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Implementation of the first cycle of the Sunamganj Community-based Resource Management Project financed under the Flexible Lending Mechanism

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Note to Executive Board Directors

This document is submitted for the information of the Executive Board.

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1. The purpose of this information note is to comply with paragraph 13 of the Flexible Lending Mechanism (FLM) guidelines (EB 98/64/R.9/Rev.1), which stipulates that "...for each FLM loan and prior to the end of each cycle, IFAD Management will decide whether to proceed to, cancel, or delay subsequent cycles. Management will inform the Board accordingly".

I. Introduction

2. The overall objective of the FLM is to introduce greater flexibility into the Fund's project design and implementation in order to: match project time frames with the pursuit of long-term development objectives when it is judged that a longer implementation period will be required to meet those objectives; maximize demand-driven beneficiary participation; and reinforce the development of grass-roots capacities. The specifics of an FLM loan include: (i) longer loan periods (10-12 years) to allow for the achievement of sustainable development objectives; (ii) a continuous and evolving design process through implementation of distinct, three- to four-year cycles; and (iii) clearly defined preconditions – or "triggers" – for proceeding to subsequent cycles.
3. This information note reports on the progress of the Sunamganj Community-based Resource Management Project in achieving its first-cycle triggers. Its content is based on an IFAD review mission that visited Bangladesh in January-February 2007.

II. Background

4. The project was approved by the Executive Board in September 2001 and became effective on 14 January 2003. Its total cost is estimated at US\$34.3 million. Sources of financing are IFAD (with a loan of about US\$22.0 million), the Government (US\$4.5 million) and beneficiaries (US\$0.3 million).
5. The project's main objectives are to: (i) increase the assets and income of 135,000 households by developing self-managing grass-roots organizations to improve beneficiary access to primary resources, employment, self-employment and credit; and (ii) support the development of a viable national institution to replicate the project approach in other areas of Bangladesh. The project's objectives are being met through the financing of five components designed to assist the poor: (i) labour-intensive infrastructure development; (ii) fisheries development; (iii) crop and livestock production; (iv) microfinance; and (v) institutional support.
6. The project was designed under an FLM with three implementation cycles foreseen over an 11-year period. As per operational procedures, a review mission visited the country in January 2007 to measure the achievement of triggers and to make recommendations for the second cycle of the FLM. The mission met with Government officials and project staff, and with project beneficiaries and their organizations. The report of the mission was discussed at a wrap-up meeting with Government partners on 5 February 2007.

III. Project performance during the first cycle

First-cycle triggers

7. The loan agreement sets out the following triggers that must be satisfied before the end of the first cycle as a condition for IFAD financing continuing for the next cycle:
 - A “semi-autonomous body” has been set up if so agreed by the first review mission after two years of implementation;
 - 80 small lakes (*beels*) and 500 ha of land have been made available to beneficiaries;
 - 275 *beels* and 8 km of canals, along with 1,300 ha of land, have been identified and made available to the project;
 - 600 village organizations have been formed and are operating effectively;
 - 950 credit organizations are managing savings and credit, benefiting 1,000 members, of whom at least 50 per cent are women;
 - Repayment rates exceed 90 per cent;
 - Average savings per beneficiary have increased by at least 100 per cent;
 - At least 50 per cent of the total amount lent is to women;
 - Project-level participatory monitoring and evaluation and participatory impact evaluation are functioning effectively and tracking trigger indicators; and
 - All studies and evaluation reports have been concluded to the satisfaction of IFAD and made available to the review mission in the fifth project year.

8. Project implementation has progressed well, especially given the difficulties of operating in the remote north-eastern *haor* (flooded lowland depression) area of Bangladesh, where extreme annual flooding is common. Progress on meeting the trigger indicators has also been good.
 - As planned, a review of the need for a “semi-autonomous body” took place after the second year of implementation. It was agreed that such an institution was not required, and the trigger was dropped.
 - A total of 55 *beels* are being operated by project beneficiaries, and another 38 have been made available and will soon be transferred to beneficiaries. This brings the current project total to 93, exceeding the first-cycle target. *Beels* are being managed by *beel* user groups set up by the project.
 - Resource mapping studies completed in eight subdistricts (*upazilas*) have identified 958 *beels* for possible transfer to the project.
 - No canals have been identified for transfer to beneficiaries for fisheries management since the Government does not have a separate fisheries leasing system for canals.
 - No land has been transferred to beneficiaries. Given that most government land is already occupied by poor people, this activity proved to be unrealistic and was dropped.
 - The concept of village organizations was dropped early in the project in agreement with project supervision missions. Because of the overlap in functions between village organizations and credit organizations, only one of these organizations was considered necessary for effective implementation.
 - A total of 823 credit organizations have been formed with a membership of 22,879, of whom 58 per cent are women.

- The repayment rates on credit are 99 per cent.
- Average savings per member are 650 Bangladeshi taka, and it is reasonable to assume that this is an increase of over 100 per cent on the pre-project level.
- More than 50 per cent of credit funds have been lent to women.
- The monitoring and evaluation system is operational and is tracking trigger indicators.
- Studies and reports have been carried out including a Results and Impact Management System (RIMS) anchor indicator survey.

Labour-intensive infrastructure development

9. The project has been developing community infrastructure based on demand. To date, 62 km of village roads have been built, improving access to 132 villages in remote areas; 15 community centres have been constructed; 5,290 sanitary latrines have been provided; and 501 drinking water tube wells have been installed.

Fisheries development

10. Of the 93 *beels* handed over to the project, 55 are in the possession of *beel* user groups. In addition, the project has re-excavated 30 fish ponds, which are being leased to 115 poor women.

Crop and livestock production

11. The project has so far implemented 468 crop demonstrations. In addition, it is carrying out adaptive research through partnerships with national agricultural research institutes. This has resulted in new crops being brought into the project area, including wheat, mustard, maize and pulses. Participatory variety selection trials of rice have resulted in two new early-maturing varieties being selected by farmers for propagation in the project area.

Microfinance

12. As mentioned, 823 credit organizations have been formed, and of their 22,385 members 58 per cent are women. Only three credit organizations have dropped out of the project since its start. Training has been provided to 2,713 leaders and managers of credit organizations. Group members make weekly savings contributions of 10-20 Bangladeshi taka. Total savings have reached about 14 million Bangladeshi taka. A total of 2,436 loans have been provided by groups to members using savings funds. In addition, 7,099 loans have been provided by Bangladesh Krishi Bank through the credit organizations to group members. Recovery rates on loans are very good – at around 99 per cent.

Institutional support

13. A project management unit has been set up in Sunamganj District, and five *upazila* offices have also been established. A total of 104 project staff are currently employed, out of 106 approved positions. Training courses have been provided for all project staff. A project monitoring system has been set up, and a RIMS anchor indicator survey was carried out in 2006.

Loan disbursement progress

14. At the end of the fourth project year, about 60 per cent of the IFAD loan allocation for the five-year first cycle had been spent. Total project expenditure for the 2005/06 financial year was 76 per cent of the annual workplan and budget estimate. As of 22 May 2007, a total of SDR 3.18 million had been disbursed, against a first-cycle allocation of SDR 4.53 million (i.e. 70 per cent of the first-cycle target).

IV. Recommendations for the implementation of the second cycle

15. The review of the achievements and performance of the first cycle highlight the following lessons and recommendations to be incorporated in the project's second cycle.

Labour-intensive infrastructure development

16. This component is proving to be popular with communities, in particular the provision of village roads and drinking water. Building on first-cycle successes, it is recommended that the component be continued, but with communities playing a greater role in managing the construction of village roads. Second, the project should develop a strategy for providing safe drinking water in areas subject to arsenic contamination, for example through the collection and filtering of rainwater.

Fisheries development

17. This component is proving difficult to implement, and the targets are considered unrealistic. Overall, the project should limit itself to about 30 *beels* per *upazila*. This would give a revised project total of 300 *beels*. To allow sufficient time for capacity-building of *beel* user groups, it would be necessary to hand over all *beels* to the project at least two years before the end of the second cycle. Pond excavation activities should be stopped on private land, but continued on vacant government land. Ponds should be handed over to poor women, with a preference for single women who are household heads.

Crop and livestock production

18. To date, the project has trained a lead farmer (activist) in each of the project groups, on the assumption that skills and knowledge would filter down to other group members. This approach is not working. It is recommended that the training of "activists" be dropped from the project. Instead, the project should greatly scale up training so that all group members who would like to be trained are given the opportunity. The only exception to this relates to the training of poultry vaccinators, which is working well. The current project practice of giving interest-free loans for agricultural demonstrations should be stopped. In future, these loans should bear the same interest as other project loans.

Microfinance

19. Since the project was designed, major changes have occurred in the operating environment in Sunamganj District as far as microfinance is concerned. In 1999, at the time of design, there were no microfinance institutions (MFIs) operating in the district. By December 2006, a large number of MFIs had set up 142 branches in the district and already had 227,000 members with 191,000 borrowers. This has meant that the design of the project's credit component is now out of date and needs to be redesigned. In this regard, the following recommendations were provided during the review mission. First, the project target of 4,500 credit organizations should be reduced to 3,000. Second, group lifetime should be limited to 3-4 years to cover the period of major project operations (infrastructure, agriculture, fisheries, etc.). At the end of four years, when only the microfinance activities remain, a final audit of group accounts should be made, and savings should be distributed equally to members. Group members should then be given the opportunity either to graduate to formal MFIs active in the district or to continue with the credit organization, but without project support.

V. Conclusions

20. The review mission found that the main project objectives continue to be relevant.
21. The secondary objective of setting up a viable national institution to replicate the project approach has been assessed as unpractical and unnecessary given the recent major institutional changes in Sunamganj District, in particular the huge increase in the presence of MFIs. The ever-increasing coverage of the district by MFIs has completely undermined the justification for setting up self-help groups and a national institution to provide support to these groups.
22. The borrower has reiterated its commitment to the project. Despite some external constraints, the executing agency has proved its technical and managerial capacities in implementing the project's activities.
23. The project has made significant progress during the first cycle with regard to each of the project components, despite considerable challenges in the operating environment. Anecdotal evidence from participatory rapid appraisals during the review mission indicates strong community support for the project based on its emerging impacts.
24. IFAD's Management considers that there is a firm basis for proceeding to the second cycle. Adjustments to the loan agreement will be made to address the issues raised by the review mission. These include incorporating new trigger indicators for proceeding from the second to the third cycle (see annex). Changes to the loan agreement will be introduced by 1 October 2007.

Proposed second-cycle triggers

	<i>Purpose</i>	<i>Component</i>	<i>Trigger indicator</i>
1	The project design has responded to the changes in the institutional setting for microfinance in Sunamganj District.	Microfinance	An exit strategy for the microfinance component has been designed by the project and approved by IFAD, and is being implemented effectively.
2	The major productive component of the project has the necessary basis for achieving project impact.	Fisheries development	At least 300 public water bodies have been transferred to the project (including those transferred in the first cycle).
3	The project management unit is managing the project effectively.	Institutional support	The project monitoring and evaluation system is producing data showing the project's initial impact on the target group's livelihoods and well-being.

