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Investing in rural people

President's report

Proposed financing

People's Republic of Bangladesh

Rural Microenterprise Transformation Project

Project ID: 2000002356

Note to Executive Board representatives

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For: Approval

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Project delivery team

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Abbreviations and acronyms

AWP/B	annual workplan and budget
DA	designated account
ESMF	environmental and social management framework
MoEWOE	Ministry of Expatriates' Welfare and Overseas Employment
M&E	monitoring and evaluation
NBFI	non-bank financial institution
PACE	Promoting Agricultural Commercialization and Enterprises Project
PKSF	Palli Karma-Sahayak Foundation
PMU	project management unit
PO	partner organization (of PKSF)
RMTF	Rural Microenterprise Transformation Project
SDGs	Sustainable Development Goals

Map of the project area



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.
 Map compiled by IFAD | 11-04-2019

Financing summary

Initiating institution:	IFAD
Borrower:	People's Republic of Bangladesh
Implementing agency:	Palli Karma-Sahayak Foundation (PKSF)
Grant recipient:	Ministry of Expatriates' Welfare and Overseas Employment
Total project cost:	US\$200.0 million
Amount of IFAD loan:	EUR 71.85 million (equivalent to approximately US\$80.0 million)
Amount of IFAD grant:	EUR 0.90 million (equivalent to approximately US\$1.0 million)
Amount of IFAD climate finance:*	US\$0.3 million
Terms of IFAD loan:	67 per cent highly concessional / 33 per cent blend
Cofinanciers:	To be confirmed
Amount of cofinancing:	US\$8.3 million
Terms of cofinancing:	Grant
Contribution of PKSF:	US\$13.0 million
Contribution of beneficiaries:	US\$0.9 million
Contribution of private sector, partner organizations and non-bank financial institutions:	US\$ 96.8 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD
Initiating institution:	IFAD

* As per the MDB Methodologies for Tracking Climate Adaptation and Mitigation Finance.

Recommendation for approval

The Executive Board is invited to approve the recommendation contained in paragraph 52.

I. Context

A. National context and rationale for IFAD engagement

National context

1. With a population of 153 million (2016) and a land area of 147,500 km², the People's Republic of Bangladesh is one of the most densely populated countries in the world. Its economic growth has been phenomenal in recent decades, averaging 6.5 per cent over the past decade and reaching a peak of 7.86 per cent in 2017/18. Bangladesh achieved lower-middle-income country status in 2015, and in 2018, it successfully met the eligibility criteria for graduation from the United Nation's least developed countries list. With sustained performance in a number of indicators such as poverty reduction and food production, the country is on track for graduation from least developed countries status in 2024.
 2. In spite of this impressive progress in tackling poverty, which has resulted in the rise of the middle class, the incidence of poverty remains high. It is estimated that the national poverty rate fell from 49 per cent in 2000 to 24.3 per cent in 2016. During that same period, the proportion of the population living in extreme poverty dropped from 34 per cent to 13 per cent. However, some 40 million people were still living below the poverty line in 2016, and rural poverty (26.4 per cent) remains higher than urban poverty (18.9 per cent).
 3. Agricultural exports have remained relatively stable over the past five years, with exports increasing in the fisheries sector and rice imports falling sharply due to a substantial increase in domestic production. Although the sectoral composition of output continues to shift from agriculture to services and industry, and agriculture now accounts for 15.4 per cent of GDP, 41 per cent of the population is still employed in agriculture.
 4. Key drivers constraining the agriculture sector include: (i) outdated technologies; (ii) limited market linkages; and (iii) limited access to adequate financial services. Bangladesh's National Agriculture Policy aims to accelerate the transformation from semi-subsistence to commercial agriculture through productivity gains, diversification, value addition and agroprocessing.
- Special aspects relating to IFAD's corporate mainstreaming priorities
5. Climate change. Bangladesh ranked second in the 2016 Climate Change Vulnerability Index. Rainfall during the monsoon season is expected to increase by 10-15 per cent by 2030; rising sea levels are expected to inundate 120,000 km² by 2050; cyclones in the Bay of Bengal will occur more frequently due to rising temperatures. These types of impacts make adaptation a necessity, and not only for farmers in terms of cropping choices. Producers across rural areas are showing signs of autonomous adaptation. In addition, the Government and development partners have already implemented a wide range of climate change adaptation projects that have built knowledge and capacity that development projects could leverage.
 6. Nutrition. Child stunting is estimated at 36 per cent, acute child undernutrition stands at 14 per cent, and low birthweight at 22 per cent of newborns. In addition, micronutrient deficiencies (also known as hidden hunger) remain a major challenge: 21 per cent of children are vitamin A deficient. At the same time, there has been a rapid increase in overweight and obesity, which affect 24 per cent of women and are associated with increased consumption of trans fats,

ultra-processed foods and sugary beverages. Consequently, nutrition interventions need to target both the food system and social attitudes about food.

7. **Gender.** Gender equality in Bangladesh has been improving over time, and the country is seen to be making good progress on various gender indicators. For example, gender parity has been achieved in primary and secondary education, and maternal mortality is declining at a rate of 5.5 per cent per year. The Global Gender Gap Index (World Economic Forum, 2017) ranks Bangladesh as the best performer in South Asia and one of the best performers across all of Asia and the Pacific. However, significant gaps remain. Women continue to face disadvantages in accessing economic opportunities, social services, political participation, and financial control.
8. **Youth.** Bangladesh is considered to have a young population. According to the International Labour Organization, the share of the population aged 15-24 is close to 20 per cent, while the median age of the entire population is a little over 26. Youth labour force participation is low at 41 per cent, while youth unemployment stands at 13 per cent; however, some 20 percent of employed youth are in irregular jobs. About 27 per cent of youth are neither in the labour force nor in education, which calls for sustainable job creation.

Rationale for IFAD engagement

9. The poverty and malnutrition indicators outlined above confirm that: targeted productive investments, combined with access to financial services, are required in rural areas to accelerate inclusive economic growth, sustainably reduce poverty and improve food security; and, such investments need to focus increasingly on sectors and commodities with maximum positive impacts on nutrition.
10. IFAD experiences in Bangladesh have demonstrated that supporting small farmers to boost agricultural productivity and output has positive effects on household income growth, poverty reduction and food security. Similarly, supporting microentrepreneurs in starting and/or expanding microenterprises generates income growth, improves food security and reduces poverty. It has become clear, however, that without meaningful integration in profitable value chains connected with expanding markets, fragmented investment in primary production and microenterprises does not generate growth on a scale necessary to transform the rural economy and sustainably eliminate poverty.
11. In light of the above, the Rural Microenterprise Transformation Project (RMTP), to be implemented by the Palli Karma-Sahayak Foundation (PKSF), will support small farmers and microentrepreneurs (or their organizations) and agribusinesses, giving them access to financial and technical assistance to improve their operations and contractually integrate them into selected value chains. Here, commodity selection is fundamental. Commodities that respond to growing demand from domestic, regional and global markets, ensure nutritional benefits for both producers and consumers and can be aligned to comply with food quality and safety standards will be prioritized under the project. It should be noted that the robust macroeconomic growth experienced by Bangladesh in recent decades has led to a burgeoning middle class. This has resulted in a rapidly growing demand for meat, vegetables, fruit and dairy products. Moreover, quality and food safety concerns among these consumers are growing, creating rising demand for certified high-quality food.

B. Lessons learned

12. IFAD's strategy in working with PKSF has been to expand core PKSF programmes and introduce innovations that the organization then takes to scale using core resources and financing from other partners. This strategy has proven very successful. The following points summarize key lessons learned that are relevant for the project under review:

- Microenterprise development. This has proved an effective instrument for rural poverty reduction and job creation. However, the demand for microenterprise finance far exceeds the supply.
- Microenterprise employment. Under the ongoing Promoting Agricultural Commercialization and Enterprises Project (PACE), PKSF has financed over 600,000 microenterprises, generating 1.4 million full-time jobs. This demonstrates the positive employment effects of investing in microenterprises.
- Missing middle. About 87 per cent of enterprises are microenterprises, 58 per cent of which are rural. There is a large gap in scale between microenterprises (employing 5.4 people on average) and medium-sized enterprises (employing 99.4 people on average). Microfinance institutions are unable to scale up operations to serve larger enterprises, while financial institutions have been unable to scale down operations to reach smaller enterprises.
- Service delivery. Project experiences have demonstrated the importance of combining financial and non-financial services to maximize results and impact at the microenterprise level. Under previous projects implemented by PKSF, this combination of services had positive effects on microenterprise turnover and income.
- Food safety standards. The Institute of Public Health Nutrition has indicated that 50 per cent of the food items tested between 2001-2009 were adulterated (particularly with pesticide residue), posing health risks for domestic consumers and preventing export. Under PACE, the introduction of standards for fisheries products has proven successful and needs to be expanded to all food products.

II. Project description

A. Project objectives, geographic area of intervention and target groups

13. The project goal is to sustainably increase the income, food security and nutrition of marginal and small farmers and microentrepreneurs across selected value chains. The development objective is the sustainable growth of selected rural commodity value chains with comparative advantages, market demand, growth potential and backward linkages to small farmers and microentrepreneurs.
14. The project has a national mandate and will invest throughout Bangladesh. The criteria for selecting focus areas will be poverty incidence, economic opportunity, implementability and complementarity, with ongoing investments in agricultural value chain development. Two additional considerations will be: (i) avoiding investments in value chains and subdistricts already covered by other PKSF programmes; and (ii) focusing on areas where partner organizations (POs) have lending programmes and the capacity to implement value chain financing. A list of districts/subdistricts with high potential for the selected value chains has been compiled, and the majority of project activities are expected to take place in the Chittagong, Khulna, Rajshahi and Rangpur districts.
15. Based on the land and expenditure indicators included in the latest household income and expenditure survey of Bangladesh, RMTP will target the following groups: (i) ultra-poor households (10 per cent of beneficiaries), who are either landless or have up to 0.49 acres of land; (ii) transitional poor households (27 per cent of beneficiaries), who have between 0.50-1.49 acres of land; and (iii) enterprising poor (63 per cent of beneficiaries) who have more than 1.50 acres of land. The majority of the direct beneficiaries under the financial services component will be women as recipients of PKSF loans. Youth will be targeted both

directly (as producers and private extension providers trained by the project) and indirectly (through wage employment).

B. Components/outcomes and activities

16. Component 1: Value chain enhancement. This component will enable microenterprises to sustainably expand their activities through the adoption of efficient production methods, compliance with internationally recognized food safety and traceability standards and strong market linkages. It will contribute to the creation of an enabling environment that promotes the growth of micro and small enterprises and strengthens their linkages with agribusinesses and other value chain actors. It has five subcomponents: (i) the organization of producers; (ii) the provision of technical and business services (including Global Good Agricultural Practices [GlobalGAP]) to producers through private advisory services; (iii) the integration of actors across selected value chains; (iv) the strengthening of downstream agribusinesses (including GlobalGAP, and hazard analysis and critical control point compliance as required); and (v) policy dialogue with the Government.
17. Component 2: Financial services. This component will provide sustainable financial services to microenterprises and growing/larger enterprises and agribusinesses. It has three subcomponents: (i) provision of financial services to microenterprises through POs (microfinance institutions); (ii) provision of commercial finance to larger microenterprises and small/medium-sized agribusiness companies through non-bank financial institutions (NBFIs); and (iii) optimal use of remittances through training to family members of overseas workers.
18. Component 3: Institutional strengthening and project management. This component aims to strengthen PKSF and PO capability as development organizations by leveraging trends in information and communications technology, financial services, commercial platforms and new technologies, and to ensure that the project is managed satisfactorily. It has three subcomponents: (i) PKSF capacity-building; (ii) PO capacity-building; and (iii) project management (see project management and coordination section).
19. The project will directly benefit an estimated 445,000 households, including small farmers, microentrepreneurs and other value chain participants (input suppliers, traders, service providers). Of these, 100,000 households will receive several rounds of microfinance and value chain services, while 345,000 will receive value chain services. Considering an average household size of 4.5, the project will benefit 2 million people in a period of six years.
20. The main expected outcomes on RMTP completion include: (i) 400,000 households report the adoption of new/improved inputs, technologies and practices; (ii) 1,500 rural producers' organizations have formal partnerships/agreements or contracts with public or private entities; and (iii) 100,000 households report using rural financial services.

C. Theory of change

21. RMTP's theory of change recognizes that millions of small farmers and microentrepreneurs are unable to transition from semi-subsistence farming to commercial operations. A wide range of underlying causes hampers this transition process, among them low productivity, outdated technologies, lack of differentiated produce, poor quality of output, limited processing to add value, inadequate advisory services, insufficient access to financial services and the absence of structured markets.
22. RMTP will offer small farmers and microentrepreneurs access to improved production technologies, financial services and market linkages. Producers will be organized and equipped with the necessary skills to meet food safety standards,

enabling them to increase the quantity and improve the quality of output. At the same time, upgraded market linkages will reduce market volatility and ensure higher financial returns. The project will also increase the availability of high-quality produce available for agribusinesses, which will be supported with commercial finance from NBFIs and technical assistance. In summary, the project will create synergy between producers and agribusinesses, enabling sustained income growth and employment creation.

D. Alignment, ownership, and partnerships

23. RMTP's project rationale is guided by the Government's Seventh Five-year Plan steering Bangladesh to becoming a middle-income country. The project will have a significant impact on two of its key objectives, namely: (i) to accelerate GDP growth, create jobs and rapidly reduce poverty; and (ii) to have every citizen benefit from the development process. It is also aligned with Bangladesh's renewed commitment on nutrition.
24. The project rationale is anchored in IFAD's mandate of rural transformation, its Strategic Framework 2016-2025 and the Sustainable Development Goals (SDGs). In particular, it will tackle SDG 1 (no poverty), SDG 2 (zero hunger), SDG 3 (good health and well-being), SDG 5 (gender equity), SDG 8 (decent work and economic growth), SDG 9 (industry, innovation and infrastructure) and SDG 12 (responsible consumption and production).

E. Costs, benefits and financing

Project costs

25. The total project cost, including contingencies, is US\$200 million over a six-year implementation period. All cost estimates are based on current prevailing prices in Bangladesh. The total amount of IFAD climate finance for this project is US\$0.3 million.

Table 1
Project costs by component and subcomponent and financier.
(Thousands of United States dollars)

Component	IFAD loan		IFAD grant		Cofinancier		PKSF		POs, private sector, NBFIs		Beneficiaries		Total Amount
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
1. Value chain enhancement	14 397	41	-	-	8 299	24	1 190	3	10 454	30	877	2	35 217
2. Financial services	58 215	38	1 000	100	-	-	10 756	7	86 405	55	-	-	156 376
3. Institutional strengthening and project management	7 388	88	-	-	-	-	1 019	1 2	-	-	-	-	8 407
Total	80 000	40	1 000	1	8 299	4.1	12 965	7	96 859	48	877	-	200 000

Table 2
Project costs by expenditure category and financier
(Thousands of United States dollars)

Expense category	IFAD loan		IFAD grant		Cofinancier		PKSF		POs, private sector, NBFIs		Beneficiaries		Total Amount
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
I. Investment costs													
A. Credit	58 215	37	-	-	-	-	10 756	7	86 406	56	-	-	155 377
B. Equipment and materials	90	96	-	-	-	-	4	4	-	-	-	-	94
C. Management fees	-	-	-	-	664	100	-	-	-	-	-	-	664
D. Grants and subsidies	10 750	75	1 000	7	2 599	18	-	-	-	-	-	-	14 349
E. Operating costs	301	8	-	-	1 144	32	1 010	28	233	7	877	25	3566
F. Salaries and allowances	3 975	93	-	-	-	-	319	7	-	-	-	-	4 293
G. Technical assistance	1 136	39	-	-	444	15	310	11	1 012	35	-	-	2 902
H. Studies and workshops	1 479	78	-	-	400	21	25	1	-	-	-	-	1 903
I. Training	3 984	24	-	-	3 048	18	471	3	9 208	55	-	-	16 712
J. Vehicles	70	50	-	-	-	-	70	50	-	-	-	-	140
Total	80 000	40	1 000	0.5	8 299	4.1	12 965	6.5	96 859	48.5	877	0.4	200 000

Table 3
Project costs by component and subcomponent and project year.
 (Thousands of United States dollars)

	2020		2021		2022		2023		2024		2025		Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount
1. Value chain enhancement	1 906	5	9 236	26	13 052	37	8 516	24	2 298	7	208	1	35 216
2. Financial services	113 567	73	26 405	17	16 405	10	-	0	-	0	-	0	156 377
3. Institutional strengthening and project management	1 742	21	1 557	19	1 969	23	1 280	15	948	11	911	11	8 407
Total	117 215	59	37 198	19	31 426	16	9 796	5	3 247	2	1 119	1	200 000

Project financing and cofinancing strategy and plan

26. The project will be financed by an IFAD loan of US\$80.0 million, an IFAD grant of US\$1.0 million, a PKSF contribution of approximately US\$13.0 million, a beneficiary contribution of approximately US\$0.9 million and a combined contribution of US\$96.8 million from POs, the private sector and NBFIs. The Embassy of Denmark in Bangladesh is considering providing 55 million Danish kroner (equivalent to approximately US\$8.3 million at prevailing exchange rates) for the project. This potential funding would be administered by IFAD and utilized to co-fund component 1 (value chain enhancement).

Disbursement

27. RMTP will maintain and operate two designated accounts (DAs) denominated in euros in the Bangladesh Bank to receive the loan and grant proceeds. The DAs will be administered following imprest arrangements, in which an initial loan and grant amount is advanced and then replenished periodically based on justified expenditures. The authorized allocations to the DAs will be defined in the letter to the recipient.
28. Three standard disbursement procedures will be available for RMTP withdrawal of financing:
- (i) Advance withdrawal;
 - (ii) Direct payment; and
 - (iii) Reimbursement
29. Transfers to POs, NBFIs and value chain subprojects will be effected from project accounts in local currency following imprest arrangements under a quarterly replenishment calendar. Details for enabling further transfer of advance resources will be described in the letter to the recipient. Toward project completion, the Fund will begin procedures to ensure the recovery of advances provided.

Summary of benefits and economic analysis

30. The project will generate multiple social, nutritional, financial, economic and institutional benefits. A preliminary financial analysis indicates that all selected value chains are financially viable. Aromatic rice, representing high-value cereals, has a return on investment of 51 per cent; banana, representing fruits, 30 per cent; potato, representing vegetables, 38 per cent; technology-based aquaculture, 67 per cent; dairy, 20 per cent; red meat, 40 per cent; poultry meat, 29 per cent; and poultry eggs, 37 per cent. In addition, RMTP will have significant positive effects on rural household income, food security and nutrition. Other benefits include improved advisory services; better food safety; improved animal health (dairy and beef cattle, poultry and fisheries); improved market access and growth of rural businesses. RMTP will also generate employment opportunities for women and men, particularly youth through involvement in value chain activities and related backward and forward linkages.

31. The economic and financial analysis of RMTP indicates that the project will be profitable, with a financial internal rate of return of 35 per cent. The economic internal rate of return over a 20-year period is 30 per cent, with a benefit-cost ratio of 1.29. The net present value is US\$275 million over a 20-year period.

Exit strategy and sustainability

32. Analysis of the POs' financial statements suggests that the POs are financially sustainable and well positioned to continue offering financial services beyond the project period. The technologies, business services and market linkages offered by the project are expected to continue well beyond the project period due to the incremental benefits they create for project beneficiaries. PKSF has proven capacity to internalize and mainstream innovation.

III. Risks

A. Project risks and mitigation measures

33. The main risks and mitigation measures for RMTP are detailed in table 4.

Table 4

Risk and mitigation measures

<i>Risk type</i>	<i>Main risks</i>	<i>Mitigation measures</i>
Macroeconomic	Market dynamics of value chains may change during implementation	(i) Careful selection of final value chains prior to implementation; (ii) improved technologies to boost productivity; and (iii) scope to align value chain selection with market evolution.
Sector strategies and policies	Some sector policies governing agriculture and financial services need review	Policy dialogue subcomponent will provide an evidence base for policy reform and capacity-building.
Technical aspects of project or programme	Possible low capacity of POs to promote technological innovations	(i) Promotion of public-private partnerships approach; (ii) promotion of private advisory services; (iii) technology extension; (iv) strong management from PKSF; and (v) skills development for POs.

B. Environment and social category

34. The environmental and social category of the project is B. The potential negative impacts are linked to microenterprises and larger agribusinesses, and are small and site-specific. These can be managed, however, using mitigation measures already identified by and accessible to implementers and target groups. Social risks are minimal, with project interventions aimed at the inclusion of women and youth in value chains. An environmental and social management framework (ESMF) has been developed for the project.

C. Climate risk classification

35. The climate risk for this project is classified as moderate, based on the proposed selection of value chains and target areas. Given the large number of studies already carried out in Bangladesh, a basic climate risk analysis has been carried out for the value chains to be supported as part of the ESMF. The ESMF incorporates and refers to an inventory of proven measures for adaptation to climate change and the reduction of greenhouse gas emissions that can be promoted.

D. Debt sustainability

36. Bangladesh's debt-to-GDP ratio of 27 per cent is among the lowest in Asia. The overall growth outlook for the country is positive. The latest World Bank/International Monetary Fund debt sustainability analysis on Bangladesh considers the risk of external debt distress and overall debt distress to be low.

IV. Implementation

A. Organizational framework

Project management and coordination

37. RMTP will be managed by PKSf, an apex development organization with an independent board of directors. PKSf works through 200 licensed microfinance institutions (known as partner organizations or POs) that together have 9,500 branches across the country. Through this network, PKSf is currently providing inclusive finance and other services to 13 million poor households. PKSf has aggregate assets of US\$707 million, including its active loan portfolio, which currently stands at US\$178 million with a recovery rate exceeding 99 per cent. PKSf is supervised by the Financial Institutions Division of the Ministry of Finance.
38. PKSf will establish a project management unit (PMU) within its structure for overall project management purposes. The PMU will be headed by a project coordinator appointed from PKSf's pool of senior officials. PMU staff will consist of three officers seconded from PKSf's core team and 19 recruited from the market. The PMU will work with PKSf's loan operations division to implement the financial services programme through POs, pursuant to established processes and norms. This division will assist with the selection of qualified NBFIs for the financing of larger enterprises and agribusinesses. It will work with POs and selected service providers for implementation of the value chain component.

Financial management, procurement and governance

39. The inherent financial management risk for RMTP is considered moderate due to the diversified set of activities and decentralized activities involving multiple POs and NBFIs. The latter is a new approach for the PKSf business model. The assessment at the design stage considered the overall environment surrounding financial management, the existing pursuit to improve financial management practices and the progress in that direction and the experience gained by PKSf within IFAD's portfolio.
40. PKSf has an effective financial management system that is managed by a strong team of accountants and finance professionals. PKSf consistently applies the International Financial Reporting Standards across all its operations. RMTP's annual accounts will be audited by the private firm that audits PKSf on an annual basis in accordance with International Standards on Auditing and following the IFAD Handbook for Financial Reporting and Auditing of IFAD-financed Projects. Compliance with financial reporting, auditing requirements and auditor performance will be monitored regularly and during supervision missions.
41. Pursuant to the IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations, IFAD applies a zero-tolerance policy when it comes to any fraudulent, corrupt, collusive or coercive actions in the projects it finances. This entails not only pursuing all allegations of fraudulent practices and imposing appropriate sanctions but promoting preventive control measures such as assessments of national and project-specific financial management and auditing and procurement systems during the project design phase.
42. Procurement will follow Government procedures, insofar as they comply with IFAD requirements. In accordance with specifications in the letter to the recipient, IFAD will conduct either a post or a prior review of procurement activities.

B. Planning, monitoring and evaluation, learning, knowledge management and communication

43. The PMU will be responsible for preparing the annual workplan (AWP/B), procurement plan and budget for RMTP and for securing approval from its management and IFAD. The plan will include an activities plan along with targets and an expenditure plan and should reflect overall project targets and activities.

44. An effective monitoring and evaluation (M&E) system will be developed to measure indicators included in the logical framework. It will be part of a larger management information system, which will serve as an information and knowledge-sharing platform. The M&E system will be utilized as a management tool and will include an assessment of progress and compliance, identification of constraints and proposed remedial actions. All data will be disaggregated by gender, age and geographic location.
45. The project's knowledge management activities will support an effective flow of relevant information among project staff, beneficiaries and other stakeholders. A comprehensive knowledge management action plan will be developed in the early stages of implementation. Output, outcome and impact data generated by the M&E system will inform case studies, briefs and reports. These will be used for policy dialogue, peer-learning and potential scaling up. Knowledge management products will be communicated through multiple sources, including blogs, written publications, video and social media.

Innovation and scaling up

46. RMTP will undertake a number of innovative activities. Two of the most notable are: (i) the channelling of funds through NBFIs; and (ii) the introduction of distributed digital ledger technology (blockchain), crowdfunding and e-commerce. PKSF can eventually scale up these innovations. In addition, RMTP's value chain approach allows for scaling up from one geographical area to another, by private sector partners and by subsequent projects.

C. Implementation plans

Implementation readiness and start-up plans

47. IFAD and the Government have identified the key actions to take to ensure implementation readiness. These are reflected in table 5.

Table 5

Implementation readiness

<i>Action</i>	<i>Responsible party/person</i>	<i>Target date/covenants</i>
1. Finalize the project's AWP/B, procurement plan and implementation manual for approval by IFAD.	Project director PMU/RMTP	Prior to first disbursement.
2. Reassignment of PKSF officials and hiring of additional staff for PMU.	PKSF	Reassignment is ongoing. Recruitment of additional staff to be finalized within the first six months.
3. Signing of subsidiary financing agreement between the Ministry of Finance and PKSF.	Ministry of Finance and PKSF	Negotiations are ongoing. To be finalized prior to implementation.
4. Signing of subsidiary financing agreements between PKSF and POs/NBFIs.	PKSF PMU	Within first three months.

Supervision, midterm review and completion plans

48. IFAD will conduct regular supervision pursuant to standard procedures. These missions will review project performance, progress toward achievement of objectives and compliance with fiduciary requirements. On a regular basis and especially during the early stages of implementation, IFAD will support RMTP as needed to address any implementation bottlenecks that arise. RMTP will submit biannual progress reports using a format pre-approved by IFAD.

V. Legal instruments and authority

49. A project financing agreement between the People's Republic of Bangladesh and IFAD will constitute the legal instrument for extending the proposed financing to the borrower. A copy of the negotiated financing agreement is attached in appendix I.
50. The People's Republic of Bangladesh is empowered under its laws to receive financing from IFAD.
51. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VI. Recommendation

52. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

RESOLVED: that the Fund shall provide a loan on 67 per cent highly concessional terms and 33 per cent blend terms to the People's Republic of Bangladesh in an amount of seventy-one million eight hundred and fifty thousand euros (EUR 71,850,000), equivalent to approximately eighty million United States dollars (US\$80,000,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a grant to the People's Republic of Bangladesh in an amount of nine hundred thousand euros (EUR 900,000), equivalent to approximately one million United States dollars (US\$1,000,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Gilbert F. Houngbo
President

Negotiated financing agreement: " Rural Microenterprise Transformation Project "

(Negotiations concluded on 6 August 2019)

FINANCING AGREEMENT

Loan No: _____

Loan No: _____

Grant No: _____

Project name: Rural Microenterprise Transformation Project ("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 Borrower/Recipient has requested a loan and a grant from the Fund for the purpose of financing the Project described in Schedule 1 to this Agreement;

WHEREAS, the Fund has agreed to provide financing for the Project;

WHEREAS, it is expected that the Fund will receive co-funding from the Embassy of Denmark to be applied towards the implementation of the Project;

NOW THEREFORE, the Parties hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2) and the Special Covenants (Schedule 3).

2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, amended as of December 2018, and as may be amended hereafter 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, unless the Parties shall otherwise agree in this Agreement.

3. The Fund shall provide a Loan and a Grant (the "Financing") to the Borrower/Recipient, which the Borrower/Recipient shall use to implement the Project in accordance with the terms and conditions of this Agreement.

Section B

1. The Loan Financing is granted on 67% Highly Concessional Terms and 33% Blend terms.

2. The amount of the Financing eligible for highly concessional terms is forty-eight million, one hundred thousand Euros (EUR 48 100 000).
3. The amount of the Financing eligible for blend terms is twenty-three million seven hundred fifty thousand Euros (EUR 23 750 000).
4. The amount of the Grant is nine hundred thousand Euros (EUR 900 000).
5. The Loan granted on highly concessional terms shall be free of interest but shall bear a fixed service charge as determined by the Fund at the date of approval of the Financing by the Fund's Executive Board. The rate is fixed for the life of the loan based on the related service charge in force at the time of approval of the Loan. The Loan is payable semi-annually in the Loan Service Payment Currency. The Financing shall have a maturity period of forty (40) years, including a grace period of ten (10) years starting from the date of approval of the Financing by the Fund's Executive Board.
6. The principal of the Financing granted on highly concessional terms will be repaid at four and half per cent (4.5%) of the total principal per annum for years eleven (11) to thirty (30), and one per cent (1%) of the total principal per annum for years thirty-first (31) to forty (40).
7. The Loan granted on blend terms shall be subject to interest on the principal amount outstanding and a service charge as determined by the Fund at the date of approval of the Loan by the Fund's Executive Board. The interest rate and service charge determined will be fixed for the life cycle of the loan and payable semi-annually in the Loan Service Payment Currency, and shall have a maturity period of twenty-five (25) years, including a grace period of five (5) years starting from the date of approval of the Loan by the Fund's Executive Board.
8. The Loan Service Payment Currency shall be the Euro (EUR).
9. The first day of the applicable Fiscal Year shall be the 1 July.
10. Payments of principal and service charges shall be payable on each 15 April and 15 October.
11. There shall be two (2) Designated Accounts (collectively referred to as the "Designated Accounts") in EUR to receive the Loan and Grant proceeds respectively for the exclusive use of the Project. The two Designated Accounts shall be opened in the Bangladesh Bank under Special Account in Foreign Exchange (SAFE) arrangements. The Borrower/Recipient shall inform the Fund of the officials authorized to operate the two Designated Accounts.
12. There shall be two Project Accounts (collectively referred to as the "Project Accounts") in local currency for the Loan and Grant proceeds respectively for the exclusive use of the Project. These two Project Accounts shall be opened in a Commercial Bank.
13. The Borrower/Recipient shall cause the Project Implementing Agency for the Loan as defined below in Section C of this Agreement to make available to the Project counterpart funds from its own resources an aggregate amount of approximately USD thirteen million United States dollars equivalent (USD 13 000 000).

Section C

14. For the Loan, the Project Executing Agency shall be the Financial Institutions Division (FID) of the Ministry of Finance of the Borrower/Recipient, and the Project Implementing Agency shall be the Palli Karma-Sahayak Foundation (the "PKSF"). A Subsidiary Loan and Grant Agreement (SLGA), satisfactory to the Fund, between the Ministry of Finance and the Project Implementing Agency shall govern the terms and conditions applicable to the Loan proceeds.

15. For the Grant, the Administrative/Executing Agency shall be the Ministry of Expatriates' Welfare and Overseas Employment (MoEWOE) of the Borrower/Recipient and the Implementing Agency shall be the Bureau of Manpower Employment and Training (BMET).

16. Additional Project Parties shall include, inter alia, institutions referred to in Schedule 1 to this Agreement.

17. A Mid-Term Review will be conducted as specified in Section 8.03 (b) and (c) of the General Conditions; however, the Parties may agree on a different date for the Mid-Term Review of the implementation of the Project.

18. The Project Completion Date shall be the sixth anniversary of the date of entry into force of this Agreement.

Section D

19. The Fund will administer the Financing and supervise the Project. The Borrower/Recipient will also conduct its own administration of the Financing and supervision of the Project.

Section E

20. For the Loan, the following is designated as an additional ground for suspension of this Agreement: The SLGA between the Ministry of Finance and the PKSF and/or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior agreement of the Fund and the Fund, after consultation with the Borrower/Recipient, has determined that it has had, or is likely to have, a material adverse effect on the Project.

21. For the Loan, the following are designated as additional general conditions precedent to withdrawal:

- (a) The Fund's clearance on the SLGA between the Ministry of Finance and the PKSF shall have been provided to the Borrower/Recipient;
- (b) The Project Implementing Agency shall have informed IFAD of the designated Project Coordinator and the official responsible for the financial management of the Project.

22. For the Grant, the following is designated as an additional general condition precedent to withdrawal: The Administrative/Executing Agency shall have informed IFAD of the designated Grant Project Director and the official responsible for the financial management of the Grant.

23. 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 two (2) original copies, one (1) for the Fund and one (1) for the Borrower/Recipient and shall enter into force upon its signature of both Parties.

THE PEOPLE'S REPUBLIC OF

Authorised Representative name
Authorised Representative title

Date: _____

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Gilbert F. Houngbo
President

Date: _____

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. **Target Population.** The Project's direct target groups consist of marginal and small farmers and micro-entrepreneurs. It indirectly supports all value chain actors (input suppliers, traders, processors, advisory services). In terms of poverty, the Project targets the (i) ultra-poor, (ii) transitional poor, and (iii) enterprising poor.
2. **Project Area.** The Project has a national mandate and will invest throughout Bangladesh. Specific focus areas will be selected based on poverty incidence, economic opportunity, implementability, and complementarity with ongoing investments in agricultural value chain development.
3. **Goal.** The goal of the Project is to sustainably increase the incomes, food security and nutrition of marginal and small farmers and micro-entrepreneurs across selected value chains.
4. **Objectives.** The development objective of the Project is the sustainable growth of selected rural commodity value chains with comparative advantage, market demand, growth potential, and backward linkages to small farmers and micro-entrepreneurs, with special focus on business clusters of micro-enterprises.

5. **Components.** The Project shall consist of the three following Components:

Component 1: Value Chain Enhancement. This component will enable rural producers and micro-enterprises to sustainably expand their activities through adoption of efficient production methods, compliance with internationally recognised food safety and traceability standards, and strong market linkages. It will contribute to creating an enabling environment that promotes the growth of micro and small enterprises, and strengthens their linkages with agribusinesses and other value chain actors. It has five sub-components: (i) organisation/Samity of producers; (ii) provision of technical and business services (including GGAP compliance) to producers through private advisory services; (iii) integration of actors across selected value chains; (iv) strengthening of downstream agribusinesses (including GGAP and HACCP compliance as required); and (v) policy dialogue with Government.

Component 2: Financial Services. This component will:

- (a) provide sustainable financial services to micro-enterprises and to growing/larger enterprises and agribusinesses allowing for the sustainable growth of their practices. It has the following sub-components: (i) provision of financial services to marginal and small farmers and micro-enterprises, preferably in business clusters, through partner organisations (microfinance institutions); (ii) provision of commercial finance to larger micro-enterprises as well as small/medium agribusiness companies through non-banking financial institutions (NBFIs);
- (b) provide training and capacity building for the optimal utilisation of remittances through support to the family members of overseas workers, which will be implemented by the Grant Administrative/Executing Agency.

Component 3: Institutional Strengthening and Project Management. This component aims to strengthen PKSF and Partner Organizations (POs) of PKSF capability as development organisations by leveraging trends in Information Communication Technology (ICT), financial services, commercial platforms and new technologies, and to ensure that the Project is managed satisfactorily. It has three sub-components: (i) PKSF capacity building; (ii) POs capacity building; and (iii) Project management.

II. Implementation Arrangements

6. Project Implementing Agency for the Loan. The PKSf, in its capacity as Project Implementing Agency, shall have the overall responsibility of the Project Implementation.

7. A Steering Committee with relevant stakeholders will be formed by FID to monitor the overall progress of the Project and to provide policy guidelines to the PMU.

8. Subsidiary Loan and Grant Agreement (the "SLGA"). The PKSf shall enter into a SLGA with the Ministry of Finance, acceptable to the Fund, to receive the Loan financing in the form of a loan and grant for the implementation of the Project. The Borrower/Recipient shall not take or permit any action which would interfere with the performance of PKSf's obligations under the SLGA. No rights or obligations under the SLGA shall be assigned, amended, abrogated or waived without the prior concurrence of IFAD.

PKSf shall on-lend the Loan proceeds for the purposes of the Project to the Partner Organization of PKSf (POs) and Non-Bank Financial Institution (NBFIs), each under a PO and NBFi Financing Agreement respectively, and cause POs and NBFIs to apply such funds to the financing of expenditures for the Project in accordance with this Financing Agreement.

9. The Borrower/Recipient shall furnish, or cause to be furnished, to IFAD all such reports and information as IFAD shall reasonably request concerning (i) sub-loans to micro-enterprises through POs; (ii) sub-loans to larger enterprises and agribusinesses through NBFIs; and (iii) the administration, operations and financial conditions to PKSf, POs and NBFIs.

10. Administrative/Executing Agency for the Grant. The MoEWOE of the Borrower/Recipient shall have the overall responsibility for the implementation of the Grant.

11. Project Management Unit (PMU) for the Loan. PKSf will establish a PMU, integrated within its structure, for overall Project management purposes. The PMU will be headed by a Project Coordinator and will be supported by officers seconded from PKSf's core team and as well as recruited from the market. The PMU will work with PKSf's Microenterprise Department of Loan Programme Division to implement the financial services programme through POs as per established processes and norms. This Department will assist with the selection of qualified NBFIs for financing larger enterprises and agribusinesses and will work with POs and selected service providers for the implementation of the value chain component. The PMU will implement the value chain component following established practices under the IFAD-funded PACE project.

12. Project Management Unit (PMU) for the Grant. BMET will establish an appropriate PMU for the Grant.

13. Implementing Partners. The Project's implementing partners are PKSf, BMET, licensed POs and NBFIs. Other partners may be agreed upon between the Fund and the Borrower/Recipient as required during implementation. A special caution will be taken for the selection of NBFIs and their re-lending activities.

14. Project Implementation Manual. The Project Implementing Agency for the Loan shall finalise the draft PIM and submit it to the Fund for concurrence. Should IFAD not provide any comment on the draft PIM within thirty (30) days after receipt, it shall be deemed to have no objection. The Project Implementing Agency shall adopt the PIM, substantially in the form approved by the Fund.

15. Key Project Personnel. Professional staff for the PMU shall be contracted under procedures acceptable to the Fund and professional staff will have qualifications and experience commensurate with their duties. The PMU will include the following key staff: (i) project Coordinator, (ii) financial management specialist, (iii) procurement specialist.

The recruitment and removal of key staff shall be subject to the concurrence between the Fund and the Implementing Agency.

Schedule 2

Allocation Table

1. Allocation of the Loan and Grant Proceeds. (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan and Grant and the allocation of the amounts of the Loan and Grant to each Category and the percentages of expenditures for items to be financed thereby in each Category:

Category	67% of the Loan granted on Highly Concessional (HC) terms EUR	33% of the Loan granted on Blend terms (BT) EUR	Grant EUR	Percentage of Eligible Expenditures to be financed (net of taxes and co-financiers)
I. Credit	35 000 000	17 200 000		67% HC and 33% BT
II. Grants & subsidies	6 500 000	3 200 000	900 000	Loan: 67% HC and 33% BT Grant 100%
III. Equipment & Materials	100 000	50 000		67% HC and 33% BT
IV. Consultancies & Workshops	1 600 000	800 000		67% HC and 33% BT
V. Training	2 400 000	1 200 000		67% HC and 33% BT
VI. Operating costs	2 500 000	1 300 000		67% HC and 33% BT
TOTAL	48 100 000	23 750 000	900 000	

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

"Credit" under category I, shall mean eligible expenditures for two sub-components of Component 2 Financial Services: (i) Provision of financial services to micro-enterprises through partner organizations (microfinance institutions); (ii) Provision of commercial finance to larger micro-enterprises as well as small/medium agribusiness companies, through non-banking financial institutions (NBFIs);

"Grants & Subsidies" under category II of the Loan, shall mean eligible expenditures of activities under Component 1 of the project;

"Grants & Subsidies" under category II of the Grant, shall mean eligible expenditures from the Ministry of Expatriates' Welfare and Overseas Employment (MoEWOE) for training and capacity building for the utilisation of remittances;

"Equipment & Materials" under category III, shall mean eligible expenditures also for vehicles;

"Consultancies & Workshop" under category IV, shall include eligible expenditures for Technical Assistance activities;

"Operating costs" under Category VI, shall include eligible expenditures for salaries and allowances and general operating costs;

Project-related meeting expenses and Project-related travel expenses will follow PKSf existing policy. Honorarium, allowances and/or sitting allowances are not recognized by the Fund as eligible expenditures.

Schedule 3

Special Covenants

In accordance with Section 12.01(a)(xxiii) of the General Conditions, the Fund may suspend, in whole or in part, the right of the Borrower/Recipient to request withdrawals from the Loan/Grant Account if the Borrower/Recipient has defaulted in the performance of any covenant set forth below, and the Fund has determined that such default has had, or is likely to have, a material adverse effect on the Project.

1. Compliance with the Environmental and Climate Assessment Procedures. The Borrower/Recipient shall ensure that the Project will be implemented in compliance with national laws and regulations regarding environmental and climate-related safeguards. All sub-loans to microenterprises, larger enterprises and agribusinesses shall be screened for environmental and climate-related impacts according to PKSF's standard operating procedures.

2. Anticorruption Measures. The Borrower/Recipient shall comply with IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations.

The Borrower/Recipient and the Project Parties shall ensure that the Project is carried out in accordance with the provisions of the IFAD Policy on Preventing and Responding to Sexual Harassment, Sexual Exploitation and Abuse, as may be amended from time to time. The Fund may take appropriate measures in line with such Policy.

Logical framework

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Name	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility	
Project Goal To increase the income, food security and nutrition of farmers across selected value chains.	70% of project-supported households increase income by >30%.				Surveys of households and microenterprises.	At baseline, mid-term and completion.	PMU	-Economy maintains or increases growth rates -Terms of trade for rural communities will not deteriorate -Price inflation for staple food remains below 10% -Rural and peri-urban infrastructure available
	Households. - (%)		20	70				
Beneficiaries reporting improved food quality in their diet.				Surveys of households and microenterprises (profitability analysis)	At baseline, mid-term and completion.	PMU		
People. -(%)		15	30					
Development Objective The sustainable growth of selected rural commodity value chains with comparative advantages, market demand, growth potential, and backward linkages to small farmers and microentrepreneurs.	Households reporting an increase in production				Impact surveys of households and microenterprises (profitability analysis)	At baseline, mid- term and completion	PMU	-Government maintains favourable policies for small businesses -Government continues to support microfinance programs and NGO activities -Absence of political unrest that could adversely affect business and economic growth
	Households		75000	150000				
	% increase in sales of microenterprises in the value chains				Quantitative assessment of production, sales and profitability of microenterprises.	Year to year	PMU	
	% increase in sales		15	30				
% increase in profit of microenterprises in the value chains				Quantitative assessment of production, sales, and profitability of microenterprises.	Year to year	PMU		
% increase in profit		10	20					
Outcome 1. Beneficiaries adopt improved production methods and establish sustainable market linkages.	Households reporting adoption of new/improved inputs, technologies or practices				Impact surveys of households and microenterprises (profitability analysis)	At baseline, mid- term and completion	PMU	-PKSF and POs successfully establish collaborative business arrangements between enterprises and mainstream businesses -Private businesses are interested in sourcing products from microenterprises and willing to engage in partnerships in the selected value chains -POs establish separate non-financial services units and increase capacity to manage value chain projects -PKSF and POs successfully identify technologies and products for small producers within value chain subprojects and outside
	Households		200000	400000				
Rural producers' organizations engaged in formal partnerships/agreements or contracts with public or private entities				Impact surveys of households and microenterprises (profitability analysis)	At baseline, mid- term and completion	PMU		
Number of POs		500	1500					
Output 1.1. Organization.	Supported rural producers that are members of a rural producers' organization				Implementing partners' records and project records.	Quarterly	PMU	-Beneficiaries are willing to participate in producers' groups.
	Males		111250	222500				
	Females		111250	222500				
	Households provided with targeted support to improve their nutrition				Implementing partners' records and project records.	Quarterly	PMU	
Households		222500	445000					
Output 1.2. Technical and	Training days provided to farmers on GLOBAL GAP and HACCP.				Implementing partners' records and project	Quarterly	PMU	-Targeted beneficiaries are motivated to provide extension services.

business services.	Days				records			
	Persons trained in income-generating activities or business management					Quarterly	PMU	
	Males		2000	5500	Implementing partners' records and project records			
	Females		100	500				
Youth		1875	3750					
Output 1.3 Value chain integration.	Persons trained in production practices and/or technologies				Implementing partners' records and project records	Quarterly	PMU	-PKSF enhances overall capacity to manage value chain projects and supervise POs in these areas
	Total persons trained in crop production		80000	160000				
	Total persons trained in livestock production		40000	80000				
	Total persons trained in fisheries production		6000	12000				
Output 1.4 Enterprise strengthening.	Rural enterprises accessing business development services				Implementing partners' records and project records	Quarterly	PMU	-PKSF and POs have disposition over adequate human resources to implement these activities.
	Rural enterprises		300	550				
Output 1.5 Policy dialogue.	Policy-relevant knowledge products completed				Implementing partners' records and project records	Mid-term and completion	PMU	-Identified topics remain relevant throughout the project period.
	Number		1	2				
Outcome 2. Enterprises have access to sustainable financial services.	Households reporting use of rural financial services				Impact surveys of households and microenterprises (profitability analysis)	At baseline, mid- term and completion	PMU	-POs/NBFIs remain institutionally and financially viable and offer competitive loan products -No regulatory constraints or policies are developed that adversely affect financial service delivery
	Households		50000	100000				
Output 2.1. Sustainable financial services offered through partner organizations.	Persons in rural areas accessing financial services				Implementing partners' records and project records	Quarterly	PMU	-POs are financially sustainable and able to reach out to the targeted beneficiaries. -POs have human resources to reach out to targeted beneficiaries.
	Men		15000	25000				
	Women		35000	75000				
	Total persons		100000	100000				
Output 2.2. Commercial finance.	Enterprises supported by non-bank financial institutions				Implementing partners' records and project records	Quarterly	PMU	-Presence of non-bank financial institutions in project area. -Non-bank financial institutions have the human resources to monitor the outstanding loan amount.- Beneficiaries remain interested in borrowing from non-bank financial institutions.
	Enterprises		300	550				
Output 2.3 Utilisation of remittances.	Number families of overseas workers trained in capacity building.				Implementing partners' records and project records.	Quarterly	PMU - MoEWOE	-No changes in the policy environment for remittances. -No external events affecting the number of overseas workers.
	Households		2000	4500				
Output 3.3 Partner organizations' institutional strengthening.	Financial service providers supported in delivering outreach strategies, financial products and services to rural areas				Implementing partners' records and project records	Mid-term and completion	PMU	-POs are interested in receiving support in the proposed topics.
	Service providers		15	25				