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**Report No.: 43295-BD**

**PROJECT PAPER  
ON A  
PROPOSED ADDITIONAL FINANCING CREDIT  
IN THE AMOUNT OF SDR 30.7 MILLION  
(US\$50.0 MILLION EQUIVALENT)  
TO THE  
PEOPLE'S REPUBLIC OF BANGLADESH  
FOR THE  
SOCIAL INVESTMENT PROGRAM PROJECT**

**June 4, 2008**

**Sustainable Development Department  
Agriculture and Rural Development Unit  
South Asia Region**

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**CURRENCY EQUIVALENTS**  
(Exchange rate effective April 30, 2008)

Currency Unit	=	BDT
BDT 1.00	=	US\$0.01457
US\$1.00	=	BDT 68.62500

**ABBREVIATIONS AND ACRONYMS**

AF	Additional Financing	M&E	Monitoring and Evaluation
AMT	Appraisal and Monitoring Team (of SDF)	MFI	Micro-finance Institution
BDT	Bangladesh Taka	MIS	Management Information System
BMD	Bangladesh Meteorological Department	MOF	Ministry of Finance (of GoB)
CAP	Community Action Plan	NGO	Non-governmental Organization
CAS	Country Assistance Strategy	OM	Operational Manual
CDD	Community-Driven Development	O&M	Operations and Maintenance
COM	Community Operational Manual	PKSF	Palli Karma Sahayak Foundation
DFID	Department for International Development (United Kingdom)	PRSP	Poverty Reduction Strategy Paper
DRMT	Disaster Risk Management Team (of SDF)	PDO	Project Development Objective
DRMU	Disaster Risk Management Unit (of SDF)	PIP	Project Implementation Plan
FD	Finance Division (of MOF)	PO	Partner Organization
FM	Financial Management	PP	Procurement Plan
FMR	Financial Monitoring Report	SDF	Social Development Foundation
GoB	Government of Bangladesh	SDR	Special Drawing Rights
IDA	International Development Association	SIPP	Social Investment Program Project
IUFS	Interim Unaudited Financial Statements	SOE	Statement of Expenditure
JDLNA	Joint Damage, Loss and Needs Assessment	TA	Technical Assistance

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TABLE OF CONTENTS

<b>PROJECT PAPER DATA SHEET</b> .....	<b>1</b>
<b>I. INTRODUCTION</b> .....	<b>2</b>
<b>II. BACKGROUND AND RATIONALE FOR ADDITIONAL FINANCING</b> .....	<b>2</b>
<b>III. PROPOSED APPROACH AND CHANGES</b> .....	<b>5</b>
<b>IV. CONSISTENCY WITH THE COUNTRY ASSISTANCE STRATEGY</b> .....	<b>7</b>
<b>V. APPRAISAL OF RESTRUCTURE OR SCALED UP PROJECT ACTIVITIES</b> .....	<b>7</b>
<b>VI. EXPECTED OUTCOMES</b> .....	<b>10</b>
<b>VII. BENEFITS AND RISKS</b> .....	<b>10</b>
<b>VIII. FINANCIAL TERMS AND CONDITIONS FOR THE ADDITIONAL FINANCING</b> .....	<b>11</b>
<b>Annex 1 Project Results Framework</b> .....	<b>12</b>
<b>Annex 2 Accountability, Fiduciary and Procurement, including Fiduciary and Procurement Risk Assessment</b> .....	<b>15</b>

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**PROJECT PAPER DATA SHEET**

Date: June 4, 2008 Country: Bangladesh Project Name: Additional Financing to Social Investment Program Project (Project ID: P110376)		Team Leader: Meena M. Munshi Sector Manager: Adolfo Brizzi Country Director: Xian Zhu Environmental Category: B	
Borrower: Government of Bangladesh Responsible agency: Social Development Foundation			
<b>Revised estimated disbursements (IDA FY/US\$m)</b>			
<b>FY</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>
Annual	\$12	\$28	\$10
Cumulative	\$12	\$40	\$50
Current closing date: June 30, 2011 Revised closing date June 30, 2011			
Does the restructured or scaled-up project require any exceptions from IDA policies? Have these been approved by IDA management? Is approval for any policy exception sought from the Board?		<input type="radio"/> Yes <input checked="" type="radio"/> No <input type="radio"/> Yes <input type="radio"/> No <input type="radio"/> Yes <input checked="" type="radio"/> No	
<b>Revised project development objectives/outcomes</b>			
The objective of the project will remain consistent with that of the Original Project, and will continue to support the Government of Bangladesh and Social Development Foundation in developing effective and efficient financing and institutional arrangements to empower the poorest and most vulnerable and improve their access to small-scale local infrastructure, assets and livelihoods, with special emphasis on Cyclone Sidr affected communities and families.			
Does the scaled-up or restructured project trigger any new safeguard policies? No			
<b>For Additional Financing</b>			
[ ] Loan   [x] Credit   [ ] Grant For Loans/Credits/Grants: Total IDA financing: US\$50 million Proposed terms: Standard Credit			
<b>Financing Plan (US\$m.50.0)</b>			
	Source	Local	Foreign
	Borrower	0.0	0.0
	IDA	48.0	2.0
	Communities	0.0	0.0
	Total	48.0	2.0
			Total
			50.0

## **I. Introduction**

1. This Project Paper submits for the approval of the Executive Directors a proposed Additional Financing credit in an amount of SDR 30.7 million (US\$50.0 million equivalent) to Bangladesh, for the Social Investment Program Project (SIPP, Cr.3740-BD). The proposed additional Credit will help finance the costs associated with restoration of livelihoods of Bangladesh's population, affected by Cyclone Sidr in November 2007.

2. No major changes are proposed to the Project Development Objective, design or implementation arrangements of the Original Project. The Additional Financing will help address the effects of the cyclone, which devastated lives and livelihoods along the coastal belt of Bangladesh on November 15, 2007. Cyclone Sidr affected 30 districts of Bangladesh, killing more than 3,400 people and disrupting the lives of over 9 million people, particularly the poor and vulnerable, with extensive damage to crops, fisheries, forestry, livestock, housing, rural infrastructure and embankments.

3. Similar to the Bangladesh floods emergency of 2007, the proposed Additional Financing forms part of IDA's comprehensive response to the Sidr disaster, addressing the post-relief period and aimed at livelihoods and asset restoration of the poorest and most vulnerable families in the affected districts. As under the Original Project, it will employ a community-driven development (CDD) approach to supporting the creation and strengthening of sustainable and effective institutional arrangements at the local level, through which communities are empowered to address their own basic needs through investments in small-scale infrastructure, social assistance and income-generating subprojects. Original Project activities will be extended into additional districts in the cyclone-affected coastal belt. The focus on capacity building of the poor via strengthening and direct financing to village level institutions will be maintained, with an enhanced focus on building long-term preparedness for future natural disasters by mainstreaming disaster risk reduction measures into people's lifestyles and livelihoods.

4. Partnership Arrangements: The proposed Additional Financing does not envisage new partnership arrangements. However, existing cooperation arrangements with the Department for International Development (DFID), under the Bangladesh Country Trust Fund, and partnership with the Palli Karma Sahayak Foundation (PKSF) under the Second Additional Financing for Flood Rehabilitation, and with local NGO partner organizations will continue. Partnerships are also planned with selected local organizations specializing in disaster management and risk reduction in the Additional Financing target areas, and partnerships with the private sector will be deepened.

## **II. Background and Rationale for Additional Financing**

5. **Original Project Design**: Since 2003, the Government of Bangladesh (GoB), with support from IDA and through the institutional channel of the Social Development Foundation (SDF), has been implementing the Social Investment Program Project (SIPP). This is a community-driven development (CDD) operation, which is exploring new ways of delivering critical infrastructure services and social assistance to the rural poor, while at the same time addressing institutional organization and capacity-building needs at village level. Overall, this CDD approach entails a focus on community organization and principles of participation, empowerment and downward accountability. The project has been successful in demonstrating the capacity of rural villagers to prioritize needs, manage resources and implement subprojects, empowering them to play an active role in shaping poverty reduction efforts at the local level.

6. The Original Credit, in the amount of SDR 13.5 million (US\$18.24 million equivalent) was approved on March 18, 2003, and became effective on April 20, 2003. The project was intended as a small-scale pilot, to be implemented in two of the poorest districts of Bangladesh, to test new CDD financing and institutional arrangements for improving access to local infrastructure and basic services. Supervision ratings for the Original Project have consistently been satisfactory both for Development Objectives and Implementation Progress.

7. A first Additional Financing Credit of US\$8 million was approved on May 24, 2007, to consolidate gains in the existing SIPP project villages and extend the CDD approach into four additional northwestern districts, with a focus on institution-building and livelihoods development. Subsequently, IDA acted quickly after floods in September 2007, by preparing an Emergency Flood Restoration Program. *Inter alia*, this Program (approved in January 2008) provided for cancellation of US\$25 million equivalent from an ongoing Water Supply Program project and reallocation in the form of a second Additional Financing credit of US\$25 million to SIPP, to help finance speedy recovery of the flood affected population, particularly the poor and vulnerable. Given the magnitude of needs on the ground now in the cyclone-affected area, of the country funding presently available to SIPP through the Original Project and the two Additional Financing Credits will not be sufficient, hence the proposed third Additional Financing Credit. The closing date for all the linked operations will be June 30, 2011.

8. **Reasons For Additional Financing:** Cyclone Sidr (Category IV) hit Bangladesh on the evening of November 15, 2007, first reaching offshore islands in the early evening and then making landfall across the southern coast from Cox's Bazaar toward Satkhira. The first area hit by Cyclone Sidr was Hiron Point and part of the Sundarban mangrove forest in Bagerhat. Heavy rains were experienced throughout the country, including in the capital Dhaka. According to the Bangladesh Meteorological Department (BMD), Cyclone Sidr had a radius of 500 km with the eye of the storm 74 km wide and wind speeds reaching 220-240 km per hour. As it moved north into central Bangladesh, the cyclone was downgraded to a Category II tropical storm.

9. The cyclone caused extensive damage to lives and property, particularly in the southwestern districts. Overall 30 districts and about 9 million people (more than 2 million families) were affected. The death toll exceeded 3,400, and more than 55,000 people were injured. There was a nationwide power outage for more than 24 hours. About 1.5 million houses were damaged and 4 million trees were destroyed. The livestock death toll was over 100,000. The cyclone hit at a time when *aman* rice, the predominant source of food in the area, was about to be harvested, and almost 113,000 ha and 1,400,000 ha of crops, respectively, were totally and partially damaged. The crop loss was about 1.3 million tons.

10. A comprehensive joint damage, loss and needs assessment (JDLNA) undertaken by a team of the Government of Bangladesh (GoB) and international development partners led by IDA, estimated the total damage and losses caused by the cyclone to be Bangladesh Taka (BDT) 115.6 billion (US\$1.7 billion). More than two-thirds of this was physical damage and one-third economic losses, concentrated in the housing sector (US\$850 million, or 50% of the total), productive sectors (US\$ 490 million, 30%), and public sector infrastructure (US\$230 million, 14%). The most affected sectors were, in decreasing order, housing, agriculture, transport, water control structures, education, and industry. As a result of Sidr, an estimated 2 million people have lost employment and incomes in the affected districts. The JDLNA estimates that about US\$490 million is needed for recovery of productive sector activities/livelihoods.

11. The effects of the disaster were highly concentrated in the districts of Bagherat, Barguna, Patuakhali, Pirojpur, and Barisal, where according to a 2005 household survey poverty levels

ranged from 35 to more than 50% of the population. Therefore, the disaster had a disproportionate impact on some of the poorest population groups in the country. The importance of an effective recovery program cannot be overstated. The number of deaths caused by Sidr, however, was far lower than in similar past events, thanks to improved disaster prevention measures, including a strengthened forecasting and warning system, coastal afforestation programs, cyclone shelters, and embankments. This highlights the effectiveness of well-designed recovery programs and long-term approaches to disaster management.

12. The cyclone was the second natural disaster to affect Bangladesh within 12 months. The previous monsoon floods had caused extensive damage to agricultural production and physical assets, totaling US\$ 1.1 billion<sup>1</sup>. The Bangladesh economy has thus sustained combined effects of the cyclone and the floods of 2007 in the estimated amount BDT 189.4 billion, or 4.7 % of GDP (2007), which is a measure of the dramatic impact of natural hazards on the country. The successive occurrence of these events is a reminder of the extreme vulnerability of Bangladesh to frequent hydro-meteorological hazards. Climate change, in particular increased frequency of extreme weather events, may exacerbate this problem further in the future.

13. Responding to GoB's request for rehabilitation and reconstruction assistance in the aftermath of the cyclone, IDA is implementing a cyclone assistance program to help the country cope with the current situation and build resilience to deal with future disasters. The program is built on a three-phase approach: (i) a quick-disbursing support to the GoB budget (US\$200 million) under the Development Support Credit IV, to help reduce pressure on the FY08 budget arising from non-programmed cyclone-related spending and financing of immediate recovery needs; (ii) an Additional Financing to SIPP (US\$50 million) to help restore livelihoods in cyclone-affected areas, through emergency assistance funds, community infrastructure, micro-credit, and income generating activities; and (iii) an Emergency Recovery Credit (IDA financing amount is not finalized yet) for infrastructure rehabilitation and reconstruction that will be focused on the medium to long-term.

14. Supervision ratings for the Original Project have consistently been satisfactory both for Development Objectives and Implementation Progress. Thus far, the Original Project has demonstrated the benefits of community level planning and has generated positive community responses as a result of their increased participation in implementation of village level activities, enhanced information and empowerment based at the village level, and cost effectiveness of community implemented infrastructure activities. As of March 31, 2008, the Original Project has reached about 2.0 million people through 1300 community subprojects; and about 15,000 community groups have been formed in 950 villages to benefit from livelihood interventions.

15. The proposed Additional Financing is included as part of IDA's cyclone assistance program (para. 13, item ii above) given SIPP's track record on the ground. GoB and IDA have identified it as one of the best instruments for channeling funds and technical support quickly and efficiently to communities/families under severe stress from the impacts of the cyclone. This is in fact the second time that SIPP has been called upon to provide such assistance: following the prior SIPP-Flood Restoration and Recovery Assistance Additional Financing (II) approved in January 2008 to assist communities affected by the 2007 monsoon floods.

### **III. Proposed Approach and Changes**

16. The objectives of the proposed Additional Financing will remain consistent with those of the Original Project, and will continue to support GoB and SDF in developing effective and

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<sup>1</sup> World Bank Damage Assessment Report for 2007 Floods

efficient financing and institutional arrangements to empower the poorest and most vulnerable and improve their access to small-scale local infrastructure, assets and livelihoods, with special attention to communities/families affected by Cyclone Sidr.

17. The main change will be an expansion into new districts in the southwest region of the country, which were severely affected by Sidr, including Bagerhat, Barguna, Pirojpur and Patuakhali, as identified by the JDLNA. The project will cover about 14 of the most affected *Upazilas* and about 40 to 50 Unions (about 500 villages). The *Upazilas* with the highest concentration of most severely-affected Unions and high incidence of poverty will get priority. The key criteria for selection of areas have been defined and agreed with SDF and are included in the Project Implementation Plan. About 150,000 families will directly benefit from the livelihood support activities. However, the infrastructure rehabilitation and local-level institutional development will benefit approximately 1.0 million people.

18. Given the nature of the post-Sidr emergency, the Additional Financing will facilitate the restoration and recovery from the damage to livelihoods, assets, and infrastructure in the affected communities and build long-term preparedness by mainstreaming disaster risk reduction measures into the lifestyles and livelihoods of the communities, specifically by:

- a. empowering communities—especially women and vulnerable families—and building their capacity and institutions to lead in identifying, planning, and implementing investments; managing funds; and monitoring compliance with their rules;
- b. prioritizing support to poor and vulnerable families unable to regain their livelihood without targeted interventions;
- c. mainstreaming disaster risk reduction measures as part of local development plans, employing a holistic approach to reducing risk to lives and livelihoods;
- d. focusing on immediate employment needs at first, but within a longer-term vision of sustainable livelihoods;
- e. building and strengthening systems at the local level that incorporate participation, inclusion, self-help, transparency, and accountability; and
- f. linking with other programs funded or managed by IDA, GoB, other donors, NGOs, MFIs and the private sector, to ensure synergy and avoid duplication.

19. As under the Original Project, the Additional Financing will include the following four components:

- (i) **Strengthening SDF and Program Management (US\$ 3.5 million)** will support information and communication, technical assistance and capacity building, monitoring and evaluation, and project management. Given the scope of this operation, a separate Disaster Risk Management Unit (DRMU) will be established within SDF to plan and manage the program and provide technical assistance and support to field staff and local partner organizations.
- (ii) **Institutional Development at Community Level (US\$ 6 million)** will support awareness raising and information sharing, institutional development and direct support to the affected communities working to form their own accountable, transparent, inclusive, autonomous, and sustainable institutions.

- (iii) **Implementation of Community Action Plans (US\$ 40 million)** will support livelihood and risk reduction subprojects, through financing the implementation of small scale community and productive infrastructure subprojects, livelihood restoration and income generating activities, and provide technical assistance to increase the capacity of the affected and the poorest and most vulnerable groups to plan and implement these subprojects.
- (iv) **Pilot Private Financing of Community Utilities (US\$ 0.5 million)** will finance technical advisory services for testing of new approaches to mobilize private sector participation in the program.

20. **Implementation arrangements.** Implementation arrangements under the Additional Financing will remain the same as those of the Original Project, which have been performing well. Overall, project management will continue to be the responsibility of the existing implementation agency, SDF. It has been agreed with SDF to strengthen its implementation capacity to respond to the emergency need of reaching out to the affected communities quickly. At the national level, SDF is setting up a Disaster Risk Management Unit (DRMU) headed by a Project Director to provide day-to-day guidance, technical assistance and implementation support to the field teams. SDF is also establishing independent Appraisal and Monitoring Teams (AMTs) at the regional level to appraise the livelihood and disaster management plans of the community and check compliance with agreed rules and procedures. At the field level, SDF is hiring local staff and partner agencies/NGOs for facilitation, dissemination and community mobilization. At the community level, community organizations of the most vulnerable families will be responsible for planning, implementing and monitoring of community livelihood and risk reduction plans.

21. The project will continue to be implemented according to procedures defined in its Project Implementation Plan (PIP), Operational Manual (OM) and the Community Operational Manual (COM). The changes in PIP, OM and COM have been agreed upon and these documents will be revised and finalized by July 31, 2008. The implementation of the Community Action Plans (CAPs)/subprojects will continue to be the responsibility of the community organizations. The fiduciary rules and procedures for procurement and financial management as detailed in the OM and COM, are satisfactory to IDA, and will remain unchanged under the proposed Additional Financing. Audit reports and reviews during supervision of the Original Project confirm the effectiveness of these arrangements.

22. **Allocation of Credit Proceeds:** The same expenditure categories will be maintained as under the Original Project. IDA will fund 100% of expenditures for all categories including incremental and operating costs. The bulk of IDA funds will be transferred to the communities directly as matching-grants for subprojects under expenditure Category 1 for which there is no tax element, and there is only an insignificant tax element in Categories 2 to 4 under consultancies and goods. Therefore, the financing percentages in these Categories are justified and are within the approved Country Financing Parameters. Expenditure Categories of the Additional Financing are shown below:

**Table 1: Allocation of Credit Proceeds**

<b>Category</b>	<b>Amount of the Additional Credit allocated SDR Million (US\$ million equivalent)</b>	<b>% of Expenditures to be Financed</b>
Sub-grants for subprojects under Part C	24.55 (40.00)	100%
TA for partnerships with private sector under Part D	0.31 (0.50)	100%
Goods, including vehicles and equipment	1.54 (2.50)	100%
Services, including POs, audit, training	3.99 (6.50)	100%
Incremental staff salaries and operating costs	0.31 (0.50)	100%
<b>Total</b>	<b>30.7 (50.00)</b>	

#### **IV. Consistency with the Country Assistance Strategy**

23. The current Bangladesh CAS (2006-10) aligns IDA assistance with the Government of Bangladesh's National Strategy for Accelerated Poverty Reduction (PRSP), through two pillars which emphasize empowering the poor and improving the climate for growth, supported by a cross-cutting focus on good governance. Expanding poor people's ability to make choices and participate in constructive actions to improve their situation is at the heart of empowerment and poverty reduction. One way of doing this is through a CDD approach that engages the poor directly in priority setting and increases both their control over and accountability for resources and decision-making. These are the central principles on which SIPP operates, with the aim of reducing poverty amongst the rural population, especially the "poorest of the poor" and most vulnerable who are currently outside the reach of most official development interventions. These principles take on even greater significance in the context of the post-cyclone recovery and longer-term disaster risk reduction challenges which are critical to sustainable economic growth and poverty reduction and of deep relevance in the highly vulnerable Bangladeshi context.

24. The Additional Financing will support the deepening of the Original Project's development impacts and is therefore consistent with the CAS and the PRSP.

#### **V. Appraisal of Restructured or Scaled-up Project Activities**

##### **A. Economic and Financial Analyses**

25. Important aspects of project design under the Original Project, to be maintained under the Additional Financing, help ensure that community subproject investments represent the most cost-effective alternative. The demand driven nature of the community subproject selection process helps ensure that scarce resources flow where they are most needed and that selected subprojects and institutional strengthening activities are the best alternatives for the communities. The direct involvement of the communities has proven to generate significant cost savings when compared to similar works executed by public sector agencies.

26. Cost-benefit ratios of such investments are high and analysis suggests that they are generally financially sustainable. Although community organizations receive a one-time matching grant to finance their action plans, they also contribute towards investment costs and take full responsibility for the operations and maintenance (O&M) of physical assets. The strong sense of ownership by recipients, because they have played such an active role in decision

making at all stages of subproject selection and implementation, not only produces the kind of cost savings mentioned above (as communities carefully monitor the use of very scarce resources), but also improves quality (as compared with similar works done by others), and is a major factor explaining the strong prospects for sustainability of investments.

#### B. Technical Analysis

27. Technical viability of small-scale infrastructure works under the Original project has been demonstrated over the first five years of implementation. At the time of the 2006 Mid-Term Review, both quality and cost indicators surpassed those of comparable works undertaken by the Local Government Engineering Division. Technical standards have been regularly reviewed by the IDA task team during supervision missions, looking at engineering designs, financial and economic feasibility, environmental impacts and O&M arrangements, and they have continued to be satisfactory. Indicative rates of return are high, and SDF has carried out a comprehensive assessment to systematically document these. The affected communities that will participate under the Additional Financing will have an open menu and may use their budget envelope for socio-economic infrastructure needs, social and institutional assistance and/or income generating subprojects. As under the Original Project, only technically feasible, simple, labor intensive and economically viable subprojects that can generate quick employment and can be easily maintained, operated and sustained by the communities will be eligible. All subprojects will be screened by qualified staff in subproject appraisal and monitoring teams of SDF, and communities can contract technical assistance to assist in design and implementation of subprojects, and in strengthening of their community-based organizations.

#### C. Fiduciary Analysis

28. During implementation to date, SDF's finance and procurement team has acquired significant experience in IDA guidelines and requirements, and community financial management and procurement. The financial management (FM) and procurement arrangements used in the Original Project, which are satisfactory to IDA, will be used under the Additional Financing. To reach out to the new areas, SDF is strengthening its capacity and hiring additional dedicated procurement and FM staff within the disaster risk management unit at headquarters and dedicated finance and accountability specialists in the regional appraisal and monitoring teams.

29. Experience to date has shown that the fiduciary controls in place at the national have functioned well, with appropriate controls and accountability measures at community level in the Original Project districts. To further strengthen its work in the new areas, SDF is reviewing existing controls and accountability tools to identify any high fiduciary risk areas or potentially corruption-prone processes, and will take any additional mitigation measures necessary to effectively reduce susceptibility and exposure to fraud and corruption. These activities are part of a project-specific Governance, Accountability and Anti-Corruption Plan, within the Project Implementation Plan, and are included in the project OM. Regular field level supervision by SDF staff and IDA supervision missions will be continued. A detailed Fiduciary Risk Assessment, and mitigating measures, is included as Annex 2. For the Original Project, external audits have been conducted by a private audit firm within six months of the end of each fiscal year. Annual audited financial statements have been received on a timely basis. Audit observations included in the management letters have been followed up, and there are no outstanding audit issues pending from preceding years. Taking these various factors into account, *the FM risk associated with the project has been rated as Modest.*

30. *Disbursements and Flow of Funds.* As in the original credit, IDA funds will continue to be channeled to the Special Account operated by SDF for SIPP under a Subsidiary Grant Agreement between the Finance Division, Ministry of Finance (MOF) and SDF. These arrangements have been working well under the Original Project. Current disbursements arrangements are based on Statements of Expenditures (SOEs) and SDF has decided to continue using SOEs for credit withdrawals purposes under the AF. However, SDF is also studying the possibility of switching to report-based disbursements for the Original Project and, if this procedure is adopted, it will also be applied for Additional Financing. Under the current Country Financing Parameters, 100% financing has been selected for all categories. A separate designated account would be opened for the Additional Financing and maintained in BDT. The bulk of IDA funds will be transferred to communities directly as matching grants for subprojects under expenditure Category 1, for which there is no tax element; there is insignificant tax in expenditure Categories 2 to 4.

31. *Financial Reporting.* Agreement has been reached with SDF on the format, content and periodicity of Financial Monitoring Reports (FMRs). Under the Original Project, interim unaudited financial statements in an agreed FMR format have been received in a timely manner and are of acceptable quality. This does not entail any specific FMRs for IDA, as a common set of financial statements are prepared which meet the requirements of SDF as well as IDA. The Finance Unit of SDF will continue to prepare interim unaudited financial statements after collating financial data under the AF and will submit them to IDA following the same timeline i.e., 45 days after the end of each quarter.

32. *Procurement.* SDF has developed adequate procurement capacity for the Original Project. It is further expanding this capacity for the Additional Financing to be implemented in the cyclone-affected areas by: (a) hiring a Procurement Specialist dedicated to procurement activities to be carried out through community associations; (b) providing procurement training to the beneficiaries, i.e., community groups, and institutionalizing appropriate internal controls (including social accountability measures); and (c) evaluating the end result of the procurement activities performed by the community groups. SDF has developed a Community Operational Manual (COM) under the Original Project, and has included a chapter on procurement procedures to be followed also by the community groups under the Additional Financing. SDF has prepared an updated Procurement Plan (PP) for the Original Project as well as the Additional Financing. Given the demand-driven nature of subprojects, the community level procurement cannot be planned up-front. However, the key rules, procedures and process steps for community level procurement have been agreed and are incorporated in the procurement chapter of the COM. The Project Paper will be updated annually or as required to reflect actual project implementation pace and needs. Based on the institutional assessment of SDF under the Original Project, and taking the experience with community procurement into consideration, *the project procurement risk has been rated as Moderate.*

#### D. Environmental and Social Aspects

33. *Environmental:* The Original Project has an Environmental Category B classification, with community subprojects subject to screening and impact assessment criteria as detailed in the approved OM. To date, no adverse environmental impacts have been experienced. The proposed Additional Financing will fund community subprojects similar in scale and scope to those implemented under the Original Project. No subprojects are approved or funds transferred until the environmental viability of the investments is determined, and subproject agreements between SDF and the community organizations contain environmental compliance clauses as detailed in the OM. As detailed in Section 7, protecting and managing the natural resources surrounding the

affected populations in a manner that both enables community access to income-earning potential in their environment and protects the resource-base will be a key project priority.

34. *Social:* Social impacts are expected to be positive, with project activities gradually leading to improved quality of life of the poor and vulnerable groups through enhancing their access to social and economic opportunities. Social mobilization activities will seek to identify and include the poorest, youth and women, introducing the principles and benefits of collective action for both social and economic empowerment. While the tribal population is insignificant in the project districts<sup>2</sup>, a Tribal Development Plan was developed under the Original Project. This will also be applicable to the AF, as needed, and the guidelines are detailed in the OM.

## **VI. Expected Outcomes:**

35. The Additional Financing will continue to track outcomes expected under the Original Project, which are: (i) the numbers of poor benefited; (ii) the numbers of viable community organizations formed and functioning and (iii) funds/savings mobilized and non-project financing leveraged by community organizations. The Additional Financing will have some additional results indicators specific to integrating disaster risk reduction into the lives and livelihoods of the target groups. The success indicators include (a) an increase in incremental income of affected families generated through wages and self-employment; (b) increased savings and decreased indebtedness to money lenders; (c) increased awareness of early warning systems and appropriate responses; and (d) increased access to basic infrastructure and social services to improve quality of life of the affected communities. A summary Results Framework is included in Annex 1.

## **VII. Benefits and Risks**

36. The proposed Additional Financing is expected to benefit approximately 1.0 million rural poor in the cyclone-affected coastal districts of Bangladesh, through rehabilitating and restoring their lost and damaged physical and natural assets and livelihoods sources, and empowering them through capacity building, skills development and community institution building, through which their social capital can also be restored and enhanced, and their disaster preparedness strengthened.

37. The Additional Financing should directly generate employment and incomes for about 150,000 of the families most affected by the cyclone. Communities will be mobilized and supported in establishing sustainable, multi-functional community organizations that will be federated locally and at higher levels in order to: (a) pro-actively identify and address livelihoods needs and priorities; and (b) strengthen voice, capacity, and skills to articulate demands and seek services of the public sector and other developmental agencies.

38. There are nevertheless two risks facing the project. First is the overall vulnerability of the cyclone-affected population and their natural resource base to further climatic shocks. This will be mitigated by the fact that the Original Project design is explicitly geared towards targeting vulnerable groups, improving their income earning opportunities and building social and economic capital in a way that better prepares them to withstand shocks. In order not to further weaken their resilience and degrade their physical environment, understanding the potential social

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<sup>2</sup> In the new districts to be covered under the Cyclone operation, the 2001 census data indicates the tribal population to be very small. In *Barguna*, where there is the largest population (*Rakhain* people), tribal minorities make up 1% of the total population. In *Patuakhali*, *Bagerhat* and *Piorjpur*, the proportions are 0.04%, 0.5% and 0.005%, respectively. As for most non-*Chittagong* tribal populations in Bangladesh, the groups are scattered and relatively assimilated into the general population.

and environmental impacts of project activities is mainstreamed into project processes—e.g., through arrangements to ensure the equitable distribution of project benefits; through the participation of community institutions; and through an environmental assessment and checklist for any physical works.

39. The Additional Financing will further address this risk through its focus on disaster preparedness, particularly at the level of community institutions. The Community Action Plans (CAPs) will integrate Rehabilitation and Vulnerability Reduction Plans that address both immediate community livelihoods needs as well as medium and longer-term planning for risk reduction for both local people and their environment. Establishing and strengthening self-managed community organizations will enhance their voice, skills, and ability to manage and/or adapt to future challenges.

40. The second risk is the capacity of the lead implementing body, SDF, to adequately monitor implementation and ensure the quality of project activities and compliance with relevant fiduciary and safeguard controls. This is being addressed by partnering with experienced disaster management organizations and the existing network of partner organizations/NGOs in the field, already active in the cyclone area. In addition, SDF's planning, monitoring, management, and fiduciary oversight capacity in the affected area is being strengthened by setting up a Disaster Risk Management Unit and regional Appraisal and Monitoring Teams (AMTs) This will ensure that project principles and guidelines are followed, and will enable SDF to successfully orient and monitor partners on the ground, including the communities themselves.

41. A full risk assessment was carried out and results are reflected in Annex 2.

#### **VIII. Financial Terms and Conditions For the Additional Financing**

42. The Additional Financing will take the form of an IDA credit on standard terms of 10 years' grace and 40 years' maturity.

**Annex 1**  
**Project Results Framework**

<b>Project Development Objective</b>	<b>Project Outcome Indicators</b>	<b>Use of Project Outcome Information</b>
<p>The objective of the project will remain consistent with that of the Original Project, and will continue to support the Government of Bangladesh and Social Development Foundation in developing effective and efficient financing and institutional arrangements to empower the poorest and most vulnerable and improve their access to small-scale local infrastructure, assets and livelihoods, with special emphasis on Cyclone Sidr affected communities and families</p>	<ul style="list-style-type: none"> <li>• Evidence of access to basic infrastructure and social services to improve quality of life of the affected communities, with at least 80% of target households benefiting from project interventions</li> <li>• Evidence of incremental employment and increased income of target families, with at least 70% generating 20% more income</li> <li>• Evidence of increased savings and/or decreased indebtedness<sup>3</sup> of target families, with at least 50% decreasing indebtedness</li> </ul>	<ul style="list-style-type: none"> <li>• Periodic evaluation of project impact on employment and incomes</li> <li>• Number of infrastructure points – paths, roads, embankments, ponds, house platforms, sanitation facilities, etc rehabilitated under the project.</li> <li>• Records to be kept by Project Officers and SDF field teams cross-checked with baseline survey.</li> <li>• Number of community organizations formed to promote savings and provide loans to members for income generation as per information from community records cross-checked by POs and SDF field teams.</li> <li>• No. of affected families earning income through employment and/or engaging in income generating activities</li> <li>• Ongoing assessment of appropriateness of project strategy.</li> </ul>
<b>Intermediate Outcomes</b>	<b>Intermediate Outcomes Indicators</b>	<b>Use of Intermediate Outcome Monitoring</b>
<p><b>Component 1. Strengthening SDF and Program Management</b> to support information and communications, technical assistance and capacity building, monitoring, evaluation and project management. Establishment of a Disaster Risk Management Unit in SDF to manage the program, and provide technical assistance and support to field staff and local POs</p>	<ul style="list-style-type: none"> <li>• Evidence of SDF national and field office staff providing services effectively and speedily as per the community demands and agreed service standards</li> <li>• At least 70% of SDF National and field staff receive positive scores from community assessment</li> <li>• Six-monthly COM learning forum and revisions arranged</li> </ul>	<ul style="list-style-type: none"> <li>• SDF national and field office staff and POs receive positive scores from the affected communities</li> <li>• Regular assessment/field evaluations on the consistency of messages transmitted to communities by field office staff and POs about the rules of the program</li> <li>• Regular assessment of degree of organization and participation of</li> </ul>

<sup>3</sup> Indebtedness to informal moneylenders and those lending at above market interest rates

	and changes reflected in Operational Manual	<p>community groups organized with the help of field office staff and POs.</p> <ul style="list-style-type: none"> <li>• Assessment of quality of subproject proposals presented by community organizations.</li> <li>• Service standards met</li> <li>• Assessment at MTR and Y3 of project of the degree of community preparedness to deal with local disasters</li> </ul>
<p><b>Component 2. Institutional Development at Community Level</b> for raising awareness and information sharing, institutional development and direct support to affected communities working to form their own accountable, transparent, inclusive, autonomous and sustainable institutions</p>	<ul style="list-style-type: none"> <li>• Minimum of 70% of the target community organizations formed, managing funds, and implementing their plans as per agreed rules</li> <li>• Minimum 70% of target population mobilized into livelihood groups and started mobilizing savings</li> <li>• At least 50% of the decision making positions in the community organizations/ groups are occupied by target women</li> </ul>	<ul style="list-style-type: none"> <li>• Y1-Y3 assessment of role of project in affecting institutional development at community level</li> <li>• Y2-Y3 input to MTR and ICR to assess degree to which the support provided by the project has affected the formation of community groups and livelihood groups which are accountable, transparent, inclusive, autonomous and sustainable</li> </ul>
<p><b>Component 3. Implementation of Community Action Plans</b> to support livelihood and risk reduction subprojects, through financing the implementation of small scale community and productive infrastructure subprojects, livelihood restoration and income generating activities and increase the capacity of the affected and the poorest and most vulnerable groups to plan and implement subprojects</p>	<ul style="list-style-type: none"> <li>• At least 70% of the target communities implement minimum one priority community sub-project as agreed in their plan</li> <li>• At least 70% of target households generate 20% or more income by Year 3</li> <li>• At least 80% of target households benefit from project interventions (infrastructure, skill development, savings and credit etc) and have started income generating activities</li> <li>• 50% of the target population have decreased indebtedness</li> </ul>	<ul style="list-style-type: none"> <li>• Y1-3 Ongoing assessment of project's role in and capacity to improve families' recuperation from Cyclone Sidr.</li> <li>• Y1-3 Track geographic coverage and depth of investment</li> <li>• Y1-3 Ongoing assessment of project targeting effectiveness</li> <li>• MTR assess of project mechanisms to ensure that community subprojects financed are having an impact on recuperating socio-economic infrastructure and livelihoods of affected communities and are reducing their risk to future disasters</li> </ul>
<p><b>Component 4. Pilot Private Financing/Participation of Community Activities</b>, for testing new approaches to mobilize private sector participation in the program</p>	<ul style="list-style-type: none"> <li>• Minimum of 30% of livelihood groups linked to the private sector either via TA or skills or employment</li> <li>• At least five products/</li> </ul>	<ul style="list-style-type: none"> <li>• Y1-3 Assessment base on community groups and livelihood groups records crosschecked by POs and SDF field teams</li> </ul>

	partnerships (benefiting the affected families) tested/developed with the private sector/external agencies and scaled up in the project area	• Inputs to MTR and ICR based on cumulative information
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**Annex 2**  
**Accountability, Fiduciary and Procurement,**  
**including Fiduciary and Procurement Risk Assessment**

**Accountability, Transparency and Monitoring**

1. **Accountability and Transparency.** There has been special focus under the Original Project on principles of both upward and downward accountability, transparency, participation and equity. It has been widely acknowledged that clear and simple operational procedures for financial management (FM), procurement and functioning of village level institutions, which are founded on principles of *downward accountability and transparency*, are key to the “social accountability” framework. At the same time, this framework allows community members to demand *upward accountability and transparency* from their leaders and service providers, and to participate in monitoring their performance, thereby introducing increased understanding and application of principles of good “governance” at the local level.

2. Simple mechanisms have been in use for the Original Project such as maintenance of books, accounts, regular village-wise information sharing through meetings, public display of funds received, expenditure incurred, procurement information, etc. Under the Additional Financing, the accountability framework and tools will be further strengthened. Three immediate steps will be implemented: (i) community groups’ “Social Audit Committees” will be strengthened/formed to monitor performance and accountability of office bearers and service providers; (ii) a wide range of existing and new practical tools used in monitoring accountability and performance of community driven work will be more systematically employed; and (iii) well defined training programs and modules will be provided, allowing sufficient time for participation and with clear criteria for training evaluation. While one of the key responsibilities for the new FM and Accountability manager being recruited will be to assist the SDF management in the effective implementation of the above actions, interim arrangements are already involving current staff in order to avoid any disruption.

3. **Monitoring** SDF has a satisfactory and well functioning monitoring, learning and evaluation (ML&E) system, and the Additional Financing will build on and refine this system. Monitoring will be done at the following three levels:

- a. *Community Level Monitoring and Supervision:* The Original Project has developed a community level monitoring system – a simple and community friendly monitoring matrix that captures key implementation milestones, selection of beneficiaries, functioning of community level institutions, and use of funds. This village level monitoring matrix is updated on a monthly basis and the key milestones and progress of activities is shared with the community members and submitted to the project field teams. In addition, the Original Project design provides guidelines and capacity building to beneficiaries in social accountability tools and practices. Both these systems – community monitoring of progress and social accountability tools – will also be practiced under the Additional Financing. Mechanisms such as independent social audit, public displays, participation of every one in the meetings, and conflict resolution at the community level will be further strengthened, and all qualitative and quantitative indicators will be monitored such that there is early detection and resolution of issues.
- b. *Project Level Monitoring and Oversight:* SDF is monitoring the Original Project through various tools, including regular in-house monitoring of implementation progress, results, financial aspects and key milestones. SDF has developed a robust management

information system (MIS), and is regularly monitoring results and compliance of the Original Project through the MIS. Secondly, SDF monitors the processes and compliance of the community institutions and field level agencies and staff through the services of an independent process monitoring agency which it contracts for this purpose. The process monitoring agency checks quality of the program and compliance with fiduciary and accountability aspects on a monthly basis; and helps in identifying issues. This is an important tool for correcting the system and checking performance of various partner organizations. SDF will continue this independent process monitoring system under the Additional Financing. Baseline information drawn from the experience to date of the Original Project, adjusted to capture pre-project values in the cyclone-affected target areas of the Additional Financing, will be completed before the start of the program. Independent impact evaluations will be conducted yearly to assess progress towards achieving the PDO.

- c. *Independent Appraisal and Monitoring Teams (AMTs)*: To enhance its monitoring capacity in the context of the Additional Financing, SDF is hiring independent AMTs that will be based regionally to appraise community subprojects and check compliance with SIPP principles, procedures for transferring subsequent installments of funds.
4. Experience under the Original Project has demonstrated that simple social accountability methods in combination with effective training can enable responsible monitoring at the local level, and this will continue to be a priority under the proposed Additional Financing.

#### **Fiduciary and Procurement Risk Assessment**

5. The project is implemented by SDF, an autonomous body established by the GoB in 2001 and registered under the Companies Act of 1994. Day to day management of SDF is vested in a management team headed by a Managing Director appointed by the SDF Governing Body. The Governing Body of nine persons is responsible for determining the direction and scope of SDF's activities, and the management and administration of the Foundation. Overall policy direction and oversight is provided by a 20-member General Body.

6. **Financial Management Capacity Assessment.** The financial management system of SDF is adequate to account for, monitor and report on project resources and expenditures. Under the AF, SDF will continue to maintain a sound community Financial Management system, to ensure appropriate downward accountability that maintains the integrity of accounts at the local level.

7. **Summary of Overall Strength and Weaknesses.** The FM strength of the project is SDF's finance division staff, who have been working with SIPP since its inception. Although the downward accountability framework is still being internalized across the various tiers of the operation, the finance staff are well versed in the overall concepts and requirements. Full implementation of the FM and accountability framework for the communities will therefore not require starting from scratch. The key weaknesses is the need for consistent institutionalization of the system of governance and downward accountability, for which a dedicated team with clear understanding and mandate in the new areas included in the Additional Financing, is essential.

8. The overall assessment of FM arrangements including key areas for improvement is outlined below:

(a) **Staffing:** SDF has a Finance and Administrative Division; with six staff headed by a General Manager, and has succeeded in establishing a sound FM system at the center, i.e. SDF level, and is gradually moving towards establishing a downward accountability framework across all community-led programs. However, without reinforcement of current staffing, SDF would be inadequate to perform FM functions at all tiers of the program under the Additional Financing. To perform FM functions at the community level under the Additional Financing, SDF is therefore recruiting an additional Financial Management and Accountability Specialist, directly reporting to Project Director, Disaster Risk Management Unit. The FM and Accountability specialist will be supported by two accounts staff providing full time support in headquarter and field level. The two additional accounts staff will report to the FM Specialist. Separate TORs are being prepared for these positions.

(b) **Computerization of Financial Management System.** Overall, SDF's FM system is a combination of manually-based control functions and a computerized accounting package for posting of transactions. The key function of the accounting package is to consolidate financial information from the field and from central level to produce a set of Financial Monitoring Reports (FMR). The use of the computerized system has helped SDF to consistently meet the financial covenant to send quarterly FMRs within 45 days of the end of the quarter to IDA, and to prepare annual Financial Statements.

(c) A computerized FM system having built-in control functions for both subprojects and other revenue and capital expenditures at the central level is being considered. Under the automated system, pre-audit function will be completed at the transaction level rather than posting transactions after they occur. This will avoid time consuming pre-audit function and also help application of control function in all areas with minimal human error.

(d) **Internal Control and Audit.** A system, including establishment of procedures for ensuring standard internal controls, such as checking of expenditures, appropriate documentation, level of authorization, segregation of incompatible duties, periodic reconciliation and confirmation of bank balances, physical verification, annual financial audit including verification of the accuracy of FMRs, shall continue to be the responsibility of SDF finance department.

Internal Audit has been carrying out periodic internal audit functions and submitting reports to the Managing Director. Supervision missions have confirmed that SDF has been conducting internal audits regularly and these have been a good source for monitoring of its Financial Management system, particularly at the community level. The Governing Body has already demonstrated its commitment to the practice of internal audits and will continue to monitor and review prompt follow-up action by management where necessary.

It has been agreed that overall internal audit will be further strengthened under the Additional Financing by taking the following steps: (i) contracting of two additional staff in the audit section; (ii) implementation of an internal audit plan; and (iii) inclusion of management responses to the audit observations in the internal audit report.

9. **Interim Unaudited Financial Statements (IUFS).** Interim unaudited financial statements in an agreed format (FMRs) have been received under the Original Project in a timely

manner and are of acceptable quality. There have been no specific FMRs required for the project *per se*, as a common set of financial statements has been prepared which meets the requirements of both SDF and IDA. The Finance Unit/SDF will continue to prepare IUPS after collating financial data under the Additional Financing and will submit them to IDA following the same timeline, i.e. 45 days after the end of each quarter.

10. **Budgeting and Fund Flow Arrangements.** National Level: The national budget includes sectoral allocations, and is approved by the Parliament. The project planning process for each year will follow the GoB budgeting cycle and will be completed when the project estimates are included in the National Budget and approved by the Ministry of Finance for execution by the line ministries/departments. Community Level: As under the Original Project, under the Additional Financing the planning process at the community level will follow a ‘bottom-up’ approach. Grants for subprojects are disbursed based on a signed Financing Agreement, specifying the mode and triggers for tranche release, submitted by the community organization and approved by SDF. Communities’ budgetary procedures will follow the sub-grants, based on total resource envelop allocated to them, by planning and prioritizing in a participatory transparent manner and reflecting these in a Community Action Plan (CAP). From IDA and Government to SDF. IDA funds will be channeled to a separate Account to be operated by SDF under a Subsidiary Grant Agreement between MOF and SDF. Therefore a separate designated account would be opened for the Additional Financing and would be maintained in BDT. From SDF to participating Communities: Upon approval of CAP and subproject proposals, SDF will transfer funds to the relevant Community Account. The transfer will be conditional on the communities’ complying with project rules.

11. **Reconciliation of Accounts.** SDF’s Finance Unit will carry out periodic reconciliation of funds with community accounts so that any request for project funding can be based on balances remaining at the community account as well as funds to be disbursed. At present, however fund reconciliation at the community level is carried out at the head office before disbursement of the third and final installments to the community.

12. **External Audit:** Since SDF is a limited company registered under the Companies Act 1994, it is mandatory for its accounts be audited by a private audit firm. The external audit has been conducted by a private audit firm within six months of the end of the fiscal year. There has been no additional audit required under the SIPP as IDA has accepted SDF’s annual audit that covers SIPP financed activities. However, additional audit can be carried out through C&AG, if Government considers necessary.

13. Annual audited financial statements under the original project have been received in a timely manner. Audit observations included in the management letters have been followed up and there has been no outstanding audit issues relating to preceding years.

14. **Adequacy of Financial Management Arrangements.** The FM arrangements under the Original Project will be largely followed under the proposed Additional Financing, with some further refinements and improvements. From the fiduciary perspective, *the FM risk rating is Modest*. FM Risk Ratings and mitigation measures are outlined in Table 1 below:

**Table 1: FM Risk Rating Summary**

<b>Inherent Risk.</b>	<b>Risk Mitigating Measures Incorporated into the FM Action Plan.</b>	<b>Residual Risk.</b>
<b>Entity Level</b>		
SDF's focus and ability to build strong community based financial management and downward accountability systems that ensure proper checks and balances at various tiers of the operation may be inadequate.	Implementation of agreed Action Plan : (i) guidance note on accountability aspects for trainers (ii) appointment of a full time staff with clear job descriptions, to work specifically on strengthening community level FM and accountability system.. Job description and roles and responsibilities of this staff will be separated from those who focus on SDF level FM issues (iii) Preparation of Training Plan, materials consistent with COM and evaluation criteria. (iv) SDF management with periodic updates on accountability framework by internal audit/ FM & accountability staff.	M
<b>Control Risk.</b>		
Timely and accurate reporting under the AF may not be possible due to use of dual system- manual and computerized system and Finance Department's dependency on MIS for financial information.	SDF management will continue its effort at full computerization of its FM system with checks built in to the program.	M
<b>Overall Control Risk</b>		M
<b>Residual Risk Rating</b>		Modest

15. **Financial Management Action Plan.** In the context of scaling up under the Additional Financing, SDF has committed to following additional activities to be implemented under an agreed time-bound action plan (Table 2) . Most of the activities are extensions of past activities and currently under work in progress.

**Table -2: FM Improvement Action Plan**

Issues	Responsibility	Completion Date
a) A computerized financial management system with control function built into the system for subprojects as well as other revenue and capital expenditures at the central level.	SDF Management.	Sept 30, 2008
b) Recruitment of the FM and Accountability Specialist and two additional Accounts staff	SDF Management	August 31,2008
c) Further strengthening of Internal Audit functions covering AF by: <ul style="list-style-type: none"> <li>• appointment of two additional audit staff</li> <li>• introducing an annual audit plan;</li> <li>• inclusion of a management response and a table showing current status of previous observation into the audit report.</li> </ul>	SDF Management	August 31, 2008.
d) Further strengthening of Accountability Framework by taking following steps: <ul style="list-style-type: none"> <li>• formation and strengthening of Social Audit Committee,</li> <li>• preparation of monitoring and result indicators on the Accountability Framework,</li> <li>• well defined training programs and modules consistent with COM, and criteria for training evaluation, a guidance note on accountability aspects for trainers, and</li> <li>• periodic updates on Accountability Framework by internal audit/ FM &amp; accountability staff.</li> </ul>	SDF Management	August 30,2008

16. **Disbursement Arrangements.** For utilization of IDA's share of expenditure, SDF maintains a Special Account, which under the Original Project has been working well. There will be a separate Designated Account for the AF and will be maintained in BDT. Current disbursement arrangements are based on Statements of Expenditure (SOEs), and this will continue under the Additional Financing. However, SDF is studying the possibility, under the Original Project, of switching to report based disbursements. If this takes place, then these disbursement arrangements will also be applied to the Additional Financing.

17. Consistent with the current approved Country Financing Parameters, the Government has selected 100% financing for all disbursement categories. The bulk of IDA funds will be transferred to the communities directly as matching grants for subprojects under expenditure Category 1, for which there is no tax element; there is insignificant tax in expenditure Categories 2 to 4. The same expenditure categories will be maintained, as under original project.

18. **Supervision/Implementation Support.** In the early stages of the Additional Financing, FM supervision activities will focus on the adequacy of implementation of the action plan. As the implementation moves forward, desk review of internal, external and social audit reports will be conducted. Site and field visits will be planned in close collaboration with FM accountability staff/facilitators to ensure periodic assessment of project FM practices at all levels and reporting

after discussion with communities and project management. A field-based monitoring checklist incorporating accountability and operational issues is being developed for use during field visits.

### **Procurement Assessment and Mitigation Plan**

19. Based on the institutional assessment of SDF of the Original Project, *the risk level in procurement is moderate*, taking the community procurement into consideration. SDF will increase its procurement staffing to cater to the additional procurement activities in the Cyclone-affected areas. Under the Additional Financing, SDF will place emphasis on: (i) providing procurement training to beneficiary community groups, (ii) evaluating procurement performance of the community groups, and (iii) evaluating the end result of the procurement activities performed by the community groups. To achieve sound procurement practices, SDF has prepared a Community Operational Manual (COM) under the Original Project, and this has been revised to include a chapter on the procurement procedures to be followed by the community groups, also for the Additional Financing. Intensive monitoring and evaluation of the procurement training of the community groups will be ensured by M&E tools being developed by SDF and to be shared with IDA and customized for the Additional Financing. The tools will envisage the trainers' capability in the field as well as the adequacy of the training design, module and materials for the AF, including provisions for pointing out necessary corrective measures/suggestions. Similar tools will also be developed for monitoring and evaluation of procurement performance of the community groups including the evaluation of end-products of the procurement activities performed by the community groups.

20. **Procurement Risk Mitigation Plan:** (i) SDF has developed adequate procurement capacity for the Original Project, but it will be expanded under the AF by a hiring Procurement Specialist/Consultant dedicated to procurement activities to be carried out through community participation, including the aspects of social accountability relating to procurement activities performed by the community groups; (ii) Pilot Training Programs on the COM (including procurement procedures) will be held before start-up of project activities. The results obtained from the pilot programs will feed into corrective measures, if necessary, for the Procurement Training design for optimum effectiveness before full-scale start of AF activities, and (iii) Tools being developed (as mentioned above) will be applied intensively by SDF to monitor progress of AF procurement activities, results, and corresponding remedial/mitigation measures taken will be shared with IDA in a routine manner. Hiring of the Procurement consultant should be completed by August 31 2008, and a time table for completion of all actions as mentioned in paragraphs 20 and 21 should be finalized and shared with IDA by August 31 2008.



