

a

**IFAD**

**INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT**

**Executive Board – Eighty-Sixth Session**

Rome, 12-13 December 2005

**REPORT AND RECOMMENDATION OF THE PRESIDENT**

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE

**PEOPLE'S REPUBLIC OF BANGLADESH**

FOR THE

**MARKET INFRASTRUCTURE DEVELOPMENT PROJECT IN CHARLAND REGIONS**



**TABLE OF CONTENTS**

<b>CURRENCY EQUIVALENTS</b>	<b>iii</b>
<b>WEIGHTS AND MEASURES</b>	<b>iii</b>
<b>ABBREVIATIONS AND ACRONYMS</b>	<b>iii</b>
<b>MAP OF THE PROJECT AREA</b>	<b>iv</b>
<b>LOAN SUMMARY</b>	<b>v</b>
<b>PROJECT BRIEF</b>	<b>vi</b>
<b>PART I – THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY</b>	<b>1</b>
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
<b>PART II – THE PROJECT</b>	<b>3</b>
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	10
F. Organization and Management	10
G. Economic Justification	11
H. Risks	11
I. Environmental Impact	12
J. Innovative Features	12
<b>PART III – LEGAL INSTRUMENTS AND AUTHORITY</b>	<b>12</b>
<b>PART IV – RECOMMENDATION</b>	<b>12</b>
<b>ANNEX</b>	
<b>SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES TO BE INCLUDED IN THE     NEGOTIATED LOAN AGREEMENT</b>	<b>13</b>

**APPENDIXES**

<b>I. COUNTRY DATA</b>	<b>1</b>
<b>II. PREVIOUS IFAD FINANCING IN BANGLADESH</b>	<b>2</b>
<b>III. LOGICAL FRAMEWORK</b>	<b>3</b>
<b>IV. COSTS AND FINANCING</b>	<b>6</b>
<b>V. IMPLEMENTATION ARRANGEMENTS AND RESPONSIBILITIES</b>	<b>8</b>
<b>VI. ORGANIZATIONAL CHART</b>	<b>11</b>
<b>VII. ECONOMIC AND FINANCIAL ANALYSIS</b>	<b>12</b>
<b>VIII. POST-PROJECT SUSTAINABILITY</b>	<b>13</b>

**CURRENCY EQUIVALENTS**

Currency unit	=	Taka (BDT)
USD 1.00	=	BDT 63.0
BDT 100	=	USD 1.59

**WEIGHTS AND MEASURES**

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

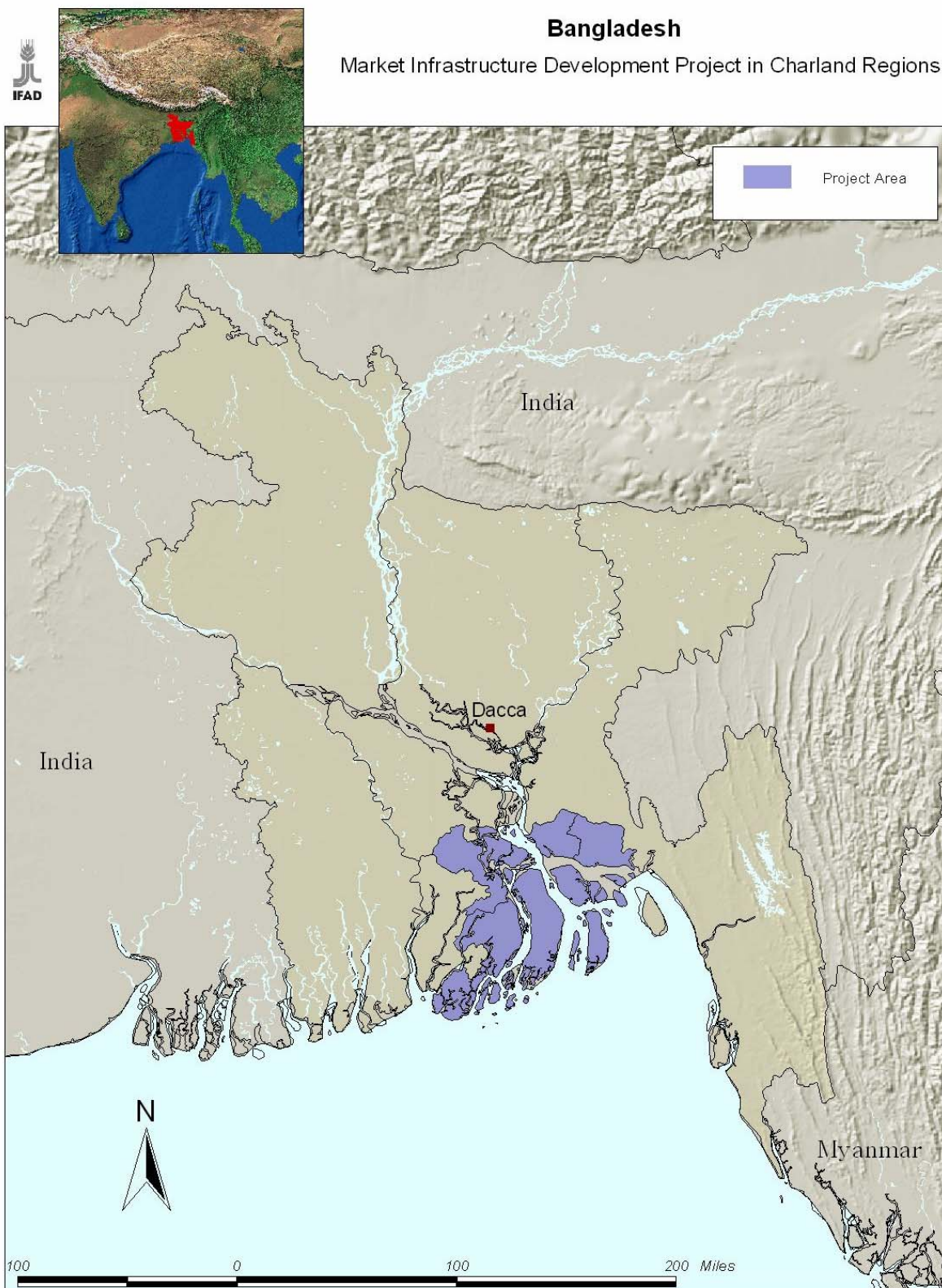
**ABBREVIATIONS AND ACRONYMS**

ASPS	Agricultural Sector Programme Support (DANIDA)
BUILD	Building Union Infrastructure for Local Development Project (USAID)
CDSP	Char Development and Settlement Project
DAE	Department of Agricultural Extension
DANIDA	Danish International Development Assistance
IGA	income-generating activity
LGED	Local Government Engineering Department
M&E	monitoring and evaluation
MMCs	market management committees
PMU	project management unit
RDP	Rural Development Programme (DANIDA)
USAID	United States Agency for International Development

**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**

**MARKET INFRASTRUCTURE DEVELOPMENT PROJECT IN CHARLAND REGIONS**

**LOAN SUMMARY**

<b>INITIATING INSTITUTION:</b>	IFAD
<b>BORROWER:</b>	People's Republic of Bangladesh
<b>EXECUTING AGENCY:</b>	Local Government Engineering Department
<b>TOTAL PROJECT COST:</b>	USD 43.9 million
<b>AMOUNT OF IFAD LOAN:</b>	SDR 17.55 million (equivalent to approximately USD 25.0 million)
<b>TERMS OF IFAD LOAN:</b>	40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum
<b>COFINANCIERS:</b>	The Netherlands Microfinance NGOs
<b>AMOUNT OF COFINANCING:</b>	The Netherlands: USD 4.8 million (grant) Microfinance NGOs: USD 4.2 million
<b>CONTRIBUTION OF BORROWER:</b>	USD 8.5 million
<b>CONTRIBUTION OF BENEFICIARIES</b>	USD 1.4 million
<b>APPRAISING INSTITUTION:</b>	IFAD
<b>COOPERATING INSTITUTION:</b>	United Nations Office for Project Services

## PROJECT BRIEF

**Who are the project beneficiaries?** The project area includes five districts in the coastal and estuarine chars (land located in an active river basin that is subject to erosion and accretion) of Bangladesh selected on the basis of poverty level, geographic remoteness and potential for developing market linkages. The project will target three distinct groups: (i) primary producers; (ii) small traders; and (iii) women labourers. The primary producer group is made up of households growing crops or raising livestock on less than 2.5 acres of land, fishers and fish farmers, and households with non-farm enterprises (such as food-processing, basket-making, cloth-weaving or pottery-making). Their common characteristic is that they are producing primarily for the market. It is expected that, by the end of the project, some 87 500 households will be directly benefiting from the project. The target group also includes small-scale entrepreneurs engaged in trade, both within and outside formal markets. Within this trader category, the project will especially target women, for whom market trading is a very low-status occupation; these women are often extremely poor. The project will also support traders who operate temporary stalls and are disadvantaged relative to owners of permanent shops. The third group are extremely poor women who, as members of labour-contracting societies, will be employed in project-financed construction and maintenance of roads and markets.

**Why are they poor?** First, they are vulnerable: the poor live in an area characterized by severe annual flooding and extensive river erosion. Vulnerability is increased by dependence on landlords, moneylenders, seasonality of income, and emergencies brought on by deaths, illnesses and crop losses. The remoteness and weak communication links to some of the districts and the associated lack of services (such as government, health and emergency services) further exacerbate the target group's vulnerability. Second, in considering the institutional, legal and policy framework that shapes the livelihoods of the poor, formal government services for rural development (with regard to agriculture and fisheries) at the local level are limited. Third, charland communities are constrained by poor road access and limited markets. In terms of market access, primary producers are limited by inadequate linkages with input suppliers and buyers and a lack of price information.

**How will the project benefit the target group?** To address these livelihood constraints, the project will adopt a people-centred approach, identifying potential producer groups in char areas, strengthening the capacity of group members and developing market and communications infrastructure to support them. To achieve this, the project will build physical infrastructure (market facilities and farm-to-market roads) while boosting capacity for market management. It will also provide market traders, small business operators and primary producers (farmers, fishers and others) with technical and management training and access to credit. Through the provision of microcredit, the project will seek to reduce and eventually eliminate the interlinkage between credit and market transactions whereby poor people receive loans from moneylenders to be repaid in the form of produce at discounted prices. This microcredit support will complement ongoing agricultural extension activities supported by other projects in the target area. The project will also specifically promote opportunities for women traders by reserving areas for them in markets and providing skills training.

**How will the target group participate in the project?** Beneficiaries will participate as members of project-supported groups. Building on the success of NGO microcredit programmes in Bangladesh, the project will contract experienced NGOs to support 70 000 group members (approximately 90% of whom will be women). The project will train group members in production-related subjects, while approximately 30 000 members will also receive management/marketing training. Group members will also be provided with social development training in gender, legal rights and health issues. A further 17 495 poor women will benefit from being employed through labour-contracting societies. Beneficiaries will participate in savings and credit activities; social and skills training; labour-contracting societies; marketing groups; and a market linkage programme. They will also be involved 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  
MARKET INFRASTRUCTURE DEVELOPMENT PROJECT IN CHARLAND REGIONS**

I submit the following report and recommendation on a proposed loan to the People’s Republic of Bangladesh for SDR 17.55 million (equivalent to approximately USD 25.0 million) on highly concessional terms to help finance the Market Infrastructure Development Project in Charland Regions. 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 as IFAD’s cooperating institution.

**PART I – THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY<sup>1</sup>**

**A. The Economy and the Agricultural Sector**

1. Bangladesh is a low-lying, deltaic plain that is prone 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 a population of nearly 138.1 million (2003), Bangladesh has one of the highest population densities in the world – 1 061 persons/km<sup>2</sup>. About 78% of the population live in rural areas. The population growth rate averaged 1.7% per annum between 1997 and 2003. Bangladesh is a very poor country, with a gross national income of USD 400 per capita (2003) and a ranking of 139 out of 177 countries on the United Nations Development Programme’s Human Development Index (2005). Yet, despite political instability, severe poverty and natural calamities, the economy has performed relatively well. Since the early 1990s, government economic reforms have established a liberalized, market-based and private-sector-led system of economic growth and development. Between 1993 and 2003, gross domestic product grew at more than 5% per annum. The agricultural sector, which still provides employment to 60% of the labour force, has posted average annual growth of 4.6% since the mid-1990s.

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

2. IFAD is an active member of the in-country Local Consultative Group, which meets regularly so that donors may share lessons and knowledge. Specifically, the following six key lessons from rural marketing projects have been incorporated into the design of the project. First, there is a need to tailor physical market development to local needs rather than imposing a standard design. Second, where market infrastructure includes the construction of specific facilities for women traders, further support is needed if women traders are to be successful. Third, market maintenance is rarely adequate. This can be attributed to a combination of weak management committees, lack of funds generated from leases in smaller markets, other priorities for local spending and the absence of clear market management plans. Fourth, demand-driven microfinance with technical support provided to savings and credit groups has worked well and has had a significant impact on beneficiaries. Fifth, it is possible to build marketing capacity at the producer level by promoting fruit and vegetable production

---

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

and creating market-operating groups— small subgroups of members of existing farmers' groups that are given larger microenterprise loans to invest in marketing activities such as vegetable-trading. Finally, workshops that bring traders and farmers together have been effective in building better market linkages.

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

3. **Bangladesh's policy for poverty reduction.** The draft National Strategy for Accelerated Poverty Reduction envisages that, by 2015, Bangladesh will have reduced the number of people living below the poverty line by 50%; improved on other poverty indicators (access to education, health services, child and maternal mortality and malnutrition rates); reduced social violence; provided for disaster management; and curbed environmental degradation. With three quarters of the country's population and 85% of the poor living in rural areas, agriculture and rural development are a top priority sector in the national poverty reduction strategy. The project specifically reflects the strategy's focus on: (i) rural infrastructure development; (ii) special support for agro-ecologically disadvantaged regions including coastal charlands;<sup>2</sup> (iii) more support for women in agriculture and the rural non-farm sector; and (iv) a strong role for NGOs and the private sector in working alongside the Government for poverty reduction.

4. **The poverty reduction activities of other major donors.** The project has been designed to have working-level synergies and complementarities with two important donor-supported projects: (i) the Char Development and Settlement Project – Phase III (CDSPIII), funded by the Netherlands, which provides flood protection on coastal chars in the south-eastern districts of Noakhali, Lakshmirpur and Feni; and (ii) the forthcoming second phase of the Agricultural Sector Programme Support (ASPS II), funded by Danish International Development Assistance (DANIDA), which will include support for markets and agriculture in the Greater Barisal and Noakhali districts. Other donor-supported projects that offer prospects for learning and cross-fertilization include: the Northwest Crop Diversification Project, a joint project of the Asian Development Bank (AsDB) and the Department of Agricultural Extension (Bangladesh), which has a component for market development; the Building Union Infrastructure for Local Development (BUILD) project of the United States Agency for International Development (USAID), the Cooperative for Assistance and Relief Everywhere (CARE) and the Local Government Engineering Department of the Government of Bangladesh, which provides special support for women traders; the USAID/Ministry of Agriculture's Agro-Based Technology Development Project II (ATDP II) and the forthcoming AsDB-funded Agribusiness Development Project – both primarily targeted at agribusiness enterprises; the KATALYST project funded by the Swiss Agency for Development and Cooperation, the Department for International Development (DFID) of the United Kingdom of Great Britain and Northern Ireland and the Canadian International Development Agency, which provides support for private-sector suppliers of business development services; the DFID-funded Char Livelihood Programme – supporting rural development in four charland districts on the Jamuna River (Kurigam, Gaibandha, Jamalpur and Bogra); the Smallholder Livestock Development Project of the Department of Livestock Services and DANIDA operating in five southern districts; the DANIDA-supported Aquaculture Extension Projects in Patuakhali, Noakhali and Lakshmirpur; the DANIDA-funded Rural Development Programme (RDP)-16 (in Patuakhali) and RDP-23 (in Lakshmirpur) for constructing rural roads using labour-contracting societies; and the RDP-25 supported by the AsDB, the German Credit Institution for Reconstruction (KfW) and the German Agency for Technical Cooperation (GTZ), for constructing markets and rural roads in Barisal and Khulna divisions.

5. **IFAD's strategy in Bangladesh.** Since 1978, IFAD has extended 22 loans to Bangladesh on highly concessional terms, totalling USD 367 million. As of 6 September 2005, total disbursements of IFAD loans to the country stood at USD 299 million. Seventeen of the 22 loans are closed and five

---

<sup>2</sup> Land located in an active river basin subject to erosion and accretion.

are under implementation. The current country strategic opportunities paper (COSOP) identifies IFAD's strategic niche in Bangladesh as reducing poverty in marginal areas such as *haors*<sup>3</sup> and chars, through an integrated approach that supports infrastructure, microfinance, agricultural production and market linkages. The proposed project, which will promote development on the coastal chars, also is in line with IFAD's Strategic Framework for Poverty Reduction and its regional strategy for Asia by focusing on disadvantaged areas, on rural infrastructure and on enhancing women's capabilities. The project design is fully in line with the recommendations of the recently concluded 2005 country programme evaluation for Bangladesh, in particular the recommendation for more attention to pro-poor infrastructure development, including the employment of poor women through labour-contracting societies and the building of village roads and market infrastructure.

6. **Project rationale.** The considerable efforts made by the Government of Bangladesh and development partners to build rural infrastructure have to date been concentrated in high-potential areas of the country. Remote areas such as the charlands remain poorly connected to regional and national markets, and this isolation constrains their development. Furthermore, poor primary producers and market traders in such areas lack organization and technical capacity. Producers are not only unable to access markets but do not possess the capacity to exploit marketing opportunities where they do arise. With globalization and economic modernization, new market opportunities are emerging. For small rural producers not to be left behind, they need to be organized, skilled and able to exploit these opportunities. This project will address the dual constraints of poor access and low human capacity, and thus combine both the "hardware" and "software" aspects of market development. In addition, the project will capture opportunities for synergy with other development partners in the charlands of Bangladesh, in particular the CDSP III and DANIDA's proposed second phase of the ASPS project. A number of project design features will promote synergies with ASPS II during implementation, such as joint planning, joint review missions and joint staff training.

## PART II – THE PROJECT

### A. Project Area and Target Group

7. **Project area.** The project will focus on 20 subdistricts in the following five districts covering the coastal and estuarine chars of Noakhali, Lakshmirpur, Bhola, Barisal and Patuakhali. Many of these subdistricts are among the poorest in Bangladesh. The chars, particularly the char islands, are located near the country's borders. The lack of communication linkages means that there is very little state presence. Where there are police stations and government offices, these are often understaffed. In the charland areas, even more than in other areas of the country, the locally powerful hold sway over economic and social life. The characteristic feature of economic and social relations in the chars is one of "patronization and exploitation". Also, with high levels of male outmigration, women-headed households are extremely prevalent.

8. **Target group.** The project has three distinct target groups: (i) primary producers; (ii) small traders; and (iii) women labourers. The primary producer group is made up of households growing crops or raising livestock on less than 2.5 acres of land; fishers and fish farmers; and households with non-farm enterprises (such as food-processing, basket-making, cloth-weaving or pottery-making). Their common characteristic is that they produce primarily for the market. Small traders operate both within formal markets and outside the markets (via direct contact with producers or through contracts with agribusinesses, for example). Within the trader category, the project will especially target women, for whom market trading is a very low status occupation; these women are often extremely poor. Male traders may be classed as both poor and non-poor, but most operate on their own with very

---

<sup>3</sup> Large natural inter-riverine depressions typically extending over 1 000 ha or more; may be inundated to depths of three metres or more during monsoon season.

few employees. The great majority of the landless live below the poverty line and, nationally, 41% of marginal and small farmers are also in this category. The proportion of poor farmer households is higher in char areas due to the low productivity of the land. Even farmers living just above the poverty line, for instance those in the coastal zone, are extremely vulnerable to natural disasters. The project will specifically target households settled on charlands by the CDSP III project. The selection process for these households ensures that, prior to settlement, they were among the poorest, with very limited land or other assets. NGOs tend to target women when setting up microcredit groups, and it is expected that over 80% of the members of groups established under the project will be women. The support they receive will have a significant impact on gender relations at the household level and beyond. The third target group are extremely poor women who, as members of labour-contracting societies, will be employed in road and market construction under the project. The Local Government Engineering Department (LGED) will select the women for this work, which, by its nature, is only of interest to women from the very poorest households.

## B. Objectives and Scope

9. The project goal is to improve the well-being and reduce the poverty of 87 500 direct beneficiary households – comprising primary producers, char-based traders (both women and men), and landless and single women. This will be achieved through: (i) improvement of market facilities and the terms of access for men and women to rural markets; (ii) increased wage employment for poor women; (iii) increased production and sale of goods for the market; and (iv) movement of primary producers up the value chain.

## C. Components

### Infrastructure Development

10. In response to the needs and priorities of target communities, an infrastructure development component will strengthen market management and develop market facilities and farm-to-market roads.

11. **Market management strengthening.** This subcomponent will promote greater participation by market users, improved access (especially for women) and more efficient management of markets. The project will seek to ensure that 80 market management committees (MMCs) are formed in accordance with the Government's 2002 market leasing policy. As well as providing training and support for MMCs, the project will support associations of market users such as temporary stallholders, women traders and farmers to give them a greater voice in market decisions. To do so, the project will finance a series of workshops, training courses and visits for those involved directly or indirectly in market management. Much of the work in developing market management capacity will be carried out by LGED community organizers. The project will train the community organizers and provide them with a motorcycle, if needed. To help in selecting the markets used by project group members, LGED will commission studies on market management arrangements and linkages with project groups. The project will finance a market advisor for eight months to assist MMCs with the preparation of market development plans, and a legal advisor for two months to draw up procedures for leasing market sheds to user groups and to allow market leases to be given to properly constituted MMCs. Finally, an annual competition for the "best market" will be held, with prizes awarded as incentives.

12. **Market infrastructure.** This subcomponent aims to make markets function more efficiently, to improve market management and increase market access for the poor and for women. The project will develop infrastructure in 55 small local markets and five assembly markets. Though not actually located in char areas, larger assembly markets are used by char dwellers. Project investment in market infrastructure will include brick paving, raising land surface above flood level, internal roads, drains,

tubewells, toilets and waste-collection points. Discussions with market users identified paved areas and drains as priorities; however the exact scope of work will depend on the needs of individual markets. Where market sheds are leased, the leaseholder commonly charges a premium toll rate for their use. To ensure that market users capture project benefits, the project will finance the provision of market sheds subject to agreement that they be handed over to a group of users (traders or farmers) at reasonable fixed lease fees to be paid directly to a senior government official at the subdistrict level, on the same basis that women's market areas are leased by women users. Based on demand, the project will finance the construction of standard women's market sections – a unit of three to eight shops plus a toilet with water supply in 50% of the 60 markets. To overcome the weaknesses of earlier sections of this kind, criteria for selection of women shopkeepers will place greater emphasis on business experience and access to capital. In all markets, including those without such sections, areas will be reserved for women who are temporary traders selling poultry, vegetables, etc. All project-financed market development work will be carried out by labour-contracting societies on the pattern that was successful in the BUILD project. Labour-contracting societies will comprise 15 to 20 members, of which one third will be men. The project will fund a construction supervisor with a motorcycle to oversee two market development schemes each year.

13. **Transport infrastructure.** This subcomponent will reduce loan-to-market transport costs and improve rural communications in general. The project will upgrade transport infrastructure connecting the selected markets to production areas and to larger assembly markets. The project will finance 360 km of road construction, including 120 km of paved roads at the union (i.e. below the subdistrict) level and 240 km of village roads, and 40 landing piers for boats. Project costs include compensation for persons affected by unavoidable land losses. Land acquisition procedures will be based on government systems as applied in other LGED projects. Labour-contracting societies will undertake earthworks, road paving and tree-planting, while contractors will build box culverts, bridges, bank protection and landing piers. The project will fund materials and equipment for the labour-contracting societies, 148 additional LGED staff for supervision work and the maintenance of roads during the project period. Starting the year after road construction, the project will finance the employment of women through the labour societies for routine road maintenance and contractors to resurface roads every five years. The project will adopt LGED's performance-based maintenance contracts, which are being piloted by the RDP-25 programme. Such contracts, which relate payment to physical road condition criteria, will give women in the labour-contracting societies flexibility in work scheduling and incentives for better road maintenance.

### **Production and Market Group Development**

14. This component will support the growth of production and trade within the selected market and its hinterland.

15. The **group formation and support** subcomponent will build social capital by forming groups, enabling group members to access financial resources and strengthening the market negotiating position of small producers. The project will contract NGOs to establish 2 000 producer groups with about 40 000 members consisting of farmers, fishers and others involved in market-oriented primary production. Producer groups will also include enterprise development groups, such as market traders (especially the poorer temporary stallholders) and other small-scale entrepreneurs. Contracted NGOs will organize and train group members and provide them with microcredit loans from their own resources. The project will finance the cost of social development (such as awareness training in gender, legal rights and health issues) for members of newly formed groups; however, training in group management and credit procedures will be the responsibility of the NGO. Project payment to NGOs for group formation and support will total BDT 600 per member – of which BDT 400 will be given in three tranches in the first year of the project. This will cover about 50% of the NGOs' initial investment in expanding operations. The remaining BDT 200 will be paid in project years 3 and 4, and will be conditional on the NGO reaching certain performance targets. Towards the end of the

project, participating NGOs will be contracted to form groups for members of the labour-contracting societies after they have completed their period of employment in the project infrastructure works. About 455 such groups will be formed with 9 100 women members. The project will also finance training and market support for about 1 500 groups already established in charland areas, in particular, groups that were supported by the NGOs contracted under the CDSP III project. Limited marketing support will be provided to the groups to be formed in the CDSP III project area of Boyer Char.

16. **Support for marketable crops.** Under this subcomponent, the Department of Agricultural Extension (DAE) will provide small farmers with technology training and demonstrations in order to increase the production and quality of marketable crops. The project will finance: (i) training and workshops for DAE field staff in the 20 project subdistricts; and (ii) beneficiary training for members of 2 000 new project groups and 1 500 existing groups. This latter area will include: low-cost training in the village by a DAE agricultural officer; training at the subdistrict training centre (or other suitable location) by DAE subdistrict staff; a linkage programme with extension workers; participatory field testing; nucleus fruit-tree nurseries; 1 000 field days; and farmer group exchange visits. The DAE will establish a small project management unit in Dhaka to oversee these activities, staffed with a project director, computer operator, accountant/cashier and driver. The project will finance an extension management specialist (a national consultant) for 18 months to assist the DAE in planning extension activities and preparing extension materials. The project will procure a four-wheel drive vehicle for the project director and 20 motorcycles for DAE subdistrict staff.

17. The **support for income-generating activities** subcomponent will increase production and add value in the non-crop farm and non-farm rural sector by improving product quality and marketing and by first-stage processing and preservation. Project participants will be trained in activities such as livestock-raising, handicrafts, fisheries, food-processing and primary-level marketing. The income-generating activity (IGA) training will also include homestead vegetable gardening. In addition, the project will finance the formation and training of subgroups formed by members of primary producer groups. These subgroups will be extended to encompass key members of 900 production groups formed under the CDSP III project in Boyer Char. Courses for NGO trainers (organized by the project management unit) in training of trainers, technical subjects and marketing will also be funded by the project in addition to beneficiary training (organized by NGOs). This latter will include: two-day training in the village in basic IGAs such as beef-fattening, pond aquaculture or backyard poultry-raising; four-day training in the village in specialized IGAs such as food-processing; four-day training in marketing; and farmer group exchange visits. The project will also fund a national consultant for two months to plan training activities and prepare (or acquire) extension materials.

### **Rural Enterprise Development**

18. This component will facilitate movement up the value chain through processing and trade by both primary producers and local traders, and improve linkages among project groups, agribusiness and markets. The project will contract a qualified and experienced service provider to train project group members who are establishing market-oriented enterprises in management and marketing and help local producers and traders connect directly with buyers in Dhaka and elsewhere. As part of the service provider's contract, the project will finance over a five-year period: (i) a marketing coordinator and support staff based in Dhaka and a four-month international consultancy to provide overall direction and backstopping and ensure that the project has a strategic impact in terms of innovation in marketing systems; (ii) a market development centre in each of the five project districts, staffed by a centre manager, a marketing officer and an office assistant providing traders and producers with information on market chains and opportunities, and facilitating marketing agreements; (iii) beneficiary training through 400 short business courses; (iv) management and marketing, and 100 visits for 20 group members to observe innovations in marketing; (v) follow-up visits; (vi) a range of market linkage activities including workshops and studies; (vii) a grants

programme giving priority to enterprises owned and managed by women; and (viii) reporting and learning, which will include the services of a consultant to analyse overall project results.

### **Policy, Institutional and Management Support**

19. **Policy dialogue.** This subcomponent will inform policymakers on the benefits of policy reform in the management of public markets. The project will commission a series of research papers and hold national-level policy workshops. The project will finance visits to other countries in the region to see how marketing systems have developed, a limited amount of overseas training, and three months of international technical assistance to help draw up proposals for change and hold two high-level policy workshops.

20. **Project management.** The project will finance a project management unit (PMU) to be established by the LGED in Dhaka, with two zonal offices in Noakhali and Barisal. The PMU team will comprise the following LGED staff: a project director, a senior sociologist, an executive engineer, an assistant engineer, a draftsman-cum-estimator, an accounts officer, an administrative officer, a computer operator, three drivers and three office clerks. Each zonal office will be headed by an assistant engineer and staffed by a sociologist, a sub-assistant engineer, a computer operator, an accountant, a driver and an office clerk. The project will finance a small national technical assistance team to provide the PMU with specialist support in the areas of engineering design and supervision, market and institutional development, gender and sociology, and monitoring and evaluation. Two training and NGO coordinators will also be funded under the project, one based in each zonal office. Most of the engineering work will be undertaken by LGED staff, who will receive limited technical and gender-mainstreaming training. The project will procure one four-wheel drive vehicle, three pickup trucks, one microbus, one speedboat and two motorcycles for the PMU and zonal offices, along with computers and office equipment.

21. **Monitoring and evaluation.** The project will also finance a monitoring and evaluation (M&E) unit responsible for ensuring that activities are properly carried out and collecting data on project impact. The unit will be headed by an M&E specialist (a national consultant) and staffed with five field monitoring officers (one based in each district) to collect data, and two computer operators (one based in each zonal office) for data collation. To assist with data analysis, the project will finance a consultant data analyst/statistician for two months in project years 2, 4 and 8, and also an eight-month consultancy to help prepare for the mid-term review and project completion review. The project will contract out some additional surveys, such as market selection and baseline studies; market progress studies; traffic count; transport user surveys of roads before and after improvement; and investigation of project impact on the empowerment of women. Stakeholder workshops will be held prior to the mid-term review and project completion to elicit feedback from beneficiaries and implementing agency staff. The project will also contract out baseline, mid-term and final surveys to gather information on IFAD's Results and Impact Management System anchor indicators (for instance on child malnutrition and household assets) using IFAD's standard methodology.

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

22. Total project costs, including contingencies, duties and taxes, are estimated at USD 43.9 million (see Table 1). Foreign exchange costs are estimated at USD 8.8 million, or 20% of total costs. Physical and price contingencies have been calculated on the basis of LGED norms for similar projects and total approximately 7.6% of base costs.

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

Component	Local	Foreign	Total	% of Foreign Exchange	% of Base Costs
<b>A. Infrastructure development</b>					
1. Market management strengthening	176	65	241	27	1
2. Market infrastructure	2 446	18	2 464	1	6
3. Transport infrastructure	20 266	6 782	27 047	25	66
<b>Subtotal</b>	<b>22 888</b>	<b>6 865</b>	<b>29 753</b>	<b>23</b>	<b>73</b>
<b>B. Production and market group development</b>					
1. Group formation and support	5 877	11	5 888	-	14
2. Support for marketable crops	511	216	727	30	2
3. Support for income-generating activities	305	75	380	20	
<b>Subtotal</b>	<b>6 693</b>	<b>302</b>	<b>6 995</b>	<b>4</b>	<b>17</b>
<b>C. Rural enterprise development</b>	<b>1 392</b>	<b>283</b>	<b>1 675</b>	<b>17</b>	<b>4</b>
<b>D. Policy, institutional and management support</b>					
1. Policy dialogue	50	124	174	71	-
2. PMU	1 179	385	1 564	25	4
3. M&E	561	56	617	9	2
<b>Subtotal</b>	<b>1 791</b>	<b>565</b>	<b>2 355</b>	<b>24</b>	<b>6</b>
<b>Total base costs</b>	<b>32 763</b>	<b>8 015</b>	<b>40 778</b>	<b>20</b>	<b>100</b>
<b>Physical</b>	581	366	946	39	2
<b>Price contingencies</b>	1 747	423	2 169	19	5
<b>Total project costs</b>	<b>35 090</b>	<b>8 804</b>	<b>43 894</b>	<b>20</b>	<b>108</b>

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

23. The project will be financed by the Government of Bangladesh, the Netherlands, IFAD, microfinance NGOs and the beneficiaries. The contribution of the Government of Bangladesh of USD 8.5 million will finance 15% of the civil works, equipment and materials for infrastructure development; the full maintenance costs of the supported infrastructure; all salaries and allowances of participating Government staff and all duties and taxes under the project. The Netherlands will extend a grant of USD 4.8 million through IFAD to the project. IFAD will provide a loan of USD 25.0 million. The Netherlands will cofinance all categories of expenditure for which IFAD loan proceeds are used, splitting the costs as follows: 16% by the Netherlands and 84% by IFAD. Participating microfinance institutions will finance the credit funds for on-lending to project beneficiaries, with the beneficiaries covering 25% of these costs themselves through deposits with the microfinance institutions. The project financing plan is summarized in Table 2.



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

	Donors <sup>b</sup>		Microfinance NGOs		Beneficiaries		Government of Bangladesh		Total		Foreign Exchange	Local (Excl. Taxes)	Duties and Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
<b>A. Infrastructure development</b>													
1. Market management strengthening	242	92.5	-	-	-	-	20	7.5	262	0.6	37	213	12
2. Market infrastructure	1 984	75.5	-	-	-	-	642	24.5	2 626	6.0	18	2 406	201
3. Transport infrastructure	22 617	77.1	-	-	-	-	6 699	22.9	29 315	66.8	693	26 884	1 738
<b>Subtotal</b>	<b>24 843</b>	<b>77.1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7 360</b>	<b>22.9</b>	<b>32 203</b>	<b>73.4</b>	<b>748</b>	<b>29 503</b>	<b>1 952</b>
<b>B. Production and Market Group Development</b>													
1. Group formation and support	518	8.4	4 241	68.7	1 414	22.9	-	-	6 173	14.1	-	6 173	-
2. Support for marketable crops	671	84.5	-	-	-	-	123	15.5	795	1.8	139	624	32
3. Support for income-generating activities	425	99.9	-	-	-	-	0	0.1	425	1.0	-	425	0
<b>Subtotal</b>	<b>1 614</b>	<b>21.8</b>	<b>4 241</b>	<b>57.4</b>	<b>1 414</b>	<b>19.1</b>	<b>124</b>	<b>1.7</b>	<b>7 393</b>	<b>16.8</b>	<b>139</b>	<b>7 222</b>	<b>33</b>
<b>C. Rural enterprise development</b>	<b>1 575</b>	<b>88.1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>213</b>	<b>11.9</b>	<b>1 788</b>	<b>4.1</b>	<b>214</b>	<b>1 361</b>	<b>213</b>
<b>D. Policy, institutional and management support</b>													
1. Policy dialogue	173	92.9	-	-	-	-	13	7.1	186	0.4	132	48	7
2. PMU	966	57.9	-	-	-	-	702	42.1	1 667	3.8	408	1 152	108
3. M&E	527	80.4	-	-	-	-	129	19.6	656	1.5	58	529	69
<b>Subtotal</b>	<b>1 666</b>	<b>66.4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>844</b>	<b>33.6</b>	<b>2 510</b>	<b>5.7</b>	<b>597</b>	<b>1 729</b>	<b>183</b>
<b>Total disbursement</b>	<b>29 698</b>	<b>67.7</b>	<b>4 241</b>	<b>9.7</b>	<b>1 414</b>	<b>3.2</b>	<b>8 541</b>	<b>19.5</b>	<b>43 894</b>	<b>100.0</b>	<b>1 698</b>	<b>39 816</b>	<b>2 380</b>

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

<sup>b</sup> "Donor" amount comprises the combined IFAD loan and the grant by the Netherlands.

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

24. Procurement of goods and services financed by IFAD will be undertaken according to IFAD's procurement guidelines and the Government of Bangladesh's Public Procurement Regulations (2003) – with the prior consent of the Fund if there are any significant changes to the regulations. International competitive bidding will be applied for any international purchase of heavy construction equipment and for any contract for the supply of goods, civil works or consultant services (including the service provider for the rural enterprise development component) worth more than USD 200 000 equivalent.

25. A special account in United States dollars will be opened in a bank acceptable to IFAD; it will be operated by the LGED, as authorized by the Ministry of Finance, to facilitate the regular flow of funds from IFAD. The initial deposit will be USD 2.0 million. IFAD will replenish the special account against withdrawal applications, supported by appropriate documentation or statements of expenditure prepared by the LGED, as authorized by the Ministry of Finance, and submitted to IFAD for approval. Funds will flow from the special account to a project account denominated in local currency and operated by the LGED, which will maintain appropriate financial records and accounts in accordance with LGED practices. These accounts, which follow accepted accounting procedures, will reflect the project's progress and detail its resources, operations and expenditures. The LGED will submit annual financial statements for each fiscal year to IFAD not later than three months after the close of the fiscal year. For the duration of the project, the Auditor General of Bangladesh will review the project accounts, in accordance with International Standards on Auditing. The audited accounts and financial statements will be submitted to IFAD not later than six months after the close of the Government's fiscal year.

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

26. The LGED will be the implementing agency for the project and will contract NGOs and other service providers as specified in the project design documents. The DAE will implement the support for marketable crops subcomponent. The LGED will establish a PMU, located in LGED headquarters in Dhaka, and two zonal offices. In project year 1, the PMU will be set up, technical assistance and project staff recruited, NGOs selected and NGO working areas allocated. Thereafter, group formation will begin, and roads and markets will be prioritized for development. In project year 2, most of the groups will be formed, and road construction will start. Civil works and the rural enterprise development component will be implemented from years 2 to 6. Project year 7 – the final project year – will allow time for the institutionalization of improved market management systems and for groups to become more independent.

27. The project will be coordinated by an interministerial project steering committee chaired by the Secretary, Local Government Division of the Ministry of Local Government, Rural Development and Cooperatives. The Chief Engineer of the LGED will act as member-secretary and the project director will be a committee member. The steering committee will include representatives of the Ministry of Agriculture (in particular from the DAE), the Ministry of Land (which is responsible for market leasing), the Ministry of Finance (specifically, the Economic Relations and Finance Divisions), the Ministry of Planning (represented by the Joint Chief, Rural Development and Institutions). At the project level, activities will be closely coordinated with other rural development programmes (especially CDSP III and ASPs II). A project-level management committee may also be formed, chaired by the LGED project director, to coordinate the activities of the DAE and NGOs with regard to infrastructure and market development. At the district level, a project management committee will coordinate activities, and will be chaired by the LGED executive engineer, with the assistant engineer in charge of the PMU zonal office as member-secretary. This project management committee will include representatives of project NGOs, the DAE, the staff of the CDSP III and ASPs II projects,

and other agencies as required, with the district deputy commissioner advising on market leasing and land matters.

### G. Economic Justification

28. **Beneficiaries.** The project will directly benefit 87 500 households, including about 70 000 smallholder producers and IGA operators (40 000 of whom are members of new groups and 30 000 members of existing groups), and about 17 495 labour-contracting society workers. Most direct beneficiaries will be subsistence producers, who should increase their market-oriented production as a result of project activities. Adoption rates for farming improvements and for enterprise establishment will depend on the effectiveness of community mobilization; community and farmer group establishment and training; and the practicality and profitability of technical and managerial recommendations. In addition, the project will indirectly benefit an estimated 342 000 households. Indirect beneficiaries include 12 000 market sellers (200 per participating market) and 326 000 road and landing pier users, who are not counted as either direct beneficiaries or market sellers. These groups will benefit from the improved transport infrastructure, mainly by saving on time and freight charges.

29. **Gender benefits.** In terms of membership, women will make up an estimated 90% of producer groups; 100% of labour-contracting society groups for roads; 65% of labour-contracting society groups for markets; and 50% of market enterprise groups. Hence, the project will directly benefit women through increased access to financial services, knowledge and technology. 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 the acquisition of assets by women in their own names; and reducing violence against women.

30. **Financial and economic analysis.** A detailed financial and economic analysis was undertaken as part of project appraisal. The financial analysis shows that real opportunities to increase smallholder incomes exist. Assuming modest increases in production and changes in cropping patterns, the analysis indicates an increase in annual net income of between 50% and 133%. The results of the economic analysis justify the project's investments in promoting enhanced and sustainable agricultural production and in rural infrastructure. The analysis shows that the project has the capacity to generate an economic rate of return of 17.8% over a 20-year period.

### H. Risks

31. While assuming that the overall socio-political environment will continue to favour the private sector and provide a secure legal framework in which enterprises can develop, the project is designed to minimize and/or mitigate risks related to the particular conditions of coastal chars. In these areas, low agricultural productivity resulting from the adverse cropping environment and extreme poverty limit economic activities. Yet, even in remote areas, market and road infrastructure development has been shown to directly boost local economies. Furthermore, the project will directly support primary producers in increasing their output. There is also a risk that women's participation will be hampered by social norms in this relatively conservative part of Bangladesh. In this regard, the project will learn from other ongoing development initiatives targeting women in these areas. The project will develop market infrastructure and improve market management by providing training to market management committees. It will lobby local administrations to ensure that the composition of these committees respects government legislation and includes representatives of all market stakeholders. Committees also have to be allowed to function effectively, and there is a risk of syndicates limiting market access. Such constraints should be minimized by ensuring more inclusive and transparent market management, and also by developing more markets to allow users to choose where they trade.

### **I. Environmental Impact**

32. An environmental screening and scoping note was prepared during formulation in line with IFAD procedures. The note classified the project as Category B and confirmed that there is no potential for significant negative impact. In order to ensure environmentally sensitive implementation, the LGED will apply their environmental assessment guidelines to infrastructure proposals.

### **J. Innovative Features**

33. The project design has a number of important innovative features. First, it will develop facilities in small local markets and also in larger growth centres. Second, it will strengthen market management committees. Third, it will support traders and provide specific assistance to women. It is the first project in Bangladesh to use a market-centred approach to microenterprise development. A major learning dimension has been incorporated to enable innovative systems of market operation to emerge from the support given to the market management committees. In addition, the policy dialogue subcomponent will seek to promote policy and regulatory changes. Furthermore, the market infrastructure subcomponent will enable producers to link to markets in new ways, for instance, through contract production. During implementation, there will be regular opportunities for market management committees, project groups and NGOs to learn from each other about the advantages and disadvantages of different implementation approaches.

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

34. A loan agreement between the People's Republic of Bangladesh and IFAD will constitute the legal instrument for extending the proposed loan to the borrower. A summary of the important supplementary assurances to be 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 seventeen million five hundred and fifty thousand special drawing rights (SDR 17 550 000) to mature on or prior to 1 December 2045 and to bear a service charge of three fourths of one per cent (0.75%) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

Lennart Båge  
President

**SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES TO BE  
INCLUDED IN THE NEGOTIATED LOAN AGREEMENT**

(Negotiations concluded on \_\_\_\_\_)

1. By a separate agreement of even date between the Government of Bangladesh (the “Government”) and IFAD, the amount of USD 4.75 million has been made available to the Government as a grant from the Government of the Netherlands (acting through the Royal Netherlands Embassy in Bangladesh) – through IFAD – to assist in financing the project, on terms and conditions set forth in the said agreement.
2. **Project account.** The LGED will open, and thereafter maintain – in a bank accepted by IFAD – a current account denominated in local currency, for project operations (the “project account”). The LGED will be fully authorized to operate the project account.
3. **Counterpart funds.** The Government will make available to the LGED during the project implementation period counterpart funds from its own resources in an aggregate amount of approximately USD 8.6 million or its equivalent in accordance with its customary national procedures for development assistance. For such purpose, the Government will make budgetary allocations annually in advance for each fiscal year, equal to the counterpart funds called for in the annual workplan and budget (AWP/B) for the relevant project year and make such allocations available to the LGED at the commencement of each project year.
4. **Channelling of project resources.** The Government will transfer available funds and other resources called for in the AWP/Bs to other project parties in accordance with the loan agreement to carry out the project in accordance with the loan agreement.
5. **Key project staff.** The Government will ensure that the LGED duly and in a timely manner appoints and maintains on its staff, inter alia, a technical coordinator, a training officer and a monitoring officer dedicated to the project throughout the project implementation period.
6. **Project accounts**
  - (a) The LGED will ensure that all project accounts are maintained and consolidated in accordance with sound accounting practices reflecting the progress of implementation of the project and identifying its resources, operations and expenditures. Project accounts will reflect all financial transactions during the project implementation period for the proceeds of the loan by project component and by standard expenditure categories.
  - (b) The LGED will ensure that all project accounts will be maintained separately from the LGED’s and other project parties’ other routine and externally funded project accounts.
7. **Financial and physical reporting.** In furtherance of the Government’s obligations, the LGED will ensure that the other project parties prepare and submit their physical progress and financial reports to the LGED not later than one month after the end of each quarterly and annual period, in order for the LGED to consolidate the information into the project’s overall reporting.
8. **Monitoring.** Within six months after the effective date, the LGED will establish and have in place a fully operational M&E system, satisfactory to IFAD. The system will include annual beneficiary impact assessments and monitoring capacities with respect to IFAD’s Results and Impact Management System (RIMS) indicators as will be specified by IFAD.

9. **Insurance of project personnel, vehicles and equipment.** The Government will ensure that, throughout the entire project implementation period:

- (a) all key project personnel are insured against health and accident risks to the extent consistent with its customary practice in respect of its national civil service; and
- (b) all project vehicles, equipment and facilities are insured against theft and negligence (including fire and third-party liability) to the extent consistent with sound commercial practices so as to ensure replacement thereof in event of loss.

10. **Gender focus.** The Government will ensure that due consideration is given to gender issues in project implementation, both with respect to project beneficiaries and to the recruitment of project staff. To this end, the Government will ensure, among other things, that:

- (a) all things being equal, in the recruitment of project staff women candidates are given a margin of preference over men candidates;
- (b) the labour contracting societies (LCSs) involved in the construction of infrastructure in the project are composed:
  - (i) for the construction of markets and market facilities, of at least 65% women;
  - (ii) for the construction of roads (other than paving) and routine off-pavement road maintenance, of 100% women; and
  - (iii) as chairpersons and secretaries of LCSs of 100% women;
- (c) at least 15% of newly constructed market spaces (including sheds and shops) are reserved for women; and
- (d) NGOs contracted to form project beneficiary groups adopt strategies to ensure that at least 80% of such group members are women.

11. **Legal framework**

- (a) The Government will continue to support the development and coming into force of an enabling legal environment for microfinance institutions in the project area, including for the purposes of effective project implementation.
- (b) The Government will continue to support the development and coming into force of an enabling legal environment that:
  - (i) strengthens MMCs as an effective vehicle for market user representation and participation in market management; and
  - (ii) facilitates the activities of NGOs and their role in supporting, implementing and developing project activities.

12. **Market facilities.** The Government will ensure that owners of market facilities allocated to project beneficiary group members make these facilities available to such beneficiaries on lease terms and conditions satisfactory to IFAD.

13. **Land acquisition.** The Government will ensure that any land acquired for the purposes of project implementation will be:

- (a) properly compensated in accordance with the land acquisition laws of the Government; and
- (b) acquired in a timely manner so as not to impede the project's implementation progress.

14. **Suspension**

- (a) IFAD may suspend, in whole or in part, the right of the Government and the LGED to request withdrawals from the loan account in accordance with Section 12.01 of the General Conditions upon the occurrence of any of the events set forth therein or any of the events set forth below:
  - (i) IFAD has given notice to the Government that credible allegations of corrupt or fraudulent practices in connection with the project have come to the attention of IFAD and the Government has failed to investigate the matter fully and promptly to the satisfaction of IFAD; or thereafter, based on the conclusions of the aforesaid investigation and any other information available to it, IFAD, in consultation with the Government, determines that such practices have occurred, and the Government has failed to take timely and appropriate action to remedy the matter to the satisfaction of IFAD.
  - (ii) The project implementation manual, or any provision thereof, has been waived, suspended, terminated, amended or 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.
- (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 has not been satisfactorily concluded within 12 months of the financial reporting period set forth therein.

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

- (a) the PMU has been duly established within the LGED;
- (b) the project director has been duly appointed by the LGED based on terms of reference acceptable to IFAD;
- (c) the Government has submitted the development project proforma (the "DPP") as the same may be amended or otherwise modified from time to time only with the prior consent of IFAD, consistent with the project's design and the loan agreement, to IFAD for its review and comments, and thereafter the Government has approved the DPP in substantially the form approved by IFAD in accordance with its required administrative procedures;
- (d) the LGED has submitted the AWP/B for the first project year to IFAD and the cooperating institution for their respective approval;
- (e) the Government has duly opened the special account;
- (f) the LGED has duly opened the project account;

## ANNEX

- (g) the Government has issued any necessary powers and/or delegation of authority to the LGED for the full operation of the special account;
- (h) the loan agreement has been duly signed, and the signature and performance thereof by the Government have been duly authorized and ratified by all necessary administrative and governmental action; and
- (i) a favourable legal opinion, issued by an authorized officer of the Ministry of Law, Justice and Parliamentary Affairs of the Government, approved by IFAD and in form and substance acceptable to IFAD, has been delivered by the Government to IFAD.



APPENDIX I

COUNTRY DATA

BANGLADESH

<b>Land area (km<sup>2</sup> thousand) 2003 1/</b>	130	<b>GNI per capita (USD) 2003 1/</b>	400
<b>Total population (million) 2003 1/</b>	138.1	<b>GDP per capita growth (annual %) 2003 1/</b>	3.4
<b>Population density (people per km<sup>2</sup>) 2003 1/</b>	1 061	<b>Inflation, consumer prices (annual %) 2003 1/</b>	6
<b>Local currency</b>	Taka (BDT)	<b>Exchange rate: USD 1.00 =</b>	BDT 63
<b>Social Indicators</b>		<b>Economic Indicators</b>	
Population (average annual population growth rate) 1997-2003 1/	1.7	GDP (USD million) 2003 1/	51 914
Crude birth rate (per thousand people) 2003 1/	28	Average annual rate of growth of GDP 1/ 1983-1993	3.8
Crude death rate (per thousand people) 2003 1/	8	1993-2003	5.1
Infant mortality rate (per thousand live births) 2003 1/	46	Sectoral distribution of GDP 2003 1/	
Life expectancy at birth (years) 2003 1/	62	% agriculture	22
Number of rural poor (million) (approximate)	n/a	% industry	26
Poor as % of total rural population	n/a	% manufacturing	16
Total labour force (million) 2003 1/	70.8	% services	52
Female labour force as % of total 2003 1/	43	Consumption 2003 1/	
<b>Education</b>		General government final consumption expenditure (as % of GDP)	5
School enrolment, primary (% gross) 2003 1/	96 a/	Household final consumption expenditure, etc. (as % of GDP)	77
Adult illiteracy rate (% age 15 and above) 2003 1/	59 a/	Gross domestic savings (as % of GDP)	18
<b>Nutrition</b>		<b>Balance of Payments (USD million)</b>	
Daily calorie supply per capita	n/a	Merchandise exports 2003 1/	6 942
Malnutrition prevalence, height for age (% of children under 5) 2002 2/	45 a/	Merchandise imports 2003 1/	9 476
Malnutrition prevalence, weight for age (% of children under 5) 2002 2/	48 a/	Balance of merchandise trade	-2 534
<b>Health</b>		Current account balances (USD million)	
Health expenditure, total (as % of GDP) 2003 1/	3 a/	before official transfers 2003 1/	-3 382
Physicians (per thousand people)	0 a/	after official transfers 2003 1/	183
Population using improved water sources (%) 2000 2/	97	Foreign direct investment, net 2003 1/	102
Population with access to essential drugs (%) 1999 2/	50-79	<b>Government Finance</b>	
Population using adequate sanitation facilities (%) 2000 2/	48	Cash surplus/deficit (as % of GDP) 2003 1/	0
<b>Agriculture and Food</b>		Total expenditure (% of GDP) 2003 1/	n/a
Food imports (% of merchandise imports) 2003 1/	20	Total external debt (USD million) 2003 1/	18 779
Fertilizer consumption (hundreds of grams per ha of arable land) 2003 1/	1 775 a/	Present value of debt (as % of GNI) 2003 1/	25
Food production index (1999-01=100) 2003 1/	106	Total debt service (% of exports of goods and services) 2003 1/	6
Cereal yield (kg per ha) 2003 1/	3 500	Lending interest rate (%) 2003 1/	16
<b>Land Use</b>		Deposit interest rate (%) 2003 1/	8
Arable land as % of land area 2003 1/	62 a/		
Forest area as % of total land area 2003 1/	10 a/		
Irrigated land as % of cropland 2003 1/	55 a/		

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

1/ World Bank, *World Development Indicators* database CD ROM 2005

2/ UNDP, *Human Development Report*, 2004

**PREVIOUS IFAD FINANCING IN 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	10 400 000	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	90%
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	90%
Aquaculture Development Project	IFAD	UNOPS	HC	23 Apr 98	08 Dec 98	31 Dec 06	L - I - 472 - BD	SDR	15 000 000	75%
Smallholder Agricultural Improvement Project	IFAD	UNOPS	HC	29 Apr 99	17 Mar 00	31 Dec 06	L - I - 505 - BD	SDR	13 650 000	81%
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	8%
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	22%
Microfinance for Marginal and Small Farmers Project	IFAD	UNOPS	HC	02 Dec 04	29 Jun 05	31 Dec 11	L - I - 644 - BD	SDR	13 400 000	0%

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

## LOGICAL FRAMEWORK

Prepared using the format and methodology suggested in the IFAD M&E guidelines

Narrative Summary	Indicators	Monitoring mechanisms	Risks and assumptions
<p><b>Goal</b></p> <p>Improved well-being for 87,500 target group households through accessing marketing and employment opportunities</p>	<p>* <u>Reduced stunting of children</u></p> <p>* <u>Increase in household asset index</u></p> <p><u>Improved food security</u></p>	<p>IFAD RIMS survey</p> <p>Outcome monitoring survey</p>	<p>General economic growth continues, and real price of rice remains stable</p> <p>Improved livelihoods sustained after end of project</p>
<p><b>Purpose of components</b></p>			
<p><b>Component 1. Infrastructure Development</b></p> <p>(i) <u>Transport infrastructure</u></p> <ul style="list-style-type: none"> <li>- Reduced transport costs and improved communications</li> <li>- Improved livelihood security for women through infrastructure construction by Labour Contracting Societies</li> </ul> <p>(ii) <u>Market infrastructure</u></p> <ul style="list-style-type: none"> <li>- Markets functioning efficiently, and reduced spoilage</li> <li>- Improved terms of access to markets for poor and women</li> </ul> <p>(iii) <u>Strengthening market management</u></p> <ul style="list-style-type: none"> <li>- More democratic functioning of markets including participation by women traders</li> </ul>	<p>Reduction in transport cost; Increase in volume of traffic; Days of wage employment for women in infrastructure construction; Reduction in travel time to educational and health facilities.</p> <p>Increased market turnover; Reduction in market fees for small producers/traders; Number of women operators in markets.</p> <p><u>Representation of producers, traders and women in market committees</u></p>	<p>Traffic surveys</p> <p>Project reports on LCS</p> <p>Market surveys</p> <p>Process monitoring of markets and market management committees by FMO</p>	<p>Road and markets properly maintained after the end of the project</p> <p>Poorly developed charland economy does not require market linkages</p> <p>Local market authorities agree to allocation of space for women and for project group members</p> <p>Support for implementation of 2002 market policy</p> <p>Powerful elites maintain their control of markets and do not allow poor and women to get full benefits.</p>
<p><b>Component 2. Production and Market Group Development</b></p> <p>(i) <u>Group formation and support</u></p> <ul style="list-style-type: none"> <li>- Social capital increased</li> <li>- Financial resources accessed by group members</li> <li>- Market negotiating position of small producers strengthened.</li> </ul> <p>(ii) <u>Support for marketable crops</u></p> <ul style="list-style-type: none"> <li>- Increased production, productivity and quality of crops for sale.</li> </ul> <p>(iii) <u>Support for income generating activities</u></p> <ul style="list-style-type: none"> <li>- Increased production and sales of livestock, fish and non-farm sector.</li> </ul>	<p><u>Number of groups formed</u></p> <p><u>Number of members</u></p> <p><u>Outstanding loan portfolio</u></p> <p><u>Savings of members</u></p> <p>Reduction in debt-based marketing</p> <p>Increased income from sale of crops</p> <p>Increased no. of households selling crops</p> <p><u>Increase in volume and value of group member enterprises</u></p> <p>Number of women investing in IGAs and volume of investment</p>	<p>NGO reports verified by process monitoring</p> <p>Ad hoc informal survey</p> <p>Outcome monitoring survey</p> <p>Outcome monitoring survey</p>	<p>Possible to form this number of new groups in char areas.</p> <p>Funds available for lending to project NGOs from PKSF.</p> <p>Law and order situation permits credit operations</p> <p>Production technologies exist that are suitable for char areas and poor producers.</p> <p>Char dwellers prepared to invest in IGAs rather than migrate out of the area.</p> <p>Business opportunities exist for group members</p>

Narrative Summary	Indicators	Monitoring mechanisms	Risks and assumptions
<p><b>Component 3. Rural Enterprise Development</b></p> <ul style="list-style-type: none"> <li>- Improved linkages of groups with agribusiness and markets inside and outside the region</li> <li>- Movement up the value chain through increased processing and trade.</li> </ul>	<p>Number of producers involved and turnover of contract marketing arrangements</p> <p><u>Establishment of new businesses and growth of existing businesses of group members (men and women)</u></p>	<p>Reports of service provider</p>	<p>Agribusiness interested in sourcing materials in relatively remote char areas.</p>
<p><b>Component 4. Policy, Institutional and Management Support</b></p> <p>Institutional models and policies developed for:</p> <ul style="list-style-type: none"> <li>- improved terms of access to markets and movement up the value chain through enterprise development; and</li> <li>- for enhancing the impact of household income on well-being through women's empowerment in the market and household</li> </ul>	<p>Adoption of project approaches in other projects and framing government policies</p>	<p>Project reports</p>	<p>Government receptive to ideas for modernisation of marketing systems.</p>
<p><b>Outputs and Activities for each component</b></p>			
<p><b>Component 1. Infrastructure Development</b></p> <ul style="list-style-type: none"> <li>(i) Roads and landing ghats constructed;</li> <li>(ii) Markets improved;</li> <li>(iii) Capacity of market committees developed, market user groups formed and strengthened, local government informed about project objectives.</li> </ul>	<p><u>Numbers of markets developed</u></p> <p><u>Length of road developed</u></p> <p><u>Number of landing stages</u></p> <p><u>Number of user groups and market committees operational</u></p>	<p>Project reports</p>	<p>Market committees and local government responsive to project</p> <p>Viable locations exist for market and road development</p>
<p>Activities (targets)</p>	<p>Key Inputs</p>		
<ul style="list-style-type: none"> <li>- Improvement of 360 km road (&amp; bridge, culvert), and 40 landing stages</li> <li>- Development of 60 markets</li> <li>- Formation of 80 market committees with stakeholder representation</li> </ul>	<p>Construction activities involving LCS</p> <p>Workshops, training and management support</p>		<p>Feasible to utilise LCS for construction work</p>
<p><b>Component 2. Production and Market Group Development</b></p> <ul style="list-style-type: none"> <li>(i) Groups formed (new, existing, ex-LCS), social development training undertaken, savings and credit services provided.</li> <li>(ii) New and existing groups trained in production/processing</li> </ul>	<p><u>Numbers of groups and members.</u></p> <p><u>Numbers saving and receiving loans</u></p> <p><u>Numbers adopt training from DAE</u></p> <p><u>Number of groups link to DAE</u></p>	<p>Project reports</p> <p>Training feedback and KAP surveys</p>	<p>Possible to contract qualified NGOs with access to lending funds.</p> <p>DAE and NGOs able to deliver good quality training efficiently.</p> <p>DAE field staff support groups</p>

Narrative Summary	Indicators	Monitoring mechanisms	Risks and assumptions
technology, and link provided to DAE and other service providers.  (iii) New, existing and ex-LCS groups trained in IGAs and marketing (marketing training for CDSP groups)	<u>Number of members adopt IGA training</u>		
<b>Activities (targets)</b> - Formation of 2000 new groups, - Formation of 455 ex-LCS groups with 49,100 members, - 80% group members receiving loans, - Crop production training for 5900 batches, - 1600 groups linked to DAE, - 2,000 technology pilots provided, - 400 fruit gardens established, - IGA/marketing training for 4,632 batches	<b>Key inputs</b> NGOs contracted for group formation and social development  Crop production training and other support from DAE  Marketing and management training from NGOs		
<b>Component 3. Rural Enterprise Development</b> - Market development centre established in each district, - market linkages developed, - provision of market information, - identification of market opportunities, - entrepreneurs from project groups trained in management, and marketing, and, - grants provided to support group enterprises	Number of Market Development Centres Number of sub-sector and market studies <u>Numbers of entrepreneurs trained</u> Number of grants made	Project reports	Possible to identify and contract a qualified service provider to implement this component
<b>Activities (targets)</b> - Establishment of 5 market development centres - 5 sub-sector analysis, 15 sub-sector studies, 7 other market studies, 300 market linkage workshops and 130 market visits undertaken - Marketing training for 80 NGO staff - Management/market training for group members - 400 batches - 1,000 grants made for group marketing infrastructure	<b>Key inputs</b> Service provider contracted		
<b>Component 4. Policy, Institutional and Management Support</b> - PMU, TA team, M&E unit established - Policy analysis, policy dialogue workshops undertaken.	Efficient project coordination and communications	Project reports	LGED continues to efficiently manage projects.
<b>Activities (targets)</b> Establishment of PMU, recruitment of staff, organization of workshops and policy activities	<b>Key inputs</b> Purchase of vehicles and equipment, recruitment of staff, workshops		

1. Indicators underlined are the IFAD Results and Impact Management System (RIMS) indicators and those with \* are the RIMS anchor indicators.

2. Further physical targets can be set at goal and purpose level when baseline information collected from group members after groups have been formed.

**COSTS AND FINANCING**

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

	Infrastructure Development			Production and Market Group Development			Rural Enterprise Development	Policy, Institutional and Management Support			Total
	Market Management Strengthening	Market Infrastructure	Transport Infrastructure	Group Formation and Support	Support for Marketable Crops	Support for Income Generating Activities		Policy Dialogue	PMU	M&E	
<b>I. Investment Costs</b>											
A. Civil Works	-	2 308	8 656	-	-	-	-	-	-	-	10 964
B. LCS Labour	-	-	5 102	-	-	-	-	-	-	-	5 102
C. Vehicles	29	15	647	-	78	-	39	-	163	40	1 011
D. Equipment and Materials	-	-	11 995	-	14	1	20	-	88	30	12 148
E. Training and Workshops	168	6	209	60	520	421	506	77	146	9	2 123
F. Technical Assistance and Studies											
1. Local Technical Assistance and Studies	12	-	-	-	32	4	577	46	472	484	1 628
2. International Technical Assistance	-	-	-	-	-	-	63	63	-	-	126
<b>Subtotal Technical Assistance and Studies</b>	12	-	-	-	32	4	639	109	472	484	1 753
G. Matching Grants	18	-	-	-	-	-	84	-	-	-	102
H. Service Contracts	-	-	-	459	-	-	-	-	-	-	459
I. Onlending Funds	-	-	-	5 655	-	-	-	-	-	-	5 655
<b>Total Investment Costs</b>	227	2 329	26 609	6 173	645	425	1 289	186	869	563	39 315
<b>II. Recurrent Costs</b>											
A. Allowances	-	22	424	-	4	-	32	-	38	1	520
B. Staff Remuneration	-	72	1 413	-	70	-	-	-	486	41	2 082
C. Infrastructure Maintenance	-	196	822	-	-	-	-	-	-	-	1 018
D. O&M Vehicles, Equipment and Office Running Costs	34	8	48	-	77	-	254	-	275	51	747
E. Tax - VAT and IT - 14.5% (Service Contract)	-	-	-	-	-	-	212	-	-	-	212
<b>Total Recurrent Costs</b>	34	297	2 707	-	150	-	498	-	798	94	4 578
	262	2 626	29 315	6 173	795	425	1 788	186	1 667	656	43 894
<b>Taxes</b>	12	201	1 738	-	32	0	213	7	108	69	2 380
<b>Foreign Exchange</b>	70	19	7 468	12	234	84	307	133	415	60	8 804

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

	Donor		Financial Institutions		Beneficiaries		Government of Bangladesh		Total		For. Exch.	Local (Excl. Taxes)	Duties & Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
1. Civil Works and Materials	18 799	85.0	-	-	-	-	3 317	15.0	22 116	50.4	-	20 291	1 825
2. LCS Labour	5 102	100.0	-	-	-	-	-	-	5 102	11.6	-	5 102	-
3. Land Acquisition	-	-	-	-	-	-	843	100.0	843	1.9	-	843	-
4. Vehicles, speedboat, construction equipment	651	67.0	-	-	-	-	321	33.0	972	2.2	803	2	167
5. Office Equipment, Furniture, Extension and Publicity Materials	119	90.0	-	-	-	-	13	10.0	132	0.3	93	37	3
6. Training and Workshops	1 617	100.0	-	-	-	-	-	-	1 617	3.7	219	1 398	-
7. Technical Assistance	792	90.0	-	-	-	-	88	10.0	880	2.0	63	738	79
8. Surveys and Studies	199	85.0	-	-	-	-	35	15.0	234	0.5	-	200	34
9. Matching Grants	18	100.0	-	-	-	-	-	-	18	-	-	18	-
10. Service Contracts	2 034	100.0	-	-	-	-	-	-	2 034	4.6	214	1 820	-
11. Tax on Service Contract	-	-	-	-	-	-	212	100.0	212	0.5	-	-	212
12. Onlending Funds	-	-	4 241	75.0	1 414	25.0	-	-	5 655	12.9	-	5 655	-
13. LGED Staff Salaries and Allowances	-	-	-	-	-	-	2 570	100.0	2 570	5.9	98	2 472	-
14. Infrastructure Maintenance	-	-	-	-	-	-	1 018	100.0	1 018	2.3	-	972	46
15. O&M Vehicles, Equipment and Office Running Costs	369	75.0	-	-	-	-	123	25.0	492	1.1	209	269	14
	29 698	67.7	4 241	9.7	1 414	3.2	8 541	19.5	43 894	100.0	1 698	39 816	2 380

**Breakdown of Donor Financing**

	Government of Netherlands		
	IFAD	Government of Netherlands	Donors
	Amount	84%	Amount
1. Civil Works and Materials	15 791		3 008
2. LCS Labour	4 285		816
3. Land Acquisition	-		-
4. Vehicles, speedboat, construction equipment	547		104
5. Office Equipment, Furniture, Extension and Publicity Materials	100		19
6. Training and Workshops	1 358		259
7. Technical Assistance	665		127
8. Surveys and Studies	167		32
9. Matching Grants	15		3
10. Service Contracts	1 708		325
11. Tax on Service Contract	-		-
12. Onlending Funds	-		-
13. LGED Staff Salaries and Allowances	-		-
14. Infrastructure Maintenance	-		-
15. O&M Vehicles, Equipment and Office Running Costs	310		59
<b>Total Donor Financing Required</b>	<b>24 948</b>		<b>4 752</b>
<b>Maximum Financing Available</b>	<b>25 000</b>		<b>4 750</b>
<b>Balance in hand</b>	<b>53</b>		<b>-2</b>
Percentage of total project costs (%)	56.8		10.8

## IMPLEMENTATION ARRANGEMENTS AND RESPONSIBILITIES

### **Project Start-up**

1. In cooperation with the Government and IFAD, LGED will organise 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. Staff of LGED and other concerned agencies assigned to the project will participate in this workshop along with representatives from UNOPS, IFAD and the Royal Netherlands Embassy.

### **Development Project Proforma**

2. LGED will implement the project in accordance with a Development Project Proforma (DPP), the government's formal project document. The DPP is part of new procedure for project approval and this project should benefit from greater flexibility and an accelerated approval process.

### **Annual Workplan and Budget**

3. The PMU will draw up an AWPB on the basis of activities that are required and targets that are considered realistic for each project year. This will incorporate an AWPB prepared by DAE for the Support for Marketable Crops sub-component. The AWPB for the first year will be submitted to and approved by IFAD prior to the project becoming effective.

### **NGO Selection**

4. The criteria for selecting NGO-MFIs for participation in MIDPCR involves two sets of criteria. The first set of criteria indicate the capacity of the NGO to form new groups and provide them with micro-credit. These criteria are as follows:

- The NGO-MFI must be an active PO of PKSf (in order to qualify as a PKSf member PO, an NGO will have to meet a number of rigorous criteria related registration, management, accounting and auditing);
- It must produce evidence that it has received at least two instalments under a loan agreement with PKSf during the last six months;
- It must not be a loan defaulter with any agency including PKSf;
- It must fall within 'A' to 'C' category POs of PKSf;
- The PKSf Grade Point Average (GPA) must meet a minimum requirement as per PKSf's rating system (a certificate from PKSf has to be produced in this regard); and,
- The NGO-MFI must have an existing micro-credit programme in at least one district of the project area.

5. NGOs that meet these first stage criteria would be further assessed on their willingness and capacity to operate in priority charlands and on their ability to provide training and market related-support services. Ability to provide larger micro-enterprise loans will also be considered an advantage.

### **Implementation Responsibilities**

6. The overall implementation of the project will be the responsibility of Local Government Engineering Department, who will also implement the physical infrastructure development of roads



and markets. It will also train and support market committees using LGED social sector staff and contracted consultants (or possibly NGOs or the service provider contracted for the Rural Enterprise Development Component). The Group Formation and Support sub-component will be implemented by contracted NGOs. These NGOs will be responsible for providing credit funds from their own or other resources (such as PKSF), but will receive funds from the project for group formation and training. The Support for Marketable Crops sub-component will be implemented by DAE, while Support for Income Generating Activities will be implemented by contracted NGOs (although NGO staff training will be organised by the PMU). The Rural Enterprise Development component will be implemented by a contracted service provider, such as an international NGO with an established track record in the area of provision of such support.

7. Responsibility for management of the implementation of the Infrastructure Development component will be delegated to LGED XENs in charge of project districts. As appropriate they would delegate responsibilities to LGED *Upazila* Engineers. LGED will hire staff, on a contract basis, to supervise LCS contracts in the field. LGED Community Organisers (based in *upazilas*) will have field level responsibility for implementing the Market Management Strengthening sub-component, supported by LGED Sociologists and Economists based in the districts and in the PMU, and by the PMU TA team (Marketing and Institutions Specialist, Gender and Sociology Specialist and Training and NGO Coordinators).

8. The PMU will be responsible for selection and contracting of NGOs, which will report on their activities to the Project Director via the Training and NGO Coordinators based in the two PMU zonal offices. The service provider contracted for the Rural Enterprise Development Component will report directly to the PMU.

### Monitoring and Evaluation

9. Monitoring and evaluation will be a crucial part of project implementation. An independent M&E unit will be established within the PMU, headed by an M&E Specialist, staffed by five Field Monitoring Officers (FMOs), one based in each district, plus two computer operators, one in each zonal office. The PMU will also hire short term consultants to assist with data analysis and report writing and to assist with the MTR and PCR. The M&E system will have the following elements:

- (a) **Activity monitoring.** LGED district offices and other project implementing agencies will report each month on the activities undertaken. Data on project activities, disaggregated by gender where appropriate, will be recorded on a comprehensive computerised Management Information System (MIS) for comparison with indicators in the logframe. Key data from the MIS will be included in a project website designed to improve project communications and linkages with other organisations.
- (b) **Process monitoring.** FMOs will make regular visits to a sample of beneficiary groups and markets to obtain feedback from participating communities on project outputs (such as number of active group members, numbers of enterprises started, and the management of markets). This data will also be recorded in the MIS.
- (c) **Outcome monitoring.** Information will be gathered on logframe indicators via beneficiary profiles and sample surveys so as to relate improved livelihood outcomes to delivery of project services and outputs. The sample surveys may be contracted out, or undertaken by the FMOs and analysed at the PMU. While the former approach reduces the workload on project management, doing the surveys internally increases the ownership of results and effective learning.

- (d) **Impact monitoring.** A qualified organisation will be contracted to gather information on anchor indicators of project impact for IFAD RIMS reporting. This will involve a sample survey of 900 households and will include information on household assets, food security and malnutrition and stunting among children less than five years old. The gathering of anthropometric data needs special skills and equipment, and the PMU will contract out such surveys to an experienced nutrition survey organisation.
- (e) **Other surveys** to be contracted to outside organisations:
- Traffic surveys on a sample of roads developed by the project – carried out before and after road improvement to gather data on traffic volume, transport costs, land value and establishment of new businesses;
  - Market selection and baseline studies – carried out once areas for group formation have been selected and NGOs have started to form groups, to collect information upon which selection of markets for development will be based using an agreed set of criteria. The surveys will gather information on physical market facilities, communications infrastructure, volume of trade, and market management, which will provide a baseline picture of selected markets against which progress can be measured by later follow-up surveys.
  - A series of training evaluations and KAP (knowledge, attitude, practice) surveys to assess the effectiveness of technical training and the adoption of agricultural and other technologies;
  - Other surveys may be commissioned to investigate key issues in more detail. Areas where such an approach may be needed is in assessing the extent of debt-based marketing, and in looking at broader measures of women’s empowerment.

### **Project Reporting**

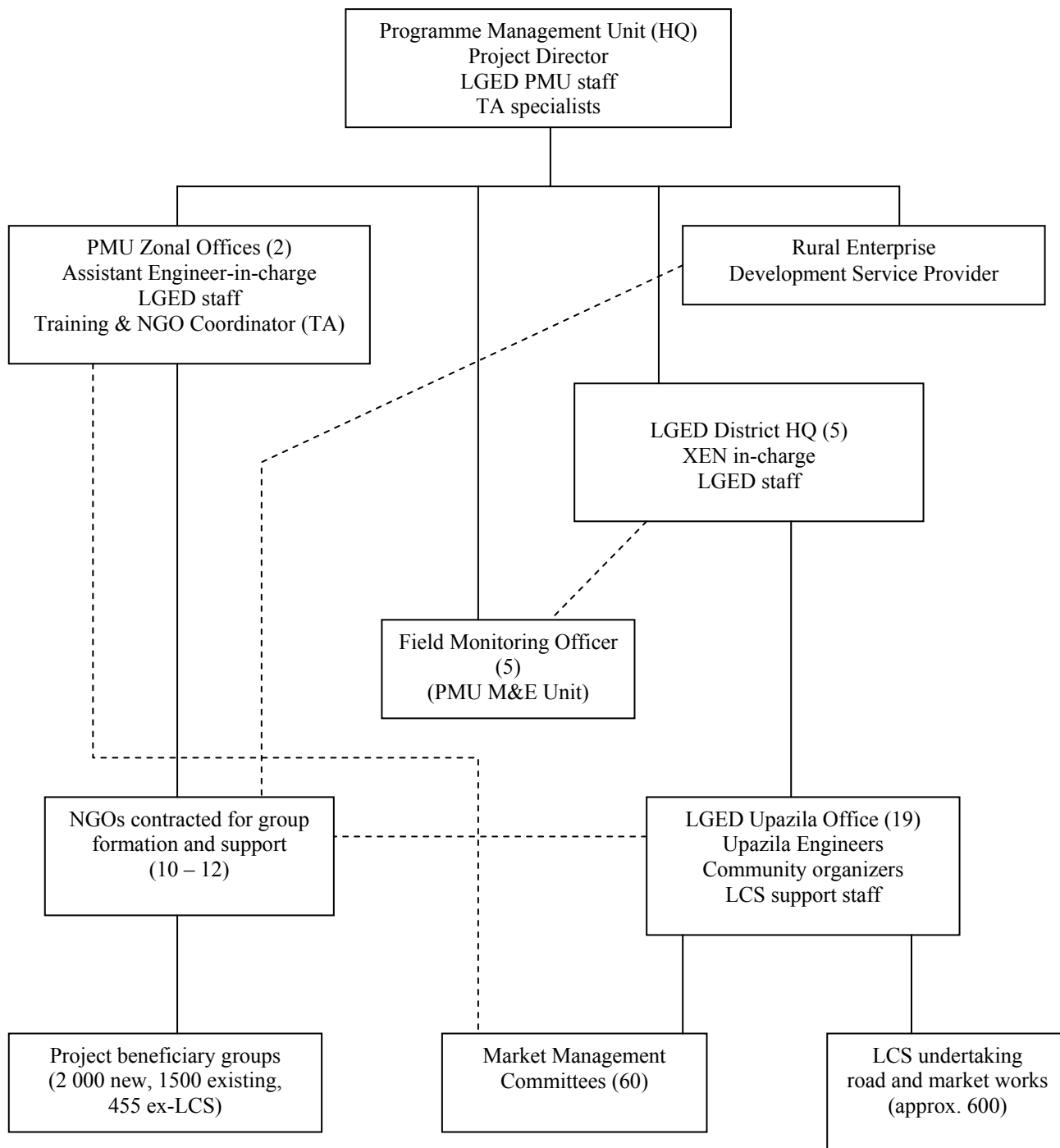
10. **Progress Reports.** LGED will submit quarterly and annual progress reports in English to IFAD, UNOPS and the Royal Netherlands Embassy (RNE) in Dhaka to provide essential information on the physical and financial progress of project activities and to facilitate regular assessment of the project impact. Quarterly reports should use a standard format. Annual reports will include the same information, but with text explaining reasons for any deviations from targets, major achievements, problems and bottlenecks. Annual reports may also include more detailed tables on project activities, outputs and results, including analysis of data by district, by NGO, by type of training, etc.

11. **Mid-term Review.** In PY3, IFAD and the RNE, in cooperation with UNOPS and LGED, will undertake a mid-term review (MTR) of the project’s achievements, constraints, performance and impact. Prior to the MTR, impact and other surveys will be carried out to obtain information on progress towards project objectives. In addition a number of participatory stakeholder workshops will be held for the partners involved in project implementation (LGED, DAE, NGOs) and representatives of beneficiary groups, to provide feedback on project achievements and performance. Based on the findings of the MTR, a mutually acceptable action plan for the remainder of the project will be prepared.

12. **Project Completion Review.** On completion of the investment programme, but before closing of the loan, LGED will prepare a Project Completion Review (PCR) according to IFAD’s standard format, and present the draft report to the government, RNE and IFAD for discussion. Following this IFAD will undertake its own PCR. As in the case of the MTR, a number of participatory stakeholder workshops will be held for the partners involved in project implementation to provide feedback on project achievements and performance.

13. As part of a strategy for good communications with other agencies and stakeholders, the project budget will produce project brochures and leaflets, and develop a website (as part of the overall LGED website) with project information and reports.

ORGANIZATIONAL CHART



————— Project management linkages  
- - - - - Coordination or administrative linkages

**ECONOMIC AND FINANCIAL ANALYSIS**

1. The results of the project financial analysis are presented in the table below. They show that real opportunities to increase smallholders' incomes exist. All farm models involve an incremental family labour requirement of about 50 person-days per year. The intensification is, however, rewarded with higher absolute income (roughly double) and increased returns to family labour. Financial analysis of typical farm models, assuming modest increases in production and changes in cropping patterns, shows an increase in annual net income of between 50% to 133%.

**Farm Model Summary of Average Annual Results**

Farm Models	Family Labour Requirement (person-day)		Total Annual Income (BDT)		Returns to Family Labour (BDT/ person-day)	
	w/o	w	w/o	w	w/o	W
1: Rainfed Traditional Farm	96	135	23 765	36 784	248	278
2: Partly Irrigated Farm	106	149	38 183	56 269	362	397
3: Rainfed Aquaculture Farm	45	111	18 018	42 422	399	506
4: Rainfed Farm with Fish Pond	98	186	23 928	44 789	243	244

Note: w/o = without project; w = with project

2. The economic analysis of project activities has been carried out on three levels: (i) rural roads (including a comparative assessment of Labour Contracting Societies (LCS) versus contractor road works); (ii) rural markets (analysis of the major modules of open area paving and open-sided sheds); and (iii) the project as a whole. The road analysis results in an economic internal rate of return (EIRR) of 29.5% for village roads and 20.4% for union roads. This shows that investments in rural roads are economically viable, especially for the comparatively cheaper village roads. A rough sensitivity analysis indicates that for longer roads or higher costs, the economic viability would only be assured for village roads: assuming the same benefits for a 6 km stretch of road would reduce the ERR to 19.7% and 12.7%, while for a 8 km road the EIRR would stand at 14.1% and 8.1%. The benefits of market investment have been assessed in terms of spoilage reduction. The EIRR for an investment in 900m<sup>2</sup> of paved area is 95% and for an open market shed is 25%. The EIRR for the overall project, taking account of benefits for LCS, farmers, non-agricultural IGAs, market sellers, and rural road and ghat users, is 17.8%.

**Estimated Economic Rates of Return**

17.8 %	ERR for Overall Project
14.3%	ERR if benefits decrease by 10%
15.3%	ERR if costs increase by 10%
14.0%	ERR if benefits lag by one year
12.5%	ERR if benefits lag by two years
13.1%	ERR if benefits decrease 20% p.a. after PY10

3. A number of scenarios were tested to establish the economic viability of the total project in the event of adverse factors. The ERR is relatively stable with regard to cost increases, benefit reductions and lags. Even in the case of extreme delays of the realisation of project benefits of two years or more, or a relatively unsustainable nature of project benefits - represented by an annual 20% decrease of benefits after PY10 - the ERR remains above the assumed opportunity cost of capital of 12%.

### POST-PROJECT SUSTAINABILITY

1. There are two major sustainability issues facing the project. These are related to infrastructure and project groups.

2. **Infrastructure.** For the benefits of project-supported infrastructure to be sustainable there needs to be adequate maintenance. This is a matter of allocation of appropriate funds and of the quality of work undertaken.

- The project has addressed the issue of maintenance in markets through: (i) having a written agreement to undertake adequate maintenance before taking up any market improvement; and (ii) securing the participation of various market user groups (women, day traders, shopkeepers, transport providers) in the Market Management Committees (MMCs). Whether required maintenance services are provided will depend very much on pressure from user groups that insist on their provision as a condition for the payment of fees and tolls. On the basis of its experience the project is expected to take up a policy dialogue with the government on institutional reform needed to improve the provision of public services within markets.
- In the case of roads, maintenance depends first on the allocation of funds from GoB's annual budget. There is currently an allocation of about BDT 40 billion from GoB's budget for rural road maintenance by LGED. Although this needs to be increased, the amount has grown at an average rate of over 20% per annum over the last 13 years. Donors, including IFAD, are continuing to dialogue with GoB on ways to increase funds for road maintenance.
- Road maintenance also needs to be of sufficient quality. The project is attempting to ensure that off-pavement maintenance is improved by adopting a performance-based LCS road maintenance contract, which has payment on the basis of verifiable road work factors. Such a system of incentives-cum-penalties for performance/non-performance of road maintenance should help improve the quality of road maintenance.

3. **Project Groups.** The project has a number of features to ensure the sustainability of the income increases of members of project groups.

- Project groups organised by NGOs that are linked to PKSf are designed to be totally sustainable. NGOs will establish a micro-finance programme that will generate an income out of service charges that will pay for continuing NGO support. Furthermore, the link to PKSf will ensure post-project fund availability for the micro-finance programme.
- The training provided to groups by DAE and other service providers will have enabled linkages to be formed between group members and suppliers of technical information that will be sustained after the end of the project. The same applies to the marketing linkages developed by the Rural Enterprise Component which will result in fully commercial marketing arrangements.
- The institutions that will be developed for project markets, both MMCs and trader associations, are designed to sustain the improvements in marketing management after the end of the project.

4. The project design also aims to ensure the sustainability of income increases for LCS women. Firstly, there will be a system of compulsory savings for LCS groups. This will enable the members to invest their savings after their construction employment ends. Secondly, the project has been designed to enable ex-LCS members to join NGO groups, and for NGOs to provide credit and IGA training. It is expected that all this together will enable a sustainable increase in income.