



The World Bank

Technical Assistance for Repurposing of Agricultural Public Support Towards a Sustainable Food System Transformation in Bangladesh (P181563)

Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 22-Dec-2023 | Report No: PIDA37191

**BASIC INFORMATION****A. Basic Project Data**

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|--|--|--|--|
| Country Bangladesh | Project ID P181563 | Project Name Technical Assistance for Repurposing of Agricultural Public Support Towards a Sustainable Food System Transformation in Bangladesh | Parent Project ID (if any) |
| Region SOUTH ASIA | Estimated Appraisal Date 05-Feb-2024 | Estimated Board Date 29-Feb-2024 | Practice Area (Lead) Agriculture and Food |
| Financing Instrument Investment Project Financing | Borrower(s) People's Republic of Bangladesh | Implementing Agency Department of Agricultural Extension, Ministry of Agriculture | |

Proposed Development Objective(s)

To generate evidence on strategies for repurposing input subsidies to programs that build climate-smart agriculture in Bangladesh.

Components

- Component 1: Informing the Repurposing Agenda through PARTNER's E-Voucher Pilot
- Component 2: Strengthening Agriculture Public Expenditure Tracking
- Component 3: Project Management, Monitoring, and Learning

PROJECT FINANCING DATA (US\$, Millions)**SUMMARY**

| | |
|--------------------|-------|
| Total Project Cost | 14.50 |
| Total Financing | 14.50 |
| of which IBRD/IDA | 0.00 |
| Financing Gap | 0.00 |



DETAILS

Non-World Bank Group Financing

| | |
|----------------------------------|-------|
| Trust Funds | 14.50 |
| FoodSystems2030 Umbrella Program | 14.50 |

Environmental and Social Risk Classification

Low

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

Country Context

- Bangladesh experienced rapid social and economic progress in recent decades, reaching lower middle-income status in 2015.** Stable macroeconomic conditions drove 6.4 percent average annual real Gross Domestic Product (GDP) growth between 2010 and 2022. Over the same period, poverty and extreme poverty declined by 19.6 and 6.8 percentage points to 30 percent and 5 percent, respectively.¹ However, the pace of poverty reduction slowed, and urban inequality has widened.
- Bangladesh navigated the Corona Virus Disease of 2019 (COVID-19) pandemic shock with prudent macroeconomic policies, but now faces a significant balance of payments (BoP) deficit and rising inflationary pressure.** Elevated commodity prices and synchronous global monetary policy tightening contributed to a widening BoP deficit and a sharp decline in foreign exchange (FX) reserves from the second half of fiscal year (FY) 22. Domestic policies exacerbated the impacts of external pressure, including the introduction of multiple exchange rates, and de facto caps on lending rates. By end-FY23, the BoP deficit reached US\$8.2 billion and gross international reserves declined to US\$24.7 billion (3.5 months of prospective imports). Authorities requested support to restore external balance, including an International Monetary Fund (IMF) program approved in January 2023.
- The fiscal deficit widened to an estimated 5.3 percent of GDP in FY23.** Tax revenues remained among the lowest in the world at an estimated 7.4 percent of GDP in FY23. Expenditure growth accelerated with higher subsidy spending as a result of elevated commodity prices, while revenues declined with lower imports. Capital expenditure was led by infrastructure megaprojects, with rationalization of other projects in FY23 to slow the growth of the budget deficit.

¹ Based on the international poverty line of US\$ 3.65 and US\$ 2.15 per day (using 2017 purchasing power parity) for poverty and extreme poverty, respectively.



4. **Real GDP growth is expected to reach 5.6 percent in FY24 before accelerating to its long-term trend.** Inflation is projected to remain elevated in the near term and gradually subside with monetary policy tightening and import price stabilization over the medium term. Pressure on the external sector is expected to persist in FY24, easing over the medium term as external conditions moderate. The fiscal deficit is expected to remain within 5.5 percent of GDP, with a moderate increase in revenues. However, downside risks are rising. Inflation could further accelerate if timely monetary and fiscal policy adjustments are not adopted. Weak demand in Bangladesh's major export and external labor markets could weigh on the current account deficit, and failure to address distortions in the FX market could deplete reserves. Financial sector vulnerabilities may widen if enhanced asset measurement, supervision, and enforcement measures are delayed.

5. **Structural reforms are needed to support a faster pace of growth over the medium term.** Priorities to reach upper middle-income status by 2031 include building a competitive business environment, diversifying exports, increasing human capital, building efficient infrastructure, deepening the financial sector, and attracting private investment. These reforms will support international competitiveness as Bangladesh prepares for graduation from the Least Developed Country status in 2026, which will gradually lead to reduced concessional financing and preferential market access for its exports.

6. **Bangladesh is at low risk of overall and external debt distress in the January 2023 joint IMF-World Bank Debt Sustainability Assessment.** Bangladesh is not currently subject to Debt Limits Conditionality under the Sustainable Development Finance Policy. In its most recent Staff Report, the IMF stressed the need for Bangladesh to accelerate its ambitious reform agenda to achieve a more resilient, inclusive, and sustainable growth, requiring substantial investments in human capital and infrastructure.

7. **Bangladesh faces a high level of vulnerability to the effects of climate change.** The Global Climate Risk Index ranks it as the seventh most affected country in 2000-2019,² with high susceptibility to extreme weather events such as cyclones, floods, and storm surges. Recurring flooding in Bangladesh affects a greater population than any other natural hazard, impacting more than 1 million people annually. Once every three to five years, up to two-thirds of the country is inundated by floods. Addressing these climate risks will support sustainable economic development and prevent vulnerable populations from being left behind.

Sectoral and Institutional Context

8. **Agriculture has been a key driver in poverty reduction in Bangladesh over the past two decades although the growth of sector has slowed down since 2011.** In addition, the sector is highly vulnerable to climate change and is under pressure to cater to an increasing population and changing diets. In the meantime, it has a significant potential to increase inclusive economic growth with millions of smallholders, women, youth, and educated entrepreneurs, particularly as value addition and diversification become more dominant. Thus, a new wave of reforms and investments is needed to continue the agriculture transformation process towards higher crop productivity and diversification, as well as higher income earning potential for rural producers, which requires a comprehensive sector-wide program.

9. **The Program on Agricultural and Rural Transformation for Nutrition, Entrepreneurship, and Resilience in Bangladesh (PARTNER), which is the first program-for-results (PforR) for the agriculture**

² German watch (2021) Global Climate Risk Index 2021.



sector in the country, is supporting the Government of Bangladesh (GoB) in implementing this new wave of reforms. More specifically, PARTNER is helping drive diversification, food safety, entrepreneurship, and climate resilience across agri-food systems. The Program is supporting sustainable and nutritious food production through greater efficiency in input use, good agriculture practices (GAP) and the promotion of stress-tolerant and nutrient-dense varieties. It is helping increase entrepreneurship and access to services by expanding access to digital agricultural services tools, improved food safety processes, and increased female and youth entrepreneurship. It is also helping modernize institutions and policies for agriculture transformation through improved data management, increased research and development activities, and partnerships with global agricultural research institutions and with the private sector. Lastly, one of the disbursement-linked results (DLR) of PARTNER's Disbursement-Linked Indicator (DLI) 5 consists in the implementation of an e-voucher pilot with the objective of informing the repurposing agenda by exploring ways to adjust the country's large and complex fertilizer and other inputs subsidy program.

10. The country allocates over US\$2 billion annually to support farmers through fertilizer subsidies, price support, and subsidized electricity/fuel for irrigation. According to the draft 2023 Public Expenditure Review in Bangladesh,³ public expenditure in agriculture accounted for 6.1 to 7.4 percent of total public expenditures over the past four FYs. The category "Input subsidy and other support to producers" was the largest expenditure item, accounting for an average of 43.7 percent of total agriculture-specific expenditures, followed by storage and marketing (21.4 percent), food aid (10.3 percent), and knowledge dissemination (9.3 percent). Other categories such as irrigation and technology, agricultural research, and inspection had smaller contributions, averaging 4.4, 4.1, and 2.5 percent, respectively. Most of the expenditures under "Input subsidy and other support to producers" were devoted to subsidies on variable inputs (mostly fertilizer) and subsidies based on outputs (mostly price incentives for rice), with only limited expenditures being allocated towards capital inputs.

11. Current agricultural public expenditures and support lack alignment with the sector's strategic objectives, such as diversification, improved nutrition, and climate resilience. While the goal of achieving food security and self-sufficiency in rice has been met, current policies have also not achieved their crop diversification objectives and have even encouraged an unsustainable production system, promoting farmers' excessive use of inputs, particularly fertilizer and water, which has led to environmental, health, and productivity risks. Rationalizing the fertilizer and other inputs subsidy program is crucial for achieving productivity, diversification, and climate resilience, which are key objectives of the National Agricultural Policy (NAP) 2018.⁴ Recent studies offer insights into redirecting policies for sector diversification and sustainability. However, the Ministry of Agriculture (MoA) has limited capacity to track public spending across priority areas and measure its outcomes, which hinders improvements in the allocation of resources and the achievement of intended objectives.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

³ Food and Agricultural Organization of the United Nations, "Bangladesh Food and Agriculture Policy Monitoring Review 2023", Draft Report, June 2023.

⁴ See the Detailed Project Description Technical Note attached to the PAD for a description of the fertilizer subsidy policy.



To generate evidence on strategies for repurposing input subsidies to programs that build climate-smart agriculture in Bangladesh.

Key Results

12. **Progress towards achieving the PDO will be measured by the following indicators: (i) Impact evaluation of the e-voucher pilot's subsidy delivery options on fertilizer use efficiency; and (ii) Cost-benefit analysis of the support to CSA practices adoption.**

D. Project Description

13. **The Project will be an investment project financing (IPF) and will have three components.**

Component 1: Informing the Repurposing Agenda through PARTNER's E-Voucher Pilot (US\$12 million)

14. **Component 1 aims to provide evidence and lessons to inform a gradual repurposing of the country's large fertilizer and other inputs subsidy program towards a more efficient and effective public support program.** It will do so by providing technical assistance (TA) for the design, implementation, and monitoring and evaluation (M&E) of the e-voucher pilot planned under DLI 5 of PARTNER, as well as direct technical and financial support to some of the farmers involved in the pilot for the adoption of CSA practices promoted by PARTNER.

Subcomponent 1.1: Strengthening the Design, Implementation, and M&E of PARTNER's E-Voucher Pilot (US\$9 million)

15. **This subcomponent will provide additional resources to the e-voucher pilot under PARTNER** so that the pilot can (i) expand its focus to the fertilizer subsidy program, which is currently excluded from the scope of the pilot under PARTNER; (ii) test three alternative approaches for fertilizer subsidy delivery to 500,000 farmers; and (iii) undergo a rigorous impact evaluation of these alternative approaches to inform policy shifts in the future.

16. **The Project will support the e-voucher pilot on (i) feasibility and design; (ii) implementation; and (iii) M&E.** Prior to the e-voucher pilot's implementation, the Project will help assess its: (i) feasibility;⁵ (ii) risks, including climate risks and mitigation strategies; (iii) targeting; (iv) pilot areas selection; and (v) exit strategy. During the pilot's implementation, the Project will help with: (i) the design of its implementation strategy; (ii) the identification of beneficiaries and development of a pilot stakeholders database (including farmers, agro-input dealers, and so on); (iii) the compliance with relevant laws and regulations; (iv) the identification of agro-dealers and in ensuring their participation in the pilot; (v) the development of a digital platform; (vi) awareness raising and training; (vii) stakeholder linkage strengthening; and (viii) training of relevant stakeholders on fertilizer use efficiency. The e-voucher pilot's M&E will be supported through: (i) Iterative Beneficiary Monitoring (IBM); (ii) an impact evaluation; and (iii) policy dialogue and policy recommendations.

Subcomponent 1.2: Advancing the Adoption of CSA Practices Promoted under PARTNER (US\$3 million)

17. **This subcomponent will provide TA and financial support to about 20,000 farmers participating in PARTNER's e-voucher pilot for the adoption of CSA practices promoted by DLIs 1 to 4 of PARTNER.** This will provide additional insights on how complementing inputs subsidies with additional services can

⁵ Including ways to address barriers to women's access to e-vouchers and support their adoption of CSA.



help achieve better outcomes (i.e., diversification, input use efficiency, reduced methane and other greenhouse gas – GHG – emissions, and so on), and will inform future repurposing of agricultural support towards measures that increase the resilience and sustainability of the agrifood system. Such insights will also benefit the implementation of PARTNER's DLI 1 on the Development, rollout, and adoption of GAP standards in fruit and vegetable production, DLI 2 on the Development and adoption of high-yielding rice varieties, DLI 3 on Crop diversification towards non-rice cereals, pulses, oilseeds, and horticulture crops, and DLI 4 on Adoption of improved and efficient irrigation technologies (including alternate wetting and drying – AWD).

18. Dedicated support will also be provided for the implementation of GAP under DLI 1 and to digital agriculture adoption under DLI 5. This will include support to the Bangladesh Agricultural Certification Body, training for GAP auditors and inspectors, and training to the Department of Agricultural Extension (DAE) on GAP accreditation and for training-of-trainers purposes, as well as additional support for the adoption of advanced digital agriculture technologies, including artificial intelligence, to selected farmers in the pilot areas.

Component 2: Strengthening Agriculture Public Expenditure Tracking (US\$2 million)

19. Component 2 aims to enhance the MoA's in-house capacity to monitor agricultural public expenditure, make evidence-based policy decisions, and realign MoA's expenditure programs. This will complement the work undertaken under PARTNER's DLI 10 that focuses on building the MoA's capacity for data collection, entry, processing, and analysis on agricultural statistics and market research for an improved agricultural information system in Bangladesh.

20. The Project will (i) train MoA officials on policy analysis; and (ii) strengthen MoA's capacity to monitor and track public expenditure, including fertilizer subsidies, at the district and/or upazila levels. Under (i), MoA staff will be trained on sector diagnostics, program/project design, implementation, and M&E. Under (ii), MoA staff will be trained on the relevant methodologies for public expenditure tracking, using the Organization for Economic Co-operation and Development policy monitoring methodology, and relevant software and hardware will be upgraded.

Component 3: Project Management, Monitoring, and Learning (US\$0.5 million)

21. This component will support the overall management, implementation, and supervision of Project interventions, capacity building, as well as monitoring, communication, dissemination, and continuous learning throughout the life of the Project. It will notably finance costs related to hiring an E-voucher Specialist, a GAP/CSA Specialist, a Policy Analysis and M&E Specialist, and a Financial Management (FM) consultant for the duration of the Project, as well as goods and services needed for general Project management, implementation, and supervision.

Legal Operational Policies**Triggered?**

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|---|-----|
| Projects on International Waterways OP 7.50 | Yes |
| Projects in Disputed Areas OP 7.60 | No |



Summary of Assessment of Environmental and Social Risks and Impacts

22. **The Environmental Risk Rating is Low.** The project will comprise solely of TA activities which do not include any civil works nor that support studies to prepare future projects which could have higher risk rating. Hence, the potential direct adverse environmental impacts are minimal, and there are no significant adverse risks and issues which are complex, diverse, sensitive, and irreversible. Instead, the project intends to support achievement of long-term positive impacts to the environment particularly on reducing chemical fertilizer and pesticide use and GHG emissions and energy consumption, which support sustainable development. The activities under the proposed IPF-TA will be restricted to consultancy services for research and management support and capacity building of the DAE and other implementing agencies and therefore, are not expected to have any adverse social impacts. Social risks are mainly related to exclusion risks associated with the component 1 activities, workplace SEA/SH and labor issues. The risks related to labor and consequent SEA/SH are expected to be minimal as direct workers and contracted workers, through third-party consulting service providers, are likely to have well-defined employment terms under formal contracts in compliance with stringent national labor laws. The social risks and impacts are therefore rated “Low”.

E. Implementation

Institutional and Implementation Arrangements

23. **DAE, reporting to the Secretary of Agriculture, will host the Project Implementation Unit (PIU),** which will be responsible for the implementation of Project activities, as well as procurement, FM, environment and social (E&S), and M&E aspects of the Project. The PIU will work as an integral part of the PARTNER Program Coordination Unit (PCU) with additional staff supporting the implementation of the Project.

24. **The support to the e-voucher pilot under Component 1 will require the establishment of agreements between DAE and the Bangladesh Chemical Industries Corporation (BCIC), Bangladesh Agricultural Development Corporation (BADC), and agro-inputs dealers in the e-voucher pilot areas** to ensure that fertilizer market prices prevail in these areas.

25. **The Project Steering Committee (PSC),** chaired by the Secretary of Agriculture and co-chaired by the Secretary of Finance and Secretary of Industries will, among others: (i) provide planning and strategic guidance for Project implementation as well as facilitate interagency coordination at the highest level; (ii) make policy decisions for smooth Project execution; and (iii) constitute committees to resolve any policy-related issues, as needed.

26. **The Project Implementation Committee (PIC),** headed by the Additional Secretary (Policy Planning and Coordination – PPC – Wing) of MoA and consisting of representatives from DAE, BADC, BCIC, the Bangladesh Agricultural Research Council (BARC), Ministry of Land, agro-input dealers, and members of academia specialized in relevant fields (i.e., CSA, input subsidies, and so on) will, among others: (i) ensure coordination among all stakeholders; (ii) recommend modifications in implementation mechanisms for Project interventions, if needed, and subject to the approval of the International



Development Association (IDA); (iii) review and approve annual work plans; and (iv) recommend necessary modifications/improvements in Project implementation and modalities, execution arrangements, and flow of funds, subject to IDA approval.

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APPROVAL

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| | | |
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