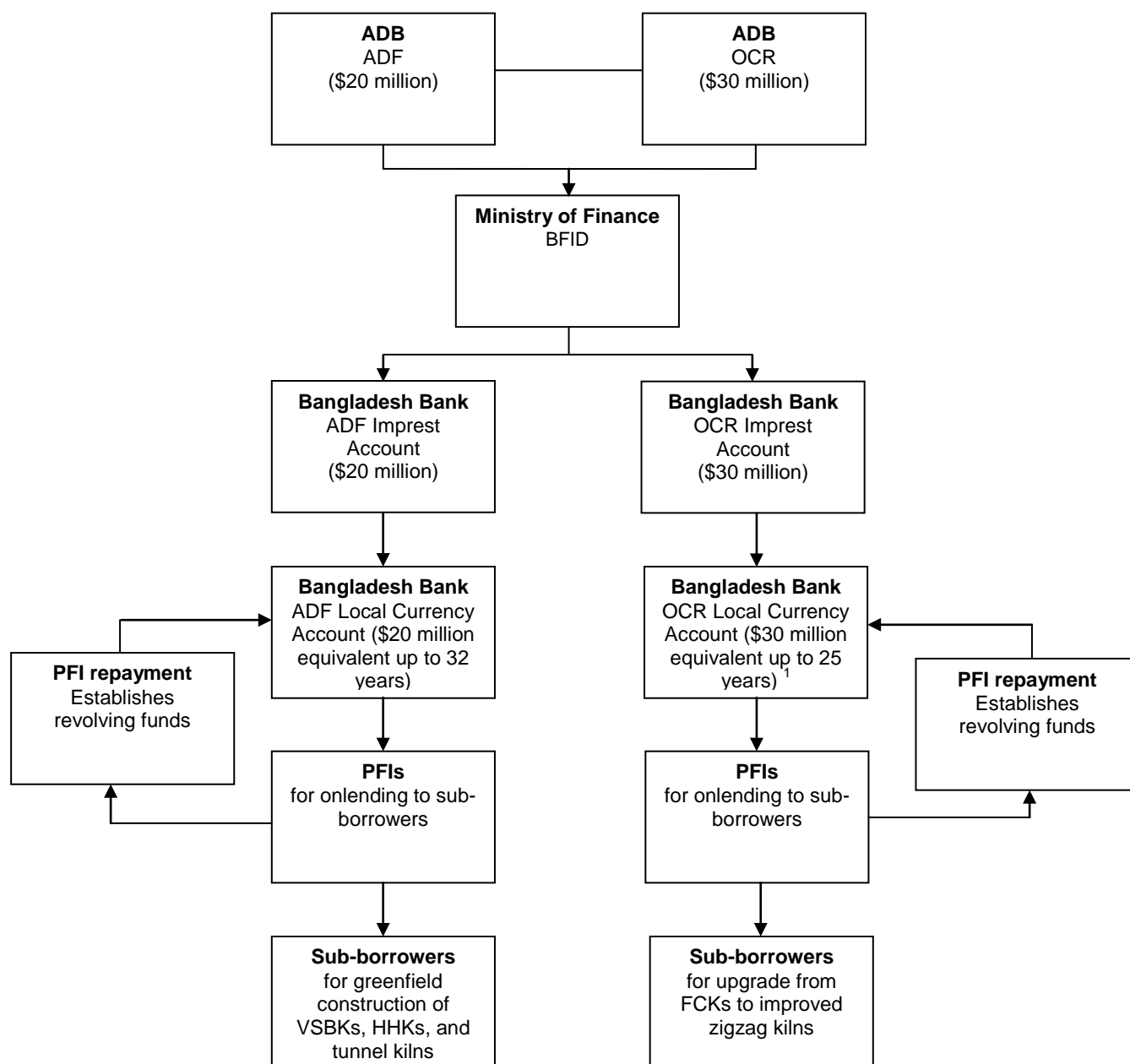
(\$ million)				
Item	Total Cost <sup>a</sup>	2012/13	2013/14	2014/15
<b>A. Investment Costs</b>				
1 Civil Works	42.72	4.90	10.40	27.42
2 Mechanical and Equipment	16.72	7.68	7.90	1.16
3 Land Rental	10.92	4.14	4.58	2.20
4 Pre-operating Expenses	1.08	0.20	0.32	0.54
5 Installation of Equipment	1.46	0.40	0.50	0.54
6 Office and Other Expenses	1.30	0.32	0.44	0.54
7 Working Capital	15.72	1.28	3.48	10.96
<b>Subtotal (A)</b>	<b>89.90</b>	<b>18.94</b>	<b>27.60</b>	<b>43.36</b>
<b>B. Recurrent Costs</b>				
1 Salaries	0.00	0.00	0.00	0.00
2 Accommodation	0.00	0.00	0.00	0.00
3 Equipment Operation and Maintenance	0.00	0.00	0.00	0.00
<b>Subtotal (B)</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Total Base Cost</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>C. Contingencies</b>	<b>10.10</b>	<b>1.06</b>	<b>2.40</b>	<b>6.64</b>
<b>D. Financing Charges During Implementation</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Total Project Cost (A+B+C+D)</b>	<b>100.00</b>	<b>20.00</b>	<b>30.00</b>	<b>50.00</b>
<b>% Total Project Cost</b>	<b>100%</b>	<b>20%</b>	<b>30%</b>	<b>50%</b>

a The total cost amount represented in this table is the sum of all ADB (or ADB administered co-financier) funds for the project.

**D. Disbursement S-curve**

Note: because this is a credit line, there is no contract award projection

## E. Fund Flow Diagram



ADB = Asian Development Bank; ACFID = Agricultural credit and financial inclusion department (Bangladesh Bank); ADF = Asian Development Fund; FCK = fixed chimney kilns; HHK = hybrid Hoffman kiln; LIBOR = London Interbank Offered Rate; OCR = Ordinary Capital Resources; PFIs = participating financial institutions; VSBK = vertical shaft brick kiln.

<sup>1</sup> Because improved zigzag kiln is only a transitional and intermediary technology, the implementing agency (Bangladesh Bank) will determine at a future point when the government stops supporting such a technology, and utilize the revolving credit facility to support other more efficient brick kilns.

## **V. FINANCIAL MANAGEMENT**

### **A. Financial Management Assessment**

13. Financial management assessment questionnaires were completed for the executing agency (Ministry of Environment and Forests) and the implementing agencies (Bangladesh Bank). The survey results are attached to the PAM as Appendix 1.

14. The project financial management is administered by the Bangladesh Bank, which is the central bank and apex regulatory body for Bangladesh's monetary and financial system. With nine offices located at Motijheel (Dhaka), Sadarghat, Chittagong, Khulna, Bogra, Rajshahi, Sylhet, Barisal and Rangpur, Bangladesh Bank is able to perform monitoring and other review functions in other parts of the country. As the end of FY2010, the total number of staff is 5,071 (3,914 officials and 1,157 support staff). The major functional areas include: formulation and implementation of monetary and credit policies, regulation and supervision of banks and non-bank financial institutions, promotion and development of domestic financial markets, regulation and supervision of the payment system, acting as the banker to the government, and collection and furnishing of credit information.

15. In addition to the above core central bank functions, Bangladesh Bank also performs a number of non-core functions unrelated to being a central bank. Bangladesh Bank's Agricultural Credit and Financial Inclusion Department (ACFID) and SME and Special Programme Department manage donor funded development projects, including industrial credits and SME credit lines. Under this capacity, Bangladesh Bank acts as an apex lending institution to distribute government or other public credits to promote certain sectoral and regional development. However, by managing these industrial credits, Bangladesh Bank faces a number of commercial and operational risks.

16. Foremost, Bangladesh Bank faces participating financial institutions (PFIs)' credit risk for defaulting on the payment. This risk can be mitigated in a number of ways. First, being a central bank, Bangladesh Bank has unparalleled, in-depth knowledge on the financial soundness of all licensed commercial banks and is able to choose the most creditworthy institutions as PFIs. Second, Bangladesh Bank holds the commercial banks' statutory reserve requirements. In the case of non-payment, Bangladesh Bank is able to withhold this statutory reserve requirement (and to call on an increase of the capital reserve) or suspend the defaulting PFI's license. In summary, Bangladesh Bank's credit risk by being a regulatory and an apex lending institution is minimal.

17. In addition, there is a concern over the staff capacity. Overall, Bangladesh Bank enjoys the reputation of being one of the most competent public institutions in Bangladesh. ACFID, the project management unit (PMU) and implementing agency (IA), has a well defined organizational structure, with about 40 staff members and is headed by the general manager who reports to the Bangladesh Bank Executive Director, who in turn reports to the Deputy Governor. ACFID has successfully managed donor-funded projects, including (i) a similar credit facility supporting the construction of hybrid Hoffman kilns (HHKs),<sup>16</sup> (ii) an ongoing ADB LN2549-BAN: Small and Medium-Sized Enterprise Development Project (SMESDP), and (iii) ADB-funded projects under the Loan 2649-BAN: Second Crop Diversification Project approved on 30 June 2010. Because the proposed ADB project is in a specialized technical area of brick

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<sup>16</sup> ACFID's experience in managing a similar HHK credit line is the main reason that ACFID is chosen, instead of the SME and Special Programme Department.

kilns, technical backstopping will be provided by Department of Environment (DOE) to verify the standard designs. ACFID will also receive relevant capacity building support from ADB's separately processed technical assistance (TA) to provide additional capacities in complying with ADB's PFI selection and other eligibility criteria and labor and safeguard measures.

18. There is also a maturity mismatch between (i) ADB financed OCR (25 years' tenor) and ADF (32 years' tenor) and (ii) the average onlending term to sub-borrowers (at about 3-5 years). Bangladesh Bank also incurs foreign exchange risk by disbursing the ADB (USD) funds in local currency. As a result, the credit facility will be designed as a revolving fund to provide continued funding support of up to 25 years for the OCR component and up to 32 years for the ADF component. Any repayment of the funds from PFIs to Bangladesh Bank ACFID will provide additional relending capacity to Bangladesh Bank to ensure that the maturity gap is closed. BFID of MOF will manage the foreign exchange risk and maturity gap risk.

19. No major issues have occurred in the past in relation to Bangladesh Bank's management of ADB-funded projects. There have been established precedents in administering ongoing ADB fund flows from Finance Division, Ministry of Finance (MOF), through a subsidiary loan agreement, to Bangladesh Bank's ACFID.

## **B. Disbursement**

20. ADB's Loan proceeds to the Government of Bangladesh will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2007, as amended from time to time),<sup>17</sup> and detailed arrangements agreed upon between the government and ADB. PFI and subloan approval criteria will be guided by the Bangladesh Bank's internal procedures and ADB's eligibility criteria.

21. Pursuant to ADB's Safeguard Policy Statement (2009) (SPS),<sup>18</sup> ADB funds may not be applied to the activities described on the ADB Prohibited Investment Activities List set forth at Appendix 5 of the SPS. Bangladesh Bank and involved PFIs will ensure that their investments are in compliance with applicable national laws and regulations and will apply the prohibited investment activities list (Appendix 5) to subprojects financed by ADB.

22. ACFID will (i) select a list of potential PFIs to be approved by the project steering committee and ADB, (ii) solicit the applicants from approved PFIs on relevant brick sector subprojects, (iii) review the applications against the eligibility criteria, and (iv) obtain technical design approval from DOE. After obtaining basic subproject information, ACFID will be responsible for preparing disbursement projections, collecting supporting documents, preparing withdrawal applications, and sending the latter to ADB in accordance with ADB's *Loan Disbursement Handbook* (2007, as amended from time to time).

23. To facilitate the timely release of loan proceeds and to expedite project implementation, the government will, immediately after the loans become effective, open and maintain two project imprest accounts<sup>19</sup> for the ADF and OCR funds administered by Bangladesh Bank. Depending on the project readiness and a confirmed pipeline of subprojects, the initial amount deposited in each imprest account shall not exceed 10% of respective loan amount, or estimated expenditures for the first 6 months of project implementation, whichever is lower.

<sup>17</sup> Available at: [http://www.adb.org/Documents/Handbooks/Loan\\_Disbursement/loan-disbursement-final.pdf](http://www.adb.org/Documents/Handbooks/Loan_Disbursement/loan-disbursement-final.pdf)

<sup>18</sup> Available at: <http://www.adb.org/Documents/Policies/Safeguards/Safeguard-Policy-Statement-June2009.pdf>

<sup>19</sup> ADB loans may finance bank charges.

ADB's funding limit (up to 50% of total project cost) for each subloan is \$5 million (meaning a maximum project size of \$10 million), and ADB's free limit is \$2 million, above which disbursement to subprojects would require ADB pre-approval. ADB's statement of expenditure (SOE) procedure will be used to liquidate advances from the imprest accounts. The maximum individual payment permitted under the SOE procedure is equal to the free limit of \$2 million. Any subproject with an amount in excess of the SOE ceiling should be supported by full supporting documents (i.e. sub-borrower subloan/subproject agreements) for approval. An opinion in the use of SOE procedures is required as part of the annual audit exercise. Direct payment procedure with supporting documents may also be used as needed.

24. Bangladesh Bank needs to ensure that its local currency accounts that correspond to the ADF and OCR funds will segregate and track the fund flows between (i) the local currency fund flows directly from the ADB ADF and OCR fund sources and (ii) the reflow of funds from PFIs' repayments to Bangladesh Bank in regards to the operation of the revolving credit facility.

25. The request for initial advance to the imprest accounts should be accompanied by an Estimate of Expenditure Sheet<sup>20</sup> setting out the estimated expenditures for the first six (6) months of project implementation, and submission of evidence satisfactory to ADB that the imprest accounts have been duly opened. For every liquidation and replenishment request of the imprest accounts, the borrower will furnish to ADB (a) Statement of Account (Bank Statement) where the imprest accounts are maintained, and (b) the Imprest Account Reconciliation Statement (IARS) reconciling the above mentioned bank statement against the Bangladesh Bank's records.<sup>21</sup> SOE records should be maintained and made readily available for review by ADB's disbursement and review mission or upon ADB's request for submission of supporting documents on a sampling basis, and for independent audit.<sup>22</sup>

26. Before the submission of the first withdrawal application, Bangladesh Bank (borrower) should submit to ADB sufficient evidence of the authority of the person(s) who will sign the withdrawal applications on behalf of the borrower, together with the authenticated specimen signatures of each authorized person. Withdrawal applications and supporting documents will demonstrate, among other things that the goods, and/or services were produced in or from ADB members, and are eligible for ADB financing.

### **C. Accounting**

27. Bangladesh Bank will maintain separate project accounts and records by funding source for all expenditures incurred on the project. Project accounts will follow international accounting principles and practices and Bangladesh accounting standards. PFIs will adopt Bangladesh accounting standards that are primarily based on International Financial Reporting Standards. Bangladesh Bank has developed the capacity to apply International Financial Reporting Standards and to effectively supervise and oversee financial institutions through the World Bank's ongoing Central Bank Strengthening Project. One of the components of this project is

<sup>20</sup> Available in Appendix 29 of the *Loan Disbursement Handbook*.

<sup>21</sup> Follow the format provided in Appendix 30 of the *Loan Disbursement Handbook*.

<sup>22</sup> Checklist for SOE procedures and formats are available at:

[http://www.adb.org/documents/handbooks/loan\\_disbursement/chap-09.pdf](http://www.adb.org/documents/handbooks/loan_disbursement/chap-09.pdf)

[http://www.adb.org/documents/handbooks/loan\\_disbursement/SOE-Contracts-100-Below.xls](http://www.adb.org/documents/handbooks/loan_disbursement/SOE-Contracts-100-Below.xls)

[http://www.adb.org/documents/handbooks/loan\\_disbursement/SOE-Contracts-Over-100.xls](http://www.adb.org/documents/handbooks/loan_disbursement/SOE-Contracts-Over-100.xls)

[http://www.adb.org/documents/handbooks/loan\\_disbursement/SOE-Operating-Costs.xls](http://www.adb.org/documents/handbooks/loan_disbursement/SOE-Operating-Costs.xls)

[http://www.adb.org/documents/handbooks/loan\\_disbursement/SOE-Free-Format.xls](http://www.adb.org/documents/handbooks/loan_disbursement/SOE-Free-Format.xls)

capacity building of Bangladesh Bank through strengthening (i) the prudential regulations and supervision functions, as well as (ii) the accounting and auditing functions.

28. The sub-borrowers will have their accounts and financial statements (balance sheet, income statement, and statement of sources and applications of funds) audited annually in accordance with sound internationally accepted auditing standards by independent external auditors acceptable to ADB. The PFIs will submit, to Bangladesh Bank, to the EA and ADB their audited accounts and financial statements not later than 6 months after the end of the fiscal year. In addition, the PFIs will submit sub-borrowers' semiannual unaudited accounts to Bangladesh Bank. Bangladesh Bank will (i) maintain consistent records and accounts adequate to identify goods and services financed from proceeds of the ADB loan, (ii) ensure separate accounts for each funding source (ADF and OCR), (iii) ensure accounts and related financial statements are audited annually in accordance with international accounting standards by auditors acceptable to ADB, and (iv) submit to ADB certified audited accounts and financial statements within 6 months after the end of the fiscal year.

29. The project's monitoring reports prepared by Bangladesh Bank based on inputs from PFIs will be provided quarterly to the EA and ADB. The reports will contain (i) description of progress made during the period; (ii) changes to the implementation schedule, if any; (iii) problems and difficulties encountered and the remedial actions taken; (iv) social, environmental, and economic impacts; (v) work to be carried out in the next period; and (vi) a summary financial account for the Project with expenditures to date. Within 3 months of the Project's completion, the EA, through Bangladesh Bank, will furnish to ADB a project completion report containing a detailed evaluation of project design, costs, PFI performance, social and economic impacts, and other details as may be requested by ADB.

#### **D. Auditing**

30. Bangladesh Bank will require the detailed consolidated project accounts to be audited in accordance with International Standards on Auditing by an auditor acceptable to ADB. The audited accounts will be submitted in the English language to ADB within 6 months of the end of the fiscal year by the executing agency. The annual audit report will include a separate audit opinion on the use of the imprest accounts. The Government and Bangladesh Bank have been made aware of ADB's policy on delayed submission, and the requirements for satisfactory and acceptable quality of the audited accounts. ADB reserves the right to verify the project's financial accounts to confirm that the share of ADB's financing is used in accordance with ADB's policies and procedures. For revenue generating projects only, ADB requires audited financial statements (AFS) for each executing and/or implementation agency associated with the project.



## VI. PROCUREMENT AND CONSULTING SERVICES

31. ADB Procurement Guidelines (2010, as amended from time to time) will apply to the extent relevant to subproject procurement. The procurement will be undertaken by the respective sub-borrowers in accordance with established private sector or commercial practices acceptable to ADB. A draft procurement manual will be prepared and submitted to ADB for approval to satisfy ADB that procurement procedures applied to sub-borrowers are appropriate. This includes reasonable prices being paid, procurement from eligible source countries, and fair canvassing when selecting suppliers. The procurement processes will be monitored by Bangladesh Bank's ACFID, assisted by the proposed capacity development TA's consultant. ACFID will review PFIs' procurement reports and disqualify any PFI that does not comply with the procedures approved by ADB. Anticorruption Policy (1998, as amended to date) will be explained to and discussed with the PFIs to ensure compliance at sub-borrower level.<sup>23</sup>

## VII. SAFEGUARDS

32. As the implementing agency, Bangladesh Bank has a guideline on environmental risk management (ERM) issued as Circular No. 01 by its banking regulation and policy department (BRPD) on 30 January 2011. The ERM integrate environmental risk management practice into credit risk management procedures. Banks and financial institutions are required to adopt the ERM practices in a formal and structured manner in line with global norms so as to protect their financing from the risks of a deteriorating environment and ensure sustainable banking practices.

33. Another circular was issued by BRPD on 27 February 2011, BRPD (Circular No. 02) directing banks to adopt *Green Banking Policy* consistent with global norms to protect the environment and ensure sustainable banking practices. The green banking policy incorporates the ERM and the environmental and climate change risk as part of the existing credit risk methodology in evaluating and assessing a prospective borrower. It is time-based and separated into three phases to be implemented from 31 December 2011 until 31 December 2013.

34. The current ERM and the green banking policy do not meet the ADB's Safeguard Policy Statement 2009 (SPS 2009) as they do not cover the safeguard requirements on involuntary resettlement (IR) and indigenous peoples (IP).<sup>24</sup> To realign these with SPS 2009 for subprojects funded by ADB, Bangladesh Bank and the PFIs need to have an environmental and social management policy and system approved by their respective Board of Directors and signed by their governor/chief executive officers. The objective of the environmental and social management system (ESMS) is to avoid, and when avoidance is not possible, to minimize and mitigate adverse impacts of investments on the environment and affected people; and to maximize the opportunities for environmental and social benefits.

35. Bangladesh Bank has an existing ESMS framework in place, from the implementation of Loan 2549-Bangladesh: Small and Medium-Sized Enterprise (SME) Development Project. The implementation effectiveness of the existing environmental management system framework is discussed in the *Assessment of Capacity to Comply with Safeguard Requirements* (accessible from No. 14 of the Supplementary Documents in the Report and Recommendation of the

<sup>23</sup> Project Administration Manual (accessible from the list of linked documents in Appendix 2).

<sup>24</sup> ADB. Safeguard Policy Statement, June 2009, <http://beta.adb.org/documents/safeguard-policy-statement?ref=site/safeguards/main>.

President [RRP] Appendix 2).

36. Bangladesh Bank and the PFIs are required to adopt the developed ESMS (accessible from No. 10 of the Linked Documents in the RRP Appendix 2) to be implemented at sub-borrower level. Bangladesh Bank and PFIs are also required to communicate the ESMS to all relevant management and staff in order to meet the requirements of ADB's SPS 2009 for subprojects to be financed by ADB funds. Bangladesh Bank and PFIs should have a developed project categorization and screening capacity and associated reporting mechanism. ADB funds will not be used to finance any subproject that could be classified as category "A" for environment, nor any subproject that involves resettlement impacts or affects indigenous peoples within the meaning of SPS 2009. A separately proposed capacity building technical assistance will provide needed training to develop the relevant capacities at Bangladesh Bank and PFIs.

### **VIII. GENDER AND SOCIAL DIMENSIONS**

37. PFIs will be responsible for implementing the gender action plan (Appendix 2). Bangladesh Bank will ensure that the elements of the gender action plan (Appendix 2) will be incorporated in its participation agreements to be implemented by PFIs. Bangladesh Bank will be responsible for reviewing and monitoring the implementation process of the proposed gender action plan at PFI level. More specifically, the project will ensure the following gender mainstreaming benefits:

- employment of at least 10% women in its workforce, prioritizing women workers displaced from the FCKs;
- All recipient PFIs and sub-borrowers acknowledge and commit to gender mainstreaming guidelines and core labor standards;
- At least 50% of affected (phased-out) FCK owners and workers acquire new livelihood skills and knowledge;
- At least 10% of workers in new and improved kilns are women; and
- 100% compliance with core labor standards by PFIs and new and upgraded kiln owners.

## IX. PERFORMANCE MONITORING, EVALUATION, REPORTING AND COMMUNICATION

### A. Project Design and Monitoring Framework

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<b>Impact</b> Improved environmental conditions in Bangladesh.	10% reduction in annual greenhouse gas emission from 2018 from the brick sector. (2010 baseline: Carbon dioxide [CO <sub>2</sub> ]: 9.8 million tons) <sup>1</sup>  20% reduction in annual fine particulate pollution from 2018 from the brick sector. (2010 baseline: Suspended particulate matter: 1,000 milligrams per cubic meter) <sup>2</sup>	National Communications Report on Inventory of Greenhouse Gas Emissions voluntarily submitted to the United Nations Framework Convention on Climate Change, studies conducted by other organizations such as the United Nations Development Programme and the World Bank.  Suspended particulate matter, use Isokinetic collection (e.g., United States Environmental Protection Agency method-17) for brick kilns.	<b>Assumptions</b> No drastic increase of other industrial and overall pollution level.
<b>Outcome</b> Replacement of polluting fixed chimney kilns (FCKs) with more energy-efficient kilns in Bangladesh's brick sector.	Approved financing of at least 200 FCK upgrades to improved zigzag kilns by the end of 2015.  Approved financing of at least 20 vertical shaft brick kilns (VSBKs) and 5 hybrid Hoffman kilns (HHKs) and/or tunnel kilns by the end of 2015.  Reduction of FCKs by 50% by the end of 2015. (2011 baseline: 4,490 FCKs)	(For all indicators) Survey and statistics from Bangladesh Brick Manufacturing Owners Association.  Government statistics, e.g. from the Ministry Environment and Forests and/or Ministry of Industries.	<b>Assumptions</b> The government continues to enforce the phase-out of FCKs.  <b>Risks</b> Lack of design standards in Bangladesh to upgrade FCKs to improved zigzag kilns and construct VSBKs, HHKs, and tunnel kilns.  Low technical and commercial viabilities from VSBK, HHK, and tunnel kiln pilot projects.

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<b>Outputs</b> 1. Designated credit facility, by catalyzing domestic resources, to finance upgrade to and construction of more energy-efficient brick kilns.  2. Mitigated adverse working and social welfare conditions in ADB-funded brick kilns.	Credit facility made fully operational.  Brick sector finance volume is at least \$100 million by June 2015. (2011 baseline data: \$3 million)  100% compliance (by Participating financial intermediaries [PFIs]) with core labor standards and gender mainstreaming in all the kilns financed by the project. (2011 baseline data: 70%)	Bangladesh Bank Agricultural Credit and Financial Inclusion Department (ACFID) report and development partners reports (e.g. the World Bank and United Nations Development Programme).  Bangladesh Bank's participation agreements with PFIs (incorporating the compliance requirements), Bangladesh Bank review reports, capacity development technical assistance consultant reports, and periodic labor inspections by Ministry of Labour and Employment.	<b>Assumption</b> The Asian Development Bank (ADB) project is able to leverage additional funds.  No drastic change in Bangladesh's economy and ongoing credit crunch will ease from 2013.  <b>Risk</b> PFIs are not interested in channeling the funds because of the lack of incentives (e.g. cumbersome procedures, small fund size, and unattractive interest margin).  Lack of local capacities to support the construction, maintenance, and operation of the advance brick kilns
<b>Activities with Milestones</b>		<b>Inputs</b>	
Designated credit facility, by catalyzing domestic resources, to finance upgrade to and construction of more energy-efficient brick kilns. (Continuous, from third quarter of 2012)		<b>Loan</b> <b>ADB: \$50,000,000</b>	
1.1 ADB provides \$50 million to Bangladesh Bank through Ministry of Finance. Bangladesh Bank establishes a \$50 million equivalent revolving credit facility in local currency at its ACFID for onlending to PFIs to construct more energy-efficient brick kilns.		<b>Item</b> Ordinary capital resources	<b>Amount</b> (\$ million) 30.0
1.2 Bangladesh Bank designates ACFID as the project management unit.		Asian Development Fund	20.0
1.3 Bangladesh Bank determines disbursements to PFIs based on its internal procedures and the agreed eligibility criteria (with ADB). Bangladesh Bank determines (i) the relending terms to PFIs, and (ii) PFIs' onlending terms based on market conditions.		<b>PFIs: \$20,000,000</b>	
1.4 PFIs shall submit quarterly reports to ACFID on the funds utilization including detailed subloan information: type of technology funded (the technology to be certified by department of environment [DOE]), subloan amount, tenor, interest rate, repayment terms, amortization schedules, repayment records, and compliance records		<b>Item</b> Loan	<b>Amount</b> (\$ million) 20.0
		<b>Sub-borrowers (Equity): 30,000,000</b>	
		<b>Item</b>	<b>Amount</b> (\$ million)

Activities with Milestones	Inputs
(e.g. with PFI participation agreement and ADB eligibility criteria).	Equity 30.0
1.5 ACFID will collate the collected information and provide ADB with a quarterly report on the overall performance of the credit facility.	
1.6 DOE provides relevant (brick and environment) technical support, including verification of brick technical design and monitoring of environmental benefits (e.g. CO <sub>2</sub> emission reduction) to Bangladesh Bank.	
Mitigated adverse working and social welfare conditions in ADB-funded brick kilns. (Continuous, from third quarter of 2012)	
2.1 ADB incorporates relevant environmental and social management system (ESMS) requirements, gender action plan, and core labor standards in ADB's loan and project agreements.	
2.2 Bangladesh Bank incorporates relevant ESMS requirements, gender action plan, and core labor standards in its participation agreements with PFIs for compliance at sub-borrower level.	
2.3 Bangladesh Bank and PFIs monitor the compliance of stated social safeguard measures at PFIs and sub-borrowers respectively.	

<sup>a</sup> The World Bank Energy Sector Management Assistance Program South Asia. 2011. *Introducing Energy-Efficient Clean Technologies in the Brick Sector of Bangladesh*. Report No. 601550BD. June.

<sup>b</sup> Estimates done by the Bangladesh University of Engineering and Technology (2007) based on qualitative survey from various zigzag kilns.

Source: Asian Development Bank.

## B. Monitoring

38. **Project performance monitoring.** Bangladesh Bank will undertake overall monitoring of the proposed project in terms of progress. ADB, the government, and EA will conduct semiannual reviews throughout the implementation of the project. The review will monitor the (i) project output quality (compliance with technology standards and achievement of energy efficiency requirements), (ii) implementation arrangements, (iii) implementation progress, and (iv) disbursements. Performance will be monitored based on indicators and targets stipulated in the design and monitoring framework.

39. **Compliance monitoring:** In addition to the standard assurances, compliance with the specific assurances will be monitored. Compliance monitoring will be based on the Loan Agreement and Project Agreement. Procurement practices will also be measured against their “acceptability” to ADB.

40. **Safeguards monitoring:** ACFID will undertake safeguard monitoring and reviews in terms of environment, resettlement, and indigenous people and the related reporting including compliance with core labor standards.

41. **Gender and social dimensions monitoring:** ACFID will monitor the implementation of the gender action plan at least on an annual basis, including the implementation by PFIs of the Bangladesh Bank's circular to report on gender performance indicators.

### **C. Evaluation**

42. ADB will field regular review missions to review status of status of the credit facility, its disbursements, physical progress at PFI and sub-borrower level, and compliance with the environmental management plan. Within 12 months from the effective date, ADB and Bangladesh Bank shall jointly undertake a comprehensive review of the project. The review shall assess the project's achievements and progress in implementing the project against the performance targets and the project implementation schedule in order to identify any difficulties or constraints encountered in implementing the project and to make adjustments, if necessary, for the remaining project implementation period. In particular, the review shall, among others, evaluate the rate of utilization of proceeds of the OCR loan for conversion of FCKs to improved zigzag kilns, compliance with the loan covenants generally and compliance with the environmental and social safeguards requirements, core labor standards and the provisions of the Gender Action Plan specifically. Within 6 months of physical completion of the Project, EA and IA will submit the project completion report (PCR) to ADB. Subsequently, ADB will field a mission to finalize the PCR.

### **D. Reporting**

43. PFIs shall submit quarterly reports to ACFID on the fund utilization including detailed subloan information: type of technology funded (the technology be certified by DOE), subloan amount, tenor, interest rate, repayment terms, amortization schedules, repayment records, and compliance records (e.g. to PFI participation agreement and ADB eligibility criteria). In turn, ACFID will compose the collected information and provide ADB with a quarterly report on the overall performance of the credit facility. Bangladesh Bank ensures that all PFIs comply with applicable national laws and regulations and will apply the ADB prohibited investment activities list to subprojects financed by ADB.<sup>25</sup>

44. In addition to Bangladesh Bank's quarterly progress reports to ADB in a format consistent with ADB's project performance reporting system, Bangladesh Bank shall (i) consolidated annual reports including (a) progress achieved by output as measured through the indicator's performance targets, (b) key implementation issues and solutions; (c) compliance conditions to the required environmental and social management system, core labor standards, gender action plan, and procurement practices acceptable to ADB, and (d) updated implementation plan for next 12 months; and (ii) a project completion report within 6 months of physical completion of the Project. To ensure projects continue to be both viable and sustainable, project accounts and the executing agency AFSs, together with the associated auditor's report, should be adequately reviewed.

### **E. Stakeholder Communication Strategy**

45. The proposed project intends to maximize transparency of the credit facility through wide dissemination over mass media of all project related information to all relevant stakeholders. Bangladesh Bank's ACFID will set up a designated website within 6 months from the loans

<sup>25</sup> ADB. 2009. Safeguard Policy Statement. Manila. Page 76. Available: <http://www.adb.org/Documents/Policies/Safeguards/Safeguard-Policy-Statement-June2009.pdf>.

effectiveness to disclose all key project-related information, including the availability of the concessional funds, disbursement of the funds, fund balance, PFIs that access the funds, audited project accounts if available, and intended and already achieved targets of the two project components. Because the promotion of advanced brick kilns of VSBK, HHK, and tunnel kilns requires significant awareness and promotion campaign, to be funded by the separately processed TA, it is expected that the stakeholder communication strategy will be well implemented from the beginning of the project implementation.

## X. ANTICORRUPTION POLICY

46. ADB reserves the right to investigate, directly or through its agents, any violations of the Anticorruption Policy relating to the Project.<sup>26</sup> All contracts financed by ADB shall include provisions specifying the right of ADB to audit and examine the records and accounts of the executing agency and all Project contractors, suppliers, consultants and other service providers. Individuals/entities on ADB's anticorruption debarment list are ineligible to participate in ADB-financed activity and may not be awarded any contracts under the Project.<sup>27</sup>

47. To support these efforts, relevant provisions of ADB's Anticorruption Policy are included in the loan regulations for the Project. In particular, all contracts financed by ADB in connection with the proposed project shall include provisions specifying the right of ADB to audit and examine the records and accounts of the EA and IA and all contractors, suppliers, consultants, and other service providers as they relate to the proposed project. During review missions, the financial management, governance, and anticorruption risk assessments will be updated to ensure their provisions remain valid and are helping to realize the proposed project's objectives.

48. The proposed project also seeks to accelerate and deepen good governance in PFIs in accordance with Bangladesh Bank corporate governance standards and Bangladesh's international obligations by (i) ensuring PFI compliance with Bangladesh Bank's corporate governance measures as one of the eligibility criteria for disbursements to PFIs; (ii) incorporating anti-money laundering risk management requirements; (iii) reporting on corporate governance structures and activities in PFI annual reports; (iv) applying SME lending monitoring system; and (v) incorporating good governance and anticorruption measures in loan assurances in accordance with the findings of the governance and anticorruption risk assessment. The proposed project also seeks to enhance financial management controls through (i) the Bangladesh Bank imprest account; (ii) funds flow controls, including vetting and approval procedures; and (iii) audit and accounting requirements.

49. The ADB Office of the Auditor General, Integrity Division (OAGI) is the point of contact to report allegations of fraud and corruption among ADB-financed projects or its staff. Anyone coming across evidence of corruption associated with the Project may contact OAGI by telephone, facsimile, e-mail, or by mail as follows:

Office of the Auditor General  
Integrity Division (OAGI)  
Asian Development Bank  
6 ADB Avenue  
Mandaluyong City  
1550 Metro Manila, Philippines  
Telephone: +63 2 632 5004  
Fax: +63 2 636 2152  
E-mail: [integrity@adb.org](mailto:integrity@adb.org) or [anticorruption@adb.org](mailto:anticorruption@adb.org)

30. The PAM shall be read in conjunction with the RRP, Loan Agreement, Project Agreement, and relevant ADB documents listed in Appendix 11

<sup>26</sup> Available at: <http://www.adb.org/Documents/Policies/Anticorruption-Integrity/Policies-Strategies.pdf>

<sup>27</sup> ADB's Integrity Office web site is available at: <http://www.adb.org/integrity/unit.asp>



## **XI. ACCOUNTABILITY MECHANISM**

50. People who are, or may in the future be, adversely affected by the project may submit complaints to ADB's Accountability Mechanism. The Accountability Mechanism provides an independent forum and process whereby people adversely affected by ADB-assisted projects can voice, and seek a resolution of their problems, as well as report alleged violations of ADB's operational policies and procedures. Before submitting a complaint to the Accountability Mechanism, affected people should make a good faith effort to solve their problems by working with the concerned ADB operations department. Only after doing that, and if they are still dissatisfied, should they approach the Accountability Mechanism.<sup>28</sup>

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<sup>28</sup> For further information see: <http://www.adb.org/Accountability-Mechanism/default.asp>.

**FINANCIAL MANAGEMENT ASSESSMENT QUESTIONNAIRE  
(BANGLADESH BANK)**

Topic	Response	Remarks
<b>1. Implementing Agency</b>		
1.1 What is the entity's legal status / registration?	Central Bank of the country established by President order.	Bangladesh Bank, the central bank and apex regulatory body for the country's monetary and financial system, was established in Dhaka as a body corporate vide the Bangladesh Bank Order, 1972 (P.O. No. 127 of 1972) with effect from 16 December, 1971. At present it has nine offices located at Motijheel, Sadarghat, Chittagong, Khulna, Bogra, Rajshahi, Sylhet, Barisal, and Rangpur in Bangladesh. Total manpower stood at 5,071 (officials 3,914, subordinate staff 1,157) as of end FY 2010.
1.2 Has the entity implemented an externally-financed project in the past (if so, please provide details)?	Yes, Bangladesh Bank has implemented other projects financed by ADB such Second National Crop Diversification Project and SME Development Project.	
1.3 What are the statutory reporting requirements for the entity?	Annual report and other reports sought from time to time by Ministry of Finance (MOF) and ADB.	
1.4 Is the governing body for the project independent?	The governing body of Bangladesh Bank is its board of directors, and the board members are largely independent from the management.	
1.5 Is the organizational structure appropriate for the needs of the project?	Yes, reputation-wise, Bangladesh Bank is among the most competent public institutions in Bangladesh.	Agricultural credit and financial inclusion department (ACFID) is entrusted with the responsibilities of formulating national agricultural credit policy and its implementation. It also monitors and reviews the agricultural credit disbursement and recovery position of the commercial banks and specialized banks. The department collects information and maintains data in respect of agricultural credit which are supplied to the ministries of the government, international bodies like International Monetary Fund (IMF), the World Bank (WB), Asian Development Bank (ADB) etc. as and when required.

Topic	Response	Remarks
		ACFID also manages works relating to formulation of policies and implementation of agricultural projects financed by Development Partners, Government of Bangladesh and Bangladesh Bank. ACFID's work also includes monitoring the ongoing projects, extending refinance facilities to the participating banks against their disbursement to target groups, and coordinating disbursement and recovery activities of these banks and arranging repayment of project loans to government and development partners as per amortization schedules are the other functions of this department.
		ACFID also monitors and reviews the industrial credit disbursement and recovery position of the banks and financial institutions of the country. It also provides refinance facilities to Banks and Financial institutions under "Refinance Scheme for Small Enterprises" for which Bangladesh Bank, Government of Bangladesh, the World Bank, and Asian Development Bank (ADB) have provided fund. Furthermore, ADB administers "Refinance Scheme for Housing Sector" and "Refinance Scheme for agro-based industries in rural areas."
<b>2. Funds Flow Arrangements</b>		
2.1 Describe (proposed) project funds flow arrangements, including a chart and explanation of the flow of funds from ADB, government and other financiers.	See funds flow arrangement in the main text.	For the proposed project, funds flow arrangement would be from ADB to MOF (BFID), to Bangladesh Bank, for relending to qualified participating financial institutions (PFIs), for onlending to brick kiln owners and greenfield investors.
2.2 Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity satisfactory?	Yes, Bangladesh Bank would need to sign an administration agreement with the BFID of MOF. There are established precedents from the same process with the Finance Division, MOF.	
2.3 What have been the major problems in the past in receipt of funds by the entity?	No major problems encountered so far on ADB funded projects at Bangladesh Bank.	
2.4 In which bank will the Imprest Account be opened?	Bangladesh Bank.	

Topic	Response	Remarks
2.5 Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	Yes, ACFID has managed ADB-funded projects.	ACFID which administers (i) a similar credit facility supporting the construction of hybrid Hoffman kilns (HHKs), (ii) an ongoing ADB LN2549-BAN: Small and Medium-Sized Enterprise Development Project (SMESDP), and (iii) ADB-funded projects of TA7230-BAN: Second Crop Diversification Project. Furthermore, ACFID monitors and reviews the industrial credit disbursement and recovery position of the banks and financial institutions of the country. It also provides refinance facilities to Banks and Financial institutions under “Refinance Scheme for Small Enterprises” for which Bangladesh Bank, Government of Bangladesh, the World Bank, and ADB have provided fund.
2.7 Does the entity have/need a capacity to manage foreign exchange risks?	Foreign exchange risks will be handled by MOF and Bangladesh Bank itself also has adequate treasury capacity to handle the foreign exchange exposure. Any excessive risk will be factored into the relending rates to PFIs.	
2.8 How are the counterpart funds accessed?	ADB will follow the industry standard practice of 70-30 debt-to-equity ratio. ADB will fund 50% of total project cost and the other 20% of total project cost will come from PFIs' own funds.	
2.9 How are payments made from the counterpart funds?	PFIs will fund at least 20% of the total project cost. Sub-borrowers must contribute at least 30% of total project fund in their own equities.	
2.10 If part of the project is implemented by communities or NGOs, does the PIU have the necessary reporting and monitoring features built into its systems to track the use of project proceeds by such agencies?	Not applicable.	

Topic	Response	Remarks
2.11 Are the beneficiaries required to contribute to project costs? If beneficiaries have an option to contribute in kind (in the form of labor), are proper guidelines formulated to record and value the labor contribution?	Yes, the beneficiaries (sub-borrowers) need to contribute at least 30% of the total project cost in the form of equity.	
<b>3. Staffing</b>		
3.1 What is the (proposed) organizational structure of the accounting department? Attach an organization chart.	Organization structure of ACFID is headed by General Manager; DGM; Joint Director; Deputy Director; Asst. Director.	
3.2 Identify the (proposed) accounts staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key accounting staff.	There will be a dedicated project implementation cell from ACFID officials who handle implementation of the project, and their educational backgrounds are adequate to handle the required tasks.	
3.3 Is the project finance and accounting function staffed adequately?	Yes.	
3.4 Is the finance and accounts staff adequately qualified and experienced?	Yes, most of them have accounting, finance, and economics background.	
3.5 Is the project accounts and finance staff trained in ADB procedures?	Yes.	
3.6 What is the duration of the contract with the finance and accounts staff?	Regular staff.	
3.7 Indicate key positions not contracted yet, and the estimated date of appointment.	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?	There will be defined duties, responsibilities, lines of supervision, limits of authority headed by the general manager.	
3.11 At what frequency are personnel transferred?	Normally staff could transfer to another department after 5 years of service.	
3.12 What is training policy for the finance and accounting staff?	They have regular training programs ran by Training Academy and other external trainings.	

Topic	Response	Remarks
<b>4. Accounting Policies and Procedures</b>		
4.1 Does the entity have an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds? Will the project use the entity accounting system?	Yes.	The Accounts and Budgeting Department provides information on the financial position, performance and change in financial position of Bangladesh Bank. To maintain international standards, all financial statements are prepared in accordance with IAS and IFRS by the department. The Accounts and Budgeting Department is providing relevant, reliable, and accurate financial information of Bangladesh Bank to the concerned authorities. The department captures all financial information from other departments/branch offices/ Sonali Bank etc, and take necessary actions to keep and process these information properly for financial reporting. Particularly, the department is responsible to maintain Government accounts, Bangladesh Bank's own account, operate the back office of the dealing room, prepare the daily statement of FX reserve position, deal with all activities relating to budget of Bangladesh Bank and ensure budgetary control.
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	Yes, based international accounting standards.	In accordance with IAS and IFRS
4.3 Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories?	Yes.	see audited financial statements
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Yes.	see audited financial statements
4.5 Are the General Ledger and subsidiary ledgers reconciled and in balance?	Yes.	
4.6 Are all accounting and supporting documents retained on a permanent basis in a defined system that allows authorized users easy access?	Yes, Bangladesh Bank has automated system called Enterprise Resource Planning (ERP).	

Topic	Response	Remarks
<b>Segregation of Duties</b>		
4.7 Are the following functional responsibilities performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; and (iii) custody of assets involved in the transaction?	Yes, internal controls are in place.	
4.8 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	Yes.	
4.9 Are bank reconciliations prepared by someone other than those who make or approve payments?	Yes, bank reconciliations are prepared by Accounts and Budgeting Department.	
<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 provide a meaningful tool with which to monitor subsequent performance?	Yes, Bangladesh Bank has performance monitoring system for budget.	
4.12 Are actual expenditures compared to the budget with reasonable frequency, and explanations required for significant variations from the budget?	Monthly or quarterly and annual adjustments are made.	
4.13 Are approvals for variations from the budget required in advance or after the fact?	Yes, subject to final approval of Governor.	
4.14 Who is responsible for preparation and approval of budgets?	General Manager of Accounts and Budgeting Department.	
4.15 Are procedures in place to plan project activities, collect information from the units in charge of the different components, and prepare the budgets?	Annual Budget is prepared by Gen. Manager of Accts. and Budgeting Department.	
4.16 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?	Yes, prepared by the Accounts and Budgeting Department headed by the general manager.	

Topic	Response	Remarks
<b>Payments</b>		
4.17 Do invoice-processing procedures provide for: (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?	Yes, Bangladesh Bank has Procurement Regulations.	Bangladesh Bank Procurement Regulations 2004  Bangladesh Bank Procurement Processing and Approval Procedures (BBPPAP)  These procurement guidelines will not apply to ADB funded subprojects.
4.18 Are all invoices stamped PAID, dated, reviewed and approved, and clearly marked for account code assignment?	Yes.	
4.19 Do controls exist for the preparation of the payroll and are changes to the payroll properly authorized?	Yes, payroll is maintained by Expenditure Management Department.	One of the sections under EMD is the Salaries Section, and it conducts: (i) Payment of salaries and allowances; (ii) Disbursement of bonus; (iii) Payment of overtime bills, stipend and leave encashment allowances; Payment for compassionate allowance for the members of the deceased employees of Head Office; (iv) Preparation of Income Tax (v) Assessment sheet on behalf of the employees and payment thereof;  Bangladesh Bank has its Expenditure Regulations
<b>Policies And Procedures</b>		
4.20 What is the basis of accounting (e.g., cash, accrual)?	Accrual basis.	
4.21 What accounting standards are followed?	International Accounting Standards and Bangladesh Accounting Standards.	IAS and IFRS



Topic	Response	Remarks
4.22 Does the project have an adequate policies and procedures manual to guide activities and ensure staff accountability?	Bangladesh Bank has Staff Regulations.	
4.23 Is the accounting policy and procedure manual updated for the project activities?	Yes, updated as per requirement of the project.	
4.24 Do procedures exist to ensure that only authorized persons can alter or establish a new accounting principle, policy or procedure to be used by the entity?	Yes, it should be based on Bangladesh Accounting Standards.	
4.25 Are there written policies and procedures covering all routine financial management and related administrative activities?	Yes, headed by Governor of BB.	
4.26 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, it is being dealt with by Legal Department.	
4.27 Are manuals distributed to appropriate personnel?	Yes, in the form of Circulars.	
<b>Cash and Bank</b>		
4.28 Indicate names and positions of authorized signatories in the bank accounts.	Each department has its own authorized signatories.	
4.29 Does the organization maintain an adequate, up-to-date cashbook, recording receipts and payments?	Yes.	
4.30 Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	The Cash Department has its own internal controls and manuals.	
4.31 Are bank and cash reconciled on a monthly basis?	Bank and cash reconciliation on a daily basis.	
4.32 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	Yes, by the general manager of Accounts and Budgeting Department.	
4.33 Are all receipts deposited on a timely basis?	Yes.	

Topic	Response	Remarks
<b><i>Safeguard over Assets</i></b>		
4.34 Is there a system of adequate safeguards to protect assets from fraud, waste and abuse?	Yes, it has departmental verification unit and central verification unit under Accounts and Budgeting Department.	
4.35 Are subsidiary records of fixed assets and stocks kept up to date and reconciled with control accounts?	Yes, on a yearly basis handled by Accounts and Budgeting Dept. audited by external and internal auditor.	
4.36 Are there periodic physical inventories of fixed assets and stocks?	Yes, on a quarterly basis as well as annual.	
4.37 Are assets sufficiently covered by insurance policies?	Yes.	
<b><i>Other Offices and Implementing Entities</i></b>		
4.38 Are there any other regional offices or executing entities participating in implementation?	For this project, ACFID of Bangladesh Bank will be the implementing agency.	
4.39 Has the project established controls and procedures for flow of funds, financial information, accountability, and audits in relation to the other offices or entities?	Yes, Bangladesh Bank is already handling 2 ADB projects and is familiar with the controls and procedures.	
4.40 Does information among the different offices/implementing agencies flow in an accurate and timely fashion?	not applicable	
4.41 Are periodic reconciliations performed among the different offices/implementing agencies?	not applicable	
<b><i>Other</i></b>		
4.42 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, they have to report to the GM, ACFID.	

Topic	Response	Remarks
<b>5. Internal Audit</b>		
5.1 Is there a internal audit department in the entity?	Yes, Bangladesh Bank has internal audit department.	<p>The scope of work of the Internal Audit Department is to determine whether the Bank's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:</p> <ul style="list-style-type: none"> <li>- Risks are appropriately identified and managed.</li> <li>- Interaction with the various governance groups occurs as needed.</li> <li>- Significant financial, managerial and operating information is accurate, reliable, and timely.</li> <li>- Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations.</li> <li>- Resources are acquired economically, used efficiently, and adequately protected.</li> <li>- Programs, plans, and objectives are achieved.</li> <li>- Quality and continuous improvement are fostered in the Bank's control process.</li> <li>- Significant legislative or regulatory issues impacting the Bank are recognised and addressed appropriately.</li> </ul> <p>Opportunities for improving management control, profitability and the Bank's image may be identified during audits. They will be communicated to the appropriate level of management.</p>
5.2 What are the qualifications and experience of audit department staff?	audit staff have accounting, finance, and economic background	

Topic	Response	Remarks
5.3 To whom does the internal auditor report?	Governor of BB	<p>Internal Audit Department in the discharge of its duties, shall be accountable to management and the audit committee to:</p> <ul style="list-style-type: none"> <li>- Provide annually an assessment on the adequacy and effectiveness of the Bank's processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work.</li> </ul>
		<ul style="list-style-type: none"> <li>- Report significant issues related to the processes for controlling the activities of the Bank and its affiliates, including potential improvements to those processes, and provide information concerning such issues through special reports.</li> <li>- Periodically provide information on the status and results of the annual audit and inspection plan and the sufficiency of department resources.</li> <li>- Coordinate with and provide oversight of other control and monitoring functions (risk management, compliance, security, legal, ethics, environmental, external audit).</li> </ul>
5.4 Will the internal audit department include the project in its work program?	Yes, they will audit on the project implementation.	
5.5 Are actions taken on the internal audit findings?	Yes.	
<b>6. External Audit</b>		
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	<p>Yes, the financial statements of Bangladesh Bank for the year 2009-2010 were audited as per International Standards on Auditing (ISA) by A. Qasem Co. Chartered Accountants, a Cooperating Firm of Pricewaterhouse Coopers and Hoda Vasi Chowdhury &amp; Co. Chartered Accountants, Independent Corresponding Firm to Deloitte Touche Tohmatsu.</p>	

Topic	Response	Remarks
6.2 Are there any delays in audit of the entity? When are the audit reports issued?	Audit reports are normally issued 2-3 months after end of fiscal year.	
6.3 Is the audit of the entity conducted according to the International Standards on Auditing?	Yes, according to International Standards on Auditing.	IAS and IFRS
6.4 Were there any major accountability issues brought out in the audit report of the past three years?	No major accountability issues were brought out in the audit reports of the past three years.	
6.5 Will the entity auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	The project will be audited by both internal and external auditor.	
6.6 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	All recommendations made by auditors are implemented.	
6.7 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, it will also be audited by Auditor General.	
6.8 Has the project prepared acceptable terms of reference for an annual project audit?	Annual project audit should be based on ISA as per audit of external auditor and office of Auditor General.	
<b>7. Reporting and Monitoring</b>		
7.1 Are financial statements prepared for the entity? In accordance with which accounting standards?	International Accounting Standards and Bangladesh Accounting Standards.	
7.2 Are financial statements prepared for the implementing unit?	Yes, project accounts and financial statements will be prepared.	
7.3 What is the frequency of preparation of financial statements? Are the reports prepared in a timely fashion so as to useful to management for decision making?	Yes, annually	
7.4 Does the reporting system need to be adapted to report on the project components?	Yes, it should be adapted to report on the project components.	

Topic	Response	Remarks
7.5 Does the reporting 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?	Bangladesh Bank will comply with the reporting requirements in accordance with the loan and project agreements.	
7.6 Does the project have established financial management reporting responsibilities that specify what reports are to be prepared, what they are to contain, and how they are to be used?	Yes, financial management reporting responsibilities are in place. For this project, it will be in accordance with the loan and project agreements and project administration manual.	
7.7 Are financial management reports used by management?	Yes for decision making.	
7.8 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Yes	
7.9 Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	Financial reports are prepared through automated accounting system.	

Topic		Response	Remarks
<b>8. Information Systems</b>			
8.1	Is the financial management system computerized?	Yes	<p>IT Operation and Communication Department undertakes various functions in order to facilitate computer/data entry operation, maintenance of bank's hardware and software (except midrange system), so that computer use can be optimized. It also provides network communication, administration and maintenance support to different departments and branch offices so as to enhance efficiency of operation and integration. The department involves in planning and evaluation of hardware and software of Bangladesh Bank.</p> <p>The department is working towards office automation of various departments and branch offices of Bangladesh Bank including development of systems and programs on personnel management, matching of EXP forms, transport management, library management, medical systems etc. It is responsible for developing and maintaining systems and programs to process data of various periodicities on international trades and services, exchange rates, loans and grants, foreign assets and liabilities, share price index etc.</p>
8.2	Can the system produce the necessary project financial reports?	Yes, the system can produce the necessary project financial reports.	
8.3	Is the staff adequately trained to maintain the system?	Yes, ACFID staff is trained and has continuous training.	In association with Bangladesh Bank Training Academy, IT Department also imparts regular training on computer orientation and software packages.
8.4	Does the management organization and processing system safeguard the confidentiality, integrity and availability of the data?	Yes.	

**FINANCIAL MANAGEMENT ASSESSMENT QUESTIONNAIRE  
(MINISTRY OF ENVIRONMENT AND FORESTS)**

Topic	Response	Remarks
<b>1. Implementing Agency</b>		
1.1 What is the entity's legal status / registration?	The Ministry of Environment and Forests is the nodal agency in the administrative structure of the Central Government, for the planning, promotion, coordination and overseeing the implementation of environmental and forestry programs. MOEF oversees all environmental matters in the country and is a permanent member of the Executive Committee of the National Economic Council.	
1.2 Has the entity implemented an externally-financed project in the past (if so, please provide details)?	Yes, list of projects are available in the website and was given to ADB.	
1.3 What are the statutory reporting requirements for the entity?	<p>Bangladesh Sixth Five Year Plan (SFYP 2011-2015)- a planning document on long-term business plans/ financial projections – has given high emphasis on environmental protections and climate change issues.</p> <p>Medium Term Budgetary Framework (MTBF) - 33 Ministries/Divisions (including MOEF) have been brought under the MTBF in FY 2010-11. Under the MTBF process, each line Ministry/Division has to prepare its own Ministry Budget Framework (MBF), where they lay down their medium term strategy linking policies, priorities, and resource allocation with the performance of departments and agencies. It also delineates impacts of public expenditure on poverty reduction and gender advancement.</p> <p>Bangladesh Climate Change Strategy and Action Plan (BCCSAP) 2009: Under the six thematic areas of the BCCSAP, 44 program areas have been identified to address adaptation and mitigation activities for the country for the future.</p>	



Topic		Response	Remarks
1.4	Is the governing body for the project independent?	MOEF has the legal capacity/ authority and ability to directly receive funds from bilateral and multilateral agencies.	
1.5	Is the organizational structure appropriate for the needs of the project?	Yes. List of Ministers and officers of MOEF are available in the website.	
<b>2. Funds Flow Arrangements</b>			
2.1	Describe (proposed) project funds flow arrangements, including a chart and explanation of the flow of funds from ADB, government and other financiers.	For the proposed project, funds flow arrangement would be from ADB to MOEF, to Bangladesh Bank, for onlending to qualified participating financial institutions, for onlending to brick kiln owners and greenfield investors.	
2.2	Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity satisfactory?	Yes	
2.3	What have been the major problems in the past in receipt of funds by the entity?	No major problems encountered in the past. Each project has its Steering Committee which provides guidance and policy support to the project implementation including support to resolve difficulties encountered during implementation.	
2.4	In which bank will the Imprest Account be opened?	Bangladesh Bank	
2.5	Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	MOEF will be the executing agency and PMU to be established will consist of staff from ACFID of Bangladesh Bank (BB), the implementing agency, with staff from Department of Environment (DOE) as co-implementing agency. Bangladesh Bank has experience in the management of disbursements from ADB. MOEF and DOE have no experience in management of FI disbursements from ADB.	
2.7	Does the entity have/need a capacity to manage foreign exchange risks?	No.	
2.8	How are the counterpart funds accessed?	Through Bangladesh Bank	
2.9	How are payments made from the counterpart funds?	Through Bangladesh Bank	
2.10	If part of the project is implemented by communities or NGOs, does the PIU have the necessary reporting and monitoring features built into its systems to track the use of project proceeds by such agencies?	Not applicable	

Topic	Response	Remarks
2.11 Are the beneficiaries required to contribute to project costs? If beneficiaries have an option to contribute in kind (in the form of labor), are proper guidelines formulated to record and value the labor contribution?	Not applicable	
<b>3. Staffing</b>		
3.1 What is the (proposed) organizational structure of the accounting department? Attach an organization chart.	All government transactions are done through Bangladesh Bank (Central bank of the country).	
3.2 Identify the (proposed) accounts staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key accounting staff.	Accounts staff of proposed PMU will come from Bangladesh Bank. Most of them have accounting, finance, and economics background.	
3.3 Is the project finance and accounting function staffed adequately?	Accounts staff of proposed PMU will come from Bangladesh Bank.	
3.4 Is the finance and accounts staff adequately qualified and experienced?	Accounts staff of proposed PMU will come from Bangladesh Bank.	
3.5 Is the project accounts and finance staff trained in ADB procedures?	PMU staffs from Bangladesh Bank are trained in ADB procedures.	
3.6 What is the duration of the contract with the finance and accounts staff?	Regular staff	
3.7 Indicate key positions not contracted yet, and the estimated date of appointment.	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?	Yes	
3.11 At what frequency are personnel transferred?	No particular frequency	
3.12 What is training policy for the finance and accounting staff?	Internal and external trainings are provided.	
<b>4. Accounting Policies and Procedures</b>		
4.1 Does the entity have an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds? Will the project use the entity accounting system?	At present, all the offices use Intelligent Bookkeeping and Accounting Software (IBAS) software. MOEF also uses IBAS.	
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	Every Ministry and Department must follow the General Financial Rules, the Treasury Rules and Subsidiary Rules, the Delegation of Financial Power and Internal Audit Manual to control over disbursements and payments performed within their own jurisdiction.	

Topic	Response	Remarks
4.3 Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories?	Sample chart of accounts can be found in the project's external audit report for Coastal and Wetland Biodiversity Project.	
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 and in balance?	Yes	
4.6 Are all accounting and supporting documents retained on a permanent basis in a defined system that allows authorized users easy access?	Yes	
<i>Segregation of Duties</i>		
4.7 Are the following functional responsibilities performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; and (iii) custody of assets involved in the transaction?	All the Departments and Ministries have pre-audit mechanism, which also ensures better control over fund management.	
4.8 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	After supplying goods and services, vendor submits bills to PMU, which then prepares bill for a given expenditure following existing rules and regulations. Accounting Section/PMU take approval of the respective officials of Ministry/ Department. After taking approval, submits the bills to the Controller General of Accounts (CGA) office. If the bills are found in conformity with the government rules and regulations, the CGA's office approves the bill and issue checks in favor of the service provider or persons/ firms. CGA's office acts as a third party to scrutinize the bills which ensures internal control over the fund management. To further improve the standard of internal control, MOEF has established an internal audit committee composed of Deputy Secretary (Administration), representative of Comptroller and Auditor General, representative of Foreign Aided Project Audit Directorate (FAPAD), Chief Accounts Officer, MOEF, and Senior Assistant Secretary.	
4.9 Are bank reconciliations prepared by someone other than those who make or approve payments?	Yes	

Topic	Response	Remarks
<b>Budgeting System</b>		
4.10 Do budgets include physical and financial targets?	Per project and financial allocation	
4.11 Are budgets prepared for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance?	Annual progress report is prepared.	
4.12 Are actual expenditures compared to the budget with reasonable frequency, and explanations required for significant variations from the budget?	MOEF and its attached department like Department of Environment and Department of Forest are efficiently preparing their annual budget and over the last financial year demonstrated their ability to spend against the budget. MOEF and its attached department's performance were 98%, which was higher than the national average.	
4.13 Are approvals for variations from the budget required in advance or after the fact?	Not determined.	
4.14 Who is responsible for preparation and approval of budgets?	33 Ministries/Divisions (including MOEF) have been brought under the MTBF in FY 2010-11. Under the MTBF process, each line Ministry/Division has to prepare its own Ministry Budget Framework (MBF), where they lay down their medium term strategy linking policies, priorities, and resource allocation with the performance of departments and agencies.	
4.15 Are procedures in place to plan project activities, collect information from the units in charge of the different components, and prepare the budgets?	Yes	
4.16 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?	Yes	

Topic	Response	Remarks
<b>Payments</b>		
4.17 Do invoice-processing procedures provide for: (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?	For ongoing projects, the project personnel (Accountant/Accounts Assistant/Accounts Officer) get the approval as per government rules and regulations. Disbursements are made as follows: <ul style="list-style-type: none"> <li>- Debit and credit disbursement through vouchers</li> <li>- Posted to cash book for cash/check payment</li> <li>- Maintain a petty cash book (certain amount is maintained for ex. Tk15,000)</li> <li>- Maintenance of ledger book</li> <li>- Bank reconciliation</li> <li>- Bank statement</li> <li>- Monthly progress report</li> </ul>	
4.18 Are all invoices stamped PAID, dated, reviewed and approved, and clearly marked for account code assignment?	Yes	
4.19 Do controls exist for the preparation of the payroll and are changes to the payroll properly authorized?	Not determined based on gathered data	
<b>Policies And Procedures</b>		
4.20 What is the basis of accounting (e.g., cash, accrual)?	Cash basis of accounting is followed, under which payment is recorded in the cash register/book just after completion of the transaction.	
4.21 What accounting standards are followed?	Bangladesh follows International Accounting and Auditing Standards to perform the audit of its ongoing and completed projects.	
4.22 Does the project have an adequate policies and procedures manual to guide activities and ensure staff accountability?	In case of UNDP projects, it follows the procedures prescribed by UNDP-GoB NEX manual.	
4.23 Is the accounting policy and procedure manual updated for the project activities?	Not determined based on gathered data.	
4.24 Do procedures exist to ensure that only authorized persons can alter or establish a new accounting principle, policy or procedure to be used by the entity?	Not determined based on gathered data.	
4.25 Are there written policies and procedures covering all routine financial management and related administrative activities?	Yes. In case of UNDP projects, it follows the procedures prescribed by UNDP-GoB NEX manual.	

Topic	Response	Remarks
4.26 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?	<p>Yes</p> <p>Bangladesh is a signatory to the UN Convention against Corruption which demonstrates its commitment to prevent corruption.</p> <p>Government has upgraded and reorganized the Anti Corruption Bureau into an Anti Corruption Commission headed by a Chairman and supported by two commissioners.</p> <p>Every Sectoral Ministry has a Parliamentary Standing Committee (PSC) to oversee the activities of respective Ministries/ Departments.</p> <p>Public Accounts Committee (PAC) of the Parliament also looks into the financial irregularities of different Ministries and Departments.</p> <p>Bangladesh applies the general codes of conduct for public officials to procurement personnel. There is a Complaint Handling Mechanism that allows addressing complaints directly to the concerned procuring entity; appeals are handled by a review panel that is independent from the procuring entity.</p>	
4.27 Are manuals distributed to appropriate personnel?	Not determined based on gathered data.	
<b>Cash and Bank</b>		
4.28 Indicate names and positions of authorized signatories in the bank accounts.	Not determined based on gathered data.	
4.29 Does the organization maintain an adequate, up-to-date cashbook, recording receipts and payments?	Yes	
4.30 Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	Yes	
4.31 Are bank and cash reconciled on a monthly basis?	Yes	
4.32 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	Yes	
4.33 Are all receipts deposited on a timely basis?	Yes	

Topic	Response	Remarks
<b><i>Safeguard over Assets</i></b>		
4.34 Is there a system of adequate safeguards to protect assets from fraud, waste and abuse?	Yes, through internal and external audit	
4.35 Are subsidiary records of fixed assets and stocks kept up to date and reconciled with control accounts?	Not determined based on gathered data.	
4.36 Are there periodic physical inventories of fixed assets and stocks?	Not determined based on gathered data.	
4.37 Are assets sufficiently covered by insurance policies?	Not determined based on gathered data.	
<b><i>Other Offices and Implementing Entities</i></b>		
4.38 Are there any other regional offices or executing entities participating in implementation?	Yes, Bangladesh Bank	
4.39 Has the project established controls and procedures for flow of funds, financial information, accountability, and audits in relation to the other offices or entities?	Yes	
4.40 Does information among the different offices/implementing agencies flow in an accurate and timely fashion?	Yes	
4.41 Are periodic reconciliations performed among the different offices/implementing agencies?	Yes	
<b><i>Other</i></b>		
4.42 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?	This is dealt with by internal and external audit.	
<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 audit department staff?	To further improve the standard of internal control, MOEF has established an internal audit committee composed of Deputy Secretary (Administration), representative of Comptroller and Auditor General, representative of Foreign Aided Project Audit Directorate (FAPAD), Chief Accounts Officer, MOEF, and Senior Assistant Secretary.	

Topic	Response	Remarks
5.3 To whom does the internal auditor report?	<p>Foreign Aided Projects Audit Directorate (FAPAD) is the legal entity to perform the audit of the foreign aided project under the control of the Controller and Auditor General.</p> <p>Every Ministry and Department has their own auditing mechanism, in case of MOEF, Administrative wing performs the auditing functions and provide directives to resolve audit objections once the audit is performed.</p>	
5.4 Will the internal audit department include the project in its work program?	Yes	
5.5 Are actions taken on the internal audit findings?	Yes, in the case of audit of Coastal and Wetland Biodiversity Management Project, there were four audit objections which were settled during the Exit Meeting.	
<b>6. External Audit</b>		
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Foreign Aided Projects Audit Directorate (FAPAD) is the legal entity to perform the audit of the foreign aided project under the control of the Controller and Auditor General.	
6.2 Are there any delays in audit of the entity? When are the audit reports issued?	None, annually.	
6.3 Is the audit of the entity conducted according to the International Standards on Auditing?	Yes	
6.4 Were there any major accountability issues brought out in the audit report of the past three years?	Not determined based on gathered data.	
6.5 Will the entity auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	Yes, FAPAD will conduct the audit.	
6.6 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	Not determined based on gathered data.	
6.7 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?	Foreign Aided Projects Audit Directorate (FAPAD) is the legal entity to perform the audit of the foreign aided project under the control of the Controller and Auditor General.	



Topic	Response	Remarks
6.8 Has the project prepared acceptable terms of reference for an annual project audit?	The terms of reference of FAPAD's audit teams include its role, scope, responsibilities, standards and approach, independence, reporting, liaison; to look into the financial statements; to look into the Management Letter comprising statement of expenditure, cash position, opinion on status of assets and equipment, and opinion on the follow up of previous recommendations/observations.	
<b>7. Reporting and Monitoring</b>		
7.1 Are financial statements prepared for the entity? In accordance with which accounting standards?	Bangladesh follows International Accounting and Auditing Standards to perform the audit of its ongoing and completed projects.	
7.2 Are financial statements prepared for the implementing unit?	Yes	
7.3 What is the frequency of preparation of financial statements? Are the reports prepared in a timely fashion so as to useful to management for decision making?	Yes, annually.	
7.4 Does the reporting system need to be adapted to report on the project components?	Yes, if the system is capable.	
7.5 Does the reporting 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?	The project will have a separate reporting system that will monitor its progress.	
7.6 Does the project have established financial management reporting responsibilities that specify what reports are to be prepared, what they are to contain, and how they are to be used?	Yes, usually audited project accounts and financial statements.	
7.7 Are financial management reports used by management?	Yes	
7.8 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Yes	
7.9 Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	Yes. At present, all the offices use Intelligent Bookkeeping and Accounting Software (IBAS) software. MOEF also uses IBAS.	
<b>8. Information Systems</b>		
8.1 Is the financial management system computerized?	Yes. At present, all the offices use Intelligent Bookkeeping and Accounting Software (IBAS) software. MOEF also uses IBAS.	

Topic	Response	Remarks
8.2 Can the system produce the necessary project financial reports?	It is not tailor-fit to produce necessary project financial reports.	
8.3 Is the staff adequately trained to maintain the system?	Yes	
8.4 Does the management organization and processing system safeguard the confidentiality, integrity and availability of the data?	Yes	

**FINANCIAL MANAGEMENT ASSESSMENT QUESTIONNAIRE  
(DEPARTMENT OF ENVIRONMENT)**

Topic	Response	Remarks
<b>1. Implementing Agency</b>		
1.1 What is the entity's legal status / registration?	<p>In 1977, Environment Pollution Control Board with 16 members headed by a Member of the Planning Commission and Environment Pollution Control Cell headed by a Director with staff complement of 26 was established.</p> <p>This was followed in 1977 by the establishment of the Environment Pollution Control Project, in 1985 by the establishment of the Department Pollution Control and finally, in 1989 by the restructured and renamed the <b>Department of Environment</b> (the Department), the activities of which are overseen by a Director General. The Department discharges its responsibilities through a head office and six Divisional offices located in Dhaka, Chittagong, Khulna, Bogra, Barisal and Sylhet. Of late, the Government has been set up 21 new offices at district level with the creation of 468 new positions. As a result, the DOE staff has been increased to 735.</p>	The DoE has been placed under the MOEF as its technical wing and is statutorily responsible for the implementation of the Environment Conservation Act, 1995.
1.2 Has the entity implemented an externally-financed project in the past (if so, please provide details)?	Yes, List of ongoing projects can be found in DOE's website and was given to ADB.	

Topic	Response	Remarks
1.3 What are the statutory reporting requirements for the entity?	<p>The Department was created in 1989 to ensure sustainable development and to conserve and manage the environment of Bangladesh. Creating public awareness on environmental management and legal obligations are needed for this. The following Policy, Acts and Rules facilitate the activities of the Department:</p> <p>Environment Policy, 1992  Environment Conservation Act, 1995 and subsequent amendments  Environment Conservation Rules, 1997  Environment Court Act, 2000 and subsequent amendments  Ozone Depleting Substances (Control) Rules, 2004  Noise Pollution (Control) Rules 2006  Medical waste Management Rules 2008</p>	
1.4 Is the governing body for the project independent?	Yes for smaller projects and for larger projects, approval is required from sectoral ministry or Executive Committee for National Economic Council/ Planning Commission.	
1.5 Is the organizational structure appropriate for the needs of the project?	Yes. The DOE Headquarter is currently organised into nine main functional areas. In addition there are six Divisional Offices that carrying out overall management of the environment supported by laboratory analysis. 21 newly created District Offices are yet to be started in full swing.	
<b>2. Funds Flow Arrangements</b>		
2.1 Describe (proposed) project funds flow arrangements, including a chart and explanation of the flow of funds from ADB, government and other financiers.	For the proposed project, funds flow arrangement would be from ADB to MOEF, to Bangladesh Bank, for onlending to qualified participating financial institutions, for onlending to brick kiln owners and greenfield investors. DOE will be in charge of the technical requirements for compliance by PFIs.	

Topic	Response	Remarks
2.2 Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity satisfactory?	Transfer of proceeds will be through Bangladesh Bank	
2.3 What have been the major problems in the past in receipt of funds by the entity?	No major problems were encountered in the past.	
2.4 In which bank will the Imprest Account be opened?	Bangladesh Bank	
2.5 Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	MOEF will be the executing agency and PMU to be established will consist of staff from ACFID of Bangladesh Bank (BB), the implementing agency, with staff from Department of Environment (DOE) as co-implementing agency. Bangladesh Bank has experience in the management of disbursements from ADB. MOEF and DOE have no experience in management of FI disbursements from ADB.	
2.7 Does the entity have/need a capacity to manage foreign exchange risks?	No.	
2.8 How are the counterpart funds accessed?	Through Bangladesh Bank	
2.9 How are payments made from the counterpart funds?	Through Bangladesh Bank	
2.10 If part of the project is implemented by communities or NGOs, does the PIU have the necessary reporting and monitoring features built into its systems to track the use of project proceeds by such agencies?	Not applicable	
2.11 Are the beneficiaries required to contribute to project costs? If beneficiaries have an option to contribute in kind (in the form of labor), are proper guidelines formulated to record and value the labor contribution?	Not applicable	
<b>3. Staffing</b>		
3.1 What is the (proposed) organizational structure of the accounting department? Attach an organization chart.	All government transactions are done through Bangladesh Bank (Central bank of the country).	

Topic	Response	Remarks
3.2 Identify the (proposed) accounts staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key accounting staff.	Director, Administration; Deputy Director Accounts; AD Accounts; Accountant; Cashier  Accounts staff of proposed PMU will come from Bangladesh Bank. Most of them have accounting, finance, and economics background.	
3.3 Is the project finance and accounting function staffed adequately?	Yes	
3.4 Is the finance and accounts staff adequately qualified and experienced?	Yes, few of them have masters degree in Accounting	
3.5 Is the project accounts and finance staff trained in ADB procedures?	Not familiar with ADB procedures. They have been an implementing agency under an ADB TA only.  Accounts staff of proposed PMU will come from Bangladesh Bank. Most of them have accounting, finance, and economics background.	
3.6 What is the duration of the contract with the finance and accounts staff?	They are regular staff	
3.7 Indicate key positions not contracted yet, and the estimated date of appointment.	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?	Yes	
3.11 At what frequency are personnel transferred?	Normally 3 years	
3.12 What is training policy for the finance and accounting staff?	There's regular training for finance and accounting staff	
<b>4. Accounting Policies and Procedures</b>		
4.1 Does the entity have an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds? Will the project use the entity accounting system?	DOE has computerized accounting system. At present, all the offices use Intelligent Bookkeeping and Accounting Software (IBAS).	

Topic	Response	Remarks
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	Every Ministry and Department must follow the General Financial Rules, the Treasury Rules and Subsidiary Rules, the Delegation of Financial Power and Internal Audit Manual to control over disbursements and payments performed within their own jurisdiction.	
4.3 Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories?	Sample chart of accounts can be found in the project's external audit report for Coastal and Wetland Biodiversity Project.	
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 and in balance?	Yes	
4.6 Are all accounting and supporting documents retained on a permanent basis in a defined system that allows authorized users easy access?	Yes	
<b><i>Segregation of Duties</i></b>		
4.7 Are the following functional responsibilities performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; and (iii) custody of assets involved in the transaction?	All the Departments and Ministries have pre-audit mechanism, which also ensures better control over fund management.	
4.8 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	For DOE, not determined based on gathered data.	
4.9 Are bank reconciliations prepared by someone other than those who make or approve payments?	For DOE, not determined based on gathered data.	
<b><i>Budgeting System</i></b>		
4.10 Do budgets include physical and financial targets?	Per project and financial allocation	
4.11 Are budgets prepared for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance?	Annual progress report is prepared.	

Topic	Response	Remarks
4.12 Are actual expenditures compared to the budget with reasonable frequency, and explanations required for significant variations from the budget?	MOEF and its attached department like DOE and Department of Forest are efficiently preparing their annual budget and over the last financial year demonstrated their ability to spend against the budget. MOEF and its attached department's performance were 98%, which was higher than the national average.	
4.13 Are approvals for variations from the budget required in advance or after the fact?	Not determined.	
4.14 Who is responsible for preparation and approval of budgets?	33 Ministries/Divisions (including MOEF) have been brought under the MTBF in FY 2010-11. Under the MTBF process, each line Ministry/Division has to prepare its own Ministry Budget Framework (MBF), where they lay down their medium term strategy linking policies, priorities, and resource allocation with the performance of departments and agencies.	
4.15 Are procedures in place to plan project activities, collect information from the units in charge of the different components, and prepare the budgets?	Yes	
4.16 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?	Yes	



Topic	Response	Remarks
<b>Payments</b>		
4.17 Do invoice-processing procedures provide for: (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?	For ongoing projects of MOEF, the project personnel (Accountant/Accounts Assistant/Accounts Officer) get the approval as per government rules and regulations. Disbursements are made as follows: <ul style="list-style-type: none"> <li>- Debit and credit disbursement through vouchers</li> <li>- Posted to cash book for cash/check payment</li> <li>- Maintain a petty cash book (certain amount is maintained for ex. Tk15,000)</li> <li>- Maintenance of ledger book</li> <li>- Bank reconciliation</li> <li>- Bank statement</li> <li>- Monthly progress report</li> </ul> Not determined for DOE.	
4.18 Are all invoices stamped PAID, dated, reviewed and approved, and clearly marked for account code assignment?	Not determined based on gathered data.	
4.19 Do controls exist for the preparation of the payroll and are changes to the payroll properly authorized?	Not determined based on gathered data.	
<b>Policies And Procedures</b>		
4.20 What is the basis of accounting (e.g., cash, accrual)?	Cash basis of accounting is followed, under which payment is recorded in the cash register/book just after completion of the transaction.	
4.21 What accounting standards are followed?	Bangladesh follows International Accounting and Auditing Standards to perform the audit of its ongoing and completed projects.	
4.22 Does the project have an adequate policies and procedures manual to guide activities and ensure staff accountability?	In case of UNDP projects, it follows the procedures prescribed by UNDP-GoB NEX manual.	
4.23 Is the accounting policy and procedure manual updated for the project activities?	Not determined based on gathered data.	

Topic	Response	Remarks
4.24 Do procedures exist to ensure that only authorized persons can alter or establish a new accounting principle, policy or procedure to be used by the entity?	Not determined based on gathered data.	
4.25 Are there written policies and procedures covering all routine financial management and related administrative activities?	Yes. In case of UNDP projects, it follows the procedures prescribed by UNDP-GoB NEX manual.	
4.26 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?	<p>Yes</p> <p>Bangladesh is a signatory to the UN Convention against Corruption which demonstrates its commitment to prevent corruption.</p> <p>Government has upgraded and reorganized the Anti Corruption Bureau into an Anti Corruption Commission headed by a Chairman and supported by two commissioners.</p> <p>Every Sectoral Ministry has a Parliamentary Standing Committee (PSC) to oversee the activities of respective Ministries/ Departments.</p> <p>Public Accounts Committee (PAC) of the Parliament also looks into the financial irregularities of different Ministries and Departments.</p> <p>Bangladesh applies the general codes of conduct for public officials to procurement personnel. There is a Complaint Handling Mechanism that allows addressing complaints directly to the concerned procuring entity; appeals are handled by a review panel that is independent from the procuring entity.</p>	
4.27 Are manuals distributed to appropriate personnel?	Not determined based on gathered data.	
<b>Cash and Bank</b>		
4.28 Indicate names and positions of authorized signatories in the bank accounts.	Not determined based on gathered data.	
4.29 Does the organization maintain an adequate, up-to-date cashbook, recording receipts and payments?	Yes	

Topic	Response	Remarks
4.30 Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	Yes	
4.31 Are bank and cash reconciled on a monthly basis?	Yes	
4.32 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	Yes	
4.33 Are all receipts deposited on a timely basis?	Yes	
<b>Safeguard over Assets</b>		
4.34 Is there a system of adequate safeguards to protect assets from fraud, waste and abuse?	Yes, through internal and external audit	
4.35 Are subsidiary records of fixed assets and stocks kept up to date and reconciled with control accounts?	Not determined based on gathered data.	
4.36 Are there periodic physical inventories of fixed assets and stocks?	Not determined based on gathered data.	
4.37 Are assets sufficiently covered by insurance policies?	Not determined based on gathered data.	
<b>Other Offices and Implementing Entities</b>		
4.38 Are there any other regional offices or executing entities participating in implementation?	Yes, Bangladesh Bank (ACFID)	
4.39 Has the project established controls and procedures for flow of funds, financial information, accountability, and audits in relation to the other offices or entities?	Yes	
4.40 Does information among the different offices/implementing agencies flow in an accurate and timely fashion?	Yes	
4.41 Are periodic reconciliations performed among the different offices/implementing agencies?	Yes	
<b>Other</b>		
4.42 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?	This is dealt with by internal and external audit.	

Topic	Response	Remarks
<b>5. Internal Audit</b>		
5.1 Is there a internal audit department in the entity?	Every Ministry and Department has their own auditing mechanism. For MOEF, yes.	
5.2 What are the qualifications and experience of audit department staff?	Not determined for DOE. To further improve the standard of internal control, MOEF has established an internal audit committee composed of Deputy Secretary (Administration), representative of Comptroller and Auditor General, representative of Foreign Aided Project Audit Directorate (FAPAD), Chief Accounts Officer, MOEF, and Senior Assistant Secretary.	
5.3 To whom does the internal auditor report?	Foreign Aided Projects Audit Directorate (FAPAD) is the legal entity to perform the audit of the foreign aided project under the control of the Controller and Auditor General.	
5.4 Will the internal audit department include the project in its work program?	Yes	
5.5 Are actions taken on the internal audit findings?	Yes, in the case of audit of Coastal and Wetland Biodiversity Management Project, there were four audit objections which were settled during the Exit Meeting.	
<b>6. External Audit</b>		
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Foreign Aided Projects Audit Directorate (FAPAD) is the legal entity to perform the audit of the foreign aided project under the control of the Controller and Auditor General.	
6.2 Are there any delays in audit of the entity? When are the audit reports issued?	None, annually.	
6.3 Is the audit of the entity conducted according to the International Standards on Auditing?	Yes	
6.4 Were there any major accountability issues brought out in the audit report of the past three years?	Not determined based on gathered data.	
6.5 Will the entity auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	Yes, FAPAD will conduct the audit.	

Topic	Response	Remarks
6.6 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	Not determined based on gathered data.	
6.7 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?	Foreign Aided Projects Audit Directorate (FAPAD) is the legal entity to perform the audit of the foreign aided project under the control of the Controller and Auditor General.	
6.8 Has the project prepared acceptable terms of reference for an annual project audit?	The terms of reference of FAPAD's audit teams include its role, scope, responsibilities, standards and approach, independence, reporting, liaison; to look into the financial statements; to look into the Management Letter comprising statement of expenditure, cash position, opinion on status of assets and equipment, and opinion on the follow up of previous recommendations/observations.	
<b>7. Reporting and Monitoring</b>		
7.1 Are financial statements prepared for the entity? In accordance with which accounting standards?	Bangladesh follows International Accounting and Auditing Standards to perform the audit of its ongoing and completed projects.	
7.2 Are financial statements prepared for the implementing unit?	Yes	
7.3 What is the frequency of preparation of financial statements? Are the reports prepared in a timely fashion so as to useful to management for decision making?	Yes, annually.	
7.4 Does the reporting system need to be adapted to report on the project components?	Yes, if the system is capable.	
7.5 Does the reporting 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?	The project will have a separate reporting system that will monitor its progress.	

Topic	Response	Remarks
7.6 Does the project have established financial management reporting responsibilities that specify what reports are to be prepared, what they are to contain, and how they are to be used?	Yes, usually audited project accounts and financial statements.	
7.7 Are financial management reports used by management?	Yes	
7.8 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Yes	
7.9 Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	Yes. At present, all the offices use Intelligent Bookkeeping and Accounting Software (IBAS)	
<b>8. Information Systems</b>		
8.1 Is the financial management system computerized?	Yes. At present, all the offices use Intelligent Bookkeeping and Accounting Software (IBAS)	
8.2 Can the system produce the necessary project financial reports?	It is not tailor-fit to produce necessary project financial reports.	
8.3 Is the staff adequately trained to maintain the system?	Yes	
8.4 Does the management organization and processing system safeguard the confidentiality, integrity and availability of the data?	Yes	

### GENDER ACTION PLAN

Activities	Indicators and Targets	Responsibility	Time
<b>Output 1: Establishment of designated funding support to finance more energy-efficient brick kiln upgrade and construction</b>			
1.1 Employ at least 10% of women workers in the workforce of ADB-funded (energy-efficient brick kilns) subprojects, prioritizing those women workers displaced from the phased-out FCKs, and ensuring core labor standards (e.g. equal pay for work of equal value, occupational health and safety protection, and segregated facilities for male and female workers).	<ul style="list-style-type: none"> <li>Criteria for PFIs and lending terms for sub-borrowers developed, with relevant pro-poor and gender-sensitive provisions, including the employment of at least 10% women in its workforce, prioritizing women workers displaced from the FCKs, and gender-sensitive provisions of the core labor standards, and reflected in the agreements with PFIs and sub-borrowers.</li> </ul>	Bangladesh Bank and PFIs	Year 1
1.2 Orient PFIs and sub-borrowers on ADB policies on gender equality and the gender-related aspects of core labor standards.	<ul style="list-style-type: none"> <li>All PFIs and sub-borrowers commit to gender equality and implement core labor standards.</li> </ul>	ADB, Bangladesh Bank, and PFIs	Year 1 and 2
<b>Output 2: Improved working and social welfare conditions of male and female kiln workers</b>			
2.1 Conduct a rapid assessment on the labor situation in FCKs, with a focus on the conditions of women workers, and prepare action plans to help them transition to working in more advance brick kilns and/or other jobs.	<ul style="list-style-type: none"> <li>An assessment on the situation of women workers in FCKs and recommendations to help them transition to employment in improved zigzag kilns and other energy-efficient brick kilns, and/or train them for alternative means of livelihood.</li> </ul>	Capacity development TA consultant(s) in coordination with PMU (ACFID).	Q3-onwards
2.2 Conduct annual training on relevant ADB capacity development TA implementing agencies (to be determined) on the development of alternative livelihoods to FCK owners and workers including women workers.	<ul style="list-style-type: none"> <li>Strategy is developed by ADB capacity development TA to best address the binding constraints in gender mainstreaming.</li> </ul>	Capacity development TA consultant(s) in coordination with PMU (ACFID).	Q3 – onwards
2.3 Conduct stocktaking on the types of skills that the displaced workers, including women workers, require in order to work in the improved zigzag kilns, VSBKs, HHKs, and tunnel kilns and other fields.	<ul style="list-style-type: none"> <li>At least 50% of workers in the selected FCKs acquire useful skill sets as demanded by the market (Target: At least 10% of recipients in skills training are women).</li> </ul>	Capacity development TA consultant(s) in coordination with PMU (ACFID).	Q3 - onwards
2.4 Monitor compliance with core labor standards by PFIs and kiln owners.	<ul style="list-style-type: none"> <li>100% compliance with core labor standards by PFIs and more energy-efficient kilns.</li> </ul>	ACFID, Bangladesh Bank	

ACFID = Agricultural Credit and Financial Inclusion Department; ADB = Asian Development Bank; TA = technical assistance; FCK = fixed chimney kilns; HHK = hybrid Hoffman kiln; PFI = participating finance institutions; PMU = project management unit; Q = quarter; VSBK = vertical shaft brick kiln.