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PEOPLE’S REPUBLIC OF BANGLADESH

COUNTRY STRATEGIC OPPORTUNITIES PAPER

TABLE OF CONTENTS

CURRENCY EQUIVALENTS	iii
WEIGHTS AND MEASURES	iii
ABBREVIATIONS AND ACRONYMS	iii
MAP: IFAD-FINANCED ONGOING PROJECTS	iv
PORTFOLIO OVERVIEW	v
EXECUTIVE SUMMARY	vi
I. ECONOMIC, SECTORAL AND RURAL POVERTY CONTEXT	1
A. Country Economic Background	1
B. Agricultural Sector	1
C. Rural Poverty	2
D. Constraints on and Opportunities for Rural Poverty Reduction	4
E. National Strategy for Rural Poverty Reduction	6
II. LESSONS FROM IFAD’S EXPERIENCE IN BANGLADESH	7
III. STRATEGIC FRAMEWORK FOR IFAD	9
A. IFAD’s Strategic Role and Focus and Proposed Thrusts	9
B. Main Opportunities for Innovations and Project Interventions	11
C. Outreach and Partnership Possibilities with NGOs and the Private Sector	12
D. Opportunities for Linkages with Other Donors and Institutions	12
E. Areas for Policy Dialogue	13
F. Action Areas for Improving Portfolio Management	13
G. Tentative Lending Framework and Rolling Programme of Work	14
ANNEX	
AGREEMENT AT COMPLETION POINT	17

APPENDIXES

I. COUNTRY DATA	1
II. LOGICAL FRAMEWORK	2
III. COSOP TARGET GROUP	3
IV. RURAL POVERTY AND SECTOR ISSUES	4
V. ACTIVITIES OF OTHER PARTNERS IN DEVELOPMENT – ONGOING AND PLANNED	6
VI. STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS (SWOT) ANALYSIS	8
VII. IFAD’S CORPORATE THRUSTS AS RELATED TO THE PROPOSED COUNTRY PROGRAMME	9

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 ²)	=	10.76 square feet (ft ²)
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

ABBREVIATIONS AND ACRONYMS

COSOP	country strategic opportunities paper
DFID	Department for International Development (United Kingdom of Great Britain and Northern Ireland)
MDG	Millennium Development Goals
PBAS	Performance-Based Allocation System
PKSF	Palli Karma-Sahayak Foundation
PRSP	Poverty Reduction Strategy Paper

GOVERNMENT OF THE PEOPLE'S REPUBLIC OF BANGLADESH
Fiscal Year

1 July – 30 June

MAP: IFAD-FINANCED ONGOING PROJECTS



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.

PORTFOLIO OVERVIEW

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 Fertilizer Sector Programme	AsDB	AsDB	HC	11 Dec 78	28 May 79	31 Dec 92	L - I - 9 - BAN	USD	30 000 000	100%
	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	96%
Aquaculture Development Project	IFAD	UNOPS	HC	23 Apr 98	08 Dec 98	31 Dec 06	L - I - 472 - BD	SDR	15 000 000	77%
Smallholder Agricultural Improvement Project	IFAD	UNOPS	HC	29 Apr 99	17 Mar 00	31 Dec 07	L - I - 505 - BD	SDR	13 650 000	86%
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	10%
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	34%
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	10%
Market Infrastructure Development Project in Charland Regions	IFAD	UNOPS	HC	13 Dec 05			L - I - 681 - BD	SDR	17 550 000	

AsDB: Asian Development Bank
IDA: International Development Association

UNOPS: United Nations Office for Project Services
HC: highly concessional

EXECUTIVE SUMMARY

A. Rural Poverty Context

1. **Achievements.** Over the last ten years, Bangladesh has enjoyed a reasonable rate of economic growth and this, together with a decline in the population growth rate, has resulted in a reduction in the poverty rate of about 1% per year. The main drivers of economic growth have been the rapid expansion of the ready-made garment sector (now the main export), remittances from overseas migration, and agriculture. Although agricultural growth has lagged behind the overall economic growth rate, the country has achieved broad self-sufficiency in rice, resulting in a fall in real prices that has benefited the landless poor. Supported by increased government social security spending and a very active NGO sector, Bangladesh has also made good progress in human development, presenting improved indicators for health, hygiene and education. Nevertheless, Bangladesh remains a poor country, with around half the rural population living below the poverty line and 20% in extreme poverty.

2. **Issues and constraints.** Economic growth is threatened by rising inflation and fiscal imbalances. Moreover, the link between economic growth and poverty reduction is weakening with the rising inequality in the country. There is a widening gap between urban and rural areas (85% of the poor live in rural areas) and in some regions chronic poverty persists. Economic growth and poverty reduction have also been constrained by weak governance characterized by inefficient public administration, widespread corruption, inadequate law enforcement and little voice for the poor at the local level. Agricultural growth is hampered by the loss of land to urban development, fragmentation of farm holdings, flooding, saline intrusion and limits on the availability of irrigation water. Excessive fishing pressure has combined with inadequate management systems to reduce the production of open water fisheries. Technical support services are inadequate – in terms of both contact with farmers and provision of useful information. The growth of the rural non-farm sector has been hindered by insufficient infrastructure and lack of access to finance and markets. Small entrepreneurs and farmers are a “missing middle” as far as financial service outreach is concerned. The microfinance sector needs to broaden its services to reach both up to these near-poor clients and down to the very poor. Although Bangladesh has made great strides in building rural infrastructure, much remains to be done, as many village-level roads are still unusable by motorized transport.

3. **Opportunities.** As the economy expands, new opportunities are emerging for the rural poor. The growing urban areas mean larger markets for products and services, and globalization has opened up markets in other countries. These opportunities exist both in agriculture (especially for higher-value perishable foodstuffs) and in the rural non-farm sector, which has been growing faster than agriculture. Fishing communities are among the poorest and most disadvantaged groups in this sector. There are now opportunities to promote community-based fisheries management by taking advantage of proposed reforms in the draft National Fisheries Policy. With proper management and well defined user rights, the productivity of these water bodies could increase and fishers could claim a greater share of the total value of the catch. Women’s economic role is increasing as a result of the growth of microfinance, their employment in the garment sector and their increasing role in agriculture. The norms of gender relations are changing and women’s aspirations have increased. In the past, women’s empowerment has often been the unintended consequence of access to microfinance and employment opportunities. There is now an opportunity to move towards more rounded programmes that address issues such as legal rights and violence towards women.

B. Strategic Framework for IFAD

4. **Goal and objectives.** Bangladesh has the third highest number of poor people in the world. Given the vast scale of the country’s poverty, the **goal** in using IFAD’s limited resources will be to support the scaling up of successful innovative approaches to poverty reduction. The key objective of

IFAD's strategy will be reduced poverty as a result of successful innovations. At the output level, the IFAD country programme in Bangladesh comprises five separate subprogrammes, each with a specific output statement.

- **Subprogramme 1 – Increased availability of agricultural technologies to small farmers.** The Poverty Reduction Strategy Paper (PRSP) cites agriculture as its priority sector – in terms of both providing the population, which is continuing to grow (albeit at a slower rate), with an adequate and secure supply of food and serving as the key driver of pro-poor growth. This subprogramme will increase the availability of agricultural technology to small farmers, thereby boosting agricultural productivity, incomes and employment.
- **Subprogramme 2 – Increased access to markets and financial services for rural small entrepreneurs.** IFAD will help small entrepreneurs obtain access to markets and financial services, which will promote growth in agriculture and in the non-farm rural economy (another critical sector for the PRSP). IFAD support for innovations in microfinance and other forms of investment will assist in providing capital for these sectors. IFAD will also provide assistance to foster a regulatory framework that will enable the sectors to grow.
- **Subprogramme 3 – Innovations in pro-poor infrastructure development to benefit the extreme poor.** This subprogramme will support transport, market and water management infrastructure and will target regions with a high incidence of poverty. Infrastructure will be built using labour-intensive construction techniques to ensure that project funds flow directly into the pockets of very poor households.
- **Subprogramme 4 – Increased access to common property resources for the rural poor.** IFAD will seek to enable very poor households to gain access to inland fisheries or to public land. Access to productive resources has been shown to have a major impact on poverty.
- **Subprogramme 5 – Increased access to economic opportunities for women.** IFAD will assist women in gaining greater access to economic opportunities. While assistance for women will be a cross-cutting element in all programmes, creating a specific subprogramme for women will enable IFAD to support the PRSP's proposed special initiatives on entrepreneurship, employment and rights for women.

5. **Partnerships and policy.** Implementation of these subprogrammes will take advantage of potential for partnership with donors, the vibrant NGO sector and the growing private corporate sector. As donors align their programmes with the PRSP, there are increasing possibilities for partnerships. In implementing the subprogrammes, IFAD will discuss policy issues with the Government and with other donors. Some key issues have been identified during the Performance-Based Allocation System (PBAS) process, and others will emerge during programme implementation. So far, the key policy issues identified include: reforms required to improve agricultural extension and research performance; regulations required for improved access to inland fisheries; reforms needed to rural marketing regulations; and reform in the regulatory framework for rural finance.

6. **Portfolio management and lending framework.** This country strategic opportunities paper highlights where portfolio management could be improved, for example: (i) better project design to limit potential for misspending project funds; (ii) more implementation support to improve the poverty and gender focus; and (iii) the generation of more useful monitoring and evaluation data. The original PBAS-based allocation for Bangladesh was USD 16.5 million per year. This allocation varies from year to year on the basis of factors directly related to the PBAS (such as the number of countries included in the PBAS cycle) and other factors such as the size of IFAD's overall annual lending programme. While recognizing the very indicative nature of the numbers, by running PBAS formula scenarios with changes in both project performance and rural sector performance, it can be shown that there are significant increases/decreases in the allocations.

PEOPLE'S REPUBLIC OF BANGLADESH
COUNTRY STRATEGIC OPPORTUNITIES PAPER

I. ECONOMIC, SECTORAL AND RURAL POVERTY CONTEXT

A. Country Economic Background

1. The economic reforms of the early 1990s have been paying off in Bangladesh. The annual GDP growth rate has been stable at about 5% since the mid-1990s, a full 3% above the population growth rate. Such economic growth can be considered relatively good, particularly given the natural and economic shocks suffered by many countries of the region over the last decade. Yet, per capita gross national income is still around USD 400, remaining at the lower end of the world income scale. Robust GDP growth, together with improved access to education and health care, has allowed Bangladesh to make progress towards attaining some of the Millennium Development Goals (MDGs). Major challenges remain, however, including the need to reform the tax administration system, the banking system and state-owned enterprises; the need to eliminate physical infrastructure bottlenecks; and the need to reduce corruption. Assuming that strong reforms continue, a favourable medium-term outlook could be envisaged, with real GDP growing at 6.5%.

B. Agricultural Sector

2. Although the importance of the agricultural sector in the economy is declining, it still contributed 23% of GDP in 2002/2003. The rural non-farm sector now generates 33% of GDP, but is primarily driven by agriculture through backward and forward linkages. A large portion of industrial contribution to GDP is also agriculture-related (primarily the frozen food, jute and leather industries). Agriculture accounts for about 60% of rural employment, and over half of the income of the poorest 50% of rural households comes from farming or wage labour on farms (World Bank, 2002). The Poverty Reduction Strategy Paper (PRSP) recognizes that agriculture is an important driver of the whole rural economy and is vital for pro-poor growth. The agricultural sector needs to achieve a growth rate of 4%-5% per annum to enable the economy to reach a 7% growth rate – the target rate cited in the PRSP as necessary for reducing income poverty.

3. In agriculture, rice remains the dominant crop. The spread of winter paddy cultivation on irrigated land and the use of high-yielding varieties in the monsoon crop have enabled Bangladesh to become self-sufficient in food grain. While increased productivity has increased agricultural incomes, between 1980/1981 and 2001/2002 there was a fall of one third in the real price of rice, and the real wage rate for agricultural labour increased by 92%. More recently, however, rice prices have risen, and will possibly lead to a drop in real agricultural wages. Further increases in crop production are constrained by the topography of the country: in Bangladesh large areas are subject to periodic flooding and coastal areas are prone to saline intrusion. As a result, the scope of expanding the area of non-rice cultivation is limited and in some places high yielding paddy varieties cannot be grown. With urbanization, the area available for crops is dwindling. Clearly, these conditions mean that increased crop productivity is vital in order to make optimum use of limited land.

4. Fish are an important part of the Bangladeshi economy and provide the population's main source of protein. However, inadequate specification and application of property rights related to open water and river fisheries have resulted in damaging, competitive over-fishing. The shortfall has been made up by the growth of pond aquaculture. Shrimp fishing in brackish water ponds has emerged as a major foreign exchange earner, though recently shrimp exports have fallen because of an inability to meet the sanitary and phytosanitary standards of developed countries.

5. One important institutional change that contributed to economic growth and the reduction of poverty was the expansion of NGOs. Initially, more by default than design, they filled the governance void created by corrupt and inefficient government. However, NGOs have also created new social spaces for civil society organizations, both in development and in advocacy. Starting with the Grameen Bank, Bangladeshi NGOs have been at the forefront of the microfinance movement, which now reaches about 50% of all rural households – almost always through women. This has, to some extent, made up for the weak commercial banking sector (dominated by government-owned banks saddled with deliberately created non-performing loans). Further, with the growth of microfinance a culture of loan repayment has, at least partially, been spread over large parts of the country and household savings have increased. Accounting for about 17% of gross national product, household savings are however still much smaller than in the high performing Asian economies, where the figure is over 30%. Instead of the patron-client relations that characterized earlier forms of solidarity, the microfinance institutions have created market-based relations and built some horizontal solidarity among the weak and poor. Microfinance groups have also helped transform gender relations by promoting women's income-generating activities, increasing their say in household matters and making women more mobile and socially visible.

C. Rural Poverty

6. **Progress in poverty reduction.** Over the 1990s, Bangladesh has witnessed a reduction of about 1% in the proportion of the population living below the poverty line. Equal progress was made in reducing the incidence of poverty across urban and rural areas, even though average per capita expenditure increased much faster in urban areas. Despite this 1% reduction, the country is not fully on track to achieve the MDG target of reducing the proportion of the population living on less than USD 1 per day from 58.88% in 1991-1992 to 29.4% in 2015. The headcount of rural poverty now stands between 53% (the 2000 figure taken from the Bangladesh MDG Progress Report, 2005) and 43.6% (Planning Commission, 2004). However, both sources agree on the 1% reduction in poverty over the 1990s. Rural inequality, as measured by the Gini coefficient, rose from 0.243 in 1991-1992 to 0.271 in 2000. Trends in the rural poverty gap (another MDG indicator monitored in Bangladesh) show a drop from 18.1 in 1991-1992 to 13.8 in 2000. On average, rural areas did better than urban areas in reducing the depth and severity of poverty, implying that growth in rural areas was more pro-poor than in urban areas. Despite its status as a less developed country with high levels of poverty, Bangladesh made it into the league of countries with medium human development in 2003. Nonetheless, the rural areas of the country are still lagging behind. In 2001, the under-five mortality rate – an indicator of health care and social, cultural and economic progress – was 52 per thousand in urban areas and 89 per thousand in rural areas.

Categories of the Rural Poor in Bangladesh

7. **Extreme poor.** The poorest group in Bangladesh are the extreme poor (also termed the hard core poor, ultra poor or chronic poor). These people consume less than 1 800 calories per day compared with the poverty line consumption of 2 100 calories per day. The extreme poor make up about 20% of rural households, of which 4% are classified as destitute. The PRSP identifies the following as the main characteristics of the extreme poor: (i) absence of electricity connection (where electricity is taken as a proxy for infrastructure as a whole); (ii) illiteracy of the household head; (iii) no ownership of cultivable land; and (iv) no ownership of assets or no income. The extreme poor category also includes people who suffer from serious disability or infirmity and lack mobility. While this group are unable to participate in various income and employment schemes, some may still have productive potential. Through the COSOP subprogrammes, IFAD will seek to target any members of the extreme poor who have such potential.

8. **Moderate poor.** The moderate poor are classified as consuming between 1 800 and 2 100 calories per day and account for 28% of rural households. Although their calorific consumption seems

adequate, the diet of this group lacks protein and other high-value foods. The moderate poor own some assets, such as a small area of land and livestock, but they are vulnerable to sliding deeper into poverty as a result of health problems or natural disasters. This category is the main target group for microfinance and allied NGO programmes, and many moderately poor households have homestead-based income-generating activities in the farm and non-farm sectors.

Cross-cutting Categories within the Rural Poor

9. **Small farmers/entrepreneurs.** This segment of the rural population cuts across both the extreme poor and the moderate poor and is characterized by its vulnerability. Many of them are marginal and small farmers (classified as having under 2.5 acres of land) who may face episodic poverty on account of the seasonal nature of farm income. Farmers are particularly vulnerable to natural disasters affecting land (such as river erosion, floods and drought) and to pests and diseases that attack crops and livestock. Small farmers and other rural small entrepreneurs face a double disadvantage: they often miss out on support from NGOs but lack the power and resources to avail themselves of many government services, bank finance and linkages to larger formal organizations in the private sector. For this reason they are often termed the “missing middle”.

10. **Women.** Among the poor, women experience deprivation more acutely because of problems of access to sufficient nutrition, scarce employment opportunities, non-observance of basic rights and lack of mobility. Further, among the extreme poor there is a disproportionate representation of single-adult or woman-headed households, with many classified as “widows” (a category that may include large numbers of divorced or abandoned women as marital irresponsibility by men is a factor in creating and perpetuating poverty). It is estimated that as many as 95% of woman-headed households live below the poverty line, and 40% of these are extremely poor. These are compelling facts that make addressing gender inequality a vital component of poverty reduction.

Emerging Issues

11. The PRSP holds that there is “considerable interface between the persistence of chronic poverty and unfavourable agricultural environments (e.g. salinity-prone, flood-prone, river erosion-prone, drought-prone areas).” This is reflected in the geographical concentration of poverty in the north-west (prone to drought and river erosion), north-centre (subject to severe seasonal flooding that limits crop production) and southern coastal zones (which are saline-affected). Many of these regions also have inadequate physical infrastructure (in terms of electricity connection, irrigation facilities and roads) and less coverage by microfinance institutions. IFAD will seek to implement future interventions in poorer and more disadvantaged districts, and provide support to infrastructure development.

12. Bangladesh is at risk from global warming. It could experience the affects of rising sea levels (in the form of flooding and salt water intrusion), a less favourable rainfall pattern and an increased risk of weather extremes. The design of future agricultural and infrastructure programmes will therefore take account of likely rises in sea level and, where needed, ensure strategic links with flood protection programmes funded by other donors. IFAD projects will also seek to include risk mitigation initiatives, such as encouraging livelihood diversification, savings and insurance and promoting access to disaster recovery grants and loans. There may also be potential to expand the coverage of insurance, where this can be provided in a cost-effective and sustainable manner. Another emerging environmental issue has been the contamination of groundwater by naturally occurring arsenic. IFAD projects involved in providing domestic water supplies will continue the current practice of testing wells to ensure that water is safe to drink.

13. Although there have not yet been any outbreaks of avian flu, it is likely that this will spread to the subcontinent via migratory birds (especially ducks). Apart from the danger of a human pandemic, there is great risk of damage to the poultry industry, both commercial and backyard (an important enterprise for poor women supported by ongoing IFAD projects). IFAD will not be directly involved

in addressing avian flu, as other agencies have a comparative advantage in this area. However, IFAD will coordinate with these programmes, in particular with contingency plans and testing/monitoring programmes of the Government/Food and Agriculture Organization of the United Nations.

14. Bangladesh is, as yet, little affected by HIV/AIDS, with only 465 reported cases of HIV/AIDS up to December 2004 (World Bank 2005). However, among high-risk groups, infections are increasing (rising from 1.4% to 8.9% over three years among one group of intravenous drug users). The risk factors are high: the country has a large commercial sex industry, condoms are little used, there are high levels of syphilis and needles are shared among drug users, with little awareness of the consequences. With donor support, the Government is: (i) increasing HIV/AIDS advocacy, prevention and treatment within existing health programmes; and (ii) scaling up interventions among high-risk groups. In Bangladesh, over 300 NGOs are working on the problem of sexually transmitted diseases (STDs) and HIV/AIDS, and about 135 are actively engaged in HIV/AIDS-related activities, particularly with marginalized and hard-to-reach groups. IFAD will not be directly involved in human health programmes as other donors have a comparative advantage here and are allocating significant amounts to the issue. However, IFAD will seek to link community groups with health programmes supported by other donors.

15. Economic growth and poverty reduction have been constrained by weak governance, characterized by inefficient public administration, widespread corruption, inadequate law enforcement and little voice for the poor at the local level. These problems have been widely recognized (and reported in the press), and the Government is committed to taking such action as public administration reform and decentralization, although the political will for implementation is sometimes lacking. Future IFAD programmes will also be designed to promote better governance, as elaborated below (in Section III).

D. Constraints on and Opportunities for Rural Poverty Reduction

Constraints

16. Overall **economic growth** is threatened by rising inflation, which may result in reversal of the downward trend in interest rates and cuts in the Government's expenditure on development. Moreover, the link between economic growth and poverty reduction is weakening with rising inequality. The Gini coefficient (a measure of income inequality) has increased from 0.27 in 1991-1992 to 0.36 in 2000. This lowered the extent of poverty reduction that could be expected with each percentage of growth. The rate of improvement in the Human Development Index has also slowed from 2.39% per annum between 1995 and 2000 to 0.92% per annum since 2000.

17. In **agriculture**, potential increases in the productivity of land and labour have not been realized because of the slow rate of modernization and technical progress. Technical support services are inadequate in terms of both contact with farmers and provision of useful information. Links to input and output markets are weak, especially links to emerging urban and export markets. Small and marginal farmers also lack supporting financial services: not only have they no access to the formal banking sector, but they are also outside the normal target group for microfinance. Landlessness and fragmentation of agricultural plots are further reducing productive potential (more than 50% of the population are functionally landless).

18. The growth of the **rural non-farm sector** has been hindered by inadequate infrastructure (especially in terms of communications and power supplies), lack of financial services, insufficient technical and managerial capacity, limited access to markets, and weak regulatory frameworks. These regulatory frameworks feature tariffs, subsidies and legal structures that are biased against small firms. These firms are also a missing middle as far as access to financial services is concerned (a characteristic shared by small and marginal farmers).

19. Although Bangladesh has made great strides in developing **rural infrastructure**, much remains to be done. Only 19% of rural households have electricity, and supplies are often unreliable. Although there is a dense road network, few village roads are paved and many are unusable by motorized transport – especially in remote and hard-to-reach regions. Both farmers and non-farm entrepreneurs cite substandard roads as the main factor limiting their access to markets (World Bank, 2004 and IFAD, 2005).

20. The **microfinance sector** faces new challenges in broadening its services to reach both down to the very poor and up to near-poor small farmers and rural entrepreneurs. Vulnerability and lack of risk-taking capacity have inhibited the poorest households from taking out loans. The needs of farmers and rural entrepreneurs have been largely ignored, and they are likely to require a different service/product from the type now mass-produced for moderately poor microfinance clients with household-level enterprises.

21. **Fishers**, both inland and coastal, are a particularly poor and disadvantaged community (often they are Hindu and suffer religious discrimination). Many of the best inland fishing grounds are leased out by the Government, and fishers lack the capital and social connections to take out such a lease. As a result, they only earn a basic wage catching fish on behalf of external leaseholders. In the limited cases where, with external support, fishers are able to lease fishing grounds, they often need to forfeit some control of the lease in order to obtain the necessary capital. Lease costs are often excessive and lease terms too short to provide incentives for improved management.

22. There are a number of other key factors that impede rural development. First, the rural poor are highly susceptible to **natural disasters** such as river flooding and cyclones. Second, **service delivery** still poses a problem, and the relevant line agencies are characterized by ineffective performance, weak coordination, and inadequately trained and unmotivated staff. Third, population growth is increasing **pressure on the environment**, which is being demonstrated by trends in reduced soil fertility and declining capture fishery production.

Opportunities

23. With the help of better infrastructure and educational services, the growth of the economy is creating new opportunities for the rural poor in Bangladesh. The country's urban areas are expanding and a growing middle class boasting much increased spending power means greater markets for products and services. Integration of the national economy within Bangladesh, and globally with other countries, is creating new opportunities beyond local markets. For agriculture, national markets are growing quickly for higher-value products such as eggs, fish, fruit, meat, milk and vegetables. While demand for these products increases as incomes rise, consumers also require that higher standards of quality be met. Even rice production needs to be expanded to meet the needs of the market, and the recent sharp increases in rice prices show just how important it is for production to keep up with demand. These conditions create opportunities for rural producers to generate more income than they would from traditional crop production and from supplying only local markets. However, to meet the new demand, producers need better production know-how and market linkages. Large private sector agribusiness companies are playing an increasing role. This is providing producers with opportunities to link into supply chains, but it also means that availability of mass-produced, well packaged and quality assured food products will take some of the market away from small-scale artisanal food processors.

24. New opportunities are also emerging in the rural non-farm sector. This sector has been growing faster than agriculture and has higher labour productivity (reflected in wages) than agriculture. While part of the sector is closely tied to agriculture through providing inputs and services (such as machinery repair) and through processing and marketing outputs, a growing part of the rural non-farm sector is linked to the urban economy (such as textile and garment manufacture). This move away from agriculture is being reflected in increasing migration of labour, both within Bangladesh and

overseas. Migration also creates opportunities in terms of land availability: many migrants mortgage their land in order to raise the money to migrate. This in turn allows those with little land but with access to microfinance to lease the land.

25. Agricultural productivity is well below potential in Bangladesh. There are opportunities to increase farm incomes through the use of **improved technologies**. There is also scope for increasing the value of farm products by growing higher value crops (to meet the expanding demand for fresh foods) and by adding value through improved quality and grading of produce.

26. Initiatives to promote **community-based fisheries management** in semi-open waters have had some success in helping poor and disadvantaged fishing communities. These initiatives have also had a positive influence on the draft National Fisheries Policy (Department of Fisheries, April 2005) and on proposals in the PRSP. Projects could take advantage of this policy change to transform the present open access nature of fisheries resources into resources with stable management and well defined user rights. This will not only increase the overall productivity of these water bodies, but also ensure poor fisher households a greater share of the total value of the catch.

27. Women's economic role is growing as a result of their employment in garment manufacture, their increasing importance in agriculture and the growth of microfinance. Studies have shown that gender relations are becoming more equitable, and women's aspirations are increasing. In the past, **women's empowerment** was often an unintended consequence of improved access to microfinance and employment opportunities. Today, there is the opportunity to move towards more rounded empowerment programmes that address such issues as legal rights and violence towards women.

E. National Strategy for Rural Poverty Reduction

28. The COSOP has been formulated in alignment with the PRSP (as shown in the COSOP logical framework). The PRSP is based on a road map for accelerated poverty reduction, consisting of pro-poor economic growth, human development and improved governance. A final draft was approved in October 2005. The PRSP proposes four strategic blocks that promote: (i) a macroeconomic environment for pro-poor economic growth; (ii) pro-poor growth in critical sectors (i.e. in the rural, agricultural and informal sectors, and in small and medium enterprise); (iii) safety-net measures to protect the poor, especially women, against income/consumption shocks; and (iv) human development for the poor through interventions in the areas of education, health care, sanitation, nutrition and social services. The PRSP targets for Bangladesh to meet the MDG targets are shown in Table 1. This shows that accelerated rates of improvement are required to meet the targets for income and extreme poverty, as well as most of the other goals.

Table 1: Main Targets of the Poverty Reduction Strategy Paper

Indicators	Progress from 1990-2002 (Percentage)			Progress Needed to Meet 2015 PRSP Targets (Percentage)	
	1990	2002	Annual Progress 1990-2002	2015	Annual Progress Needed 2002-2015
Income poverty	59(50)	50* (40)	-1.5 (-1.9)	25 (20)	-3.3 (-3.3)
Extreme poverty	28	19.0*	-3.2	5	-4.9
Adult literacy	35	49.6	3.5	90	6.3
Primary enrolment	56	86.7	4.6	100	1.2
Secondary enrolment	28	52.8	7.4	95	6.1
Infant mortality rate	94	53.0	-3.6	18	-5.1
Under-five mortality rate	109	76.0	-2.5	25	-5.2
Maternal mortality	480	390.0	-1.6	179	-4.2
Children underweight	67	51.0*	-2.4	26	-3.3

* Indicates data for 2000. 2002 is a benchmark year for PRSP.

Note: The income poverty measure is taken from the World Bank cost-of-basic-needs estimate based on unit record data from the Household Income and Expenditure Survey (HIES). The alternative estimate given in parenthesis is based on HIES-grouped distribution data and shows a poverty estimate of 40% in 2000.

Source: Table and edited notes from PRSP (Planning Commission, 2005)

II. LESSONS FROM IFAD'S EXPERIENCE IN BANGLADESH

29. **Country-level evaluations.** IFAD's recently completed country programme evaluation (in 2005) concluded that the nine IFAD projects implemented over the last ten years have been generally successful in terms of impact and effectiveness. Food production has been expanded, especially for poorer farmers who have adopted more intensive cropping practices and poultry farming. Some important lessons and recommendations have emerged from recent evaluations.

- Microfinance has provided important benefits for the rural poor in the form of increased income, improved food security and quality of life, and reduced vulnerability. Although the moderate poor are now well supplied with microfinance, marginal and small farmers and microentrepreneurs still need better access. Addressing this gap in finance is one of the main aims of the COSOP (see Section III).
- Projects have also empowered rural women via microfinance, improved knowledge of agricultural technology, and access to businesses and markets. However, as discussed generally in the Annual Report on Results and Impact of IFAD Operations (ARRI), IFAD has had difficulty in reaching the extreme poor. Some extremely poor households have benefited through employment by projects, and by businesses and farmers supported by the projects. Microfinance services have also enabled some members of this group to start up their own economic activities. However, for the most part, IFAD project beneficiaries have not been the extreme poor. The COSOP will specifically aim to support this group via pro-poor rural growth, and promotion of employment opportunities and access to common property resources (see Section III).
- It is not necessary to tie loans to the purpose for which training is given. Demand-driven microfinance (where borrowers are free to choose the use of their loans) linked to technical support and capacity-building has worked very well and has had significant impact on the income of beneficiaries. Training in small enterprises such as vegetable gardens and backyard poultry keeping makes a valuable contribution to household food security, but the actual enterprises need relatively little investment. The microfinance process ensures that groups meet regularly, which builds cohesion and mutual support among members. It has been found that the delivery of training on any subject is much easier and more

effective if given to an active microfinance group: savings and credit provide a focus for group activities and also build confidence and reduce vulnerability, thereby enabling households to adopt new methods and try out new technologies. This successful approach will be followed in future IFAD microfinance interventions.

- In supporting microfinance, the mechanisms for disbursement of funds from the project through to the final beneficiaries need to be carefully designed to ensure a smooth flow of funds, appropriate lending terms and proper recovery of loans. Attempts to use commercial or agricultural development banks to channel funds to NGOs for onlending to beneficiaries have generally been unsuccessful. Anticipated disbursement rates have rarely been achieved and, even where funds do flow, banks have little capacity or interest in the proper monitoring of the NGO lending programme. IFAD has achieved much better results with the Palli Karma-Sahayak Foundation (PKSF) and its partner NGOs. As a specialist microfinance organization, the PKSF has the mission and capability to monitor and actively manage NGO microfinance. IFAD will continue to work with high-performance microfinance institutions (such as PKSF and its partner organizations) in future interventions.
- Post-project sustainability is a key theme in the ARRI report. In this regard, sustainability of project benefits often requires a continued flow of credit funds. These funds are needed to support the further growth of enterprises funded by loans and provide groups with a focus to ensure that the social and empowerment benefits of group membership are sustained. In addition, fair terms of access to open water fisheries may require fishing groups to finance the purchase of fingerlings for stocking. Without loans, arrangements have to be made to obtain these on credit from fingerling suppliers or fish buyers. This usually negatively affects the terms of access to the water body and reduced net income for fishers. Sustainability of credit operations requires the kind of institutional design characteristic of capable microfinance organizations such as PKSF and its partner NGOs. IFAD will take account of this in future interventions.
- A comprehensive package of measures is sometimes needed to enable women to participate fully in economic and community activities. While market infrastructure development has included specific areas for women traders, women are often unable to make full use of these facilities without credit for market businesses and an effective voice in market management. This approach will form part of the design of future market projects.
- While promotion of self-managing grass-roots organizations was a central goal of IFAD's strategy in Bangladesh, little was achieved in this area. Where NGOs were contracted to form community-based organizations, sustainability of the organizations depended on continuing support from NGOs. In the Sunamganj Community-Based Resource Management Project, the long-term results of the alternative approach of forming self-help groups are not yet clear. Future programmes will carefully review the experience gained from this project before proposing to promote self-help groups.
- Projects that have attempted to improve access to water bodies for the poor (the Oxbow Lakes Small-scale Fishermen Project, the Aquaculture Development Project and the Sunamganj Community-based Resource Management Project) have been beset by implementation problems such as slow project start-up, low disbursement, conflicts and high costs. However, in terms of impact, better access to water bodies has improved household income and general livelihood. Sustainability is, however, uncertain. There are concerns that local influentials may regain control of assets or that the Government will not extend leases once the current ten-year period expires. Contingency measures will therefore be incorporated into the design of future projects. For example: (i) projects will work with agencies such as PKSF that guarantee post-project sustainability; and (ii) more implementation support will be provided while the project is being implemented.

- The agreement at completion point of the country programme evaluation stated that IFAD will: (i) set clear strategic objectives; (ii) develop microfinance services for rural and peri-urban enterprises and for small and marginal farmers; (iii) continue investment in pro-poor infrastructure; (iv) build partnerships to tap the private sector; (v) establish principles and procedures for NGO partnerships; (vi) establish a field presence in Bangladesh; (vii) finance communications activities in all projects; and (viii) reduce opportunities for corruption. Wherever feasible, future interventions will reflect these agreements.

III. STRATEGIC FRAMEWORK FOR IFAD

A. IFAD's Strategic Role and Focus and Proposed Thrusts

30. **Strategic role and focus.** Bangladesh has the third highest number of poor people in the world (after India and China). Given the vast scale of the country's poverty, the logical **goal** in using IFAD's limited resources will be to support the scaling up of successful innovative approaches to poverty reduction by the Government, NGOs, the private sector and donors. These innovations may take the shape of pilot initiatives that make the case for policy change, implementation of existing regulations, new institutional models or greater investment. Scaling up will be facilitated by a communications strategy focused on successful innovations, with the aim of publicizing their scaling-up potential. The **purpose** of IFAD's country strategy is to reduce poverty through the pilot innovations financed. IFAD will be held accountable on this point.

31. **Target group.** Building on the COSOP's poverty analysis and the recommendations in the country programme evaluation, IFAD has strategically selected two groups (see Appendix III for a detailed definition): (i) the extreme poor with productive potential; and (ii) poor small farmers/entrepreneurs. This selection has been made because: (i) stimulating rural growth and enhancing employment opportunities in rural areas will require a specific focus on small farmers/entrepreneurs; and (ii) a large number of the extreme poor have productive potential, and to date there has been very little success in reaching these households. IFAD will not target the destitute, as this group is better reached through social safety nets and grant-based income support.

32. **Proposed subprogrammes (output level).** The full scope of the PRSP's rural development agenda is far beyond a small agency like IFAD. Prioritization has therefore been essential and has been influenced by: (i) discussions between IFAD and the Government; (ii) an analysis of the current and future strategies and programmes of major donors; and (iii) IFAD's past experience. IFAD's country programme in Bangladesh will be based on **five subprogrammes, each with a specific output.**

- Increased availability of agricultural technologies for small farmers;
- Increased access to markets and financial services for small rural entrepreneurs;
- Innovations in pro-poor infrastructure to benefit the extreme poor;
- Increased access to common property resources for the rural poor; and
- Increased access to economic opportunities for women.

33. These subprogrammes are not intended to represent individual projects. In fact, two or more of the subprogrammes may be the focus of a single project – for instance, a project to help women may also promote rural enterprise and develop rural infrastructure. Conversely, two or more projects might relate to the same subprogramme.

34. **Subprogramme 1 – Increased availability of agricultural technologies for small farmers.** Agriculture is the sector given priority in the PRSP, reflecting the Government's overriding objective of ensuring that the growing population have an adequate and secure supply of food. Agriculture is also the key driver of pro-poor growth. The poor rely to a large extent on this sector – as either wage-

earners or farmers. Increased income from daily wage labour and farming is the greatest contributor to addressing income inequality and therefore makes the greatest impact on poverty reduction. The IFAD programme to increase the availability of agricultural technologies for small farmers meshes well with the strategies outlined in the PRSP, which call for improved technologies to increase yields, demand-led agricultural extension and better links to markets through innovations such as contract farming. This subprogramme is also closely aligned with future programmes of the other major donors in the sector – the World Bank and the Danish International Development Agency.

35. Subprogramme 2 – Increased access to markets and financial services for small rural entrepreneurs. The subprogramme will help small rural entrepreneurs obtain access to markets and financial services. This will support growth in both the agricultural sector and the non-farm rural economy, which is also a critical sector for the PRSP. IFAD support to innovations in microfinance and other forms of investment will help provide capital for these sectors. In addition, support will be provided to promote a regulatory framework that would enable the sector to grow in line with prudent financial standards. Enterprise and private sector development is a priority for a number of donors, and IFAD will coordinate its support with the programmes of these donors.

36. Subprogramme 3 – Innovations in pro-poor infrastructure to benefit the extreme poor. This subprogramme will support transport, market and water management infrastructure and will focus on regions with a high incidence of poverty, such as the coastal belt; areas subject to drought, flooding and erosion; and the Chittagong Hill Tracts. Infrastructure construction will use labour-intensive construction techniques to ensure that project funds flow directly to extremely poor households. Other donors, such as the World Bank, the Asian Development Bank and the Japan Bank for International Cooperation are investing large sums in rural infrastructure. IFAD will focus on areas and approaches that are not being covered in the programmes of these agencies.

37. Subprogramme 4 – Increased access to common property resources for the rural poor. This subprogramme will enable rural poor households to gain access to common property resources – primarily to inland fisheries, but also to public land. Such access to productive resources has been shown to have a major impact on poverty, but the scope of initiatives of this kind is obviously limited by the availability of common property resources. Issues of sustainability and control of resources also need to be addressed. IFAD has been working alongside the Department for International Development of the United Kingdom of Great Britain and Northern Ireland (DFID) on a grant-funded research initiative for the Community-based Fisheries Management Programme in South and Southeast Asia, and DFID may continue to support initiatives relating to common property resources.

38. Subprogramme 5 – Increased access to economic opportunities for women. This final subprogramme will support women in gaining greater access to economic opportunities in order to empower women and promote gender equality. While support for women will be a cross-cutting element in all subprogrammes, establishing a specific subprogramme for women will enable IFAD to support the PRSP proposals for special initiatives on entrepreneurship, employment and rights for women. Strengthening the position of women is a priority for most donors, and there are opportunities for IFAD to develop practical measures to empower women that can be adopted by other donors.

39. Alignment with the PRSP. The COSOP has been designed in full alignment with the PRSP. All five subprogrammes will primarily relate to the second strategic block of the PRSP – pro-poor growth in critical sectors. However, policy innovations within the subprogrammes will also support the first strategic block – promoting a macroeconomic environment for pro-poor economic growth, while the infrastructure development subprogramme may be implemented in such a way as to support the third strategic block – safety-net measures to protect the poor, especially women, against income/consumption shocks.

B. Main Opportunities for Innovations and Project Interventions

40. Future IFAD innovations within the five programme areas will build on the experience that IFAD has gained from recent projects. Areas of potential innovation and intervention include:

- A new paradigm for agricultural development will be fostered to catalyse pro-poor growth in the sector. This will include a number of specific innovations to improve **agricultural technology** that may involve new approaches to funding research and managing extension.
- **Rural microfinance** has formed a major part of IFAD's portfolio in Bangladesh. IFAD is now participating in a multidonor initiative on innovations to: improve the outreach of microfinance services to the poorest segments of the population; introduce new financial products and packages for rural and peri-urban enterprises (also agriculture-related); support capacity-building and professional development; and promote policy reform. To encourage innovation by microfinance institutions, some project funds may be disbursed via a challenge fund mechanism.
- **Enterprise development** (with a possible link to innovations in finance) will promote the development of microenterprises and small enterprises to link rural areas with growing urban and export markets. This may involve a business development service approach, that provides for services in business development, with a focus on selected subsectors, and with strong links to the mainstream private sector.
- Development of **rural infrastructure** will involve more participation by communities and the private sector. There is particular scope for private sector/community partnerships in the provision of infrastructure for agricultural marketing, and for greater community involvement in village-level infrastructure for transport and water management. To strengthen the impact on poverty reduction, much of the construction work will be carried out by labour contracting societies, which are organizations of extremely poor women. Any headway made by women through this initiative could then be enhanced through training and microfinance support in the period following construction, with the ultimate aim of lifting these women fully and sustainably out of poverty.
- Potential exists for interventions to provide disadvantaged fishing communities with access to productive **open water fisheries**. Current systems to manage open water fisheries are either ineffective or non-existent and this has led to a serious depletion of fish stocks and below-potential catches. Often, the fishers themselves receive only a small share of the value of the catch. New initiatives could take advantage of the proposed new National Fisheries Policy to give poor fishing communities control of their resources. However if these communities are to gain real control, legal possession will need to be supported by social acceptance of the new rules of access.
- More effective ways could also be found to transfer **publicly owned land** into the hands of the poor, through more open and effective systems of leasing and through improved governance of property rights. Projects may also support the allocation of newly accreted coastal charlands¹ to very poor households.
- Although significant progress has been made in **women's empowerment**, this has been largely a by-product of microfinance, education and increased employment opportunities. There is scope to introduce more proactive measures to increase the role of women in the community. In particular, there is a real need to address the problem of violence against women, which severely erodes the economic potential of the household. Although actions

¹ Land located in an active river basin, subject to erosion and accretion.

to support women's empowerment will form a part of most interventions, a project with women's empowerment as its central thrust could also be implemented.

41. Future IFAD investment projects may include a number of the above innovations and may encompass more than one subprogramme. For instance, a project in the coastal char areas may combine infrastructure development, allocation of publicly owned land to poor households, provision of improved agricultural services and enterprise development.

C. Outreach and Partnership Possibilities with NGOs and the Private Sector

42. NGOs have been an integral part of most IFAD projects, and have been effective in grass-roots delivery of services to the poor. IFAD projects are currently working with 30 NGOs, mainly as microfinance institutions. The country programme evaluation highlighted the need to select NGOs that are capable of sustaining activities when the project ends. This will require the development of clear guidance material on NGO selection during COSOP implementation. Recent IFAD projects have taken advantage of PKSF's role as the apex body for microfinance, either to select and manage NGO partners or to provide rating criteria for NGO performance for use by other agencies. As the supply of funds for microfinance has expanded considerably, participating NGOs will be increasingly expected to provide lending funds from their own resources. In providing such resources, NGOs will be acting as active partners rather than contractors for project implementation.

43. In relation to the private sector, efforts will be made to channel private sector expertise and technology for the benefit of the poor. The COSOP subprogrammes provide for the following: development of and support for small-scale private sector enterprises; more pluralistic approaches to agricultural technology provision, including more private sector involvement; and promoting greater private sector involvement in infrastructure provision. The private corporate sector has a key role to play in the development of enterprises and market linkages. This relates to undertaking the scale-sensitive functions of quality control, input supply and marketing for expanding export products such as fresh vegetables and flowers. While IFAD will not directly fund the needed corporate investments unless they are undertaken in partnership with producers' organizations, it may finance NGOs or business development centres in order to strengthen the commercial links of producers' organizations.

D. Opportunities for Linkages with Other Donors and Institutions

44. The need for effective strategic partnerships is a recurrent theme in the ARRI report. In this regard, IFAD is an active partner in Government/donor harmonization and coordination activities in Bangladesh and participates regularly in the Bangladesh Development Forum. IFAD is a member of the Local Consultative Group – the country's principal coordination body – and also participates in subgroup meetings on agriculture, finance, infrastructure and water. Apart from coordinating donor activities, the Local Consultative Group has been active in discussing and commenting on PRSP design and implementation and has received regular inputs from IFAD. IFAD's future partnership strategy will maintain this approach to coordination and will continue to feed IFAD implementation experience into the PRSP implementation process through the Local Consultative Group. IFAD is also fully integrated into and referenced in the current United Nations Development Assistance Framework (UNDAF) (2006-2010).

45. In terms of long-term strategic partnerships with individual donors, various opportunities have been identified based on an analysis of the current focus of donors (which may well change over the next six years). For instance, IFAD is actively discussing with the DFID, the Canadian International Development Agency (CIDA), the Swedish International Development Cooperation Agency (SIDA) and the Swiss Agency for Development and Cooperation (SDC) support for innovation in microfinance through a sectoral programme entitled Promoting Financial Services for Poverty Reduction. IFAD and the World Bank – historically two of the largest donors in the agricultural sector – are currently

working closely together to explore how to re-engage in the agricultural sector. IFAD has a long-term partnership that is ongoing with DFID in the area of common property fisheries management through the Community-based Fisheries Management Programme in South and Southeast Asia. IFAD has benefited from long-standing links with the Asian Development Bank, Japan, the Netherlands and the World Food Programme in supporting water management infrastructure, rural markets and roads, and other types of pro-poor infrastructure. Such links will be continued in future programmes.

E. Areas for Policy Dialogue

46. As part of the PBAS process, IFAD undertook a rural sector performance analysis. The analysis provides a very broad canvas of rural issues and has enabled the identification of a subset of policy issues that have direct implications for the five COSOP subprogrammes. The specific objectives identified are summarized below.

- Reforms are required to enhance agricultural extension and research performance through improved governance of the National Agricultural Research System, including the Bangladesh Agricultural Research Council (BARC). In this respect, a long-term policy objective will be the passing of a new act to provide BARC with greater authority and grant the system more autonomy.
- In agricultural extension, the focus will be on decentralization of both planning and funding responsibilities to subdistricts. An associated area of emphasis is the empowerment of farming communities to prepare them for a greater role in planning, implementing and monitoring extension programmes.
- The labour contracting society approach to infrastructure construction needs to be mainstreamed. This will require the issuance of formal regulations by the Local Government Engineering Department.
- Progress is needed on the reforms in the draft National Fisheries Policy and in reforming regulations governing procedures for the allocation of government-owned land. Progress is also needed in promoting access of the landless to private land and government-owned resources (especially in terms of legislation to allow community management of such resources by the poor).
- There is a need for reform of regulations concerning ownership and leasing of public markets, and for changes in the Government's legal monopoly of markets to allow more space for private and community initiatives.
- Reforms are required to create a more supportive regulatory framework for rural finance, which encourages prudent financial practices but does not prevent growth and innovation in the microfinance sector.

47. In addition to these specific policy objectives, IFAD will engage – through PBAS national consultations and in conjunction with other donors – in broader dialogue with the Government on the other policies required to enable Bangladesh to achieve the MDGs. To assist in tracking the progress of this policy reform agenda, a number of milestones have been identified: (i) agreement to an agricultural sector reform agenda as a precondition for future engagement in the agricultural sector; (ii) entry by the Government into policy dialogue on changes to regulations regarding public markets; (iii) consent by the Government to the application of new leasing procedures that improve the access of fishers to water bodies; and (iv) policy dialogue and advocacy by civil society on women's property rights.

F. Action Areas for Improving Portfolio Management

48. **Project-at-risk ratings.** According to IFAD's annual analysis of projects-at-risk (PAR), the key indicators that require improvement in Bangladesh are: (i) financial management indicators

(audits and accounts); (ii) monitoring and evaluation (M&E) and project management indicators; and (iii) gender focus indicators. These indicators have major implications for PAR rating in the annual PBAS exercise. Consequently, the relevant areas will be addressed during the COSOP cycle.

- **Financial management and corruption.** Action will be taken at project design to cost projects as accurately as possible. Emphasis will be placed on ensuring procurement rates are in line with market rates. Performance will also be improved by empowering project beneficiaries and informing them on what the project should deliver and the rates that should be paid for goods and services. Capacity-building will be provided to project management units to enable preparation of higher-quality financial statements and quicker resolution of outstanding audit observations. Finally, mainstreaming of an audit log for all outstanding audit observations will be undertaken for all projects.
- **M&E, management and gender issues.** Experience has shown that implementation support by IFAD has been very effective in improving project performance, particularly in terms of poverty targeting, gender and M&E. Most recently, implementation support was provided to enable a pilot Results and Impact Management System survey to be carried out (in late 2005), and further surveys are expected to be undertaken in 2006. However, more implementation support is still needed to build effective M&E systems. In order to enhance project management, IFAD will continue the shift towards line agencies and institutions committed to improving their management capacity (for example, PKSF). In order to improve gender impact, a strategic subprogramme specifically focusing on gender has been included in the COSOP.
- **Supervision.** All project supervision is currently carried out by the United Nations Office for Project Services. The experience is mixed, but on whole the quality of services reflect the resources provided. Other supervision arrangements – including direct supervision – will be tried out in future interventions if appropriate opportunities arise.

G. Tentative Lending Framework and Rolling Programme of Work

49. In the interests of harmonization, the current COSOP covers the period 2005-2010. In this way, it is aligned with and influences the PRSP and the UNDAF. In terms of both loans and grants, the level of funding that can be provided by IFAD is based on IFAD's PBAS. An initial PBAS ranking exercise for Bangladesh was undertaken in October 2004. This followed a detailed in-county consultation, which culminated in a wrap-up meeting with the Ministry of Finance on a rural sector narrative summary. The PBAS ranking was updated following a second in-country consultation in January 2005. The two major performance variables at the project and rural sector level are: (i) the PAR rating; and (ii) the rural sector assessment. The original PBAS assessment resulted in an indicative commitment of around USD 16.55 million per year. However in reality, as the PBAS is reviewed annually and depends on a number of other variables such as IFAD's overall lending programme, it is possible that IFAD's annual commitments could be significantly higher or lower than this amount. To illustrate the impact of project and sector performance on the annual allocation, a range of **highly indicative scenarios** have been calculated. These are shown in Table 2.

50. **Indicative low case scenario.** When the PBAS calculation was first performed for Bangladesh, the PAR rating was five, implying that there were no projects classified as "at risk". IFAD has an average of five ongoing projects in Bangladesh at any one time. In a situation where project implementation performance declines to the extent that one of these projects is classified as being "at risk", the PAR rating drops to four. With respect to rural sector performance, when the PBAS was first carried out, Bangladesh received a score of 3.734. In a scenario where key rural performance indicators deteriorate – for example in the areas of (i) the Government's attitude to rural organizations; (ii) access to land, water and extension services; or (iii) performance in financial management – then the rural score could possibly decline by as much as 0.3, to approximately 3.434.

Negative changes in both the PAR rating and the rural sector score would affect the overall allocation to Bangladesh, reducing its current value by as much as 19%.

51. **Indicative high case scenario.** Using the same two variables, it is possible to illustrate a hypothetical scenario where performance indicators improve. In a situation where a high level of project implementation performance is maintained for two years or more, the PAR rating will increase to six. With respect to rural sector performance, in a scenario where key rural performance indicators improve – for example, in terms of (i) significantly improved opportunities for dialogue between the Government and rural organizations; (ii) greater access to land, water and extension services; (iii) higher levels of participation by women in rural organizations; (iv) progress in decentralization, financial management and transparency issues – the rural sector score could possibly increase by as much as 0.3 to approximately 4.034. Taken together, these changes in the PAR rating and the rural sector score would raise the overall allocation to Bangladesh by approximately 20%.

52. **Illustration of implications for lending programme.** The implications of the above PBAS scenarios on project development in Bangladesh can be illustrated by applying the current PBAS formula and settings, selecting a representative IFAD loan to Bangladesh and keeping all other factors equal. This model would produce a low case scenario of three loans over the COSOP period 2005-2010. A medium case scenario would translate as four loans over the period, while a high performance scenario would translate into five loans.

Table 2: Indicative Changes in the Performance-Based Allocation System

	PAR Rating	Rural Sector Performance Score	% Change in PBAS Allocation from Base Scenario
PAR down 1, rural sector down 0.3	4	3.434	-19
PAR down 1	4	3.734	-14
Rural sector down 0.3	5	3.434	-5
Base case	5	3.734	0
Rural sector up 0.3	5	4.034	6
PAR up 1	6	3.734	15
PAR up 1, rural sector up 0.3	6	3.434	20

AGREEMENT AT COMPLETION POINT¹

1. This document records an agreement between the International Fund for Agricultural Development (IFAD) and the Government of Bangladesh (GOB) on the recommendations of the IFAD country programme evaluation (CPE) in Bangladesh 1994-2004. It includes an introductory summary of the main findings and conclusions reached by the IFAD Office of Evaluation followed by a list of the evaluation recommendations found in the CPE report. After each recommendation is a description of the follow-up actions that the partners have agreed to adapt and implement.

Overview of the Main Evaluation Findings

2. One of the main strengths of Government/IFAD collaboration from 1994-2004 was the Government's performance with respect to macroeconomic policies that created a favourable environment for growth, complemented by investments in health and education that contributed to improvements in human development. Good project performance was attributed, in part, to these conditions. There was also close compatibility between the IFAD mandate and the prevailing government priorities for development and poverty reduction – as articulated in the Fourth and Fifth Five-Year Development Plans, and the *interim* Poverty Reduction Strategy Paper (PRSP). This made the IFAD-financed programme quite relevant to country policies and rural conditions.

3. Nine loans providing project financing for a total of USD 118 million went mostly for area-based agricultural and rural development projects. Investments were primarily in infrastructure, microfinance and agricultural production, complemented by expenditure for community development and institution building. Projects tended to be slow to start and plagued by delays. Yet most were eventually effective, successfully achieving expected results in terms of physical and financial outputs. Overall, according to project monitoring and evaluation systems, the number of people who benefited from the projects was more than 130% of targets set in project design documents.

4. The programme had a positive impact at the household level on the people reached in terms of income, food security – in terms of the quantity and quality of food consumed - and ownership of fixed and other assets such as livestock, land and tube wells. More than half of all beneficiaries were rural women. Project designs explicitly targeted women. Activities like microfinance and livestock husbandry that suited their needs were included in project design and were followed through by project implementing agencies during implementation.

5. IFAD performance in strategy formulation was weak, at first lacking overall vision and later setting somewhat unclear goals and basing them on unrealistic assumptions. IFAD made only limited efforts to mobilize resources and develop working partnerships with others including NGOs. Approaches to selecting NGOs were poorly specified and roles they should perform were poorly conceived.

6. Good government macroeconomic policies and public sector investments in human development were contrasted by weak mid-level government performance in project start-up, aggravated by IFAD project design documents that made inadequate or unrealistic assumptions about start-up and implementation capacity. During project implementation, the Government had a very limited ability to respond in a timely fashion to changing conditions.

7. Too little information was available on the achievements that were made through the implementation of loans and grants in terms of technology development, innovation, replication and policy dialogue. Potential benefits were very probably foregone due to insufficient attention given by

¹ This Agreement reflects the understanding reached among key partners to adopt and implement recommendations stemming from the evaluation.

the Government and IFAD to sharing information with others or documenting and disseminating good practices.

8. Projects generally did not succeed in fostering viable community-based organizations, except in the case of some microfinance institutions and water management cooperative associations where mutually beneficial financial relationships or narrowly defined shared economic interests held members together.

9. A vibrant private sector now exists in agriculture and related enterprises in rural areas. IFAD and the Government have supported self-employed private sector producers through credit and training. There are now further opportunities to work with larger producers to harness their knowledge and networks to the benefit of the poor. These need to be further explored. There is also an important opportunity to reach those poor agricultural producers classified as marginal and small farmers. To date, these have had access to the microfinance services they need to achieve significant productivity gains. IFAD has experience working with these groups in technical training, and experience with other groups in microfinance service development. There is an opportunity to combine these two types of experience to find new ways to reach this subgroup of the rural poor to increase their incomes and contribute to rural economic growth.

Recommendations Agreed Upon by All Partners

10. The CPE made eight recommendations. One recommendation covers the quality of the new COSOP that will contain the future strategy for cooperation between IFAD and the Government. Two cover major substantive areas where IFAD has already acquired experience that it can build upon to deepen the related policy dialogue and commit itself to developing sustainable approaches for replication and upscaling by the Government. These would be developed into strategic thrusts. Five further recommendations cover ways that operations could be improved to strengthen the overall quality of the results and impact of investments financed by IFAD in Bangladesh.

11. **Recommendation one: set clear strategic goals and specific attainable objectives.** The Government and IFAD should clearly define the strategic goals that they wish to obtain through collaboration. Their next cooperation strategy should identify a limited number of specific objectives that can reasonably be expected to be reached with the available resources and within the time period foreseen by the COSOP.

Agreement by the partners: The partners agreed that they will clearly state their overall goals and jointly select a **limited** number of objectives that they commit to reaching in collaboration, with **available** resources within a **specific time period**. These will be set down in the next IFAD COSOP for Bangladesh.

12. **Recommendation two: development of financial services to microenterprises and small and marginal farmers.** IFAD should continue its important new work in the Microfinance for Marginal and Small Farmers Project, (MFMSFP) developing financial service providers and products for agricultural **production** and for microenterprises in rural areas. Investments in this area should be accompanied by policy dialogue with responsible government agencies, partnership building with fellow development agencies, and knowledge dissemination in the local microfinance community. Projects should work **with established financial institutions** in order to leave institutions and services that will be sustained beyond project implementation periods.

Agreement by the partners: The partners agreed to adopt the development of financial services to microenterprises and small and marginal farmers as one of the main strategic thrusts of the future collaboration between the Government and IFAD. They agreed to consider,

inter alia, working to develop loans with customized repayment terms and loan sizes, better arrangements for savings, the possibility of insurance for livestock, and training and technical assistance for borrowers.

13. **Recommendation three: continue investment in infrastructure to provide economic benefits to the rural poor and employment to poorest.** IFAD should continue to **finance** rural infrastructure targeted for the poor. Tested participatory arrangements, such as labour contracting societies, should be used for **constructing** infrastructure to benefit the poorest through direct employment. Investments should focus on village and union level roads to serve poorer groups. Existing procedures to obtain beneficiary commitment to **operation and maintenance** of infrastructure should be applied and improved. Furthermore, beneficiaries should be involved in **site selection** and design as much as possible. Investments made should be accompanied by continued policy dialogue with the Government, building of partnership with concerned development partners, and dissemination of knowledge acquired to partners and other concerned parties in the country.

Agreement by the partners: The partners agreed that rural infrastructure to reduce rural poverty will be one of the main strategic thrusts of the future collaboration between the Government and IFAD. They agreed that the Government and IFAD will seek to collaborate with other financiers and institutions to see that infrastructure in rural areas serves the needs of poor, less advantaged and vulnerable groups. They agreed that the types of investments to be considered for financing could include, among others, landing centres for fishers, embankments surrounding large water bodies, village connector roads, village market improvement, small bridges and culverts on village roads, and re-excavation of village canals. They also agreed that employment of the poorest, including the use of labour contracting societies, will be envisioned wherever possible.

14. **Recommendation four: build partnerships to tap private sector know-how, networks and resources.** IFAD should work with the Government to help stimulate the **development of the private sector**, particularly the participation of poor small-scale producers in that development. IFAD should also help the Government to **build partnerships with selected private-sector operators** to tap their know-how, networks and resources. Ways of doing the latter might include: (i) briefing private-sector suppliers of inputs and services on planned project activities to make them aware of new upcoming input and output marketing opportunities; (ii) contracting more sophisticated private-sector operators in areas like seed supply to provide technical assistance and training to agricultural extension staff; and (iii) sponsoring joint applied research projects on topics not normally commercially attractive but identified by the poor as important for them. Similar approaches could be taken with private-sector agro-processing firms and even with banks and other private-sector suppliers of financial services.

Agreement by the partners: The partners agreed the new COSOP will include specific objectives for further assisting poor producers to participate in the development of the private sector in local rural economies. They also agreed that the new COSOP will favour the inclusion of efforts to build partnerships with the private sector in areas such as training, research and marketing in the context of IFAD-financed loans and grants. They agreed to gather more information about their own experiences and those of others in-country before expanding in this area. In terms of **developing the private sector** and the participation of the poor in that development, they agreed that they could explore the options of working with producer and consumer groups. In terms of **forming partnerships with the private sector**, they agreed that they could experiment in the areas of training for and by the private sector, joint trials, seed and other technology testing, marketing agreements and contract growing. They agreed that this could be done not only on a contract basis, but also with possible long-term relationships in mind.

15. **Recommendation five: set principles and procedures for NGO partnership.** IFAD and the Government should identify what kinds of partnerships with NGOs they feel would be most conducive to the achievement of their rural poverty-reduction objectives and what outcomes can best be obtained through partnership with NGOs. They should consult with NGOs to learn their views on these questions. They should then **identify basic principles** for collaboration with NGOs and **outline transparent criteria and procedures** for approaching and selecting NGO partners, in particular for collaboration with NGOs in matters other than microfinance where well-functioning criteria and selection processes are already in place. These efforts should be made in consultation with the NGO Bureau and the recently established NGO Foundation.

Agreement by the partners: The partners agreed that the new COSOP will provide for the development of basic principles for collaboration with NGOs in Bangladesh, including transparent criteria and procedures for approaching and selecting NGO partners. To do this, IFAD will identify the kinds of partnerships with NGOs that will best contribute to their rural poverty-reduction objectives. It will also meet and discuss with a range of NGOs to learn their views on these questions. Principles, selection criteria and procedures will be agreed upon with the Government prior to their adoption. Partners agreed that these efforts should be made in consultation with the NGO Bureau and the NGO Foundation. They also agreed that eventual NGO selection should be job-oriented and transparent, with accountability on both the Government and the NGO side. They agreed that, in the selection process, considerable weight should be given to the ability of the NGO to sustain activities beyond the project period, especially in remote areas.

16. **Recommendation six: establish a permanent field presence in Bangladesh.** A formal IFAD presence in Dhaka should be established, particularly considering the size and relative importance of the country programme for IFAD. The exact nature of such a presence should be determined considering the potential and the need for an in-country representative to: (i) improve the efficiency and quality of the working relationship with the Government; (ii) support the implementation of ongoing projects, possibly including project supervision; (iii) contribute to the design of new loans and grants; (iv) facilitate important non-lending activities like the sharing of knowledge and information, policy dialogue, and resource mobilization; (v) improve understanding of in-country trend and conditions; and (vi) strengthen partnerships with fellow national and international development agencies.

Agreement by the partners: The partners agree to review the current arrangements of employing a Dhaka-based international consultant to facilitate IFAD operations in Dhaka. They agree to propose to management for approval an improved arrangement for IFAD in Bangladesh.

17. **Recommendation seven: finance communications and knowledge components in all projects.** Specific plans for managing and communicating knowledge and information should be made part of each project. To get the most benefit out of IFAD-financed investments, projects should set objectives and priorities for outreach. They should then actively document and disseminate knowledge to partners according to those objectives and priorities. In addition, more information on project costs, expenditures and procurement should be made available to the public to increase transparency and accountability.

Agreement by the partners: The partners agreed to include investments and activities in all future projects to undertake communications and knowledge outreach. They agreed to use all means, including information technology wherever feasible, to make information on project costs, expenditures and procurement available to the public wherever IFAD and government regulations permit.

18. **Recommendation eight: reduce opportunities for corruption in relation to projects.** Although IFAD has taken some steps to mitigate corruption including implementation of audit log procedure and use of NGOs approved by the government agency known as the Palli Karma-Sahayak Foundation (PKSF), additional steps are needed. Two such steps are described in above recommendations. They are: (i) better IFAD procedures and criteria for selecting NGO partners that are not microfinance institutions and thus not suitable for the application of PKSF criteria; and (ii) establishment of communications components to disseminate information to the public. In addition, IFAD should carefully check cost estimates in project designs and budgetary allocations in implementation plans. IFAD and its cooperating institutions should obtain timely compliance with existing reporting requirements and impose sanctions for non-compliance. IFAD loan agreements should call for all financial, procedural, administrative and technical information related to project design and implementation to be made available to the public.

Agreement by the partners: The partners agreed to take the following steps to reduce opportunities for corruption in relation to IFAD projects: (i) implement IFAD audit log procedure in all projects; (ii) use only government-approved NGOs in microfinance activities; (iii) establish and apply NGO selection criteria and procedures for other activities; (iv) establish communications activities, as agreed above in recommendation seven, to make information available; (v) carefully check cost estimates in project design documents and budgetary allocations in implementation plans; and (vi) ensure full compliance with existing report and audit commitments with use of sanctions in cases of non-compliance.

APPENDIX 1

COUNTRY DATA

BANGLADESH

Land area (km² thousand) 2003 1/	130	GNI per capita (USD) 2003 1/	400
Total population (million) 2003 1/	138.1	GDP per capita growth (annual %) 2003 1/	3.4
Population density (people per km²) 2003 1/	1 061	Inflation, consumer prices (annual %) 2003 1/	6
Local currency	Taka (BDT)	Exchange rate: USD 1 =	BDT 63
Social Indicators		Economic Indicators	
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/	
Education		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
Nutrition		Balance of Payments (USD million)	
Daily calorie supply per capita	n/a	Merchandise exports 2003 1/	6 942
Malnutrition prevalence, height for age (% of children under 5) 2003 2/	45 a/	Merchandise imports 2003 1/	9 476
Malnutrition prevalence, weight for age (% of children under 5) 2003 2/	48 a/	Balance of merchandise trade	-2 534
Health		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 (%) 2002 2/	75	Foreign direct investment, net 2003 1/	102
Population with access to essential drugs (%) 2/	n/a	Government Finance	
Population using adequate sanitation facilities (%) 2002 2/	48	Cash surplus/deficit (as % of GDP) 2003 1/	0
Agriculture and Food		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
Land Use		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*, 2005

LOGICAL FRAMEWORK

Goal	Upscaling and Policy Change Indicators	Means of verification	Risks and assumptions
Development partners (Government, donors, NGOs, private sectors) adopt and upscale successful innovations and reduce poverty in line with MDG and PRSP targets.	1) Expenditure plans of government, donors, NGOs, and, private sector; 2) Policies changed in response to successful innovation as follows: <ul style="list-style-type: none"> • Decentralised, integrated and participatory approach to agricultural extension institutionalised by Government. • New financing mechanisms and sources of market and technical support rural entrepreneurs institutionalized with supportive regulatory framework • Local Government rules established to permit greater private and community participation in markets and other rural infrastructure • New rules established by Government for access to waterbodies in favour of fishing communities • Policy reform improves women's rights to property. 3) Selected MDG/PRSP indicators	Governments budgetary plans Donor plans and strategy documents Reports on NGOs and private sector Policy statements of government agencies UNDP reports or MDG/PRSP monitoring reports.	The process of upscaling is successful with high impact on poverty. Donors/GoB/NGOs etc. agree to upscale successful innovations Harmonization and PRSP implementation process can adapt to cater for upscaling successful innovations.
Purpose	Indicators		
Successful innovative approaches reduce poverty incidence in pilot areas.	<ul style="list-style-type: none"> • Households with improved food security • Child malnutrition reduced • Asset ownership increased 	<ul style="list-style-type: none"> • Programme reports • Impact Assessments • M&E reports 	<ul style="list-style-type: none"> • Government, donors, private sector and implementing agencies are responsive to upscaling successful new ideas.
Outputs	Sub-programme Level Indicators		
Output – Sub-programme 1 (re. PRSP Strategic Block II) Increased availability of new agricultural technologies for “small farmers”.	<ul style="list-style-type: none"> ▪ No. of farmers (m/f) receiving support for new agricultural technologies, & adopting new methods ▪ No. of farmers (m/f) reporting increased crop, livestock and fish productivity. 	Programme results and impact reports Knowledge products for lobbying GOB, donors etc.	Government agrees to pilot new ideas for management and funding of public services. Private sector responsive to partnership opportunities
Output – Sub-programme 2 (re. PRSP Strategic Blocks I & II) Increased access to markets and innovative financial services for “Small rural entrepreneurs”	<ul style="list-style-type: none"> ▪ No. of enterprises accessing financial and marketing services ▪ Numbers of enterprises established or expanded ▪ Partnerships with private sector established (no. & scale) ▪ Employment and self-employment (m/f) created 		Government agrees to piloting changes in the regulatory framework which encourages prudent financial practices but does not prevent growth and innovation in the micro-finance sector
Output – Sub-programme 3 (re. PRSP Strategic Block II & III) Innovations in pro-poor infrastructure development supported in disadvantaged regions (benefiting the “extreme poor”)	<ul style="list-style-type: none"> ▪ No. and amounts of infrastructure developed ▪ Employment created for women through work on infrastructure construction ▪ No. of community & private organisations participating in infrastructure provision. 		Government prepared to pilot reformed regulations concerning ownership and leasing of public markets.
Output – Sub-programme 4 (re. PRSP Strategic Block II) Increased access to common property resources for the rural poor	<ul style="list-style-type: none"> ▪ Number of poor and disadvantaged households getting access to common property (land & water). ▪ No. of CBOs established with legal frameworks to ensure sustainable access to common property resources 		Government responsive to proposals for piloting changes in the draft National Fisheries Policy and reforms procedures for allocation of <i>khas</i> land
Output – Sub-programme 5 (re. PRSP Strategic Block I) Increased access to economic opportunities for “women”	<ul style="list-style-type: none"> ▪ No. of women establishing and managing enterprises, ▪ No. of women getting ownership of land and productive assets ▪ No. of women reporting increased mobility, control of household financial resources and participation in household decisions. 		Implementing agencies prepared to give a greater priority to the needs and potential of women

Italics for PRSP/PBAS links and Underlined for target groups

COSOP TARGET GROUP

Typology	Poverty Level And Causes	Coping Actions	Priority Needs	Support from Other Initiatives	COSOP Response
Extreme poor with productive potential	Extreme <ul style="list-style-type: none"> • Under 1,800 kcals/head/day • Few assets (poultry) • No land or only 0.05 acres • Floating population and migrants • Victims of natural disasters not yet resettled • Little access to credit (even informal) • Few economically active household members 	<ul style="list-style-type: none"> • Search for temporary employment and accommodation • Domestic service • Scavenge food, fuel and fish • Sell possessions (cooking utensils) at time of hardship 	<ul style="list-style-type: none"> • Employment • Food assistance • Homestead • Limited self employment • Health, nutrition support 	<ul style="list-style-type: none"> • Employment generation such as WFP food-for-work and LGED labour contracting societies • Food transfers such as vulnerable group development • Housing / settlement programmes such as Ardasha Gram.. • Target group for BRAC Targeting the Ultra Poor Programme giving income support, grants, intensive training and social support. • Target group PKSF's Financial Services for the Poorest project. • Limited participation in micro-credit but for income generating activities still limited by lack of assets and household labour, high drop-out rate. 	<ul style="list-style-type: none"> • Target group for employment on labour intensive rural infrastructure works • Fishers often in this category – may benefit from improved access to common property fishing resources • Other projects may enable access to land and micro-credit for this group. • This group will also benefit from employment on farms and rural and peri-urban enterprises supported by future programmes.
Small farmers/ entrepreneurs	Vulnerable <ul style="list-style-type: none"> • Small farmers vulnerable to agricultural disasters • Debt burden • Lack access to bank credit and NGO microfinance • Low profitability of farming • Lack access to markets etc. 	<ul style="list-style-type: none"> • Migration • Credit from relatives and moneylenders, mortgage land • Some join NGO micro-credit groups • Livestock • Small businesses 	<ul style="list-style-type: none"> • Agricultural development • Small business promotion • Health • Education 	<ul style="list-style-type: none"> • Agricultural extension programmes • Some participate in NGO micro-credit programmes 	<ul style="list-style-type: none"> • Small and marginal farmers are target group for agricultural technology support. • Small rural entrepreneurs target group for enterprise development

RURAL POVERTY AND SECTOR ISSUES

Priority Area	Major Issues	Actions Needed
Rural Poverty	<ul style="list-style-type: none"> • Around half the rural population lives below the poverty line, landlessness is increasing and 16% can be classed as extreme poor. • Rate of economic growth is still below that needed to have a significant impact in terms of poverty reduction, especially as inequity is increasing. • Vulnerability to natural disasters. • Hard-core poor have few assets, are highly vulnerable and tend to be excluded from development efforts. • Lack of finance and poor public sector performance. 	<ul style="list-style-type: none"> • Create wage employment and non-land based self-employment including livestock enterprises. • Adopt policies for pro-poor economic growth – e.g. (i) rural sector (farm and non-farm); (ii) small and medium manufacturing enterprises; (iii) rural electrification, roads and other infrastructure; and (iv) communications and information technologies. • Build physical protection where appropriate. • Support human development for the poor (education, health, nutrition) and implement programmes targeted at the hard-core poor, together with safety nets and social protection for those hard-core poor unable to benefit from development programmes. • Reform public sector and create partnerships with NGOs and the private sector.
Rural Finance	<ul style="list-style-type: none"> • Formal sector banks perform badly and are not accessible to the poor. • Informal credit systems limited and/or exploitative. • Strong NGO micro-credit sector, but focus on moderately poor landless households in more accessible areas. • NGO programmes not effective in reaching hard-core poor. • Limited access to credit for marginal and small farmers, and small rural entrepreneurs from either banks or NGOs • NGO-MFI sector does not provide full savings services. • Lack of formal regulatory framework, and pressures to cap interest rates. 	<ul style="list-style-type: none"> • Continue efforts to reform banking sector. • Continue to develop NGO microfinance including loans for small farmers, small and medium enterprises, savings services and the mechanism for channelling donor funds to NGOs. • Extend microfinance services for the “missing middle (farmers and small entrepreneurs) • Develop mechanisms to enable microfinance to reach the hard-core poor. • Support expansion of innovative and well managed small and medium NGO-MFIs • Develop an appropriate regulatory framework for microfinance.
Agriculture	<ul style="list-style-type: none"> • Increasing rice production has reduced prices, squeezing farm income. • However rate of increase in rice production is only just above rate of population increase, so limited scope to switch land to other crops and also maintain self-sufficiency (and so low rice prices for the landless poor) • Increase in rice production also limited by areas unsuitable for high-yielding varieties (deep flooded, saline) and ultimately by limited irrigation water. • Production of vegetables and fruit increasing in response to rising demand, but productivity levels still low, and market channels restricted • Public sector support services both poorly developed and costly to sustain. • Private sector linkages limited by lack of commercialisation 	<ul style="list-style-type: none"> • Increase the productivity of rice crops via a combination of improved technology, more efficient use of inputs and access to credit for small and marginal farmers • Introduce new commercial linkages to support non-rice crops – such as contract farming • Build rural infrastructure (roads, markets, communications) to improve access to markets. • Develop public-private-NGO partnerships to support the agricultural sector. Rationalise role of public sector on grounds of cost-effectiveness • Enabling environment to encourage private sector investment – including viable agricultural credit systems and capital for SME investment in agri-business
Livestock Production	<ul style="list-style-type: none"> • Increasing human population pressure and intensity of food cropping are squeezing traditional bovines out of the farming system. • Small stock (goats, sheep, poultry) appropriate for farmers with no 	<ul style="list-style-type: none"> • Support mechanisation and switch of bovines from draught power to milk and meat production. • Promote improved small stock production systems appropriate to the resources and needs of poor households.

Priority Area	Major Issues	Actions Needed
	<ul style="list-style-type: none"> • or minimal land, but constrained by disease and low productivity. • No village level animal health and production services. • Limited markets for fresh milk in major cities (competition from imported powder, especially for tinned condensed milk). • Weak epidemiology and control of trans-border infectious diseases such as PPR – and real risk of bird flu. 	<ul style="list-style-type: none"> • Train and support village livestock fieldworkers. • Continue to support milk processing for urban markets, but avoid increasing production ahead of market demand. • Develop public sector capacity for disease monitoring and control via a State Veterinary Service.
Fisheries	<ul style="list-style-type: none"> • Capture fisheries declining due to overfishing, and the impact of drainage and flood control works • Leasing system means poor fishing communities lack access to productive water bodies, and leaseholders lack incentives to invest in increasing catches. • Fishers (both coastal and inland) lack access to capital and markets. • Aquaculture developing rapidly, but very poor households lack access to ponds. 	<ul style="list-style-type: none"> • Appropriate systems for management of inland fishing, including secure access for genuine fishing communities and incentives for improved management. • Ensure fishers get access to appropriate and sustainable sources of capital. • Improve market linkages • Develop and promote aquaculture systems for those with little land and minimal pond areas.
Gender	<ul style="list-style-type: none"> • Women have low status and are significantly disadvantaged • Increasing participation in agriculture – but work often of low status • Low levels of education, skills and poor understanding of potential. • Limited access to assets and employment opportunities. 	<ul style="list-style-type: none"> • Promote employment and self-employment for women through access to credit. • Enhance education, literacy and skill training. • Improve provision of water, power supplies and health services. • Increase awareness amongst men and women regarding gender issues and legal rights.
Community Development	<ul style="list-style-type: none"> • Poor rural social and economic infrastructure. • Inadequate housing, water and power supply, sanitation and educational and health provision. • Lack of community ownership/sustainability of communal infrastructure. • Dependency syndrome from Government/political ethos. 	<ul style="list-style-type: none"> • Specific investment in critical infrastructure: especially water and electricity supply, schools and clinics. • Build community organizations and their capacity for self-reliance. • Involve communities supported by NGOs participatory identification, planning and management of rural infrastructure, facilities and services.

ACTIVITIES OF OTHER PARTNERS IN DEVELOPMENT – ONGOING AND PLANNED

Agency	Priority sectors and areas of focus	Period of current country strategy	Complementarity/Synergy Potential	
World Bank	<ul style="list-style-type: none"> Human development (education, health, nutrition) Rural development (agriculture, rural infrastructure, non-farm sector) Private sector development 	<ul style="list-style-type: none"> 2001-2004 	<ul style="list-style-type: none"> Agriculture: WB and IFAD are active members of the Local Consultative Group on Agriculture, which is currently chaired by the Bank. IFAD and the WB are currently jointly preparing a programmatic re-engagement in the agricultural sector (entitled the National Agricultural Technology Programme - NATP). Microfinance: WB and IFAD are active members of the Local Consultative Group on Finance, currently chaired by the Bank. WB and IFAD are both actively supporting the PKSF microfinance programme. This long term institutional support is likely to continue in the future. 	
Asian Development Bank	<ul style="list-style-type: none"> Promoting Sustainable Economic Growth <ul style="list-style-type: none"> a. Agriculture and Natural Resources b. Transport and Communications c. Energy d. Financial Sector (including SMEs) Fostering Social Development <ul style="list-style-type: none"> a. Education b. Urban Water Supply, Sanitation, and Urban Development c. Health Good Governance 	<ul style="list-style-type: none"> 2006-2010 	<ul style="list-style-type: none"> Agribusiness: Both AsDB and IFAD are actively supporting agri-business development in Bangladesh. There are opportunities for sharing of lessons on the experience gained in this field. Given IFAD's future focus on rural entrepreneurs in the new country strategy, there may be opportunities to cofinance future agribusiness programmes should suitable opportunities arise. Rural infrastructure (transport, water resources): IFAD and AsDB have had a long term partnership in support of LGED rural infrastructure programmes in Bangladesh. This partnership could continue in the future should suitable opportunities arise. 	
Japan (JICA / JBIC)	<ul style="list-style-type: none"> Agricultural/rural development; Education; Health Arsenic contamination countermeasures program Electricity 	<ul style="list-style-type: none"> Roads and bridges Information and communications technology Environment (air pollution countermeasures and waste disposal); Private-sector development (export industries); Disaster countermeasures. 	<ul style="list-style-type: none"> From 2000 	<ul style="list-style-type: none"> Infrastructure: IFAD and Japan have had a long term partnership in support of LGED rural infrastructure programmes in Bangladesh. This partnership could continue in the future should suitable opportunities arise. Recent discussions between JICA, JBIC and IFAD have focused on possibilities to share lessons on haor/char development, microfinance, and crop sector development/diversification.
DFID (UK)	<ul style="list-style-type: none"> Pro-poor growth Human development Women's advancement 	<ul style="list-style-type: none"> Social protection Participatory governance 	<ul style="list-style-type: none"> 2003 to 2006 	<ul style="list-style-type: none"> Access to common property resources: IFAD and DFID have a long term ongoing partnership in the fisheries sector through jointly financing the Community Based Fisheries Management Programme. This partnership might continue in the future should suitable opportunities arise. Micro-finance: DFID and IFAD are both active members of the LCG on finance and both institutions are planning to work together in support of a new microfinance innovation programme entitled PROSPER. Small enterprise development: DFID is currently funding a programme entitled KATALYST which supports business development services in Bangladesh. Given IFAD's future focus on rural entrepreneurs, there may be opportunities to work together in support of agribusiness programmes, should suitable opportunities arise.
USAID	<ul style="list-style-type: none"> Health Food security for vulnerable groups Improved management of open water and forest resources 	<ul style="list-style-type: none"> Growth of agribusiness and small business Strengthening institutions for democracy Improved performance of energy 	<ul style="list-style-type: none"> 2000 to 2010 	<ul style="list-style-type: none"> Access to common property fishery resources: Both IFAD and USAID have supported community based fisheries projects (MACH, CBFM) for many years in Bangladesh and there are opportunities for sharing of lessons between the two institutions. Small enterprise development: USAID has been supporting private sector

		sector		development and agribusiness development for many years. Given IFAD's future focus on rural entrepreneurs in the new country strategy, there may be opportunities to work together in this sector.
DANIDA	<ul style="list-style-type: none"> • Agriculture (including rural roads) • Water and sanitation 	<ul style="list-style-type: none"> • Human rights, democracy and good governance • Local grant authority 	<ul style="list-style-type: none"> • 2005 to 2009 	<ul style="list-style-type: none"> • Agriculture : DANIDA and IFAD have been supporting agricultural development in Bangladesh for many years. This is likely to continue through DANIDA's new ASPs II and the IFAD/WB financed NATP. There will be major opportunities for cooperation and lesson sharing between these new programmes. • Recent discussions between IFAD and DANIDA have focused on possible cooperation in the southern chars, with links between IFAD's Market Infrastructure Development Project and DANIDA's new ASPs II.
Netherlands	<ul style="list-style-type: none"> • Health • Education • Water 		<ul style="list-style-type: none"> • 	<ul style="list-style-type: none"> • Infrastructure related to the water sector: Netherlands, AsDB and IFAD have a long term partnership in the small-scale water resource sector. This partnership could continue should suitable opportunities arise. • Chars: There is an ongoing co-financing partnership between Netherlands and IFAD in support of poverty reduction in the southern chars of Bangladesh. This partnership will likely continue for the next 7 years.
CIDA (Canada)	<ul style="list-style-type: none"> • Health • Education 	<ul style="list-style-type: none"> • Governance • Private sector development (including SME, agriculture) 	<ul style="list-style-type: none"> • 2003-2008 	<ul style="list-style-type: none"> • Micro-finance : CIDA and IFAD are both active members of the LCG on finance and both institutions are planning to work together in support of a new microfinance innovation programme entitled PROSPER.
SDC (Switzerland)	<ul style="list-style-type: none"> • Non Formal Education • Micro and Small Enterprise Promotion 	<ul style="list-style-type: none"> • Sustainable Land Use • Local Governance 	<ul style="list-style-type: none"> • 2003-2007 	<ul style="list-style-type: none"> • Micro-finance: SDC and IFAD are both active members of the LCG on finance and both institutions are planning to work together in support of a new microfinance innovation programme entitled PROSPER. • Both IFAD and SDC have prioritized working in the north-eastern district of Sunamganj. There are opportunities to coordinate implementation approaches in this district, for example work through the same community groups.
SIDA (Sweden)	<ul style="list-style-type: none"> • Social development (health, education, gender equality, access to social services) • Democracy, local government, economic development 		<ul style="list-style-type: none"> • 2002 to 2005 	<ul style="list-style-type: none"> • Microfinance: SIDA and IFAD are both active members of the LCG on finance and both institutions are planning to work together in support of a new microfinance innovation programme entitled PROSPER.

STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS (SWOT) ANALYSIS

Organisation	Strengths	Weaknesses	Opportunities	Threats
LGED	<ul style="list-style-type: none"> • Outreach – engineering capacity in all upazilas • Capacity to implement large rural infrastructure projects • Interface with local government • Efficient management 	<ul style="list-style-type: none"> • Centralised management • Problems with some quality control at widely scattered work sites • Large number of projects stretch management resources 	<ul style="list-style-type: none"> • Increasing appreciation of socio-economic factors • Willingness to broaden scope of activities 	<ul style="list-style-type: none"> • Maintaining quality of management
PKSF	<ul style="list-style-type: none"> • Government owned, but fully autonomous. • Has about 200 partner NGOs • Established procedures for selecting and on-lending, and monitoring NGOs. • Strong management, committed to developing microfinance sector. • Significant financial resources 	<ul style="list-style-type: none"> • PO capacity building focuses on financial management – less emphasis on social sector and group management issues • Need to widen coverage, both to include more very poor, farmers and rural and peri-urban enterprises. 	<ul style="list-style-type: none"> • Utilise proven funding mechanism to provide credit in areas where there is an unmet demand. • Can help POs to provide additional services to support group members. 	<ul style="list-style-type: none"> • Risk that government will not continue to allow full autonomy and will wish to influence loan terms and conditions. • Expansion may stretch management resources
Large NGOs	<ul style="list-style-type: none"> • Have significant financial, human and physical resources • Able to provide a “one stop” service with credit, training, input supply and marketing services 	<ul style="list-style-type: none"> • Lack flexibility to adjust to needs of beneficiaries, bureaucratic. • Danger of unfair competition in commercial activities • Not accountable to members nor to shareholders 	<ul style="list-style-type: none"> • Develop new pro-poor activities and services • Use commercial activities to subsidise social services 	<ul style="list-style-type: none"> • Relations with government can be difficult if seem as an “alternative state” or seen to support a political party.
Medium and small NGOs	<ul style="list-style-type: none"> • Local presence and knowledge of local circumstances. • Source of innovation in terms of approaches and services. • Willing to participate in partnerships with government and donors. 	<ul style="list-style-type: none"> • Limited outreach compared with large NGOs (which provide 75% of all micro-credit). • Some have ill-designed social programmes and commercial ventures with little poverty impact. • Some have weak management and limited technical knowledge. 	<ul style="list-style-type: none"> • PKSF is developing capacity of selected local NGOs. • Interested in developing expertise to providing support to complement micro-credit. • Potential for expansion 	<ul style="list-style-type: none"> • In the long-term unable to compete with large NGOs such as BRAC and Association for Social Advancement without continued external assistance.
Department of Agricultural Extension	<ul style="list-style-type: none"> • Skilled manpower. • Countrywide mandate • Staff posted at village level • Experience of working with NGOs 	<ul style="list-style-type: none"> • Limited budget for operations – have to rely on projects for funding • Poor M&E capability. • Staff lack incentives and motivation • Bureaucratic – slow decision making, inflexible • Few women staff • Difficult to sustain own extension groups. 	<ul style="list-style-type: none"> • Linking to NGO groups can provide a technical knowledge to a receptive audience • Integrate support for crops with livestock and fish at the local level. 	<ul style="list-style-type: none"> • Slow pipeline of new projects – may mean field activities are much reduced. • Little recent recruitment (only now recruiting BS). Staff are ageing, and becoming technically out of date except where project support.
Directorate of Livestock Services	<ul style="list-style-type: none"> • Skilled manpower. • Countrywide mandate. • Top management supportive of the smallholder approach to livestock development and poverty alleviation. 	<ul style="list-style-type: none"> • Limited outreach as no staff below upazila level. • Limited budget for operations (transport, medicine, training). • Poor M&E capability. 	<ul style="list-style-type: none"> • Control of contagious diseases and public health issues likely to become increasingly important. • Linking to NGOs, CBOs and private sector 	<ul style="list-style-type: none"> • Inertia and vested interests may cause DLS to delay privatisation and commercialisation. • Private sector including NGOs will be seen as competition
Department of Fisheries	<ul style="list-style-type: none"> • Skilled manpower, proven capacity for aquaculture training • Countrywide mandate. 	<ul style="list-style-type: none"> • Limited outreach as no staff below upazila level. • Limited budget for operations (transport, medicine, training). • Poor M&E capability. 	<ul style="list-style-type: none"> • Linking to NGOs, CBOs and private sector • Draft new Fisheries Policy provides opportunities for CMFM. 	<ul style="list-style-type: none"> • Private sector including NGOs will be seen as competition
Private sector	<ul style="list-style-type: none"> • Responsive to new market opportunities 	<ul style="list-style-type: none"> • Small scale local businesses lack technical capacity and access to capital • Larger scale agri-business may by-pass small farmers and rural businesses 	<ul style="list-style-type: none"> • Linking the modern and commercial sector to farmers and rural and peri-urban enterprises 	<ul style="list-style-type: none"> • Lack of an enabling environment (financial, legal) for the private sector to thrive

IFAD’S CORPORATE THRUSTS AS RELATED TO THE PROPOSED COUNTRY PROGRAMME

The proposed opportunities in the present COSOP are fully in line with the three strategic objectives of IFAD:

IFAD Strategic Objective	COSOP Opportunity
Strengthening the capacity of the rural poor and their organizations	<ul style="list-style-type: none"> • Small farmer groups for technology and marketing. • Micro-finance/micro-entrepreneurs groups accessing financial services and markets. • Extreme poor groups (comprised as labour contracting societies, or waterbody user groups). • Strengthening women’s groups.
Improving equitable access to productive natural resources and technology	<ul style="list-style-type: none"> • Access to agricultural technology for small farmers. • Access to CPRs for the extreme poor.
Increasing access to financial services and markets	<ul style="list-style-type: none"> • Access to financial services and markets for micro-entrepreneurs. • Supporting women’s access to financial services and markets.

They also correspond to the broad objectives of the Regional Strategy for Asia and the Pacific: IFAD support focuses on the more marginal areas in Bangladesh, and enhances women’s capabilities, both main thrusts of the Regional Strategy.