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**People's Republic of Bangladesh**

**Climate- and Disaster-Resilient Small-Scale  
Water Resources Management Project**

**Negotiated financing agreement**

Executive Board — 135<sup>th</sup> Session  
Rome, 25-27 April 2022

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**For: Information**

# **Negotiated financing agreement: "Climate- and Disaster- Resilient Small-Scale Water Resources Management Project"**

(Negotiations concluded on 21 April 2022)

Loan No: \_\_\_\_\_

Project name: Climate and Disaster Resilient Small-Scale Water Resources Management Project ("the Project")

The People's Republic of Bangladesh (the "Borrower")

and

The International Fund for Agricultural Development (the "Fund" or "IFAD")

(each a "Party" and both of them collectively the "Parties")

**WHEREAS** the Borrower has requested a loan from the Fund for the purpose of financing the Project described in Schedule 1 to this Agreement;

**WHEREAS**, the Project shall be co-financed by the Asian Development Bank (ADB) with a loan of US\$106 million (ADB Loan) through a separate agreement ("ADB Agreement");

**WHEREAS** the Government of the Netherlands (GoN) has expressed interest in providing a grant of approximately US\$17.8 million;

**WHEREAS**, the Fund has agreed to provide financing for the Project;

**NOW THEREFORE**, the Parties hereby agree as follows:

## **Section A**

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2) and the Special Covenants (Schedule 3).

2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, amended as of December 2020, and as may be amended hereafter from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement, except for the provisions that refer to Loan financing which shall not apply to this Agreement, except for the provisions identified in Section E paragraph 4 below. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein, unless the Parties shall otherwise agree in this Agreement.

3. The Fund shall provide a Loan (the "Financing") to the Borrower, which the Borrower shall use to implement the Project in accordance with the terms and conditions of this Agreement.

## **Section B**

1. The amount of the loan is Forty Two Million Nine Hundred Eighty Thousand United States dollars (USD 42 980 000).
2. The Loan is granted on blend terms, and shall be subject to interest on the principal amount outstanding and a service charge as determined by the Fund at the date of approval of the Loan by the Fund's Executive Board. The interest rate and service charge determined will be fixed for the life cycle of the loan and payable semi-annually in the Loan Service Payment Currency, and shall have a maturity period of twenty five (25) years, including a grace period of five (5) years starting from the date of approval of the Loan by the Fund's Executive Board.  
The principal of the Loan granted on blend terms will be repaid in equal instalments.
3. The Loan Service Payment Currency shall be in United States dollar (USD).
4. The first day of the applicable Fiscal Year shall be 1 July.
5. There shall be three Designated Accounts in USD, for the exclusive use of the Project opened for the ADB financing, the IFAD financing and GON financing.
6. There shall be a three Project Accounts in USD, opened in a commercial bank for the ADB financing, the IFAD financing and GON financing.
7. The Borrower shall provide counterpart financing for the Project in the amount of USD 51 million and will be used for: (i) salaries and costs of staff on deputation to the project, (ii) land acquisition, (iii) AIT (where not financed by ADB), (iv) value added tax (VAT) and any other taxes and duties. .

## **Section C**

1. The Lead Programme Agency shall be the Local Government Engineering Department (LGED), under the Local Government Division (LGD) of the Ministry of Local Government Rural Development & Cooperation.
2. The following are designated as additional Project Parties: ADB, and the Government of Netherlands.
3. A Mid-Term Review will be conducted as specified in Section 8.03 (b) and (c) of the General Conditions; however, the Parties may agree on a different date for the Mid-Term Review of the implementation of the Project.
4. The Project Completion Date is six years from the Date of Entry into Force and the Financing Closing Date shall be 6 months later, or such other date as the Fund may designate by notice to the Borrower.

## **Section D**

1. The Financing shall be administered and the Project supervised by ADB as the Cooperating Institution.

## **Section E**

1. The following are designated as additional grounds for suspension of this Agreement:
  - (a) The Project administration manual (PAM) and/or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior

agreement of the Fund and the Fund, after consultation with the Borrower, has determined that it has had, or is likely to have, a material adverse effect on the Project.

- (b) the ADB Cofinancing Agreement has failed to enter into full force and effect within 365 days of the signing of this Agreement, and substitute funds are not available to the Borrower.
- (c) the right of the Borrower to withdraw the proceeds of the ADB Loan has been suspended, cancelled or terminated, in whole or in part, or the ADB Loan has become due and payable prior to the agreed maturity thereof; or any event has occurred which, with notice or the passage of time, could result in any of the foregoing.

2. The following is designated as additional grounds for cancellation of this Agreement: the ADB Loan Agreement shall have been cancelled.

3. The following are designated as additional general conditions precedent to withdrawal:

- (a) The Project administration manual (PAM) has been prepared to the satisfaction of the Fund;
- (b) Key Project staff, as provided in the ADB Agreement, has been appointed;
- (c) The withdrawal conditions for ADB loan have been fully complied with; and
- (d) The Letter of Appointment between ADB and IFAD has entered into force.

4. The following provisions of the General Conditions shall not apply to this Agreement and shall be replaced to read as follows:

- (a) Section 7.05 (Procurement). Procurement of goods, works and services to be financed out of the proceeds of the financing shall be subject to and governed by ADB's Procurement Policy prescribing regulations that govern the procurement of goods, works, and non-consulting and consulting services required for the project.
- (b) Section 7.06 (Fraud and Corruption) The Borrower and the Project Parties shall ensure that the Project is carried out in accordance with the provisions of the ADB Policy on Preventing Fraud and Corruption in its Activities and Operations.
- (c) Section 9.03 (Audit of Accounts). The audited financial statements shall be submitted by the Borrower six months after each fiscal year-end, and align with the ADB timeframe for audit report submission.

5. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the People's Republic of Bangladesh:

[click and type title of the representative]  
[click and type the name and address of the ministry]

For the Fund:

[click and type Title]  
International Fund for Agricultural Development  
Via Paolo di Dono 44  
00142 Rome, Italy

This Agreement has been prepared in the English language in two (2) original copies, one (1) for the Fund and one (1) for the Borrower.

PEOPLE'S REPUBLIC OF BANGLADESH

\_\_\_\_\_  
"[Authorised Representative Name]"  
"[Authorised Representative title]"

Date: \_\_\_\_\_

INTERNATIONAL FUND FOR  
AGRICULTURAL DEVELOPMENT

\_\_\_\_\_  
Gilbert F. Houngbo  
President

Date: \_\_\_\_\_

## Schedule 1

### *Project Description and Implementation Arrangements*

#### I. Project Description

##### 1. *Target Population.*

The Project shall benefit approximately 1,634,000 people, amounting to 380,000 households, and 45,000 functionally landless households and vulnerable peoples on 219,000 ha. The Project's main target groups are: (i) functionally landless households owning less than 0.5 acres of land, who represent around two-thirds of Bangladesh households. They are often the poorest and rely on unskilled labour and seasonal migration. They will mainly benefit from the Project through income generating activities, work opportunities during infrastructure development and through increased participation in value chain related activities, namely in processing; (ii) marginal and small farmers cultivating between 0.5 to 2.4 acres of land, including homestead land, less productive land, share cropping, enterprise development and wages as income source; they will benefit from all three components; (iii) medium farmers (2.5 to 7.5 acres) and large farmers indirectly also as beneficiaries from infrastructure related development and water management cooperative association (WMCA) services; and (iv) other value chain actors e.g. traders, processors, logistics operators will be engaged through value chain partnership benefitting the main target groups.

##### 2. *Project Area.*

The Project area comprises approximately 42 of the 64 districts of Bangladesh (the "Project Area") located in selected geographical areas corresponding to 4 "hotspots" identified in the Bangladesh Delta Plan 2100: (i) Barind and drought prone areas; (ii) the coastal zone; (iii) the Haor and flash flood areas; and (iv) river systems and estuaries.

##### 3. *Goal.*

The Project aims to enhance resilience of rural poor men and women and will allocate 40% of its financing to climate change adaptation and at the same time it will also invest in mainstreaming gender (targeting gender equity category for ADB, the highest gender category for the first time), promoting nutrition related activities along the value chain and creating employment opportunities for youth.

##### 4. *Objectives.*

The Project aims to increase climate resilient agricultural productivity and profitability in selected geographic areas. This will be monitored by achievement of targets for increased crop yields, cropping intensities and farm incomes for about 335,000 farming households, and 45,000 functionally landless households and vulnerable peoples, over 220,000 ha.

##### 5. *Components.*

The Project shall consist of the following Components:

**5.1 Component 1: Participatory subproject development and management improved.** This output will: (i) establish 150 new, inclusive water management cooperative associations (WMCAs) with at least 40% of general membership vested in women, and women making up one-third of the management committees; (ii) support existing WMCAs of 230 existing subprojects to implement performance enhancement (PE)

works with refresher training for improved management, and operation and maintenance (O&M); (iii) form and support about 500 inclusive (women and youth) subcommittees managing O&M, agriculture, and fisheries development, and 100 women-only subcommittees managing women's development; and (iv) strengthen the integrated water resources management unit (IWRMU) of LGED.

**5.2 Component 2: Small-scale water resources infrastructure with climate and disaster resilient features developed or enhanced.** This output will: (i) develop 150 new climate and disaster resilient subprojects benefitting 86,000 ha; (ii) enhance 230 existing WMCAs' infrastructure with climate and disaster resilient features to improve systems performance benefitting 130,000 ha; (iii) provide emergency reconstruction and modernization of the Bakkhali rubber dam (BRD) subproject benefitting 3,000 ha; (iv) improve rural connectivity within and to the subprojects by upgrading about 110km of on-farm and village roads together with ancillary culverts and small single span bridges; and (v) supporting 190,000 households (50% of total beneficiary households) to adopt environmentally sustainable and climate-resilient technologies and practices.

**5.3 Component 3: Upazila- and WMCA-level agribusinesses enhanced, and vulnerables' livelihood supported.** This output will increase the incomes of Project beneficiaries, for all subprojects but focusing on about 58 (25%) of the PE subprojects, through: (i) training for WMCA main and subcommittee members for good agriculture or aquaculture practices, climate smart natural resource management, business plan preparation, accessing financial services, and grain storages and marketing; (ii) facilitation of meetings between producers and buyers, and development of market analysis and standards for 10 selected commodities; (iii) in line with approved business plans, 5 provision of facilities, machinery and equipment for crop post-harvest management, for fishpond development, cage aquaculture, and floodplain fisheries, and for enterprises managed by women; and (v) modern market facilities with cold storages for fruit, vegetables, fish and meat at the upazila level, as well as improved local/ roadside markets.

## **II. Implementation Arrangements**

### *6. Lead Project Agency.*

The Local Government Engineering Department (LGED) will be the Project executing and implementing agency and responsible for overall Project management and implementation, including financial management. LGED is a government department under the Local Government Division (LGD) of the Ministry of Local Government Rural Development & Cooperation (MLGRD&C). LGED is headed by a chief engineer and it has more than 13,000 staff on its payroll.

### *7 Project Oversight Committee.*

A Project Steering Committee (PSC) chaired by the Secretary, Local Government Division and a Project Implementation Committee chaired by the Chief Engineer, LGED will be established to provide oversight to the Project.

### *8. Project Management Unit.*

The Project will be implemented by a Project Management Unit (PMU) to be established in the LGED main office in Dhaka as well as by 42 Project Implementation Units (PIUs) to be

established in the selected district offices. The PMU will be headed by the Project Director (PD) and will include the positions of a senior accountant and an accountant.

#### 9. *Implementing partners.*

The implementing agency will be the Local Government Engineering Department (LGED). The implementing units will be the Project Management Unit (Central Level) and the Project Implementation Units (District Level) of LGED.

#### 10. *Monitoring and Evaluation.*

The monitoring and evaluation (M&E) system resides with a newly created Delta Wing at the national level. However, direct responsibility for M&E for investment projects resides with the implementing agency. M&E responsibility for sectoral policies and programmes resides with concerned sectoral ministry and the Implementation Monitoring and Evaluation Division (IMED).

Effect monitoring and evaluation (EME) surveys will be conducted annually by the PMU for completed subprojects to document the changes in agricultural and fisheries production that occur as a result of the interventions in water management infrastructure. The EME will also document the overall institutional strength of the WMCA and the operational status of the subprojects.

Specific monitoring and evaluation services to be provided include: (i) Facilitate PMU and regional, district and upazila levels in review and modification, of existing parameters and procedures for Project BME and EME and assist in implementing M&E process. Reflect modifications in further development/refinement of existing MIS database and expand its utilization/access to other Project related users; (ii) Provide technical advice to PMU in review and modification, as appropriate, of existing procedures for environmental monitoring; (iii) Assist PMU ESS in undertaking environmental monitoring at subproject sites.

#### 11. *Project Administration Manual.*

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

The Local Government Engineering Department (LGED) is wholly responsible for the implementation of ADB-financed projects, as agreed jointly between the borrower and ADB, and in accordance with the policies and procedures of the government and ADB. ADB staff is responsible for supporting implementation including compliance by LGED of their obligations and responsibilities for Project implementation in accordance with ADB's policies and procedures.

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

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



12. *Flow of funds.*

Funds will flow from IFAD to a specific Designated Account (maintained by Ministry of Finance) and from there to project account (maintained by PMU) and then to district account (managed by PIU). IFAD will be receiving the payment instructions from ADB. There will be three separate Designated Accounts, project accounts and district accounts for ADB, IFAD financing and GON financing.

## Schedule 2

### Allocation Table

#### 1. Allocation of Loan Proceeds.

(a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan/Grant and the allocation of the amounts to each category of the Financing and the percentages of expenditures for items to be financed in each Category:

Category-IFAD	Category-ADB	Loan Amount Allocated (expressed in USD)	Percentage (excluding taxes)
I. Work	Infrastructure Works	37 400 000	27%
II. Equipment & material	Equipment, Vehicles, Machinery and Packaging	2 700 000	26%
III. Good, services & input	Services - Training, Monitoring, and Innovation & recurrent costs	2 880 000	24%
<b>TOTAL</b>		<b>42 980 000</b>	

(b) The terms used in the Table above are defined as follows:

- (i) "Work" under Category I, shall mean: Eligible expenditure for infrastructure work;
- (ii) "Equipment & material" under Category II, shall mean: Eligible expenditure for vehicle, equipment, machinery and packaging; and
- (iii) "Goods, services & input" under Category III, shall mean: Eligible expenditure for services for training monitoring, innovation and recurrent cost.

#### 2. Disbursement arrangements

- (a) *Co-financing arrangement.* The Project will be managed under a co-financing arrangement with ADB as the Cooperating Institution (CI) whereby all Project activities will be jointly financed, and funds will be disbursed in agreed proportions which can be revised from time to time with ADB on a pari-passu basis through an agreement between ADB and IFAD.
- (b) *Retroactive financing.* As an exception to section 4.08(a) (ii) of the General Conditions, specific eligible expenditures incurred as of 3 March 2022, until the date of entry into force of this Agreement shall be considered eligible up to an amount equivalent to two million one hundred fifty thousand US dollars (USD 2 150 000), corresponding to 5% of IFAD Loan, for eligible expenditure to finance activities relating to start up activities (including start up workshop, baseline and recruitment of outsourced staff). Activities to be financed by retroactive financing and their respective category of expenditures and source of financing will require prior no objection from IFAD to be considered eligible. Pre-financed eligible expenditures shall be reimbursed to the Borrower once

additional conditions precedent to the first disbursement of funds specified in Section E are fulfilled.

- (c) *Audit arrangements.* The Project will be audited by Foreign Aided Project Audit Directorate (FAPAD). The audited consolidated financial statements with the auditor's opinion and management letter will be presented in English within 6 months from the end of the fiscal year, i.e., by 31 December of each year.

### **Schedule 3**

#### *Special Covenants*

#### **I. General Provisions**

In accordance with Section 12.01(a)(xxiii) of the General Conditions, the Fund may suspend, in whole or in part, the right of the Borrower to request withdrawals from the Loan Account if the Borrower has defaulted in the performance of any covenant set forth below, and the Fund has determined that such default has had, or is likely to have, a material adverse effect on the Project:

1. Within six (6) months of entry into force of the Financing Agreement, the Project will procure and install a customize accounting software as it is the practice in IFAD on-going supported projects, to satisfy International Accounting Standards and IFAD's requirements.
2. Within six (6) months of entry into force of the Financing Agreement, the Project will enter into Memorandum of Understandings (MoU) with implementing partners that will structure the collaboration, define roles, responsibilities and duties with regards to implementation, financial management, accounting and reporting.
3. *Planning, Monitoring and Evaluation.* The Borrower shall ensure that (i) a Planning, Monitoring and Evaluation (PM&E) system shall be established within twelve (12) months from the date of entry into force of this Agreement.
4. *Anticorruption Measures.* The Borrower shall comply with IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations.
5. *Sexual Harassment, Sexual Exploitation and Abuse.* The Borrower and the Project Parties shall ensure that the Project is carried out in accordance with the provisions of the IFAD Policy on Preventing and Responding to Sexual Harassment, Sexual Exploitation and Abuse, as may be amended from time to time.

#### **II. Social and Environmental Safeguard Provisions**

1. The Borrower shall carry out the preparation, design, construction, implementation, and operation of the Project in accordance with ADB's Safeguard Policy Statement (2009), as well as with all applicable laws and regulations to the Borrower and/or the sub-national entities relating to social and environmental issues in a manner and substance satisfactory to ADB.
2. The Borrower shall carry out the implementation of the Project in accordance with the provisions of Schedule 4 to the ADB Agreement, including, but not limited to, the Borrower's obligations under the ADB Agreement to comply with the measures and requirements set forth in the EARF, RF and IPPF (as defined in the ADB Agreement) and all measures and requirements set forth in the respective IEE, EMP and RP (as defined in the ADB Agreement).
3. The Borrower will ensure that a Project-level grievance mechanism is established that is easily accessible, culturally appropriate, available in local languages, and scaled to the nature of the Project's activity and its potential impacts to promptly receive and resolve concerns and complaints (e.g. compensation, relocation or livelihood restoration) related to the environmental and social performance of the Project for people who may be unduly and adversely affected or potentially harmed if the Project fails to meet the ADB's Safeguard Policy Statement requirements. The Project-level grievance mechanism needs

to take into account indigenous peoples, customary laws and dispute resolution processes. Traditional or informal dispute mechanisms of affected indigenous peoples should be used to the greatest extent possible.

4. This section applies to any event which occurs in relation to serious environmental, social, health & safety (ESHS) incidents (as this term is defined below); labour issues or to adjacent populations during Project implementation that, with respect to the relevant IFAD Project:

- (i) has direct or potential material adverse effect;
- (ii) has substantially attracted material adverse attention of outside parties or create material adverse national press/media reports; or
- (iii) gives rise to material potential liabilities.

In the occurrence of such event, the Borrower shall:

- Notify IFAD promptly;
- Provide information on such risks, impacts and accidents;
- Consult with Project-affected parties on how to mitigate the risks and impacts;
- Carry out, as appropriate, additional assessments and stakeholders' engagements in accordance with ADB's Social Safeguard Policy requirements; and
- Adjust, as appropriate, the Project-level grievance mechanism according to the ADB's Social Safeguard Policy; and
- Propose changes, including corrective measures to the Management Plan(s) (if any), in accordance with the findings of such assessment and consultations, for approval by IFAD.

**Serious ESHS incident** means serious incident, accident, complaint with respect to environmental, social (including labour and community), health and safety (ESHS) issues that occur in loan or within the Borrower's activities. Serious ESHS incidents can comprise incidents of (i) environmental; (ii) occupational; or (iii) public health and safety; or (iv) social nature as well as material complaints and grievances addressed to the Borrower (e.g. any explosion, spill or workplace accident which results in death, serious or multiple injuries or material environmental contamination, accidents of members of the public/local communities, resulting in death or serious or multiple injuries, sexual harassment and violence involving Project workforce or in relation to severe threats to public health and safety, inadequate resettlement compensation, disturbances of natural ecosystems, discriminatory practices in stakeholder consultation and engagement, any allegation that require intervention by the police/other law enforcement authorities, such as loss of life, sexual violence or child abuse, which (i) have, or are likely to have a material adverse effect; or (ii) have attracted or are likely to arouse substantial adverse attention of outside parties; or (iii) to create substantial adverse media/press reports; or (iv) give, or are likely to give rise to material potential liabilities).

5. The Borrower shall ensure or cause the Lead Project Agency, contractors, sub-contractors and suppliers to ensure that the relevant processes set out in the ADB's Social Safeguard Policy are respected.

6. Without limitation on its other reporting obligations under this Agreement, the Borrower shall provide the Fund with:

- Reports on the status of compliance with the standards, measures and requirements set forth in ADB's Social Safeguard Policy, ESCMPs and the management plan (if any) on a semi-annual basis - or such other frequency as may be agreed with the Fund;
- Reports of any social, environmental, health and safety incidents and/accidents occurring during the design stage, the implementation of the Project and propose remedial measures. The Borrower will disclose relevant information from such reports to affected persons promptly upon submission of the said reports ; and
- Reports of any breach of compliance with the standards, measures and requirements set forth in the ADB's Social Safeguard Policy and the Management Plan(s) (if any) promptly after becoming aware of such a breach.

7. The Borrower shall fully cooperate with the Fund and/or ADB concerning supervision missions, midterm reviews, field visits, audits and follow-up visits to be undertaken in accordance with the requirements of ADB's Safeguard Policy Statement and social and/or environmental management plans as the Fund considers appropriate depending on the scale, nature and risks of the Project.