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IFAD

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Executive Board – Eighty-Third Session

Rome, 1-2 December 2004

REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE

PEOPLE'S REPUBLIC OF BANGLADESH

FOR THE

MICROFINANCE FOR MARGINAL AND SMALL FARMERS PROJECT

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TABLE OF CONTENTS

CURRENCY EQUIVALENTS iii

WEIGHTS AND MEASURES iii

ABBREVIATIONS AND ACRONYMS iii

GLOSSARY iii

LOAN SUMMARY v

PROJECT BRIEF vi

PART I – THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY 1

A. The Economy and the Agricultural Sector 1
B. Lessons Learned from Previous IFAD Experience 1
C. IFAD's Strategy for Collaboration with Bangladesh 2

PART II – THE PROJECT 3

A. Project Area and Target Group 3
B. Objectives and Scope 4
C. Components 4
D. Costs and Financing 7
E. Procurement, Disbursement, Accounts and Audit 9
F. Organization and Management 9
G. Economic Justification 9
H. Risks 10
I. Environmental Impact 10
J. Innovative Features 10

PART III – LEGAL INSTRUMENTS AND AUTHORITY 11

PART IV – RECOMMENDATION 11

ANNEX

SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE NEGOTIATED LOAN AGREEMENT 13

APPENDIXES

I.	COUNTRY DATA	1
II.	PREVIOUS IFAD FINANCING TO BANGLADESH	2
III.	LOGICAL FRAMEWORK	3
IV.	COST AND FINANCING	6
V.	IMPLEMENTATION ARRANGEMENTS AND RESPONSIBILITIES	8
VI.	ORGANIZATION CHART	12
VII.	ECONOMIC AND FINANCIAL ANALYSIS	13

CURRENCY EQUIVALENTS

Currency Unit	=	Taka (BDT)
USD 1.00	=	BDT 59.25
BDT 100	=	USD 1.69

WEIGHTS AND MEASURES

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

ABBREVIATIONS AND ACRONYMS

COSOP	Country Strategic Opportunities Paper
DAE	Department of Agricultural Extension
MFI	Microfinance Institution
MIS	Management Information System
MOF	Ministry of Finance
NGO	Non-Governmental Organization
PKSF	Palli Karma-Sahayak Foundation
PO	Partner Organization
ToT	Training of Trainers

GLOSSARY

Aman	Local breed
Aus	Early rice crop grown during the early part of the rainy season
Boro	Irrigated rice crop grown during the winter season
Upazila	Subdistrict

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 FOR MARGINAL AND SMALL FARMERS PROJECT

LOAN SUMMARY

INITIATING INSTITUTION:	IFAD
BORROWER:	People's Republic of Bangladesh
EXECUTING AGENCY:	Palli Karma-Sahayak Foundation (PKSF), a government apex funding agency for non-governmental organizations (NGOs)
TOTAL PROJECT COST:	USD 29.74 million
AMOUNT OF IFAD LOAN:	SDR 13.40 million (equivalent to approximately USD 20.06 million)
TERMS OF IFAD LOAN:	40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum
COFINANCIERS:	NGO partner organizations
AMOUNT OF COFINANCING:	USD 1.73 million
CONTRIBUTION OF BORROWER:	USD 7.95 million (PKSF contribution)
APPRAISING INSTITUTION:	IFAD
COOPERATING INSTITUTION:	United Nations Office for Project Services (UNOPS)

PROJECT BRIEF

Who are the project beneficiaries? The project area includes 14 districts in north-west and north-central Bangladesh, selected on the basis of high levels of poverty and good agricultural potential. The project target group will consist of poor small and marginal farmer households, identified as those households operating between 0.5 and 2.5 acres of land. The total population of the target districts is 28 million (of which 1.7 million households constitute the project target group). It is expected that by the end of the project period, some 210 000 households (man- and woman-headed) will have directly benefited. Participatory wealth ranking during the design missions identified additional targeting criteria to ensure that the project focuses on the poorest farm households. These criteria include, inter alia, (i) the principle occupation being agriculture and the main source of household income being crops, horticulture, livestock, fisheries or agro-related enterprises; (ii) households that experience a food shortage of over two months a year (less than three meals a day); and (iii) especially disadvantaged households (woman-headed, unemployed youth, tribals).

Why are they poor? Firstly, in considering the vulnerability context, the poor live in an area characterized by extreme annual flooding events. Vulnerability is increased by dependence on moneylenders, seasonality of income, and emergencies due to crop losses and illnesses. The remoteness of, and poor communications in, some of the districts and the associated lack of services (government, health, emergency, etc.) further exacerbate vulnerability. Secondly, in considering 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. Thirdly, in considering people's access to livelihood assets, the farming community has limited access to savings and credit facilities, as non-governmental organizations (NGOs) do not currently target small and marginal farmers. Farmers also face marketing constraints due to lack of adequate linkages with input suppliers, buyers and price information.

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; support a livelihoods component (agriculture); and support empowerment through mainstreaming gender. The target group will be reached through the following design approach: (i) focusing on the promotion of high-value agricultural products, the project will provide access to savings and credit services to beneficiaries and support linkages between farmers and markets; (ii) in respect to the need for improving the provision of agricultural services to beneficiaries the project will support a pluralistic approach, with an enhanced role for NGOs and the private sector; (iii) to enhance human capital, the project will provide a programme of skills development for beneficiaries and for NGO staff; (iv) to address the increasing feminization of agriculture and the overall vulnerability of women, the project will address strategic gender needs by providing women with access to knowledge and technology, and enabling them to acquire leadership and management skills through training; and (v) to reduce vulnerability, the project will support the establishment of a disaster reserve fund by partner organizations, and provide support for new lending products such as seasonal loans.

How will they participate in the project? Participatory development will be ensured as follows. Building on the success of the Palli Karma-Sahayak Foundation's approach of wholesaling credit to NGO partner organizations, the project will support the creation of 11 500 new savings and credit groups (210 000 members, of which approximately 80% will be women). The project will provide training to such members in social development, technical skills and business development. Beneficiaries will participate in savings and credit groups; a field-level training and demonstration programme; farmer field days and farm visits; and a market linkage programme. The target group will also participate in the process of beneficiary monitoring and impact assessment.

REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE PEOPLE'S REPUBLIC OF BANGLADESH FOR THE MICROFINANCE FOR MARGINAL AND SMALL FARMERS PROJECT

I submit the following Report and Recommendation on a proposed loan to the People's Republic of Bangladesh for SDR 13.40 million (equivalent to approximately USD 20.06 million) on highly concessional terms to help finance the Microfinance for Marginal and Small Farmers 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[1]

A. The Economy and the Agricultural 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 135.7 million (2002), Bangladesh has one of the highest population densities in the world – 1 042 persons/km^2. About 78% of the population live in rural areas. Population growth rate averaged 1.7% per annum between 1996 and 2002. With a gross national income of USD 380 per capita (2002) and a rank of 145th 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. The agricultural sector, which still provides employment to 60% of the labour force, has registered an average annual growth of 4.6% since the mid-1990s. Further growth will depend on increased capital inflows, better governance, development of human resources, decentralization, improved resource management and more opportunities for the poor.

B. Lessons Learned from Previous IFAD Experience

2. IFAD is an active member of the in-country Local Consultative Group on Finance (LCGF) and participated in the 2004 joint donor review of microfinance in Bangladesh. The project design was discussed with the LCGF to ensure consistency with best practice and learning from ongoing microfinance projects in Bangladesh, and incorporates the following lessons from previous IFAD projects: (i) demand-driven microfinance approaches, with technical support provided to savings and credit groups, work well and have a significant impact on beneficiaries; (ii) the livelihoods of the rural poor (especially women) can be considerably improved by providing training in agricultural activities; (iii) attempts to link commercial or agricultural development banks to non-governmental organizations (NGOs) have been unsuccessful; and (iv) experience with project-managed revolving

[1] See Appendix I for additional information.

loan funds shows the critical importance of working through established microfinance institutions (MFIs) and apex institutions such as the Palli Karma-Sahayak Foundation (PKSF). Relevant lessons from the experience of PKSF include: (a) that strong institutional development efforts are needed if small and medium microcredit NGOs are to become sustainable; (b) that intensive supervision and monitoring by PKSF staff is essential for maintaining portfolio quality; and (c) that 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

3. **Bangladesh's policy for poverty eradication.** The National Strategy for Economic Growth, Poverty Reduction and Social Development (the interim Poverty Reduction Strategy Paper) envisages that, by 2015, Bangladesh will have reduced the number of people living below the poverty line by 50%; improved on other indicators of human poverty (access to education, lower child and maternal mortality rates, incidence of malnutrition and access to health services); reduced social violence against the poor and the disadvantaged (especially women and children); provided for disaster management; and prevented environmental degradation.

4. For rapid poverty reduction, the Government's priority is to develop the rural areas where most of the poor people live. This requires accelerated growth of agriculture and the rural non-farm sector. It is anticipated that agricultural growth will be essential to sustain growth, enhance rural wages, create synergies for diversifying the rural economy, and enable the supply of low-cost food to improve the nutritional status and food security of the people. The strategy stresses: (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 need to address the needs of the extremely poor, middle poor and vulnerable non-poor; and (iii) the need for the private sector and NGOs to have a greater role in input supply and service provision. The strategy also aims to strengthen the participation of women in agriculture, particularly in non-field crop production and non-farm activities for which marketing, information, technology and extension services will be specifically directed to women.

5. **The poverty eradication activities of other major donors.** 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. Important donor-supported projects that support both microfinance and agricultural 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; (ii) the Asian Development Bank (AsDB)/Department of Agricultural Extension (DAE) Northwest Crop Diversification Project; (iii) the AsDB/Department of Agricultural Marketing Agribusiness Development Project; (iv) the Islamic Development Bank/DAE Integrated Agricultural Development Projects; (v) the Danish International Development Assistance/DAE Strengthening Plant Protection Services and Integrated Soil Fertility and Fertilizer Management Project; and (vi) the European Union Upscaling of New Agricultural Technologies Project.

6. **IFAD's strategy in Bangladesh.** Since 1978 IFAD has extended 21 loans to Bangladesh on highly concessional terms for a total of USD 350 million. Fifteen of the 21 loans are closed and six are under implementation. IFAD's strategy has always been to support the Government's efforts to reduce rural poverty. IFAD's Country Strategic Opportunities Paper (COSOP), approved in December 1999, outlined a lending programme of four projects over a five-year period.

7. Poor marginal and small farmers in Bangladesh face significant vulnerability and livelihood constraints. Particular problems facing this group include lack of access to financial services, seasonal income patterns resulting in food insecurity, poor access to technical support and vulnerability to natural disasters (especially flooding). In particular, the lack of access to financial services leads to

reliance on moneylenders, inhibits investment and commercialization, and limits opportunities to diversify income sources. As a result, 41% of the farmers live below the poverty line. Addressing the needs of this group remains one of the major rural development challenges facing the Government.

8. In view of this, the COSOP outlined IFAD's long-term aim to assist the Government in developing an effective institutional approach for the delivery of financial services to farmers in Bangladesh. In this regard, the COSOP stressed the importance of "... improving the access of the poor, including small and marginal farmers, to financial and other services through appropriate institutional mechanisms .." and "… development of more innovative financial products to match the needs of the small and marginal farmers ...".

9. **Project rationale.** Microfinance NGOs in Bangladesh have been extremely successful in getting credit to the rural landless poor. This has had a substantial impact in terms of employment creation, poverty alleviation and women's empowerment. However, microfinance has had only a marginal impact on the availability of credit for agriculture as most NGOs and other MFIs limit their lending to those with under 0.5 acres of land (the functionally landless). This group also has only very limited access to agricultural credit from banks. Indeed, lack of access to financial services for this category (which encompasses a total of 6.4 million small and marginal farmers) is a major development issue in Bangladesh. These farmers operate 37% of the total agricultural land. With strong links between agricultural growth and the non-farm rural economy, and with overall poverty reduction so closely dependent upon growth in rural areas, there is a strong rationale for introducing a viable system to provide financial services to the farming community. Recognizing the need for innovation in this area, IFAD has initiated a partnership with PKSF to deliver such services. Involving PKSF to channel funds to NGOs for onlending to farmers will mean that an efficient and sustainable credit system is established. PKSF will use its well-proven monitoring and management systems to ensure that participating partner organizations (POs) deliver credit and financial services to the target group. It is envisaged that, once proved successful, this modality for delivery of financial services to the farming community will be scaled up by PKSF.

PART II – THE PROJECT

A. Project Area and Target Group

10. The project area will cover ten districts in the north-west region (Rajshahi, Nawabganj, Pabna, Kurigram, Thakurgaon, Joypurhat, Nilphamari, Gaibandha, Naogaon and Dinajpur) and four in the north-central region (Netrakona, Mymensingh, Jamalpur and Sherpur), which together account for a total of 117 *upazilas* (subdistricts). The districts have been selected due to their high levels of poverty and good agricultural potential. The exact location of project groups will be determined on the basis of local demand and the ability of POs to deliver services, and not all 117 *upazilas* may be covered.

11. The total population of the target districts is 28 million (of which 1.7 million households constitute the project target group). It is expected that, by the end of the project period, some 210 000 households (man- and woman-headed) will have benefited directly. The project target group will include small and marginal farmers operating between 0.5 and 2.5 acres of land. Although small and marginal farmers are, by and large, not as poor as the landless, a large proportion (41%) live below the poverty line (i.e. consuming equivalent to 2 112 kcals/person/day). Those just above the poverty line may be as vulnerable as poorer landless households, and have been described in many recent studies as "tomorrow's poor". The project will also target small-scale agro-entrepreneurs with businesses in the agricultural service sectors, such as input supply, marketing and agro-processing. Finally, it is expected that the large majority of direct project beneficiaries will be women as they currently comprise 90% of microcredit borrowers.

12. In addition to landholding criteria, participatory wealth ranking during project design identified additional targeting criteria to ensure that the project reaches the poorest farm households. These include, inter alia: (i) the principle occupation being agriculture and the main source of household income being crops, horticulture, livestock, fisheries or agro-related enterprises; (ii) households that experience a food shortage of over two months a year (less than three meals a day); and (iii) especially disadvantaged households (woman-headed, unemployed youth, tribals).

B. Objectives and Scope

13. The goal of this six-year project is to improve the livelihoods of 210 000 poor small and marginal farmer households. The project will seek to meet this goal by financing three components: (i) microfinance services: (ii) capacity building and market linkages; and (iii) project coordination and management. The objectives of these components are to: (i) establish viable microfinance institutions to provide opportunities to 210 000 small and marginal farmer households to invest in on- and off-farm enterprises; (ii) increase agricultural production through access to information, the adoption of new technologies and linkages to markets; and (iii) develop and mainstream PKSF operational procedures for lending to farmers and related agro-enterprises.

C. Components

Microfinance Services

14. The project will provide access to microfinance services to 210 000 small and marginal farm households and enable ten interested POs to pilot lending-against-crop storage arrangements. Within this component, the project will finance: (i) a credit fund to be onlent by PKSF via 25 selected POs to target group farmers (USD 25.0 million); (ii) a disaster reserve fund (USD 379 700); (iii) the construction and refurbishment of godowns, storage equipment and incremental godown operating costs associated with crop storage pilot activities (USD 69 300); and (iv) the initial overheads incurred by the 25 POs wishing to expand their operations to include lending to small and marginal farmers for on- and off-farm enterprises (about USD 1.1 million). The total cost of the component is estimated at USD 26.5 million. The modality for implementation of microfinance services will be for POs to form groups of small and marginal farmers, which will be the focus point for service delivery. Group size will be between 15 and 25. Participating POs will be required to make a considerable investment from their own resources. Staff and overhead costs will be incurred when establishing new credit groups prior to the receipt of significant income from service charges, and PKSF will only provide loan finance covering a maximum of 90% of loans outstanding to group members. For a PO with 8 330 group members, first year net start-up costs will amount to BDT 2.36 million, of which BDT 1.83 million will be staff and overhead costs.

15. The project will enable POs to make innovations in lending systems while ensuring, through capacity building and institutional support, that loans are viable for the lending institution and hence sustainable. The size of loans is likely to be larger than normal microcredit in order to match the higher absorptive capacity of small and marginal farmers. Initial loans may be in the range of BDT 7 000 to BDT 12 000, increasing in stages to BDT 20 000-30 000. The credit operations will be entirely demand-driven, with borrowers free to select investments suited to their needs.

16. Based on schemes that allow farmers to take loans against the value of crops that are deposited in a godown and not released until the purchaser of the crop repays the loan, the project will provide funds to help participating POs to field-test crop storage lending in about ten locations. This will include the financing of equipment, working capital to operate stores and, in five locations, construction of new stores of about 50 mt capacity. NGOs will be expected to provide a proportion (20%) of the funds required, with project support for the balance provided in the form of low-interest loans from PKSF.

17. As credit operations will be demand-driven, it is expected that a large proportion of loans will be taken for non-agricultural activities. For those who do borrow for agricultural activities, there are certain risks. Crops and livestock are vulnerable to a number of natural hazards such as floods, pests and diseases. To mitigate these risks, all group members will accumulate savings with the PO, which will act as a buffer in emergencies. PKSF rules ensure that POs keep an adequate proportion of this fund in liquid deposits to meet withdrawal demands. In addition to the normal debt management reserve, the project will require each PO to set up a disaster fund with a rate of contribution projected at 2% of service charge income. For the first three years, the project will partly finance the disaster fund by matching the contributions made by the PO (50% each). This fund will be held on fixed deposit in a commercial bank. It will be used to write-off accumulated interest and provide new loans in the event of a national or regional disaster declared by the Government, or if individual households face calamities due to the sickness or death of income-earning members.

Capacity Building and Market Linkages

18. The project will build on the strengths of POs and PKSF in the operation of microfinance and finance additional capacity building for POs in specialist aspects of lending to farmers. POs will operate out of their existing branches. Support for capacity building and market linkages has been divided into four sub-components: agricultural extension services; group development support; PKSF services; and marketing services. Project design allows for a high degree of flexibility in both the scope of services provided and the means of delivery. PKSF may adjust implementation arrangements and roles according to the ability of the DAE, POs and other organizations to provide the support described in each sub-component.

19. **Agricultural extension services.** Within this sub-component, the project will finance: technical training of group members and crop demonstrations; training of DAE and PO staff; and workshops and meetings. These activities, the total cost of which is estimated at USD 918 100, will be implemented by DAE in close cooperation with PKSF and POs. The exact nature and topics for technical training will be determined by assessing farmer group priorities during implementation and include: field-level training of all members of farmer groups; demonstrations of new technologies, crops and varieties on around 11 500 plots during a four-year period; and facilitation of linkages between block supervisors and group members through a year-long series of monthly technical support visits to project groups. In terms of staff training, DAE will provide training for its own agricultural trainers and for PO agriculturalists and group organizers, updating them on agricultural technologies likely to be relevant for group members. The training will comprise a one-week course to update agricultural officers; a three-day course to update 50% of block supervisors in project *upazilas*; and courses for over 2 300 PO group organizers by DAE *upazila*-level staff to provide those directly supervising credit operations with farmer groups with a basic knowledge of agriculture. In respect to workshops, DAE will organize marketing linkage workshops at the *upazila* level, at which farmers, input suppliers and market buyers will be able to exchange information on market requirements and the demand for inputs; and twice-yearly meetings for DAE and PO staff at the district and *upazila* levels, at which the overall training and technical support plan will be agreed.

20. **Group development support.** Participating POs will provide training and support to group members. The project will finance group member training, both in technical subjects and in marketing and business development (USD 288 800); the salaries, equipment and motorcycles of PO agriculturalists (USD 391 100); and technical linkages to research institutes and government/other experts (USD 4 900). Each PO will employ an agriculturalist to act as focal point for all agricultural activities, and to organize training and other support for groups. He/she will also be the point of contact with DAE. The project will finance the salary costs, and a computer and motorcycle for each of these specialists. POs will provide training to complement that provided by DAE, including field-level training of group members in social issues such as health, hygiene, rights and gender; regular half-day sessions covering technical topics, particularly livestock and fisheries production; and one-

day training sessions in marketing and business management for 20% of group members. In addition POs will organize field days to disseminate the results of successful demonstrations, with four such field days in each *upazila* in project years (PYs) 2, 3 and 4. The project has allocated a limited amount of funding to enable PO agriculturalists to call in expertise from research organizations to solve particular technical problems and to advise on key issues, and to attend workshops and seminars for the purpose of updating their knowledge. The project will seek to link groups to existing on-farm technology development and demonstrations programmes in project districts.

21. **PKSF services.** The project will finance capacity building and other services provided by PKSF, including agricultural information services (USD 35 440); training of PO staff (USD 83 720); and training of PKSF staff (USD 211 740).

(a) Through PKSF, the project will provide farmers with relevant agricultural information. The project will finance the design of a communications strategy using local expertise and visual media, and use material available with the Agricultural Information Service of the Ministry of Agriculture and repackage it in a user-friendly form. This work will be contracted out and the media produced will be disseminated via DAE, POs and the project farm-to-market resource centres.

(b) PKSF will be responsible for the training of all PO area managers, accountants and group organizers involved in project implementation. Training will include project orientation courses for around 230 area managers and over 2 300 group organizers; annual technical updates and project orientation for about 25 PO agriculturalists; project orientation and accounting skills updating for 260 PO accountants; credit operation for 775 new PO group organizers; crop store operation for 20 PO staff involved in a crop storage pilot scheme; training of trainers (ToT) on marketing and business development for 25 PO staff; and ToT on social issues for 100 PO staff. Particularly detailed training will be given to all accountants covering financial management and preparation of financial statements, including those required by project monitoring. Existing PO staff will be involved in the project, but the increase in overall lending will mean that additional group organizers will be recruited. These will receive a three-day training course in savings and credit management. PKSF will itself carry out project orientation training, and training of accountants and new group organizers. Technical updates for PO agriculturalists, ToT and crop store operation will be probably contracted out to external organizations, in either the public or private sector, including suitably qualified technically-orientated NGOs.

(c) PKSF will organize project orientation and project monitoring systems workshops for a total of 60 staff, mainly desk officers. Twenty middle- or senior-level PKSF or PO staff will attend short professional refresher courses on subjects such as finance, insurance and lending at the national level. A reputable university or comparable professional training organization will provide such training. Similar international-level short courses will be provided for 20 PKSF and PO senior staff. Senior PO and PKSF staff (12) will undertake international study tours to visit examples of innovation and best practice in agricultural lending, micro-insurance and other relevant subjects.

22. **Marketing services.** To develop the market linkages that are vital for the growth of commercial farming, the project will finance market linkage workshops organized by DAE in each *upazila*; training in marketing and business management; a pilot scheme for development of crop stores; and six farm-to-market resource centres for a period of three years. Each farm-to-market resource centre will cover two or three districts, and will have a business development officer as local-level facilitator. A marketing coordinator based in Dhaka will supervise and manage the activities of these centres and other market support functions, including participatory value chain analysis to

identify specific opportunities. These staff will play a proactive role in searching out market opportunities in both Dhaka and within the project districts, and in communicating their findings to farmers via POs. They will also respond to requests from farmers and POs for advice on marketing issues. In addition the service provider will train one DAE officer from each *upazila* in the facilitation of market linkage workshops. By providing business development support, facilitating linkages with market outlets and input suppliers, and supporting the formation of producer groups, the centres will develop a role as an "honest broker" between the farmers and the market. The marketing services sub-component (USD 178 400) will be contracted out by PKSF to a suitably qualified service provider, which will be responsible for organizing an initial orientation workshop attended by the newly-recruited marketing coordinator, six business development officers, the PKSF technical coordinator, and agriculturalists from about 22 POs.

Project Coordination and Management

23. PKSF will manage the project and be responsible for selecting 20-30 POs to participate therein. It will organize training for the capacity building of participating POs and be responsible for contracting out farmer training to DAE via a memorandum of understanding. DAE will nominate an officer as the focal point of contact for its linkages with the project. PKSF will employ a technical coordinator to manage these support activities and a training officer to ensure the quality of training provided. To enable PKSF to properly coordinate the project and monitor and supervise participating POs, the project will finance a vehicle and additional office equipment and furniture (USD 89 100). Financing will also be provided for workshops to plan, coordinate and review the progress of the project and to allow PKSF, POs and other agencies to share their experiences (USD 4 700). In addition to routine monitoring via the management information system (MIS), the project will finance ad hoc studies and periodic surveys to collect impact data from a sample of beneficiaries, including rapid nutrition surveys. Although most surveys will be entrusted to external organizations, PKSF's research and training unit may also be involved. The project will finance a monitoring officer to coordinate this work. Thus the project will further strengthen PKSF's MIS system to cover project lending and other support activities. Project costs also include provision for PKSF to hire specialized consultants for a total of six person-months over the life of the project to support any aspect of the project for which it lacks the necessary expertise. The total cost of project coordination and management, including incremental staff salaries and allowances, and incremental operating costs, is estimated at USD 694 700.

D. Costs and Financing

24. Total project costs, including contingencies, duties and taxes, are estimated at USD 29.74 million. Physical and price contingencies add only 1.4% to base costs because they are not applied to credit funds, which constitute 85% of base costs. Foreign exchange costs are estimated at USD 0.44 million, slightly less than 1.5% of total project costs. Investment and recurrent costs account for 93% (USD 27.34 million) and 7% (USD 1.99 million), respectively, of the total base costs (USD 29.34 million). With an estimated 210 000 beneficiary households and an average of 4.6 persons per household, the cost per beneficiary is USD 31. The proportion of project costs that will be channelled directly to the beneficiaries is 89%. The project will be financed by IFAD (67%), PKSF (27%) and participating POs (6%). There will be no direct government contribution to project costs. IFAD will provide a loan of USD 20.06 million, of which 87% (USD 17.50 million) will be on-lent as loans to POs. The remaining 13% of the IFAD loan will be used for capacity building and farmer technical support/training. Project financing from PKSF is estimated at USD 7.95 million and from POs at USD 1.73 million.

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

Components	Local	Foreign	Total	% of Foreign Exchange	% of Base Costs
A. Microfinance services					
1. PKSF credit fund	25 000.0	-	25 000.0	-	85
2. Disaster reserve fund	379.7	-	379.7	-	1
3. Crop storage pilot	60.2	9.2	69.3	13	-
4. PO start-up	1 006.9	75.7	1 082.6	7	4
Subtotal	**26 446.8**	**84.9**	**26 531.6**	**-**	**90**
B. Capacity building and market linkages					
1. Agricultural extension services	918.1	-	918.1	-	3
2. Group development support	634.9	49.9	684.8	7	2
3. PKSF services	140.9	190.0	330.9	57	1
4. Marketing services	157.0	21.5	178.4	12	1
Subtotal	**1 850.8**	**261.4**	**2 112.2**	**12**	**7**
C. Project coordination and management	**644.1**	**50.6**	**694.7**	**7**	**2**
Total base costs	**28 941.7**	**396.9**	**29 338.5**	**1**	**100**
Physical contingencies	249.5	32.1	281.6	11	1
Price contingencies	107.4	11.4	118.8	10	-
Total project costs	**29 298.6**	**440.4**	**29 738.9**	**1**	**101**

[a] Any discrepancies in totals are due to rounding up.

TABLE 2: FINANCING PLAN[a]
(USD '000)

Components	IFAD		PKSF		NGO POs		Total		Foreign Exchange	Local (Excl. Taxes)	Duties and Taxes
	Amount	%	Amount	%	Amount	%	Amount	%			
A. Microfinance services											
1. PKSF credit fund	17 500.0	70.0	7 500.0	30.0	-	-	25 000.0	84.1	-	25 000.0	-
2. Disaster reserve fund	50.7	12.1	-	-	367.0	87.9	417.7	1.4	-	417.7	-
3. Crop storage pilot	62.2	80.0	-	-	15.5	20.0	77.7	0.3	10.3	66.1	1.3
4. PO start-up	81.3	7.1	-	-	1 065.2	92.9	1 146.5	3.9	81.3	1 051.5	13.7
Subtotal	**17 694.2**	**66.4**	**7 500.0**	**28.2**	**1 447.8**	**5.4**	**26 641.9**	**89.6**	**91.6**	**26 535.3**	**15.0**
B. Capacity building and market linkages											
1. Agricultural extension services	1 043.0	100.0	-	-	-	-	1 043.0	3,5	-	1 043.0	-
2. Group development support	463..2	62.0	-	-	283.5	38.0	746.7	2.5	54.0	685.2	7.5
3. PKSF services	376.0	100.0	-	-	-	-	376.0	1.3	217.8	158.2	-
4. Marketing services	174.3	91.1	17.1	8.9	-	-	191.4	0.6	23.3	166.1	1.9
Subtotal	**2 056.6**	**87.2**	**17.1**	**0.7**	**283.5**	**12.0**	**2 357.0**	**7.9**	**295.1**	**2 052.5**	**9.4**
C. Project coordination and management	**308.1**	**41.6**	**431.9**	**58.4**	**-**	**-**	**740.0**	**2.5**	**53.7**	**681.2**	**5.0**
Total disbursement	**20 058.7**	**67.4**	**7 949.0**	**26.7**	**1 731.3**	**5.8**	**29 738.9**	**100.0**	**440.4**	**29 269.1**	**29.5**

[a] Any discrepancies in totals are due to rounding up.

E. Procurement, Disbursement, Accounts and Audit

25. **Procurement** of goods and services financed by the IFAD loan will be undertaken in accordance with IFAD's 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, for that costing USD 20 000 (or equivalent) or more, national competitive bidding procedures open to international suppliers will apply. Contracts costing USD 60 000 (or equivalent) or more will require prior review by IFAD. The recruitment of consultants will follow procurement procedures for consulting services acceptable to IFAD. Direct contracting procedures will be adopted for the 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, which are acceptable to IFAD, supervised by PKSF.

26. **Disbursement, accounts and audit.** A special account in United States dollars in the Bangladesh Bank and operated by PKSF, as authorized by the Ministry of Finance (MOF), will be set up to facilitate the regular flow of funds. The initial deposit is expected to be USD 2.0 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 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

27. The project organization will involve the MOF, PKSF and their POs. Other organizations involved may include large NGOs/service providers such as BRAC (formerly the Bangladesh Rural Advancement Committee but now known only by its acronym) to provide training and technical support services under contract with PKSF, and public-sector agencies such as DAE and the agricultural research institutes to provide services under contract. 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. PKSF will follow its well-established system for working with its POs (including monitoring their performance) and will channel funds to POs in accordance with the standard terms and conditions of PO loan and grant agreements. 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. To reduce the administrative burden, PKSF will not establish an independent project management unit but rather mainstream project activities within the PKSF management structure, with the managing director of PKSF acting as project coordinator.

G. Economic Justification

28. Increased production from farm and non-farm enterprises and improved livelihoods among small and marginal farmer households will be the project's main quantifiable benefits. Other benefits will 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 that will directly benefit from the project's microcredit and technical support is 210 000.

29. **Gender benefits.** An estimated 90% of beneficiaries will be women. The project will directly benefit women by providing them with increased access to financial services, knowledge and technology, and enabling them to acquire leadership and management skills through training. The provision of credit to households via women has been shown to have a significant strategic gender impact in terms of enhancing women's role in decision-making; increasing acquisition of assets in the women's own names; and reducing violence against women. The successful management of credit and the development of agricultural and other income-generating businesses will lead to an improvement in women's socio-political status.

30. **Financial and economic analysis.** No formal economic analysis has been carried out because the likely uptake of loans for different farm and off-farm enterprises cannot be predicted with any certainty. However, in line with standard practice for microfinance projects, a financial viability assessment of likely investments has been undertaken. Agricultural production and income-generating activity models demonstrate that there are attractive and financially viable investments available to target group households. Farm models for marginal and small farmers show increases in incomes of up to 81%, 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. Analysis of the financial viability of project credit operations for POs has also been undertaken. Overall expenses in PY 6 amount to 12% of the amount outstanding, compared with the yield of 18%, which leaves 6% for contributions to the disaster reserve, replacement of capital equipment (motorcycles, computers, etc.) and for growth in equity funds to gradually replace the PKSF funding.

H. Risks

31. There are no major technical risks associated with the project. The enterprises in which the microcredit borrowers are likely to invest are being successfully operated all over Bangladesh, and the POs will employ agricultural technical assistants to train and support the borrowers who wish to invest in agricultural enterprises. Two risks stand out: possible policy changes in the microfinance sector, in particular on interest rates; and overcrowding within an increasingly saturated NGO microfinance sector. On the first point, at the Bangladesh Development Forum in May 2004, the Government confirmed that there would be no imposition of caps on interest rates. In respect to the second point, the project aims to reach a new target group for microfinance. There is a large unmet demand for credit from small and marginal farmers. The 14 project districts have a total of almost 2 million small and marginal farmers; therefore, with its target of just over 210 000 members, the project will reach only 9% of this target group.

I. Environmental Impact

32. An environmental screening and scoping note (ESSN) was prepared during formulation in line with IFAD procedures. The ESSN classified the project as Category B and confirmed that there is no potential for significant negative impact.

J. Innovative Features

33. The project design contains certain innovative features new to Bangladesh. The project will be piloting a new institutional approach to the delivery of financial services to poor farmers in Bangladesh by involving PKSF instead of traditional partners such as the agricultural/commercial banks. It also includes a learning dimension as it is expected that PKSF POs will adopt differing approaches to delivery of credit to farmers. This may involve extending the grace period before

repayments start; extending the period between repayments from weekly to fortnightly, monthly or even quarterly; making regular payments of service charges only during the first part of the loan period, followed by a series of payments of both service charge and principal ("balloon loans"); and seasonal loans with lump sum repayment at the time of harvest. However in making innovations in lending systems, it is important to ensure that loans are viable for the lending institution and hence sustainable. During implementation there will be regular opportunities for POs to learn from each other about the successes and failures of different implementation approaches. It is expected that, by project completion and based on this experimentation by POs, PKSF will have gained a thorough understanding of how to manage financial services for the farming community.

PART III – LEGAL INSTRUMENTS AND AUTHORITY

34. 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.

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

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

PART IV – RECOMMENDATION

37. 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 thirteen million four hundred thousand Special Drawing Rights (SDR 13 400 000) to mature on or prior to 1 November 2044 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

ANNEX

SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE NEGOTIATED LOAN AGREEMENT

(Loan negotiations concluded on 10 November 2004)

1. **Counterpart funds.** The Government of the People's Republic of Bangladesh (the "Government") will ensure that the PKSF (lead project agency) makes available to the project funds from its own resources in an aggregate amount of USD 7 950 000 or its equivalent in accordance with the Subsidiary Grant and Loan Agreement (SLGA). The lead project agency will transfer available funds and other resources called for in the annual work programme and budgets to each PO, in accordance with the relevant partner organization agreement (POA), to carry out the relevant project component in accordance with such POA.

2. **Key project staff.** The Government will ensure that the Managing Director of PKSF will be appointed project coordinator and remain in such role until the project completion date, and that the lead project agency appoints and maintains on its staff a technical coordinator, a training officer and a monitoring officer dedicated to the project throughout the project implementation period.

3. **Monitoring.** Within six months after the effective date, the lead project agency will expand its current MIS to include training and technical support activities, and the lead project agency will ensure that as a condition for PO participation in the project, each PO's MIS includes training and technical support activities, in a manner satisfactory to IFAD. The MIS of the lead project agency and each PO will also perform results-and-impact monitoring, acceptable to IFAD, to gather information on agricultural enterprises and project impact, including rapid nutrition surveys.

4. **Insurance.** The lead project agency will insure project personnel under and in accordance with its insurance policy for its regular staff, and will adequately insure vehicles and equipment financed from the proceeds of the loan during the entire project implementation period.

5. **Gender focus.** The Government will ensure that due consideration is given to gender issues in project implementation and management, in respect of project beneficiaries, the recruitment of project staff by the lead project agency and POs, etc.

6. **Partner organization agriculturalist.** The lead project agency will ensure that each PO will recruit one agriculturalist in a timely manner.

7. **Legal framework.** The Government will continue to support the development and coming into force of an enabling legal environment for microfinance institutions in the project area.

8. **Additional events of suspension.** The following are specified as additional events of suspension of the Government's right to make withdrawals from the loan account.

(a) IFAD may suspend in the event that:

(i) the SLGA, or any provision thereof, has been waived, suspended, terminated, amended or otherwise modified without the prior consent of IFAD, and IFAD has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the project; or

(ii) any competent authority has taken any action for the dissolution of the lead project agency or the suspension of its operations, or any action or proceeding has been commenced for the distribution of any assets of the lead project agency among its creditors.

(b) IFAD will suspend, in whole or in part, the right of the Government to request withdrawals from the loan account if the audit report, required under Section 5.02, has not been satisfactorily completed within 12 months after the financial reporting period set forth therein.

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

(a) the lead project agency will have nominated its Managing Director as project coordinator, and appointed a technical coordinator, a training officer, and a monitoring officer to work exclusively on the project;

(b) the lead project agency, through the Finance Division, MOF, will have duly requested, in writing, the Government's Central Bank to establish the special account for the project, to be operated by the lead project agency;

(c) the Government will have issued any necessary powers and/or delegation of authority to the lead project agency for the full operation, inter alia*,* the special account;

(d) the lead project agency will have duly opened the project account;

(e) the 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;

(f) the SLGA, in form and substance acceptable to IFAD, will have been duly signed by the Government and the lead project agency; the signature and performance thereof by the Government and lead project agency will have been duly authorized or ratified by all necessary corporate, administrative and governmental action; and a copy of the signed SLGA, certified as a true and complete copy thereof by a competent officer of the Government, will have been delivered to IFAD; and

(g) a favourable legal opinion, in form and substance acceptable to IFAD, will have been delivered by the Government to IFAD.

COUNTRY DATA

BANGLADESH

Land area (km^2 thousand), 2002 1/	130	**GNI per capita (USD), 2002 1/**	380
Total population (million), 2002 1/	135.7	**GDP per capita growth (annual %), 2002 1/**	2.6
Population density (people per km^2), 2002 1/	1 042	**Inflation, consumer prices (annual %), 2002 1/**	3
Local currency	Taka (BDT)	**Exchange rate: USD 1 =**	BDT 59.25

Social Indicators	
Population (average annual population growth rate), 1996-2002 1/	1.7
Crude birth rate (per thousand people), 2002 1/	28
Crude death rate (per thousand people), 2002 1/	8
Infant mortality rate (per thousand live births), 2002 1/	48
Life expectancy at birth (years), 2002 1/	62
Number of rural poor (million) (approximate)	n/a
Poor as % of total rural population	n/a
Total labour force (million), 2002 1/	72.4
Female labour force as % of total, 2002 1/	43
Education	
School enrolment, primary (% gross), 2002 1/	98 a/
Adult illiteracy rate (% age 15 and above), 2002 1/	59
Nutrition	
Daily calorie supply per capita	n/a
Malnutrition prevalence, height for age (% of children under 5), 2002 3/	45 a/
Malnutrition prevalence, weight for age (% of children under 5), 2002 3/	48 a/
Health	
Health expenditure, total (as % of GDP), 2002 1/	4 a/
Physicians (per thousand people)	n/a/
Population using improved water sources (%), 2000 3/	97
Population with access to essential drugs (%), 1999 3/	50-79
Population using adequate sanitation facilities (%), 2000 3/	48
Agriculture and Food	
Food imports (% of merchandise imports), 2002 1/	16 a/
Fertilizer consumption (hundreds of grams per ha of arable land), 2002 1/	1 676 a/
Food production index (1989-91=100), 2002 1/	140
Cereal yield (kg per ha), 2002 1/	3 324
Land Use	
Arable land as % of land area,2002 1/	62 a/
Forest area as % of total land area, 2002 1/	10 a/
Irrigated land as % of cropland, 2002 1/	52 a/

Economic Indicators	
GDP (USD million), 2002 1/	47 563
Average annual rate of growth of GDP 1/	
1982-1992	3.8
1992-2002	5.0
Sectoral distribution of GDP, 2002 1/	
% agriculture	23
% industry	26
% manufacturing	16
% services	51
Consumption, 2002 1/	
General government final consumption expenditure (as % of GDP)	5
Household final consumption expenditure, etc. (as % of GDP)	77
Gross domestic savings (as % of GDP)	18
Balance of Payments (USD million)	
Merchandise exports, 2002 1/	6 093
Merchandise imports, 2002 1/	7 914
Balance of merchandise trade	-1 821
Current account balances (USD million)	
before official transfers, 2002 1/	-2 506
after official transfers, 2002 1/	742
Foreign direct investment, net 2002 1/	46
Government Finance	
Overall budget surplus/deficit (including grants) (as % of GDP), 2002 1/	-3 a/
Total expenditure (% of GDP), 2002 1/	13 a/
Total external debt (USD million), 2002 1/	17 037
Present value of debt (as % of GNI), 2002 1/	22
Total debt service (% of exports of goods and services), 2002 1/	7
Lending interest rate (%), 2002 1/	16
Deposit interest rate (%), 2002 1/	8

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

1/ World Bank, *World Development Indicators* database CD ROM 2004.
2/ United Nations Development Programme (UNDP), *Human Development Report*, 2000.
3/ UNDP, *Human Development Report*, 2004.

PREVIOUS IFAD FINANCING TO BANGLADESH

Project/Programme 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	92%
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	62%
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	22%
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 4000 000	61%
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	53%
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%
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	79%
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	99%
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%
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	99%
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	95%
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	88%
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	80%
Aquaculture Development Project	IFAD	UNOPS	HC	23 Apr 98	08 Dec 98	31 Dec 05	L - I - 472 - BD	SDR	15 000 000	60%
Smallholder Agricultural Improvement Project	IFAD	UNOPS	HC	29 Apr 99	17 Mar 00	30 Sep 06	L - I - 505 - BD	SDR	13 650 000	65%
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	6%
Microfinance and Technical Support Project	IFAD	UNOPS	HC	10 Apr 03	20 Oct 03	30 Jun 11	L - I -609 - BD	SDR	11 900 000	9%

AsDB: Asian Development Bank
IDA: International Development Association
UNOPS: United Nations Office for Project Services
HC: Highly concessional

LOGICAL FRAMEWORK

Objective Hierarchy	Key Performance Indicators and Targets	Monitoring Mechanisms and Information Sources	Assumptions and Risks
Goal			
Improved livelihoods for 210 000 poor, small and marginal farmer households	• ***Increase in the number of assets (land, livestock, goods, housing) owned by households (hhs) with data disaggregated by gender of member and hh head** • ***% of male and female children < 5 years malnourished and wasted compared to the level at project start-up, with data disaggregated by gender of member and hh head** • **No. of hhs with improved food security (months per year), with data disaggregated by gender of member and hh head** • **No. of hhs with improved water and sanitation disaggregated by gender of member and hh head** • No. of hhs with women owning land and livestock and with increased mobility Target 210 000 hhs	Baseline beneficiary profiles and project impact surveys (mid-term and completion) Anthropomorphic surveys (baseline mid-term and completion) Baseline beneficiary profiles and project impact surveys (mid-term and completion)	Overall economic and social situation remains stable Real price of rice does not increase sharply
Purpose of components			
1. Microfinance services Viable microfinance institutions have provided opportunities to 210 000 small and marginal farmer hhs to invest in on- and off-farm enterprises	• Delinquency as % loan outstanding • **% of operational self-sufficiency** • **% of operating cost/loan portfolio** • **% of outstanding loans/agents (staff productivity)** • **No. of enterprises established/expanded** • **No. of jobs generated by on- and off-farm enterprises** • Diversification of income: number of income sources Target – all project POs with viable operations; loan recovery >98% of amount due	PKSF financial monitoring data Group monitoring Baseline beneficiary profiles and project impact surveys (mid-term and completion)	Government remains supportive of NGO-MFI credit system
2. Capacity building and market linkages Increased agricultural production from access to information, adoption of new technologies and linkages to markets	• **Ha of incremental crops grown (cereals, forage, fruit, legumes, vegetables, roots and tubers)** • **No. of farmers reporting production/yield increases** • **No. of farmers adopting technology recommended by project by gender** • Increase in cropping intensity, land leasing, crop diversification, sales of crops, ownership of farm equipment • Livestock production increase: livestock numbers, sales of livestock products • No. of farmers using farm-to-market centres or reporting increase in access to markets Target: yields of crops increase by 10%; area of crops increases by 10%	Baseline beneficiary profiles and project impact surveys (midterm and completion) Knowledge, Attitude, Practice (KAP) surveys Market Centre reports	Smal scale crop, livestock, fishery and other enterprises remain profitable relative to other opportunities Appropriate technologies and market opportunities exist
3. Project management and coordination PKSF modalities developed and mainstreamed for lending to farmers and related agro-enterprises	• PKSF and its POs efficiently implement the project	Project reports	PKSF remains supportive of concept of lending to farmers

Objective Hierarchy	Key Performance Indicators and Targets	Monitoring Mechanisms and Information Sources	Assumptions and Risks
Output and activities by component			
Output 1. Microfinance services Microfinance services for small and marginal farmers established and being accessed by 210 000 hhs (approx. 11 500 groups)	• **Total hhs receiving project-financed services, with data disaggregated by gender** • **No. of members making regular savings; average savings/member (by gender)** • **Value of savings mobilized (by gender)** • **No. of members with current loans; average loan size (by gender)** • **Value of gross loan portfolio (loans outstanding – loans written off) (by gender)** • New lending modalities and disaster funds pilot tested and mainstreamed Targets: groups have @210 000 members (80% women); 210 000 members saving, 178 000 with loans	PKSF financial monitoring data Project reports	POs able to fund start-up costs largely from own resources
Activities	***KEY INPUTS***	***COST***	
Microfinance programmes for approximately 11 500 groups	• Loan funds for onlending by 20-25 PKSF POs • Project support for POs (equipment) • Disaster reserve fund established by POs • Pilot scheme for crop storage lending with 10 godowns	USD 26.6 million	
Output 2. Capacity building and market linkages (a) The capacity of men and women farmers developed for linkages to markets and technical support (b) PO capacity developed for sustainable lending to farmers (c) PKSF capacity extended to cover management and monitoring of lending to farmers	• **No of people accessing project facilitated technical advisory services** (groups meeting DAE staff at least once per month) • Farm-to-market centres and market linkage workshops provide farmers with market information • **No. of farmers trained** and % of training rated as effective • **No. of on-farm demonstrations held on farmers' land** and % rated as effective • No. of PO offices and staff involved in lending programme • POs establish and fund disaster reserve funds • No. of POs with agriculturalists • PO and PKSF staff know key facts involved in agricultural lending Targets: all groups link with DAE, inputs and markets; 840 000 places provided for technical training; 42 000 for business management; 11 500 demonstrations	Group monitoring data Market centre reporting PKSF and project monitoring data KAP surveys Project monitoring data	Project mechanisms to develop linkages and provide technical support to farmers are effective POs able to cover all support costs from interest income. PKSF able to manage farm lending alongside other activities
Activities	***KEY INPUTS***	***Cost***	
(a) Agricultural extension support: training, demonstrations, workshops	• Training from DAE for all group members three times • Demonstrations • Start-up workshops in all districts and twice-yearly meetings to plan activities • Linkage between all groups and block supervisors (BSs) • DAE provide technical training for DAE officers and BSs, PO agriculturalist and group organizers	USD 1.04 million	
(b) Group development support: PO technical staff, group member training and technology linkages	• POs recruit agricultural specialists (project support for part of salary cost for three years, plus motorcycle and computer) • POs provide skill training, social training, business development training, field days • Funding for linkages between POs and technology suppliers	USD 0.75 million	
(c) PKSF services: agricultural information; training of PO and PKSF staff; study tours	• Develop agricultural information • Project orientation training for PO directors, area managers, and field staff • Orientation and technical update for PO agriculturalists	USD 0.38 million	

Objective Hierarchy	Key Performance Indicators and Targets	Monitoring Mechanisms and Information Sources	Assumptions and Risks
	• Training for PO accountants and new group organizers • ToT training for PO staff on business development and social issues • Project orientation and monitoring training for PKSF staff • National-level professional training for senior PKSF and PO staff • International training and study tours for senior PKSF and PO staff		
(d) Marketing services: farm-to-market resource centres, DAE and PO staff training	• Establish six farm-to-market resource centres to develop market linkages and support producer organizations • Train DAE staff to facilitate market linkage workshops • Project orientation training for market centre staff, PKSF and PO staff	USD 0.19 million	
Output 3. Project management and coordination Project activities managed and coordinated by PKSF through their mainstream programme staff in a gender-sensitive way, in compliance with the loan agreement	• **% of disbursement of the IFAD loan** • Coordination of project activities effective • Regular monitoring of programme activities undertaken, with data disaggregated by gender • PKSF mainstreams project activities into its existing management structure	Project reports	PKSF able to recruit key staff
Activities	***KEY INPUTS***	***Base costs***	
– Prepare annual work programmes and budgets (AWP/Bs), progress reports and withdrawal applications – Operate special and project accounts – Procure vehicles and equipment – Manage the implementation of project components – Recruit service providers as necessary – Upgrade monitoring and evaluation (M&E) processes to cover project needs – Monitor project activities – Arrange for external audits, evaluations, workshops and special studies, when required – Undertake coordination of project activities	• Technical coordinator and training and monitoring officers appointed • Vehicles, computers and office equipment • Office and vehicle operating costs • Provision to hire service providers/consultants for ad hoc support • PKSF MIS system expanded to cover project activities • Impact evaluation surveys and studies • Project start-up and review workshops	USD 0.74 million	

Notes:
1. Indicators in bold are the IFAD Results and Impact Management System (RIMS) indicators and those with * are the RIMS anchor indicators.
The methodology for calculation of the anchor indicator for asset ownership has not yet been finalized.
2. Component 2 has four sub-components (a, b, c and d), each with own outputs and activities.
3. Further physical targets can be set at the goal and purpose levels, with baseline information collected from group members after groups have been formed.

COST AND FINANCING

Expenditure Accounts by Components
Totals Including Contingencies
(USD '000)

	Microfinance Services			Capacity Building and Market Linkages						
	PKSF Credit Fund	Disaster Reserve Fund	Crop Storage Pilot	PO Start-Up	Agricultural Extension Services	Group Development	PKSF Services	Marketing Services	Project Coordination	Total
I. Investment Costs										
A. **Civil Works**	-	-	47.4	-	-	-	-	-	-	47.4
B. Equipment										
Office Equipment & Furniture	-	-	-	28.1	-	28.1	-	9.3	38.0	103.5
Storage Equipment	-	-	27.8	-	-	-	-	-	-	27.8
Subtotal Equipment	-	-	27.8	28.1	-	28.1	-	9.3	38.0	131.3
C. Vehicles										
4WD	-	-	-	-	-	-	-	-	51.0	51.0
Motorcycles	-	-	-	67.0	-	33.5	-	8.0	-	108.5
Subtotal Vehicles	-	-	-	67.0	-	33.5	-	8.0	51.0	159.5
D. Technical Assistance (TA), Training, Contracted Services & Studies										
Beneficiary Training	-	-	-	-	858.2	328.9	-	3.9	-	1 191.0
Staff Training	-	-	-	-	83.1	-	335.9	3.9	-	422.9
Workshops & Meetings	-	-	-	-	101.6	-	-	15.7	4.7	122.0
National TA	-	-	-	-	-	-	-	-	7.7	7.7
Contractual Services & Studies	-	-	-	-	-	5.5	40.1	-	89.7	135.3
Subtotal TA, Training, Contracted Services & Studies	-	-	-	-	1 043.0	334.4	376.0	23.5	102.0	1 878.9
E. Credit Fund	25 000.0	-	-	-	-	-	-	-	-	25 000.0
F. Disaster Fund	-	417.7	-	-	-	-	-	-	-	417.7
Total Investment Costs	25 000.0	417.7	75.2	95.0	1 043.0	396.0	376.0	40.9	191.1	27 634.8
II. Recurrent Costs										
A. Staff Salaries & Allowances	-	-	-	-	-	350.7	-	74.9	461.0	886.6
B. Rent, Building & Equipment O&M	-	-	2.5	-	-	-	-	34.3	71.2	107.9
C. Vehicle O&M	-	-	-	-	-	-	-	41.4	16.7	58.1
D. PO Initial Overhead	-	-	-	1 051.5	-	-	-	-	-	1 051.5
Total Recurrent Costs	-	-	2.5	1 051.5	-	350.7	-	150.5	548.9	2 104.2
TOTAL PROJECT COSTS	25 000.0	417.7	77.7	1 146.5	1 043.0	746.7	376.0	191.4	740.0	29 738.9
Taxes	-	-	1.3	13.7	-	7.5	-	1.9	5.0	29.5

Disbursement Accounts by Financiers
(USD '000)

	IFAD		PKSF		Partner Organizations		Total		For.	Local (Excl.	Duties &
	Amount	%	Amount	%	Amount	%	Amount	%	Exch.	Taxes)	Taxes
A. Crop Storage Pilot											
Civil Works	37.9	80.0	-	-	9.5	20.0	47.4	0.2	-	47.4	-
Storage Equipment	22.2	80.0	-	-	5.6	20.0	27.8	0.1	10.3	16.2	1.3
Godown Rent & Operating Expences	2.0	80.0	-	-	0.5	20.0	2.5	-	-	2.5	-
Subtotal Crop Storage Pilot	62.2	80.0	-	-	15.5	20.0	77.7	0.3	10.3	66.1	1.3
B. Equipment & Vehicles											
4WD Vehicle	47.8	93.7	3.2	6.3	-	-	51.0	0.2	25.5	22.3	3.2
Motorcycles	88.5	81.6	1.5	1.4	18.5	17.0	108.5	0.4	88.5	-	20.0
Office Equipment & Furniture	98.5	95.2	2.3	2.2	2.7	2.6	103.5	0.3	79.7	18.8	5.0
Subtotal Equipment & Vehicles	234.8	89.3	7.0	2.6	21.2	8.1	262.9	0.9	193.7	41.1	28.1
C. TA, Training, Studies & Contractual Services	1 878.9	100.0	-	-	-	-	1 878.9	6.3	217.8	1 661.2	-
D. Credit	17 500.0	70.0	7 500.0	30.0	-	-	25 000.0	84.1	-	25 000.0	-
E. Disaster Fund	50.7	12.1	-	-	367.0	87.9	417.7	1.4	-	417.7	-
F. Salaries & Allowances											
PCU & Marketing Services	183.5	100.0	-	-	-	-	183.5	0.6	-	183.5	-
PCU Selected Staff	-	-	352.3	100.0	-	-	352.3	1.2	-	352.3	-
PO Agriculturalists	74.8	21.3	-	-	276.0	78.7	350.7	1.2	-	350.7	-
Subtotal Salaries & Allowances	258.3	29.1	352.3	39.7	276.0	31.1	886.6	3.0	-	886.6	-
G. Incremental Operating Expences											
Rent, O&M, & Operating Expences	73.9	80.0	18.5	20.0	-	-	92.3	0.3	18.7	73.7	-
PCU Office Operating Expences	-	-	71.2	100.0	-	-	71.2	0.2	-	71.2	-
PO Initial Overhead	-	-	-	-	1 051.5	100.0	1 051.5	3.5	-	1 051.5	-
Subtotal Incremental Operating Expences	73.9	6.1	89.7	7.4	1 051.5	86.5	1 215.1	4.1	18.7	1 196.4	-
Total Project Costs	20 058.7	67.4	7 949.0	26.7	1 731.3	5.8	29 738.9	100.0	440.4	29 269.1	29.5

IMPLEMENTATION ARRANGEMENTS AND RESPONSIBILITIES

Responsibilities of PKSF

1. PKSF will have overall responsibility for project implementation under the terms and conditions of a subsidiary loan and grant agreement (SLGA). The responsibilities of PKSF are to: (i) select interested and capable NGOs as POs to provide microfinance services and technical support to beneficiaries in the project area; (ii) disburse loans to POs for onlending to the beneficiaries; (iii) disburse grants to POs to cover training and other technical support costs; (iv) disburse low-interest loans to POs for the pilot crop storage lending sub-component; (v) reach agreement with DAE to provide technical support to group members and training for DAE and PO staff; (v) procure equipment and vehicles for PKSF and hire short-term national consultants as needed; (vi) develop the existing MIS to include project lending and training activities; (vii) monitor the performance of POs and the impact of the project; 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 in respect of microfinance and the technical support, and ensure the quality of the training provided by the POs and DAE to the beneficiaries; and (iii) select staff to attend short-term overseas courses.

3. In addition, PKSF will have responsibilities for planning, budgeting, reporting and the preparation and submission of withdrawal applications, and will: (i) prepare an AWP/B based on expected disbursements by the participating area offices of the selected POs during the following year, for review and comment by IFAD and the cooperating institution (UNOPS) by 15 May of each year; (ii) prepare and submit half-yearly and annual progress reports in English, in a format acceptable to IFAD and UNOPS no later than 15 February and 15 August of each year; (iii) prepare annual financial statements for all project expenditures in the province for submission to IFAD and UNOPS by 30 September of 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 onward transmission to the MOF and IFAD for reimbursement or replenishment of the special account.

Responsibilities of POs and Service Providers

4. POs will be responsible for providing microfinance services to the target group in the project area. In this respect, the POs will: (i) select the location for participating area offices and identify target group households following the project's targeting procedures under the overall guidance of PKSF; (ii) recruit at least one agriculturalist; (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 group members in accordance with their own procedures; (v) provide technical, management and social training to members of 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. Service providers may include DAE, other public-sector agencies, NGOs and private-sector institutions. Their responsibilities will be to provide training and technical services in support of the project and to report on these activities to PKSF.

Project Start-Up

5. In cooperation with the Government, IFAD and PKSF will organize a project start-up workshop in Dhaka after the signing of the loan agreement. The purpose of the workshop will be to explain the procedures related to project implementation, including budgeting, accounting, reporting, loan

disbursement and procurement. PKSF and PO staff assigned to the project will participate in this workshop.

Loan and Grant Agreements

6. PKSF will implement the project in accordance with the terms and conditions of an SLGA between the Government of Bangladesh, represented by the Finance Division of MOF, and PKSF. This arrangement follows the procedures adopted for IFAD's Microfinance and Technical Support Project. PKSF will channel funds to the POs in accordance with the standard terms and conditions of agreements between PKSF and POs

NGO Selection

7. PKSF will use their existing criteria, plus appropriate additional criteria, for the selection of POs. These will include, inter alia, the following.

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 operate credit programmes for self-employment and income-generation activities of the landless and assetless with an admissible service charge; and borrow money from government, semi-government, private and any other organizations.

8. The **organizers** or founders should be socially reputable, respected, and honest with the intention of serving the poor; acceptable to the staff, group members and to the community in general; and have the capability and vision to develop a strategic plan for the organization.

9. **Management.** The organization should have an organigramme and an adequate number of full-time staff to ensure proper implementation of microcredit programmes. In addition the chief executive should work full-time for the organization, possess the mentality to work on a long-term basis and for local organizations, and live in the working area; have good and dynamic leadership qualities, demonstrate good management capability and be able to formulate strategic plans for the organization; and have a good reputation and be acceptable to the staff, group members and to the community in general.

10. **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, dedicated and possess missionary zeal.

11. The **area of operations** of the organization should be well suited for microcredit operations, with a good communications network, banking facilities and easy access to markets so that the borrowers can use their loans profitably; and give preference to poverty-stricken and rural areas. In addition, there should be potential for expanding the programme by avoiding duplication with the activities of other organizations in the same area.

12. **Field activities.** Members of the beneficiary groups will be those who reside in rural areas and meet project targeting criteria. Members of a group must be like-minded people who are careful about group discipline, regularly attend group meetings and make regular saving deposits. The organization should have at least 400 organized members, an outstanding operating loan of BDT 0.2 million at the field level, and experience of at least six months' successful microcredit operations. 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 must 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% must be maintained on a continuous basis. Care should be taken to avoid overlapping with the activities of other organizations in the same area.

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

14. **MIS.** There should be a system for collecting information from members, groups and office levels in the interests of proper management and monitoring of the microcredit operation. Adequate information should be available regarding microcredit operations.

15. **Accounting system.** The organization should: (i) maintain a sound, systematic, correct, detailed and transparent accounting system; and (ii) have no record of misappropriation or illegal withdrawals of funds. Group members' savings accounts must be complete, transparent and correct. All the accounts should be duly audited by the proper authority and the reports readily available and must be correct and updated.

16. **Additional project requirements.** NGOs involved in implementing the project will be recruited from existing POs and will have an interest in developing and sustaining a lending programme for marginal and small farmers; a willingness to provide technical support and training for group members; good links to local and national-level government agencies and NGO service providers in agriculture and other relevant subjects; and a capability to report on project activities and collect required baseline and impact data.

Monitoring and Evaluation

17. 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:

- extension of PKSF's current progress monitoring system to cover training and technical support activities; and
- results and impact monitoring (in line with IFAD's Results and Impact Monitoring System) to gather more information on agricultural enterprises and project impact, including rapid nutrition surveys.

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

- **Monthly off-site monitoring**: every month, the PO sends a standard reporting form to PKSF with information on borrowers, savings, loan disbursements and recoveries. POs regularly send lists of their borrowers to PKSF and submit information on their financial performance.
- Field **visits by PKSF desk officers** are the backbone of the monitoring system. As a general rule, 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 institutionally develop the PO.

- Annual **audit by internal audit team**: PKSF conducts an audit of all POs, usually annually, before sanctioning a major expansion of their loans. The audit reports are submitted directly to the managing director, PKSF.
- Audit **by an audit firm:** part of the annual financial audit of PKSF, an external audit firm is engaged to verify the financial position of all POs.

19. Information is recorded on a comprehensive, computerized MIS and provides data on outputs and activities for comparison with indicators in the logframe. The MIS not only includes data collected by PKSF, but is being extended to the PO level so that it can be used for 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 position of the PO. The monitoring officer attached to the project will be responsible for collating and analysing the data relevant to this project.

20. **Group monitoring:** PKSF desk officers will gather data during routine visits to groups to verify MIS data, choosing indicators that will be quick to collect during group meetings. These indicators will provide information on the number of different types of enterprises established and access to technical services by groups.

21. **Activity reports and training evaluations:** Organizations undertaking training (POs and DAE) will report on training carried out each month. The effectiveness of training and demonstrations will be monitored via KAP surveys covering a sample of participating group members and project staff. The service provider contracted to implement the marketing services sub-component will also report on its activities and results in terms of use of marketing services by group members. Ad hoc surveys and case studies also will be carried out, particularly to maximize lesson-learning from innovations in lending. These surveys will be either contracted out to outside agencies or undertaken by PKSF's research and training wing.

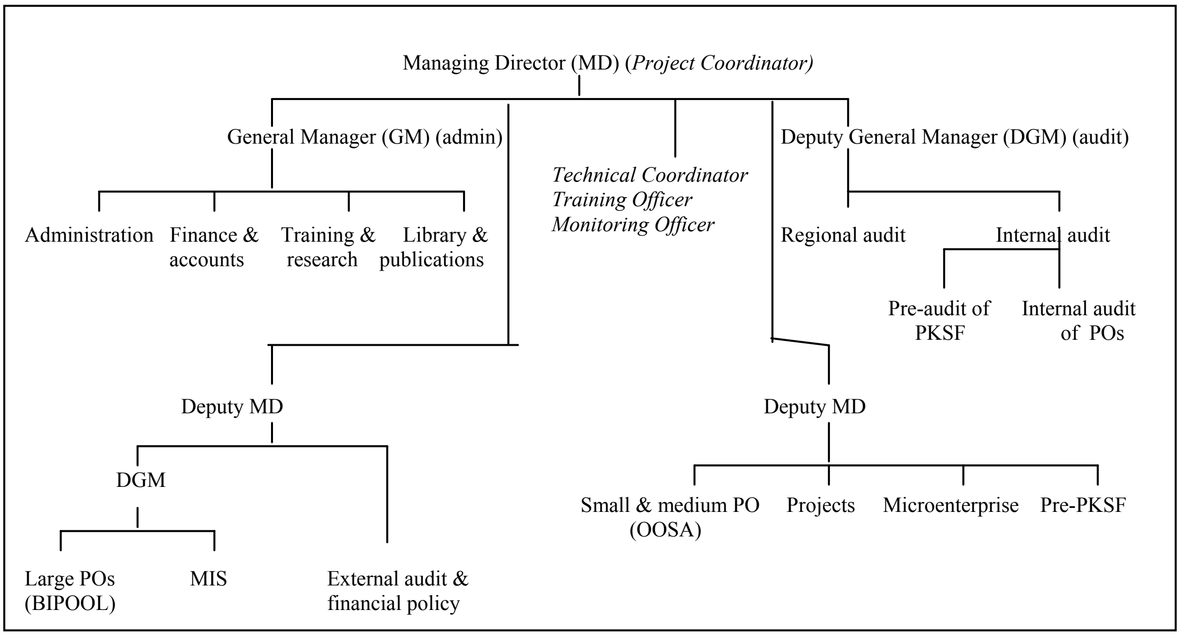
22. **Impact monitoring** will gather information on indicators of project objectives, including IFAD's RIMS indicators. This involves: (i) baseline profiles of all group member households on joining project groups; (ii) sample surveys at mid-term and completion to update profiles for a sample of members, and thereby obtain information on impact; and (iii) rapid nutrition (anthropomorphic) surveys to gather information on the extent of malnutrition and stunting among children under five years of age. These will be carried out soon after project start-up, at mid-term and completion. POs will complete the member profile forms, with the sample impact surveys and rapid nutrition surveys contracted to external agencies.

23. **Progress reports.** POs will follow the existing PKSF reporting system. PKSF will submit progress reports in English to IFAD to provide essential information on the physical and financial progress of project activities and regular assessment of the project impact using a similar format to that used for the IFAD-funded Microfinance and Technical Support Project.

24. **Mid-term and completion review.** In cooperation with PKSF and UNOPS, the Fund will undertake a mid-term review (MTR) in PY 3 to review the project's achievements and constraints, particularly the performance of the POs and PKSF, and the conclusions of the various impact assessments of project impact and performance. Based on the findings of the MTR, a mutually acceptable action plan for the remainder of the project will be prepared. Prior to this, impact and other surveys will be carried out to obtain information on progress in meeting project objectives. On completion of the investment programme, but before loan closing, PKSF will prepare a project completion review in accordance with IFAD's standard format.

ORGANIZATIONAL CHART

Management Structure of PKSF and Project Staffing



Note: Project coordination unit staff in italics.

ECONOMIC AND FINANCIAL ANALYSIS

1. A detailed economic analysis has not been undertaken because the likely uptake of loans for the different farm and off-farm enterprises cannot be predicted with any certainty. Under these circumstances the calculation of a benefit stream is problematic. However in line with standard practice for microfinance projects, a financial viability analysis has been undertaken for the likely investments made by beneficiaries and for the PO operations.

2. Crop and livestock enterprise budgets were prepared to assess the increase in net income as households with assets and labour profiles typical of marginal and small farmers gain access to credit and are able to intensify and/or diversify. Livestock constitute a major part of the farming system, particularly important for farmers with less land, and are highly integrated with crop production with farm animals consuming crop by-products and providing manure and draught power for crop production. Figures for individual enterprises therefore tend to overestimate costs and underestimate overall returns. Nevertheless Tables 1 and 2 show that these on-farm production models are attractive and form the basis for the analysis of farm enterprise models.

Table 1: Estimated Increases (%) in Net Income from Crop Enterprises

	Production Enterprise	Present input/output/ha (without project)				Projected input/output (with project)				% Increase in net income
		Prod/ha (Kg)	Gross income (BDT)	Prod cost (BDT)	Net Income (BDT)	Prod/ha (Kg)	Gross income (BDT	Prod cost (BDT)	Net Income (BDT)	
1.	Boro rice	4 650	32 876	20 581	12 295	5 115	36 163	20 992	15 171	23
2.	T. aman rice	3 713	29 210	12 414	16 796	4 084	32 131	12 662	19 469	16
3.	Aus rice	3 225	24 091	13 882	10 209	3 548	26 499	14 160	12 339	21
4.	Wheat	2 223	27 254	15 044	12 210	2 490	30 524	15 345	15 180	24
5.	Maize	6 484	43 997	22 904	21 093	7 132	48 397	23 362	25 035	19
6.	Potato	13 894	55 575	33 742	21 834	16 673	66 690	34 416	32 274	48
7.	Tomato	3 705	44 460	17 292	27 168	4 446	53 352	17 638	35 714	31
8.	Chilli	3 705	44 460	17 292	27 168	4 446	53 352	17 638	35 714	31
9.	Onion	8 398	67 184	25 195	41 989	10 078	80 621	25 699	54 922	31

Table 2: Estimated Net Income from Livestock Enterprises

	Production Enterprise	Net Income after Financing/Average Cash Flow net of loan (BDT/year)	Labour days	Return per labour day (BDT/day)
1.	Dairy cows	6 790	135	92
2.	Beef fattening	2 308	40	91
3.	Goat breeding	3 810	225	17
4.	Kid rearing	828	38	22
5.	Broiler production	6 020	50	119
6.	Duck egg production	14 721	180	82
7.	Chicken egg production	3 930	91	43

3. In order to assess the degree to which farm incomes would rise as a result of the project, two farm models were constructed to indicate the financial situation of a marginal farmer and a small farmer in each of the two project regions. Net farm income was calculated based on the expected benefits to be derived from the project; these are: (i) an increase in area rented for the marginal farmer of 0.2 acres; (ii) an increase in cropping intensity; (iii) a switch to more profitable commercial crops; (iv) the establishment of a new beef-fattening enterprise by the marginal farmer; and (v) milk production by the small farmer with a cross-bred cow in place of a traditional animal. A summary of calculations is shown in Table 3.

Table 3: Summary of Farm Models

	Marginal farmer			Small farmer		
	Before	After	Increase	Before	After	Increase
Cultivated land Own	0.8	0.8	0.0	2.0	2.0	0.0
Acres Rented	0.2	0.4	0.2	0.0	0.0	0.0
Total	1.0	1.2	0.2	2.0	2.0	0.0
North-central						
Cropping intensity	192%	205%	13%	192%	205%	13%
Net margin from crops*	8 979	15 054	68%	18 427	25 954	41%
Net margin from livestock*	0	2 308	0	-310	6 790	
Total Taka	8 979	17 362	93%	18 117	32 744	81%
Plus value of household labour	6 398	8 837	38%	13 028	15 299	17%
Total household income	15 377	26 199	70%	31 145	48 044	54%
Hired labour (days)	5	32	575%	58	80	39%
North-west						
Cropping intensity	160%	180%	20%	160%	180%	20%
Net margin from crops*	9 614	15 662	63%	19 697	26 968	37%
Net margin from livestock*	0	2 308		-310	6 790	
Total Taka	9 614	17 970	87%	19 387	33 758	74%
Plus value of household labour	3 331	5 464	64%	8 509	10 554	24%
Total household income	12 945	23 434	81%	27 896	44 312	59%
Hired labour (days)	4	28	687%	42	65	55%

*Margin net of land rent and loan interest costs.

4. The models indicate that targeted households in the north-central region could anticipate an increase in farm income (including the value of household labour) of 70% for a marginal farm and 54% for a small farm. Targeted households in the north-west region could expect an increase in farm income of 81% for a marginal farm and 59% for a small farm. In all cases it is expected that, with the project, households would hire more labour. The models illustrate the financial position before and after the application of incremental capital on farm. In practice, farms will develop gradually over a period and, with a series of loans, may invest in a range of both farm and non-farm activities.

5. Projections also have been made for financial viability of non-farm enterprises typical in the project area. Representative budgets for paddy trading, fertilizer retailing and power tiller businesses show these businesses to be profitable and capable of producing a positive net income after financing.

6. Analysis of the financial viability of project credit operations for POs has been undertaken. Projections show that the overall expenses in PY 6 amount to 12% of the amount outstanding, compared with the yield of 18%, which leaves 6% for contributions to the disaster reserve, replacement of capital equipment (motorcycles, computers, etc.) and for growth in equity funds to gradually replace the PKSF funding.