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REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE

PEOPLE'S REPUBLIC OF BANGLADESH

FOR THE

SUNAMGANJ COMMUNITY-BASED RESOURCE MANAGEMENT PROJECT



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CURRENCY EQUIVALENTS

Currency Unit	=	Taka (BDT)
USD 1.00	=	BDT 55
BDT 1.00	=	USD 0.018

WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m ²)	=	10.76 square feet (ft ²)
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

ABBREVIATIONS AND ACRONYMS

AWP/B	Annual Work Plan and Budget
BKB	Bangladesh Krishi Bank
COs	Credit Organizations
COSOP	Country Strategic Opportunities Paper
DAE	Department of Agricultural Extension
DCC	District Coordinating Committee
DFID	Department for International Development
DLS	Department of Livestock Services
DOF	Department of Fisheries
FLM	Flexible Lending Mechanism
LGED	Local Government Engineering Department
LMC	Lease Management Committee
M&E	Monitoring and Evaluation
MOEF	Ministry of Environment and Forests
NGOs	Non-Governmental Organizations
PMU	Project Management Unit
PRA	Participatory Rural Appraisal
PSC	Project Steering Committee
RDCD	Rural Development and Cooperatives Division
SAB	Semi-Autonomous Body
SAPAP	South Asia Poverty Alleviation Project
UNDP	United Nations Development Programme
VOs	Village Organizations

GLOSSARY

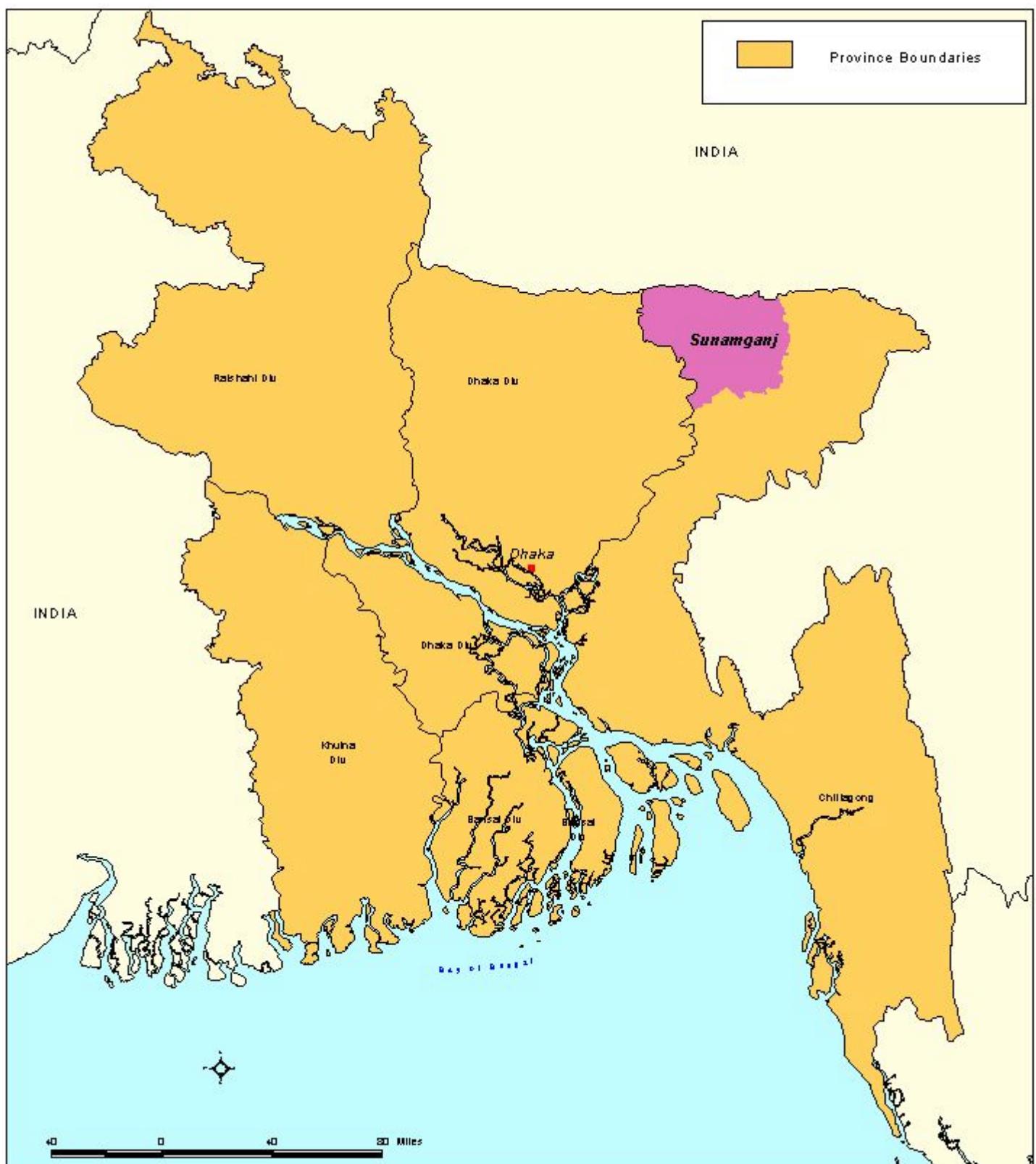
<i>Beel</i>	A seasonally flooded permanent or semi-permanent water body located within a river floodplain and connected to the river by a natural system of drainage channels (or <i>khals</i>); equivalent to a lake and a very important fish habitat.
<i>Boro</i>	Rice crop planted in winter and harvested in April or May.
<i>Charland</i>	Land area (usually island) located in or adjacent to river channels; subject to annual erosion and accretion as a result of river flows.
<i>Hoar</i>	Large natural inter-riverine depression typically extending over 1 000 ha or more; may be inundated to depths of three metres or more during the monsoon season.
<i>Hoarland</i>	Land characterized by the presence of <i>hoars</i> .
<i>Khal</i>	A natural water channel located within a river floodplain, which enables floodwaters to flow over the floodplain and to drain back into river channels; important for fish migration and breeding.
<i>Khas</i>	Government-owned land available for leasing to the public.
<i>Upazila</i>	Administrative unit of local government, equivalent to a sub-district, consisting typically of about ten unions (previously known as <i>thana</i>).
<i>Upazila Nirbahi Officer</i>	Senior government official at the <i>upazila</i> level.

GOVERNMENT OF THE PEOPLE'S REPUBLIC OF BANGLADESH

Fiscal Year

1 July – 30 June

MAP OF THE PROJECT AREA



Source: IFAD

The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

PEOPLE'S REPUBLIC OF BANGLADESH

SUNAMGANJ COMMUNITY-BASED RESOURCE MANAGEMENT PROJECT

LOAN SUMMARY

INITIATING INSTITUTION:	IFAD
BORROWER:	People's Republic of Bangladesh
EXECUTING AGENCY:	Rural Development and Cooperatives Division (RDCD) of the Ministry of Local Government, Rural Development and Cooperatives
TOTAL PROJECT COST:	USD 34.3 million
AMOUNT OF IFAD LOAN:	SDR 17.55 million (equivalent to approximately USD 22.0 million)
TERMS OF IFAD LOAN:	40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum
COFINANCIERS:	To be determined
AMOUNT OF COFINANCING:	USD 7.5 million
CONTRIBUTION OF BORROWER:	USD 4.5 million
CONTRIBUTION OF BENEFICIARIES:	USD 0.3 million
APPRAISING INSTITUTION:	IFAD
COOPERATING INSTITUTION:	United Nations Office for Project Services (UNOPS)



PROJECT BRIEF

Who are the beneficiaries? The target groups are landless, marginal and small-farmer households and women. In Sunamganj this translates as 246 000 rural households (86% of the district's total). As Sunamganj is a neglected and remote district characterized by destructive flooding patterns, the vulnerability and the livelihood insecurity of the target group are high. Woman-headed households are particularly vulnerable. It is expected that, by the end of the project period, the project will benefit some 135 000 households (man- and woman-headed).

Why are they poor? First, the poor live in an area characterized by extreme annual flooding events. Erosion of homesteads and destruction of crops by flash floods are frequent. The remoteness and poor communications of the district and the associated lack of services (government, health, emergency and so on) exacerbate vulnerability. Second, with regard to the institutional, legal and policy framework, the formal government presence is limited because of the remoteness of the district. Non-governmental organizations (NGOs) are present but have very limited outreach; donors are virtually absent. While the Government supports redistribution of land and water rights to the poor, implementation of this policy has been ineffective and not enforced. Third, the target group has limited access to the benefits of the resource base, which is controlled by local elites. In areas prone to crop damage by floods, they struggle to subsist by cultivating one crop of rice a year (51% of households own less than 0.2 ha, and a further 35% own less than 1 ha). The poor have limited access to savings and credit facilities, as NGOs have only reached 12% of rural households in the district. The obvious indicator of underdevelopment is the lack of physical infrastructure and the poor state of roads and embankments, which are eroded annually.

How will the project benefit them? To address the above livelihood constraints, the project will seek to: mitigate vulnerability; improve access to essential services and resources; support diverse livelihoods components (livestock, fish and crops); and support empowerment through mainstreaming gender. In particular, it will seek to reach the target group using the following approach: (i) focusing on the promotion of high-value products with established marketing chains (livestock and fisheries), the project will provide access to savings and credit services at the village level; (ii) to enhance the target group's access to and control over natural resources, the project will support transfer of water and land management rights to beneficiaries, and focus on community-based habitat restoration as a means of ensuring increased production and availability of fish to the target group; (iii) to provide employment opportunities to the poorest and most vulnerable population groups, and in particular to women, and to ensure reduced threats of erosion and flooding, the project will promote labour-intensive infrastructure development (including, *inter alia*, village erosion protection works and village storage facilities); (iv) to mitigate the vulnerability of women, the project will aim to address strategic gender needs such as access to knowledge and technology, control over productive resources, and generation of leadership and management skills.

How will the beneficiaries participate in the project? Building on the success of the South Asia Poverty Alleviation Project (SAPAP) funded by the United Nations Development Programme (UNDP), the project will support the creation of 2 250 village organizations (VOs), comprising 4 500 credit organizations (COs) (50% of which will be run by women). Project activities will include training VO/CO managers and presidents to administer savings and loan operations, and training village-level technicians to provide technical support to beneficiaries of water bodies. Beneficiaries will participate in savings and credit groups; water-body rehabilitation and management; a field-level research and demonstration programme; training by village extension workers in crops, livestock and fisheries; and construction of rural infrastructure works and maintenance groups. There will also be participatory rural appraisals, participatory workshops, beneficiary monitoring and evaluation (M&E) surveys, and participatory impact M&E.

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I submit the following Report and Recommendation on a proposed loan to the People's Republic of Bangladesh for SDR 17.55 million (equivalent to approximately USD 22.0 million) on highly concessional terms to help finance the Sunamganj Community-Based Resource Management Project. The loan will have a term of 40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum. It will be administered by the United Nations Office for Project Services (UNOPS) as IFAD's cooperating institution.

PART I - THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY¹

A. The Economy and Agricultural Sector

1. Bangladesh is a low-lying, deltaic floodplain that is almost entirely flat and mostly covered with fertile alluvial soils. The country is traversed by three major rivers (Jamuna, Padma and Meghna) flowing from the Himalayas in India into the Bay of Bengal. About a third of the land area is flooded for six months a year, providing an ideal habitat for fish production. Bangladesh is vulnerable to both catastrophic floods and cyclones, which destroy crops, livestock and property and cause loss of life. The current population is about 126 million (1998) and growing at about 1.8% per year (1996). Population density is one of the highest in the world, at 965 people per km². About 84% of the population still live in rural areas despite an urban population growth rate of about 6%.

2. With a gross national product (GNP) of USD 350 per capita (1998), Bangladesh is one of the poorest countries in the world. Economic growth was reported at about 5% per annum in the five years ending in 1998. Since the early 1990s, the Government has intensified its comprehensive economic reform programme to establish a liberalized, market-based and private sector-led system of economic growth and development. The resulting acceleration in growth has been accompanied by a decline in poverty. Poverty incidence fell for the very poor from 43% of the population in 1991-92 to 36% in 1995-96. The agriculture sector still dominates the economy, employing 60% of the labour force and contributing 22% of the gross domestic product (GDP). Crop production accounts for about 77% of the sector's contribution to GDP, the balance being divided almost equally among fisheries, livestock and forestry. The fisheries subsector provides full-time employment to about 2 million people, and an estimated 73% of rural households are engaged in subsistence fishing. Intense population pressure is causing severe strain on natural resources. Soils and water are degraded, forest depletion has greatly exceeded the natural replenishment rate, and the fisheries resources of floodplains and wetlands are seriously depleted. Further economic growth will depend on increased capital inflows, better governance, development of human resources, decentralization, improved resource management and conservation, and more opportunities for the poor.

¹ See Appendix I for additional information.



B. Lessons Learned from Previous IFAD Experience

3. The project design incorporates the lessons learned from previous IFAD-supported projects and the experience of other donors. Specifically, these include: (i) for most poor and other deprived groups, economic development through credit is a necessary but insufficient condition for improving their lot; attention needs to be given to the issue of genuine empowerment; (ii) there is a need for rural poor communities to own project initiatives and funding; (iii) communities, especially women, have shown an encouraging degree of responsiveness and the capacity to undertake more management of their development; (iv) coordination in government departments has been difficult to achieve, especially at the field level; (v) with respect to fisheries projects, security of tenure to productive resources is essential to ensure sustained participation of community groups and strategic gender impact; (vi) for successful community fisheries, participation of the whole community is essential to ensure equity in the distribution of benefits; and (vii) with regard to village-based management committees, rotation of managers prevents abuse of power. Main lessons have been taken into account in the design of the project as follows: the very poor and the landless have been specifically targeted; genuine empowerment of communities is being attempted through the support of self-managed village organizations; the project will be demand-driven; gender has been mainstreamed in the design; the project will only have one Project Pro Forma (government project document) to ensure coordination of government services; automatic fishing lease provision is a loan assurance and a trigger for the second phase of the project; entire villages will be mobilized to ensure inclusion of the poorest; and village organization management will rotate on the basis of performance assessments.

C. IFAD's Strategy for Collaboration with Bangladesh

Bangladesh's Policy for Poverty Eradication

4. Successive governments in Bangladesh have given priority to poverty alleviation. The Fifth Five-Year Plan has the same objectives as the previous plan: growth of 5% per annum, poverty alleviation and employment-generation through human development. The plan gives priority to agricultural and rural development in order to increase productivity in agriculture and thus alleviate poverty. The strategies are to: (i) increase employment both through labour-intensive infrastructure development and microenterprise development; (ii) develop rural institutions with the assistance of NGOs; (iii) improve technical skills to increase on-farm production and ensure better access of the poor to production means; (iv) expand irrigation; (v) promote women's participation in rural development; and (vi) involve communities in development. With respect to fisheries in particular, the Government adopted a New National Fisheries Policy (NNFP) in 1998, which seeks, *inter alia*, to encourage long-term leasing of water bodies, create fish sanctuaries, stop the indiscriminate discharge of effluents, and prohibit fish production by de-watering of water bodies. NNFP also requires that genuine fishermen be given priority in leasing government-owned water bodies.

5. The Government's efforts have borne some fruit. There has been rapid expansion in rural infrastructure, increased participation by women in the labour force, higher school enrolment for girls, a huge expansion in microcredit, a lower population growth rate, a near doubling of food grain production and increased allocations in poverty-alleviation programmes. However, these gains have been largely offset by the rising population and increasing landlessness, and the magnitude of the numbers – some 60 million people living below the poverty line. In 1994, the bottom 40% of households owned less than 2% of total land and the top 5% almost 35%. Preliminary data from the 1996-97 agricultural census indicate that landlessness increased by more than 40% from the last census in 1983-84.



The Poverty Eradication Activities of Other Major Donors

6. Bangladesh has been a major recipient of foreign aid since it became a state in 1971. All major multilateral and bilateral donors have programmes in Bangladesh. In recent years, foreign aid has declined from USD 1.8 billion in 1990 to 1.2 billion in 1998. Despite this reduction, Bangladesh still receives a significant amount of aid. Important donor-supported projects that offer prospects for partnerships and cross-fertilization with the Sunamganj Community-Based Resource Management Project include: (i) the South Asia Poverty Alleviation Project (SAPAP) supported by UNDP, which provides the conceptual and operational basis for the current project design; (ii) the World Bank and Department for International Development (DFID)-supported Fourth Fisheries Project, which is operating pilot activities in the district of Sunamganj; (iii) the DFID-supported Community-Based Fisheries Management (CBFM) Project, which will also operate pilot activities in Sunamganj; (iv) the United States Agency for International Development (USAID)-supported Management of Aquatic Ecosystems through Community Husbandry (MACH) project, operating in *haors* neighbouring Sunamganj; and (v) Government of Norway (NORAD) support to the Ministry of Environment and Forests (MOEF) for community-based conservation activities in Tanguar *Haor*.

IFAD's Strategy in Bangladesh

7. Since 1978 IFAD has extended 19 loans to Bangladesh on highly concessional terms, totalling SDR 186.5 million (about USD 273 million). Twelve of the 19 loans are closed, and two more will close in 2001. IFAD's strategy has always been to support the Government's efforts to alleviate rural poverty. The IFAD Country Strategic Opportunities Paper (COSOP) for Bangladesh, approved in December 1999, outlined IFAD's new strategy in terms of a number of key thrusts. Institutionally, these thrusts consist of promoting self-managing grass-roots community organizations. This strategy will be complemented by: (i) improving the access of the poor, including small and marginal farmers, to financial and other services through appropriate institutional mechanisms; and (ii) increasing the access of the poor and the very poor to productive resources. In this context, it was recommended that future IFAD projects build on the experience of SAPAP, which emphasizes grass-roots institutional development. Within the agricultural sector, the COSOP focused on commodities that: (i) can employ a large workforce in a relatively short time; (ii) require little or no land; (iii) are labour-intensive as opposed to capital-intensive; (iv) require relatively little investment in training; (v) are sufficiently highly priced to provide meaningful income to people in the face of increasing landlessness; and (vi) are relatively less risky, as the poor have little or no financial capacity to absorb risk. Strategically, inland fisheries and livestock are the only two subsectors in agriculture that meet these criteria. The COSOP therefore recommended that IFAD should focus on these two economic subsectors. Geographically, the COSOP targeted three marginal areas for future IFAD projects: *haorlands*, *charlands* and hill tracts.

Project Rationale

8. The lowlands of the district of Sunamganj in the north-east of Bangladesh are characterized by cyclical economic shocks of seasonal and flash flooding. The landless and the poorest have no option but to eke out a bare existence, surviving on one crop a year from smallholdings that do not provide sufficient income or production to prevent seasonal malnutrition. Over 86% of the area's population constitute the IFAD target group. The communities living in these areas have little or no access to most government services, in part because of the lack of infrastructure and in part because the various ministries are understaffed. Despite the heavy concentration of poverty, there has been little or no donor assistance to the area and relatively few programmes have been undertaken to assist the poor. In spite of the clear constraints, the project area offers economic opportunities in fishery, rice cropping and livestock production. These potentials are well recognized by some influential interests who control the greater part of these resources, leaving the poor excluded and deprived. The poor are

unable to develop the available resources to their advantage mainly because they are not organized and lack access to capital. These inequities are manifested in the allocations of land and of valuable fish leases for the large permanent water bodies, both of which are owned by the Government. The remoteness of the project area, its potential, the concentration of the poor and their lack of access to resources point to the need for immediate intervention to assist the poor in the area.

PART II - THE PROJECT

A. Project Area and Target Group

9. The Bangladesh Institute of Development Studies (BIDS) has classified Sunamganj as the seventh poorest district in Bangladesh. The district is administratively divided into ten *upazilas* comprising some 2 818 villages. Sunamganj has a total area of 3 670 km². In 1997, the total population was estimated at 2 million. Of the estimated 285 530 rural households, 51% have no land and are wage dependent and 35% are small/marginal farmers owning less than 1 ha. Some 246 000 households are eligible to benefit from the project.

10. The district is virtually one large flood-prone drainage basin (*haor*). Most people live in very tight-knit communities under cramped conditions in elevated villages, which become virtual islands for six months every year when the basin is flooded. Because these elevated areas are prone to erosion due to wave action, the construction of civil works to protect homesteads is a priority. A powerful economic elite exercise control over land and fishing resources, leaving the poor in a seriously deprived condition. While the soils are fertile, the amount of rice produced from smallholdings is insufficient to feed the family, and seasonal malnutrition and high unemployment are reported. The cropping intensity for the district is much lower than the national average. The lack of employment opportunities during the flood season causes men to emigrate to find employment, while women remain without means to generate income in the high flood season.

11. The floodplains of Sunamganj are some of the most productive fisheries in the country. They include Tanguar *Haor*, which in view of its ecological importance has been declared a Ramsar site under the Convention on Wetlands of International Importance Especially as Waterfowl Habitat (the Ramsar Convention). While some of the poor undertake subsistence fishing in the monsoons, most are unable to obtain fishing leases because of a lack of both organization and capital. Rice is the principal crop grown, although before planting rice some farmers also grow crops of a short duration such as mustard, pulses and winter vegetables. Although Sunamganj rice is in surplus, yields are below potential, currently estimated at 2 mt/ha for local *boro* and 4.5 mt/ha for high-yielding varieties. While all families keep livestock, the farming systems are not integrated. Livestock are fed on grass in fallow lands in the dry season or through cut grass and straw treated with rice whey.

12. The farming system is fragile and insecure, and prone to flash floods from early rains. The Bangladesh Water Development Board (BWDB) has constructed over 800 km of submersible embankments to protect rice crops from flash floods. Although these embankments are not visible in the high flood season, they isolate the low-lying depressions into separate water bodies when the water recedes. Some of the deeper areas retain water permanently. These areas are called *beels*. The Ministry of Lands has recorded 1 093 *beels*, of which 686 are less than 8 ha and 407 more than that size.

13. There are conflicts between rice farmers and the lessees of *beels*, who constitute a principal and often competing interest group. The first area of conflict relates to land reclamation for paddy. While farmers may want to drain *beels* to create more agricultural land, fishermen may want to retain high water levels for fisheries. A second area of conflict relates to surface water storage during the dry season. Farmers want the water for irrigation in the dry season, while *beel* fishermen want to drain the *beel* early to fish exhaustively. Social tensions between farmers and fishermen often revolve around



the fish resource itself. Surrounding farming populations resent fishermen brought in from outside by leaseholders. Fishermen catch fish that would otherwise be available to farmers when their land is flooded. Farmers claim customary rights to unimpeded fishing in water bodies.

14. Siltation of rivers and *khals* is also a major problem in Sunamganj. Siltation leads to raised river beds and increased water levels and to a decrease in the district's water surface area during the dry season. This is causing changes in water character and in fish production due to the shallower *beel* depths. Siltation is also affecting the dry season fish refuges, contributing to the overall decline in fish production. Enhancing fisheries in Sunamganj will require excavation of the fish habitat. The significant decline in fish production over the last 10-15 years can also be attributed to the current leasing system, which promotes overfishing; the deforestation of *haor* areas; and the restriction of easy migration during the spawning season by nets and embankments.

B. Objectives and Scope

15. The main objectives of the project are to: (i) increase the assets and income of 135 000 households by developing self-managing grass-roots organizations to improve beneficiary access to primary resources, employment, self-employment and credit; and (ii) support the development of a viable national institution to replicate the project approach in other areas of Bangladesh. The project's objectives will be met through the financing of five components designed to assist the poor: (i) labour-intensive infrastructure development; (ii) fisheries development; (iii) crop and livestock production; (iv) credit; and (v) institutional support.

16. As community mobilization and institution-building are long processes, the project will be financed under IFAD's Flexible Lending Mechanism (FLM) (see Appendix VII), which allows for a longer project period. The project will be implemented over 11 years in three phases. Trigger indicators to determine the progression to the second and third phases will be assessed during two detailed mid-term reviews (MTRs). The first phase will be for a period of five years. In this phase, the project will be implemented in four *upazilas*, operating in selected *haors*. In the subsequent phases, which will each last for three years, the project will expand its area coverage based on the experience gained and lessons learned.

17. The project will be demand-driven. It will attempt to mobilize communities and request them to outline their needs and perceived difficulties. Based on these requests, the project will mobilize the local administration to provide the necessary services to address needs and demands. The nature of the project, the issues involved, and the need to ensure that a viable institution emerges at the end of the project make it necessary for the project to develop its activities gradually. The project design reflects this approach and the first phase incurs only 23% of the project costs. The exact nature of the beneficiary requests is hard to predict, but based on discussions in the field, it is anticipated that the components outlined in the following section will, by and large, address the major constraints faced by the communities.

C. Components

Labour-Intensive Infrastructure Development

18. The objective of this component is to provide employment to the poorest population groups to mitigate seasonal food shortages, as household food stocks are low before planting. A related objective is to ensure that these groups have some cash savings to enable joining project credit organizations, which are village-based savings and credit groups, and require regular savings from their members. These two conditions require that most of the infrastructure developed be labour-intensive. The types of works to be financed will be demand-driven. Based upon preliminary feedback, the construction of village-level storage facilities, village protective works and water supplies are likely to have a high priority. Small farmers in particular suffer from the lack of storage



facilities. Farmers often sell their paddy immediately after harvest and buy back the rice after three months at a price that is 50% higher. The availability of local storage is expected to increase family savings considerably. The project-employed social organizers (SOs) will mobilize the project's village organizations to prioritize their infrastructure needs and facilitate processing their demands, in partnership with the Local Government Engineering Department (LGED). Infrastructure sub-projects will be eligible for project financing provided: (i) they benefit most members of the communities, especially the poorest; (ii) the beneficiaries contribute at least 5% of the cost in kind; (iii) the communities agree to maintain the facility; (iv) the communities ensure that the poorest members are employed in the construction; and (v) the cost to the project does not exceed USD 15 000 . Each community will be entitled to no more than two sub-projects, and the second one will be financed only after it has been demonstrated that the first has been properly maintained.

Fisheries Development

19. The major objective of this component is to provide the poor with access to the benefits of fishery resources on a sustainable basis. The component has five sub-components for facilitating and monitoring fisheries development: (i) development of small *beels* and *khals*; (ii) support for Tanguar *Haor*; (iii) pond rehabilitation for indigent women; (iv) support for the Department of Fisheries (DOF); and (v) studies.

20. The management of fish resources will be community-based. Some 600 *beels* and 10 km of *khals* will be developed. The project will organize the villages around water bodies into VOs, and ensure availability of leases from government authorities. VO members will manage leased water bodies through lease management committees (LMCs), in line with existing practices. Since effective community management requires security of tenure, it will be a requirement that all *beels* and *khals* developed under the project be leased to communities for at least 20 years. To ensure an improved fish production habitat, the project will support excavation of the fish habitat, creation of dry-season fish sanctuaries and, through credit, the establishment of nurseries to provide saplings for tree planting in the excavated *beels* and *khals*. The project will finance some 229 nurseries producing about 2 000 saplings each year. VO women will develop and run nurseries on a contractual basis.

21. Due to Tanguar *Haor*'s global and regional importance as a "mother fishery", the project will work closely with MOEF to extend project activities to communities in this Ramsar site.

22. A third sub-component will be financed for the benefit of very poor women who cannot receive credit from the COs or who are having difficulty meeting their weekly savings quotas. The project will either rehabilitate existing ponds or construct new ones, provided the communities make these facilities available to the poorest women based on a mutually agreed catch-sharing formula. Members of women's COs will be required to finance 5% of the cost from their savings. The project will finance the balance on a grant basis. Based on the experience of other similar projects, women will be organized into groups of five. In total, some 1 615 ponds will be financed, benefiting 8 075 poor women.

23. The project will provide resources to enable DOF staff to implement the Fish Act of 1950 and educate communities in the management of water resources for the benefit of all LMC members. The project will support the dissemination of information and educational materials on the importance of conserving fish resources.

24. Finally, the project will conduct studies to assess impact, including (i) a resource mapping study in each *upazila* at the start of the project; (ii) monitoring of incremental fish production, the amount marketed and consumed, and the improvement in household nutrition; and (iii) studies at specific locations on the impact of the conservation measures on biodiversity in the area.



Crop and Livestock Production

25. The objective of this component will be to promote livestock and crop production to enhance the cash incomes of the poor. Given the delicate agro-ecology and the highly constrained resource base of the target population, the project will make a cautious start. In the first few years, the project will seek proper understanding of farmers' problems and priorities through participatory rural appraisals (PRAs). PRAs will be conducted by *upazila* technical teams comprising: project subject matter specialists (SMSs) in fisheries, livestock, agronomy; a SO; and technical assistance with experience in PRA. The project costs make provision for two PRAs, one in the first project year (PY) and one in PY6, at a unit cost of 550 000 takas (BDT). Once the problems have been understood and prioritized, research will be directed to solutions that can be introduced quickly after some trials. The project will recruit technical assistance to screen potential research, pre-qualify research organizations or individuals most suited for the research, assist in trial design, evaluate results and provide quality assurance. Project costs provide for 128 research contracts at a cost of BDT 207 900 per contract. In the subsequent season, the research will be conducted in farmers' fields. Once established that the technology is profitable, the project will disseminate the results by farmer-to-farmer contact, training activists, farmer field schools and workshops. The project will provide support to the Department of Agricultural Extension (DAE) and the Department of Livestock Services (DLS) to enable the preparation of extension materials and the training of beneficiaries. Project costs provide for 7 380 demonstrations at a cost of BDT 4 000 per demonstration, and for 6 590 activists to be trained over 11 years at a cost of BDT 1 750/activist. In total, the project provides for training of 23 200 persons in the field and 2 624 at the *upazila* centre.

Microfinance

26. The objective of this component will be to deliver savings and credit services at the village level, through setting up village-based COs, based on SAPAP methodology, policies and procedures. Within the project period of 11 years, the project will reach around 135 000 rural households through 4 500 COs in 2 250 villages. The COs will retail the credit to their members, with a CO manager maintaining records and granting loans after suitable training. Internal auditors recruited and trained by the project will regularly audit CO accounts. In total, the project will train some 250 auditors. The cornerstone of the credit programme will be savings. It will be a requirement that no CO members be given credit unless they have saved with the CO for at least six months. IFAD funds will be restricted to the target group, defined as those with holdings below 1 ha. In the first six months, the COs will lend from their own sources. The project will grant additional credit facilities only after the CO managers have demonstrated their ability to: (i) manage the credit operations; (ii) maintain high recovery rates from the savings funds; and (iii) keep proper records. Loans will be granted for all purposes, with priority given to production, including fish leases, nurseries, seasonal inputs for crop production, cattle fattening or milch cows, duck and poultry rearing, fish farming, emergencies and marketing. Trained activists, supported by project SMSs and the staff of the line ministries concerned, will provide technical support to the beneficiaries. Credit will be channelled through the Bangladesh Krishi Bank (BKB) on the basis of a subsidiary loan agreement. Component costs include provision for auditors, training VO and CO presidents and managers, and orientation courses for BKB branch managers.

Institutional Support

27. The institutional arrangements for the proposed project are based on three important considerations: (i) limitations in staffing of the line ministries in Sunamganj; (ii) severe limitations in communications, which add to the cost of delivering services to beneficiaries; and (iii) the need for effective operational autonomy. In the first phase, a project management unit (PMU) will be set up in Sunamganj, and project offices will be set up in all first-phase *upazilas* to coordinate project activities with BKB, DAE, DLS, LGED and local authorities. A liaison unit will be set up in Dhaka to assist in

expediting administrative processes. All project offices will be staffed appropriately to handle the project management, coordination, planning, accounting, procurement and beneficiary training needs. The institutional arrangement for project management will be reviewed by IFAD and the Government during the first phase. On the basis of the review, if considered necessary, the project will be established as an semi-autonomous body (SAB) by the end of the first phase of the project. The project will finance the necessary technical assistance to institutionalize project operation; the cost of establishing the offices in Sunamganj and in all *upazilas*, including staff salaries, the purchase of equipment and furniture and the travel costs of the personnel involved; and the strengthening of grass-roots institutions and technical support mechanisms.

D. Costs and Financing

28. Total project costs over the 11-year period are estimated at USD 34.3 million, including physical and price contingencies. Of this figure, foreign exchange costs represent about 11%. The total base costs of the project amount to USD 29.5 million. Physical contingencies have been assessed as 10% on infrastructure and water body development, and 5% on all other cost items except the credit fund, and amount to USD 1.3 million or 4% of base costs. Annual price contingencies have been assumed to be 1.5% in terms of total costs in foreign exchange terms, and 3% in terms of local currency, assuming that exchange rates change to offset the change in purchasing power caused by the difference between local and international exchange rates. Total price contingencies for the entire 11-year project period amount to USD 3.5 million, 12% of base costs. A cost summary is presented in Table 1. IFAD will finance USD 22.0 million (64.2% of total project costs). A cofinancier will finance about USD 7.5 million (22% of total cost). In this respect, IFAD is in negotiations with DFID, which is currently finalizing its appraisal process. In the unlikely event that cofinancing is not available, the project will be scaled down at the time of the first mid-term review. The Government will provide USD 4.5 million (13.0% of total cost), and the project beneficiaries will provide USD 0.3 million (0.9% of total cost) as an in-kind contribution. The beneficiaries will contribute 5% for the infrastructure component, and the Government will fund the remaining 95% for all village protective works. The beneficiaries will also contribute 5% for fish pond rehabilitation works. Taxes amount to 2.6% of the total project cost (USD 0.8 million) and will be funded by the Government as part of its contribution. A financing plan is presented in Table 2.

TABLE 1: SUMMARY OF PROJECT COSTS^a
(USD '000)

Components	Local	Foreign	Total	% of Foreign Exchange	% of Base Costs
Labour-intensive infrastructure development	3 972	519	4 491	12	15
Fisheries development	5 984	327	6 311	5	21
Crop and livestock production	1 134	762	1 896	40	6
Microfinance	9 890	38	9 927	-	34
Institutional support	5 418	1 411	6 829	21	23
Total base costs	26 398	3 057	29 455	10	100
Physical contingencies	1 135	164	1 299	13	4
Price contingencies	3 065	465	3 530	13	12
Total project costs	30 598	3 686	34 285	11	116

^a Discrepancies in totals are due to rounding.

TABLE 2: FINANCING PLAN^a
(USD '000)

Components	IFAD Amount	IFAD %	Government Amount	Government %	Beneficiaries Amount	Beneficiaries %	Cofinancier Amount	Cofinancier %	Total Amount	Total %	Foreign Exch.	Local (Excl. Taxes)	Duties And Taxes
Labour-intensive infrastructure development	1 331	23.5	3 697	65.4	264	4.7	361	6.4	5 652	16.5	651	4 964	37
Fisheries development	5 880	72.1	7	0.1	39	0.5	2 227	27.3	8 153	23.8	384	7 762	7
Crops and livestock production	1 809	79.1	85	3.7	-	-	393	17.2	2 288	6.7	909	1 293	85
Microfinance	7 205	71.7	3	-	-	-	2 840	28.3	10 048	29.3	47	9 998	3
Institutional support	5 748	70.6	672	8.2	-	-	1 724	21.2	8 143	23.8	1 694	5 777	672
Total disbursement	21 973	64.1	4 463	13.0	304	0.9	7 545	22	34 285	100.0	3 686	29 795	803

^a Discrepancies in totals are due to rounding.

E. Procurement, Disbursement, Accounts and Audit

29. **Procurement.** All goods and services will be procured following IFAD procurement guidelines. The project involves no procurement suitable for international competitive bidding (ICB) due to the small quantities of items to be procured during each phase of project implementation. Most items are readily available from domestic sources at competitive prices. Civil works for infrastructure development will be carried out on the basis of local competitive bidding or through contracts entered into by LGED with contractors. In the case of earthworks, the works will be undertaken by labour contracting societies (LCSs) following standard LGED procedures. Technical assistance will be recruited either on the basis of shortlisting or direct recruitment, following procedures acceptable to IFAD.

30. **Disbursement, accounts and audit.** A special account in foreign exchange will be set up in a bank acceptable to IFAD to facilitate the regular flow of funds. The initial deposit is expected to be USD 1.0 million. All withdrawal applications will be sent through the PMU. In the interest of improved transparency and effective financial management, the project will be a pilot for implementing financial management procedures in line with those of the World Bank Loan Administration Change Initiative (LACI). After an initial period when replenishment of the Special Account will be in line with IFAD's standard procedures, and once the financial management system has been demonstrated to be functioning effectively, disbursements from the loan will be on the basis of quarterly project management reports (PMRs) submitted by the PMU. External auditors following procedures acceptable to IFAD will audit project accounts. Certified audit reports will be transmitted to IFAD not later than six months after the end of the government's financial year. In addition to the annual audits, three performance audits will be undertaken, including a review of the financial management system and verification of the procurement process.

F. Organization and Management

31. Overall responsibility for executing the project will rest with the Secretary, Rural Development and Cooperatives Division (RDCD). A PMU will be established and headed by a project manager acceptable to IFAD. The project manager will coordinate the activities of all agencies involved in project implementation, including BKB, DAE, DLS, DOF, LGED and local authorities. A monitoring and evaluation (M&E) unit will be attached to the PMU and will be responsible for monitoring all project activities. The PMU will enter into agreements with line agencies for the implementation of their respective activities. To expedite project administrative and financial processing, a liaison unit will be established in Dhaka and appropriately staffed. If mutually agreed by IFAD and the

Government, the PMU will emerge as a fully institutionalized SAB by the end of the first phase of the project. The financing mechanism proposed under the project will ensure that it is financially viable by the time the project ends.

32. At the central level, and pending the formation of the SAB, the project will be coordinated by a multi-stakeholder project steering committee (PSC), which will be chaired by the Secretary RDCD and comprise representatives of BKB, the Economic Relations Division of the Ministry of Finance, the Planning Commission, Local Government Department, the Ministry of Fisheries and Livestock (MOFL), the Ministry of Land, and four NGO/civil society representatives. The PSC will meet at least twice a year, once in June to review the previous year's progress and approve the annual workplan and budget (AWP/B) and once in December/January to review mid-year progress. Extraordinary sessions of the PSC will be held to solve any serious issue affecting project implementation. Once the SAB has been established by the end of the first phase, a board of directors comprised of representatives of the above ministries and representatives of BIDS, beneficiaries and the private sector, will establish the policies for the SAB. At the district level, a district coordinating committee (DCC) will be established. The DCC will be chaired by the deputy commissioner and comprise representatives from DOF, DLS, LGED, MOA and the regional manager of BKB. The project manager will act as the secretary to the DCC. At the *upazila* level, an *upazila* coordinating committee (UCC) will be established. Chaired by the *upazila nirbahi* officer (UNO), it will comprise the local representatives of DOF, DLS, LGED, MOA and the nearest branch manager of BKB. The *upazila* project manager will act as the secretary to the UCC.

G. Economic Justification

33. **Benefits and beneficiaries.** It is expected that the project will have a wide-ranging impact. It is projected that 4 500 COs with 135 000 members in 2 250 villages will have been formed over 11 years. Of the CO members, 86 400 are projected to have loans by PY11, amounting to a total of BDT 730 million. In addition, COs will have a total of BDT 94 million in deposits. The project will generate a considerable amount of employment, directly employing some 4 500 CO managers, 4 500 CO presidents and 225 auditors. In addition, it will train 6 590 village activists.

34. **Fisheries benefits.** The conservation measures introduced are expected to result in an increase in fish production. For *beels*, production is estimated to increase from 400 kg/ha to 1 600 kg/ha over five years, while for *khals* production will increase from 300 kg/ha to 500 kg/ha. The fisheries component will have developed 4 723 ha of *beels*, *khals* and ponds, which should result in an incremental output of 6 500 t of fish worth BDT 249 million per year. Swamp trees will have been planted on 926 ha and will generate prunings and firewood worth around BDT 46 million per year. Conservation of Tanguar *Haor* is likely to have an impact on fish catches outside the confines of the project-developed *beels* and *khals*. The increased availability of fish will reduce seasonal malnutrition. The provision of fish leases to the project LMCs will ensure that the poor realize fish production benefits

35. **Gender benefits.** The project design has explicitly sought to address strategic gender needs by enhancing the role of women as agents of change. The project will directly benefit women by providing increased access to knowledge and technology, control over productive resources, and leadership and management skills. Half the COs (i.e. approximately 2 250) will have trained women managers and women members. Each village will have at least one woman trained as an agricultural extension activist. Approximately 50% of the *khas* land to be made available to the poor will go to woman-headed households. Other benefits will include the employment to 8 075 destitute women through the development of ponds and of some 600 women as nursery operators, and the employment generated through infrastructure earth works; these employment opportunities will add considerably to family savings and reduce seasonal malnutrition. Other project activities specifically targeted at women include food processing, livestock rearing and vegetable gardening.



36. **Institutional benefits.** The institutionalization of the project approach will, if successful, have wide-ranging implications for the country since the project offers the potential of providing services cost-effectively to remote areas. The development of a viable institution will provide a continuing basis for generating social and human capital at the grass-roots level. Through the project's capacity-building programme, men and women from poor and very poor groups will be empowered with greater capacity to participate in and manage their own social and economic development.

37. **Economic and financial analysis.** IFAD does not require detailed economic and financial analysis for FLM projects for obvious reasons. The demand-driven nature of the project, with its emphasis on grass-roots institution-building, precludes a comprehensive financial analysis. Requirements under the microfinance component have been estimated on the basis of the demand for credit in areas benefiting from SAPAP. Under this system, the borrowers' assessed credit-worthiness assumes primary importance for credit allocation along with the financial viability of the activity for which the credit is to be used. Activities in the fish, livestock, crop and informal sectors have been identified, and their financial viability evaluated as clearly profitable. There is no sound basis for aggregating these models as the mix of activities is going to be demand-driven. This inhibits financial analysis of the microfinance component and, thereby, of the project as a whole. Financial analysis of the major productive component – fisheries development – shows a robust financial rate or return of 25%.

H. Risks

38. The biggest risk the project faces is that the Government will not transfer available land and water-body leases on time, and that conflicts will occur with current fishing lessees. This reflects the reality of high lease value and competition over valuable resources. To address this risk, the project will initiate its activities in *haors* where the larger lessees are community-friendly. The project will initially focus on derelict water bodies where there is no conflict of interest. The FLM triggering mechanism permits termination of the project at the end of Phase 1 should the Government renege on commitments to deliver leases to the poor. A second risk is associated with the need to ensure continuity of project personnel. The project approach relies heavily on the SAPAP mentor and staff to guide it through its initial stages. Continuity of staff will therefore be a condition of the loan. A third risk relates to the Government's commitment to establishing the project as an SAB. The Government has agreed that a joint IFAD/Government review of this issue will be undertaken during the first phase. On the basis of the review, should it be agreed that an SAB is essential, the SAB will be constituted by the end of the first phase. If IFAD determines that an SAB is necessary, it may make creation of the SAB a condition to proceeding with the second phase of the project. Finally, although projections show that the project will achieve viability provided the credit component disburses as planned, 11 years is a long period to make such projections with any degree of certainty. The project has made provisions to monitor its profitability by establishing suitable indicators in PY1 and a review of all its activities in PY5. Despite these precautions, it may yet prove to be unviable. This will need to be reviewed in PY8, with appropriate modifications made to charges to the beneficiaries.

I. Environmental Impact

39. An environmental screening and scoping note (ESSN) was prepared during the project formulation mission in line with IFAD procedures. The ESSN classified the project as Category B, and hence a full environmental assessment is not considered necessary. The ESSN led to a number of major impacts on the project design to ensure that the project contributes to enhanced natural resource management and that negative impacts on the environment will be avoided. The project design provides for: a community-based approach to floodplain ecosystem rehabilitation; erosion protection of villages through reafforestation with indigenous swamp tree varieties; support for conservation activities in Tanguar *Haor*; and biodiversity impact studies and environmental monitoring during implementation.



J. Innovative Features

40. The project has a number of innovative features. Management of credit will be achieved at the village level by CO managers. The evolution and institutionalization of the SAPAP approach into a national body will have vast implications for Bangladesh, as such a body could potentially be viable in its own right, supporting self-managing VOs and COs capable of managing credit and other development initiatives cost-effectively. The project will ensure that government *khas* land is distributed to the poor. It will provide support for fish habitat restoration in *haors* to ensure higher fish availability with attendant benefits for the poor who rely on subsistence fishing for their livelihood security. Finally, it will help sensitize communities to assist the indigent by promoting partnerships between village organizations and the poorest.

PART III - LEGAL INSTRUMENTS AND AUTHORITY

41. A loan agreement between the People's Republic of Bangladesh and IFAD constitutes the legal instrument for extending the proposed loan to the borrower. A summary of the important supplementary assurances included in the negotiated loan agreement is attached as an annex.

42. The People's Republic of Bangladesh is empowered under its laws to borrow from IFAD.

43. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

PART IV - RECOMMENDATION

44. I recommend that the Executive Board approve the proposed loan in terms of the following resolution:

RESOLVED: that the Fund shall make a loan to the People's Republic of Bangladesh in various currencies in an amount equivalent to seventeen million five hundred and fifty thousand Special Drawing Rights (SDR 17 550 000) to mature on and prior to 1 September 2041 and to bear a service charge of three fourths of one per cent (0.75%) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

Lennart Båge
President

SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE NEGOTIATED LOAN AGREEMENT

(Loan negotiations concluded on 20 April 2001)

1. **Project account.** The Government of the People's Republic of Bangladesh (the Government) through the Rural Development and Cooperatives Division (RDCD) of the Ministry of Local Government, Rural Development and Cooperatives, will open and thereafter maintain, in the Sunamganj branch of a bank agreed by the Government and IFAD, a current account denominated in Bangladesh Taka (BDT) for project operations. The project director will be fully authorized to operate the project account.
2. **Channelling of project resources.** The PMU will transfer available funds and other resources called for in the annual work plan and budget (AWP/B) to BKB, in accordance with the BKB Subsidiary Agreement to be entered into between the Government and BKB to carry out the microfinance component.
3. **Counterpart contribution.** During the project implementation period, the Government will make counterpart funds available to the RDCD from its own resources for each fiscal year, equal to the counterpart funds called for in the AWP/B for the relevant project year, up to an equivalent of USD 4 463 000.
4. **Gender focus.** The Government will ensure that gender concerns are integrated into all project activities during project implementation, by:
 - (a) encouraging women farmers to take on leadership roles and participate in decision-making at both the family and the community level;
 - (b) giving priority to women farmers to train as activists and community organization and village organization office-holders; and
 - (c) giving priority to women to work as project staff.
5. **Resource protection.** The Government will take all reasonable measures to ensure that existing policies and measures will be enforced to safeguard forest and fishery resources in the project area.
6. **Semi-autonomous body.** The Government and IFAD will undertake a joint review on the necessity of establishing an SAB by the end of PY 2, and take a decision by the end of PY 3.
 - (a) If the Government and IFAD agree to establish an SAB, the PMU will draft and submit the constituent documents to the Government for approval within three months of such decision, and the Government will submit the constituent documents to IFAD for review and agreement within six months of such decision.
 - (b) If the Government and IFAD agree not to establish an SAB, they will agree on an alternative strategy for the remainder of the project.
 - (c) In the event that IFAD determines that an SAB is essential to the project, the establishment of an SAB will become a condition precedent to proceeding to the second phase of the project.

7. **Lease availability.** The Government will make available to beneficiaries the leases requested by the PMU: (i) within six months of receiving the request; and (ii) in the quantity requested. Each lease will be for two consecutive terms of ten years, renewed automatically. The Government will also ensure that lessees to the larger *beels* respect the rights of smaller lessees by including lease provisions that:

- (a) require each larger lessee to demarcate the area in question at full flood;
- (b) ensure that larger lessees are granted permits only after they have agreed in writing to demarcate their *beel* areas; and
- (c) terminate any lease under which the above terms are violated.

8. **Modifications to the project proforma.** The Government will revise the project proforma: (i) upon formation of the SAB; (ii) at the end of each of Phase I and Phase II; and (iii) at any other time as may become necessary to remain consistent with and facilitate implementation of the project throughout the project implementation period. The Government will make such revisions in as timely a manner as is practicable.

9. **Credit by-laws.** The PMU will prepare draft credit by-laws for the microfinance component as soon as practicable but no later than 12 months after loan effectiveness. The credit by-laws will set forth procedures for lending within community organizations, and will include, *inter alia*:

- (a) member eligibility criteria for receiving loans;
- (b) lending caps to individuals and groups;
- (c) loan approval and disbursement mechanisms; and
- (d) distribution of income received from loans.

10. The PMU will submit the draft credit by-laws to the Project Steering Committee (PSC) for approval. When approved by the PSC, the PMU will submit the draft credit by-laws to IFAD for its comments and approval. The PSC will adopt the credit by-laws, substantially in the form approved by IFAD, for application to all credits extended to project beneficiaries which are financed (directly or indirectly) by the loan. The PMU will provide copies thereof to IFAD promptly after adoption.

11. **Revolving fund.** BKB will establish and maintain a revolving fund into which all net revenues from credits extended to project beneficiaries financed (directly or indirectly) by the loan will be deposited. BKB will use the revolving fund to fund further credits to project beneficiaries in accordance with the loan agreement at least until such date as is specified in the BKB Subsidiary Agreement or, if no date is so specified, until all loan service payments have been made in full.

12. **Guarantee of interest.** The Government will guarantee the amount to be deposited by BKB into a separate account to fund project-related activities after the project completion date, plus accrued interest.

13. **Project director.** The project director will be appointed, subject to prior approval of IFAD, for a term of at least two years, will have direct experience in managing the UNDP-supported South Asia Poverty Alleviation Programme or a similar project, and will be subject to removal only after prior consultation with and agreement by IFAD. The project director will receive a salary sufficiently competitive to attract qualified candidates.

14. Conditions precedent to withdrawals. No withdrawals will be made in respect of expenditures under the microfinance component until the BKB Subsidiary Agreement shall have been approved by IFAD in draft; a copy of the signed BKB Subsidiary Agreement, substantially in the form so approved and certified as true and complete by a competent officer of the RDCCD, shall have been delivered to IFAD; the signature and performance thereof by the RDCCD and BKB shall have been duly authorized or ratified by all necessary corporate, administrative and governmental action; and all conditions precedent to the effectiveness thereof shall have been fulfilled.

15. Additional conditions precedent to effectiveness of the loan agreement:

- (a) the PSC shall have been duly established;
- (b) the PMU shall have been duly established;
- (c) the Government shall have duly opened the project account and the Special Account;
- (d) the Government shall have made budgetary allocations equivalent to the first year of the counterpart contribution available to the RDCCD; and
- (e) a project proforma, consistent with the appraisal report and the first two years of project design and providing for lease transfer procedures, shall have been sent to IFAD for its review and comments and approved by the required administrative process in substantially the form approved by IFAD.

COUNTRY DATA

BANGLADESH

Land area (km² thousand) 1997 1/	130	GNP per capita (USD) 1999 4/	370
Total population (million) 1999 4/	127.7	Average annual real rate of growth of GNP per capita, 1990-98 2/	3.2
Population density (people per km²) 1998 1/	965	Average annual rate of inflation, 1990-98 2/	4
Local currency	Taka (BDT)	Exchange rate: USD 1 =	BDT 55
Social Indicators			
Population (average annual population growth rate 1980-98 1/)	2.1	Economic Indicators	
Crude birth rate (per thousand people) 1998 1/	28	GDP (USD million) 1999 4/	45 961
Crude death rate (per thousand people) 1998 1/	10	Average annual rate of growth of GDP 1/ 1980-90	4.3
Infant mortality rate (per thousand live births) 1998 1/	73	1990-98	4.7
Life expectancy at birth (years) 1998 1/	59	Sectoral distribution of GDP, 1998 1/	
Number of rural poor (million) (approximate) 1/	38.3	% agriculture	22
Poor as % of total rural population 1/	40	% industry	28
Total labour force (million) 1998 1/	64.1	% manufacturing	18
Female labour force as % of total, 1998 1/	42	% services	50
Education			
Primary school gross enrolment (% of relevant age group) 1997 1/	n.a.	Consumption, 1998 1/	
Adult literacy rate (% age 15 and above) 1998 3/	40	General government consumption (as % of GDP)	4
Nutrition			
Daily calorie supply per capita, 1997 3/	2 085	Balance of Payments (USD million)	
Prevalence of child malnutrition (height for age % of children under 5) 1992-98 1/	55	Merchandise exports, 1998 1/	5 141
Prevalence of child malnutrition (weight for age % of children under 5) 1992-98 1/	56	Merchandise imports, 1998 1/	6 862
		Balance of merchandise trade	-1 721
Health			
Health expenditure, total (as % of GDP) 1990-98 1/	3.5	Current account balances (USD million) before official transfers, 1998 1/	-2 270
Physicians (per thousand people) 1990-98 1/	0.20	after official transfers, 1998 1/	-253
Percentage population without access to safe water 1990-98 3/	5		
Percentage population without access to health services 1981-93 3/	26	Foreign direct investment, 1998 1/	308
Percentage population without access to sanitation 1990-98 3/	57		
Agriculture and Food			
Food imports as percentage of total merchandise imports 1998 1/	15.3	Government Finance	
Fertilizer consumption (hundreds of grams per ha of arable land) 1995-97 1/	1 453	Overall budget surplus/deficit (including grants) (as % of GDP) 1997 1/	n.a.
Food production index (1989-91=100) 1996-98 1/	111	Total expenditure (% of GDP) 1997 1/	n.a.
Land Use			
Arable land as % of land area, 1997 1/	61	Total external debt (USD million) 1998 1/	16 376
Forest area (km ² thousand) 1995 1/	10	Present value of debt (as % of GNP) 1998 1/	23
Forest area as % of total land area, 1995 1/	8	Total debt service (% of exports of goods and services) 1998 1/	9
Irrigated land as % of cropland, 1995-97 1/	43	Nominal lending rate of banks, 1998 1/	14
		Nominal deposit rate of banks, 1998 1/	8

n.a. not available.

a/ Data are for years or periods other than those specified.

1/ World Bank, *World Development Report*, 20002/ World Bank, *Atlas*, 20003/ UNDP, *Human Development Report*, 20004/ World Bank, *World Development Indicators database*, 2001



APPENDIX II

PREVIOUS IFAD LOANS TO BANGLADESH

Project Name	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan Acronym	Currency	Approved Loan Amount	Disbursement (as % of approved amount)
Pabna Irrigation and Rural Development Project	AsDB	AsDB	HC	11 Dec 78	28 May 79	31 Dec 92	L - I - 9 - BAN	USD	30	100%
Fertilizer Sector Programme	IFAD	World Bank: IDA	HC	19 Dec 79	12 Feb 80	30 Jun 85	L - I - 31 - BA	SDR	19	91.6%
Small Farmer Agricultural Credit Project	IFAD	AsDB	HC	16 Sep 80	13 Jan 81	31 Dec 85	L - I - 41 - BA	SDR	17	100%
Southwest Rural Development Project	IFAD	World Bank: IDA	HC	08 Sep 81	18 May 82	31 Dec 90	L - I - 73 - BA	SDR	20	61.8%
North -West Rural Development Project	AsDB	AsDB	HC	09 Dec 82	12 Oct 83	31 Dec 91	L - I - 110 - BA	SDR	13	21.9%
Small-Scale Flood Control, Drainage and Irrigation Project	IFAD	World Bank: IDA	HC	13 Dec 83	27 Jun 84	30 Jun 93	L - I - 137 - BA	SDR	10	60.5%
Grameen Bank Project	IFAD	UNOPS	HC	12 Dec 84	24 Sep 85	31 Dec 90	L - I - 161 - BA	SDR	23	100%
Marginal and Small Farm Systems Crop Intensification Project	IFAD	UNOPS	HC	02 Dec 86	28 Aug 87	30 Jun 96	L - I - 194 - BA	SDR	30	52.9%
Oxbow Lakes Small-Scale Fishermen Project	IFAD	UNOPS	HC	01 Dec 88	20 Oct 89	31 Dec 97	L - I - 237 - BA	SDR	16	60.0%
Grameen Bank Phase III Project	IFAD	UNOPS	HC	25 Apr 89	08 Mar 90	30 Jun 95	L - I - 239 - BA	SDR	6	100%
Smallholder Livestock Development Project	IFAD	UNOPS	HC	04 Apr 91	14 Dec 91	31 Dec 99	L - I - 280 - BA	SDR	7	78.7%
Special Assistance Project for Cyclone Affected Rural Households	IFAD	UNOPS	HC	04 Sep 91	24 Jan 92	31 Dec 99	L - I - 287 - BA	SDR	11	98.9%
Netrakona Integrated Agricultural Production and Water Management Project	IFAD	UNOPS	HC	02 Dec 93	08 Jul 94	30 Jun 01	L - I - 343 - BD	SDR	6	98.2%
Employment-Generation Project for the Rural Poor	IFAD	UNOPS	HC	12 Apr 95	24 Oct 95	30 Jun 01	L - I - 378 - BD	SDR	9	93.0%
Small-scale Water Resources Development Sector Project	AsDB	AsDB	HC	06 Dec 95	10 Jun 96	31 Dec 02	L - I - 391 - BD	SDR	7	54.3%
Agricultural Diversification and Intensification Project	IFAD	IFAD	HC	29 Apr 97	04 Dec 97	31 Dec 04	L - I - 443 - BD	SDR	13	53.5%
Third Rural Infrastructure Development Project	AsDB	AsDB	HC	04 Dec 97	01 Jul 98	30 Jun 05	L - I - 457 - BD	SDR	8	16.8%
Aquaculture Development Project	IFAD	UNOPS	HC	23 Apr 98	08 Dec 98	31 Dec 05	L - I - 472 - BD	SDR	15	19.7%
Smallholder Agricultural Improvement Project	IFAD	UNOPS	HC	29 Apr 99	17 Mar 00	30 Sep 06	L - I - 505 - BD	SDR	13	13.0%

APPENDIX III

LOGICAL FRAMEWORK

Notes: (i) As the project is demand-driven, the output targets remain highly indicative and in some cases are not specified in details; (ii) as the project is a Flexible Lending Mechanism (FLM) project, the output targets only correspond to the first phase of the project; (iii) the logical framework should be regarded as indicative, as it will need to be reworked by project stakeholders in the field.

Strategic Goal	Performance Indicators	Means of Verification	Assumptions
Sustainable improvement in the livelihood and general quality of life of 135 000 poor households living in <i>haor</i> areas in Sunamganj	<ul style="list-style-type: none"> • 30% decrease in seasonal migration • % increase in annual average household income; % increase in per capita income • 10% reduction in prevalence of chronic malnutrition among children less than five years • At least 60% of the poorest report livelihood systems improved • No. of households provided with long-term secured access to land and water bodies • Reduced gender inequality in key areas of economic and political participation and decision-making • IFAD and other donors have promoted similar initiatives in Bangladesh by 2015 	Rolling baseline data Project evaluation Ex-post impact assessment of project by the Government and external donors. Comparative evaluation through longitudinal surveys Anthropometric surveys and baseline, mid-term and project close	Institutions in the governmental and non-governmental sectors have the vision and the organizational capacity to create an institutional structure that can successfully disseminate the approach nationally. Government policies and programmes and donor assistance continue to focus on the poorest and most vulnerable.
Purpose (project objective):			
Primary objective is enhancing income-generating opportunities of the poor households participating in the project through: <ul style="list-style-type: none"> • enabling effective and sustainable on- and off-farm income-generating activities through credit; • enhancing food production and consumption from secured access to natural resources and conservation of the resource base; and • providing employment through labour-intensive construction. A secondary project objective is to establish a sustainable institutional framework that will support the primary objective. This will entail functioning grass-roots institutions and an operational national institution to replicate the approach.	Production indicators <ul style="list-style-type: none"> • Increased fish production in <i>beels</i> and <i>khals</i> by 50% within three years of establishment • % increase in annual average household fish production • % increase in annual average household staple crop production • % increase in annual average household vegetable production • % increase in annual average household livestock production • % increase in annual average household income from employment in constructing project infrastructure • At least 50% of employees in project infrastructure are women Consumption indicators <ul style="list-style-type: none"> • Increased dietary diversification • Increased household consumption of fish by 10% by PY7 Institutional indicators <ul style="list-style-type: none"> • % increase in borrowing • 100% increase in per-person savings with the CO by PY5 • At least 15% of VOs report improved access to government services by end of Phase 2 • SAB profitability measured by revenue as a proportion of administrative cost 	Baseline survey Project evaluation Monitoring reports Cumulative findings of regular impact assessment studies and internal monitoring systems Nutrition survey Annual statement of accounts	Service provision becomes more appropriate for risk-prone <i>haor</i> areas. Synergy among government and village organizations is enhanced and institutionalized.
Outputs/Deliverables			
1. Rural Infrastructure: Rural infrastructure schemes identified, constructed and maintained by beneficiaries on a demand-driven basis	PHASE 1 The exact figures for Phase 1 cannot be estimated as component is demand-driven <ul style="list-style-type: none"> • X km of erosion work constructed and maintained following project-specified design standards • Water supply at the village level • X village storage facilities constructed and maintained following project-specified design standards (100 provided for) • 100% of labour for earthworks is provided by IFAD target groups identified by the VOs and SOs, of which at least 50% women 	Progress reports Participatory M&E	LGED has sufficient capacity to implement projects effectively. Severe floods do not impact negatively on construction activities.
2. Fisheries Development: Fisheries	PHASE 1		



APPENDIX III

Strategic Goal	Performance Indicators	Means of Verification	Assumptions
production programme implemented	<ul style="list-style-type: none"> • 80 <i>beels</i> excavated • 2 km of <i>khal</i> excavated • 163 ponds excavated/leased to women • X no. of LMCs formed and functioning (depending upon water body size) • Fish conservation information disseminated to 225 villages • 3 studies on fish catch monitoring, 2 studies on biodiversity, 5 resource mapping exercises completed and results available to the PMU • 80 <i>beels</i>, 1 km of <i>khals</i> made available to project beneficiaries in first phase (Phase 1-2 trigger) • 275 <i>beels</i>, 8 km of <i>khals</i> have been identified and will be made available to the project for second phase (Phase 1-2 trigger) • 232 <i>beels</i>, 600 ha of land (does not include land required for adjoining districts) made available for third phase (Phase 2-3 trigger) 	Progress report Participatory M&E reports	<p>Severe flooding and/or other natural disasters do not severely disrupt or change local livelihood systems.</p> <p>Larger lessees are cooperative.</p> <p>DOF, DCC and UNO office and project staff coordinate effectively.</p>
3. Crop and Livestock Development: Crop and livestock production programme implemented	PHASE I <ul style="list-style-type: none"> • 48 research contracts implemented for research in integrated farming systems and fodder crop, and results available to the PMU • Promotion of technology through demonstrations has been initiated • Promotional material for livestock health disseminated to 225 villages • 500 ha of land made available to poorest project beneficiaries in Phase 1, of whom 50% women (Phase 1-2 trigger) • 1 000 beneficiaries trained • 1 300 ha of additional land identified and made available to the project for Phase 2 (Phase 1-2 trigger) 	Progress reports and disbursement reports Participatory M&E	<p>Coordination is effective between DAE/DLS, SAPAP, DCC and UNO.</p> <p>People will be willing to import supplementary feed for stall-feeding livestock.</p> <p>Research results are relevant to the target group's conditions.</p> <p>Beneficiaries will be effective in the management of their newly acquired land.</p>
4. Microfinance Savings and credit services component implemented	PHASE 1 <ul style="list-style-type: none"> • 600 VO presidents trained and managing effectively • CO managers and presidents trained and working effectively • 54 CO auditors trained and auditing effectively • 950 COs managing credit and savings benefiting 10 000 members, of whom at least 50% women (Phase 1-2 trigger) • Repayments rates – 90% (Phase 1-2 trigger) • 224 villages reached • Average savings per beneficiary increased by at least 100% from PY1 to PY4 (Phase 1-2 trigger) and by 300% by PY7 (Phase 2-3 trigger) • USD 1.2 million credit disbursed as loans to individuals or groups • Lending to women is approximately 50% of total lending (Phase 1-2 trigger) • 100% of COs formed have functioning savings and credit scheme within one year of establishment and are meeting four times a month • At least 90% of COs formed avail themselves of formal financial services one year after formation • Capacity for utilization/management of their own resources indicator - 85% of VOs are functional and successfully formulating/implementing a plan four years after their formation • 50% of the poorest covered have access to CO resources within two years of the VO being formed; 60% after three years • 30% of the COs assist the indigent four years after their formation 	Progress reports and disbursement reports Participatory M&E	<p>Market trends and fluctuations do not adversely affect economic viability of on- and off-farm activities.</p> <p>Project staff are properly trained and motivated.</p>
5. Institutional Support Project functioning effectively as a semi-autonomous body	PHASE 1 <ul style="list-style-type: none"> • If agreed by IFAD and GOB, project established as an SAB by end of Phase 1 (Phase 1-2 trigger). • Technical assistance recruited and project approach institutionalized (all operation manuals, chart of accounts to monitor profitability and M&E system prepared) (Phase 1-2 trigger) • PMU offices established and operating effectively (1 office and 4 <i>upazila</i> offices) • Project staff recruited and trained: 1 project manager and other support staff at PMU, 39 SOs; 20 SMSs, 4 UPMs • All coordinating committees at the national, district and <i>upazila</i> levels (one in each <i>upazila</i> to be included in first phase) established and functioning effectively • Manuals prepared, M&E system developed and operating effectively • DAE and MOFL staff given courses in training methodology • 550 Activists trained 	Progress reports and disbursement reports Participatory M&E Records kept by the VOs/COs Regular documents/reports available for verification kept by COs	A close working relationship is established among the three types of institutions: government, SAPAP and VOs.

APPENDIX III

Strategic Goal	Performance Indicators	Means of Verification	Assumptions
	Management review completed (Phase 1-2 and Phase 2-3 trigger) All studies and evaluation reports concluded and made available to the review missions (Phase 1-2 and Phase 2-3 trigger)		
Activities (project components)	Total project baseline allocations (Phases 1-3)		
1. Labour-intensive infrastructure development This is demand-driven so no targets are specified. Likely structures to be financed are: protective erosion work and village level storage and water supply.	USD 4.5 million	Progress reports and disbursement reports Participatory M&E	Funds are made available in a timely manner for all components. Cooperation and coordination with LGED, BWDB and DOF is effective. Careful planning is carried out to ensure that all work is achieved in 4 month dry season.
2. Fisheries development Excavation and development of 600 <i>beels</i> (1 100 ha)and 10 km of khals, Support for Tanguar Haor Development and leasing of 1 615 ponds by women (0.2 ha each) Dissemination of information on fish conservation by DOF Travel allowances for DOF staff Undertaking of studies on biodiversity, resource mapping and fish consumption.	USD 6.3 million	Progress reports and disbursement reports Participatory M&E	DOF staff is available in a timely manner. Leases for land and for water bodies are made available to the project beneficiaries in a timely manner. Larger lessees cooperate. Communities are sensitized sufficiently to help the indigent.
3. Crop and Livestock development Contracting of research in integrated farming systems and fodder crops Promotion of technology through 7 380 demonstrations Dissemination of promotional material for livestock health Travel allowances for DAE and DLS staff	USD 1.9 million	Progress reports and disbursement reports Participatory M&E	Staff is available in a timely manner.
4. Microfinance USD 9.9 million credit for on-and off-farm activities and fisheries Training of 4 500 CO managers, 4 500 presidents and 250 VO auditors	USD 9.9 million	Progress reports and disbursement reports TA reports Participatory M&E	BKB performs as expected.
5. Institutional Support Establishment of PSC, district coordinating committees and Upazila committees Establishment of project as SAB by end of Phase 1. Recruitment of technical assistance for institutionalizing project (prepare all operation manuals, establish chart of accounts to monitor profitability, establish M&E system) Establishment of PMU offices (1 office and 10 Upazila offices) Recruitment of project staff and their training: 1 project manager; 86 SOs; 24 SMSs, accountants and support staff. Establishment of 4 500 COs and 2 250 VOs by SOs Training of 6 590 activists in all production systems	USD 6.8 million	Progress reports and disbursement reports TA reports Participatory M&E	A critical assumption is that the Government will approve project as a formalized SAB. A critical assumption is that the Government will allow the current SAPAP staff to continue. Poorest and most disadvantaged members accumulate enough cash savings to join the COs. COs are sensitized, develop empathy and demonstrate commitment to serve the poorest and most disadvantaged members of the community. Political environment does not change abruptly disallowing social mobilization.



COSTS AND FINANCING

Expenditure Accounts by Component – Totals Including Contingencies
(USD '000)

	Labour-Intensive Infrastructure Development	Fisheries Development	Crop and Livestock Production	Microfinance	Institutional Support	Total	Physical Contingencies
							%
							Amount
I. Investment Costs							
A. Earth and Civil Works	4 186	5 647	-	-	-	9 833	10.0 983
B. Equipment and Materials	-	27	628	-	293	948	5.0 47
C. Vehicles	-	-	-	-	816	816	5.0 41
D. Technical Assistance	-	165	142	-	319	626	5.0 31
E. Training and Studies	-	417	1 029	167	249	1 862	5.0 93
F. Credit	-	-	-	9 492	-	9 492	- -
Total Investment Costs	4 186	6 257	1 799	9 660	1 677	23 578	5.1 1 196
II. Recurrent Costs							
A. Salaries and Allowances	-	34	52	-	3 726	3 812	- -
B. Vehicle Operating Costs	-	18	36	-	560	615	5.0 31
C. Other Operating Costs	305	3	9	268	866	1 451	5.0 73
Total Recurrent Costs	305	55	98	268	5 152	5 877	1.8 103
Total BASELINE COSTS							
Physical Contingencies	4 491	6 311	1 896	9 927	6 829	29 455	4.4 1 299
434	596	92	22		155	1 299	- -
Price Contingencies							
Inflation							
Local	782	1 469	228	112	1 130	3 721	- -
Foreign	84	41	111	8	221	465	- -
Subtotal Inflation	866	1 511	339	119	1 351	4 186	- -
Devaluation	-139	-265	-40	-20	-192	-656	- -
Subtotal Price Contingencies	727	1 246	299	99	1 159	3 530	6.1 216
Total PROJECT COSTS	5 652	8 153	2 288	10 048	8 143	34 285	4.4 1 516
Taxes	37	7	85	3	672	803	4.8 38
Foreign Exchange	651	384	909	47	1 694	3 686	5.1 188



Disbursement Accounts by Financier
(USD '000)

	IFAD		Cofinancier		Beneficiaries		Government		Total		Foreign Exch.	Local (Excl. Taxes)	Duties and Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
	-	-	-	-	193	5.0	3 660	95.0	3 853	11.2	578	3 275	-
A. Earth and Civil Works													
1. Village Protection Works	-	-	-	-	111	1.3	-	-	8 808	25.7	-	8 808	-
2. Earth and Civil Works	6 297	71.5	2 400	27.2									
Subtotal Earth and Civil Works	6 297	49.7	2 400	19	304	2.4	3 660	28.9	12 660	36.9	578	12 082	-
B. Equipment and Materials	1 253	58.4	321	15	-	-	570	26.6	2 145	6.3	992	582	570
C. Technical Assistance	647	90.6	67	9.4	-	-	-	-	714	2.1	562	151	-
D. Training and Studies	1 852	82.5	392	17.5	-	-	-	-	2 244	6.5	632	1 612	-
E. Credit	6 816	71.8	2 676	28.2	-	-	-	-	9 492	27.7	-	9 492	-
F. Salaries and Allowances	3 377	75.5	1 097	24.5	-	-	-	-	4 474	13.1	268	4 207	-
G. Vehicle Operating Costs	487	64.4	156	20.6	-	-	113	15.0	756	2.2	454	189	113
H. Other Operating Costs	1 244	69.1	436	24.3	-	-	119	6.6	1 799	5.2	202	1 478	119
Total	21 973	64.1	7 545	22	304	0.9	4 463	13.0	34 285	100.0	3 686	29 795	803

IMPLEMENTATION ARRANGEMENTS AND RESPONSIBILITIES

Formation of Grass-Roots Institutions (VOs/COs)

1. The implementation arrangements for social mobilization will follow the current procedures of SAPAP. The overall responsibility for institution-building will rest with the project SOs. The SOs will encourage the villages to form VOs and COs, elect presidents and managers, and ensure that training is provided to them by the project. At the same time, each SO will conduct a socio-economic survey to identify the target group. The VO, which will represent the entire village, will be split into two COs per village (one for men and the other for women). The SOs will visit the VO/COs regularly and attend their weekly meetings. At these meetings, the SOs will take part in the discussions and check the record keeping of the CO managers. The auditors recruited and trained by the project will audit the CO accounts. Community activists, trained by the line ministries and backstopped by the project SMSs and government staff at the *upazila* level, will provide technical support to the beneficiaries. The VO members will select the activists.

Labour-Intensive Infrastructure Development

2. PMO will implement the component, contracting LGED on a deposit works basis. LGED will undertake the construction of all works, including those undertaken by LCSs. The component is essentially a demand-driven component and will follow the formation of the VOs. Once the VOs have been developed, have mobilized savings and have demonstrated their capacity to manage their operations, they will be eligible to prioritize their infrastructure needs.

3. **Selection and prioritization:** The VOs will be encouraged to identify their critical infrastructure constraints and prioritize them on the basis of eligibility criteria. Once the communities have expressed a desire for a particular facility, the SO will explain the requirements of the project. These are as follows: (i) that the VOs contribute 5% of the cost in kind; and (ii) that the VOs demonstrate that they have formulated a plan to collect funds for maintenance. The SOs will forward the VO requests to the PMU through the UPM, attaching a comment outlining the communities' commitment to pay the initial capital, the amount of savings in the community and the amount that the community will collect regularly to pay for maintenance. The document will also identify the number of poor who will be employed. The PMU will ensure that the following criteria will be used in prioritizing the proposals. Priority will be given to financing subprojects (i) that benefit the target group, in particular women; (ii) in villages that have not benefited from the fishery development programme; and (iii) that create the maximum employment for the target group. Each village will be entitled to receive funding for no more than two subprojects, subject to a ceiling of USD 15 000. If the projects cost more, the amount of contribution from the communities will be increased.

4. **Construction:** Once the PMU has reviewed the proposals, it will contract LGED to implement the subprojects. LGED will prepare the plans and cost the proposals. The proposals will be discussed with the VOs; once approved, the agency will prepare documents and go to tender. LGED staff at *upazila* and district levels, assisted by PMU staff and the VOs, will cooperate to prepare the necessary documentation. Every effort will be made to ensure that the beneficiaries are awarded a substantial proportion of the work that they can undertake, including earthworks, pipe casting and culvert installation, turfing and tree plantation. The contractor will hire labour from the communities, paying the open market wage rates in cash. Unit prices for each work, transportation on building site, concrete mixing, etc., will be negotiable at the VO level during implementation in the actual area. Contractors' work will follow normal LGED procedures: bidding will be limited to prequalified contractors; following tendering, award will go to the lowest bidder. Each project will be managed as

a separate project that is given to one contractor, who will be required to employ the people identified by the VOs as the poorest. The contractor/VO will be responsible for the finalization of the project before monsoon. The contract preliminaries will include the preparation of standard contract documents, including arrangements for the use of the target group as labour.

5. Supervision and organization and management: Supervision of contractors will be undertaken in accordance with normal practice by LGED *upazila* staff. Materials will be tested at the LGED district-level laboratories. Payment will be made after the VOs have been trained and they have expressed satisfaction that the work has been completed. It will be a requirement of the project that the communities make provisions for collecting the maintenance charges from the members. They will be required to maintain the facilities from these funds and will be reimbursed for the actual expenses incurred in the first year. It will be part of the contract that the contractor provide training to the VOs in maintaining the facility.

Fisheries Development

6. The component will be implemented by the PMU (facilitated by the DCC), DOF, LGED and NGOs. The District Coordinator's presence will assist in ensuring that the requested leases are made available to the beneficiaries without delay. Social mobilization will be undertaken by the project SOs, SMS (fisheries) and legal support officers (LSOs). The PMU will be supported by the DOF, which will be responsible for: (a) training the activists; (b) ensuring that the leases are available to the beneficiaries in a timely fashion; (c) enforcing compliance with the Fishing Act; and (d) providing technical assistance to the beneficiaries as and when requested. LGED will be contracted to undertake the development of water bodies through LCSs. All studies will be contracted to qualified NGOs or other appropriate agencies.

7. **Development of water bodies:** In total, 600 *beels* will be made available to LMCs. The phasing of the project activities will commence with a resource mapping study in each *upazila* to identify and quantify water bodies suitable for development. Project activities will commence around water bodies for which leases are immediately available and for which informal agreements have already been reached with the DCC and UNO. The project SOs will organize the VO members into LMCs with the support of the project SMSs (fisheries) and LSOs. The LMCs will formally apply for leases, and the COs will provide credit to LMC members to enable them to pay the lease fees. LMCs will be assisted to prepare water body management plans and receive grant resources to contract LGED to implement them through LCSs. It is anticipated that even after the leases are formally made available, there may be occasional conflicts. The overall responsibility for addressing these conflicts will rest with the LSOs. The SOs will report to the UPM at each *upazila*, who will be responsible for coordinating all activities at the *upazila* level.

8. **Pond aquaculture for women:** In total, some 1 615 ponds will be leased to benefit 8 075 women who will be organized in groups of five. Under this sub-component, it is proposed that presently derelict ponds will be rehabilitated with project support, on the condition that the pond owners will lease the rehabilitated pond for a period of not less than seven years to a group of destitute women from the same locality. The CO manager will take the initiative to: implement the sub-component; bring together destitute women members of the CO; contact the pond owner(s); and request the project to provide funds for rehabilitation. The three parties will enter into a harvest-sharing agreement, as follows: 20% owner; 10% for communities; 70% for the women's group. It will be a condition that all women involved in the fish pond be CO members and obtain credit for fingerlings and fertilizer through the CO. The women's sub-group will use the pond embankment area for growing summer and winter vegetables and organize guarding of the fish and vegetables. The SOs and SMS (fisheries) will organize training on pond aquaculture and pond preparation.

9. **Nurseries for *beel* development:** In total, some 229 nurseries will be required to undertake *beel* rehabilitation. This sub-component is also targeted to women. To be eligible for a contract as a

village nursery operator, women must: be heads of household; be CO members with access to credit; have experience in farming; and have sufficient space in their homesteads. The implementation of the component will be as follows: CO managers will take necessary initiative to form a sub-group of three to five women; after initial training by DAE or SMSs, the group will be provided a simple contract by the project to buy the production at a fixed price; the group will undertake construction and preparation of seedbeds and structures, including collection of seed (*hijal*) and root multiplication (*koroch*), preparing the seedbeds, including compost preparation and filling of the polythene bags, watering and daily care; and marketing of tree saplings for plantation after two years.

10. Fisheries studies: The project will undertake biodiversity studies, fish catch monitoring and consumption studies. All studies will be contracted to NGOs or other agencies that are qualified to undertake the task.

Crop and Livestock Production

11. In implementing this component, the PMU (supported by technical assistance) will be assisted by DAE and DLS, which will be responsible for: (i) training activists; (ii) providing technical assistance to the beneficiaries as and when requested; and (iii) preparing information materials to be disseminated. The component is split into three sub-components: PRAs to understand villagers' priorities; action research to validate promising technologies; and dissemination of validated technologies.

12. **PRAs.** Once the upazila technical teams are established in the first two *upazilas* to be developed, an extended PRA will be conducted. The PRA will initially be conducted in 16 villages. Four of these will be in the uplands and 12 in the lowlands. Villages will be centrally located and reflect the typical constraints faced by the beneficiaries in the project area. In addition to the basic profile developed in every village by the SOs, the PRA will estimate data on production costs of agricultural livestock systems and related resources (such as the availability of land, grazing and markets). Crop and enterprise budgets will be drawn up to establish the viability of different activities and discussions held with local people to see how individual activities fit into the household economy. Where the technical performance or appropriateness of the potential technology is uncertain, the team will plan a research programme to test the technology under field conditions. Where technologies and development opportunities have already been proven under similar conditions in Bangladesh, the team will plan a dissemination programme to extend it to other villages in the two *upazilas*. The process will be repeated in other *upazilas* as they commence operation during Phases 1 and 2.

13. **Participatory research.** Technologies that have been identified as having potential but that are unproven in the project area will be tested and further developed in participatory on-farm research trials. Research will be concentrated in the 16 focus villages, increasing to 48 during Phase 1. This research will be carried out on a contract basis, with each trial being treated either as a separate contract or with similar trials grouped together under one contract. Suitable institutions or individuals will be prequalified to carry out this work. These may include, *inter alia*, the Bangladesh Agricultural Research Institute (BARI), the Bangladesh Rice Research Institute (BRRI), Mymensingh Agricultural University and research NGOs. A senior scientist will supervise each research project and will be actively involved in the planning and evaluation of the results. The screening of potential topics, trial design, evaluation of results and quality assurance is crucial for the success of the research. Provision of six person-months of technical assistance has been included in project costs to assist and guide this process and, in particular, to help identify and prequalify appropriate research organizations.

14. **Technology dissemination and training:** Once research has been completed, or where it is felt that technologies do not need research, the project will actively assist in their dissemination to all villages in the project area. This dissemination work will involve: training of farmers; provision of extension materials, including funding for development of posters and pamphlets; and support for line

ministry staff (DAE, DLS) involved in extension activities. Trained village activists will act as links between the project technical teams and the VO members. The project will also provide training for project and line ministry staff to familiarize them with the technologies being promoted. Training of farmers in the field will be another avenue for the transfer of technology; where appropriate, a farmers' field school approach will be used. Training will also be linked to demonstrations, with farmers involved in the demonstration and their neighbours receiving training in the promoted technology.

Microfinance Component

15. Implementation of the microfinance component will follow SAPAP procedures. A total of 4 500 COs will be formed during the project. COs will retail credit to their members, with CO managers maintaining records and granting loans after training. COs will be mobilized by project SOs. Technical support and training will be provided through trained activists (two for each village), SMSs and by line agency staff (DAE, DOF, DLS). The project will recruit and train 225 auditors to audit CO books and accounts.

16. Loans will be provided under the IFAD loan only to those members of COs who possess a total cultivable land up to 1 ha. The CO loan committee, comprising the manager, president and the activists, will appraise the individual loans and the COs will approve them. Loan disbursements will take place in cash at the CO meeting. In order to tap into the project funds, the SO will assist the COs to prepare a bulk loan application, which will include details of credit requirements of individual group members together with the expected repayment schedule. These will be checked by the project credit officer and sent to the BKB branch manager, who will credit the amount to the account of the CO. The CO manager will then disburse the funds to members. In determining loan amounts, the project will generally motivate the COs to follow the principle of starting with small loan sizes and gradually increase the loan size and maturity based on the successful repayment of the loan. While submitting the loans application for IFAD funds, the applications will include details of the CO's previous performance with savings mobilization, loan utilization and repayment, which will be closely monitored by the project staff. COs will not be eligible for IFAD funding unless they maintain an overall recovery rate of 95%. In general, the loan repayment schedule will be determined by the project and the COs based on the expected cash flow of the proposed investment. Credit will be recoverable in 12 months where the end-use is projected to be short-term, and 36-60 months in the case where the loan is used to finance medium-term investments. Weekly instalment repayment of loans may prevail for all types of loans. Individual borrowers under the CO will be required to contribute 10% of the total investment cost of the enterprise/activity to be financed in case of short- and medium-term investment loans. The contribution will be in the form of savings and will be deposited in an interest-bearing account with the bank. These funds together with 20% of the spread available to the VOs, which will be set aside as a loan loss provision, will constitute the risk fund. No collateral other than VO joint liability will be required for the loans to members.

17. Credit will be channelled through BKB on the basis of a subsidiary loan agreement. The terms and conditions will be: IFAD funds will be made available to BKB at 1.5% per annum and BKB will on-lend to the COs at 10% p.a. The spread of 8.5% between BKB's borrowing and lending rate will be allocated as follows: 2% to BKB to cover its administrative costs and the remaining 6.5% per annum put in a special account to be made available to the emerging SAB in PY11 to meet its capital needs after the project terminates. BKB will not carry any lending or foreign exchange risk. BKB will maintain separate accounting for loans made under the project and prepare the monitoring reports on a regular basis for submission to the project and IFAD on implementation progress.

Institutional Support

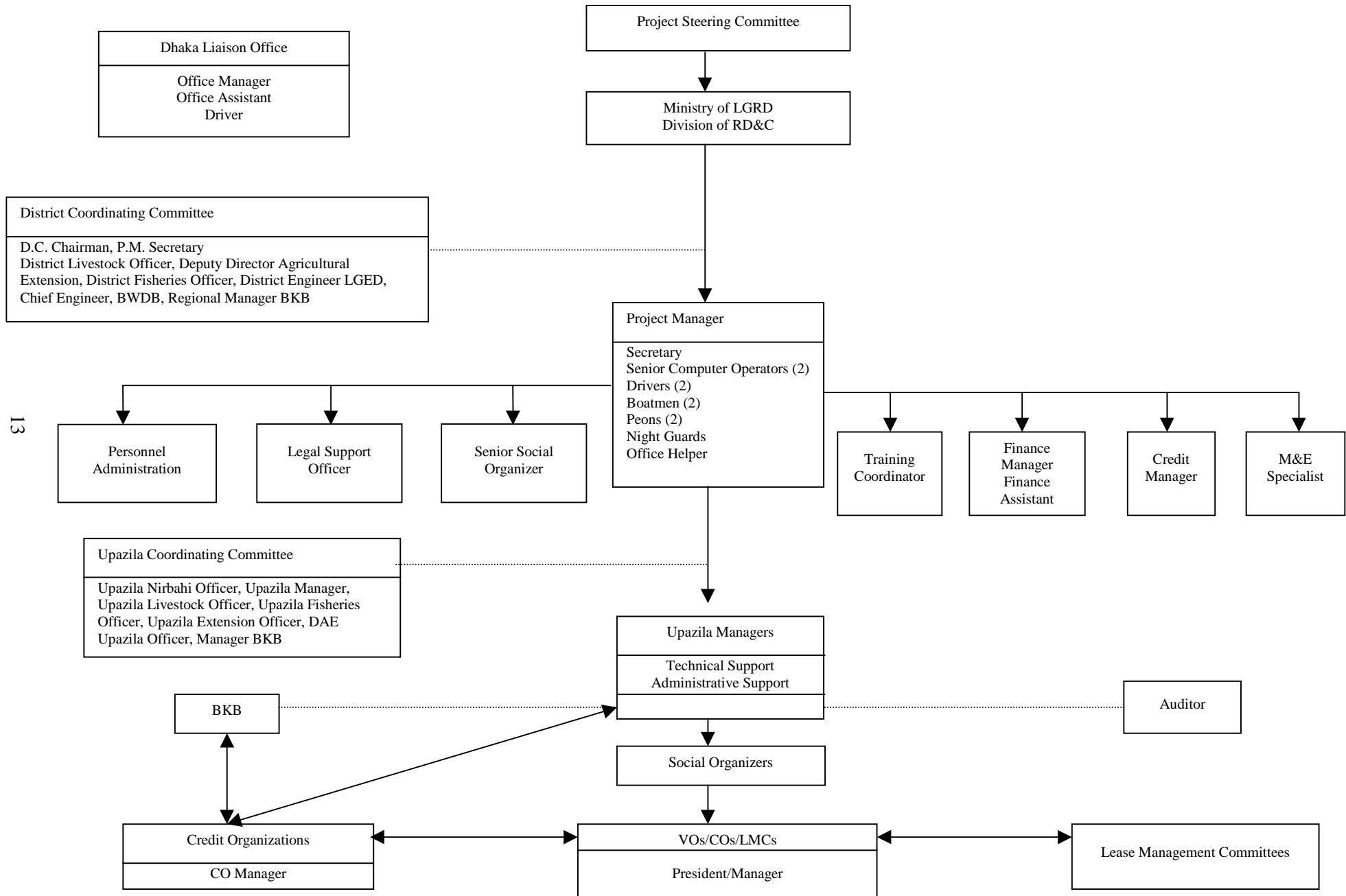
18. The project will start operating under a PMU, guided by a PSC. The project will finance 12 months of technical assistance to prepare operating manuals and management information systems. Once agreement is reached to establish the SAB, it will assume implementation responsibilities for the project. The project manager will report directly to the secretary RDCD in line with the management structure shown in Appendix VI, and will be responsible for the day-to-day operations of the project. The project manager will be supported by an M&E officer, a finance manager, a LSO, a training coordinator, a senior social organizer, a credit manager and the UPMs. The PMU credit manager will be responsible for arranging credit-related training, supervising *upazila*-level credit staff, maintaining relations with BKB, checking on the quality of audits, monitoring the component and making changes as appropriate. The finance manager will be responsible for preparing accounts, the AWP/Bs, the LACI system and PMRs, preparing withdrawal applications and preparing profitability reports. The LSO will be responsible for maintaining close relations with the district and *upazila* staff and that of the DOF to ensure that the leases are available to the target group and that any other conflicts that may arise from time to time are resolved. The UPMs will be responsible for overseeing the project activities in their respective areas. They will prepare plans, ensure that the operations are within the budget, coordinate training and maintain close relations with the *upazila nirbahi* officers on availability of fish leases and *khas* lands. They will also supervise the SOs and the auditors.

19. **Beneficiary M&E.** The overall responsibility for monitoring will rest with the M&E officer. The management information system (MIS) will be established so that the data can be analysed and presented to provide information on selected indicators. The M&E officer will be responsible for compiling quarterly and annual reports that will be based on data submitted by the SMSs, credit managers, SOs, FM and BKB. Impact indicators will be selected by project beneficiaries in consultation with the M&E office in an initial participatory workshop. The project will conduct annual surveys to obtain feedback from the beneficiaries on the efficacy of the project activities. The results of these surveys will be incorporated in the annual project progress reports and fed back to the communities.

20. **Participatory impact monitoring (PIM) and evaluation:** PIM at the CO/VO level will link into the regular collection of key indicators from CO/VOs by the project, but will primarily be a tool for strengthening the cohesiveness, management and sustainability of these organizations through their own internal monitoring. The village level PIM system will be designed in the initial participatory workshop. Implementation of community monitoring systems will be part of the training given to VO/CO presidents, managers and members. For purposes of impact evaluation, the project will gather baseline information on a rolling basis as VOs are formed. Impact will be evaluated based on MIS and beneficiary M&E data showing changes since groups were established, and the difference between mature and newly formed groups. Impact evaluation reports will be made available to IFAD and the cooperating institution and provide the basic input on which design of subsequent project phases will be developed. A formal evaluation will be undertaken by an external agency at the end of each phase. In particular, the reviews will focus on: (i) the timely release and availability of leases to the water bodies; (ii) the institutional development of the SAB and its profitability; (iii) the research results and the dissemination of the results; (iv) identification of future research activities; and (v) the impact of the project on the beneficiaries. Upon completion of the investment programme, the cooperating institution will agree with the PMU on the content and format of a project completion report. A draft report will be presented to the government, IFAD and the cofinanciers for discussion, and a final version will reflect the findings of the external agency.

APPENDIX VI

ORGANIZATIONAL CHART



FLEXIBLE LENDING MECHANISM AND CONDITIONS FOR SUBSEQUENT LENDING

1. **Flexible Lending Mechanism.** The project will be funded through IFAD's Flexible Lending Mechanism (FLM). As such, it is divided into three distinct phases: (i) an initial phase of five years to establish the institutions and procedures, when activities will start in at least four *upazilas*; (ii) an expansion phase of three years (PY6-8); and (iii) a final phase of three years (PY9-11), which will establish project operations in the last *upazilas* and consider possible expansion in neighbouring districts. Under the proposed FLM, a series of so-called "triggers" or preconditions for deciding whether or not to proceed with, delay or cancel the subsequent phases of the project have been developed. A joint review by the Government, IFAD and village stakeholders at the end of PY5 and PY8 will determine whether the preconditions have been met and recommend an appropriate course of action. The reviews will also recommend, where appropriate, under which disbursement or other conditions a subsequent phase should be undertaken. The decision to proceed to subsequent phases will, however, rest with IFAD management and will be a disbursement condition for all expenditures in subsequent phases.

2. **First phase activities.** The first five years (PY1-5) of the project will focus on setting up institutions at the national, district, *upazila* and grass-roots levels and initiating carefully selected fisheries activities in four *upazilas*. The activities will include: (i) establishing a PSC, a district coordination committee, four *Upazila* Coordination Committees, as well as the PMU and four *upazila* project offices; (ii) if agreed, forming SAB; (iii) developing and testing the procedures for operations, including the LACI PMR system of financial management; (iv) conducting the initial PRA to identify the farmers' problems and plan research; (v) training VO and CO officials and activists; (vi) constructing infrastructure works where requested and; (vii) initiating research.

3. **Triggers for proceeding from Phase 1 to 2 (assessed at end of PY5) include:** (i) project has been fully institutionalized based on the SAPAP approach; (ii) project has been converted into a SAB (this would be considered a trigger pending the findings of a joint IFAD/Government review during Phase 1); (iii) 80 *beels* along with 500 ha of land have been made available to the project beneficiaries without undue administrative problems; (iv) 275 *beels* and 8 km of khals, along with 1 300 ha of lands have been identified and made available to the project for Phase 2; (v) project is operating on target (600 VOs formed and operating effectively); (vi) programme-level participatory M&E and participatory impact evaluation is functioning effectively and helping in tracking the triggers; and (vii) all studies and evaluation reports have been concluded to IFAD's satisfaction and made available to the review mission in PY5.

4. **Triggers for proceeding from Phase 2 to 3 (assessed at end of PY8) include:** (i) 1 500 villages have been reached by the project; (ii) an additional 232 *beels* have been made available to project beneficiaries; (iii) 600 ha of land have been made available for distribution to project beneficiaries to be covered in Phase 3 (this does not include land which will be required in any adjoining districts should the project expand); (iv) all the land requested in Phase 2 has been received by the beneficiaries; (v) all studies have been conducted as required and made available to the evaluation mission in PY8; (vi) credit recovery rates are such that 95% of COs are sustainable and maintaining a recovery rate of 95%; (vii) lending to women represents approximately 50% of total lending; (viii) average savings per beneficiary have increased by at least 300%; (ix) project-level M&E is functioning effectively and tracking the triggers.

ECONOMIC AND FINANCIAL ANALYSIS

1. IFAD does not require detailed economic and financial analysis for FLM projects for obvious reasons. The demand-driven nature of the project, with its emphasis on grass-roots institution-building precludes a comprehensive financial analysis, which is problematic even for the major project component, Microfinance. Requirements under this component have been estimated on the basis of trends in the demand for credit in areas currently under SAPAP. Under this system, the borrowers' assessed credit-worthiness assumes primary importance for credit allocation along with the financial viability of the activity for which the credit is to be used. Activities in the fish, livestock, crop and informal sectors have been identified and evaluated for financial viability. However, there is no sound basis for aggregating these models as the mix of activities is going to be demand-driven. This inhibits financial analysis of the Microfinance component and, thereby, of the project as a whole.
2. **Fisheries development component:** The fisheries development component provides a robust financial rate of return (FRR) of 25% over a period of 20 years. The rate remains at 16% even when subject to a reduction in benefits of 20% and an increase in costs of 20%. In examining the individual models, the model for beef management provides a FRR of 47%, while pond aquaculture provides a FRR of 113%.
3. **Agricultural enterprises:** Potential project activities in the fish, livestock, crop and informal sectors have been identified and their financial viability examined. Individual models indicate that the activities financed will be remunerative. The return to family labour has been compared to the wage rate of BDT60/day, which represents the farmer's opportunity cost. In the case of crops, *boro*, improved varieties of *T. Aman* and potatoes show considerable potential. Backyard vegetable production for home consumption is always profitable and needs to be oriented to meeting requirements in periods when vegetables are scarce and prices are high. Diversification in the highlands and medium highlands appears very remunerative, especially for crops such as potatoes, and should clearly be promoted.
4. **Summary of income-generating activity (IGA) models:** Sample models have been derived for some off-farm activities appropriate for landless persons. These IGAs are diverse and not easily comparable. In most cases the activities are short-term in nature and sometimes seasonal. They include, *inter alia*, rice trading, puffed rice making, cloth peddling, vegetable selling, tailoring, richshaw pulling, basket making and snack making. It has been assumed that financing will be provided at the prevailing interest rate of 15%. The models indicate that all identified activities will be financially profitable with benefit/cost ratios ranging from 2.1 to 8.9 (calculated as the ratio of net annual income, including finance charges, to the initial investment).
5. **Viability and sustainability of the project:** Sustainability is necessarily a key project objective. It is calculated that the project will cover its operating costs in PY11, with a fee of 6.5%. Clearly, other charges will need to be considered during implementation. It is proposed that an audit fee of BDT 1000/CO is charged two years after the CO is formed – these fees may be increased in later years depending on the strength of the COs. The project should also charge an administrative fee of 2% on CO-administered credit. The fees and charges will need to be kept under constant review, and the project costs provide for consultancies to monitor profitability and adjust fees if necessary to ensure that the project emerges as a viable institution. Sensitivity analysis indicates that the viability of the institution is seldom in doubt, although the break-even year changes with different assumptions. For example, the break-even year changes to PY13 if costs increase by 50%. In any case, the capital fund accumulated from the 6.5% spread would reach USD 1.8 million in PY11, and this would cushion the institution against any unforeseen events.