

Document: EB 2020/LOT/P.12  
Date: 7 December 2020  
Distribution: Public  
Original: English

**E**



## **President's memorandum**

### **Proposed additional financing to**

### **People's Republic of Bangladesh for the**

### **Promoting Agricultural Commercialization and Enterprises Project**

Project ID: 1100001648

#### **Note to Executive Board representatives**

##### Focal points:

##### Technical questions:

**Nigel Brett**  
Asia and the Pacific Division  
Regional Director  
Tel.: +39 06 5459 2516  
e-mail: n.brett@ifad.org

**Rasha Omar**  
Country Director  
Tel.: +91 (981) 1990167  
e-mail: r.omar@ifad.org

##### Dispatch of documentation:

**Deirdre Mc Grenra**  
Chief  
Institutional Governance and  
Member Relations  
Tel.: +39 06 5459 2374  
e-mail: gb@ifad.org

---

For: **Approval**

# Contents

<b>Abbreviations and acronyms</b>	<b>ii</b>
<b>Financing summary</b>	<b>iii</b>
<b>Recommendation for approval</b>	<b>1</b>
<b>I. Background and project description</b>	<b>1</b>
A. Background	1
B. Original project description	1
<b>II. Rationale for additional financing</b>	<b>2</b>
A. Rationale	2
B. Description of geographical area and target groups	3
C. Components, outcomes and activities	3
D. Costs, benefits and financing	5
<b>III. Risk management</b>	<b>7</b>
A. Risks and mitigation measures	7
B. Environment and social category	7
C. Climate risk classification	8
<b>IV. Implementation</b>	<b>8</b>
A. Compliance with IFAD policies	8
B. Organizational framework	8
C. Monitoring and evaluation, learning, knowledge management and strategic communication	8
D. Proposed amendments to the financing agreement	8
<b>V. Legal instruments and authority</b>	<b>10</b>
<b>VI. Recommendation</b>	<b>10</b>

## Appendices

- I. Updated logical framework incorporating the additional financing

---

### Project delivery team

---

Regional Director:	Nigel Brett
Country Director:	Rasha Omar
Country Programme Officer:	Sherina Tabassum
Technical Lead:	Marie-Aude Even
Finance Officer:	Arip Syaman Sholeh
Climate and Environment Specialist:	Kisa Mfalila
Legal Officer:	Itziar Miren Garcia Villanueva

---

## **Abbreviations and acronyms**

FID	Financial Institutions Division of the Ministry of Finance
ME	microenterprise
MIS	management information system
PACE	promoting agricultural commercialization and enterprises
PKSF	Palli Karma-Sahayak Foundation
PMU	project management unit
PO	partner organization
VC	value chain
VCD	value chain development

## Financing summary

<b>Initiating institution:</b>	International Fund for Agricultural Development
<b>Borrower/recipient:</b>	The People's Republic of Bangladesh
<b>Executing agency:</b>	Palli Karma-Sahayak Foundation
<b>Total project cost:</b>	US\$129.81 million (revised total cost including original US\$92.87 million project cost)
<b>Amount of original IFAD loan:</b>	SDR 26.35 million (equivalent to approximately US\$40 million)
<b>Terms of original IFAD financing:</b>	Highly concessional
<b>Amount of additional IFAD financing:</b>	US\$18.07 million
<b>Terms of additional IFAD financing:</b>	50 per cent highly concessional, and 50 per cent blend
<b>Cofinanciers to the additional IFAD financing:</b>	Palli Karma-Sahayak Foundation and Partner Microfinance Organizations
<b>Contribution of borrower/recipient:</b>	US\$26.32 million (revised total contribution)
<b>Contribution of partner microfinance institutions:</b>	US\$45.04 million (revised total contribution)

## Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed additional financing contained in paragraph 59.

### I. Background and project description

#### A. Background

1. The Promoting Agricultural Commercialization and Enterprises (PACE) Project (EB 2014/112/R.10/Rev.1) was approved on 17 September 2014, and the financing agreement was signed on 11 December 2014. The current completion date is 31 December 2020. The total cost of the original project is US\$92.87 million, with an IFAD loan of SDR 26.35 million; contributions of US\$22.45 million and US\$30.04 million from the Palli Karma-Sahayak Foundation (PKSF) and partner organizations<sup>1</sup> (POs) respectively; and a grant of US\$0.38 million from the Republic of Korea. The project has achieved almost 100 per cent disbursement to date, including 93.4 per cent of IFAD's loan and 100 per cent of the Korean grant.
2. An additional financing (AF) of US\$18.07 million is being requested from the IFAD11 Performance-based Allocation System to: (i) rebuild microenterprises (MEs) and support smallholders who were adversely affected by the COVID-19 pandemic; and (ii) further strengthen value chain development activities. The AF will complement national efforts to assist MEs and smallholders by rehabilitating a severely affected rural economy. It will support existing and new beneficiaries for two more years to ensure recovery from the pandemic and the sustainability of enterprises. The proposed new project completion date is 31 December 2022.
3. Although the initial request from the Government of the People's Republic of Bangladesh was for a one-year extension, the AF mission, after deliberations with all stakeholders – including PKSF and the Financial Institutions Division of the Ministry of Finance (FID) and Economic Relations Division of the Ministry of Finance – recommended a two-year implementation period for the AF. This was accepted by the Government.

#### B. Original project description

4. The original project goal is to sustainably enhance the livelihoods (including higher incomes from self- and wage employment, business profits and food security) of moderately and extremely poor populations. PACE's development objective is increasing sales and incomes of new and existing MEs; and creating new wage employment opportunities for extremely and moderately poor people. PKSF implements PACE nationwide through a network of POs. PACE has three components:

**Component 1** – Financial services for MEs. The POs have so far provided loans to 353,148 MEs through revolving lines of credit. They exceeded their target of 102,000 MEs and successfully developed two additional financial products – start-up loans and lease finance.

**Component 2** – Value chain development (VCD). This component directly supported 288,454 microentrepreneurs (96 per cent of project target) in farm and non-farm sectors. It helped enterprises benefit from new and improved technologies, enhanced management and production techniques, training, and easier access to national and international markets.

<sup>1</sup> Partner organizations are microfinance institutions that receive financing from PKSF.

**Component 3** – Technology and product adaptation. The project successfully promoted 15 production technologies and seven new products that benefited 20,313 farmers/microentrepreneurs.

## **II. Rationale for additional financing**

### **A. Rationale**

5. In March 2020, due to COVID-19 the Government announced a nationwide general holidays, closing public institutions, most businesses and markets. The closure had severe consequences, including a dramatic economic slowdown and the widespread loss of jobs. In rural areas, the consequent breakdown of transport and logistics networks impacted the livelihoods of project beneficiaries, namely poor farmers and microentrepreneurs. Producers, especially of poultry, livestock, dairy, fisheries, and horticulture, were the worst affected. Supply from producers to consumers was disrupted; prices of produce dropped drastically; and profitable agribusinesses such as horticulture faced serious challenges with their perishable products. The poor immediately lost much of their income. Poverty increased dramatically as millions of poor people, especially daily wage earners, became unemployed. Additional resources are thus required in January 2021, when the pandemic is expected to be under control and the economy should rebound. It will be imperative then to promptly build back better businesses and agricultural activities.
6. In the microcredit sector, the Government placed a six-month moratorium on the collection of instalments for the whole microfinance sector, which serves 30 million poor families. By extension, this affected PKSf's POs as well. The result was that access to finance for smallholders and microentrepreneurs dramatically decreased since the POs lacked the cash to provide new loans. By August 2020, however, the situation had improved and the POs restarted loan disbursement. But the liquidity crisis continues as borrowers ask for more and larger loans.
7. The original project helped introduce immediate remedial measures for affected beneficiaries from the onset of the pandemic. During the general holidays (March-May 2020), with support from the IFAD Country Office, PKSf advocacy resulted in the Prime Minister's Office issuing a directive allowing the POs to assist producers and traders in transporting farm produce to rural, peri-urban and urban centres. However, as the project is now nearly fully disbursed, its capacity to support the MEs and smallholders who suffered significant damages is limited. Their recovery requires ongoing and sustained assistance for the next two years. Consultations with smallholders, POs and other stakeholders suggest that this could include: access to finance and long-term resilience; promoting local businesses and markets; setting up storage facilities; developing products with longer shelf life; encouraging local processing; and enhancing transport and marketing systems. Furthermore, stronger health and food safety measures are key in minimizing contamination across value chains and meeting increased demand for safe food during COVID-19. Accordingly, the main activities recommended by the POs and beneficiaries for the AF concern: access to finance, markets, technology and technical assistance; processing and value addition; and dissemination of knowledge about the pandemic and other long-term risks. PACE, with its established network of POs, has a fundamental role to play here.
8. Additionally, the AF will complement the Government's stimulus package of US\$366 million for microcredit and US\$244 million to expand low-interest credit for poor farmers, repatriated overseas workers, and skilled unemployed youth to start new businesses. PKSf will directly receive US\$60 million from the Government's second financing package.

## B. Description of geographical area and target groups

9. **Geographical area.** The following table presents the COVID-19-affected project locations for the AF period.

Division	Project districts <sup>2</sup>
Barishal	Barishal, Bhola, Barguna, and Patuakhali
Chattogram	Noakhali, Cox's bazar, Cumilla, Khagrachari, Brahmanbaria and Chattogram
Dhaka	Mymensing, Narayanganj, Faridpur, Manikganj, Shariatpur, Gazipur, Tangail, Kishoreganj, and Dhaka
Khulna	Meherpur, Bagerhat, Magura, Jashore, Khulna, Satkhira, Chuadanga and Jhenaidah
Rajshahi	Rajshahi, Joypurhat, Naogaon, Natore, Pabna, Bogura, Chapai Nawabganj and Sirajganj
Rangpur	Thakurgaon and Dinajpur
Sylhet	Moulvibazar Sunamganj and Sylhet

10. **Target groups and targeting strategy.** COVID-19 has affected every VCD beneficiary and microfinance borrower, notably the very poor and women, including original PACE beneficiaries. The AF will adopt the same successful targeting strategy as the original project. It will therefore target beneficiaries by poverty group, occupation, gender and project component. Component 1 will mainly focus on moderately poor people who risk slipping back into extreme poverty. Component 2 will target input sellers, producers, traders, processors, local service providers and individual microentrepreneurs from outside the farm sector.
11. During the AF period, the project will reach an additional 168,000 beneficiaries, including 48,000 ME (microenterprise) loan clients and 120,000 VCD beneficiaries.
12. **Gender.** About 78 per cent of ME loan clients are women (component 1). An estimated 50 per cent of PACE VCD beneficiaries are women too (component 2). The ratio of women beneficiaries will remain same as in the original project.

## C. Components, outcomes and activities

13. Three original project components/outcomes will remain the same for the extended period. Additional finance will be allocated to components 1, 2 and for project management. The project implementation method, as outlined in the project implementation manual, will remain unchanged. Given its focus on COVID-19 recovery, the project will build awareness regarding the 14 protection protocols developed by PKSf. These are in line with national health protocols and guidance from the World Health Organization. The protocols address logistics and market facilities and are tailored to the main types of enterprise and value chains promoted by PKSf. Model MEs will be developed to demonstrate precautionary measures. The project will arrange training for PO staff and MEs on Global Good Agricultural Practices (GGAP) to establish these in value chains, further enhancing food safety and consumer trust. VCD activities will focus on mitigating the long-term fallout of COVID-19 and similar emergencies.

### Component 1. Financial services for microenterprises

14. There will be two activities under component 1 for which US\$30.30 million is budgeted, including US\$12 million from IFAD AF.
15. **Subcomponent 1.1.** Expansion of the ongoing loan programme for MEs in all sectors. US\$10 million from the AF will be added to expand loans to MEs. Access to finance has been identified as the most critical element in restoring farm and non-farm businesses and facilitating adoption of proposed COVID-19-related

<sup>2</sup> Projects districts may be added/ revised considering the impact of the pandemic, and the scalability and viability of various initiatives.

measures. An estimated 48,000 borrowers will receive ME loans of US\$1,220 each in two cycles.

16. **Subcomponent 1.2.** Piloting of new loan products. PACE successfully piloted start-up loans and lease financing. An additional US\$2.0 million from AF will be allocated to expand these products, especially lease financing. This will be used to strengthen mechanization and access to post-harvest and marketing equipment.

### **Component 2. Value chain development**

17. As the Government has relaxed restrictions on transporting goods, there is now an opportunity to develop production and marketing systems to prevent or reduce future losses, and prepare microentrepreneurs and smallholders for future shocks. The AF will diversify the product basket, especially with products that have a longer shelf life; add value through processing; introduce mechanization and improved production and management systems; develop local markets for inputs and final products; and enhance support services.
18. **Subcomponent 2.1.** Including MEs and agribusinesses sustainably in agricultural value chains in various parts of the country. The project will invest in three broad sectors: horticulture; fisheries and aquaculture; and poultry and livestock, including processed products. The POs will implement value chain subprojects that promote production technology and mechanization, introduce new products and processes, establish linkages with local and international markets, support local processing, strengthen local support services and enhance human capacity.
19. **Subcomponent 2.2.** Including MEs sustainably in value chains for non-farm manufacturing, processing and products or groups of products. The non-farm subsectors affected by COVID-19 such as children's garments, shoes and leather goods, eco-tourism, non-gold jewelry, etc. will be covered. The focus in the non-farm sector is to introduce new product design, upgrade production technologies, support high value products for local and international markets invest in human capacity-building, promote subcontracting and support service sectors.
20. **Subcomponent 2.3.** Building physical market improvements and awareness. This is an additional subcomponent in PACE's structure. Traditional wet rural markets and wholesale markets are hotspots for COVID-19 transmission. In line with PKSF COVID-19 protection protocols, the AF will develop open-roof wholesale markets to ensure enough air and light, paved spaces, internal roads and drainage system are available. Also to be provided are good access to water and sanitation, parking spaces, offices for market committees, spaces for ATM machines, and proper management systems. The physical structures will be built on public land.
21. **Subcomponent 2.4.** Multi-purpose digital platform for marketing of goods and services. E-commerce has become more prominent during the pandemic lockdown. However, Bangladeshi microentrepreneurs are individually too small to sell to e-commerce sites. Producers lack the management capacity to aggregate products, identify markets, organize logistics, and deliver their products to consumers. In this context, the AF will support PKSF in working with existing e-commerce businesses to facilitate the development of an ME-friendly platform covering the whole supply chain. The platform will eventually be interactive and offer advisory services to farmers, including pandemic management.
22. **Subcomponent 2.5.** Decent Work Initiative – promoting a good working environment. In line with national efforts to improve the working environment, PKSF will continue to promote safe workplaces and the empowerment of women in all PACE activities. The project will procure necessary consulting/advisory services to help establish a decent working environment in the microenterprise sector.



## D. Costs, benefits and financing

### Project costs

23. **Additional project cost.** The total AF will be about US\$36.94 million, implemented over two years and divided into three components with implementation costs as follows: component 1: US\$30.30 million; component 2: US\$5.42 million; and project management: US\$1.22 million. The ongoing project will continue with available funds and any residual amount will be used during the extended period. Table 1 presents a summary of original finance and AF for the PACE project. Table 2 shows PACE-AF by component and financier. Table 3 and table 4 show PACE-AF by expenditure category and by component and project year respectively.

Table 1

#### Original and AF summary

(Thousands of United States dollars)

<i>Financier</i>	<i>Original financing</i>	<i>Additional financing</i>	<i>Total</i>
IFAD	40 002	18 073	58 075
PKSF	22 266	3 867	26 133
POs	30 038	15 000	45 038
Korean fund	380	-	380
PKSF_taxes	182	-	182
<b>Total</b>	<b>92 867</b>	<b>36 940</b>	<b>129 807</b>

Table 2

#### Additional financing: project costs by component (and subcomponent) and financier

(Thousands of United States dollars)

<i>Component</i>	<i>Additional IFAD loan</i>		<i>Additional cofinancing</i>				<i>Total</i>	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
1. Financial services for MEs	12 000	39.6	3 298	11	15 000	49.5	30 298	82.0
2. Value chain development	5 425	100	-	-	-	-	5 425	14.7
3. Project management	647	53.2	570	47	-	-	1 217	3.3
<b>Total</b>	<b>18 073</b>	<b>48.9</b>	<b>3 867</b>	<b>11</b>	<b>15 000</b>	<b>40.6</b>	<b>36 940</b>	<b>100.0</b>

Table 3

#### Additional financing: project costs by expenditure category and financier

(Thousands of United States dollars)

<i>Expenditure category</i>	<i>Additional IFAD loan</i>		<i>Additional cofinancing</i>				<i>Total</i>	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
<b>I. Investment costs</b>								
A. Training	3 844	100	-	-	-	-	3 844	10.4
B. Credit funds	12 000	40	3 298	11	15 000	50	30 298	82.0
C. Operating costs	61	51	58	49	-	-	119	0.3
D. Consultancies and technical assistance	1 167	100	-	-	-	-	1 167	3.2
E. Works	414	100	-	-	-	-	414	1.1
F. Salaries and allowances	587	53	512	47	-	-	1 098	3.0
<b>Total</b>	<b>18 073</b>	<b>48.9</b>	<b>3 867</b>	<b>11</b>	<b>15 000</b>	<b>40.6</b>	<b>36 940</b>	<b>100.0</b>

Table 4

**Project costs by component and project year (PY)**

(Thousands of United States dollars)

<i>Component</i>	<i>PY1</i>		<i>PY2</i>		<i>Total</i>	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
1. Financial services for MEs	16 149	81.3	14 149	82.8	30 298	82.0
2. Value chain development	3 103	15.6	2 323	13.6	5 425	14.7
3. Project management	600	3.0	618	3.6	1 217	3.3
<b>Total</b>	<b>19 851</b>	<b>100.0</b>	<b>17 089</b>	<b>100.0</b>	<b>36 940</b>	<b>100.0</b>

**Financing and cofinancing strategy and plan**

24. IFAD additional financing of US\$18.07 million will be matched by an additional US\$3.867 million from PKSf and US\$15.0 million from POs to finance MEs (see table 2). PKSf will also contribute to the costs of project management by covering the salaries of its own staff (from its Loan Operations Division) managing microenterprise and other loan programmes. IFAD's contribution is net of taxes/duties. PKSf's contribution will cover them.
25. **IFAD lending terms and conditions.** The Loan Financing is granted on 50 per cent highly concessional terms and 50 per cent blend terms.
26. **Retroactive financing.** The amended financing agreement will include a clause on retro-finance to meet any gap between the funding of ongoing PACE project and the effectiveness of additional financing. The amount of such finance will be a maximum of three months' salary and overhead expenses of the project management unit from January to March 2021.
27. Any residual funds/funds allocated for incomplete activities (impact studies and VCD activities) from the ongoing PACE project will be used in the additional financing period. In addition, any savings or unutilized funds and any incomplete activities from the new subcomponents 2.5, 2.6 and 2.7 may rebudgeted internally or transferred to VCD subcomponents 2.1 and 2.2.

**Disbursement**

28. PACE-AF will operate one designated account (DA) in United States dollars in the Bangladesh Bank – the central bank – to receive the loan proceeds. The DA will be administered following imprest arrangements, in which an initial amount of the loan is advanced and then replenished periodically based on justified expenditures. The maximum advance provided by IFAD to the DA will be established as an Authorized Allocation in the Letter to the Borrower (LTB).
29. Transfers to POs and value chain (VC) enhancement projects will be sent from the Project Account in local currency according to imprest arrangements under a quarterly replenishment calendar. Specific details for enabling further transfers of advance resources will be described in the Financial Management Manual.

**Exit strategy and sustainability**

30. **Sustainability.** The sustainability of benefits to microentrepreneurs and the rural poor depends on assured access to finance and non-finance services such as the e-commerce platform to be designed. It was found during supervision of PACE that the business practices and technologies supported by the project are sustainable and that PKSf and POs developed sustainable businesses and services around specific value chains built on profit-motivated relationships. The sustainability of PKSf and POs is of paramount importance to achieve sustained impact on poverty and resilience.
31. As an apex financing organization, PKSf has been a financially viable organization since its establishment in 1990. It generates a profit/surplus from its core business of wholesale lending to microfinance institutions every year. PKSf has strong

management capacity to implement large-scale microfinance programmes through its network of POs. It has an independent governance structure, stable policies and systems, expert human resources, and a proven record of accomplishment in the provision of financial services.

32. All POs are individually financially viable and independently governed, with a long track record of successfully managing microfinance programmes. POs manage their programme by mobilizing savings from their clients, PKSf and commercial banks. The ME loan from PKSf is revolved by POs with additional resources from their own sources. PKSf's microfinance programme in collaboration with POs is long-established and is therefore expected to remain sustainable.

### **III. Risk management**

#### **A. Risks and mitigation measures**

33. Overall political and governance risks are low. There is strong commitment from the Government of Bangladesh for the additional financing as it will help develop good practices in building the resilience to shocks of microentrepreneurs and the rural poor. The executing agency, PKSf, is an autonomous institution managed by an apolitical and professional staff. It has a three-tier governance system: a General Body (currently 15 members); a Governing Body (seven members) chaired by a Chairperson; and Management headed by the Managing Director (CEO). The Chairperson is appointed by the Government, while the Managing Director is recruited by the Governing Body through a competitive process.
34. Macroeconomic risk is moderate. While Bangladesh has been severely impacted by the COVID-19 pandemic, until this crisis the economy had been growing at close to 7 per cent a year over the past decade. The International Monetary Fund now projects 2 per cent growth for 2020 – a drop of 6 percentage points from 2019 – but a rebound of the economy to around 6 per cent growth in 2021. Debt is projected to remain sustainable. The AF will support enterprises in improving productivity, quality and product pricing, which would raise demand. The projected rebound would help microentrepreneurs recover faster.
35. Institutional and project management risk is low. PKSf has successfully implemented five projects with IFAD financing to date, and all are assessed as satisfactory for overall project performance and poverty impact. With its strong management and technical capacity, PKSf has also built strong capacity in its POs. The original project is highly successful, with a rating of 5 for overall implementation performance. Similar results are expected during the AF phase given that the original design and project management structure have been retained.
36. Liquidity risk in the microfinance sector is moderate. PKSf receives a low-interest loan and grant from the Ministry of Finance. The POs borrow this money from PKSf at a higher rate and lend it to the beneficiaries. Additionally, PKSf will receive for onlending US\$60 million from a government stimulus package for the microcredit sector.
37. The project's social risk is low. It is creating positive social change by reducing poverty and building resilience to shocks through its inclusive targeting approach, with emphasis on smallholders and the poor, and relevant technical and market solutions for recovery from COVID-19.

#### **B. Environment and social category**

38. As the original PACE project was approved prior to implementation of IFAD's Social, Environmental and Climate Assessment Procedures (SECAP), a comprehensive SECAP review was undertaken for the project. The project is thus classified as in environment and social category B. Potential environment and social risks and impacts associated with MEs operating in the agro-processing, jewelry and shoe

industries, and in on-farm activities such as poultry, fisheries, horticulture and livestock, will be site-specific and mitigated with known measures. Specific areas of attention under the AF relate to COVID-19 protocols associated with: hygiene; workplace safety and the use of personal protective equipment; the construction of physical markets observing environmental regulations; adherence to GGAP standards for farming enterprises; and adequate waste management and working conditions for shoe and leather goods production, as well as artificial jewelry. PKSf has strong and growing expertise in implementing safeguards across its projects and this is reflected in the COVID-19 protection protocols. The SECAP Review Note will outline detailed measures specific to the value chains identified, in alignment with other development partners financing PKSf (World Bank, Green Climate Fund).

### **C. Climate risk classification**

39. The climate risk classification for the project is moderate. Climate change is integral to the selection of the value chains to be supported by the project. The AF will promote climate-sensitive cultivars, value chains adaptable to high salinity and livelihoods diversification aimed at strengthening the climate resilience of farmers. The project will also finance investments that reduce greenhouse gas emissions, including through the use of cow dung to generate biogas and of solar light traps to manage insect pests. The SECAP Review Note will feature an integrated basic climate risk analysis per value chain, outlining both climate change adaptation measures and climate change mitigation interventions.

## **IV. Implementation**

### **A. Compliance with IFAD policies**

40. Like the original project, AF activities are fully aligned with the goals and objectives of the 2016-2025 IFAD Strategic Framework, the Bangladesh country strategic opportunities programme and other relevant policies and strategies, including those on gender equality and women's empowerment, rural youth and finance, the environment and natural resource management, and climate change.

### **B. Organizational framework Management and coordination**

41. The project management unit (PMU) responsibilities will remain the same as in the original project, but the AF period will see a reduction in staff numbers. The PMU will work through PKSf's Loan Operations Division (LOD) to implement the microenterprise loan programme through the POs. The PMU will take the lead in organizing, supervising and monitoring all AF activities under components 1 and 2. LOD will implement the ME loan programme and advise PMU as needed.
42. Components 1 and 2 will be implemented through the POs. PKSf will manage the ME programme according to its existing and well-established procedures and will follow the same management approach as the original project for VCD.
43. PKSf will provide the POs with the relevant sector and marketing studies. In addition, PKSf will: (i) supervise the funding of ME loans, other financial products and VCD subprojects; (ii) identify suitable technical expertise for capacity-building of PKSf staff, POs, VC actors and actors' associations; (iii) conduct assessment and impact studies; and (iv) supervise and monitor the project.
44. POs will continue to prepare VCD proposals; provide and manage ME credit and other financial products for producers and microentrepreneurs; ensure sustainable development of specific value chains; ensure the availability of competent service providers; advise producers on access to the market, input suppliers etc.; and undertake monitoring and evaluation and reporting, including the identification of lessons learned.

### **Financial management, procurement and governance**

45. The inherent financial management (FM) risk for PACE-AF is considered to be moderate due to its diversified set of activities and decentralized actions involving multiple POs. The assessment at design stage took into account the overall environment surrounding FM, the existing arrangements and the progress of PACE and the experience gained by PKSF in IFAD's portfolio. The risk after mitigation measures is considered low.
46. PKSF has an effective FM system, with a strong team of accountants and finance professionals. PKSF has consistently applied international financial reporting standards for PACE, whose annual accounts are audited by the same private firm as audits PKSF every year. The audit is carried out in accordance with international standards and follows the IFAD Handbook for Financial Reporting and Auditing. IFAD's assessment has rated the quality and timeliness of the audit work as satisfactory. The quality of the audit has been deemed acceptable as it was performed in keeping with terms of reference cleared by IFAD.
47. In accordance with provisions of the IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations, IFAD applies a zero-tolerance policy with regard to any fraudulent, corrupt, collusive or coercive actions in the projects it finances. This entails not only pursuing all allegations of fraudulent practices and applying appropriate sanctions, but also promoting preventive control measures such as assessments of national and project-specific FM, auditing and procurement systems during the project design phase.

### **Procurement**

48. Procurement in the original project is assessed as satisfactory and it is expected that PKSF will maintain high levels of performance during AF. Procurement shall be carried out in accordance with the Government's Public Procurement Act 2006 and the Public Procurement Rules, 2008 and subsequent amendments. The LTB and Project Implementation Manual will include specific details of procurement arrangements, procedures and applicable thresholds for post/prior review.
49. PKSF follows the Government of Bangladesh's Procurement Framework for project procurement and uses the Government of Bangladesh's prescribed Standard Procurement Documents for preparation of bids. PKSF solicits project procurement opportunities through the Government's eProcurement Platform
50. All project-related procurement by POs (sub-recipients) will also be undertaken in accordance with agreed contractual arrangements (Ministry of Agriculture – first part common to all POs). PKSF will assist POs in developing/upgrading their procurement policies and in following prudent procurement procedure. POs will manage a separate asset register for assets created through IFAD financing. As in the original project, PKSF will undertake an external audit.
51. PKSF has a procurement unit in its core management. The procurement cycle will be managed through coordination between the PMU and that procurement unit. A trained, senior core staff of PKSF with prior experience in IFAD-funded projects will manage PACE procurement.

### **C. Monitoring and evaluation, learning, knowledge management and strategic communication**

52. **Planning.** The PMU will prepare PACE's annual workplan and budget (AWP/B), receive FID's approval and IFAD's clearance. The AWPB will include planned activities with targets and expenditures, and should reflect the overall project targets and activities. IFAD's clearance will be needed for any adjustments. The annual IFAD supervision missions will review progress and assess the effectiveness of the project activities.

53. **Monitoring and evaluation.** PACE's logical framework has been updated and will continue to be the basis for monitoring, evaluation, data gathering and programme reporting. The end of the project impact studies will now be conducted in 2022. The resources allocated for this purpose in the original project will be used in 2022.
54. **Knowledge management and learning.** The knowledge management activities of PACE are closely linked with the monitoring and evaluation system and target all stakeholders, including beneficiaries, to ensure comprehensive learning. PACE/PKSF disseminated impact studies, sector studies, case studies and observations during field visits to POs, IFAD and other development partners.
55. **Implementation plans.** The AWPBs for 2021 and 2022 have been prepared and shared with IFAD. They will be updated annually and shared with FID and IFAD in keeping with existing practice.

## V. Legal instruments and authority

56. A letter of agreement between the People's Republic of Bangladesh and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. The signed financing agreement will be amended following approval of the additional financing.
57. The People's Republic of Bangladesh is empowered under its laws to receive financing from IFAD.
58. I am satisfied that the proposed additional financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

## VI. Recommendation

59. I recommend that the Executive Board approve additional financing in terms of the following resolution:

RESOLVED: that the Fund shall provide a loan on highly concessional (50 per cent) and blend terms (50 per cent) to the People's Republic of Bangladesh in an amount of eighteen million seventy two thousand six hundred and fifty two United States dollars (US\$18,072,652) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Gilbert F. Hougbo  
President

## Logical framework

### Promoting Agricultural Commercialization and Enterprises Project

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Name	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility	
<b>Outreach</b> Directly benefiting households receiving project services	<b>1 Persons receiving services promoted or supported by the project</b>				Progress report	Annual	PMU	
	Females - Number			254560				
	Males - Number			197440				
	Total number of persons receiving services - Number of people			452000				
	<b>1.a Corresponding number of households reached</b>				Progress report	Annual	PMU	
	Households - Number			452000				
	<b>1.b Estimated corresponding total number of households members</b>				Progress reports	Annual	PMU	
	Household members - Number of people			1835120				
<b>Project Goal</b> Enhance livelihoods (higher income from self-employment, business profit and wage employment, and food security) of the moderate and extreme poor (men and women) in a sustainable manner	<b>% increase in income of 70% participating moderate and extreme poor households from farm, non-farm and service type businesses and wage employment of 70% participating moderate and extreme poor households from farm, non-farm and service type businesses and wage employment</b>				Impact surveys of households at baseline, mid- term and completion, qualitative (PRA) assessment of participating HHs and quantitative assessment (profitability analysis) of microenterprises	3 times at baseline, mid-term and completion	PMU	<ul style="list-style-type: none"> <li>• Economy maintains or increases growth rates</li> <li>• Terms of trade for rural communities shall not deteriorate</li> <li>• Price inflation for staple food (rice) remains below 10%.</li> <li>• Rural and peri-urban infrastructure improves</li> <li>• Prolonged political unrest does not hinder business and other economic activities</li> </ul>
	Income increase - Percentage (%)			50				
<b>Increase in asset ownership</b>				Impact surveys of households at baseline, mid- term and completion, qualitative (PRA) assessment of participating HHs and quantitative assessment (profitability analysis) of microenterprises	3 times at baseline, mid-term and completion	PMU		
increase asset ownership - Percentage (%)			60					
<b>Development Objective</b> Increase sales and incomes from existing and new microenterprises, and create new	<b>300,000 microenterprises (out of which 150,000 are owned by women) have increased combined sales by 50% after receiving credit and technical support</b>				PACE project annual assessment report on business expansion and employment creation	3 times at baseline, mid-term and completion	PMU	<ul style="list-style-type: none"> <li>• Government maintains pro-small business policies.</li> <li>• Government continues to support microfinance programs and NGO</li> </ul>
	No. of microenterprises - Number			300000				
	No. of enterprises owned by women - Number			150000				

wage employment opportunities for extreme and moderate poor people	<b>13,000 new wage employment positions and taken up by moderately and extremely poor people (30% are women).</b>				PACE project annual assessment report on business expansion and employment creation	3 times at baseline, mid-term and completion	PMU	activities. • Prolonged political unrest does not adversely affects business and economic growth.
	No. of employment positions - Number			13000				
<b>Outcome</b> Outcome 1: Sustainable financial services for microenterprises (farm, off-farm, trading and service sectors) expanded	<b>value of PKSf's portfolio in microenterprise program increases</b>				PKSF's program/financial reports POs program/financial reports PACE project report	Annual		• Demand for microenterprise loan grows • POs remain institutionally and financially viable and offer competitive loan products. • No major external shocks such as major spread of disease.
	value of PKSf's portfolio in million taka - Number			4460				
	<b>Value of POs' portfolio in ME loan program increases</b>				PKSF's program/financial reports POs program/financial reports PACE project report	Annual		
	Value of POs' portfolio in ME loan program - Number			8120				
<b>Output</b> Output 1.1: Expansion of on-going loan program for microenterprises in all sectors (agriculture, off-farm, trading and services)	<b>Increase in number of microenterprise borrowers</b>				Reports from PKSf and POs Project MIS Independent assessment of microenterprise loan program and performance of pilot products Training assessment report	Quarter	PMU	
	Microenterprise borrowers - Number of people			150000				
	<b>Increase in value of cumulative loan disbursement to additional project borrowers</b>				Reports from PKSf and POs Project MIS Independent assessment of microenterprise loan program and performance of pilot products Training assessment report	Quarter	PMU	
	Money in million taka - Number			66240				
	<b>1.1.5 Persons in rural areas accessing financial services</b>				Reports from PKSf and POs Project MIS Independent assessment of microenterprise loan program and performance of pilot products Training assessment report	Quarter	PMU	
	Total number of accesses to financial services - Number							
	Men in rural areas accessing financial services - credit - Number			33000				
	Women in rural areas accessing financial services - credit - Number			117000				
	Total persons accessing financial services - credit - Number of people			150000	Reports from PKSf and POs Project MIS Independent assessment of microenterprise loan program and performance of pilot products Training assessment report	Quarter	PMU	
	<b>value of gross loan portfolio</b>							
loan portfolio - Money (USD' 000)			101500	Reports from PKSf and POs Project MIS Independent	Quarter	PMU		
<b>1.1.7 Persons in rural areas trained in financial literacy and/or use of financial products and services</b>								



	Females - Number			33000	assessment of microenterprise loan program and performance of pilot products Training assessment report			
	Males - Number			117000				
	Persons in rural areas trained in FL and/or use of FProd and Services (total) - Number			102000				
<b>Output</b> Output 1.2: Piloting of new loan products	<b>Number of new product studies</b>				Reports from PKSf and POs Project MIS Independent assessment of microenterprise loan program and performance of pilot products Training assessment report	Quarter	PMU	
	New loan product - Number			2				
<b>Output</b> Output 1.3: Capacity building of PKSf and POs in design and development of new financial products, monitoring, evaluation and impact assessment of ME program, and application of information technology in management of POs	<b>No. of PKSf officers trained on enterprise management and promotion of private businesses</b>				Reports from PKSf and POs Project MIS Independent assessment of microenterprise loan program and performance of pilot products Training assessment report	Quarter	PMU	<ul style="list-style-type: none"> <li>Portfolio quality of ME loan program of POs remains high (PAR &lt;5%)</li> <li>Loan recovery rate of overall MF program and ME loan of POs remains high (&gt;95%)</li> <li>HR capacity of POs for management of microfinance program enhanced</li> <li>PKSf maintains its strong supervision of POs</li> </ul>
		PKSf officers - Number						
	<b>No. of Partner Organizations officers trained on enterprise management and promotion of private businesses</b>				Reports from PKSf and POs Project MIS Independent assessment of microenterprise loan program and performance of pilot products Training assessment report	Quarter	PMU	
		PO officers - Number						
	<b>1.1.6 Financial service providers supported in delivering outreach strategies, financial products and services to rural areas</b>				Project MIS	Quarter	PMU	
		Service providers - Number						
<b>50 PKSf and 100 PO officials are trained in 15 COVID-19 compliance protocols developed by PKSf for various business clusters</b>								
	PKSf/PO officials - Number - Number of people			150				
<b>Outcome</b> Outcome 2: Sustainable inclusion of MEs and businesses in value chains in agriculture, off-farm and service sectors to up-scale business, production technologies, and enhance access to markets.	<b>Increase in cumulative sales of participating businesses (farm and non-farm sectors) in value chains</b>				Impact assessment of value chains Project reports and MIS impact assessment Case studies	Annual	PMU	<ul style="list-style-type: none"> <li>PKSf and POs remain committed to facilitating non-financial services along with providing financial services program to MEs</li> <li>PKSf and POs successfully establish collaborative business arrangements between MEs and mainstream businesses.</li> <li>No major external</li> </ul>
		Sales in million Taka - Number						
	<b>Percentage of microenterprises (out of 300 000 beneficiaries of value chain subprojects) operating 3 years after the support received from the project</b>				Impact assessment of value chains Project reports and MIS impact assessment Case studies	Annual	PMU	
	Microenterprises - Percentage (%)			55				

<b>Output</b> Output 2.1: MEs and agri-businesses sustainably included in agricultural value chains in various parts of the country								shocks such as disease	
	<b>Acres of additional land brought under production of selected VC</b>				Impact assessment of value chains Project reports and MIS Case studies	Quarter	PMU	<ul style="list-style-type: none"> <li>PKSF establishes separate non-financial services division with competent human resources</li> <li>PKSF enhances overall capacity to manage value chain projects, supervise POs in these areas</li> <li>PKSF recruits adequate officers</li> <li>POs establishes separate non-financial services units and enhances capacity to manage value chain projects</li> <li>Facilitation of non-financial services become mainstream services of POs</li> <li>Private business companies are interested in sourcing products from microenterprises and willing to engage in partnership in the selected value chains</li> </ul>	
	Land (acres) - Number								13000
	<b>Number of agricultural and non-farm subsector VC development activities</b>				Impact assessment of value chains Project reports and MIS Case studies	Quarter	PMU		
	VC subsector - Number								15
	<b>Number of agricultural MEs linked with larger firms as suppliers and contract growers</b>				Impact assessment of value chains Project reports and MIS Case studies	Quarter	PMU		
	Agricultural MEs - Number								6000
	<b>2.1.3 Rural producers' organizations supported</b>								
	Rural POs supported - Number								
	<b>No. of MEs adopted new technologies</b>				Impact assessment of value chains Project reports and MIS Case studies	Quarter	PMU		
	MEs - Number								280000
	<b>2.1.2 Persons trained in income-generating activities or business management</b>				this indicator measures: agric. microentrepreneurs, non-farm MEs	quarterly	PMU		
	Females - Number								203000
	Males - Number								147000
	Persons trained in IGAs or BM (total) - Number								350000
	<b>1.1.3 Rural producers accessing production inputs and/or technological packages</b>				measures advisory services				
	Females - Number								150000
	Males - Number								150000
	Total rural producers - Number								300000
	<b>1.1.4 Persons trained in production practices and/or technologies</b>								
Total number of attendances to training sessions - Number									
Men trained in livestock - Number				49200					
Women trained in livestock - Number				73800					
Men trained in fishery - Number				31000					
Women trained in fishery - Number				31000					
Total persons trained in livestock - Number of people				123000					

	Total persons trained in fishery - Number of people			62000				
	<b>Households receiving facilitated animals health services</b>				Impact assessment of value chains Project reports and MIS Case studies	Quarter	PMU	
	Households - Number							
<b>Output</b> Output 2.2: Microenterprises sustainably included in value chain for non-farm manufacturing, processing and service products or group of products	<b>Number of non-farm MEs linked with larger firms as suppliers and contract growers</b>				Impact assessment of value chains Project reports and MIS Case studies	Quarter	PMU	<ul style="list-style-type: none"> <li>• PKSf establishes separate non-financial services division with competent human resources</li> <li>• PKSf enhances overall capacity to manage value chain projects, supervise POs in these areas</li> <li>• PKSf recruits adequate officers</li> <li>• POs establishes separate non-financial services units and enhances capacity to manage value chain projects</li> <li>• Facilitation of non-financial services become mainstream services of POs</li> <li>• Private business companies are interested in sourcing products from microenterprises and willing to engage in partnership in the selected value chains</li> </ul>
	Non-farm MEs - Number - Number			3000				
	<b>No. of local service providers (farm and non-farm sectors) strengthened in VCs</b>				Impact assessment of value chains Project reports and MIS Case studies	Quarter	PMU	
	Service provider - Number			11500				
	<b>2.1.1 Rural enterprises accessing business development services</b>							
	Rural enterprises - Number							
	<b>2.1.2 Persons trained in income-generating activities or business management</b>				Impact assessment of value chains Project reports and MIS Case studies	Quarter	PMU	
Females - Number								
Males - Number								
Persons trained in IGAs or BM (total) - Number								
<b>Output</b> Output 2.3: Capacity of PKSf and POs enhanced to formulate and manage large scale value chain subprojects and identify opportunities for	<b>PKSf/GoB officials trained on VC project design and management</b>				Impact assessment of value chains Project reports and MIS Case studies	Quarter	PMU	
	PKSf/GoB officials - Number			50				
	<b>POs officials trained on VC project design and management</b>				Impact assessment of value chains Project reports and MIS Case studies	Quarter	PMU	
	POs officials - Number			200				
<b>PKSf/PO officials are trained on preventing environmental degradation and improving conditions in work place</b>				Impact assessment of value chains Project reports and MIS Case studies	Quarter	PMU		
PKSf/PO officials - Number			80					

partnership with the private business sector for microenterprises	<b>50 PKSf/GoB and 100 POs officials trained on VC project design, management, GGAP and branding of products (for extended phase)</b>				Impact assessment of value chains Project reports and MIS Case studies	Quarter	PMU	
	PKSF/GoB/PO officials - Number - Number of people			150				
<b>Output</b> Output 2.4: Capacity of PKSf, POs and microenterprises to identify, advocate and strengthen pro-poor business policies, especially sector specific policies, enhanced	<b>Policy 1 Policy-relevant knowledge products completed</b>				Impact assessment of value chains Project reports and MIS Case studies	Quarter	PMU	
	Number - Number			5				
	<b>PKSF, GOB and POs officials trained business/sector policy analysis and advocacy</b>				Impact assessment of value chains Project reports and MIS Case studies	Quarter	PMU	
Officials - Number			100					
<b>Output</b> Output 2.5: An electronic platform established to disseminate commodity prices and to transact products of small producers	<b>Electronic agricultural platform established</b>				Impact assessment of value chains Project reports and MIS Case studies	Quarter	PMU	<ul style="list-style-type: none"> <li>• PKSf establishes separate non-financial services division with competent human resources</li> <li>• PKSf enhances overall capacity to manage value chain projects, supervise POs in these areas</li> <li>• PKSf recruits adequate officers</li> <li>• POs establishes separate non-financial services units and enhances capacity to manage value chain projects</li> <li>• Facilitation of non-financial services become mainstream services of POs</li> <li>• Private business companies are interested in sourcing products from microenterprises and willing to engage in partnership in the selected value chains</li> </ul>
	E-platform - Number			1				
	<b>Setup Multipurpose Electric Platform</b>				Progress report	Half Yearly	PMU	

<b>Output</b> Output 2.6: Setup Multipurpose Electric Platform	Technologies and products - Number - Number			1				
<b>Outcome</b> Outcome 3: Proven technologies and products introduced by MEs	<b>No. of proven technologies and products successfully transferred to Small Producers</b>				Independent assessment reports	Annual	PMU	PKSF and POs successful identify technologies and products for small producers within value chain subprojects and outside
	Technologies and products - Number			20				
	<b>Women reporting improved quality of their diets</b>							
	Percentage - Percentage (%)			40				
<b>Output</b> Outputs 3.1: Resolution of technological problems identified under component-2	<b>No. of technological problems addressed</b>				Independent assessment reports of technologies and product introduced PACE reports IFAD supervision reports Case studies	Quarter	PMU	
	Technological problem - Number			6				
<b>Output</b> Outputs 3.2: Adaptation and dissemination of readily available technologies and products	<b>MEs/farmers are disseminated technological Knowledge</b>				Independent assessment reports of technologies and product introduced PACE reports IFAD supervision reports Case studies	Quarter	PMU	Successful identification of capable research stations within the country
	MEs/Farmers - Number			50000				