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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

**MICROFINANCE AND TECHNICAL SUPPORT PROJECT**





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## CURRENCY EQUIVALENTS

Currency Unit	=	Taka ((BDT))
USD 1.00	=	BDT 58
BDT 100	=	USD 1.72

## 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 <sup>2</sup> )	=	10.76 square feet (ft <sup>2</sup> )
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

## ABBREVIATIONS AND ACRONYMS

AsDB	Asian Development Bank
COSOP	Country Strategic Opportunities Paper
DANIDA	Danish International Development Assistance
DLS	Department of Livestock Services
M&E	Monitoring and Evaluation
MFI	Microfinance Institution
MIS	Management Information System
MOF	Ministry of Finance
NGO	Non-Governmental Organization
PCU	Project Coordination Unit
PKSF	Palli Karma-Sahayak Foundation
POs	Partner Organizations
PRSP	Poverty-Reduction Strategy Paper
PY	Project Year
SLA	Sustainable Livelihoods Analysis
SLDP	Smallholder Livestock Development Project

## GLOSSARY

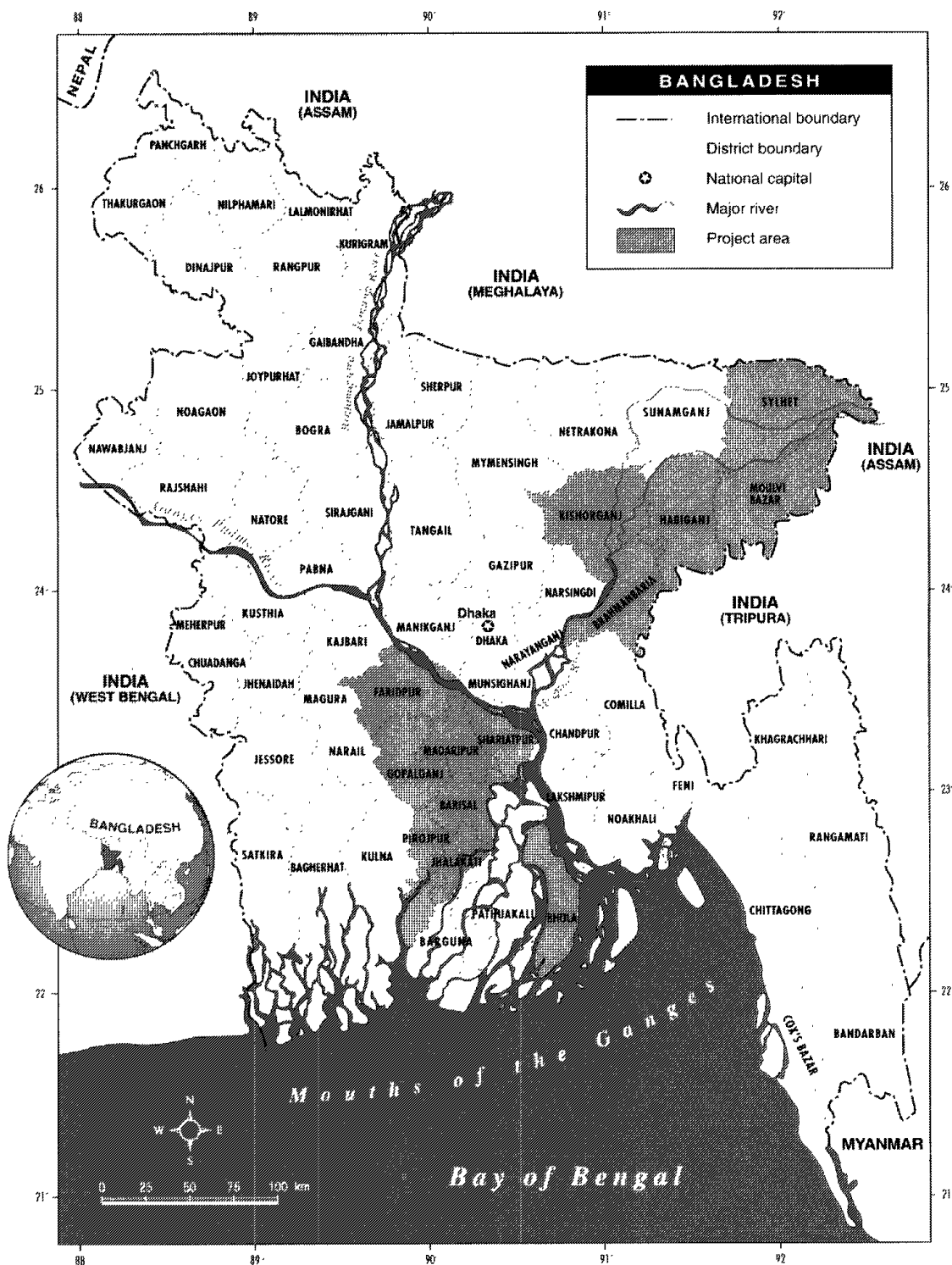
<i>Desi</i>	Local breed
<i>Sonali</i>	Improved breed
<i>Upazila</i>	Administrative unit of local government, equivalent to a subdistrict, consisting typically of about ten unions (previously known as <i>thana</i> ).

## 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**  
**MICROFINANCE AND TECHNICAL SUPPORT PROJECT**  
**LOAN SUMMARY**

<b>INITIATING INSTITUTION:</b>	IFAD
<b>BORROWER:</b>	People's Republic of Bangladesh
<b>EXECUTING AGENCY:</b>	Palli Karma-Sahayak Foundation (PKSF), a government apex funding agency for non-governmental organizations (NGOs)
<b>TOTAL PROJECT COST:</b>	USD 20.2 million
<b>AMOUNT OF IFAD LOAN:</b>	SDR 11.9 million (equivalent to approximately USD 16.3 million)
<b>TERMS OF IFAD LOAN:</b>	40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum
<b>COFINANCIERS:</b>	NGO partner organizations (POs)
<b>AMOUNT OF COFINANCING:</b>	USD 218 200
<b>CONTRIBUTION OF BORROWER:</b>	USD 3.7 million (PKSF contribution)
<b>APPRAISING INSTITUTION:</b>	IFAD
<b>COOPERATING INSTITUTION:</b>	United Nations Office for Project Services (UNOPS)



## PROJECT BRIEF

**Who are the project beneficiaries?** Of the 4.3 million households in the 13 districts of the project area, an estimated 2.2 million are now below the poverty line (i.e. consuming equivalent to 2 112 kilocalories (kcal)/person/day). The Millennium Development Goal (MDG) target of halving the number of poor by 2015 corresponds in the project area to 1.1 million fewer poor households. It is conservatively projected that the project will directly benefit 276 000 households (25% of the MDG target for the project area). The target group will be comprised predominantly of landless women (approximately 90% of projected direct beneficiaries). Some 25% of beneficiaries will be selected from the hard-core poor (i.e. consuming less than 1 805 kcal/person/day).

**Why are they poor?** A ‘livelihoods analysis’ cofinanced by the Department for International Development (United Kingdom) during project formulation identified the major poverty issues in the project area. First, in terms of vulnerability, the poor live in an area characterized by extreme yearly flooding. Vulnerability is increased by dependence on moneylenders, the seasonality of income, and emergencies due to illnesses. Second, in terms of the institutional, legal and policy framework that shapes the livelihoods of the poor, the formal government services for rural development (agriculture, livestock, fisheries) at the local level are limited. Non-governmental organizations (NGOs) are present but mainly provide only savings and credit services. The private sector is growing in importance every year as a result of privatization programmes. Third, in terms of people’s access to livelihood assets, the target group have limited access to land, and human and social capital are not well developed.

**How to benefit the target group?** To address the above livelihood constraints, the project will seek to mitigate vulnerability, improve access to essential services and resources, and support a ‘pro-poor’ livelihoods component (livestock). It will reach the target group through a four-pronged design approach. (i) Focusing on the promotion of high-value products (with established marketing chains and not requiring large landholdings), the project will provide access to savings and credit services. (ii) Following the draft Poverty-Reduction Strategy Paper and to improve technical service provision to beneficiaries, the project will support contracting input supply and service provision through NGOs and the private sector. (iii) To enhance human capital, the project will provide a programme of skills development for beneficiaries and also for NGO staff. (iv) To address the vulnerability of women, the project will aim to meet strategic gender needs such as access to knowledge and technology, control over productive resources, and generation of leadership and management skills.

**How will they participate in the project?** Building on the success of the Palli Karma-Sahayak Foundation (PKSF) approach of wholesaling credit to NGO partner organizations, and in line with the draft PRSP, the project will ensure participatory development by: (i) supporting the creation of 11 700 new savings and credit groups (234 000 members, approximately 90% women); and (ii) providing social development and technical skills training to these new members and to an additional 42 000 existing group members (this will include training village-level technicians and NGO staff to provide technical support to beneficiaries). Beneficiaries will participate in: savings and credit groups; a field-level training, demonstration and adaptive research programme; and training by NGOs and village extension workers. Beneficiaries will also participate in monitoring and impact assessment.

**IFAD’s strategies and policies.** The project will support IFAD’s strategic objectives by providing capacity-building and livestock technologies to 276 000 households, and access to financial services to 234 000. With respect to the IFAD country strategic opportunities paper, the project will aim to improve access of the poor to financial and other services through appropriate institutional mechanisms and will also follow the required livestock sector focus. With respect to IFAD’s rural finance policy, the project’s savings and credit programme is managed entirely by PKSF – an internationally acclaimed and autonomous financial apex institution – to ensure full post-project sustainability.





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TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE  
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MICROFINANCE AND TECHNICAL SUPPORT PROJECT**

I submit the following Report and Recommendation on a proposed loan to the People's Republic of Bangladesh for SDR 11.9 million (equivalent to approximately USD 16.3 million) on highly concessional terms to help finance the Microfinance and Technical Support 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 STRATEGY<sup>1</sup>**

**A. The Economy and Microfinance Sector**

1. Bangladesh is a low-lying, deltaic flood plain that is almost entirely flat and often subject to flooding and cyclones. It borders the Bay of Bengal to the south; India to the west, north and east; and Myanmar to the south-east. With an estimated population of nearly 130 million (1999), Bangladesh has one of the highest population densities in the world – 965 persons/km<sup>2</sup>. About 78% of the population live in rural areas. Although declining, the population growth rate averaged 2.1% per annum in 1980-98; and the ever-increasing population is severely straining the country's natural resources. With a gross national income of USD 370 per capita (1999) and a rank of 145<sup>th</sup> out of 173 countries in the United Nations Development Programme's Human Development Index (*Human Development Report*, 2002), Bangladesh is a very poor country. However, despite political instability, severe poverty and natural calamities, the economy has performed relatively well. 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 gross domestic product grew at more than 5% per annum in the five years ending in 2000. Poverty incidence fell for the very poor from 43% of the population in 1991-92 to 36% in 1995-96. Further growth will depend on increased capital inflows, better governance, development of human resources, decentralization, improved resource management and more opportunities for the poor.

2. Bangladesh's microfinance programmes have been acclaimed for their success in providing poor people with access to credit. Numerous studies have shown that a series of four or five microcredit loans can not only lift a household out of poverty but, with over 90% of loans being to women, also lead to considerable empowerment of women and an improvement in their status within the household. However, this success brings new challenges, such as how to: (i) include more of the poorest households; (ii) broaden the range of services to encompass open-access savings, insurance and loans for small and medium enterprise development; (iii) avoid overdomination by the four largest microfinance institutions (MFIs); and (iv) adopt a more formal regulatory framework with standards for good practice and transparency, without imposing too much additional cost, stifling innovation or capping interest rates. The Palli Karma-Sahayak Foundation (PKSF), established by the Government in 1990, is a financially sound, autonomous and well-managed apex MFI, which

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<sup>1</sup> See Appendix I for additional information.



channels donor and government funds to non-governmental organizations (NGOs) to finance their microfinance programmes. PKSf has well-developed and appropriate procedures for selecting and monitoring the NGOs that it finances.

3. Most of the microfinance sector recognizes that credit alone will not reduce poverty. A number of small and medium NGOs are now providing additional support services (a so-called credit-plus approach), but such support tends to last only as long as project funds are available. Investment in livestock accounts for 20-40% of all microfinance loans and is the major microfinance investment for which technical knowledge is needed by IFAD target groups. Livestock are especially suitable for the poor, who have little land, and for women, who have a major responsibility for livestock production and for the income generated. Market opportunities for livestock and livestock products are good since consumption is increasing rapidly.

### **B. Lessons Learned from Previous IFAD Experience**

4. The project design incorporates the lessons learned from previous IFAD-supported projects and the experiences of other donors. Specifically these include: (i) demand-driven microfinance approaches, with technical support provided to savings and credit groups, work very well with significant impact on beneficiaries; (ii) the livelihoods of the rural poor (especially women) can be considerably improved by providing training in natural resource activities (in particular vegetable and livestock production); (iii) attempts to link commercial or agricultural development banks to NGOs have been unsuccessful; (iv) continued NGO support beyond project closure is essential for the sustainability of the microfinance system and the technical support; (v) experience of project-managed revolving loan funds shows the critical importance of working through established MFIs; and (vi) poultry production is highly successful in reaching poor women and has generated significant benefits; but while being an important first step, very small poultry enterprises alone do not provide a pathway out of poverty. Relevant lessons from the experience of PKSf include: (i) strong institutional development efforts are needed if small and medium microcredit NGOs are to become sustainable; (ii) intensive supervision and monitoring by PKSf staff is essential for maintaining portfolio quality; and (iii) the independence and operational autonomy of PKSf has been a key factor in its success in supporting the rapid growth of the microfinance sector.

### **C. IFAD's Strategy for Collaboration with Bangladesh**

#### **Bangladesh's Policy for Poverty Eradication**

5. Successive governments in Bangladesh have accorded top priority to poverty reduction. The Fifth Five-Year Plan aims for growth of 5% per annum, poverty reduction and employment-generation through human development, with priority to agricultural and rural development. The strategies to achieve these targets include: (i) increase employment through infrastructure 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.

6. The Government's efforts have borne some fruit. The proportion of the rural population living below the poverty line declined from 61% in 1991/92 to 53% in 2000. 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-reduction programmes. However, these gains have been largely offset by 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, while the top 5% owned almost 35%. Data from the



1996-97 agricultural census indicate that the number of landless increased by more than 40% from the previous census in 1983-84.

7. Project design supports Bangladesh's draft Poverty-Reduction Strategy Paper (PRSP), which states that microcredit will play an important role in the proposed poverty-reduction strategy. The strategy also notes: (i) the important role that microfinance agencies play in developing the institutional capabilities of the poor and in providing them with access to development knowledge; (ii) the necessity of addressing the needs of the extreme poor; and (iii) the greater role of the private sector and NGOs in input supply and service provision.

### **The Poverty-Reduction Activities of Other Major Donors**

8. 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. Between 1990 and 2000, however, foreign aid declined from USD 1.8 billion to 1.4 billion. Despite this reduction, Bangladesh still receives a significant amount of aid. Important donor-supported projects that support both microfinance and livestock development and hence offer prospects for learning and cross-fertilization with the proposed project include: (i) the World Bank/PKSF Poverty Alleviation Microfinance Project; (ii) the World Bank/PKSF Financial Services for the Poorest Project; (iii) the Danish International Development Assistance (DANIDA)/Department of Livestock Services (DLS) Smallholder Livestock Development Project II; (iv) the Asian Development Bank (AsDB)/DANIDA/DLS Participatory Livestock Development Project; and (v) BRAC (formerly the Bangladesh Rural Advancement Committee) Targeting the Ultra Poor Project.

### **IFAD's Strategy in Bangladesh**

9. Since 1978 IFAD has extended 20 loans to Bangladesh on highly concessional terms, totalling SDR 234 million (about USD 303 million). Fifteen of the 20 loans are closed and five are under implementation. IFAD's strategy has always been to support the Government's efforts to reduce rural poverty. The proposed project is one of four project options for IFAD financing included in the IFAD country strategic opportunities paper (COSOP) approved in October 1999. The COSOP outlined IFAD's strategy in terms of a number of key thrusts. These include: (i) promoting grass-roots organizations; (ii) improving the access of the poor to financial and other services through appropriate institutional mechanisms; and (iii) increasing the access of the very poor to services and resources. 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, livestock and fisheries are the only two economic subsectors in agriculture that meet these criteria. The COSOP therefore recommended that IFAD focus on these two subsectors.

10. The project is also in line with the *Strategic Framework for IFAD 2002-2006*, as the primary focus will be on: (i) providing microfinance services to the poor through established MFIs; (ii) increasing access of the poor to new technologies to improve production; and (iii) building self-help groups.

### **Project Rationale**

11. The rationale for IFAD to support a microfinance and technical support project in the south-west and north-east of Bangladesh is sound. First, the findings of a demand analysis in the project area revealed the substantial unmet demand in the project area from among the poor for microfinance services. Second, project experience in Bangladesh has shown that linking demand-driven microcredit



to technical support (especially for livestock production, for which there is a strong unmet demand) is a powerful tool for poverty reduction and the empowerment of women. Third, PKSf provides an established and efficient mechanism for channelling funds from multilateral donor agencies to small and medium MFIs (which need to combine microcredit with technical support if their borrowers are to make the best possible use of credit). By assisting smaller NGOs, PKSf is ensuring that an alternative exists to the major MFIs for microcredit and complementary development support. Fourth, technical services for the poor can be sustained after the end of the project by: (i) developing capacity among the beneficiaries so that they can provide some of the field-level services required by borrowers; (ii) PKSf providing sufficient assistance (training and financial support) to its partner organizations (POs) to develop their businesses so that the provision of livestock and other services is financially attractive; and (iii) developing the capacity of PKSf in terms of the financial aspects of livestock production so it can provide informed support to its POs. Finally, small and medium-sized POs of PKSf have confirmed their interest in accessing additional funds from PKSf and providing technical livestock support.

## **PART II – THE PROJECT**

### **A. Project Area and Target Group**

12. The project area will cover the following 13 districts with a rural population of 20.85 million: Barisal, Bhola, Brahmanbaria, Faridpur, Gopalganj, Habiganj, Jhalokati, Kishorganj, Madaripur, Moulvibazar, Pirojpur, Shariatpur and Sylhet. The 13 districts have 96 *upazilas* (subdistricts), 945 unions and 18 208 villages. Average household size ranges from 4.7 to 6.1 people. An estimated 2.2 million out of the total 4.3 million households in the project area are now below the poverty line (i.e. consuming equivalent to 2 112 kilocalories/person/day). The project will have the same target group as PKSf has, namely households in rural areas owning less than 0.50 acre of arable land, or with total assets not exceeding the value of one acre of land in that locality. It is conservatively projected that the project will directly benefit 276 000 households (25% of the Millennium Development Goal (MDG) target for the project area). Of this total, the project will specifically target hard-core poor households, with 25% of the beneficiaries selected from this group. Women will be the major target group as they make up 90% of microcredit borrowers.

13. A Department for International Development (United Kingdom) cofinanced sustainable livelihoods analysis (SLA) during project design noted that livelihood sources are mostly a combination of farming, livestock rearing and outmigration for wage labour employment. The SLA confirmed the importance of livestock and other income-generating activities for poor women. Its gender-related findings can be summarized as follows: (i) women are responsible for household activities, vegetable production and small livestock, the last with the assistance of children; (ii) proceeds from the sale of poultry, milk and vegetables from homestead gardens are generally in the hands of women, with men controlling all other sales of crops and livestock and most daily expenditure; (iii) women believe that family expenses are managed better when both men and women have income; (iv) poultry raising, more than any other economic activity, is the responsibility of women; and while other types of livestock production may involve men to a greater degree, women also play an important and often a dominant role, especially where the enterprise is funded by microcredit channelled through women household members. This economic role leads to the empowerment of women and enhances their agency at household and community levels.

### **B. Objectives and Scope**

14. The project's goal is the improved livelihoods and food security of moderately poor and hard-core poor households and the empowerment of women. Its objectives are the adoption of sustainable income-generating activities and livestock technologies by the moderately poor and hard-core poor and the acquisition of livestock knowledge by PKSf and its POs. The project will seek to meet these



objectives by financing three components: (i) microcredit; (ii) technical support, with four sub-components (training for beneficiaries, training for PO staff, training for PKSF and other government staff, and research and development); and (iii) project implementation support, with three sub-components (project coordination, monitoring and evaluation (M&E), and support to POs).

## C. Components

### Microcredit

15. The project will channel microcredit to members of the target group through the area offices of about 20 interested and capable small and medium NGO POs selected by PKSF. It is foreseen that about 130 new area offices will be set up and will receive both credit funds and technical support from the project. The new area offices are expected to have an average of 1 800 borrowers each, or 234 000 beneficiaries in total, of whom 25% will come from the hard-core poor category. The number of borrowers may be higher, with some offices having as many as 2 400. The anticipated phasing for the establishment of new area offices is 26 (20%) in the first project year (PY), 65 (50%) in PY2 and 39 (30%) in PY3. The project will finance the new area offices' incremental credit requirements – estimated at 611.6 million taka (BDT) (USD 10.55 million) – which will finance 40% of the estimated shortfall in the microcredit requirements of the poor in the project area in the foreseeable future. These projections are based on an average loan size of BDT 4 000 (about USD 69) for a borrower's first loan, increasing to BDT 9 000 (USD 155) by the eighth cycle. Using this money, together with a proportion of savings and retained profits, POs will make an estimated 1.27 million loans totalling over BDT 8.13 billion (USD 140 million). Beneficiaries will accumulate a total of around BDT 307 million (USD 5.3 million) in savings or BDT 1 312 each (USD 23).

16. The management of the microcredit programme will follow PKSF norms. Loans received by the small and medium POs are repayable within three years. After a six-month grace period, the loans along with interest (4.5% per annum) are repaid in ten quarterly instalments over 30 months. The on-time repayment rate for loans to POs over the last six years has been nearly 98%. Additional loans are disbursed before complete repayment of the previous loan(s) so POs have a rolling cash flow that matches the profile of their on-lending. The approval of successive loans to a PO depends on several factors: (i) satisfactory use of previous loan; (ii) maintenance of a high rate of loan recovery at the field level (>98%); (iii) regular reports to PKSF; (iv) potential for expansion of the loan programme; and (v) the repayment of loan instalments to PKSF if due. The PKSF loan committee approves successive loan proposals up to BDT 2.5 million, while the governing body approves loans over that figure.

### Technical Support

17. **Training for beneficiaries.** The project will finance three categories of initial and follow-up training, including the cost of training materials and travel, and subsistence allowances for trainees. The types of training cover: (i) general livestock and/or other technology for producers; (ii) specialized livestock technology for field workers and specialized producers; and (iii) social development for all beneficiaries served by the new area offices.

18. For general livestock and/or other technology training, nearly 269 000 beneficiaries will receive from three to 20 days of initial training and from one day to six days of follow-up training in the second year, with the duration of the training reflecting the complexity of the subject. Based on the findings of the SLA, the following subjects are expected to be beneficiaries' training priorities: various aspects of poultry production; goat rearing; beef fattening and milk production; and homestead fruit and vegetable production.



19. An estimated 3% of the beneficiaries (some 6 900 people) will receive specialist training. Subject matter will depend on the demand, but most training is likely to be for livestock field workers and for milk producers. The length of initial training will vary with the subject matter and range from three to 30 days, with the longer courses for paraveterinarians and inseminators. Follow-up training will range from one day to five days per annum in each of the subsequent three years. Where necessary, this training will be outsourced.

20. All beneficiaries supported by the new area offices (234 000) will receive six days of social development training in each of the first two years. PO staff will provide social development training as part of the microfinance process covering awareness-raising, group management, gender-related issues, legal rights, governance, health and hygiene.

21. Training will include provision for 13 800 beneficiaries to visit other livestock and credit group activities in Bangladesh. The project budget includes BDT 1.7 million (USD 29 300) to finance the preparation of training materials (posters, pamphlets), especially those using visual means of communication for non-literate participants, while funds allocated to training courses include the cost of supplying printed booklets.

22. **PO staff training.** The project will finance 30 days of initial technical training for about 170 livestock technical assistants (one per area office) plus ten days follow-up training in each of the subsequent three years. In addition, it will finance: (i) two days of project orientation training for the director of each participating PO (about 20) in PY1 and three days for about 170 area office managers in PY1-3, with a further three days in PY4; and (ii) five days of initial management information system (MIS) training covering the PKSF systems for about 170 area office accountants, with follow-up training of five days in the following year. The project will also finance additional training for six credit assistants from each of the new area offices (about 130). This training will include: (i) six days of training in microfinance operations covering group formation, savings mobilization, disbursement and recovery of loans, etc., and management of income-generating activities; (ii) six days of initial training of trainers in social development for six credit assistants from each area office, with a similar amount of follow-up training in the subsequent year to enable them to provide social development training to beneficiaries; and (iii) five days of initial training for six credit assistants from each area office in PKSF monitoring requirements and systems, with a further day in the subsequent year. Finally, the project will finance 90 short national study tours enabling PO staff to visit other poverty and livestock development initiatives. PKSF will either provide the above training for PO staff or contract it out to technically competent public or private-sector organizations or NGOs.

23. **Training for staff of PKSF and other government agencies.** This will include: (i) two days of project orientation in PY1 and five days of monitoring training in PY2 for 20 PKSF desk officers and supervisors covering the project's M&E requirements and their integration within the PKSF system; and (ii) six days of social development training in PY2 and PY3 for five PKSF staff members (to include subjects such as targeting the hard-core poor) to enable them to train the PO credit staff. PKSF senior staff members will provide the orientation and monitoring training, while outsourcing the social development training to a technically competent public or private-sector organization or NGO.

24. The project will finance four regional study tours, each lasting two weeks and involving ten people, and three international study tours, each involving six people, to visit poverty and livestock development initiatives. Finally, the project will provide financing for six people to attend short-term (three months) international training courses. PKSF will organize the study tours and select the participants, who should include senior technical and microfinance specialists involved with project activities. It will also nominate specialists for overseas training.



25. **Research and development.** Research undertaken during the first phase of IFAD's Smallholder Livestock Development Project (SLDP) and the AsDB/DANIDA/DLS Participatory Livestock Development Project has resulted in important improvements in village poultry production systems. Examples include confirmation of the qualities of the *Sonali* breed, vaccine production, supplementary feeding, and documentation of the impact of smallholder livestock production on the livelihoods of beneficiaries. The project will follow this same tried and tested research approach.

26. The project will finance the following: (i) five on-farm research projects, to be carried out under contract to an appropriate institution, with the topics identified during implementation; (ii) participatory technology testing carried out by beneficiaries and PO staff (e.g. new types of fodder and feeding for cattle, ducks, goats and poultry), which will help disseminate new technologies; and (iii) six commissioned socioeconomic research studies, including studies on the impact of livestock investment on the livelihoods of the poor. The PKSf research committee (including some additional livestock and poverty specialists) will request the submission of relevant proposals in respect of these activities, select the proposals to be financed, review the findings, and disseminate the results to the POs, DLS and other interested organizations.

27. In addition, the project will finance 25 research fellowships for staff of PKSf, POs and other relevant agencies, selected by the research committee, involving research fieldwork with project groups and registration at an appropriate academic institution. This arrangement should produce useful research results and build NGO private-sector and government manpower capacity.

### **Project Implementation Support**

28. Most of the day-to-day liaison and supervision of POs will be the responsibility of PKSf desk officers and supervisors, who will channel the funds (loans and grants) to the POs as they do for PKSf's other operations. To handle the increased workload, PKSf will hire four additional desk officers. This component will have three sub-components: (i) project coordination; (ii) M&E; and (iii) support for POs.

29. **Project coordination.** The project will finance a project coordination unit (PCU) within PKSf, which will comprise: (i) a project coordinator; (ii) a livestock coordinator and two livestock training officers; (iii) a monitoring officer; and (iv) accounts/MIS and supporting staff. The project will also provide the salary costs of the four additional desk officers. One livestock training officer will ensure that the training of beneficiaries by POs is carried out correctly and of good quality, while the second will focus on the training of PO staff, especially the technical assistants.

30. The project will also finance the following: PCU staff costs (salaries and allowances); office and training equipment; transport (three vehicles); short-term national livestock, poverty and marketing technical assistance (39 months); and vehicle and office operating costs.

31. **Monitoring and evaluation.** The project will finance the further development of the PKSf MIS system to include monitoring of training and technical support activities and the costs of follow-up field visits during PY1 and 2 to ensure that the system is operating smoothly. The credit monitoring system is designed to measure project activities and outputs down to the level of individual beneficiaries, based on a sample that will give results with a 95% confidence interval.

32. PKSf will finance the costs of routine monitoring, and the PCU will organize a series of workshops including: (i) an inception workshop with POs to discuss their participation and to prepare for project start-up; and (ii) about three review workshops each year, attended by representatives of participating POs, PKSf staff members and beneficiary representatives.



33. The project will also finance: (i) annual impact assessments including beneficiary monitoring through participatory impact assessments; (ii) rapid nutrition surveys in PY1, 3 and 6; (iii) a special study commissioned to review the progress of the project prior to the IFAD mid-term review; (iv) an impact evaluation study just prior to the preparation of the project completion report; and (v) the incremental costs of the annual audit associated with this project carried out by a qualified audit company.

34. **Support for partner organizations.** The project will provide loans to POs to finance the following items of equipment when establishing new area offices: (i) a motorcycle (for the livestock technical assistant), six bicycles, a computer and peripherals (printer, uninterruptible power supply, software, etc.) for monitoring PO activities, a set of equipment (e.g. a refrigerator for storing vaccine, training equipment, etc.) and a mobile phone. The total estimated cost is BDT 291 000 (USD 5 000) per office. The project will also provide a motorcycle for the livestock technical assistant and a set of equipment (as above) for each of the about 40 existing area offices that agree to provide livestock technical services. The terms and conditions of these loans are an interest rate of 1.25% per annum and a repayment period of two years (i.e. eight quarterly instalments).

35. The project will finance as a grant the following costs to enable POs to establish livestock support services and provide support for the hard-core poor: (i) for each area office, the salary of one livestock technical assistant on a declining basis (90% in PY 1, 2 and 3; 70% in PY 4; and 30% in PY 5); and (ii) for each new area office, the salaries of the credit assistants on a declining basis (80% in PY 1, 70% in PY 2, and 60% in PY 3). These funds will be provided under grant agreements between the POs and PKSf.

#### **D. Costs and Financing**

36. Total project costs including contingencies, duties and taxes are estimated at USD 20.2 million. Physical and price contingencies add about 7% to the base costs. Taxes and duties have been calculated at prevailing rates and amount to USD 113 000, about 0.6% of total project costs. With an estimated 276 000 beneficiary households, the cost per household is about USD 73, or USD 15 per capita.

37. IFAD will provide a loan of USD 16.3 million to finance 80.8% of the total project costs; PKSf will contribute USD 3.7 million to finance 18.1%, and small and medium NGO POs will contribute USD 218 200 to finance 1.1%. The IFAD loan will finance 70% of the incremental microcredit requirements and 100% of the following costs: (i) vehicles, equipment and vehicle operating costs (except for duties and taxes); (ii) equipment loans to POs; (iii) beneficiary training; (iv) PO staff training for orientation, MIS, social development and participatory M&E and livestock technologies (representing 79% of total PO staff training costs); (v) training for staff of PKSf and other government agencies; and (vi) subsidy paid to POs towards their staff costs and costs of salaries and allowance for PKSf contracted staff.

38. Of the IFAD loan, USD 8.2 million or about 50% will be on-lent by MOF to PKSf and about USD 8.1 million (or 50%) provided as a grant to PKSf. PKSf will finance: (i) 30% of the incremental microcredit requirements; (ii) all the costs of duties and taxes on vehicles, equipment and vehicle operating costs; (iii) office operating costs; and (iv) PO staff training for accounts, financial management, savings and credit management, supervision, monitoring and evaluation, strategic planning, training of trainers, and effective income-generating activity management (representing 21% of total PO staff training costs); and (v) 100% of costs of salaries and allowances of additional PKSf desk officers. PKSf will be able to finance its contribution to project costs from its existing financial resources. The POs will finance the overhead costs associated with the operation of the area offices. POs will need to contribute about BDT 92 000 (USD 1 586) to the estimated start-up costs of each new area office. In practice, the POs should be able to fund this equity contribution to start-up costs from the cash flow of their existing microcredit operations.



**TABLE 1: SUMMARY OF PROJECT COSTS<sup>a</sup>**  
(USD '000)

Components	Local	Foreign	Total	% of Foreign Exchange	% of Base Costs
Microcredit	10 545.5	-	10 545.5	-	56
Technical support	4 747.5	302.7	5 050.2	6	27
Project implementation support	2 624.4	701.2	3 325.6	21	18
<b>Total base costs</b>	<b>17 917.4</b>	<b>1 003.9</b>	<b>18 921.3</b>	<b>5</b>	<b>100</b>
Physical contingencies	502.1	30.2	532.3	6	3
Price contingencies	639.9	73.1	713.0	10	4
<b>Total project costs</b>	<b>19 059.5</b>	<b>1 107.2</b>	<b>20 166.7</b>	<b>5</b>	<b>107</b>

<sup>a</sup> Discrepancies in totals are due to rounding.

**TABLE 2: FINANCING PLAN<sup>a</sup>**  
(USD '000)

Components	IFAD		PKSF		NGO POs		Total		Foreign Exchange	Local (Excl. Taxes)	Duties and Taxes
	Amount	%	Amount	%	Amount	%	Amount	%			
<b>A. Microcredit</b>	<b>7 381.8</b>	<b>70.0</b>	<b>3 163.6</b>	<b>30.0</b>	-	-	<b>10 545.5</b>	<b>52.3</b>	-	<b>10 545.5</b>	-
<b>B. Technical Support</b>											
1. Training for beneficiaries	4 924.9	100.0	-	-	-	-	4 924.9	24.4	-	4 924.9	-
2. PO staff training	309.8	79.0	82.5	21.0	-	-	392.4	1.9	-	392.4	-
3. Training for staff of PKSF and other government agencies	355.6	100.0	0.0	-	-	-	355.6	1.8	334.9	20.7	-
4. Research and development	232.6	100.0	-	-	-	-	232.6	1.2	-	232.6	-
<b>Subtotal</b>	<b>5 823.0</b>	<b>98.6</b>	<b>82.5</b>	<b>1.4</b>	-	-	<b>5 905.6</b>	<b>29.3</b>	<b>334.9</b>	<b>5 570.6</b>	-
<b>C. Project Implementation Support</b>											
1. Project coordination	492.3	54.9	404.6	45.1	-	-	896.9	4.4	143.6	640.3	113.0
2. Monitoring and evaluation	226.2	100.0	0.0	-	-	-	226.2	1.1	54.4	171.9	-
3. Support for partner organizations	2 374.3	91.6	0.0	-	218.2	8.4	2 592.5	12.9	574.3	2 018.3	-
<b>Subtotal</b>	<b>3 092.8</b>	<b>83.2</b>	<b>404.6</b>	<b>10.9</b>	<b>218.2</b>	<b>5.9</b>	<b>3 715.6</b>	<b>18.4</b>	<b>772.3</b>	<b>2 830.4</b>	<b>113.0</b>
<b>Total disbursement</b>	<b>16 297.7</b>	<b>80.8</b>	<b>3 650.8</b>	<b>18.1</b>	<b>218.2</b>	<b>1.1</b>	<b>20 166.7</b>	<b>100.0</b>	<b>1 107.2</b>	<b>18 946.6</b>	<b>113.0</b>

<sup>a</sup> Discrepancies in totals are due to rounding.



### **E. Procurement, Disbursement, Accounts and Audit**

39. **Procurement** of goods and services financed by the IFAD loan will be undertaken in accordance with IFAD procurement guidelines. The project involves no procurement suitable for international competitive bidding due to the small quantities of items to be procured. Procurement costing less than USD 20 000 (or equivalent) will follow local shopping procedures; and in excess of USD 20 000 (or equivalent), national competitive bidding procedures open to international suppliers. Contracts each costing USD 60 000 (or equivalent) or more will require prior review by IFAD. Recruitment of consultants will follow consulting services procurement procedures acceptable to IFAD. Direct contracting procedures will be adopted for procurement of items amounting to less than USD 5 000, and fixed budget procedures will be adopted for beneficiary and other training undertaken by project PKSf and PO staff. POs will undertake procurement of equipment following their own procedures supervised by PKSf.

40. **Disbursement, accounts and audit.** A special account in United States dollars in the Bangladesh Bank and operated by PKSf, as authorized by MOF, will be set up to facilitate the regular flow of funds. The initial deposit is expected to be USD 1.6 million. Replenishment of the special account by IFAD will be made against withdrawal applications, supported by appropriate documentation or statements of expenditure prepared and signed by PKSf, as authorized by MOF, and submitted to IFAD for approval. PKSf and POs will maintain appropriate financial records and accounts in accordance with PKSf systems. These accounts, which follow generally accepted accounting procedures, will reflect the project's progress and identify its resources, operations and expenditures. PKSf will consolidate the project accounts and will submit annual financial statements for each fiscal year to IFAD no later than three months after the close of the fiscal year. For the duration of the project, PKSf will continue to appoint an independent external auditor (an audit firm) acceptable to IFAD to audit the project accounts, in accordance with International Standards on Auditing. The audited accounts and financial statements will be submitted to IFAD no later than six months after the close of the Government's fiscal year.

### **F. Organization and Management**

41. The project organization will involve the MOF, PKSf and medium and small POs. Other organizations involved could include: (i) large NGOs/service providers such as BRAC to provide training and technical support services under contract with PKSf; and (ii) DLS, the Bangladesh Livestock Research Institute (BLRI) and academic institutions to provide similar services and to undertake research sponsored by the project.

42. Overall responsibility for executing the project will rest with PKSf under the terms and conditions of a subsidiary loan and grant agreement between PKSf and MOF. Within PKSf, the project will come under the Projects Department where the PCU will be located, under a project coordinator. PKSf will follow its well-established system for working with its POs (including monitoring their performance), which will be expanded to include the provision of technical support for livestock production and training. PKSf will channel funds to POs in accordance with the standard terms and conditions of the loan and grant agreements for medium and small POs. POs will follow their own procedures in respect of group formation, group meetings, training in microcredit, group management, savings mobilization, the terms and conditions of the loans to beneficiaries, loan disbursement and repayment arrangements, interest rates, etc. POs will provide livestock and other technical training (when requested) and technical livestock support as part of their approach to group management.



## G. Economic Justification

43. **Benefits and beneficiaries.** Increased production of livestock and other products and increased incomes among moderately poor and hard-core poor households will be the project's main quantifiable benefits. Other benefits include greater household food security, improved nutrition, empowerment of women, access to financial services for the target group, and improved capacity of the POs to provide technical services in support of their microcredit operations. The total estimated number of households directly benefiting from the project's microcredit and technical support is 234 000. A further 42 000 households will benefit from the technical support, giving a total of 276 000 households.

44. **Gender benefits.** An estimated 90% of beneficiaries will be women. 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 financial services, knowledge and technology, and leadership and management skills. The focus on livestock will be of direct benefit to women. The provision of credit to households via women has been shown to lead to a significant strategic gender impact in terms of: (i) enhancing women's role in decision-making; (ii) increasing acquisition of assets in women's own names; and (iii) reducing violence against women. The successful management of credit and the development of livestock and other income-generating businesses will lead to an improvement in women's socio-political status. All staff training programmes will include gender awareness.

45. **Nutrition and household food security.** Based on a study undertaken during the implementation of IFAD's SLDP, it is expected that the nutrition and household food security of the project beneficiaries will improve through increased consumption of eggs and chicken, meat and milk, and through increased purchases and consumption of grain.

46. **Financial and economic analysis.** Livestock production and income-generating activity models demonstrate that these are attractive investments available to target group households. The household models prepared to represent moderately poor and hard-core poor households (including a woman-headed hard-core poor household) show increases in incomes of up to 124%, depending on the type and scale of the new enterprise adopted. A labour analysis shows that households have adequate labour to undertake these enterprises, and that the returns per labour day should be sufficiently attractive. A financial analysis for a new area office shows a profit from year 2 and demonstrates that the office can afford to provide livestock technical support and training together with microfinance services when project assistance ends. Sensitivity analysis shows that even with lower average loan sizes and fewer members, the area office is still financially viable and profitable from year 3. Switching value calculations shows the key importance of maintaining a high beneficiary loan recovery rate.

## H. Risks

47. There are no major technical risks associated with the project. The livestock and other enterprises in which the borrowers will invest are being successfully operated all over Bangladesh, and the POs will employ livestock technical assistants to train and support the borrowers.

48. Specific risks, which the project design has assessed and countered where appropriate, include: (i) the possibility of an oversupply of microcredit; (ii) the eventual inability of smallholders to compete with the commercial livestock sector or imports; (iii) the Government's discontinuing support for the NGO microfinance system; (iv) insufficient commitment of NGOs to employ technical livestock staff; (v) a failure of the POs to target the hard-core poor; (vi) difficulties encountered by small and medium POs in setting up 130 new area offices within a three-year period; and (vii) and the vulnerability of poor peoples' livelihoods to natural disasters, which could mean that livestock are lost, leaving beneficiaries unable to repay loans.



49. At the macro-level, the project's objective of improved livelihoods and food security also depends on overall economic stability and the availability of rice at a reasonable price. A major economic downturn or an increase in rice prices would negate the benefits arising from increased production and income from livestock and other income-generating enterprises. With the large increase in rice production in recent years, rice should continue to be available at affordable prices.

### **I. Environmental Impact**

50. An environmental screening and scoping note (ESSN) was prepared during project formulation in accordance with IFAD procedures. In line with standard practice for microfinance projects of this nature, the ESSN classified the project as Category C, and hence no further environmental analysis or specific action is required.

### **J. Innovative Features**

51. The project will be the first IFAD project to be implemented through PKSF, which is the premier microfinance agency in Bangladesh, and extremely influential within the Government, and in donor and NGO communities. PKSF has pioneered the concept of a microfinance apex institution, which has been replicated in other countries. Second, the project will develop a technical capacity within medium and small NGOs and at the community level. Unlike previous projects that have relied exclusively on government line agencies for the provision of technical services, the project supports the Government's commitment in the draft PRSP that input supply and service provision should be provided by NGOs and the private sector. Third, the design has built sustainability into all levels. This includes sustainability of microfinance services through the linkage with PKSF and sustainability of technical service provision both at the NGO and beneficiary level. Financial projections show that NGO area offices can cover their costs and sustain technical services in the long run. Finally, the project includes a specific focus on the hard-core poor, who will comprise 25% of the project beneficiaries.

## **PART III – LEGAL INSTRUMENTS AND AUTHORITY**

52. 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.

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

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

## **PART IV – RECOMMENDATION**

55. 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 eleven million nine hundred thousand Special Drawing Rights (SDR 11 900 000) to mature on or prior to 1 April 2043 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 4 April 2003)

1. **Project account.** PKSF will open and thereafter maintain in a bank accepted by IFAD a current account denominated in taka (BDT) for programme operations (project account). PKSF will be fully authorized to operate the project account.
2. **PKSF contribution.** The Government of the People's Republic of Bangladesh will ensure that PKSF makes available from its own resources its contribution in accordance with the subsidiary loan and grant agreement (SLGA).
3. **Project coordination unit.** The Government will ensure that PKSF establishes and maintains throughout project implementation a PCU staffed with a project coordinator (PC), a livestock coordinator, a monitoring and accounts officer and two qualified professional staff responsible for livestock training.
4. **PKSF Research Committee.** The Government will ensure that representatives from the Finance Division and Economic Relations Division of the Ministry of Finance and the Ministry of Fisheries and Livestock participate in the PKSF Research Committee.
5. **Gender equity.** The Government will ensure that due consideration is given to gender issues in project implementation, both with respect to project beneficiaries and to recruitment of staff by PKSF and POs.
6. **Area offices.** PKSF will ensure that POs: (i) establish approximately 130 new area offices (AOs) and staff them with six credit assistants and one livestock technical assistant (LTA); and (ii) staff each existing AO with one LTA, in a timely manner.
7. **Targeting.** PKSF will ensure that the POs target the hard-core poor, who will comprise at least 25% of the beneficiaries of the new AOs, and that they provide social development training, including awareness-raising, group management, legal rights, governance, health and hygiene to the beneficiaries served by the new AOs.
8. **Information management.** Within six months of effectiveness, PKSF will expand its and the POs' MIS to include training and technical support activities, in a manner satisfactory to IFAD.
9. **Legal framework.** The Government will continue to support an enabling legal environment for MFIs in the project area.
10. **Insurance.** PKSF will ensure that project staff and vehicles and equipment financed from the proceeds of the loan are adequately insured during the entire project implementation period.
11. **Pest management practices.** As part of maintaining sound environmental practices as required by Section 7.15 of the General Conditions, the project parties will maintain appropriate pest management practices under the project. To that end, the Government will ensure that pesticides procured under the project do not include any pesticide either proscribed by the International Code of Conduct on the Distribution and Use of Pesticides of the Food and Agriculture Organization of the



United Nations, as amended from time to time, or listed in Tables 1 (Extremely Hazardous) and 2 (Highly Hazardous) of the World Health Organization Recommended Classification of Pesticides by Hazard and Classification, as amended from time to time.

12. **Conditions to disbursement.** No disbursement will be made to any PO in respect of expenditures related to (i) equipment loans until it has entered into an equipment loan agreement; (ii) credit until it has entered into a microcredit agreement; or (iii) staff support until it has entered into a staff support grant agreement.

13. **Conditions of effectiveness.** The following are specified as conditions precedent to the effectiveness of the loan agreement:

- (a) PKSF will have appointed a PC;
- (b) PKSF will have established the PCU;
- (c) the Government will have opened the special account and will have issued a delegation of authority to PKSF for the operation thereof;
- (d) PKSF will have opened the project account;
- (e) PKSF will have submitted to IFAD a plan for the selection of suitable and interested medium and small NGOs as POs;
- (f) PKSF will have submitted a draft annual work programme and budget (AWP/B) for the first project year to the Government, IFAD and the cooperating institution for approval, and such draft AWP/B will have been approved;
- (g) the SLGA will have been approved by IFAD in draft; a copy of the signed SLGA, substantially in the form so approved, will have been delivered to IFAD; and all conditions precedent to the effectiveness or validity thereof (other than the effectiveness of the loan documents) will have been fulfilled;
- (h) this loan agreement will have been duly signed, and the signature and performance thereof by the Government will have been duly authorized and ratified by all necessary administrative and governmental action; and
- (i) a favourable legal opinion issued by the Ministry of Law, Justice and Parliamentary Affairs, in form and substance acceptable to IFAD, will have been delivered by the Government to IFAD.

## APPENDIX I

## COUNTRY DATA

## BANGLADESH

<b>Land area (km<sup>2</sup> thousand) 1997 1/</b>	130	<b>GNI per capita (USD) 1999 4/</b>	370
<b>Total population (million) 1999 4/</b>	127.7	<b>Average annual real rate of growth of GNP per capita, 1990-98 2/</b>	3.2
<b>Population density (people per km<sup>2</sup>) 1998 1/</b>	965	<b>Average annual rate of inflation, 1990-98 2/</b>	4
<b>Local currency</b>	Taka (BDT)	<b>Exchange rate: USD 1.00 =</b>	BDT 58
<b>Social Indicators</b>		<b>Economic Indicators</b>	
Population (average annual population growth rate) 1980-98 1/	2.1	GDP (USD million) 1999 4/	45 961
Crude birth rate (per thousand people) 1998 1/	28	Average annual rate of growth of GDP 1/ 1980-90	4.3
Crude death rate (per thousand people) 1998 1/	10	1990-98	4.7
Infant mortality rate (per thousand live births) 1998 1/	73	Sectoral distribution of GDP, 1998 1/	
Life expectancy at birth (years) 1998 1/	59	% agriculture	22
Number of rural poor (million) (approximate) 1/	38.3	% industry	28
Poor as % of total rural population 1/	40	% manufacturing	18
Total labour force (million) 1998 1/	64.1	% services	50
Female labour force as % of total, 1998 1/	42	Consumption, 1998 1/	
<b>Education</b>		General government consumption (as % of GDP)	4
Primary school gross enrolment (% of relevant age group) 1997 1/	n.a.	Private consumption (as % of GDP)	78
Adult literacy rate (% age 15 and above) 1998 3/	40	Gross domestic savings (as % of GDP)	17
<b>Nutrition</b>		<b>Balance of Payments (USD million)</b>	
Daily calorie supply per capita, 1997 3/	2 085	Merchandise exports, 1998 1/	5 141
Prevalence of child malnutrition (height for age % of children under 5) 1992-98 1/	55	Merchandise imports, 1998 1/	6 862
Prevalence of child malnutrition (weight for age % of children under 5) 1992-98 1/	56	Balance of merchandise trade	-1 721
<b>Health</b>		Current account balances (USD million)	
Health expenditure, total (as % of GDP) 1990-98 1/	3.5	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	Foreign direct investment, 1998 1/	308
Percentage population without access to health services 1981-93 3/	26		
Percentage population without access to sanitation 1990-98 3/	57	<b>Government Finance</b>	
<b>Agriculture and Food</b>		Overall budget surplus/deficit (including grants) (as % of GDP) 1997 1/	n.a.
Food imports as percentage of total merchandise imports 1998 1/	15.3	Total expenditure (% of GDP) 1997 1/	n.a.
Fertilizer consumption (hundreds of grams per ha of arable land) 1995-97 1/	1 453	Total external debt (USD million) 1998 1/	16 376
Food production index (1989-91=100) 1996-98 1/	111	Present value of debt (as % of GNP) 1998 1/	23
		Total debt service (% of exports of goods and services) 1998 1/	9
<b>Land Use</b>		Nominal lending rate of banks, 1998 1/	14
Arable land as % of land area, 1997 1/	61	Nominal deposit rate of banks, 1998 1/	8
Forest area (km <sup>2</sup> thousand) 1995 1/	10		
Forest area as % of total land area, 1995 1/	8		
Irrigated land as % of cropland, 1995-97 1/	43		

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

## 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	30 000 000	100%
Fertilizer Sector Programme	IFAD	World Bank: IDA	HC	19 Dec 79	12 Feb 80	30 Jun 85	L - I - 31 - BA	SDR	19 450 000	91.6%
Small Farmer Agricultural Credit Project	IFAD	AsDB	HC	16 Sep 80	13 Jan 81	31 Dec 85	L - I - 41 - BA	SDR	17 200 000	100%
Southwest Rural Development Project	IFAD	World Bank: IDA	HC	08 Sep 81	18 May 82	31 Dec 90	L - I - 73 - BA	SDR	20 450 000	61.8%
North-West Rural Development Project	AsDB	AsDB	HC	09 Dec 82	12 Oct 83	31 Dec 91	L - I - 110 - BA	SDR	13 700 000	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	10 400 000	60.5%
Grameen Bank Project	IFAD	UNOPS	HC	12 Dec 84	24 Sep 85	31 Dec 90	L - I - 161 - BA	SDR	23 600 000	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	8 950 000	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	5 600 000	60.0%
Grameen Bank Phase III Project	IFAD	UNOPS	HC	25 Apr 89	08 Mar 90	30 Jun 95	L - I - 239 - BA	SDR	6 200 000	100%
Smallholder Livestock Development Project	IFAD	UNOPS	HC	04 Apr 91	14 Dec 91	31 Dec 99	L - I - 280 - BA	SDR	7 650 000	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	11 550 000	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	6 400 000	98.2%
Employment-Generation Project for the Rural Poor	IFAD	UNOPS	HC	12 Apr 95	24 Oct 95	30 Jun 02	L - I - 378 - BD	SDR	9 950 000	98.6%
Small-Scale Water Resources Development Sector Project	AsDB	AsDB	HC	06 Dec 95	10 Jun 96	31 Dec 02	L - I - 391 - BD	SDR	7 000 000	85.9%
Agricultural Diversification and Intensification Project	IFAD	IFAD	HC	29 Apr 97	04 Dec 97	31 Dec 04	L - I - 443 - BD	SDR	13 650 000	70.3%
Third Rural Infrastructure Development Project	AsDB	AsDB	HC	04 Dec 97	01 Jul 98	30 Jun 05	L - I - 457 - BD	SDR	8 500 000	57.0%
Aquaculture Development Project	IFAD	UNOPS	HC	23 Apr 98	08 Dec 98	31 Dec 05	L - I - 472 - BD	SDR	15 000 000	32.3%
Smallholder Agricultural Improvement Project	IFAD	UNOPS	HC	29 Apr 99	17 Mar 00	30 Sep 06	L - I - 505 - BD	SDR	13 650 000	31.8%
Sunamganj Community-Based Resource Management Project	IFAD	UNOPS	HC	12 Sep 01	14 Jan 03	30 Sep 14	L - I - 567 - BD	SDR	17 550 000	





### LOGICAL FRAMEWORK

Narrative Summary	Verifiable Indicators	Means of Verification	Assumptions and Risks
<b>Goal</b>			
Improved livelihoods and food security of moderately poor and hard-core poor households and empowerment of women	<ul style="list-style-type: none"> <li>Percent graduate from poverty</li> <li>Millennium Development Goal</li> <li>% of children &lt;5 years stunted compared to present levels in project area</li> <li>Women's decision-making</li> </ul>	<ul style="list-style-type: none"> <li>Project impact surveys and other surveys, e.g. Bangladesh Institute of Development Studies, Bangladesh Bureau of Statistics</li> <li>Rapid nutrition surveys</li> <li>Project impact surveys and participatory impact monitoring</li> </ul>	Overall economic situation remains stable. Real price of rice does not increase sharply.
<b>Objective</b>			
Adoption of sustainable income-generating activities and livestock technologies by the moderately poor and hard-core poor and the acquisition of livestock knowledge by PKSF and POs	<ul style="list-style-type: none"> <li>Income and employment generated by project activities including livestock production</li> <li>Participation by women and the poor in economic activities</li> <li>Technical livestock knowledge of the PO technical assistants and PKSF desk officers</li> </ul>	Project impact surveys and participatory impact monitoring	Small-scale livestock and other enterprises remain profitable relative to other opportunities, and are within the capacity of moderately poor and hard-core poor households.
<b>Output</b>			
Sustainable savings and credit programmes	<ul style="list-style-type: none"> <li>Microfinance services reach 234 000 members of new groups (disaggregated by gender)</li> <li>Hard-core poor proportion of new borrowers 25% disaggregated by gender</li> <li>Loan recovery at least 95%</li> <li>NGO area offices financially sustainable after three years</li> </ul>	PKSF monitoring data – existing MIS indicators	Sufficient number of target households are available who are not involved with other MFIs. NGOs are able to cover all support costs from interest income.
Community-based organizations established	<ul style="list-style-type: none"> <li>No. of groups formed – 11 700</li> <li>Indicators of group strength</li> </ul>	PKSF monitoring data – existing MIS indicators	Government remains supportive of NGO-MFI credit system.
Livestock and other skills developed, technical support provided by NGOs	<ul style="list-style-type: none"> <li>No. of livestock technical assistants trained – 170 (disaggregated by gender)</li> <li>No. of PKSF and other NGO staff trained in livestock and microcredit</li> <li>276 000 members (disaggregated by gender) of new and existing groups trained, receive technical support and follow-up training</li> </ul>	Project monitoring data – new MIS indicators	NGOs are willing and able to recruit, and continue to employ appropriate technical livestock staff. DLS staff participates in training activities.
Input supply assured	Supplies of <i>Sonali</i> chicks, vaccinations, fodder seedlings, etc	Project monitoring data – new MIS indicators	NGOs sustain technical services. Input supply activities are profitable.
Livestock technology developed and tested	Research results	Research reports	Research results in viable new technologies.
Private sector and NGOs capable of supporting livestock producers	No. of livestock technical staff (disaggregated by gender) providing technical support	NGO and project reports	Natural calamities and disease epidemics do not disrupt development.
<b>Activities</b>	<b>Implementation</b>		
Microcredit programme and technical support for moderately poor and hard-core poor	<ul style="list-style-type: none"> <li>About 20 small/medium partner NGOs open 130 new area offices, and provide credit, technical training and livestock technical support to borrowers</li> <li>About 8 small/medium partner NGOs, with 40 existing area offices, provide technical training and livestock and technical support to borrowers</li> </ul>	PO and PKSF reports	Sufficient smaller NGOs interested in concept of credit+technical support. NGOs able to open and staff new area offices within three-year period.
Research programme	5 research contracts, 6 socio-economic studies, community research, 25 scholarships	Research reports	Research organizations (BLRI, Bangladesh Agricultural University, etc.) willing to be contracted.
Project management and support	PKSF establishes a PCU, and manages implementation PKSF organizes training for NGO and PKSF staff, workshops, monitoring and evaluation PKSF provides support to NGOs	PKSF reports	PKSF able to recruit a few key staff – project coordinator, livestock coordinator and training coordinators.

**COST AND FINANCING**  
**Expenditure Accounts by Component – Total Including Contingencies**  
**(USD '000)**

	Microcredit	Technical Support				Project Implementation Support			Total
		Training for beneficiaries	PO Staff Training	Training for Staff of PKSF and Other Government Agencies	Research and Development	Project Coordination	Monitoring and Evaluation	Support for Partner Organizations	
<b>I. Investment Costs</b>									
<b>A. Vehicles</b>									
4WD	-	-	-	-	-	122.2	-	-	122.2
Motorcycles	-	-	-	-	-	-	-	291.0	291.0
Bicycles	-	-	-	-	-	-	-	89.6	89.6
<b>Subtotal</b>	-	-	-	-	-	122.2	-	380.7	502.9
<b>B. Equipment and Goods</b>									
Office Equipment	-	-	-	-	-	37.5	-	448.0	485.5
Office Furniture	-	-	-	-	-	4.5	-	-	4.5
<b>Subtotal</b>	-	-	-	-	-	42.0	-	448.0	490.0
<b>C. TA<sup>a</sup>, Training and Studies</b>									
Beneficiaries Training <sup>b</sup>	-	4 924.9	-	-	-	-	-	-	4 924.9
Staff Training- Project <sup>b</sup>	-	-	309.8	355.6	-	-	0.4	-	665.9
Staff Training – PKSF <sup>c</sup>	-	-	82.5	-	-	-	-	-	82.5
National TA	-	-	-	-	-	51.6	12.4	-	64.0
Studies	-	-	-	-	232.6	-	213.4	-	446.1
<b>Subtotal</b>	-	4 924.9	392.4	355.6	232.6	51.6	226.2	-	6 183.4
<b>D. Credit</b>	10 545.5	-	-	-	-	-	-	-	10 545.5
<b>Total Investment Costs</b>	10 545.5	4 924.9	392.4	355.6	232.6	215.8	226.2	828.7	17 721.8
<b>II. Recurrent Costs</b>									
<b>A. Subsidy</b>									
Technical Assistants	-	-	-	-	-	-	-	530.2	530.2
Credit Assistants	-	-	-	-	-	-	-	1 015.5	1 015.5
<b>Subtotal</b>	-	-	-	-	-	-	-	1 545.6	1 545.6
<b>B. Salaries and Allowances</b>									
Contracted Staff Salaries	-	-	-	-	-	268.3	-	-	268.3
Desk Officers Salaries	-	-	-	-	-	177.5	-	-	177.5
Contracted Staff Allowances <sup>d</sup>	-	-	-	-	-	19.2	-	-	19.2
Desk Officers Allowances <sup>e</sup>	-	-	-	-	-	35.1	-	-	35.1
<b>Subtotal</b>	-	-	-	-	-	500.2	-	-	500.2
<b>C. Vehicles O&amp;M<sup>f</sup> Costs</b>	-	-	-	-	-	89.1	-	-	89.1
<b>D. Office O&amp;M Costs</b>	-	-	-	-	-	91.8	-	-	91.8
<b>E. PO contribution<sup>g</sup></b>	-	-	-	-	-	-	-	218.2	218.2
<b>Total Recurrent Costs</b>	-	-	-	-	-	681.1	-	1 763.9	2 444.9
<b>Total PROJECT COSTS</b>	10 545.5	4 924.9	392.4	355.6	232.6	896.9	226.2	2 592.5	20 166.7
Taxes	-	-	-	-	-	113.0	-	-	113.0
Foreign Exchange	-	-	-	334.9	-	143.6	54.4	574.3	1 107.2

<sup>a</sup> Technical Assistance.      <sup>c</sup> Financed by PKSF.      <sup>f</sup> Operation and maintenance.  
<sup>b</sup> Financed by IFAD.      <sup>d e</sup> Based on government rates.      <sup>g</sup> PO overheads.



**Disbursement Accounts by Financier**  
(USD '000)

	IFAD		PKSF		NGO POs		Total		Foreign		Local	Duties
	Amount	%	Amount	%	Amount	%	Amount	%	Exchange	(Excl. Taxes)	and Taxes	
<b>Vehicles</b>	62.3	51.0	59.9	49.0	-	-	122.2	0.6	50.1	12.2	59.9	
<b>Office Equipment</b>	36.5	86.9	5.5	13.1	-	-	42.0	0.2	32.3	4.2	5.5	
<b>Equipment Loan</b>	828.7	100.0	0.0	-	-	-	828.7	4.1	574.3	254.4	-	
<b>Training</b>												
1. Project Training <sup>a</sup>	5 590.8	100.0	0.0	-	-	-	5 590.8	27.7	334.9	5 255.9	-	
2. PKSF Training <sup>b</sup>	-	-	82.5	100.0	-	-	82.5	0.4	-	82.5	-	
<b>Subtotal</b>	5 590.8	98.5	82.5	1.5	-	-	5 673.3	28.1	334.9	5 338.4	-	
<b>Technical Assistance and Studies</b>	510.1	100.0	0.0	-	-	-	510.1	2.5	54.4	455.7	-	
<b>Microcredit</b>	7 381.8	70.0	3 163.6	30.0	-	-	10 545.5	52.3	-	10 545.5	-	
<b>Subsidy on POs' Field Assistants</b>	1 545.6	100.0	-	-	-	-	1 545.6	7.7	-	1 545.6	-	
<b>Salaries and Allowances</b>												
<b>1. Salaries</b>												
Contracted Staff	268.3	100.0	-	-	-	-	268.3	1.3	-	268.3	-	
Desk Officers <sup>c</sup>	-	-	177.5	100.0	-	-	177.5	0.9	-	177.5	-	
<b>Subtotal</b>	268.3	60.2	177.5	39.8	-	-	445.8	2.2	-	445.8	-	
<b>2. Allowances</b>												
Contracted Staff	19.2	100.0	-	-	-	-	19.2	0.1	-	19.2	-	
Desk Officers <sup>d</sup>	-	-	35.1	100.0	-	-	35.1	0.2	-	35.1	-	
<b>Subtotal</b>	19.2	35.4	35.1	64.6	-	-	54.4	0.3	-	54.4	-	
<b>Subtotal</b>	287.5	57.5	212.7	42.5	-	-	500.2	2.5	-	500.2	-	
<b>Operation and Maintenance costs</b>												
Vehicles O&M	54.4	61.0	34.8	39.0	-	-	89.1	0.4	38.3	16.0	34.8	
Office Operating Expenses <sup>e</sup>	-	-	91.8	100.0	-	-	91.8	0.5	22.9	56.0	12.8	
<b>Subtotal</b>	54.4	30.0	126.5	70.0	-	-	180.9	0.9	61.3	72.0	47.6	
<b>POs' Contribution<sup>f</sup></b>	-	-	-	-	218.2	100.0	218.2	1.1	-	218.2	-	
<b>Total</b>	<b>16 297.7</b>	<b>80.8</b>	<b>3 650.8</b>	<b>18.1</b>	<b>218.2</b>	<b>1.1</b>	<b>20 166.7</b>	<b>100.0</b>	<b>1 107.2</b>	<b>18 946.6</b>	<b>113.0</b>	

<sup>a</sup> Financed by IFAD.

<sup>b</sup> Financed by PKSf.

<sup>c</sup> Financed by PKSf.

<sup>d</sup> Financed by PKSf.

<sup>e</sup> Financed by PKSf.

<sup>f</sup> To cover overheads.





## IMPLEMENTATION ARRANGEMENTS AND RESPONSIBILITIES

### Responsibilities of PKSf

1. PKSf will have overall responsibility for project implementation under the terms and conditions of the subsidiary loan and grant agreement (SLGA). The responsibilities of PKSf are to: (i) select interested and capable medium and small NGOs as POs to provide microfinance services and technical support to beneficiaries from the moderately poor and hard-core poor groups in the project area; (ii) disburse loans to POs for on-lending to the beneficiaries and to purchase equipment for new area offices; (iii) disburse grants to POs to cover a proportion of the costs of providing technical livestock services by new and existing area offices; (iv) procure equipment and vehicles for PKSf and hire short-term national consultants as needed; (v) develop the existing MIS to include technical support and training activities; (vi) monitor the performance of POs in accordance with the MIS; and (vii) liaise with IFAD.

2. PKSf will also: (i) operate the special account under the authorization of the MOF and the project account; (ii) provide training to the staff of the POs on microfinance and the technical aspects of livestock production, and ensure the quality of the training in livestock production provided to the POs and by the POs to the beneficiaries; (iii) select staff to attend short-term overseas courses; and (iv) select livestock and poverty specialists to join the research committee.

3. In addition, PKSf will have responsibilities for planning, budgeting, reporting and for preparing and submitting withdrawal applications. It will: (i) prepare an annual work programme and budget based on the expected disbursements by the participating area offices of the selected medium and small POs during the following year for review and comment by IFAD and the cooperating institution by 15 May each year; (ii) prepare and submit half-year and annual progress reports in English, in a format acceptable to IFAD and the cooperating institution no later than 15 February and 15 August each year; (iii) prepare an annual financial statement for all project expenditures in the province for submission to IFAD and the cooperating institution by 30 September each year; (iv) continue the appointment of an independent external auditor acceptable to IFAD and arrange for the completion of the audit by 31 December each year; and (v) consolidate and submit regularly withdrawal applications for all project-financed activities for onforwarding to the MOF and IFAD for reimbursement or replenishment of the special account.

### Responsibilities of POs

4. POs will have responsibility for the provision of microfinance services to the target group in the project area. In this respect, the POs will: (i) select the location for new area offices and identify target-group households following the project's targeting procedures under the overall guidance of PKSf; (ii) recruit livestock technical assistants for each participating area office; (iii) form microcredit groups from among the members of target-group households, with women accounting for the vast majority of the members; (iv) provide microfinance services to the group members in accordance with their own procedures; (v) provide technical livestock training and training in social development to the members of the credit groups; (vi) repay loans to PKSf in accordance with the loan agreements; and (vii) provide PKSf with regular reports of project lending and provision of technical training and support as required by PKSf and following the prescribed formats and timetable. The targeting arrangements, which involve participatory wealth ranking, will identify the project beneficiaries in a transparent and highly participatory way, and ensure that the project's assistance is targeted to the moderately poor and hard-core poor. Beneficiaries will: (i) identify the income-generating activity for which they will borrow from the POs; (ii) attend the regular group meetings to make savings, deposits and loan repayments; to receive technical, social and microfinance



training; and to review the performance of members' loan-financed income-generating activities; and (iii) participate in impact assessments.

### **Microfinance component**

5. Terms and conditions for loans to POs will follow PKSf terms and conditions. Credit for lending to the beneficiaries will be repaid by POs to PKSf over three years, with a six months' grace period and a service charge of 4.5% per annum.

6. Implementation will start with PKSf making informal visits to project districts and holding discussions with NGOs that it has identified as being interested in developing technical support services to complement microfinance. Information will be collected on existing coverage by microcredit and pockets of particular poverty. Further meetings with NGOs will be held, and PKSf will select a number of NGOs (around 20 existing POs) to implement the project. From these discussions and visits, a project implementation plan will be drawn up with each NGO. This will describe the project objectives and planned activities, and set out project implementation arrangements including the preparation of annual workplans, funding requirements and monitoring arrangements. Actual field implementation will be the responsibility of these NGOs. The PKSf project coordination unit (PCU) will help in formulating these plans, which will form the basis against which the performance of the NGO will be measured.

7. For the beneficiaries, the loans provided by the PO can finance any legal income-generating activity chosen by the beneficiaries. Livestock enterprises are likely to predominate, but the choice of enterprise will reflect the requirements of the market as perceived by the beneficiaries, advised by the POs.

8. POs will follow their own procedures on group formation, group meetings, training in microcredit, group management, savings mobilization, the terms and conditions of the loans to the beneficiaries, loan disbursement and repayment arrangements, interest rates, etc. POs will provide technical training (livestock and other subjects) and technical livestock support as part of their approach to group management. There will be no special area offices specifically to handle the groups of hard-core poor, but members of each group will come from the same socio-economic group.

### **NGO Selection**

9. PKSf's will apply their existing criteria for the selection of small and medium POs. This will include, inter alia, the following criteria.

10. The **organization** should have: (i) a legal basis (i.e. if it is a non-government and voluntary organization, it should be registered with the appropriate registration authority and have a constitution duly approved by that authority; and (ii) a general body and an executive committee approved by the relevant registration authority. In case of government, semi-government and local bodies, the organization must have followed procedures laid down in law. The organization should have mandates to: (i) operate a credit programme for the self-employment and income-generation activities of the landless and assetless, with an admissible service charge; and (ii) borrow money from government, semi-government, private and any other organizations.

11. The **organizer** or founders should be: (i) socially reputable, respected, honest, with the intention of serving the poor; and (ii) acceptable to the staff, group members and to the community in general. He or she should also have the capability and vision to develop a strategic plan for the organization.



12. **Management.** The organization should have the structure and an adequate number of full-time staff to ensure proper implementation of a microcredit programme. In addition, the chief executive should: (i) work full time for the organization and should possess the mentality to work on a long-term basis and for local organizations; (ii) have good and dynamic leadership qualities, demonstrate good management capability and be able to formulate strategic plans for the organization; and (iii) have a good reputation and be acceptable to the staff and group members, and to the community in general.

13. **Human resources.** The organization should have trained and skilled manpower to administer the organized group and to maintain a sound accounting system. Staff should be honest and dedicated.

14. The **area of operations** of the organization should be: (i) well-suited for microcredit operations with a good communications network, banking facilities and easy access to markets so that the borrowers can use their loan profitably; and (ii) poverty-stricken. In addition, there should be potential for expansion of the programme by avoiding duplication with the activities of other organizations in the same area.

15. **Field activities.** Members of the beneficiary groups will be those living in rural areas, owning less than 0.50 acre of cultivable land or having total assets worth less than one acre of land in that locality. Members of a group must be like-minded people who should be careful about group discipline, and regular in attending group meetings and in making savings deposits. Members should have a minimum of six months of practice of regular savings deposits. The organization should have at least 400 organized members, a BDT 0.2 million operating loan outstanding at field level, and at least six months of experience at successful microcredit operation. The number of organized members should be consistent with the working/operating capital of the organization. Groups should be organized within a 10 km radius of the project office. In the case of a local organization, the head office should be situated in the working/operational area. The organization has to maintain a minimum loan recovery rate of 98% on a continuous basis. For a programme operating for more than three years, a minimum loan recovery rate of 95% has to be maintained on a continuous basis. Overlapping with the activities of other organizations in the same area must be avoided.

16. **Past performance.** The organization should have: (i) a demonstrated experience of ensuring the proper use of loan money by maintaining a high recovery rate on a continuous basis; (ii) evidence of successful implementation of all programmes it has undertaken; and (iii) properly organized members and groups for successful operation of a microcredit programme.

17. **Management information system.** There should be a MIS for collecting information from member, group and office levels for proper management and monitoring and microcredit operation. Adequate information should be available regarding microcredit operations.

18. **Accounting system.** The organization should: (i) maintain a sound, systematic, correct, detailed and transparent accounting system; and (ii) not have any misappropriation or illegal withdrawal of funds. The savings accounts of the group members must be complete, transparent and correct. All the accounts (i) should be duly audited by the proper authority and the reports should be readily available; and (ii) must be correct and updated.

19. **Additional project requirements.** NGOs implementing this project will be recruited from among existing medium and small POs and will have: (i) an interest in developing and sustaining a technical support capacity in the livestock sector; (ii) a particular interest in working with the hard-core poor; (iii) a willingness to set up a separate cell for this project; (iv) good links to local, regional and national-level governments and NGO service providers in livestock, health, education and other relevant subjects; (v) an existing capacity (or prepared to develop one) to identify and select the hard-



core poor through both quantitative and qualitative approaches; and (vi) a capability to conduct baseline surveys and impact evaluations.

20. The project will target the moderately poor and hard-core poor, with the latter to account for 25% of the beneficiaries of the area offices established with project assistance. POs will use analysis of secondary data, the experience of other NGOs and wealth-ranking procedures to target the project's financial assistance at the moderately poor and hard-core poor. PKSF staff will also be actively involved in the whole process. POs will use the following four-step approach to targeting the moderately poor and hard-core poor who are the target group.

- **Review of secondary data on the poverty situation:** primary identification of poor areas using secondary data including: (i) food security index of the World Food Programme; (ii) Bangladesh Bureau of Statistics data on calorie intake; (iii) land ownership data; (iv) numbers of vulnerable group development cards of each area; and (v) poverty assessment documents of the United Nations Children's Fund.
- **Share experience** with national and local-level NGOs working with credit and/or other development programmes, which may have much experience on the poverty situation in the project districts. This data will then be used to make a list of poor districts, *upazilas* and villages, which will be cross-checked with the findings from the secondary data.
- **Wealth ranking/poverty mapping** will involve three levels of targeting: (i) selection of villages within the project districts. Based on the findings of the first two steps, there will be a prioritized list of poor *upazilas* in each of the project districts. Each poor *upazila* will be further assessed for identification of poor villages; (ii) selection of hamlets in each village with a concentration of poor households through participatory assessments using poverty mapping; and (iii) selection of households within a hamlet. Based on poverty mapping/wealth ranking, the local community will select the poor, including the hard-core poor. The criteria defined by the community will be the key to the wealth-ranking exercise. To avoid manipulation by local groups with vested interests, the stated objective of wealth ranking will be to obtain baseline data for project implementation. Details of the activities to follow will not be specified.
- **Verification:** poor and hard-core poor households will be physically verified and cross-checked and matched with the 'word pictures' of poor households. A primary list of households in each category will be prepared, with final selection following the next step.

21. Finally, there will be discussions between project staff and members of individual households to confirm their willingness to participate in the project and for one household member, preferably a woman, to become a member of a group in line with the procedures of the PO.

### Technical Support Component

22. The PCU will be staffed by a team of PKSF staff, under a project coordinator. The team will include a livestock coordinator and two livestock training officers. The livestock coordinator will be a senior national livestock professional based in PKSF, who will guide PKSF in its livestock activities within the project framework. Together with the training officers, the livestock coordinator will formulate training and extension plans, help prepare training materials, identify training organizations and resource persons as trainers, and provide overall supervision of research contracts.

23. The training officers will be responsible for the organization and supervision of training. Specifically, they will assess training needs, specify training courses, draw up annual training plans, and monitor their implementation. One of the training officers will be responsible for supporting the



training of beneficiaries by NGOs, and will ensure that this training is properly carried out and of good quality. The other training officer will focus on training NGO staff, especially the technical assistants.

24. It is envisaged that the PCU itself will organize training of NGO staff, which will be contracted out to technically competent public or private-sector organizations in continuation of the practice already established by many NGOs. For instance, training of NGO livestock technical assistants could be contracted to BRAC, which already trains a similar cadre of staff for its own field offices. PKSF has considerable experience in organizing training for the staff of its partner NGOs, and trained 793 such people in 2000/1.

25. Each of the PKSF partner organizations will employ a technical assistant. The POs will be expected to draw up annual workplans with schedules for group formation, training and technical support work during the coming year. The PCU will help in formulating these plans, which will form the basis against which the performance of the PO will be measured.

26. PKSF's PCU will be supported by short-term national consultants (for a total of 39 person-months) to provide additional specialist expertise. For livestock, this will supplement the expertise of the livestock coordinator.

### Monitoring and Evaluation

27. Monitoring and evaluation will be a crucial part of project implementation and will involve regular beneficiary impact assessments. PKSF will be responsible for all M&E activities, with the POs providing regular reports in accordance with PKSF procedures. The proposed system consists of two elements: (i) extension of PKSF's current monitoring system to cover training and technical support activities; and (ii) sample surveys to gather detailed information on livestock enterprises and project impact, including participatory monitoring and rapid nutrition surveys.

28. **Progress monitoring.** The PKSF monitoring system is at the centre of PKSF's routine operations. It is implemented as follows:

29. **Monthly off-site monitoring:** every month the PO sends a standard reporting form to PKSF with information on changes in borrowers, savings, loan disbursement and recovery. In addition, POs submit information on their financial performance. POs also regularly send a list of their borrowers to PKSF.

30. **Field visits by PKSF desk officers:** Field visits are the backbone of the monitoring system. Usually each PO is visited every three months and each visit lasts four days. During the visits, the monthly information submitted by POs is verified, down to the branch and individual borrower levels. PKSF officers make suggestions to improve PO management and the visit is part of the effort to develop the PO institutionally.

31. **Annual audit by internal audit team:** PKSF conducts an audit of all POs, usually annually, before sanctioning a major expansion of their loan. The audit reports are directly submitted to the managing director of PKSF.

32. **Audit by audit firm:** As a part of annual financial auditing of PKSF, an external audit firm is engaged to verify the financial position of sample POs. In the future, 100% of POs will be covered by external audit, as well as PKSF itself.

33. Information is recorded on a comprehensive computerized MIS and will provide data on outputs and activities for comparison with indicators in the logical framework. The MIS not only

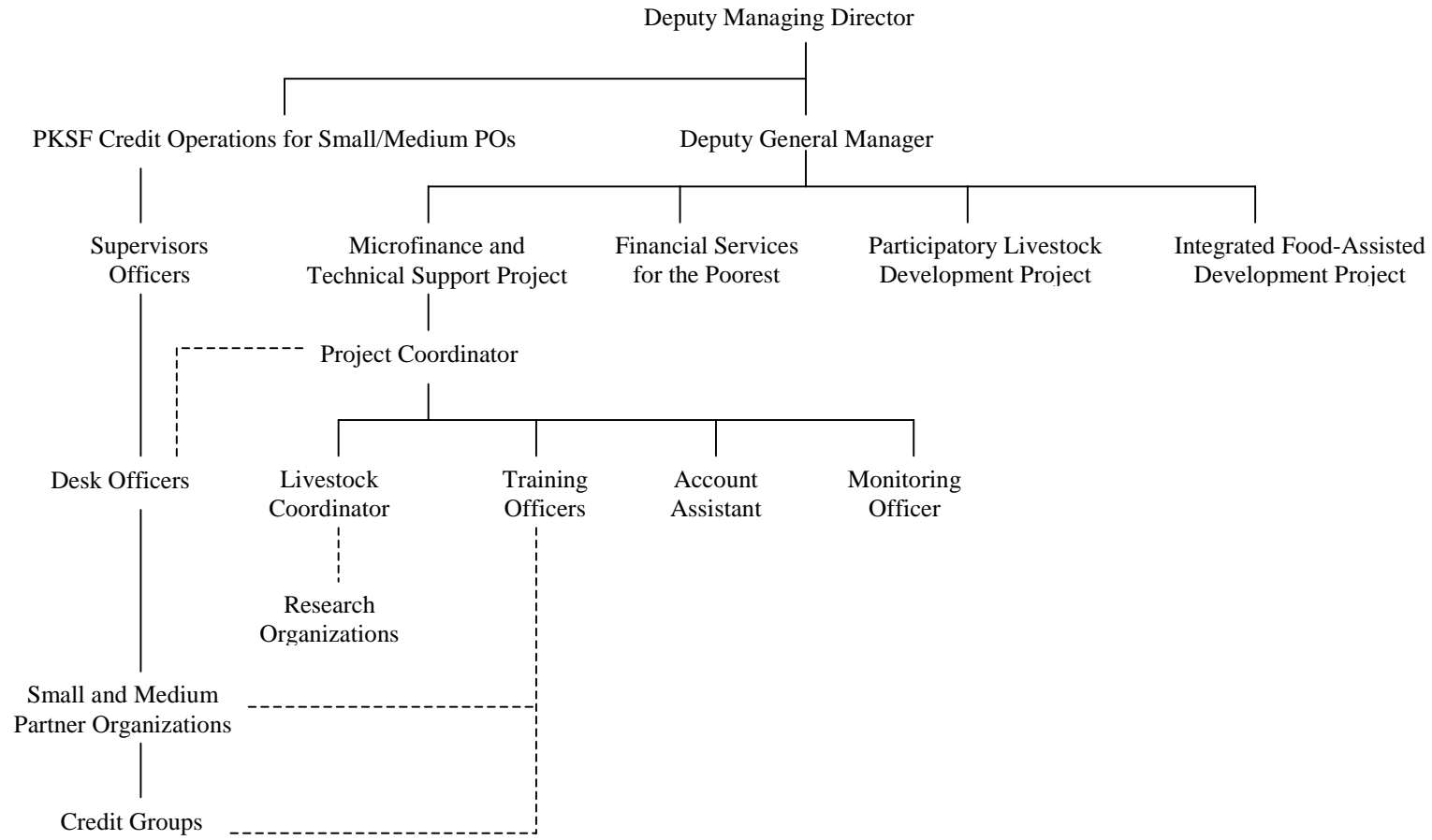




includes data collected by PKSf, but it is being extended to the PO level so that they can use it for their own management data. PKSf aims to visit sufficient PO branches, groups and individual borrowers to collect enough data to be 95% certain that the information collected accurately represents the overall PO position. The monitoring officer in the PCU will be responsible for collating and analysing the data relevant to this project.

34. **Impact surveys.** The project will include three approaches to impact measurement: (i) an annual questionnaire survey of a sample of 600 beneficiaries, including control groups focused on the impact of project-related activities and undertaken by an outside agency; (ii) annual participatory impact monitoring to obtain more subjective feedback from beneficiaries, carried out by PO staff, who will receive the necessary training, with PKSf assistance; and (iii) rapid nutrition surveys in PY1, 3 and 6 carried out by an outside agency to assess the extent of stunting among children less than five years old, a good proxy for household food security.

## ORGANIZATIONAL CHART



## ECONOMIC AND FINANCIAL ANALYSIS

1. IFAD does not require detailed economic analysis for microfinance projects for obvious reasons. The likely uptake of loans for the different livestock and off-farm income-generating activities cannot be known with any certainty. However, financial viability analysis has been performed for a number of likely livestock and non-farm income-generating investments.

2. **Livestock enterprises.** Eight livestock production models were prepared to assess the returns available to the moderately poor and hard-core poor from investing in livestock. Table 1 summarizes the financial returns from these livestock production models. Using conservative performance figures, the livestock production models are reasonably attractive, generating between BDT 219 and 5 409 per year incremental cash or in-kind benefits and providing a with-project return to labour between BDT 27 and 105 per labour-day.

**Table 1: Financial Returns - Livestock Production Models**

Item	Net Income after Financing (BDT/year)				Return to Family Labour (BDT/day)		
	Without Project	With Project	Incremental	%	Without Project	With Project	Incremental
<i>Desi</i> Chicken Flock <sup>a</sup>	759	978	219	29	21	27	<sup>b</sup>
Local Duck Flock <sup>a</sup>	1 137	1 819	682	60	31	50	<sup>b</sup>
<i>Sonali</i> Layers		1 341	1 341			37	37
Breeder of <i>Sonali</i> Chickens		2 742	2 742			38	38
Chick Rearing		3 830	3 830			58	58
Small Flock Goat Rearing		3 021	3 021			55	55
<i>Desi</i> Milking Cow Rearing		5 409	5 409			74	74
Beef Fattening <sup>a</sup>	2 132	5 742	3 610	169	58	105	198

<sup>a</sup> Existing enterprises in without-project situation.

<sup>b</sup> There is no incremental labour in the *desi* chicken and local duck models so there are no incremental returns to incremental labour.

3. **Non-farm income-generating activities.** In addition to livestock, other opportunities for economic growth and investment in rural areas are village-level activities such as workshops, petty trade, rickshaw/van operation, boating, weaving, mat making, etc. Table 2 summarizes the financial returns from a sample of such enterprises with small credit requirements. All these enterprises have labour requirements within the capacity of the moderately poor and hard-core poor families and the returns are attractive to these groups.

**Table 2: Financial Returns- Off-farm Enterprise Models (BDT)**

Item	Net Income After Financing (BDT)	Labour-days	Return per Labour-day (BDT)
Rice Trading	8 587	64	134
Bamboo Basket Making	7 892	96	82
Snack Production	2 802	36	78
Rice Husking	5 244	64	82
Puffed Rice Production	5 254	96	55

4. **Household models.** Four farm models have been prepared to analyse the impact of the project on the income of target-group households. The increase in income for new credit groups has been

calculated assuming adoption of the livestock and non-farm enterprises listed in the above tables. The four models in Table 3 are partial household models and do not include non-farm sources of income such as remittances.

**Table 3: Household Models – BDT**

Category of Beneficiaries	Scenario		Net Annual Income (BDT)			Household Labour (days)			Return per day	Incl. Return per Inc. day
			p.a.	Increment	%	All	F	M		
Model 1 – Moderately Poor-Existing Credit Group	Without Project		17 455			394	142	252	44	
	With Project		21 438	3 983	23	412	155	258	52	221
Model 2 – Moderately Poor-New Credit Group	Without Project		15 323			358	118	240	43	
	With Project	Minimum	17 037	1 714	11	382	134	248	43	71
	With Project	Maximum	23 798	8 476	55	454	167	288	56	88
Model 3 - Hard-Core Poor –New Credit Group	Without Project		9 946			288	103	185	35	
	With Project	Minimum	11 287	1 341	13	324	127	197	35	37
	With Project	Maximum	17 838	7 892	79	384	151	233	50	82
Model 4 - Hard-Core Poor –New Credit Group – Woman-Headed Household	Without Project		5 647			180	180		31	
	With Project	Minimum	6 075	428	8	180	180		34	
	With Project	Maximum	12 634	6 987	124	180	180		70	

5. **Labour availability.** Labour should not be a constraint as households with two people working, of whom one is only available for 50% of the time, can provide the extra labour required. The enterprises proposed will only marginally increase the amount of monthly labour required, which will be provided by available household labour (men and women). Overall, the increase in annual income ranges from 8 to 124%. These estimates are in line with the experience of existing microcredit programmes and should provide a sufficient incentive for the beneficiaries to take up credit, although several loan cycles are normally needed to lift a household out of poverty.

6. **Viability of NGO area offices.** The cost of operating a new area office is BDT 500 300 per annum. Projections of cash flow and profit/loss for a new area office shows the area office to be profitable from year 2 when there is a profit of BDT 60 000, which increases to BDT 1.0 million in year 9. With the planned grant assistance from PKSF to finance a proportion of the salary costs, the annual cash flow of the area office is always positive, thus providing an adequate financial incentive for POs to participate in the project. The analysis demonstrates that the POs will be able to continue to provide livestock technical support and training together with microfinance services when project assistance ends. A sensitivity analysis shows that even with lower average loan sizes and fewer members, the area office is still financially viable and profitable from year 3. For example, with 20% fewer members and a 20% reduction in the average loan size, the profit is BDT 200 000 (USD 3 450) in year 3, increasing to BDT 480 000 (USD 8 275) in year 10.

