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Investing in rural people

People's Republic of Bangladesh

Promoting Agricultural Commercialization and Enterprises (PACE)

Negotiated financing agreement

Executive Board — 112th Session
Rome, 17-18 September 2014

For: Information

Negotiated financing agreement: "Promoting Agricultural Commercialization and Enterprises (PACE)"

(Negotiations concluded on 3 September 2014)

Loan Number: [_____]

Grant Number: [_____]

Project Title: Promoting Agricultural Commercialization and Enterprises (PACE)
(the "Project")

The People's Republic of Bangladesh (the "Borrower/Recipient")

and

the International Fund for Agricultural Development (the "Fund" or "IFAD")

(each a "Party" and both of them collectively the "Parties")

WHEREAS the Fund has agreed to extend a loan to the Borrower/Recipient for the purpose of financing the Project, on the terms and conditions set forth in this agreement (the "Agreement"),

WHEREAS the Ministry for Food, Agriculture, Forestry and Fisheries of the Republic of Korea (the "Donor") and the Fund have entered into a Supplementary Funds Arrangement dated 18 October 2012 (the "Arrangement"), pursuant to which the Donor intends to make available to the Fund a grant in order to provide supplementary financing to the Project,

WHEREAS the Donor has approved an umbrella programme document (the "Umbrella Document") for the implementation of the Arrangement by exchange of letters with the Fund dated 15 May 2013, and

WHEREAS on the basis of the above and other considerations, the Fund has agreed to extend the grant from the Donor to the Borrower/Recipient for the purpose of increasing the financing in respect of the Project, on the terms and conditions set forth in the Arrangement, the Umbrella Document and this Agreement,

hereby agree as follows:

Section A

1. Without any limitation or restriction upon any of its obligations under this Agreement for the implementation of the Project, the Borrower/Recipient accepts, *mutatis mutandis*, the provisions of the Arrangement, as may be amended from time to time by the parties thereto, as valid and binding obligations of the Borrower/Recipient to the Fund.

2. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1), and the Allocation Table (Schedule 2).

3. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as may be amended from time to time (the "General Conditions"), are annexed to this Agreement and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.
4. The Fund shall provide an IFAD loan (the "Loan") and a grant from the Donor (the "Grant") to the Borrower/Recipient (collectively the "Financing"), which the Borrower/Recipient shall use to implement the Project in accordance with the terms and conditions of this Agreement.
5. The Fund shall not be liable to the Borrower/Recipient in the event that the Grant, in whole or in part, is not available to the Fund. The Borrower/Recipient hereby undertakes to hold harmless and to indemnify the Fund for any such losses.

Section B

1. A. The amount of the Loan is twenty six million three hundred and fifty thousand Special Drawing Rights (SDR 26 350 000).
B. The amount of the Grant is three hundred sixty thousand United States dollars (USD 360 000).
2. The Loan is granted on highly concessional terms, shall be free of interest but bear a service charge of three fourths of one per cent (0.75%) per annum and have a maturity period of forty (40) years including a grace period of ten (10) years.
3. The Loan Service Payment Currency shall be USD.
4. The first day of the applicable Fiscal Year shall be 1 July.
5. Payments of the principal amount of the Loan and service charge shall be payable on each 15 March and 15 September.
6. There shall be two (2) Designated Accounts, for the Loan and the Grant respectively and for the exclusive use of the Project, in the Bangladesh Bank (the "Central Bank of the Borrower/Recipient").
7. There shall be one (1) Project Account, denominated in Bangladeshi Taka, for the Loan and for the exclusive use of the Project, in a bank acceptable to the Fund.
8. The proceeds of the Financing shall not be used to finance taxes that may be due in connection with the Project. The Borrower/Recipient shall cause the Project Implementing Agency as defined below in Section C of this Agreement to make available to the Project counterpart funds from its own resources in an aggregate amount of twenty-two million four hundred fifty thousand United States dollars (USD 22.45 million) or its equivalent in accordance with this Agreement.

Section C

1. The Project Executing Agency shall be the Banking and Financial Institutions Division, Ministry of Finance of the Borrower/Recipient. The Project Implementing Agency shall be the Palli Karma-Sahayak Foundation (the "PKSF"), established as a not-for-profit Company under the Companies Act, 1913, as re-enacted in 1994 (Act 18 of 1994) and amended from time to time.
2. Additional Project Parties shall include, *inter alia*, institutions referred to in Schedule 1 to this Agreement.
3. The Project Completion Date shall be the sixth anniversary of the date of entry into force of this Agreement.

Section D

The Financing shall be administered and the Project supervised by the Fund.

Section E

1. The following are designated as additional general conditions precedent to withdrawal:
 - (a) The Designated Accounts and the Project Account referred to respectively in Sections B.6 and B.7 above shall have been duly opened; and
 - (b) The Fund's no-objection shall have been obtained to the Subsidiary Loan and Grant Agreement between the PKSf and the Ministry of Finance of the Borrower/Recipient.

2. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Borrower/Recipient:

Secretary
Economic Relations Division
Ministry of Finance,
Government of the People's
Republic of Bangladesh
Sher-e-Bangla Nagar
Dhaka 1207, Bangladesh

For the Fund:

President
International Fund for Agricultural Development
Via Paolo di Dono, 44
00142 Rome, Italy

This Agreement, dated _____, has been prepared in the English language in six (6) original copies, three (3) for the Borrower/Recipient and three (3) for the Fund.

PEOPLE'S REPUBLIC OF BANGLADESH

[Name of the Authorized Representative]
[Title]

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Kanayo F. Nwanze
President

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. *Target Population.* The Project shall be carried out on the whole territory of the Borrower/Recipient (the "Project Area") and its target beneficiaries/population shall include microentrepreneurs, i.e. borrowers of the Microenterprise (the "ME") loan programme (non-poor), moderately poor and extremely poor people. In terms of professional identities, the Project shall target marginal and small farmers involved in field crops, horticulture, fisheries and other aquatic resources, livestock production, and other agricultural produce, and non-farm microentrepreneurs and professionals in related service sectors.

2. *Goal.* The goal of the Project is to enhance livelihoods (higher income from self-employment, business profit and wage employment, and food security) of the moderately and extremely poor Project participants in a sustainable manner.

3. *Objectives.* The objectives of the Project are to increase sales and incomes of existing and new microenterprises and to create new wage employment opportunities for extremely and moderately poor people.

4. *Components.* The Project shall consist of the following Components:

(a) *Component 1: Financial Services for Microenterprises.*

Under this Component, sustainable financial services for microenterprises (farm, off-farm, trading and related service sectors) shall be expanded. The outputs include: (i) expansion of microenterprise loans for the economic sectors of, *inter alia*, agriculture, off-farm, trading and services; (ii) piloting of new loan products; and (iii) capacity building of the Palli Karma-Sahayak Foundation (the "PKSF") and Partner Organizations of the PKSF (the "POs") in designing and developing of new financial products, monitoring, evaluation and impact assessment of the ME loan programme, and application of information technology in the management of the POs.

(b) *Component 2: Value Chain (VC) Development.*

The outcome of this Component is the sustainable inclusion of microenterprises in VCs in agriculture, off-farm and related service sectors to up-scale business, production technologies, and enhance access to markets. The outputs of the Component include: (i) established and expanded VCs of fifteen (15) agricultural sub-sectors (products or group of products); (ii) established and expanded VCs for fifteen (15) non-farm manufacturing, processing and service sub-sectors (products or group of products); (iii) strengthened capacity of the PKSF and the POs to manage large-scale VC sub-projects; (iv) enhanced capacity of the PKSF and the POs to identify, advocate and strengthen pro-poor business policies, especially sector specific policies; and (v) an internet based platform to transact products of microentrepreneurs.

(c) *Component 3: Technology and Product Adaptation.*

The outcome of this Component is proven technologies and products (agricultural and off-farm) from Bangladeshi and international sources introduced to microentrepreneurs. The outputs include: (i) resolution of technological problems identified under Component 2; (ii) adaptation and dissemination of proven technologies and products; and (iii) provision of technical assistance.

II. Implementation Arrangements

5. *Project Implementing Agency.* The PKSF, in its capacity of the Project Implementing Agency, shall take the overall responsibility of the Project implementation as accorded to a Lead Project Agency in accordance with the General Conditions.
6. *Annual Work Plans and Budgets (the "AWPBs") and Procurement Plans.*
- (a) The Project Implementing Agency shall prepare a draft AWPB for each Project Year. Each draft AWPB shall include, *inter alia*, a detailed description of planned Project activities during the coming Project Year and a Procurement plan and the sources and uses of funds. The first Procurement plan shall cover the initial eighteen (18) month period of Project implementation, while the subsequent plans shall cover succeeding twelve (12) month periods. Each draft AWPB shall be submitted to the Project Executing Agency for approval. If the Project Executing Agency does not comment on the draft AWPB within thirty (30) days of receipt, the AWPB shall be deemed so approved by the Borrower/Recipient.
 - (b) Once approved in accordance with paragraph (a) above, the Project Implementing Agency shall submit the draft AWPB no later than sixty (60) days prior to the beginning of the relevant Project Year to the Fund for its comments and approval. If the Fund does not comment on the draft AWPB within thirty (30) days of receipt, the AWPB shall be deemed acceptable to the Fund.
7. *Subsidiary Loan and Grant Agreement (the "SLGA").* The PKSF shall enter into an SLGA with the MOF to receive the Financing in the form of loan and grant for the implementation of the Project.
8. *Responsibilities of the PKSF.* The PKSF shall, *inter alia*, (i) ensure a VC Unit in the PKSF with adequate personnel, resources and authority to manage and oversee the development of sustainable VCs within the Project; (ii) organize and fund capacity building of its own staff as well as the POs and VC actors; (iii) provide and supervise the funding of the ME loan programme and other financial products to the POs; (iv) identify potential VCs and contract out sector and marketing studies; (v) provide guidance to the POs in the preparation and management of VC promotion; (vi) contribute to the preparation of VC proposals by the POs by providing general guidance and relevant sector and marketing studies; (vii) share experiences with other VC development agencies/projects and rationalise common activities; (viii) engage in the introduction of necessary and appropriate changes in relevant laws, rules and standards; (ix) identify suitable technical assistance organizations or individual experts to provide capacity building to the PKSF staff, the POs, VC actors and actors' associations; (x) supervise and monitor VC sub-projects; and (xi) conduct Project assessment and impact studies.
9. *POs.* The ME loan programme under Component 1 and activities under Component 2 shall be implemented through the POs. The POs may participate in dissemination of technologies under Component 3 to the target population.
10. *Responsibilities of the POs.* POs shall, *inter alia*, (i) carry out by themselves or outsource to a qualified service provider an initial mapping of key actors in each selected VC (including, *inter alia*, producers, service providers, input suppliers and traders), marketing channels as well as actors' associations; (ii) prepare proposal(s) for individual VC development and their scaling up; (iii) provide and manage ME loan programme and other financial products for producers and entrepreneurs; (iv) assume responsibility for guiding the sustainable development of the specific VCs (particularly in the pilot phase) with special attention to addressing the major VC constraints identified in the VC

proposal; (v) ensure the availability of competent service providers to other actors in the VC and link them to such actors; (vi) advise producers regarding, *inter alia*, access to the market and input suppliers; (vii) facilitate services to producers from the private sector to be paid for in full by the producers (if private services are not available, the POs shall promote and develop private services; if that is legally impossible, the POs shall facilitate services from the government agencies); (viii) disseminate farm and non-farm technologies; and (ix) monitoring and evaluation and reporting, including identification of lessons learnt.

11. *Project Management Unit (the "PMU")*. An appropriately staffed PMU to implement the Project shall be established. The PMU shall work through officers of the PKSf's Loan Operations Division (the "LOD") to implement the ME loan programme. The LOD shall implement the ME loan programme as per established processes and norms through the POs. The PMU shall take the lead role in organizing, implementing, supervising and monitoring all activities under Components 2 and 3. The PMU shall help the POs develop VC development proposals, review and negotiate with the POs and obtain approvals for proposals by the VC Project Approval Committee of the PKSf which is composed of senior PKSf officers. The process shall serve to ensure transparency, bring additional expertise, establish linkage with the LOD and support consistency among all projects. The authority on relevant financial approvals shall rest with the Managing Director of PKSf. The PMU shall determine the needs for external technical support and technology and product for promotion, and shall engage with appropriate external partners for implementing activities under Component 3. The PMU shall further take the lead on the organization of all training and studies and other incidental work of the Project.

12. *PMU staffing*. The PMU shall have four (4) categories of professional staff: (i) a Project Coordinator who shall be a senior permanent PKSf official deputed to the Project; (ii) directly recruited professionals as Assistant Managers/Deputy Managers to be trained to manage and supervise all VC development and other activities of the Project; (iii) senior professionals for farm and non-farm sectors as VC development specialists who shall advise the Project Coordinator and other professionals in VC development, technology and product adaptation activities and private sector partnership; and (iv) mid-level professionals in areas such as monitoring and evaluation, procurement, financial analysis and accounting. The professional staff of categories (iii) and (iv), contracted for the Project, are expected to leave the Project after its completion. The professional staff of category (ii) are expected to become regular staff of the PKSf that would enhance the PKSf's capacity to implement programmes of non-financial services.

13. *Project Implementation Manual (the "PIM")*. The PKSf shall prepare a draft PIM for the Fund's consideration and approval. Once approved, the PIM shall be followed in the implementation of the Project. The PIM shall include rules and procedures on, *inter alia*:

- (i) qualifications, terms of reference and detailed implementation responsibilities of Project Parties including, *inter alia*, the recruitment of professional staff of the PMU, consultants and service providers;
- (ii) budgeting, expenditure approvals, use of chart of accounts, and overall accounting and reporting framework;
- (iii) financial controls, stringent asset management controls, thorough internal and external audit function, detailed mechanisms for reporting of fraud and corruption and related management actions as per the Fund's policies and rules;
- (iv) national competitive bidding in line with the provisions of IFAD's Project Procurement Guidelines and Procurement Handbook;

- (v) limited competitive bidding from the list of prequalified companies and services providers;
- (vi) shopping and direct contracts;
- (vii) procurement arrangements of the POs;
- (viii) composition of procurement evaluation committees; and
- (ix) monitoring and evaluation.

The PIM may be amended from time to time, subject to approval by the Fund.

14. *Mid-Term Review (the "MTR")*. An MTR shall be conducted during the third year of implementation on, *inter alia*, the physical and financial progress in comparison with AWPBs, the impact achieved in all three (3) Components and the results of technical assistance and training activities.

Schedule 2*Allocation Table**Allocation of the Loan and Grant Proceeds.*

(a) The Table below sets forth the categories of eligible expenditures to be financed by the Financing and the allocation of the amounts of the Financing to each category and the percentages of expenditures for items to be financed in each category:

Category	Loan Amount (SDR)	Grant Amount (USD)	% of Eligible Expenditures to be Financed
I. Equipment	120 000		100% net of Taxes
II. Credit Fund	12 100 000		100% net of Taxes, PKSF and POs' contributions
III. Consultancies	9 380 000	360 000	100% net of Taxes
IV. Salaries	1 650 000		100% net of Taxes
V. Operating costs and maintenance	470 000		100% net of Taxes
Unallocated	2 630 000		
TOTAL	26 350 000	360 000	

(b) The terms used in the Table above are defined as follows:

"Equipment" covers eligible expenditures for vehicles, office equipment, furniture and goods.

"Credit Fund" covers eligible expenditures for financial services for the ME loan programme through selected POs.

"Consultancies" includes eligible expenditures for training, workshops, meetings, technical assistance and VC development activities.