

**PROJECT INFORMATION DOCUMENT (PID)
IDENTIFICATION/CONCEPT STAGE**

Report No.: PIDC36627

Project Name	OBA SANITATION MICROFINANCE PROGRAM
Region	SOUTH ASIA
Country	Bangladesh
Sector(s)	Sanitation (100%)
Theme(s)	Rural markets (30%), Rural services and infrastructure (70%)
Lending Instrument	Lending Instrument
Project ID	P157958
Borrower Name	Palli Karma-Sahayak Foundation (PKSF)
Implementing Agency	Association for Social Advancement (ASA)
Environment Category	C - Not Required
Date PID Prepared	26-Oct-2015
Estimated Date of Approval	15-Mar-2016
Initiation Note Review Decision	The review did authorize the preparation to continue

I. Introduction and Context

Country Context

Over the past decade, Bangladesh has progressed economically, with gross domestic product growth rates of over 5 percent (6.1 percent in 2014), raising per capita GDP to US\$ 1,096. At the same time, poverty continues to affect large parts of the population. Just over 31 percent of Bangladesh total population of 153.3 million (2010) is categorized as poor, with 17.6 percent considered extremely poor. The rural population comprises 72 percent of the total country population, although with over 1,000 people per square kilometer, Bangladesh has one of the highest population densities in the world.

Sectoral and Institutional Context

The government has set ambitious policy priorities for sanitation in line with international standards, and a complex network of government institutions oversees the water and supply sector in Bangladesh. Bangladesh's current rate of improved sanitation is 57 percent, growing at only 1.1 percent annually. To achieve the Sustainable Development Goals (SDGs), Bangladesh will need to provide 47 million rural people with access to improved sanitation, and extend services to those whose income ranks in the bottom 40 percent of Bangladesh's rural population.

The Ministry of Local Government, Rural Development and Cooperatives, leads the sector. It delegates its functional responsibility to several other agencies including: (i) the Department of Public Health and Engineering (DPHE); (ii) the Local Government Engineering Department (LGED); (iii) the Water Supply and Sewerage Authorities (WASA) in metropolitan centers; and, (iv) local authorities - Pourashavas in urban areas and the Union Parishad in rural Bangladesh. Although these government institutions strongly support efforts to improve the quality of sanitation

services in rural areas, they are unable to play a leading role in such an effort. A study by the Water and Sanitation Program (WSP) in 17 districts of Bangladesh found that 96 percent of households use their own funds to build latrines, and 95 percent of households have access to latrine materials. The mean amount spent on a latrine ranges from US\$ 15 to 240, depending on economic level of the household. Only 19 percent of surveyed households reported currently having access to finance to help cover the cost of latrine installation or improvement.

The government has a host of development partners constantly promoting the need for improved sanitation, including many international and local non-government organizations (NGOs) that work with government and foreign donors in efforts to increase access to safe drinking water and improved sanitation. Most donor programs work only through these NGOs, who act as the principal program implementation agencies for many development projects in the country. The large-scale international NGOs in this sector include WaterAid, Plan International, Dutch WASH Alliance, Max Foundation, Concern Universal, and Practical Action. To date, the results of these efforts have been impressive—over a ten-year period, the percentage of the population practicing open defecation dropped from 67 percent to 3 percent in 2012. Over one-third of the population is using hygienic sanitation facilities.

Bangladesh also has a large, effective network of micro-finance institutions (MFIs) that provides both livelihood and social sector financing across the entire country. These institutions are well established and have made significant contributions to Bangladesh's development, particularly in rural communities. The largest MFIs include Grameen Bank (registered as a specialized bank), Bangladesh Rural Advancement Committee (BRAC), Association for Social Advancement (ASA), and Basic Unit for Resources and Opportunities (BURO) Bank. Most local NGOs also have credit wings to provide loans to predominately rural borrowers. Palli Karma-Sahayak Foundation (PKSF) is the government-backed wholesale public finance institution that supports small- to medium-scale MFIs/NGOs with capital and capacity development. Many MFIs tend to offer loans for water and sanitation facilities under the auspices of their other loan products, such as housing loans and disaster loans. Until recently, Grameen Bank was the only MFI that offered a specific water/sanitation loan product for basic toilet construction, but that product was discontinued in 2012. At the end of 2014, ASA introduced a sanitation loan product in a number of districts based on their experiences of the pilot program with WSP.

Relationship to CAS/CPS/CPF

The Bangladesh Country Assistance Strategy (CAS, 2011-2015) emphasizes the importance of improving the health and nutrition status of the citizens of Bangladesh by expanding access to water and sanitation services (Pillar 3: Improve Social Services Delivery). The proposed project supports the intentions of the CAS to assist the Government of Bangladesh (GoB) in scaling up improved sanitation services to the rural poor. More specifically, the program complements the intentions of the current Bangladesh CAS to shift World Bank resources from direct financing to work in areas where the Bank can contribute disproportionately to service delivery improvements through leveraging non-Bank resources, such as the private sector and other development organizations. The GPOBA project directly supports implementation of a Programmatic Bank TA, Scaling-up MFI lending for improved rural sanitation in Bangladesh (P156017), which seeks to assist MFIs to mainstream sanitation loans for market development by helping both sanitation entrepreneurs and customers to access financing and scale up commercial lending to improve hygienic sanitation products for poor, rural households.

II. Project Development Objective(s)

Proposed Development Objective(s)

The project development objective (PDO) is to increase access to hygienic sanitation facilities for low-income households in rural areas of Bangladesh through commercial sanitation loans.

Key Results

1. Sanitation loans from local MFIs to 170,000 poor households in rural Bangladesh. Based on the existing customer base of these MFIs, approximately 90 percent of loan recipients are expected to be women .
2. Over US\$ 20 million invested by households in hygienic sanitation.
3. Hygienic latrines constructed for 170,000 poor households in rural Bangladesh, benefitting 850,000 individuals.

III. Preliminary Description**Concept Description**

The project will support local MFIs to provide sanitation loans to poor households through a nationwide program in rural Bangladesh. Pre-qualified local construction firms (recipients of MFI loans, who will receive extensive training and capacity building support under the WSP intervention) will construct new latrines for targeted households that meet hygienic sanitation standards.

The project will be implemented by two MFIs, Palli Karma-Sahayak Foundation (PKSF) and Association for Social Advancement (ASA), who will be the grant recipients. Having dual implementing agencies under the program allows for these organizations to maintain autonomy over their individual business practices, and to reach the maximum number of households with the GPOBA subsidy. Additionally, it will allow for faster scale-up while also serving a diversified set of institutions, since ASA has already been offering a sanitation loan product for over a year (and has disbursed more than 23,000 loans), while the MFIs partnering with PKSF will need to first develop and test the sanitation loan product.

The components of the projects are as follows:

Component 1 (US\$ 1.6 million): Subsidies for household sanitation loans managed by ASA. GPOBA will provide a US\$ 1.6 million grant to ASA to improve access to on-site sanitation for approximately 100,000 low-income households, benefitting 500,000 people in rural areas. A 12.5 percent subsidy is available for low-cost technologies ranging from US\$ 45 - 128, which will reduce the total purchase price for households unable to pay the entire amount in cash by reducing the cost of financing.

Component 2 (US\$ 1.1 million): Subsidies for household sanitation loans managed by PKSF. GPOBA will provide a US\$ 1.1 million grant to PKSF to improve access to on-site sanitation for 70,000 low-income households, benefitting 350,000 people in rural areas. The total subsidy amount for PKSF will be 15 percent of the cost of the latrine, including 2.5 percent to cover PKSF's project management costs. The technology options will be equivalent to those noted under the ASA component. PKSF will administer the subsidy and implement the project through 20 Partner Organizations (POs), mostly NGO's with microfinance and WASH sector experience.

Component 3 (US\$ 300,000): Independent verification agent. ASA and PKSF will select an IVA, either a firm or individual consultants to independently verify outputs and recommend release of subsidy funds. The Bank will provide its no objection for the selection of IVAs and the disbursement of funds.

Complementary technical assistance activities executed by WSP. From 2009 to 2015, WSP implemented the technical assistance program, ‘Steps for Sustainable Sanitation Services (4S)’ to help poor households in rural Bangladesh access affordable, high-quality hygienic sanitation facilities from small construction firms trained in building a set of standard latrine models. A follow-on program is being launched, and which the proposed GPOBA project will support.

The new program will support demand creation and market promotion, provide follow up support to trained entrepreneurs to ensure quality of construction, involve community leaders and local government, and support MFIs to reach the poorest households. By raising awareness of the need to shift from unimproved to hygienic sanitation facilities, local government agencies and NGOs will help build demand for the loan products offered by PKSF partners and ASA, which will subsequently support a scale-up of the approaches tested.

IV. Safeguard Policies that Might Apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01		x	
Natural Habitats OP/BP 4.04		x	
Forests OP/BP 4.36		x	
Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11		x	
Indigenous Peoples OP/BP 4.10		x	
Involuntary Resettlement OP/BP 4.12		x	
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

V. Financing (in USD Million)

Total Project Cost:	3.3	Total Bank Financing:	0
Financing Gap:	0		
Financing Source			Amount
Global Partnership on Output-based Aid			3.3

VI. Contact point

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