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Investing in rural people

## President's memorandum

Proposed additional loan to the  
People's Republic of Bangladesh for the  
Coastal Climate-Resilient Infrastructure  
Project

### Note to Executive Board representatives

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For: Approval

## Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed financing to the People's Republic of Bangladesh for the Coastal Climate-Resilient Infrastructure Project as contained in paragraph 21 and the modifications to the financing agreement as contained in paragraph 17.

## Proposed additional loan to the People's Republic of Bangladesh for the Coastal Climate-Resilient Infrastructure Project

### I. Context and justification

1. The Coastal Climate-Resilient Infrastructure Project (CCRIP) was approved by the Executive Board in April 2013 (EB 2013/108/R.9/Rev.1). Financing for the project comprised: (i) an IFAD loan of SDR 26.1 million (equivalent to US\$39.5 million), an IFAD grant for SDR 660,000 (equivalent to US\$1 million; and (ii) cofinancing from the Asian Development Bank (ADB) of US\$50 million, from KfW Development Bank of US\$8.8 million and from the Government of US\$31.2 million. The project was approved with a financing gap of approximately US\$19.5 million as the amount requested by Bangladesh was higher than the allocation available at the time under the performance based-allocation system (PBAS). Therefore, a further proposal was to be presented for Board approval at a later stage when additional PBAS resources became available.
2. Following the satisfactory performance of the Bangladesh portfolio, an additional amount of approximately US\$19.5 million was allocated under the present PBAS cycle for the CCRIP to fill the financing gap. The project concepts, components, subcomponents, cost items, the cost-benefit analysis, result matrix, monitoring and evaluation system and institutional arrangements remain unchanged.
3. This memorandum seeks the Board's approval of the use of additional financing from the 2013-2015 PBAS cycle in the amount of SDR 14.25 million (equivalent to approximately US\$19.5 million).

### II. Status of project implementation

4. The goal of CCRIP is to improve the livelihoods of poor households (headed by both women and men) in selected upazilas (subdistricts) of 12 south-western coastal districts. CCRIP has three components, namely (i) improved road connectivity, (ii) improved market services and (iii) enhanced climate change adaptation capacity.
5. To date, the performance of CCRIP has been highly satisfactory. Twenty-eight months after effectiveness, 41 per cent of the grant and 33 per cent of the loan have been disbursed. In addition, contracts amounting to 83 per cent of the remaining CCRIP financing have been signed or are already under implementation.
6. As of today, CCRIP has been able to successfully manage all the activities related to project start-up and operationalization. Human resources, equipment, strategy and major procurement have been handled in a highly satisfactory manner.
7. Regarding component 1, fieldwork is already ongoing on 118 roads representing 218 km. Most of the road construction activities will be finalized by December 2015 (41 per cent).
8. Regarding component 2, out of a total of 197 contracts, 140 (71 per cent) have already been signed with the labour contracting societies for market construction

and improvement. So far 79 markets (40 per cent) have been finished and handed over to the Market Management Committee. It is planned that all markets will be ready for handover by December 2016.

9. For component 3, all planned activities are already running: (i) the development of rural radio has begun with four private operators in order to broadcast information on disaster, climate change and agriculture to the target groups and (ii) three research studies are being undertaken on: (a) climate-resilient slope protection, (b) prospects for sustainable waste management and (c) quality test protocols for road and market rehabilitation.
10. The baseline and Results and Impact Management System (RIMS) surveys have been finalized. The targeting of the poorest households and the gender approach are highly relevant and effective. As of today, in terms of employment, CCRIP has already generated 259,900 paid work days, which has provided an average income of US\$132 (10,296 taka) per beneficiary for the 3,365 women and men supported. The CCRIP exit strategy is well defined and synergies with other IFAD-financed programmes have been elaborated in order to better link the beneficiaries with the rural finance system and the value chain actors.
11. As per the strategy agreed during the last supervision mission in May 2015, all infrastructure work will be finalized before end-2017 in order to concentrate on the services and the sustainability of these rural investments from 2018 onwards. The CCRIP financing gap of US\$19.5 million must now be bridged in order to avoid slowing the pace of project implementation.

### III. Project costs and financing

12. The additional financing of SDR 14.25 million (equivalent to approximately US\$19.5 million) in the form of a loan on highly concessional terms will be allocated across all project activities and categories. Distribution of costs by component is shown in table 1.

Table 1  
Project costs by component and financier  
(Millions of United States dollars)

Component	ADB incl. Strategic Climate Fund (SCF) loan and grant	IFAD Loan 1	IFAD Loan 2	IFAD grant	KfW	Government	Total
		Amount	Amount		Amount	Amount	Amount
<b>A. Improved road connectivity</b>							
(i) Upgraded <i>upazila</i> roads	28.6	-	-	-	-	6.3	34.9
(ii) Upgraded union and village roads	-	32.8	17.5	-	-	11.8	62.1
Subtotal:	28.6	32.8	17.5	-	-	18.1	97.0
<b>B. Improved market services</b>							
(i) Upgraded growth centres and large markets	9.2	-	-	-	-	2.1	11.2
(ii) Upgraded community markets	-	5.5	1.5	-	-	1.4	8.4
Subtotal:	9.2	-	1.5	-	-	3.5	19.6
<b>C. Enhanced climate change adaptation capacity</b>							
(i) Enhanced capacity and knowledge management	0.8	0.3	0.1	1.0	0.2	0.3	2.7
(ii) Upgraded climate disaster shelters	-	-	-	-	7.3	1.5	8.8
Subtotal	0.8	0.3	0.1	1.0	7.5	1.8	11.5
<b>D. Project management</b>	10.8	0.9	0.4		1.3	6.4	19.7
<b>Total project costs</b>	49.3	39.5	19.5	1.0	8.8	29.8	147.9
Interest during implementation	0.7	-	-	-	-	1.5	2.2
<b>Total disbursement</b>	<b>50.0</b>	<b>39.5</b>	<b>19.5</b>	<b>1.0</b>	<b>-</b>	<b>31.2</b>	<b>150.0</b>

13. Table 2 provides the breakdown of costs by expenditure category.

Table 2

**Tentative project costs by expenditure category and financier**

(Millions of United States dollars)

Expenditure Categories	ADB (incl. SCF loan and grant)		IFAD Loan 1		IFAD Loan 2		IFAD grant		KfW		The Government		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
<b>I. Investment costs</b>														
<b>A. Civil works</b>														
Upazila roads	28.6	85.1	-	-	-	-	-	-	-	-	5.0	15.0	33.6	22.4
Union, village and block roads	-	-	32.8	55.4	17.5	29.6	-	-	-	-	8.9	15.0	59.3	39.5
Growth Centres and Large Markets	9.2	85.2	-	-	-	-	-	-	-	-	1.6	15.0	10.8	7.2
Village markets and collection points	-	-	5.1	67.5	1.3	17.5	-	-	-	-	1.1	15.0	7.6	5.1
Landing stages (Ghats)	-	-	0.4	62.5	0.1	22.5	-	-	-	-	0.1	15.0	0.6	0.4
Climate disaster shelters	-	-	-	-	-	-	-	-	7.3	85.0	1.3	15.0	8.5	5.7
<b>Subtotal</b>	<b>37.8</b>	<b>31.4</b>	<b>38.3</b>	<b>31.8</b>	<b>19.0</b>	<b>15.8</b>	<b>-</b>	<b>-</b>	<b>7.3</b>	<b>6.0</b>	<b>18.1</b>	<b>15.0</b>	<b>120.4</b>	<b>80.3</b>
<b>B. Vehicles and equipment</b>														
Vehicles	0.8	67.3	0.1	7.7	-	-	-	-	-	-	0.3	25.0	1.3	0.8
Field equipment	0.5	54.8	0.3	25.2	-	-	-	-	-	-	0.2	20.0	1.0	0.7
Office equipment	0.2	65.9	0.0	14.1	-	-	-	-	-	-	0.0	20.0	0.2	0.2
<b>Subtotal</b>	<b>1.5</b>	<b>60.0</b>	<b>0.4</b>	<b>15.4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.6</b>	<b>22.5</b>	<b>2.5</b>	<b>1.7</b>
<b>C. Consulting services</b>														
International	2.8	92.7	-	-	-	-	-	-	0.2	7.3	-0.0	-0.0	3.0	2.0
National	3.1	56.7	0.4	7.1	0.4	6.5	-	-	0.8	14.8	0.8	15.0	5.4	3.6
Support staff	1.5	78.4	-	-	-	-	-	-	0.1	6.6	0.3	15.0	1.9	1.3
Equipment, surveys and operating	1.0	77.3	-	-	-	-	-	-	0.1	7.7	0.2	15.0	1.3	0.9
<b>Subtotal</b>	<b>8.4</b>	<b>71.9</b>	<b>0.4</b>	<b>3.3</b>	<b>0.4</b>	<b>3.0</b>	<b>-</b>	<b>-</b>	<b>1.3</b>	<b>10.7</b>	<b>1.3</b>	<b>11.1</b>	<b>11.7</b>	<b>7.8</b>
<b>D. Training, workshop, studies</b>	<b>1.6</b>	<b>43.5</b>	<b>0.3</b>	<b>7.8</b>	<b>0.0</b>	<b>1.2</b>	<b>1.0</b>	<b>27.8</b>	<b>0.3</b>	<b>8.9</b>	<b>0.4</b>	<b>10.8</b>	<b>3.6</b>	<b>2.4</b>
<b>E. Land acquisition</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3.0</b>	<b>100.0</b>	<b>3.0</b>	<b>2.0</b>
<b>F. LGED staff and operating costs</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total investment costs</b>	<b>49.3</b>	<b>13.7</b>	<b>39.4</b>	<b>27.9</b>	<b>19.4</b>	<b>13.7</b>	<b>1.0</b>	<b>0.7</b>	<b>8.8</b>	<b>6.3</b>	<b>23.3</b>	<b>16.5</b>	<b>141.2</b>	<b>94.1</b>
<b>II. Recurrent costs</b>														
<b>A. Infrastructure maintenance</b>														
Roads	-	-	-	-	-	-	-	-	-	-	4.2	100.0	4.2	2.8
Markets	-	-	0.0	1.7	0.0	1.1	-	-	-	-	0.6	97.2	0.7	0.4
Climate disaster shelters	-	-	-	-	-	-	-	-	-	-	0.2	100.0	0.2	0.1
<b>Subtotal</b>	<b>-</b>	<b>-</b>	<b>0.0</b>	<b>0.2</b>	<b>0.0</b>	<b>0.1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5.0</b>	<b>99.6</b>	<b>5.0</b>	<b>3.4</b>
<b>B. Salaries and allowances</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1.4</b>	<b>100.0</b>	<b>1.4</b>	<b>0.9</b>
<b>C. Vehicles operation and maintenance</b>	<b>-</b>	<b>-</b>	<b>0.1</b>	<b>45.6</b>	<b>0.1</b>	<b>39.4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.0</b>	<b>15.0</b>	<b>0.2</b>	<b>0.2</b>
<b>Total recurrent costs</b>	<b>-</b>	<b>-</b>	<b>0.1</b>	<b>1.8</b>	<b>0.1</b>	<b>1.5</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6.5</b>	<b>96.7</b>	<b>6.7</b>	<b>4.4</b>
<b>Total project costs</b>	<b>49.3</b>	<b>50.0</b>	<b>39.5</b>	<b>26.7</b>	<b>19.5</b>	<b>13.2</b>	<b>1.0</b>	<b>0.7</b>	<b>8.8</b>	<b>6.0</b>	<b>29.8</b>	<b>20.1</b>	<b>147.9</b>	<b>98.6</b>
Interest during implementation	0.7	31.8	-	-	-	-	-	-	-	-	1.5	68.0	2.2	1.4
<b>Total disbursement</b>	<b>50.0</b>	<b>33.3</b>	<b>39.5</b>	<b>26.3</b>	<b>19.5</b>	<b>13.0</b>	<b>1.0</b>	<b>0.7</b>	<b>8.8</b>	<b>5.9</b>	<b>31.2</b>	<b>20.8</b>	<b>150.0</b>	<b>100.0</b>

#### IV. Financial management, procurement and governance

14. Financial management. The project management unit currently implementing CCRIP will be responsible for the financial management of project funds, in line with legal covenants and IFAD's guidelines. The most recent supervision mission in May 2015 assessed the project's performance in financial management as mostly satisfactory. Efficiency in this area is expected to improve significantly following the recent installation of best practice accounting software and ongoing related training for staff at the central and district level, which will be completed by year-end. The accounting software will be used to record all project expenditure by financing instrument and by financier. The software will enable the project to monitor expenditure in relation to the financing agreement and annual workplan and budget, and to automatically generate interim financial reports, annual financial statements, and withdrawal applications for IFAD disbursement. The internal control system already in place is adequate. The CCRIP finance team is adequately staffed with the appropriate mix of expertise and allows for segregation of roles in expenditure approval processes. The most recent financial management risk review in May 2015 assessed the risk associated with internal controls and staffing to be low. The overall financial management risk was deemed to be medium and is expected to be mitigated by the implementation of modernized financial reporting, as described above.
15. Flow of Funds. Mirroring fund-flow arrangements for the existing loan, project funds for the additional loan will flow from IFAD via a new designated account at Bangladesh Bank. An operational account in local currency will be used for day-to-day expenditures.
16. Audit. Audits are carried out periodically by the implementing agency's internal audit unit. Regarding external audit, CCRIP is audited by the supreme audit institution – the Office of the Comptroller and Auditor General through its Foreign-Aided Projects Audit Directorate – in line with international standards of auditing. CCRIP's most recent audit (financial year 2014) was unqualified. The 2015 audit exercise is currently under way.

#### V. Proposed amendments to the financing agreement

17. Once approved by the Executive Board, the financing agreement will be amended to take into account the additional loan. This financing completes the financing plan initially approved at project design and will, as noted, not involve changes to the project description, project area or target groups. No new expenditure category will be created.

#### VI. Legal instruments and authority

18. An amendment to the current financing agreement between the People's Republic of Bangladesh and IFAD will constitute the legal instrument for extending the proposed financing to the borrower.
19. The People's Republic of Bangladesh is empowered under its laws to borrow from IFAD.
20. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

## VII. Recommendation

21. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

RESOLVED: that the Fund shall provide a loan on highly concessional terms to the People's Republic of Bangladesh in an amount equivalent to fourteen million two hundred and fifty thousand special drawing rights (SDR 14,250,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze  
President