

Ministry of Foreign Affairs – VBE

Meeting in the Council for Development Policy 13 June 2017

Agenda item 2

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| 1. Overall purpose | For discussion and recommendation to the Minister |
| 2. Title: | Design and Implementation of the Saidabad III Water Treatment Plant in Dhaka, Bangladesh 2017 - 2022 |
| 3. Presentation for Programme Committee: | 23 April 2015 |

Design and Implementation of the Saidabad III Water Treatment Plant in Dhaka, Bangladesh

Key results:

- By the end of the programme 7,000,000 people, more than 1,000,000 of whom currently live in low income areas with limited access to safe and sufficient water, will gain access to regular potable water in quantities (ie least 100 litres per person per day) and to quality standards that meet World Health Organisation.
- The water supplies will be sustainably sourced, secure against degradation and depletion of resources due to climate change, and sufficient to meet expected growth in demand.

Justification for support:

- The proposed programme is consistent with the ongoing Danish Country Programme, the priorities set out in Bangladesh's national development plans and Denmark's new development strategy "The World 2030" with specific focus on Sustainable Development goal number 6 (clean water and sanitation) as well as a range of other SDGs.
- The Saidabad III project is commercially nonviable and thereby eligible for Danida Business Finance (DBF) support. The project will bring Danish expertise and know-how to Bangladesh and promote a gradual shift to political and commercial cooperation.
- The population of Metropolitan Dhaka is around 15 million and is expected to reach 29 million by the year 2035. At present, water supply service is provided intermittently and only covers around 80% of the population. The main raw water source (ground water) is insufficient to meet current demand and large-scale investments will be required to meet the increase in water demand.

How will we ensure results and monitor progress:

- DBF will assist Dhaka Water Supply and Sewerage Authority (DWASA) with procurement of a design and supervision consultant, who will develop the project and monitor progress using the results framework.
- DBF will appoint an independent Procurement/Verification Consultant. In addition, an M&E Consultant will investigate compliance with the Resettlement and Environmental Plan, the Social Management Plan, as well as the social elements of the Results Framework.

Risk and challenges:

- Political will to maintain support of DWASA management and operational turnaround falters – Unlikely, as DWASA under its current management is obtaining highly positive results.
- Undeterred urban development could result in pollution of the raw water supply at the Meghna intake – Likely, but waste water treatment around Meghna is a central part of the area's development plan and closely monitored by all financiers.
- Water Treatment Plant complementary infrastructure not in place – Likely, but continuous monitoring and coordination with all financiers (AFD, DWASA, EIB, KfW, DBF), as well as other risk mitigation measures has been included in the project.

File No.	2014-9677					
Country	Bangladesh					
Responsible Unit	Department for Growth and Employment (VBE)- Danida Business Finance					
Sector	Water supply					
Mill.	2018	2019	2020	2021	2022	Tot.
Commitment						
Projected ann. Disb.	26,6	350	200	200	200	976,6
Duration	2018 to 2022					
Finance Act code.	06.38.01.13.					
Desk officer	Annelise Boysen					
Financial officer	N/A					

SDGs relevant for Programme

 No Poverty	 No Hunger	 Good Health, Wellbeing	 Quality Education	 Gender Equality	 Clean Water, Sanitation
 Affordable Clean Energy	 Decent Jobs, Econ. Growth	 Industry, Innovation, Infrastructure	 Reduced Inequalities	 Sustainable Cities, Communities	 Responsible Consumption & Production
 Climate Action	 Life below Water	 Life on Land	 Peace & Justice, strong Inst.	 Partnerships for Goals	

Budget

Design and Implementation of Saidabad III Water Treatment Plant incl. Sludge Treatment Facilities.	
Total Project Budget including Contingencies:	DKK 1.399 million
Total Grant:	DKK 976,6 million
The project will be financed by a Danida Business Finance loan – with a 50% grant element.	

Strat. objective(s)	Thematic Objectives	List of Engagement/Partners
Sustainable poverty reduction	The population of Dhaka uses a sustainable, environmentally friendly, pro-poor, diversified and more climate resilient water supply	- Design and Implementation of Saidabad III Water Treatment Plant and Sludge Treatment Facilities - Dhaka Water Supply and Sewerage Authority

MINISTRY OF FOREIGN AFFAIRS OF DENMARK

DANIDA | INTERNATIONAL
DEVELOPMENT COOPERATION

Danida Business Finance

**Design and Implementation of the Saidabad III Water Treatment
Plant in Dhaka, Bangladesh 2017 - 2022**

Project Document

May 2017

List of Abbreviations

6FYP	6 th Five Year Plan
7FYP	7 th Five Year Plan
ADB	Asian Development Bank
AFD	Agence Française de Développement
AL	Awami League (AL) – Governing Party in Bangladesh
BCCSAP	Bangladesh Climate Change Strategy and Action Plan
BCP	Bangladesh Country Programme
BDT	Bangladeshi Taka
BNP	Bangladesh National Party – largest opposition party in Bangladesh
CHT	Chittagong Hill Tract
CSO	Civil Society Organization
DAC	Development Assistance Committee
DANIDA	Danish International Development Assistance
DBF	Danida Business Finance
DKK	Danish Krone
DBO	Design, Build, and Operate
DWASA	Dhaka Water Supply and Sewerage Authority
EIB	European Investment Bank
EoD	Embassy of Denmark
ERD	Economic Relations Division, Government of Bangladesh
ESMP	Economic and Social Master Plan
EU	European Union
FIDIC	International Federation of Consulting Engineers
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GoB	Government of Bangladesh
HRBA	Human Rights Based Approach
KfW	Kreditanstalt für Wiederaufbau
LDC	Least Developed Country
M&E	Monitoring and Evaluation
MTR	Mid-Term review
NGO	Non-Government Organisation
PMU	Programme Management Unit
OECD	Organisation for Economic Cooperation and Development
RAP	Resettlement Action Plan
RPF	Resettlement Policy Framework
TA	Technical Assistance
UN	United Nations
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change
WHO	World Health Organisation
WB	World Bank
WTP	Water Treatment Plant

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1 Introduction

Danish development assistance to Bangladesh stretches back almost 40 years. At present, the overarching strategy for the cooperation is set out in the Denmark-Bangladesh Country Policy Paper (2013-17), followed up by the Denmark-Bangladesh Country Programme (2017-2021). The overall objective of the policy is to contribute to reduce poverty, increase growth and ensure sustainable development. Furthermore, Denmark is committed to contribute to the promotion of democracy, respect for human rights, rule of law and good governance. These objectives remain relevant and guide the ongoing preparation of a joint European Union (EU) Country Strategy for Bangladesh.

Danida Business Finance (DBF) is an organisational unit within the Ministry of Foreign Affairs in Denmark and is an integral part of development cooperation. Danida Business Finance provided funding for Saidabad Water Treatment Plant, phase II. The project, which was successfully completed, has been in operation since December 2012. Together with Saidabad I, clean water of 450,000 m³ per day is produced for Dhaka. As the population of Dhaka is growing and available water resources are over-exploited, the Government of Bangladesh has developed a Water Supply Master Plan. Central to the Plan are three large-scale programmes to cope with the future water demand of Dhaka Metropolitan area, including Padma, Gandharbpur, and Saidabad. In addition to producing sufficient water to meet future demand, the programmes are designed to stop the aquifer depletion by shifting the main source of water supply from groundwater to surface water.

The Saidabad programme involves component 1: establishing a raw water intake at Meghna, about 30 km from Metropolitan Dhaka and construction of a water transmission line from Meghna to Saidabad; component 2: construction of a surface water treatment plant at Saidabad, Saidabad III, and sludge treatment facilities for all three water treatment plants at Saidabad; and component 3: construction of primary and secondary distribution lines and household connections from Saidabad III. The overall programme will be financed by a consortium of European development finance institutions (Agence Française de Développement, AFD; Danida Business Finance, DBF; the European Investment Bank, EIB; and Kreditanstalt für Wiederaufbau, KfW). The Government of Bangladesh has requested Danida Business Finance to provide a loan for construction of the Saidabad III water treatment plant and sludge treatment facilities for Saidabad I, II and III.

This Project Document sets out the overall objectives, the expected outcomes, and major risks of the project. In addition, the document outlines the project Theory of Change, budget, and management arrangements (as per Guiding Principles for Danida Business Finance, 2016 and Danida Aid Management Guidelines, January 2017). The concept note for the project was presented to the Programme Committee on 24 April 2015. An appraisal was carried out in January 2016 and all recommendations of the appraisal have subsequently been incorporated into this Project Document. All three components of the programme are inter-linked and thus, full financing commitments for the entire programme had to be secured before the preparatory work could be finalised. With funding from KfW in December 2016, full financing for the Saidabad programme has now been secured.

2 Brief Project Context

2.1 Development Context

Bangladesh is a country in transition towards achieving middle-income country status. Over the past decade, it has achieved sustained annual growth of 6% in GDP and poverty levels have fallen from almost 59% in 1992 to 25% in 2015, achieving the Millennium Development Goal of

halving the incidence of extreme poverty¹. In the same period, Bangladesh has made major improvements in other social indices (infant and under-5 mortality, maternal mortality, life expectancy etc.). Nevertheless, with a US\$1,096 GDP per capita², Bangladesh remains one of the poorest countries in South Asia, and social and economic inequalities persist to the detriment of the most marginalised groups (ultra-poor, as well as ethnic, religious, and social minorities).

The governance situation, the state of national institutions, and corruption constitute major challenges for continued progress in Bangladesh. According to OECD³, Bangladesh is a country of extreme political fragility and moderate societal and security fragility. Drivers of conflict and instability include the deep polarisation of national politics and a perception that politicised law enforcement and the judicial apparatus are used against the opposition. Good governance and strong institutions, which are preconditions for sustainable social and economic development, are endangered by Bangladesh's confrontational politics and the negative consequences of continual political turmoil.

Furthermore, climate change threatens Bangladesh's progress. The country consists largely of river delta areas, of which two thirds are less than five meters above sea level. Many populated areas are therefore highly susceptible to sea-level rise and storm-induced tidal flooding. Future challenges are likely to include threats to food security and freshwater supplies (due to saline intrusion into shallow groundwater), increased prevalence of water-related diseases, and repeated damage to poorly-sited or -constructed infrastructure.

Today, most Bangladeshis live in rural areas, but there is rapid migration into urban areas (3.5% per annum, World Bank 2015), in search of new employment opportunities in the fast growing industrial and service sectors. Many of the incomers find residence in low income areas, where the populations are growing at double the average urban rate—around 7% per annum.

2.2 Need for the Project

In Metropolitan Dhaka, the Capital City and commercial heart of Bangladesh, the population is estimated to be 15 million, which makes it the 14th largest city in the world. The population has been growing at more than 5 % per year and is expected to reach 29 million by the year 2035. Provision of clean water is already posing a serious challenge. At present, water supply service is provided intermittently and only covers around 80 % of the population. The main raw water source for the city is ground water (78 %), but unsustainable rates of abstraction have been causing the ground water levels to decline between 1 and 2 meters per year and to fall below critical levels during the dry season. Dhaka is built on alluvial land only four meters above sea level, and is sinking by around 14 mm per year due to the unsustainable rate of groundwater extraction. Therefore, rising sea levels due to climate change poses a severe and increasing threat of saline contamination of the depleted aquifers. The remainder of the raw water is surface water from the Sitalakhya River, but the quality of this source is deteriorating, due to pollution from upstream textile industry effluents and other untreated wastewater discharges. This problem is accentuated during the dry season.

¹ The World Bank - Country Partnership Framework. March 2016

² Figures taken from the Bangladesh Development Update, The World Bank, April 2015.

³ OECD – States of Fragility 2016, Results of the OECD States of Fragility Framework.

The projected rise in population, and extension of supply to all the metropolitan areas, including slum areas currently neglected, would increase the water demand in Dhaka by around three times (1.48 million m³/day to 4.74 million m³/day by 2035). This demand clearly cannot be met without major transformation of the water supply system, including diversification of the supply.

Dhaka Water and Sewerage Authority (DWASA) is a publicly owned and semi-autonomous utility set up in 1963, which was reorganized into its current structure under the DWASA Act 1996. It is responsible for the construction, operation and maintenance of water supply and sanitation infrastructure in metropolitan Dhaka. This includes raw ground and surface water supply; surface water treatment plants; water supply distribution and sewerage networks; waste water treatment plants; and storm water drainage services. In response to the challenges posed by increasing demand, over-exploitation of the ground water supply, and the pollution of its primary surface water source, DWASA aims at shifting the balance of its raw water sourcing from 22% surface water at present to approximately 70% by 2021. The additional supplies are to be mobilized from the relatively unpolluted Meghna River, approximately 30 km East of Dhaka. As part of the Water Supply Master Plan, DWASA will cover unplanned low-income communities in Dhaka with water and extend their services to the entire city.

2.3 Brief Project Description

The Water Supply Master Plan (2014) was developed in line with the Water Supply and Sanitation Policy 1998 and the National Water Policy 1999 and covers the ongoing complementary investments in the distribution network. Major policy principles adopted include: i) viability of service provision by ensuring that water tariffs are increased over time to cover the cost of supply; ii) tariff consistency; and iii) encouraging private sector participation in service provision and administration.

In brief, the programme for Saidabad comprises three components as follows:

- Component 1: A new raw water intake at Meghna River at a point with good water quality and transmission system to convey 900,000 m³/day to water treatment plants at Saidabad in Dhaka;
- Component 2: Expanded water treatment facilities at Saidabad including a new Water Treatment Plant (450,000 m³/day), and a sludge treatment plant with capacity to serve the entire site;
- Component 3: Extension of the primary and secondary distribution networks that carry the treated water to consumers⁴.

The proposed project is for DBF to support component 2; i.e. it is proposed that Denmark will provide a subsidised loan to DWASA, through Danida Business Finance (DBF), to support financing of the Saidabad III water treatment plant and sludge treatment facilities to service the new plant and the two existing plants (Saidabad I and II). A “utility-to-utility cooperation” between DWASA and Danish water companies will be pursued. In parallel, the other main contributors (AFD, EIB, and KfW) will provide loans to the new water intake at Meghna River and the transmission pipes from the river to Saidabad, and to the distribution network. DWASA will continue to finance household connections.

⁴ No service/household connection will be provided. Typically, DWASA provides service/household connection from its tertiary distribution network i.e. delivery network

2.4 Justification for Danish Involvement

Denmark has been supporting the vision of the Government of Bangladesh and its national development plans as articulated in the Vision 2021, the associated Perspective Plan 2010–2021, and the 6th Five Year Plan 2011–2015. This follows the principles of the Denmark-Bangladesh Policy Strategy and Country Programme, which is in line with the 2010 Joint Co-operation Strategy signed by the Government of Bangladesh and eighteen development partners. The proposed project is consistent with the ongoing Danish Country Programme (2017-2021), which aligns with the priorities of becoming a middle-income country as set out in Bangladesh's national development plans. Furthermore, it is in accordance with Denmark's development strategy "The World 2030" for poor and more stable countries, with a focus on gradually shifting from development cooperation to increased political and commercial cooperation. Through this project, Denmark will support the involvement of Danish consultants and entrepreneurs with internationally competitive technological and management skills in the construction and operation of water treatment facilities. As the project is only one component of the larger programmes in the Water Supply Master Plan, opportunities will be created for further Danish involvement, e.g. civil society engagement in mobilisation of community based organisations, in provision of community-based water kiosks, or as sub-suppliers of inputs to the larger construction works and water treatment plants.

Denmark's overall objectives as formulated in the current Country Policy Paper are to:

- Contribute to poverty reduction, growth, and sustainable development, with focus on priority projects within human rights and good governance; agriculture; water supply and sanitation; and business partnerships. The proposed project directly supports clean water supply and sanitation, goal number 6 of the Sustainable Development Goals (SDGs).
- Contribute to the promotion of democracy, respect for human rights, rule of law and good governance and thus political stability, through strengthening key democratic institutions in the field of public administration and civil society.
- Promote commercial cooperation between Denmark and Bangladesh.
- Collaborate on global issues like climate change, counter-terrorism, peace keeping and trade policy.

The Saidabad III project contributes to all three objectives and is particularly effective in bringing Danish expertise and technological knowledge to Bangladesh. This will support the gradual shift towards enhanced commercial cooperation. Moreover, poor people living in informal settlements will benefit from a sustainable, environmentally friendly, and more climate resilient water supply. This will contribute to poverty reduction, green growth, and human rights, which are at the core of the Danish cooperation.

2.5 Human Rights Based Approach

The proposed project mainstreams human rights concerns into the project design (following the Human Rights-Based Approach, HRBA), in consistency with the UN guiding principles for human rights and business. Extending water supplies to informal settlements in and around Dhaka ensures that water supply is provided to vulnerable areas and marginalized people. Attention has been given to civil society as rights-holders and rights defenders. The roles and responsibilities of specific duty bearers within DWASA will be highlighted in training and supported through the planned "utility to utility cooperation" with Danish water companies. A comprehensive communication plan will ensure that no group among the rights-holders is

excluded from access to information or influence in the project. The following table summarises how the HRBA has been applied:

Table 1: Human Rights Based Approach

HRBA Criteria	Application of HRBA in Saidabad III Project
Participation and inclusion	The project addresses barriers to inclusion and opportunities for participation. A major focus is on providing potable water to people not currently served with piped water in the informal settlements around Dhaka, where poverty and marginalisation are most problematic. The design of the project includes the water demand of low-income communities in future demand projections and DWASA, has already had some success in partnership with Non-Government Organizations (NGOs), mobilizing low income communities to form community based organizations (CBOs) to install, operate and manage water points. The partnership with Danish utilities will help further extend these initiatives and develop the management culture in DWASA to ensure that <u>duty bearers</u> adopt a responsible approach to <u>rights holders</u> and, <u>rights defenders</u> (civil society organisations) with participatory planning and access to information.
Non-discrimination	The Saidabad III Project will support the extension of essential service provision to ensure vulnerable groups' needs are met, as well as providing opportunities for advocacy. Local democracy and information provision to civil society will promote monitoring of duty bearers and highlight the inclusion of discriminated groups and the marginalised.
Transparency	Access to quality information for civil society groups will support monitoring of governance and performance against the safeguards and commitments made in the Environmental and Social Management Plan.
Accountability	Sound internal governance and accountability will be promoted, including through civil society monitoring, government reporting and monitoring, public hearings, audits etc. The public communication process will increase the capacity of rights holders to demand accountability from duty bearers.

2.6 Climate Change and Environment

The project contributes directly to climate change resilience by helping to safeguard groundwater resources from saline intrusion. In addition, the energy needed for water supply is curtailed by switching from deep ground water, with energy intensive pumping, to surface water. The energy-saving aspects in Saidabad III will be further supported through the envisioned “utility to utility cooperation” between DWASA and Danish water companies. As the proposed investment is designed to increase resilience to climate change and population growth, it also contributes to the long-term resilience planning of the Government of Bangladesh (which is based on an adaptive delta management (ADM) approach). By improving the management of water infrastructure, the project contributes to Bangladesh’s resilience to climate change and natural disasters.

Overall, the plan to source and transit raw water, treat it, and distribute the treated water will have positive net social and environmental effects. Large benefits accrue from relieving pressure on the ground water supplies and providing potable water to many people whose supplies are currently unreliable or non-existent. As with any large infrastructure development, however, there will be aspects of construction and operation that must be carefully managed to avoid negatively impacting the surrounding communities and environment. The potential for direct negative impacts from the proposed Danish financed project, i.e. the water and sludge treatment

plants, are potentially minor since the land to be used is already owned by DWASA and is currently used for drying sludge.

Since the project (component 2) is inter-linked with both the water intake/conveyance (Component 1) and the distribution system (Component 3), the impacts of these other two components are also assessed. Under the supervision of EIB, an Environmental and Social Impact Assessment (ESIA), including an Environmental and Social Management Plan (ESMP), has been prepared for the whole scheme, in line with the Bangladesh Department of Environment requirements. In addition, a Resettlement Policy Framework (RPF) and Resettlement Action Plan (RAP) will be prepared to mitigate and remedy impacts, including through compensation in line with Bangladeshi laws and EIB standards. These plans will be fully developed, including environmental and social mitigation and compensation measures, to the satisfaction of the joint group of financiers. Finally, DWASA will be required to ensure compliance with applicable labour laws. Adherence to these conditions will be monitored as part of the project's Monitoring and Evaluation (M&E).

The DBF support is designed to optimise life-cycle costs, i.e. considering all financial, environmental, and social benefits throughout the life-cycle of the facilities. Typically, the capital investment costs are higher when measures to ensure energy efficiency are included – however, the focus on energy saving and on non-revenue water substantially reduce the costs of operation and maintenance, leading to overall financial savings.

2.7 Risk Management

The threat from terrorism constitutes the most serious contextual risk to further development in Bangladesh and while the situation is uncertain, the threat of terrorist attacks is real and ever-present. In response, increased costs may need to be incurred to safeguard the security of consultants and entrepreneurs. Furthermore, political instability and lack of dialogue between the government and the opposition prevents smooth development. The project, which will provide safe drinking water and increased resilience to the effects of climate change in Dhaka, is a clear priority for both parties and will be implemented regardless of the fluid political situation. This is evident from the previous support to Saidabad II. Linked to political instability is the risk of a deteriorating human rights situation and narrowing space for civil society, as well as endemic corruption. A key risk response will be provision of information to civil society organisations and transparency throughout project implementation, as well as management of corruption through financial planning and close project monitoring.

Major institutional risks for Denmark's development cooperation and for DBF come from the potential lack of political commitment to combat corruption, to ensure rule of law and respect for human rights, and to address inequality. A corruption scandal and/or a significant worsening of the human rights situation could jeopardize the project. Failure to comply with environmental and social commitments, or to provide services to marginal communities, could lead to disturbances that could escalate in the prevailing tense political climate. These could impact Danish support/interests even if they do not arise directly from the works funded by Denmark. Careful monitoring of agreed mitigation and compensation measures will be crucial to manage institutional risks. Key tools are also regular policy dialogue with Government and close coordination between all the financiers.

The most salient programmatic risks identified across the project are as follows:

- Complementary infrastructure for the Water Treatment Plants is not in place, i.e. the Water Intake, and water transmission pipes and distribution mains are not completed on

time, causing delays in implementation of the proposed project. DBF has very good experience with project implementation in Bangladesh, including from Saidabad II and Hazrat International Airport (Dhaka), both were completed timely and cost effectively. Furthermore, the risk of delays has formed part of the overall Saidabad programme design, including: (i) the proposed DBF loan for component 2 only becomes effective when contract(s) for component 1 have been awarded; (ii) DWASA is placed centrally to coordinate timeliness of the three components through its ownership of all existing and proposed infrastructure; and (iii) strong collaboration among the financiers of all three components has been put in place to ensure coordination and parallel implementation of all investments.

- A transmission line for electricity currently runs through the project site. An agreement to move the transmission line outside the site for Saidabad III has been reached in principle and will be a pre-condition for loan effectiveness.
- Undeterred urban development could result in pollution of the raw water supply at the Meghna intake, leading to higher treatment costs and lower volumes of treated water being produced. Currently, the area around Meghna only houses light industries and waste water treatment forms a central part of the area's development plan. The protection of reasonably clean raw water intake is and will continue to be closely monitored by all financiers.

A complete risk analysis for the project is included in the Risk Management Matrix (Annex E). The project includes measures to minimise risks and/or mitigate their effects. In addition, an M&E Consultant will assist DBF with continuous monitoring of risks and implementation of appropriate risk mitigation measures.

2.8 DAC quality criteria

The DAC quality criteria for use of development cooperation funds – relevance, impact, effectiveness, efficiency, and sustainability - have been applied consistently in developing the proposed project.

Relevance: An important aspect of reducing multi-dimensional poverty is service delivery to the urban poor, particularly those living in informal settlements with no access to improved water supplies. The challenges of the physical environment and climate change further threaten these groups. By supplying safe and sufficient water – and widening availability to include those previously excluded – the project responds directly to SDG 6 (clean water and sanitation) and is therefore a high development priority for both Bangladesh and Denmark.

Effectiveness: By working with a known partner in the context of an existing supply system, the assistance can be targeted at expanding the supply to a known recipient base.

Efficiency: The bulk of the assistance is in the form of a loan guarantee, and bidding processes ensure services are purchased cost-effectively. In the long-term, costs will be recovered by the partner through tariff increases, closely monitored by government. The costs of planning, feasibility studies, as well as monitoring and supervision, are to some extent shared with other development partners. This ensures: (i) reduced establishment costs; (ii) economies of scale; and (iii) accelerated returns on investment.

Impact: Aligned with agreed upon Government priorities and strategies, the project will directly benefit 7 million people, including one million dwellers in low income areas. By supplying water

to groups who have not previously received piped water supplies, the project contributes to reducing multi-dimensional poverty.

Sustainability: Sustainability is promoted through life-cycle cost tendering, ensuring energy efficient and cost effective procurement, which includes not only the upfront capital costs but also the costs of operation and maintenance throughout the life-time of the facilities. Furthermore, sustainability is promoted through the requirement for realistic tariffs to ensure that the cost of water supply can be recovered eventually. By bringing in populations that were not previously serviced, the incentive for unauthorised interception of water is reduced. Long-term operational sustainability is promoted through a Design Build Operate Contract (DBO) which will include a three-year operational phase, intended to provide on-the-job training for DWASA technical staff that will oversee Saidabad III operations and maintenance. In addition, capacity development will be provided through technical assistance, including “utility to utility cooperation” between DWASA and Danish water companies.

3 Strategic Considerations and Justification

3.1 Strategic Considerations

40 years of development cooperation between Denmark and Bangladesh has continuously been adjusted over the years to maintain its relevance and responsiveness to the challenges facing the Bangladesh. Lessons learned – including from existing sector projects – have guided programming decisions on modality, structuring of partnerships, risk management and monitoring and evaluation systems. The purpose and design of the project is in line with the overall country strategy to make economic growth and human development inclusive, equitable and resilient to climate change. Although the investment is largely in engineering works, careful design and cooperation with the local partner has allowed a focus on addressing social equity issues, particularly those that effect the marginalised and at-risk.

Denmark’s positive experience from support to construction of Saidabad II is anticipated to continue. As documented in the recent end-of-project review⁵, the DBF approach has resulted in successful implementation of a state-of-the-art water treatment plant, implemented according to plan and at the agreed costs. Therefore, the approach of having a Danish contractor involved in construction of the works has been successful and water is now being produced, with the flow as agreed in design.

The cooperation with DWASA is crucial. DWASA’s desire to modernise and transform its operations into an “Environment friendly, Sustainable and Pro-People Water Management System” is driven by political and consumer demands, as well as DWASA’s ambition to become the best performing public water and sewerage utility in Asia. DWASA is currently undertaking a financial and operational turnaround. Billing has risen about 9% per year over the past 5 years and collection efficiency has reached 95%. The District Metering Areas, which includes comprehensive replacement of old and leaking water pipes, is expected to result in nonrevenue water being in single digits by end of 2017. The inclusion of a capacity development element in the project will help to strengthen and secure this improvement. The benefits produced will assist not only the 4.5 million direct beneficiaries of the project, but the entire seven million population served by DWASA through the shift to a cleaner water intake. In addition, the populations served by other Bangladesh water companies will indirectly benefit through the advice and training of water companies provided by DWASA.

⁵ Review of Saidabad II – Plant Project, January 2015, Danish Ministry of Foreign Affairs.

3.2 Justification

The current abstraction of ground water from deep tube wells already exceeds sustainable groundwater resources and consequently, groundwater levels are reducing year-on-year. This not only indicates mining of groundwater but also has the effect that new wells must be drilled to deeper levels, resulting in ever-increasing pumping costs.

The proposed Saidabad III is commercially non-viable at current DWASA tariff levels. Given the limited average ability to pay by customers in Dhaka, increasing tariffs substantially in the short-term to make the project commercially viable is not an option. Thus, the project is not financially viable under commercial loan conditions and is in accordance with the guiding principles for DBF loans. Loans to finance DWASA investment will continue to be paid by the central government, and transferred to DWASA on a grant basis; however, DWASA is mandated to cover its O&M costs out of tariff revenues, a mandate that is strictly enforced.

Currently, the poorest pay most for water services through the high costs of purchasing water from middle men. The Government supports a policy of cross-subsidisation implying that tariffs are differentiated between poor and middle class consumers, which will allow for piped water, water kiosks or common water posts in all areas of Dhaka. This is in line with international best practices and contributes to reducing losses through non-revenue water. The project therefore provides an opportunity for allowing the poor access to clean and affordable water, while securing the financial sustainability of DWASA.

Finally, the project will contribute in an area where Denmark has successful recent experience and has provided state-of-the-art technical expertise. The project is justified as it has the potential to contribute significantly to sustainable water supply and the adaptation to climate change in Dhaka, and more widely throughout Bangladesh and it is in line with Danish agreements, approaches to cooperation, strategies, and development objectives in Bangladesh.

4 Project Summary

4.1 Short Summary of the Development Engagement

The project is one component of a plan developed by DWASA as described above. It comprises only one Development Engagement, namely the “Saidabad III water treatment plant for water supply to Dhaka City by Dhaka Water Supply and Sewerage Authority”, referred to as “Saidabad III”.

The intended outcome of the Development Engagement assumes that other components will be completed successfully and on time and is *that the population of Dhaka uses a sustainable, environmentally friendly, pro-poor, diversified and more climate resilient water supply.*

This will be achieved through two outputs as follows:

- Water treatment facilities capable of treating 450,000 m³/d water and sludge arising from the treatment of up to 900,000 m³/d of raw water.
- Support to DWASA by a design and supervising engineer, carrying out design as part of the tender process, and a Resident Engineer carrying out supervision and coordination of project implementation during construction, following the International Federation of Consulting Engineers (FIDIC) Yellow Book standard contract.

The raw water treatment facilities will include a conventional 450,000 m³/d water treatment plant comprising: coagulation, flocculation, clarification, rapid gravity sand filtration and chlorination. In addition, there will be a sludge treatment plant capable of treating the sludge from the 900,000 m³/d works of Saidabad I, II & III – the process selected is filter press with final disposal to land fill about 15 km from the site. As well as being more efficient, this frees-up the land currently used for sludge drying, to site the new water treatment plant.

The Saidabad III water treatment plant will be technically advanced and the facilities will be operated in a sustainable and cost efficient manner. Therefore, the capacity of DWASA will be strengthened through technical assistance. As part of this technical assistance, funds will be allocated to a “utility to utility cooperation” between DWASA and Danish water utilities. The objective will be to strengthen DWASA’s organisation, including inter alia technical advice and training on operations and maintenance of the plant, as well as on human resource issues (staff development, incentives to retain staff, and opportunities for promotion). In this manner, the cooperation will include knowledge-sharing on how to reduce energy consumption and keep water losses to a minimum. While final arrangements for this cooperation will only be made when the proposed project is underway, initial discussions have been held with Danish water companies and a concept note elaborated for the “utility to utility cooperation”.

4.2 Theory of Change

The Theory of Change (ToC) for this project, as one component of the overall water supply plan, is simple but highly dependent on assumptions about the success of the other components. In addition, it assumes that DWASA can carry through changes in its management and its approach to tariff setting.

The ToC is that: If a water treatment plant is built at Saidabad to treat 450,000 m³ per day extra raw surface water, and if new sludge treatment facilities are provided to treat sludge from the three plants operating on the site, then DWASA can expand the number of consumers that it provides with safe, potable water without increasing the pressure on unsustainable ground water resources.

Furthermore, DWASA can expand services to cover the inhabitants of low income areas, and eventually all the inhabitants of metropolitan Dhaka.

As a result, by the end of the project 7 million people, of which more than 1 million currently live in informal settlements with limited access to safe and sufficient water, will gain access to regular potable water in quantities (i.e. at least 100 litres per person per day) and to quality standards that meet World Health Organisation (WHO) recommendations. This will improve their health and help alleviate this aspect of multi-dimensional poverty. Moreover, the supplies of water will be sustainably sourced, secure against degradation and/or depletion of resources due to climate change, and sufficient to meet the expected growth in demand. The longer-term impact will be that the urban population in Bangladesh, expected to increase by more than 50% by 2035 (i.e. from 59 million to 92 million) will benefit from close to 100% coverage of safe piped water, sourced sustainably and delivered reliably.

This assumes that:

- The other components of the plan are successfully implemented, i.e. that surface water is delivered to Saidabad III, (through Component 1) and that treated water is distributed to the consumers (through Component 3);

- DWASA can complete its tasks of successfully managing and coordinating the plan, dealing with the operation and maintenance of the new systems, and managing the expanded service area;
- The Government of Bangladesh makes the necessary policy and regulatory adjustments to protect the new raw water source from excessive pollution and allows DWASA to set tariffs that recover costs and eventually assures sustainability;
- Suitable arrangements are made to prepare the sites of engineering works, including moving power transmission lines that currently bisect the area; and
- Lessons learned from the project and the capacity developed in DWASA are transferred to other major water supply companies in Bangladesh.

4.3 Results Framework

Project title		Saidabad III water treatment plant for water supply to Dhaka City	
Project objective		<i>Sustainable poverty reduction</i>	
Impact Indicator		% of poverty reduced. % of urban population with access to improved water	
Baseline	Year	2015	Head count poverty 24.8% 86% of urban population with access to improved water
Target	Year	2022	Head count poverty 18.6 % 100% of urban population with access to improved water

Outcome		<i>The population of Dhaka uses a sustainable, environmentally friendly, pro-people, diversified and more climate resilient water supply</i>	
Outcome indicator		People, including poor people living in low-income communities, have access to sustainable improved drinking water source in sufficient quality and quantity. The average share of surface water as source of the Dhaka water supply is increased Use of energy per m3 of water produced is reduced	
Baseline	Year	2017	3,700,000 people of which 300,000 living in low-income communities have access to water. 22% of the average share of the water supply in Dhaka is surface water. (tbd) energy equivalent used per m3 of water produced
Target	Year	2022	7,000,000 people, of which 1,000,000 living in low-income communities, have access to 100 l/c/d at WHO standards for drinking water.

			40% of the average share of the water supply is surface water (tbd) energy equivalent used per m ³ of water produced
Target	Year	2027	More than 7,000,000 people, of which more than 1,000,000 living in low-income communities, have access to at least 100 l/c/d at WHO standards for drinking water. More than 40% of the average share of the water supply is surface water (tbd) energy equivalent used per m ³ of water produced
Output		Raw water intake and raw water pumping station built on Meghna River at Haria with two parallel transmission pipelines between Haria and Saidabad. (Component 1)	
Output indicator		900,000 m ³ /day of raw water supply from Meghna River at Haria is provided to the Saidabad Phase I, II and III water treatment plant	
Baseline	Year	2017	450,000 m ³ /day of raw water provided to Saidabad from Sarulia on Lakah River
Target	Year	2019	Construction of water intake at Haria, Meghna River, started
Target	Year	2021	New water intake at Meghna River completed
Output		Saidabad III water treatment facility producing 450,000 m ³ /day of clean water is operational with sludge treatment for all Saidabad water treatment plants (Phase I, II and III), through a Design, Build, and Operate contract. (Component 2)	
Output indicator		A new water treatment plant with a capacity of 2x225,000 m ³ /day (Saidabad III) and a sludge treatment facility with a capacity to treat sludge from Saidabad Phase I, II and III, is built next to the Saidabad I+II water treatment plants	
Baseline	Year	2017	Saidabad Phase I and Phase II in operation
Target	Year	2019	Detailed design for Saidabad III commence
Target	Year	2019	Ground breaking ceremony and construction starts
Target	Year	2021	Saidabad III, construction completed, verified at end of completion, and works handed over to DWASA (O&M contract begins)
Target	Year	2022	Operation of works at 450,000 m ³ /day of clean water delivered to the network and sludge treated from Saidabad I, II and III
Target	Year	2025	Operation of works transferred to DWASA

Output		DWASA Programme Management Unit is supported in tendering of a Design, Build, and Operate contract, and is supported in supervising and coordinating project implementation by a design and supervising engineer, following FIDIC Yellow Book. (Component 2).	
Output indicator		<p>Qualified contractor identified through competitive bidding among Danish contractors.</p> <p>Detailed design appraised and agreed between Contractor and DWASA.</p> <p>Works are implemented in a timely manner according to FIDIC Yellow Book and operated for a period of three years with an additional four years (optional)</p>	
Baseline	Year	2017	0
Target	Year	2019	DBO FIDIC Yellow Book contract signed between DWASA and successful qualified Danish contractor, based on a tender applying lifecycle costs (based on 7 years discounted estimated O&M costs) as evaluation criteria. Operation and Maintenance component of the contract includes specific, programed training requirements with objective indicators of the effectiveness of the training and indicators for any associated capacity development required by DWASA
Target	Year	2019/20	Detailed design reviewed and approved by DWASA
Target	Year	2021	Taking over certificate issued, following FIDIC Yellow Book
Target	Year	2022	Verification at the end of the defect notification period following FIDIC Yellow Book
Target	Year	2025	DWASA takes over operation of the water treatment plant
Output		Water distribution network in Dhaka expanded	
Output indicator		54 km of new water supply pipes with connections to consumers in Dhaka (Component 3)	
Baseline	Year	2017	(tbd) km of water supply pipes from Saidabad to consumers
Target	Year	2019	Construction of water supply network, started
Target	Year	2021	Expanded water network completed, verified at end of completion, and handed over to DWASA
Target	Year	2021	(tbd) km+ 54 km of new water supply pipes with household connections

4.4 Monitoring Framework

As the proposed project (component 2) is inter-linked with components 1 and 3, strong coordination of all investment activities will be required. DBF has good previous experience with timely project implementation by DWASA, which will be in charge of monitoring and supervising progress of the project. This will be carried out through a Programme Management Unit and supported by a Programme Management Committee, concerning all three components of the Saidabad programme. Reporting on progress of the project shall be done according to templates and standards, and in accordance with the contract documents and loan agreement (including a buyer's/end-user's declaration, an exporter's declaration, and a borrower's declaration), signed with DWASA. In addition, the reports must include reporting on progress of achievement of outcome and output indicators according to the Results Framework provided above. The Danida Business Finance Rules for Procurement will be fulfilled. Finally, it is a pre-requisite for entering into the loan agreement that conditions precedent be fulfilled as outlined in the general conditions for loan agreements, including environmental and social safeguards, as well as resettlement policies and compensation measures⁶.

DBF will provide a procurement consultant to DWASA to oversee and assist in tendering for the design and supervision engineer. The design and supervision engineer will assist DWASA in carrying out design as part of the tender process for the contractor and for a Resident Engineer, who will carry out supervision of project implementation following FIDIC Yellow Book.

DBF will independently appoint a Procurement/Verification Consultant that may join DWASA on site monitoring and supervision and will visit the project on a regular basis. The Procurement/Verification Consultant will prepare separate monitoring visit reporting to DBF, as well as the Verification Report upon 'Take-over' and a Verification Report at the end of the defect liability period for the Saidabad III water treatment plant (Component 2). An additional M&E Consultant will investigate compliance with the Resettlement Action Plan and the Environmental and Social Management Plan, as well as the social elements of the Results Framework and the safeguard provision covering the entire implementation period.

DBF will reserve the right to carry out any additional technical or financial mission that is considered necessary to monitor the implementation of the program. After termination of the program support DBF may carry out an evaluation.

⁶ General Conditions for Loan Agreements and for the Provision and Administration of Interest Subsidy under the Mixed Credit Programme for Developing Countries, October 2010, Danida

5 Output Budget

Output Based Budget and Funding Agencies (EUR m)

	Funding Agency					Total Budget
	DBF*	AFD	EIB	KfW	GoB**	
Component 1 – Output: Intake and Pumping Station plus Transmission Pipes	0.0	104.3	40.0	75.6	21.0	240,9
Component 2 – Output: Saidabad 3 Water Treatment Plant and Sludge Treatment Plant incl. contingencies	188.0	0.00	0.00	0.00	0.0	188.0
Component 3 – Output: Distribution Network Rehabilitation and Expansion	0.0	10.7	0.0	14.4	3.7	28.8
Global Costs:						
Programme Management Unit					0.1	0.1
Land Acquisition and Resettlement Payments.					21.6	21.6
Existing Network replacement (water, gas, electricity).					3.8	3.8
Tax (VAT)					91,9	91,9
Grand Total	188.0	115.0	40.0	90.0	142.1	575,1

* DBF funding with a subsidy element of 50%; ** GoB funding includes CD/VAT in the three components. Please refer to chapter 7 Project Budget.

To be in line with all other external financiers, DBF will *not* finance taxes in this project. This will ease implementation of the programme and secure equal treatment of all suppliers to Saidabad. The creditworthiness of DWASA has been established through previous good experience with Saidabad II and recently confirmed by the other financiers (AFD, EIB, and KfW) through due diligence and financial assessments as part of their project preparation.

6 Management Set-Up

The parties have agreed to the following management arrangement with the aim to ensure adequate dialogue and timely decisions in regard to this development engagement.

A Programme Management Unit (PMU) will be established within DWASA. The PMU will, among other things, supervise and manage project implementation, monitor and ensure compliance with loan covenants, implement the procurement according to the procurement plan, serve as focal point for the Lenders/development finance institutions (AFD, KfW, EIB and DBF), and consolidate accounts and submit Withdrawal Applications to the Lenders.

DWASA will ensure that the PMU is staffed with sufficient capacities to implement the programme successfully. An International Implementation Consultant shall support the PMU.

For Component 2, DBF will support the PMU with an international design and supervision engineer to support development of tender materials, and supervision and coordination of Saidabad III water treatment plant during implementation. The extended role of the design and supervision engineer will include support to DWASA in: i) project management; ii) high level O&M of surface water treatment plants; iii) preparation of a Corporate Social Responsibility Plan; and iv) act as independent contract supervisor for the O&M contract.

An Inter-Ministerial Programme Steering Committee (IPSC), chaired by the Secretary of the Local Government Division of the Ministry of Local Government, Rural Development, and Cooperatives, will be established to provide policy guidance and overall coordination of programme implementation. The IPSC will meet at least twice a year.

A Programme Implementation Committee (PIC), chaired by the Managing Director of DWASA, will be established to discuss key programme implementation issues and provide guidance for smooth implementation. Its composition shall be determined by DWASA. The PIC will meet at least quarterly, and more often when needed. The lenders (AFD, KfW, EIB and Danida) shall be invited to the PIC quarterly meeting.

DWASA will be in charge to organize the PMU, the IPSC and the PIC, as per Bangladeshi regulations. DWASA will confirm the constitution of these committees, when established.

The coordination among the financiers will be done by AFD.

The other financiers of the programme, i.e. AFD, EIB, and KfW all have representations in Dhaka. DBF will closely monitor all aspects of project implementation through a monitoring consultant (mostly technical), as well as an M&E expert concerned with implementation of policy initiatives (notably environmental and social assessments and resettlement action plans). The monitoring consultant and/or a representative of DBF will participate in the quarterly meetings of the PIC, as well as any other monitoring visits that may be deemed necessary.

In addition, the design and supervision consultant (in consultation with DBF) will organise meetings/seminars in Denmark for potential suppliers to discuss the emerging design of the water treatment plant. Smaller Danish businesses will be invited to discuss their role as potential sub-suppliers to Saidabad III and potentially other water projects in Bangladesh.

The Embassy of Denmark will be briefed before and after each monitoring visit, and be invited to participate in PIC meetings (and other relevant fora), notably when issues of security and political developments are being discussed. The Embassy will provide insights to ascertain contextual risks (primarily of a political nature and security), elaborate appropriate mitigation measures and participate in meetings when required.

7 Project Budget

Budget				(DKK/EURO 7.44)
Project budget:	Contract costs/total financed amount:			
	- Saidabad III Water Treatment Plan and Sludge Treatment Plant (incl. contingencies)	EUR	188.0	m.
	Financing type:	Tied		
Loan:	Loan amount:	EUR	117.7	m.
	Duration:	10 years		
	Subsidy element /concessionality level:	50 per cent		
Danida Business Finance grant:		Total EUR m.	Total DKK m.	
	Interest:	19.9	147.9	
	Bank margins:	1.8	13.0	
	Export credit guarantee premium (EKF)	13.6	101.1	
	Cash grant:	70.3	523.3	
	Technical assistance:	4.0	30.0	
	Budget margin 20 per cent:	21.7	161.3	
	Total grant:	131.3	976.6	

The total financed amount of EUR 188 million is the proposed project funding from DBF, consisting of a loan (EUR 117.7 million) and a cash grant (EUR 70,3 million). The loan will be repaid over 10 years, commencing 6 months after project completion and has a grant element of 50 per cent (in accordance with the OECD Agreement on Officially Supported Export Credits). Interest payments cover interests during both implementation and repayment periods, and bank margins cover additional expenses added to a loan beyond interest. The export guarantee premium covers the cost of an export credit guarantee. The cash grant reduces the principal of the loan and is applied to reach the subsidy level of 50% as required by the OECD. Technical assistance is provided for procurement/verification, design, “utility to utility cooperation”, and M&E for the project. A budget margin is set aside to cover any increase in the estimated interest, currency risks, and unforeseen events during project implementation. The total grant of DKK 976,6 million covers all interests, cash grant, technical assistance, and the budget margin.

The borrower of the DBF loan will be the Bangladesh Ministry of Finance represented by the Economic Relation Division (ERD). ERD contracts the loan with a commercial bank, guaranteed by DBF, which will also pay to the commercial bank the interest dues and other bank margins. ERD will establish an on-lending agreement with DWASA. The reporting on finance between ERD and DWASA will follow the rules and regulations of the Bangladesh Ministry of Finance.

Annexes

Annex A: Analysis of Project Context

1. Overall development challenges, opportunities and risks

Briefly summarise the key conclusions from the analyses consulted and their implications for the project regarding each of the following points:

- **Poverty alleviation trends** – Bangladesh poverty index went from 49% in 2000 down to 31.5% in 2010. It is estimated that poverty has declined further since 2010, and that Bangladesh have achieved the Millennium Development Goal of halving the incidence of extreme poverty from 58.8 percent in 1991-92 to 24.8 percent in 2015⁷. Progress in poverty alleviation has also been attributed to an increase in labor productivity, improved connectivity and the government's safety net programs.
- **Income inequality** – Bangladesh Gini coefficient (0.31) indicates moderate inequality which is reflected in indicators such as: (i) Under-five mortality which went from the base year rate of 239 down to 48 per 1,000 live births; (ii) nearly universal access to primary education and gender equity at the primary and secondary education levels; (iii) women improved educational attainment and increased participation in the labor force, while gender wage differentials narrowed.
- **National development plan/poverty reduction strategy** - Although institutions in Bangladesh remain weak, successive governments have maintained macroeconomic stability, and made efforts to liberalize trade, reform the financial sector and limit interference in business. Working with the private sector, they introduced market-friendly reforms and established special economic zones for export-oriented garment manufacturing, raised export earnings, and provided employment to many Bangladeshis, including women. The Seventh Five Year Plan 2016-20 development approach includes three focal areas: (i) GDP growth acceleration, employment generation and rapid poverty reduction; (ii) Broad-based strategy of inclusiveness to empower every citizen to participate and benefit from the development process; and (iii) sustainable development resilient to disaster and climate change.
- **Humanitarian assessment** – Two humanitarian problems: (i) The Chittagong Hill Tracts (CHT), accord signed in 1997 completed its 18 years without making any real progress towards commissioning of an effective and functioning local self-governance system that ensures land and other rights for the indigenous peoples in the CHT; (ii) The Rohingya migrants, according to UNHCR 94,000 Rohingyas departed irregularly from the Bangladesh-Myanmar border over the course of 2014 and 2015 on precarious boat journeys, often falling prey to human trafficking and ending up in modern-day slavery.
- **GDP and economic growth** - With a US\$1,096 GDP per capita⁸, Bangladesh is still one of the poorest countries in South Asia, with constrained public services and comparatively weak institutions. Over the last decade, it has achieved sustained export led yearly growth of 6% in GDP and 7% in remittances from Bangladeshis living overseas. During the same period, the population growth rate has been reduced to 1.1 percent and rural to urban migration has fueled urban populations.

⁷ The World Bank - Country Partnership Framework. March 2016

⁸ Figures taken from the Bangladesh Development Update, The World Bank, April 2015.

- ***Labor force and employment*** - Bangladesh's labor force is growing by 3.1 percent per annum and 21 million people are expected to enter the working age population over the next decade. Today, most Bangladeshis live in rural areas, but new employment opportunities in the fast growing industrial and service sectors have motivated rural to urban migration. Labor productivity increased dramatically in the industrial and agricultural sectors, while services also experienced a significant increase. Non-agricultural net employment rose by more than 10 million between 2002-03 and 2013, outstripping the 3.3 million increase in agriculture. Despite the shift to non-agricultural activities, farming remains an important source of livelihood for the rural poor. They have benefitted from higher agricultural incomes due to rising real rural wages, better farm-to-market access, higher crop yields, as well as improved terms of trade for agriculture.
- ***Domestic resource mobilization*** – As part of its 2016-2020 country partnership framework, World Bank Group (IDA and IFC) have established joint work programs in several areas, including tax reform, financial sector, investment climate, and PPPs and will look at developing new work programs during the Country Partnership Framework period in power generation and distribution as well as ready-made garments. MIGA also will explore opportunities for joint collaboration with IDA and IFC, notably in the power sector. Additionally, the WBG will seek innovative approaches to mobilize resources for Bangladesh including through PPPs and partnerships with new donors.

Sustainable Development Goals – The Government of Bangladesh Seventh Five Year Plan 2016-2020, embraces the UN Sustainable Development Goals (SDGs), to which the Government of Bangladesh has shown strong commitment. It puts emphasis on creating jobs through growth that is inclusive and reduces poverty. It strives to attract higher domestic and foreign investment and to raise the productivity of capital and labor. The Seventh Five Year Plan aims to attain an average real GDP growth rate of 7.4 percent per year and to significantly reduce poverty within the next 5 years. The goal is to reduce the poverty head-count from 24.8 percent in FY15 to 18.6 percent in FY20 (and for extreme poverty from 12.9 percent to 8.9 percent in the same period)

Political economy, including drivers of change (political, institutional, economic)
 Consultations during preparation of WB group Country Partnership Framework 2016-2020 revealed the need to strengthen governance in Bangladesh; i.e., many stakeholders expressed concerns about a deteriorating governance situation, the state of national institutions and corruption. Good governance and strong institutions were persistently referred to as preconditions for social and economic development. Consultation participants also voiced concerns about Bangladesh's confrontational politics and the negative consequences of further political turmoil for the economy. They called upon the World Bank to take political economy considerations into account during implementation of the Country Partnership Framework and to act as an honest partner, who could deliver tough messages. In addition, stakeholders urged the World Bank to help build institutional capacity that could rise to the challenges of a middle-income country.

Implications for the Saidabad III program – Improved prospects for poverty alleviation, reduction in income inequality, strong GDP growth, more employment opportunities (specially in Dhaka), and positive domestic resource mobilization, all will affect positively to the development of Saidabad III program. While Saidabad III will add 450,000 m³ of water

per day in Dhaka, residents receiving the additional service will pay for it, enabling DWASA to cover operating and maintenance costs.

List the key documentation and sources used for the analysis:

Government of Bangladesh, General Economic Division, Planning Commission - Seventh National Five Year Plan FY2016 – FY2020. Accelerating Growth, Empowering People. Final draft, November 11, 2015.

Bangladesh Poverty Assessment – Assessing a Decade of Progress in Reducing Poverty, 2000 – 2010. The World Bank, Bangladesh Development Series, Paper No. 31

Country Partnership Framework for Bangladesh for the Period FY 2016 – FY2020. The World Bank, March 08, 2016. Report No. 103723-BD

Domestic Resource Mobilisation for Development Policy Solutions in Times of Crisis - OECD September 2009.

Bangladesh 2010 Household Income and Expenditure Survey, Key Findings and Results. June 2011.

Rama, Martin et al – Addressing Inequality in South Asia. The World Bank Group. 2015.

Are additional studies / analytic work needed? How and when will it be done?

None

2. Fragility, conflict, migration and resilience

Briefly summarize the key conclusions + implications for the program of the analysis of the below points:

- **Fragility and conflict** – According to OECD⁹, Bangladesh is a country of extreme political fragility and moderate societal and security fragility. Also, Bangladesh is listed in the Alert Section, Fragile States Index 2016, ranked 36 a slight improvement compared with its rank 32 during 2015. Some countries most affected by fragility and conflict, including Bangladesh, will have their urban populations above 50 million by 2030¹⁰. In light of these assessments, it appears likely that future crises in the SDG era will be more likely to occur in cities.
- **Drivers of conflict and instability** – The International Crisis Group identified mainstream politics as a key driver of conflict and instability; i.e.,
 - o Deep polarisation, exacerbated by the Bangladesh National party (BNP)'s 2014 electoral boycott and the Awami League (AL) government's refusal to accept legitimate criticism, have led to political impasse. The political conflict between the AL government and the BNP has resulted in high levels of violence and a brutal state response. *Addressing the law and order challenges requires the AL and BNP to lower tensions to levels that ensure basic internal stability. The BNP's apparent decision to re-enter the political mainstream is a welcome departure from its obstructionist agenda a year ago. It provides an opening for dialogue between government and opposition that could end the zero-sum game that has held the country and citizens hostage to a longstanding political feud. It is in the AL's interest to accept the BNP's decision to work within the constitutional and political order. Should Sheikh Hasina fail to do so, her government could be a loser, a realisation that is increasingly accepted by some in both parties.*
 - o The government should end the use of a politicised law enforcement and judicial apparatus against the opposition. Otherwise, the targeting of critics and resort to rampant human rights abuses, with their potential to spark a return of political violence, will also continue to provide grist to the jihadists' propaganda mill. *While the onus of breaking this cycle rests with the AL government, an independent justice system could become vital, as a neutral arbiter. An impartial judiciary that protects constitutional freedoms, including of association and free speech, courts that provide access to justice instead of acting as instruments of the executive, and police who focus on combatting criminality, including violent extremism, while also protecting all citizens would give the opposition the level playing field essential for a resumed, meaningful dialogue with the government. Civil society stakeholders, particularly the legal community, also have an important role to play in defusing political tensions by checking the government's excesses, protecting fundamental rights and reviving rule of law.*¹¹
- **Economic impact of conflict, instability and violence** – The economic impact of violence in Bangladesh during 2015 was US\$ 21 billion (in purchasing power parity terms) equivalent to 3.8% of its GDP¹².

⁹ OECD – States of Fragility 2016, Results of the OECD States of Fragility Framework.

¹⁰ World Urbanization Prospects 2014, UN Department of Economic and Social Affairs, UN, New York
<https://esa.un.org/unpd/wup/>

¹¹ International Crisis Group - Political Conflict, Extremism and Criminal Justice in Bangladesh. Asia Report No. 277, April 11, 2016.

¹² Institute for Economics and Peace – The Economic Value of Peace, 2016; Measuring the Global Economic Impact of Violence and Conflict.

<ul style="list-style-type: none"> - <i>Implications for the Saidabad III Program</i> – The project will support current DWASA management initiatives aimed at turning around its operational, commercial, and financial management practices. The expected results of the turnaround initiatives include: Strengthened DWASA autonomy, accountability, and financial viability. Having a strengthened DWASA will contribute to Bangladesh state building, whereas DAWASA as a duty bearer will be in better position to comply with its mandate of ensuring full access to water services by all Dhaka citizens.
<ul style="list-style-type: none"> - Issues and concerns of relevance to Danish interest in the area of security and migration. N/A
<ul style="list-style-type: none"> - Identify where Denmark has comparative advantages that may lead to more effective and efficient programming and better results including where Denmark may contribute with deployment of specific expertise and capacities. Denmark has comparative advantage in technologies for the production clean water; it also has comparative advantage in management approaches to achieve high levels of economic and financial efficiency. And specific expertise in deploying and managing complex water production technologies.
<ul style="list-style-type: none"> - Considerations regarding the humanitarian situation, migration, refugee and displacement issues, including the need to integrate humanitarian-development linkages and long term strategies; - N/A
<ul style="list-style-type: none"> - Relevant issues and considerations related to radicalisation and violent extremism and the potential for Danish engagement to prevent and counter violent extremism (P/CVE) - N/A
<p><i>List the key documentation and sources used for the analysis:</i></p> <p>Relevant references:</p> <p>OECD – States of Fragility 2016, Results of the OECD States of Fragility Framework.</p> <p>OECD - Supporting Statebuilding in Situations of Conflict and Fragility – Policy Guidance. 2011. DAC</p> <p>Guidelines and Reference Series, OECD Publishing.</p> <p>World Bank - Fragility, Conflict and Violence: http://www.worldbank.org/en/topic/fragilityconflictviolence</p> <p>Failed State Index (www.fundforpeace.org)</p> <p>International Crisis Group country reports (www.crisisgroup.org)</p> <p>http://data.worldbank.org</p> <p>International and regional human rights and HRBA principles and HRBA Guidance Note of 2013</p> <p>International humanitarian law, humanitarian principles and Good Humanitarian Donorship Agenda for humanity (http://www.agendaforhumanity.org)</p>

Are additional studies / analytic work needed? How and when will it be done?

None, other than those described in this programme document.

3. Assessment of human rights situation (HRBA) and gender¹³

Briefly summarise the key conclusions and implications for the program of the analysis of the below points:

The HRBA and gender assessment has been done in accordance with UN guiding principles.

Human Right Standards (international, regional, and national legislation)

Access to water, a case of human rights. DWASA, in partnership with Non-Government Organizations (NGOs), mobilize low income communities (LICs) and form community based organizations (CBOs) to install, operate and manage water points. On the basis of their comparative strength the NGOs conduct these activities in light of their own experience while DWASA provides the funding and technical support. DWASA has so far leveraged funding for the program from bilateral, multilateral donors and I-NGOs.

In terms of human right principles, LICs *participation and inclusion* seems to be the most binding constraint; LICs tend to have limited awareness of their rights to demand the water services they deserve and the obligation of the corresponding duty bearer to ensure all communities are duly served. On the duty bearer side (DWASA), availability of water for LICs has been a binding constraint; however, DWASA is currently tackling this issue through both, a program for the reduction of leaks in water networks (intended to available additional water for all customers) and the installation of community distribution points. Saidabad III feasibility has included specific LICs water demand in the estimation of future demand.

Support of Denmark should prioritise full commercialization of DWASA a mean to ensure access of pipe water for all; commercialization of DWASA will ensure that the mandates of DWASA, including provision of services to LIC, are properly funded.

Universal Periodic Review

- N/A

Identify key rights holders in the project:

- Residents in all service areas in Dhaka; CBOs managing public water facilities

Identify key duty bearers in the project:

- DWASA – Funds operation and maintenance of water services; National Government (Ministry of Finance) funds all the capital expenditures needed to improve water services in Dhaka.

Human Rights Principles (PANT)

Participation

- Identify barriers for participation, inclusion and empowerment of rights holders:

- Absence of Institutionalized Consultation Processes – DWASA does undertake consultations mandated by

¹³ The purpose of the analysis is to facilitate and strengthen the application of the Human Rights Based Approach, and integrate gender in Danish development cooperation. The analysis should identify the main human rights issues in respect of social and economic rights, cultural rights, and civil and political rights. Gender is an integral part of all three categories.

funding agencies, but it would be more effective to have such consultations as part of the decision-making process leading to the implementation of major projects and related tariff increase.

- List key support elements included to promote participation and inclusion.
- Consultation processes are mandated by various donor agencies and are also embedded in local legislation.

Accountability

Identify accountability mechanisms in the relevant area – both horizontal and vertical.

- Implementing agency subject to annual audits, both by the National General Auditor and by external auditors. Also, DWASA's operating and financial information will be recorded using reliable software.

List any key support elements included to promote accountability

- Establishment of M&E arrangements, program implementation manuals, annual work plans, quarterly and annual progress reports. Audit protocols for accounts of the program and for the duty bearer (DWASA).

Non-discrimination

- Identify groups among rights-holders excluded from access and influence in the thematic program areas identified.

N/A

- List key support elements included to promote Non-discrimination. N/A
- Are disaggregated data available on most vulnerable groups? No.

Transparency

- Assess the extent to which information is accessible to rights holders including marginalised groups.
- Under the law, any relevant information should be available to right holders; Bangladesh has passed the Right to Information Act, 2009. Under this act, the right to information shall ensure that transparency and accountability in all public, autonomous and statutory organisations and in private organisations run on government or foreign funding shall increase, corruption shall decrease and good governance shall be established. However, using the act by rights holders may be a challenge, as not everyone is well acquainted about relevance of information other than the volume of water supply by DWASA
- List key support elements included to promote Transparency. N/A

Gender

- Identify key challenges and opportunities for gender equality.

DWASA has in place company regulations to promote gender equality in the workplace.

- Identify assessments on gender, such as CEDAW-reporting, SDG National Action Plans, UPR, and other relevant gender analysis.
- Bangladesh is a signatory to a number of international conventions intended to secure women's rights, such as the Convention on the Elimination of Discrimination Against Women (CEDAW), 1979; the UN Security Council Resolution 1325 (2000) and the UN Declaration on the Elimination of Violence against Women, 1993.
- A Progress Report on the Human Rights Situation of Indigenous Peoples in Bangladesh, including indigenous women has been prepared by the Kapaeeng Foundation; Dhaka. Most issues found do not apply to Saidabad III program or DWASA, the implementing agency.
- **Status:** The Law Commission of Bangladesh had undertaken a review of the possible withdrawal of the reservations to Article 2 and Article 16.1.(c) of CEDAW in 2012, and submitted its recommendations to the Government, which currently being examined by the concerned Ministries.

<ul style="list-style-type: none"> - Identify opportunities/constraints for addressing gender equality issues. N/A - Describe key strategic interventions to promote gender equality within each thematic project. Saidabad III program promotes gender equality in the work place. - Identify gender equality indicators aligned with national targets on gender, if possible. N/A
<p>List the key documentation and sources used for the analysis:</p> <p>Relevant references include:</p> <ul style="list-style-type: none"> - Universal Period Review (UPR) processes & analysis (http://www.ohchr.org/EN/HRBodies/UPR/Pages/Documentation.aspx) - OHCHR country reports (www.ohchr.org) - International and regional human rights and HRBA principles and HRBA Guidance Note of 2013 - Danish Institute of Human Rights (DIHR) Guide to understand the interlinkages between human rights and the SDGs (http://sdg.humanrights.dk)
<p>Are additional studies / analytic work needed? How and when will it be done?</p> <p>None</p>

4. Inclusive sustainable growth, climate change and environment

Briefly summarise the key conclusions and implications for the project of the analysis of the below points:

- **Overall risks and challenges to inclusive sustainable growth and development –** Bangladesh's 161 million inhabitants live a delta area of about 150,000 km² land mass, two third of which at less than five meters above sea level. As such, Bangladesh is highly susceptible to sea-level rise and storm-induced tidal flooding, which climate change is raising to an existential threat. Like all delta environments, Bangladesh is a hotspot for natural disasters and climate change; the future is likely to threaten food security and freshwater supplies (due to saline intrusion into shallow groundwater), and increase prevalent water-related diseases, and repeated damage to poorly-sited or constructed infrastructure. To compound these challenges, existing water resource infrastructures have surpassed their lifespan and are no longer adequate to protect communities from sea level rise and riverine and coastal flooding, leading to loss of livelihoods and large-scale displacement. Also, there is limited reliable data and knowledge on sea level trends, salinity levels, erosion and land subsidence patterns, which are essential for mainstreaming climate change considerations into project planning and implementation.
- **Status of policies and strategies –** To manage the complex Bangladesh delta, the Government is preparing an integrated and holistic long-term plan—the Delta Plan 2100—to promote safe living through greater resilience and sustainable economic development. The Plan is based on an adaptive delta management (ADM) approach, which ensures that all sectoral investments take into account the long-term uncertainties related to climate change and growth. Thus, with the support of donors, government activities to face climate change will focus on boosting Bangladesh's resilience to climate change and natural disasters, improving the management of water infrastructure and promoting agricultural productivity with climate-smart farm practices and technology, diversification and accelerating the move up the value chain.

<ul style="list-style-type: none"> - Organisation to ensure that development is inclusive and sustainable – Actions taken to date include investments in early warning systems and cyclone shelters, enactment of a legal framework for disaster risk reduction. These initiatives have contributed to the reduction of damages and losses from extreme climatic events over time, both in terms of deaths and injuries. Even with these improvements, the increasing hazard intensity and variability due to climate change demand sustained investments in land and water management infrastructure, agricultural adaptations, disaster preparedness and institutional capacity-building. In addition, gender issues need to be further integrated into climate change adaptation and disaster risk reduction in Bangladesh. Weather-related hazards impact women far more, especially among poor communities due to social inequality, lack of access to information and lack of decision-making ability. - Bangladesh Climate Change Resilience Fund (BCCRF) - Going forward, the CPF will continue to support the reforms underpinning the BCCRF and SPEMP (Strengthening Public Expenditure Management Program), under a simpler framework with due regard to sequencing of activities and ownership by counterparts. - Political will, institutional and human capacity to implement policies and strategies – GoB has shown political will at the highest level. It has formulated a series of strategies and action plans related to climate change, and proposed approval of a climate fiscal framework informed by a climate public expenditure and institutional review; and developing climate resilience is a government policy as shown in the third focus area of the Seventh Five Year Plan 2016-2020, which can be described as “a sustainable development pathway that is resilient to disaster and climate change; entails sustainable use of natural resources and successfully manages the inevitable urbanization transition.” The GoB goal in this area is to adequately address climate change, reduce risks of disasters and significantly improve environmental performance. 	<p>The program will help the government move from ground water source to surface water source; in doing so, it will help save energy for pumping water from an average head of 200m to an average head of less than 20 meters; contributing to a more climate resilient water service provision.</p>
<ul style="list-style-type: none"> - Identify potential risk and negative impacts related to environment and climate change from the proposed thematic areas and DEDs and consider how these may be mitigated in the design of the project and the relevant DEDs. - N/A 	
<ul style="list-style-type: none"> - Identify if EIA (Environmental impact assessment) or similar should be carried, including legal requirements in partner countries / organisations. - Environment impact assessment is mandatory as this program include a large infrastructure component. 	
<ul style="list-style-type: none"> - Consider rights and access to key natural resources: land, water, energy, food and agriculture, including impacts on employment for youth, women and indigenous peoples, etc. N/A 	
<p><i>If this initial assessment shows that further work will be needed during the formulation phase, please list how and when will it be done?</i></p> <p>EIAs and Resettlement Action Plans will be needed during implementation phase.</p>	

5. Capacity of public sector, public financial management and corruption

Briefly summarise the key conclusions and implications for the project of the analysis of the below points:

- **Capacity of the public sector for policy making, enforcement and service delivery** – Under its institutionalized planning practice, Bangladesh has developed significant capacity for policy making and programmatic actions to achieve their strategic objectives. However, progress in various fronts (public sector reforms, trade reforms, and public financial management reforms) could not be explained without considering policy dialogues with International Finance Institutions (multilateral and bilateral). IFIs have frequently used the leverage of finance to undertake policy dialogues and enlightened policy making and reforms that have benefited Bangladesh significantly.
- **Quality and capacity of Public Financial Management (PFM)** – While the statutory framework for PFM is comprehensive, there are significant challenges with implementation especially with respect to budget execution, oversight, and enforcement of procedures. Bangladesh has benefited from significant financial support for PFM reforms under a World Bank-administered multi-donor trust fund, the Strengthening Public Expenditure Management Program (SPEMP). Under SPEMP, the Government rolled out a medium-term budgetary framework to all 59 line ministries, provided substantial training for finance and budget staff, and strengthened institutional arrangements related to budget management. Investments were made in hardware and the financial management information system was rolled out to subnational accounts offices. Additionally, SPEMP financed projects supported capacity building at the Auditor-General's office and the Parliamentary secretariat and oversight committees.
- **The corruption situation and relevant anti-corruption measures and reforms** – The quality of public sector governance in Bangladesh poses significant risks to development. Like many countries at similar income levels, Bangladesh remains hindered by weak public institutions that undermine the transparent and efficient use of resources, particularly in public financial management and procurement. To combat corruption, a legal framework under the Anti-Corruption Commission was put in place and the Right to Information Act 2009 was enacted to increase transparency and facilitate greater access of citizens to public documents; however, handling complaints and investigations remain a challenge. Also, automation initiatives have been taken to reduce the number of person-to person interactions needed to receive public services, thereby reducing room for corrupt government service practices; and a National Integrity Strategy was adopted in 2014 to install strong public service ethics. On the positive side, after having a score of about 3 (range: 1 less corrupt - 6 more corrupt) during the period 2006 – 2011, Bangladesh has managed to get a 2.5 by 2011 score that is has maintained; however Bangladesh needs to do more to reign over corruption.

List the key documentation and sources used for the analysis:

Relevant references and guidance:

Government of the People's Republic of Bangladesh - Public Financial Management (PFM) Reform Strategy, 2016-2021. June 2016.

Government of the People's Republic of Bangladesh – Public Expenditure and Financial Accountability Assessment (PEFA). June 2016

World Bank Country Partnership Framework, March 08, 2016. Report No. 103723-BD.

World Bank Corruption index for Bangladesh

<http://data.worldbank.org/indicator/IQ.CPA.TRAN.XQ?locations=BD>

Are additional studies / analytic work needed? How and when will it be done?

6. Matching with Danish strengths and interests, engaging Danish actors, seeking synergy

Briefly summarise the key conclusions and implications for the project of the analysis of the below points:

The water treatment plant includes a significant amount of advanced technology, where Danish companies are world leading and internationally competitive. To operate such plants in sustainable and cost efficient manner, broad-based institutional capacity building with focus on organizational strengthening is required.

Capacity development will be provided by suppliers, contractors, consultants and water companies with relevant knowledge and experience.

Consultancy and works contracts will be tendered by Dhaka WASA to Danish companies. A meeting with potential consultants and contractors/suppliers was arranged on 7 January 2015 to present the project and to find out whether there would be sufficient interest from the private sector for this type and size of project once tendered. The meeting was arranged by Danida Business Finance in collaboration with the Danish Construction Association (Dansk Byggeri). It was concluded that 3-4 of the largest Danish contractors with international experience are in a position to tender for the project and intend to submit a bid. The same was concluded for 2-3 of the largest consultancy firms. Ongoing contact has been conducted with interested companies.

With high importance attached to operational cost savings, energy efficiency, life cycle costing, Danish technology would be highly competitive.

European development partners in Bangladesh – namely the Delegation of the European Union, Denmark, France, The Netherlands, Sweden, United Kingdom, Norway, and Switzerland – have agreed on an EU+ roadmap to start making and sharing a joint analysis in the view of preparing a joint programming (a shared country strategy paper).

The key objective of EU+ Joint Programming is to improve aid effectiveness through a more focussed and collaborative approach to the programming of EU development assistance. It is in line with EU's programming instructions and commitments in the Paris Declaration and Busan Partnership for Development. It is also in line with the Joint Cooperation Strategy (JCS) signed in June 2010 between the Government of Bangladesh and 18 Development Partners (DPs) where the main focus is on management of development assistance through joint programming, use of Government administrative and financial systems, joint appraisal and analytical work for

co-financed projects, joint dialogue and joint review of progress in implementing these projects.

The project is part of an international collaboration with three partners:

French Agency for Development (Afd)

Financed the Feasibility Study for the Saidabad Water Treatment Plant Project Phase III, using the French funds for the assistance of the private sector (FASEP). Feasibility finalized on April 30, 2014. It will co-fund component I (EUR 115 m) along with EIB and KfW. Afd is also participating in the Padma project. Moreover, Afd has been engaged in construction and operation of Saidabad II. Afd is also participating in the funding of the Gandharbpur.

European Investment Bank (EIB)

EIB undertook a Saidabad III appraisal on July 17-21, 2016 and will co-fund one of the two transmission lines (EUR 40 m). EIB is also participating in the funding of the Gandharbpur.

German Bank for Development (KfW)

After its appraisal of Saidabad III on December 28, 2016, KfW agreed to fund the other transmission line from Meghna River to Saidabad and the reinforcement and expansion of distribution networks. Total funding committed by KfW is EUR 90 m.

List the key documentation and sources used for the analysis:

Are additional studies / analytic work needed? How and when will it be done?

Annex B: Partners – Brief Descriptions

DWASA

A parastatal mandated to both deploy water and sanitation infrastructure and to deliver water and sanitation services in Dhaka. DWASA is implementing a strategy of moving from a predominately groundwater based on multiple deep tube-wells to greater reliance on surface water supplied by three large Water Treatment Plants (WTPs). The combined capacity of the three plants is expected to be 1'850,000 m³/d by the year 2020; shifting DWASA production capacity matrix from 22% surface water at present to more than 70% surface by the year 2020. Of the three new WTPs, Padma is under construction, another Gandharbpur is at final procurement stage, and the third is the Saidabad III project described in this project document.

In parallel, DWASA is implementing district metering areas (DMAs) to overhaul and expand its distribution network. Its strategic objective here is to reduce NRW to single digits, so it can lower unit costs of water delivered to customers. Most donors supporting DWASA are pleased with progress in this area, as the lower NRW the lower capacity expansion needed. Also, DWASA is planning to expand its service area from about 401 square km at present to about 617 square km by the year 2035.

Saidabad III Project is made up of three components:

- Component 1 – raw water supply to be financed which include pumping station and two transmission line from Magna River to Saidabad.
- Component 2 – 450,000 m³/day Water Treatment Plan and Sludge Treatment.
- Component 3 – reinforcement of water distribution system.

DWASA issued a Development Project Proposal (DPP) for Saidabad III on May 2015; and The Executive Committee of the National Economic Council (ECNEC) approved it on September 2015.

French Agency for Development (AfD)

Financed the Feasibility Study for the Saidabad Water Treatment Plant Project Phase III, using the French funds for the assistance of the private sector (FASEP). Feasibility finalized on April 30, 2014. It will co-fund component I (EUR 115 m) along with EIB and KfW. AfD is also participating in the Padma project. Moreover, AfD has been engaged in construction and operation of Saidabad II. AfD is also participating in the funding of the Gandharbpur.

European Investment Bank (EIB)

EIB undertook a Saidabad III appraisal on July 17-21, 2016 and will co-fund one of the two transmission lines (EUR 40 m). EIB is also participating in the funding of the Gandharbpur.

German Bank for Development (KfW)

After its appraisal of Saidabad III on December 28, 2016, KfW agreed to fund the other transmission line from Meghna River to Saidabad and the reinforcement and expansion of distribution networks. Total funding committed by KfW is EUR 90 m.

Danida Business Finance (DBF)

DBF undertook a Saidabad III Appraisal on Nov 08 – 12, 2015 and committed EUR 185 m to finance Component 2. DBF financed the construction of Saidabad II, hence it has built trust

with DWASA and it intends to further support technology and management skills transfer for the operation and maintenance of Saidabad III.

Annex C: Results Framework

Country Development Objective	Critical assumptions	Outcomes expected	Outputs, milestones	Monitoring arrangements
Sustainable Poverty Reduction		<ul style="list-style-type: none"> The population of Dhaka uses a sustainable, environmentally friendly, pro-people, diversified and more climate resilient water supply Use of fuels per m3 of water goes down 	1. Raw water infrastructure 1.1 Raw Water Intake 1.2 Raw Water Transmission 2. Saidabad III Infrastructure 2.1 WTP + Sludge Treatment Plant 2.2 Design Build Operate Contract 3. Distribution Network 3.1 Mains 3.2 District Metering Areas (DMAs)	Consultant
Indicators: Head county poverty <ul style="list-style-type: none"> Baseline 2015: 24.8% Target 2020: 18.6% Access to water <ul style="list-style-type: none"> Baseline 2015: 86% Target 2021: 99% 	<ul style="list-style-type: none"> DWASA consolidates its autonomy and improves its financial selfsufficiency Transition from predominantly ground based water supply to surface water will be smooth; i.e., workers operating deep tube-wells 	Indicators: Population, service area, access to good quality surface water <ul style="list-style-type: none"> Baseline 2016: 3.7 m Target 2021: 7.0 m Of which Low Income Pop. <ul style="list-style-type: none"> Baseline 2016: 0.3 m Target 2021: 1.4 m CO2 emission equivalent per m3 of water supplied	Indicators: 1. 900,000 m3/day raw water supply from Meghna River to Saidabad WTP <ul style="list-style-type: none"> Baseline 2016: 450,000 m3/day from Surila to Saidabad WTP Target 2019: Construction raw water intake at Heria, Meghna River started Target 2021: Water intake at Heria completed, handed over to DWASA. Target 2021: 900,000 m3/day 2. Saidabad 900,000 m3/day WTP 2.1 Saidabad III WTP + Sludge Treatment Plant <ul style="list-style-type: none"> Baseline 2017: Saidabad I+II, 450,000 m3/day 	<ul style="list-style-type: none"> AfD/EIB/KfW Proj. Imp Manual M&E system for project implementation.

	<p>will be retrained to take over new activities.</p> <ul style="list-style-type: none"> • Saidabad I, will improve its operating efficiency and will emulate Saidabad II experience. 	<ul style="list-style-type: none"> • Baseline 2016: XX/m3 • Target 2021: YY/m3 	<ul style="list-style-type: none"> • Target 2019: Saidabad III + Sludge TP detailed design completed • Target 2019: Construction starts • Target 2021: Saidabad III 450,000 m3/day+STP completed, verified; handed over to DWASA • Target 2025: Operations of works transferred to DWASA <p>2.2 Design Build Operate (DBO) Contract</p> <ul style="list-style-type: none"> • Baseline 2018: Saidabad III + STP DBO contract prepared • Target 2018: DBO contract Saidabad III + STP awarded to qualified contractor • Target 2021: Construction contract phase ends • Target 2021: O&M Contract phase begins • Target 2025: O&M Contract phase ends. <p>3. Distribution Network</p> <ul style="list-style-type: none"> • Baseline 2017: #km main, # Connections under DMAs • Target 2021: # km main, # connections under DMAs. 	<ul style="list-style-type: none"> • Saidabad WTPs Prod. records. • DBF Proj. Imp Manual • DBF project M&E system • Saidabad III program impl. Manual. • DBO contractual clauses • KfW Proj. Imp Manual • Project M&E system
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Annex D: Risk Management Matrix

Table Annex D-1: Contextual Risk

Risk Factor	Likelihood	Impact	Risk response	Background to assessment
Political conflict between government party, Awmi League (AL), and the opposition Bangladesh National Party (BNP) continues over the period of the program.	Likely	Minor	Danida coordinates with other donors to encourage both AL and BNP to consolidate agreements to participate in all democratic processes, and improve the rule of law and due processes; to end what it appears the use of “politized” law enforcement. Evidence suggests that regardless of which party is in power, provision of safe water is a high priority.	AL and BNP have signalled they will participate in politics, BNP stopping sabotage to government and AL becoming more responsive to citizens
Trend of good macroeconomic management, freer international trade, and financial reform are reversed.	Unlikely	Major	GoB has implemented public financial management reforms.	Despite of weak institutions, Bangladesh successive governments have maintained macroeconomic stability, and made efforts to liberalize trade, reform the financial sector and limit interference in business.
Political will to maintain support of DWASA management and operational turnaround falters	Unlikely	Major	DWASA has undergone substantial operational improvements over a short time, which is likely to continue. Danida in coordination with other donors will urge	Under current management, DWASA has been undertaking its management and operational turnaround, obtaining highly

			the government to formalize full commercialization of DWASA.	positive results.
Natural disaster might occur given the geography of Bangladesh	Likely	Major	Danida will encourage government to continue the development of its disaster resilience infrastructure management.	Bangladesh is a country of extreme political fragility and moderate societal and security fragility.
Terrorist activity might aggravate and human rights issues (e.g., Chittagong Hill Tracts, Rohingya migrants) might persist inflicting losses to the economy	Likely	Minor	Danida will continue its support in relevant areas of human rights. Provision of extra security for contractor and consultants may become necessary.	Recently, terrorist attacks against foreign population happened and human rights issues persisted. Cost to the economy is about 3% of GDP.

Table Annex D-2: Programmatic Risks

Risk Factor	Likelihood	Impact	Risk response	Background to assessment
A power transmission line currently bisects the proposed project site for Saidabad III – this needs to be moved prior to commencement of construction	Unlikely	Major	Close dialogue and a solution is required as precondition for loan effectiveness	Until the power line is moved or another solution is found, the project site is not ready.
Limited O&M capacity of DWASA - Handling highly automated technology in Saidabad III WTP (as well as the other new mega WTPs) might require to adopt new culture of work that might be too difficult for DWASA to adopt.	Unlikely	Minor	Close coordination among donors, to urge DAWASA to adopt a new policy aimed at rapid O&M capacity building. For Saidabad III, the Design and Supervision consultant will help DWASA prepare tender for Design-Build-Operate Contractor that include specific provision for DWASA staff capacity development during O&M phase.	DWASA recruited a private operator (PO) for Saidabad II WTP, to do O&M for three years. PO brought state of the art operating practices; however, contract is finishing soon. A visible shortcoming of this PO O&M contract was that DWASA staff has had limited involvement and hence capacity building was negligible. This shortcoming will be avoided this time.
WTP complementary infrastructure not in place - Water Intake and water transmission pipes and distribution mains are not completed on time.	Likely	Major	DBF/DWASA to coordinate with involved donors due time financial close for all components, and their implementation according to well defined critical path method (CPM). DBF has good previous experience (Saidabad II) with the capacity of DWASA to implement large projects on-time and at-cost.	It is in the interest of all funders that component implementation takes place in a coordinated manner. Using CPM assists in this.
DWASA failure to sustain momentum of utility turnaround. This could happen if senior management is changed or because of political interference.	Unlikely	Minor	DBF will coordinate with other donor to urge the government to strengthen DWASA administrative and financial autonomy, with senior management appointed strictly based on merit and with a board of directors that represents its long-term sustainability.	DWASA has recently experienced a very positive management and operational turnaround, but much of it is driven from the top by a visionary manager and seems to benefit from high level political support.
DWASA failure to maintain good operational and financial results – As a result of internal pressures from	Unlikely	Major	DBF will urge management to assess options to sustainable improvement of DWASA staff and workers' salaries; also, to provide practical training for	Union of DWASA workers are interested on continuing operating Deep Tube Well, many of which will be

Risk Factor	Likelihood	Impact	Risk response	Background to assessment
its union, good operational results could be reverse; as a consequence, costs can escalate and financial results could suffer.			DWASA staff and workers so they can engage in new productive activities of a system that is supplied with surface water.	phase out as a result of the implementation of the mega WTPs.
Undeterred urban development could result in an environmental degradation of raw water at the Meghna intake (near Haria).	Unlikely	Major	DBF in coordination with other donors will urge to undertake consultation with the relevant stakeholders, such as DoE, DWASA, LGD to formally prevent (i.e., through a legally binding instrument) this outcome from happening. Also, it will be recommended that, DWASA takes up appropriate steps for expanding the sewerage network and sewage treatment system, especially in areas where water supply would be significantly increased due to the proposed project.	High rates of urban population growth, hast take Dhaka to be one of the largest cities in the world; and it is expected urban population in and around Dhaka will continue to grow.

Table Annex D-3: Institutional Risks

Risk Factor	Likelihood	Impact	Risk response	Background to assessment
DANIDA gets associated with vested interests of International Private Operators of water facilities; e.g., lack technology management transfer.	Unlikely	Insignificant	DBF will by all means try to deliver a DBO contract that includes capacity building of DWASA management to O&M Saidabad III. In the event of the risk happens, suspension of any funding during investigation, explanation to Denmark constituencies	International water companies have demonstrated competence to operate and maintain water facilities; however, some of them tend to avoid transferring know-how to local staff.
DANIDA is seen as not supporting fair competition for contracts – Limited competition for Saidabad III contract could happen if Incumbent contractor (Hojgaard/Degremont, Saidabad II) might be too well placed to be challenged, deterring other Danish contractors to bid for project.	Unlikely	Minor	DBF will by all means will ensure that procurement is fair, including selection criteria aimed at recruiting the most suitable contractor to implement Saidabad III WTP and Sludge Treatment Plant.	The incumbent delivered Saidabad II which is operating successfully. Other contractors have built similar plants, also operating successfully. So construction industry is fairly competitive. So, Hojgaard/ Degremont participation in Saidabad II should not be considered unfair advantage.
DANIDA gets associated with execution of involuntary resettlement – According to the ESIA done under the Feasibility Study, the project requires the acquisition of approximately 14 hectares of land and resettlements that are likely to affect more than 200 people.	Unlikely	Major	DBF in coordination with the other donors will closely monitor the completion and implementation of the Resettlement Action Plan; including: (i) awareness building of all potential affected people; and, (ii) provide adequate compensation, at fair market values in accordance with GoB laws and regulations and relevant Resettlement Policy of Dawasa.	Mitigation and abatement measures both during construction and operation phases of the project have been explained in the ESIA. The ESIA also presents an Environment Management Plan (EMP), including a monitoring program, identifying the management responsibilities for implementation. The EMP should be carried out as an integral part of the project planning and execution, along with the Resettlement Action Plan.

Annex E: Plan for Communication of Results

Public Consultations and Communications Plan

During Phase 1 the ESA Consultants will lead the development of a Public Consultations and Communications Plan PCCP for the overall Project in coordination with the Feasibility Study Consultants and the PMU.

Effective stakeholder engagement is fundamental building block of the Project and is essential to maximising the social and governance benefits. Proactive communication with the public and effective consultation and disclosure is an integral part of project implementation and must be designed to meet international requirements whilst respecting local cultural norms and project constraints. A careful balance is required to ensure an appropriate level of engagement without creating unwarranted burdens for the implementation team or local communities and other stakeholders, and to ensure consistent messages are sent about the entire plan and its commitments.

The Consultations and Communications Plan will address all aspects of this process of engagement. The key issues to be considered in the development of the PCCP will include the need to:

- work with communities across cultural and ethnic divides;
- engage a broad spectrum of stakeholders from local communities to NGOs and the private sector;
- use stakeholder engagement strategies and tools that are culturally appropriate;
- recognise the environmental and political sensitivities of the project and likely interest of international NGOs;
- be aware of the potential for stakeholder fatigue resulting from the demand for qualitative and quantitative data and for responses from stakeholders to requests for their views and opinions.

The preparation of the PCCP will start with a stakeholder “*mapping*” exercise identifying all potential stakeholders and developing an understanding of their level of interest and influence over the project. This will categorise primary and secondary stakeholders according to their expected interest in the project, the extent to which they are impacted (directly or indirectly) and their ability to influence the project. A key part of this will be identifying the resources that are available and any training or capacity building required to ensure an appropriate level of skill or process knowledge. The results will be used internally to plan the right approach for each type of stakeholder. The PCCP will then identify culturally appropriate information materials and consultation tools, which will be provided for review and approval prior to use in the field.

These could include:

- a Project newsletter;
- display materials for local meetings;
- a suite of consultation tools (focus groups, surveys, workshops, etc) to be used with local communities to describe the Project and its potential impacts and to illicit feedback (including a grievance mechanism); and
- a meeting minute template.

In addition, a Project website will be created so that information on progress, results and future plans can be hosted, documents posted for review and comment, and events announced. The

website will be set up so that stakeholders can submit comments directly to the Project and also used to elicit opinions through on-line surveys and “blogs”.

The PCCP will be a “live” document continually updated throughout the project as new stakeholders emerge and consultation activities are undertaken. It will incorporate a comprehensive Stakeholder Log (a consultation tracking database) recording all activities and consultation responses and tracking each of these to close-out. The Log will record:

- stakeholder organisation;
- contact details;
- issues and concerns raised;
- action for follow-up;
- responsibility and deadline;
- confirmation of close-out.

Summary of recommendations of the appraisal

Title of (Country) Programme	SAIDABAD PHASE III, WATER TREATMENT PLANT PROJECT
File number/F2 reference	2014-9677
Appraisal report date	January 2016
Council for Development Policy meeting date	13 June 2017
Summary of possible recommendations not followed: None	
Overall conclusion of the appraisal: The project is overall appraised positively, and recommended for approval with only minor adjustments. The appraisal report underlines that it is important that all three components of the project are implemented in parallel. This is stipulated as a prerequisite and will form the primary condition in the agreement with Dhaka Water and Sewerage Authority (DWASA).	
Recommendations by the appraisal team	Follow up by the responsible unit
Recommendation 1. Components 1, 2 and 3 must be implemented in parallel.	Accepted. This has been addressed in the Development Engagement Document (DED), Programme Document (PD) and agreed with co-financiers.
Recommendation 2. The Terms of Reference (ToR) for the Design and Supervision Consultant, appointed to prepare tender documents, must include investigation and clarification of the outstanding technical issues identified by the Appraisal Team (AT).	Accepted. This will be addressed in the TOR for the Design and Supervision Consultant.
Recommendation 3. Any Operation and Maintenance (O&M) contract should include a neutral contract supervisor. This should be part of Technical Assistance (TA).	Accepted. This will be addressed in the TOR for the Design and Supervision Consultant.

<p>Recommendation 4. Before the prequalification of the main Design, Build and Operate (DBO) contract starts, DWASA shall confirm to Danida Business Finance (DBF), that it has an Operation and Maintenance (O&M) Policy for surface Water Treatment Plants (WTPs) and a fully costed and resourced action plan for implementing the policy. This includes all the necessary organizational and financing approvals for the new O&M arrangements.</p>	<p>Accepted. Technical Assistance will be provided to support development of a comprehensive O&M management plan (incl. resource allocations) during implementation.</p>
<p>Recommendation 5. The O&M element of the contract should run for three years.</p>	<p>Accepted and incorporated into DED and PD</p>
<p>Recommendation 6. The O&M component of the contract should include specific, programmed training requirements with objective indicators of the effectiveness of the training and indicators for any associated capacity development required by DWASA.</p>	<p>Accepted. Will be incorporated as part of the specifications and bidding document for the Contractor.</p>
<p>Recommendation 7. 3Vand should be encouraged to formulate a partnering arrangement with DWASA. This partnering agreement would not form part of the proposed WTP Project and is not affected by the project preparation and approval process for the WTP Project.</p>	<p>Accepted. A meeting was held with 3Vand (Århus Vand, Vandcenter Syd and HOFOR) and other companies to discuss the possibilities for developing a concept for a partnership with DWASA.</p> <p>Subsequently, a concept note for a “utility to utility Cooperation” has developed and will be further elaborated. The budget is included under TA.</p>
<p>Recommendation 8. The ToR for the Design & Supervision Consultants will include TA to DWASA within the following areas: programme management, O&M of surface WTPs, preparation of a Corporate Social Responsibility (CSR) plan and contract supervision for the O&M contracts. An early activity for the TA support will be to carry out an institutional due-diligence to manage the institutional risks.</p>	<p>Accepted and incorporated into DED and PD</p>

Recommendation 9. DWASA should develop a Corporate Social Responsibility plan.	This will be addressed by the TA support.
Recommendation 10. DBF and DWASA will consider using FIDIC Gold Book contract instead of FIDIC Yellow Book.	<p>This will be addressed during design and preparation of tender documents.</p> <p>Danida Business Finance uses FIDIC Yellow Book as standard (design and build) contract. This contract will include O&M, to be financed by DWASA. Therefore, a FIDIC Gold Book (design, build, and operate) can be used if this is the preferred contract modality.</p>
Recommendation 11. The design and build elements of the contract should use the same approach as Saidabad II. This include lifecycle costing (based on 7 years discounted estimated O&M costs) for tender evaluation. The O&M element of the contract needs to take into account the lessons from Saidabad II, and the <u>actual</u> O&M payments must be linked to the <u>estimated</u> O&M costs in the tender.	Accepted. This is addressed in the DED and PD and will be incorporated as part of the specifications for the bidding document.
Recommendation 12. Set a staff budget of about EUR 3.56 million per year to operate and maintain Saidabad III and include it as a reference for the bidding of a three-year O&M phase. In addition, performance based milestones related to the qualification of DWASA personnel to take over O&M of Saidabad III should be included as part of the O&M contract.	Accepted. Staff issues will be addressed by DWASA in the O&M contract.
Recommendation 13. Design a tariff structure consistent with deployment of District Management Areas and strengthened capabilities of the Financial Management Information System, i.e., including lifeline tariff for Low Income Communities (LIC) and increasing block tariffs to both encourage water conservation and keep all households connected.	Accepted and addressed in the programmed document.

I hereby confirm that the above-mentioned issues have been addressed properly as part of the appraisal and that the appraisal team has provided the recommendations stated above.

Signed in..... on the
Appraisal Team leader/TQS representative

I hereby confirm that the responsible unit has undertaken the follow-up activities stated above. In cases where recommendations have not been accepted, reasons for this are given either in the table or in the notes enclosed.

Signed in.....
Morten Elkjær, Head of Department

on the..... 24/5 2017

Guide to the use of the template for summary of recommendations of the appraisal

Purpose of the guide

Ensure consistent use of the template for presentation of the key recommendations of an appraisal. The text should be easily understood by members of the Council for Development Policy (and the general public) without reading the appraisal report and without having specialist knowledge of the technical issues dealt with. It should be clear from the summary if the programme is recommended or not recommended for approval.

When filling in the template ...

- Fill in the section on the 'overall conclusion of the appraisal', which summarises the relevance of the programme for the country in question and for Denmark, the assessment of the design of the programme, the assessment of the level of preparation of the activities, and the key reservations expressed by the appraisal.
- The 'overall conclusion of the appraisal' section can rarely be copied directly from the appraisal report but should be written with the members of the Council in mind. The appropriate length is 15-20 lines, and it makes it easier to read if it is structured in 3-4 brief sections.
- The 'overall conclusion' section should end by stating whether the programme is
 1. Recommended for approval with only minor adjustments
 2. Recommended for approval on the condition that substantial changes are made to the design
 3. Not recommended for presentation to the grant committee as it is not considered possible to make the necessary changes within the timeframe available.
- In case of country programmes, it should be clearly seen from the 'overall conclusion of the appraisal' if all thematic programmes are recommended for presentation to the grant committee, or if one of them is considered insufficiently prepared.
- Both 'overall conclusions of the appraisal' and the subsequent section on 'recommendations by the appraisal team' should be written without using abbreviations and technical expressions which are not generally understood.
- Write either "the appraisal has found/the appraisal recommends" or "it has been found/it is recommended" or simply "the time period of support should be extended" (not "the AT/the AM/the JAT recommends").
- When filling in the sections under 'recommendations by the appraisal team', do not aim at commenting each of the proposed headlines but select the most relevant issues according to the appraisal and write at least four lines about each (if less is written, it becomes difficult to understand).

- Questions related to 'Justification of the programme', Identified risks and risk management' and Results Framework', should be anticipated and if the appropriation document is weak on these themes, the Council could wonder no recommendations are provided within these themes. It is important, therefore, to particularly consider these themes during the appraisal and when filling in the template.
- Sometimes elaborate recommendations are responded to only by 'agree' or 'done' by the responsible unit. If TQS sees a copy of the template before it is annexed to the appropriation document, the unit should be encouraged to elaborate on its answers.

Danida Partner Platform¹

Enabling environment



Partnering with Denmark

Growth advisers

Strategic Sector co-operation between Danish authorities (ministries etc.) and counterparts in developing countries.

Framework conditions

Support to partnerships between business member and labour market organisations in Denmark and organisations in developing countries.

Scaling and accelerating progress

on select Global Goals (3GF 2.0)

Private Public Partnership platform with strong engagement from Danish stakeholders and international decision makers and stakeholders.

Identification



Danida Business Delegations:

- Support to participate in business delegations (Currently suspended awaiting revision after a review).
- Countries below 80 % of the WB limit of lower middle income countries (at present USD 3.228).
- 75 % support to the companies' travel expenses.

Early stage



Danida Business Explorer:

- Support to development of a concrete business opportunity.
- Countries below the WB limit of lower middle income countries (at present USD 4,035) with a Danish representation.
- 50 % of the companies' expenses, maximum DKK 500.000.

IFU SME Facility:

- Support to development of investments with IFU.
- All countries eligible for IFU investments.
- 50 % of the companies' expenses, maximum 750.000 kr.

Danida Business Finance

- Feasibility studies (75% of costs) to prepare projects.

IFU Project Development Facility:

- Support to large investment projects for investment cooperation with IFU.
- All countries eligible for IFU investments.
- Equity on commercial terms to cover 50 % of development costs, maximum DKK 5 million.

Growth



Danida Market Development Partnerships:

- Support to multi-stakeholder business initiatives.
- Countries below the WB limit of lower middle income countries (at present USD 4,035) with a Danish representation.
- 75 % of project expenses incurred by the CSO partner, maximum DKK 8 million.

IFU SME Facility:

- Support to implementation of investments with IFU.
- All DAC countries eligible for IFU investments.
- 50 % of the companies' expenses, maximum 750.000 kr.

Danida Business Finance:

- Subsidised loans primarily to public authorities in developing countries to finance sustainable infrastructure projects and small industrial projects.
- Transfer of knowledge and technology from Danish companies.
- Countries below the WB limit of lower middle income countries (at present USD 4.035) with a Danish representation.

Scaling of bankable projects



Investment Fund for Developing Countries

- Advice and risk capital to Danish companies investing in developing countries and emerging markets.

IFU Funds:

- Danish Agribusiness Fund shall contribute to establish viable and sustainable projects within agriculture and agribusiness.
- Climate Investment Fund invests in projects, which contribute to reduction of the emission of greenhouse gasses in collaboration with Danish businesses, or co-invest in major climate projects which include Danish technology or know-how.
- The Arab Investment Fund offers advice and risk capital to Danish companies wishing to set up business in North Africa and the Middle East.
- Investment Facility for Ukraine offers advice and risk capital to Danish companies, especially SMEs, wishing to invest in Ukraine.



¹ In addition to the instruments mentioned here there are a number of other financing of private sector development, such as bilateral support through country programmes, multilateral support, humanitarian support, Danish Arab Partnership Programmes etc