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Negotiated financing agreement:

"Supplementary Loan for the Participatory Small-scale Water Resources Sector Project"

(Negotiations concluded on 30 March 2010)

Loan Number: *****

Project Title: Supplementary Loan to the Participatory Small-scale Water Resources Sector Project

The International Fund for Agricultural Development (the "Fund" or "IFAD")

and the

People's Republic of Bangladesh (the "Borrower")

(each a "Party" and both of them collectively the "Parties")

WHEREAS

- A. by financing agreement dated 6 November 2009 ("Financing Agreement Loan No. 786-BD") the Fund has made available to the Borrower a Loan in the principle amount of SDR 14 160 000 for the purposes of partially financing the Borrower's Participatory Small-scale Water Resources Sector Project;
- B. the Borrower has requested a supplementary Loan from the Fund for the purposes of increasing the financing in respect of the Participatory Small-scale Water Resources Sector Project, as described in Schedule 1 to this Agreement;

NOW THEREFORE the parties agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2), and the Special Covenants (Schedule 3).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as may be amended from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement, except for the provision identified in Section E paragraph 2 below. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.
3. The Fund shall provide a supplementary Loan to the Borrower (the "Financing"), which the Borrower shall use to implement the Project in accordance with the terms and conditions of this Agreement.

Section B

1. The amount of the supplementary Loan is six million five hundred and twenty-five thousand Special Drawing Rights (SDR 6 525 000).

2. The supplementary Loan is granted on highly concessional terms.
3. The supplementary Loan Service Payment Currency shall be the United States dollar (USD).
4. The first day of the applicable Fiscal Year shall be 1 July.
5. Payments of the principal amount of the supplementary Loan and service charge shall be payable on each 1 March and 1 September.

Section C

1. The Lead Project Agency shall be the Local Government Engineering Department of the Borrower's Ministry of Local Government, Rural Development and Cooperatives.
2. The following are designated as additional Project Parties:
 - (a) the Department of Agriculture Extension;
 - (b) the Department of Fisheries;
 - (c) the Department of Cooperatives;
 - (d) the Bangladesh Water Development Board;
 - (e) the Department of Environment;
 - (f) the Rural Development Academy, Bogra;
 - (g) the Bangladesh Academy for Rural Development, Comilla;
 - (h) the National Institute of Local Government;
 - (i) the Water Resources Planning Organisation;
 - (j) the Ministry of Land;
 - (k) the Department of Women Affairs;
 - (l) the Bangladesh Fisheries Research Institute; and
 - (m) the Bangladesh University of Engineering and Technology.
3. The Project Completion Date shall be 31 December, 2017.

Section D

The supplementary Loan shall be administered and the Project supervised by the ADB as the Cooperating Institution.

Section E

1. The following are designated as additional grounds for suspension of this Agreement:
 - (a) the right of the Borrower to withdraw the proceeds of the Asian Development Bank ("ADB") Loan, as defined in the Preamble, Letter B of Financing Agreement Loan No. 786-BD, has been suspended, cancelled or terminated, in whole or in part, or the ADB Loan has become due and payable prior to the agreed maturity thereof; or any event has occurred which, with notice of the passage of time, could result in any of the foregoing.
2. Section 7.05 (Procurement) of the General Conditions shall not apply to this Agreement.

For purposes of this Agreement, all goods, works and consulting services to be financed out of the proceeds of the supplementary Loan shall be subject to and governed by ADB's *Procurement Guidelines* (2007, as amended from time to time)

and the Borrower's Public Procurement Rules, 2008 to the extent permitted by the ADB. Consultants shall be recruited in accordance with ADB's *Guidelines on the Use of Consultants* (2007, as amended from time to time) and in accordance with Schedule 4 to the ADB Loan Agreement, as defined in the Preamble, Letter B of Financing Agreement Loan No. 786-BD.

3. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Fund:

The President
International Fund for Agricultural Development
Via Paolo di Dono, 44
00142 Rome, Italy

For the Borrower:

Secretary
Economic Relations Division
Ministry of Finance of the
People's Republic of
Bangladesh
Sher-e-Bangla Nagar
Dhaka 1207, Bangladesh

This Agreement, dated *****, has been prepared in the English language in six (6) original copies, three (3) for the Fund and three (3) for the Borrower.

For the Fund

For the Borrower

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. *Target Population.* The Project shall be carried out in 46 districts for new subprojects and 61 districts for improvement of existing subprojects financed under ADB Loan No. 1381-BAN and ADB Loan No. 1831-BAN in the territory of the Borrower, and shall benefit rural livelihoods through financing of investments in participatory small-scale water resources management.
2. *Goal.* The goal of the Project is to enhance productivity and sustainability in agriculture through sustainable small-scale water resources management systems in subproject areas.
3. *Objectives.* The objectives of the Project are to achieve small-scale water resources management systems within the Project Area, by financing subproject investments in the small-scale water resources sector, including subprojects for flood management, drainage improvement, water conservation and command area development including surface water irrigation.
4. *Parts.* The Project shall consist of the following Parts:

Part A: Institutional Strengthening

Under this Part A, the Project shall provide training to the Local Government Engineering Department, Integrated Water Resources Management Unit, Department of Cooperative staff and staff of other institutions involved in the small-scale water resources sector.

(a) Capacity Enhancement of Local Government Engineering Department

- (i) provide training to Integrated Water Resources Management Unit staff on planning and design, operations and maintenance, social and gender development, and social and environmental capabilities;
- (ii) support the decentralisation of Monitoring and Evaluation and operations and maintenance from the Integrated Water Resources Management Unit to the Local Government Engineering Department regional offices and create revenue budget positions for the senior sociologist and senior assistant engineer (water resources) in ten Local Government Engineering Department Regional offices; and
- (iii) provide training to the Local Government Engineering Department regional, district and *upazila* office staff on technical, social, financial and environmental dimensions of small-scale water resources development.

(b) Institutional Strengthening of Department of Cooperatives

- (i) establish a dedicated water cell within the Department of Cooperatives;
- (ii) prepare and provide a training programme and materials for trainers and the water management cooperative associations' staff;
- (iii) provide training to the Department of Cooperatives and Local Government Engineering Department field staff on the provision of statutory, regulatory and promotional services; and

- (iv) provide support to the Department of Cooperatives district level offices to improve outreach.
- (c) Improved Performance Monitoring
 - (i) streamline and improve the existing project management information system database of the Local Government Engineering Department; and
 - (ii) expand the existing project management information system database to allow access and the sharing of information among the key partner line departments, including the Department of Agriculture Extension, Department of Fisheries and Department of Cooperatives.

Part B: Participatory Subproject Development

- (a) Water Resources Oriented Support Programmes
 - (i) provide agricultural extension services to promote rapid adoption of improved and environmentally sound agricultural practices, including:
 - (a) integrated pest management;
 - (b) expanding production of high yielding variety rice crops; and
 - (c) crop diversification;
 - (ii) provide fisheries extension services and training to stakeholders in managing fisheries resources.
- (b) Operation and Maintenance Capacity Building of Water Management Cooperative Associations

Provision of training to water management cooperative associations in about 150 better performing subprojects financed under ADB Loan Nr. 1381-BAN on the small-scale water resources development sector project and the ADB Loan Nr. 1831-BAN on the second small-scale water resources development sector project, in (i) operations and maintenance planning, (ii) technical and financial management skills, and (iii) operation and maintenance cost recovery from subproject beneficiaries.

- (c) Participation of Women in Subproject Development
 - (i) provide training to Water Management Cooperative Associations' staff in women's roles in income generating activities and livelihood enhancement;
 - (ii) give priority employment to women to undertake earthworks subprojects; and
 - (iii) provide microfinance opportunities.

Part C: Small Scale Water Resources Infrastructure and Project Implementation Support

- (a) Construction, rehabilitation and development or improvement of approximately forty (40) small-scale water resources subprojects, including flood management, drainage improvement, water conservation and command area development including surface water irrigation. These shall complement the small-scale water resources subprojects constructed, rehabilitated, developed or improved under Part C (a) of Financing Agreement Loan No. 786-BD; and

(b) improvements of about 150 better performing subprojects financed under ADB Loan Nr. 1381-BAN on the small-scale water resources development sector project and ADB Loan Nr. 1831-BAN on the second small-scale water resources development sector project.

II. Implementation Arrangements

1. *Implementation Arrangements.* The Project shall be implemented pursuant to Schedule 5 to the ADB Loan Agreement (defined in the Preamble, Letter B of Financing Agreement Loan No. 786-BD), as amended from time to time.
2. *Project Monitoring.*
 - (a) Within six (6) months of the date of entry into force of this Agreement, the Project Management Office shall submit a detailed implementation-monitoring plan to the Fund for review and concurrence. The Project Management Office shall also conduct initial baseline physical and socio-economic surveys on each of the subprojects during the Project Implementation Period.
 - (b) Within nine (9) months of the date of entry into force of this Agreement, the Project Management Office shall establish a project monitoring system with gender disaggregated data. The Local Government Engineering Department shall ensure that the Implementation Monitoring and Evaluation Division shall conduct a performance evaluation of the project services and shall submit its evaluation report to the Fund not later than six (6) months after the Project Completion Date.

Schedule 2*Allocation Table*

1. *Allocation of Supplementary Loan Proceeds.* (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the supplementary Loan and the allocation of the amounts of the supplementary Loan to each Category and the percentages of expenditures for items to be financed in each Category:

Category	Supplementary Loan Amount Allocated (Expressed in SDR)	% of Eligible Expenditures to be financed
I. Civil Works	5 000 000	100% of total expenditure
II. Training	770 000	15% of total expenditure
III. Benefit Monitoring and Evaluation	100 000	14% of total expenditure
IV. Unallocated	655 000	
TOTAL	6 525 000	

(b) The terms used in the Table above are defined as follows:

“Civil works” means any eligible expenditure for water management.

“Training” means any eligible expenditure for among others, training and capacity building including fees for trainers, venue and transportation costs, subsistence allowance for participation.

“Benefit Monitoring and Evaluation” means any eligible expenditure for monitoring and evaluation of the subprojects and impact study of the small-scale water resources (SSWR), related to the Project.

Schedule 3

Special Covenants

For the purposes of this Agreement, the Borrower shall ensure that all disbursements under the Financing shall be made in accordance with ADB's *Loan Disbursement Handbook* (January 2007, as amended from time to time).

Key reference documents

Country reference documents

Poverty Reduction Strategy Paper (2005)

National Water Management Plan (2004)

National Water Policy (1999)

Guidelines for Participatory Water Management (2001)

IFAD reference documents

Bangladesh COSOP (April 2006)

IFAD Strategic Framework 2007-2010

Logical framework

Design Summary	Performance Targets/Indicators	Data Sources/ Reporting Mechanisms	Assumptions and Risks
Impact Enhanced productivity and sustainability in agriculture in subproject areas.	Five years after completion of the project (2022): <ul style="list-style-type: none"> Enhancing agriculture productivity (within public flood control and irrigation schemes) to Taka (Tk) 80,000/hectare (ha) Enhancing irrigated winter paddy (<i>boro</i>) yields of 6.0t/ha 	<ul style="list-style-type: none"> Data of Bangladesh Bureau of Statistics National poverty level data ADB and development partner reports External independent performance evaluation 	<ul style="list-style-type: none"> Macroeconomic and political stability Government continues to support agricultural extension activities Government continues to support sector policies for water resources management
Outcome Sustainable small-scale water resources management system in subproject areas	At the end of the project (2017): <ul style="list-style-type: none"> At subproject sites with a total area of 225,500 ha, increased cereal production to 6.0t/ha of boro. 420 WMCAs (with at least one third female membership) demonstrate their ability to plan, implement, operate and maintain small-scale water resources management systems 	<ul style="list-style-type: none"> Data of Bangladesh Bureau of Statistics Ministry of Finance, Bangladesh Economic Review LGED MIS database Data held by Registrar, DOC on audited, re-elected and trained WMCAs 	<ul style="list-style-type: none"> Participatory small-scale water resources development is investment priority for the Government WMCAs prioritizes small-scale water resources management Partner line departments include WMCAs in their annual/seasonal work plans
Output 1 – Enhanced institutional capacity and capability of government agencies at all levels that support small-scale water resources (SSWR) development	<ul style="list-style-type: none"> Revenue posts created at 10 LGED Circles and IWRMU: 4 Circles in Year 1, 4 Circles and IWRMU by Year 3, and 2 Circles by Year 5 Annual EME completed as scheduled with data to be disaggregated by gender and socio-economic category 420 WMCAs regularly provided with institutional and technical support Gender training of IWRMU staff 	<ul style="list-style-type: none"> MOLGRDC orders for creation and filling of Revenue posts LGED organization chart LGED EME reports LGED MIS database DOC data LGED MIS database DAE annual work plan DOF annual work plan 	<ul style="list-style-type: none"> Government commitment to institutional strengthening actions Created Revenue budget posts are maintained Skilled and trained staff members are retained in their respective functions
Output 2 - Refinement of subproject development process for sustainable WMCAs performing well	<ul style="list-style-type: none"> All WMCAs registered with at least 30 per cent women membership in management committee 270 new and 150 existing WMCAs are audited 270 requests for funding development of SSWR system and 150 requests for performance enhancement of existing SSWR systems approved WMCA maintenance fund sufficient for annual maintenance activities Timely maintenance and O&M fund replenished periodically 	<ul style="list-style-type: none"> DOC (gender disaggregated) data for registered WMCA and re-elected Management Committee UP data on registered societies LGED MIS database LGED data on approved subprojects LGED <i>upazila</i> (subdistrict) office DAE Block level data 	<ul style="list-style-type: none"> Commitment from WMCAs to fully participate and take over O&M responsibility Weak WMCA leadership WMCA fails to prioritize collection of maintenance funds and resorts to LGED emergency funding
Output 3 - Construction and maintenance of small-scale water resources subprojects	<ul style="list-style-type: none"> 270 SSWR subprojects completed and performance enhancement of 150 subprojects A total area of 225,500 ha covered by subprojects 	<ul style="list-style-type: none"> LGED MIS database LGED data on utilization of emergency fund WMCA records/accounts 	<ul style="list-style-type: none"> LCS operates as subcontractor and does not directly benefit target group Availability of rural labor willing to undertake earthworks

