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Investing in rural people

People's Republic of Bangladesh

Update report on the findings of the Haor Infrastructure and Livelihood Improvement Project and the Climate Adaptation and Livelihood Protection Project supervision mission

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Abbreviations and acronyms

ADB	Asian Development Bank
ASAP	Adaptation for Smallholder Agriculture Programme
CALIP	Climate Adaptation and Livelihood Protection Project
HILIP	Haor Infrastructure and Livelihood Improvement Project
LGED	Local Government Engineering Department
PMU	project management unit
SDR	special drawing rights
TIB	Transparency International Bangladesh

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I. Introduction

A. Project summary

1. The Haor Infrastructure and Livelihood Improvement Project (HILIP) and the Climate Adaptation and Livelihood Protection Project (CALIP) are funded through an IFAD loan of 34.45 million special drawing rights (SDR), an IFAD grant of SDR 0.63 million, a Spanish Food Security Cofinancing Facility Trust Fund loan of EUR 21.4 million, an Adaptation for Smallholder Agriculture Programme (ASAP) grant of SDR 9.9 million and a contribution from the Government of Bangladesh equivalent to US\$32 million.
2. The goal of the projects is to contribute to poverty reduction in the Haor Basin. The development objectives are to improve the living standards and reduce the vulnerability of the poor. The combined project components are: (i) communication infrastructure; (ii) community infrastructure; (iii) community resource management; (iv) livelihood protection; and (v) capacity and knowledge for building resilience. The Local Government Engineering Department (LGED) implements the project in 28 upazilas (subdistricts) of five of the Haor Basin districts of Kishoreganj, Netrokona, Sunamganj, Habiganj and Brahmanbaria. CALIP complements HILIP with climate-related activities funded through ASAP.

B. Rationale of the update

3. HILIP and CALIP are implemented by the same project management unit (PMU) embedded within the LGED of the Ministry of Local Government, Rural Development and Co-Operatives. LGED is the main government institution in charge of rural and semi-urban infrastructure development. A significant allocation for infrastructure development from the Government's Annual Development Programme is channelled through the LGED, which also implements a number of donor-funded projects.
4. When CALIP was presented for approval to the Executive Board at its 109th session, on 19 September 2013, Board members raised queries regarding the adequacy of the proposed implementing entity LGED. Their concerns derived from a 2013 Transparency International Bangladesh (TIB) report on LGED, which flagged issues including suspected corruption, political interference, back-door negotiations with contractors, lack of transparency, irregularities in the use and maintenance of vehicles and fuel, and inadequate monitoring and evaluation (M&E) of LGED-implemented projects. The Board approved CALIP but requested that IFAD report on the findings of its first supervision mission, which was carried out in May 2015, in conjunction with the third HILIP supervision mission.

II. Update on Supervision Mission

A. Process and methodology

5. The HILIP/CALIP supervision mission took place from 9 to 20 May 2015 with the participation of the Programme Management Department, Controller's and Financial

Services Division and Office of Audit and Oversight.¹ Its objectives were to: (i) assess implementation progress; (ii) identify current and potential operational problems; (iii) review all fiduciary aspects; and (iv) propose solutions for improvement.

6. The fiduciary reviews, including the financial management risk assessment, were conducted in accordance with IFAD's Supervision and Implementation Support and Financial Management guidelines, and with special regard to the observations made by Executive Board members.
7. A comprehensive assessment of HILIP and CALIP financial management and procurement arrangements was conducted at central and district levels. Areas covered included accounting, financial reporting, procurement, the preparation and monitoring of budgets, disbursement, audit and compliance with loan and grant agreement covenants, and operational guidelines.
8. In addition to working closely with the PMU in Dhaka, the mission visited the five district-level offices to examine financial management arrangements and assess the physical as well as financial progress of implementation. Relevant financial records were reviewed in depth at the PMU and district levels, including supporting documentation for statements of expenditure (SOEs), bank reconciliations, asset registers, contract registers and procurement records.
9. The mission met with key stakeholders, including the Minister of State, Ministry of Finance and Ministry of Planning; the Secretary of the Local Government Division of the Ministry of Local Government, Rural Development and Co-Operatives; the Chief Engineer of LGED; the Foreign Aided Project Audit Directorate (FAPAD) of the Office of the Comptroller and Auditor General of Bangladesh; and representatives of the World Bank and the Asian Development Bank (ADB), which also implement projects through LGED. A wrap-up meeting was held with the Ministry of Local Government, Rural Development and Co-Operatives. The full supervision report is published on the IFAD website.

B. Supervision findings (financial management and procurement)

10. The supervision mission concluded that good operational progress had been made in implementing HILIP and CALIP. Despite the complex and challenging context – the Haor area is flooded for half of the year – the HILIP/CALIP projects had successfully carried out most of the preparatory work and undertaken significant field activities, capitalizing on the successes of past LGED-implemented IFAD projects. Some promising results had already been achieved in terms of improved livelihoods, income generation and employment. Detailed operational findings are presented in the supervision report.
11. HILIP/CALIP financial management performance was assessed as moderately satisfactory. The main areas requiring attention concerned: (i) PMU financial staff; and (ii) weaknesses in financial reporting due to insufficiently operational computerized systems for accounting and reporting.
12. The mission reviewed procurement files relating to communication infrastructure in the five districts for the years 2014 and 2015, as well as procurement records held at the PMU level for goods and services. Procurement was found to be generally consistent with the approved procurement plan and with the Government's rules and regulations. However, recommendations were formulated and agreed upon to develop better practices and controls, including better monitoring of the delivery of the procurement plan, improved filing systems and the alignment of the micro-level

¹ Mission composition: Hubert Boirard, IFAD Country Programme Manager and Mission Leader; Virginia Cameron, IFAD Senior Finance Officer; Anta Sow, Financial Management Specialist; Sean Timings, Procurement Specialist; Nicolas Syed, IFAD Country Programme Officer for Bangladesh; Wanaporn Yangyuentham, IFAD M&E, Gender and Targeting Specialist; Paxina Chileshe, IFAD Climate Change Specialist; Shamsul Hoque, Infrastructure Specialist; and Nazrul Islam, Fisheries and Natural Resources Management Specialist.

risk mitigation strategy alongside other ongoing LGED-implemented projects. This alignment includes the flexibility for IFAD to conduct prior review of project procurement decisions, before contracts are awarded, as a compliance-monitoring measure. At the time of the supervision mission, HILIP/CALIP had already started issuing tenders through the e-Government procurement portal (see section C below).

13. FAPAD, which audits donor-funded projects in Bangladesh, conducted the 2013-2014 audit of HILIP² in September and October 2014, with five-to-six day visits to the PMU and to each of the five district offices. IFAD received FAPAD's audit report on 6 January 2015, only six days after its due date. The auditor expressed an unqualified opinion on the project's financial statements, special accounts and SOEs. It was noted that the audit report was not fully compliant with IFAD guidelines in terms of the completeness of information since it lacked the statement of fixed assets, comparison of budget versus actuals and the schedule of withdrawal applications. The mission met with FAPAD to draw attention to these shortcomings, which will be addressed for the forthcoming year. The first audit of CALIP's accounts will be for the fiscal year 2015, as disbursement began in November 2014.

C. Ongoing LGED reform

14. The supervision mission held extensive discussions with donor partners and the new LGED management. Since the publication of TIB's report in 2013, LGED has introduced significant changes, mitigating the risks flagged by TIB.³
15. LGED is at present one of the four key departments supported by the World Bank-funded Public Procurement Reform Project II (PPRP II), which aims to: (i) enhance capacity by creating a sustained programme of developing skilled procurement professionals; (ii) strengthen the management and monitoring of procurement; (iii) introduce electronic government procurement; and (iv) create greater public awareness of a well-functioning public procurement system by engaging civil society, think tanks, beneficiaries and the private sector. These actions represent key elements in the effective implementation of procurement law and regulations, which entails a phased approach within the target agencies. Thus, the system will be more transparent, costs will be reduced, and improvements in communication, behavioural change and social accountability will be made so as to raise public awareness of the importance of a well-functioning public procurement system. As a result of PPRP II, an estimated 85 per cent⁴ of procurement undertaken by LGED for civil works and goods at the time of the mission – including with World Bank, IFAD and, increasingly, ADB – were being implemented through electronic government procurement. Publicly disclosed reports of PPRP II, which include systemic risk assessment of the key risk categories, are available on the World Bank website.
16. LGED is also undergoing an internal reform process under its new management, with in-country donor representatives being kept informed of progress. Furthermore, the two-year, ADB-financed Road Map to Good Governance project focuses on enhancing the governance, transparency and accountability of LGED's operations. The project is expected to conclude this year, reporting to donors through the donor-partner coordination process.

² The Bangladeshi fiscal year runs from 1 July to 30 June.

³ The former Chief Executive (Chief Engineer) stepped down at the end of 2014 after seven years of tenure.

⁴ Electronic Government procurement has been implemented for IFAD's projects with LGED, including HILIP and CALIP, since March 2015.

III. Conclusion and the way forward

17. The IFAD supervision mission took note of the significant initiatives implemented by LGED with the support of TIB and the donor community to improve its governance, transparency and accountability.
18. HILIP is an eight-year project launched in 2012, thus entering its third year of implementation. The IFAD mission found the project to have made relatively good progress in all components in operational terms.
19. In terms of financial and procurement management, the performance of both HILIP and CALIP was rated moderately satisfactory by the supervision mission, since additional staff capacity and tools were required for the projects to meet best international financial and procurement standards.
20. The Government, the PMU and the LGED agreed with the findings of the mission and its subsequent recommendations, as detailed in the supervision report. An action plan was discussed and agreed with a view to ensuring that improvements are implemented by the project before the end of 2015.
21. IFAD will remain vigilant through its supervision processes in monitoring project performance and perceived risks, and will deal promptly and resolutely with any irregularities should they arise, pursuant to its zero-tolerance policy on corruption.
22. An implementation support mission will deploy at the end of 2015 to monitor progress and ensure that the recommendations have been fully implemented.