



Investing in rural people

Bangladesh

Rural Microenterprise Transformation Project Project Design Report

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Asia and the Pacific Division
Programme Management Department

Map of the Project Area



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Abbreviations and Acronyms

ADB	Asian Development Bank
ADP	Annual Development Plan
AWPB	Annual Work Plan and Budget
BARI	Bangladesh Agricultural Research Institute
BARC	Bangladesh Agricultural Research Council
BAU	Bangladesh Agricultural University
BBS	Bangladesh Bureau of Statistics
BIDS	Bangladesh Institute of Development Studies
BRRI	Bangladesh Rice Research Institute
BUET	Bangladesh University of Engineering and Technology
BWBD	Bangladesh Water Development Board
CC	Climate Change
COSOP	Country Strategic Opportunities Paper
DA	Designated Account
DAE	Department of Agricultural Extension
DFID	Department for International Development
DLS	Department of Livestock Services
DoF	Department of Fisheries
DPP	Development project pro
EIRR	Economic Internal Rate of Return
ERD	Economic Relations Division
FAO	Food and Agriculture Organisation
FEDEC	Finance for Enterprise Development and Employment Creation
FID	Financial Institutions Division (of Ministry of Finance)
FIRR	Financial internal rate of return
FY	Financial year
FYP	Five year plan
GDP	Gross Domestic Product
GoB	Government of Bangladesh
hh/HH	household
HIES	Household Income and Expenditure Survey
HILIP	Hoar Infrastructure and Livelihood Improvement Project
IFAD	International Fund for Agricultural Development
NGO	Non-Governmental Organization
IT	Information Technology
LGED	Local Government Engineering Department
ME	Microenterprise
M&E	Monitoring and Evaluation
MIDPCR	Market Infrastructure Development Project in Charland Regions
MFMSP	Micro Finance for Marginal and Small Farmers Project

MFTSP	Micro Finance and Technical Support Project
MFI	Microfinance Institution
MIS	Management Information System
MoF	Ministry of Finance
MoU	Memorandum of Understanding
MSME	Micro, small and medium enterprise
MTR	Mid-Term Review
NATP-2	National Agricultural Technology Project 2
p.a.	per annum
PACE	Promoting Agricultural Commercialization and Enterprises
PCR	Project Completion Report
PDR	Project Design Report
PKSF	Palli Karma-Sahayak Foundation
PMU	Project management Unit
PO	Partner Organization
R&D	Research and development
RMC	Rural microcredit
SoE	Statement of Expenditure
SLGA	Subsidiary Loan and Grant Agreement
TA	Technical Assistance
USAID	United States Agency for International Development
VC	Value chain
VCD	Value chain development
WA	Withdrawal Application
WFP	World Food Programme

Executive Summary

An IFAD design mission^[1] visited Bangladesh from 6 to 28 February 2019 to assist the Government of the People's Republic of Bangladesh in designing the Rural Microenterprise Transformation Project (RMTP)^[2]. An earlier mission worked with the Palli Karma-Sahayak Foundation (PKSF), Economic Relations Division (ERD) of Ministry of Finance (MoF), and other stakeholders to prepare the concept note of the project, which was later agreed with PKSF and endorsed by ERD/MOF in September 2018.

IFAD experiences in Bangladesh have demonstrated that supporting small farmers to increase agricultural productivity and output has positive effects on household income growth, poverty reduction, and food security. Similarly, supporting micro-entrepreneurs to start and/or expand micro-enterprises generates income growth, improves food security, and reduces poverty. However, it has become clear that fragmented investment in primary production and micro-enterprises, without meaningful integration in profitable value chains connected with expanding markets, does not generate growth of the scale necessary to transform the rural economy and sustainably eliminate poverty.

Limited experiences in Bangladesh, and well-documented experiences globally, indicate that successful small farmer and micro-entrepreneur integration within commodity value chains with comparative advantage, market demand and growth potential can sustainably reduce poverty and food insecurity, improve the competitiveness of the agricultural sector, generate employment opportunities in the rural economy, and create broad economic multiplier effects that transform the rural sector. Such value chain integration requires the development of mutually beneficial commercial linkages between small farmers/micro-entrepreneurs and larger-scale consolidators such as private sector agribusiness. Participation of agribusinesses is fundamental to generate demand and create markets that reliably absorb output from small farms and micro-enterprises; agribusinesses serve as engines of rural transformation.

In light of the above, the project will support small farmers and micro-entrepreneurs (or their organisations) and agribusinesses to improve their operations and integrate contractually within selected value chains. In this perspective, 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 prioritised under the project. It should be noted that the robust macro-economic growth experienced by Bangladesh over the past decades have led to sharp growth of the middle class. This has resulted in rapidly increasing demand for meat, vegetables, fruit, and milk products. Quality and food safety concerns among these consumers is increasing, creating rising demand for certified high quality food.

Goal and objective. The project goal is to sustainably increase the income, food security and nutrition of marginal and small farmers and micro-entrepreneurs across selected value chains. The development objective 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. Multiple output and outcome related data will be developed in order to measure RMTP's progress towards attaining the goal and objective. The project is designed for a period of six years, 2020-2025.

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. Two additional considerations will be taken into account: (i) avoiding investments in the same value chains and same sub-districts already covered by other PKSF programmes (while seeking complementarities with World Bank-financed *Sustainable Enterprise Project*); and (ii) focusing on areas where Partner Organisations (POs) have lending programmes and have the capacity to implement value chain financing. A list of districts/sub-districts with high potential for the selected value chains is presented in the Project Implementation Manual (PIM).

Beneficiaries and benefits. 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) poor, (ii) transitional poor, and (iii) enterprising poor. An estimated 445,000 households will be direct beneficiaries of the project, of which 100,000 microenterprise borrowers, and 345,000 will benefit from value chain development activities. The benefits include enhanced financial and social service delivery; improved technical capacities of livestock para professionals and para extension service providers; food safety in the project area and beyond; better awareness of food safety and nutrition intake among beneficiaries; improved animal health; and value chain development through improved market access, and development and expansion of rural businesses.

Gender and youth. The Government, IFAD and PKSF place great importance on specifically supporting women to participate in the mainstream of social and economic life, particularly poor women, women-headed households, and young women. The predominance of women in microfinance programmes is well-established, and has improved women's access to finance, interaction with markets as producers, sellers and consumers, and status as family decision makers. Based on the experiences of the IFAD financed Promoting Agricultural Commercialization and Enterprises (PACE) project, it is expected that about 75% of micro-enterprise borrowers under RMTP will be women. Bangladesh is considered to have a young population. According to ILO, the share of population between 15-24 years is close to 20%, whilst the median age of the entire population is a little over 26 years old. Youth labour force participation is low at 41%, while youth unemployment stands at 13%; however, of employed youth, some 20% are in irregular jobs. About 27% of youth are neither in the labour force nor in education. The Government is committed to creating a positive environment for youth empowerment. It has endorsed a National Youth Policy 2017 which promotes youth engagement in environment education and protection, ICT growth, environment-friendly agriculture and industrialisation, good governance, sustainable development, and safe food and commodity marketing.

Nutrition. The project will apply a nutrition lens to select value chains as well as project activities along value chains and micro-enterprise interventions in ways that improve nutrition status of communities. Examples of nutrition sensitive value chain activities that will be promoted are commodity-specific nutrition education, nutrition-sensitive extension, safe storage and introduction of food safety standards. RMTP will establish partnerships with agencies active in nutrition awareness campaigns, including WFP, UNICEF, NGOs, the on-going Enhancing Resources and Increasing Capacities of Poor Households towards Elimination of their Poverty (ENRICH) and

Ujjibito projects of PKSF, and the Bangladesh National Nutrition Council.

The project has three complementary components as follows:

- Component 1: Value Chain Enhancement. This component will enable 445,000 microenterprises to sustainable 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 the agribusinesses and other value chain actors. It has five sub-components: (i) organisation 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 provide sustainable financial services to micro-enterprises and to growing/larger enterprises and agribusinesses. It has three sub-components: (i) provision of financial services to micro-enterprises 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); and (iii) optimal utilisation of remittances through training to the family members of overseas workers.
- Component 3: Institutional Strengthening and Project Management. This component aims to strengthen PKSF and PO 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 (see organisation and management section).

Project Management. RMTP will be managed by PKSF, an apex development organisation with an independent Board of Directors. PKSF works through 200 licensed microfinance institutions (known as partner organisations or POs) which have a combined 9,500 branches across the country. Through this network, PKSF is currently providing inclusive finance and other services to 13 million poor households. PKSF's aggregate assets amount to USD 707 million, including its active loan portfolio which currently stands at USD 178 million, with a recovery rate exceeding 99%. PKSF is supervised by the Financial Institutions Division of the Ministry of Finance. PKSF will establish a Project Management Unit, integrated 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 nineteen recruited from the market. The PMU will work with PKSF's Loan Operations Division to implement the financial services programme through POs as per established processes and norms. This Division will assist with the selection of qualified NBFIs for financing larger enterprises and agribusinesses. It will work with POs and selected service providers for the implementation of the value chain component. PKSF's support divisions such as Audit, Administration, Agriculture, Human Resources, Accounts and Finance, Livestock, Research, Training, M&E, MIS and IT will provide relevant services to the project.

IFAD has financed 4 projects implemented by PKSF, of which three are completed and one is ongoing. All projects financed have been rated as highly successful. The projects are: (i) the USD 20 million Microfinance and Technical Support Project (MFTSP), which covered 2003-10; (ii) the USD 22 million Microfinance for Marginal and Small Farmers Project (MMSFP), which covered 2005-11; (iii) the USD 58 million Finance for Enterprise Development and Employment Creation Project (FEDEC) which covered 2008-14; and (iv) the USD 93 million PACE which is currently ongoing.

The IFAD loan for RMTP will be passed on by MoF to PKSF in the form of: (i) a loan for the financial services component (component 2, with the exception of subcomponent 2.3); (ii) a grant for the value chain component (component 1); and, (iii) a grant for the institutional strengthening and project management component (component 3). MoEWOE will directly receive grant funding from MoF for implementing subcomponent 2.3.

Planning and M&E. The PMU/PKSF will be responsible for preparing the annual work plan and budget for RMTP, and for obtaining approval from FID and IFAD. The plan will include activity plan along with targets and expenditure plan and should reflect overall project targets and activities. IFAD supervision missions and mid-term review mission will offer opportunities for review of progress and assessment of effectiveness of the project. An effective M&E system will be developed to measure indicators included in the log frame. It will be part of a larger MIS system which will serve as an information and knowledge sharing platform. The M&E system will be utilised as a management tool and will include assessment of progress and compliance, identification of constraints and proposed remedial actions. All data will be disaggregated by gender, age, and geographical location.

Knowledge Management (KM) and Learning. The project's KM activities will support the effective flow of relevant information among project staff, beneficiaries and other stakeholders. A comprehensive KM 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. KM products will be communicated through multiple sources including blogs, written publications, video and social media.

Sustainability and Exit Strategy. PKSF and its POs are institutionally and financially viable organizations that offer multiple loan products to POs, and savings and loan products to four categories of borrowers respectively. ME loan is nearly half of POs' loan portfolio. Both PKSF and POs will continue to offer financial services beyond the project period. PKSF generates surplus every year from its operations and will continue to raise funds and refinance its loan operations.

Economic and financial analysis: The Financial Internal Rate of Return (FIRR) is 35%. The Economic Internal Rate of Return (EIRR) for the 20-years period is 30% with benefit cost ratio of 1.29. The project earns a Net Present Value (NPV) of USD 275 million for the 20-year period with 6.2% discount rate.

Various technologies, business services, production techniques, and marketing arrangements are expected to be adopted and continued way beyond the project period. From the start, the project will promote commercial provision of business services. Technologies and farm practices such as use of high quality compost, motorized deep placement of urea/DAP and compost/DAP

briquettes for aromatic rice will reduce urea use by 30%, contribute to reduction of greenhouse gasses by 30% and increasing yield by 15%. These practices coupled with the commercial approach for provision of services and inputs and the institutional arrangement of the project will ensure a high likelihood for long-term sustainability and ensure safe exit of the project support

Financial management. PKSF has an effective FM system managed by a strong team of accountants and finance professionals. It consistently applies the International Financial Reporting Standards (IFRS) across its operations. Partner POs are registered and supervised by the Micro Credit Regulatory Authority. POs are governed by General Bodies and Governing Bodies/Executive Committees in order to ensure good governance and transparency. It is evident that there are significant improvements in PO governance due to regular interventions of PKSF. There is an adequately staffed Internal Audit Unit (IAU) in PKSF. The IAU prepares an annual plan for internal audit reviews within PKSF and POs. These audits mainly focus on compliance review and checking of payment vouchers prior to issuing payments to suppliers/vendors. There may be room for the inclusion of risk review in the internal audit process; this will be assessed during implementation. RMTP accounts will be audited annually by the private firm that audits PKSF in accordance with International Standards on Auditing (ISA) and in compliance with IFAD's Handbook for Financial Reporting and Auditing. The audited project financial statements together with the auditor's opinion will be submitted to IFAD in English within 6 months of the end of the fiscal year. PKSF will open a Designated Account and an Operating Account for the purposes of the project. MoEWOE will open a Designated Account for the administration of the grant proceeds.

Project financing / co-financing strategy and plan. The project financing plan is presented in table 3. It will be financed an IFAD loan of USD 80.0 million, an IFAD grant of USD 1.0 million, PKSF contribution of USD 13.0 million, cofinancing of USD 8.3 million, private sector contribution of USD 4.6 million, POs contribution of USD 82.2 million, NBFIs investment of USD 10.0 million, and beneficiary equity of USD 0.9 million. Subject to approval by relevant authorities in Denmark, the Embassy of Denmark in Bangladesh is intending to provide DKK 55 million (equivalent to approx. USD 8.3 million at prevailing exchange rates) for the project. The potential Denmark funding would be administered by IFAD, and utilised to cofund Component 1 (Value Chain Development). The USD 1 million grant will be utilized to finance activities under subcomponent 2.3. The objective is to develop the skills of households receiving remittances so that they can invest in micro-enterprises and improve their economic status in a sustainable manner.

1. Context

A. National context and rationale for IFAD involvement

a. National Context

1. With a population of 168 million (May 2019), a land area of 130,170 km², and a population density of 1,291 people per km², Bangladesh is one of the most densely populated countries in the world.
2. **Political context.** The Constitution of Bangladesh, adopted in 1972, establishes the country as a parliamentary republic. Bangladesh has been politically relatively stable over the past decade. The 2018 general elections proceeded in an orderly manner and resulted in a landslide victory for the Awami league. Prime Minister Sheikh Hasina, leader of the Awami league, presented the new cabinet early January 2019. However, underlying risk factors include selective application of the rule of law, transparency concerns, and potential political conflict.
3. **Macroeconomic context.** Bangladesh's economic growth has been phenomenal, and the country has graduated to lower middle income status. Real GDP growth averaged 6.3% p.a. over the past decade, and reached 7.3% in 2017, the highest in Asia. This growth is driven by increasing private consumption, public spending, private investment flows, manufacturing exports (mainly garments), agricultural growth and remittance inflows. Furthermore, at 27% the debt-to-GDP ratio is among the lowest in Asia. However, inflation reached 5.8% in 2018, driven mainly by food-price inflation of 7.1% caused by supply shocks. Both the current account deficit and fiscal deficit increased in 2018. Despite these weaknesses, the macroeconomic fundamentals are solid, and GDP is projected to grow annually at an average of 7.7% over the next five years. With the right set of policy reforms, growth could be even stronger.
4. According to the central bank (Bangladesh Bank, *Annual Report FY2016*), the sectoral composition of output continues to shift from agriculture to services and industry. Services now accounts for 53.1% of GDP, industry for 31.5%, and agriculture for 15.4%. However, 40.6% of the population is employed in agriculture. It is noted that the rural non-farm sector accounts for 36% of GDP.
5. By 2015, Bangladesh had made significant progress on the MDG targets, substantially reducing poverty and the poverty gap ratio, reducing child malnourishment, increasing school enrollment, improving gender parity in education, reducing infant mortality, and enhancing health care. However, much more needs to be done to achieve the SDGs by 2030, particularly in reducing hunger and poverty, increasing employment opportunities, and creating decent jobs for women.
6. **Poverty.** Although Bangladesh has made impressive progress in tackling poverty over the past two decades, the incidence of poverty remains significant. It is estimated that the national poverty rate declined from 49% in 2000 to 24.3% in 2016; during the same period, the proportion living in extreme poverty fell from 34% to 13%. However, this means that some 41 million people still live below the poverty line. Rural poverty halved over this period, from 52% to 26.4%, but remains higher than urban poverty (18.9%).
7. Key drivers of rural poverty in Bangladesh include: (i) small farm sizes; (ii) landlessness; (iii) unemployment and under-employment; (iv) insufficient productive infrastructure; (v) outdated technology; (vi) limited access to financial services; (vii) lack of social services; (viii) weak local institutional capacity; and, (ix) climate change. Productive investment is needed in rural areas to accelerate inclusive economic growth, create employment and decent work, and reduce poverty.

8. **Policies.** Vision 2021 aims to transform Bangladesh into a middle-income country, eliminate food deficits and attain self-sufficiency in food production. The *Seventh Five Year Plan (2016-2020)* focuses on: (i) economic growth and poverty reduction; (ii) inclusiveness; and (iii) sustainable development resilient to climate change and natural disasters. Within this Plan, the Government has set ambitious targets for poverty reduction (to 18.6%) and extreme poverty reduction (to 8.9%).
9. **Agriculture policy.** With respect to agriculture, the Plan aims to accelerate the transformation from semi-subsistence to commercial agriculture through productivity gains, diversification, value addition and agro-processing. It supports diversification into higher value-added activities and employment opportunities for surplus agriculture labourers into non-farm activities. It aims to integrate environmental, climate and disaster risk reduction considerations into all activities. The *National Agriculture Policy* encourages sustainable and profitable agriculture through new technologies, increased productivity, remunerative employment, commercialisation, quality standards, agro-processing, nutrition-sensitive cropping, and women's empowerment.
10. **Agricultural trade.** While the volume of agricultural exports remained relatively stable over the past five years, significant export increases have been observed for fisheries products. Food grains (rice and wheat), edible oil and oilseeds, milk and milk products, spices, sugar and coconut oil were the main agricultural imports. The value of imported edible oil and oilseeds has surged since 2011, while rice imports declined due to increasing domestic production.
11. **Microfinance.** Currently about 33 million clients are accessing microfinance (and related non-financial services) in Bangladesh, offered by some 700 microfinance institutions (MFIs). These institutions include 3 large MFIs, around 50 medium sized MFIs, and 200 small and 450 very small MFIs. Bangladesh is often named the cradle of microfinance and the sector has been growing steadily since its inception four decades ago. The correlation between growth of microfinance and poverty reduction in Bangladesh is well-documented.
12. **Access to microfinance.** A recently published DFID funded study concludes that the demand for microenterprise loans is increasing fast, with the outstanding loan balance doubling between 2011 and 2016. In 2016, the demand for microcredit amounted to roughly USD 8.7 billion while the supply amounted to only USD 2.7 billion. Microenterprises are currently unable to access commercial finance, with around 80% of microenterprises still largely depending on their own capital or microcredit to finance their operations. The vast majority of microenterprises still consider access to finance as their main constraint for sustained growth.

b. Special aspects relating to IFAD's corporate mainstreaming priorities

13. **Climate change.** Bangladesh ranked second in the 2016 Climate Change Vulnerability Index, and it will likely suffer more from climate change by 2025 than any other country. Rainfall during monsoon seasons is expected to increase by 10%-15% by 2030 and 27% by 2075; a rising sea level is expected to inundate 11% of the land area by 2050; 14% more of the country may become extremely prone to floods by 2030; cyclones in the Bay of Bengal will occur more frequently due to increasing temperature; and the peak intensity of cyclones may increase by 5%-10%. Coastal salinity problems will likely worsen as changing rain patterns reduce the amount of dry season drainage water supply from upstream rivers. Overall, crop production might be reduced by 30% by the end of the century; rice production could fall by 8%, and wheat production by 32% by 2050. These types of impacts make adaptation a necessity, not only for farmers in terms of cropping choices, but also for other value chain actors and service providers. Producers across rural areas are demonstrating signs of autonomous adaptation. In addition, the Government and development partners have implemented a wide range of climate change adaptation projects, which have built knowledge and capacity that RMTF can leverage.
14. **Nutrition.** Good nutrition is vital for economic and social development; undernutrition can lead to economic loss of 2%-16% of GDP, and child malnutrition carries irreversible consequences in cognitive and physical development. Current levels of malnutrition in Bangladesh are alarming. Child stunting (low height-for-age) is estimated at 36%, acute child undernutrition (low weight-for-height) stands at 14%, and low birth weight affects 22% of new born babies. Micronutrient deficiencies (also known as hidden hunger) remain a major challenge: 21% of children are vitamin A deficient, 45% are zinc deficient and 40% are iodine deficient, while 50% of pregnant women are anemic (iron deficient).
15. Although household food security has improved in recent years, intra-household food distribution is uneven, and sacrifices are mostly made by women and adolescent girls. At national level, 66% of women do not meet minimum dietary diversity standards; this rises to 70% in rural areas. Only 28% of children meet the minimum dietary diversity requirement. Diets are overwhelmingly dominated by rice consumption, with very low consumption of fruits, vegetables (where intake barely reaches half the minimum requirement), pulses and livestock products. At the same time, there is a rapid increase in overweight and obesity, which affects 24% of women and is associated with increased consumption of trans-fats, ultra-processed foods and sugar-sweetened beverages.
16. Climate change is expected to have detrimental consequences for food security and nutrition, reducing crop production as well as micronutrient content of foods due to increased salinity. Despite improvements in gender equality, women still lag behind in educational attainment and literacy, which coupled with high rates of early marriage and early pregnancies (24%) are major factors affecting food security and nutrition.
17. **Gender.** Gender equality in Bangladesh has been improving over time, and the country is seen as making good progress on various gender indicators. For example, gender parity has been achieved in primary and secondary education, and maternal mortality is declining by 5.5% per year. The Global Gender Gap Index (WEF, 2017) ranks Bangladesh as the best performer in South Asia, one of the best performers across all of Asia and the Pacific, and the 47th best performer globally of 144 countries rated. However, significant gaps remain; women continue to face disadvantages in access to economic opportunities, social services, political participation, and financial control. Rates of violence against women are alarming; UNWOMEN estimates that two-thirds of married women have experienced some form of partner violence. The Gender Development Index (UNDP, 2017) ranks the country in 136th position of 189 countries rated.

18. In rural areas, women play a large, vital and growing role in agriculture, nutrition, food security and a wide range of income-generating activities. However, women have little participation in decision-making as their economic contributions are rarely recognized by the family and society.
19. **Youth.** Bangladesh is considered to have a young population. According to ILO, the share of population between 15-24 years is close to 20%, whilst the median age of the entire population is a little over 26 years old. Youth labour force participation is low at 41%, while youth unemployment stands at 13%; however, of employed youth, some 20% are in irregular jobs. About 27% of youth are neither in the labour force nor in education.
20. The Government is committed to creating a positive environment for youth empowerment. It has endorsed a *National Youth Policy 2017* which promotes youth engagement in environment education and protection, ICT growth, environment-friendly agriculture and industrialisation, good governance, sustainable development, and safe food and commodity marketing.

c. Rationale for IFAD involvement

21. The poverty, food insecurity and malnutrition indicators outlined above confirm that: targeted productive investments are required in rural areas to accelerate inclusive economic growth, reduce poverty sustainably and improve food security; and, such investments need to increasingly focus on sectors and commodities with maximum positive impacts on nutrition.
22. IFAD experiences in Bangladesh have demonstrated that supporting small farmers to increase agricultural productivity and output has positive effects on household income growth, poverty reduction, and food security. Similarly, supporting micro-entrepreneurs to start and/or expand micro-enterprises generates income growth, improves food security, and reduces poverty. However, it has become clear that fragmented investment in primary production and micro-enterprises, without meaningful integration in profitable value chains connected with expanding markets, does not generate growth of the scale necessary to transform the rural economy and sustainably eliminate poverty.
23. Limited experiences in Bangladesh, and well-documented experiences globally, indicate that successful small farmer and micro-entrepreneur integration within commodity value chains with comparative advantage, market demand and growth potential can sustainably reduce poverty and food insecurity, improve the competitiveness of the agricultural sector, generate employment opportunities in the rural economy, and create broad economic multiplier effects that transform the rural sector. Such value chain integration requires the development of mutually beneficial commercial linkages between small farmers/micro-entrepreneurs and larger-scale consolidators such as private sector agribusiness. Participation of agribusinesses is fundamental to generate demand and create markets that reliably absorb output from small farms and micro-enterprises; agribusinesses serve as engines of rural transformation.
24. In light of the above, the project will support small farmers and micro-entrepreneurs (or their organisations) and agribusinesses to improve their operations and integrate contractually within selected value chains. In this perspective, 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 prioritised under the project. It should be noted that the robust macro-economic growth experienced by Bangladesh over the past decades have led to sharp growth of the middle class. This has resulted in rapidly increasing demand for meat, vegetables, fruit, and milk products. Quality and food safety concerns among these consumers is increasing, creating rising demand for certified high quality food.

B. Lessons learned

25. In Bangladesh, IFAD has financed 33 projects with a total value of USD 2.1 billion. The points below summarise key lessons learned which are relevant for the project under review.
 - *Microenterprise development.* This has proved to be an effective instrument for rural poverty reduction and job creation. However, demand for microenterprise finance far exceeds supply; substantial incremental investment is required. The high cost of funds as well as regulatory constraints prevent microfinance institutions (MFIs) from expanding microenterprise lending substantially. As a result, loan sizes for microenterprises average only USD 1,395, while the majority are not served at all.
 - *Microenterprise employment.* Under the ongoing Promoting Agricultural Commercialisation and Enterprises Project (PACE), the Palli Karma-Sahayak Foundation (PKSF), an apex development financing organisation, has financed 604,566 cottage microenterprises (far above the design target of 61,200), generating 1,399,032 full time jobs (2.31 jobs per microenterprise). This demonstrates the positive employment effects of investing in microenterprises.
 - *Missing middle.* About 87% of enterprises are microenterprises, of which 58% are rural. Household microenterprises employ on average 2.0 people, microenterprises 5.4 people, small enterprises 7.7 people, medium enterprises 99.4 and large enterprises 660.4 people. There is a large gap in scale between small and medium enterprises. MFIs are not able to scale up operations to serve larger enterprises, while financial institutions have not been able to scale down operations to reach smaller enterprises. There is scope to involve smaller financial institutions, particularly non-banking financial institutions, to reach the missing middle.
 - *Service delivery.* Project experiences have demonstrated the importance of combining financial and non-financial services to maximise results and impact at microenterprise level. Non-financial services include advisory and business services, improved technologies, value chain integration, and market promotion. Under previous PKSF projects, this combination of services had positive effects on microenterprise turnover and income.
 - *Food safety.* Project experiences have demonstrated the importance of introducing systems for ensuring compliance with food quality and safety standards. The Bangladesh Institute of Public Health indicated that 50% of food items tested between 2001-2009 was adulterated (particularly pesticide residue), posing health risks for domestic consumers and preventing export. Under PACE, introduction of standards on fisheries products has proved to be successful; this needs to be expanded to all food products.

- *PKSF institutional capability.* IFAD's strategy in working with PKSF has been to expand core PKSF programmes, and to introduce innovations which PKSF then takes to scale using core resources as well as other partners' financing. This strategy has proven to be very successful. The first project (MFTSP) supported PKSF to graduate from lending only to lending with associated services; this is now practised across all PKSF operations. The second project (MFMSP) helped PKSF to enter into agricultural lending; agriculture loans now constitute 12% of its portfolio. The third project (FEDEC) assisted PKSF to introduce micro-enterprise lending and business clusters; micro-enterprises now account for 31% of its portfolio. The fourth project (PACE, ongoing) is helping PKSF to upgrade agriculture lending towards a commercial approach, proving that small farms and rural microenterprises are economically viable. The lesson is that PKSF is capable of growing institutionally on an incremental basis.

Key principles for IFAD engagement

26. The project has been conceptualised on the basis of the elements outlined below.
 - build on PKSF/PO successful microfinance programmes but focus on selected sub-sectors and commodities that have comparative advantage, market demand and growth potential;
 - combine financial and non-financial services to enable microenterprises to participate sustainably and effectively in high value commodity supply chains;
 - facilitate direct linkages between microenterprises and agribusinesses to create market efficiencies;
 - develop micro-entrepreneur integration within commodity value chains to create broad economic multiplier effects that transform the rural sector and reduce poverty;
 - apply a nutrition-sensitive approach to the selection of commodities to be promoted, to ensure better nutrition for producers and consumers;
 - specifically target women through the selection of commodities/value chains in which women are heavily involved (poultry, livestock, homestead production);
 - introduce compliance with food safety and quality standards at producer and processor levels, to ensure the supply of safe food for producers and consumers;
 - leverage commercial finance through non-banking financial institutions for investment in larger enterprises and agribusinesses to expand the market for micro-enterprise output;
 - strengthen the capability of PKSF and POs as development institutions by leveraging trends in financial services, commercial platforms and new technologies.

2. Project Description

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

27. **Project goal and objective.** The project goal is to sustainably increase the income, food security and nutrition of marginal and small farmers and micro-entrepreneurs across selected value chains. The development objective 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. Multiple output and outcome related data will be developed in order to measure RMTP's progress towards attaining the goal and objective.
28. **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. The following procedure will be applied to select districts/sub-districts (upazilas) where project activities will take place:
 - First, PKSF will identify districts/sub-districts that have: (i) already developed production clusters of the selected value chains; and, (ii) the potential to develop production clusters of the selected value chains.
 - Second, PKSF will map the incidence of poverty in all districts/sub-districts of the country.
 - Third, PKSF will make a final selection of the target areas covering districts/sub-districts with existing/potential value chain clusters and with greater incidence of poverty.
29. Two additional considerations will be taken into account: (i) avoiding investments in the same value chains and same sub-districts already covered by other PKSF programmes (while seeking complementarities with World Bank-financed *Sustainable Enterprise Project*); and (ii) focusing on areas where Partner Organisations (POs) have lending programmes and have the capacity to implement value chain financing. A list of districts/sub-districts with high potential for the selected value chains is presented in the Project Implementation Manual (PIM).
30. **Target groups.** RMTP will directly target marginal and small farmers and micro-entrepreneurs engaged in producing or processing field crops, horticulture, aquaculture and livestock. Within these groups, the project will focus on the ultra poor, the transitional poor, and the enterprising poor. These are characterised below:
 - *Ultra-poor (approx. 10% of beneficiaries):* The ultra-poor are typically landless (or have up to 0.04 acres of land) and depend on unskilled wage labour and seasonal migration. They have poor literacy and numeracy skills. They typically spend around BDT 4,300 per year to purchase food items. The ultra-poor are involved in producing commodities such as poultry and small ruminants. This group is directly targeted by PKSF's pro-poor lending programme (*Buniad*).
 - *Transitional poor (approx. 27% of beneficiaries):* The transitional poor typically possess between 0.5 and 1.49 acres of land, including homestead land, and/or are involved in sharecropping and wage labour. On average, they spend BDT 5,600 per year to purchase food items. They participate in crop, livestock and poultry value chains, and sometimes supply output to micro-

enterprises. The transitional poor have been able to gradually increase their asset base over the past 5-10 years by diversifying their income base, and in some cases by receiving remittances. This group is targeted by PKSF's household income-generating activities lending programme (*Jagoron*) or seasonal agricultural lending programme (*Sufolon*).

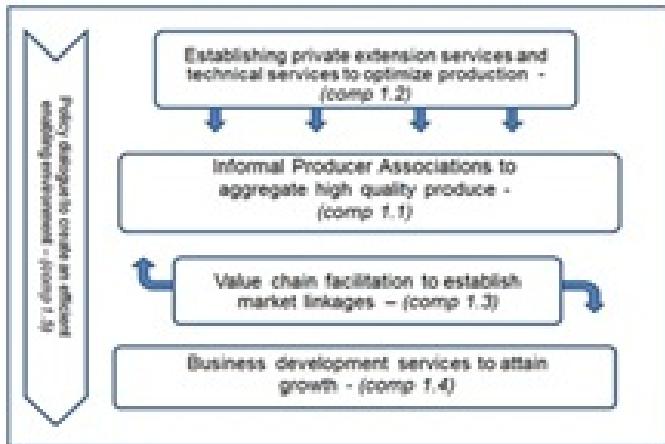
- *Enterprising poor (approx. 63% of beneficiaries)*. The enterprising poor typically possess more than 1.5 acres of land, and spend an average of BDT 7,500 per year to purchase food items. between 30 and 90 decimals of land (30% to 90% of an acre). They operate micro-enterprises in crops/horticulture, aquaculture, livestock and poultry value chains, and supply output to markets or larger enterprises. The enterprising poor are expanding land ownership, and in some cases receive remittances. This group is targeted through PKSF's *Jagoron*, *Sufolon*, and *Agrosor* (micro-enterprise) loan products.

31. In addition, the project will indirectly target all other value chain actors, such as input suppliers, advisory service providers, traders and processors.
32. Microfinance groups will be the main entry point for value chain activities, although participation will also be open to micro-entrepreneurs outside these groups. As per POs' regular practices, borrowers are included in microfinance groups for administrative, transactional and organisational purposes. Microfinance groups typically consist of borrowers of all four loan products. POs will make efforts to increase participation of *Buniad* borrowers in these groups.
33. **Targeting strategy.** The project's targeting mechanisms are outlined below:
 - *Geographical targeting*: outlined in paragraph 28 above.
 - *Procedural targeting*: existing procedures will be applied for targeting under PKSF's four standard loan products. Standard loan packages will correspond to the financial capacities of the ultra-poor, transitional poor and enterprising poor respectively. Similar procedures will be established for the participation of non-banking financial institutions in lending to larger/ growing enterprises and to agribusinesses.
 - *Direct targeting*: POs will identify and directly target microfinance groups that have the potential to upgrade production and develop market linkages, and that have a higher proportion of ultra-poor borrowers.
 - *Self-targeting*: Micro-finance groups engaged in the selected value chains will have the option of forming into producers' associations, with project support.
 - *Empowering measures*. Women are actively targeted as recipients of microfinance loans and PKSF financial literacy training.
34. **Gender.** The Government, IFAD and PKSF place great importance on specifically supporting women to participate in the mainstream of social and economic life, particularly poor women, women-headed households, and young women. Bangladesh has made important progress in these areas through education, health, rural development and microfinance. The predominance of women in microfinance programmes is well-established, and has improved women's access to finance, interaction with markets as producers, sellers and consumers, and status as family decision makers. Based on PACE experiences, it is expected that about 75% of micro-enterprise borrowers under RMTF will be women.
35. Under RMTF, women will be specifically targeted through: (i) selection of commodities/value chains in which women are heavily involved (poultry, livestock, homestead production, high value horticulture); (ii) focus on activities in which women are disproportionately involved (such as post-harvest and basic processing activities); (iii) customised skills training, business training and financial literacy for both enterprise operation and command over household expenditure; (iv) nutrition training and focused awareness communication; (v) access to financial services; (vi) training to PKSF and POs on creating an enabling environment for women's participation. All planning and monitoring indicators will be gender-disaggregated, while the assessment of value chain activities will include indicators to assess gender impact. Efforts will be made during implementation to introduce tools such as 'Gender Action Learning System' (GALS) within PKSF.
36. **Youth.** Rural youth (both women and men) in Bangladesh today are generally better educated than previous generations, and are in a better position to adopt new technology, acquire management skills, manage larger enterprises, and cope with business risks. Drawing on experiences from PACE, and given country demographics, it is foreseen that youth will be automatically targeted in multiple project activities. The project will proactively seek to encourage and include rural youth in its activities by: (i) providing micro-enterprise loans based on specific business proposals to young people; (ii) offering customised business management training; (iii) develop youth as master GGAP trainers and/or local service providers (such as paravets, lead farmers, and technology promoters); and (iv) organize the youth to receive advanced technologies in production, basic processing, value addition, and land-based fish farming. Youth-disaggregated data will be included in the project's M&E system.

D. Components/outcomes and activities

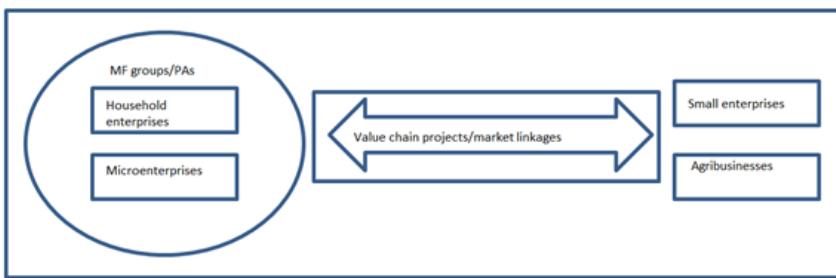
37. The project has three inter-linked components: (i) value chain enhancement; (ii) financial services; and (iii) institutional strengthening and project management. The main investment components (1 and 2) reflect the strategy of combining financial and non-financial services to achieve maximum impact for micro-enterprises, while the third component institutionally strengthens PKSF and POs.
38. **Component 1: Value Chain Development**
 - 39. This component will enable 445,000 microenterprises 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 the agribusinesses and other value chain actors. It has five sub-components: (i) organisation 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.
39. The microfinance groups supported by POs are the main entry point for investments under component 1 (Figure 1). Based on the

principles of self-selection, cohesive microfinance groups can request additional support and become informal producers' groups under sub-component 1.1. These groups will receive technical and business services to increase productivity and ensure compliance with GGAP and HACCP (where required) under sub-component 1.2. Value chain integration support will connect microenterprises to agribusinesses and markets under sub-component 1.3. Agribusinesses will be supported to adopt new technologies, comply with HACCP (where required) and expand their market linkages under sub-component 1.4. The relevant policy environment, and any needed reforms, will be covered by sub-component 1.5.



40. **Sub-component 1.1: Organization**. Where there is demand, the project will utilize the existing microfinance groups of PKSF POs and organize producers into informal groups. These groups will serve as the main platforms for: (i) provision of training and services to farmers and micro-enterprises; (ii) aggregation of output for marketing purposes; and, (iii) establishing linkages with market actors. Linkages will be established with informal/formal private sector businesses^[3] and their associations, service providers, and other stakeholders.
 41. Producers' groups will systematically receive a training package, organised by participating POs either directly or through contracted service providers. This will include financial literacy, social issues, women's rights, environmental challenges, and climate change impacts and mitigation. In addition, hands-on training will be provided on business management and contract farming. Refresher training will be provided based on regular review of PA performance.
 42. Nutrition awareness and related social and behavioral change communication (SSBC) messaging will also be provided to producers' groups in order to enhance knowledge of the elements of a healthy diet. This will encourage and assist rural households to make choices on how to spend incremental incomes in ways that improve diets and nutrition. Reinforcing household messaging with publicity campaigns at community/market level regarding nutritious foods (and related processed foods) is expected to increase demand for these foods.
 43. PKSF will generate a long-list of agribusinesses that may be interested in buying agriculture, aquaculture and livestock produce. POs will cluster producers' groups to enable them to meet the quantities and quality required by partner agribusinesses. The size and proximity of clusters will be influenced by availability of public and private advisory services. Groups will be supported by POs to enter into contractual arrangements with interested agribusinesses.

Figure 2



44. **Sub-component 1.2: Technical and business services**. The project will support micro-enterprises to better engage in selected value chains. Key services will include: privatised advisory services to optimize production; preparation of business models and plans; support to microenterprises for GGAP compliance; support to agribusinesses for HACCP compliance; assistance to source financing; and development of contract management arrangements.
 45. ***Private Advisory Services***: A pool of highly knowledgeable and skilled local service providers such paravets, trainers, and certified local agricultural technicians will be gradually developed to provide privatised technical and business services. PKSF will develop a pre-qualification system for developing this pool of private advisors. It will issue periodic calls for interest inviting qualified persons to apply. Candidates will be evaluated according to educational background, technical knowledge and experience; ability to specifically target women microentrepreneurs and the youth will also be assessed.

46. PKSF/POs will organise generic and advanced training for pre-qualified advisors in commodity-specific crop, livestock, and aquaculture management. For cropping, specific attention will be devoted to the selection, application and safe handling of pesticides. For livestock, training will cover para-veterinarian activities such as vaccinations and health care. For aquaculture, training will focus on environmentally-sustainable production practices and fish health care. All advisory services will comply with food safety protocols and standards for crops, fresh vegetables, livestock and aquaculture products.
47. Training modules will be prepared for each commodity value chain. To the extent possible, existing materials developed by PKSF and POs will be updated, and new modules developed if needed. If required, PKSF will engage a qualified third party to assist develop training materials. Upon completion, relevant expertise will be engaged to validate all training material to ensure the highest quality possible. Accreditation of pre-qualified advisors will be issued upon passing a final examination. It is envisaged that the majority of private advisors will be young (ie between 22 and 35 years of age).
48. POs will draw from the pool of accredited private advisors to meet value chain actors' requests for services, ideally on cluster basis. The provision of advisory services will be cost-shared by the project over three years on declining basis (80% in the first year of operation; 50% in the second year; 30% in the third year). A transparent pricing system to establish the cost of private advisory services will be developed.
49. **GGAP.** To address the increasing concern about food safety in Bangladesh, the project will assist to introduce Global Good Agriculture Practices (GGAP) and the GGAP Chain of Custody Standard (Traceability) for groups of small farmers and clusters of microenterprises involved in production of crops, livestock and aquaculture. Support will also be provided to enterprises involved in produce handling/transport, feed manufacturing, and hatcheries to obtain GGAP if required.
50. PKSF will engage a recognized and accredited organization (international or national) to develop group food safety protocols for selected commodities. These will be coordinated with the work of the Bangladesh Food Safety Network organized by FAO, as well as the relevant activities of other development partners. This organization will train the private advisors to become GGAP Master Trainers to train small farmers and micro-enterprises to introduce the relevant protocols. PKSF will also engage with a different national institution accredited to undertake annual audit and certification of small farmers and microenterprises.
51. **HACCP.** Support will be provided to enterprises engaged in crop/meat/fish processing to obtain Hazard Analysis Critical Control Point (HACCP) certification. The project will engage national HACCP experts to guide processors on obtaining HACCP certification; if national experts are not available, training will be organized to develop this expertise. The training will cover the Codex Alimentarius Commission's Good Manufacturing Practices and preliminary steps to full HACCP. Subsequently, PKSF will engage an in-country company to support enterprises to undertake the necessary steps to obtain HACCP certification, as well as an in-country certification authority for audit and certification. Halal standards will also be introduced where required by the market.
52. Through mass media, the project will raise public awareness on the benefits to be derived from GGAP and HACCP compliance for domestic consumers, producers, processors and exporters. If required, the project will contract an advertising company to roll out the campaign.
53. **Technology.** Working through private advisors, the project will promote appropriate modern technologies in the selected value chains, such as deep placement of urea; vertical production systems for aquaculture; driers for vegetables and fruits; drip and micro irrigation; and modern rice mills. Financing is allocated for feasibility studies, training, technical assistance and, in appropriate situations, machinery and equipment.
54. **Sub-component 1.3: Value chain integration:** The project will focus on a number of sub-sectors and commodities that have comparative advantage, market demand and growth potential; that are produced by small farmers and micro-entrepreneurs; that are aggregated in geographical clusters to ensure economies of scale and the possibility of private sector linkages; and that have potential to improve food and nutrition security for both producers and consumers. The value chains the project support fall into three broad categories:
- **Crops/horticulture/legumes:** (i) high value cereal crops (e.g. aromatic and fine rice); (ii) high value fruits and vegetables (including dark green leafy vegetables); and (iii) pulses (e.g. lentils, *mung* bean, chickpeas), beans, and seeds; (iv) related trading and processing.
 - **Livestock:** (i) dairy production; (ii) red meat (e.g. cattle, goats, sheep, and buffalo); (iii) poultry (including water birds and turkey) and eggs; (iv) related trading and processing.
 - **Aquaculture:** (i) technology-based aquaculture (e.g. mud crab, carp and tilapia, crayfish and high value local species, particularly small fish); (ii) related trading and processing.
55. Within these broad categories, over time the project will assist POs to select other commodities that have high value and growing demand, and that are nutrition sensitive. Additional factors, such as environmental considerations and food safety, will also be strengthened.
56. **Value chain governance.** Where needed, the project will assist to establish commodity-level multi-stakeholder platforms (value chain committees) bringing together microenterprise groups, agribusinesses, input suppliers, transporters, researchers, public advisory services, private advisors and end market representatives. These platforms will promote linkages among buyers, producers and service providers as well as contract farming and similar mechanisms. They will liaise with line ministries to ensure cooperation among value chain actors and Government.
57. **Value chain subprojects.** The project will support PKSF to undertake countrywide value chain analyses for selected commodities to identify entry points for implementation. On this basis, PKSF will issue requests for proposals (RFPs) from POs to develop and implement value chain subprojects. Experiences from FEDEC and PACE show that such subprojects are a flexible, effective and scalable method to implement value chain development. With the final package of interventions being decided after a value chain study, activities can be targeted to directly address local value chain bottlenecks. Under FEDEC and PACE, tailor-made value

chain activities are brought to a given local context. Some initial value chain activities introduced by FEDEC have already been scaled-up by PACE to new regions.

58. Each subproject will consist of an integrated package of activities including: selection of interested downstream agribusinesses interested to purchase the specific commodity from producers; selection of producers and/or their organisations; demonstrations and training for producers; development of linkages (or contractual arrangements) among producers and agribusinesses; technology transfer for producers and processors; provision of advisory services from privatised advisors and/or supply chain managers; integration with other value chain actors; mechanisms to share market information; technical assistance; exchange visits; and related activities. A typical subproject would link 3,200 producers to 7 downstream agribusinesses, and is expected to cost an average of USD 100,000. The selection process for subprojects would be competitive; criteria would include the scale of impact, financial viability, environmental sustainability, compliance with food safety standards; poverty targeting, gender focus and nutrition benefits. POs whose proposals are selected for financing would be supported with qualified value chain facilitators to manage and monitor subproject implementation. The detailed criteria and procedures for the competitive selection of value chain subprojects are contained in the PIM (Annex 8).
59. *Nutrition sensitive value chains:* It is expected that 30%-50% of subprojects will be selected based on their nutritional potential combined with business potential. Development of these subprojects will follow IFAD's guidance note on nutrition-sensitive value chain approaches. As a first step, an analysis of the nutritional situation will be undertaken to obtain a better understanding of the major nutritional challenges in the project areas, and to outline the nutrition potential of various commodities. Commodities that can address nutritional problems while also having potential for market growth will be prioritized. A study that has been recently conducted by the Centre for Tropical Agriculture (CIAT, Appendix III) outlines how such analysis can be carried out and identifies nutrition opportunities in cropping, aquaculture and livestock. Context- and commodity-specific studies will then be carried out to identify challenges and opportunities in developing the relevant value chains, followed by stakeholder consultations and definition of specific investments. These studies may best be commissioned at the PKSF or PO level, to take advantage of a consolidated analysis that can cut across locations or commodities. Nutrition-sensitive value chain activities will include the use of nutrition-sensitive inputs, nutrition-sensitive extension and communication, safe storage and food safety.
60. Recognising that improved incomes do not automatically lead to better nutrition outcomes, the project will hire a nutrition specialist to assist the POs with the design, implementation and monitoring of nutrition-sensitive value chain investments and social behavior change communication. The specialist will work with PO staff to develop appropriate training courses and materials to raise awareness and understanding of nutrition issues, and so ensure that nutrition-sensitive subprojects are designed and implemented well. In order to take advantage of existing knowledge and expertise on nutrition in the country, RMTP will pursue partnerships with relevant UN organizations, NGOs, PKSF projects like ENRICH and Ujjibito, and the Bangladesh National Nutrition Council.
61. Sub-component 1.4 Enterprise strengthening: The project will provide specialised consultancy support to downstream agribusinesses in: (i) food safety standards and traceability; (ii) introduction of new products like dried fruit, fruit juice, etc.; (iii) market entry studies for both domestic and export markets; (iv) trial shipments for domestic and export markets as required; (v) product branding including geographical indication, accompanied with GGAP, including GGAP labelling; and (vi) operational business planning for small downstream agribusinesses with potential for rapid growth.
62. Agribusinesses supported under component 2.2 and promising producers' groups will be the main beneficiaries of enterprise strengthening services. PKSF will cooperate with non-banking financial institutions to identify agribusinesses in need of such services. A rapid assessment shall identify qualified third parties to be contracted by PKSF for the provision of the services.
63. The project will generally not provide direct subsidies for the business operations of farmers, microenterprises or agribusinesses. However, PKSF will develop a scale for provision of targeted subsidies to training recipients and downstream enterprises to catalyse the introduction of new technologies, specific services and products, and contract farming arrangements.
64. Sub-component 1.5: Policy dialogue: Supported by the IFAD Country Office, PKSF will undertake policy dialogue with concerned Government institutions on key topics relevant for the project. Possible topics may include: reviewing regulations governing PO loan portfolio structure; the revision of outdated sectoral policies; increasing micro-enterprise loan ceilings to enable introduction of new technologies; revisiting regulations governing the livestock sub-sector; allowing establishment of commercial hatcheries for mud crablets; establishing an ISO 17025 accredited laboratory for analysis of residue of pesticide and heavy metal; and other issues in financial services and selected sectors. Key policy outputs are: relevant sector policies reviewed and adjusted where appropriate; regulations governing PO loan structure reviewed and adjusted where appropriate; and relevant livestock sector policies reviewed and adjusted where appropriate. IFAD will also follow the process of UN reform and the role of the Resident Coordinator in refining policy engagement.
65. PKSF will undertake the following steps for successful policy dialogue: (i) identify the policy issue in consultation with relevant stakeholders and experts; (ii) prepare an evidence-based policy paper with assistance from independent experts; (iii) organize awareness building activities to share the analysis and recommendations; (iv) propose policy changes to relevant authorities; and (v) ensure continuous follow-up of the policy recommendations.

Component 2: Financial Services

66. This component will provide sustainable financial services to micro-enterprises and to growing/larger enterprises and agribusinesses. It has three sub-components: (i) provision of financial services to micro-enterprises 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); and (iii) optimal utilisation of remittances through training to the family members of overseas workers.
67. Sub-component 2.1: Financial services through POs As mentioned earlier, PKSF offers four loan products through POs: (i) *Buniad* (ultra-poor loans); (ii) *Jagoron* (household income-generating loans); (iii) *Sufolon* (seasonal agricultural loans); and (iv)

Agrosor (microenterprise loans). Demand for micro-enterprise loans across the country is very high, and growing faster than the other three loan products. Interest rates to final borrowers typically range from 22% to 25%.

68. The project will provide substantial resources to PKSF to expand its microenterprise lending programmes through POs. These resources will be utilised exclusively for financing the selected commodities/value chains. It is estimated that an additional 100,000 microenterprises will be financed, with an average loan size of BDT 120,000. Since lending resources will revolve at PO level, it is envisaged that these new borrowers will receive several cycles of loans.
69. PKSF will apply its existing business model, standard operating procedures, and lending terms and conditions to administer these resources. It will lend to POs for lending to small farmers and micro-entrepreneurs. Similarly, POs will apply their standard operating procedures and lending terms and conditions. Repayments from borrowers to POs will be revolved for similar investments for the duration of the project. PKSF and POs are expected to adjust the terms and conditions for microenterprise loans from time to time in line with market conditions, weighted average cost of funding, and approval by their managements and governing bodies. PKSF will continue its existing loan approval, supervision and monitoring processes for PO lending programmes, and make adjustments over time as necessary. As practiced by all previous and ongoing PKSF projects financed by IFAD, PKSF will monitor increases in the outstanding loan portfolio from PKSF to POs to measure the utilization of the project's lending resources, and will report accordingly.
70. Microenterprise borrowers within the value chain subprojects will receive loans in line with the existing practices of the respective POs. Leasing (hire-purchase) will be encouraged for investments in power tillers, tractors, mechanical/motorized rice planters, solar-powered drip/micro irrigation systems, automatic poultry slaughter houses, and other relevant activities.
71. **Subcomponent 2.2: Commercial finance.** The objective of this sub-component is to develop a new channel of financing for larger microenterprises and small/medium agribusiness companies (the 'missing middle') which are currently neither clients of microfinance institutions nor commercial banks. This financing will be administered by licensed non-banking financial institutions (NBFI), with interest rates to final borrowers typically ranging between 9% and 18%. NBFI currently lend to small enterprises (in one case offering special loan products for women entrepreneurs), but their agribusiness portfolios are limited due to financial constraints.
72. The project will provide resources through PKSF to selected licensed NBFI for this purpose. This would substantially expand the market for the output produced by small farmers and micro-enterprises, which are the primary target groups of the project, and improve their integration within the selected value chains. Larger agribusinesses will be encouraged to also enter into contract farming arrangements with producers' groups and micro-enterprises, obtaining NBFI financing where required, with project support in the form of technical assistance, technology transfer, and organisation of producers.
73. NBFI will be a new type of PO for PKSF. RMTP is the first project through which PKSF will engage with POs that are not registered under the Microfinance Act, but rather are licensed by Bangladesh Bank under the Financial Institutions Act (1993). PKSF regulations have recently been adjusted to allow working with NBFI.
74. The selection of NBFI under the project will be competitive, based on an approved assessment process. PKSF will issue a request for EOI from NBFI interested to participate in the project. On this basis, a number of NBFI will be invited to submit proposals. In addition to standard financial criteria, NBFI selection criteria would include their interest to venture into this sector leveraging their experience in other sectors, their willingness to lend to downstream value chain actors, their proposed lending terms and conditions, and the amount of cost-sharing from their own resources. PKSF will enter into an agreement with each selected NBFI which outlines the terms and conditions of project financing, and the parameters governing how the funds will be utilised. This process may be repeated periodically during implementation.
75. NBFI will assess the profitability, cash flow, reputation and credit history of entities applying for loans. Entities who are financed by NBFI will be supported by the project (under component 1) to enter into relationships with microenterprises and producers' groups. The possibility of financing larger enterprises and agribusinesses also through a state-owned bank, such as Karmasangthan Bank, may be explored.
76. Participating NBFI will finance agribusiness investments in capital equipment (on debt or hire-purchase basis) for relevant value chain activities. Repayments will be revolved into new loans for the duration of the project implementation period and beyond. Agribusiness selection criteria would include their commitment to enter into commercial relationships with targeted micro-enterprises.
77. **Sub-component 2.3. Utilisation of remittances.** Millions of Bangladeshis live and work outside the country and send home an estimated USD 20 billion annually in the form of remittances. These remittances are used for consumption, house improvements and in some cases the purchase of land. Remittance receivers often do not invest these funds in sustainable economic activities due to lack of skills, and fall back into poverty when the expatriate worker returns home.
78. A small in-loan grant will be provided to the Ministry of Expatriates' Welfare and Overseas Employment (MoEWOE), which is mandated to handle non-resident Bangladeshi (NRB) affairs, for the promotion of diaspora investment and optimal utilisation of remittances under the project. The objective would be to develop the skills of households receiving remittances so that they can invest a portion of the remittances received into micro-enterprises, and sustainably improve their economic status. The MoEWOE would identify remittance-receiving households in the project areas, and link them to project component 1.2 for the provision of business and technical training to expatriate family members (mainly women and the youth). They would also be linked to sub-component 2.1 for the provision of microfinance where required.
79. Most remittance-receiving families are headed by women, and have underemployed youth. This sub-component will provide an important contribution to women's economic empowerment any youth employment in the project areas. Piloted methodologies will subsequently be scaled up across rural areas of Bangladesh.

Component 3: Institutional Strengthening and Project Management

80. This component aims to strengthen PKSF and PO capability as development organisations by leveraging trends in 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 (see organisation and management section).
81. In leveraging ICT solutions, the project will collaborate with and build upon the knowledge generated by the IFAD grant-funded ongoing research by the Consultative Group to Assist the Poor (CGAP). The aim of this grant is to overcome the persistent digital divide between women and men in the mobile money market in Bangladesh. CGAP supports the introduction of new smart phone apps to POs, as the penetration of smart phones in rural areas is increasing. Together with financial literacy training, the grant expects to improve the role of women in financial decision making.
82. Sub-component 3.1 PKSF capacity building Over time, PKSF has introduced numerous software modules covering financial management, human resources management, PO management, and mobile financial service systems for POs. Through the provision of technical assistance and training, the project will assist PKSF to gradually and carefully integrate additional ICT-based solutions into its operations. The ICT solutions proposed below will be subject to feasibility studies and pilot phases, and the availability of local service providers will be assessed, before they are introduced.
83. *Distributed digital ledger technology (transparency engine)*. A recent technical assessment commissioned by IFAD investigated the opportunities, risks and alignment of partners, and found the introduction of distributed digital ledger technology within PKSF to be feasible. The project will support PKSF to create an information management and sharing platform built on distributed ledger blockchain technology to ensure improved management of records and greater transparency in fund management. This will allow borrowers, producers, associations, organisations, public entities, POs and PKSF to track sources of funding and to better monitor the detailed credit history of clients. Over time, this will translate into lower interest rates for proven credit-worthy borrowers and will facilitate their integration into the national banking system. Other financial institutions may eventually be invited to use the platform as an input for loan appraisal decision making. ICT applications for blockchain use will also be developed. PKSF will contract a qualified fintech service provider to develop the platform, related applications, a user guide and training materials, and to train potential users. Other options, such as using blockchain application for commodity traceability, will be assessed during implementation.
84. *E-commerce platform*. The project will upgrade PKSF's e-commerce platform for rural products and integrated business services, which was established under PACE. It will leverage technology to connect rural producers (women, small farmers and micro-entrepreneurs) with new sets of customers, creating a parallel marketplace. POs will be assisted to connect borrowers to the platform and orient them on transactional methods – business to business (B2B) and business to consumer (B2C). The option of technical cooperation with Alibaba/Ant Financial in upgrading this platform will be assessed.
85. *Crowd-funding (fraternity funding) platform*. Crowd-funding, which enables entrepreneurs to raise funding from multiple individuals/investors, including migrant remitters, is now the second-largest financier of enterprises globally (after venture capital). Subject to a positive assessment by a feasibility study, the project will support PKSF to create a crowd-funding platform and associated marketing campaign. Two approaches will be promoted – initially the lending-based, peer to peer (P2P) model; and eventually the equity-based model (such as the 'Bangladesh Angels' model, a pioneering angel investment network. The platform owner (PKSF) will provide financial due diligence and legal/contractual services as it links investors to micro-enterprises and agribusinesses. Interested entrepreneurs will be trained to prepare and disclose the financial information required. Technical assistance on regulatory aspects will be provided to relevant authorities.
86. *Microenterprise ICT*. PKSF will develop an ICT platform and a mobile phone application for the sharing of advisory services related to selected value chains (as well as household health and nutrition information). Users will be able to download illustrated training modules. The platform will include an expert panel to respond to queries of producers' groups.
87. Subcomponent 3.3: PO Institutional Strengthening. The project will provide capacity building for POs in: (i) IT systems; (ii) value chain management, integration, technology and contract intermediation; (iii) nutrition-sensitive value chain design and implementation; and, (iv) new product development where required.

E. Theory of Change

88. Millions of small farmers and microentrepreneurs in Bangladesh are unable to transition from subsistence production to commercialised operations due to a range of factors: 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, absence of structured markets, and competition from neighbouring countries. Moreover, unsafe application of pesticides and antibiotics, as well as unhygienic transportation and distribution systems, raise serious consumer concerns about food safety. On the other hand, medium and larger agribusinesses are interested in sourcing reliable and quality produce from small farmers and micro-entrepreneurs. However, insufficient financial resources, an unorganized production base, and irregular supply of unreliable quality prevent them from meeting the market demand. The project aims to address these constraints and foster win-win commercial linkages between small farmers/micro-entrepreneurs and agribusinesses.
89. The project will offer small farmers and micro-entrepreneurs access to improved production technologies, financial services and market linkages. Producers will be organised and equipped with the necessary skills to comply with food safety standards. This will allow producers to increase the quantity and quality of output, while upgraded market linkages will reduce market volatility and ensure higher financial returns. It will also increase the availability of high quality produce available for agribusinesses, which will be supported through commercial finance from NBFIs and technical assistance. In summary, the project will create synergy among producers and agribusinesses, enabling sustained income growth and employment creation.

90. While market demand will be the primary selection criterion for value chains, the project will promote several impact pathways to improve food security and nutrition of small farmers. For food crops with nutrition improvement potential, food and nutrition security will be improved through: (i) increased production of nutritious foods that meet dietary gaps; (ii) reduced post-harvest loss and waste; (iii) increased consumption of these foods from own production; or (iv) increased consumption from local markets due to the increased availability, affordability, quality and safety of these foods. For cash crops, improvements to food and nutrition security will be generated by increased incomes and purchasing power. Nutrition campaigns and training on behavior change communication will raise nutrition awareness and create demand for healthier food.

F. Alignment, ownership and partnerships

91. **Alignment with SDGs.** The project aims to assist the Government to address major elements of those Sustainable Development Goals (SDGs) that fall within IFAD's comparative advantage. In particular, it will tackle SDG 1 (end poverty in all its forms everywhere), SDG 2 (zero hunger), SDG 3 (ensure healthy lives and promote well-being for all at all ages), SDG 5 (gender equity), SDG 8 (promote inclusive and sustainable economic growth, employment and decent work for all), SDG 9 (industry, innovation, infrastructure), and SDG 12 (responsible consumption and production).
92. **Alignment with national policy.** The project's rationale is guided by the Government's *Seventh Five Year Plan*, which covers 2015/16 to 2019/20. In particular, it addresses two of the Plan's key themes: (i) GDP growth acceleration, employment generation and rapid poverty reduction; and, (ii) inclusion with a view to empower every citizen to participate in and benefit from the development process. It is aligned with Bangladesh' renewed commitment on nutrition, shown through the re-establishment of the *Bangladesh National Nutrition Council* (BNNC) and the recent approval of the *Second Bangladesh National Plan of Action for Nutrition (NPAN2)* 2016-2025. In addition, it is in line with the *Agricultural and Rural Credit Policy and Programme 2018-2019* of the central bank.
93. **Alignment with IFAD policy.** The project rationale is anchored in IFAD's mandate of rural transformation, its Strategic Framework 2016-2025, and the specific COSOP strategic objectives (SOs) of economic and social empowerment of disadvantaged groups (SO1), as well as their market access improvement and integration into profitable value chains (SO2). Alignment with IFAD policies is further detailed in Table 1.

Table 1: Alignment with IFAD Policies

Targeting policy	The project includes marginal and small farmers and microentrepreneurs in selected value chains in rural areas. It will cover the ultra-poor, the transitional poor and the enterprising poor.
Gender equality and empowerment policy	Women, especially young women, are at the centre of the project: more than 50% of value chain participants will be women; about 75% of microenterprise loans will be disbursed to women borrowers; and a proportional number of women will receive training on production techniques and business management. Women will be the main participants in nutrition, social and environmental campaigns, and agents of change at community level. Women's social and economic roles will be greatly enhanced. The M&E system will generate gender sensitive data.
Mainstreaming nutrition	The project promotes nutrition-sensitive value chains. Most of the commodities selected for value chain development are likely to improve diets and nutrition of both producers and consumers. Good nutrition practices in rural households will be promoted through campaigns and training; this will cover consumption of nutritious foods from own production and promotion of healthy diets. RMTTP will partner with other projects in the country that promote food security and nutrition, as well as primary health care and sanitation. The logframe has indicators to measure progress in nutrition security.
Rural youth	Young men and women are at the core of the project: educated youth will be trained as service providers in all three sectors, and as master trainers in GGAP implementation; young microentrepreneurs will receive larger loans to expand businesses and create wage employment; younger generations of the rural population who are investing in agribusiness will be targeted for quick transfer of technologies.
Rural finance policy	PKSF is a renowned apex development finance institution that lends to more than 200 NGO-MFIs (partner organizations). The project will expand PKSF's portfolio of microenterprise loans to POs, which in turn will lend to an additional 100,000 microenterprises. All participating POs are financially viable organizations that will continue to offer financial services to microenterprises and other borrowers beyond the project period. Finally, the project will engage in policy dialogue on rural finance issues.
IFAD environment and climate change strategy	The project promotes commercially viable solutions to specific environmental issues faced within the selected value chains through appropriate technologies and proper production and processing practices. Impact of climate change will be taken into consideration in the analysis of country-wide value chains, promotion of business and livelihoods, and implementation of value chain subprojects.

Knowledge management	The project has applied new guidance on best practices for logframes and results hierarchies, and will have a dedicated M&E system as well as significant budget resources for knowledge management related activities.
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94. **Partnerships.** RMTP will actively seek partnerships with RBAs, development partners and the private sector. In particular, the project builds on research generated by WFP and FAO on nutrition, as both institutions have developed a substantial knowledge base in this area. Synergies will be developed with FAO's food safety, livelihoods, marketing and extension activities. Complementarity with other development initiatives will be ensured through the annual Bangladesh Development Forum, which provides a platform for policy, investment coordination, and partnership fostering, and also through the relevant Local Consultative Groups (Government and development partners). RMTP will furthermore explore partnerships with: (i) the private sector, including FinTechs; (ii) agencies leading on GGAP and HACCP; and (iii) relevant organisations operating in the fields of rural enterprise development, financial services and new technologies; and (iv) relevant line ministries.
95. During implementation, there shall be substantial cooperation and learning between RMTP and other IFAD-financed projects, particularly PACE. Agricultural value chain investments under PACE could receive additional support from RMTP when the business case is convincing; the same applies for the PACE e-platform developed with Korean supplementary funding. For extension services and productivity improvement, RMTP will seek partnerships with SACP and NATP2 (both implemented by MoA). In due course, synergies with youth vocational training under PROVATI³ may be explored. Finally, practical experiences from the IFAD-funded HILIP-CALIP project will be utilised during implementation. This project was able to establish effective linkages at local level between the project, relevant Government departments such as DLS and DAE, as well as the Bangladesh Forest Research Institute and World Fish.
96. For nutrition, RMTP will collaborate with PKSF's ENRICH and Ujjibito projects. Both projects work with ultra-poor families on food security, nutrition, health care and income generating activities. At the PO level, synergies will be sought with other health and nutrition programmes.

G. Costs, benefits and financing

a. Project costs

97. The total project cost amounts to USD 200 million over a six-year implementation period. All costs are estimated based on currently prevailing prices in Bangladesh. Project costs by component are presented in Table 2.

Table 2: Project Cost Summary (USD '000)

	IFAD		IFAD Grant		Co-Financiers		PKSF all		Private sector, NBFIs & Pos.		Beneficiaries		Total	Total
Component	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
A. Value Chain Development														
Organization	363	5	0	0	1 016	13	498	7	5 808	76	0	0	7 685	100
Technical and Business service	2 071	20	0	0	2 307	22	691	7	4 646	44	877	8	10 592	100
Value chain sub-project implementation	10 862	72	0	0	4 243	28	0	0	5 808	0	0	0	7 685	100
Enterprise strengthening	500	60	0	0	334	40	0	0	4 647	0	0	0	5 481	100
Policy Dialogue	600	60	0	0	400	40	0	0	5 808	0	0	0	7 685	100
Subtotal	14 397	41	0	0	8 300	24	1 189	3	10 454	30	877	3	35 216	100
B. Financial Services									0	0				
Micro-Finance through PO	48 215	36	0	0	0	0	10 756	8	76 405	56	0	0	135 377	100
Commercial Finance	10 000	50	0	0	0	0	0	0	10 000	50	0	0	20 000	100
Subtotal	58 215	38	0	0	0	0	10 756	7	86 405	56	0	0	155 377	100

C. Capacity Building of Remittance Earners	0	0	1 000	100	0	0	0	0	0	0	0	0	0	1 000	100
D. Institutional Strengthening and Project management									0	0					
PKSF's Capacity Building	1 961	100	0	0	0	0	0	0	0	0	0	0	0	1 961	100
POs Capacity Building	335	86	0	0	0	0	55	14	0	0	0	0	0	390	100
Project Management	5 092	84	0	0	0	0	964	16	0	0	0	0	0	6 055	100
Subtotal	7 388	88	0	0	0	0	1 019	12	0	0	0	0	0	8 407	100
Total	80 000	40	1 000	1	8 300	4	12 964	7	96 859	48	877	0	200 000	100	

b. Project financing/co-financing strategy and plan

98. The project financing plan is presented in Table 3. It will be financed an IFAD loan of USD 80.0 million, an IFAD grant of USD 1.0 million, PKSF contribution of USD 13.0 million, cofinancing of USD 8.3 million, private sector contribution of USD 4.6 million, POs contribution of USD 82.2 million, NBFIs investment of USD 10.0 million, and beneficiary equity of USD 0.9 million. A total of USD 300.000 has been identified as IFAD climate finance.

Table 3: Project Financing Plan

		(US\$ '000)						Local '000	
	Foreign	Local	Total	Percent	Foreign	Local	Total	Percent	
IFAD	132	79 868	80 000	40.0	11 124	6 708 877	6 720 001	40.0	
IFAD Grant	-	1 000	1 000	0.5	-	84 000	84 000	0.5	
PKSF	-	12 039	12 039	6.0	-	1 011 243	1 011 243	6.0	
Co-Financiers	-	8 300	8 300	4.1	-	697 199	697 199	4.1	
Private Sector	-	4 646	4 646	2.3	-	390 269	390 269	2.3	
POs	-	82 213	82 213	41.1	-	6 905 898	6 905 898	41.1	
NBFI	-	10 000	10 000	5.0	-	840 000	840 000	5.0	
Beneficiaries	-	877	877	0.4	-	73 664	73 664	0.4	
PKSF-Tax	-	925	925	0.5	11 124	16 788 876	16 800 000	100.0	
Total	132	199 868	200 000	100.0	11 124	16 788 876	16 800 000	100.0	

c. Disbursement

99. Disbursement Profile

100. RMTF's withdrawal of funds and its use of loan proceeds are governed by the IFAD's Loan Disbursement Handbook (LDH) and Financing Agreement between IFAD and the Bangladesh Government. Applicable procedures of disbursement, financial reporting and maintenance of appropriate project records will be described in details in a Letter to the Borrower subsequently after signing the Financing Agreement between IFAD and the Bangladesh Government.

101. After the Financing Agreement for RMTF enters into force, PKSF will sign a subsidiary Loan and Grant agreement in which the Government of Bangladesh will on-lend a portion from the proceeds of the Loan as a subsidiary loan to PKSF. The remaining portion of the loan will be provided in the form of a Grant to PKSF and for the Components of: Value Chain Enhancement and Institutional Strengthening/Project Management.

102. An online guided overview of IFAD financial management practices and procedures is available for project staff [1]. Project staff is encouraged to avail this training to ensure an efficient disbursement and an appropriate fiduciary control.

103. Three standard disbursement procedures are available for RMTP withdrawal of financing:

1. Advance withdrawal
2. Direct payment
3. Reimbursement

104. Advance withdrawal

105. This modality is used to advance and/or replenish funds to a bank account as designated by the borrower. The Fund places a limit on the amount to be advanced and/or replenished. Relevant details on the modality – which is project specific – are to be agreed between the borrower and the Fund, and be detailed in the LTB.

106. The ceiling amount will be a reasonable limit, sufficient enough to cover average projected eligible expenditures of RMTP for a period of six months. The ceiling amount may be set depending on the level of expenditures as to be incurred based on (i) the approved AWPB; and (ii) the project's specific reporting of actual and projected expenditures foreseen within that AWPB period. The Fund will ascertain and certify clearance of the figure to be advanced, which may vary during the implementation of the project, depending on the projected expenditure requirements.

107. Should it be found necessary to revisit the ceiling figure considered a reasonable limit at any time during project implementation, this shall be subject to prior agreement between the borrower and the Fund, with communication by IFAD to the borrower through modification of the LTB.

108. The advance withdrawal is foreseen to be the principal method to be used for the disbursement of RMTP. The main conditions precedent to withdrawal the initial advance from the Loan to the Designated Account (DA) of the Project are: (i) evidence that the DA has been opened; (ii) authenticated specimen signatures of each authorised person that will operate the DA; and (iii) sufficient evidence of the authority of the persons who will sign the withdrawal applications on behalf of the PKSF. The Project Coordinator (PC) will ensure a proper cash flow from the Loan Account to the DA to ensure the implementation of the project is not hindered. RMTP will use the IFAD Client Portal (ICP) for the submission of withdrawal applications.

109. Subject to the recommendation of the first IFAD supervision mission, the project is expected to enter into the Straight Through Processing (STP) to justify advances and seek replenishments. This facility was incorporated in the last stage of PACE.

110. Supporting documentation and records of the expenditures claimed under the STP facility should be maintained and be readily available for review by IFAD's supervision missions or any other review team assigned by IFAD and external auditors. The PMU will be responsible to ensure the SOEs are elaborated in accordance with IFAD requirements.

111. Direct payments

112. This modality is used for eligible project expenditures to be paid directly by IFAD as per the request of the PMU, generally for large contracts, to suppliers, contractors, consultants or third parties, as authorized by the borrower.

113. This procedure is generally suitable for payment of large civil works, consultant fees (when these are of substantial), importation of goods for which a letter of credit is not practical, and when exchange rate control regulations are present in the country. The minimum value threshold for direct payments is specified in the LTB.

114. Under this procedure, RMTP requests the fund to pay the supplier directly on its behalf from the loan account in IFAD. RMTP must indicate in the WA the date on which payment becomes due to the supplier. The WA will need to be accompanied by a signed copy of the contract and relevant supporting documents evidencing the eligibility of the expenditure.

115. Reimbursement

116. This is applicable when eligible project expenditures, reimbursable under the financing, have been pre-financed by the project or incurred (that is, the suppliers of goods, works, consulting or other services has already been paid by the project from its own funds). This reimbursement procedure is generally suitable for payment of: (i) local currency costs; (ii) petty cash or small purchases; (iii) small civil works payments; and (iv) the borrower's provision of financial resources to the project when, for example, requests for advance replenishment to the designated account have not been submitted promptly, thus enabling the project to continue uninterrupted implementation.

117. Usually, IFAD will reimburse the project in the currency of payment as affected by the borrower. Nevertheless, the borrower may request reimbursement to be made in the currency of the Financing Agreement. However, the amount to be paid will be determined by the Fund, using the rate of exchange determined by IFAD Treasury. This methodology is used as a safeguarding principle.

118. Requests for reimbursement are to be submitted to the Fund within ninety calendar days from the date of payment by the project. Should special circumstances prevail for the loan, these will be described in the agreed-on, project-specific LTB.

119. Flow of Funds.

120. RMTP shall maintain and operate two Designated Accounts (DAs) denominated in US dollars in the Bank of Bangladesh open under the SAFE modality, to receive the loan and grant proceeds. The DAs are administered following imprest arrangements, in which an initial amount of the loan and grant is advanced and then replenished periodically based on justified expenditures. The maximum advances provided by IFAD to the DAs are established as an Authorized Allocation (AA) in the LTB.

121. An additional DA in US dollars shall be maintained by the Ministry of Expatriates' Welfare and Overseas Employment (MoEWOE) following the same arrangements to receive funds for the Sub-component 2.3. Optimal utilisation of remittances.

122. RMTP shall maintain two Project Accounts (PA) in Bangladesh Taka (BDT) in a commercial bank for day-to-day project management operations and activities. One Project Account for the loan proceeds and the other one for the grant proceeds. An additional Project Account following the same arrangements shall be maintained by MoEWOE.
123. Transfers to POs, NBFIs and VC development projects will be transferred from the Project Accounts in local currency following similar imprest arrangements for quarterly replenishment.
124. Transfers for Component 2: Financial Services to the POs and NBFIs from the PAs of RMTP will be governed by specific contracts in which quarterly financial reporting will be established.
125. Transfers for Component 1: Value Chain Enhancement to the POs will be governed by Approved sub-projects under imprest arrangements for disbursement.
126. Both funds will be disbursed to a specific bank account in the POs and NBFIs, but two different account ledgers in each case will be maintained.
127. Specific details for enabling further transfer of advance resources are described in the LDH. Towards project completion, the Fund initiates procedures and takes steps to ensure recovery of advances provided.

128. PKSF contribution

129. PKSF counterpart to RMTP is for the **Subcomponent 2.1 Financial Services through Partner Organizations (POs)**and taxes and duties.
130. PKSF contribution will be incorporated in the Annual Work Plan and Budget (AWPB) cycle for all PO's and NBFIs and will be consolidated and reported by the PMU level.

131. Non-Banking Financing Institutions and Partner Organizations contribution

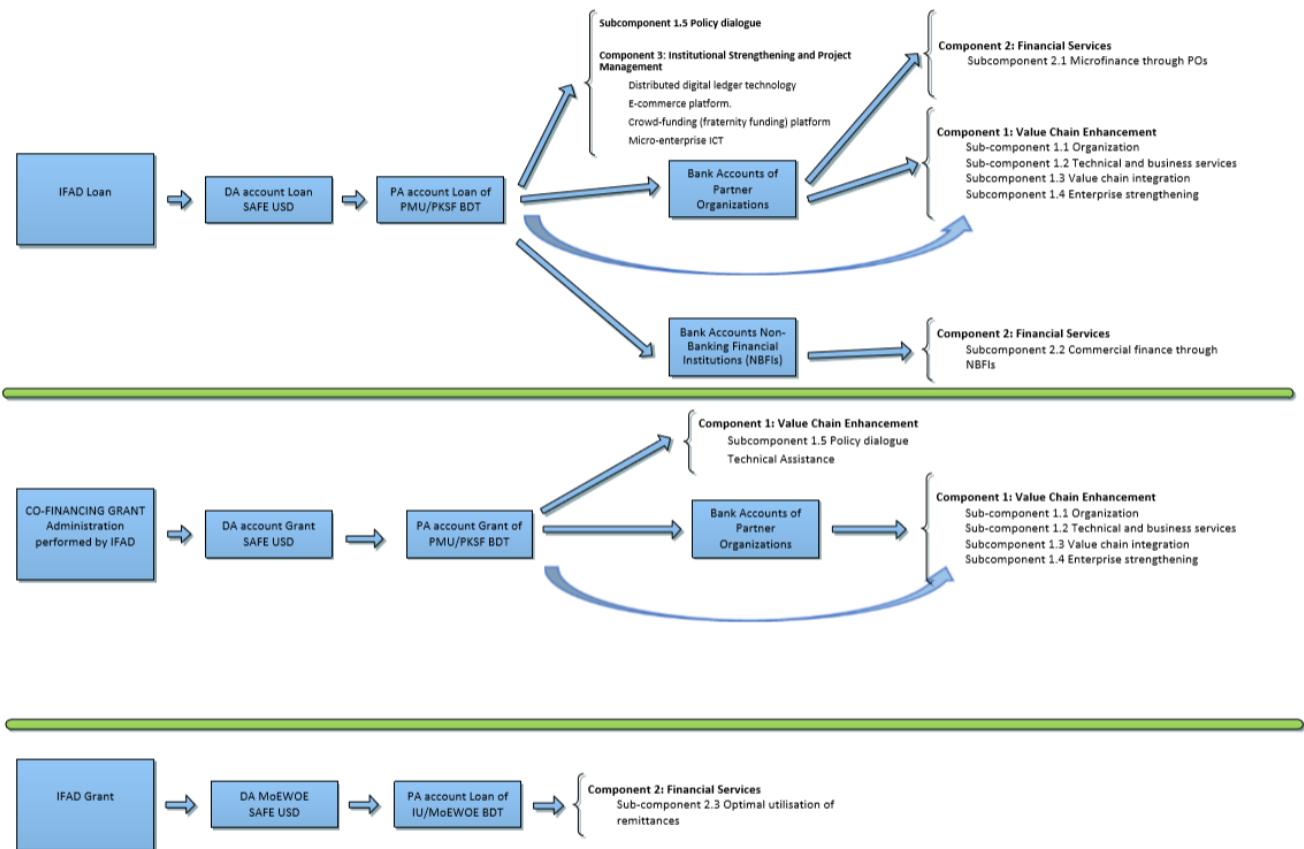
132. The PMU will establish appropriate procedures with POs and NBFIs to ensure that the matching contribution of its part is done in a timely manner.

133. Private sector contribution

134. The private sector contribution will be contingent upon the production and market linkages that are facilitated by the POs. No cash contribution to the project is foreseen by the private sector. Their contributions represent an estimate in the form of training to beneficiaries, advisory services, etc. The PMU will ensure that the private sector contribution is accounted and tracked properly to ensure its reporting by the PMU level.

135. Beneficiaries contribution

136. Beneficiary contributions for RMTP are in kind. The PMU will ensure that this counterpart is tracked and quantified at fair market value. The PMU will ensure that the beneficiaries' contribution is accounted and tracked properly to ensure its reporting by the PMU level.



137. [1]<https://www.ifad.org/web/knowledge/publication/asset/39631355>

d. Summary of benefits and economic analysis

138. **Beneficiaries and benefits:** The project will directly benefit an estimated 445,000 households, including small farmers, micro-entrepreneurs and other value chain participants (input suppliers, traders, service providers). Of these, 100,000 households will receive several rounds of microfinance as well as value chain services, while 345,000 households will receive value chain services. Considering an average household size of 4.5, the project will benefit 2 million people within a period of six years.
139. 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 Return on Investment (ROI) of 51%; banana representing fruits 30%; potato representing vegetables 38%; technology-based aquaculture 67%; dairy 20%; red meat 40%; poultry meat 29%; and poultry eggs 37%.
140. RMTP will generate significant positive effects on rural household incomes, food security and nutrition. Other benefits include improved advisory services; better food safety; improved animal health (dairy, beef cattle, poultry and fisheries); improved market access, and growth of rural businesses. RMTP will also generate employment opportunities for women and men, particularly the youth through their involvement of the value chain activities and related backward and forward linkages.
141. **Economic and financial analysis:** The Financial Internal Rate of Return (FIRR) is 35%. The net benefit flow was discounted at 10%, which is the current average interest rate, to ascertain the break-even point of the project cash flows. The Economic Internal Rate of Return (EIRR) for the 20-years period is 30% with benefit cost ratio of 1.29. The project earns a Net Present Value (NPV) of USD 275 million for the 20-year period with 6.2% discount rate.
142. Sensitivity analyses were carried out to assess whether the project is economically robust in light of potential risks in terms of increased cost of production of enterprise, decreased benefits or delay in realising benefits. These three risk factors represent most of the potential adverse climatic conditions (heavy rains, floods, cyclones) and market failures. Both cost increase by 10% and 20% and benefit decrease by 10% and 20% yield EIRRs that are higher than the opportunity cost of capital and therefore indicate that the enterprise models are indeed robust. However, the production models show the highest drop of EIRR in the scenario of 20% benefits decrease and one-year delay in generating benefits. As such, PKSF will have to closely monitor the timeframes and quantities of benefit-generation during implementation.

e. Exit Strategy and Sustainability

143. PKSF's POs are institutionally and financially viable organizations that offer multiple loan and savings products. Analysis of PO financial statement suggest that the POs are financially sustainable and well positioned to continue offering financial services beyond the project period.
144. The underlying business relations to be fostered between producers markets are key to the sustainability of the project. It is expected that the various technologies, business services, production techniques, and marketing linkages will be adopted and sustained beyond the project period. Introduction of GGAP and HACCP across commodity value chains will allow for improved health and sustainable agricultural practices. Likewise, introduction of bio agents for pest control through adoption of IPM and introduction of new crop varieties tolerant to climate change, pest pressure, increased nutritional values and high productivity will also contribute to sustainable agriculture and food security. Promotion of high quality compost, motorized deep placement of urea/DAP and compost/DAP briquettes for aromatic rice will reduce urea use by 30%, contribute to reduction of greenhouse gasses by 30% and increase yields by 15%. Increased use of compost for all crops will contribute to restoring organic matter in the soil. The use of compost will improve water quality infiltration to the aquifer, increase soil water holding capacity, reduce soil temperature, reduce the negative effect of wind on soil moisture, improve soil fertility and increase carbon sequestration.
145. Introduction of new breeds of livestock/poultry, both exotic types and natural by selection, improved feeding and watering and health service will contribute to sustainability. Introduction of on-land recycling aquaculture systems will reduce pressure on the natural resource. Selection of brooders for both fish and crustaceans will increase productivity for the same quantity inputs. Training of farm enterprises, introduction of GGAP, and business linkages to secure markets will increasingly make microenterprises attractive clients for financial institutions. Combined with commercial approaches for provision of services, and institutional strengthening, will ensure a high likelihood of long-term sustainability.

3. Risks

H. Project risks and mitigation measures

146. The Integrated Risk Framework (IRF) is included in annex 9 and the fiduciary risks are provided in detail below. Identified risks are addressed in the project design through mitigation measures. The overall risk profile is medium and the combined impact of individual risks is medium as well.

	Impact	Likelihood	Risk Assessment	Mitigation Measures
Organization and Staffing				
Adequate FM staff in PMU and POs/NBFIs. Low capacity of the FM POs/NBFIs FM staff.	Medium	Medium	Medium	RMTP will reinforce its FM capacity through hiring adequate FM staff at PMU level. Periodic trainings will enhance the capacity of the POs and NBFIs FM staff.
Budgeting				
AWPB process suffers delays and inconsistencies that affect the monitoring and implementation of activities.	Medium	Low	Medium	Budgets will be developed by each implementing agency using the agreed work planning templates and as defined in the Financial Management Manual. The project cost tables will serve as a reference for the preparation of AWPBs. The PMU will need to provide their own annual work plan supporting budgets. These will be used to develop the cash flow of the project.

Funds flow and disbursement arrangements				
Possible delays in the submission of financial reports to the PMU by PO's.	High	Low	High	<p>The PMU will ensure that the fund flow of the project (from PMU to PO) is managed under imprest arrangements. An adequate threshold will be established for POs for a quarterly replenishment to their bank accounts. The reporting line will be established under the premise of no delays in the implementation of activities. The FM staff of the PMU will carry out review of the PO's to guarantee the quality of the financial reporting.</p> <p>In this regard each PMU FM staff will visit to one PO periodically, thus most of the POs will be visited once in a year by PMU FM staff.</p>
Internal Controls				
Adequacy of internal controls for the type of activities to be carried out by the project	Medium	Low	Low	<p>RMTP will follow the Finance Manual of PKSF.</p> <p>An addendum will be prepared to specify matters related to RMTP.</p>
Accounting				
PO's: There are inconsistency in regard to the basis of accounting applied by the PO's. Some PO applies accrual basis of accounting for whole organisation and some are not.	Medium	Medium	Medium	<p>RMTP will apply IFRS.</p> <p>The accounting will be carried out on a comprehensive and standardized FM system at the PMU level, which will consolidate the reports provided by the PO.</p>
Exchange rate fluctuation	Medium	Medium	Medium	If Possible, to minimize the impact of foreign exchange fluctuation IFAD will provide the loan in USD. The implementation will take place in BDT.
Financial Reporting and Monitoring				

IFAD funded projects implemented by PKSF produce Financial Reports consistently. The financial reporting is not seen as a tool for decision making. The lack of appropriate financial information reduces its utility for monitoring implementation of activities.	Low	Low	Low	RMTP will follows IFRS. RTMP will prepare annual financial statements and semiannual interim financial statements. The PMU FM staff will conduct periodic visits to the POs to perform spot verifications to the SoE's submitted by Pos and NBFIs to confirm with Books of Accounts, compliance and cost efficiency etc. Monitoring will be strengthen to verify the eligibility of expenditure incurred by POs.
Internal Audit				
The internal audit function is well developed in PKSF. However, the diversity of project warrants close monitoring through effective internal audit.	Low	Low	Low	PKSF internal audit unit would carry out the complete review of financial activities (including those of the POs) at least once per year. A copy of the internal audit plan and audit report shall be submitted to the IFAD for each audit period. By the second year, a detailed compliance & risk review will be carried out by the Internal audit unit of PKSF following the international practices.
External Audit				
RMTP audit performed by a chartered accountant's firm PO audit by chartered accountants' firm: The quality of audits needs to improve further.	Medium	Medium	Medium	RMTP's annual financial statements will be continued to be audited by an independent Chartered Accountancy firm in accordance with International Standards on Auditing (ISA) and IFAD Handbook for Financial Reporting and Auditing. This is also in alignment with what is practiced for PACE The ToRs for the auditors will be in accordance with IFAD Handbook for Financial Reporting and Auditing. Similar arrangement will be incorporated for the PO external audits.
Overall Project Fiduciary Risk			Medium	

I. Environment and Social category

147. The environmental and social category for the project is **B**. The potential negative impacts are those linked to micro-enterprises and larger agribusinesses, and are small and site-specific. The primary environmental risk relates to the cumulative/aggregated impact of various micro-enterprises and small agribusinesses in a cluster, thereby posing a considerable risk in terms of waste streams and pollution. This risk can however be managed using mitigation measures already identified and accessible to implementers and target groups. The project will integrate activities to proactively address these issues, such as introduction of climate-smart technologies and environmentally sustainable practices (balanced fertilizer use, integrated pest management, etc.). Social risks are minimal, with project interventions aimed at the inclusion of women and the youth in value chains. An

Environmental and Social Management Framework (ESMF) has been developed for the project.

J. Climate Risk classification

148. The climate risk category for this project is rated as **Moderate**, based on the proposed selection of value chains and target areas. Although the project area is highly vulnerable to the impact of climate change, the project will be well-positioned to leverage several ongoing climate change-related initiatives in the area. Given the high 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 to adapt to climate change and reduce greenhouse gas emissions that can be promoted. This may include the introduction of flood and drought tolerant varieties, mechanisation enabling cultivation on ridges, aquaculture in the valleys and land-based vertical recycling production systems for mud crab. Emission reduction interventions will be especially important for the meat (beef, poultry and goat), dairy and rice value chains.

4. Implementation

K. Organizational Framework

a. Project management and coordination

149. RMTP will be managed by PKSF, an apex development organisation with an independent Board of Directors. PKSF works through 200 licensed microfinance institutions (known as partner organisations or POs) which have a combined 9,500 branches across the country. Through this network, PKSF is currently providing inclusive finance and other services to 13 million poor households. PKSF's aggregate assets amount to USD 707 million, including its active loan portfolio which currently stands at USD 178 million, with a recovery rate exceeding 99%. PKSF is supervised by the Financial Institutions Division of the Ministry of Finance.
150. IFAD has financed 4 projects implemented by PKSF, of which three are completed and one is ongoing. All projects financed have been rated as highly successful. The projects are: (i) the USD 20 million Microfinance and Technical Support Project (MFTSP) which covered 2003-10; (ii) the USD 22 million Microfinance for Marginal and Small Farmers Project which covered 2005-11; (iii) the USD 58 million Finance for Enterprise Development and Employment Creation Project (FEDEC) which covered 2008-14; and (iv) the USD 93 million PACE which is currently ongoing.
151. The IFAD loan for RMTP will be passed on by MoF to PKSF in the form of: (i) a loan for the financial services component (component 2, with the exception of subcomponent 2.3); (ii) a grant for the value chain component (component 1); and, (iii) a grant for the institutional strengthening and project management component (component 3). MoEWOE will directly receive grant funding from MoF for implementing subcomponent 2.3.
152. The project will be outside the Annual Development Plan (ADP) and therefore does not require any Development Project Pro-forma (DPP). PKSF will sign a Subsidiary Loan and Grant Agreement (SLGA) with MoF to receive loan and grants and to implement the project activities as per the final project design report. The resources under the financial services component will be lent through individual Subsidiary Financing Agreements. The MoF will review and clear AWPBs before submission to IFAD for concurrence. To monitor performance and progress towards objectives, IFAD will undertake annual supervision missions.
153. The management of value chain development activities has evolved under PACE and other two IFAD-funded projects, and a number of similar projects implemented by PKSF. The PDR and PIM (Annex 8) further explain the management system, emphasis and various new activities incorporated in the value chain component. The management system will be further strengthened by capacity building of PKSF and POs.
154. Under PACE and other similar projects, PKSF strengthened its capability to manage value chain development activities. The PIM will further articulate the RMTP management system. PKSF will: (i) continue to review and evaluate value chain subproject proposals through its Value Chain Evaluation Committee; (ii) organise and fund the capacity building of its own staff as well as that of POs and value chain actors; (iii) identify potential value chains to invest in and outsource commodity/sub-sector/market studies; (iv) provide clear guidance to POs on preparation and management of value chain subprojects; (v) contribute to the preparation of value chain proposals by POs by providing guidance and sharing relevant sector and marketing studies; (vi) share experiences with other value chain development operations and rationalize common activities; (vii) engage in policy advocacy for necessary changes in rules, laws, and standards; and, (viii) identify suitable technical assistance providers or individual experts to provide capacity building to PKSF staff, POs, and value chain actors and associations.
155. POs will: (i) undertake or outsource an initial mapping of key actors in each selected value chain (producers, service providers, input suppliers, traders) as well as marketing channels and relevant associations; (ii) prepare proposals for value chain subprojects; (iii) provide and manage microenterprise credit and other financial products for producers and entrepreneurs; (iv) guide the upgrading of the selected value chains; (v) ensure the availability and linkages of qualified providers of services to value chain actors; (vi) advise producers on input supply and market access; (vii) ensure that all services to producers are supplied by the private sector (where feasible) on commercial basis; and, (viii) monitor, evaluate and report on progress, and analyze issues and lessons.
156. For the purposes of the project, PKSF will establish a Project Management Unit, integrated 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 nineteen recruited from the market. The PMU will work with PKSF's Loan Operations Division to implement the financial services programme through POs as per established processes and norms. This Division will assist with the selection of qualified NBFIs for financing larger enterprises and agribusinesses. It will work with POs and selected service providers for the implementation of the value chain component. PKSF's support divisions such as Audit, Administration, Agriculture, Human Resources, Accounts and Finance, Livestock, Research, Training, M&E, MIS and IT will provide relevant services to the project. The TORs of all project staff will include attention to nutrition and gender-sensitive value chains.

157. RMTP will continue to invest in PKSF skills development through training on topics such as business management, financial analysis, value chain analysis, project management, M&E system design, & IT project management. This will be supported by technical assistance and exchange visits, both in-country and overseas.

b. Financial Management, Procurement and Governance

1. *Financial management (FM).* The inherent FM risk for RMTP is considered to be medium due to the diversified and decentralised set of activities involving multiple POs and NBFIs. This assessment takes into account the overall environment surrounding FM, the existing emphasis on improving FM practices, and the experience gained by PKSF within IFAD's portfolio.
 2. PKSF has an effective FM system managed by a strong team of accountants and finance professionals. It consistently applies the International Financial Reporting Standards (IFRS) across its operations. Partner POs are registered and supervised by the Micro Credit Regulatory Authority. POs are governed by General Bodies and Governing Bodies/Executive Committees in order to ensure good governance and transparency. It is evident that there are significant improvements in PO governance due to regular interventions of PKSF.
 3. Some POs and NBFIs apply the accrual basis of accounting, while others utilise the cash basis. During implementation, it is expected that all POs and NBFIs gradually move to an accrual-based system for the preparation of financial reports. POs are audited annually by independent audit firms appointed by PKSF. These audits cover only microfinance operations. For RMTP, it is agreed that the same independent auditors will also audit value chain activities.
 4. The internal control arrangements for RMTP will consider: (i) appointment of qualified personnel with clear responsibilities and adequate segregation of duties; (b) establishment of an adequate financial records management system which has a complete audit trail; (c) set up of physical safeguards; (d) independent checks, with procedures subject to random independent reviews.
 5. There is an adequately staffed Internal Audit Unit (IAU) in PKSF. The IAU prepares an annual plan for internal audit reviews within PKSF and POs. These audits mainly focus on compliance review and checking of payment vouchers prior to issuing payments to suppliers/vendors. There may be room for the inclusion of risk review in the internal audit process; this will be assessed during implementation.
 6. RMTP accounts will be audited annually by the private firm that audits PKSF in accordance with International Standards on Auditing (ISA) and in compliance with IFAD's Handbook for Financial Reporting and Auditing. The audited project financial statements together with the auditor's opinion will be submitted to IFAD in English within 6 months of the end of the fiscal year.
 7. *Procurement.* PKSF has effective governance and internal control mechanisms for procurement and contract management. It has experience in handling procurement under IFAD financing. Procurement managed by POs is moderately satisfactory, with continuous follow up by PKSF.
 8. Procurement under the project will be undertaken in accordance with IFAD's Procurement Guidelines and Procurement Handbook. Specific procurement arrangements, procedures and thresholds will be elaborated in the PIM, aligned with PKSF procurement policies as applicable. Controls will be ensured, and risk mitigation measures will be strengthened. Procurement under RMTP will be undertaken by the Administration Department of PKSF, which currently manages all procurement for the organisation. All project-related procurement by POs will also be undertaken in accordance with IFAD guidelines. PKSF will assist POs to develop/upgrade their procurement policies and processes as required.
 9. *Governance.* PKSF was established in 1990 by the Government. Unlike Government agencies, it is an independent organization which operates according to its memorandum and articles of association and rules and regulations introduced by its Governing Body. It has a three-tier governance system: a General Body (currently 15 members); a Governing Body (7 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.
 10. Over the years, PKSF has established management systems for programmes, finance, human resources and other elements. These systems are perceived to be transparent by partners such as IFAD, WB, ADB, DFID, SDC and EU. PKSF has also helped POs to develop good management and control systems. Indeed, PKSF is able to attract substantial development funding due to its reputation of good governance, transparent management, and successful operations.
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160. Good governance under RMTP aims to ensure transparency, accountability in use of resources, and participation of stakeholders in design and delivery of services. This encompasses all aspects of project management: project activities; annual planning; institutional arrangements; implementation procedures; financial management and procurement; internal and external audit; supervision and compliance; and M&E. Key aspects of good governance that have been identified and considered during RMTP

design are as follows:

- - inclusive targeting of microentrepreneurs, small/marginal farmers, women, youth, and disadvantaged households; participation of all stakeholders in design and execution;
 - transparent selection of POs for microfinance and value chain development; supervision and M&E of POs;
 - compliant FM, accounting, procurement and recruitment systems; rigorous internal and external audit;
 - intensive IFAD supervision and compliance control, including spot checks by regular supervision missions, review of FM and procurement, and technical audits if needed;
 - regular outcome surveys that provide information on how well project outputs are being delivered, in terms of both coverage and quality;
 - reporting of results to Government and other stakeholders, with key information and reports published as part of knowledge management.

L. Planning, M&E, Learning, KM and Communication

a. Planning, M&E, Learning, Knowledge Management and Communication

161. *Planning and M&E*: The PMU/PKSF will be responsible for preparing the annual work plan and budget for RMTP, and for obtaining approval from FID and IFAD. The plan will include activity plan along with targets and expenditure plan and should reflect overall project targets and activities. IFAD supervision missions and mid-term review mission will offer opportunities for review of progress and assessment of effectiveness of the project.
162. *Monitoring and evaluation*: An effective M&E system will be developed to measure indicators included in the log frame. It will be part of a larger MIS system which will serve as an information and knowledge sharing platform. The M&E system will be utilised as a management tool and will include assessment of progress and compliance, identification of constraints and proposed remedial actions. All data will be disaggregated by gender, age, and geographical location. Participatory M&E including qualitative surveys will be undertaken on a regular basis. A baseline survey will be undertaken at start up, and outcome surveys will be carried annually. The key production and financial indicators of small farmers and microenterprises will be monitored annually to assess the emerging results of the project.
163. *Knowledge Management and Learning*: The project's KM activities will support the effective flow of relevant information among project staff, beneficiaries and other stakeholders. A comprehensive KM 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. KM products will be communicated through multiple sources including blogs, written publications, video and social media.
164. *Website*: The project will have a website to share reports, impact studies, case studies, training materials, videos and application technologies. It will discourage printing of reports and other documents. POs will be encouraged to follow the same, and communications with beneficiaries will be via mobile phones.

b. Innovation and scaling up

165. RMTP will undertake a number of innovative activities: (i) introduction of HACCP and GGAP; (ii) channeling of funds through NBFIs; and (iii) introducing distributed digital ledger technology (blockchain), crowdfunding and e-commerce.

M. Implementation plans

a. Implementation readiness and start-up plans.

166. *Start-up readiness*: PKSF has established systems, policies, procedures and skilled managers and staff. The project will not require revision of existing policies or procedures. Similarly, the methodology for value chain activities has been developed under PACE and will be strengthened and applied under RMTP. PKSF and POs will be ready to commence implementation upon signature of the Financing Agreement.
167. *Start-up activities*: PKSF will perform the following start up activities: (i) second key PKSF officials to the project ahead of time; (ii) recruit project staff ahead of project start up to jump-start project activities and provide time for training of new staff members; (iii) invite POs to submit proposals in the very early stages of implementation; (iv) organize the start up workshop involving all potential POs to explain the project, particularly Component 1; (v) complete the feasibility studies on crowdfunding and blockchain ahead of start up; (vi) complete procurement procedures for the carrying out of the baseline survey, and launch the survey as soon as project funds are available.

b. Supervision, Mid-term Review and Completion plans.

168. IFAD will conduct regular supervision and implementation support missions as per standard procedures. These missions will review project performance, progress towards achievement of objectives, and compliance with fiduciary requirements.

Footnotes

[\[1\]](#) The design team consisted of Mr Dewan A. H. Alamgir (team leader), Mr Jens Kristensen (agribusiness specialist), Mr Anura Herath (economist), Mr James Garrett (nutrition specialist), Mr Prasun Kumar Das (agricultural finance / secretary general, APRACA), Ms Krajai Chowdhury (gender and targeting specialist), and Mr Mahmud Hossain (financial management specialist). It was supported by Mr Michael Hamp (lead regional technical specialist, rural finance, markets and enterprises), Ms Sherina Tabassum (country programme officer), Ms Christa Ketting (programme officer), Mr Alvaro Fernandez (finance officer), Mr Nabil Rahaman (implementation support specialist) and Mr Omer Zafar (country director).

[\[2\]](#) Formerly called the Rural Enterprise Transformation Project (RETP).

[\[3\]](#) A broad definition of 'private sector' is applied under RMTP. This includes farmers, producers' groups, informal/formal microenterprises, service providers, input suppliers, traders, business associations, informal and formal businesses, processors, transporters, domestic marketers, and exporters.



Investing in rural people

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Rural Microenterprise Transformation Project Project Design Report

Annex 1: Logframe

Document Date: 30/07/2019

Project No. 2000002356

Asia and the Pacific Division
Programme Management Department

Rural Microenterprise Transformation Project

Logical Framework

Results Hierarchy	Indicators				Means of Verification			Assumptions	
	Name	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility		
Outreach Direct beneficiaries receiving project services	1 Persons receiving services promoted or supported by the project				implementing partners' records and project records	annually	PMU	• Economy maintains or increases growth rates • Terms of trade for rural communities shall not deteriorate • Price inflation for staple food remains below 10% • Rural and peri-urban infrastructure available	
	Females		111250	222500					
	Males		111250	222500					
	Young		10	10					
	1.a Corresponding number of households reached				implementing partners' records and project records	annually	PMU		
	Households		180000	445000					
	1.b Estimated corresponding total number of household members								
	Household members		810000	2002500					
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, qualitative assessment of participating HH and quantitative assessment of micro-enterprises.	at baseline, mid-term and completion.	PMU	• Economy maintains or increases growth rates • Terms of trade for rural communities shall not deteriorate • Price inflation for staple food remains below 10% • Rural and peri-urban infrastructure available	
	Households.		30	70					
	Beneficiaries reporting improved food quality in their diet.				surveys of households, qualitative (PRA) assessment of participating HHs and quantitative assessment (profitability analysis) of micro-enterprises	at baseline, mid-term and completion.	PMU		
	People.		15	30					

Results Hierarchy	Indicators				Means of Verification	Frequency	Responsibility	Assumptions	
	Name	Baseline	Mid-Term	End Target					
Development Objective 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.	1.2.4 Households reporting an increase in production				impact surveys of households, qualitative (PRA) assessment of participating HHs and quantitative assessment (profitability analysis) of micro-enterprises	at baseline, mid-term and completion	PMU	• Government maintains favorite policies for small businesses • Government continues to support micro-finance programs and NGO activities • Absence of political unrest that could adversely affects business and economic growth	
	Households		75000	150000					
	% increase in sales of microenterprises in the value chains				-Quantitative assessment of production, sales, and profitability of randomly selected sample 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 randomly selected sample of microenterprises.	Year to year	PMU		
	% increase in profit.		10	20					

Results Hierarchy	Indicators				Means of Verification	Frequency	Responsibility	Assumptions	
	Name	Baseline	Mid-Term	End Target					
Outcome 1. Beneficiaries adopt improved production methods and establish sustainable market linkages.	1.2.2 Households reporting adoption of new/improved inputs, technologies or practices				impact surveys of households, qualitative (PRA) assessment of participating HHs and quantitative assessment (profitability analysis) of micro-enterprises	at baseline, mid-term and completion	PMU	<ul style="list-style-type: none"> PKSF and POs successfully establish collaborative business arrangements between enterprises and mainstream businesses Private business companies are interested in sourcing products from micro-enterprises and willing to engage in partnership in the selected value chains POs establish separate non-financial services units and enhance capacity to manage value chain projects PKSF and POs successful identify technologies and products for small producers within value chain subprojects and outside 	
	Households		200000	400000					
	2.2.3 Rural producers' organizations engaged in formal partnerships/agreements or contracts with public or private entities				impact surveys of households, qualitative (PRA) assessment of participating HHs and quantitative assessment (profitability analysis) of micro-enterprises	at baseline, mid-term and completion	PMU		
	Number of POs		500	1500					
Output 1.1. Organization.	2.1.4 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 producer groups.	
	Females		111250	222500					
	Males		111250	222500					
	1.1.8 Households provided with targeted support to improve their nutrition				implementing partners' records and project records.	quarterly	PMU		

Results Hierarchy	Indicators				Means of Verification Source	Frequency	Responsibility	Assumptions				
	Name	Baseline	Mid-Term	End Target								
	Households		222500	445000								
Output 1.2. Technical and business services.	Training days provided to farmers on GLOBAL GAP and HACCP.				implementing partners' records and project records	quarterly	PMU	• Targeted beneficiaries are motivated to provide extension services.				
	Days											
	2.1.2 Persons trained in income-generating activities or business management											
	Females		100	500								
	Males		2000	5500								
	Young		1875	3750								
	1.1.4 Persons trained in production practices and/or technologies											
Output 1.3 Value chain integration.	Women trained in crop		40000	80000	implementing partners' records and project records	quarterly	PMU	• PKSF enhance overall capacity to manage value chain projects, supervise POs in these areas				
	Men trained in crop		40000	80000								
	Men trained in livestock		20000	40000								
	Women trained in livestock		20000	40000								
	Men trained in fishery		3000	6000								
	Women trained in fishery		3000	6000								
	2.1.1 Rural enterprises accessing business development services											
Output 1.4 Enterprise Strengthening.	Rural enterprises		300	550	implementing partners' records and project records	quarterly	PMU	• PKSF and PO have disposition over adequate human resources to implement these activities.				

Results Hierarchy	Indicators				Means of Verification	Frequency	Responsibility	Assumptions
	Name	Baseline	Mid-Term	End Target				
Output 1.5 Policy dialogue.	Policy 1 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.	1.2.5 Households reporting using rural financial services				impact surveys of households, qualitative (PRA) assessment of participating HHs and quantitative assessment (profitability analysis) of micro-enterprises	at baseline, mid-term and completion	PMU	• POs/NBFIs remain institutionally and financially viable and offer competitive loan products • No regulatory constrains or policies are developed inflicting upon financial service delivery
	Households		50000	100000				
Output 2.1. Sustainable financial services offered through Partner Organizations.	1.1.5 Persons in rural areas accessing financial services				implementing partners's 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. • Continued demand from beneficiaries to borrow from POs.
	Men in rural areas accessing financial services - credit		15000	25000				
	Women in rural areas accessing financial services - credit		35000	75000				
	Total persons accessing financial services - credit		100000	100000				

Results Hierarchy	Indicators				Means of Verification	Frequency	Responsibility	Assumptions
	Name	Baseline	Mid-Term	End Target				
Output 2.2. Commercial finance.	Enterprises supported by non-bank financial institutions				implementing partners' records and project records	quarterly	PMU	<ul style="list-style-type: none"> • 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 on capacity building.				implementing partners' records and project records.	quarterly	PMU - MoEWOE	<ul style="list-style-type: none"> -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.	1.1.6 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 on the proposed topics.
	Service providers		15	25				



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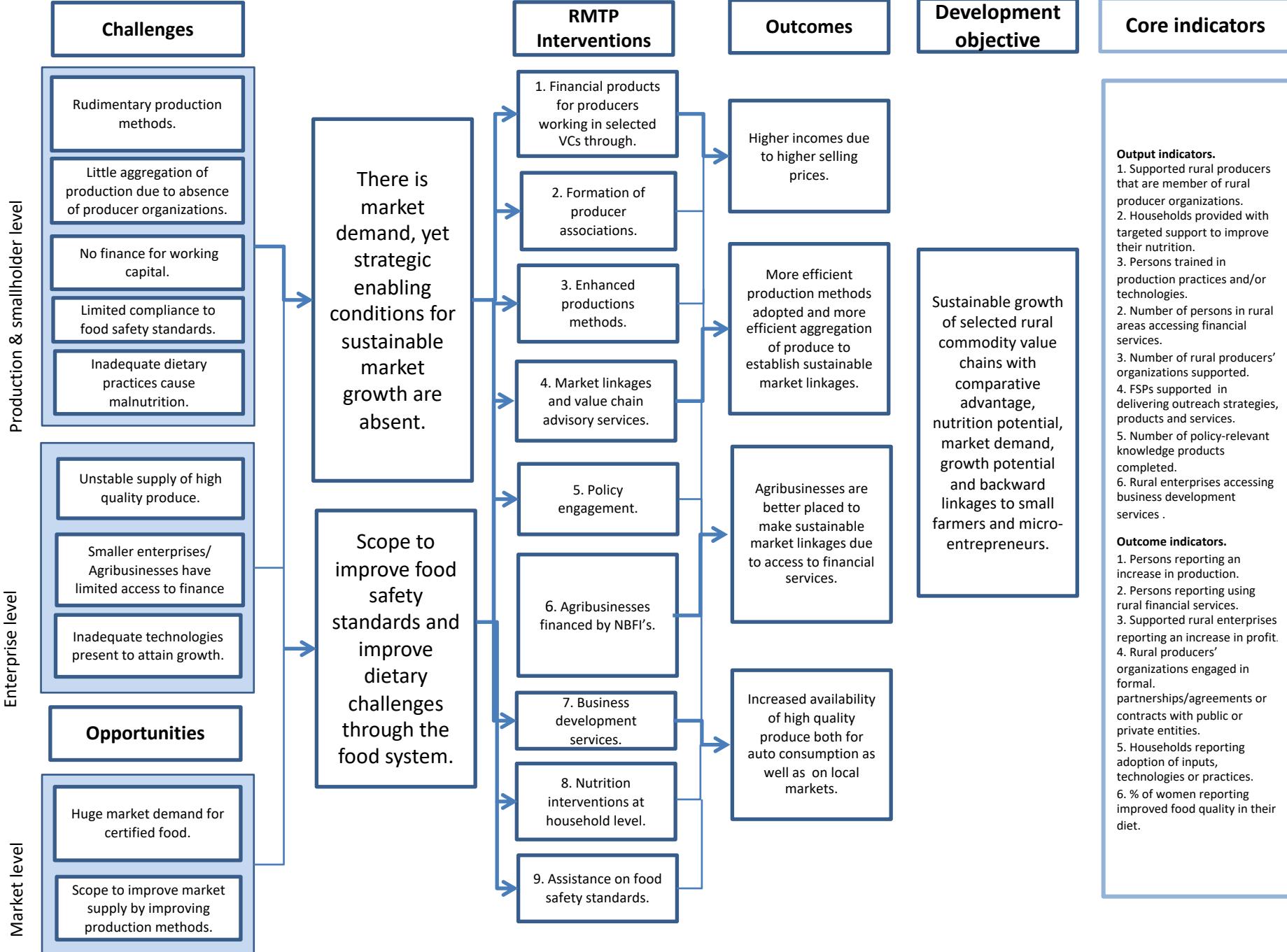
Rural Microenterprise Transformation Project Project Design Report

Annex 2: Theory of change

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Programme Management Department





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Rural Microenterprise Transformation Project Project Design Report

Annex 3: Project cost and financing: Detailed costs tables

Document Date: 30/07/2019

Project No. 2000002356

Asia and the Pacific Division
Programme Management Department

Annex 3: Project cost and financing: Detailed costs tables

Rural Micro-Enterprise Transformation Project (RMTP)

Introduction and Assumption

1. Appendix 3 describes the parameters used to formulate the project costs, and presents summary and detailed cost tables and financing plan. The project cost is derived using COSTAB programme on the basis of the following assumptions. Box below shows the rates.

- (a) The unit cost of all the project activities including the programme management cost and salaries was estimated in close consultation with the PKSF staff on the basis of the rates that are used in on-going operations of PKSF;
- (b) All costs are based on 2019 prices;
- (c) The current **inflation** rate of 5.5% and the current exchange rate of BTK 84 for 1 US \$ (Bangladesh Bank, 2019) were used.
- (d) **Prices** are inclusive of all taxes, i.e. including custom duties and Value Added Tax (VAT). The tax rates retained are similar to those used for the on-going projects of PKSF. Base costs for goods and services purchased locally are derived from local sales prices (market prices), including all taxes as they are real costs for the project.
- (e) **Project period** is for 6 years starting from 2020. The project year one has the cost for many initial preparatory activities which would facilitate implementation of other project activities.
- (f) **Taxes** apply to all expenditure categories except for the credit line, Salaries and Allowances, Grants, and Training and Workshops. All taxes and duties will be paid by PKSF and accounted for as PKSF counterpart contribution in COSTAB in addition to the identified counter-part finding from PKSF.
- (g) **Physical and Price Contingencies** are used to accommodate changes in quantities, unit costs and/or methods of implementation of the project. They are expressed as a percentage of base costs. The physical contingency of 3% for value chain development and implementation activities was used, and 0% for credit line and salaries were used. Price contingencies are intended for facing up to the effects of inflation and devaluation of the exchange rate in terms of the US dollar (USD). They are computed by COSTAB based on the rates assumed for the inflation at national and international levels.
- (h) **Expenditure and Disbursement Accounts** are in line with the IFAD standardization of expenditures categories based on circular IC/FOD/02/2013.

		Up to Negotiation	Up to Project Start	2020	2021	2022	2023	2024	2025
Inflation (in %'s)									
Most									
Annual rates									
Local	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Compounded rates									
Local	5.5	5.5	8.5	14.5	20.8	27.5	34.6	42.0	
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Zero									
Annual rates									
Local	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Compounded rates									
Local	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exchange rates (Local/Foreign)									
Most									
Rates actually used	84.0	84.0	84.0	84.0	84.0	84.0	84.0	84.0	84.0
Constant purchasing parity rates	84.0	88.7	96.2	101.5	107.1	113.0	119.3	125.9	
% deviation	0.0	-5.2	-12.6	-17.2	-21.6	-25.7	-29.6	-33.3	
Zero									
Rates actually used	84.0	84.0	84.0	84.0	84.0	84.0	84.0	84.0	84.0
Constant purchasing parity rates	84.0	84.0	84.0	84.0	84.0	84.0	84.0	84.0	84.0
% deviation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Project Costs

The total project cost is USD 200 million over a six-year implementation period (

2. Table 2 summarises the project component cost distributed by the financier. The first component, Value chain development takes 17% of the total project cost; second component, the Financial services, 78%; and fourth component, institutional strengthening and project management, 4.2%.

3. Table 2). IFAD Loan will finance USD 80 million (40%) of the total project cost, IFAD Grant will provide USD 1 million; PKSF will provide USD 12 million (6%); co-financiers will contribute USD 8.3 million (4%); and POs will provide USD 82.2 million (41%) for the financial services activities; Non-Banking Financial Institutions contribute USD 10 million (5%); the private sector will contribute with USD 4.6 million (2.3%), the beneficiaries' equity would be USD 0.9 million (0.4%). PKSF will also bear tax, amounting to USD 0.925 million.

Table 1: Financing plan of the Project Budget

Financing Plan								
	(US\$ '000)				(Local '000)			
	Foreign	Local	Total	Percent	Foreign	Local	Total	Percent
IFAD	132	79,868	80,000	40.0	11,124	6,708,877	6,720,001	40.0
IFAD Grant	-	1,000	1,000	0.5	-	84,000	84,000	0.5
PKSF	-	12,039	12,039	6.0	-	1,011,243	1,011,243	6.0
Co-Financiers	-	8,300	8,300	4.1	-	697,199	697,199	4.1
Private Sector	-	4,646	4,646	2.3	-	390,269	390,269	2.3
POs	-	82,213	82,213	41.1	-	6,905,898	6,905,898	41.1
NBFI	-	10,000	10,000	5.0	-	840,000	840,000	5.0
Beneficiaries	-	877	877	0.4	-	73,664	73,664	0.4
PKSF-Tax	-	925	925	0.5	-	77,725	77,725	0.5
Total	132	199,868	200,000	100.0	11,124	16,788,876	16,800,000	100.0

4. Table 2 summarises the project component cost distributed by the financier. The first component, Value chain development takes 17% of the total project cost; second component, the Financial services, 78%; and fourth component, institutional strengthening and project management, 4.2%.

Table 2: Project Cost: Components by Financiers (USD 1000)

	IFAD		IFAD Grant		PKSF		Co-Financiers		Private Sector		POs		NBFI		Beneficiaries		PKSF-Tax		Total		
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
A. Value Chain Development																					
Organization	363	4.7	-	-	392	5.1	1,016	13.2	-	-	5,808	75.6	-	-	-	-	105	1.4	7,685	3.8	
Technical and Business service	2,071	19.6	-	-	-	-	2,307	21.8	4,646	43.9	-	-	-	-	877	8.3	691	6.5	10,592	5.3	
Value chain sub-project implementation	10,862	71.9	-	-	-	-	4,243	28.1	-	-	-	-	-	-	-	-	-	-	15,105	7.6	
Enterprise strengthening	500	60.0	-	-	-	-	334	40.0	-	-	-	-	-	-	-	-	-	-	834	0.4	
Policy Dialogue	600	60.0	-	-	-	-	400	40.0	-	-	-	-	-	-	-	-	-	-	1,000	0.5	
Subtotal	14,397	40.9	-	-	392	1.1	8,300	23.6	4,646	13.2	5,808	16.5	-	-	877	2.5	796	2.3	35,216	17.6	
B. Financial Services																					
Micro-Finance through PO	48,215	35.6	-	-	10,756	7.9	-	-	-	-	76,405	56.4	-	-	-	-	-	-	-	135,377	67.7
Commercial Finance	10,000	50.0	-	-	-	-	-	-	-	-	-	-	10,000	50.0	-	-	-	-	20,000	10.0	
Subtotal	58,215	37.5	-	-	10,756	6.9	-	-	-	-	76,405	49.2	10,000	6.4	-	-	-	-	155,377	77.7	
C. Capacity Building of Remittance Earners																					
D. Institutional Strengthening and Project Management	-	-	1,000	100.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,000	0.5	
PKSF's Capacity Building	1,961	100.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0	-	1,961	1.0
POs Capacity Building	335	85.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	55	14.1	390	0.2	
Project Management	5,092	84.1	-	-	890	14.7	-	-	-	-	-	-	-	-	-	-	74	1.2	6,055	3.0	
Subtotal	7,388	87.9	-	-	890	10.6	-	-	-	-	-	-	-	-	-	-	-	129	1.5	8,407	4.2
Total PROJECT COSTS	80,000	40.0	1,000	0.5	12,039	6.0	8,300	4.1	4,646	2.3	82,213	41.1	10,000	5.0	877	0.4	925	0.5	200,000	100.0	

5. The total project cost is disbursed under ten expenditure categories (Table 3). The credit line has two sub-categories to segregate the IFAD loan financing resources downloading to PKSF partner organizations (POs) and Non-Banking Financing Institutions (NBFIs).

Table 3: Project Cost: Expenditure Categories by Financiers (USD 1000)

	IFAD		IFAD Grant		PKSF		Co-Financiers		Private Sector		PoS		NBFI		Beneficiaries		PKSF-Tax		Total		
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
I. Investment Costs																					
A. Credit																					
PKSF's ME Loan through POs	48,215	35.6	-	-	10,756	7.9	-	-	-	-	76,405	56.4	-	-	-	-	-	-	135,377	67.7	
PKSF's ME Loan through NBFIs	10,000	50.0	-	-	-	-	-	-	-	-	10,000	50.0	-	-	-	-	-	-	20,000	10.0	
Subtotal	58,215	37.5	-	-	10,756	6.9	-	-	-	-	76,405	49.2	10,000	6.4	-	-	-	-	155,377	77.7	
B. Equipment & Materials	90	96.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4	4.0	93	
C. Management fees /a	-	-	-	-	-	-	664	100.0	-	-	-	-	-	-	-	-	-	-	664	0.3	
D. Grants & subsidies	10,750	74.9	1,000	7.0	-	-	2,599	18.1	-	-	-	-	-	-	-	-	-	-	14,349	7.2	
E. Operating Cost	301	8.4	-	-	571	16.0	1,144	32.1	234	6.6	-	-	-	-	877	24.6	438	12.3	3,566	1.8	
F. Salaries & allowances	3,975	92.6	-	-	319	7.4	-	-	-	-	-	-	-	-	-	-	-	-	4,293	2.1	
G. Technical assistance	1,136	39.1	-	-	-	-	444	15.3	1,012	34.9	-	-	-	-	-	-	-	310	10.7	2,902	1.5
H. Studies & workshops	1,479	77.7	-	-	25	1.3	400	21.0	-	-	-	-	-	-	-	-	-	-	1,903	1.0	
I. Training	3,984	23.8	-	-	368	2.2	3,048	18.2	3,401	20.4	5,808	34.8	-	-	-	-	103	0.6	16,712	8.4	
J. Vehicles	70	50.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	70	50.0	140	0.1	
Total PROJECT COSTS	80,000	40.0	1,000	0.5	12,039	6.0	8,300	4.1	4,646	2.3	82,213	41.1	10,000	5.0	877	0.4	925	0.5	200,000	100.0	

6. Table 4 presents the project cost by components and by expenditure categories and Table 5 outlines the component cost distribution by the years. Most of the project funds, particularly the funds allocated in the Financial Service component, have been allocated during the first three years. These would be provided to PKSF in the 1st three years of the project for lending to POs and NFBIs and the later institutions would on-lend these funds through their loan products to end borrowers.

Table 4: Project Cost Expenditure Accounts by Components - Base Costs (USD 1000)

Organization	Value Chain Development					Capacity Building			Institutional Strengthening and Project management			Physical Contingencies	
	Technical and Business service	Value chain sub-project implementation	Enterprise strengthening	Policy Dialogue	Financial Services through PO	Commercial Finance	Remittance Earners	PKSF's Capacity Building	POs Capacity Building	Project Management	Total	%	Amount
I. Investment Costs													
A. Credit	-	-	-	-	-	135,377	-	-	-	-	135,377	-	-
PKSF's ME Loan through POs	-	-	-	-	-	-	20,000	-	-	-	20,000	-	-
PKSF's ME Loan through NBFIs	-	-	-	-	-	135,377	20,000	-	-	-	155,377	-	-
Subtotal	-	-	-	-	-	135,377	20,000	-	-	-	155,377	-	-
B. Equipment & Materials	-	-	-	-	-	-	-	-	-	84	84	3.0	3
C. Management fees /a	-	-	664	-	-	-	-	-	-	-	664	-	-
D. Grants & subsidies	-	-	11,017	-	-	-	-	1,000	-	-	12,017	-	-
E. Operating Cost	-	1,520	887	-	-	-	-	-	-	762	3,169	1.9	59
F. Salaries & allowances	-	-	-	-	-	-	-	-	-	4,293	4,293	-	-
G. Technical assistance	15	1,394	-	810	-	-	-	-	-	357	-	2,576	3.0
H. Studies & workshops	24	-	101	-	1,000	-	-	-	-	767	-	1,891	0.2
I.Training	6,287	5,511	-	-	-	-	-	1,673	19	-	13,491	3.3	439
J. Vehicles	-	-	-	-	-	-	-	-	-	126	126	3.0	4
Total BASELINE COSTS	6,326	8,425	12,669	810	1,000	135,377	20,000	1,000	1,673	376	6,031	193,688	0.3
Physical Contingencies	224	253	16	24	-	-	-	-	50	11	6	585	-
Price Contingencies	-	-	-	-	-	-	-	-	-	-	-	-	-
Inflation	-	-	-	-	-	-	-	-	-	-	-	-	-
Local	1,134	1,914	2,420	-	-	-	-	-	238	3	18	5,728	-
Foreign	-	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal Inflation	1,134	1,914	2,420	-	-	-	-	-	238	3	18	5,728	-
Devaluation	-	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal Price Contingencies	1,134	1,914	2,420	-	-	-	-	-	238	3	18	5,728	1.8
Total PROJECT COSTS	7,685	10,592	15,105	834	1,000	135,377	20,000	1,000	1,961	390	6,055	200,000	0.3
Taxes	105	252	-	-	-	-	-	-	-	55	74	487	3.3
Foreign Exchange	-	-	-	-	-	-	-	-	-	132	-	132	2.9
	-	-	-	-	-	-	-	-	-	-	-	-	4

Table 5: Project Components Cost by Year -- Totals Including Contingencies (USD 1000)

	Totals Including Contingencies						Total
	2020	2021	2022	2023	2024	2025	
A. Value Chain Development							
Organization	1,344	2,338	2,110	1,419	474	-	7,685
Technical and Business service	225	2,948	3,303	2,500	1,617	-	10,592
Value chain sub-project implementation	187	3,490	6,875	4,137	208	208	15,105
Enterprise strengthening	0	10	515	309	-	-	834
Policy Dialogue	150	450	250	150	-	-	1,000
Subtotal	1,906	9,236	13,052	8,516	2,298	208	35,216
B. Financial Services							
Micro-Finance through PO	103,233	16,072	16,072	-	-	-	135,377
Commercial Finance	10,000	10,000	-	-	-	-	20,000
Subtotal	113,233	26,072	16,072	-	-	-	155,377
C. Capacity Building of Remittance Earners							
	333	333	333	-	-	-	1,000
D. Institutional Strengthening and Project management							
PKSF's Capacity Building	550	596	712	102	2	-	1,961
POs Capacity Building	-	15	192	184	-	-	390
Project Management	1,192	946	1,066	994	946	911	6,055
Subtotal	1,742	1,557	1,969	1,280	948	911	8,407
Total PROJECT COSTS	117,215	37,198	31,426	9,796	3,247	1,119	200,000

Project financing / co-financing strategy and plan

7. The project will be financed by an IFAD loan; IFAD grant of USD 1 million; PKSF funds; DANIDA as a co-financier; the private sector who are involved in processing, aggregation and marketing of VC commodities; POs; NBFIs, and the beneficiaries (Table 1). Three fourth of the IFAD loan funds will be made available on highly concessionary terms and the balance on the blend terms. PKSF funds will flow through POs under its prevailing on-lending terms to POs. DANIDA Grants will finance several activities of the Value Chain Development Component (1st component) of the project. The private sectors' funds will be contingent upon the production and market linkages that are facilitated by POs. POs and NBFIs will use their standard on-lending procedures to provide the funds expected. Most of the beneficiary contribution would be in terms of their own non-financial resources. PKSF will also make funds available to pay all taxes against relevant project expenditure.

8. Table 6 presents the project cost distributed by the expenditure categories by the project year. It is noted that the project cost in most of the expenditure categories is front loaded with view that the project development activities would be completed the 4th year of the project.

Table 6: Project Expenditure Accounts by Year – Base Cost (USD 1000)

	Base Cost						Foreign Exchange		
	2020	2021	2022	2023	2024	2025	Total	%	Amount
I. Investment Costs									
A. Credit									
PKSF's ME Loan through POs	103,233	16,072	16,072	-	-	-	135,377	-	-
PKSF's ME Loan through NBFIs	10,000	10,000	-	-	-	-	20,000	-	-
Subtotal	113,233	26,072	16,072	-	-	-	155,377	-	-
B. Equipment & Materials	84	-	-	-	-	-	84	-	-
C. Management fees /a	-	133	133	133	133	133	664	-	-
D. Grants & subsidies	333	2,972	5,631	3,082	-	-	12,017	-	-
E. Operating Cost	256	1,388	944	206	206	170	3,169	-	-
F. Salaries & allowances	716	716	716	716	716	716	4,293	-	-
G. Technical assistance	13	863	1,179	511	11	-	2,576	-	-
H. Studies & workshops	362	562	469	298	100	100	1,891	-	-
I. Training	1,832	3,175	3,922	3,063	1,499	-	13,491	1.0	129
J. Vehicles	126	-	-	-	-	-	126	-	-
Total BASELINE COSTS	116,954	35,880	29,064	8,008	2,664	1,119	193,688	0.1	129
Physical Contingencies	77	171	185	107	45	-	585	0.7	4
Price Contingencies									
Inflation									
Local	184	1,147	2,178	1,681	538	-	5,728	-	-
Foreign	-	-	-	-	-	-	-	-	-
Subtotal Inflation	184	1,147	2,178	1,681	538	-	5,728	-	-
Devaluation	-	-	-	-	-	-	-	-	-
Subtotal Price Contingencies	184	1,147	2,178	1,681	538	-	5,728	-	-
Total PROJECT COSTS	117,215	37,198	31,426	9,796	3,247	1,119	200,000	0.1	132
Taxes	106	193	152	34	2	-	487	-	-
Foreign Exchange	-	-	66	66	-	-	132	-	-

9. The distribution of price and physical contingencies, showing proportion of the project base cost distributed by expenditure categories are summarised in Table 7.

Table 7: Project cost by base cost and allowances for two contingencies (USD 1000)

	Base Cost			Physical Contingencies			Price Contingencies			Total Incl. Cont.			Physical Cont. Plus Price Cont. on Physical Cont.				
	For. Exch.	Local (Excl. Taxes)	Duties & Taxes	Total	For. Exch.	Local (Excl. Taxes)	Duties & Taxes	Total	For. Exch.	Local (Excl. Taxes)	Duties & Taxes	Total					
I. Investment Costs																	
A. Credit																	
PKSF's ME Loan through POs	-	135,377	-	135,377	-	-	-	-	-	-	135,377	-	135,377				
PKSF's ME Loan through NBFIs	-	20,000	-	20,000	-	-	-	-	-	-	20,000	-	20,000				
Subtotal	-	155,377	-	155,377	-	-	-	-	-	-	155,377	-	155,377				
B. Equipment & Materials	-	80	3	84	-	2	0	3	-	7	0	7	-				
C. Management fees /a	-	664	-	664	-	-	-	-	-	-	664	-	664				
D. Grants & subsidies	-	12,017	-	12,017	-	-	-	-	-	2,332	-	2,332	-				
E. Operating Cost	-	3,169	-	3,169	-	59	-	59	-	338	-	338	-				
F. Salaries & allowances	-	4,293	-	4,293	-	-	-	-	-	-	4,293	-	4,293				
G. Technical assistance	-	2,311	265	2,576	-	69	8	77	-	211	37	249	-				
H. Studies & workshops	-	1,891	-	1,891	-	4	-	4	-	9	-	9	-				
I. Training	129	13,277	85	13,491	4	431	4	439	-	2,769	13	2,782	132				
J. Vehicles	-	63	63	126	-	2	2	4	-	5	5	11	-				
Total	129	193,142	417	193,688	4	567	14	585	-	5,672	56	5,728	132				
											199,381	487	200,000				
													199,311				
													689				

10. Detailed tables with project targets, unit costs and base costs are presented below. These tables with all other details are presented in the Cost Tables excel sheets.

Detailed Cost Tables

Rural Micro-Enterprise Transformation Project
Table 1. Value Chain Development

Detailed Costs	Unit	Quantities					Unit Cost (Local '000)	Unit Cost (US\$ '000)	Totals Including Contingencies (US\$ '000)					
		2020	2021	2022	2023	2024	2025		2020	2021	2022	2023	2024	
													Total	
I. Investment Costs														
A. Organization														
1. Start-up Training														
Information and orientation on financial literacy for MC & PO members /a	Nb Persons	30,700	45,600	32,100	-	-	-	108,400	1,2	0.014	527	826	614	-
Training on Nutrition, climate, environmental and social issues /b	Nb Persons	50,000	100,000	100,000	100,000	34,000	-	384,000	0.6	0.01	561	1,185	1,251	1,320
Prepare information sheet and discussion notes for village meetings /c	Number	200	-	-	-	-	-	200	25	0.298	72	-	-	-
TOT on financial literacy for PO trainers by POs	Nb Batches	100	100	-	-	-	-	200	5	0.06	7	8	-	-
Training on business management for ME and PA members /d	Nb Batches	52	172	108	-	-	-	332	80	0.952	58	204	135	-
Developing and revising training module by PKSF	Number	2	-	-	-	-	-	2	500	5.952	14	-	-	14
Subtotal														7,256
2. Training on Nutrition														
Training on nutrition for nutrition education	Lump sum	-	-	-	-	-	-	-	-	-	1	1	1	2
Development of training material for nutrition training /e	Lump sum	-	-	-	-	-	-	-	-	-	1	2	-	3
Allocation of funds to undertake special studies at PO level	Lump sum	-	-	-	-	-	-	-	-	-	12	12	-	25
TOT on Nutrition Sensitive Value Chain	Lump sum	3,750	3,750	3,750	3,750	-	-	15,000	2	0.024	92	92	92	-
Subtotal											104	106	94	93
3. Training on Climate Issues and Environment /f														
Training on contract farming and exchange visits for PA members	Nb Batches	-	15	25	10	-	-	50	40	0.476	-	9	16	7
Subtotal											1,344	2,338	2,110	1,419
B. Technical and Business Service														
1. Agribusiness Training /g														
Generic technological and management training on Horticulture	Nb Batches	250	1,000	1,000	1,500	250	-	4,000	2	0.024	7	30	31	50
Generic technological and management training on Fisheries	Nb Batches	250	1,000	1,000	1,500	250	-	4,000	2	0.024	7	30	31	50
Generic technological and management training on Poultry	Nb Batches	250	1,000	1,000	1,500	250	-	4,000	2	0.024	7	30	31	50
Generic technological and management training on livestock (Fattening and Dairy)	Nb Batches	250	1,000	1,000	1,500	250	-	4,000	2	0.024	7	30	31	50
Subtotal											28	119	125	198
2. Subject Specific Advanced Training														
Advanced technological and management training on Horticulture /h	Nb Persons	-	-	500	1,000	1,000	1,000	-	2,600	12	0.143	-	94	198
Advanced technological and management training on Fisheries	Nb Persons	-	-	550	1,000	1,000	1,000	-	2,850	12	0.143	-	103	198
Advanced technological and management training on Poultry	Nb Persons	-	-	2,000	4,000	4,000	4,000	-	8,000	12	0.143	-	375	702
Advanced technological and management training on Livestock	Nb Persons	-	-	1,100	2,000	2,000	2,000	-	4,100	12	0.143	-	206	396
Subtotal											-	-	779	1,584
3. GLOBAL GAP & HACCP Protocol /i														
Contracts with certification authorities for developing training modules	Lump sum	-	-	-	-	-	-	-	-	-	140	370	391	-
Training of Master Trainer & Protocol Development /j	Sessions	5	15	25	20	-	-	65	9.5	0.113	1	2	4	3
Training of PA or Groups /k	Nb Batches	1,200	2,600	3,000	1,200	-	-	8,000	0.6	0.007	10	23	28	12
Audit / certification /l	Nb Batches	-	1,300	2,600	4,000	1,300	-	9,200	0.65	0.008	-	13	26	45
Training of farmers on GAP /m	Nb Batches	-	200	450	400	300	-	1,350	100	1.19	-	206	660	522
Subtotal											151	704	1,153	718
4. Training of Special Advisory service														
Generic training material	Number	3	-	-	-	-	-	3	50	0.595	2	-	-	-
Generic training	Number	5	10	15	5	-	-	35	2	0.024	0	0	0	0
Specialised training material	Number	10	10	5	-	-	-	25	5	0.06	1	1	0	-
Specialised training	Number	5	10	15	5	-	-	35	2	0.024	0	0	0	-
Printing material	Number	5,000	10,000	5,000	-	-	-	20,000	0.01	-	1	1	-	-
Private and advisory services	Lump sum	-	-	-	-	-	-	-	-	-	993	469	-	-
Cost Sharing of Advisors /n	Lump sum	-	-	-	-	-	-	-	-	-	42	137	181	-
Subtotal											45	1,132	652	0
5. Piloting of technologies in horticulture, livestock, fisheries and others /o	Number	-	-	-	-	-	-	-	-	-	225	2,948	3,303	2,500
Subtotal											225	2,948	3,303	2,500
C. Value chain sub-project implementation														
1. Value chain analysis by PKSF /p	Number	4	-	-	-	-	-	4	2,000	23.81	112	-	-	-
2. Value chain assessment and implementation /q											-	-	-	112
Value chain pilot project /r	Number	-	25	55	30	-	-	110	7,054	83.076	-	2,536	5,889	3,300
Investment in innovative new VC's	Number	-	2	2	2	-	-	6	16,600	200	-	483	510	538
Value chain facilitators	Lump sum	-	-	-	-	-	-	-	-	-	262	267	-	-
Value chain Implementation: IFAD Direct Cost /s	Lump sum	-	-	-	-	-	-	75	75	75	75	75	75	450
Value chain Implementation: IFAD Indirect Cost /t	Lump sum	-	-	-	-	-	-	-	-	-	133	133	133	664
Marketing and Enterprise Visibility Fares	Lump sum	-	-	-	-	-	-	-	-	-	1	1	1	2
Subtotal											75	3,490	6,875	4,137
D. Enterprise strengthening /u											187	3,490	6,875	4,137
Specialized Agribusiness Consultant providing TA to POs & undertaking studies	Lump sum	-	-	-	-	-	-	-	-	-	0	10	515	309
E. Policy dialogue	Lump sum	-	-	-	-	-	-	-	-	-	-	-	-	834
Policy dialogue on identified areas	Lump sum	-	-	-	-	-	-	-	-	-	150	450	250	150
Total											1,906	9,236	13,052	8,516
											208	2,298	208	35,216

a Information and orientation meeting on financial literacy of POs' microfinance and PA members

b Training would be provided to organization Leaders (harmonized with other projects), and no money is allocated

c Prepare information sheet and discussion notes for village meetings on financial literacy for beneficiary by POs

d Training on business management (four areas of business management, record keeping, profitability and cash flow analysis) for ME and PA members

e Nutrition training material will be provided to NGOs, POs etc

f Awareness building on climate, environmental, nutrition and social issues for PA members (harmonized with other projects) through other on-going training

g MES operating in VC will be provided with timely & quality advisory services to increase productivity and ensure delivery of certified produce to agribusinesses

h On partial payment by trainees who would eventually provide a fee based extension service

i Design and OG of GLOBAL GAP & HACCP Protocol (horticulture, Fisheries and livestock). The 3 activities below in combination will make the protocol

j Each Master Trainer will be trained twice

k Groups (sessions) of 25 each

l Master Trainers will provide training to farmers on a fee paid by the farmers

m The project will pay the advisors on a decreasing scale of 80% (Yr 1); 50%; 20% and 0%

n Sectors that are relevant to individual VC can also be supported

o The analyses will include horticulture, fisheries and livestock VCs. The VC proposal will also include VC Flat Form and methodologies for sharing information

p Q Management fee will be paid to DANIDA for the implementation of the project, which will be used to support the implementation of the project

q R Av cost downstream Enterprise VC formation (USD 6000/VC); demos (USD 2000/VC); FE to FE visits (USD 500/VC); Lead Firm training visits (USD 1500/VC); support to PA (USD 1000/VC); Value Chain Facilitators - 4/PO for 3 years(USD 1200/one)

r S Cost of managing DANIDA funds, financed by DANIDA and an operating cost to IFAD. Cost for the 6th year is to assess the impact of DANIDA interventions, which would be a part of overall project impact assessment.

s Management fee paid to IFAD by DANIDA (8% of the total DANIDA Funds spread over last 5 years).

t Public good required to initiate and operate VC related production and marketing activities, para-extension staff will also be trained for providing advice

Rural Micro-Enterprise Transformation Project

Table 2. Financial Services

Detailed Costs

Unit	Base Cost (Local '000)						Totals Including Contingencies (US\$ '000)							
	2020	2021	2022	2023	2024	2025	Total	2020	2021	2022	2023	2024	2025	Total
I. Investment Costs														
A. Line of credit for PKSF's ME loan program /a														
1. Line of credit for PKSF's loan program: IFAD Resources /b	Lump sum	1,350,029	1,350,029	1,350,029	-	-	-	4,050,087	16,072	16,072	16,072	-	-	48,215
2. Line of credit for PKSF's loan program:PKSF Resources	Lump sum	903,523	-	-	-	-	-	903,523	10,756	-	-	-	-	10,756
3. Line of credit for PKSF's loan program: POs Resources /c	Lump sum	6,418,057	-	-	-	-	-	6,418,057	76,405	-	-	-	-	76,405
Subtotal		8,671,609	1,350,029	1,350,029	-	-	-	11,371,667	103,233	16,072	16,072	-	-	135,377
B. Line of credit to PKSF for ME loan through NBFIs	Lump sum	840,000	840,000	-	-	-	-	1,680,000	10,000	10,000	-	-	-	20,000
Total		9,511,609	2,190,029	1,350,029	-	-	-	13,051,667	113,233	26,072	16,072	-	-	155,377

/a PKSF will provide credit to POs for on-lending to end Borrowers

/b PKSF will provide credit to POs for on-lending to end Borrowers

/c POs will contribute with their own resources

Rural Micro-Enterprise Transformation Project

Table 3. Remittances Management

Detailed Costs

Unit	Base Cost (Local '000)						Totals Including Contingencies (US\$ '000)							
	2020	2021	2022	2023	2024	2025	Total	2020	2021	2022	2023	2024	2025	Total
I. Investment Costs														
A. Remittances - Project Implementation	Lump sum	28,000	28,000	28,000	-	-	-	84,000	333	333	333	-	-	1,000
Total		28,000	28,000	28,000	-	-	-	84,000	333	333	333	-	-	1,000

Rural Micro-Enterprise Transformation Project
Table 4. Institutional Strengthening and Project management

Detailed Costs	Unit	Quantities						Unit Cost (Local '000)	Unit Cost (US\$ '000)	Totals Including Contingencies (US\$ '000)						
		2020	2021	2022	2023	2024	2025	Total		2020	2021	2022	2023	2024	2025	
I. Investment Costs																
A. PKSF's Capacity Building																
1. PKSF's capacity building through ICT based solutions	Lump sum									550	581	613	-	-	1,744	
Development of block chain platform, e-commerce & crowd funding platform																
2. PKSF HR (Staff) Development (training, exchange visits)																
Business management and financial analysis	Number	-	10	15	15	-	-	40	25	0.298	-	4	6	6	-	16
Value chain analysis and VCD subproject design - training	Lump sum	-	10	-	-	-	-	10	25	0.298	-	4	-	-	-	4
Project design and management	Number	-	-	5	5	-	-	10	50	0.595	-	-	4	4	-	8
M and E system design and management	Number	-	5	-	-	-	-	5	50	0.595	-	4	-	-	-	4
ICT based platforms: Overview and management	Number	-	5	5	10	-	-	20	25	0.298	-	2	2	4	-	8
Development project management	Number	-	-	10	10	-	-	20	50	0.595	-	8	8	-	-	16
Financial services and institutions	Number	-	-	5	10	5	-	20	20	0.238	-	-	2	3	2	7
ICT based Realtime MIS	Lump sum	-	5	5	-	-	-	10	25	0.298	-	2	2	-	-	4
Exchange visits (VCD) /a	Lump sum	-	-	20	20	-	-	40	300	3.571	-	-	76	76	-	152
Subtotal										-	15	99	102	2	-	217
										550	596	712	102	2	-	1,961
Subtotal																
B. POs capacity building																
1. Value chain integration and contract intermediation	Lump sum	-	1	-	-	-	-	1	1,000	11,905	-	15	-	-	-	15
2. Other training - Nutrient Sensitive, M&E etc.	Lump sum										-	-	8	-	-	8
3. New financial product development	Lump sum	-	-	1	1	-	-	2	15,000	178,571	-	-	184	184	-	368
Subtotal										-	15	192	184	-	-	390
C. Project management																
1. Office Facilities - Procurement																
SUV: 4-Wheel Vehicle for Field Visits	Number	10,000	-	-	-	-	-	10,000	1	0.012	140	-	-	-	-	140
Laptops	Number	18	-	-	-	-	-	18	100	1.19	25	-	-	-	-	25
Printers	Number	2	-	-	-	-	-	2	50	0.595	1	-	-	-	-	1
Photocopy machine	Number	1	-	-	-	-	-	1	500	5.952	7	-	-	-	-	7
Office furniture	Number	17	-	-	-	-	-	17	50	0.595	12	-	-	-	-	12
Cellphones	Number	18	-	-	-	-	-	18	50	0.595	13	-	-	-	-	13
Training and recording equipment	Number	1	-	-	-	-	-	1	2,500	29.762	35	-	-	-	-	35
Subtotal											234	-	-	-	-	234
2. Operating expenses - Salaries & Allowances																
Project Co-ordinator	Lump sum	1	1	1	1	1	1	6	4,725	56.25	56	56	56	56	56	338
Deputy project Co-ordinator (Technical)	Lump sum	1	1	1	1	1	1	6	4,460	53,095	53	53	53	53	53	319
Deputy project Co-ordinator (Financial Service)	Lump sum	1	1	1	1	1	1	6	4,460	53,095	53	53	53	53	53	319
Sectoral Specialist (Livestock)	Lump sum	1	1	1	1	1	1	6	3,260	38.81	39	39	39	39	39	233
Sectoral Specialist (Horticulture)	Lump sum	1	1	1	1	1	1	6	3,260	38.81	39	39	39	39	39	233
Sectoral Specialist (Fisheries)	Lump sum	1	1	1	1	1	1	6	3,260	38.81	39	39	39	39	39	233
ICT Specialist	Lump sum	1	1	1	1	1	1	6	3,260	38.81	39	39	39	39	39	233
Financial Analyst	Lump sum	1	1	1	1	1	1	6	3,260	38.81	39	39	39	39	39	233
Procurement Specialist	Lump sum	1	1	1	1	1	1	6	2,730	32.5	33	33	33	33	33	195
Communication, Publication & Knowledge Management Specialist	Lump sum	1	1	1	1	1	1	6	2,530	30,119	30	30	30	30	30	181
Monitoring and Evaluation Specialist	Lump sum	1	1	1	1	1	1	6	2,730	32.5	33	33	33	33	33	195
Nutrition Specialist	Lump sum	1	1	1	1	1	1	6	2,730	32.5	33	33	33	33	33	195
Value Chain Project Manager	Lump sum	6	6	6	6	6	6	36	2,330	27,738	166	166	166	166	166	999
Assistant Manager (Accounts)	Lump sum	2	2	2	2	2	2	12	1,820	21,667	43	43	43	43	43	260
Computer Operator cum MIS Officer	Lump sum	1	1	1	1	1	1	6	1,040	12,381	12	12	12	12	12	74
Driver	Lump sum	1	1	1	1	1	1	6	780	9,286	9	9	9	9	9	56
Subtotal										716	716	716	716	716	716	4,293
3. Operating expenses - Other																
Monitoring and Travel	Lump sum									36	36	36	36	36	-	179
Overhead - Office Rent, electricity/b	Lump sum									95	95	95	95	95	571	
Start-up workshop	Lump sum									12	-	-	-	-	-	12
Subtotal										143	131	131	131	131	95	762
4. M & E, studies and dissemination																
Studies (baseline, Mid-term and end-project impact studies)	Lump sum									100	100	100	100	100	600	
Sector impact studies	Lump sum									-	-	119	-	-	-	119
Results sharing (websites, seminars/workshops, video production etc.) /c	Lump sum									-	-	48	-	-	-	48
Subtotal										100	100	219	148	100	100	767
Subtotal										1,192	946	1,066	994	946	911	6,055
Total										1,742	1,557	1,969	1,280	948	911	8,407

^a Overseas training in countries including Thailand, Philippines, and India

^b Office rent, electricity, fuel, repair and maintenance, meeting costs

^c Production of hard copies of all documentation is discouraged and electronic filing and dissemination will instead be applied.



Investing in rural people

Bangladesh

Rural Microenterprise Transformation Project Project Design Report

Annex 4: Economic and Financial Analysis

Document Date: 30/07/2019

Project No. 2000002356

Asia and the Pacific Division
Programme Management Department

ANNEX 4

ECONOMIC AND FINANCIAL ANALYSIS

Rural Micro-Enterprise Transformation Project (RMTP): DRAFT

1. INTRODUCTION AND METHODOLOGY

1. The design mission of RMTP carried out the Economic and Financial Analysis (EFA) to asses the financial and economic viabilities of the investments RMTP. The project targets to reach 400,000 households within 6-year period as direct beneficiaries with credit and non-credit support to increase the productivity and quality of crops and livestock, and establishing micro-enterprises (MEs). The project will engage with commodities from four broad National Value Chains: (i) high value cereal, fruit and vegetable crops; (ii) pond and tank aquaculture; (iii) livestock cattle (milk and beef), buffalo (milk and beef), goat and sheep and (iv) poultry including egg and meat of chickens, turkeys, geese and ducks. These four were subdivided into seven more specific VC to facilitate the EFA. A total of 24 enterprise models that represent the VC operations were analysed to assess the financial and economic viability of these VCs.

2. **Methodology and Approach of EFA:** The representative farm models and likely value chain operation unit models were developed based on information collected during the field visits of the design team through direct observation, focus group meetings with producers and the staff of POs visited and the PKSF staff, and information extracted from various publications of the POs.¹ Other sources of information include Bangladesh Bank, World Bank Commodity Forecast, UNDP², IFAD³ and Bangladesh Bureau of Statistics. The main types of data that were used for the FEA include (i) crop and enterprise budgets for farm models; (ii) market prices; (iii) capital and working capital expenditure of processing facilities; (iv) cost of machineries; (v) international prices for computing parity prices of exportable commodities; and (v) cost of application of GGAP and HACCP standards.

3. A total of 24 enterprises (crops, livestock and non-agriculture small enterprises), representing the seven VCs, were analysed using the partial budgeting approach to assess their financial viability and the demand for credit. Incremental benefits were estimated based on expected physical outputs during the 6-year implementation period of the project and potential incremental benefits that would realise during the balance 14-year period of post-implementation project life. The enterprises that were analysed include three types of rice including aromatic rice, vegetables (6 type of vegetable), potatoes, bananas, mung beans, fish, fingerlings production, dairy milk, beef fattening, poultry eggs and broiler, food processing (dairy milk cooling and storage), and handloom and basket weaving representing non-agriculture micro-enterprises.

4. **Attribution:** The EFA methodology needs to identify a clear linkage between the beneficiaries and one or more project interventions to elicit benefits and corresponding costs. RMTP mainly has a value chain focus. The beneficiaries' investments are assisted by collateral free loans. In order to create an appetite to credit financing and making investment in the agriculture sector, the project would facilitate an array of activities. The EFA recognises these as the contributory factors to create incremental costs and benefits of the enterprises that were selected for the analysis. These activities include:

- (a) Undertaking areas-vise VC studies to identify appropriate and competitive products to be linked with in-bound and out-bound markets;

¹ The references include: (i) Society for Social Service (2017), "Dairy Value Chain - Income Augmentation and Employment Generation Through Dairy Cattle Rearing in the Char Areas", PACE Project. (ii) Society for Development Initiative, (October 2018), Annual Report. (iii) POMIS-1 Report (2019), Mohila Bohumukhi Shikkha Kendra (MBSK), Balubari, Dinajpur. (iv) Society for Development Initiative, (Jan 2019), Ghorakanda Safe Vegetable Production Association, Winter Vegetable Production – Tomato, Cabbage, Cauliflower, Bottle Gourd production data. (v) Mohila Bohumukhi Shikkha Kendra (MBSK), Annual Report, 2017-2018, Balubari, Dinajpur-5200.

² Power and Participation Research Center and UNDP, (2016), "Politics, Governance and Middle Income Aspirations: Realities and Challenges – An Empirical Study.

³ Arslan, A. and Higgins, D. (2019) [Draft]. Impact assessment report: Coastal Climate Resilience Infrastructure Project (CC RIP), People's Republic of Bangladesh. IFAD: Rome, Italy

- (b) Establishing multiple platforms consisting of farming enterprises, agro-business, input suppliers, advisory services and PO's value chain facilitators to create linkages among the stakeholders so that interest is developed for increasing production;
- (c) Raising public awareness of the benefits derived from GGAP and HACCP for domestic consumers, producers, processors and exporters, through mass media;
- (d) Fine-tuning farming practices according to the market demand; provide technology; in support of interested entrepreneurs, help obtaining GGAP with Chain of Custody Standard (Traceability) and HACCP certifications with cost sharing methods between the project and the beneficiaries;
- (e) Firming a pool of skilled local service providers such paravets, trainers, certified local agricultural technicians and pay-based advisory service providers for each sector to provide the technical and business services to beneficiaries;
- (f) Assisting preparing or updating all required training material as demanded; and
- (g) Promoting appropriate modern technologies in the selected value chains, such as vertical production systems for aquaculture; driers for vegetables and fruits; drip and micro irrigation etc;

5. These assistances would be available to any beneficiary and along with this package and determined by the capital cost demand, micro-credit will be provided with IFAD and counterpart funds.

2. PROJECT COST, BENEFICIARIES AND ASSUMPTIONS

6. The estimated cost of the RMTP, generated from COSTAB, was used as the project cost. DANIDA grant financed some activities of the first component. An allowance for the continues overhead cost of PKSF, which is assumed to be 50% of the project management cost of the 6th year of the project has been included from year 7 (2026) onwards.

7. Table 1 shows the distribution of 445,000 direct beneficiaries of RMTP by the enterprises. Three parameters determined the yearly distribution of them: (i) spread of the project development budget which results in making the contact with the beneficiaries; (ii) the adoption rate of the technologies; and (iii) realization of the premium price for GGAP certified products through VC linkages.

Table 1: Total and cumulative distribution of beneficiary households in VC enterprise receiving full benefits

Enterprises representing the VCs	Technology adopted & market linkages	Total Bene.HH	Cumulative Distribution of Beneficiaries of RMTP estimated with the adoption rate						
			Yr 2020	Yr 2021	Yr 2022	Yr 2023	Yr 2024	Yr 2025	Yr 2026
Aman Rice	GAP, No P-price	11,949	478	1,864	2,294	3,656	10,754	11,949	11,949
Boro Rice	GAP, No P-price	11,949	478	3,107	3,824	4,063	11,949	11,949	11,949
Aromatic Rice	From Boro To Aroma.	11,949	478	1,864	2,294	3,656	10,754	11,949	11,949
Potato	GAP, No P-price	7,170	287	1,118	1,377	1,706	5,019	5,736	7,170
Banana	GAP, No P-price	14,339	459	1,864	2,294	3,900	11,471	12,905	14,339
Aman Rice	GAP, With P-price	40,628	1,625	6,338	7,800	12,432	36,565	40,628	40,628
Boro Rice	GAP, With P-price	11,949	478	1,864	2,294	3,656	10,754	11,949	11,949
Aromatic Rice	GAP, With P-price	23,899	956	3,728	4,589	7,313	21,509	23,899	23,899
Vegetables (6 veg)	GAP, With P-price	11,949	478	1,864	2,294	3,656	10,754	11,949	11,949
Mung Beans	GAP, With P-price	11,471	459	1,790	2,202	3,510	10,324	11,471	11,471
Potato	GAP, With P-price	11,949	478	1,864	2,294	3,656	10,754	11,949	11,949
Banana	GAP, With P-price	21,987	879	3,430	4,221	6,728	19,788	21,987	21,987
Fish ponds	Improved practices	10,000	400	1,560	1,920	3,060	9,000	10,000	10,000
Large Fish ponds	GAP, With P-price	3,932	157	613	755	1,203	3,538	3,932	3,932
Poultry - Eggs	Better feeds	23,825	762	3,097	3,812	4,860	14,295	19,060	23,825
Poultry - Broiler	Better feeds	22,420	897	3,498	4,305	6,860	20,178	22,420	22,420
Beef fattening: bull	Faster fattening	22,620	905	3,529	4,343	6,922	20,358	22,620	22,620
Dairy Milk [1]	Better Feeds/Breed	91,069	6,557	23,678	29,142	30,963	91,069	91,069	91,069
Poultry - Broiler	GAP, With P-price	22,620	905	3,529	4,343	6,922	20,358	22,620	22,620
Banana+Potato: Drip	GAP, With P-price	47,797	3,824	12,427	15,295	16,251	47,797	47,797	47,797
Micro-Enterprises:									
Milk Collection Centre	With GAP Standard	200	16	52	64	68	200	200	200
Hand Loom ME	Women ME	5,335	427	1,387	1,707	1,814	5,335	5,335	5,335
Basket weaving	Women ME	3,795	304	987	1,214	1,290	3,795	3,795	3,795
Fingerling production	5 ponds in 5 ha	200	16	52	64	68	200	200	200
Total		445,000	22,702	85,104	104,743	138,217	406,520	437,368	445,000

Notes: GAP – GGAP is adopted in “with project” situation; No P-price – premium price for GAPP certified product has not been realized due to inadequate VC linkages or not realizing the expected product quality.

8. The basis of segregating the total number of beneficiaries of 400,000 into these enterprises was the distribution of loan recipients in these sectors in the lending programme of PKSF with their partner organizations for the period of 2017 to 2018. The distribution of the development budget of the project cost is the following: 8% is for the 1st year; 26%, 32%, and 34% for the 2nd, 3rd, and the 4th year respectively. It is assumed that all beneficiaries have been reached at the end of the 4th year. The project budget for the balance period is mostly for follow-up, monitoring and programme management which would hardly impact on reaching beneficiaries. It is also assumed that all production costs and benefits of the project beneficiaries would start in the 2nd year of the project once the micro-financing Partner Organizations (POs) of PKSF have prepared VC proposals and made contacts with the beneficiaries.

9. The adoption rate varies with the enterprise. The typical rates applied are: 1st project year – 50%, meaning only 50% of the beneficiaries reached by the project in this year would apply all production technologies; 2nd year – 60%; 3rd year – 60%; 4th year – 90%; 5th year – 90% and 6th year – 100%. The focus group discussions that the design team had with the members of the existing Producers Associations (PAs) during the field visits gave indications to derive the adoption rates.

10. The EFA was based on the following **general assumptions**:

- (a) The current enterprise budgets that were elicited through field discussions held with the producers represented the “without project - WOP” scenarios. The existing technologies and the prevailing prices of inputs and outputs were used to derive the WOP enterprise budgets. The respective WP situations were constructed using conservative estimates of potential changes to the costs and benefits of the models on the advice of the Agricultural Value Chain expert of the design team.
- (b) All benefits were estimated using 2019 prices. The incremental costs and benefits of the project supported enterprises will continue for a 20-year period which include the 6-year project implementation period.
- (c) For all activities which used labour, a financial rural daily wage rate of BDT 420 per person-day for unskilled labour and BDT 588 per person-day for skill labour who work in technology demanded enterprises (large fish tanks, milk cooling plants etc) were used. These are the prevailing rates in the project area. The same wage rate was used to value

household family labour too because of the availability of wage labour opportunities in the project areas.

- (d) Full production of the crops, livestock, and fisheries models have been valued. It is possible that a part of the production is domestically consumed, and it is in fact encouraged by the project to do so to provide enhanced nutrition to the family members. This portion is also however valued at the same farm-gate price to reflect the full financial and economic value of the production models.
- (e) The capital cost and 50% of the working capital of the 1st year of each enterprise model is provided as credit using the project-initiated credit lines. The annual interest rate of the POs existing financial products, which is 22% on average, is used to derive the credit re-financing flows.
- (f) It is also assumed that the project beneficiaries have appetite for credit and application of new technologies, which would be enhanced through the awareness programmes and training interventions of the project.

3. FINANCIAL ANALYSIS

Enterprise Budgets and Demand for Credit

11. The **enterprise budgets** that were used for the EFA analysis are summarised in Table 2. The net benefits and return on investment (ROI: net return divided by total cost) of all the models have increased in the WP case. The ROI was estimated using the present value of total cost and the present value of total net return for a 20-year period with a discounted rate of 10% for dairy cattle, milk collection centers, handloom, basket weaving and fingerling production. It should be noted that the increased income from all crop models are obtained not with substantial increase in labour use which is beneficial for the farmers.

12. The incremental financial benefits of the agricultural enterprise models would be realised in two stages: (i) yield increase owing to adopting technologies and GGAP would be expected in the same year that the technology is adopted – for example 50% of the rice growers who would be reached by the project in the 2nd year would adopt the technology and secure the incremental yield in the same year. This WOP to WP increase for three types of rice varieties is shown in the bar-chart and it is assumed that this benefit increase would last for three years before the farmers graduate to the next step with the premium price; and (ii) price increase as a premium price for the beneficiaries, which would take about 3-years due to the time required to mature VC related market linkages. This required two types of models for one enterprise: one model reflecting only the yield increase for WP scenario (labeled as GAP, No P-price [**single effect**] models in Table 1), and the second model reflecting both yield and price increase with the premium price (labeled as GAP, With P-price [**double effect**] models in Table 1). The business maturity period to get the premium prices realised is assumed as three years (see the bar chart above).

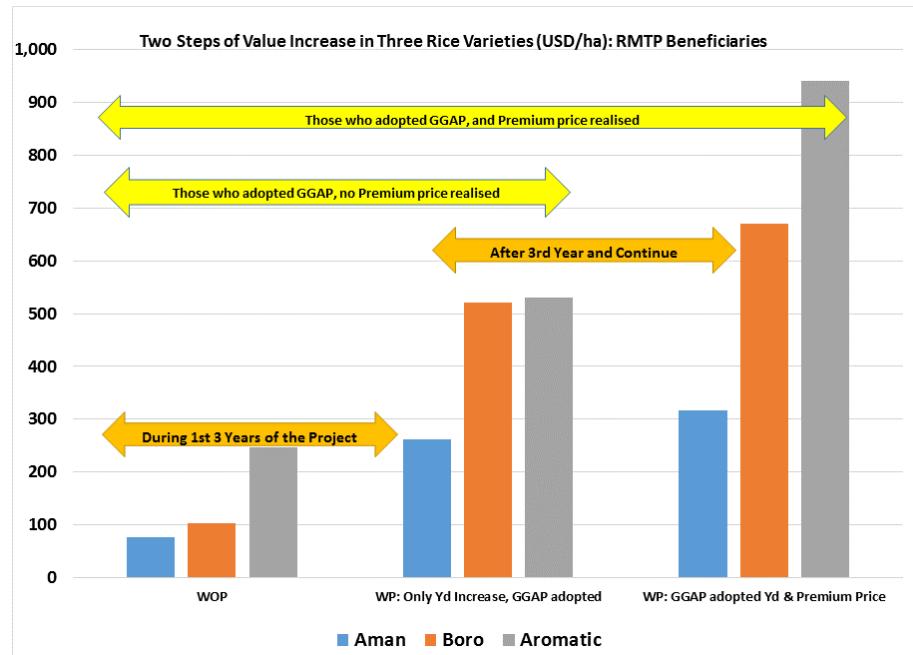


Table 2: Budgets of all enterprise models representing the VCs used for the EFA of RMTP

Enterprises representing the VCs	Model Type	Unit of Production	Without Project (WOP)				With Project (WP)				Incre. NPV at project level (USD/ha) ^[2]	Demand for Loan: 22% An. Int. (USD)
			Production (kg)	Total labour use (md)	Net benefits (USD)	ROI	Production (kg)	Total labour use (md)	Net benef.(USD)	ROI		
Aman Rice	GAP, No P-price	1 ha	3,850	127	150	16%	4,130	42	351	43%	1,438	462
Boro Rice	GAP, No P-price	1 ha	4,550	127	177	16%	5,050	39	318	29%	1,006	550
Aromatic Rice	From Boro To	1 ha	5,750	142	336	27%	2,925	139	620	51%	2,031	828
Potato	GAP, No P-price	1 ha	16,500	190	349	21%	18,000	75	591	38%	1,641	1,133
Banana	GAP, No P-price	1 ha	15,060	120	239	12%	22,500	78	772	30%	3,577	2,116
Aman Rice	GAP, With P-price	1 ha	4,130	39	337	41%	4,130	42	405	48%	670	501
Boro Rice	GAP, With P-price	1 ha	5,050	39	177	91%	5,050	39	759	102%	715	411
Aromatic Rice	GAP, With P-price	1 ha	2,925	139	708	62%	3,360	60	1,030	90%	2,249	703
Vegetables (6 veg)	GAP, With P-price	1 ha	8,146	365	993	156%	8,957	383	1,440	189%	3,199	1,130
Mung Beans	GAP, With P-price	1 ha	280	17	102	61%	380	20	150	65%	346	196
Potato	GAP, With P-price	1 ha	16,500	191	408	26%	19,500	56	1,142	82%	4,559	1,004
Banana	GAP, With P-price	1 ha	22,500	78	989	41%	22,500	78	1,237	48%	2,170	2,116
Fish ponds	Improved practice	30 decimal	210	10	261	64%	300	15	385	67%	888	537
Large Fish ponds	GAP, With P-price	1 ha (total)	2,500	100	5,388	206%	4,100	250	11,089	209%	40,757	4,686
Poultry - Eggs	Better feeds	300 birds	19,200	100	630	29%	30,240	150	1,197	37%	3,624	2,874
Poultry - Broiler	Better feeds	150 birds	180	20	61	13%	270	20	182	29%	862	578
Beef fattening: bull	Faster fattening	1 per Yr	175	20	68	12%	245	20	248	40%	1,290	564
Dairy Milk [1]	Better Feeds/Breed	1 Cow	1,440	15	1,423	19%	2,880	60	2,398	20%	2,398	1,400
Poultry - Broiler	GAP, With P-price	150 birds	180	20	61	13%	270	25	233	33%	1,227	650
Banana+Potato: Drip	GAP, With P-price	7 ha		938	16,649	41%		1,008	35,735	82%	5,102	2,030
Micro-Enterprises:												
Milk Collection Centre	GAP Standard	500 kg/day					182,500	300	24,883	27%	24,883	6,725
Hand Loom ME	Women ME	300 Lungy					300		889	36%	889	72
Basket weaving	Women ME	200 Basket					200		486	30%	486	69
Fingerling production		5 ponds in 5 ha					9,600	700	125,013	23%	125,013	39,584

GAP: Global Good Agricultural Practices; P-Price: Premium price with Value chain linkages; ROI: Return on Investment; [1] Dairy milk: net benefit is in NPV (10% DR); Milk collection: building with GGAP standards; All ME's are new and the WOP benefits is assumed as the opportunity cost of labour involved. Net benefits are in NPV (10% DR) and IRR for 20 years. Drip - Drip Irrigation. [2] Incremental (Wp-WOP) NPV /ha is presented for the cash flows started in 2nd Yr. The rest is in EFA excel sheets.

13. As such, it is assumed that one group of beneficiaries practicing an enterprise that would get increased yield in the same year of adoption together with the premium price advantages three years after, and another group of the same enterprise would get only the yield advantage through out the project period and beyond. The enterprise models with "single effect" and "double effect" are listed in Table 2. These differences are modeled in the EFA. All the enterprises listed in Table 1 are financially viable to receive project support and credit. For all crop models, including annual crops, the NPV at the project level (10% DR & 20-years) was estimated and presented in Table 2 above (details in the EFA excel sheets).

14. **Discount rate for the financial analysis:** There are two options to choose from: (i) PKSF average lending rate since they function as the vehicle for IFAD to provide credit to the beneficiaries; and (ii) the current average lending rates in the financial markets of Bangladesh, which is 10%. The latter was used as the financial discount rate. PKSF and its Partner Organizers (POs) apply an average interest rate of 22% and it varies upto 24%. This is to cover the overhead cost of these institutions. These rates do not reflect the financial market returns of the country. IFAD is interacting with the mainstream institutions, and in this case the project is using the PKSF as a vehicle to deliver loans to the IFAD target groups. Given this scenario, it prudent to use the mainstream bank rates as the DR for financial analysis.

15. **Credit delivery:** There are four types of loans among the financial products of PKSF: (i) *Buriad*, targeting at very poor with land plots less than 30 decimal (250 decimal = 1 ha) for seasonal crops and rice cultivation; (ii) *Sufolon*, targeting at enterprising poor having larger land plots and livestock; (iii) *Jagaron* is a larger loan targeted at beneficiaries with several enterprises including livestock; and (iv) *Aggressor* loan is targeting at micro-entrepreneurs who also have few agricultural activities. There will be demand for all four types of loans. The farm model analysis shows potential demand for each type of loans.

Farm Models

16. Several typical farm models were developed to assess the income increase that the beneficiaries would expect with the interventions of the project and the demand for credit (technical details of the farm models are presented in Annex 3). The farm models represent typical cropping calendars that prevail in the project area. Farm Model 1, with production and financial indicators presented in Table 3, is based on the following cropping calendar. Boro rice would also be cultivated on a separate block of land in the

same farm. The land size of this farm model is smaller than the typical farm size and also this represent beneficiaries who belong to “very poor” category. This farm model represents “single effect” model where only the increased yield advantage has been realised.

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Cauliflower			Okra				Beans			Maize	

Rice and vegetable cultivation use Global Good Agricultural Practices, i.e. low chemical-based inputs and more of organic based inputs, no insecticides and pesticides, and mechanized (hired machinery) land preparation and harvesting of paddy in “WP” production scenario. Better feed formulae and management practices represent WP scenario. There would be a more productive family labour (women) re-arrangement in the model. Wage labour that was practiced in the WOP case, has been used for basket weaving. This shift is more domestic-friendlier since women remain at home with some income generating work instead of venturing into wage labour.

17. Table 3 shows that the WP net benefits have increased and the elevated average daily per capita income is close to the average per capita rural income level of BTK 190 per day.⁴ Wage labour income, although reduced in WP case, forms an important part of the family income. Women in the family contribute to the income by earnings baskets weaving. This model could demand *Buriad* type of loans of about BTK 13,000 per year. These are very short-term loans and usually repayment is done bi-weekly. With nutritional education provided by the project, it is expected that about 300 eggs would be consumed at home. However, these also valued and added to the benefit flow.

⁴ Source for rural income: Arslan, A. and Higgins, D. 2019. Impact assessment report: Coastal Climate Resilience Infrastructure Project (CCRIPI), People's Republic of Bangladesh. IFAD: Rome, Italy

Table 3: Farm model 1 – Representing beneficiaries who would demand *Buriad* type of credit

Farm Model 1: Poorest [BUNIDA]	Model Type	Land Allocation (ha)	Without Project (WOP)			With Project (WP)			Increase in net farm income (\$/Yr)	Demand for Loans (USD)
			Production (kg)	Total labour use (md)	Net benefits (USD)	Production (kg)	Total labour use (md)	Net benefits (USD)		
Effective Farm (ha)		0.392								
Boro Rice	GAP, No P-price	0.26	1,183	33	46	1,313	10	83	37	
Vegetables (6 veg)	GAP, No P-price	0.132	1,075	48	131	1,182	51	190	59	149
Poultry - Eggs	Better feeds	150 Birds	9,600	50	315	15,120	75	598	283	
Basket weaving	Women ME							972	972	
Wage Income: Family					1,800			900		
Total Income					2,292			2,743		149
Average daily per capita income (USD)					1.40			1.67		
Average daily per capita income & demand for the Loan (BTK)					117			140		12,531

18. Table 4 demonstrates a typical farm with crops, two types of livestock activities, fish ponds and a non-farm activity as income sources. The cropping calendar is similar to the one presented above. The farm model is financially beneficial and earns an annual income which is higher than the average rural income. The credit demand is above one thousand BTK and represent *Sufolon* type seasonal loans.

Table 4: Farm model 2 – Representing beneficiaries who would demand *Sufolon* type of credit

Farm Model 2: Seasonal Loan [SUFOLON]	Model Type	Land Allocation (ha)	Without Project (WOP)			With Project (WP)			Increase in net farm income (\$/Yr)	Demand for Loans (USD)
			Production (kg)	Total labour use (md)	Net benefits (USD)	Production (kg)	Total labour use (md)	Net benefits (USD)		
Effective Farm (ha)		0.928								
Vegetables (6 veg): 1st	GAP, With P-price	0.264	2,150	96	262	2,365	101	380	118	298
Mung Beans	GAP, With P-price	0.264	74	4	27	100	5	40	13	52
Potato	GAP, With P-price	0.4	6,600	76	140	7,800	22	457	317	401
Large Fish ponds	Improved practice	0.112	280	11	603	459	28	1,242	639	525
Poultry - Broiler	Better feeds	300 birds	360	40	122	540	50	465	343	
Hand Loom ME								1,778	1,778	
Total Income					1,154			4,362		1,276
Average daily per capita income (USD)					0.70			2.66		
Average daily per capita income & demand for the Loan (BTK)					59			223		107,276

Table 5 and 6 shows representative farm models demanding *Jagoron* type loans and moderately poor beneficiaries. The relevant cropping system is presented below.

19. Table 6 has almost the same system but without rice.

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Aromatic Rice		Fallow		Aman Rice				Potato/Veg		Rice>	
Banana for one year											

Table 5: Farm model 3 with Aromatic Rice– Beneficiaries who would demand Jagoron type of credit

Farm Model 3 - Micro-Credit, Moderately Poor [JAGORON]	Model Type	Land Allocation (ha)	Without Project (WOP)			With Project (WP)			Increase in net farm income (\$/Yr)	Demand for Loans (USD)
			Production (kg)	Total labour use (md)	Net benefits (USD)	Production (kg)	Total labour use (md)	Net benefits (USD)		
Effective Farm (ha)		0.732								
Aman Rice	GAP, With P-price	0.2	826	8	67	826	8	81	14	100
Aromatic Rice	GAP, With P-price	0.2	585	28	142	672	12	206	64	141
Banana	GAP, With P-price	0.2	4,500	16	198	4,500	16	247	50	423
Vegetables (6 veg)	GAP, With P-price	0.132	1,075	48	131	1,182	51	190	59	149
Poultry - Eggs	Better feeds	300 birds	19,200	100	630	30,240	150	1,197	567	2,874
Dairy Milk	Better Feeds/Breed	2 Cows	1,440	15	1,423	5,760	120	4,797	3,373	2,800
Total Income					2,591			6,718		6,487
Average daily per capita income (USD)					1.58			4.09		
Average daily per capita income & demand for the Loan (BTK)					133			344		545,195

Table 6: Farm model 4 with many livestock- beneficiaries who would demand Jagoron type of credit

Farm Model 4 - Micro-Credit, Moderately Poor [JAGORON]	Model Type	Land Allocation (ha)	Without Project (WOP)			With Project (WP)			Increase in net farm income (\$/Yr)	Demand for Loans (USD)
			Production (kg)	Total labour use (md)	Net benefits (USD)	Production (kg)	Total labour use (md)	Net benefits (USD)		
Effective Farm (ha)		0.932								
Banana	GAP, With P-price	0.4	37,650	48	96	9,000	31	495	399	846
Vegetables (6 veg)	GAP, With P-price	0.132	1,075	48	131	1,182	51	190	59	149
Potato	GAP, With P-price	0.4	6,600	76	140	7,800	22	457	317	401
Dairy Milk	Better Feeds/Breed	2 Cows	2,880	30	2,846	11,520	240	9,593	6,747	2,800
Beef fattening: bull	Faster fattening	2 bulls	350	40	136	490	40	497	361	1,128
Total Income					3,349			11,232		5,325
Average daily per capita income (USD)					2.04			6.84		
Average daily per capita income & demand for the Loan (BTK)					171			575		447,575

20. Both farm models generate substantial income with project interventions and also represent “double effect” advantage. Livestock forms an important element in the farming system. The GGAP technology in all farming activities and limited mechanization in paddy farming would be anticipated. Poultry farming would be similar to what is practiced in Model 1. Dairy cattle farming will have improved feeding with both improved varieties of grasses, concentrates, mineral, and adequate water. Artificial Insemination (AI) would be practiced to get better cross breeds. The milk yield would be increased from 9 liters per day to 12 liters per day with the improved practices and management. With VC linkages, there would be assured market for milk, but a premium price cannot be expected for milk since there is no fat-rate based selling at the farm-gate. Similar to eggs, it is anticipated that the domestic milk consumption will slightly increase. However, the volume consumed has also been valued in the EFA. The loans are collateral free, with monthly repayment arrangements.

21. Table 7 represents a typical micro-entrepreneur model with larger scale drip-irrigation banana cultivation and fingerling production. The demand for credit, which is of Agrosor type, is high and it could be made available by Non-Banking Financing Institutions. The ME generates adequate cash flow to repay the loan (details in EFA excel sheets). About 5 non-skilled labourers would be employed full time in the ME. The irrigation is done using gravity systems in WOP scenarios. This system has resulted in many diseases and fungus growth which lead plant death and low yield. The sprinkler irrigation systems which is based on low cost sprinklers and a tube well, would prevent such yield losses. The beneficiaries are willing to adopt the system with the availability of financing as credit. Technical details are presented in Annex 3.

Table 7: Farm model 5 with Micro-enterprise beneficiaries who would demand Agrosor type of credit

ME Model 5: Micro Enterprise [AGROSOR]	Model Type	Land Allocation (ha)	Without Project (WOP)			With Project (WP)			Increase in net farm income (\$/Yr)	Demand for Loans (USD)
			Production (kg)	Total labour use (md)	Net benefits (USD)	Production (kg)	Total labour use (md)	Net benefits (USD)		
Banana+Potato: Drip	GAP, With P-price	7		938	16,649		1,008	35,735	19,086	2,030
Average daily per capita income (USD)					10.14			21.76		
Average daily per capita income (Tka)					852			1,829		170,622
Fingerling production						9,600	700	125,013		39,584
Average daily per capita income (USD)								76.11		
Average daily per capita income & demand for the Loan (BTK)								6,397		3,327,036

22. Table 8 and 9 represent the possible changes in land sizes of crops and type of crops respectively. The total farm size will remain the same in both cases. In the first case, the land size under potato would be increased with the support of the project and the increased land extent will come from a reduction in the extent of vegetable farming and mung bean cultivation. This change would result in a notable increase in the farm income.

23. Table 9 represents the changes in crops as a result of the project support. Mung bean cultivation, in this representative farm model would be replaced with banana which will yield better net return. This model too will provide a substantial incremental net revenue.

Table 8: Farm model 6 with beneficiaries who would demand *Sufolon* type of credit and change land sizes of crops

Farm Model 6: Seasonal Loan [SUFOLON], changing land sizes	Model Type	WOP: Land Use (ha)	WP: Land use (ha)	Without Project (WOP)			With Project (WP)			Increase in net farm income (\$/Yr)	Demand for Loans (USD)
				Production (kg)	Total labour use (md)	benefits (USD)	Production (kg)	labour use (md)	Net benefits (USD)		
Effective Farm (ha)		0.928	0.928								
Vegetables (6 veg): 1st	GAP, With P-price	0.264	0.132	2,150	96	262	1,182	51	190	-72	149
Mung Beans	GAP, With P-price	0.264	0.132	74	4	27	50	3	20	-7	26
Potato	GAP, With P-price	0.4	0.664	6,600	76	163	12,948	37	758	595	666
Large Fish ponds	Improved practice	0.112	0.112	280	11	603	459	28	1,242	639	525
Poultry - Broiler	Better feeds	300 birds	450 birds	360	40	122	810	60	545	423	1,949
Hand Loom ME									1,778	1,778	
Total Income						1,178			4,533	3,355	3,316
Average daily per capita income (USD)						0.72			2.76		
Average daily per capita income & demand for the Loan (BTK)						60			232	282,016	

Table 9: Farm model 7 with beneficiaries who would demand *Sufolon* type of credit and change the crops

Farm Model 7: Seasonal Loan [SUFOLON], changing cropping pattern	Model Type	WOP: Land Use (ha)	WP: Land use (ha)	Without Project (WOP)			With Project (WP)			Increase in net farm income (\$/Yr)	Demand for Loans (USD)
				Production (kg)	Total labour use (md)	Net benefits (USD)	Production (kg)	Total labour use (md)	Net benefits (USD)		
Effective Farm (ha)		0.928									
Vegetables (6 veg): 1st	GAP, With P-price	0.264	0.264	2,150	96	262	2,365	101	380	118	298
Mung Beans	GAP, With P-price	0.264									
Potato	GAP, With P-price	0.4	0.4	6,600	76	140	7,800	22	457	317	401
Large Fish ponds	Improved practice	0.112	0.112	280	11	603	459	28	1,242	639	525
Poultry - Broiler	Better feeds	300 birds	300 birds	360	40	122	540	50	465	343	0
Banana	GAP, With P-price		0.4	9,000	48	96	9,000	31	495	399	846
Total Income						1,223			3,039	1,816	2,071
Average daily per capita income (USD)						0.74			1.85		
Average daily per capita income & demand for the Loan (BTK)						63			156	152,640	

Credit demand

24. The 24 enterprises listed in Table 2 were aggregated into 7 VCs as shown in Table 10 to present the total demand from credit by the value chain. Same Tables shows the land extent that would be developed under each VC. The analysis estimated the credit demand for each enterprise and aggregated for each VC listed in Table 10. The amount of credit demanded was based on (i) total requirement of capital expenditure and working capital of the enterprise models; and (ii) 50% of the cost of labour. It is assumed that the balance 50% of labour comes from the family labour pool. On the basis of these two assumptions, the total potential demand for different type of credit would be USD 285 million during the 6-year project period. The project with IFAD and co-financiers would provide USD 155 million and normally the reflows would also be available to meet the full credit demand. With one round of reflows, the project will be able to meet the estimated total credit demand during the project period.

Table 10: Group of enterprises, beneficiary households engaged credit estimated demand

Type of VC	Crops / Enterprise Included	HH	Land (ha)	Production Units	Loans
Cereal	All Rice including aromatic rice	112,323	23,373		13,286
Fruits and Vegetable	Vegetables, potatoes and banana	115,191	35,800		68,137
Pulses	Mung Beans	11,471	1,514		297
Aquaculture	Fish ponds, fingerling and spawn	14,132		2,240	10,839
Livestock	Dairy, Beef fattening, poultry (eggs & broiler)	182,553		153,331	190,470
Food processing	Milk collection, cooling & selling	200		200	1,345
Non-agric MES	Hand looms, Basket weaving	9,130		9,130	646
	Total	445,000	60,687	164,901	285,022

Production increase in enterprises

25. The project direct beneficiaries would be expected to increase their production with technical and financial assistance as credit. The EFA estimated the annual production levels of VC commodities at full development. There would be 75 million mt of rice available per year for all type of rice, 6% increase from the base; 538 million mt for vegetables (potato, all vegetables, and mung beans), 17% increase; 683 million mt for fruits (banana), 3% increase; 254 million liters for milk, 79% increase; 5.5 million mt for beef, 40% increase; 504 thousand eggs, 58% increase; 10.3 million mt for poultry, 50% increase; and 2.3 million mt for fish, 59% increase (Table 11).

Table 11: Increase in production of commodities at full development

VC Commodity	Total Production at Full Development (Mt/Yr)	Total Production: WOP (Mt/Yr)	% increase WP
Rice (all types)	75,187	71,093	6%
Vegetable (Potato, all veg, mung bean)	538,225	458,072	17%
Fruits (Banana)	683,977	662,640	3%
Milk	254,572	141,886	79%
Meat (Beef)	5,542	3,958	40%
Eggs	504,326	320,207	58%
Poultry	10,345	6,896	50%
Fish	2,285	1,437	59%

Impact on Family Income and poverty reduction

26. The net enterprise income that is expected at the full development stage of the project, in 2024-25, would vary from USD 2,743 per year per household for the poorest category; USD 4,362 for emerging farmers; USD 6,718 for moderately poor; and USD 11,232 for micro-entrepreneurs as demonstrated in the farm models. In comparison to average rural income of USD 3,712 (Source: *op.cit*) in the project area, the expected income of the RMTP beneficiaries would be substantially higher. As such the project will have a positive impact on poverty reduction.

Impact on Employment

27. The project has a net gain of employment for 9,266 persons, or 2 million man-days per year. Some crops use less labour due to partial mechanization and others are using more due to adopting good agricultural practices based on organic measures etc. It is expected that changing the cropping practices, type of crops and land extents etc, the losses in labour use would be balanced. Table 12 summarises changes in labour use and employment at full development.

Table 12: Increase in employment due to changes in farming systems at full development

Enterprises representing the VCs	Area (ha)	WOP (md/ha)	WP (md/ha)	WOP: Tot Labour (md)	WP: Tot Labour (md)	Labour: Loss or Gain (md)	Labour: Loss or Gain (Persons)
Aman Rice	2,581	127	42	327,793	108,404	-219,389	-997
Boro Rice	3,107	127	39	394,565	121,166	-273,399	-1,243
Aromatic Rice	2,390	142	139	339,360	332,190	-7,170	-33
Potato	1,434	190	75	272,444	107,544	-164,900	-750
Banana	2,868	120	78	344,139	223,690	-120,449	-547
Aman Rice	8,126	39	42	316,895	341,271	24,377	111
Boro Rice	2,390	39	39	93,204	93,204	0	0
Aromatic Rice	4,780	139	60	664,380	286,783	-377,597	-1,716
Vegetables (6 veg)	1,577	365	383	575,108	604,784	29,676	135
Mung Beans	1,514	17	20	25,742	30,284	4,543	21
Potato	2,390	191	56	456,462	133,832	-322,631	-1,467
Banana	4,397	78	78	342,992	342,992	0	0
Fish ponds	1,600	10	15	16,000	24,000	8,000	36
Large Fish ponds	440	100	250	44,034	110,085	66,051	300
Poultry - Eggs	16,677	100	150	1,667,745	2,501,617	833,872	3,790
Poultry - Broiler	15,694	20	20	313,879	313,879	0	0
Beef fattening: bull	22,620	20	20	452,398	452,398	0	0
Dairy Milk [1]	75,720	15	60	1,135,793	4,543,173	3,407,380	15,488
Poultry - Broiler	22,620	20	25	452,398	565,498	113,100	514
Banana+Potato: Drip	23,134	141	70	3,269,578	1,619,366	-1,650,211	-7,501
Micro-Enterprises:							
Milk Collection Centre	200	185	365	36,960	73,000	36,040	164
Hand Loom ME	5,335	120	150	640,200	800,250	160,050	728
Basket weaving	3,795	14	140	53,130	531,300	478,170	2,174
Fingerling production	200	300	365	60,000	73,000	13,000	59
Total	0	0	0	12,295,199	14,333,711	2,038,512	9,266

Overall Financial Analysis

28. The cashflows of all the enterprise models populated with appropriate targets over the project period were aggregated to compute the total gross benefit flow of the project. The total cost is comprised of (i) the RMTP project cost, based on 2019 prices, net of the provision for loans; and (ii) the incremental cost of all enterprise. The incremental benefits of all enterprise models provided the benefit flow. The EFA excel sheets presents the details. The Financial Internal Rate of Return (FIRR) is 35%. The net benefit flow was discounted at 10%, which is the current average interest rate, to ascertain the break-even point of the project cash flows. At the 9th year (2028), the project will be able to breakeven the total project investment and the beneficiaries' investment during the project period and start generating a positive net benefit flow.

4. ECONOMIC ANALYSIS

29. The economic analysis was carried out by adjusting the cost and benefits flows that were used in the financial analysis of the project to reflect economic values. In addition to the assumptions made in the financial analysis, the following assumptions were used in the economic analysis.

- (a) The economic investment cost is based on the project cost net of financing for loans during the 6-year implementation period generated by COSTAB programme, which deducts the amounts payable for taxes and provisions for price contingencies from the financial costs and applies the shadow exchange rate to convert the cost portion in foreign exchange into local currency. The funds provided to PKSF under the micro-financing has not been included. Both taxes and credit funds are transfer payments which are excluded from the economic analysis.

- (b) The following procedure was used to convert all prices of farm and livestock production to economic prices:
 - (i) using border prices, import parity prices were estimated to value tradable goods (all paddy and all fertilisers), the computation is presented in the EFA excel sheets;
 - (ii) for all non-tradable goods, standard conversion factor (SCF) of 0.84 was used to adjust the prices – the market distortion includes some degree of protection and over-valuation of BTK in terms of the dollar – the SCF was computed taking the ratio between Exchange Rate (ER)⁵ and Estimated Shadow Exchange Rate (SER)⁶ [SCF=ER/SER]; EFA excel sheets presents details; and
 - (iii) overhead cost of PKSF, which is 50% of that of the final year of the project, and it is needed to continue to provide some VC focused service to the enterprises.
- (c) Shadow wage rate factor is assumed at 0.84 to account some out-migration, seasonal labour shortages, and peri-urban labour demand. Labour is idle during some period of the year indicating full employment point has not reached.
- (d) The economic discount rate of 6.2%, which is the Opportunity Cost of Capital representing the Average Annual Deposit Rate (Bangladesh Bank, Dec 2018, IFS 2019, M01 EcoIndicators).

30. After making the required adjustments to the cash flows of the financial analysis on the basis of the above assumptions, the economic analysis for the RMTP was carried out. The Economic Internal Rate of Return (EIRR) for the 20-years period is 30% with benefit cost ratio of 1.31 (The EIRR for this is 29%, indicating that the project can withstand the loss of land to that degree.

⁵ Exchange Rate (ER) Feb 2019 [Bangladesh Bank, <https://www.bangladeshbank.org.bd/econdata/exchangerate.php>]

⁶ Source: Bangladesh Bank Quartely, <https://www.bangladeshbank.org.bd/econdata/exchangerate.php>

31. Table 13). The project earns a Net Present Value (NPV) of USD 291 million for the 20-year period with 6.2% discount rate.

32. **Sensitivity analyses** were carried out to assess whether the project is economically viable to face possible risks of increasing the cost of production of enterprise, decreasing their benefits, one-year delay in realising project benefits, and possible loss of land for cultivation. These risk factors represent most of the potential adverse climatic conditions (heavy rains, floods and cyclones etc) and market failures. It has been estimated that there are crop production losses due to drought which varies from 6% per annum to 15% per annum.⁷ The scenario of 10% and 20% benefit loss address these risk factors.

33. The results of the sensitivity analyses are presented in The EIRR for this is 29%, indicating that the project can withstand the loss of land to that degree.

⁷ https://www.climateemergencyinstitute.com/uploads/M_Drought_in_Bangladesh_and_its_adaptive_measures.pdf

34. Table 13. Both cost increase by 10% and 20% and benefit decrease by 10% and 20% yield EIRR that are higher than the opportunity cost of capital and therefore indicate that the enterprise models are quite stable to face risky scenarios. However, the production models show the highest drop of EIRR in the scenario of 20% benefits decrease and one-year delay in getting benefits. As such the PKSF will have to closely monitor any changes to the facilitative factors and continue to provide services to maintain the productivity levels that are currently being achieved without incurring any delays for the benefits to be realised. In order to take possible climatic effect on land degradation, a scenario of 30% of all land cultivated with project assistance becoming un-cultivable was also assumed as a scenario. The EIRR for this is 29%, indicating that the project can withstand the loss of land to that degree.

Table 13: Results of the Economic Analysis

Sensitivity Analyses	EIRR	B/C Ratio	NPV (USD mn)	NPV (BDT mn)
Base Case	30%	1.31	291	24,477
All cost increase by 10%	22%	1.19	197	16,580
All cost increase by 20%	14%	1.09	103	8,684
All benefits decrease by 10%	21%	1.18	168	14,133
All benefits decrease by 20%	11%	1.05	45	3,789
Cost increase by 10% and benefits decrease by 10%	13%	1.07	74	6,236
1 year delay in getting benefits	16%	1.26	172	14,448
30% of Land under crop would become un-useable due to climatic effect	29%	1.29	267	22,466

35. **Qualitative benefits** These include enhanced financial and social service delivery capacities of the Partner Organizations of PKSF to their members; improved technical capacities of livestock para professionals and para extension service providers; food safety in the project area; better awareness of food safety and nutrition intake among beneficiaries; improved animal health (dairy, beef cattle, poultry and fisheries); and value chain (VC) development through improved market access, and development and expansion of rural businesses. RMTP will also generate employment opportunities for women and men, particularly the youth through their involvement of the value chain activities and related backward and forward linkages.

36. The EFA excel sheets, both for financial and economic values, provide the detail tables listed below.

List of tables	Description
Tradable!A1	Analysis of parity prices
Prices!A1	Prices of all inputs and outputs
EFAStructure_Degn!A1	Foundation for the EFA modeling and distribution of beneficiaries: Design Formulation
EFAStructure_Apprs!A1	Foundation for the EFA modeling and distribution of beneficiaries: Appraisal Formulation
Beneficiary!A1	Distribution of RMTP beneficiaries on the basis of micro-finance beneficiaries of PKSF, 2017-2018
SubProjects!A1	Aggregated cash flows of all enterprises
FmModels!A1	Farm Models and summary analyses
AmanVClA1	Crop Budgets - Aman rice, production increase with adopting technologies (WP), no premium price
AmanSVCIA1	Crop Budgets - Aman rice, production increase with adopting technologies (WP) and premium price
BoroVClA1	Crop Budgets - Boro rice, production increase with adopting technologies (WP), no premium price
BoroSVCIA1	Crop Budgets - Boro rice, production increase with adopting technologies (WP) and premium price
AromaticRiceVClA1	Crop Budgets - Aromatic rice, production increase with adopting technologies (WP), no premium price
AromaticRiceSVCIA1	Crop Budgets - Aromatic rice, production increase with adopting technologies (WP) and premium price
MungbeanVClA1	Crop Budgets - Mungbean, production increase with adopting technologies (WP), no premium price
PotatoVClA1	Crop Budgets - Potato, production increase with adopting technologies (WP), no premium price
PotatoSVCIA1	Crop Budgets - Potato, production increase with adopting technologies (WP) and premium price
BananaVClA1	Crop Budgets - Banana, production increase with adopting technologies (WP), no premium price
BananaGGAPIA1	Crop Budgets - Banana, production increase with adopting technologies (WP) and premium price
FishPond!A1	Enterprise Budgets - Fish Ponds
ImprovedFishFarm!A1	Enterprise Budgets - Improved Large Fish Ponds
Egg!A1	Enterprise Budgets - Eggs
BroilersVClA1	Enterprise Budgets - Broiler
BroilersSVCIA1	Enterprise Budgets - Broiler with GGAP and premium price
Beef!A1	Enterprise Budgets - Beef
CowMilk!A1	Enterprise Budgets - Dairy Cow
MilkCollect!A1	Enterprise Budgets - Milk Collection
HandLoom!A1	Enterprise Budgets - Handloom
Basket!A1	Enterprise Budgets - Basket
FingerLingBreed!A1	Enterprise Budgets - Fingerling production
VegWOPIA1	Crop Budgets - Vegetable production increase with adopting technologies (WP), no premium price
VegWPGGAPIA1	Crop Budgets - Vegetable production increase with adopting technologies (WP) and premium price
DripBanana!A1	Crop Budgets - banana with drip irrigation, production increase with adopting technologies (WP), no premium price
EAYRB_Apprais!A1	Project cost
Ark1!A1	Cropping calendar



Investing in rural people

Bangladesh

Rural Microenterprise Transformation Project Project Design Report

Annex 5: Social Environment and Climate Assessment (SECAP) Review Note

Document Date: 30/07/2019

Project No. 2000002356

Asia and the Pacific Division
Programme Management Department

Annex 5: Social Environment and Climate Assessment (SECAP) Review Note

I. Major landscape characteristics and Issues

A. Socio-cultural context

1. **Poverty and trends in rural areas.** Bangladesh is a country with a population of about 153 million living in an area of 147,500 square kilometers (or 1,252 persons per square kilometer). This makes Bangladesh one of the most densely populated countries in the world. Bangladesh has progressed to lower middle-income country status with high—but declining—rates of poverty among its 153 million people. The proportion of the population living under \$1.25 a day fell from 49% to 32% between 2000 and 2010 effectively lifting 16 million people out of poverty. Sustained economic growth was fundamental to this reduction: Bangladesh real GDP growth averaged 6.3% over the last decade. In 2017, GDP growth was 7.3%.
2. About 80% of the population lives in rural areas. The rural population is mainly engaged in agriculture and/or agricultural related activities - 41% of the population is active in the agricultural sector¹. Currently, the largest share of public expenditure for agriculture goes to price support, income subsidization and input subsidies. Approximately 65% of the rural population is landless or functionally landless (owning less than 0.2 hectares of land). Land ownership is considered an enabling factor for poverty alleviation in rural Bangladesh; Longitudinal research shows that graduation from poverty happened more often when families had disposition over land.
3. Over the last two decades rural communities have gradually moved from subsistence farming to commercial farming. This allows even people with very little means to respond to market opportunities. Smallholders are adopting new agricultural and information technologies and management practices. Financial services, mainly savings and credit, have dramatically improved due to microfinance although micro-insurance service is yet to make any meaningful inroad. In addition, a number of trends can be observed in rural agricultural sectors that are relevant to RMTP: (i) younger and educated groups are slowly investing in agriculture, (ii) larger private companies are appearing in agro-processing, (iii) urban consumers are demanding quality products, (iv) agricultural extension services are more and more privatized as are the seed sector and irrigation are almost fully privatized. Improved rural roads and cell phone services, facilitates the sales of commodities.
4. Rahman (2011) studied 10,483 households across the RMTP target districts of Satkhira and Khulna Districts and found that among the extreme poor, 74% were Muslim, 25% are Hindus, and 1 per cent are Christian, Buddhist or adhere to another religion. Overall, 9 per cent of the extreme poor population are classified as religious-ethnic minorities. In other words, their representation among the extreme poor significantly outstrips their percentage of the total population.
5. **Education.** Bangladesh has made noteworthy gains in education. According to UNESCO, the literacy rate in the country is 72.9% in 2017 (75.7% for male and 70% for female). Literacy rates are particularly high among the lower age quantiles of the population with 92.9% (91.5% for male and 94.3% for female) of people between 15-24% being literate. A 2010 paper on education in rural Bangladesh however, describes that 1) a wide range of primary education options are available in rural Bangladesh, ranging from public schools to NGO organized initiatives and that 2) the quality of education generally is of lower quality in rural areas than in urban areas. High literacy rates strongly correlate with high financial literacy rates and financial well-being. For RMTP this could potentially translate in higher payback rates, increased savings and lower portfolio at risk.
6. **Indigenous peoples.** Around 45 indigenous communities are present in Bangladesh most of them living in the Chittagong Hill Tracts, greater Mymensingh, greater Rajshahi, greater Sylhet, Patuakhali and Barguna. They are generally disadvantaged in the social and cultural spheres and studies suggest that extreme poverty is more prevalent among indigenous communities. IFAD has been supporting indigenous communities in Bangladesh since 2007 through the Indigenous Peoples Facility.

¹ Gautam and Faruqee (2016) Dynamics of Rural Growth in Bangladesh: Sustaining Poverty Reduction.
<https://openknowledge.worldbank.org/bitstream/handle/10986/24544/9781464808760.pdf?sequence=2>

7. Nutrition. Despite significant economic growth, current levels of malnutrition in Bangladesh are alarming. Child stunting is estimated at 36%, acute child undernutrition stands at 14%, and low birth weight affects 22% of babies. Micronutrient deficiencies remain a challenge, with 21% of children being vitamin A deficient, 45% of children being deficient and 40% iodine deficient. 66% of women nationally do not meet minimum while in rural areas 70% of women and only 28% of children meet the required minimum dietary diversity. Food safety remains an issue. Reasons for malnutrition in rural areas include the (i) food insecurity and (ii) inadequate dietary practices. At the same time, there has been a rapid increase in overweight and obesity. This is mostly due to the increased consumption of trans-fats, ultra-processed foods and sugar sweetened beverages.

8. Food safety. Food safety is a serious concern in Bangladesh, with inappropriate use of pesticides and ripening chemicals being some of the main problems facing the agricultural sector. The Bangladesh Institute of Public Health indicated that 50% of food items tested between 2001-2009 was adulterated (particularly pesticide residue), posing health risks for domestic consumers and preventing export. Introduction of food safety standards such as GlobalGAP has been pursued over recent years, however this effort needs to be integrated into a wider effort. Beyond regulatory interventions, market demands for safe food do not reach the majority of smallholder farmers². Recently, FAO has set up the Food Safety Network³ to improve food safety in Bangladesh, aimed at introducing improved guidelines and training of farmers, consumer awareness, inspection and enforcement.

9. Gender. Gender equality is a prominent issue in Bangladeshi public debate and it is a major objective of the 7th five-year plan. Gender equality in Bangladesh has been improving over time. Education levels increased, maternal mortality is declining by 5.5% per year and Bangladesh is one of the best performing countries in the Gender Gap Index (WEF, 2017). However, gender inequalities remain apparent, especially in rural Bangladesh. Women are responsible to carry out the household activities and are the prime care takers for the elderly and children. Dowry is practiced throughout the country, yet there is an increasing public awareness about the negative impact of Dowry and under aged marriages. According to UN women, violence against women is a common practice in family level as well as community level (UNDP, 2017).

10. Women play a vital role in agriculture, nutrition, food security and a wide range of income-generating activities. Production activities largely undertaken by women include post-harvest activities, processing and preservation of crops. Women are also involved in seed preservation, cattle fattening and milking production. Relative to men, women are more often involved in homestead agricultural activities like vegetable production, poultry and goat rearing. Women are to a larger extent involved in production for home consumption rather than for commercial purposes. Men are more engaged in field-based agriculture and larger-scale, higher value business activities further from the home. Social and cultural norms still impeded women from selling goods on markets or to participate in economic activities outside of the homestead. Yet, there is a positive trend and women seem to –slowly but steadily- gain access to market places. Being the cradle of microfinance, microloans are widely accessible to women. Many MFIs specifically target women and around 95% of MF loan recipients are female. The majority of women are members of savings groups. When receiving a loan from a PKSF partner organization, both men and women receive PKSFs standard financial literacy training. During this training, beneficiaries also discuss gender equality and equitably financial relations.

11. Women are involved in a wide range of income generating activities. Preferably, women work on homestead agricultural activities such as small-scale vegetable production, poultry and livestock. In addition, they are involved in minor income generating activities such as sewing and handicrafts. The table below gives an overview of the different value chains and their gender impact. Finally, an empowerment matrix provides an overview of different empowering measures included in the design document.

² BoP Innovation Center (2015). [The impact of food standards on inclusive growth in agriculture: the case of Bangladesh](#)

³ See <http://www.fao.org/in-action/food-safety-bangladesh/en/>

Value chain	Gender aspects
Fruit and vegetable gardens.	<ul style="list-style-type: none"> -Gender-sensitive when cultivation takes place on homestead gardens or very near to households. -Men usually sale cultivation on nearby markets. Women report to receive earnings of their sales from men.
Beef.	<ul style="list-style-type: none"> -Women look after cattle present at the homestead. They fatten cattle when needed. -Women state that they feel free to seek the assistance of veterinary services when needed. -Women are trained on beef fattening practices.
Poultry.	<ul style="list-style-type: none"> -Women look after poultry at the homestead. -Poultry is collected at farm gate.
Goat.	<ul style="list-style-type: none"> -Women look after goats when present at the homestead. -Goats are collected at farm gate.
Aquaculture.	<ul style="list-style-type: none"> - Generally less female involvement as ponds are usually not near to the family home. -Anecdotal evidence suggest that women are to a larger extent involved in aquaculture in the Southern provinces as ponds are closer to the homestead.
Non-agricultural activities in homestead.	<ul style="list-style-type: none"> -Non-agricultural IGA activities in the homestead include sewing and knitting.

Empowerment topics.	Interventions	
	PKSF	Partner Organisations
Women's control over productive assets and economic empowerment.	<ul style="list-style-type: none"> ✓ Incorporate gender, poverty and youth issues in value chain mapping and analyses. ✓ Design value chain projects to ensure that young women are specifically targeted as value chain actors. ✓ Ensure that selected value chains respond to a broader strategy for livelihood adaptation and diversification ✓ All value chain studies will address gender based constraints to women's participation at all levels within the commodity based chain. ✓ The project will ensure that the evolving design of the components will reflect the gender priorities identified in the studies. ✓ Take up lessons learned from the CGAP study on women and technology and incorporate them in the different mobile platforms. ✓ The selection process of value chains will include activities that have a higher rate of women's participation and will address gender based constraints that women. ✓ Actively target women with the loans provided by NBFI's. ✓ Continue the mentorship programme for female employees at PKSF for women. 	<ul style="list-style-type: none"> ✓ All trainings for PKSF and PO staff on value chain processes and inclusive enterprise management will include topics on ensuring an enabling and equitable environment for women's participation in such processes. ✓ Target gender sensitive value chains and promote the role of women in male-dominated value chains. ✓ Actively target women in vocational training programs. ✓ Any assets created through the project (insurances, animals, sheds, business contracts with buyers, etc), will be in the name of women when they are the sole managers of the asset, or else jointly owned by women.
Women's decision making at household level.	<ul style="list-style-type: none"> ✓ Develop public-private shared understanding of values, and complementary expertise, to create gender-responsive strategy. 	<ul style="list-style-type: none"> ✓ Strengthening women's agency (decision-making power) accompanied by work to change attitudes at community and higher

	<ul style="list-style-type: none"> ✓ Actively undertake activities to promote improved labour standards and working conditions for women in the value chain. ✓ Explore opportunities with enterprises to develop gender-responsive, pro-poor strategies. ✓ Ensure that efforts will be made in terms of structuring these capacity building events to suit the availability of the women members in terms of timings, venues and child care facilities 	<ul style="list-style-type: none"> levels by incorporating this as topics in the multiple trainings offered. ✓ Skill trainings and vocational trainings will include both women and men of the households taking loans. ✓ Promotion of women leaders in MF groups and producer associations. ✓ Build/strengthen the social capital and negotiation skills of poor people in general, and women and young people in particular, to enable them to participate effectively in value chain relationships.
Reducing workloads, and achieve an equitable workload balance between women and men		<ul style="list-style-type: none"> ✓ Promote access to new technologies and new markets. ✓ Adopt low cost technology to reduce drudgery and improve quality and production in all stages of crop production and post harvesting
Gender mainstreaming within the M&E	<ul style="list-style-type: none"> ✓ Monitoring and evaluation will be carried out on the basis of gender and household poverty disaggregated data. ✓ Baseline and impact surveys will include empowerment indicators to be measured. This will allow the project to track the progress on inclusion of women and other marginalized households overall. ✓ Pilot initiatives will be assessed according to gender impact so that lessons learnt can be used in subsequent project activities. 	<ul style="list-style-type: none"> ✓ Sub-project reports reflect gender issues. The final project reports systematically identify gender gaps and gender-related project successes ✓ Ensure that all information is gathered and presented disaggregated by sex.

12. Youth. With the median of the entire population being a bit over 26 years old and 20% of the population between 15-24 years old, Bangladesh is considered to have a young population. Over the next couple of decades this median will slowly raise to 30 years while it is expected that 60% of the population is between 15-24 years old⁴ in 2020. Youth unemployment stands at 10.3%, which is slightly lower than the average global unemployment rate of 12%. However, according to the ILO, 20.1% of the population is confined to irregular employment. Constraints faced by youth, especially in rural areas are (i) lack of technical education, (ii) lack of skills and training, (iii) limited access to finance (Hossain, 2010). Often, younger leave school before obtaining secondary education. Despite the fact that youth who leave high school prematurely are literate and have basic mathematical skills, it increases chances to long-term social exclusion. There is a variety of reasons why the youth decides to drop out of a school including, the need to support the family income, uninterested and affordability. Marriage is the most important reason why women drop out of secondary school.

13. With 34.5%, the agricultural sector, either directly or indirectly, remains the most important employer in Bangladesh providing employment of youth. Services provide 32.9% of employment and industry 30.6%. Proportionally, more women than men are employed by the agricultural factors. Of the youth, 54% is an employee, 0.5% is an employer, 31.7% is an own-account worker and 11% is unpaid family worker. Written contracts are not the norm in Bangladesh with around 30% of the youth in rural areas having penciled down their engagement⁵.

14. A large portion of the youth of Bangladesh still moves abroad for employment and sends home remittances. In 2015, the country received \$15 billion from remittances and migration is

⁴ See: <https://population.un.org/wpp/Graphs/Probabilistic/POP/0-24/>

⁵ See: https://www.ilo.org/wcmsp5/groups/public/@dgreports/@dcomm/documents/publication/wcms_245517.pdf

higher among the middling poor than the rich and the poorest poor. Migration is a men's business and female migration is reserved for divorcees, widows and abounded women. Studies suggest that migration is not the preferred option for youth, they often chose this path when other economic opportunities have been exhausted. A challenge for remittance senders is finding long-term productive investment opportunities. (Rashid and Sidker, 2016).

The project's direct target groups consist of marginal & small farmers and micro-entrepreneurs and within the direct target groups, preference is given to women, the youth and the poorer segments. The project will indirectly support all value chain actors such as input suppliers, traders, processors, advisory services. Consequently, the project will have a positive impact on the ultra-poor for whom more jobs get available along the value chains. Building on research from the World Food Programme, the Bangladeshi rural poor can be roughly identified in three segment: the ultra-poor, enterprising farmers and emerging farmers. The ultra-poor are also targeted through pro-poor loans as well as other IFAD interventions such as PROVATi³, HILIP-CALIP and CCRIP. The *Enterprising poor*, *Emerging famers* and *Micro-entrepreneurs* will be targeted by PKSF loan programme as well as VC activities. The table below provides a general description of their characteristics based on WFP livelihood maps⁶ and the 2010 household expenditure survey⁷.

Target group.	General characteristics.	Financial characteristics.
<u>Ultra-poor.</u> -27% of rural poor. -Beneficiaries of buniad loans under RTMP.	-Illiterate or poorly literate/ poor numeracy. -Average family size: 3.96 -Poor financial management skills -Undeveloped business skills. -Involved in unskilled labour. -Live in cabins. -Own mobile phone. -Average expenditure on major food crops: 4287.	-Seasonal migration seen as expandable livelihoods strategy. -Depend on wage labour including cash for work schemes. -Little savings. -No land – 0.49 acres -0-4 chicken. -Average number of earners: 1.29. -Average income: 5843
<u>Transitional poor.</u> -58% of rural poor. -Beneficiaries of pro-poor loans agricultural loans, <i>Jagaron</i> loans and VC activities under RTMP.	-Literate/ numerate. -Average family size: 4.61 -Rudimentary financial management skills. -Involved in unskilled and skilled labor. -Majority lives in cabins or family housing. -Own mobile phone. -Average expenditure on major food crops: 5616.	-Sharecroppers or owning 0.5-1.49 acres land. -0-4 cows owned/ shared, -0-2 goats. -1-4 fruit trees. -Homestead gardens. -Some receive remittances either international or domestic. -Average number of earners: 1.26 -Average income: 9696.50
<u>Enterprising poor.</u> - 15% of rural poor. -Beneficiaries of agricultural loans and <i>Jagaron</i> loans, <i>Aggressor</i> loans and VC activities under RTMP	-Literate/ numerate. -Average family size: 5.36 -Rudimentary financial management & business skills. -Affiliated with POs through MF programmes and sometimes ME loans -Live in family housing and 25% in brick structures. -Own mobile phone and sometimes solar panel/motorbike. -Average expenditure on major food crops: 7526.	-Owning more than 1.50 acres of land. -4-8 cows owned/ shared, -4-8 goats. -1-6 fruit trees -multiple varieties. -Homestead gardens. -Expanding land ownership. -Some receive remittances either international or domestic. -Average number of earners: 1.29 -Average income: 16172.50

Ultra-poor: The Ultra-poor are landless or have up to 0.49 acre of land and hold few assets. For income generation, they depend on wage labour and share cropping. Often they migrate out to rural areas in other parts of the country in search of income or depart for urban areas. Although they are 90% food secure, a food crises can occur when incomes stagnate. The ultra-poor have limited literacy and numeracy skills, live in cabins and have little savings. They are targeted through PKSFs pro-poor loan programme (*Buniad*) and as suppliers under RMTPs value chain activities. Their average annual income is BDT 5843 and average expenditure on major food crops is 4287.

⁶ See: https://reliefweb.int/sites/reliefweb.int/files/resources/livelihoods_of_char_and_river_basin_communities_2016.pdf

⁷ See: <http://203.112.218.65:8008/WebTestApplication/userfiles/Image/LatestReports/HIES-10.pdf>

Transitional poor: Possess between 50-1.49 acres of land including homestead and/or are involved in sharecropping as well as wage labour. Generally, they are food secure, though this group occasionally could face a food crisis due to e.g. a climate related shock. Enterprising poor are literate and numerate, live in cabins and have some livestock and chicken. Enterprising poor were able to increase their asset base over the last couple of year, by migration and diversifying their income base. They are targeted through PKSF's income generating activities programme (*Jagaron*) or agricultural (*Sufolon*) programme as well as suppliers under RTMPs VC activities. Their average annual income is BDT 9693 and average expenditure on major food crops is 5616.

Enterprising poor: This group has land holdings between 50-2.49 acres and a small herd of cattle & poultry. Depending on their agro-ecological zone, they are involved in rice or crop production. Enterprising poor are food secure and, just as the transitional poor, literate and numerate. They live in cabins and in some cases in fixed structures. Many of the enterprising poor farmers have been able to expand their asset base over the last couple of years by increasing their land holdings. This groups is targeted through PKSFs agricultural programme as well as *Jagaron*, *Sufolon* and *Agressor* loan products. Their average annual income is BDT 16172 and average expenditure on major food crops is 7526.

Using existing procedural guidelines, financial services are provided to micro-enterprises and to growing/larger enterprises and agribusinesses. Based on a typology from the DFID funded study: Diagnostic of Micro-enterprise lending (ME) lending by MFIs in Bangladesh, the table below (i) describes different types of enterprises and (ii) how they relate to PKSF loan products and NBFI lending products.

Type	Characteristics	RMTP interventions
Household enterprises	-+/-2 employees -Mostly depend on family labour. -Ultra-poor and transitional poor. -Around 10 years of experience as an entrepreneur.	-Financed by Buniad, Sufolon and Jagaron loans. -Assisted to aggregate through PAs.
Microenterprises	-+/-5-10 employees. -Depend on family labour and wage labour. -Enterprising poor. -Around 13 years of experience as an entrepreneur.	-Financed by Agressor loans. -Assisted to aggregate through PAs.
Small enterprises & Agribusinesses	-+/-30-50 employees. -Mostly depend on wage labour.	-Financed by NBFI. -Assisted to establish market linkages with PAs.

B. Natural resources

15. Bangladesh is predominantly a riverine, deltaic country, with around 80% of its surface classifying as floodplains and having an extensive coastal area, jointly forming the Bangladesh Plain. Part of the world's largest delta, the country has been formed over centuries from sediments deposited by the Ganges, Brahmaputra and Meghna (GMB) river system, which converge on the Bengal Basin. There are only a few non-plain areas in the country, notably the Chittagong Hills in the southeast and the highlands in the northwest. Bangladesh's alluvial soils are highly fertile, but vulnerable to floods as well. Flooding is highly common phenomenon in Bangladesh, and in many ways society has adjusted to these natural dynamics. Nevertheless, floods still present a major risk to human lives and economic activity. The 1998 flood inundated about 75% of the country including Dhaka, made 30 million people homeless and killed over a thousand people. Other major natural hazards in Bangladesh include cyclones and tornadoes, equally presenting a major risk to human lives and the economy.

16. **Water.** During the annual monsoon period, the rivers of Bangladesh flow at some 140,000 m³/s, while during the dry period this only amounts to 7,000 m³/s. More than 60 % of the net arable land, some 91,000 km², is cultivated in the rainy season despite the possibility of severe flooding, and nearly 40 % of the land is cultivated during the dry winter months. Water resources

management interventions have therefore aimed at both providing flood protection and drainage during the rainy season, and irrigation facilities for the expansion of winter cultivation. Major water control projects have been implemented by the government to provide irrigation and flood control. In addition, thousands of tube wells and electric pumps are used for local irrigation.

17. Forestry. Bangladesh has three categories of forests based on topographic conditions: (i) hill forests, moist tropical evergreen and semi-evergreen forests comprising more than half of the country's total forest resources and carrying high ecological importance; (ii) Plain Sal Forests, Tropical Moist Deciduous forests that have been reduced to only scattered and degraded patches; and (iii) Littoral Mangrove Forests, of which the Sundarbans area is the most prominent (see below). Bangladesh has a network of Social Forestry projects that involves communities with a legally binding benefit sharing mechanism. The region also features significant coastal afforestation programs.

21. Fish resources. Fisheries resources, both brackish and freshwater, in the coastal areas are remarkable. Bangladesh has the highest per capita consumption of fish-based animal protein on the planet. The National Fisheries Policy (NFP), Inland Capture Fisheries Strategy (ICFS) and National Shrimp Policy (NSP) (GoB, 2014)⁸ were heavily drawing from the open capture fisheries in the region. The Jashore District is famous for breeding freshwater fish and catering to the entire country with fish fingerlings. The introduction of aquaculture in coastal areas has had very serious ecological effect. Vast areas previously used for crop agriculture have been transformed into intentional, perennially waterlogged landscapes to boost shrimp farming. Shrimp is a major export commodity however the sector is losing international market. Shrimp exports fell for a fourth consecutive year in 2017-18 in the face of persistent weak demand in the international market for the locally farmed shrimp. The business community as well as the small farmers are therefore trying to diversify the aquatic production system by introducing white fish and, more importantly, mud-crab. Mud-crab is one of RMTF's potential value chains. Meanwhile, studies have shown through life cycle analysis that intensification of aquaculture can actually reduce environmental impact, for instance by producing different species of fish in same pond utilizing feed better, thereby creating less waste⁹. The RMTF interventions will aim to promote such practices as well as RAS and other technologies to reverse the environmental degradation trend in these areas.

16. Sundarbans and protected areas. A particularly important area for natural resources and conservation is the *Sundarbans* area, a mangrove area of about 10,000 km² spanning both Bangladesh and India. The whole Sundarbans area is intersected by an intricate network of interconnecting waterways, of which the larger channels are often a mile or more in width. The Sundarbans – a Ramsar site and UNESCO World Heritage Site – includes three Protected Areas (PAs) (wildlife sanctuaries): Sundarbans South, Sundarbans East and Sundarbans West. The wildlife sanctuaries are managed by BFD's Wildlife and Nature Conservation Circle (WNCC) under the Protected Area Rules (GoB, 2017). An integrated management plan for the entire SRF provides the overall guiding principles for management. The Sundarbans Reserve Forest (SRF), the wildlife sanctuaries and the ECA are managed through collaborative management or co-management – a shared governance system that involves the community as environmental stewards sharing the management responsibilities with the BFD and DoE.

19. Throughout the country, Ecologically Critical Areas (ECA) are identified and controlled under the Department of Environment (DoE). The ECAs are managed under the ECAs Rules (GoB, 2016) promulgated under Bangladesh Environmental Conservation Act (BECA) (GoB, 2010).¹⁰.

20. Wildlife. Bangladesh was once home to a large number of species that have currently reduced to a much smaller number primarily concentrated in the Sundarbans and Chittagong Hills. Species include the Bengal Tiger, Asian Elephant, Gibbon and Asian Black Bear. Bangladesh is a priority country of the Global Tiger Action Plan; therefore, the Sundarbans as the home of Bengal Tiger attracts added global attention. The BFD has a Tiger Action Plan (GoB, 2009).¹¹ Bangladesh's

⁸ GoB, 2014. Bangladesh National Shrimp Policy, Ministry of Fisheries and Livestock.

⁹ See <https://www.stockholmresilience.org/research/research-news/2018-03-05-get-it-right-on-fish-intensity-get-it-right-for-aquaculture.html>

¹⁰ GoB, 2016. Ecologically Critical Area (ECAs) Rules, Ministry of Environment, Forests and Climate Change

GoB, 2010. Bangladesh Environmental Conservation Act Revised, Ministry of Environment, Forests and Climate Change.

¹¹ GoB, 2009. Bangladesh Tiger Action Plan, Ministry of Environment, Forests and Climate Change.

only Marine Protected Area, the Swatch of No Ground (SoNG), is a continuum of the protected area network ecologically linked to the Sundarbans.

23. The role of microenterprises and their service providers. While the large majority of microenterprises to be supported under RMTP have minimal impact on the environment individually, their cumulative and aggregated impact may be significant. Clusters of microenterprises in a particular value chain may lead to local accumulation of waste and cause pollution. Microenterprises are subject to national legislation on environmental management (e.g. the Environmental Conservation Rule 1997), but enforcement is often problematic and therefore compliance levels typically very low. Service providers, both financial and technical, can and are expected to play a role in ensuring the micro-enterprises they invest in have the right micro-enterprises, by means of screening and capacity building.

C. Climate

24. Current climate. Bangladesh falls under monsoon influenced tropical climate area with an average annual rainfall of 2,700 mm, over 85% of which falls during June and October. Average day time temperature varies between 23 to 27°C, while the average night time temperature ranges between 18 and 22°C. While winters are generally dry and mild, summer months are wet and moist, the relative humidity is generally over 85% during monsoon season. During late April and mid-November, the sea surface temperature often rises above a threshold of about 27°C, which creates an ideal climatic condition to form tropical low and depressions. Sometimes, such tropical weather fronts give rise to the formation of cyclones and super cyclones.

25. Natural hazards. Bangladesh as a whole is highly prone to natural hazards including cyclones, storm surges, floods, landslides, earthquakes, tsunamis, sea-level rise and increasing saltwater intrusion. On an average, one major cyclone hits Bangladesh in every three years. It is believed that the shallow continental shelf, the high tidal range and the inverted funnel shape of the Bay play significant roles to 'guide' tropical cyclones towards the low-lying delta. Although cyclone-related human deaths have been reduced significantly due to improved warnings and pre-hazard preparedness programmes, cyclones in the past have killed many coastal Bangladeshis.

26. Climate change trends and predictions. The climate in Bangladesh is changing. Temperatures have increased by about 0.3 – 0.5°C between 1960 and 2010. Although the total average rainfall does not show any discernible change, the micro-structure of monsoon has been exhibiting a number of important changes. For example, the rainfall is exhibiting a bi-modal distribution over monsoon, the first peak coming a lot earlier than expected (shifted from middle of July to early June). There are increasing numbers of extreme rainfall episodes during the monsoon with prolonged rainless days in between, while the late-October rain (Kaitani) has almost disappeared. For some districts in particular, it has been observed that rainfall in the pre-monsoon and winter season had a decreasing trend whereas it had an increasing trend during monsoon and post-monsoon seasons¹².

II. Potential project's social, environmental, and climate change impacts and risks

A. Key potential impacts

27. The project's **expected benefits** include

- (a) Increased income of targeted small farmers and micro-entrepreneurs;
- (b) Increased food security of targeted small farmers and micro-entrepreneurs;
- (c) Improved nutrition status of targeted small farmers and micro-entrepreneurs through amongst others bio-fortified new varieties with increased level of micro nutrition, vitamins, and proteins;
- (d) Increase resource use efficiency and re-use including through adoption of drip irrigation, System of Rice Intensification, Recirculation Aquaculture Systems, Water treatment for reuse in processing

¹² Rahman et al. (2009) Trend Analysis of Climate Change and Investigation on Its Probable Impacts on Rice Production at Satkhira, Bangladesh.

- (e) Increased use of renewable energy through Solar energy for operating milk coolers, cold storage, processing facilities, driers, irrigation pumps;
- (f) Reduced emissions or emission intensity through precision placement of slow release fertilizer briquettes, higher livestock productivity
- (g) Reduced vulnerability to climate change through new crop varieties, heat tolerant livestock breeds, improved fish breed

28. The project's main **potential negative impacts** prior to mitigation measures include:

- (a) Increase in waste streams and pollution from small-scale agriculture and micro-entrepreneurs;
- (b) Increased competition for natural resources, e.g. fresh water resources;
- (c) Loss of natural vegetation and habitat due to expansion of land-based micro-enterprises.

29. The draft Environmental and Social Management Framework (ESMF) contains a longer list of potential impacts.

B. Climate change and adaptation

30. Bangladesh is consistently ranked in the top list of countries impacted by the effects of climate change.

31. **Climate change impacts in the project area.** Key climate change impacts for the project area are linked to sea level rise contributing to increasing floods and increasing intrusion of saline seawater. Subject to various climate change scenarios, sea level rise is expected to inundate 120,000 km² by 2050; 14% more of the country may become extremely prone to floods by 2030. Coastal salinity problems will likely worsen as changing rain patterns reduce the amount of dry season water supply from upstream river sources.

32. Increasing salinity and mean temperatures have generally negative effects on agriculture. Overall, crop production might be reduced by 30% by the end of the century; rice production could fall by 8%, and wheat production by 32% by 2050. Winter crop production would be seriously hampered due to a warmer and drier environment during non-monsoon seasons, while moisture stress might force farmers to reduce the area under irrigated rice cultivation.

33. **Climate change adaptation.** The concrete impacts of climate change already caused a considerable amount of *autonomous* adaptation amongst farmers in the target districts, involving changes to livelihood assets and income generating activities¹³. It has also prompted many climate change related strategies and projects to be implemented in the project area, which offer opportunities for leverage and partnership to RMTP. Most relevant strategies and projects include: the Bangladesh Climate Change Strategy and Action Plan (2009)¹⁴, the National Adaptation Programme of Action (2009)¹⁵,

III. Environmental and social category

34. The preliminary Environmental and Social categorization for this project is **B**. The potential negative impacts of this project are those linked to small and medium agribusinesses and other micro-enterprises and are small and site-specific. The primary environmental risk relates to cumulative / aggregated impact of various small agribusinesses and micro-enterprises in a cluster, thereby posing a considerable risk in terms of waste streams and pollution. This risk can however be managed using mitigation measures already identified and accessible to project implementers and beneficiaries. The project will integrate activities to proactively address these issues, such as the introduction of climate-smart technologies and environmentally sustainable practices such as balanced fertilizer use and integrated pest management, composting, briquettes from compost and chemical fertilizer. Social risks are minimal, with project interventions aimed at better inclusion of

¹³ University of Leeds (2016) [Autonomous adaptation to riverine flooding in Satkhira District, Bangladesh: insights for transformation.](#)

¹⁴ See https://www.iucn.org/downloads/bangladesh_climate_change_strategy_and_action_plan_2009.pdf

¹⁵ See <https://unfccc.int/resource/docs/napa/ban02.pdf>

youth and women in value chains. A draft Environmental and Social Management Framework (ESMF) has been developed and will be finalized prior to implementation.

IV. Climate risk category

35. The Climate risk category for this project is rated as **Moderate**, based on the selected value chains and areas to be supported under the project. Although the project area is highly vulnerable to the impact of climate change, the project will be well-positioned to leverage several ongoing climate change-related initiatives in the area. Given the high 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 and much focus has been put on the previous experience of PKSF in the World Bank funded Climate Change project. The ESMF incorporates and refers to an inventory of proven measures to both adapt to climate change and reduce greenhouse gas emissions that can be promoted. This includes the introduction of flood and drought tolerant varieties, mechanisation enabling cultivation on ridges, aquaculture in the valleys and land-based vertical recycling production systems for mud crab. Emission reduction interventions are especially important for the meat (beef, poultry and goat), dairy and rice value chains.

V. Recommended features of project design and implementation

A. Environment and social mitigation measures

36. Environmental and social risk management measures to be deployed under RMTP comprise the following:

37. Firstly, the project will need to deploy screening and due diligence tools to select those (portfolios of) companies that have limited environmental and social risk and are in compliance with the law and regulations (including regulations and limitations on protected areas). For component 1, this would be done through the screening procedure already established for other projects (e.g. the Sustainable Enterprise Project (SEP), World Bank-funded and also implemented by PKSF¹⁶). In component 2, this should be part of the evaluation criteria of various EOIs to be issued, and/or integrated in the due diligence following the EOI phase. Environmental and social selection criteria need to be realistic, fit to the context of operation, and inclusive. This may create potential trade-offs in the selection process, however certain gaps identified during due diligence in terms of environmental and social performance can be addressed through provision of technical services once selected.

38. Secondly, the project component structure enables the project to ensure environmental and social sustainability of investments through the provision of non-financial services for producers (component 1.2) and enterprise strengthening in component 2.2. Under sub-component 1.2, PKSF will organize trainings in crop/livestock/aquaculture management. For cropping, specific attention will be devoted to the selection, application and safe handling of pesticides. For livestock, training will cover para-veterinarian activities such as routine vaccinations and health care in a safe manner. For aquaculture, training will focus on environmentally-sustainable production practices and fish health care.

39. The project will seek to align with existing national and international standards and certification systems, such as GlobalGAP, building on existing work by the FAO Food Safety Network¹⁷. RMTP will engage accredited certifying organizations to develop group protocols for livestock, aquaculture and crops. These organizations will train the technical advisors as well as focal farmers/micro-entrepreneurs to introduce protocols and will organize the eventual certification of PAs. The technical advisors will assist PAs to comply with the standards introduced. A similar process will be applied for HACCP, in cases where field-level HACCP compliance is required. Halal standards will also be introduced where required by the market. For cattle, electronic chipping will be introduced to ensure traceability.

40. There are a number of projects which RMTP will leverage in terms of knowledge and best practices on environmental and social risk management, including:

¹⁶ See Project Information Document for SEP:
<http://documents.worldbank.org/curated/en/636751500364935990/pdf/ITM00184-P163250-07-18-2017-1500364933222.pdf>

¹⁷ See <http://www.fao.org/in-action/food-safety-bangladesh/en/>

- (a) The World Bank-funded Sustainable Enterprise Project (SEP), also implemented by PKSF and integrating several measures for ensuring sustainability such as screening tools and 'green portfolio' monitoring.
- (b) The World Bank-funded Bangladesh Sustainable Coastal and Marine Fisheries Project, in particular for the fisheries and aquaculture aspects of the project.

B. Climate change mitigation measures

41. Bangladesh has a low per-capita contribution to greenhouse gas emissions (some 0.5 MT/capita). The country's INDC¹⁸ (2015) aims at a 15% reduction in greenhouse gas emissions compared to Business As Usual by 2030, and has limited specificity in terms of reducing emissions from agriculture.

42. The project will however engage in several value chains with significant potential for greenhouse gas reduction, including beef, poultry, dairy, goats and rice. The aim for these value chains should be to reduce the carbon intensity of each value chain, for instance by increasing the milk production of each cow, thereby lowering the emissions per litre of milk (dairy products) produced rather than reducing absolute emissions from each value chain per se.

41. For dairy in particular, a study by FAO has shown that low-emission dairy development can provide improved productivity while reducing emission intensity by 17%. Strategies to reach this goal include (i) improving the quality and availability of feed resources; (ii) strategic feeding and supplementation to address seasonality constraints; (iii) improved herd management; and (iv) improving animal breed.

42. Rice production is another major global source of greenhouse gasses, particularly methane¹⁹. The use of Alternate Wetting and Drying (AWD) and *System of Rice Intensification* (SRI) in rice production can reduce greenhouse gas emissions by half through avoiding anaerobic decomposition of organic matter, while at the same time reducing water use by 30%. This system however requires a higher level of water control. Another strategy for greenhouse gas reduction is the adoption of Deep Placement of Urea, a technique to apply fertilizer at greater soil depth (7-10 cm). This also reduces the amount of fertilizer needed by 30%, at the same time increases yield by 15-20% and reduces emission by 30%. Introduction of GGAP will reduce overall use of input reducing cost and often increase productivity at the same time.

43. The ESMF includes an inventory of such practices for the different project value chains. These include in particular the 'no regret' or common-sense interventions that reduce emissions while improving profitability of micro-enterprises.

C. Incentives for good practices

44. As mentioned above, incentives for good practices (environmentally and socially sustainable, increasing resilience to climate change and reducing greenhouse gas emissions) in the RMTP project need to be based on market mechanisms. Some good practices may be directly financially interesting for target agribusinesses and micro-entrepreneurs, where the role of the project will be primarily that of awareness raising and training through technical service provision.

45. In other instances, financial benefits may be more long-term or indirect. For instance in terms of food safety, initial incentives are in the form of saving input and optimize their use bringing instant benefits. However, premium price for GGAP might take some promotion of differentiation between safe and non-safe food with associated price differences. Finally, the project may apply screening to select certain business already deploying good practices, or those committing to implementing such practices.

D. Participatory processes

46. Consultations during the design process with target small-scale agribusinesses and microenterprise owners clearly showed that if knowledge and technology are available the

¹⁸ Intended Nationally Determined Contributions, see

https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Bangladesh%20First/INDC_2015_of_Bangladesh.pdf

¹⁹ See <http://ghgmitigation.irri.org/our-work/bangladesh> and <https://ccafs.cgiar.org/fr/blog/mitigation-co-benefits-increased-water-and-nutrient-efficiency-irrigated-rice-bangladesh#.XBzka1xKg2w>

readiness to adopt environmentally sound practices is high. The biggest barriers and opportunities that these target entrepreneurs face in adopting environmentally sound technologies and fair labour practices, are the lack of knowledge and technologies. Field visits confirmed that when advisory services were paid by farming enterprises the adoption rate was close to 100%, indicating that there is a viable business case for commercial knowledge and technologies services. Introduction of pay based advisory service appears to be effective and can be introduced by cost sharing the advisors for a few years.

47. The project itself will deliver services to targeted entrepreneurs and producers' associations. The services to be delivered will be based on consultations, but feedback mechanisms should be built into the project that will allow the project management unit to monitor if the services delivered respond to the needs of the targeted people, and how the topics and content of training can be adjusted to match the evolving context. This kind of adaptive management of service delivery needs to be facilitated by a well-functioning monitoring and evaluation system. Finally, the project will implement a grievance redress mechanism as part of its Environmental and Social Management Framework.

VI. Analysis of alternatives

50. The choice of value chains to invest in is one of the most important alternatives to consider in the process. Each value chain has its own characteristics in terms of environmental and social risks and opportunities, ranging from the type and intensity of waste streams associated with a certain enterprise, to the accessibility of each value chain for starting entrepreneurs. To the extent possible, a "green portfolio" of value chains will be selected having a higher level of control and precision, contribute to an environmentally sustainable economy and that are often also more attractive to youth.

51. Another alternative is the choice of target area. Generally, Bangladesh is relatively vulnerable to climate change due to the proximity to the ocean, thereby running the risk of salinization and flooding. Such risks are however predominant across Bangladesh and such areas cannot be avoided. At higher level of detail, geographic targeting of production clusters will be evaluated for environmental and social risks in that specific area.

52. In a no-project scenario, the potential negative impacts may still occur as the micro-enterprise sector develops albeit at a slower pace and PKSF and partner organizations would not be in the same position to deliver technical services to guide the growth of this sector.

VII. Institutional analysis

A. Institutional framework

53. RMTF will be managed and implemented primarily by PKSF. PKSF was established by the Government of Bangladesh and is one of the primary vehicles for facilitating sustainable development in the country, working together with their partner organizations. Jointly, these organizations have also built up a long track record of working with international development partners on similar projects, incorporating the environmental, social and climate requirements brought along.

54. PKSF itself has developed substantial internal capacity on various cross-cutting themes linking to the SDGs and has developed a range of policies and strategies covering environmental and social management, discrimination, sexual harassment and others²⁰. In terms of staffing, PKSF has established various units for cross-cutting items including social advocacy, environment and climate change. Whereas PKSF will be responsible to monitor overall implementation and setting the standards for implementation in terms of environmental and social performance, implementation is very much dependent on the capacity of partner organizations. During selection on Participating Partner Organisations, and NBFIs in particular, will undergo an analysis of their capacity and identify capacity building needs.

²⁰ See http://pksf-bd.org/web/?page_id=3515

55. RMTP will not integrate all cross-cutting issues into the internal capacity of the implementing organizations, but rather to leverage the expertise and capacity of partners to deliver the intended outcomes. This could for instance include the FAO Food safety network, a collaboration of international and national development partners with significant experience on the topic of promoting food safety. Also, the project will capitalize on the learnings of other projects implemented by PKSF or partners organizations around for example nutrition and empowerment. The same will hold true for climate change related topics for each of the selected value chains.

B. Capacity building

56. The design of RMTP includes various elements of capacity building related to environmental and social performance, through technical services components 1.2 and 2.2. The capacity building will also address the capacity of POs to implement the project in compliance with the policies of PKSF, as well as the potential to use the technological innovations proposed (such as blockchain technology, crowdfunding and IT) to enhance environmental and social performance. Specifically, RMTP will attract a competent nutrition expert who is able to execute a thorough nutrition analysis and target value chains that are able to address this situation.

VIII. Monitoring and Evaluation

57. A strong M&E system will be integral part of RMTP and indicators relating to environmental and social performance have been developed. The project Management Information System will be used as a vehicle to integrate such indicators. This will start with indicators for which data is readily available, such as gender and youth-disaggregation in portfolio monitoring. Periodic reviews of such data would look at performance of certain value chains against climatic data, to be obtained from external sources such as the Meteorological services.

58. Beyond basic data, the M&E system will also allow the project to collect additional data on environmental and social performance. This will for instance include the 'green portfolio' indicator that is has being developed for the SEP project implemented by PKSF, or further expanding this indicator to be tailored to each of the value chains to be targeted under RMTP.

59. Apart from monitoring the investment portfolio, the M&E system will also provide PCU information on the effectiveness and efficiency of technical services being delivered.

IX. Budgetary resources and schedule

61. Budgetary resources to implement the SECAP related aspects of RMTP are included in the project design document and cost tables.

XI. Record of consultations

62. A list of people consulted is available in the project life file.

Answers to guiding questions and explanations: Climate Change

	Yes	No	Additional explanations for "yes" response
Is the project area subject to extreme climatic events, such as flooding, drought, tropical storms or heat waves?	✓		Bangladesh as a whole is prone to natural hazards including cyclones, storm surges, floods, landslides, earthquakes, tsunamis, sea-level rise and increasing saltwater intrusion.
Do climate scenarios for the project area foresee changes in temperature, rainfall or extreme weather that will adversely affect the project impact, sustainability or cost over its lifetime?	✓		Bangladesh is expected to see continued temperature increases in line with global warming effects. Although the total average rainfall does not show any discernable change, intra-seasonal changes are predicted. For example, increasing numbers of extreme rainfall episodes during the monsoon with prolonged rainless days in between.

Would the project make investments in low-lying coastal areas/zones exposed to tropical storms?	✓		
Would the project make investments in glacial areas and mountains zones?		✓	
Would the project promote agricultural activity in marginal and/or highly degraded areas that have increased sensitivity to climatic events (such as on hillsides, deforested slopes or floodplains)?	✓		A large part of the RMTP target landscape is composed of freshwater and coastal floodplains. The flooding pattern is however part of the normal situation in these areas, and people have developed mechanisms to deal with such events.
Is the project located in areas where rural development projects have experienced significant weather-related losses and damages in the past?	✓		Yes, particularly in the coastal areas in Bangladesh, achievements of development projects – fully or in part – always run the risk of being washed away because of natural calamities. There have been instances that major development interventions such as coastal embankments had given in to natural hazards.
Would the project develop/install infrastructure in areas with a track record of extreme weather events?		✓	RMTP will not embark on building any major physical infrastructures. However, the crab hatcheries will be located in areas sensitive to extreme weather in tandem with other agricultural production systems and rural enterprises.
Is the project target group entirely dependent on natural resources (such as seasonal crops, rainfed agricultural plots, migratory fish stocks) that have been affected by in the last decade by climate trends or specific climatic events?		✓	
Would climate variability likely affect agricultural productivity (crops/livestock/fisheries), access to markets and/or the associated incidence of pests and diseases for the project target groups?	✓		Yes, the majority of value chains selected will be affected by climatic variability.
Would weather-related risks or climatic extremes likely adversely impact upon key stages of identified value chains in the project (from production to markets)?	✓		Yes, as part of the RMTP target area falls in the climate and natural disaster-prone regions.
Is the project investing in climate-sensitive livelihoods that are diversified?	✓		RMTP will be promoting a diverse range of agricultural and aquaculture value chains that may be climate-sensitive.
Is the project investing in infrastructure that is exposed to infrequent	✓		In part of the target RMTP areas, any project investment, including infrastructures, will be

extreme weather events?			exposed to extreme weather events.
Does the project have the potential to become more resilient through the adoption of green technologies at a reasonable cost?		✓	The RMTP concept already recognizes the climate and extreme weather-related threats and has incorporated climate-sensitive approaches in selecting technological inputs.
Does the project intervention have opportunities to strengthen indigenous climate risk management capabilities?	✓		Yes. The RMTP will work on capacity building programs, including climate risk management. The partner organization – PKSF – has an excellent track record of implementing climate change mitigation and adaptation projects.
Does the project have opportunities to integrate climate resilience aspects through policy dialogue to improve agricultural sector strategies and policies?	✓		Yes. The RMTP will target policy dialogues on various issues. It is expected that climate related policy issues will be also included to better safeguard the investments.
Does the project have potential to integrate climate resilience measures without extensive additional costs (e.g. improved building codes, capacity-building, or including climate risk issues in policy processes)?		✓	The RMTP concept has been cognizant of the fact that climate variability and extreme weather situations that may affect the production systems may be of common occurrence. Therefore, the project will focus on climate-smart technologies.
Based on the information available would the project benefit from a more thorough climate risk and vulnerability analysis to identify the most vulnerable rural population, improve targeting and identify additional complementary investment actions to manage climate risks?	✓		Though the answer is affirmative, RMTP can build on climate risk analyses done by other development partners and the GoB, as well as a set of tools and procedures already developed in PKSF to manage climate risks.

Environmental and Social Management Framework (ESMF)

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Abbreviations and acronyms

AWPB	Annual Work Plan and Budget
EHS	Environment, Health and Safety
EMP	Environmental Management Plan
FAO	Food and Agriculture Organisation
Gob	Government of Bangladesh
IFAD	International Fund for Agricultural Development
IT	Information Technology
IEE	Initial Environmental Examination
M&E	Monitoring and Evaluation
MFI	Microfinance Institution
MIS	Management Information System
MoEWOE	Ministry of Expatriates' Welfare and Overseas Employment
MoF	Ministry of Finance
MoU	Memorandum of Understanding
MRA	Microfinance Regulatory Authority
MSME	Micro, small and medium enterprise
MTR	Mid-Term Review
NGO	Non-Governmental Organisation
PACE	Promoting Agricultural Commercialization and Enterprises
PCR	Project Completion Report
PDR	Project Design Report
PKSF	Palli Karma-Sahayak Foundation
PMU	Project management Unit
PO	Partner Organization
PY	Project Year
R&D	Research and development
RIMS	Results and Impact Management System
SEP	Sustainable Enterprise Project
SMF	Social Management Framework
TA	Technical Assistance

1. Introduction

1.1 Background

The Government of Bangladesh (GoB) and the International Fund for Agricultural Development (IFAD) are jointly developing a new project aimed at investing in rural microenterprises, the Rural Microenterprise Transformation Project (RMTP). As part of the final design stage of this project, a set of documents is produced to assist and guide the implementation of this project.

IFAD has over recent years enhanced its approach to environmental, social and climate risk management in the project it invests in. One of the key instruments to manage environmental and social risks in projects is the Environmental and Social Management Framework, which is the subject of this document.

1.2 Project Description

The Rural Microenterprise Transformation Project (RMTP) will be a six-year project running from 2020 to 2025, with a total cost of USD 190M of which USD 81M funded by IFAD and targeting the entire country of Bangladesh. The GoB Ministry of Finance is the Executing Agency of the Project, whereas the Palli Karma-Sahayak Foundation (PKSF, 'Rural Employment Support Foundation') will be the implementing agency for the project except for subcomponent 2.3 concerning remittances, which will be implemented by the Ministry of Expatriates' Welfare and Overseas Employment (MoEWOE).

The project goal is to increase the income and nutrition of farmers across selected value chains.. The project's development objective is the sustainable growth of selected rural commodity value chains. The central strategy of the project is to work in production clusters of in three broad agricultural sectors or in areas with potential for creation of agri-business clusters. PKSF has identified several hundred such clusters of small-scale production of horticulture, pond fisheries and poultry & livestock. Details on the project components and activities are presented below.

1.3 Purpose of this ESMF

IFAD has over the last years updated its approach to environmental, social and climate risk management. Building on IFAD's Environment and Natural Resource Management (ENRM, 2011) Policy that stresses project designs present opportunities to improve systematic integration and scaling up of environmental and natural resource management, IFAD's Social Environmental and Climate Assessment Procedures (SECAP, 2017)²¹ describe how to better mainstream environmental, social and climate change considerations into the project cycle, going beyond "doing no harm" to maximize development gains. The SECAP are of a similar nature to safeguards procedures in other organizations.

In line with IFAD policy, a SECAP review note was prepared for RMTP at concept note stage, which identified RMTP as a Category B project in terms of environmental and social risks. The potential negative impacts are those linked to micro-enterprises and small to medium agribusinesses and are small and site-specific. The primary environmental risk relates to the cumulative/aggregated impact of various micro-enterprises and small agribusinesses in a cluster, thereby posing a considerable risk in terms of waste streams and pollution. This risk can however be managed using mitigation measures already identified and accessible to implementers and target groups.

RMTP is a nationwide project with a high number of subprojects of which the location has not yet been decided. The large majority will most likely fall in Category C, whereas only a few activities may be classified as Category B and thereby requiring Environmental and Social Management Plans. Based on these characteristics, an Environmental and Social Management Framework is the best instrument to guide implementation of the project and manage the environmental and social risks and opportunities. Climate considerations, both in terms of adaptation as well as mitigation, have been integrated into this framework.

IFAD recognizes that GoB has its own systems for delivering safeguards and ensuring environmental and social sustainability of projects. Furthermore, it recognizes that using those systems and actively supporting them enhances development impacts in the longer term and reduces transaction costs. This ESMF therefore builds as much as possible on existing policies, procedures and in-country capacity, both within GoB line ministries and agencies, as well as within PKSF as a government-mandated institution. In addition, IFAD seeks to align its approach with other international financial institutions including the World Bank.

²¹ See <https://www.ifad.org/en/secap>

1.4 About this ESMF

The preparation of this ESMF has been guided by IFAD's policies and SECAP as well as Bangladesh's legal, policy and regulatory framework for environmental and social management. The first draft of this ESMF was prepared in March – April 2019 through collection and review of primary and secondary baseline data, consultations with key stakeholders and project area communities, site visits to partner organizations and their field activities, and report writing. It should be noted that, as a Category B project with relatively smaller risks compared to Category A projects, this ESMF is more focused on broad risks and opportunities management strategies and capacity building efforts aimed at lifting the environmental and sustainability level of large groups of micro-entrepreneurs. None of the sub-projects in this project will require a formal Environmental and Social Impact Assessment and only very few projects may require a formal Environmental and Social Management Plan to be developed; these procedures are therefore not the primary topic of this ESMF.

This ESMF is based on the Project Design Report (PDR) dated April 2019. Although the PDR is still being reviewed and finalized and component descriptions may change, the types of interventions and overall project target area are likely to remain the same. Should there be any significant changes in the PDR, these would need to be reflected in an updated ESMF. The ESMF will be disclosed on the PKSF website and various elements of it, primarily the procedures and forms used in screening and monitoring of subprojects, will be disclosed in Bangla at the local level through PKSF's partner organizations.

2. Project Components

The RMTD comprises the following components:

Component 1: Value Chain Enhancement. This component will enable rural producers to sustainably expand their practices through (i) the promotion of private extension services, (ii) the promotion of food safety standards (iii) adoption of efficient production methods and (iv) support with market linkages. In addition, activities under this component contribute to an enabling environment that promotes the growth of micro, small and medium enterprises.

Component 2: Financial Services. This component will offer financial services to beneficiaries and micro enterprises allowing for the sustainable growth of their practices. PKSF's Partner Organizations target beneficiaries through their conventional loan programme under this component. In addition, RMTD finances small enterprises and agribusinesses through non-bank financial institutions.

Component 3: Institutional Strengthening and Project Management. This component 3 will strengthen the capability of PKSF and POs to capitalize on emerging trends in financial services, commercial platforms and new technologies. Through the provision of technical assistance and training, the project will build PKSF and POs capacity by gradually and carefully integrating ICT-based solutions and other innovations into their operations.

Full details on the project design can be found in the Project Design Report. It should be noted that this ESMF is focused on the activities carried out by PKSF and their Partner Organizations.

3. Institutional and Legal Framework

This project in particular, and the microfinance and microenterprise development space in Bangladesh in general, are situated in a multi-level institutional framework. The main RMTD implementing body, PKSF, is an apex body implementing their programme of work through a network of more than 270 Partner Organizations (POs). These POs are registered microfinance institutions (MFIs) and/or NGOs (referred to here as NGO-MFIs) who all have their own target geographies across Bangladesh, as well as their own specialties in terms of value chain development.

PKSF is a government-mandated organization registered as a not-for-profit company with interactions with government at various levels. At governance level, the PKSF Governing Body comprises 7 members of which 3, including the Chairman, are nominated by the GoB. At strategic and programmatic level, PKSF interacts and collaborates with various Government line ministries and agencies.

PKSF has its own set of policies and procedures²², of which some are effective across the entire PKSF portfolio, and some are only effective for certain projects according to the specificities of that project and/or donor requirements. These policies and procedures are cascaded onto the Partner

²² See http://pksf-bd.org/web/?page_id=3515

Organizations who in turn also have their own policies and procedures and, in most cases, also work with various funding institutions.

Within PKSF and its partner organizations, two major workstreams can be distinguished. The first and primary workstream is its core microfinance and loan portfolio comprising *Agrosor* (Microenterprise), *Jagoran* (microcredit for moderately poor), *Sufalon* (seasonal agricultural loan) and *Buniad* (loan for the very poor) programmes. A second workstream is a diverse set of projects, special programmes and capacity building activities that mostly target specific groups of producers or value chain actors. While the core finance activities have a much larger outreach, many of PKSF and Partner Organizations' clients are reached through the various programmes and projects as well. From a management perspective, many projects in the workstream seek to test approaches and tools that are, if found successful, to be mainstreamed across the two workstreams.

An important government agency in the institutional framework is the Microfinance Regulatory Authority (MRA). The MRA is the central body to certify, monitor and supervise the operations of NGO-MFIs, created through the Microfinance Regulatory Authority Act of 2006. MRA has established a set of rules and regularly issues circulars, some of which touch on social issues but not broader Environment, Social and Governance (ESG) requirements. Non-Banking Financial Institutions, targeted in RMTP, are regulated by the Bangladesh Bank.

These institutions are active members of the Alliance for Financial Inclusion (AFI) and have participated in the drafting of the National Financial Inclusion Strategy for Bangladesh. An important ongoing development in this regard is the establishment of a Credit Information Bureau for the microfinance sector, which is ongoing. These developments are highly relevant to the social risk management aspect of RMTP, particularly on client protection.

Outside the financial system, various Government agencies play a role in the institutional framework. Partner Organizations often work together with local government and extension departments on technical assistance projects, or for instance on government-controlled services such as artificial insemination for livestock.

Important knowledge partners in the country include the Bangladesh Agricultural Research Institute, Bangladesh Agricultural Research Council, Bangladesh Agricultural University, Bangladesh Institute of Development Studies, Bangladesh Rice Research Institute, International Centre for Climate Change and Development amongst others. Furthermore, there are international knowledge partners with presence in Bangladesh including the FAO.

On sexual exploitation and harassment in particular, it should be noted that the Bangladesh Supreme Court has issued a decree with directions to all workplaces to prevent sexual harassment. PKSF and its Partner Organizations have taken steps to implement the directions as given by the Supreme Court.

4. PKSF's Environmental and Social Management Approach

4.1 Policies and procedures

PKSF has a comprehensive set of policies and procedures in place to govern its operations²³. The most important in the light of this ESMF include:

- **PKSF Lending policy and procedures.** The lending policy outlines the conditions for lending to Partner Organizations and sets the requirements for the core programmes / financial products. These include, for some products but not all, the requirement of "environmentally friendly income generating activity".
- **PKSF Statement of non-discriminatory practices.** Statement (policy) explaining that PKSF does not allow any discrimination against any employee or project participants for employment because of race, color, national or ethnic origin, age, religion, disability, sex, sexual orientation, gender identity and expression.
- **PKSF Environmental Management Framework (2012).** This EMF outlines the key principles basic processes for environmental management. This includes a mandatory Environmental Screening and, if significant potential negative impacts are identified, a subsequent Initial Environmental Examination (IEE) leading to an Environmental Management Plan (EMP). A screening checklist is annexed in the EMF.
- **PKSF Social Management Framework (2012).** This SMF includes a screening procedure for potential negative social impact issues. It also includes guidelines for using

²³ All documents can be found at http://pksf-bd.org/web/?page_id=3515

public and private land and a tribal peoples plan, as well as guidance for integrating social and gender issues into all projects.

- **Policy and Strategy for Protecting Women Employees from Possible Sexual Harassment.** This policy is particularly aimed at PKSF employees and details the actions to be considered sexual harassment, as well as the awareness raising and preventive actions to be taken in the organization.

Apart from the organization-wide policies and procedures, certain projects have developed policies and procedures relevant to this ESMF:

- **Sustainable Enterprise Project (SEP)** Environmental Management Framework and Social Management Framework²⁴. These two documents are developed especially to govern the implementation of the SEP in compliance with the World Bank's safeguards policies (as applicable prior to the enforcement of the revised version in 2018). In addition to the two frameworks, the SEP is developing Protocols for use in the core microfinance programmes, written in Bangla and aimed at operational use by Partner Organization staff. There are currently Protocols for Livestock Waste Management, Safe Banana Cultivation, Safe Mango, Loom and Shoe Factories.
- **Promoting Agricultural Commercialization and Enterprises (PACE).** Under PACE, an Environment, Health and Safety (EHS) manual for Microenterprise has been developed. This EHS manual has subsequently been discussed at a policy dialogue with relevant government, NGO and private sector stakeholders²⁵. The EHS manual is a comprehensive document written in English. Following feedback received by various stakeholders, parts of the EHS may be captured in separate, user-oriented documents written in Bangla.

4.2 Organizational capacity

PKSF employs professionals across the organization with widely varying backgrounds, including finance, agronomy, and environmental science. The organization therefore has significant in-house capacity on environmental and social subject matters. Partner Organizations similarly comprise staff of various educational and technical backgrounds. The challenge however, as in any financing organization, is to equip the client-facing officers (of PKSF and the Partner Organizations) with solid top-level knowledge of key environmental and social issues thereby knowing what the key environmental and social issues are in their work in general, and for individual value chains in particular. With that knowledge, client-facing officers should be able to identify issues concerning their client and establish what is a material issue, and what is not. Material issues can then be followed up on with the assistance of technical experts, internal or external to the organization, where needed. The policies and procedures listed above are a tool for client-facing officers, and their line managers, to do so.

In terms of organization set-up, PKSF has established a dedicated unit for Environment and Climate Change. Some projects (particularly those funded by the World Bank) have dedicated environmental and/or social safeguards managers, whereas others have only focal points assigned. Similarly, some projects require Partner Organizations to assign focal points for environmental and social safeguards. This is a practice that should be mainstreamed within PKSF as part of the update of the PKSF corporate-level Environment and Social Management Frameworks.

4.3 Ongoing developments and mainstreaming

As mentioned in section 4.2, PKSF is currently engaged in a number of activities relating to environmental and social management. The tools being developed under SEP (particularly commodity-specific protocols) and the EHS manual being developed under PACE will soon be tested in the respective projects. With RMTP coming online in 2020, this presents a good learning opportunity and eventual adoption of successful practices. Moreover, the organization as a whole is in continuous development and as a part of that regularly updating their policies and procedures. In light of this, and considering the benefits of having a single, integrated approach on environmental and social management across the organization, PKSF is planning to update their corporate level Environmental Management Framework and Social Management Framework (both dated 2012) with the lessons learned and new elements.

RMTP can play an enabling role in this mainstreaming effort, by pro-actively testing and implementing new measures, and financing consultancies and workshops where needed. For the time being, this current document will serve as the ESMF for RMTP. During the update process of the PKSF corporate level EMF / SMF, IFAD can be an active participant and review the final version

²⁴ Available at <http://projects.worldbank.org/P163250/?lang=en&tab=documents&subTab=projectDocuments>

²⁵ <http://pksf-bd.org/web/?p=7167>

with a view of adopting these documents as the active ESMF for RMTP once final and approved by other relevant stakeholders.

5. Environmental and Social Management in RMTP

5.1 Principles

The RMTP Environmental and Social Management Approach is based on the following principles:

- To ensure compliance with SECAP and thereby the applicable laws, regulations and policies of GoB as well as those of IFAD;
- To use, as much as possible, existing policies and procedures from inside the implementing organisations (PKSF and Partner Organizations) in an effort to support mainstreaming;
- To acknowledge that the nature of ensuring environmental and social sustainability of microenterprises is that of continuous improvement;
- To address all activities under the project, from capacity building to core microfinance;
- To address improvements in policies, procedures, staff capacity in an integrated and coherent manner.

The RMTP furthermore supports PKSF's principles of environmental management:

- Projects and programs when funded for implementation will be subject to an environmental screening and initial environmental examination (IEE) in order to prevent execution of sub- projects with significant long-term negative environmental impacts and also to plan and implement mitigation measures for less significant environmental impacts,
- PKSF will ensure due diligence to the related government regulations (ordinance, acts, rules etc.) related to environment
- Partner Organizations will be responsible for obtaining and ensuring clearance required from local government agencies as necessary,
- PKSF will promote environmental sound design of value chain activities and environmental capacity building of Partner Organizations and community.
- Climate resilient considerations will be integrated in designing relevant projects.

5.2 Potential Impacts and related Mitigation Measures

The project's **expected benefits** include

- Increased income of targeted small farmers and micro-entrepreneurs;
- Increased food security of targeted small farmers and micro-entrepreneurs;
- Improved nutrition status of targeted small farmers and micro-entrepreneurs through amongst others bio-fortified new varieties with increased level of micro nutrition, vitamins, and proteins;
- Increase resource use efficiency and re-use including through, System of Rice Intensification, Recirculation Aquaculture Systems, Water treatment for reuse in processing
- Increased use of renewable energy through solar energy for operating milk coolers, cold storage, processing facilities, driers, irrigation pumps;
- Reduced emissions or emission intensity through precision placement of slow release fertilizer briquettes, higher livestock productivity
- Reduced vulnerability to climate change through new crop varieties, heat tolerant livestock breeds, improved fish breed.

The project's main **potential negative impacts** prior to mitigation measures include:

- Increase in waste streams and pollution from small-scale agriculture and micro-entrepreneurs;
- Increased competition for natural resources, e.g. fresh water resources;
- Loss of natural vegetation and habitat due to expansion of land-based micro-enterprises.

The following table includes a longer list of potential negative impacts and associated mitigation measures, compiled from PKSF internal documents as well as external guidance and best practices.

Risk	Mitigation measures
Agricultural production	

Increased agricultural waste streams leading to environmental pollution	Encourage construction of pits for livestock manure Encourage and establish new business models for manure composting and sales, potentially by establishing and initially subsidizing central composting points Promote water re-use and recycling Improve dairy productivity to reduce greenhouse gas emission intensity Promote bio-gas production with slurry management technology Promote improved feed management for reducing GHG emissions from livestock Produce and use organic compost
Increased competition over natural resources	Promote adoption of drip irrigation or other precision irrigation techniques such as porous pipes. Promote rain water harvesting systems Promote solar systems Promote System of Rice Intensification
Monoculture and loss of biodiversity	Encourage the use of local/indigenous varieties Promote crop rotation Protect forests and wetlands that are critical habitats for endangered species Prohibit introduction of exotic species
Pest infestation	Promote Integrated pest management (IPM); Promote use of varieties tolerant to pest infestation; Promote crop diversification; Promote use of pheromone trap;
<i>General environmental issues</i>	
Deforestation	Discourage cutting of mature trees. Promote use of buffer zones along rivers. Include plantation programs in cluster development Promote agroforestry
Land degradation and soil erosion	Limit free ranging of livestock Encourage earth/soil collection from existing borrow pits Encourage grass planting or (temporary) fencing to regenerate vegetation Encourage tree plantation on slopes Addition of organic matter like animal manure Incorporation of residues of leguminous crops into the soil
Declining soil health	Encourage crop diversification Promote balanced fertilizer application; Promote use of bio-fertilizer or organic fertilizers; Promote conservation agriculture, mulching with straw, hyacinth, etc.; (CCM & CCA) Encourage plantation of leguminous varieties for nitrogen fixation;
Soil salinization	Increase irrigation efficiency and water productivity; Discourage drainage to intrusion of saline water; Flushing soil with pre-monsoon rain water; Promote extensive shrimp-rice farming system; Use of organic fertilizer; Promote drip irrigation
Depletion of groundwater level	Promote water-efficient irrigation techniques Promote crops with low water consumption Promote rainwater harvesting Promote water re-use
<i>Livestock management</i>	
Animal welfare	Train business clusters on cleaning of poultry and goat/pig rearing hut and shed Increase awareness on how to control odour, insects and mosquito breeding around the poultry and goat/pig rearing farm
Disease outbreak	Promote biosafety measures such as restricted access and washing facilities
<i>Water, Sanitation and Hygiene</i>	
Contamination of drinking water	Maintain safe distance between latrine and water sources Maintain safe distance between livestock sheds and kitchen Promote hygienic practices Promote regular testing of water sources

	Take corrective action when water contamination established
<i>Occupational Health and Safety</i>	
Health risk to workers	Promote safe work through Standard Operating Procedures, training and awareness raising Encourage and enforce the use of PPE Supporting first-aid box and to provide minimal level of training; Adequate transport facility to allow a patient into the hospital; Enlisting the names and numbers of village doctors in nearby community places/shops; Encourage regular workplace cleaning

Apart from the mitigation measures to prevent and minimize negative impacts, RMTP includes a high number of activities aimed at amplifying positive impacts. These include:

- **Training and certification of farmers on GlobalGAP.** The project will assist groups/clusters of enterprise involved in primary production of crops, livestock and aquaculture to adopt Global Good Agriculture Practices (GGAP). The project will support enterprises involved in produce handling/transport, feed manufacturing, and hatchery to obtain GGAP if required.
- **Training of entrepreneurs on HACCP.** Support will be provided to enterprises engaged in crop/meat/fish processing to obtain Hazard Analysis Critical Control Point (HACCP) certification.

5.3 Climate Change Adaptation and Mitigation

Bangladesh is consistently ranked in the top list of countries impacted by the effects of climate change. Key climate change impacts for the project area are linked to sea level rise contributing to increasing floods and increasing intrusion of saline seawater in addition to flash flood, riverine floods, cyclone, tidal surge, drought etc. All climate-induced phenomena have significant effects on agriculture, with increasing salinity and mean temperatures having generally negative effects. Overall, crop production might be reduced by 30% by the end of the century; rice production could fall by 8%, and wheat production by 32% by 2050. Winter crop production would be seriously hampered due to a warmer and drier environment during non-monsoon seasons, while moisture stress might force farmers to reduce the area under irrigated rice cultivation. At the same time, climate change may offer opportunities in terms of new or expanding areas of suitability for particular crops.

PKSF and RMTP can be a facilitator of action on both adaptation and mitigation. It should be noted that the project does not include specific climate change labelled funds that can be passed on to recipients in concessional form. The project will therefore focus on double-win or triple-win investments (good for the enterprise, good for reducing vulnerability to climate change, good for reducing greenhouse gas emissions). Some adaptation and mitigation activities will thereby fall outside of the scope of RMTP, such as the building of larger infrastructure of a public nature for flood protection or reducing cattle herd sizes by offering financial incentives. RMTP will implement the lessons learned from the Climate Change Project implemented by PKSF and funded by Bangladesh Climate Change Resilience Fund (BCCRF) in this regard. It will also integrate the measures agreed in the Bangladesh communication to the UNFCCC through the Nationally Determined Contribution (NDC)²⁶.

The following table includes an overview of the major value chains to be supported under RMTP, their vulnerability to climate change / need for climate change adaptation, the potential to reduce greenhouse gas emissions in this chain and associated measures for both adaptation and mitigation. This table can be further supplemented with known and tested measures as the project is being implemented. References to external sources are included as footnotes.

Value Chain	Vulnerability to Climate Change <i>Primary risk factors</i>	Potential to reduce GHG emissions	Potential adaptation measures	Potential Mitigation Measures
Livestock				
Poultry and eggs	Medium <i>Heat stress</i>	Medium	Promote water harvesting, water use efficiency, re-use, safe disposal	Improve livestock waste management
Red Meat	Medium <i>Heat stress</i>	Medium	Encourage zero-grazing Reduce emission	

²⁶ See <https://www4.unfccc.int/sites/NDCStaging/Pages/Party.aspx?party=BGD>

Dairy	Medium <i>Heat stress</i>	High	Avoid flood prone areas Use safe heights for construction of stalls and other infrastructure	intensity through increased productivity per animal Supplementation of diet with urea and molasses, feeding a balanced feed ration, fodder cultivation and udder health management ²⁷
Crops / horticulture				
High value cereal	Medium to high <i>Floods and droughts</i>	Low to Medium	Promote precision irrigation (drip, sprinkler) Promote IPM	Discourage deforestation Promote IPM
High value fruits and vegetables	High <i>Floods and droughts, salinity</i>	Low	Promote Conservation Agriculture Promote SRI (for rice)	Promote Conservation Agriculture Discourage burning
Pulses	Medium <i>Floods and droughts</i>	Low		
Aquaculture				
Technology-based aquaculture (e.g. mud crab, carp and tilapia, crayfish) ²⁸	High <i>Water temperature Salinity Floods Droughts</i>	Low	Improved water quality management practices Improved waste management	Reduce energy use (fuel efficiency, lights) Reduced use of energy-intensive feedstuff (e.g. shift to locally sourced oilseeds)

5.4 Processes and procedures

The following will apply to RMTF with regards to the processes and procedures to be used to ensure environmental and social sustainability of project investments:

- The project will make use of the existing PKSF procedure for screening project using the Environmental and Social Screening Forms, and for those projects that have significant environmental risks, the Initial Environmental Examination Form.
- The screening process will include analyzing proposed projects against the environmental and social exclusion lists annexed to this ESMF (Annex 2 and Annex 3).
- RMTF will make use of processes developed by other projects once they are tested and found to be successful. This particularly concerns the Protocols being developed under SEP and the EHS Manual developed under PACE.
- The project will assign environmental and social management focal points in each of its Partner Organizations, tasked with ensuring that PKSF policies and procedures are adequately implemented and monitored
- PKSF will organize regular training sessions on emerging environmental and social management issues, to be attended by the Partner Organizations' environmental and social management focal points.

The general process flow for environmental and social screening, assessment, monitoring and management is contained in Annex 1. In addition to the above, the project will pilot innovations relating to environmental and social management. These are discussed in section 6.

5.5 Monitoring, Evaluation and Learning

PKSF applies a thorough monitoring and evaluation approach, aimed at both the Partner Organizations as well as directly at the clients of those Partner Organizations. The monitoring and

²⁷ Reference FAO Options for low emission development in the Bangladesh dairy sector

<http://www.fao.org/3/a-i6822e.pdf>

²⁸ Reference FAO Impacts of climate change on fisheries and aquaculture

<http://www.fao.org/3/i9705en/i9705en.pdf>

evaluation of the measures stipulated in this ESMF will be integrated in those procedures, as follows:

- PKSF / PMU will monitor the environmental and social risks and mitigation measures identified through the different procedures and forms used in the organization
- PKSF / PMU will regularly review and synthesize data from these sources to identify most important issues as well as emerging themes
- PKSF / PMU will integrate environmental and social sustainability issues into its regular reporting to IFAD.

The outcomes of these monitoring and evaluation practices should be integrated into the regular learning and training programmes of PKSF, picking up the emerging themes from the monitoring data and inviting experts to provide insights on best practices as well as new technologies. Some of the Partner Organizations have Training of Trainer methodologies in place to ensure that knowledge flows from senior levels to junior levels, which is particularly relevant in the light of high staff turnover at many of the partner organizations. This approach will be promoted among other Partner Organizations as well.

Finally, environmental and social management performance can be integrated into the Client Satisfaction Survey that PKSF regularly carries out. These can include simple questions to gauge the adequacy and effectiveness of policies and procedures put in place.

5.6 Consultation

Consultation is an essential part of the project cycle. Understanding the views from various stakeholders is critical for confirming relevance of proposed interventions, for effectiveness and efficiency of proposed approaches and for impact and sustainability of the intended positive changes.

The RMTD has been designed in close consultation with a wide group of stakeholders, the details of which can be found in the PDR. PKSF has integrated consultation requirements during project implementation into its participatory processes, including the environmental screening process. These requirements are also integrated into the various forms and checklists that are being used by PKSF and its partner organizations. Finally, PKSF carries out monitoring of projects to, amongst others, ensure that proper consultation has been carried out.

5.7 Grievance Redress Mechanism

A grievance redress mechanism is a process for receiving, evaluating and addressing project-related concerns of, and complaints by, project affected communities or persons. IFAD's Grievance Redress Mechanism allows affected complainants to have their concerns resolved in a fair and timely manner through an independent process.

IFAD's Grievance Redress Mechanism requires: (i) working proactively with the affected parties to resolve complaints; (ii) ensuring that the complaints procedure is responsive and operates effectively; and (iii) maintaining records of all complaints and their resolutions.

The principles of a good grievance redress mechanism are:

- A mechanism scaled to risk and adverse impact on affected communities
- Designed to take into account culturally appropriate ways of handling community concerns
- A clear and understandable mechanism that is accessible to all segments of the affected communities at no cost
- Transparency and accountability to all stakeholders
- A mechanism that prevents retribution and does not impede access to other remedies

The key steps for grievance management are

- Publicizing grievance management procedures so that the mechanism is accessible to everyone;
- Receiving (i.e. collecting, recording and registering) and keeping track of grievances;
- Reviewing and investigating grievances to assess the nature of the grievance, its severity and legitimacy;
- Developing resolution options commensurate with the nature of grievances and preparing and communicating a clear response, and closing out cases when agreement with the complainants is reached
- Monitoring grievances through tracking to ascertain effectiveness, adapting the mechanism to correct inefficiencies, using the results of monitoring for feedback and lessons learned.

PKSF has established its own grievance redress system, which will be used for the implementation of RMTD.

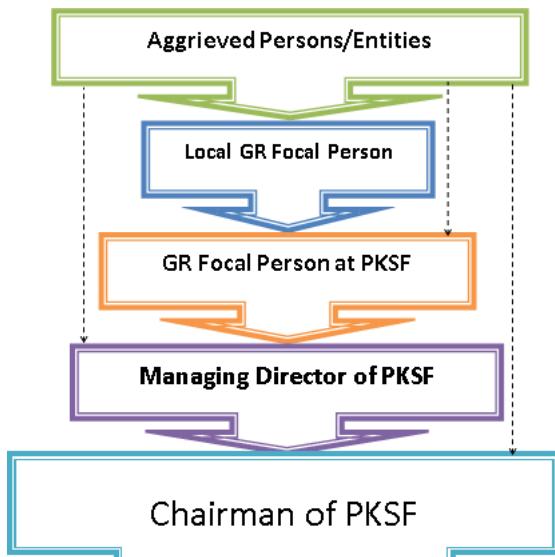


Figure 1 Visual of the PKSF Grievance Redress Mechanism. Details can be found in the PKSF Social Management Framework

Furthermore, project stakeholders may use IFAD's Complaint Procedures that can be found at <https://www.ifad.org/en/accountability-and-complaints-procedures>

5.8 Costs of implementing the ESMF

The costs of implementing this ESMF primarily comprise staff time (both of PKSF as well as Partner Organizations), as well as costs of training of farmers. These costs have been readily integrated into the PKSF cost tables and will subsequently be integrated into the Annual Work Plan and Budgets (AWPB). Additionally, producers and entrepreneurs will have costs in terms of implementing some of the interventions needed to reduce risks or impact. Some of these costs will be subsidized through the project and are budget in the general project budget lines, others will come from the loans that these entrepreneurs take with PKSF its partner organizations.

6. Innovation

Under RMTA, a set of innovations in environmental and social management will be pursued as listed below.

6.1 Microenterprise Sustainability Scoring

Recognizing that existing procedures are rather compliance-oriented, PKSF will experiment with a scoring method for the environmental and social sustainability of microenterprises that is aimed at both the entrepreneur self, as well as the responsible loan officer.

This system will comprise a traffic light system (red, yellow, green). The responsible loan officer will need to classify the microenterprise based on a set of general indicators and a set of value chain specific indicators. In case the microenterprise is in the red category, essential actions need to be undertaken prior to (further) financing. In case the microenterprise is in the yellow category, actions need to be taken during financing which if not implemented may result in ineligibility for any follow-on loan.

Microenterprise Sustainability Scoring – template example in <i>italics</i>		
Enterprise Name and type	Name, Poultry Farm	
Current Status	Yellow	
Key Issue(s)	Chicken litter dumped into adjacent stream posing risk to health	
Improvement Milestones	Find alternative method for waste management	Sep 2019

A Sustainability Scoring Guide will need to be developed for this purpose, clearly explaining the key environmental and social sustainability issues in each of the value chains. This will need to include specific possible circumstances that qualify as green, yellow or red, as well as the possible improvement measures. These should be drawn from the Protocols currently being developed under SEP.

Once the Sustainability Scoring approach is implemented at sufficient scale, it will also generate an interesting data set that can be integrated into the project's monitoring and evaluation system. A

portfolio level indicator can then not only indicate the current composition of the portfolio in terms of environmental and social performance, but also more detailed diagnostics such as in which value chains environmental and social sustainability is a major concern.

6.2 Categorization and Management at Cluster level

In the current practice of PKSF, Environmental and Social categorization of projects is done at either Partner Organization level or individual producer level. Recognizing that this approach carries a risk of not adequately managing the cumulative / aggregate impact of production clusters, PKSF will explore an alternative categorization and risks management approach centered at the cluster level. In this manner, a cluster such as one for livestock can be evaluated in its integrity and measures identified that are not easily implementable at the individual producer level but can be implemented at cluster level.

7. Other References and Learning

Over the past decade or two, significant efforts have been made globally to improve environmental and social sustainability of microfinance operations. These serve as a resource to PKSF in for instance the updating of their corporate policies and procedures. The most relevant are listed here:

- **The SMART Campaign²⁹.** The SMART Campaign is primarily aimed at integrating Client Protection Principles into the microfinance across the globe. The Client Protection Principles include (i) appropriate product design and delivery, (ii) prevention of over-indebtedness, (iii) transparency, (iv) responsible pricing, (v) fair and respectful treatment of clients, (vi) privacy of client data, and (vii) mechanisms for complaint resolution.³⁰
- **The Social Performance Taskforce³¹.** The SPTF is a membership organization working on standards and good practices in social performance management for inclusive finance.
- **FMO ESG Toolkit³².** The Dutch Development Bank FMO has developed a MFI-oriented toolkit for management of environment, social and governance issues. It includes a training tool as well as other guides.

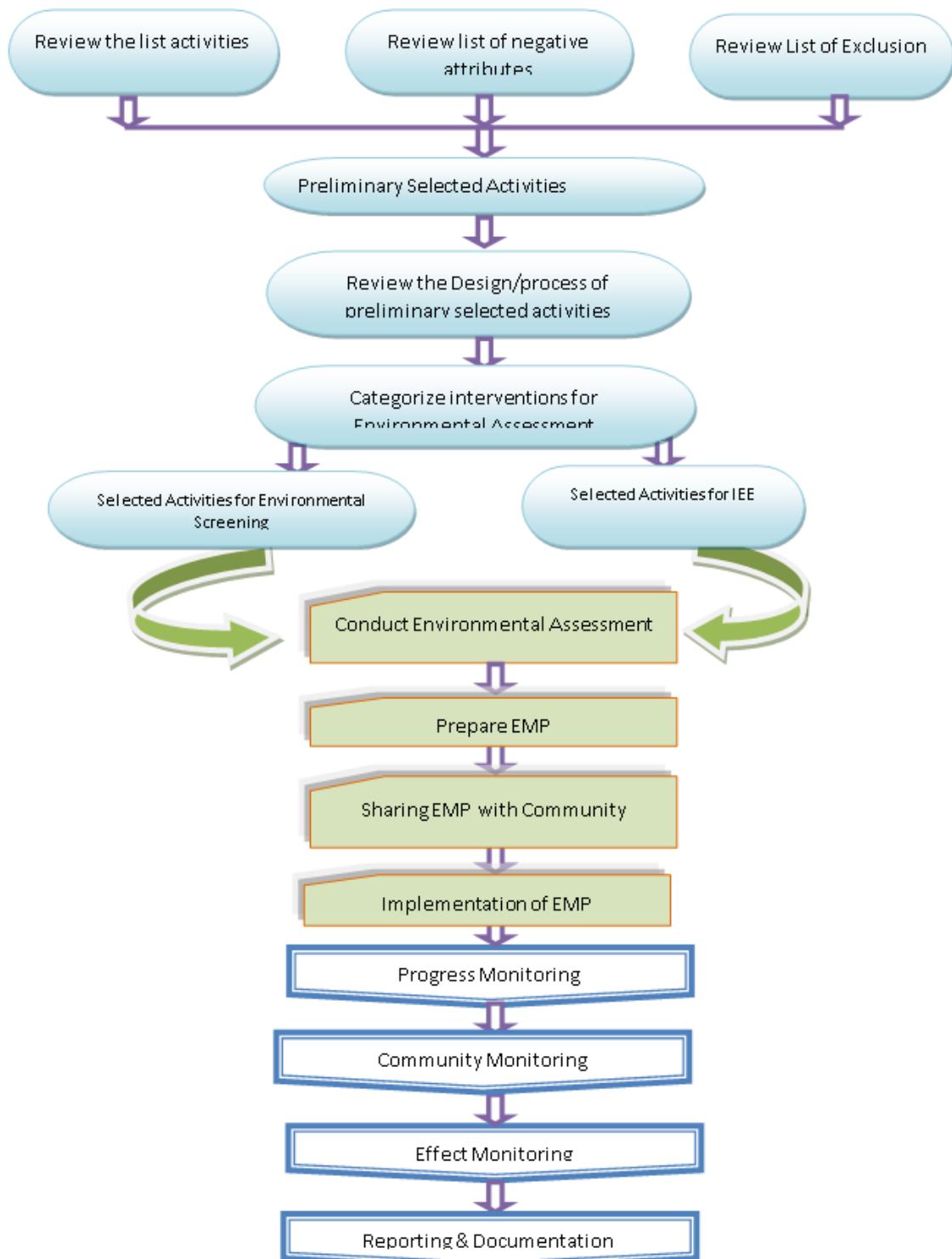
²⁹ See <http://smartcampaign.org>

³⁰ See http://smartcampaign.org/storage/documents/20110916_SC_Principles_Guidance_Draft_Final.pdf for a full list

³¹ See <https://sptf.info/>

³² See <https://www.fmo.nl/esg-toolkit>

Annex 1: PKSF Environmental Assessment and Monitoring Flow Chart



Annex 2: PKSF Exclusion List (environmental issues)

If the screening identifies significant environmental impacts like possibility of drainage congestion in the adjacent areas due to the new embankment or uses of excessive agrochemicals or shrimp farming encroaching the mangrove area, the subprojects will not be recommended for financing under Project.

The proposed sub project in the environmentally sensitive areas or proposed subproject with significant and long-term environmental impacts will not be recommended. Approval will not be given to the beneficiary who will deals with unauthorized and excessive pesticides, toxic chemicals, polythene, narcotics or any unlawful/environmentally unacceptable interventions. The following activities will not be supported under project:

SI #	Intervention/ Attributes/	Brief Description	Example
1	Protected areas/Archaeological Historical Sites declared by the Government of Bangladesh	Activities within or adjacent to the protected areas or archaeological historical sites identified by DoE or other Government agencies (Attach a list of protected areas & archaeological historical sites)	Any activities in Sundarban is Banned.
2	Natural habitat and sensitive ecosystem	Activities that may adversely affect the natural habitat with sensitive ecosystems like natural pond/beel/baor/haor etc with important aquatic life	
3	Use of pesticides	Use of excessive pesticides in agricultural land, tree plantation, large scale nursery.	
4	Road construction	Construction, reconstruction and extension of regional, national road and highway involving major concrete/cement concrete/reinforced cement concrete/concrete block	
5	Extraction of Natural Resource	Activities supporting commercial logging in forested areas or involving the use of unsustainably harvested timber or fuel-wood or significant conversion or degradation of critical natural habitats	
6	Extensive Shrimp Firming	Sub-projects involving threats to mangrove forest and coastal environment	
7	Dams/Embankment	Construction/reconstruction of dam/embankment involving major concrete/cement concrete/reinforced cement concrete /concrete blocks	
8	Supply of contaminated water	Tube-wells with Arsenic contamination (higher than national standard (0.05 mg/l) base below the 10 years flood level water supply schemes with high probability of bacterial contamination	
9	Unsanitary disposal of solid waste and waste water	New or significant expansion of disposal facilities with negative health impacts to nearby water sources or population	
10	Major loss of agricultural land	Construction/reconstruction of road/drain, canal/pond excavation with major loss of agriculture land and use of concrete cement/ reinforced concrete cement	
11	Land filling	Sub-projects that will impact major destruction of top soil of agricultural land and land filling by industrial, household and commercial waste	

Annex 3: PKSF Exclusion List (social Issues)

Involuntary Resettlement: Do the proposed project activities:			
1.	Require private land which is to be acquired by using the Bangladesh <i>Acquisition and Requisition of Immovable Property Ordinance, 1982?</i>	<input type="checkbox"/> Yes	<input type="checkbox"/> No
2.	Require private land which is not available on voluntary contribution?	<input type="checkbox"/> Yes	<input type="checkbox"/> No
3.	Affect any <i>private homesteads</i> (vita with houses & other assets)?	<input type="checkbox"/> Yes	<input type="checkbox"/> No
4.	Require land that is not available on 'contribution against compensation' or other means not acceptable to the landowners?	<input type="checkbox"/> Yes	<input type="checkbox"/> No
5.	Make persons/households using public lands destitute?	<input type="checkbox"/> Yes	<input type="checkbox"/> No
6.	Affect mosques, temples, graveyards, cremation grounds, and other places/objects that are of religious and cultural significance?	<input type="checkbox"/> Yes	<input type="checkbox"/> No
7.	Affect livelihood of vulnerable persons based on the required land?	<input type="checkbox"/> Yes	<input type="checkbox"/> No
8.	Significantly restrict access to common property resources and livelihood activities of groups and communities?	<input type="checkbox"/> Yes	<input type="checkbox"/> No
Tribal Peoples: Do the proposed activity/adaptation measures, including physical / construction activities:			
1.	Threaten cultural/traditional way of life of tribal peoples?	<input type="checkbox"/> Yes	<input type="checkbox"/> No
2.	Require tribal lands that are to be acquired by using the Bangladesh <i>Acquisition and Requisition of Immovable Property Ordinance, 1982</i>	<input type="checkbox"/> Yes	<input type="checkbox"/> No
3.	Severely restrict access to common property resources (forests, water bodies, etc) and livelihood activities?	<input type="checkbox"/> Yes	<input type="checkbox"/> No
4.	Affect places/objects of cultural and religious significance (places of worship, ancestral burial grounds, etc.)	<input type="checkbox"/> Yes	<input type="checkbox"/> No
"Yes" answer to any of the questions under Involuntary Resettlement and Tribal Peoples will make the proposed sub-project <u>ineligible</u> for financing under a project of PKSF.			



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Rural Microenterprise Transformation Project Project Design Report

Annex 6: First Annual Work Plan and Budget (AWPB)

Document Date: 30/07/2019

Project No. 2000002356

Asia and the Pacific Division
Programme Management Department

Annex 6: First Annual Work Plan and Budget (AWPB)

Bangladesh Rural Micro-Enterprise Transformation Project First 18 Months Annual Work Plan and the Budget (AWPB)																		
Component 1: Value Chain Development Sub-Component 1.1: Organization																		
Activity No.	Activities	Implementing Agency	IFAD Exp. Category	Unit	Design Total Budget (USD)	Design Total Targets	18 Months Plan Period: Jan 2020 - June 2021						Planned Total Units (18 months)	Unit Price (USD)	Total Budget (USD)	Financiers		
							Q 1	Q 2	Q 3	Q 4	Q 5	Q 6				IFAD/CF (USD)	Other (USD)	
A 1	1. Start-up Training																	
Sub Act A 1.1.1	Information & Orientation on financial literacy for MC & PO members	PKSF	TRAINING	Nb Persons	1,428,571	100,000								50,000	14	700,000	0	700,000
Sub Act A 1.1.2	Training on Nutrition, climate, environmental and social issues	PKSF	TRAINING	Nb Persons	3,657,143	384,000								100,000	10	1,000,000	0	1,000,000
Sub Act A 1.1.3	Prepare information sheet and discussion notes for village meetings	PKSF	TRAINING	Number	59,524	200								200	298	59,600	0	59,600
Sub Act A 1.1.4	TOT on financial literacy for PO trainers by POs	PKSF	TRAINING	Nb Batches	11,905	200								150	60	9,000	0	9,000
Sub Act A 1.1.5	Training on business management for ME and PA members	PKSF	TRAINING	Nb Batches	285,714	300								125	952	119,000	119,000	0
Sub Act A 1.1.6	Developing and revising training module by PKSF	PKSF	TA	Number	5,952	1								1	5,952	5,952	5,952	0
	Subtotal															1,893,552	124,952	1,768,600
A 1	2. Training on Nutrition																	
Sub Act A 1.2.1	Information campaign for nutrition education	PKSF	TRAINING	Lump sum	1,786											595	595	0
Sub Act A 1.2.2	Development of training material for nutrition training	PKSF	TA	Lump sum	2,381											1,190	1,190	0
Sub Act A 1.2.3	Allocation of funds to undertake special studies at PO level	PKSF	STUDIES	Lump sum	23,810											17,857	0	17,857
Sub Act A 1.2.4	TOT on Nutrition Sensitive Value Chain	PKSF	TRAINING	Lump sum	357,143											133,929	0	133,929
	Subtotal															153,571	1,786	151,786
A 1	3. Training on Climate Issues and Environment																	
Sub Act A 1.3.1	Training on contract farming and exchange visits for PA members	PKSF	TRAINING	Nb Batches	23,810	50								10	476	4,760	4,760	0
	Total for Sub-Component 1.1: Organization						5,857,738									2,051,883	131,498	1,920,386

	Bangladesh Rural Micro-Enterprise Transformation Project First 18 Months Annual Work Plan and the Budget (AWPB)																
	Component 1: Value Chain Development Sub-Component 1.2: Technical and Business Service																
Activity No.	Activities	Implementing Agency	IFAD Exp. Category	Unit	Design Total Budget (USD)	Design Total Targets	18 Months Plan Period: Jan 2020 - June 2021						Planned Total Units (18 months)	Unit Price (USD)	Total Budget (USD)	Financiers	
							Q 1	Q 2	Q 3	Q 4	Q 5	Q 6				IFAD/CF (USD)	Other (USD)
A 2	1. General Basic Training /g																
Sub Act A 2.1.1	Generic technological and management training on Horticulture	PKSF	TRAINING	Nb Batches	95,238	4,000						750	24	18,000	0	18,000	
Sub Act A 2.1.2	Generic technological and management training on Fisheries	PKSF	TRAINING	Nb Batches	95,238	4,000						750	24	18,000	0	18,000	
Sub Act A 2.1.3	Generic technological and management training on Poultry	PKSF	TRAINING	Nb Batches	95,238	4,000						750	24	18,000	0	18,000	
Sub Act A 2.1.4	Generic technological and management training on livestock	PKSF	TRAINING	Nb Batches	95,238	4,000						750	24	18,000	0	18,000	
	Subtotal														72,000	0	72,000
A 2	2. Subject Specific Advanced Training																
Sub Act A 2.2.1	Advanced technological and management training on Horticulture	PKSF	TRAINING	Nb Persons	357	2,500						1,250	143	17,857	1,786	16,071	
Sub Act A 2.2.2	Advanced technological and management training on Fisheries	PKSF	TRAINING	Nb Persons	357	2,500						1,250	143	17,857	1,786	16,071	
Sub Act A 2.2.3	Advanced technological and management training on Poultry	PKSF	TRAINING	Nb Persons	1,143	8,000						1,250	143	71,429	7,143	64,286	
Sub Act A 2.2.4	Advanced technological and management training on Livestock	PKSF	TRAINING	Nb Persons	571	4,000						1,250	143	35,714	3,571	32,143	
	Subtotal														142,857	14,286	128,571
A 2	3. GLOBAL GAP & HACCP Protocol /i																
Sub Act A 2.3.1	Contracts with certification authorities for developing training modules	PKSF	TRAINING	Lump sum	600,000	0						0		300,000	300,000	0	
Sub Act A 2.3.2	Training of Master Trainer & Protocol Development	PKSF	TRAINING	Sessions	7,351	65						20	113	1,413	1,413	0	
Sub Act A 2.3.3	Training of PA or Groups	PKSF	TRAINING	Nb Batches	67,064	9,389						2,683	7	18,778	18,778	0	
Sub Act A 2.3.4	Audit / certification	PKSF	TA	Nb Batches	72,653	9,389						671	8	5,364	5,364	0	
Sub Act A 2.3.5	Training of farmers on GAP	PKSF	TRAINING	Nb Batches	1,488,095	1,250						75	1,190	89,250	89,250	0	
	Subtotal														414,804	414,804	0
A 2	4. Training of Special Advisory service																
Sub Act A 2.4.1	Generic training material	PKSF	TRAINING	Number	1,786	3						3	595	1,785	1,785	0	
Sub Act A 2.4.2	Generic training	PKSF	TRAINING	Number	833	35						35	24	840	840	0	
Sub Act A 2.4.3	Specialised training material	PKSF	TRAINING	Number	1,488	25						25	60	1,500	1,500	0	
Sub Act A 2.4.4	Specialised training	PKSF	TRAINING	Number	833	35						25	24	600	600	0	
Sub Act A 2.4.5	Printing material	PKSF	OPERATIONS	Number	2,381	20,000						10,000		1,190	1,190	0	
Sub Act A 2.4.6	Cost Sharing of Advisors	PKSF	OPERATIONS	Lump sum	106,119	0								57,476	57,476	0	
	Subtotal														63,392	63,392	0
A 2	5. Piloting of technologies in horticulture, livestock, fisheries and others	PKSF	TA	Number	1,372,750										228,792	57,198	171,594
	Total for Sub-Component 1.2: Technical and Business Service						4,104,735								921,844	549,679	372,165

	Bangladesh Rural Micro-Enterprise Transformation Project First 18 Months Annual Work Plan and the Budget (AWPB)															
	Component 1: Value Chain Development Sub-Component 1.3; 1.4 and 1.5															
Activity No.	Activities	Implementing Agency	IFAD Exp. Category	Unit	Design Total Budget (USD)	Design Total Targets	18 Months Plan Period: Jan 2020 - June 2021						Planned Total Units (18 months)	Unit Price (USD)	Total Budget (USD)	Financiers
							Q 1	Q 2	Q 3	Q 4	Q 5	Q 6		IFAD/CF (USD)	Other (USD)	
A 3. Value chain sub-project implementation																
Sub Act A 3.1	1. Value chain analysis by PKSF	PKSF	STUDIES	Number	95,238	4							4	23,810	95,240	95,240
	2. Value chain investment and implementation															
Sub Act A 3.2.1	Value chain packages	PKSF	GRANTS	Number	8,397,619	100							60	83,976	5,038,560	5,038,560
Sub Act A 3.2.2	Investment in innovative new VCs	PKSF	GRANTS	Number	1,200,000	6										
Sub Act A 3.2.3	Marketing and Enterprise Visibility Fares	PKSF	GRANTS	Lump sum	1,429	0										
	Subtotal				9,694,286									5,133,800	5,133,800	0
A 4. Enterprise strengthening																
Sub Act A 4.1	Specialized Agribusiness Consultant providing TA to POs & undertaking studies	PO	TA	Lump sum	1,000,000									300,000	300,000	0
A 5. Policy dialogue																
Sub Act A 5.1	Policy dialogue on identified areas	PKSF	STUDIES	Lump sum	600,000									150,000	150,000	0
	Total for Sub-Component 1.2, 1.3 and 1.4: VC Sub-project implementation, Enterprise strengthening, Policy				20,988,571									5,583,800	5,583,800	0
	Bangladesh Rural Micro-Enterprise Transformation Project First 18 Months Annual Work Plan and the Budget (AWPB)															
	Component 2: Financial Services															
Activity No.	Activities	Implementing Agency	IFAD Exp. Category	Unit	Design Total Budget (USD)	Design Total Targets	18 Months Plan Period: Jan 2020 - June 2021						Total Units	Unit Price (USD)	Total Budget (USD)	Financiers
							Q 1	Q 2	Q 3	Q 4	Q 5	Q 6		IFAD (USD)	Other (USD)	
B 1. Line of credit for PKSF's ME loan programme																
Sub Act B.1.1	1. Line of credit for PKSF's loan program: IFAD Resources	PKSF	Credit	Lump sum	46,373,714									23,186,857	23,186,857	
Sub Act B.1.2	2. Line of credit for PKSF's loan program:PKSF Resources	PKSF	Credit	Lump sum	10,756,226									10,756,226		10,756,226
Sub Act B.1.3	3. Line of credit for PKSF's loan program: POs Resources	PO	Credit	Lump sum	73,127,667									73,127,667		73,127,667
	Subtotal				130,257,607									107,070,750	23,186,857	83,883,893
B.2 Line of credit to PKSF for ME loan through NBFIs																
Total for the Component		PKSF	Credit	Lump sum	20,000,000									15,000,000	7,500,000	7,500,000
	Component 3: Remittances Management															
C.1 Remittances - Project Implementation		PKSF	Grant	Lump sum	1,000,000									500,000	500,000	

	Bangladesh Rural Micro-Enterprise Transformation Project <i>First 18 Months Annual Work Plan and the Budget (AWPB)</i>																
	Component 4: Institutional Strengthening and Project management																
Activity No.	Activities	Implementing Agency	IFAD Exp. Category	Unit	Design Total Budget (USD)	Design Total Targets	Q 1	Q 2	Q 3	Q 4	Q 5	Q 6	Planned Total Units (18 months)	Unit Price (USD)	Planned Total Budget (USD)	Financiers	
D 1 Sub Component 4.1: PKSF's Capacity Building																	
	1. PKSF's capacity building through ICT based solutions																
Sub Act D 1.1	Development of block chain platform, e-commerce & crowd funding platform	PKSF	TRAINING	Lump sum	1,400,000										466,900	466,900	
D 1	2. PKSF HR (Staff) Development (training, exchange visits)	PKSF	TRAINING	Number	11,905	40											
Sub Act D 1.2.1	Business management and financial analysis	PKSF	TRAINING	Number	2,976	10							10	298	10,000	10,000	
Sub Act D 1.2.2	Value chain analysis and VCD subproject design - training	PKSF	TRAINING	Number	5,952	10							10	298	10,000	10,000	
Sub Act D 1.2.3	Project design and management	PKSF	TRAINING	Number	2,976	5									0	0	
Sub Act D 1.2.4	M and E system design and management	PKSF	TRAINING	Number	5,952	20							5	595	5,000	5,000	
Sub Act D 1.2.5	ICT based platforms: Overview and management	PKSF	TRAINING	Number	11,905	20							5	298	5,000	5,000	
Sub Act D 1.2.6	Development project management	PKSF	TRAINING	Number	4,762	20									0	0	
Sub Act D 1.2.7	Financial services and institutions	PKSF	TRAINING	Number	2,976	10									0	0	
Sub Act D 1.2.8	ICT based Realtime MIS	PKSF	TRAINING	Number	142,857	40							5	298	5,000	5,000	
Sub Act D 1.2.9	Exchange visits (VCD) /a	PKSF	TRAINING	Lump sum											0	0	
	Subtotal					1,592,262									35,000	35,000	
D 2 Sub Component 4.2: POs capacity building																	
Sub Act D 2.1	1. Value chain integration and contract intermediation	PO	TRAINING	Lump sum	11,905	1							1	11,905	11,905	11,905	
Sub Act D 2.2	2. Other training - Nutrient Sensitive, M&E etc.	PO	TRAINING	Lump sum	5,952												
Sub Act D 2.3	3. New financial product development	PO	TA	Lump sum	357,143												
	Subtotal					375,000									11,905	11,905	
D 3 Sub Component 4.3: Project management																	
	1. Office Facilities - Procurement																
Sub Act D 3. 1.1	SUV: 4-Wheel Vehicle for Field Visits	PKSF	VEHICLES	Number	119,048	1							1	10,000	10,000	10,000	
Sub Act D 3. 1.2	Laptops	PKSF	Equip	Number	21,429	18							18	1,190	21,420	21,420	
Sub Act D 3. 1.3	Printers	PKSF	Equip	Number	1,190	2							2	595	1,190	1,190	
Sub Act D 3. 1.4	Photocopy machine	PKSF	Equip	Number	5,952	1							1	5,952	5,952	5,952	
Sub Act D 3. 1.5	Office furniture	PKSF	Equip	Number	10,119	17							17	595	10,115	10,115	
Sub Act D 3. 1.6	Cellphones	PKSF	Equip	Number	10,714	18							18	595	10,710	10,710	
Sub Act D 3. 1.7	Training and recording equipment	PKSF	Equip	Number	29,762	1							1	29,762	29,762	29,762	
	Subtotal					198,214									89,149	89,149	
D 3	2. Operating expenses - Salaries & Allowances																
Sub Act D 3.2.1	Project Co-ordinator	PKSF	SALARIES	Number	337,500	6							1.5	56,250	84,375	84,375	
Sub Act D 3.2.2	Deputy project Co-ordinator (Technical)	PKSF	SALARIES	Number	318,571	6							1.5	53,095	79,643	39,821	
Sub Act D 3.2.3	Deputy project Co-ordinator (Financial Service)	PKSF	SALARIES	Number	318,571	6							1.5	53,095	79,643	39,821	
Sub Act D 3.2.4	Sectoral Specialist (Livestock)	PKSF	SALARIES	Number	232,857	6							1.5	38,810	58,215	58,215	
Sub Act D 3.2.5	Sectoral Specialist (Horticulture)	PKSF	SALARIES	Number	232,857	6							1.5	38,810	58,215	58,215	
Sub Act D 3.2.6	Sectoral Specialist (Fisheries)	PKSF	SALARIES	Number	232,857	6							1.5	38,810	58,215	58,215	
Sub Act D 3.2.7	ICT Specialist	PKSF	SALARIES	Number	232,857	6							1.5	38,810	58,215	58,215	
Sub Act D 3.2.8	Financial Analyst	PKSF	SALARIES	Number	232,857	6							1.5	38,810	58,215	58,215	
Sub Act D 3.2.9	Procurement Specialist	PKSF	SALARIES	Number	195,000	6							1.5	32,500	48,750	48,750	
Sub Act D 3.2.10	Communication, Publication & Knowledge Management Specialist	PKSF	SALARIES	Number	180,714	6							1.5	30,119	45,179	45,179	
Sub Act D 3.2.11	Monitoring and Evaluation Specialist	PKSF	SALARIES	Number	195,000	6							1.5	32,500	48,750	48,750	
Sub Act D 3.2.12	Nutrition Specialist	PKSF	SALARIES	Number	195,000	6							1.5	32,500	48,750	48,750	
Sub Act D 3.2.13	Value Chain Project Manager	PKSF	SALARIES	Number	998,571	36							9	27,738	249,642	249,642	
Sub Act D 3.2.14	Assistant Manager (Accounts)	PKSF	SALARIES	Number	260,000	12							3	21,667	65,001	65,001	
Sub Act D 3.2.15	Computer Operator cum MIS Officer	PKSF	SALARIES	Number	74,286	6							1.5	12,381	18,572	18,572	
Sub Act D 3.2.16	Driver	PKSF	SALARIES	Number	55,714	6							1.5	9,286	13,929	13,929	
	Subtotal					4,293,214									1,073,307	993,665	79,643
D 3	3. Operating expenses - Other																
Sub Act D 3.3.1	Monitoring and Travel	PKSF	Operations	Lump sum	178,571										53,571	53,571	
Sub Act D 3.3.2	Overhead - Office Rent, electricity /b	PKSF	Operations	Lump sum	571,429										142,857	142,857	
Sub Act D 3.3.3	Start-up workshop	PKSF	Operations	Lump sum	11,905										11,905	11,905	
	Subtotal					761,905									208,333	208,333	
D 3	4. M & E, studies and dissemination																
Sub Act D 3.4.1	Studies (baseline, Mid-term and end-project impact studies)	PKSF	STUDIES	Lump sum	600,000										150,000	150,000	
Sub Act D 3.4.2	Sector impact studies	PKSF	STUDIES	Lump sum	119,048										0	0	
Sub Act D 3.4.3	Results sharing (websites, seminars/workshops, video production etc.) / c	PKSF	STUDIES	Lump sum	47,619										0	0	
	Subtotal					766,667									150,000	150,000	
	D 3 Sub Component 4.3: Project management														1,520,789	1,441,147	

Bangladesh
Rural Micro-Enterprise Transformation Project
First 18 Months Annual Work Plan and the
Budget (AWPB)

Aggregate Summary

Components & Sub Components	Activities	Design Total Budget (USD)	18 Months AWPB Total Budget (USD)	Financiers	
				IFAD (USD)	Other (USD)
Component 1: Value Chain Development					
A 1	Total for Sub-Component 1.1: Organization	5 857 738	2 051 883	131 498	1 920 386
A 2	Total for Sub-Component 1.2: Technical and Business Service	4 104 735	920 284	548 119	372 165
A 3	Total for Sub-Component 1.3: Value chain sub-project implementation	9 694 286	935 000	935 000	0
A 4	Total for Sub-Component 1.4: Enterprise strengthening	1 000 000	300 000	300 000	0
A 5	Total for Sub-Component 1.5: Policy dialogue	600 000	150 000	150 000	0
Component 2: Financial Services					
B 1	B 1. Line of credit for PKSF's ME loan programme	130 257 607	107 070 750	23 186 857	83 883 893
B 2	B.2 Line of credit to PKSF for ME loan through NBFIs	20 000 000	15 000 000	7 500 000	7 500 000
Component 3: Remittances Management					
C 1	C.1 Remittances - Project Implementation	1 000 000	500 000	500 000	0
Component 4: Institutional Strengthening and Project management					
D 1	D 1 Sub Component 4.1: PKSF's Capacity Building	1 592 262	35 000	35 000	0
D 2	D 2 Sub Component 4.2: POs capacity building	375 000	11 905	11 905	0
D 3	D 3 Sub Component 4.3: Project management	6 020 000	1 520 789	1 441 147	79 643
	Grand Total	180 501 628	128 495 612	34 739 526	93 756 086



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Rural Microenterprise Transformation Project Project Design Report

Annex 7: Procurement Plan for first 18 months

Document Date: 30/07/2019

Project No. 2000002356

Asia and the Pacific Division
Programme Management Department

Annex 7: Procurement Plan for first 18 months

Bangladesh Rural Micro-Enterprise Transformation Project First 18 Months Procurement Plan (PP)															
Component 1: Value Chain Development - Procurement of Service Providers and TA															
DATE OF SUBMISSION			Thresholds: US\$ 300,000 or above for IFAD approval												
IFAD APPROVAL DATE:															
	Ref No (To AWPB).	Package No.	Review by IFAD Prior/Post	Description of Services	Estimated Cost (USD)	Method of Selection @	Advertising for EOI (Date)	TOR/ Prequalified Shortlist Finalized (Date)	RFP Final Draft forwarded to IFAD (Date)**	IFAD's No Objection for TOR Shortlist/ Final REP (Date)**	RFP Issued (Date)	Proposals Received by the Project Authorities (Date)	Evaluation Finalized (Draft Contract/Final Contract) (Date)	IFAD's No Objection for Final Contract (Date)**	Contract (Service / Consultancy) Offer
Row Nb>>	1	2		3	4	5	6	7	8	9	10	11	12	13	14
*PP	Sub Act A 1.1.5	1	post	SP: Training on business management for ME and PA members	119,000.00	LCB	Q1	Q2	Q3	Q3	Q3	Q4	Q4	Q4	
R															
A	Sub Act A 1.1.6	2	post	TA: Developing and revising training module by PKSF	5,952.00	DIR_CON	Q2	Q2	Q2	Q2	Q2	Q2	Q2	Q2	
*PP															
R	Sub Act A 1.2.1	3	post	Trainers: Information campaign for nutrition education	595.24	LCS	Q4	Q5	Q5	Q5	Q5	Q6	Q6	Q6	
A															
*PP	Sub Act A 1.2.2	4	post	SP: Development of training material for nutrition training	1,190.48	LCS	Q4	Q4	Q5	Q5	Q5	Q5	Q6	Q6	
R															
A	Sub Act A 1.3.1	5	post	SP: Training on contract farming and exchange visits	4,760.00	IC	Q4	Q4	Q5	Q5	Q5	Q5	Q6	Q6	
*PP															
R	Sub Act A 2.2.1	6	post	Trainer: Advanced technological and management training on Horticulture	1,785.71	DIR_CON [PKSF Staff]	Q4	Q4	Q5	Q5	Q5	Q5	Q5	Q5	
A															
*PP	Sub Act A 2.2.2	7	post	Trainer: Advanced technological and management training on Fisheries	1,785.71	DIR_CON [PKSF Staff]	Q4	Q4	Q5	Q5	Q5	Q5	Q5	Q5	
R															
A	Sub Act A 2.2.3	8	post	Trainer: Advanced technological and management training on Poultry	7,142.86	DIR_CON [PKSF Staff]	Q4	Q4	Q5	Q5	Q5	Q5	Q5	Q5	
*PP															
R	Sub Act A 2.2.4	9	post	Trainer: Advanced technological and management training on Livestock	3,571.43	DIR_CON [PKSF Staff]	Q4	Q4	Q5	Q5	Q5	Q5	Q5	Q5	
A															
*PP	Sub Act A 2.3.1	10	prior	TA: Contracts with certification authorities for developing training modules	300,000.00	LCB	Q2	Q2	Q2	Q2	Q2	Q3	Q3	Q3	
R															
A	Sub Act A 2.3.2	11	post	TA: Training of Master Trainer & Protocol Development	1,412.50	LCB	Q3	Q3	Q3	Q4	Q4	Q5	Q5	Q6	
*PP															
R	Sub Act A 2.4.1	12	post	TA: Generic training material	1,785.00	LCS	Q2	Q2	Q2	Q2	Q2	Q3	Q3	Q4	
A															
*PP	Sub Act A 2.4.2	13	post	SP: Generic training	240.00	LCS	Q3	Q3	Q3	Q4	Q4	Q4	Q4	Q4	
R															
A	Sub Act A 2.4.3	14	post	SP: Specialised training material	900.00	LCS	Q2	Q3	Q3	Q4	Q4	Q4	Q4	Q5	
*PP															
R	Sub Act A 2.4.4	15	post	SP: Specialised training	240.00	LCS	Q3	Q3	Q4	Q4	Q4	Q4	Q4	Q5	
A															
*PP	Sub Act A 3.1	16	post	SP: Value chain analysis by PKSF	95,240.00	DIR_CON [PKSF Staff]	Q2	Q2	Q2	Q2	Q3	Q3	Q3	Q3	
R															
A	Sub Act A 4.1	17	prior	TA: Specialized Agribusiness Consultant providing TA	300,000.00	QCBS	Q2	Q2	Q2	Q3	Q3	Q3	Q4	Q4	
*PP															
R	Sub Act A 5.1	18	prior	Policy dialogue on identified areas	150,000.00	DIR_CON [University]	Q3	Q3	Q3	Q3	Q3	Q3	Q4	Q4	
A															
Component 1: Value Chain Development - Total							995,600.93								

PP: Target dates agreed as per Procurement Plan R: revision A: actual dates

*RFP (Request for Proposal): Same as 'Bid Document'

** Applicable in case of 'Prior Review' by IFAD

SP : Service Provider

TA: Technical Assistance Consultancy

LCB Local competitive bidding

DIR_CON DIR_CONTRACT_PM (100%)

LCS LCL_SHOPPING_PM (100%)

QCBS QCBS_PM (100%)



Investing in rural people

Bangladesh

Rural Microenterprise Transformation Project Project Design Report

Annex 8: Project Implementation Manual (PIM)

Document Date: 30/07/2019

Project No. 2000002356

Asia and the Pacific Division
Programme Management Department

Palli Karma Sahayak Foundation (PKSF)

Rural Micro-enterprise Transformation Project (RMTP)

Project Implementation Manual (PIM)

May 2019

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1. INTRODUCTION TO PIM and RMTP

2. This project implementation manual (PIM) has been prepared to guide the project management unit (PMU) to implement all project activities as per project design documents and annual plan. The PIM should be read in conjunction with the project design report (PDR) with associated Appendices and technical background papers produced during the design process. Aside from the PIM, there will be separate manuals/documents such as Financial Management Manual, and Procurement Manual to support the PIM. These documents have been referred to in the PIM as appropriate.
3. **Project Partners:** The project will be implemented by PKSF through its existing partner organizations (POs) as well as future partner organizations and NBFIs. Besides, during the course of implementation of the project the PMU/PKSF may engage new and different types of partner organizations or project participant such as research organizations, academic institutions, testing & certification institutions, regulatory agencies and any other government, non-government and private agencies to achieve objective of the project.
4. The PIM has been reviewed and approved by the PMU (PKSF team) and by IFAD. The PMU will seek IFAD's approval for future amendments and revisions.
5. **Important Dates:** The following dates are important for the project:
 - **Financing Agreement:** The Financing Agreement (FA) was signed between IFAD and the Government of Bangladesh (GoB) on 2019.
 - **Letter to the Borrower:** IFAD issued the Letter to Borrower on 2019 that mentions 2019 as Financing Agreement enforce date.
 - **Project duration:** The Project Completion Date is ---- 2025 and the Financing Closing Date is ----- 2025.

2. PROJECT OBJECTIVE AND COMPONENTS

6. The **project goal** of RMTP is to sustainably increase the income, food security and nutrition of marginal and small farmers and micro-entrepreneurs across selected value chains.
7. The **development objective** is the sustainable growth of selected rural commodity value chain.
8. **Project Components:** The project has three complementary components as follows:
9. **Component 1: Value Chain Enhancement.** This component will enable 445,000 microenterprises to sustainable 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 the agribusinesses and other value chain actors. It has five sub-components: (i) organisation 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.
10. **Component 2: Financial Services.** This component will provide sustainable financial services to micro-enterprises and to growing/larger enterprises and agribusinesses. It has three sub-components: (i) provision of financial services to micro-enterprises 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); and (iii) optimal utilisation of remittances through training to the family members of overseas workers.

11. **Component 3: Institutional Strengthening and Project Management.** This component aims to strengthen PKSF and PO 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 (see organisation and management section).
12. **Project duration:** The project is designed for a period of six years, 2020-2025.
13. **Design and monitoring framework (DMF):** Design and Monitoring Framework (Logframe) of RMTP is presented below (Table 1) [See separate XL file for full details]

Table 1: RMTP: Design and Monitoring Framework (DMF or Logframe)

Results Hierarchy	Indicators				Means of Verification			Assumptions			
	Name	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility				
Outreach	1 Persons receiving services promoted or supported by the project				POs and PKSF monitoring report	Annual	POs and PMU/PKSF	No delay in project launching; and no delay in disbursement of project funds and ME loan			
	Males - Number	-	80,000	200,000				Sustainable and qualified POs are available to implement VCD programs			
	Females - Number	-	100,000	245,000				Country remains politically stable			
	Young - Number	-	20,000	50,000							
	Not Young - Number	-	160,000	395,000							
	Young - Percentage (%)	-	11.11	11.24							
	1.a Corresponding number of households reached										
	Non-women-headed households - Number	-	170,000	425,000							
	Women-headed households - Number	-	10,000	20,000							
	Households - Number	-	180,000	445,000							
Project Goal: To sustainably increase the income, food security and nutrition of marginal and small farmers and micro-entrepreneurs across selected value chains.	1.2.8 % of women reporting improved food quality in their diet				at baseline, mid-term and completion	PMU/PKSF	<ul style="list-style-type: none"> • Economy maintains or increases growth rates • Terms of trade for rural communities shall not deteriorate • Price inflation for staple food remains below 10% • Rural and peri-urban infrastructure available 				
	70% of project supported households increase income by --- %:	Estimated baseline HH annual income: Taka -----	-	50%							

Development Objective: Sustainable growth of selected rural commodity value chains supported by the project	1.2.4 HHs reporting increase in production				Quantitative assessment of productin, sales, and profitability of sample micro-enterprises from sectors	at baseline, mid-term and completion	PMU	<ul style="list-style-type: none"> • Government maintains favorite policies for small businesses • Government continues to support micro-finance programs and NGO activities • Absence of political unrest that could adversely affects
	HHs - Number	0	100,000	275,000				
	% increase in sales of sample microenterprises in the value chains	baseline: average annual sales (Taka---million)	15%	30%				
	% increase in profit (year to year) of sample microenterprises in the value chains	baseline: average annual profit (Taka-- million)	10%	20%				
Outcome 1	1.2.2 Producers and microenterprises in the selected value chains adopted improved production technolgies*				implementing partners' records and project records	quarterly	PMU	<ul style="list-style-type: none"> • POs remain institutionally and financially viable and offer competitive loan products • POs establishe separate non-financial services units and enhance capacity to manage value chain projects • No major external shocks such as major spread of disease • PKSF and POs successful identify technologies and
Farming microenterprises expand sustainable businesses through adopting efficient production methods, internationally recognized safety standards and traceability, and building strong market linkages.efficient production methods and strong market linkages	Producers/microenterprises - Number	Baseline: --		400,000				
	2.2.3 Rural producers organizations engaged in infromal and formal partnerships/agreements or contracts with buyers				implementing partners' records and project records	quarterly	PMU	<ul style="list-style-type: none"> • POs remain institutionally and financially viable and offer competitive loan products • POs establishe separate non-financial services units and enhance capacity to manage value chain projects • No major external shocks such as major spread of disease • PKSF and POs successful identify technologies and
	Producer organizations - Number	Baseline: --	500	1,500				
	Increase in # of producers groups adopted GAP	Baseline: --	2,000	7,000				
Output 1.1. Organization: Formation of producer organizations	2.1.4 Supported rural producers that are members of a rural producers' organization				implementing partners' records and project records	quarterly	PMU	<ul style="list-style-type: none"> • Farmers willing to adopt new technologies
	Men - number	0	80,000	180,000				
	Women - number	0	65,000	165,000				
	1.1.8 Households provided with targeted support to improve their nutrition							
	Households - Number	0	200,000	445,000				

Output 1.2. Technical and business services: Value chain advisory services provided to producers and producer organizations	1.1.4 Persons trained in Technical services (e.g. paravet)				implementing partners' records and project records	quarterly	PMU	<ul style="list-style-type: none"> • PKSF and POs successfully establish collaborative business arrangements between MEs and mainstream businesses 				
	Males - Number		4,900	11,900								
	Females - Number		2,100	5,100								
	Young - Number		4,200	11,900								
	Not Young - Number		2,800	5,100								
	Persons trained (total) - Number		7,000	17,000								
	Persons trained in GLOBAL GAP and HACCP											
	Males - Number		5600	14,020								
	Females - Number		2400	6,008								
	Young - Number		5600	14,020								
Output 1.3: Value chain integration	Not Young - Number		2400	6,008								
	Persons trained (total) - Number		8000	20,028								
	1.1.4 Persons trained in production technologies and business management in three sectors				implementing partners' records and project records	quarterly	PMU	<ul style="list-style-type: none"> • PKSF and POs remain committed to facilitating non-financial services along with providing financial services program to MEs • POs establish separate non-financial services units and 				
	Men - number		10,000	32,000								
	Women- number		1,000	3,000								
	Persons paid partially or fully for training or advisory services in selected value chains				implementing partners' records and project records	mid-term and completion	PMU	<ul style="list-style-type: none"> • PKSF and POs remain committed to facilitating non-financial services along with providing financial services program to MEs • POs establish separate non-financial services units and 				
	Men - number		500	5,000								
	Women - number		100	1,000								
	3.2.2 Number of HHs reporting adoption of climatically sustainable and climate resilient technologies, and practices											
	HHs - Number		200,000	445,000								
Output 1.4 Enterprise strengtheing	2.1.1 Rural enterprises accessing business services											
	Number of enterprises - number		2,000	20,000								
Output 1.5 Policy dialogue	Policy related knowledge products completed											
	# policy issues identified, policy products (papers) prepared and policy advocacy/dialogue initiated		3	5								
Outcome 2: Sustainable financial services for microenterprises	%Increase in average loan size to ME borrowers	baseline average loan size: Taka ----	25%	40%	implementing partners' records and project records	quarterly	PMU	<ul style="list-style-type: none"> POs remain institutionally and financially viable Private business companies are interested in sourcing products from micro-enterprises and willing to engage in partnership in the selected value chains 				
	Increase in PKSF ME loan portfoilio (Taka -- billion)	Baseline portfolio Taka --- Billion	PKSF	PKSF								

Output 2.1: Financial Services through Partner Organizations (MFIs)	1.1.5 Persons in rural accessing financial services				implementing partners' records and project records	Quaterly	PMU	POs remain institutionally and financially viable • Private business companies are interested in sourcing products from micro-enterprises and willing to engage in partnership in the selected value chains
	Increase in ME borrowers -men		15,000	25,000				
	Increase in ME borrowers - women		35,000	75,000				
	Increase in PO ME loan outstanding to ME borrowers	Baseline PO ME loan outstanding: Taka ---- B	PKSF	PKSF				
	Increase in PKSF ME loan outstanding to POs	Baseline PKSF ME loan outstanding: Taka ---- B	PKSF	PKSF				
Output 2.2 Financial services to Mes through NBFIs	MEs supported by selected NBFIs				implementing partners' records and project records	quarterly	PMU	• Presence of non-bank financial institutions in project area • Portfolio quality of ME loan program of POs remains high (PAR <5%) • Loan recovery rate of overall MF program and ME loan of POs remains high
	Increase in number of ME borrowers	Baseline ME borrowers (#): ----	500	1400				
	Increase in PKSF ME loan outstanding to NBFIs	Baseline loan outstanding (Taka -- m)	250	800				
Output 2.3 Optimal utilization of remittances	Support to families of expatriate workers							
	# of persons trained on vocational and business management training	baseline: 0						

Outcome 3 PKSF and POs' capacity is enhanced in areas of ICT and the project is satisfactorily managed.								
Output 3.1 PKSF's institutional strengthening through ICT based solutions	Baseline: 0 # of ICT solutions developed	4	4	implementing partners' records and project records	mid-term and completion	PMU	•Policy environment present to implement platform. •Institutional capacity present to implement platform.	
Output 3.2 PKSF human resources development	People trained in various capacity building courses							
	Persons - number	25	155					
Output 3.3 POs Institutional strengthening	1.1.6 Financial service providers supported in delivering outreach strategies, financial products and services to rural areas							
	Services providers - number	15	25					
	persons trained in various courses							
	Men - number	40	100					
	Women- number	20	120					
* PKSF will define actual technology during implementation								

3. PROJECT AREA AND TARGET POPULATION

14. 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. The following procedure will be applied to select districts/sub-districts (upazilas) where project activities will take place:

- First, PKSF will identify districts/sub-districts that have: (i) already developed production clusters of the selected value chains; and, (ii) the potential to develop production clusters of the selected value chains.
- Second, PKSF will map the incidence of poverty in all districts/sub-districts of the country.
- Third, PKSF will make a final selection of the target areas covering districts/sub-districts with existing/potential value chain clusters and with greater incidence of poverty.

15. Two additional considerations will be taken into account: (i) avoiding investments in the same value chains and same sub-districts already covered by other PKSF programmes (while seeking complementarities with World Bank-financed *Sustainable Enterprise Project*); and (ii) focusing on areas where Partner Organisations (POs) have lending programmes and have the capacity to implement value chain financing.

16. A list of districts/sub-districts with high potential for the selected value chains is presented in Table 2 below:

Table 2: Potential Project Districts

Commodity or agribusiness	Districts with existing clusters	Potential districts cluster development
High value cereals	Greater Dinajpur	Thakurgaon, Rangpur
High value vegetables, floriculture, beans/lentils	Dhaka, Comilla, Manikganj, Shariatpur, Narshingdi, Bogra, Jessore, Chuadanga, Meherpur, Dinajpur, Rajshahi, Naogaon, Chittagong, Joypurhat, Bhola, and greater Barisal	All districts except haor districts, flood affected sub-districts, and coastal sub-districts with high soil salinity
High value fruits	Greater Dinajpur, Greater Rajshahi, Chapai Nawabganj, Satkhira, Bogra, Tangail, Mymensingh, and Narshingdi	Thakurgaon, Panchagar, and parts of three Chittagong hill districts (Banderban, Rangamati, Khagrachari)
High value spices and medicinal plants	Natore, Chittagong hill districts	Plain and low hilly part of three Chittagong hill districts (Banderban, Rangamati, Khagrachari)
Dairy products	Tangail, Munshiganj, Manikganj, Sirajganj, Pabna, Dhaka, Bogra, Greater Faridpur, Bhola, Comilla	All districts
Dairy farm	Sirajganj, Pabna, Rangpur, Bogra, Satkhira, Munshiganj, Manikganj, Comilla, Dhaka, Gazipur, Shariatpur, Tangail, Sylhet	Greater Dinajpur, Greater Kushtia, Greater Rajshahi, Greater Faridpur

Goat and sheep farm	Kushtia, Meherpur, Chuadanga, Tangail, Rajshahi	Jessore, Comilla
Cattle fattening	Sirajganj, Pabna, Bogra, Comilla, Kushtia, Meherpur, Jessore, Chuadanga, Cox's bazaar, Chittagong Hill districts, Manikganj, Dhaka	Greater Dinajpur, Greater Kushtia, Greater Rajshahi, Greater Faridpur
Poultry and feed	Gazipur, Tangail, Dhaka, Bogra, Joypurhat, Mymensingh, Narshingdi, Comilla	Greater Rajshahi and Greater Rangpur; parts of all districts
Aquaculture (crab culture, crayfish, etc)	Cox's bazaar, Satkhira	Khulna, Laxmipur, Noakhali
Pond fisheries	Mymensingh, Rajshahi, Munshiganj, Jessore, Meherpur, Natore, Bogra, Dinajpur, Comilla, Chapai, Pabna, Ishwardi, Gopalganj, Madaripur, Sirajganj, Noakhali	Greater Rajshahi, Greater Rangpur, Greater Faridpur
Fish hatchery	Greater Jessore, Mymensingh, Comilla, Chittagong	

Note: RMTP/PKSF may choose any sub-district/district in the country to respond to demand and opportunity, and proposal from POs

17. **Target groups.** RMTP will directly target marginal and small farmers and micro-entrepreneurs engaged in producing or processing field crops, horticulture, aquaculture and livestock. Within these groups, the project will focus on the ultra poor, the transitional poor, and the enterprising poor. These are characterized below:

- *Ultra-poor (approx. 10% of beneficiaries):* The ultra-poor are typically landless and depend on unskilled wage labour and seasonal migration. They have poor literacy and numeracy skills. The ultra-poor are involved in producing commodities such as poultry and small ruminants. This group is directly targeted by PKSF's pro-poor lending programme (*Buniad*).
- *Transitional poor (approx. 19% of beneficiaries):* The transitional poor typically possess less than 30 decimals of land (30% of an acre), including homestead land, and/or are involved in sharecropping and wage labour. They participate in crop, livestock and poultry value chains, and sometimes supply output to micro-enterprises. The transitional poor have been able to gradually increase their asset base over the past 5-10 years by diversifying their income base, and in some cases by receiving remittances. This group is targeted by PKSF's household income-generating activities lending programme (*Jagoron*) or seasonal agricultural lending programme (*Sufolon*).
- *Enterprising poor (approx. 71% of beneficiaries):* The enterprising poor typically possess between 30 and 90 decimals of land (30% to 90% of an acre). They operate micro-enterprises in crops/horticulture, aquaculture, livestock and poultry value chains, and supply output to markets or larger enterprises. The enterprising poor are expanding land ownership, and in some cases receive remittances. This group is targeted through PKSF's *Jagoron*, *Sufolon*, and *Agrosor* (micro-enterprise) loan products.

18. However, in case of loan products PKSF will its existing criteria, which may be updated from time to time. Besides, these criteria may vary from PO to PO and geographical location of respective PO's operational area.

19. **Other potential project participants:** In addition, the project will indirectly target all other value chain actors, such as input suppliers, advisory service providers, traders and processors.
20. **Participants in value chains:** In a particular value chain producers belonging to all three categories of beneficiaries as well as larger producers may also be doing business and consequently may participate in the project activities. But larger and wealth participants may not receive any subsidized services that might be offered in a particular situation.
21. Microfinance groups will be the main entry point for value chain activities, although participation will also be open to micro-entrepreneurs outside these groups. As per POs' regular practices, borrowers are included in microfinance groups for administrative, transactional and organisational purposes. Microfinance groups typically consist of borrowers of all four loan products. POs will make efforts to increase participation of *Buniad* borrowers in these groups.
22. **Targeting strategy.** The project's targeting mechanisms are outlined below:
 - *Geographical targeting:* outlined in paragraph 14 above.
 - *Procedural targeting:* existing procedures will be applied for targeting under PKSF's four standard loan products. Standard loan packages will correspond to the financial capacities of the ultra-poor, transitional poor and enterprising poor respectively. Similar procedures will be established for the participation of non-banking financial institutions in lending to larger/ growing enterprises and to agribusinesses.
 - *Direct targeting:* POs will identify and directly target microfinance groups that have the potential to upgrade production and develop market linkages, and that have a higher proportion of ultra-poor borrowers.
 - *Self-targeting:* Micro-finance groups engaged in the selected value chains will have the option of forming into producers' associations, with project support.
23. **Targeting Youth:** Youth may be targeted in the following manner: a) borrowers of ME loan and other loan products from POs; b) trainees of GGAP and HACCP training courses; and c) trainees of other specialized training courses for development local service providers.
24. **Targeting Women:** Women will be main recipients of microfinance services (ME loans and other loans) and also participants of value chains as producers, and sometimes as traders and processors.

4. PROJECT IMPLEMENTATION APPROACH

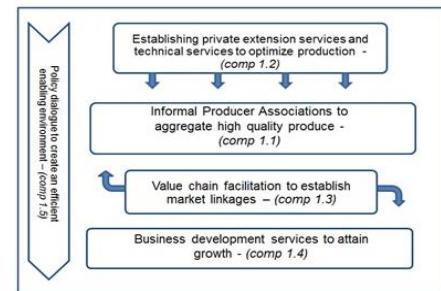
25. **Project implementation approach:** The PMU/PKSF will ensure the following core implementation approach while designing a value chain subproject as well as offering financial services:
 - *Work in clusters and new cluster development:* One of the core elements of the project is to offer services or introduce new technologies in an existing cluster of businesses. The PMU must advise POs to identify successful clusters of business to determine constraints as well as services needed to further develop the clusters and/or expand the businesses in another locations (new clusters). This critical step is to reach out to a large number of similar business, develop commercially viable support and advisory services, disseminate new technologies and information, and collecting produce for buyers.
 - *Combine microfinance and non-financial services in each value chain:* While designing a value chain subproject involving a specific product or a group of similar products (such as vegetables) the PMU will ensure that participants receive loans as and when demanded. Since producers groups will have members of various size and capacity loans will be

offered from four PKSF/POs lending windows. However, it is understood that not all value chain participants will need loans or ask for loans as many of them may join the groups for technology, training and accessing market;

- *Transform subsistence producers into microenterprises:* The PMU will introduce management practices, technologies, and support services to improve productivity and expand businesses to create broad economic multiplier effects that transform the rural sector and reduce poverty;
- apply a *nutrition-sensitive approach* to the selection of commodities to be promoted, to ensure better nutrition for producers and consumers;
- *specifically target women* through the selection of commodities/value chains in which women are heavily involved (poultry, livestock, homestead production);
- introduce *compliance with food safety and quality standards* at producer and processor levels, to ensure the supply of safe food for producers and consumers;
- *leverage commercial finance* through non-banking financial institutions for investment in larger enterprises and agribusinesses to expand the market for micro-enterprise output; and
- strengthen the *capability of PKSF and POs* as development institutions by leveraging trends in financial services, commercial platforms and new technologies.

5. COMPONENT 1: VALUE CHAIN DEVELOPMENT/ENHANCEMENT

26. This component will enable 345,000 microenterprises 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 the agribusinesses and other value chain actors. It has five sub-components: (i) organisation 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.
27. The microfinance groups supported by POs are the main entry point for investments under component 1 (Figure 1). Based on the principles of self-selection, cohesive microfinance groups can request additional support and become informal producers' groups under sub-component 1.1. These groups will receive technical and business services to increase productivity and ensure compliance with GGAP and HACCP (where required) under sub-component 1.2. Value chain integration support will connect microenterprises to agribusinesses and markets under sub-component 1.3. Agribusinesses will be supported to adopt new technologies, comply with HACCP (where required) and expand their market linkages under sub-component 1.4. The relevant policy environment, and any needed reforms, will be covered by sub-component 1.5. Policy Dialogue.



Targeting Strategy

28. Geographical target: The below table providing the indicative target districts, the commodities and existing clusters are already developed. It also provides the districts having the potential for developing new clusters. The project will not support districts where other development partners implement similar activities. However, POs are encouraged to expand clusters initiated under PACE and POs own initiatives and expand VC activities within these clusters including introduction of GGAP, HACCP and other relevant standards.

Table 3: Indicative Districts with existing Commodity Clusters and Potential Districts

Commodity	Districts with successful clusters already developed	Districts with potential for cluster development
High value cereals	Greater Dinajpur	Thakurgaon, Rangpur
High value vegetables, floriculture, beans/lentils	Dhaka, Comilla, Manikganj, Shariatpur, Narshingdi, Bogra, Jessore, Chuadanga, Meherpur, Dinajpur, Rajshahi, Naogaon, Chittagong, Joypurhat, Bhola, and greater Barisal	All districts except haor districts, flood affected sub-districts, and coastal sub-districts with high soil salinity
High value fruits	Greater Dinajpur, Greater Rajshahi, Chapai Nawabganj, Satkhira, Bogra, Tangail, Mymensingh, and Narshingdi	Thakurgaon, Panchagar, and parts of three Chittagong hill districts (Bandarban, Rangamati, Khagrachari)
High value spices and medicinal plants	Natore, Chittagong hill districts	Plain and low hilly part of three Chittagong hill districts (Bandarban, Rangamati, Khagrachari)
Diary products	Tangail, Munshiganj, Manikganj, Sirajganj, Pabna, Dhaka, Bogra, Greater Faridpur, Bhola, Comilla	All districts
Dairy farm	Sirajganj, Pabna, Rangpur, Bogra, Satkhira, Munshiganj, Manikganj, Comilla, Dhaka, Gazipur, Shariatpur, Tangail, Sylhet	Greater Dinajpur, Greater Kushtia, Greater Rajshahi, Greater Faridpur
Goat and sheep farm	Kushtia, Meherpur, Chuadanga, Tangail, Rajshahi	Jessore, Comilla
Cattle fattening	Sirajganj, Pabna, Bogra, Comilla, Kushtia, Meherpur, Jessore, Chuadanga, Cox's bazaar, Chittagong Hill districts, Manikganj, Dhaka	Greater Dinajpur, Greater Kushtia, Greater Rajshahi, Greater Faridpur
Poultry and feed	Gazipur, Tangail, Dhaka, Bogra, Joypurhat, Mymensingh, Narshingdi, Comilla	Greater Rajshahi and Greater Rangpur; parts of all districts
Aquaculture (crab culture, crayfish, etc)	Cox's bazaar, Satkhira	Khulna, Laxmipur, Noakhali

Pond fisheries	Mymensingh, Rajshahi, Munshiganj, Jessore, Meherpur, Natore, Bogra, Dinajpur, Comilla, Chapai, Pabna, Ishwardi, Gopalganj, Madaripur, Sirajganj, Noakhali	Greater Rajshahi, Greater Rangpur, Greater Faridpur
Fish hatchery	Greater Jessore, Mymensingh, Comilla, Chittagong	

Note: RMTP/PKSF may choose any sub-district/district in the country to respond to demand and opportunities, and proposal from POs

Target Group

29. The RMTP will directly target marginal and small farmers and micro-entrepreneurs engaged in producing or processing field crops, horticulture, aquaculture and livestock. Within these groups, the project will focus on the ultra poor, the transitional poor, and the enterprising poor. These are characterised below:

- *Ultra-poor (approx. 10% of beneficiaries)*: The ultra-poor are typically landless and depend on unskilled wage labour and seasonal migration. They have poor literacy and numeracy skills. The ultra-poor are involved in producing commodities such as poultry and small ruminants. This group is directly targeted by PKSF's pro-poor lending programme (*Buniad*).
- *Transitional poor (approx. 19% of beneficiaries)*: The transitional poor typically possess less than 30 decimals of land (30% of an acre), including homestead land, and/or are involved in sharecropping and wage labour. They participate in crop, livestock and poultry value chains, and sometimes supply output to micro-enterprises. The transitional poor have been able to gradually increase their asset base over the past 5-10 years by diversifying their income base, and in some cases by receiving remittances. This group is targeted by PKSF's household income-generating activities lending programme (*Jagoron*) or seasonal agricultural lending programme (*Sufolon*).
- *Enterprising poor (approx. 71% of beneficiaries)*. The enterprising poor typically possess between 30 and 90 decimals of land (30% to 90% of an acre). They operate micro-enterprises in crops/horticulture, aquaculture, livestock and poultry value chains, and supply output to markets or larger enterprises. The enterprising poor are expanding land ownership, and in some cases receive remittances.
- In addition, the project will indirectly target all other value chain actors, such as input suppliers, advisory service providers, traders and processors.
- *Direct targeting*: POs will identify and directly target microfinance groups that have the potential to upgrade production and develop market linkages, and that have a higher proportion of ultra-poor borrowers.
- *Self-targeting*: Micro-finance groups engaged in the selected value chains will have the option of forming into producers' associations, with project support.

Subcomponent 1.1: Organization

30. The PKSF will be overall responsibility for project implementation and field implementation will be the direct responsibility of selected PKSF Micro Finance Partner Organizations (PO) also including Non-Bank Financial Institutions (NBFI).
31. *PKSF's Partner Organizations (POs)*. Field implementation of the RMTP will be the direct responsibility of selected PKSF Partner Organizations (POs). When PKSF have selected the POs,

the POs can hire value chain facilitators (ToR Annex 1). The PKSF will select the POs based on their existing criteria which includes:

- Level of engagement with micro, small and medium agriculture enterprises and willingness to expand the engagement
- Loan repayment (portfolio quality): portfolio at risk (PAR), and/or loans at risk (LAR) and/or, current recovery rate (CRR) together with Annual loan loss rate (ALR)
- Financial sustainability (profitability): return on assets (ROA) or for subsidized institutions, return on equity (ROE), financial self-sufficiency (FSS) or adjusted return on assets (AROA) or subsidy dependence index (SDI) Compliance with all other MRA guidelines on financial soundness, management, accounting etc.
- Management information and reporting systems that provides suitable information to the PO's owners and management on the general and financial performance of the POs, inclusive of the management of risks. Allowance for loan losses (risk fund) at an amount prescribed by Microcredit Regulatory Authority (MRA).
- *Hold a valid micro finance license.*
- Compliant with all guidelines and financial covenants imposed by the MRA and PKSF.
- Maintain accounting evidence for overall transactions and operations in accordance with acceptable accounting procedures and standards acceptable to MRA and PKSF.
- Annual audited report inclusive of the auditors comments, and MRA decisions based on supervision reports and copies of document on remedy measures as well as the information on implemented actions by the Po and MRA.
- Efficiency: operating expense ratio (OER) and cost per client.
- Sound and updated business plan that ensures the PO institutional capacity development and its sustainability.
- Satisfactory procedures for external and internal auditing and internal control.
- Outreach (breadth) number of active clients or accounts.
- Outreach (depth) average outstanding balance per client or account.

32. *Existing Microfinance Groups and Formation of New Groups.* Over the years the POs under PKSF has assisted to form thousands of informal¹ microfinance groups. These groups were originally formed, and used for savings and for channelling of credit to individual group members. Under PACE, these groups are functioning as focal points for dissemination of new technologies, knowledge and to a lesser extend market information. Public advisory services hired by the POs, PO's own hired advisors and private advisors paid for by the farmers disseminated the knowledge and new technologies. Advisory service delivered for free directly by POs was not nearly as convincing as the pay based advisory service, introduced by some of the POs.

33. Based on the experience from PACE, the RMTP will also make use of existing and new groups² (calls Producer Groups PG) as the focal point for dissemination of new technologies, knowledge, and standards/traceability, linking PGs with downstream agro-business (Lead Firms) for buying of commodities and linkage to line of credits. Particularly linkages of PG with LF will receive attention, ensuring a more stable market and prices for both conventional and GGAP certified farm produce. PKSF will generate a long-list of agribusinesses that may be interested in buying agriculture, aquaculture and livestock produce. POs will cluster PG's to enable them to meet the quantities and quality required by LFs. The size and proximity of clusters will be influenced by availability of public and private advisory services. PGs will be supported by POs to enter into contractual arrangements with interested agribusinesses.

¹ Despite being informal the groups has a structure like a formal groups including elected leaders.

² The project will use a broad definition of private sector: farmers, producer groups, informal/formal microenterprises, service providers, private businesses of inputs, traders, business associations, informal businesses and formal businesses, processors, transporters, domestic market businesses, exporters, private and non-government financial institutions etc.

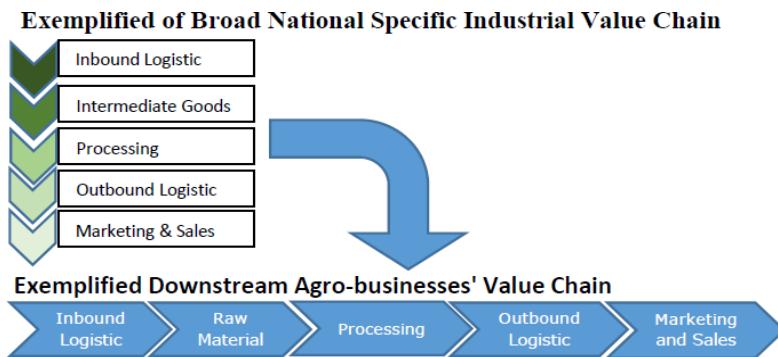
34. If requested by farming enterprises, the POs will assist them to form new PAs. The new PGs and existing PGs can receive PO support to register formally if required. A formal registration is necessary if a PG, wants to enter into business together e.g. milk collecting centre; grain storage with box dryer and cleaner; seed processing, drying, packaging and storage; tractor services with full implements; cold storages for fish, vegetables and fruits etc.
35. The POs will also support the formation of apex producer associations (PA) if requested. A PA is typically composed of many PG and engage in negotiating better condition on a wider scale, engage in policy dialogue with local government, public institution authorities, and infrastructure, negotiate better prices for inputs, services and credit.
36. The engagement of the existing PGs and formation of new PGs will be the responsibility of the Value Chain Facilitators under each PO. Support to PGs will commence upon POs being shortlisted for project support (this could take place before project commencement). Around 8,000 farming enterprise groups, each with around 45 households will participate in the value chain activities. Listed below are the typical activities, timelines and parties responsible.

Table 4: Sequential Activities and Timeline, Responsible Party for Facilitating PGs Participation in Value Chain Activities

Sequential Activities	Timeline	Responsible Party
Awareness of potential VCs for PGs to participate in	Upon PO being shortlisted for project support	Value Chain Facilitator with assistance of the pay based advisor
Linking PGs with LFs	As part of preparing proposals for project VC support	Value Chain Facilitator with assistance of the pay based advisor
Formation of new PGs	When required	Value Chain Facilitator
Support to PGs formal registration	When business partnership require	Value Chain Facilitator
Training of new PGs	As soon as formation is completed	Value Chain Facilitator
Prepare a long list of potential LFs interested to buy produce from PGs	Prior to commencement of the project	For LFs with national coverage PKSF and for LFs with district coverage POs

37. *The project will not provide direct general support to national value chains, but rather focus on building relationship between LFs, (making up the national national value chains) and the PGs. The relationship between LF and PGs will be in the form of contractual engagement buying/selling all or part of the raw material, produced by the farming enterprises members of the PGs. In most instance, the PO will provide credit for production investment of the PG's farming enterprises, as most LFs anticipated to participating in the RMTP have insufficient financial strength to undertake this task. If an advantage, tripartite/four-partite financing arrangement will be organised between the PO/NBFI, LF and the PGs.*

Figure 1: Value Chain



38. Training for microfinance and producers' groups (See COSTAB for details): The following Table presents various training items planned for development of microfinance and producer groups. The items a) to d) are responsibilities of the POs to enhance knowledge of their microfinance members on financial literacy, especially related to savings/credit, awareness on nutrition, climate, environment and social issues. The POs will organize low-cost campaigns on these issues, rather classroom trainings, throughout the year among microfinance groups and PGs and population in general to develop awareness and consequently, encourage behavioural changes (e.g. in nutritional aspects of diet, protection of environment etc). Various social media and other information dissemination channels, direct contact with communities, microfinance groups, various social events etc should be used by POs to implements these activities.
- a. Information & Orientation on financial literacy for MC & PO members
 - b. Training on Nutrition, climate, environmental and social issues
 - c. Prepare information sheet and discussion notes for village meetings
 - d. TOT on financial literacy for PO trainers by POs
 - e. Training on business management for ME and PA members
 - f. Developing and revising training module by PKSF
39. The PMU will produce/revise modules for the campaigns mentioned above. However, all such modules should be in video form and wide shared through social media. Even the project may consider developing an App for dissemination purpose, and upload all such video materials in the project website.
40. **Subcomponent 1.2: Technical and Business services:** The project will support microenterprises to better engage in selected value chains. Key services will include: privatised advisory services to optimize production; preparation of business models and plans; support to microenterprises for GGAP compliance; support to agribusinesses for HACCP compliance; assistance to source financing; and development of contract management arrangements.
41. *Private Advisory Services:* A pool of highly knowledgeable and skilled **local service providers** such as paravets, trainers, and certified local agricultural technicians will be gradually developed to provide privatised technical and business services. PKSF will develop a pre-qualification system for developing this pool of private advisors. It will issue periodic calls for interest inviting qualified persons to apply. Candidates will be evaluated according to educational background, technical knowledge and experience; ability to specifically target women microentrepreneurs and the youth will also be assessed.

Table 5: Evaluation Matrix for Shortlisting Candidates for Pay Based Advisors

	Criteria	Maximum Points
Educational Background (maximum 15 points each)		
1	Educational background	
2	Post educational relevant courses	
3	Other relevant skills	
4	Published reports and training material	
Working Experience (maximum 10 points each)		
1	Is the working experience relevant	
2	Is the duration of experience sufficient for the position	
Additional Knowledge/experience (maximum 5 points each)		
1	Is the candidate knowledgeable of human nutritional requirements	
2	Experience working with youth and gender	
3	Experience working with private sector in a commercial fashion	
4	Others	
Total		

42. PKSF/POs will organise generic and advanced training for pre-qualified advisors in commodity-specific crop, livestock, and aquaculture management. For cropping, specific attention will be devoted to the selection, application and safe handling of pesticides. For livestock, training will cover para-veterinarian activities such as vaccinations and health care. For aquaculture, training will focus on environmentally-sustainable production practices and fish health care. All advisory services will comply with food safety protocols and standards for crops, fresh vegetables, livestock and aquaculture products.
43. *Preparing of Training Material and Training of Pay Based Advisors.* PKSF will prepare training modules for each selected value chain. To the extent possible, existing training material developed by PKSF and its POs will be update as required and new modules developed if needed. The training modules will include generic training of the three broad value chains supported by the project. Likewise, commodity specific advanced training modules will be prepared. If needed, PKSF will engage qualified third party to assist develop the training material. Upon completion, relevant expertise will be engaged to validate all training material to ensure highest quality possible. The training material will centre on good agriculture practises, environmental sound, climate smart, gender specific, innovative and commercialisation of agriculture and aquaculture.
44. The Environment, Health and Safety (EHS) manual for Microenterprise developed under PACE will be modified and adopted by RMPT and its use thought to the pay based advisors and value chain facilitators as a reference tool. The use of RMPT's Environmental and Social Management Framework (ESMF) will be part of the training for pay-based advisors and value chain facilitators for implementation of VC activities.
45. PKSF will undertake training of preselected candidates to become advisors, with support from relevant private and public institutions, as and when required. Upon passing final examination, PKSF will accredit the advisors for jobs within selected VC. It is envisaged that the majority of private advisors will be young women and men (i.e. between 18 and 35 years of age). POs will draw from the pool of accredited private advisors to meet value chain actors' requests for services, ideally on cluster basis.

Table 6: Sequential Activities and Timeline, Responsible Party for Preparing Training Material for Farming Enterprises and Training Pay Based Advisors

Sequential Activities	Timeline	Responsible Party
Prepare generic training material	Commence upon signing the LA and completed within two months	PKSF
Prepare specialized commodity specific training material	Commence upon signing the LA and completed within two months	PKSF
Training of pay based advisors in generic and specialized	First batch of 130 pay based advisors. Completed within the first 4 months after signing the LA	PKSF
Training of pay based advisors in generic and specialized	Second batch of 325 pay based advisors during the last quarter of 2021	PKSF
Training of pay based advisors in generic and specialized	Final batch of 195 pay based advisors during the last quarter of 2022	PKSF

46. The provision of advisory services will be cost-shared by the project over three years on declining basis (80% in the first year of operation; 50% in the second year; 30% in the third year). The PO will offer pre-qualified advisors to take up a position within a value chain cluster of sufficient sizes able to generate the required income for the advisor.
47. The average number of PGs per pay-based advisor will be around 15 with 30-45 in each group, totaling 600 farming enterprises. On average, a pay-based advisor will be visiting/training PG members each 7 times per crop season with an average of 3 seasons per year totaling 21 visits/trainings per annum. The training/visits for crops will typically include (1) Gap need assessment for introducing GGAP (see list in Annex: xx), (2) pre-planting, (3) fertilizer application, (4) pest control, (5) harvest, (6) harvest and (5) postharvest/marketing. At each of these visits/trainings, relevant elements of introduction of GGAP will be included. If the pay based advisor earns Taka 350,000 per year it will translate into Taka 27 (Taka 350,000/ (600 farming enterprises*3)/ 7 visits) per farming enterprise per visit/training, which is Taka 575 for 21 visits/training for three cropping seasons per year. In addition, the advisor will undertake observation visits to identify nutritional deficiencies, pest problems, water management issues etc. These visits are not directly charge to the farming enterprises but use for determining the right timing and subjects for visiting/trainings.
48. The pay-based advisor will keep a logbook specifying the nature of training/visit to the PG. The chairperson/treasure of the PG will sign the log after each visit and pay the amount due to the advisor. Relevant pictures from each training/visit session showing no of participants and other relevant events during the training event will accompany the protocol.
49. Instead of charging the PGs, the advisor can also promote and sell inputs during the training/visits on commission bases for input suppliers and in strict compliance with GGAP regulations/protocol. The commission earned has to recorded in the logbook, and the PGs should pay any difference between commission and actual cost of the service received. Similar to a fee based only scenario, relevant pictures should accompany the logbook when partly or fully paid by commission. When more experience is gained from the pay based system, PKSF will fine tune the payment system.

Table 7: Cost for Advisory Service for Crops (Taka)

Year	Y1	Y2	Y3	Y4
Payment by Farming Enterprises	115	287	402	575

50. Advisory service for livestock and aquaculture will typically involve vaccination/medication, deworming/parasite control, insemination, birth assistance. The advisor will typically visit/train each farming enterprise 24 times per year averaging Taka 25 per visit/training or Taka

585/year/farming enterprise. This cost do not include expenses for medications. Similar to crops the advisor will keep a logbook accompanied with relevant pictures for each visit/training. Handling of commission from sale of medications, feed and other items should be dealt with in the same manner as for crops mention above.

Table 8: Cost for Advisory Service for Livestock (Taka)

Year	Y1	Y2	Y3	Y4
Payment by Farming Enterprises	117	293	410	585

51. Advisory service and training of farming PGs will be in coordination with LF, input suppliers, and other relevant stakeholder of the value chain.
52. The models developed for deriving the financial analysis for the RMTP investments' clearly show that the incremental return will easily pay for the advisory service.

Table 9: Budgets of all enterprise models representing the VCs used for the EFA of RMTP

Enterprises representing the VCs	Model Type	Unit of Production	Without Project (WOP)				With Project (WP)				Demand for the Loan: 22% An. Int. (USD)
			Production (kg)	Total labour use (md)	Net benefits (USD)	ROI	Production (kg)	Total labour use (md)	Net benefits (USD)	ROI	
Aman Rice	GAP, No P-price	1 ha	3,850	127	150	16%	4,130	42	351	43%	462
Boro Rice	GAP, No P-price	1 ha	4,550	127	177	16%	5,050	39	318	29%	550
Aromatic Rice	From Boro To	1 ha	5,750	142	336	27%	2,925	139	620	51%	828
Potato	GAP, No P-price	1 ha	16,500	190	349	21%	18,000	75	591	38%	1,133
Banana	GAP, No P-price	1 ha	15,060	120	239	12%	22,500	78	772	30%	2,116
Aman Rice	GAP, With P-price	1 ha	4,130	39	337	41%	4,130	42	405	48%	501
Boro Rice	GAP, With P-price	1 ha	5,050	39	177	91%	5,050	39	759	102%	411
Aromatic Rice	GAP, With P-price	1 ha	2,925	139	708	62%	3,360	60	1,030	90%	703
Vegetables (6 veg)	GAP, With P-price	1 ha	8,146	365	993	156%	8,957	383	1,440	189%	1,130
Mung Beans	GAP, With P-price	1 ha	280	17	102	61%	380	20	150	65%	196
Potato	GAP, With P-price	1 ha	16,500	191	408	26%	19,500	56	1,142	82%	1,004
Banana	GAP, With P-price	1 ha	22,500	78	989	41%	22,500	78	1,237	48%	2,116
Fish ponds	Improved practice	30 decimal	210	10	261	64%	300	15	385	67%	537
Large Fish ponds	GAP, With P-price	1 ha (total)	2,500	100	5,388	206%	4,100	250	11,089	209%	4,686
Poultry - Eggs	Better feeds	300 birds	19,200	100	630	29%	30,240	150	1,197	37%	2,874
Poultry - Broiler	Better feeds	150 birds	180	20	61	13%	270	20	182	29%	578
Beef fattening: bull	Faster fattening	1 per Yr	175	20	68	12%	245	20	248	40%	564
Dairy Milk [1]	Better Feeds/Breed	1 Cow	1,440	15	1,423	19%	2,880	60	2,398	20%	1,400
Poultry - Broiler	GAP, With P-price	150 birds	180	20	61	13%	270	25	233	33%	650
Banana+Potato: Drip	GAP, With P-price	7 ha		938	16,649	41%		1,008	35,735	82%	2,030
Micro-Enterprises:											
Milk Collection Centre	GAP Standard	500 kg/day					182,500	300	24,883	27%	6,725
Hand Loom ME	Women ME	300 Lungy					300		889	36%	72
Basket weaving	Women ME	200 Basket					200		486	30%	69
Fingerling production		5 ponds in 5 ha					9,600	700	125,013	23%	39,584
GAP: Global Good Agricultural Practices; P-Price: Premium price with Value chain linkages; ROI: Return on Investment; [1] Dairy milk: net benefit is in NPV (10% DR); Milk collection: building with GGAP standards; All ME's are new and the WOP benefits is assumed as the opportunity cost of labour involved. Net benefits are in NPV (10% DR) and IRR for 20 years. Drip - Drip Irrigation											

53. **Global Good Agriculture Practices.** To overcome the increasing concern of food safety, the RMTP will assist to introduce Global Good Agriculture Practices (GGAP) for PGs/VC clusters involved in primary production of crops, livestock and aquaculture. GGAP Chain of Custody Standard (Traceability) will be introduced for all commodities receiving GGAP certification. The RMTP will support enterprises involved in produce handling/transport, feed manufacturing, and hatchery to obtain GGAP if required.
54. GGAP can be defined as optimization of technologies and resources for sustainable agriculture and food safety. There are costs related to introducing GGAP as well as recurrent cost. The initial cost is related to farm assessors assessing the gaps to be closed for achieving GGAP certification, training of members of PGs to close the gaps and meet the GGAP management requirements and the cost of audit and certification. There are also cost related to soil and water analysis and

construction/modification of storage facility of chemicals and fertilizer. The recurrent cost is annual audit and renewal of certification. There are also savings, which can generate benefits in excess of the cost e.g. Vietnam report that on average farmers generates USD 1,250 per Ha in net benefit from GAP.

55. The PKSF will engage a recognized institution (international/national) to prepare the GGAP protocols for selected commodities value chain. PKSF will also examine the feasibility of providing capacity-building support for Bangladesh Standards and Testing Institution (BSTI) enabling the institution to undertake audits and certifications of GAAP. PKSF will also carefully asses the feasibility of providing equipment support for BSTI conduct pesticide residue, heavy metal and antibiotic laboratory test. When drafting of protocols for HACCP and GAAP are completed, they will be shared with Bangladesh Food Safety Authorities (BFSA) for comments and information. The BFSA will also be consulted when preparing soil and water sampling methods and in selection of best choice of laboratories to be used for the analysis.
56. Value chains where the PGs are vertical integrated with the LF is the most relevant for GGAP as movement of produce from farm to fork is easy to trace. Example of such VC are milk, vegetables and fruit for processing, fisheries commodities for export, branded grain for domestic and export markets. It is anticipated that around 250,000 HH or around 70% of the targeted beneficiaries will be part of a vertical integrated value chain. However, all PGs will undergo GGAP training to ensure safe and to increase the profitability of farming by using optimal levels of inputs instead of present practice of overusing both pesticide and fertilizer.
57. Qualified pay based advisors will receive training to become GGAP Master Trainers to support marginal/small farmers, micro-enterprises and LFs to obtain GGAP.

Table 10: Sequential Activities and Timeline, Responsible Party for Training GGAP Master Trainers³

Sequential Activities	Timeline	Responsible Party
Training of pay based advisors to become GGAP master trainers	First batch of 130 pay based advisors. Completed within the first 4 months after signing the LA	PKSF hire Farm Assurers from an accredited GLOBALG.A.P. institution (international/national)
Training of pay based advisors to become GGAP master trainers	Second batch of 325 pay based advisors during the last quarter of 2021	
Training of pay based advisors to become GGAP master trainers	Final batch of 195 pay based advisors during the last quarter of 2022	

58. The first step on the way to obtain GGAP certification is assessment of existing one-farm gaps to be closed in order to obtain GGAP certification. Example of crop assessment (similarly livestock and aquaculture will also be assed) will examine the following:

- Production conditions must be safe including soil, water for irrigation and washing products must be safe, processing area, which can ensure the hygiene and safety and farmers understanding of IPM and environment protection.
- Good production management for groups including safe management of input materials like fertilizer, pesticide and agriculture chemicals (require a common facility which can be locked and inputs going in and out is kept in a logbook by appointed store keeper), recording keeping of production management, internal audit, management plans and lesson learnt, and farmers understanding about IPM, GAP, environment protection

³ GLOBALG.A.P. Farm Assurers

- Good production practice including safe production procedures, use of approved pesticide, and fertilizer in proper way, use of unknown-origin of pesticide, agriculture chemicals, use of organic fertilizers, compost etc., field record keeping.
 - Good harvesting and post-harvest handling including the understanding and maintain of pre – harvesting Interval⁴, wash products by clean water, keep produce in clean storage/container/ packaging and label the produce for traceability
 - Protect health and environment by using approved chemical in the recommended quantities, use proper work wear to protect the workers, safe disposal of waste and chemical containers according to regulations
59. Based on the assessment, a training protocol will be prepared to close all the gaps and the training needs of the PGs within a cluster. The master trainer assesses when the PG has reached a level warranting GGAP certification and invites the GLOBALG.A.P. Farm Assurer to confirm the assessment. If the level of PG's compliance acceptable, the accredited certification firm is call to undertake the audit and issue certification.
60. It will take around 6-12 months for PGs' and LFs' to achieve GGAP certification. PKSF will engage with a recognized accredited institution (international/national) to undertake the audit and certification.

Table 11: Sequential Activities and Timeline, Responsible Party for Training GGAP Master Trainers⁵

Sequential Activities	Timeline	Responsible Party
GGAP training of PGs	First batch of 1,600 farming enterprise groups qualifying for GGAP within the first 12 months after signing the LA	
Certification	Within the first 12 month after signing the LA	
GGAP training of PGs	Second batch of 4,000 farming enterprise groups qualifying for GGAP within the second year after signing the LA	
Certification	Within the first 24 month after signing the LA	
GGAP training of PGs	Final batch of 2,400 farming enterprise groups qualifying for GGAP within the third year after signing the LA	
Certification	Within the first 36 month after signing the LA	

61. *Hazard Analysis Critical Control Point*. Enterprises engaged in crop/meat/fish processing are going to receive assistance to obtaining Hazard Analysis Critical Control Point (HACCP) certification. The project will engage national HACCP team of experts to guide processors obtaining HACCP certification. If national experts are not available, training will be organised to develop this expertise. The training will cover the Codex Alimentarius Commission's Good Manufacturing Practices and all steps to full HACCP certification. Subsequently, PKSF will enter into a retainer contract with the team of experts to support enterprises to undertake the necessary steps to obtain HACCP certification. PKSF will engage with an in-country accredited authority to undertake audits and certification.

⁴ Pre-harvest interval (PHI) refers to the amount of time that must lapse (in days) after a pesticide application before the crop is harvested according to the product specification of the chemical used.

⁵ GLOBALG.A.P. Farm Assurers

62. The HACCP team will be composed of individuals having specific knowledge and expertise in the product and process of the LF in question and will broadly undertake the following:

- First, the HACCP team provides a general description of the food, ingredients and processing methods.
- Describe the normal expected use of the food. The intended consumers may be the public or a particular segment of the population (e.g., infants, immune compromised individuals, the elderly, etc.)
- Construct flow diagram to describe the production process. The flow diagram should provide a clear, simple outline of all the steps involved in production the process.
- On-site confirmation of flow diagram by the HACCP team
- Conduct a hazard⁶ analysis (Principle 1) and identifies appropriate control measures.
- Determine critical control points (CCPs) (Principle 2) where control can be applied and prevent or reduce food safety hazard.
- Establish Critical Limits for Each CCP (Principle 3) to prevent eliminate or reduce to an acceptable level the occurrence of a food safety hazard.
- Critical limits must be on a scientifically basis. For each CCP, there is at least one criterion for food safety that is to be met. The critical limits and criteria for food safety may be derived from sources such as regulatory standards and guidelines, literature surveys, experimental results and experts.
- Establish a monitoring system for each CCP (Principle 4) to produce an accurate record for future use in verification.
- Establish corrective actions (Principle 5) to prevent potentially hazardous foods from reaching consumers.
- Establish verification procedures (Principle 6) that determine the validity of the HACCP plan and that the system is operating according to the plan.
- Establish documentation and record Keeping (Principle 7) including: (i) A summary of the hazard analysis, including the rationale for determining hazards and control measures; (ii) the HACCP Plan will include:
 - Listing of the HACCP team and assigned responsibilities
 - Description of the food, its distribution, intended use and consumer
 - Verified flow diagram
 - HACCP Plan Summary Table that includes information for ^{7*}:
 - Steps in the process that are CCPs
 - The hazard(s) of concern
 - Critical limits
 - Monitoring*
 - Correction actions*
 - Verification procedures and schedule*
 - Record-keeping procedures*
- Finally, a plan needs to be prepared stating the individuals responsible for developing, implementing and maintaining the HACCP system. It is important to insure that all individuals involved, receive proper training so they understand their role and can effectively fulfil their responsibilities.

⁶ A hazard is defined as a biological, chemical or physical agent that is reasonably likely to cause illness or injury in the absence of its control (i.e. safety concerns, not quality concerns).

⁷ *A brief summary of position responsible for performing the activity and the procedures and frequency should be provided

Table 12: Sequential Activities and Timeline, Responsible Party for HACCP

Sequential Activities	Timeline	Responsible Party
Identify national/regional expert panel for most common processing agro-businesses and provide them with relevant training if required	During the first 1 month after signing the FA	PKSF and local HACCP accredited company
Expert panel develop HACCP protocols for most common agro-businesses	During the first 3 months after signing the FA	PKSF lead HACCP officer and expert panel
Provide guidance to agro-business in develop business specific protocols and obtain HACCP certification	As and when required	Expert panel and PKSF lead HACCP officer
Prepare HACCP plan	At the final stage before certification	Expert panel and PKSF lead HACCP officer
HACCP certification of agro-businesses	As and when required	One of the four accredited HACCP companies

63. *GGAP and HCCAP Awareness Campaign.* The project will raise public awareness of the benefits derived from GGAP and HACCP for domestic consumers (safe food), producers (personnel safety in handling chemicals and overall savings in production), processors (safety and traceability of produce) and exporters (increases the potential for export), through mass media. The project will contract an advertising company to assist prepare and roll out the campaign. The campaign will also serve as an attraction for farming enterprises to participate in value chains supported under RMTP's activities.

Table 13: Sequential Activities and Timeline, Responsible Party for GGAP and HACCP Awareness Campaign

Sequential Activities	Timeline	Responsible Party
Prepare a national awareness campaign	Within the first 2 months after signing the LA	PKSF and advertising firm
Air the campaign using the mass media	First exposer on the mass media starting 6 month after signing the LA and thereafter every two month for the duration of the project	PKSF
Measurer the effect of the campaign and make adjustment as required	End of first year	PKSF

64. *Introduction of appropriate new technologies.* RMTP will promote appropriate new/modern technologies in the selected value chains, such as vertical recycling production systems for mud crab, recycling systems for other aquaculture commodities; hybrid solar driers for vegetables and fruits; drip and micro irrigation; modern rice mills; briquette machine for urea, urea/compost, urea/compost/DAP, and tractor operated implement for deep placement of urea briquettes etc. New technologies will also include appropriate research and development findings/recommendation from the public and private sector e.g. new crop varieties using biofortification for increased levels of nutrition, resistance against pest and deceases, tolerant to salinity, draught and flood. Through selection new improved local breed of poultry, ruminants and cattle, and fish. Biostimulants, biopesticides, biomedecines, urea/compost briquettes, Alternate Wetting and Drying (AWD) and System of Rice Intensification (SRI). Prior to commencement of

the project PKSF will map all available climate smart technologies and environmental safe technologies as a reference guide to pay based advisors and value chain facilitators.

65. The project will provide financial support for feasibility studies, training, technical assistance for the introduction of new technologies and, in appropriate situations, subsidized machinery and equipment. Level of subsidies depends on the in country experience. If never tried before in country PKSF can grant 100% subsidy for the first introduction and if tried in the country but not at the respective district level PKSF can provide 50% subsidy.

Table 14: Sequential Activities and Timeline, Responsible Party for Introduction of Technologies

Sequential Activities	Timeline	Responsible Party
Prepare a list of appropriated new technologies for the VC supported by the RMTP	Within the first 1 months of project implementation	PKSF
Compile a list of suppliers from where to buy i.e. domestically or from regional B2B platforms	Within the first 1 months of project implementation	PKSF
Provide TA for feasibility studies, training, technical	Ongoing as and when required	PKSF hired consultants
Cost sharing procurement of machinery and equipment	Ongoing as and when required	PKSF and beneficiary
Evaluation of the new technology and recommendations for broad adoption	Ongoing as and when required	PKSF

66. **Subcomponent 1.3 Value chain integration:** The project will invest in value chains commodities that have comparative advantage, market demand, growth potential and cultivated by small farmers and micro-entrepreneurs. The commodities selected should be cultivated in geographical clusters to ensure economies of scale and the possibility of private sector linkages. More than 50% of the selected commodities should also have the potential to improve food and nutrition security for both producers and consumers. Commodities not contributing directly to improved nutrition should generated sufficient income, which can contribute to increased purchase of nutritional food. The value chains the project supports fall into three broad categories:

- *Crops and horticulture:* (i) high value cereal crops (for example, aromatic and fine rice); (ii) high value fruits and vegetables (including dark green leafy vegetables); and (iii) pulses (such as lentils, mung bean, chickpeas etc.), beans, and seeds; related trading and processing;
- *Aquaculture:* technology-based aquaculture for example, mud crab; carp; tilapia, crayfish and other local species, particularly small fish; related trading and processed fish products;
- *Livestock:* (i) dairy production; (ii) red meat including cattle; goats; sheep; and buffalo.
- *Poultry:* Including meat and eggs from chicken; duck; gees; turkey; and quail related trading and processed products.

67. The project will support PKSF to undertake countrywide value chain analyses for select commodities, by either upgrading existing analyses or undertaking new ones (Annex I provide example of VCA). Based on these value chain analyses, PKSF will issue calls of interest for POs to implement value chain support for their clients. The project will avail 100 VC support packages, of USD 100,000 each. Each of these packages will assist in the formation of PGs; development of value chains; demonstrations for PGs; PG to PG visits; LF training and training visits; support to

build apex Producers Associations if required. On average each of these packages will support linking 3,185 farming enterprises to seven downstream agro-business's VCs. Total anticipate benefiting PGs are around 8,000 with 345, 000 members linked to 700 LFs' VCs. In addition, there is around 80,000 farming enterprises choosing other routes of marketing.

68. The project will support each participating PO to engage four value chain facilitators responsible for supporting the implementation of the VC support packages with the assistance of the Pay based advisors. The value chain facilitators will receive training by the PKSF similarly to the pay based advisors. Those passing the final examination, can be hired by POs on a 3 months trial period, and if performing extended yearly over a 3 year period.
69. The PKSF will issue calls of interest for POs to express interest to implement value chain packages for its clients. The call of interest will include the countrywide VC analysis prepared by PKSF as a point of reference. Based on these analyses the POs will prepare proposals for specific commodity VCs. Steps to be undertaken by POs to obtain value chain support packages to strengthen market arrangements between PG and LF are shown in Annex 3)
70. *Approval of the PO proposal.* PKSF will use below matrix to evaluate proposals from POs. If the proposal score meets the threshold, it will be approve for financing. Financing of proposals is according to the principle of first come first served, until the budget is exhausted. The POs not being financed during first submission, but qualifying can resubmit during the subsequent call for proposals. PO's having the proposal rejected because of low score can improve their proposals and resubmit during subsequent call for proposals.

Table 15: Evaluation Matrix for Scoring PO Proposals

Criteria	Score
Identify the commodity value chains in need of upgrading, which will benefit the PG (10 max and 1 smallest)	
Nutritional sensitivity VC (15 max and 1 smallest)	
Undertake value chain analysis. The VC analysis can be based on, existing studies. The VC analysis will also include benefit cost analysis of proposed upgrading along the value chain (10 max and 1 smallest)	
Identify LF interested to procure produce from how many PG (and # HH), (10 max and 1 smallest)	
During the identification process, the PO will also identify the required upgrading of the LF interested to participate in the RMTP (10 max and 1 smallest)	
Identify the size of the commodity cluster in terms of PG and # of farming enterprises and total area under production (10 max and 1 smallest)	
Identify constraints and opportunity for upgrading the primary production and product differentiation (10 max and 1 smallest)	
Environmental sustainability of the productive area and climate risk assessment (10 max and 1 smallest)	
Road infrastructure connecting productive areas with the main road network (10 max and 1 smallest)	
Service providers and relevant support institutions (10 max and 1 smallest)	
The PO together with the LF and representatives from PGs will prepare appropriated training packages for stakeholder in the VC. (10 max and 1 smallest)	
The proposal will also include a detailed budget (5 max and 1 smallest)	
Number of pay based advisors required (5 max and 1 smallest)	
Number of PGs in need of GGAP certificates (15 max and 1 smallest)	
Number of LF in need of GGAP certificates (produce handling, transport, hatcheries, feed mills) (15 max and 1 smallest)	
Number of LF in need of HACCP certificates (15 max and 1 smallest)	

71. *Visible and significant impact.* The POs, while expand existing value chains should strive for approaches that would create significant impact in an area not limited to members of PG or Producer associations. For example, any initiative to develop commercial animal health services should try to cover all goats/sheep and cattle farming enterprises in the area and not only HH that are members of a PG.
72. *Evaluation of value chain support.* After each season the PO, have to undertake evaluation of the VC support including simple (no need for IRR and NPV) benefit cost analysis of all investments supported by the project e.g. advisory service, GGAP, HACCP, new technology, machinery etc. Evaluation of the governance structure and effectiveness will also be undertaken. Both the PO and PKSF will post the results in their MIS and on their webpages.
73. The POs will publish the results and lessons learned from each VC, and select the best performing VCs for visit and training exchange programmes within the PO and across POs.
74. *Value Chain Governance.* For each supported value chain, the project will assist establish a value chain committee composed of one representatives from each participating group, the LF, input suppliers, transporters, researchers, public advisory services, pay based advisor and end market representatives if required. The committee will elect a chairperson who in collaboration with the value chain facilitator will organize meetings. The VC committee will meet at pre-planting and post-harvest. The first meeting will deal with required training during the production season, including GGAP and HACCP, quantities, quality, variety (crop/fish/livestock), staggering production, testing innovations and price mechanism, including permissible side selling. The second meeting will coordinate harvest operations and related logistic like drying, moisture content, refrigeration, transport etc. Other meeting might take place when and if required. The VC committee will also be responsible for championing the introduction of GGAP and HACCP.
75. If a large number (more than 10%) of farming enterprises within a cluster, are not interested/willing to be member of a PG, but want to participate in the value chain activities they can select one person for every 45 HH to represent them at the VC committee.

Table 16: Sequential Activities and Timeline, Responsible Party for Facilitating Value Chain Governance

Sequential Activities	Timeline	Responsible Party
Linking downstream Agro-business with farming enterprises	As part of preparing PO proposals for receiving PKSF VC support	Value chain facilitators
Invite other stakeholder to participate in the VC committee and elect the chairperson	As part of preparing PO proposals for receiving PKSF VC support	Value chain facilitators and leaders of farming enterprises and management of LF (downstream agro-business)
Select the VC committee chairperson	As soon as the VCC is formed	Value facilitator
Conduct regular by-seasonal meetings	Pre- and post-season meetings	VC committee chairperson and PO value chain facilitator

76. **Subcomponent 1.4 Enterprise strengthening:** The project will provide specialised consultancy support to the LF for:

1. Food safety standards and traceability (GGAP and HACCP)
2. Introduction of new products like dried fruit; fruit juice; parboiled speciality rice etc.
3. Introduction of new equipment and machinery like small scale seed processing;
4. Market entry studies for both domestic and export markets
5. Trial shipments for domestic and export markets
6. Product branding including geographical indication, and GGAP labeling/certification

7. Operational business planning for small LFs having potential for rapid growth.
77. The project will not generally provide direct subsidies for the business operations of farming enterprises, micro-enterprises and/or agro-businesses. However, PKSF will develop a scale for the provision of subsidies to individual training recipients and downstream agro-businesses to catalyse the introduction of specific services, products or contract farming arrangements based on their financial and managerial strength. This support will only be for those engaging in contractual arrangements with producers' groups and providing sustainable services
78. **Subcomponent 1.5 Policy dialogue.** The IFAD Country Office will support PKSF in its policy dialogue with relevant Government institutions on important topics relevant to the project. Possible topics for policy dialogue include:
 1. Reviewing regulations governing PO loan portfolio structure
 2. Increasing micro-enterprise loan ceilings to enable introduction of new technologies
 3. Revisiting regulations governing the livestock sub-sector
 4. Argue for allowing the establishment of commercial hatcheries for mud crab-lets
 5. Establishing an ISO 17025 accredited laboratory for analysis of residue of pesticide, heavy metal, antibiotics etc.
 6. Address any emerging issues in financial services and selected agricultural production sectors.
79. PKSF is encourage to engage public and private institution (research institution, universities) to prepare position papers in support of policy dialogue with the GoB.

6. COMPONENT 2: FINANCIAL SERVICES

80. Component 2: This component will provide sustainable financial services to micro-enterprises and to growing/larger enterprises and agribusinesses. It has three sub-components: (i) provision of financial services to micro-enterprises 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); and (iii) optimal utilisation of remittances through training to the family members of overseas workers.
81. Sub-component 2.1: Financial services through Partner Organizations (POs): PKSF offers four loan products through POs: (i) *Buniad* (ultra-poor loans); (ii) *Jagoron* (household income-generating loans); (iii) *Sufolon* (seasonal agricultural loans); and (iv) *Agrosor* (microenterprise loans). Demand for micro-enterprise loans across the country is very high, and growing faster than the other three loan products. The project fund will be utilized for expansion of Microenterprise loan product of PKSF, and consequently, that of POs.
82. ME loan size: It is estimated that an additional 100,000 microenterprises will be financed, with an average loan size of BDT 120,000. However, the actual loan size will be determined by the POs as per demand from the client and prevailing ceiling of loan as determined by PKSF. It is understood that PKSF will update its policy regarding loan size from time to time, which will be accepted as the policy for the project.
83. Microenterprise borrowers within the value chain subprojects will receive loans in line with the existing practices of the respective POs. Leasing (hire-purchase) will be encouraged for investments in power tillers, tractors, mechanical/motorized rice planters, solar-powered drip/micro irrigation systems, automatic poultry slaughter houses, and other relevant activities.

84. Definition of MEs and ME loan: The project fund will use the same definition of PKSF and POs while defining ME borrowers. PKSF from time to time will revise/update the definition to reflect changes in the microfinance markets and or regulatory changes.
85. Interest rate: PKSF will change its prevailing rate of interest to POs as per its policies, which is understood to be revised from time to time. The interest to the client by the POs will also be as per prevailing rate of interest.
86. Management process: The selection of POs, savings and loan policies, implementation process and policies, monitoring and evaluation, institutional development and any other issues related to ME loan program will be managed by Loan Operations Division of PKSF as per prevailing rules and norms.
87. PKSF ME Loan Fund: The fund from IFAD for Component 2 will be added to the pool of funds for the ME loan program of PKSF. The pool will have other resources: PKSF's own fund, from other international organizations such as the World Bank, the Asian Development Bank, GoB etc. It is expected that PKSF will enhance ME loan fund from other sources as well.
88. Measurement of IFAD loan: No distinction will be made between sources of fund of ME loan program. IFAD will monitor increase in loan outstanding of PKSF ME loan to POs and compare that to total increase in ME loan fund and determine its amount proportionally. Such proportional increase in loan outstanding at the PO- level will be used to determine next withdrawal from IFAD.
89. Record keeping: The PMU/RMTP will keep record and produce report of overall ME program, and keep track and produce report on incremental number of beneficiaries, disbursement, loan outstanding, withdrawal from IFAD, contribution of PKSF and POs etc.
90. Reporting: PMU will produce report for Component 2 as part of overall report for RMTP.

91. Subcomponent 2.2: Commercial finance through NBFIs: The objective of this sub-component is to develop a new channel of financing for larger microenterprises and small/medium agribusiness companies (the 'missing middle') which are currently neither clients of microfinance institutions nor commercial banks. This financing will be administered by licensed non-banking financial institutions (NBFIs), with interest rates to final borrowers typically ranging between 9% and 18%. NBFIs currently lend to small enterprises (in one case offering special loan products for women entrepreneurs), but their agribusiness portfolios are limited due to financial constraints.
92. The project will provide resources through PKSF to selected licensed NBFIs for this purpose. This would substantially expand the market for the output produced by small farmers and micro-enterprises, which are the primary target groups of the project, and improve their integration within the selected value chains. Larger agribusinesses will be encouraged to also enter into contract farming arrangements with producers' groups and micro-enterprises, obtaining NBFI financing where required, with project support in the form of technical assistance, technology transfer, and organisation of producers.
93. NBFIs will be a new type of PO for PKSF. RMTP is the first project through which PKSF will engage with POs that are not registered under the Microfinance Act, but rather are licensed by Bangladesh Bank under the Financial Institutions Act (1993). PKSF regulations have recently been adjusted to allow working with NBFIs.
94. PKSF will develop an assessment process for selection of NBFIs as its new kind of Partner Organizations. The selection of NBFIs under the project will be competitive, based on an approved assessment process. PKSF will issue a request for EOI from NBFIs interested to

- participate in the project. On this basis, a number of NBFIs will be invited to submit proposals. In addition to standard financial criteria, NBFI selection criteria would include their interest to venture into this sector leveraging their experience in other sectors, their willingness to lend to downstream value chain actors, their proposed lending terms and conditions, and the amount of cost-sharing from their own resources.
95. PKSF will enter into an agreement with each selected NBFI which outlines the terms and conditions of project financing, and the parameters governing how the funds will be utilised. This process may be repeated periodically during implementation.
96. NBFIs will assess the profitability, cash flow, reputation and credit history of businesses applying for loans. Normally businesses that are financed by NBFIs will be supported by the project (under component 1) to enter into relationships with microenterprises and producers' groups if the value chain activities of POs fall within the working areas of POs. PKSF will advise NBFIs to lend in value chain development operational areas. But PKSF shall not direct NBFIs to lend to any particular person or group of people. NBFIs will apply their prevailing criteria and selection process to select clients.
97. The possibility of financing larger enterprises and agribusinesses also through a state-owned bank, such as Karmasangsthan Bank, may be explored.
98. Participating NBFIs will finance agribusiness investments in capital equipment (on debt or hire-purchase basis) for relevant value chain activities. Repayments will be revolved into new loans for the duration of the project implementation period and beyond. Agribusiness selection criteria would include their commitment to enter into commercial relationships with targeted micro-enterprises.
99. Reporting: PKSF will submit a report indicating amount of disbursement, loan outstanding, number of clients of this subcomponent as a part of overall RMTP report.
100. Sub-component 2.3. Utilisation of remittances⁸. Millions of Bangladeshis live and work outside the country and send home an estimated USD 20 billion annually in the form of remittances. These remittances are used for consumption, house improvements and in some cases the purchase of land. Remittance receivers often do not invest these funds in sustainable economic activities due to lack of skills, and fall back into poverty when the expatriate worker returns home.
101. A small in-loan grant will be provided to the Ministry of Expatriates' Welfare and Overseas Employment (MoEWOE), which is mandated to handle non-resident Bangladeshi (NRB) affairs, for the promotion of diaspora investment and optimal utilisation of remittances under the project. The objective would be to develop the skills of households receiving remittances so that they can invest a portion of the remittances received into micro-enterprises, and sustainably improve their economic status. The MoEWOE would identify remittance-receiving households in the project areas, and link them to project component 1.2 for the provision of business and technical training to expatriate family members (mainly women and the youth). They would also be linked to sub-component 2.1 for the provision of microfinance where required.
102. Most remittance-receiving families are headed by women, and have underemployed youth. This sub-component will provide an important contribution to women's economic empowerment and youth employment in the project areas. Piloted methodologies will subsequently be scaled up across rural areas of Bangladesh.

⁸ This subcomponent will be implemented by the Ministry of Expatriates' Welfare and Overseas Employment (MoEWOE). PKSF does not have any responsibility regarding implementation and monitoring of this subcomponent.

7. COMPONENT 3: INSTITUTIONAL STRENGTHENING AND PROJECT MANAGEMENT

103. This component aims to strengthen PKSF and PO capability as development organisations by leveraging trends in 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 (see organisation and management section).

104. Sub-component 3.1 PKSF capacity building. This subcomponent has two major activities: i) PKSF's capacity building through ICT based solutions; and ii) PKSF's human resources development through specialized training.

105. 3.1.1 ICT based solution for PKSF: Over time, PKSF has introduced numerous software modules covering financial management, human resources management, PO management, and mobile financial service systems for POs. Through the provision of technical assistance and training, the project will assist PKSF to gradually and carefully integrate additional ICT-based solutions into its operations. The ICT solutions proposed below will be subject to feasibility studies and pilot phases, and the availability of local service providers will be assessed, before they are introduced. A brief description for each ICT application is given below:

106. *Distributed digital ledger technology (transparency engine).* A recent technical assessment commissioned by IFAD investigated the opportunities, risks and alignment of partners, and found the introduction of distributed digital ledger technology within PKSF to be feasible. The project will support PKSF to create an information management and sharing platform built on distributed ledger blockchain technology to ensure improved management of records and greater transparency in fund management. This will allow borrowers, producers, associations, organisations, public entities, POs and PKSF to track sources of funding and to better monitor the detailed credit history of clients. Over time, this will translate into lower interest rates for proven credit-worthy borrowers and will facilitate their integration into the national banking system. Other financial institutions may eventually be invited to use the platform as an input for loan appraisal decision making. ICT applications for blockchain use will also be developed. PKSF will contract a qualified fintech service provider to develop the platform, related applications, a user guide and training materials, and to train potential users. Other options, such as using blockchain application for commodity traceability, will be assessed during implementation.

107. *E-commerce platform.* The project will upgrade PKSF's e-commerce platform for rural products and integrated business services, which was established under PACE. It will leverage technology to connect rural producers (women, small farmers and micro-entrepreneurs) with new sets of customers, creating a parallel marketplace. POs will be assisted to connect borrowers to the platform and orient them on transactional methods – business to business (B2B) and business to consumer (B2C). The option of technical cooperation with Alibaba/Ant Financial in upgrading this platform will be assessed.

108. *Crowd-funding (fraternity funding) platform.* Crowd-funding, which enables entrepreneurs to raise funding from multiple individuals/investors, including migrant remitters, is now the second-largest financier of enterprises globally (after venture capital). Subject to a positive assessment by a feasibility study, the project will support PKSF to create a crowd-funding platform and associated marketing campaign. Two approaches will be promoted – initially the lending-based, peer to peer (P2P) model; and eventually the equity-based

model (such as the 'Bangladesh Angels' model, a pioneering angel investment network. The platform owner (PKSF) will provide financial due diligence and legal/contractual services as it links investors to micro-enterprises and agribusinesses. Interested entrepreneurs will be trained to prepare and disclose the financial information required. Technical assistance on regulatory aspects will be provided to relevant authorities.

109. Microenterprise ICT. PKSF will develop an ICT platform and a mobile phone application for the sharing of advisory services related to selected value chains (as well as household health and nutrition information). Users will be able to download illustrated training modules. The platform will include an expert panel to respond to queries of producers' groups.

110. In leveraging ICT solutions, the project will collaborate with and build upon the knowledge generated by the IFAD grant-funded ongoing research by the Consultative Group to Assist the Poor (CGAP). The aim of this grant is to overcome the persistent digital divide between women and men in the mobile money market in Bangladesh. CGAP supports the introduction of new smart phone apps to POs, as the penetration of smart phones in rural areas is increasing. Together with financial literacy training, the grant expects to improve the role of women in financial decision making.

111.3.1.2 PKSF's Human resources development: The following Table provides the training courses (see COSTAB for number of persons and estimated cost for training):

Short training courses	Main topic for training	Provider
Business management and financial analysis	<p>Suggested Topics: Focus of the training will be on management of one typical business, preferably agribusiness. Main issues of discussion: a) Bangladesh private sector environment and agribusiness; b) four functions of a business – marketing, production, HR and finance; c) financial analysis – profitability analysis, cash flow analysis, balance sheet; d) risk and sustainability of agribusiness; e) financing of agribusiness and MEs; f) IRR and NPV; g) small business loan program of MFIs, NBFIs, commercial banks.</p> <p>Participants: Officers of Loan Division, selected RMTP officials, other PKSF officers, selected PO officer</p>	Bangladeshi individual experts, and Bangladeshi institutions including Universities, Business schools.
Value chain analysis and VCD subproject design - training	<p>Topics: a) define sector and concept of value chain development; b) basic sector analysis techniques; c) SWOT analysis; d) Determining constraining and corresponding solutions; e) selection of critical solutions; f) Determine project activities and cost; g) develop work plan budget; h) implementation; i) M & E, j) Sample VCD projects – success and failure; h) recent debates on VCD approach of business promotion and impact on poverty.</p> <p>Participants: RMTP officials, PKSF's core officials, selected PO officers etc</p>	Bangladeshi individual experts, and Bangladeshi institutions including Universities, Business schools
Project design and management	Topic: Situation analysis; SWOT analysis; setting goal and objective; selection of solutions for intervention; project activities; determine cost; annual plan development; implementation plan development; M&E	Bangladeshi individual experts, and Bangladeshi institutions including Universities, Business schools

	Participants: PKSF officers	
M and E system design and management	Concept of M&E; project Logframe development; indicators and evaluation methodologies; monitoring and reporting; low cost evaluation methods; common statistical techniques and application; Evaluation report writing; MIS Participants: PKSF officers in Loan and other Units; MIS	Bangladeshi individual experts, and Bangladeshi institutions including Universities, Business schools
ICT based platforms: Overview and management	Selected ICT based solutions: Block chain; crowd funding; e-commerce; online and mobile financial services; online MIS; oneline project management system.	Bangladeshi individual experts, and Bangladeshi institutions including Universities, Business schools
Development project management	Review of selected development projects in areas of financial services, VCD, agribusiness development, environment, climate change, livelihoods development; discuss common project activities; critical issues related to success and failure; M&E of various types of projects; implementation challenges and mitigation.	Bangladeshi individual experts, and Bangladeshi institutions including Universities, Business schools
Financial services and institutions	Review of financial services for poor, ME and SMEs; basic management and operations of commercial bank, NBFIs and selected MFIs; online and mobile financial services.	Bangladeshi individual experts, and Bangladeshi institutions including Universities, Business schools
ICT based Real time MIS	Design of MIS with good indicators; implementation of online MIS; analysis of MIS reports for management decision. Participants: PKSF MIS team; loan officers; PMU MIS officer	Bangladeshi individual experts, and Bangladeshi institutions including Universities, Business schools
Exchange visits (VCD) /a	Focus of visits: agribusiness; agro processing; agro-processing technologies; agri-implements; GGAP and HACCP	The countries to be visited will be confirmed during implementation.

112. Subcomponent 3.2: PO Institutional Strengthening. The project will provide capacity building for POs in: (i) IT systems; (ii) value chain management, integration, technology and contract intermediation; (iii) nutrition-sensitive value chain design and implementation; and, (iv) new product development where required.

113. The above support can be provided in the form of training and exchange visit, advisory services. The PMU must take great care in selection of relevant and appropriate candidate for training.

Subcomponent 3.3: Project management and coordination

114. PKSF will: (i) continue to review and evaluate value chain subproject proposals through its Value Chain Evaluation Committee; (ii) organise and fund the capacity building of its own staff as well as that of POs and value chain actors; (iii) identify potential value chains to invest in and outsource commodity/sub-sector/market studies; (iv) provide clear guidance to POs on preparation and management of value chain subprojects; (v) contribute to the preparation of value chain proposals by POs by providing guidance and sharing relevant

sector and marketing studies; (vi) share experiences with other value chain development operations and rationalize common activities; (vii) engage in policy advocacy for necessary changes in rules, laws, and standards; and, (viii) identify suitable technical assistance providers or individual experts to provide capacity building to PKSF staff, POs, and value chain actors and associations.

115.PO will: (i) undertake or outsource an initial mapping of key actors in each selected value chain (producers, service providers, input suppliers, traders) as well as marketing channels and relevant associations; (ii) prepare proposals for value chain subprojects; (iii) provide and manage microenterprise credit and other financial products for producers and entrepreneurs; (iv) guide the upgrading of the selected value chains; (v) ensure the availability and linkages of qualified providers of services to value chain actors; (vi) advise producers on input supply and market access; (vii) ensure that all services to producers are supplied by the private sector (where feasible) on commercial basis; and, (viii) monitor, evaluate and report on progress, and analyze issues and lessons.

116.For the purposes of the project, PKSF will establish a Project Management Unit, integrated 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 or recruited through a competitive process. PMU staff will consist of 2-3 officers seconded from PKSF's core team and nineteen recruited from the market. The PMU will work with PKSF's Loan Operations Division to implement the financial services programme through POs as per established processes and norms. This Division will assist with the selection of qualified NBFIs for financing larger enterprises and agribusinesses. It will work with POs and selected service providers for the implementation of the value chain component. PKSF's support divisions such as Audit, Administration, Agriculture, Human Resources, Accounts and Finance, Livestock, Research, Training, M&E, MIS and IT will provide relevant services to the project.

117.The following Table presents the designation, number of staff in each rank and type of contract:

	Number of officers	PKSF Officers	Contractual
Project Coordinator	1	PKSF officer or contractual	
Deputy project Coordinator (Technical)	1	PKSF officer	
Deputy project Coordinator (Financial Service)	1	PKSF officer	
Sector Specialist (Livestock)	1		Contractual, Fulltime
Sector Specialist (Horticulture)	1		Contractual, Fulltime
Sector Specialist (Fisheries)	1		Contractual, Fulltime
ICT Specialist	1		Contractual, Fulltime
Financial Analyst	1		Contractual, Fulltime
Procurement Specialist	1		Contractual, Fulltime
Communication, Publication & Knowledge Management Specialist	1		Contractual, Fulltime
Monitoring and Evaluation	1		Contractual, Fulltime

Specialist			
Nutrition Specialist	1		Contractual, Fulltime
Value Chain Project Manager	6		Contractual, Fulltime
Assistant Manager (Accounts)	2		Contractual, Fulltime
Computer Operator cum MIS Officer	1		Contractual, Fulltime
Driver	1		Contractual, Fulltime

118. Recruitment of PMU staff members: PKSF will follow its established recruitment process that involves initial short listing of potential candidates, written test, followed by viva-voce for recruiting all project staff members.

119. Qualification and TOR for each position: The following Table provides qualification and brief job description of each PMU official:

Position	No. (#)	Work station	Education and Training	Experience and other factors	Major Job description
Project Coordinator	1	Dhaka and 25% of total spent in the field to supervise project activities	<ul style="list-style-type: none"> • Advance degree; at least four year undergraduate degree with good academic standing. • Training on financial services management and institutional development; training on enterprise management • Fluent in oral and written English and Bengali. 	<p>Senior PKSF officer or recruited from the market. Solid experience of private sector, value chain development, planning, and management and supervision of field activities (in case recruitment from the market the candidate must have at least 20 years of work experience, education in areas of business, finance, marketing, technology, economics)</p>	<ul style="list-style-type: none"> • Provide overall leadership and guidance for implementation of RMTP project. • Accountable to produce results through implementation of the project • Develop work plan and budget and receive approval from PKSF, GOB and IFAD • Supervise PMU staff members and activities of POs. • Organize recruitment and training of project staff members • Prepare RMTP reports • Coordinate with IFAD, GoB and other stakeholders • Coordinate with LOD and other divisions of PKSF • Act as overall chief of administration, accounts and finance of the project
Deputy Project Coordinator (Technical)	1	Dhaka and 50% of total spent in the field to supervise project activities	<ul style="list-style-type: none"> • Advance degree; at least four year undergraduate degree with good academic standing. • Training on business management, project management, Value chain development, institutional development; training on enterprise management <p>Fluent in oral and written English and Bengali</p>	<p>Senior PKSF officer Solid experience of private sector, value chain development, planning, and management and supervision of field activities, Experience of managing similar project</p>	<ul style="list-style-type: none"> • Supervise all VCD activities of the project

Deputy Project Coordinator (Financial services)	1	Dhaka and 50% of total spent in the field to supervise project activities	<ul style="list-style-type: none"> Advance degree; at least four year undergraduate degree with good academic standing. Training on financial services management and institutional development; training on enterprise management <p>Fluent in oral and written English and Bengali</p>	PKSF officer (Asst General Manager) with experience of managing financial services program of PKSF	<ul style="list-style-type: none"> Manage ME component of the project; Financial planning and budgeting of the project Produce all reports Coordinate with Finance and acct person Supervise M&E, KM, communication activities the project Plan and execute all institutional development (component 3) of the project
Sector Value chain specialist (Livestock)	1	Dhaka and at least 50% of time spent in project supervision in the field working with POs and other stakeholders	<ul style="list-style-type: none"> Advance degree (master's degree) in one of the following subject animal science, agribusiness, business administration, finance, marketing, agribusiness, agricultural economics, and engineering/technology (exception can be made in academic subject if a highly experienced person is found to lead the activities in this category). Training in business management, value chain development and management Fluent in Bangla and English 	<ul style="list-style-type: none"> Minimum of 15 years work experience in reputed organizations, preferably in developmental organizations, of which minimum of 3 years in senior management position. Minimum of 10 years experience in agribusiness business management, technology transfer and value chain development project(s). Progressively advanced career path and demonstrated capacity in project management Willingness and ability to undertake regular travel all over the country Age limit: Maximum 45 years 	<ul style="list-style-type: none"> Develop value chain strategy for livestock sector. Manage VCD subprojects; oversee GAP and HCCP training Work with MEs, POs and private sector firms to establish market linkage and develop contract farming arrangement Explore export potential of each subsectors Identify new opportunities for interventions, transfer of technology, solve problems in value chains Advise the PC and other managers and supervisors on value chain development Conduct market research Help the PC to develop annual plan and implement plans Visit subprojects to identify opportunities and constraints, monitor progress and observe impacts Prepare reports, case studies etc Do any other work assigned by the PD
Sector Value	1	Dhaka and at	<ul style="list-style-type: none"> Advance degree 	<ul style="list-style-type: none"> Minimum of 15 years 	<ul style="list-style-type: none"> Develop value chain strategy for

chain specialist (Fisheries)		least 50% of time spent in project supervision in the field working with POs and other stakeholders	(master's degree) in one of the following subject fisheries, aquaculture, agribusiness, business administration, finance, marketing, agribusiness, agricultural economics, and engineering/technology (exception can be made in academic subject if a highly experienced person is found to lead the activities in this category). <ul style="list-style-type: none"> • Training in business management, value chain development and management • Fluent in Bangla and English 	work experience in reputed organizations, preferably in developmental organizations, of which minimum of 3 years in senior management position. <ul style="list-style-type: none"> • Minimum of 10 years experience in agribusiness business management, technology transfer and value chain development project(s). • Progressively advanced career path and demonstrated capacity in project management • Willingness and ability to undertake regular travel all over the country • Age limit: Maximum 45 years 	fisheries sector. <ul style="list-style-type: none"> • Manage VCD subprojects; oversee GAP and HCCP training • Work with MEs, POs and private sector firms to establish market linkage and develop contract farming arrangement • Explore export potential of each subsectors • Identify new opportunities for interventions, transfer of technology, solve problems in value chains • Advise the PC and other managers and supervisors on value chain development • Conduct market research • Help the PC to develop annual plan and implement plans • Visit subprojects to identify opportunities and constraints, monitor progress and observe impacts • Prepare reports, case studies etc • Do any other work assigned by the PD
Sector Value chain specialist (Horticulture)	1	Dhaka and at least 50% of time spent in project supervision in the field working with POs and other stakeholders	<ul style="list-style-type: none"> • Advance degree (master's degree) in one of the following subject agricultural science, agribusiness, business administration, finance, marketing, agribusiness, agricultural economics, and engineering/technology (exception can be made in academic subject if a highly 	<ul style="list-style-type: none"> • Minimum of 15 years work experience in reputed organizations, preferably in developmental organizations, of which minimum of 3 years in senior management position. • Minimum of 10 years experience in agribusiness business management, technology transfer and value chain development project(s). 	<ul style="list-style-type: none"> • Develop value chain strategy for horticulture sector. • Manage VCD subprojects; oversee GAP and HCCP training • Work with MEs, POs and private sector firms to establish market linkage and develop contract farming arrangement • Explore export potential of each subsectors • Identify new opportunities for interventions, transfer of technology, solve problems in value chains • Advise the PC and other managers and supervisors on value chain

			<p>experienced person is found to lead the activities in this category).</p> <ul style="list-style-type: none"> • Training in business management, value chain development and management • Fluent in Bangla and English 	<ul style="list-style-type: none"> • Progressively advanced career path and demonstrated capacity in project management • Willingness and ability to undertake regular travel all over the country • Age limit: Maximum 45 years 	<p>development</p> <ul style="list-style-type: none"> • Conduct market research • Help the PC to develop annual plan and implement plans • Visit subprojects to identify opportunities and constraints, monitor progress and observe impacts • Prepare reports, case studies etc • Do any other work assigned by the PD
ICT Specialist	1	Dhaka and 25% in the field to observe applications	<ul style="list-style-type: none"> • Undergraduate degree in computer science, computer applications • Training in web based development 	<ul style="list-style-type: none"> • At least 15 years work experience as software developer, system implementer, or application developer 	<ul style="list-style-type: none"> • Coordinate all ICT applications of Component 3 • Develop requirements, guide suppliers, supervise installation, monitor system performance • Coordinate online MIS system development and application • Advise PC on ICT related issues
Financial analyst	1	Dhaka and 25% in the field to observe applications	<ul style="list-style-type: none"> • Undergraduate degree in Finance, accounting, Business administration, cost accounting 	<ul style="list-style-type: none"> • At least 15 years work experience in relevant areas 	<ul style="list-style-type: none"> • Conduct financial analysis subproject proposals; • Analyse project budget, plan annual activities and budget; • Conduct profitability of various technological options, business processing proposal that RMTP may receive from different organizations. • Assist POs with financial analysis • Conduct relevant training. • Analyse ME loan program • Track project spending • Conduct financial analysis of microenterprises • Work with M&E specialist to prepare financial analysis of MEs and other businesses • Prepare case analysis of individual

					subprojects, MEs
					•
Procurement specialist	1	Dhaka; visit POs and other places if and when necessary	4-year Undergraduate degree reputed public or selected private universities in management, public administration, accountancy, business, economics etc Training/degree on procurement and thorough knowledge in procurement rules is required.	Minimum of 10 year work experience in which at least five years in procurement	<ul style="list-style-type: none"> • Process all procurements under the project • Ensure IFAD and PKSF procurement rules are complied by the project and POs. • Help POs develop IFAD compliant procurement rules. • Act as office manager for the project • Coordinate with respective authorities and organizations in case any machineries are imported for value chain development. • Manage all logistics, small procurements etc
M&E specialist	1	Dhaka and 50% field visit	At least four year undergraduate degree with good academic standing in one of the following subjects: business administration, finance, marketing, agribusiness, economics, agricultural economics, management. Training or degree on project design, planning, monitoring and evaluation methodologies of development projects	Minimum of 10 year experience in project management, planning and at least 5 years experience in leading monitoring and evaluation of development projects preferably in value chain development projects. Experience in designing and conducting field surveys, data analysis and report writing; Fluent in English – oral and written.	<ul style="list-style-type: none"> • Prepare TORs for various surveys and studies; • Conduct baseline and other impact assessment studies; • Conduct studies planned for the project to be managed by the PMU; write TOR, coordinate with procurement specialist to procure all services; • Prepare project reports; • Assist POs to prepare subproject indicators and subproject log-frame, and prepare project reports. • Prepare impact studies of individual subprojects in collaboration with VC managers. • Conduct training on subproject planning, monitoring and evaluation of individual subprojects by POs. • Prepare sector specific report on experience of PACE

					<ul style="list-style-type: none"> • Prepare KM products • Organize seminar, workshops and other activities to disseminate project results
Communication , Publication & Knowledge Management Specialist	1	Dhaka and 50% in the field	<p>4-year undergraduate degree in business administration, communication, journalism, media management, finance, marketing, agribusiness, economics, agricultural economics, management etc.</p> <p>Training on communication, professional publication, writing, website content preparation etc</p>	<p>Minimum of 10 year experience in communication, content production, training material preparation, media work etc.</p> <p>Experience in preparation project report, case preparation, field investigation methodologies, data analysis and report writing;</p> <p>Fluent in English – oral and written</p>	<ul style="list-style-type: none"> • Develop contents for project website • Maintain project website, facebook page • Organize seminars, workshops, and produce KM products • Coordinate with media/press • Disseminate project KM products among stakeholders • Coordinate with M&E and other officials to produce contents • Produce all video materials of the project.
Nutrition specialist	1	Dhaka and 50% field works	4 year degree from reputed public or private university on nutrition, public health	10 year relevant work experience	<ul style="list-style-type: none"> • Develop nutrition strategy for the project • Design and roll out campaign on nutrition and other related issues under component 1.1 in collaboration with POs and other stakeholders • Assess impact of such campaign in collaboration with M&E and Communication specialist • Produce reports
Asstt. Manager (Accounts)	2	Dhaka; visit POs and other places if and when necessary	<p>4-year Undergraduate degree in accountancy or finance, or cost accounting (part) etc.</p> <p>Training in computer accounting software</p>	Minimum of 8 year work experience as accountant in reputed organization	<ul style="list-style-type: none"> • Maintain all books of accounts in project office; maintain records of all bank accounts • Process all payments and disbursement • Prepare monthly, quarterly and annual financial reports • Assist PC to prepare budget; maintain bank accounts of the project

					<ul style="list-style-type: none"> • Assist financial analyst • Coordinate with PKSF accounts depart regarding accounts and budget
VC project Manager	6	Dhaka and at least 60% time at the field level	<ul style="list-style-type: none"> • Advance degree; at least four year undergraduate degree with good academic standing from reputed public and private universities preferably in one of the following subjects: business administration, finance, marketing, agribusiness, economics, agricultural economics, and engineering/technology • Training on VCD management and institutional development; training on enterprise management • Fluent in oral and written English and Bengali. 	<ul style="list-style-type: none"> • At least 5 years work experience • Experience of VCD project management; 	<ul style="list-style-type: none"> • Design value chain project • Assist POs to design VCD subprojects • Supervise and monitor selected subprojects. • Prepare reports, case studies • Conduct market research • Identify business opportunities • Liaison with private sector, public institutions, training providers, TA providers etc • Prepare reports
Computer operator cum MIS officer	1	Dhaka	Undergraduate degree and training on computer application (Microsoft office) and MIS	3 year relevant work experience	<ul style="list-style-type: none"> • Drafting of reports, communication documents • Prepare MIS report

8. PROJECT OUTREACH AND BENEFITS

120. **Outreach:** The following Table presents overall outreach targets for the project by categories of people – men, women, young, and women-headed households. The project through its ME and VCD subprojects will reach the target population. The targets will be monitored through regular project monitoring tools – project reports by POs and other implementers, annual survey etc. (see logframe for various methods for monition and evaluation).

Indicators				
Name	Baseline	Mid-Term	End Target	
1 Persons receiving services promoted or supported by the project				
Males - Number	-	80,000	200,000	
Females - Number	-	100,000	245,000	
Young - Number	-	20,000	50,000	
Not Young - Number	-	160,000	395,000	
Young - Percentage (%)	-	11.11	11.24	
1.a Corresponding number of households reached				
Non-women-headed households - Number	-	170,000	425,000	
Women-headed households - Number	-	10,000	20,000	
Households - Number	-	180,000	445,000	
1.b Estimated corresponding total number of household members				
Household members - Number of people	-	810,000	2,002,500	

121. **Project Benefits:** The project will directly benefit an estimated 445,000 households, including small farmers, micro-entrepreneurs and other value chain participants (input suppliers, traders, service providers). Of these, 100,000 households will receive several rounds of microfinance as well as value chain services, while 345,000 households will receive value chain services. Considering an average household size of 4.5, the project will benefit 2 million people within a period of six years.

122. 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 Return on Investment (ROI) of 51%; banana representing fruits 30%; potato representing vegetables 38%; technology-based aquaculture 67%; dairy 20%; red meat 40%; poultry meat 29%; and poultry eggs 37%.

123. RMTP will generate significant positive effects on rural household incomes, food security and nutrition. Other benefits include improved advisory services; better food safety; improved animal health (dairy, beef cattle, poultry and fisheries); improved market access, and growth of rural businesses. RMTP will also generate employment opportunities for women and men, particularly the youth through their involvement of the value chain activities and related backward and forward linkages.

124. **Estimation of Benefits:** The PMU, as per logframe targets and methods and led by M&E Specialist will conduct impact studies to estimate project impacts accrued to different target population. Such studies will be part of annual M&E plan of the project.

9. RMTP PROJECT IMPLEMENTATION

Implementation plans

125. **Pre-project readiness:** As outlined in the aide memoire of the final design mission, PKSF will undertake the following preparatory activities for successful launching of the project:

- Complete reassignment of officials from within PKSF and recruitment process of all new project officials to ensure they join right after launching of the project;
- Train a core group PKSF officials on GGAP and HACCP (including site visits) by employing a Bangladesh-based training, development, and certification agency as this service is now available in the country, using resources from IFAD-funded PACE project;
- Conduct a survey to map products, locations and supply chains of all important agribusiness and processors along with support service providers in three broad sectors - horticulture, fisheries and Poultry & livestock - using resources from the PACE project; and
- Develop policies for lending to NBFIs and assessment process for selection of NBFIs.

126. **Identify successful POs and Value Chains under PACE:** PKSF will identify the successful value chains and competent POs for launching first round of funding to expand value chains as per design of the RMTP project.

127. **Start-up readiness- ME program:** PKSF has established systems, policies, procedures and skilled managers and staff. The project will not require revision of existing policies or procedures or management system for ME loan part of the project. PKSF will develop annual disbursement plan for ME part of the project as a part of total ME disbursement plan.

128. **Start-up activities: VC Development (Component 1) under RMTP:** Similarly, the methodology for value chain activities has been developed under PACE and will be strengthened and applied under RMTP. PKSF will undertake following activities for starting the project:

- Develop guidelines including format(s) for POs for submission of VCD proposals;
- Organize a start-up workshop involving all potential POs to explain the project, particularly Component 1;
- Invite POs to submit proposals in the very early stages of implementation;
- Start the VCD activities by expanding successful products and clusters under PACE
- Conduct broad-based value chain analysis of three sectors – horticulture, livestock, and fisheries;
- Complete the feasibility studies on crowdfunding and block chain;
- Complete procurement procedures for the carrying out of the baseline survey, and launch the survey as soon as project funds are available.

129. *Supervision:* IFAD will conduct regular supervision and implementation support missions as per standard procedures. These missions will review project performance, progress towards achievement of objectives, and compliance with fiduciary requirements.

10. PLANNING, M&E, LEARNING AND KNOWLEDGE MANAGEMENT

130. AWPB: The PMU/PKSF will prepare the annual work plan and budget for RMTP, and obtain approval from FID and IFAD. The plan will include activity plan along with targets and expenditure plan and should reflect overall project targets and activities. IFAD supervision missions and mid-term review mission will offer opportunities for review of progress and assessment of effectiveness of the project.

131. Monitoring and evaluation: The PMU will develop an effective M&E system to measure indicators included in the log frame. It will be part of a larger MIS system which will serve as an information and knowledge sharing platform. The M&E system will be utilised as a management tool and will include assessment of progress and compliance, identification of constraints and proposed remedial actions.

132. Online application based project management: PSKF will develop project management application for management of Component 1 of RMTP. It will be given to all POs implementing Component 1. PKSF will able to observe real-time all physical progress of all participating POs and the application will generate comprehensive reports. It will eliminate the need for sending paper-based reports from POs and

133. Desegregated data: All data will be disaggregated by gender, age, and geographical location. Participatory M&E including qualitative surveys will be undertaken on a regular basis. A baseline survey will be undertaken at start up, and outcome surveys will be carried annually. The key production and financial indicators of small farmers and microenterprises will be monitored annually to assess the emerging results of the project.

134. Knowledge Management and Learning: The PMU will prepare a comprehensive KM action plan in the early stages of implementation. The project's KM activities must support the effective flow of relevant information among project staff, beneficiaries and other stakeholders. 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.

135. KM products: KM products will be communicated through multiple sources including blogs, written publications, video and social media (e.g. facebook). However, most of the publications should be in electronic and video form. The written documents should be at a minimum.

136. Website: The project will have a website to share reports, impact studies, case studies, training materials, videos and application technologies. It will discourage printing of reports and other documents. POs will be encouraged to follow the same, and communications with beneficiaries will be via mobile phones.

Baseline and other surveys

137. Baseline survey: The PMU will prepare TOR for baseline survey and cleared it by IFAD. All goal and objective level indicators must be in survey questionnaire. Sample must be statistically valid.

138. Midterm and final impact survey: The PMU will prepare TOR for baseline survey and cleared it by IFAD. All goal and objective level indicators must be in survey questionnaire. Sample must be statistically valid.

139. PCR preparation: The PMU will prepare PCR as per IFAD guidelines

11. FINANCIAL MANAGEMENT AND PROCUREMENT

Disbursement Profile

140. RMTP's withdrawal of funds and its use of loan proceeds are governed by the IFAD's Loan Disbursement Handbook (LDH) and Financing Agreement between IFAD and the Bangladesh Government. Applicable procedures of disbursement, financial reporting and maintenance of appropriate project records will be described in details in a Letter to the Borrower subsequently after signing the Financing Agreement between IFAD and the Bangladesh Government.

141. After the Financing Agreement for RMTP enters into force, PKSF will sign a subsidiary Loan and Grant agreement in which the Government of Bangladesh will on-lend a portion from the proceeds of the Loan as a subsidiary loan to PKSF. The remaining portion of the loan will be provided in the form of a Grant to PKSF and for the Components of: Value Chain Enhancement and Institutional Strengthening/Project Management.

142. An online guided overview of IFAD financial management practices and procedures is available for project staff⁹. Project staff is encouraged to avail this training to ensure an efficient disbursement and an appropriate fiduciary control.

143. Three standard disbursement procedures are available for RMTP withdrawal of financing:

- a. Advance withdrawal
- b. Direct payment
- c. Reimbursement

144. Advance withdrawal

- a. This modality is used to advance and/or replenish funds to a bank account as designated by the borrower. The Fund places a limit on the amount to be advanced and/or replenished. Relevant details on the modality – which is project specific – are to be agreed between the borrower and the Fund, and be detailed in the LTB.
- b. The ceiling amount will be a reasonable limit, sufficient enough to cover average projected eligible expenditures of RMTP for a period of six months. The ceiling amount may be set depending on the level of expenditures as to be incurred based on (i) the approved AWPB; and (ii) the project's specific reporting of actual and projected expenditures foreseen within that AWPB period. The Fund will ascertain and certify clearance of the figure to be advanced, which may vary during the implementation of the project, depending on the projected expenditure requirements.
- c. Should it be found necessary to revisit the ceiling figure considered a reasonable limit at any time during project implementation, this shall be subject to prior agreement between the borrower and the Fund, with communication by IFAD to the borrower through modification of the LTB.
- d. The advance withdrawal is foreseen to be the principal method to be used for the disbursement of RMTP. The main conditions precedent to withdrawal the initial advance from the Loan to the Designated Account (DA) of the Project are: (i) evidence that the DA has been opened; (ii) authenticated specimen signatures of each authorised person that will operate the DA; and (iii) sufficient evidence of the authority of the persons who will sign the withdrawal applications on behalf of the PKSF. The Project Coordinator (PC) will ensure a proper cash flow from the Loan Account to the DA to ensure the implementation

⁹ <https://www.ifad.org/web/knowledge/publication/asset/39631355>

of the project is not hindered. RMTP will use the IFAD Client Portal (ICP) for the submission of withdrawal applications.

- e. Subject to the recommendation of the first IFAD supervision mission, the project is expected to enter into the Straight Through Processing (STP) to justify advances and seek replenishments. This facility was incorporated in the last stage of PACE.
- f. Supporting documentation and records of the expenditures claimed under the STP facility should be maintained and be readily available for review by IFAD's supervision missions or any other review team assigned by IFAD and external auditors. The PMU will be responsible to ensure the SOEs are elaborated in accordance with IFAD requirements.

145. Direct payments

- a. This modality is used for eligible project expenditures to be paid directly by IFAD as per the request of the PMU, generally for large contracts, to suppliers, contractors, consultants or third parties, as authorized by the borrower.
- b. This procedure is generally suitable for payment of large civil works, consultant fees (when these are of substantial), importation of goods for which a letter of credit is not practical, and when exchange rate control regulations are present in the country. The minimum value threshold for direct payments is specified in the LTB.
- c. Under this procedure, RMTP requests the fund to pay the supplier directly on its behalf from the loan account in IFAD. RMTP must indicate in the WA the date on which payment becomes due to the supplier. The WA will need to be accompanied by a signed copy of the contract and relevant supporting documents evidencing the eligibility of the expenditure.

146. Reimbursement

- a. This is applicable when eligible project expenditures, reimbursable under the financing, have been pre-financed by the project or incurred (that is, the suppliers of goods, works, consulting or other services has already been paid by the project from its own funds). This reimbursement procedure is generally suitable for payment of: (i) local currency costs; (ii) petty cash or small purchases; (iii) small civil works payments; and (iv) the borrower's provision of financial resources to the project when, for example, requests for advance replenishment to the designated account have not been submitted promptly, thus enabling the project to continue uninterrupted implementation.
- b. Usually, IFAD will reimburse the project in the currency of payment as affected by the borrower. Nevertheless, the borrower may request reimbursement to be made in the currency of the Financing Agreement. However, the amount to be paid will be determined by the Fund, using the rate of exchange determined by IFAD Treasury. This methodology is used as a safeguarding principle.
- c. Requests for reimbursement are to be submitted to the Fund within ninety calendar days from the date of payment by the project. Should special circumstances prevail for the loan, these will be described in the agreed-on, project-specific LTB.

147. Flow of Funds.

- a. RMTP shall maintain and operate two Designated Accounts (DAs) denominated in US dollars in the Bangladesh Bank open under the SAFE modality, to receive the loan and grant proceeds. The DAs are administered following imprest arrangements, in which an initial amount of the loan and grant is advanced and then replenished periodically based on justified expenditures. The maximum advances provided by IFAD to the DAs are established as an Authorized Allocation (AA) in the LTB.
- b. An additional DA in US dollars shall be maintained by the Ministry of Expatriates' Welfare and Overseas Employment (MoEWOE) following the same arrangements to receive funds for the Sub-component 2.3. Optimal utilisation of remittances.

c. RMTP shall maintain two Project Accounts (PA) in Bangladesh Taka (BDT) in a commercial bank for day-to-day project management operations and activities. One Project Account for the loan proceeds and the other one for the grant proceeds. An additional Project Account following the same arrangements shall be maintained by MoEWOE.

d. Transfers to POs, NBFIs and VC development projects will be transferred from the Project Accounts in local currency following similar imprest arrangements for quarterly replenishment.

e. Specific details for enabling further transfer of advance resources are described in the LDH. Towards project completion, the Fund initiates procedures and takes steps to ensure recovery of advances provided. (see Appendix 1 of PIM for visual representation).

148. PKSF contribution: a) PKSF counterpart to RMTP is for the Subcomponent 2.1 Financial Services through Partner Organizations (POs) and taxes and duties.

149. PKSF contribution will be incorporated in the Annual Work Plan and Budget (AWPB) cycle for all PO's and NBFIs and will be consolidated and reported by the PMU level.

150. Non-Banking Financing Institutions and Partner Organizations contribution: The PMU will establish appropriate procedures with POs and NBFIs to ensure that the matching contribution of its part is done in a timely manner.

151. Private sector contribution: The private sector contribution will be contingent upon the production and market linkages that are facilitated by the POs. No cash contribution to the project is foreseen by the private sector. Their contributions represent an estimate in the form of training to beneficiaries, advisory services, etc. The PMU will ensure that the private sector contribution is accounted and tracked properly to ensure its reporting by the PMU level.

152. Beneficiaries contribution: Beneficiary contributions for RMTP are in kind. The PMU will ensure that this counterpart is tracked and quantified at fair market value. The PMU will ensure that the beneficiaries' contribution is accounted and tracked properly to ensure its reporting by the PMU level.

153. Accrual basis accounting: Some POs and NBFIs apply the accrual basis of accounting, while others utilise the cash basis. During implementation, it is expected that all POs gradually move to an accrual-based system for the preparation of financial reports. POs are audited annually by independent audit firms appointed by PKSF. These audits cover only microfinance operations. For RMTP, it is agreed that the same independent auditors will also audit value chain activities.

154. The internal control arrangements for RMTP will consider: (i) appointment of qualified personnel with clear responsibilities and adequate segregation of duties; (b) establishment of an adequate financial records management system which has a complete audit trail; (c) set up of physical safeguards; (d) independent checks, with procedures subject to random independent reviews.

155. There is an adequately staffed Internal Audit Unit (IAU) in PKSF. The IAU prepares an annual plan for internal audit reviews within PKSF and POs. These audits mainly focus on compliance review and checking of payment vouchers prior to issuing payments to suppliers/vendors. There may be room for the inclusion of risk review in the internal audit process; this will be assessed during implementation.

156. RMTP accounts will be audited annually by the private firm that audits PKSF in accordance with International Standards on Auditing (ISA) and in compliance with IFAD's Handbook for Financial Reporting and Auditing. The audited project financial statements together

with the auditor's opinion will be submitted to IFAD in English within 6 months of the end of the fiscal year.

157. **External audit:** PKSF will recruit as per its own process. The TOR of external auditor and audit report must meet IFAD's requirements.

158. **Procurement.** PKSF has effective governance and internal control mechanisms for procurement and contract management. It has experience in handling procurement under IFAD financing. Procurement managed by POs is moderately satisfactory, with continuous follow up by PKSF.

159. Procurement under the project will be undertaken in accordance with IFAD's Procurement Guidelines and Procurement Handbook. Specific procurement arrangements, procedures and thresholds will be elaborated in the PIM, aligned with PKSF procurement policies as applicable. Controls will be ensured, and risk mitigation measures will be strengthened. Procurement under RMTP will be undertaken by the Administration Department of PKSF, which currently manages all procurement for the organisation. All project-related procurement by POs will also be undertaken in accordance with IFAD guidelines. PKSF will assist POs to develop/upgrade their procurement policies and processes as required.

12. RMTP PROJECT COSTS AND FINANCING

160. The total project cost is USD 200 million over a six-year implementation period. The project cost summary by component/financier is outlined below (in USD '000).

Table 17: RMTP cost summary by component/financier

	IFAD		IFAD Grant		PKSF		Co-Financers		Private Sector		POs		NBFI		Beneficiaries		PKSF-Tax		Total		
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount
A. Value Chain Development																					
Organization	240	3.1	-	-	392	5.1	1,139	14.8	-	-	5,808	75.6	-	-	-	-	105	1.4	7,685	3.8	
Technical and Business service	2,071	19.6	-	-	-	-	2,307	21.8	4,646	43.9	-	-	-	-	877	8.3	691	6.5	10,592	5.3	
Value Chain Integration	9,326	61.6	-	-	-	-	5,821	38.4	-	-	-	-	-	-	-	-	-	-	-	7.6	
Enterprise strengthening	500	60.0	-	-	-	-	334	40.0	-	-	-	-	-	-	-	-	-	-	-	834	0.4
Policy Dialogue	600	60.0	-	-	-	-	400	40.0	-	-	-	-	-	-	-	-	-	-	-	1,000	0.5
Subtotal	12,738	36.1	-	-	392	1.1	10,000	28.4	4,646	13.2	5,808	16.5	-	-	877	2.5	796	2.3	35,257	17.6	
B. Financial Services																					
Micro-Finance through PO	49,874	36.9	-	-	10,756	7.9	-	-	-	-	74,706	55.2	-	-	-	-	-	-	-	135,336	67.7
Commercial Finance	10,000	50.0	-	-	-	-	-	-	-	-	-	-	-	-	10,000	50.0	-	-	20,000	10.0	
Subtotal	59,874	38.5	-	-	10,756	6.9	-	-	-	-	74,706	48.1	10,000	6.4	-	-	-	-	-	155,336	77.7
C. Capacity Building of Remittance Earners	-	-	1,000	100.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,000	0.5
D. Institutional Strengthening and Project management	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
PKSF's Capacity Building	1,961	100.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0	-	1,961	1.0
POS Capacity Building	335	85.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	55	14.1	390	0.2	
Project Management	5,092	84.1	-	-	890	14.7	-	-	-	-	-	-	-	-	-	-	74	1.2	6,055	3.0	
Subtotal	7,388	87.9	-	-	890	10.6	-	-	-	-	-	-	-	-	-	-	-	129	1.5	8,407	4.2
Total PROJECT COSTS	80,000	40.0	1,000	0.5	12,039	6.0	10,000	5.0	4,646	2.3	80,514	40.3	10,000	5.0	877	0.4	925	0.5	200,000	100.0	

161. **Details Project Cost:** See associated COSTAB (XL files) for details costs, unit costs, annual and total targets.

162. **IFAD Loan terms and conditions:** The Financing is granted on 67% Highly Concessional Terms and 33% Blend terms.

163. The Financing 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, 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.

164. 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).
165. 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 (20) years, including a grace period of five (5) years starting from the date of approval of the Loan by the Fund's Executive Board.¹⁰

¹⁰ PKSF requested that the full amount of IFAD loan be disbursed at Highly Concessional Terms as the loan is for poverty reduction

Appendix 1: Project Fund flow

[See separate PDF file]

Appendix 2: Project physical targets and financial plans; and details COSTAB

SEE COSTAB in separate XL files

Appendix 3: Value Chain Facilitators

The Value Chain Facilitator will provide implementation support to the POs including:

- (i) Assist prepare VC proposals
- (ii) Undertake value chain analysis
- (iii) Assist identify VC activities
- (iv) Assist linking farming enterprises with input dealers for financing/co-financing demonstration activities and bulk purchase
- (v) Support access to markets, market information and contractual linkages with downstream agro-business (contract farming, out grower schemes)
- (vi) Assist to establish access to storage and primary processing options
- (vii) Assist to establish access to mechanization (in areas of insufficient labor supply)
- (viii) Provide training to downstream agro-businesses in business planning and analysis of financial returns
- (ix) Introduce new high value crops and new cropping systems
- (x) Assist linking farming enterprises to downstream agro-businesses via contract arrangements
- (xi) Assist organize value chain committee meetings
- (xii) Assist organize and facilitate farming enterprise to farming enterprise visits across the project area

Qualifications of the Value Chain Facilitator

- Hold a university degree or equivalent relevant to agriculture (agronomy, livestock, aquaculture, poultry, economics, advisory service, agribusiness)
- Proven records of working with agriculture value chains;
- Added advantage if the VCF has experience from working with a pluralistic/private/cost recovery advisory system;
- Fluency in written and spoken Bengali and English.

Pay Based Advisor

The pay based advisor will provide advisory service for nutritional sensitive commodities of:

- (xiii) High value cereal, fruit and vegetable crops
- (xiv) Pond and tank aquaculture
- (xv) livestock cattle (milk and beef), buffalo (milk and beef), goat and sheep
- (xvi) Poultry including egg and meat of chickens, turkeys, geese and ducks, guineas fowl and quails

The area of advisory service will include:

- (i) Farm economics and financials analysis
- (ii) Modern production methods using sustainable approaches i.e. GGAP, IPM, precision placement of plant nutrition, use of organic plant nutrition, improve animal and fish breed adjusted to the climate, mechanisation etc.
- (iii) Postharvest technologies reducing losses and drudgery
- (iv) Linkage to financial services, input supplier for bulk procurement and to market for bulk sale

Qualifications of the Value Chain Facilitator

- Hold a university degree relevant to agriculture (agronomy, livestock, aquaculture, poultry, economics, advisory service, agribusiness)
- Proven records of working with agriculture value chains;
- Added advantage if the VCF has experience from working with a pluralistic/private/cost recovery advisory system;
- Fluency in written and spoken Bengali and English.

Appendix 4 : Example of Preparing Value Chain Analysis and Strategic Investments

Step One: Data Collection

The value chain analysis team will first conduct background research on the chosen commodity/crop/livestock/poultry/aquaculture by reviewing websites and other secondary sources of information. During this phase, the team looks for information such as:

- Importance of commodity to Project Area's economy (percentage of GDP, employment in the sector, etc.)
- Global end markets for commodity/crop (demand, trends, potential expansion)
- Project Area's position within the Bangladesh and global commodity/crop market
- Average size (ha) of commodity/crop per farming enterprise in Project Area
- Climatic conditions in Project Area for commodity production
- Trade data of import and export on the commodity/crop in Project Area and Bangladesh at large.
- Undertake a value chain analysis of potential commodities in need of upgrading, which will benefit the farming enterprises and the LFs
- Identify *downstream agro-business* interested to procure produce from farming enterprises particularly for GGAP certified commodities. During the identification process, the PO will also identify the required upgrading of the *downstream agro-business interested to participate in the RMTP*.
- Identify the size of the commodity cluster in terms of farming enterprises and total area under production
- Identify constraints and opportunity for upgrading the primary production and product differentiation
- Environmental sustainability of the productive area and climate risk assessment
- Road infrastructure connecting productive areas with the main road network
- Service providers and relevant support institutions
- The VC analysis can be based on, existing studies. The VC analysis will also include benefit cost analysis of proposed upgrading along the value chain.
- The PO together with the LF and representatives from PGs will prepare a training package for PG members and the LF.
- The proposal will also include a detailed budget
- Number of pay based advisors required
- Number of GGAP certificates for PGs
- Number of GGAP certificates for LF
- Number of HACCP certificates for LF

After a thorough review of relevant secondary sources, the VC team conducts primary research in Project Area through a combination of one or more of the following methods: interviews, focus groups, surveys and observation. Through this process, which takes approximately 1 week in the field, the team gather more information on the value chain actors i.e. farming enterprises, downstream agro-businesses, input suppliers, machine hire, advisory services etc., relationships between the actors of the chain and factors affecting the competitiveness of the chain.

Step Two: Value Chain Description

Using the information gathered during interviews as well as secondary research, the value chain analysis team develops description of the commodity/crop sector in Project Area. Value chain description enables the analysis team to visualize the flow of the product from conception to end consumer through various actors, as well as the supporting markets and enabling environment affecting the value chain. The first step is to list all the functions and actors in the value chain.

Who are the actors in the commodity/crop value chain?

- Input suppliers for agriculture and non-agriculture businesses
- Producers belonging to the FARM target group
- Small-scale traders for both agriculture and non-agriculture produce
- Small-scale processors –local sale
- Medium/large-scale processors-exporter sale
- Retailers

Functions may be performed by more than one actor, and each actor may perform more than one function. *What are the functions in the commodity/crop value chain?*

- Input supply
- Production
- Trading
- Processing
- Exporting
- Importing

Once they are identified, the functions and actors are placed in a matrix to show who does what. List the functions along the side and the actors across the top and mark the boxes to indicate which actors perform which functions. Once this table is complete, a map can be drawn showing how the product moves from one actor to another and when it passes through the different functions. Based on the map it is possible to establish the cost and margin make-up for each level the produce passes through used as the base line for present distribution of cost and benefits among actors.

Step Three: Analysis of Opportunities and Constraints

The next step is to prepare a matrix like shown below, list the structural and dynamic factors in the value chain, and then briefly describe the current situation, opportunities, constraints and recommendations for addressing the constraints including tangible How, Who and Financing.

Framework	Situational analysis	Opportunities for Upgrading	Constraints to Upgrading	Recommendation for Upgrading Constraints (How, who and financing)
Structural Elements of the Value Chain				
End market				
Business				

enabling environment (both soft and hardware)				
Vertical linkages				
Horizontal linkage				
Supporting markets				
Dynamic of the Value Chain				
Value chain Governance				
Inter-firm Relationship				

Step Four: Prepare Brief Sample Value Chain Action Plans for Each Recommended Upgrading showing the expected Results of the Upgrading

This step included technical description of the upgrading's viable for standalone investments within the VC, together with financial analysis, economic analysis listing all the incremental estimated forecasts e.g. increased farming enterprises income, number of farming enterprises benefiting; job creation; increased export; import substitution; etc. Standalone investments can be on-farm investments e.g. drip fertigation, new varieties, introduction of HVC, off-farm investment e.g. repair shops, tractor and machine rental enterprises, processing facilities of HVC for generating markets.

This step should also include the preparation of a matrix showing the current cost and benefit make-up and profit distribution along the value chain before and after upgrading and an evaluation of change in governance after upgrading.



Step five: VC Committee workshop

The VC Committee workshop brings together key actors from various levels in the value chain to vet the findings of the analysis and discuss if the chosen strategy for increasing value chain competitiveness is valid and beneficial for the stakeholders.



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Annex 9: Integrated Risk Framework (IRF)

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Risk categories	Risk Probability	Risk Impact	Mitigations/comments
1. Political and governance	Low	Medium	<ul style="list-style-type: none"> -Slow start-up due to delays in government processes. C: PKSF is excluded from certain governmental processes (e.g. DPP) allowing for a quick start-up. -Lack of government commitment to policy change on crowdfunding and block chain. M: Align project activities with and "Strategic priorities of Bangladesh in IT" action plan - build partnerships with designated institutions. M: Learn from best practices generated by other institutions. -Political volatility may adversely impact on the performance of public institutions. C: Project works through MFIs, NGO, NBFIs and the private sector.
2. Macroeconomic	Medium	Medium	<ul style="list-style-type: none"> -Price variations incentivizing breaches in partnership between producer organizations and private sector partners. M: Build flexibility in the partnerships so producers can also serve alternative markets if needed and avoid side selling. -Market dynamics negatively affects selected value chains. M: Careful selection of value chains in close cooperation with private sector entities; selection of diversified value chains. -M: Improved technologies and production techniques are provided to increase productivity. C: Allow for flexibility in project design to drop certain value chains or include additional value chains if needed.
3. Sector strategies and policies	High	Medium	<ul style="list-style-type: none"> -Outdated policies governing agriculture sector and financial services. M: Policy dialogue sub-component will provide evidence basis for policy reform, and capacity building.
4. Technical aspects of project or program	Medium	Medium	<ul style="list-style-type: none"> Low capacity of Partner Organizations to manage and implement technological and agricultural innovations as proposed by the projects due to lacking experience M: Promote effective cooperation modalities between POs and private sector (e.g. PPPs) assuring that private sector "know how" strengthens the project. M: Promotion of private extension services and technology extension services are offered
5. Institutional capacity for implementation and sustainability	Low	Low	<ul style="list-style-type: none"> -Lack of capacity (in specific with regards to IT components and Nutrition) in-house to implement project activities. M: Utilize capacity already built under PACE and use period when both projects are overlapping for cross-learning and capacity building. M: Develop an incentive scheme to attract qualified personnel. M: Develop a roadmap for IT interventions by international consultants prior to project design.

Risk categories	Risk Probability	Risk Impact	Mitigations/comments
6. Financial management	Medium	Medium	The inherent risks for RMTP is considered to be medium due to the diversified set of activities and decentralized activities involving multiple Partner Organisations (PO's) and Non-Banking Financial Institutions (NBFIs). The latter is a new approach for the Palli Karma-Sahayak Foundation (PKSF) business model. This assessment took into account the overall environment surrounding financial management, the existing pursuit for improving financial management practices and progress thereof and experience gained by PKSF within IFAD's portfolio.
7. Procurement	Medium	High	-Mis-procurement leading to reputational risk. M: Training on procurement provided during project implementation M: IFAD reviews all procurement actions and installation of NOTUS.
8. Stakeholders	Low	Medium	-Insufficient interest from stakeholders to participate in the project. C: Demand for financing by small farmers and MEs far exceeds supply;
9. Environment and social	Medium	High	Adverse climate shocks affecting agricultural production and producer's yields. -M: Advocate for climate-smart production methods. Gender inequality and lack of female participation in the project and unintended exclusion from project activities. -M: Target value chains that are gender-sensitive. -M: Promote participatory approaches and gender sensitization activities. -M: Development of comprehensive targeting guidelines.
Overall	Medium	Medium	Based on the overall assessment, the risk assessment is medium.



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Annex 10: Exit Strategy

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Programme Management Department

Annex 10: Exit Strategy and Sustainability

- **Exit strategy.** PKSF and its Partner Organisations (PO), farming enterprises and downstream agro-businesses, will implement the project. The farming enterprises, downstream agro-businesses, and other private sector will be engaged from the earliest possible opportunity. The PKSF and POs are permanent structures that will be able to absorb support activities after the end of the project.
- Interventions supported by the project will be owned by farming enterprises, downstream agro-businesses, pay based advisors and other private sector value chain actors. The PKSF and POs will also take ownership through expansion of their financial markets.
- The commercial relationship between all parties involved in RMTP will increase the chance for long-term ownership and sustainability. The availability of pay base advisory service beyond the project will ensure continues transfer of technologies and knowledge and maintaining the GGAP.
- The project design is built on lessons learnt from recent IFAD-financed projects. Particularly PACE have provided important insights for project sustainability and the exit strategy. The above approach and the sustainability factors mentioned below will ensure a smooth, responsible and sustainable exit of project-funded activities.
- **Institutional sustainability.** IFAD's strategy in working with PKSF has been to expand core PKSF programmes, and to introduce innovations which PKSF then takes to scale using core resources as well as other partners' financing. This strategy has proven to be very successful. The first project (MFTSP) supported PKSF to graduate from lending only to lending with associated services; this is now practised across all PKSF operations. The second project (MFMSP) helped PKSF to enter into agricultural lending; agriculture loans now constitute 12% of its portfolio. The third project (FEDEC) assisted PKSF to introduce micro-enterprise lending and business clusters; micro-enterprises now account for 31% of its portfolio. The fourth project (PACE, ongoing) is helping PKSF to upgrade agriculture lending towards a commercial approach, proving that small farms and rural microenterprises are economically viable. The emerging lesson is that PKSF is capable of growing institutionally on an incremental basis.
- **Social sustainability (Empowerment).** Using value chain as a basis for linking micro/small farming enterprises with downstream agro-businesses will make the parties become accustomed to working together and sharing knowledge and information. This will build trust over time and become a sustainable basis for them to expand their relationship, related to the production and marketing of their products.
- **Participation of the private sector.** RMTP will involve private-sector entrepreneurs such as micro/small farming enterprises, downstream agribusinesses like wholesalers, processors and exporters. Financial institutions like PKSF and its Partner Organisations (MFIs) operating at both local and national level. The delivery of pay based agricultural advisory services, are some of the key tools that will promote the development of mutually beneficial business relationships between RMTP target groups and private stakeholders, and thus enhance the long term sustainability of the project's investments.
- **Economic and financial sustainability.** The overall EFA shows that RMTP is financially profitable for farming enterprises with financial ROI for farming enterprise ranging from 20% to above 100% depending on the production system. The sensitivity analysis shows that the economic profitability would remain satisfactory even if the project cost increase by 10% and benefits decrease by 10%.
- **Environmental sustainability.** Introduction of GGAP will contribute to environmental sustainability of agriculture and aquaculture production. Combined with the promotion of a wide range of bio-control agents for pest control, new crop varieties resistance to abiotic stresses caused by climate change as well as new crop varieties (aromatic rice) bio-fortified with increased level of micro nutrition, vitamins, and proteins. Promotion of increased use of organic fertilizer, precision placement of fertilizer, slow releasing fertilizer briquettes. Environmental sustainability will be further enhanced by the adoption of drip irrigation, System of Rice Intensification increase productivity without raising emission, improved livestock breeds heat tolerant with high FCR resulting in a better meat-milk emission ratio, improved fish breed through selection increasing FCR and thereby income. Introduction of

solar energy for operating milk coolers at milk collecting centres, cold storage, processing facilities, driers, irrigation pumps.

- **Enabling policy environment.** The project will benefit from a highly enabling policy and institutional environment, for private sector operation. IFAD together with PKSF will engage government in policy dialogue for improving the gaps in laws and policies to facilitate agriculture sustainable growth.



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Rural Microenterprise Transformation Project Project Design Report

Annex: Apr Comments To Qag Review

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APR responses to QAG desk review.	
<i>Empowerment:</i> DRM recommended that empowerment needed to be better reflected in the PDR. A bullet point has been added to para 33 ‘women are actively targeted as recipients of microfinance and financial literacy training’ – however the PDT may wish to amplify this into areas other than just micro-finance.	An additional matrix on the gender empowering aspects of the project has been included in the SECAP. The SECAP also includes a list of gender sensitive value chains.
<i>Sectoral policies:</i> The DRM noted that the outdated nature of the country’s sectorial policies presented a significant risk to the project. The PDT may wish to expand of this aspect either within the national context or lesson learnt section to give more context to its policy dialogue support.	Under component 1.5 “the revision of outdated sectoral policies” has been specifically included as a topic for policy engagement.
<i>TORs in PIM.</i> The DRM suggested that to be more nutritional and gender sensitive these aspects should be included in the TOR of project staff. However, staff ToR could not be found in the PIM.	Please refer to para 119 on pp. 37 of the PIM. Together with the NSVC specialist from the design team it was decided that a nutrition specialist will be hired to support the PMU with incorporating gender.
Para 165 states that all M&E data will be disaggregated by gender, age and geographic location. This is mostly reflected in the logframe, although Output 1.3 ‘value chain integration’ still refers to ‘total persons’.	Noted, this has been adjusted.
Logframe. The logframe is now aligned with the PDR (goal and Development Objective). A few clarifications are however still required: <ol style="list-style-type: none"> Given the project’s focus and targeting on female beneficiaries it is not clear why only 75,000 (16.8%) out of 445,000 persons receiving project services or support are female - is this correct? (Output 1.1 indicates 225,500 supported rural producers who are members of POs are female). The number of individual beneficiaries is the same as the total households i.e. 445,000 - assumedly there is only one beneficiary per household (it is the same with Output1.1)? Young = 10 ?? • Project Goal: o Should the end target be 70% rather than 50%? 	<ol style="list-style-type: none"> This has been corrected both numbers and now the outreach is 225,500 men and 225,500 women. Correct, there will be 1 beneficiary per household. Please refer to the logframe in ORMS and bring this technical issue up with IT. In ORMS it is indicated that the percentage of young people is 10%. When the logframe is extracted from ORMS in a draft report, the “%” is not included in the logframe. This has been corrected to 70%.



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Rural Microenterprise Transformation Project Project Design Report

Annex: Bangladesh Rmtp Response To Qag Comments

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Asia and the Pacific Division
Programme Management Department

Bangladesh: Rural Microenterprise Transformation Project
Response to QAG Comments

	Comments	Responses
Overall Assessment		
1	<p><i>Microfinance sector.</i> The PDR lacks information on the microfinance sector, its structure, overall outreach and volume of lending, challenges and opportunities. Given that 80% (i.e. USD 155 million) of project resources will be financial services through Partner Organizations (POs)/NBFIs, it is important that an overview of the financial sector is provided. The rationale for providing a credit line should also be strengthened.</p>	<p>Microfinance sector review has already been completed (see attached presentation). The key elements are being incorporated into the final version of the PDR. The rationale is outlined in the project rationale and in the description of Component 2.</p> <p>Credit lines provided to PKSF in the past by IFAD and other IFIs evidently triggered the development of sustainable financial services and met the longer-term needs of some 200 POs/MFIs without any negative impact on the wider financial sector in Bangladesh. This is because the market has demonstrated a clear lack of liquidity up to the date of the design of RMTP. Actually, previous lines of credit encouraged other IFIs to co-finance the on-going operations by PKSF to their financially sound and independent POs, some have even managed to borrow from commercial banks. POs have the capacity to efficiently and transparently absorb and manage the credit line. Loans to POs and from POs to its clients, micro-entrepreneurs and producer associations (PAs), are priced at commercial rates. POs also developed and expanded the range of lending products to serve new market segments.</p>
Files 2	<p><i>Policy Dialogue.</i> According to the PDR "Supported by the IFAD Country Office, PKSF will undertake policy dialogue with concerned Government institutions on key topics relevant for the project". IFAD should directly be engaged in policy dialogue, which can occur with the support of other partners, but it should not be delegated to the implementing agency PKSF which is a government owned institution.</p>	<p>This repeated comment displays a fundamental misunderstanding of policy dialogue processes at country level.</p> <p>The IFAD Country Office of course has intensive and strategic policy dialogue with Government on a range of topics of relevance to the country programme. This is governed by the COSOP and structured through direct evidence-based interaction with relevant Ministries, the Local Consultative Group (LCG) – Plenary, the LCG – Water Sector, and the LCG – Agriculture Sector. IFAD policy dialogue is broad and transcends individual projects which are financed by loans to Government. In addition, IFAD is involved in policy dialogue as part of the UN country team. There is no scope nor legal basis for IFAD to directly implement policy dialogue through a project which is implemented by Government and financed through a loan to Government. IFAD does not, and should not, have a direct implementation role at project level.</p> <p>PKSF is not owned by the Government. It has been established by Government but has an independent board and management. For RMTP, policy reforms will be promoted by PKSF with support from partners such as</p>

		such as agri-research agencies, the Bangladesh Food Safety Authority, the Bangladesh Standard and Testing Institute, private sector stakeholders, the Credit and Development Forum, POs, and other relevant organizations (on case to case basis). IFAD can and will facilitate these processes.
3	<i>Target group definition.</i> The PDR specifies that beneficiaries will be ultra-poor (approx. 10%), transitional poor (19%), and enterprising poor (71%) categorised based on land ownership bands. It should be clarified how these categories compare with national poverty lines that are based on consumption expenditure.	The description of poverty is indicated in the PDR main text and detailed in the SECAP review note which is an integral part of the project design documentation. More information on the relation with national poverty statistics can be provided in the PDR main report if deemed necessary, although the page limit will be exceeded.
4	<i>Component 1 - value chain financing.</i> The PDR should (a) clarify extent to which the project support will focus on the farm sector and/or non-farm sectors, including opportunities and challenges of each; and (b) present the main features of the micro-enterprises it will be working with, including the characteristics of their membership	The PDR very clearly indicates that the project will invest exclusively in farm sectors – refer to para 53. The features of the targeted microenterprises are presented in the SECAP review note.
5	<i>Component 2 - financial services.</i> Estimates on number and loan sizes to micro-enterprises should be provided, and also on how the disbursements will be undertaken.	The numbers and average loan sizes are indicated in para 66 of the main report. The disbursement procedures are indicated in para 67 and are being detailed in the PIM.
6	<i>Project financing.</i> The total project cost is US\$ 200.0 million, of which IFAD is expected to provide US\$80.0million, Denmark US\$10.0 million, POs US\$ 80.5 million and NBFIs US\$10.0million. This expected co-financing is significant and if it does not materialize may require a redesign of the project. In particular, component 2 relies heavily on POs/NBFI financing (approx. US\$85.0million) while Denmark would provide US\$10.0 million value chain financing. The team is invited to provide an update on the financing and mitigation should this fall through.	There is no risk in the domestic cofinancing. In all previous IFAD-financed projects implemented by PKSF, POs have fully achieved (and often exceeded) their cofinancing commitments. It should be noted that POs have multiple sources of funding – savings, retained earnings, and commercial borrowing. The Embassy of Denmark has confirmed that it will cofinance the project. This will increase the number of beneficiaries receiving services under component 1 from 400.000 (without co-financing) to 445.000 (with co-financing). Should this contribution not materialise, the targets will be adjusted accordingly prior to design report finalisation.
7	<i>The Project Implementation Manual</i> is incomplete and only provides a list of potential districts and implementation guidelines for component 1. Implementation guidelines for component 2 and 3, as well as detailed project management arrangements, financial management and procurement, and terms of reference for project staff and service providers should be developed.	The design report submitted for the DRM contained the basic structure and outline of the PIM. The full PIM is being prepared and will be incorporated into the final design report.
8	<i>The log-frame</i> should be revisited to align the goal statement with that in the	The logframe is being revised.

	PDR, have more specific indicators, and revise targets to be more ambitious given the overall size of the project and experience from previous IFAD financed projects in the country.	
Compliance with issues raised at the OSC/Concept Note stage		
9	<i>On targeting</i> , the PDR specifies (para 26) that about 10% of beneficiaries will be ultra-poor, 19% transitional poor, and 71% enterprising poor. It is however not clear how the PDR has defined poverty – it mentions typical land ownership bands, with enterprising poor having up to 0.9 acres. It is not known how these categories compare with national poverty lines that are based on consumption expenditure, but it would be thought that many (if not most) of the enterprising poor will be above the poverty line. Almost three-quarters of rural households are now above the poverty line (para 6), and it will be difficult to find a large number of people below the poverty line with the capacity and willingness to take risks to invest in larger enterprises.	The SECAP review note provides a description of the target group. Should it be deemed necessary, further details can be added to this description.
Context and Rationale for IFAD's Engagement		
10	<i>Project rationale</i> . The rationale for the project appears good – while support to increase agricultural production increases incomes and reduces poverty and food insecurity, without value chain integration this will not generate the growth of scale needed to transform the rural economy and to sustainably eliminate poverty. This is not an unreasonable assertion, but the PDR offers no evidence to support this statement. Earlier IFAD projects (especially FEDEC and PACE) have aimed to do just this (as have projects supported by other donors), and are said to have generated good results – it would be good to know about these.	The lessons learned from previous IFAD-financed projects implemented by PKSF are contained in para 23 of the main report. Comprehensive documentation on previous projects is publicly disclosed by IFAD and easily accessible.
11	This rationale fits well with component 1 (value chain development), but not so well with component 2 – financial services. While it is accepted that micro-enterprises need capital, the extent of capital shortage has not been mentioned. The key principals for IFAD engagement (para 24), are good – (i) build on successful microfinance programmes; (ii) micro-entrepreneur integration within value chains; (iii) nutrition-sensitive approach in selection of commodities; (iv) target women through the selection of commodities/value chains; (v) compliance with food safety and quality standards; (vi) leverage commercial	The core strategy in the project is to combine finance and non-financial services, based on the lessons learned from previous projects which are documented in the PDR. This will maximize RMTP impact, unlike many other value chain projects in the country where finance is absent. PKSF and POs are in unique position to do this. Please also refer to the response on comment # 1 above.

	finance through non-banking financial institutions; (vii) strengthen the capability of PKSF and POs as development institutions. But in this list, only leveraging finance from NBFIs applies to component 2, and no mention is made of the major activity in component 2 – finance for MFIs (PKSF POs).	
12	<i>Microfinance sector.</i> The PDR includes, as Appendix 1, a paper on the financial services available through POs and NBFIs. It would have been useful if this Appendix, or the section in the main report on the national context, could have provided an overview of the microfinance sector, including its structure , the overall outreach and volume of lending. It would be useful to know the size of the current ME portfolio of PKSF POs how this is currently funded, average loan sizes and numbers of borrowers. This would show if planned increase in portfolio size of about US\$140 million and 100,000 borrowers is either so small as to be insignificant, or so large as to be unrealistic. There is also no background information on NBFIs and their current role in the financial sector.	Detailed information on this is contained in the attached presentation, which will be incorporated into the PDR.
13	The appendix also includes some useful lessons learned, but primarily describes an approach to value chain finance. It also says that informal credit contributes to value chain financing – although the volume and extent of this are not known. The impact study for CDSP IV and interviews with farmers in the south-west of Bangladesh suggests that such informal value chain financing is very significant in some locations and for some crops. This financing is provided both by buyers of farm products and suppliers of farm inputs. More research on this would be worthwhile.	This will continue in case of RMTP clients. It is not clear what further research is required, nor where the budgetary resources for such further research will be obtained.
Project Description		
14	<i>Component 1</i> is value chain development, and aims to reach 445,000 microenterprises (ME) – although in some places in the PDR the number is 400,000. The component includes training (including nutrition), links to agribusiness buyers, technical and business services (including private advisory services), and support for food standards. Around 110 value chain sub-projects will be implemented by POs, at an average cost of \$84,000 (in the cost tables – in the report text it is \$100,000). VC sub-projects have been included in earlier projects with PKSF (especially FEDEC and PACE) and the	The average unit cost per sub-project including contingencies is USD 100,000. There is absolutely no discrepancy between the main report and the detailed cost tables. Kindly appreciate the difference between base cost and cost including contingencies. As mentioned earlier, full documentation on FEDEC, PACE and other projects is already publicly disclosed by IFAD. The difference in target group outreach numbers is due to the likelihood of DANIDA co-financing (see response to comment #6 above)..

	PDR could be enriched by briefly providing the experiences of these sub-projects in terms of their number, scale, outreach, sectors and results.	
15	<i>Farm sector vs non-farm sector.</i> It is not clear from the PDR the extent to which value chains will be in the broad farm sector (including livestock and aquaculture) and in the non-farm sector. The report does not explain the advantages and disadvantages of focusing on either the farm or the non-farm sector, however the main report and the EFA imply that the project will overwhelming focus on the farm sector. This appears to be similar to the approach of PACE. This is despite the fact that the non-farm sector is growing more quickly and more and more rural employment comes from the non-farm sector. In CDSP IV, the impact survey reported that the proportion of household income coming from the non-farm sector was 60% (but that included wage labour on farms), and an increasing proportion of loans were being invested in non-farm IGAs as the loan programme matured. It may be that PKSF has had better results from developing microenterprises in the farm sector – especially in terms of job creation. It should be remembered that 87% of rural households are involved, to some extent and in some way, in the farm sector.	As clearly indicated in the PDR, RMTP will focus on farm sectors, not non-farm sectors. PKSF has other projects which focus on the non-farm sector, such as the World Bank-financed SEP.
16	<i>Micro-enterprises.</i> Linked to the previous point, if RMTP is focusing on the farm sector, it is not clear what constitutes a microenterprise (for the purposes of RMTP). Are not all farms also microenterprises? Or are MEs defined as those enterprises that are taking loans of a size that is over PKSF's threshold for ME lending? When FEDEC was being implemented, ME loans were defined as being between Tk30,000 and Tk1,000,000. It is recommended a brief description of the micro-enterprises be provided in the PDR.	Micro-enterprises are described in the PDR main text, the SECAP review note, and the attached presentation. PKSF's present microenterprise average loan size is BDT 120,000. PKSF is considering to raise this ceiling to BDT 3 million. The average loan size of the NBFI window ranges from BDT 3 million to BDT 6 million.
17	The team should consider providing more attention to the development of farm sector support enterprises. While it is clear that these are included (milk collection centres are in the EFA), there is nothing much on the scope and scale of these businesses – which include input suppliers for the different farm sub-sectors, farm marketing enterprises (including primary processing), machinery agents, workshops and hire services, irrigation providers, tree and plant nurseries, animals and fish	Further information is being placed in the PDR on this aspect (summarised below). The project will support investments in expansion of rolling stock for hire service including tractors, power tillers, combine harvesters and rice planters. Implements for tractors/power tillers could include potato harvesters, planter-fertilizer drills for potato, maize, sorghum, medicinal plants, vegetables, etc. This includes: trailers; silage choppers; fertilizer injectors for deep placement of briquettes for rice cultivation made from urea, urea/DAP, urea/compost,

	<p>breeding services and so on. The PDR does not say what may be done to develop their outreach and efficiency. There may be value chains to be developed within these support enterprises – for example the value chain for irrigation pumps. In total the PDR talks of only 200 agricultural support enterprises being supported – this seems a very low number.</p>	<p>and urea/DAP/compost; plows, harrows, rotary tillers, levellers, drip irrigation, etc. The project will also provide investment support to repair shops for tractors and implements.</p> <p>Investments in agricultural support enterprises will include small slaughterhouses for poultry/cattle/goat, poultry hatcheries, feed mills, produce transporters, small processing facilities for vegetables and milk, compost making, fertilizer briquettes making, bakeries, fruit drying, and pulp/concentrate/juice production.</p>
18	<p><i>Value chains.</i> Oilseeds have not been mentioned as a potential sub-sector for VC development, despite the sunflower VC being mentioned in Appendix 1. There is also potential to develop value chains for soyabean – including links to processing mills.</p>	<p>Oilseeds will be included under the commodity selection heading of crops/horticulture, in para 53. The word legumes may be included in the text.</p>
19	<p><i>Nutrition and targeting.</i> The PDR includes Appendix II: Nutrition-sensitive value chain approach. This makes an evaluation of a number of farm products in terms their nutrition sensitivity – and also how appropriate they are for women. Some of the evaluation of farm products in terms of their nutrition-sensitivity does not take account of local production practices and the attractiveness for poor households. It dismissed beef and milk production and goat rearing as suitable enterprises – all of which are attractive for land-poor rural households who are nutritionally vulnerable. In particular goats have been very successful in past PKSF projects, especially for the poorest households.</p>	<p>The PDR clearly and explicitly selects the following livestock value chains: (i) dairy production; (ii) red meat (e.g. cattle, goats, sheep, and buffalo); (iii) poultry (including water birds and turkey) and eggs; (iv) related trading and processing. Ref para 53 of the PDR main report.</p> <p>Appendix II has been revised to better reflect the nutritional attractiveness of the products specified above.</p> <p>It is expected that 30%-50% of the selected value chains are nutrition-sensitive.</p>
20	<p>Nutrition-sensitive value chains are more relevant for a project targeting the extreme poor (who are likely to consume the products produced) than one scaling up commercial production units (which is the thrust of RTMP). Commercial producers will be primarily concerned with making money – that they can use to buy foodstuffs that they do not produce. Although RMPT aims to reach extreme poor households, there does not seem to be any special targeted assistance for these households. Rather the project will link up with PKSF's existing ultra-poor programme. There could have been an opportunity for RMPT to fund a special package of support for ultra-poor households, along the lines of the earlier PKSF PRIME project – but quite possibly PKSF is able to access other resources for this, and the need for</p>	<p>PKSF has just launched a large DFID-financed project (PPEP) that provides significant resources for ultrapoor households. Furthermore, PKSF-funded Ujjibito and ENRICH programmes are specifically targeted to the ultra-poor. RMPT will campaign to increase awareness about nutrition and foster behavioural change, especially in diets, further to a nutritional analysis in the early stages of implementation.</p> <p>Refer to PDR para 94 and Appendix 2.</p>

	such support has declined in line with the numbers of ultra-poor households. This aspect should be clarified.	
21	<i>Financing.</i> The proposed US\$10 million grant from Denmark would fund much of Component 1, of which total cost is US\$ 35.3 million . If this grant funding were not to be available, the scope and scale of value chain development would need to be significantly reduced.	The DANIDA co-funding has been confirmed by Denmark. Should this funding not materialise, the project cost structure will be refined prior to EB submission.
22	Micro-enterprise lending. The PDR (para 66) says project resources will be used to expand PKSF's micro-enterprise lending programme by 100,000 borrowers with an average loan size of Tk120,000 (which will rotate a number of times so the average borrower will get a multiple of this amount) – but this does not match up with calculations in the EFA (Annex 4) showing that all 445,000 households involved in RMTP will get loans using project resources. 100,000 loans with an average size of Tk120,000 comes to a total of US\$143 million - compared to US\$135 million allocated in the project cost tables (of which 37% is IFAD funding, 8% PKSF and 55% from POs). Moreover PACE, which seems to be rather similar in terms of concept, is reported to have financed 609,566 micro-enterprises. Why is the number going to be so much lower in RMPT?	<p>Other borrowers will receive loans from three other windows of PKSF.</p> <p>The average loan size of microenterprise borrowers is increasing fast in all POs. Larger loans implies a lower number of clients. As such, increased resources will not increase client base, but rather deepen investment and expand impact. The average loan size of BDT 120,000 is a starting value; it could rise in subsequent years.</p> <p>As shown in the Financial analysis in the EFA (Annex 4) it is expected that all 445,000 HH will take loans to commence the agriculture, livestock and non-agriculture activities that are supported by the project. In the EFA, the analysis focused on only one round of loans per HH to commence the production activity and also the EFA analysis demonstrated the repayment schedule. These 445,000 HH take loans in different years and therefore it is expected that the POs will use re-flows of loans for more than one round during the project period to meet the total demand of US \$ 285 million loans (this is shown in EFA Excel sheets – Financial analysis workbook) although the total loan amount included in the project cost tables is USD 135 million. It is possible to deliver USD 285 million since the duration of one loan is maximum 1 year and the modal time is 6 months.</p> <p>The estimated demand of USD 285 million would be expected to be realised during project year 2 to the end of the project (project year 6) taking only one loan per HH. However, assessment of POs Annual Reports shows that one HH (or one entrepreneur) takes multiple loans using both project resources and re-flows. Thus, it is difficult to ex-ante estimate the number of loans that would be sourced by the beneficiaries during the full development period of the project. The estimation for the PACE project is ex-post and based on monitoring information.</p>
23	There does not seem to have been any attempt to calculate how many loans of what size will be provided from the resources available, and what growth there will be in the loan portfolio from PKSF to POs, and from POs to households in terms of the total amount outstanding – as well as the numbers of enterprises	<p>PSKF's and POs' portfolio growth are being estimated. These figures will be inserted in the logframe. Revolving of loans by POs has been calculated.</p> <p>The size of an individual loan depends on the type of enterprise that is supported by the project. The observed practice in project</p>

	getting funding from POs. This needs to take account of loan repayments being re-lent and growth in PO member savings used for on-lending.	areas is to have a combination of enterprises. HH demand for loans for project-supported enterprises therefore depends on the combinations of these production activities. The EFA assessed 7 different typical and representative production models to demonstrate the typical size of a loan (Annex 4) that would be potentially demanded. In order to estimate the total demand for loans, these were multiplied by the total lands, other enterprise size and size of livestock that are supported by the project. As such the typical loan sizes that would be demanded have been estimated. However, the actual size of the loan that HHs would demand would only be known once they present their production models to the POs during the project.
24	<i>ME loan disbursements.</i> Linked to the above, it is not clear how IFAD funds for on-lending to POs will be disbursed. It is easy for POs to say they have disbursed ME loans to the value of x, and apply to have this amount funded by PKSF – and in turn by IFAD. But this takes no account of the stream of loan repayments and overall growth in the portfolio. In the FEDEC project, funds were disbursed to PKSF on the basis of growth in PKSF's ME lending to POs. For each withdrawal application, PKSF provided a list of POs and the amount in ME lending to the PO which is outstanding (i.e. amount lent net of repayments). IFAD then provided PKSF with funds equal to 50% of the growth in the total amount outstanding – the other 50% PKSF's contribution to project cost.	The practices applied under FEDEC and POs will be followed. This is indicated in the PDR. PKSF will estimate the increase in its loan outstanding portfolio to POs, as well as POs' loans outstanding portfolio with micro-enterprises. IFAD disbursements will be based on the increase in the loan outstanding portfolio from PKSF to POs. This is standard operating procedure applied by all IFIs financing PKSF (including WB and ADB).
25	The rules for disbursement of IFAD and co-financier funds need to be clearly set out, as do the definitions of what constitutes contributions by PKSF, POs, NBFIs, the private sector and beneficiaries to the costs of different project activities.	Already done. Beneficiaries and the private sector will contribute in kind. This will be tracked by the project.
26	<i>PO lending.</i> For RMTP, the contribution of PKSF to PO lending funds is relatively small (8%), with more funds coming from POs (55%). If this is to be incremental lending (expanding the ME loan portfolio), where are POs going to get this money from? The possibility for further increases in bank borrowing by POs may be limited. What mechanism will the project have to monitor the increase in PO funding of ME lending?	The main sources of PO funds are savings and retained earnings. Some POs even borrow from commercial banks. The monitoring of PO lending activities is a core activity of PKSF as a wholesale lending organization to its POs.
27	<i>Component 3</i> is institutional strengthening and project management. Much of sub-component 3.1 (PKSF capacity building) concerns innovations – distributed digital ledger technology (block chain), e-commerce platform,	Yes. And this will lead to enhanced operations by a strengthened apex / wholesale lending organization.

	crowd funding platform, and micro-enterprise ICT platform.	
28	<p><i>Project management.</i> What is missing from the component description (it is also not in the part of Section K on project management and coordination) is any description of the staffing of the PMU. There is also no organogram. The first three IFAD projects with PKSF (MFTSP, MFMSFP and FEDEC) all had very small PMUs with less than a handful of staff. PKSF then implemented PRIME with grant funding from DFID with a much larger staff. This enabled PMU staff to frequently visit participating POs, which in turn built a sense of real partnership in project implementation and enabled problems to be more easily solved. The PKSF proposed staffing for RMTP should be described in the PDR/PIM.</p>	<p>The PMU will have 22 staff including one driver. This is estimated based on previous IFAD experiences with PKSF, particularly PACE.</p> <p>The detailed list of positions and organigramme is described in the PIM.</p>
Risks and Safeguards		
29	<p><i>Risks.</i> One risk that is not in the framework is the institutional risk to PKSF and POs. In particular will POs continue to be viable as microfinance lenders and able to stand up to competition from the big three MFIs? Another risk that is not mentioned is the ability / willingness of POs to make a major contribution towards project costs. In total POs are to contributes US\$80.5 million – slightly more than the IFAD loan. This includes 55% of the cost of microfinance lending.</p>	<p>The three very large MFIs are not expanding laterally any more. The main expansion is vertical – that is, financing micro-enterprises and increasing loan size. All PKSF POs, especially those offering micro-enterprise loans, are viable, and many of them are very profitable. They have been profitable for more than 15 years. There is no reason to be otherwise, as loan sizes are increasing fast and micro-enterprise portfolios exceed 50% of total lending.</p>
30	<p><i>Safeguards.</i> The QAG notes that the project may finance solar powered irrigation pumps. This could have adverse environmental impacts that have not been recognised in the environmental screening process. Solar pumps have zero (or near zero) operating costs. This means there is no incentive not to extract water regardless of the need for irrigation. Where irrigation water resources are limited (due to shallow aquifer constraints or limited surface water supplies in drainage channels), over use of water by solar pump operators will mean there is less water available for other farmers – or for domestic purposes. Support for solar powered pumps needs to be carefully considered according to local water resource availability.</p>	<p>This risk and the associated mitigation measures are documented in the ESMF which is an integral part of the project documentation.</p> <p>The ESMF recognizes the risk of increased competition over natural resources which includes abstraction of groundwater beyond sustainable levels and proposes the introduction of drip irrigation and other precision irrigation techniques. The actual risk of increased water use as a result of the promotion of solar-powered irrigation should however be qualified and contextualized. In many cases this will involve a change from diesel powered pumps to solar powered pumps. Due to the much higher upfront investment costs of solar systems and a steep increase in that cost when increasing the number of solar panels, farmers will often choose a pump with lower capacity than a diesel pump which often have a too high capacity for the purpose. The combination of solar pumps with precision irrigation techniques therefore in reality leads to a higher system efficiency compared to diesel pump systems. Notwithstanding the</p>

		above, there will indeed be risks in certain areas of the country even if they are not directly related to the actual source of energy for pumping. These will be identified through the cluster-level risk analysis (section 6.2 of the ESMF) and a mitigation measure will be found at that cluster level. These mitigation measures would comprise both awareness raising on conscious use of freshwater, as well as checks on compliance with national and local regulations on groundwater pumping such as through water use permits.
Implementation Readiness and Evaluability		
31	Logframe. This needs considerable revision. It currently covers six pages (partly due to poor formatting) and it should be possible to reduce this to two pages. The logframe has 34 indicators, considerably more than the permitted maximum of 20	The logframe has already been revised and will be inserted into the final version of the PDR.
32	The goal statement in the text of the report "To sustainably increase the income, food security and nutrition of marginal and small farmers and micro-entrepreneurs across selected value chains" is quite different to that in the logframe "To provide strategic enabling conditions for the sustained growth of rural commodity value chains with comparative advantage, nutritional potential, market demand, growth potential, and backward linkages to small farmers and microentrepreneurs". The goal statement in the report text is to be preferred, and relates much better to the logframe indicators such as an increase in income.	The logframe has already been revised and will be inserted into the final version of the PDR.
33	Some of the logframe targets at goal and objective levels are either too vague (percent of women reporting improved food quality), difficult to measure (increased profit), and some targets have been set so low that they will be achieved regardless of what the project does. There also needs to be consistency in and between the targets presented in the PDR and logframe.	<p>The logframe has already been revised and will be inserted into the final version of the PDR.</p> <p>The comment on indicators contradicts IFAD's published core indicators. The indicators "percentage of women reporting improved food quality" and "increased profit" are IFAD core indicators 1.2.8 and 2.2.2.</p> <p>Please discuss this at corporate level.</p>
34	<p><i>Project implementation manual:</i> The PIM only has a list of potential districts and implementation guidelines for component 1. Implementation guidelines are needed for component 2 along with detailed project management arrangements, financial management and procurement guidelines, and terms of reference for project staff and service providers.</p> <p>There is only one paragraph on M&E in the main report, and there are no detailed guidelines in the PIM. For M&E it should be possible for RMTP to follow</p>	The comprehensive PIM has been prepared and will be inserted into the final version of the PDR.

	what PACE has done – provided that PACE has had a fully operational M&E system that has generated all the data and reports that are needed. However there is no information on this in the PDR. The same applies to some other aspects of the PIM – PACE could be used as a model	
35	<i>Overall readiness:</i> despite the very incomplete PIM, PKSF will be ready to implement RMTP. PKSF's track record shows that it can get projects going within a short period and achieve (or exceed) the required outputs within the project period. There is however a need to sort out disbursement rules for lending funds.	The comprehensive PIM has been prepared and will be inserted into the final version of the PDR.
36	<i>Evaluability:</i> The financial analysis calculates net returns from project interventions using a number of enterprise models (almost all of these are farm enterprises producing different products. From these seven farm models have been created, each with a different combination of enterprises. For each model total with and without project net farm income has been calculated. However the overall impact on family income and poverty reduction has not been assessed as this would need to take account of non-farm / non enterprise sources of income. The change in volume of farm production and total labour requirements have also been calculated. However labour has not been disaggregated in family and hired labour.	<p>The EFA is in compliance with IFAD requirements. The impact of project investments on household incomes has been carefully calculated. EFA does not include hypothetical exogenous changes which are not attributable to the specific project investment.</p> <p>In the Production Model analysis, the existing income generating activities that are not supported by the project are not included in the analysis. The approach of partial budgeting was used where only the component of HH economy that would be impacted has been the focus of the analysis. It is shown in the production model analysis the “with-project” income and the comment is made about the poverty line, i.e whether the “with-project” income would be sufficient to come out of poverty. In all production model, the income would be sufficient.</p> <p>Whilst it is, in theory, correct to disaggregate labour into HH and hired, and cost HH labour with an imputed value, during the farm visits it was revealed that there is a high level of interconnectivity between HH labour and the hired labour at the HH level. In many occasions when HH labour is used on the own farm, the option of wage labour is foregone. Same labour pool has both types and is highly transient and the farm sector has year-round work. It is also seasonal and hardly any “HH designated” farm activities have been observed. As such it is very difficult to separate and value HH labour from wage labour – same HH will have labour which will be ‘HH labour’ in January and “hired labour” in February. Hence the analysis did not disaggregate.</p>
37	Economic analysis uses economic values for inputs and outputs and calculates net benefits accruing to households less the project investment costs. However these investment costs do not include funds used for credit. This is not	The economic cost does not include credit since it is a transaction cost. The balance total project economic cost is USD 38 million. The total incremental production cost of all production activities during the project period of 6 years is USD 232 million (85% of

	<p>unreasonable as credit funds will not be used up during the project period. The credit fund will remain intact, and may even grow as surplus funds are re-invested. However around 80% of project cost is the line of credit, and the improved availability of credit is a major factor behind the generation of benefits. The base case EIRR is 30%. Given that only 20% of the project investment has been set against the economic value of increased household income, it is surprising that the EIRR is not higher. One interesting figure to come out of the sensitivity analysis – if 30% of land were to become unusable due to climate change, the EIRR would only fall to 29%.</p>	<p>the total economic cost of the project period comes from activities). So, the project benefits have to outweigh this cost. Moreover, many individual production models which contribute largely to the net present value (i.e. large fish ponds, milk collecting canters and fingerling production, all livestock etc) have IRRs which are in the range of the base case EIRR. This is the main reason of having 30%.</p> <p>Regarding the sensitivity analysis, the main reason is the land loss scenario has been applied only to crops. It is assumed that other enterprises would not be affected by the loss of cultivable lands. On the other hand, the contribution of them to the net benefit flow is relatively larger than that from crops.</p>
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Bangladesh Rural Microenterprise Transformation Project
Response to Peer Review Comments

	Comments	Responses
Context and Rational for IFAD's Engagement		
1	The project will focus on a few value chains that have been identified on the basis of strong comparative advantages, market demand and growth potential. These include selected field crops, horticulture, aquaculture and livestock commodities and products. A brief description of these value chains, particularly highlighting their status, growth trends, opportunities and bottlenecks in each case, may help to strengthen the rationale for their prioritisation in the context of the country's agricultural sector development.	This information is being included in the updated/comprehensive PIM, which forms an integral part of the final PDR. A brief summary was also included in the concept note shared with the Government and with OSC.
2	IFAD has a strong background of engagement in Bangladesh in building resilience and reducing vulnerability to climate-related risks, especially under the Haor Infrastructure and Livelihood Improvement Project (HILIP) and Climate Adaptation and Livelihood Protection Project (CALIP). Some activities under the project are very relevant to RMTP, including vocational training to develop skills for selected micro-enterprises, as well as enhanced production, diversification and marketing of crop, livestock products and aquaculture, and innovations that can be scaled up with the financial resources of RMTP. There is no mention of linkages with IFAD projects that are not in the domain of micro-finance, which could be additional point of IFAD's comparative advantage and to fortify the rationale for IFAD's engagement in this project.	Linkages with other IFAD-financed projects in Bangladesh is indicated in para 93 of the PDR main report.
3	Under Lessons Learnt, conspicuously missing are any of the emerging lessons from IFAD's work on resilience building across the agricultural sector landscape. It would be useful to give a brief description of IFAD's experience with different approaches to reduce vulnerability that are linked to the value chains targeted by the project.	It is not clear how this would be relevant to a project which will not invest directly in land development/protection activities. Resilience elements are included in the SECAP review note and ESMF.
4	The potential role of the line ministries responsible for the targeted value chains is not coming out clearly. Lessons from HILIP-CALIP show the need to involve the state ministries responsible for development of specific value chains, especially on issues around policy, licensing/ certification and provision of some services. In particular the Ministry	Agreed. Wording will be added on cooperation with relevant Ministries.

	of Fisheries and Livestock will have a key influence on the proposed activities on aquaculture and livestock, and therefore, the role of the public sector in the project needs to be clarified.	
Project Description		
5	Under targeting, clarify the provisions for inclusion of those with disabilities, possibly identifying potential enterprises that may specifically accommodate less physical requirements. (It is mentioned that disabled persons are covered by governmental safety net programs, however the project could consider tailored training to further reduce their vulnerability).	This is covered by separate Government programmes.
6	Under Sub-component 2.3, which will be implemented by the Ministry of Expatriates' Welfare and Overseas Employment (MoEWOE), considering that recipients of remittances are spread out and scattered across the country, and that these are private transactions, there needs to be a clear strategy on how they will be identified and reached. Does this intervention target only recipients of remittances that fall within IFAD target groups (e.g. rural poor) or is it open to all categories? Furthermore, a detailed analysis on how remittances are currently spent could be useful for a better understanding of the competing interests and conditions preventing such remittances from being invested in sustainable economic activities, rather than to simply assume it is due to lack of skills among recipients.	This is documented in the PIM which is being updated.
7	The selection of the Project Area avoids areas of potential duplication with other PKSF programmes, seeks complementarities with World Bank-financed Sustainable Enterprise Project and focuses on areas where identified Partner Organisations have the capacity to implement value chain financing. There is need to clarify if consideration will also be given to the areas with potential to generate linkages with other IFAD projects. For instance there could be added value to give particular attention to the areas where IFAD has invested in capacity development (e.g. youth vocational training under HILIP-CALIP), which therefore have potential demand for financial services and where IFAD has already developed networks.	The selection of the project will comply with para 26 and 27 of the PDR main report. This may include areas where other IFAD-financed projects are operating.
Risks and Safeguards		
8	Under technical risks, highlight the risk of investing in some value chains where IFAD lacks sufficient experience in the	Not clear about this comment. The project is not being implemented by IFAD. It will be

	country e.g. aquaculture of crabs. The mitigation may include SSTC to promote learning from other countries and IFAD projects, which have the experience and expertise in such value chains.	implemented by PKSF through POs. PKSF and POs have experience in aquaculture lending.
9	Highlight the institutional risks of working with new partners e.g. the Ministry of Expatriates' Welfare and Overseas Employment (MoEWOE), noting there is no mention of IFAD's previous experience of working with this Ministry.	Agreed, this risk will be added.
Implementation Readiness and Evaluability		
10	Draft PIM, 18-month Procurement Plan and 1st AWPB are fairly advanced, suggesting the project's implementation readiness. These will need to be updated and revision should include the necessary edits (e.g. the Table of Content paging are not fully aligned with the document content).	Table of contents will be reviewed.

Bangladesh Rural Microenterprise Transformation Project
Response to SECAP Compliance Review Comments

	Comments	Responses
1	<p><i>Gender violence and Sexual Exploitation/Abuse:</i> The rate of violence against women is considered alarming. PKSF has a policy and strategy for "Protecting Women Employees from Possible Sexual Harassment" aimed at PKSF employees, however, the PDR is not clear on: (i) the extent to which sexual exploitation and abuse is addressed in this policy (ESMF, 4.1); and (ii) specific project support to prevent/remedy/report SEA cases (PDR #15, SECAP review note #9). Note that IFAD is presently identifying SEA focal points in the region.</p>	Agreed, wording will be included.
2	<p><i>Labour:</i> Microenterprises/companies will be obliged to comply with national and state regulations governing labour. The design appears to place emphasis on occupational health and safety using the Standard Operating Procedures, training and awareness raising, however, what is unclear is whether the Procedures cover other labour management issues related to fair treatment, worker organisations, etc. (ESMF #5.2).</p>	The project will be obliged to comply with all relevant regulations regarding labour.



Investing in rural people

Bangladesh

Rural Microenterprise Transformation Project Project Design Report

Annex: Technical Working Papers

Document Date: 30/07/2019

Project No. 2000002356

Asia and the Pacific Division
Programme Management Department

Appendix I: Financial services through POs and NBFIs.¹

1. Introduction and Background

1. Palli Karma-Sahayak Foundation (PKSF), an apex development organization was established by the Government of Bangladesh (GoB) in May 1990 for sustainable poverty reduction through employment generation. PKSF aims to create self-employment opportunities in rural off-farm sector by extending loan facilities to the rural moderate poor. Over the last decades, this loan programme has been diversified to cater the changing needs of the rural Bangladeshi population. PKSF's "inclusive financing programme" currently serves the ultra-poor, moderate poor, small and marginal farmers, and micro-entrepreneurs. In addition to financial service delivery, the foundation provides a wide range of development services including appropriate credit, basic education, primary health care, technology transfer and business development services through 274 so-called Partner Organizations (POs). All PKSF POs, especially those offering micro-enterprise loans, are viable, and many of them are profitable. They are profitable given the fact that loan sizes are increasing fast and micro-enterprise portfolios exceed 50% of total lending
2. As at September 2018, PKSF had \$9,522,639 and an outstanding loan amount of \$527,485,950 to its partner organizations. Leveraging PKSF funds, with retained earnings, equity and occasionally commercial finance, the PO are able to lend a total of \$2,651,040,000 to their borrowers. There is a wide variety among the partner organizations served by PKSF. Some of the partner organizations are grass roots and have specific focus on for example employment generation for the marginalized women, whilst others are larger and bear a more commercial signature. Partner organizations typically operate through a decentralized model. Meaning that they have bigger offices at district level and smaller offices and branches at upazila level. This allows the loan officers at these branches to closely monitor the loans of borrowers and assure high repayment rates. In fact, the portfolio at risk (PAR) of PKSF POs is negligible and the recovery rate of PKSF loans currently stands at 99.53% with defaults mostly caused by a "force majeure".
3. Due to the surge in economic growth and increased need for financial services, POs have been able to gradually expand their operations. Although PKSF works with a variety of partner organizations, they use standardized their loan products. Regular adjustments in the terms and conditions of PKSF loans were required in order to meet the financial needs of borrowers. Over the course of years PKSF therefore gradually increased the loan ceiling of their products. Also, the Sufolon product is the direct result of PKSFs aim to offer financial services that are aligned with seasons.
4. Another apparent trend in the (micro) financial sector of Bangladesh is the loan ceiling of the different loan products. Also, the demand for ME loans increased sharply over the last decade with PKSFs ME loan portfolio doubling between 2011 and 2016. Bangladesh has three very large MFIs (Grameen, BRAC and ASA) who are not expanding laterally any more. Their main expansion is vertical – that is, financing micro-enterprises and increasing loan size.
5. IFAD and PKSF recognises constraints of rural entrepreneurs and designed RMTD to leverage the usually intangible assets that smallholders do have, namely their – as often is the case – long term relationships with their suppliers and buyers, to access small credits for small investments from the Partner Organizations² (POs). These smaller loans enabled the rural producers to pay for the inputs required to expand their production and sales. These loans are being repaid within six to twelve months. However, these investments are being typically for production does not add to their assets creation and entrepreneurship development. The project envisaged to introduce a new dimension by including non-bank

¹ Prepared by Prasun Das and Michael Hamp

² The partner organizations of PKSF are in general the MFIs and NGOs across the country

financial institutions (NBFIs) as potential partners in supplying long term loans and support capital formation.

6. The proposed project to be implemented by PKSF is expected to support the achievements of PACE project and escalate its financial service programme of supporting the POs to transform rural microenterprises into sustainable, productive and employment generating enterprises. The proposed approach of RMTP is to expand access to financial services for the rural producers and microenterprises through the POs and support the non-bank financial institutions (NBFIs) to develop and delivery of credit products to support the downstream business entities. These resources will be utilised exclusively for development of value chains of selected sub-sectors in agriculture (horticultural commodities, livestock and fisheries). The specific objectives of this financing arrangement through the POs and NBFIs are to develop/streamline access to improved assets, technology, inputs and services.
7. Keeping the above in view, this project proposed to include both the POs and the NBFIs³ to provide financial services to facilitate both production and fixed/long-term assets creation activities. The project will identify the strong and weak nodes in the value chains (out the commodities selected in the clusters) and assess the needs of financial and non-financial support. The project also envisaged to partner with the information and communication technology (ICT) service providers to support easy outreach to millions of rural enterprises and linking them with the finance and markets.
8. The above arrangements of financial services and support are frequently called "value chain financing (VCF)"⁴. Value chain finance is a method that has been used successfully worldwide, but only to a limited extent in Bangladesh (although it is probable that more of this kind of lending is taking place in the country, but individual initiatives may not be fully documented as such). The rationale for these types of financing arrangements is that, when they are properly constructed, they are profitable for and beneficial to providers of financial services (e.g. MFIs/Banks/NBFIs) and their clients (e.g. Input suppliers, primary producers, aggregators, logistic service providers, processors, domestic/foreign buyers etc.) The aim of this working paper is to develop and formalise value chain finance (without any structural change in the financing system) and apply the same through this project with selected commodities in RMTP project areas as one way to scale up cost effective and sustainable lending to rural enterprises.
9. The Theory of Change for this project is that involvement of diverse financial institutions (in this project MFIs and NBFIs) in Bangladesh are equipped with the skills and capability to engage in profitable applications of VCF, then rural based microenterprises will have greater access to the kinds of financial services and markets (including market information) they need to make the investments required to enhance their competitiveness and increase their incomes.

2. Context of Introducing Value Chain Finance Approach

10. Rural and agricultural lending system with special reference to microfinance has undergone significant changes in Bangladesh since last three decades and it was observed that the rural clients are being catered by the MFIs through lending and non-lending services and fostered a healthy environment, with the number of borrowers consecutively growing. This phenomenon also supported higher level of financial inclusion in the country. However, the average lending size by the MFIs failed to cater the agri-business enterprises even at the

³ NBFIs in Bangladesh have substantial experiences of financing fixed/long term assets in the rural areas. However, lending experience to agricultural sub-sectors is limited.

⁴The VCF mechanism are used primarily to reduce the lending risks by leveraging relationships as assets, and/or reduction in transaction costs of lending by using value chain actors as loan assessors, distributors or collectors for financial services.

rural levels. For many smallholder farmers and microenterprises, access to finance from formal institutions were difficult because of the scarcity or unavailability of assets that can be pledged as collateral, their low financial education, the limited range of risk mitigation options such as insurance schemes, and the lack of a robust asset base to help ease shocks.

11. With the growth in middleclass and youth population in Bangladesh, demand for high quality foods likewise increases. The consumers in Bangladesh become more interested in how their food is produced. Additionally, consumers demand confidence in the safety and security of their food; they want to know that it was produced under safe, humane and environmentally-sustainable conditions. This requirement has led to a demand for traceability of food items, ones that have been produced with minimal or no harsh ingredients etc. which overall are driving towards higher standards for food production and handling. These developments are putting pressure on food producers and other actors in the agricultural value chains (AVC)⁵ to find ways to meet these expectations which need more investments in building capacity of the downstream actors in the chains.
12. Value chain financing often requires a different mindset by financial institutions and hence most loans are "one off" and ad-hoc. Even though the individual producers' loan analysis, the administration of the loan transaction, and monitoring is passed on to the value chain actors, it does require a measure of trust between financial institutions and the actors in the value chain. To mitigate some of the risks, the financial institution requires a greater understanding of sector dynamics like production potential, market demand and externalities like weather and international commodity prices. This is knowledge that most of the MFIs do not possess and commercial banks do not like to enter into these nitty-gritties.
13. At the same time, some value chain actors (which are typically MSMEs or larger agribusinesses) that act as intermediaries also need to develop certain skills. They need to understand how credit works, how to make good loans and how to monitor these loans so that they get their money back. These businesses may be capable providers of other non-financial services⁶, and may lack good credit management capabilities. They also need to understand how they can effectively work with financial institutions to expand and improve the quality of their loan portfolios.
14. Networked ICT has profoundly improved the value chains of industrial goods and services in Bangladesh; and it can likewise elevate the face of agricultural industry in the country. The AVC suffers from a lack of information on traceability and other valuable data/ indicators which ICT applications are proficient to capture, store and share and potentially important instrument to overcome some of the severe agricultural market inefficiencies and price racialization issues⁷. The market for bringing ICT to the AVC is wide open, and this project can leverage the investments by the private sectors that are moving to fill the need.

3. Existing Financing Models to Microenterprises in Agriculture

15. Conventionally, agricultural development programmes in Bangladesh have tended to be public-sector focused, with an emphasis on agricultural extension and research, food security, infrastructure, rural livelihoods and financial inclusion. Reviews of experience have shown that such approaches have frequently been unable to ensure the sustainability of

⁵ In the simplest sense, food moves "from farm to table"; and while most people can envision a farmer growing produce and a consumer who ultimately eats it, in fact, the AVC is quite a bit more complex, involving scores of individual players and dozens of processes and transactions.

⁶ which includes Technical assistance and market information

⁷ ICT can provide access to experts and information on best practices at the farm level, map the consumers demand (pull marketing) and traceability of products. It can bring transparency in pricing to promote competitive advantage to the skilled producers; ICT is potentially the most important tool to reach to multiple buyers and sellers which could help in achieving price discovery mechanism for the actors in the value chains.

benefits to the poor once programme-funded activities cease. The Promoting Agricultural Commercialization and Enterprises (PACE) project supported by IFAD being implemented by PKSF supports a progressive move for Bangladesh towards a “market systems” or a “making markets work for the poor” approach. This approach has emerged as one of the preferred methods for smallholder farmer development for many multilateral/bilateral donor agencies over the last decade, and has been successfully applied in other rural situations in other countries (for example the Project for Agricultural Development and Economic Empowerment (PADEE) in Cambodia and Cordillera Highland Agricultural Resource Management project (CHARMP) in the Philippines).

16. Currently, there are several loan programmes of PKSF that are targeting rural poor, agricultural activities and small enterprises; the most important of these programme are *Agrosor* (microenterprise), *Jagoran* (microcredit for moderately poor), *Sufalon* (seasonal agricultural loan) and *Buniad* (loan for the very poor) which are being delivered through the POs. The Government of Bangladesh (GOB) encourages the financial institutions to lend more to agriculture and microenterprises through the government schemes. The current policy of the government is for these schemes to operate independently of one another. Bangladesh Bank (Central Bank of the country) issue policy guidelines from time to time to ensure reasonable flow of credit and develop a sustainable agricultural credit system⁸. However, these directives are not directly applicable to the MFIs who are predominantly financing in the rural and agricultural sector. It is to be noted that the MFIs in Bangladesh are regulated by Microfinance Regulatory Authority (MRA).
17. Similar to what can be observed in other countries, formal financial institutions in Bangladesh tend to provide services that do not reach or cannot be accessed by smallholder farmers and rural microenterprises. Many smallholders access credit through agribusinesses in the value chain, where input finance is prevalent and secured not through collateral, but through relationships for example sunflower value chain project in southern delta districts in Bangladesh⁹. These types of lending arrangements within the value chains need to be recognized while mapping the flow of finance in this sector. Given the very nature of informal financing relationships and in the absence of demand-side market data on the use of financial services in Bangladesh, it is hard to assess the volume and type of informal credit that is making its way to smallholder farmers in the country.
18. There have been a number of initiatives undertaken in Bangladesh to support agricultural finance, some of which are still on-going (for example PACE project). Some of these initiatives have not been successful implemented at scale. In other cases, some of the initiatives are still in their early stages of implementation. Nevertheless, these initiatives do offer some useful lessons that can inform the design of future agricultural finance interventions. There is an urgent need that the future projects includes implementing a strategic business planning (SBP) exercise to help the POs analyse their present strategic position and develop an action plan to meet their desired goals and key objectives. PKSF is working with some POs to develop products and help introduce innovations in delivering financial services, especially for hard-to-reach rural-based clients.
19. Non-Bank Financial Institutions (NBFIs) are playing a crucial role in Bangladesh by providing additional financial services that cannot be always provided by the banks. The NBFIs, with more multifaceted products and services have taken their place in the competitive financial market to satisfy the changing demands of customers. NBFIs are investing in different sectors of the economy, but their investments are mostly concentrated in industrial sector.

⁸ For example, Bangladesh Bank issued credit policy guide lines for the year 2018-19 which emphasized that the lenders need to disburse at least 10 percent of their agricultural credit to the fisheries sector (https://www.bb.org.bd/mediaroom/press_release/press/jul252018_press.pdf)

⁹ Value chain development for adoption of new agricultural knowledge: BRAC's initiatives in Khulna with Sunflower

According to the release of Bangladesh Bank¹⁰, the NBFIs' investment in agriculture sector at the end of June 2015 was 1.7 percent of their total investments.

4. Challenges to overcome and lessons learned

20. Providing profitable financial services, and in particular lending to microenterprises (farmers and agri-businesses) is very demanding in any context. Financial services providers must be able to deal with a combination of risks – e.g. weather shocks, fluctuating input and output prices, contract- enforcement difficulties, potential government interventions that can negatively affect the behaviour of market participants, etc. While there are approaches that can be applied more generally, financial service providers will also need to consider more specific approaches that are appropriate to the clusters they are targeting (i.e. given the differences in the characteristics of market locations, the commodities produced and traded, the kinds of actors involved, etc.).

21. The proposed RMTF recognises that there are demand and supply side constraints that can be eased, if not overcome, to effectively enable rural microenterprises' access to short and long term financing. They are as follows:

Main demand side barriers	Main supply side barriers
1. <i>Required loan sizes:</i> Rural microenterprises will require loans that are typically small crop production, medium size for livestock production units and plantation/fruit crops and relative big tickets for acquisition of farm machineries.	1. <i>Typically short term loan products:</i> Financing by the MFIs while obtained in a timely fashion, does not always meet the type of capital required (i.e. long term or medium term funds).
2. <i>Capacity and Knowledge Standards</i> of existing rural microenterprises are not up to the mark to understand the value chains. They are not likely to be knowledgeable about the financial products and services and/or have little experience with dealing with financial service providers.	2. <i>Mismatch of cash flows:</i> All forms of lending models followed by the POs are not always appropriate for financing seasonal production, where the interest rate and repayment terms do not adequately reflect the seasonal nature of the investments and returns.
3. <i>Risks related to main assets:</i> Smallholders may be unwilling to risk their only productive asset to secure financing for production even if long term profitability may be favourable, given risk spikes in the short term gains....?	3. <i>Limited additional services:</i> Financing by the MFIs rare typically unable to provide additional financial services beyond short term credit and savings.
4. <i>Participation in groups:</i> Producers associations (Pas) are existing, however, due past bad experience, smallholders may not participate in groups/ and/or cooperatives to own common assets, which could serve as viable conduits for financing.	4. <i>Restricted use of credit:</i> Internal value chain finance - provided by suppliers, buyers and aggregators within the value chain - is often directed to one crop only, and does not finance the farm as a whole. Also the credit delivered is typically in kind only, and cannot be used to cover contracted labour costs at the farm level.

22. The table below outlines some of the important lessons that can be drawn from the early experience in agricultural finance in Bangladesh- lessons which are also echoed in the experiences of other countries:

Challenges to overcome	Lessons learned
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¹⁰ <https://www.bb.org.bd/pub/annual/anreport/ar1415/chap7.pdf>

High transaction costs (dealing with small-scale transactions, involving those in hard-to-reach locations)	<ul style="list-style-type: none"> Dealing with organised groups of farmers and other ways of aggregating demand (for financial services) can help to reduce the costs of delivering financial services. This may come in the form of value chain financing (especially for high-value crops and more integrated supply chains), specifically when it is part of a broader package of financial and non-financial services.
	<ul style="list-style-type: none"> There are opportunities to introduce innovation in terms of using alternative channels or ways of delivering services – such as NBFIs (offering lower interest rate and provide finance to downstream value chain actors), digital finance and market platform (to reach out to multiple borrower and market place).
Limited understanding of the agricultural sector	<ul style="list-style-type: none"> Financial service providers need to invest in understanding agriculture and its value chains, including specific agriculture sub-sectors, and adapt their products to meet specific demand patterns. This also involves undertaking a good analysis of the key drivers of profitability for both the bank and the actors involved in the lending chain and risk mitigation approaches.
	<ul style="list-style-type: none"> The agriculture sector is quite heterogeneous and many financial institutions require sectoral expertise to assess opportunities and develop appropriate financial products. It would be useful to begin engagement with "easier cases" (i.e. with some of the "low hanging fruit")¹¹, to allow financial service providers to steadily go through the learning phase without prejudice to developing a healthy/high quality loan portfolio.
Difficulties in assessing credit risk	<ul style="list-style-type: none"> In Bangladesh, there doesn't seem to be much sophistication or innovation in terms of credit risk assessment techniques (e.g. use of cash flow-based assessments, agronomic models or more tailored credit scorecards).
	<ul style="list-style-type: none"> However, some of the NBFIs are using these models for financing long term assets in other sectors through strong linkages with supplier, producers, traders and buyers in the value chains – This experiences can be leveraged in case of agricultural sector which can be helpful to make a more informed assessments of risk.
Identifying and adopting other approaches to mitigate and manage risks	<ul style="list-style-type: none"> There are emerging models in other countries where security is provided other than through the requirement for borrowers to pledge traditional collateral. Financial service providers are increasingly able to underwrite anticipated cash flows from the farmer and the buyer, and use other forms of collateral (such as movable assets). Inventory financing (using warehouse receipts) and collateral management agreements are also being used by more financial institutions worldwide. These models, are,

¹¹ This can be done by helping POs and other financial service providers to identify already bankable opportunities (that remain untapped), working with the best farmers or microenterprises, and then seeking a multiplier effect.

	<p>however, not widely used (if at all) by financial institutions in Bangladesh.</p> <ul style="list-style-type: none"> • Risk sharing is a typical approach adopted – e.g. by indirectly lending through groups (e.g. producers associations), or having savings-account-linked input loans – especially in the absence of accessible insurance products (to cover production or weather risk) as in case of Bangladesh.
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5. Addressing the constraints through Value Chain Finance Approach

23. Value chain finance involves a range of methods through which different actors in the value chain finance their activities. Sources of finance can be external actors, such as financial service providers, social investors, community savings groups, etc. or internal actors such as input suppliers, producers, aggregators/producer groups, logistics service providers (warehouse/cold storages, transporters) processors, traders, exporters, etc. Value chain actors typically have a number of financial needs depending on their activities in the value chains. Value chain finance mechanisms are primarily used to reduce risk (i.e. by leveraging relationships or assets) and/or to reduce transaction costs (where value chain actors may act as analytical, distribution or collection points for financial products).
24. There are a number of advantages to this type of lending system, most of which address the constraints which smallholders face when accessing credit in Bangladesh:
- *Finance is usually built into buy-and-sell mechanisms.* This allows producers at the village level to feel more comfortable with the transaction and it is more cost-effective means of delivery when compared with a financial institution providing financial services directly to farmers.
 - *Financing can use existing assets* (often non-tangible), which do not require formal collateral on the part of producers. When collateral is required, it can be given by larger agribusinesses which have sufficient titled assets in place.
 - *It is in the interest of buyers and suppliers to finance* producers to either increase or encourage sales (e.g. of inputs) to them or to enhance the quality of the supply of commodities they receive from them (i.e. in the case of buyers).
 - *Repayment of credit is better assured* as producers can receive payment for their product, net of any loan repayments.
 - *Repayment rate tends to be higher.* This is often helped by the fact that internal value chain finance does not take place unless smallholders receive the technical assistance needed to improve their production.
25. Financial service providers (in this project MFIs and NBFIs) will be able to lend to all sizes of rural enterprises dealing with three focussed subsector of agriculture and indeed, the agribusinesses are more likely to qualify, especially considering their ability to provide the required estimated business for these loans. Financial service providers are not currently taking full advantage of linking to the value chain to mitigate risks or to reduce costs to deliver finance to smallholders or agribusinesses which can be easily achieved through this approach. It is expected that the participating POs and NBFIs will take advantage of some risk-mitigating instruments available in value chain financing, such as cash flow based lending, third party guarantees etc.

6. Implementation Strategies

26. While implementing the proposed RMTP project, the emphasis will be given to develop agricultural value chains of three sub-sector agriculture already identified during the IFAD scoping and design mission. As per the component 2 of the project, the emphasis will be on increased access to finance for the rural microenterprises through financial products and services delivery by the POs (MFIs) and the NBFIs. The project will also seek to build

synergies between both types of financial service providers (MFIs and NBFIs), and how they might come together to leverage finance to the microenterprises. The other lens of RMTP is to provide a robust platform for the angle inverters and crowd funding leveraging the strong background of PKSF and its due diligence process.

27. As stated above, this project will be composed of two streams of interventions: the larger stream will deal directly with POs those will be selected by PKSF; while the other stream will encompass support extended to the selected NBFIs who will be interested to venture into this sector leveraging their experiences in other sectors and follow the wholesale financing mechanism of PKSF.
28. The first stream of intervention will be on core capacity building for POs will be in the area of administration and credit management delivery, in particular, assisting them to:
 - Develop cost effective products and processes to use market intermediaries as wholesalers of small loans to producers (horticultural crops, livestock and fishery sub-sector), and
 - Lend to producers directly, but using value chain finance approach to reduce costs and mitigate risks (using cash flow based financing after mapping the flow of products and flow of finance along the value chains).

The selection of the appropriate sub- sectors in agriculture (out of the broadly identified clusters) will be made by these Pos and will be based on their own strategies for building a portfolio of loans in three sub-sectors of agriculture.

29. The second stream of interventions will be delivered in collaboration with the NBFIs who need to take a pragmatic view into the targeted sub-sectors of agriculture (due to their low/no exposure) and build their capacities for future business opportunities. A facilitation window need to be created for the NBFI partners who are interested to develop their products and services (to cater the financial needs of the rural enterprises which are higher than the capacity of Pos), to achieve efficient value chains. This may entail, for example, helping NBFIs to identify value chain financing opportunities, help to structure loans for SME intermediaries, and then providing guidance on how to deliver these loans successfully. It could be that some of these loans will involve the identified Pos; in other cases, however, this might involve other financial institutions (non-Pos). For example, an SME intermediary in a sector may already have some established track record with a NBFI, which has not been selected in the above mentioned first stream.
30. Within the capacity building activities, it is critical that there is some hands-on product design advisory service that makes it easier for the MFIs and NBFIs to design and implement these products. The table below is illustrative of the kinds of capacity building measures envisaged.

Theme	Illustrative Capacity Building
Linking/Facilitations	<ul style="list-style-type: none">• Support RMTP in linking project partners (e.g. identified microenterprises) with financial Service providers (MFIs and NBFIs)• Design and develop value chain finance arrangements to minimize risk/costs

Upgrading	<ul style="list-style-type: none"> • Technical assistance to microenterprises in administration and credit management, in conjunction with existing project e.g. PACE • Technical assistance to POs in product development, cash flow based finance, building linkages value chain business opportunities, developing tools, etc.
Knowledge	<ul style="list-style-type: none"> • Helping to develop greater understanding of competitiveness in agricultural sectors (among POs) and where there are financing opportunities • Developing and dissemination of training / tools to manage risk • Pilot testing new products • Facilitating field visits / interactions between providers and targeted users of financial services • Developing financial education for producers and for microenterprises
Innovation	<ul style="list-style-type: none"> • Support for innovation, first in lending and then potentially for savings through technical assistance and training • Establishing an Innovation Fund for strategic cost-sharing for innovative products, delivery systems, etc.
Monitoring Evaluation	<ul style="list-style-type: none"> • M& E framework to be developed as per the financing agreement with IFAD • RMTP Indicators need to be measurable and in line with the IFAD's country strategic opportunities programme (COSOP)

Appendix II: Nutrition-sensitive value chain approach.

1. A value chain approach is emerging as a useful way to analyze and navigate the complexity of the food system to improve food security and nutrition. Such an approach can help to identify entry points for policy interventions, investment decisions and capacity development. The traditional focus of value chain development is on increasing the economic development. The traditional focus of value chain development is on increasing the economic value of the commodity to the producer (or the value chain actors). Nutrition-sensitive value chains (NSVCs) leverage opportunities to enhance nutrition value as well, increasing supply and demand for safe and diverse food and adding nutrition value, or minimizing nutrition loses through for examples promotion of biofortified crops or improved transport and storage. In this way, NSCVs contribute to a households consumption of a healthy, diverse diet and consequently to the improvement of the nutritional status of all its members. This chapter presents discussion of the two steps of the NSVC process undertaken in a study commissioned to the center for tropical agriculture (CIAT). It consists of two steps. Step 1 is the assessment of the nutrition situation and Step 2 is the commodity selection.

Step 1: assessment of the nutrition situation.

2. Bangladesh has recorded tremendous improvement in food and nutrition security over the past decades. In terms of child nutrition status, until the mid-1990s, Bangladesh's stunting rates have been significantly higher than those of Sub-Saharan Africa. However, over the past decades, Bangladesh nutrition has been improving. The rate of stunting (low height-for-age) among children under five (0 to 59 months), which reflects the state of chronic undernutrition, has decreased from 51 percent in 2004 to 36 percent in 2014, but still falls below the World Health Organization's (WHO) cut off for very high prevalence. Prevalence of stunting is higher among rural children than urban children (38 percent compared with 31 percent). In spite of the overall better health and nutrition scenario in urban areas, half of the under-five children in slums are stunted, which is around one-third for non-slums and other urban areas (NPAN2, 2017). Across the seven regions of Bangladesh, stunting is most prevalent in Sylhet (50 percent) followed by Barisal (40%) and Chittagong (38%) and lowest in Khulna (28 percent). The nutritional status of Bangladeshi women shows a better trend than that of children. The maternal undernutrition, as measured by "low" body mass index (BMI) of <18.5 has declined sharply from 52 percent to 17 percent between 1996-97 and 2014 (Figure 3). At the same time there has been a rapid increase in prevalence of overweight and obesity (BMI $>=25$) among ever-married women from 3 percent in 1996/97 to 24 percent in 2014.
3. Underweight (low weight-for-age) among children under 5 years has also decreased in Bangladesh over the past decade, from 43 percent in 2004 to 33 percent in 2014. Acute malnutrition- or wasting (low weight-for-height) has remained worryingly stubborn and almost static over a long period, ranging from 14 to 15 per cent between 2004 and 2014). Children living in urban areas are less likely to be wasted (12 percent) than children living in rural areas (15 percent). By regions, wasting among children ranges from 12 percent in Dhaka to 18 percent in Rangpur and Barisal. Micronutrient deficiency among children (under 5s and school going) is still a challenge in Bangladesh. About 20.5% of school going children are vitamin A deficient, 44.6% are zinc deficient and 40% are iodine deficient. Prevalence of iron deficiency is at 10.7% and 9.5% for pre-school and school age children respectively (ICDDR, 2011-12). Thirty three percent of preschool children are anemic. Prevalence of vitamin D deficiency is 39.6% for pre-school and 45.5% for school-aged children (NIPORT, 2013; ICDDR, 2011-12). Women of reproductive age (15-49 years) in Bangladesh have high micronutrient deficiencies. About 42 percent of non-pregnant non-lactating (NPNL) women suffer from iodine deficiency. Prevalence of iron deficiency is at 7.1 percent and zinc deficiency is at 57.3 percent for NPNL women (ICDDR, 2011-12). Fifty percent of pregnant women are anemic and 71.5 percent of NPNL women are vitamin D deficient (NIPORT, 2013; ICDDR, 2011-12).
4. In Bangladesh, non-communicable diseases (NCDs) are rapidly increasing among adults. About 31.9 percent of Bangladeshi women and 19.4 percent men have elevated blood pressure or are currently taking medicine to lower their blood pressure, another 28 percent of women and men are pre-hypertensive. Approximately 11 percent of women and men are diabetic with additional 25 percent of women and men are pre-diabetic (NPAN2, 2017). Generally, even though food access and availability has increased, there is very little improvement in the quality and diversity of diet. The Bangladeshi diets are still largely dominated by cereals, which contributes around 70% of the per capita total caloric intake remaining much higher than the

WHO/ FAO recommendation (2003) of 60%. The diets are deficient in important micronutrients such as vitamin A, iron, zinc and iodine.

5. The ongoing climate change is expected to have detrimental consequences for food security and nutrition in Bangladesh. Climate change is likely to reduce crop production in Bangladesh by 30 percent by end of the century (WFP, 2016). In addition, rising carbon dioxide emission is going to make Bangladesh's staple food crops less nutritious, hence exacerbating the nutrition problem further. Increased salinity in the coastal zones might also alter the micronutrient content of foods, including rice, which may become deficient in zinc and other micronutrients. In addition, intake of saline water may lead to increased preeclampsia in pregnant women due to hypertension, which in turn would aggravate the problem of low birthweight and malnutrition of babies in the coastal zones.
6. During 2015, food insecurity became almost rare in Bangladesh. Furthermore, over the last four years the proportion of households with one or more members going to bed hungry declined from 28 to 4% (JPGSPH, 2016). The proportion of households reported to eat only rice and running out of food stock decreased substantially (11 and 13% in 2015) than the previous years (45 and 51% in 2011). However, to minimize the in-house food insecurity, sacrifices are mostly made by women, even the adolescent girls of the households to cope up with the situation. In addition, consumption of sub-optimal food increased (26%) from the previous year (23%) which is found to be highest in Sylhet division (37%) followed by Rangpur (36%) (JPGSPH, 2016). A major concern in Bangladesh is the lack of sufficient dietary diversity in the average person's (and especially the poor person's) daily consumption, which is often traced back to agricultural diversification—that is, the availability of a diverse range of affordable food.
7. On average, the energy gap between requirements and actual intake for a typical adult Bangladeshi is 82 kilocalories (2,400 kilocalories vs. 2,318 kilocalories), which may differ between socio-economic levels, urban/rural location, and food security status. Dietary intakes vary substantially depending on socio-economic status and residence (i.e. whether rural or urban). Diets are still largely dominated by cereals, which contributes around 70% of the per capita total caloric intake remaining much higher than the WHO/ FAO recommendation (2003) of 60%. Since 1992, there has been an increase in average per capita daily calorie intake from 2266 kcal in 1991-92 to 2318 kcal in 2010 as well as increase in average per capita protein intake of about 4.54 gm (66.26 in HIES 2010 versus 62.52 gm in HES 1991-92). Consumption of fish is near desirable dietary pattern (60gm/day), pulse intake has markedly declined to 14g/d while the intake of fruits and vegetables has improved reaching to about 210 gm/day, which is half of WHO/FAO (2003) recommended quantity (400 gm/day). The usual diets in Bangladesh are typically lacking in important micronutrients, as shown by high prevalence of micronutrient deficiencies for iodine, zinc, vitamin A and iron, which can be attributed to monotonous diets dominated by plant sources, particularly cereals. For instance, thirty-five per cent of the population had mean dietary diversity scores of less than 6 out of 12 food groups (BBS, 2010).
8. Households have slowly been changing their diets and are consuming a broader range of foods, with greater consumption of vegetables, fruits, and animal source foods. However, the consumption rate of these foods remains below the recommended amounts. While there is enough evidence to establish desirable dietary patterns that are beneficial for preventing malnutrition in all its forms, dietary guidelines have not been accompanied by desirable changes in the dietary patterns. Data from the *Bangladesh Bureau of Statistics, Household Income and Expenditure Survey, 2016* show a clear recent trend from 2010-2016 for decreased consumption of rice, wheat, potato, mil/milk products and fruits (-11.74%, -23.73%, -7.78%, -19.01%, -19.96%), and increase in consumption of specific animal sourced foods such as eggs +88.61%, fish (+26.42% and chicken (+54.46%). Trans fat intake is increasing and ultra-processed foods and sugar sweetened beverages in diets are on the rise (CIP2, 2016).
9. People's economic capacity to access food has risen through a rapid decline in the poverty headcount -from 48.9% in 2000 to 23.2% in 2016 -, 90% of which is accounted for by agriculture and an increasing purchasing power even among the poorest. The proportion of households with no food stocks and no ability to purchase food on the market dropped from 51% in FSNSP 2011 to 13% in FSNS-NNS 2015 (JPGSPH, 2016). With regards to food

utilization and nutrition, the third dimension of food security, it also claims 'the fastest prolonged reductions in child undernutrition in recorded history' (WFP 2016).

10. Currently, Bangladesh can boast a surplus in rice and potato production. But for other crops including fruit, maize, oilseeds, pulses, sugarcane, vegetables etc. there is still a big gap between demand and production, and this accounts for much of the hidden hunger in the country (Li, X. and Siddique, K.H.M. 2018). BIHS data shows that the share of rice in total cropped area from 2012 to 2015 decreased slightly whereas non-rice food crops increased. The Government of Bangladesh is seeking to increase the availability of diverse food supply through improved agricultural production and trade, and by according priority to food security and nutrition as important national goals. The only crops which have not increased in production in the eight years between 2007 and 2015 are pulses, banana, and jackfruit. The annual growth of food production from animal sources (e.g. meat, milk and egg) has been comparatively larger, with an increase of 13% for eggs, 22% for milk, and 56% for meat from 2007/2008 levels.
11. In Bangladesh, estimates for post-harvest losses of crops range between 20% and 40% in fruits and vegetables. This is particularly problematic when it concerns nutrient dense produce that are rich in protein and micronutrients -vegetables, fruits, fish, meat and dairy- which are potentially critical for food security and nutrition. Food loss include losses in nutritional value, economic value and food safety. In addition, climate change and natural resource depletion place stress on food production and increase the volatility of supply. Also, animal source food supply contributes to climate change through increased carbon dioxide emissions (CIP2, 2016).
12. The idea that food insecurity arises when food is available but people are unable to afford it is still quite a recent development in the history of food security. Akhter et al. (2017) calculated the cost of desirable food intakes for Bangladeshis, adjusted for population-level requirements. The diet costs Taka 59 (USD 0.70) per capita per day and covers in a cost efficient way the energy, protein and micronutrient requirements. The most cost-efficient energy sources are cereals (rice, wheat), followed by oil and spices. The most cost-efficient protein sources are rice, lentils followed by small fish. The by far most cost-efficient source of vitamin A is leafy vegetables, whereas rice and lentils are the most cost-efficient sources of zinc, and spices and lentils the most cost-efficient sources for iron. Other cost-efficient animal sourced food items are small fish and eggs providing a good source of protein.

Step2: Commodity Selection and Prioritization

13. Further to a discussion with the implementing agency, livestock, aquaculture and crops were identified as commodities to be included in the project. These commodities are the starting point for selection and prioritization as done in this paper. Specific commodities presented here were selected for having potential in addressing the nutrition gaps but that have at the same time, a market potential, income generation potential, potential for women empowerment, and environment and climate impact. They were selected based on the NSVC commodity selection criteria recommended by de la Peña & Garret, (2018). In due course, this list will be fine-tuned. Information on the commodities is collected from the literature as well as face-to-face interviews with nutrition and agriculture experts in Bangladesh. The step concludes with a full overview of the rating and a SWOT analysis on the different commodities. The rating also presents tuber as a potential commodity. However, as tubers were not included in the initial list at concept note stage and thus have not been discussed with the implementing partner, they are currently left out of the selection.
14. **Crops including cereals:** Three pulses were selected: Lentils, chickpeas and mung beans. Lentils and chickpea scored higher 31 points and 29 points respectively, out of the highest possible score of 33 points. Lentils and chickpea scored highly due to their nutrition value and also given that they can provide diverse nutrients to consumers in a cost efficient way. In addition, the two are widely accepted by the Bangladesh people, although their consumption (especially for lentils) has gone down due to low production within the country resulting from crop substitution with rice. Further, lentils and chickpeas are legumes and therefore important in nitrogen fixation. Given that the focus of lentil and chickpea production in the country has decreased overtime, less attention has also been put on developing new varieties. As a result, most of the present varieties are low yielding and susceptible to diseases, drought, and weed infestation. Chickpea producers also have poor management practices. All these combined,

have a negative affect production and productivity. On the positive side, both of these commodities have high consumer demand locally (rural and urban) and export. In fact, the demand is said to exceed available supply, therefore indicating an opportunity for producers. Lentils are however facing a threat from influx of cheap/subsidized imports, especially from Canada. Chickpea on the other hand face threats from pest and diseases and also imports from neighboring countries.

15. Mung beans are also highly nutritious, have a short growing cycle, and tolerance to abiotic stresses, hence becoming favorable for production in Bangladesh in the light of climate change. As a legume, it helps in nitrogen fixation. There is an opportunity to increase production of this commodity in several agro-ecological zones of the country because it is widely adaptable. In addition, the commodity has several varieties for production during all cropping seasons (kharif-I, kharif-II and rabi).
16. Under this food group, pumpkin and dark green leafy vegetables (both exotic and indigenous) were considered to have high potential in improving nutrition of the Bangladesh people. Green leafy vegetables attained a score of 33 and pumpkin 29 against the possible 33 points. Dark green leafy vegetables are highly nutritious and affordable in terms of production and purchase. They can be produced all year round, especially for the producers who have access to irrigation water, hence providing important nutrients throughout the year. They do not require a lot of water to produce. These vegetables have a high demand by rural, peri-urban and urban consumers. They are mainly produced by women. Therefore, upgrading this value chain would create an opportunity for women empowerment. The downside of this vegetables is that it is highly perishable, and due to lack of cold storage facilities by producers and value chain actors in Bangladesh, and also minimal value addition, there is high post-harvest loss, especially during peak seasons. In addition, value chain actors do not have appropriate knowledge on appropriate handling of the commodity to avoid nutrient loss. This includes cooking practices for consumers, as well as transportation and packaging for producers and other value chain actors. The commodity faces threats due to climate change which is increasing salinity and having an effect on micronutrient content in the soil. In addition, inappropriate use of pesticides at production level may have a negative effect on consumer health.
17. Pumpkin is an annual crop, tolerant of hot, humid weather and display a resistance to disease and insects. It can be grown the year round, intercropped and rotated with other plants and is salinity tolerant. Most parts of the pumpkin are edible, including the fleshy shell, the seeds, the leaves, vines, and even the flowers. Important source of protein, minerals (calcium, potassium and phosphorus), vitamins (especially vitamin A), and antioxidants. Pumpkin leaves are good source of Vitamin A, calcium, Vitamin C, iron and protein. Development of stress-tolerant varieties and hybrids, areas under pumpkin cultivation are increasing. BARI has developed an effective, eco-friendly and low-cost integrated pest management (IPM) package. Private seed companies have introduced a number of hybrid pumpkins that are becoming incredibly successful crops in char land and saline-prone coastal regions carotenoids. As a downside the existence of fruit flies can be mentioned, which can cause serious damage to pumpkin crops. In addition, there are fertility and moisture constraints in stress-prone ecosystems (char land, coastal areas, hilly areas). Pumpkin is currently considered by FAO as an underutilized crop for Bangladesh. If more research and development is undertaken, it could become a major crop in Bangladesh.
18. Four fruits were identified as important in Bangladesh, in terms of their contribution to nutrition of the population as well as other four criteria in de la Peña & Garret, (2018). These are mangoes, bananas, pineapples and bael. Mangoes, bael and bananas scored 29 out of 33 points, while pineapples attained a score of 28. Mangoes are widely consumed in the country and are a good source of vitamin A, one of the main micronutrient deficiency identified in the country. They are consumed as fresh fruits and juice, and they have a high demand both locally and export. Some mango farmers wholly rely on sale of mangoes for their livelihood. The commodity however, is highly perishable and faces high market dynamics in supply and demand during the peak and off-peak seasons. Production of mangoes in the country is not very competitive compared to the neighboring countries, such as India. Furthermore, mango yields in Bangladesh are much lower than most other mango growing countries.
19. Bananas are also nutritious fruits, widely consumed and a good source of income for producers. Many actors are involved in the banana value chain, from production, distribution,

to final consumer, therefore creating employment opportunity for local population. Consumers however, are not aware of the nutrition benefits of bananas are most of them just consume it because it is widely available, and affordable. The commodity faces threats of imports from neighboring countries.

20. Bael is currently considered by FAO as an underutilized crop for Bangladesh. It grows under a wide range of soil conditions (pH range 5-10), is tolerant of water logging and has an unusually wide temperature tolerance (from -7 °C to 48 °C). Bael is cultivated with minimum or no care, mainly in homestead boundaries. It is a rich source of carbohydrate, carotene, vitamin B complex, calcium and iron. Demand for bael is high all over the country and the crop can demand high prices. If more research and development is undertaken, bael could become a major crop in Bangladesh. BARI has already developed one new variety of bael. A hardy plant and can be grown in stress-prone areas, especially drought areas with poor soil.
21. Even though pineapple did not score as high as the other two fruits, they are also widely produced and consumed in the country. One of their strengths is that they can be produced almost the whole year, providing incomes for farmers year round, as well as nutrients for consumers. In addition, several varieties are available in Bangladesh, and different varieties are produced for different uses. The Bangladesh pineapples are said to be more juicy and tastier than those from the neighboring countries, hence becoming favorable not just for local consumption but also for export. The commodity is highly perishable. Lack of appropriate storage, transportation and marketing facilities leads to high post-harvest loss. They also face threats from disease and pest attacks at production level.
22. Four cereals were identified as important in Bangladesh, in terms of their contribution to nutrition of the population as well as other four criteria in de la Peña & Garret, (2018). These are bio-fortified rice, aromatic rice, wheat and foxtail millet. Whereas foxtail millet (29) and bio-fortified rice (28) attained the highest scores, wheat (24) and aromatic rice (22) were ranked considerably lower. The main results are as follows:
23. First, bio-fortified rice is a cost-efficient way to increase zinc content in the diet of Bangladesh citizens, as rice is the main staple food in the country, as it accounts for more than 70% of the calorie intake among rural consumers. Bio-fortified rice cultivars have been a result of efforts from national and international research centers, the current varieties in the market have acceptable yields and profits for farmers, and it is an important priority in current government policies. However, challenges are evident, the lack of a formal seed system affects adoption of biofortified rice at a large scale, and there is lack of consumer awareness about bio-fortified rice. Furthermore, current high zinc varieties are susceptible to increases in salinity that harm crop suitability and reduces micronutrient content.
24. Second, aromatic rice is another target crop that was considered for the analysis. It is a product that has an attractive market potential in the country, it has a higher price (more than double of coarse rice), and new widely adopted varieties have yields close to conventional high yielding varieties, making aromatic rice very appealing for farmers, and competitive in the export markets. New climate resistant (salinity) and/or high zinc¹² (via biofortification) varieties have been released, and these are having twofold higher yields, these new cultivars are increasing gaining popularity in the country. Furthermore, the new aromatic rice varieties are resistance to climate change effects, and pest pressure.
25. Third, wheat was also considered as a target crop. It has the advantage of having a huge (and increasing) demand of wheat flour (Atta) in the country, and it is a sub-product that can be easily fortified to close nutritional gaps among urban and rural consumers. Most importantly, according to Akhter et al, 2017), wheat (not fortified) currently represents the most cost-efficient way to cover the caloric, protein, iron and zinc requirements in Bangladesh. Although the demand is high, the cultivation of the crop has not increased accordingly, this is due to the fact that there is no culture or tradition of wheat production in the country. Wheat competes with other cereals (including rice) for cultivation areas, and that production is not highly profitable, as it seems to be more cost efficient to import wheat flour from other countries.

¹² High grain Zn trait has been found to be tightly linked with aromatic rice, Advances in breeding for high grain Zinc in Rice by: B. P. Mallikarjuna Swamy,¹ Mohammad Akhlasur Rahman,^{1,2} Mary Ann Inabangan-Asilo,¹ Amery Amparado,¹ Christine Manito,¹ Prabhjot Chadha-Mohanty,¹ Russell Reinke,¹ and Inez H. Slamet-Loedin¹
Turkish Journal of Agriculture - Food Science and Technology, 3(3): 107-111, 2015

Currently, there are new improved High Yield Varieties (HYV) available in the market, but those are not widely cultivated in the country yet.

26. Fourth, foxtail millet, an underutilized cereal species, has been identified as a potential product for nutrition-sensitive interventions. Foxtail millet has the advantage of being a rich source of carbohydrates, vitamins, and minerals. It is a crop that can be grown year-round in marginal, low fertile and saline lands. It gathers high market price, as de-husked foxtail millet can be sold for twice and thrice the price of fine and coarse rice respectively. Furthermore, it has an appealing market demand, and requires marginal care, yet the area dedicated to foxtail millet is negligible, and yields can vary widely depending on the variety and growing season.
27. Overall, there are two cereals that scored highly in our analysis; bio-fortified rice¹³ and foxtail millet seem to be suitable crops for potential nutrition-sensitive interventions, there seems to have growing market opportunities, and having very little adverse environmental effects.
28. **Livestock and aquaculture:** Six animal sourced food products were identified as important in Bangladesh, in terms of their contribution to nutrition of the population as well as other four criteria in de la Peña & Garret, (2018). These are fish (aquaculture, poultry (chicken, duck), eggs, cattle fattening (beef meat production), small dairy (milk production) and the production of goats and sheep. Whereas aquaculture (31), poultry (30) and egg production (29) attained the highest scores, milk (23) and goats and sheep (23) were ranked considerably lower. Cattle fattening (beef meat production) attained by far the lowest score (18). The main results are as follows:
 29. First, aquaculture might be one of the most suitable options for investments for smallholders. It is a product (or group of products), that is widely consumed and accepted by the Bangladeshi population, regardless of income level (poor, middle, rich), location (urban and rural), and vulnerability (children, pregnant women, elderly). Furthermore, it is a product that has experienced tremendous growth in the local market, making it more affordable for the poor. Aquaculture products are also a great and cost-efficient source of animal sourced protein, and other essential nutrients that can help close the nutritional deficiency gaps, and from the agricultural development perspective, it is a potential income generation activity that can provide smallholders with profits tenfold compared to rice.
 30. The main challenges with aquaculture production are that it requires initial fixed investments (excavating ponds, installing aerators), that might be beyond the reach of poor smallholders. Furthermore, once the ponds are excavated, the land can no longer be used for agriculture, and mismanaging cultural practices can have adverse effects on the environment. In addition, lack of quality seed and feed are important challenges, plus the risk of diseases.
 31. Second, poultry (chicken and duck) are other important target crop for investment. It can be easily integrated in smallholder's farming systems. It is an affordable animal source food, a cost-efficient way to provide required nutrients to fill the nutrition gaps, especially protein and vitamin A. It is a product that traditionally is reared by women, which gives them more control over the farm household income, and it has a high market potential. The challenges related to poultry production are related mainly to the fact that depending on the production system that it is used, poultry may have severe environmental impact depending on manure management, feed production and transportation. Furthermore, poultry production is susceptible to a wide variety of diseases, which in turn will have negative impacts on smallholders' incomes.
 32. Third, another product that is related to poultry is the production of eggs. Once again, this is a product that can create opportunities for women's empowerment as hens are typically reared by women. It is a nutrititious product (especially vitamin A and protein) that can be home consumed by farm households, or sold to other rural and urban markets. As eggs are an important and affordable component of the Bangladeshi diet, it has huge market potential for both domestic and export markets. Egg production also carries the same type of risk that poultry has, and it can also have adverse environmental effect depending on the chosen production system, and the management of manure and feed.
 33. Fourth, cattle fattening (beef production) was another considered product as a potential value chain intervention. Beef is a great animal source food product, it can help tremendously to

¹³ Hybrid zinc rice variety, BU Aromatic Zinc Rice, developed by BSMRAU

meet the nutrition deficiencies of the population, yet it seems that currently Bangladesh might have incredible challenges for beef production to become a suitable and sensible option for smallholder farmers. The most evident challenge would be the lack of grazing lands for production, even the production of fodder and other types of feed might put unnecessary pressure on the scarce food crop areas. Furthermore, there is lack of availability of drugs, vaccines, and artificial insemination facilities, poor husbandry practices, lack of laboratory facilities, etc. all of these makes beef production in the country highly risky, especially for smallholders. In addition, cattle production requires a high demand of water, and has many other adverse effects on the environment. Finally, due to its high price beef meat is not an affordable source of protein and micronutrients to the majority of the population in Bangladesh. Therefore, beef might not be a suitable option in a country whose population evidences a low purchasing power and that is prone to climatic disasters, and could be easily affected by climate change.

34. Fifth, another product that was considered, and that it is related to double purpose cattle production is small dairy production. The production of milk is another great source of nutrients (such as calcium and vitamins) and protein that are needed to close the nutrient deficiencies among the most vulnerable population. However, Bangladesh does not seem to have the suitable conditions for commercial milk production, as there is lack of high yielding breeds, knowledge gaps among dairy farmers, inadequate milk value chain and veterinary services, and shortage of quality feed and fodder. In addition, currently commercial feed is not affordable for the majority of smallholders, and there is lack of access to credit, insurance, and adequate market information. However, a limited amount of dairy cows integrated meaningfully in smallholder farming systems and fed from locally available food and fodder sources may represent an important source of daily income, protein and micronutrients.
35. Sixth, goats and sheep production has also been considered as a potential value chain for intervention, as long as it is well integrated into a smallholder farming system. Goats and sheep have the advantage that are well adapted to hot humid climate, and saline prone areas. Therefore, goat production has the potential to be developed all over Bangladesh. The main challenge with goat and sheep production is that the main breed reared in the country does not produce high yields, and therefore, it is not an appealing income generating activity for smallholders. Furthermore, as ruminants, commercial production of goats and sheep is exposed to the same challenges that are faced by cattle production in Bangladesh.
36. Overall, there are three animal source value chains that have very acceptable scores when analyzing nutrition-sensitive interventions in Bangladesh: The production of fish (via aquaculture), poultry (chickens), and eggs, seems to be products that have enormous benefits for smallholder producers, urban and rural consumers Although these value chains might have important environmental impacts that need to be considered, as long as they are well integrated into smallholder farming systems and livelihood realities, they are appealing income generating activities, that can reduce nutrition deficiencies, with great market potential, and especially for eggs and chickens, can become means to increase empowerment among women in rural Bangladesh.

Table 1-A: Scoring Summary for Commodity Selection

			List of commodities											
			Plant Based Food											
			Cereals				Roots & Tubers		Pulses			Vegetables		
Criteria	Sub-criteria	Score criteria	High Zinc Rice	Aromatic Rice	Wheat	Foxtail Millet	Orange fleshed Sweet Potato	Taro	Lentils	Chick Pea	Mung Beans	Dark Green Leafy Vegetables	Pumpkins	
Nutrition improvement potential	(each to be scored 1 to 3)	(sum across the sub-criteria)												
	Food consumption	Low: 3-4	3	3	2	3	3	3	3	3	3	3	3	3
	Food preferences	Med: 5-7	3	1	3	2	2	2	3	3	2	3	2	2
	Food composition	High: 8-9	2	1	2	3	2	3	3	3	3	3	3	3
		Subtotal Score	8	5	7	8	7	8	9	9	8	9	8	
Market potential	Market demand	Low: 3-4	3	2	3	2	2	2	3	3	2	3	2	2
	Private-sector interest and upgrading potential	Med: 5-7	3	3	3	2	2	2	3	2	2	3	2	2
	Agroecological conditions	High: 8-9	3	2	1	3	3	3	3	2	3	3	3	3
		Subtotal Score	9	7	7	7	7	7	9	7	7	9	7	
Income generation potential	Level of engagement of smallholder producers	Low: 3-4	2	2	3	2	2	2	2	3	2	3	2	2
	Profit margins for farmers	Med: 5-7	3	2	1	3	2	2	3	3	3	3	3	3
	Employment generation	High: 8-9	2	2	2	3	2	3	3	3	3	3	3	3
		Subtotal Score	7	6	6	8	6	7	8	9	8	9	8	
Gender	Women's empowerment	Low: 1 Med: 2 High: 3	2	2	2	3	3	3	2	3	3	3	3	3
		Subtotal Score	2	2	2	3	3	3	2	3	3	3	3	
Environment and climate	NRM and climate-smart agriculture	Low: 1 Med: 2 High: 3	2	2	2	3	3	3	3	3	3	3	3	3
		Subtotal Score	2	2	2	3	3	3	3	3	3	3	3	
TOTAL SCORE			28	22	24	29	26	28	31	31	29	33	29	

Table 1-B: Scoring Summary for Commodity Selection

			List of commodities										
			Plant Based Food					Animal Sourced Food					
			Fruits				Fish	Poultry	Small ruminants	Beef fattening	Double purpose livestock	Animal products	
Criteria	Sub-criteria	Score criteria	Mango	Banana	Pineapple	Bael	Aquaculture	Chicken	Goats, sheep	Beef Meat	Milk	Eggs	
Nutrition improvement potential	(each to be scored 1 to 3)	(sum across the sub-criteria)											
	Food consumption	Low: 3-4 Med: 5-7 High: 8-9	2	2	2	3	3	3	3	3	3	3	3
	Food preferences		3	3	2	2	3	3	2	1	2	2	3
	Food composition		3	3	3	3	3	3	2	2	2	2	2
		Subtotal Score	8	8	7	8	9	9	7	6	7	8	
Market potential	Market demand	Low: 3-4 Med: 5-7 High: 8-9	3	3	3	2	3	3	3	2	3	3	3
	Private-sector interest and upgrading potential	3	2	3	2	3	2	2	2	2	2	2	
	Agroecological conditions	3	3	3	3	3	3	3	1	2	2	3	
		Subtotal Score	9	8	9	7	9	8	8	5	7	8	
Income generation potential	Level of engagement of smallholder producers	Low: 3-4 Med: 5-7 High: 8-9	3	3	2	2	3	3	2	1	2	3	
	Profit margins for farmers	2	2	3	3	3	2	2	3	2	2		
	Employment generation	3	3	3	3	3	3	1	1	2	3		
		Subtotal Score	8	8	8	8	9	8	5	5	6	8	
Gender	Women's empowerment	Low: 1 Med: 2 High: 3	2	3	2	3	2	3	1	1	2	3	

		Subtotal Score	2	3	2	3	2	3	1	1	2	3
Environment and climate	NRM and climate-smart agriculture	Low: 1 Med: 2 High: 3	2	2	2	3	2	2	2	1	1	2
		Subtotal Score	2	2	2	3	2	2	2	1	1	2
TOTAL SCORE			29	29	28	29	31	30	23	18	23	29

Table 2: Strengths, Weaknesses, Opportunities, Threats Analysis

		SWOT Analysis			
		Strengths	Weaknesses	Opportunities	Threats
High Zinc Rice	Cost efficient way to increase zinc content in rice. Rice is widely consumed. Higher yields and profit margins for farmers.		-Lack of formal seed system affects adoption at large scale. -Lack of consumer awareness.	-HarvestPlus has released several high zinc varieties, -Biofortification included in government priorities.	Climate change increases salinity, crop suitability and reduces micronutrient content.
Aromatic Rice	<ul style="list-style-type: none"> - This is a product that has huge market potential - There are new varieties that are more climate shock resistant and/or biofortified 		Current widely adopted varieties have very low yields, and therefore even with higher prices, profits are not too attractive.	Local universities have released new high zinc varieties that are supposed to have twice as much yields as the traditional varieties, yet these varieties are not widely cultivated.	Climate change increases salinity, crop suitability and reduces micronutrient content.
Wheat	<ul style="list-style-type: none"> - There is a huge increasing demand of wheat flour in the country. - The main product derived from wheat (Atta, flour) can be easily fortified to help consumers close their zinc nutritional gap. 		Cultivation of wheat might not be competitive in Bangladesh; it might be more cost effective to import wheat from other countries.	There are better HYVs available in the market.	Climate change increases salinity, crop suitability and reduces micronutrient content
Foxtail Millet	Rich source of carbohydrates, vitamins, minerals. Can be grown year-round in marginal, low fertile and saline lands, high market price and potential market demand, requires marginal care.		Share in area and production is negligible. Low investment in research and development so far. Yield of foxtail millet varies according to the variety and growing season.	<ul style="list-style-type: none"> -Bari has developed 3 improved varieties with high yield potential and tolerance to biotic and abiotic constraints. Priority crop considered by FAO for Bangladesh. -Dehusked foxtail millet is sold for BDT 90 per kg as against BDT 46 and BDT 35 per kg of fine and coarse rice. 	
Orange fleshed Sweet Potato	<ul style="list-style-type: none"> - Rich source of vitamin A and other micronutrients. - Easily adaptable to marginal areas. - Adaptable to saline prone soils. 		<ul style="list-style-type: none"> - Perceived as poor's people food, not widely acceptable among typical consumers. - Low yields paired with moderate price do not translate into a very appealing income generating product. 	<ul style="list-style-type: none"> - Probably one of the most climate resilient, nutrient rich crop that can be promoted for nutrition-sensitive programs. 	<ul style="list-style-type: none"> - Lack of availability of quality seeds - High market risk, as the product is not widely consumed, a small increase in national production might collapse the market.
Taro	Rich source of major and minor nutrient elements. Tuberous roots, stolon, leaves and petioles can be eaten. During kharif-I season, there is		Share in area and production is still limited. Low investment in research and development so far.	Crop can be made available during the kharif season when Bangladesh faces a shortage of nutritious vegetables. Taro is increasingly popular and in demand	

	SWOT Analysis			
	Strengths	Weaknesses	Opportunities	Threats
	wide scope of horizontal expansion of the crop.		across the country.	
Lentils	Cost efficient source of protein and micronutrients; widely accepted by consumers -rural and urban; legume hence assist in nitrogen fixation.	Low yields, susceptibility to diseases, drought and weed infestation hamper lentil production.	Current local demand exceeds supply- market opportunity for producers.	Cheap Imports of subsidized lentils from Canada.
Chick Pea	One of the best plant-protein sources- in terms of protein quality; high farm gate prices; legume hence assist in nitrogen fixation.	-Low productivity of chickpea in Bangladesh due to use low yielding varieties as well as poor management practices; -Consumers unaware of its nutrition benefit.	High market demand, domestic and export	Pest and diseases; and import influx
Mung Beans	-Mung beans are a rich source of nutrients including B vitamins, copper, foliate, manganese, magnesium and zinc. -Short growing time, wider adaptability, tolerance to biotic and abiotic (salinity, drought) stresses. Growing production areas.		-Introduction of BARI Mung-6, which is high yielding (1.5 ton per ha), has a short growing duration (55-58 days).	
Dark Green Leafy Vegetables	-By far, most cost-efficient source of Vitamin A, and other micronutrients. -Year-round production possible. Women's crops.	-High Perishability, lack of cold storage facilities. -VC actors not knowledgeable on best handling practices (including cooking) that retains nutrients.	High demand in urban areas for nutritious and safe vegetables	Climate change increases salinity, crop suitability and reduces micronutrient content
Pumpkins	-It is an annual crop, tolerant of hot, humid weather and display a resistance to disease and insects. It can be intercropped and rotated with other plants. Most parts of the pumpkin are edible, including the fleshy shell, the seeds, the leaves, vines, and even the flowers. Important source of protein, minerals (calcium, potassium and phosphorus), vitamins (especially	-Fruit flies, which can cause serious damage to pumpkin crops. -Fertility and moisture constraints in stress-prone ecosystems (char land, coastal areas, hilly areas)	-Can be grown the year round and is salinity tolerant. -Development of stress-tolerant varieties and hybrids, areas under pumpkin cultivation are increasing. BARI has developed an effective, eco-friendly and low-cost integrated pest management (IPM) package. private seed companies have introduced a number of hybrid pumpkins that are becoming incredibly	

	SWOT Analysis			
	Strengths	Weaknesses	Opportunities	Threats
	vitamin A), and antioxidants. -Pumpkin leaves are good source of Vitamin A, calcium, Vitamin C, iron and protein.		successful crops in char land and saline-prone coastal regions carotenoids	
Mango	-High preference among consumers. -Highly accepted by consumers as fresh fruit or processed (juice) a good source of Vitamin A; and a good source of income for mango producing farmers	Highly perishable commodity and high market dynamics in supply and demand; consumers not aware of its nutrition benefit.	High market demand for mangoes both in rural and urban areas; high value addition options for domestic and export markets.	Mango yields in Bangladesh are lower than in most other mango growing countries- production not very competitive compared to neighboring countries.
Banana	-Nutritious commodity; good source of income for producers. -Highly accepted by consumers as fresh fruit or processed (juice).	-Consumers not aware of its nutritional benefits-they consume just because it is widely available. -Value chain not well organized. -Production is quite capital intensive	-High employment opportunity in Banana value chain	-High banana imports from neighboring countries
Pineapple	-Nutritious and produced almost throughout the year.	Highly perishable; lack of appropriate storage, transportation and marketing facilities lead to high post-harvest losses.	-Wide range of varieties for different uses; Bangladesh pineapples juicier and tastier than others especially from Asia- so a high export market potential.	Threats of diseases and pests at production level.
Bael	-Grows under a wide range of soil conditions (pH range 5-10), is tolerant of water logging and has an unusually wide temperature tolerance (from -7 °C to 48 °C). -Bael is cultivated with minimum or no care, mainly in homestead boundaries A rich source of carbohydrate, carotene, vitamin B complex, calcium and iron	-Share in area and production is still limited. -Low investment in research and development so far	-Demand for bael is high all over the country and the crop can demand high prices. If more research and development is undertaken, bael could become a major crop in Bangladesh. -BARI has already developed one new variety of bael. A hardy plant and can be grown in stress-prone areas, especially drought areas with poor soil.	
Aquaculture	- Huge local market and potential for growth in exports. - Huge potential to overcome nutrition	- It can have high entry costs for smallholders. - It can have negative	- Once initial investments are met, it is a great opportunity for famers as an IGA.	- Diseases and lack of good quality of fingerlings and PL is a

	SWOT Analysis			
	Strengths	Weaknesses	Opportunities	Threats
	deficiencies. - Most affordable animal source food.	effects on the environment. - Once ponds are made, the land cannot be used for agriculture anymore.		huge risk for smallholder farmers.
Chicken	Affordable animal source foods; cost efficient in providing required nutrients to fill nutrition gap, especially protein, vitamin A; women's commodity;	Poultry production may have severe environmental impact depending on manure management, feed production and transportation, and poultry production systems used.	High market potential domestic and export; profitable and potential for women empowerment.	Susceptible to diseases; frequent export bans due to diseases -which has negative impacts on producer incomes
Goats, sheep	-Goats are well adapted to hot humid climate and often produces twins and triplets and have the potential of being developed all over Bangladesh--Sheep are well adapted to the saline environment.	The breeds although adaptable to different climates and soil conditions, do not produce high yields, therefore are not exciting income generating activities.		
Beef Meat	- Great source of animal source food, including protein, and vitamins.	-Poor availability of drugs, vaccines and artificial insemination facilities, poor husbandry practices and lack of laboratory facilities adverse effects on environment, high demand of water, adverse effect on food crop area (due to the need of fodder crop area).		Adverse effects on environment, high demand of water, adverse effect on food crop area (due to the need of fodder crop area).
Milk	Great source of animal source food, including protein, calcium, and vitamins.	-Lack of high yielding breeds, knowledge gaps of farmers, inadequate milk value chain, lack of adequate veterinary services and shortage of quality feeds and fodder commercial feed being unaffordable.		-Risk of disease outbreaks paired with limited access to veterinary services.

	SWOT Analysis			
	Strengths	Weaknesses	Opportunities	Threats
		<ul style="list-style-type: none"> -Lack of access to credit and insurance; improper processing and storing facilities; -Lack of adequate market information, especially when input and output market prices are very volatile. 		
Eggs	<ul style="list-style-type: none"> -Can create opportunity for women empowerment. -An affordable animal source protein and vitamin A. 	<ul style="list-style-type: none"> -Poultry production may have severe environmental impact depending on manure management, feed production and transportation, and poultry production systems used. 	<ul style="list-style-type: none"> -High market potential domestic and export. -Profitable and potential for women empowerment 	<ul style="list-style-type: none"> -Poultry are Susceptible to diseases. -Frequent export ban due to diseases -which has negative impacts on producer incomes.

Appendix III: GGAP and HACCP.

1. The first effort to develop a global standard for food safety and food quality was initiated by the FAO and WHO, and led to the establishment of the so-called Codex Alimentarius in 1961. This is a collection of inter-nationally recognized standards, codes of practice and guidelines for food production and food safety. The Codex Alimentarius is recognized by the WTO as reference point for the resolution of disputes in food safety and consumer protection. The standards are globally accepted by 186 states. Next to the heavy influence of the Codex Alimentarius on international trade in food, most states use the Codex as a basis for their national food safety policies. Also, the Codex has been worked out into a number of sector-specific guidelines and has formed the basis for other standards such as the well-known HACCP standard.
2. Bangladesh is member to the Codex Alimentarius. In 1985 the Bangladesh Standards and Testing Institution (BSTI) was established. This is the only national institution operating under the Ministry of Industries to formulate national standards and to conduct quality controls for industrial, food and chemical products coherent to regional and international standards. Next to these public standards, a slow but gradual development of so-called private standards started at the end of the previous century. In 1997, British retailers got aware of consumers' growing concerns regarding food product safety and quality, what led to the development of an independent certification system for Good Agricultural Practice (G.A.P.). Initially this was done for the European market but in the next decade it evolved, due to globalization and value chain integration, into the world's leading farm assurance program, translating consumer requirements into a global system for safe food standards, called GlobalGAP. Nowadays, GlobalGAP is one of the key standards for the international market for food. Bangladeshi exporters of high-value food products like fruits and vegetables and seafood therefore will be confronted more and more with GlobalGAP standards, especially when they export to Western markets. More specific standards have been developed throughout the years, which are often specifications, or further add-ons on the Codex Alimentarius and GlobalGAP¹⁴.

Food safety issues in Bangladesh.

3. In Bangladesh unsafe food is an urgent matter; food safety problems are frequently reported and have a serious impact on public health, trade in food and agricultural products and consumer confidence. Major reasons for unsafe food is unhygienic practice in food handling and the use of toxic food adulterators. According to a report from the Directorate General of Health Services (DGHS), on an average 3,850 people died from diarrhea each year from the period of 2003 to 2009 attributed mainly to unsafe food. The list of toxic food adulterators is endless and occurs in the fruit, fish, milk and vegetable sector for quicker ripening, colouring and longer lasting storage time. A report from the Ministry of Health and Family Welfare (MOHFW) of government of Bangladesh reveals that nearly half of the food samples have been found adulterated, as tested by Institute of Public Health (PH) from 2001 to 2009. In addition, Bangladesh's middle class has a growing middle class who are more and more concerned about food safety standards. Offering GGAP compliant produce allows smallholders to tap into a huge market potential.
4. The government of Bangladesh ensures safe food through approximately 15 laws, and these laws are implemented by a large number of public institutions. This scattering of legislation and institutions led to a suboptimal situation, where laws were frequently broken and enforcement capacity was too limited to put this to a halt. In addition, Bangladesh consumers have a lack of awareness about the consumer rights they have, and lack specific knowledge on what exactly constitutes safe food. To improve this situation, the government of Bangladesh developed the Safe Food Act in 2013, which was eventually approved by

¹⁴ This report is based on a case study developed by the Bottom of the Pyramided initiative. (http://www.bopinc.org/sites/www.bopinc.org/files/uploads/the_impact_of_food_standards_on_inclusive_growth_in_agriculture_-the_case_of_bangladesh.pdf).

parliament early 2015. The law aims to reduce food adulteration in all stages of the supply chain and to put an end to multi-ministry controlled mechanisms for food safety issues.

Food safety and smallholder farming.

5. Smallholder farmers in developing countries are increasingly integrated into global markets, and the development of food standards worldwide has an increasingly influence on these smallholder farmers, even if they only produce for the national markets. The impact of these developments for small farmers has been frequently debated. Even though several thought leaders agree that potentially these trends can have a positive effect on smallholder farmers, others argue that food standards are reinforcing global inequality and poverty. A key concern is that the process of vertical coordination will exclude smallholder farmers. Three reasons are mentioned for this. First, transaction costs favor larger farms in supply chains, since it is easier for companies to contract with a few large farms than with many small ones. Second, when some amount of investment is needed in order to contract with companies or to supply high value produce, small farms are often more constrained in their financial means for making necessary investments. Third, small farms typically require more assistance from the company per unit of output.
6. However, there is considerable debate and uncertainty on the validity of these arguments, and more generally on the welfare implications of high value chains. While quality and safety standards can make production more costly for smallholder farmers, at the same time they can reduce transaction costs in trade, both domestic and internationally. For example, a positive catalytic effect for smallholders can occur when the introduction of higher quality requirements has coincided with the growth of contracting and technology transfer. Contracts for quality production with local suppliers in developing countries not only specify conditions for delivery and production processes but can also include the provision of inputs, credit, technology, management advice, etc. Costs of compliance as critical point. In trying to summarize the different findings in the literature, the 2014 IFPRI discussion paper titled "Food Safety and Developing Markets" investigates the assumption that the most important negative effect of food standards is related to the costs involved with complying with these standards, and that the investment needed to cover these costs could potentially crowd out smallholder farmers.
7. It is clear that the general assumption mentioned above is the main reason why food standards could form a barrier to more inclusive growth. At the same time, the IFPRI literature review showed evidence for potential positive catalytic effects of food standards on inclusive growth. In general, IFPRI found that the potential positive effects that smallholder farmers can have from increases in food standards are related to reduction in income risk and increased production efficiency, rather than from a possible price premium related to the compliance with the food standards. With regard to the increases in production efficiency, complying with food standards to a large extent means improving your production practices to get these in line with general Good Agricultural Practices. These changes in production practices can not only improve production quality, but also production quantity and the efficiency in terms of kg of product produced per unit of inputs. Farmers might produce more products and therewith also have the potential to earn more income. Bringing production practices in line with Good Agricultural Practices does not automatically mean that a smallholder farmer has to make more costs. The basic aspects of good agricultural practices often mainly have to do with a better understanding of how to grow your crop.

RMTP project activities.

8. To address the increasing concern of food safety, the project will assist to introduce Global Good Agriculture Practices (GGAP) for marginal/small farmers and micro-enterprises involved in primary production of the selected crops, poultry and livestock, and aquaculture commodities. The GGAP Chain of Custody Standard (Traceability) will be introduced for all

commodities supported by the project. The project will support enterprises involved in produce handling, feed manufacturing, and hatchery to obtain GGAP if required.

9. The project will engage a recognized institution (international/national) to prepare the GGAP protocols for commodities in the selected value chains. The local service providers will receive training to become GGAP Master Trainers to support marginal/small farmers, micro-enterprises and downstream enterprises within the selected value chains. An in-country accredited audit and certification firm will be engaged to certify producers' groups, micro-enterprise groups and downstream enterprises.
10. Support will be provided to enterprises engaged in crop/meat/fish processing to obtain Hazard Analysis Critical Control Point (HACCP) certification. The project will engage national HACCP experts to guide processors on obtaining HACCP certification; if national experts are not available, training will be organised to develop this expertise. The training will cover the Codex Alimentarius Commission's Good Manufacturing Practices and preliminary steps to full HACCP. Subsequently, PKSF will enter into a retainer contract with an in-country company to support enterprises to undertake the necessary steps to obtain HACCP certification. PKSF will engage with an in-country certification authority to undertake certification.
11. The project will raise public awareness of the benefits derived from GGAP and HACCP for domestic consumers, producers, processors and exporters, through mass media. If required, the project will contract an advertising company to roll out the campaign

Appendix IV: Typical Value Chains to be Considered

1. **Aromatic and fine rice.** Bangladesh has a trade deficit in rice; imports in 2015 amounted to USD 450 million. The bulk of rice produced is short, medium and long, while the production of aromatic and fine rice is relatively low. New varieties of aromatic rice have yields that are close to or at par with conventional rice if an appropriate input package is used, with emphasis on organic fertilizer and organic pest control. The output price for conventional rice is about BDT 40/kg compare with BDT 95/kg for aromatic rice. The export price of aromatic rice is 154% higher than that of imports or conventional rice. Aromatic rice has higher nutritional values compared to conventional rice (protein and lipid fat is two times higher; dietary fibre is seven times higher). To optimise the returns from producing aromatic rice, there is scope to address identified constraints related to plant spacing, mechanisation, fertilizer and pesticide use, irrigation, and harvest and post-harvest handling. Food safety and traceability also needs to be addressed for both domestic and export markets.
2. **Onion.** Bangladesh has a trade deficit in onion, amounting to USD 255 million in 2015. This can be addressed through the introduction of improved varieties, improved production technologies with mechanisation, better post-harvest handling (drying, storage, packaging), introduction of labelling, and compliance with food safety standards and traceability.
3. **Mango.** Bangladesh is the world's seventh largest producer of mangoes. It is estimated that mango production is currently worth USD 4 billion annually, and is growing by 4% per annum. Most mango is sold on the domestic market, either fresh or for juice. Export of fresh mango offers a huge potential; however, export attempts particularly to the EU faced serious issues with food safety due to inappropriate use of pesticides and ripening chemicals. Production can be substantially improved by introducing integrated pest management; applying balanced fertiliser, approved pesticides and ripening agents; improving pruning and orchard sanitation; using fruit sleeves; better post-harvest handling, cold chain and fruit drying; complying with food safety standards and traceability; and modern packaging and labelling.
4. **Mud crab.** Mud crab production engages some 300,000 people along the commodity chain. However, production has recently declined due to the lack of crablets collected from the wild, as the resource is over-exploited. Presently there is only one hatchery for mud crablets, serving about 5% of demand. Land for increasing production is also becoming scarce. This situation can be addressed by establishing additional hatcheries, introducing vertical recycling production systems that take up limited space, and introducing compound feed. Marketing and output prices can be enhanced by introducing food safety standards and traceability.
5. **Goat.** Domestic demand for goat meat has risen by 5.5% per annum between 2005 and 2015, and the growth trend is increasing. It is estimated that the goat mortality rate is 40% per annum, while the weight growth rate is 30% below potential. The rising demand for goat meat can be met by improving present production systems to reduce or eliminate mortality and improve fodder quality, feeding, health care and breeding. Marketing and output prices can be improved by introducing food safety standards, traceability and branding.
6. **Dairy.** In 2015, the import of milk products amounted to USD 290 million. There is scope for import substitution while at the same time increasing the supply of young animals for the beef industry. Domestic production of milk is currently 2.8 million MT; combined with imports this amounts to consumption of 18 litres/capita/year, compared to 90 litres/capita/year in India. Demand for milk product is increasing by 5% annually; a large part is met by reconstituting imported powder milk. The present very low productivity must be addressed to make milk production competitive. The breed needs to be improved using AI sourced from milking animals developed for the tropics, as well as the Swiss brown breed. The Frisian-Holstein breed currently used is not suitable for the climate nor the level of management applied by small farmers. The quality of fodder, feeding, water and watering also needs to be improved. Investment in vaccinations and health care, housing of animals, milking machines, and milk collection cooling centres is required. Marketing and output prices can be improved by introducing food safety standards and traceability.
7. **Beef.** Domestic beef consumption grew by 4% per annum between 2000 and 2015. Beef production in Bangladesh is a function of milk production as bull calves are used for fattening, and low milk yields imply low meat production. The introduction of improved milking cows will increase the supply of animals with higher meat productivity. Productivity of the local breed can also be improved by improving health care, water quality, fodder quality, feeding and

-
- housing. Marketing and output prices can be improved through the introduction of food safety standards and traceability.
8. **Poultry.** Domestic demand for poultry products has increased by 15% per annum for meat and 11% per annum for eggs between 2000 and 2015. The backyard poultry sector accounts for 88% of total poultry production and is an important food/protein source. The recent development of improved backyard breeds such as the Indian Kroiler offers potential for increasing the productivity of backyard poultry. Improving productivity will require parent stock of existing hybrids or cross-breeding between commercial and local breeds. Marketing and output prices can be improved by introducing food safety standards and traceability.



Investing in rural people

Bangladesh

Rural Microenterprise Transformation Project Project Design Report

Annex: RMTP FINANCIAL & ACCOUNTING MANUAL

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Asia and the Pacific Division
Programme Management Department

PALLI KARMA-SAHAYAK FOUNDATION (PKSF)

FINANCIAL & ACCOUNTING MANUAL

PALLI KARMA-SAHAYAK FOUNDATION (PKSF)

FINANCIAL & ACCOUNTING MANUAL

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1 - INTRODUCTION

CHAPTER - 1

INTRODUCTION

1.1 – About PKSF:

A) - Legal Form:

Palli Karma-Sahayak Foundation (PKSF) is an association not for profit registered under the Companies Act 1994 (the then enforced Companies Act 1913). The PKSF was incorporated in Bangladesh on May 1990.

B) - Nature of Activities:

Palli Karma-Sahayak Foundation (PKSF) was established under the Government initiatives for undertaking activities throughout the country for alleviation of poverty of the landless and the assetless people. PKSF is presently carrying out its operations through various partner organizations (POs). Financial assistance is given to them for the purpose of on-lending the same to the landless and assetless people for generating their income and employment opportunities. PKSF as an apex organization to provide loans to the NGOs, which in turn would provide collateral free credit to their poor members.

Two major programs of PKSF are - (I) - Credit Program and (II) - Institutional Development Program. PKSF provides loans to two categories of POs - Organizations Operating in Small Areas (OOSA) and Big Partner Organizations Operating in Large Areas (BIPOL). PKSF charges concessional service charges on POs depending on the size of loan taken. PKSF also provides advisory services and training to NGOs for enhancing their institutional capacity. Apart from core program, PKSF operates some other programs such as (I) - ADB funded Participatory Livestock Development Project (PLDP), (II) - Integrated Food Assisted Development Project (IFADEP-1) funded "DAW" under VGD Programme, (III) - Jamuna Multipurpose Bridge Authority Project (JMBA) funded Training, Employment & Income Generation Programme, (IV) - South West Flood Damage Rehabilitation Loan Program (SRLP), (V) - Sundarban Bio-Diversity Conservative Project and etc.

Since the PKSF is registered as an association not for profit under the Companies Act, It transfers its' surplus of income over expenditure to the capital fund account every year.

1.2 – Preamble:

This manual is the essence of a sound financial management and effective accounting administration of the organization. The intent of this manual is to provide written guidelines to all concerned with a view to facilitate proper financial control on overall operational activities of the organization. It is endeavored that this manual will be great assistance in fulfilling the requirements of the financial discipline and bringing uniformity and cohesion amongst the different areas of the financial management.

A smooth, sound and sophisticated accounting system is a pre-condition for an effective and meaningful financial management. The basic requirement for ensuring a good and beneficial financial management is to establish a system with a well defined procedure so that the accounting records are maintained accurately and the financial statements are prepared on time. It is obvious that a foolproof accounting system is needed first for attaining the benefits of the financial management.

It is important indeed that PKSF may expect to prepare and receive financial statements of the funds so utilized and disbursed to its' partner organizations and also itself. Therefore, to enable the accounts' personnel to prepare useful and accurate financial reports it has developed a standardized financial recording system that will help to ensure the correctly, timely and regular basis financial reporting. The purpose of introducing the accounting manual is:

- To implement an appropriate accounting system as per the Generally Accepted Accounting Principles (GAAP) in all sphere of the financial transactions & activities of the organization;
- To ensure the application of International Accounting Standards (IAS);
- To ensure the over all coverage of the requirements of the Companies Act 1994;
- To ensure the full coverage of taxation aspects of the organization as per the rules & regulations of the Income Tax Ordinance 1984 and VAT Act 1991;
- And in turn to help the management not only in establishing an effective control over the financial transactions & activities; and
- Also to avail a positive support in administering the overall activities of PKSF.

1.3 – Financial Accounting Objectives:

The objectives of maintaining accounts of PKSF are to provide:

- a) To maintain an utmost sound financial regularity & discipline in all level of financial management of PKSF activities;
- b) Transparency and accountability should be achieved through better implementation of effective financial management control system and accordingly better preparation & presentation of the organization's financial statements following the international standards.
- c) Full disclosure of the operating cost / expenses of the organization.
- d) Accounting records that can serve as the basis of ascertaining the implementation of plan and budget, preparing future plan of operation and budgets, and for evaluating plan and budget demands and proposals.
- e) Financial information needed for monitoring expenditure and for exercising effective management control of operations of the organization.
- f) Reliable information for report purposes, which will serve the requirement of GOB, PKSF Internal Management, Donors, Internal Audit, External Audit, Investigation, Assessment, Review and other relevant agencies.
- g) Periodical statement and report to PKSF management and other related offices as required by the management.
- h) To strengthen internal control techniques & polices, internal check, better mechanism to improve financial accountability, ensure the accuracy of the financial reports and maintain a methodical recording of financial transactions.

1.4 – Accounting and Auditing Requirements:

Sound financial management is vital to PKSF success. Amongst others, sound financial management will help PKSF to perform efficiently by reducing in-progress delays or bottlenecks, speeding disbursements and facilitate monitoring.

The accounting and auditing requirements that are obliged to comply with are outlined below:

A - Accounting Requirements:

PKSF accounts must be maintained in accordance with accounting practices that are generally recognized by the international accounting community. Such practice, one adopted should be consistently followed. The accounting records should be maintained in a manner that is transparent and auditable and financial statements produced must reflect a clear link to the books of accounts.

B - Auditing Requirements:

The broad aim of PKSF audit is to safeguard the interest of the GOB / Donor Agencies / other related bodies and PKSF itself and promote transparency and accountability, along with sound economic and financial management practices across the PKSF. Towards that broad aim, the objectives of auditing are to give an independent assessment of:

- ❖ Whether the financial statements shows a true and fair view of the financial position of the PKSF and its income and expenditures for the year in question and have been properly prepared in accordance with appropriate rules and regulations and following the international accounting standards;
- ❖ The adequacy of the PKSF's arrangements to secure economy, efficiency and effectiveness in the use of the resources;
- ❖ The adequacy of the PKSF's financial management systems;
- ❖ The adequacy of the PKSF's arrangements for preventing and detecting fraud, corruption and the internal control framework generally;
- ❖ The adequacy of the PKSF's arrangements for ensuring the legality of transactions that might have a financial consequence;
- ❖ The adequacy of the PKSF's arrangements for collecting, collating and recording accounting data and publishing financial statements and reports pursuant to appropriate rules and regulations and as per internationally accepted standards.

1.5 - Accounting Offices:

- In Head Office -

Chief of Finance & Accounts will be in charge of the Finance & Accounts Department of Head Office who remains directly responsible to the General Manager Administration of all financial and accounting functions & activities of Head Office and Regional Audit offices.

- In Regional Audit Offices -

Manager (Audit) will be in charge of the Finance & Accounts functions who remains directly responsible to the Chief of Finance & Accounts for financial and accounting functions & activities of Regional Audit offices and for other internal audit functions / activities of POs directly responsible to Deputy General Manager (Audit) posted in head office.

1.6 – Accounting Year:

PKSF shall use July to June as their planning year, accounting year as well as fiscal year. Uniformity in the planning period, accounting year and fiscal year is deemed necessary for proper planning and monitoring purposes.

1.7 – Books of Accounts:

PKSF shall maintained all books of accounts based on the following requirements, guidelines, instructions, rules and regulations as per the:

- (a) Financial and Accounting Manual of PKSF;
- (b) Rules of the PKSF Accounting Code;
- (c) Requirements of the International Accounting Standards (IAS);
- (d) Contents of the Companies Act 1994;
- (e) Requirements of the Income Tax Ordinance 1984;
- (f) Guidelines of the Value Added Tax Act 1991;
- (g) PKSF's different policies approved by the Governing Board of PKSF;
- (h) Requirements of the Donor Agencies;
- (i) And such other books of accounts as required, circulated and instructed by the Management of PKSF from time to time.

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CHAPTER - 2

ACCOUNTING SYSTEM

2.1 - Background:

Palli Karma-Sahayak Foundation (PKSF) is an organization with the objectives to act as the apex body to provide loans to the NGOs (Partner Organizations) which in turn provide collateral free credit to their poor members. Its funding depends on from government, IDA, donors agencies and assistance and also on its own income. The money has to be expended in line with the budget that has to be properly and adequately documented and authenticated. PKSF will ensure that all financial transactions created / made in connection to the activities / operation of the organization have to be systematically, properly, accurately and timely recorded in the books of accounts of PKSF.

That is why systematic recording of financial transactions and timely reporting to interested groups as mentioned above is essential through preparation and presentation of financial statements in accordance with generally accepted accounting principles. Main objective of adopting the manual is to provide a systematic & acceptable basis of maintaining accounts and sound financial management procedures.

2.2 - Basis of Accounting:

Accounts of PKSF should be maintained on acceptable basis, that is, all income actually received are to be considered as income and all expenditure / payments, actually made are to be taken as expenditure, with a few book adjustments for stock & stores, advances, prepayments, outstanding expenses, depreciation, accrued income, receivables, etc.

As such accrual basis of accounting is being pursued. The organization shall apply, adopt, follow and implement the guidelines / instructions of the International Accounting Standards (IASs) for all purposes of accounting.

2.3 - Accounting responsibility:

Finance & Accounts Section is entrusted with the responsibility to ensure the proper maintenance of the books of accounts of the organization. Timely and accurate presentation of the financial reports is the prime job of the accounts personnel in PKSF head office.

The Finance & Accounts Department will ensure the authenticity & recording for all payments and also responsible for recording of all receipts on time. They will supervise the effective implementation of the internal control devices & assist the management in attaining financial management. The head of the Finance & Accounts Department is responsible to preserve all books of accounts & supporting accounting records in a systematic manner. Management will make job/duty allocations to the staff members of finance/accounts section & ensure smooth function of the section.

As a measure of management safe-guard, the required coverage and appropriate precautions must be exercised for handling of cash, handling of store materials, carrying cash from and to bank and preservation of cheque books and over all financial discipline of the PKSF.

Any staff member of PKSF who signs or countersigns in any primary documents, books of original entries, books of final entries and reporting etc. is personally, officially and professionally responsible for their completeness, correctness & for the facts as stated there in so far as it is his / her duty to know or to extent to which he / she may be responsible or expected to be aware of them.

2.4 - Accounting Policies of PKSF:

Accounting system, selection and application of accounting policies and presentation of financial statement of PKSF shall be in conformity with the internal accounting standards. Accounting policies of PKSF encompass the principles, bases, conventions, rules and procedures adapted by PKSF management in preparing and presenting financial statements by using best management judgment in the circumstances of the organization are best suited to present properly its financial position and the results of its operations. PKSF shall uses its judgment in selecting and applying its accounting policies keeping in view the following:

- The requirements and guidelines in International Accounting Standards dealing with similar and related issues;
- The definitions, recognitions and measurement criteria for assets, liabilities, incomes and expenses set out in the International Accounting Standards Committee (IASC) framework; and
- Pronouncements of other standards setting bodies and accepted policies, but only to the extent, that these are consistent with the above.

Four considerations shall govern the selection and application of the appropriate accounting policies and the preparation of the financial statements of PKSF. These are:

I. Prudence -

Uncertainties inevitably surrounded many transactions. This shall be recognized by prudence in preparing financial statements.

II. Substance -

Financial transactions and other events shall be accounted for and presented in accordance with their substance and financial reality and merely with their legal form.

III. Materiality -

Financial statement shall be disclosed all items which are material enough to effect evaluation or decisions.

IV. Neutral -

Financial transactions shall be neutral and shall be free from bias.

Accounting policies of PKSF are listed below:

1) Accounting Convention - Basis of Preparation:

- Financial statements shall be prepared under historical cost convention and in accordance with the International Accounting Standards as adapted in Bangladesh and where relevant with presentational requirements of the Companies Act, 1994;
- All activities included in the accounts shall be continuing in nature that is the financial statements prepared on going concern basis;
- Financial transactions shall be accounted for and presented in accordance with their substance and financial reality and not merely with their legal form;
- Comparative figures shall be stated in the financial statements;
- The disclosures in the financial statements, in all material respects, are in accordance with International Accounting Standards.

2) Currencies:

- All PKSF's assets, liabilities, capital fund, income and expenditure are denominated in terms of the Taka, the local currencies;
- Hence, PKSF is not subject to foreign currency risk.

3) Fixed Assets:

- Fixed assets shall be stated at cost less accumulated depreciation;
- Fixed assets valuation bases used for determining the amounts at which depreciable assets shall be stated in the financial statements;
- Maintenance and repairs are charged to the statement of income when expenditure incurred and improvements are capitalized. Land is not depreciated;
- The gross amount of depreciable assets and the related accumulated depreciation shall be disclosed in the financial statements;
- An item shall be recognized as an asset when it is probable that future economic benefits associated with the asset shall flow to the organization. The cost of the asset to the organization can be measured reliably.
- An item of property, plant and equipment that qualify for recognition as an asset is initially been measured at its cost.
- The component of cost is purchase price plus all other costs of bringing the asset to working condition.
- The policies in recognition, valuation & revaluation of property, plant and equipment should not be contradictory to the IAS 16.

- The assets are accounted for in the following classes:
 - (a) Land: Land is recorded at the price paid for the land to the GOB. The other expenses for acquiring the land are added to the cost. The other expenses are: Stamp fee, Registration fee, Government tax, Legal fee, Other expenses
 - (b) Building: Valued at cost plus all other relevant expenses up to the point of bringing it to the usable condition. It is recorded at the amount of cash or cash equivalents. The building is shown in the balance sheet at cost less accumulated depreciation. The following cost are considered: (i) - The cost of floating tender for selecting - Designer, Contractor, Personnel, Material, Other; (ii) - Material costs; (iii) - Labor cost; (iv) - Consultants' fee; (v) - Design fee; (vi) - Supervision; (vii) - Guard; (viii) - Utility cost; (ix) - Other.
 - (c) Machinery: Machinery is acquired at cost that can be measured reliably. All other expenses to bring the machinery to the working condition are considered.
 - (d) Motor Vehicles: Shown in the balance sheet at cost less accumulated depreciation. The other related expenses are added to the cost for making it fit for running in the road. Among the other costs that can be recognized over its purchase price are the following: (i) - Registration cost; (ii) - First time checking and inspecting expenses.
 - (e) Furniture and fixture: Are recorded at the amount of cash or cash equivalents paid or the fair value of the consecration given to acquire them at the time of their acquisition. These are shown at cost less accumulated depreciation in the balance sheet.
 - (f) Office equipment: Are recorded at the amount of cash or cash equivalents paid or the fair value of the consecration given to acquire them at the time of their acquisition. These are shown at cost less accumulated depreciation in the balance sheet.
 - (g) Others: On the basis of the chart of accounts.

4) Depreciation on Fixed Assets:

- Depreciation shall be charged on fixed assets on reducing balance method;
- Depreciation on fixed assets additions shall be charged from the date of the acquisition under reducing balance method;
- Depreciation for the period shall be charged to income statement for the period;
- Depreciation method selected shall be applied consistently from period to period;
- The selection of allocation and estimation of the useful life of a depreciable assets shall be the matter of Judgment of PKSF management considering the expected physical wear and tear
- Accumulated depreciation shall be disclosed in the financial statement;
- A reconciliation of additions, disposals, amount of depreciation and other movements shall be given in the financial statements;
- The rate of depreciation on each class of asset shall be follows:

<u>Category of assets</u>	<u>Rate of Depreciation</u>
Building	10%
Tin Shed	20%
Semi Building	15%
Transports & Vehicles	20%
Office Equipments	20%
Furniture	10%
Library Books	10%
Carpet & Drapery	20%
Crockeries & Cutleries	30%
Deep Tube-well	15%
Electric Generator	
Fire Fighting Equipments	
Power Substation	

5) Revenue Recognition:

- Service charges shall be calculated in accordance with the loan agreement between PKSF and its partner organizations (POs);
- Service charges shall be charged as per PKSF policy depending on the loan volume to the loans to POs under core program and other projects of PKFS;
- Service charges on project loan to POs (borrowers of PKSF) shall be accounted for on accrual basis;

- Service charge shall not be accrued on POs whose loans are more than 29 days in arrears with respect to the payment of service charges or principal or both;
- Service charge on regular loan - loans where no amounts are overdue, as at the end of the reporting period, shall be recognized as income;
- Service charges shall be disclosed separately in the financial statements in order to give a better understanding of the composition;
- Interest income from short-term investment / deposits shall be accounted for on accrual basis;
- Grants for expenses to the extent of the amount for the year shall be recognized as an income during the year;
- All other incomes shall be accounted for on accrual basis;
- Any other / miscellaneous income shall be accounted for on realized basis / actual basis that shall be disclosed in the financial statements;
- All items of income recognized in a period by PKSF shall be included in the determination of the net surplus or deficit for that period;
- The nature and amount of each extraordinary item shall be separately accounted for and disclosed in the financial statements;
- Revenue is recognized by PKSF when it is probable that future economic benefits shall flow to the organization and these benefits can be measured reliably.

6) Recognition of Grants & Accounting for Government Assistance:

- Grants for expenses shall be recognized as deferred income to the extend of the amount of subsequent years and for equity as capital fund;
- Amount equal to current years' depreciation under grant for assets shall be recognized as income. Rest / carrying amount of the relevant assets shall be accounted for as grant for assets;
- Government grant shall not be recognized until there shall be reasonable assurance that the PKSF shall comply with the conditions attaching to it, and that the grant shall be received;
- The nature and extent of government grants recognized shall be disclosed adequately in financial statements;

7) Borrowing Cost:

- Borrowing costs shall be interest and other costs incurred by PKSF in connection with the borrowing of funds;
- Borrowing costs shall be recognized as an expenses in the period in which they are incurred;
- Borrowing costs shall be accounted for on accrual basis;
- The nature and extent of borrowing costs recognized shall be disclosed adequately in the financial statements;

8) Employees Retirement Benefit Plans:

- Employees' retirement benefit plans shall be adequately disclosed in the financial statement of PKSF in respect to plans and to the following: Description of plans, Number of participants received benefits, Employers' contribution, Employees contribution, Investment incomes and administrative expenses.
- Provision for the employers' contribution to the Contributory Provident Fund shall be made as per rules of the Contributory Provident Fund Scheme;
- Required amount against provision for gratuity shall be invested in the bank with a view to timely payment of gratuity to the staff members of PKSF;
- Premium for Group Insurance Coverage for its employees shall be accounted for annually;
- Cost of providing retirement benefit shall be recognized as an expense in the period during which the services are rendered;

9) Taxation:

- At present, provision for income tax is not required to make in the financial statements as PKSF has been exempted from income tax;

10) Capital Fund:

- The origin of the capital fund is the receipts of the grants made by the Government of Bangladesh;
- The accretion of capital fund shall be the transfer of each yeas' surplus of income over expenditures of PKSF;
- Capital fund is restricted to be exclusively used for the purpose of PKSF only and the surplus of income over expenditures cannot be distributed as dividend to its members.

11) Loan to Partner Organizations:

- The loan given to the partner organizations (POs) of PKSF for micro-finance to the poor for poverty alleviation shall be shown at loan amount (Gross value).
- The total loan shall be classified according to the policy of PKSF.
- Provision shall be made in the accounts for Bad and Doubtful Debts.
- Detailed movement of the provision shall be disclosed in the financial statement.

12) Loan to Partner Organizations for Capacity Building:

- Loan to the Partner Organizations shall be given subject to the budget provision.
- Loan shall be operated according to the policy of the PKSF.

13) Loan Classification and Provisioning Policy:

- Considerations for loan classification: At first - In determining the level of the provisions required on the loan amount to the borrowers (POs), PKSF management has considered a number of factors that are as follows:
 - ❖ The debt service - Payment record;
 - ❖ Sub-sector assessment - Acceptability, profitability & competition;
 - ❖ Comparative evaluation of borrower - Sector average, position & status;
 - ❖ The borrower's financials - Dependability, liquidity, income generation, cash flows & leverage;
 - ❖ The borrower's governance / management - Capability, experience, quality, integrity, professionalism, controls, commitment; and
 - ❖ The borrower' s viability - Risks, operational status, financial strength, cost recovery.

Second consideration for loan classification: In determining the level of the provisions required on the loan amount to the borrowers (POs), PKSF management shall consider another factor that the number of days in arrear of the loans to POs.

The results of the application of the different factors in assessing the borrower's loan quality shall be the classification of loans to POs into five internationally accepted categories;

- Loans to Partner Organizations (POs - the borrowers of PKSF) shall be classified in the following five internationally-accepted categories:

<u>Days in Arrears</u>	<u>Loan Classification / Quality</u>
Current (No arrears)	Standard
1 to 30 days arrears	Watch-list
31 to 180 days arrears	Sub-standard
181 to 350 days arrears	Doubtful
Over 350 days arrears	Loss

- After determining the classification of loans to POs, provisions are then set up based on the following guidelines:

<u>Days in Arrears</u>	<u>Loan Classification / Quality</u>	<u>Required Provisions</u>
Current (No arrears)	Standard	2%
1 to 30 days arrears	Watch-list	5%
31 to 180 days arrears	Sub-standard	20%
181 to 350 days arrears	Doubtful	75%
Over 350 days arrears	Loss	100%

- Provisions for doubtful and bad debts are made, having regard to both the general and specific risk.

➤ General Provisions -

- The general elements of the provisions relates to those loan losses that, although not yet specifically identified, are known from experience to be present at any year-end in the loan portfolio.
- The potential losses not specifically identified (general provisions for "standard" loans) in the portfolio are recognized as an expense in the statement of income and expenditure and separately shown in Balance Sheet as Debt Management Reserve on loan.

➤ Specific Provisions -

- The specific elements of the provisions relates to those loan losses that, have been specifically identified as problematic, doubtful or bad.
- The potential losses which have been specifically identified (specific provisions for "watch-list", "sub-standard", "doubtful" and "loss" loans) in the portfolio are recognized as an expense in income statement and separately shown in Balance Sheet as Debt Management Reserve on loan.

 **Methodology for Loan Classification and Provisioning**
Matrix Methodology

- a) The matrix methodology takes in to account different factors in assessing the quality of a loan, notably, the borrower's payment record and financials. In addition, the matrix methodology considers the borrower's sub-sector, its relative standing in the sub-sector, governance and management, and viability. The application of these various elements in assessing the loan quality involves the use of five loan classification categories: "standard" or "pass" "watch-list" or "special mention", "substandard", "doubtful", and "loss". The discussion below provides a broad conceptual description of the situations attendant to these classifications.
- b) The credits, which are considered "standard", do not exhibit credit weaknesses that might jeopardize collection of the debt in the manner agreed to upon the loan's inception. Such credits are properly structured so that repayment is effected in a timely and realistic manner and are otherwise sound in every respect. In essence, they are good credits to good borrowers.
- c) Loans under the "watch-list" category show no signs of potential default. However, the borrower is vulnerable to structural economic/financial changes or there are certain minor, unsatisfactory aspects to the loans. These loans require closer monitoring than "standard" loans.
- d) A "substandard" loan is one, which has a well – defined credit weakness, or weaknesses, which jeopardize(s) the servicing of the debt. The sound net worth or payment ability of the borrower inadequately protects it. Substandard credits are characterized by the distinct possibility that the lender will sustain some loss if the credit weakness is not corrected. Loss potential, while existing in the aggregate amount of substandard assets, does not have to exist in individual assets classified substandard. The loan of a borrower that relies heavily on grant income or subsidies, which are uncertain over after a period of time, to cover its operating costs and debt servicing obligations could at best be considered substandard.
- e) A substandard borrower is also one, which lacks adequate cash flow to service or repay its currently maturing debts. This credit weakness may be determined from an actual lack of performance or it may be concluded on a prospective basis through an analysis of the enterprise's financial statements. In some instances, borrowers may appear to perform on their debts but in fact do not. It is through the capitalization or refinancing or interest, which is due and unpaid that the loan appears current. Substandard assets might include loans to borrowers which are fundamentally viable but which require a moderate degree of restructuring in their operations to improve efficiency and profitability, a more conducive operating environment, and a stretching out or change in the mix of their liabilities. The objectives of restructuring would be to improve the borrowers' operations so that they are more efficient, more competitive, and sufficiently profitable to adequately service their debts and provide a reasonable return on capital. In effect, the credit weaknesses in such borrowers are, to a very large degree, controllable and correctable over the short-term with a minimum of external intervention.
- f) A "doubtful" loan has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. One example of a doubtful asset is a loan which exhibits the characteristics of a substandard asset but which is also seriously past due and inadequately protected by the realizable value of any collateral pledged.

- g) The definition of a doubtful loan should be extended to those borrowers, which are fundamentally viable, but require significant restructuring of their operations and debt relief or forgiveness to remove the massive overhang of obligations they owe.
- h) Loans are classified as "loss" or uncollectible and of such little value that there continuance as sound assets is not warranted. This does not mean that the loan has absolutely no recovery or salvage value, but rather it is not practical or desire-able to defer writing off this basically worthless asset even though partial recovery may be affected in the future. Assets considered, as loss would include loans to those borrowers, which are not viable in the short-term under any reasonable circumstances.
- i) The matrix methodology, shown in Appendix-B-I, provides a systematic basis for classifying loans based on a host of factors. The column on "sub-sector", while applicable to lenders, which service different sub-sectors, is ignored in applying the matrix to PKSF's loan classification. It is assumed PKSF is a wholesale lender providing credits to relatively homogeneous retail lending institutions. In using the matrix, the auditor would determine in which "boxes" the loan would fall. The "box" depicting the worst situation would be the basis for the loan classification.
- j) Once the loan classification is determined, the required provisions could be computed by multiplying the percentage provisions required under the classification by the outstanding loan amount.
- k) The "Big Five" international accounting firms, in collaboration with multilateral financial institutions, have utilized a matrix methodology in determining the loan classification and provisioning required of financial institutions operating in different parts of the world.

Annex-B-1
Methodology for PKSF Loan Classification and Provisioning

Classif./Treatment	Payment Record	Sub-sector	Borrower	Financials	Governance/Management	Viability
"Standard": 2%	Punctual, no lates High account turnover	Acceptable adequate demand Adequate profitability Minimal competition	Above sector average Strong competitive position Good products and market	Profitable Liquid Sufficient cash flow(CF) Low leverage (LV)	Capable/qualified No doubt of integrity Clear strategic vision Very professional Good control/MIS Good external credit	No significant risks
"Watch List": 5%	Delays <90 days Occasional overdrafts High ave. payables Medium turnover Minor contract breach on payables	Some questions Income decreasing Competition increasing Price competition up Operating costs up	Within sector's average Some competitive weaknesses	Profitable Acceptable liquidity Moderate leverage CF<operating costs+replacement of assets	Capable/qualified No doubt of integrity Some strategic problems Improving control/MIS Committed governing body & managers	Will survive problems Has strength to cope New capital available if needed No major labor issue
"Substandard": 20%	Past due >90<180 days Recurrent overdrafts Low account turnover Contract breach on payables>90 days Weak loan documentation	Volatile Weak co. under pressure Income down Liberalization risk Administered prices (interest rates)	Under sector's average Defined competitive problems	Income low to zero Low liquidity High leverage Weak cash flow (CF) CF<P+I Viability dependent on grant income Increased	Weak, low capacity Shallow experience Questionable integrity No strategic vision Weak controls/MIS Governance	Reliant on financing Questionable owner support New marketing needed Latent future risks Minor labor excesses
				Working capital mask problems	conflicts Weak external audit	Basic problem is financial Products and market can recover
"Doubtful" 75%	Past due >180 days Permanent overdrafts Contract breach on payables> 180 days Renewals capitalize interest Poor legal documentation	Poor earning = or <zero Acute price competition High risk of liberalization Operation restructuring needed Political prices (interest rates)	Well below sector average Serious competition problem Urgent need to modernize Losing markets Product problems Over-extended	Operational losses Illiquid Selling assets to survive CF<interest service Excessive leverage Inadequate payment source Increased WC hides operating losses	Poor Incompetent-hiding Uncooperative, hostile Doubts on integrity Lack of control/MIS No source of new capital Poor external audit	Operational problems Major labor excess Require debt relief Deep product restructuring No full cost recovery
"Loss": 100%	Past due>365 days New loans despite operational losses Patently inadequate evidence of loan Non-interest bearing loans	Dying Structural weaknesses Anachronistic	Lower quartile Uncompetitive Weak products Marginal role	High losses Selling assets at losses Acute CF & leverage problems CF<gen. & adm. Costs No identifiable repayment sources(except liquidation)	Very poor Cannot be trusted Incompetent and desperate Chance of fraud Non-existent governance	Extremely questionable Should be liquidated Should be fragmented

14) Accounting of Expenses:

- All expenses shall be accounted for as on accrual basis. Under the accrual basis of accounting, transactions and events shall be recognized when they occur (and not as cash or its equivalent is paid) and shall be recorded in the accounting records and reported in the financial statements of the periods to which they relate. Expenses shall be recognized in the income statement on the basis of a direct association between the costs incurred and the earning of specific items of income (matching).

15) Materiality and Aggregation:

- Each material item that is enough to effect evaluation or decision shall be presented separately in PKSF financial statement. Immaterial amounts are aggregated with the amounts of similar nature or function and need not be presented separately.
- Financial statements result from processing large quantities of transactions, which are structured by being aggregated into groups according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data, which form line items either on the face of the financial statements or in the notes. If a line item is not individually material, it shall be aggregated with other items either on the face of the balance sheet or in notes. An item that is not sufficiently material to warrant separate presentation on the face of financial statements may nevertheless be sufficiently material that it should be presented separately in the notes.
- Materiality depends on the size and nature of the item judged in the particular circumstances of its omission. In deciding whether an item or an aggregate of items is material, the nature and the size of the item shall be evaluated together. Depending on the circumstances, either the nature or the size of the item could be the determining factor. For example, individual assets with the same nature and function shall be aggregated even if the individual amounts are large. Large items which in nature or function shall be presented separately.

16) Offsetting:

- PKSF's assets and liabilities shall not be offset except when offsetting is required or permitted by any International Accounting Standard.
- Items of income and expenditure shall be setoff when an International Accounting Standard requires or permitted.
- It is important that both assets and liabilities, and income and expenses, when material are reported separately. Offsetting in either income statement or balance sheet, except when offsetting reflects the substance of the transaction or event, detracts from the ability of users to understand the transactions undertaken and to assess the future cash flows of the organization. The reporting of assets net of valuation allowances for example doubtful debts allowances on receivables is not offsetting. Transaction which do not generate revenue but which are incidental to the main revenue generating activities. The results of such transactions or event, by netting any income with related expenses arising on the same transaction.
- For example: Gains and losses on the disposal of non-current assets, including investments and operating assets, are reported by deducting from the proceeds on disposal the carrying amount of the assets and related selling expenses;

2.5 - Accounting Assumptions of PKSF:

Following are the accounting assumptions of PKSF to be followed:

a) Going Concern:

When preparing the financial statements, PKSF shall make an assessment of an enterprise's ability to continue as a going concern.

b) Consistency:

The presentation and classification of financial items in the financial statements shall be retained from one period to next period unless;

- i) - A significant change in the organization.
- ii) - A change in presentation is required by an IAS.

c) Accrual:

PKSF shall prepare its financial statements, except for cash flows information, under the accrual basis of accounting.

2.6 - Characteristics of Financial Transactions & Statements:

The financial transactions and the financial statements of PKSF shall have the following characteristics:

- 1) Understandability;
- 2) Relevance;
- 3) Reliability;
- 4) Faithful presentation;
- 5) Substance over form;
- 6) Neutrality;
- 7) Prudence;
- 8) Completeness;
- 9) Comparability.

2.7 - Procedure for Recording Transactions:

2.7.1- Money receipts and recording thereof:

The organization receives its fund from the Government (own resources and lent from IDA credit) as loan in the form of cheque / draft and through Special Accounts subject to the terms of the Development Credit Agreement between the Government and IDA & Subsidiary Loan Agreement. The other sources of the funds are service charges, bank interest earned, income from training, sale of waste & scraps materials, other miscellaneous incomes etc. Repayment of Loans to POs with service charges is to be received by the organization regularly.

Money Receipts (as per computerized form) are to be prepared and issued to the concerned parties / customers on receipt of any fund and income by the organization. Money receipts must be numbered.

Money Receipt shall be prepared in tree (3) copies, original receipt goes to the payer, the second copy will be attached with the credit voucher and third copy will be in the file or reserve copy. Money receipt shall be checked and then placed it for recording it the Cash Scroll Book through computer and at the day end cash scroll is checked with physical cash and duly signed by cashier cash officer, and then kept it in vault by joint custodian. All receipts (cash, cheques, demand draft, pay order etc.) shall be deposited at the earliest opportunity, in the bank by filling in the pay-in-slips, after due verification and approval and then recorded it in the Cash Journal Register in the computer through preparing cash journal - credit voucher.

2.7.2 - Payment made in cash / by cheque and recording thereof:

All payments made by cash or cheque shall be processed through the payment vouchers (Cash Journal - Debit Voucher) and posted in the credit side of the Cash Journal Register that will be debited to the appropriate head of accounts. All payment vouchers must be supported by the documentary evidences such as requisition / indent, quotation, comparative statement, purchase committee resolution, purchase order, challan, bills, cash memo, job completion certificate etc. and duly approved by the authorized personnel. Upon receipt a bill, the Finance and Accounts Section will verify the relevant documents to justify the payment and prepare a voucher to process the payment subject to the clearance of the pre-audit cell.

Payment in cash should be restricted to the limit and cases as are narrated and earmarked in the delegation of authority.

Generally all payments will be made by cheque and that should be crossed before handing over the same to the payee. Neither a blank nor a bearer cheque should ever be signed by the organization. The cheque must bear the name of the payee, date of issue, amount in both figures and words. While signing the cheque, an initial should be given on the counter-part of the cheque where the cheque particulars will be recorded in a condensed manner.

Cheque books should always be kept under lock & key under safe custody of the authorized custodians. Canceled cheque should be retained with chequebooks & corners thereof torn off as a measure of safeguarding against any misuse, in future. When disbursing amounts, Person responsible for payment (as per job/duty allocation) should obtain the signature of the payee or his/her authorized representative, acknowledgment of receipt of cheque or cash as the case may be. When approving a payment, all supporting vouchers or documents must be canceled (by affixing a rubber stamp worded "**PAID AND CANCELED**") to minimize the risk of a double payment subsequently being made by mistake or manipulation.

2.8 - Preparation of daily cash and bank balance statement:

Daily cash & bank balance statement usually contains the following data & information:

- A - Bank account balance of different banks;
- B - Cash in hand;
- C - Advance slip (IOU-Temporary Loan) balance (If any);

Cashier and Cash Officer (F/A) will check & sign this statement at the end of the day as per format.

2.9 - Passing Adjusting Journal and Closing entries:

- Adjustment entries for stores, advances, prepayments, outstanding expenses, accrued income, receivables and depreciation shall be made as and when required through journal vouchers.
- All rectification, transfers and adjustments and non-cash transactions are to be processed through journal voucher.
- The adjusting journals will be prepared by the Assistant Manager Finance (AMF), duly checked Finance Manger (FM), certified by the Chief of Finance & Accounts and approved by the competent authority. The posted / entered the same in to the computer software.
- The journal vouchers will be filled in a chronological order.

2.10 - Preparation of Trial Balance:

- The ledger accounts shall be balanced on transaction basis to prepare trial balance. Consolidated Accounts, Project Accounts and Fund Accounts to be drawn to ensure the arithmetical accuracy of the entries made in the Cash Journal Register and Ledgers Accounts.
- Trial balance will be the base document to prepare the Income & Expenditure Account, Balance Sheet, Cash Flow Statements and all other financial statements as required by management.

2.11 - Reporting of Accounting Office:

Accounting office shall close the accounts at the last transaction day of the month. This closing includes:

A - Closing of Books and Accounts:

- ✓ Closing of Cash Journal Register - Cash and Bank balance;
- ✓ Balancing of General Control Ledger;
- ✓ Balancing of all Project, Fund, Subsidiary & Sub-subsidiary Ledgers.
- ✓ Balancing of all Loan Ledgers
- ✓ Balancing and updating of all kinds of registers.
- ✓ Cash and bank balance confirmation;
- ✓ Bank reconciliation statements preparation;

B - Preparation Financial Statements:

- ✓ Preparation of Trail Balance;
- ✓ Preparation of monthly Income & Expenditure Account;
- ✓ Preparation of monthly Balance Sheet;

- ✓ Preparation of all necessary schedules and break up of figure;
- ✓ Preparation of Cash flow statement as per International Accounting Standard-7.
- ✓ Notes to Accounts with full disclosure requirements of adequate & correct presentation of Financial Statements as per International Accounting Standards;
- ✓ Yearly basis loan classification statements and loan loss provision statements following the Matrix method for the loans to POs;
- ✓ Interpretation of Financial Statements;
- ✓ Budget Monitoring & Budget Variance Analysis;
- ✓ Preparation of Project Financial Statements as per Guidelines of Donor;
- ✓ Donor-wise statement of utilization against a fund would be prepared on the basis of the financing agreement. Reports would assist management with comparison of actual cost with budgeted cost promptly and accurately.

Accounting office shall prepare the complete set of accounts – financial statements by the 20th of the next month at the latest and submitted to the Managing Director.

2.12 - Activity Chart of transactions & their documentation:

Activity Chart of the total financial accounting system of the organization has been outlined as below:

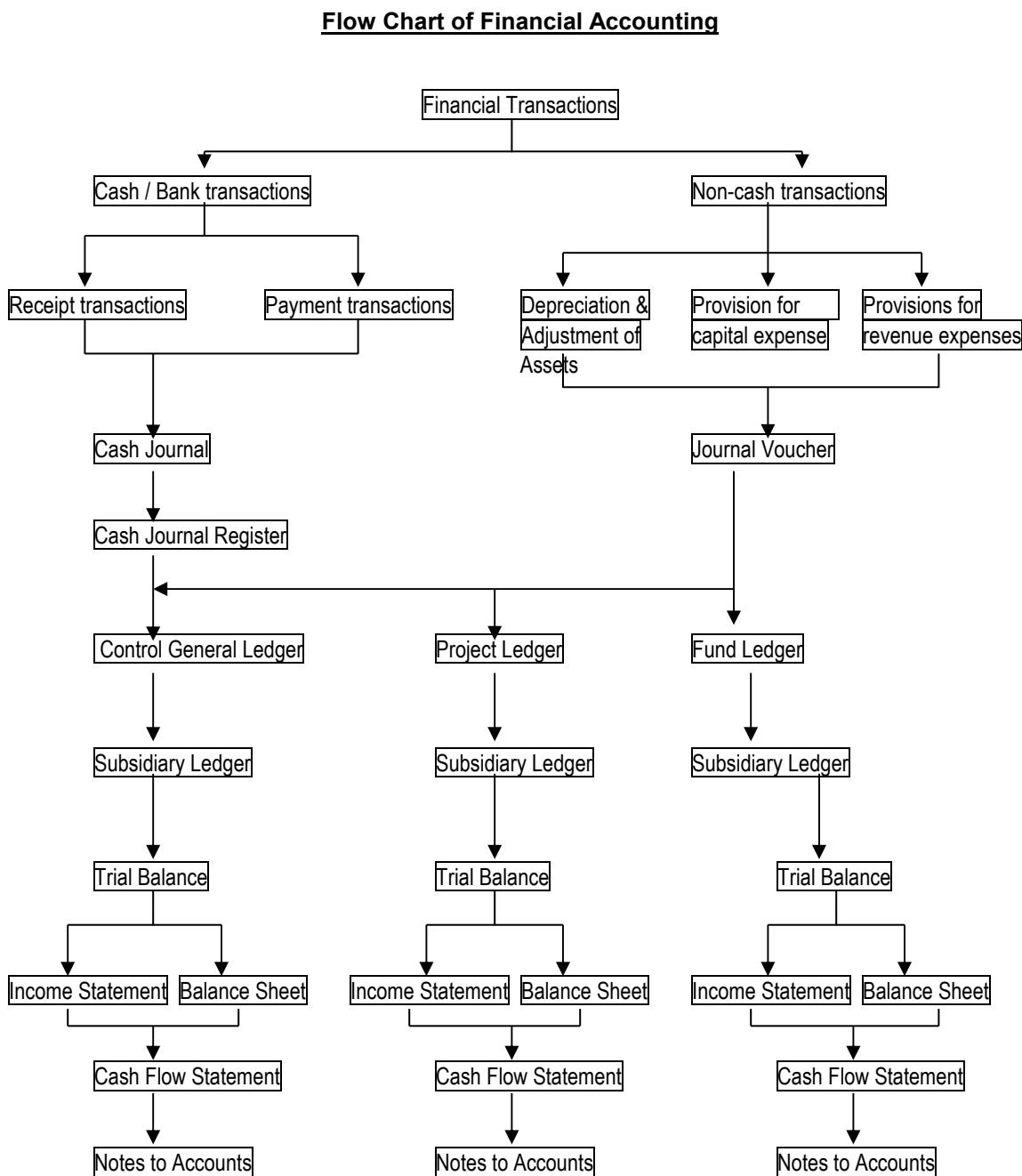
ACTIVITY CHART

Activity	Form to be used	Frequency
1-Transactions – cash or non-cash		As and when it takes place
2-Adequacy of documents of transactions		For each transaction
3-Approval of transactions		For each transaction
4-Payment vouchers – Cash Journal		For each transaction
5-Payee's acknowledgement		For each transaction
6-Receipt vouchers - Cash Journal		For each transaction
7-Posting to cash journal register		Daily basis
8-Balancing of cash journal voucher		Daily basis
9-Posting & balancing to bank accounts ledger		Daily basis
10-Preparation of daily cash & bank balance statements		Daily basis
11-Preparation of bank reconciliation statements		Monthly basis

12-Journal vouchers	Daily, as & when takes place
13-Adequacy of documents of journal voucher	For each transaction
14-Posting to control general ledger	Daily basis
15-Posting to project ledgers	Daily, as & when takes place
16-Posting to fund ledger	Daily basis
17-Posting to budget register	Daily basis
18-Balancing of all ledgers	Daily basis
19-Posting to fixed assets register	As & when it takes place
20-Posting to stock register	As & when it takes place
21-Balancing of stock register	Daily basis
22-Posting & balancing of advance register	As & when it takes place
23-Posting and balancing of loans register	As & when it takes place
24-Posting & balancing of all payable registers	As & when it takes place
25-Posting & balancing of all subsidiary ledgers	As & when it takes place
26-Posting & balancing of all sub subsidiary ledgers & registers	As & when it takes place
27-Preparation of trial balance	Monthly basis
28-Preparation of income statements of all projects	Monthly basis
29-Preparation of consolidated income statements of PKSF	Yearly basis
30-Preparation of balance sheets of all projects	Monthly basis
31-Preparation of consolidated balance sheets of PKSF	Yearly basis
32-Preparation of cash flow statements of all projects and PKSF	Monthly basis
33-Preparation of notes to accounts of all projects and PKSF	Monthly basis
34-Preparation of accounts statements/schedules of all projects and PKSF	Monthly basis
35-Preparation of cash custody certificates of all projects and PKSF	Monthly basis
36-Obtain bank balance confirmation certificates - all projects and PKSF	Monthly basis
37-Obtain Loan balance confirmation certificates from POS - all projects	Monthly basis

2.13 - Financial Accounting Flow Chart:

PKSF financial accounting system flow chart has been given as below:



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- 3.1 - Introduction***
 - 3.2 – Cash Journal – Debit / Payment Voucher***
 - 3.3 – Cash Journal – Credit / Receipts Voucher***
 - 3.4 – Journal Voucher–Adjustments/Non Cash Transactions***
 - 3.5 – Cash Journal Register***
 - 3.6 – Main / Control General Ledger***
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 - 3.8 – Money Receipts***
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 - 3.10 – Store Ledger***
 - 3.11 – Bank Reconciliation Statement***
 - 3.12 – Formats to be used***
 - 3.13 – Erasing & overwriting prohibited***
 - 3.14 – Conclusion***
-

CHAPTER – 3

ACCOUNTING FORMS, VOUCHERS AND RECORDING BOOKS

3.1 - Introduction:

In general, the following accounting forms and recording books could possibly be kept and maintained by PKSF. These accounting forms and recording books would be used for documentation of various records, analysis and interpretation of daily financial transactions of PKSF in terms of cash and accrual basis. Utilities and characteristics of different forms and recording books are described here in details for smooth functioning of processing the every day financial transactions of PKSF head office and its Regional Audit offices in systematically.

3.2 – Cash Journal – Debit / Payment Voucher:

Voucher is the primary source of information to the accounting process. Vouchers are prepared on the basis of invoice or memorandum that serves as evidence of a transaction. As soon as cash and bank payment transaction is completed, it has to be recorded in Cash Journal – Debit / Payment Voucher. To record the cash and bank transactions, it is the primary and main evidence of processing transactions of PKSF head office and its Regional Audit offices.

Debit – Cash Journal:

In case of cash / bank expenses or payments or discharging of liabilities, it has to be recorded through Debit – Cash Journal. Debit / Payment vouchers shall be submitted for approval together with all supporting documents. Only duly approved vouchers can be posted to the books of accounts.

The specimen format of Cash Journal is given in Form No. - 101

3.3 – Cash Journal – Credit / Receipts Voucher:

As soon as cash and bank receipt or income transaction is completed, it has to be recorded in Cash Journal – Credit / Receipt Voucher. To record the cash and bank receipt transactions, it is the primary and main evidence of processing transactions of PKSF head office and its Regional Audit offices.

Credit – Cash Journal:

In case of cash / bank receipts or incomes, it has to be recorded through Credit – Cash Journal. Credit / Receipts vouchers shall be submitted for approval together with all supporting documents. Only duly approved vouchers can be posted to the books of accounts.

The specimen format of Cash Journal is given in Form No. - 102

3.4 – Journal Voucher – For Adjustments / Non Cash Transactions:

Journal vouchers need to be prepared in order to reconcile different combinations of inter related accounts. Besides, transactions of some non-cash items will also be made through the preparation of Journal Voucher.

Preparation of journal voucher is generally necessary to record the posting of all financial transactions that are generally categorized as below:

- ◆ Depreciation of all fixed assets;
- ◆ Provision created for the capital expenditures;
- ◆ Provision created for the revenue expenditures;
- ◆ All sorts of adjustment in inventory accounting;
- ◆ All sorts of adjustment of advances;
- ◆ All sorts of income receivables;
- ◆ Provision created for the loan losses;
- ◆ To accounts for all sorts of accrued liabilities;
- ◆ Accounting of deduction of security deposit, Income Tax, & VAT
- ◆ All sorts of rectification entries for appropriate corrections;
- ◆ Other transactions not covered by any other vouchers.

Journal vouchers shall be submitted for verification to the Manager Finance (FM) and then for approval to the Deputy General Manager (DGM), together with all supporting documents. Only duly approved journal vouchers can be posted to the books of accounts.

The specimen format of Journal Voucher is given in Form No. - 103

3.5 – Cash Journal Register:

PKSF account section shall maintain double-column Cash Journal Register. All cash and bank transactions will be recorded in the respective columns of cash and banks of cash journal register on daily basis in computer.

Cash debit journal will be recorded on the expenditure / payments side and cash credit journal will be recorded on the receipt side of the cash journal register chronologically. Cash journal register must be balanced after daily operations are being completed. After balancing the cash journal, the balance amount will be physically verified and there after both accounts officer and cashier will put their signatures acknowledging the above balance as found correct. Thus, it is the primary and main book of the PKSF that will give an accurate picture of the cash item transactions in a particular time.

This will be a computerized form – R-201.

3.6 – Control General Ledger:

The control general ledger is the control book to summaries all financial transactions (cash items and non-cash items transactions) of PKSF in accounts head and accounts code wise for easy preparation of financial statements. Recording of all the daily expenses and income transactions will be made in the control general ledger through computer. All transactions in cash journal register and through journal vouchers will have to be recorded in control general ledger under different accounting heads and codes.

This will be a computerized form.

3.7 – Project Ledger:

PKSF executes various projects simultaneously. Project accounts are separate sets of books. So, it is essential to keep separate records for all transactions as per their connection to different projects since the sources of funds are not same. To ensure the project wise recording, the all project wise financial transactions VIZ, cash and non-cash items will have to be accumulated in accounts head and accounts code by opening of project ledger sheet in necessary.

This will be a computerized form.

3.8 – Money Receipts:

Money Receipt is a computerized form, shall be used for the following transactions:

- Receipt of funds;
- Receipts of service charges and loans repayments amount from POs;
- Sale proceeds of wastage and scrap materials;
- Sale proceeds of assets & dead stock;
- Fees and subscriptions;
- Received from other sources;
- All other receipts.

3.9 – Subsidiary Ledger:

Subsidiary ledger is the secondary control book to summaries all financial transactions (cash items and non-cash items transactions) of PKSF in accounts head & code wise for detail presentation of the control general ledger. Detail recording of the daily expenses and income transactions will be made in this ledger. All transactions in cash journal register and through journal vouchers will have to be recorded in this ledger under different accounting sub-heads and sub-codes.

This will be a computerized form – R-202.

3.10 – Store Ledger:

Store ledger shall be maintained for all materials purchased - whether for works or for store or for sale. A separate folio or set of folios shall be opened for each stock group. All stock items placed in store or issued out of store should be recorded in the store ledger individually. All stock items in store shall be inventoried at June 30 each year positively. All types of store ledgers shall be up-to-date at all times and balanced at the end of each month.

3.11 – Bank Reconciliation Statement:

The bank statement providing all details of bank transactions should be obtained from the bank by the 5th of the following month and scrutinize the transactions recorded in bank statement and reconcile with the Cash Journal Register.

Bank reconciliation statement should be prepared by the tenth day of the following month. If the account section with the balance as per bank statement for reconciliation purpose, all cheques deposited but not credited by bank should be added, and cheques issued but not cashed be deducted.

Appropriate reconciliation would also be required for bank charges, which are generally accounted for only on receipt of bank statements.

The official designated for verification should review the completed bank reconciliation statement very carefully.

The specimen format of Bank Reconciliation Statement is given in Form No. - 107

3.12 – Formats to be Used:

The organization will also use the following formats in the prescribed forms designing in connection to recording, posting, documenting, as evidences, finalizing all financial transactions and preparing & presenting financial statements of PKSF:

- Advance slip / IOU form;
- Requisition of fund / indent form;
- Store materials requisition form;
- Purchase requisition form;
- Schedule of comparative statement form;
- Purchase order form;
- Goods receipt & inspection note form;
- Conveyance bill form;
- Travel expenses and allowance bill form;
- Log book sheet;
- Travel request form;
- Overtime request form;
- Annual accounts statements form;
- Accounts schedules form;
- Staff advances statements form;
- Accounts payable statements form;
- Accrued liabilities statements form;
- Physical inventory statements form;
- Trial balance statements form;
- Income & expenditure accounts form;
- Balance sheet statements form;
- Cash flow statement form;
- Cash certificates form;
- Bank confirmation certificates form;
- Cash Scroll Book form

3.13 – Erasing & overwriting prohibited:

Erasure and overwriting of entries once made in the cash journal register, ledgers and other registers are strictly prohibited. If a mistake is discovered, it should be corrected by drawing the pen through the incorrect entry and inserting the correct one in between the lines. Every such correction should be attested by the officer / cashier / AMF with his dated initials.

3.14 – Conclusion:

The above mention forms and registers are important documents. So, proper care must be taken of these registers. Special attention should also be paid so that the entries to the forms and register are made as carefully as possible and deletion.

Over writing or tearing of page with wrong entries should be avoided. If an entry in the form / register is found to be erroneous, then initials should be given after inserting correct data deleting the previous one.

Eraser, vanishing liquid / fluid should never be used to rectify a wrong entry. Data transferred from certain column or space of original source will have to be recorded in the respective column or page of the register.

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 - 4.2 – Instructions to write up Journal Voucher*
 - 4.3 – Instructions to write up Cash Journal Register*
 - 4.4 – Instructions to write up Control General Ledger*
 - 4.5 – Instruction to write up Bank Reconciliation Statement*
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CHAPTER – 4

WRITING PROCEDURE OF FORMS, VOUCHERS & RECORDING BOOKS

4.1 – Instructions to write up Cash Journal:(Debit & Credit Vouchers)

- At first, mention project / fund name for which the concerned cash journal will be prepared;
- And then, voucher number will be set-forth chronologically relating to the date of incurring the financial transactions.
- Put the date of preparation of cash journal.
- Name the bank account from which payment is to be made and receipt will accumulate.
- Mode of payment will have to be mentioned. i.e. cash or cheque in payment voucher.
- Mode of receipt will be mentioned cash or cheque wise in case of receipt voucher.
- It is compulsory to write down the cheque number for better get control over bank payments and receipts;
- Exchange rate of the date of happening the transactions to be mentioned for foreign currency conversion purpose;
- Accounts head and code from the chart of accounts has to be clearly specified in the voucher format both debit and credit sides. Other wise, summarization of ledger is not accurately possible in computer software.
- Being implementation of internal check system, it is compulsory to write up the Taka amount in words in cash journal format correctly.
- Narration of the occurring of the financial transaction shall be written in legible way that shall be easily understood by all concern.
- Before posting, the cash journal shall be checked compulsorily. Posting of cash journal in the cash journal register through computer software will be clearly earmarked with the words “YES or NO” along with the signature and also mention the date of posting. Control general ledger, project ledger, loan ledger, subsidiary and sub-subsidiary ledger positing automatically generated in the computer software.
- Finally, cash journal will be printed out in hardcopy, signed by the prepared by, checked by and approved by.

4.2 – Instructions to write up Journal Voucher:

- First point is that to note the project / fund name for which journal has been prepared;
- Then, put the journal voucher number in the format;
- Date of preparation of journal voucher is compulsory to write down;
- Accounts head and accounts codes from chart of accounts to be accurately mentioned in the journal voucher form with debit and credit amount. Then, totaled both the sides.
- Being implementation of internal check system it is compulsory to write up the Taka amount in words correctly in the journal voucher format.
- In narration column, the causes of making the journal voucher will be highlighted in details with putting references.
- Finally, journal voucher will be signed by who prepared it and checked it and then placed to DGM (Finance / Accounts) for final approval.
- Posting of non-cash transactions in ledgers should be clearly earmarked by putting the "YES or NO" with date of posting in journal voucher format.

4.3 – Instructions to write up Cash Journal Register:

- Cash Journal Register is a computer software generated format.
- Computer generated cash journal register has two sides for recording of cash journals –
 - Credit journals will be recorded in "Receipts" side (denotes "+"); and
 - Debit journals will be recorded in "Payment" side (denotes "-").

Format is same for recording in both sides (credit and debit).

- Cash Journal both debit and credit shall be posted in the Cash Journal Register that is a computer software generated format.
- Finally, cash journal register will be printed out in hardcopy & check the followings:
 - At first, dates of the cash journal register. This will be the date of debit and credit journals date and sequence of writing up the date is always be maintained accurately.
 - Then, voucher number from cash journal of debit and credit shall be written so correctly to attain the goal of internal check and control.
 - Particular column whether recorded as the details of nature of expense. Whether accounts head and codes column recorded similar to the accounts head and codes that are written in cash journal.

- Then, check the Taka amount separately for cash payment and receipt in cash column & for bank payment and receipt in bank column.
 - Then check the total figure in receipt and payment side of cash and bank columns respectively.
 - Check balancing amount after deducting total payments from total receipt.
- Finally, accounts personnel will sign cash journal register after detail checking and verification of vouchers posting & balancing with the close of every day's recording.

4.4 – Instructions to write up Control General Ledger:

- Control General ledger is also a computer software generated format.
- The Debit and Credit of Control General Ledger will be automatically posted through computer software simultaneously at the time of inputting the posting of debit and credit of Cash Journals and Journal Vouchers in the computer.
- Finally, cash journal register & journal voucher register will be printed out in hardcopy and checked the followings:
 - Firstly, to check accounts head and code very carefully & accurately.
 - Check the correct date from cash journal and journal vouchers.
 - Check the debit and credit column Taka amount whether recorded as per accounts head and code debit & credit basis from cash and journal voucher.
 - Then, check the balance amount whether found out by balancing debit & credit figure in line by line.
- Finally, marking of debit and credit balances accurately and signed the cash journal register and journal voucher register who checked these.

4.5 – Instruction to write up Bank Reconciliation Statement:

- First the balance as per Cash Journal Register for reconciliation purpose in reconciliation statement.
- Then, added all cheques issued but not presented in bank for payment.
- Then, deducted all cheques deposited in bank but not collected by bank.
- Then, added all cheques collected by bank but not entered/recorded in to Cash Journal Register.
- Then, added bank interest credited in bank statement but not entered/recorded in to Cash Journal Register.
- Then, deducted all cheques cashed by bank but not entered into Cash Journal Register.
- Then, deducted all bank charges & commission debited in bank statement but not entered in to Cash Journal Register.
- Then, deducted clearing return by bank.
- The official designated for verification should review the completed bank reconciliation statement very carefully.

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 - 5.7 - Advance Slip / IOU Register***
 - 5.8 - Budget Register***
-

5 - MAINTENANCE OF REGISTERS

CHAPTER – 5

MAINTENANCE OF REGISTERS

5.1 - Types of Registers:

Accounting offices of PKSF shall maintain the following register to record the financial transactions and its related information:

- ❖ Fixed Assets Register
- ❖ Salary and Payroll Register
- ❖ Cheque Issue Register
- ❖ Cheque/DD/PO Receipt Register
- ❖ VAT & Income Tax Register
- ❖ Advance Slip / IOU Register
- ❖ Budget Register
- ❖ Tour Register

5.2 - Fixed Assets Register:

All fixed assets acquired / sales / disposal shall be recorded in as per the format given for the Fixed Assets Register (as per format - Register No. - 203). A separate folio or set of folios shall be opened for each asset group. All fixed assets on hand shall be recorded in the fixed assets register individually. The register shall be kept up to date at all times and balanced at the end of each month.

The fixed assets shall be physically verified at the end of each half year and results should be reconciled with the fixed assets register and short / excess, if any, shall be adjusted in the books of accounts and Fixed Assets Register with the approval of the competent authority of PKSF. Sold, disposed of and damaged asset must be recorded in the appropriate column of the Register. Depreciation on fixed assets will be recorded in the fixed assets register in appropriate column.

5.3 - Salary & Payroll Register:

PKSF Head Office and its Regional Audit office shall maintain a sheet/register (computerized) for payment of monthly salaries to the staff members (as per format - Register No. - 204). All employees should be encouraged to receive their salary through their individual bank account or through cheques. This will reduce the risk of handling cash.

5.4 - Cheque Issue Registers:

To establish an effective internal control mechanism, cheque issue register shall be effectively maintained. Register to be maintained for recording cheques for persons / organizations to whom cheques are issued, date, amount, indicating payment date, cheque nos., purposes of payment, bank branch upon which cheques are drawn. Separate cheque issue register shall be opened for individual bank account. Cheque signatories shall sign the register. Register shall always be signed by a senior level officer of accounts' section & shall be checked by another personnel. (As per format - Register No. - 205)

5.5 - Cheque/DD/PO Receipt Registers:

To establish an effective internal control mechanism a cheque & demand draft receipt register shall be effectively maintained. This register to be maintained for recording cheques for persons / organizations to whom cheques & demand drafts are received, date and amount, indicating receipt date, cheque nos., purposes of receipt, bank branch upon which cheques and demand drafts are received.

This register shall always be signed by a senior level officer of accounts' section and shall be checked by another personnel. (As per format - Register No. - 206)

5.6 - VAT & Income Tax Register:

VAT & Income Tax register (As per format - Register No. - 207) shall always be maintained by PKSF to control over the VAT collections/deductions from suppliers/consultants and income tax deductions from the suppliers & consultants and deducted amount are duly been deposited to the Government fund through treasury challan as per rules and regulations as made in this context by the Income Tax Ordinance 1984.

5.7 - Advance Slip / IOU Register:

IOU / Advance Slip register (as per format - Register No. - 208) shall be maintained by the PKSF Head Office and its Regional Audit office to record the Taka amount given as IOU / as by Advance Slip and to record the Taka amount adjusted / refunded by the staff members of the organization only for emergency purposes or making expenses of very small amount.

5.8 - Budget Register:

A budget register (computerized R-209) shall be maintained always in an updated manner by the accounts personnel to control the expenditure in any particular head. Before confirming the payment, budget should be checked and verified and this is why the budget register should be maintained regularly and correctly.

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6 – FINANCE & ACCOUNTS ACTIVITIES & JOB DESCRIPTION

CHAPTER – 6

FINANCE & ACCOUNTS ACTIVITIES & JOB DESCRIPTION

6.1 – Finance & Accounts Activities:

PKSF finance and accounts activities can be subdivided into four main specialized ways for the sake of better handling of its entire operations / functions VIZ:

- ❖ Treasury, bills and salary activities;
- ❖ General accounting, ledger & final accounts activities;
- ❖ Loan to POs accounting activities;
- ❖ Budgeting, tax and internal & external reporting activities.

The details of the above activities are highlighted as follows:

6.2 – Treasury, Bills and Salary Activities:

- Handling of cash floats – All receipts and payments by cash and bank accounts;
- Payment of various expense bills in cash or on cheque after proper examination and pre-auditing of these bills being done;
- To exercise control over all banking transactions;
- Withdrawal of necessary amount of cash from banks to carry out daily cash transactions;
- Preparation of cash requisition statement on need basis;
- Proper, accurate and up dated writing of double column cash book (Cash Scroll Book) and daily balancing;
- Reconciliation of cash balance with physical balance of cash;
- Preparation of IOU slip and file the duplicate for control and internal check;
- Preparation & checking of advance forms and their reporting;
- Debit & credit vouchers preparation through cash journal – only the approved ones;
- Preparation of cash & bank payments and receipts summary as per accounts heads and code on monthly basis;
- Preparation of journal vouchers for adjustments, rectification and for other transactions as and when needed;
- All types of correspondences with the banks;
- Collections of bank statements – accounts wise;
- Collections of bank confirmation statements from all banks on monthly basis;

- Maintaining of bank accounts register / ledgers;
- Preparation of bank reconciliation statement for all bank accounts on monthly basis;
- Preparation of daily cash and bank balance statements;
- Arrangement of transfer of funds from DOSA;
- TA / DA bills checking with rules;
- Budget provisions verifications and recordings;
- Process of salary and bonus payments to staff members;
- Preparation of bank advice for salary payments with details list of individuals net salary payable;
- Documentation of recording the all sorts of deductions of salary;
- Processing all sorts of internal bills, their documentation, authentication, approval, payments and recording accordingly;
- Processing all sorts of external bills (bills of contractors, suppliers and other third parties), their documentation, relevancy, authentication, approval, payments and recording accordingly;

6.3 – General Accounting, Ledger & Final Accounts Activities:

- Preparation, checking and verification of Journal vouchers for all non cash transactions;
- Posting of approved journal vouchers (non-cash) in computer accounting software daily and when ready for recording;
- Posting of all cash and bank transactions through cash journal in Cash Journal Register daily and when ready for recording;
- Posting and balancing in all types of registers and sub - subsidiary registers on timely, properly and accurately;
- Maintenance of separate fixed assets register for each projects and funds.
- Posting and balancing in fixed assets register.
- Depreciation calculations all fixed and other assets which are depreciable assets;
- Preparation of fixed assets schedules with showing their depreciation and written down value;
- Preparation of Project-wise Trial Balance;
- Preparation of consolidated Trial Balance as a whole;

- Preparation of Project-wise Income Statements.
- Preparation of consolidated Income Statements;
- Preparation of Project-wise Balance Sheet;
- Preparation of consolidated Balance Sheet;
- Preparation all related project-wise and consolidated accounts schedules and statements;
- Preparation of project-wise and consolidated Notes to the Accounts / Financial Statements;
- Preparation of statements for adoption of accounting policies as adopted by management in preparing financial statements of PKSF;
- Finally, to confirm that the preparation of financial statements / accounts of PKSF and its projects are prepared as per the requirements and disclosure requirements of the International Accounting Standards (IASs) as adopted in Bangladesh;

6.4 – Loans to POs Accounting Activities:

- Preparation of all service charges against loans to POs related statements to be needed by the preparation of income statements in presenting the financial statements;
- Maintenance of separate Loans to POs register for all POs;
- Updating of posting in Loans to POs registers and their balancing in timely manner;
- Preparation of service charges cash journal and their documentation & recording properly;
- Preparation of service charges journal vouchers and their documents & recording properly;
- Preparation of aging schedules of loans to POs and necessary flow up regarding realization and adjustments;
- Maintenance of all related documents, papers, agreement, deeds with the POs;
- Maintenance of disbursement records, their recording in the loan register and update the documentation.
- Maintenance of recovery / collection records, their recording in the loan register and update the documentation;
- Preparation of loan classification statements to the loans to POs as per internationally accepted policy guidelines;
- Preparation of provision for loan loss statements as per classified loan statement to the Loans to POs as per internationally accepted guidelines;

6.5 – Budgeting, Tax and Internal & External Reporting Activity:

- ◆ Budget and budgeting functions – preparation of budgets for new and all existing offices of PKSF;
- ◆ Collection of information & data in connection to formulation of budget for all offices;
- ◆ Processing, editing and reviewing the collecting information and data in connection to formulation of budget for all offices of PKSF;
- ◆ Setting of standards in relation to the formulation of budget for all offices of PKSF;
- ◆ Formulation of budget for all offices of PKSF;
- ◆ Maintenance of budget registers in all offices of PKSF as per requirements;
- ◆ Preparation of budget monitoring statements;
- ◆ Preparation of variance statements;
- ◆ Analysis of variances;
- ◆ Assessment of actual results with the budgeted ones and if any deviation found, then to pinpoint the actual causes
- ◆ To take necessary steps to eradicate or minimize this deviation in future through more realistic budget preparation and / or better performance;
- ◆ To give necessary guidelines & advice in order to rectify those anomalies/mistakes that have been pinpointed by the internal auditors in their periodic audit reports;
- ◆ All correspondences to the Tax authority;
- ◆ All correspondences to the VAT authority;
- ◆ Filling of tax returns of the staff members of the organization whose are taxable;
- ◆ Processing of tax assessments;
- ◆ Maintenance of tax deductions register for the staff members, suppliers and for others who are related;
- ◆ Deposit of money to Bangladesh Bank through Challan of the deducted amount as advance tax from staff members and outsides parties;
- ◆ Internal reporting to the management for decision making relating to the information of accounts and finance as and when needed;
- ◆ External reporting of financial accounting to funding agencies on the basis of their requirements or in accordance with the conditions previously agreed with them;
- ◆ In addition to the above functions, this branch provide all other accounts and finance related information for Management Information System (MIS) reporting purpose;
- ◆ All types of correspondences to the Government;
- ◆ All types of correspondences to the loan given agencies relating to the relevant matters of accounts and finance;

6.6 - Job Description of Finance & Accounting Section:

<u>Designation & Name</u>	<u>Works / Duties</u>	<u>Leave Substitute</u>
1. DGM - (Finance & Accounts)	<ul style="list-style-type: none"> a) Overall charge of Finance and Accounts Section of PKSF; b) Preparation of Annual Budget of PKSF; c) Expenditure Control; d) Management of IDA fund, withdrawal its and repayment to Government and IDA; Keeping DOSA and Reconciling with Bangladesh Bank Statement, Keeping IDA accounts and reconciling with IDA statement, repayment schedule preparation; e) Verification of income and expenditure of PKSF and passing of credit, debit and journal vouchers; f) Internal Audit and giving cooperation in conducting External Audit. g) Fund management: Preparation of quarterly projection, contacting banks and negotiating rate for investment; h) Handling files and keeping register for short term investments of the temporary idle funds; i) Ensure proper preparation of cheques, DD, Pay-order etc. as per order of the competent authority & place them to signatories for their signature; j) Other duties as assigned by PKSF; k) National Budget related work, estimating fund requirement, corresponding with the ministry & follow up for budget inclusion, getting budget copy; l) Finance related work with the Ministry, Informing budget variation, getting authorization for fund release from Bangladesh Bank after producing signature cards etc. <p><i>He will report directly to General Manager (Administration)</i></p>	Manager (F/A)
2. Manager (F & A)	<ul style="list-style-type: none"> a) Overall supervision Finance and Accounts section of PKSF; b) He will coordinate the works of the staff members describe in serial 3 to 12; c) He will ensure: <ul style="list-style-type: none"> (I) - the proper maintenance of general cash book, ledgers and all other accounts related books; (II) - the correctness of Debit & Journal Vouchers & present them to the DGM (F/A) for approval; (III) - proper preparation of cheques as per order of the competent authority; (IV) - the maintenance of Provident Fund Account; (V) - the matter relating to income tax; (VI) - the matter relating to Register of Joint Stock Companies & Firms; (VII) - the works relating to final settlement of the staff members; d) Assist DGM (F/A) in preparation of annual budget of PKSF and expenditure control; e) Preparation of final Accounts & Statements and presenting monthly accounts to DGM (F/A) by 20th of next month; f) Keeping document and books ready for internal & external audit; g) Keeping separate accounts for USAID; h) Clear outstanding entries in Bank reconciliation. Foreign Tour bill counter signing; i) Joint Custodian of valuables & confidential document, agreements etc.; j) Joint keeper of loan agreements; k) Other works as assigned by the DGM (F&A) or by the Management of PKSF; <p><i>He will report to DGM (F&A).</i></p>	DGM (F & A)

3. Manager (F & A)-2	<p>a) Supervision of accounting for BIPOOL POs and other projects;</p> <p>b) Proper maintenance of accounts relating to POs under BIPOOL & keeping separate relevant documents from those of POs under OOSA;</p> <p>c) Works relating to incoming DD / Cheques / Pay order etc.</p> <p>(I) - Ensure timely deposit of incoming DD, Cheques, Pay order etc. to concerned bank account of PKSF;</p> <p>(II) - Verification of DD receipt register & repayment card;</p> <p>(III) - Verification of all credit vouchers;</p> <p>(IV) - Settlement of returned DD, cheques, Pay order etc.;</p> <p>d) Keeping separate accounts of ADB funded "PLDP", JMBA funded TEIGP", IFAADEP-1 funded "DAW" under VGD Programme and of their project including replenishment of fund from ADB;</p> <p>e) Ensure proper transactions at reception relating to sales of various publications form etc;</p> <p>f) Final verification of T/A bills of the staff members & placed them to concerned authority for approval;</p> <p>g) Ensure proper preparation of salary & bonus statements, salary & bonus transfer advice;</p> <p>h) Assist Manager (F/A)-1 in preparation of final accounts statements and other important works;</p> <p>i) Joint custodian of valuables and confidential document, agreement etc;</p> <p>j) Joint Keeper of loan agreements;</p> <p>k) Works directly assigned by the DGM (F/A) or by the management of PKSF;</p> <p>l) Works related to fixed assets inventory; <i>He will report to the DGM (F&A).</i></p>	Assistant Manager (F&A)
4. Assistant Manager (F&A)	<p>a) Verification of debit & journal vouchers present them to Manager (F/A);</p> <p>b) Preparation of day to day adjusting vouchers;</p> <p>c) Preparation of vouchers for banks interest on STD & Savings Account and for bank charges, commission etc;</p> <p>d) Ensure proper & regular posting of the vouchers;</p> <p>e) Verification of posting of all types of vouchers & take corrective measure if required;</p> <p>f) Preparation of salary statements, festival bonus statements, salary & bonus transfer advice;</p> <p>g) Review the bank reconciliation statements and take necessary corrective measures;</p> <p>h) Reconcile the accounts information with those of MIS and take necessary action;</p> <p>i) Maintenance of Provident Fund Accounts;</p> <p>j) Works relating to final settlement of the staff members;</p> <p>k) Matters relating to Joint Stock Companies & Firms;</p> <p>l) Matters relating to income tax;</p> <p>m) Other Works as assigned by Manager (F&A) & any other works directly assigned by the DGM (F&A) or by the Management of PKSF; <i>He will report to the Manager (F&A).</i></p>	Officer (F&A)

5. Officer (F/A) -1	<ul style="list-style-type: none"> a) Loan disbursement as per prescribed system, verification of loan agreements & maintenance of loan disbursement register; b) Other payments through cheques; c) Assist in preparing of salary statements, festival bonus statements, salary & bonus transfer advice; d) Maintenance of Provident Fund Accounts; e) Preparation of cheques as per order of the provident fund competent authority & maintenance of related books; f) To prepare adjusting vouchers for T/A bills; g) Computer works for correspondence purpose; h) Other works as assigned by the Manager (F&A) or by Assistant Manager (F&A) & any other works directly assigned by the DGM (F&A) or by the Management of PKSF; i) Keeping loan agreements. <p><i>He will report to the Manager (F&A)-1</i></p>	Assistant Grade - 1 (F&A)
6. Officer (F/A) - 2	<ul style="list-style-type: none"> a) Preparation of Cheques as per order of the competent Authority; b) Making payment of taxes including tax deducted at sources, PF Contribution etc. c) Preparation of debit vouchers for payment through cheques; d) Assist Manager (F&A) for handling various files; e) Supervision of cash transactions; f) Preparation of adjustment vouchers against bills of the parties; g) Verification of T/A bill of the officers from the level of Managers and places & placed them to Manager (F& A)-1for final verification; h) Verification of foreign tour bills and place them to Manager (F&A)-1 for final verification; i) Assist Managers (F&A) in preparing of final accounts & statements; j) Other Works as assigned by the Manager (F&A) or by Assistant Manager (F&A) & any other works directly assigned by the DGM (F&A) or by the Management of PKSF; <p><i>He will report to the Manager (F&A)-1.</i></p>	Assistant Grade - 1 (F&A) - 1
7. Assistant Grade - 1 (F&A)	<ul style="list-style-type: none"> a) Works relating to incoming DD / Cheques / Pay order under core program: <ul style="list-style-type: none"> (I) - Receipt of incoming DD, Cheques, Pay order etc. from reception & entry made to the DD receipt register & in the repayment card; (II) - Identify each and every receipt with allotment number, installment number, project, area and identifying as to different types of ID loan to principal and service charge. Recording the receipts in register, credit vouchers and in cards and depositing the collections in related bank accounts; (III) - Timely deposit the incoming DD, Cheques, PO etc. to concerned bank account of the PKSF; (IV) - Issue of cash memo for realization of loan installment & other receipts; (V) - Works related to return of DD, Cheques and PO etc; b) Preparation of credit vouchers for the sale proceeds of publications, Forms etc. at the reception; c) Other works as assigned by the Manager (F&A) or by the Assistant Manager (F&A) & any other works directly assigned by the DGM (F&A) or by the Management of PKSF. <p><i>He will report to Manager (F&A)-2.</i></p>	Officer (F&A)

8. Assistant Grade - 1 (F&A)	<p>a) Works relating to incoming DD / Cheques / Pay order under various projects:</p> <p>(I) - Receipt of incoming DD, Cheques, Pay order etc. from reception & entry made to the DD receipt register & in the repayment card;</p> <p>(III) - Timely deposit the incoming DD, Cheques, PO etc. to concerned bank account of the PKSF;</p> <p>(IV) - Issue of cash memo for realization of loan installment;</p> <p>(V) - Works related to return of DD, Cheques and PO etc;</p> <p>b) Preparation of credit vouchers for incoming DD, Cheques, PO etc. for core program & other projects;</p> <p>c) Verification of T/A bill of the employees up to the level of Deputy Managers and place & placed them to Manager (F& A)-2for final verification;</p> <p>d) Tour bill register maintenance;</p> <p>e) Other works as assigned by the Manager (F&A) or by the Assistant Manager (F&A) & any other works directly assigned by the DGM (F&A) or by the Management of PKSF.</p> <p><i>He will report to the Manager (F&A)-2.</i></p>	Officer (F&A)
9. Cashier, Assistant Grade - 2 (F&A)	<p>a) Works as cashier;</p> <p>b) Preparation of cash debit and cash credit vouchers</p> <p>c) Preparation of cash memo for incoming DD, Cheques, Pay order etc. & other receipt through cash;</p> <p>d) Other work as assigned by the Manager (F&A), or by the Assistant Manager (F&A) Officer (F&A)-2 & any other works directly assigned by the DGM (F&A) or by the Management of PKSF.</p> <p><i>He will report to the Assistant Manager (F&A)& Officer (F&A)-2.</i></p>	Assistant Grade-1 (F&A)
10. Assistant Grade-2	<p>a) Works as computer operator of the Finance & Accounts Section;</p> <p>b) Keeping record of all accounts related books / register & files of the Finance & Accounts Section</p> <p>c) Other work as assigned by the Manager (F&A), or by the Assistant Manager (F&A) & any other works directly assigned by the DGM (F&A) or by the Management of PKSF;</p> <p><i>He will report to the Manager (F&A)-1 and Assistant Manager (F&A).</i></p>	(Assistant Grade-1 (F&A))
11. Office Worker Grade-2	<p>a) Deposit the DD, P.O, cheques etc. into Bank A/C of PKSF & Payment of bills to different offices as per order of the Finance & Accounts Section;</p> <p>b) Carryout any other order of the Finance & Accounts Section or by the Management of PKSF.</p>	
12. Office Worker Grade - 2	<p>a) Keeping safely the vouchers folders;</p> <p>b) Going to different banks and ministry with letters etc;</p> <p>c) Carryout any other order of the Finance & Accounts Section or by the Management of PKSF.</p>	

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7 - CASH MANAGEMENT PROCEDURES

CHAPTER - 7

CASH MANAGEMENT PROCEDURES

7.1 - Duration of Cash Transaction:

In order to complete writing of Cash Scroll Books and their posting in the Cash Journal Register through computer, daily cash transactions shall be closed at least two (2) hours before the close of the office.

7.2 - Closing of Accounts:

Each day, all cash receipts & payments shall be entered into the Cash Journal Register and it should be closed daily. Cash Officer (F&A) shall check and verify the cash balance and Cash Journal Register at the end of each day and duly signed. Manager (F&A) and DGM (F&A) shall verify the cash balance and verify the Cash Journal Register at the end of each month and signed duly.

7.3 - Daily Cash Holding Limit:

The management may prescribe money limits for cash in hand in the head office and Regional Audit Offices. When such limits are prescribed, cash in hand must not be exceeded that limit.

Only cashier, cash officer (F&A) jointly shall be responsible to hold liquid cash. Cash shall be drawn from bank to meet the daily cash expenses. Requirement of cash shall be intimated through Money Requisition [as per format]. Such requisition shall be received by accounts at least five (5) hours before the closing of banking hour. Required cash may be drawn from the bank on requisition.

However, after disbursement & receipt the cashier, cash officer (F&A) jointly may hold liquid cash to the extent of Taka 50,000 (Fifty Thousand) in head office level and Taka 40,000 (Forty thousand) in Regional audit office level by Manager and any officer of that office as decided by the Managing Director.

Other than above, in no cases, the office liquid money will be in the hand of any staff member of the organization unless other wise permitted by the management. The adoption of the principle of transacting cash business through bank is to keep to the minimum the actual cash handling in the cash section.

7.4 – Handling of Cash:

Office money should be kept in secured strong iron safe. The cash safe should be double locked. One set of key shall be kept with the Cash Officer (F&A) and the other set will remain with the Manager (F&A). Persons handing the cash should be covered by fidelity insurance in addition to cash security to be provided by them.

Cash Officer and Manager (F&A) who is responsible for the safe and security of money must satisfy themselves that the iron safe is free from defects. If a defect is detected or if there is even a doubt that the keys or their duplicates are missing, immediately arrangement should be made for their replacement under intimation to head of finance & accounts.

7.5 - Cash Scroll:

Cash shall remain in the custody of finance and accounts department. At the end of each day after making all transactions cashier, Cash Officer shall count the cash physically and record on a cash count sheet and shall confirm the balance with the Cash Journal Register balance. For cash scroll specific designed format will be used.

7.6 - Cash Security:

While carrying office cash (liquid money) from the bank (for withdrawn purposes) and to the bank (for deposition purposes), vehicles shall have to be used and security guard shall have to be provided at its best level by the management.

PKSF management should arrange for insurance to cover the risk of carrying and deposition of liquid cash.

7.7 - Receipt in Cash Section:

No money should be received from any person without issuing proper receipt which inter-alia will state the name of person from whom it has been received, amount both in figure and words, purposes for which it has been received etc.

The money receipt should be in the prescribed form. These forms shall be printed in number, bound book forms, kept in safe custody and properly accounted for.

Normally cashier shall receive the cash by giving money receipt duly signed by Cash Officer (F&A). The receipt will be prepared in triplicate, the original will be issued to the depositor, the duplicate copy will be kept with voucher & triplicate copy will be retained for record and audit verification.

Signature of the depositor must be obtained on counterfoil of the money receipt. Over writing & erasing is strictly prohibited and not allowed.

7.8 - Petty Cash:

Petty cash is maintained on imprest petty system with a limit of Taka 100,000 (One lac) only. Taka one lac balance shall be maintained in cash up to Taka 50,000 (fifty thousand) only, plus up to Taka 50,000 (fifty thousand) only, in IOU slips and advances. Each IOU slip should be adjusted with in eight (8) working days and any advances with in 20 working days.

The cashier, AMF & MF jointly shall maintain an imprest fund for an amount of Taka 100,000 (One Lac) for PKSF Head Office in Dhaka to defray the petty expenses. The limit of amount for each transaction is Taka 5,000 (five thousand) from this fund and voucher is required to prepare for this purpose.

The Manager and one designated officer shall maintain an imprest fund for an amount of Taka 40,000 (Forty thousand) for Regional Office to defray the petty expenses. The limit of amount for each transaction is up to Taka 3,000 (Three thousand) from this fund and voucher is required to prepare for this purpose.

The cashier will disburse the amount on the basis of the approval as outlined in the financial power of PKSF on the concerned bill or payment claim paper after due verification and authentication and pre-audit. This will off-load the main Cash Journal Register with the transaction volume for the day-to-day expenses of petty amounts.

In head office, the cashier will request the replenishment of the fund by preparing a statement of the incurred expenditure by showing the date of payment, accounts head and the amount paid on approval of the Chief of Finance & Accounts and MFA. Replenishment request should be processed when 80% of the allocated fund will be exhausted.

A short period financing for emergent but small amount office expenses, viz. staff advance for traveling, conveyance, entertainment, postage, telephone bill, gas bill, electricity bill, etc. can be allowed from this petty cash to the employees concerned, but the expenditure voucher must be submitted by the following working day and the IOU (as per format) should be approved duly.

7.9 - Cash Deposited in to Bank:

The cashier, cash officer and Manager (F&A) will make sure of the deposition of the cash and cheque collected daily in to bank and recorded the transaction immediately in the Cash Journal Register.

The Cash Officer will prepare the pay-in slip. The Manager (F&A) and DGM (F&A) will make best arrangement to send the money in the bank.

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CHAPTER - 8

BANK ACCOUNTS OPERATION MANAGEMENT

8.1 – General:

All funds (received) shall be paid into the PKSF's accounts with the bankers of the PKSF and shall not be withdrawn except by cheque signed by the Managing Director, or by such officer of the PKSF as may be duly empowered in this behalf by the Managing Director or the Governing Body. All receipts of money through cheque / draft / pay order / transfer advice, bank account shall be debited and relevant source / liability / income account is credited. Cheque / Draft / Pay order shall be deposited into bank through deposit slip of the bank. General principle of PKSF is that to encourage all concern to make / receive payments through banks.

8.2 - Procedure of Opening Bank Account:

As per Articles of Association of the PKSF -

- ❖ "All properties of the PKSF, movable and immovable shall vest in the PKSF and shall be administered by the Managing Director, on behalf of the PKSF within the parameters set by the PKSF in its General Meeting or otherwise as directed by the Governing Body".
- ❖ Unless other wise authorized by the Governing Body, the Chairman or the Managing Director of the PKSF, no new account in the name of the PKSF shall be opened.

Thus, the bank accounts PKSF shall be operated in accordance with the provision of the above Articles of Association of the organization. The organization, as envisaged in the Articles of Association, shall open bank accounts (projects / otherwise) in any bank for each project separately by taking resolution in the Governing Body.

Bank account may be opened for each fund / project / which shall be interest bearing unless otherwise specified in the letter of agreement or Memorandum Of Understanding (MOU) of donor or fund agencies.

8.3 - Regional Audit Offices (Outside Dhaka) Bank Accounts:

PKSF, as envisaged in the Articles of Association, shall open Regional Audit Office bank accounts in any schedule bank in the Regional Office areas separately by taking resolution in the Governing Body of PKSF.

Fund transfer will be made only after receiving the fund requisition request and monthly expenditure statement by head office and its approval by the person as per the delegated authority of PKSF head office.

Bank account may be opened which shall be interest bearing unless otherwise specified by head office.

8.4 - Operation of Bank Accounts:

For operating the bank accounts of the PKSF Head Office and Regional Audit Offices, authority from the Governing Body of PKSF that Managing Director in favour of Governing Body, or such other officers by designation of the PKSF as may be duly empowered in this behalf by the Managing Director, to sign cheques. Such intimation to the banks is to be issued from the head office centrally by enclosing the resolution of operating the bank accounts taken in this context by PKSF management.

All the PKSF's banks accounts shall be operated as per the guidelines of the "Delegation of Financial Authority" - approved by the PKSF Governing Body.

All the payments through bank must be authorized by joint signatories i.e.

1 - Principal signatory and

2 - A co-signatory

For all kinds of transactions except where "Delegation of Financial Authority" applies PKSF's Managing Director shall be the principal signatory and co-signatory can be any of the officials as mentioned below:

1 - General Manager (Admin.), or

2 - Deputy Managing Director (O), or

3 - Deputy Managing Director (B)

Managing Director has the authority to make any changes, amendments in the bank signatory powers of the concerned PKSF's officials.

8.5 – Signatories Details:

Details of cheque signatories for operating the bank accounts will be kept confidentially in Finance and Accounts Department under safe custody. It includes name, designation, specimen signature and initials, validity date. When signatories are included / deleted, list should be placed to substitute previous one.

8.6. - Cheque Counterfoil:

While issuing cheques, it is remembered that counterfoil of cheque shall also be filled in & put the date of issue, name of payees, initials of the cheque signatories, amount in Taka and words in brief.

8.7 - Cancellation of cheques:

If any cheque issued but not presented for collection by the payee within six month from the date of issue, the cheque shall be automatically canceled. Accordingly, the finance and accounts department shall give reversal entry in the Bank Book and keep a note in the bank reconciliation statement. Any loss or theft of the cheque / chequebook must be informed to the concerned bank management at earliest possible time.

8.8 - Canceled Cheques:

The word "CANCELED" shall be written in the counterfoil as well as on the face of the cheque when a cheque is required to be canceled.

8.9 - Cheque Issue Register:

Cheque Issue Register shall be maintained for each bank account separately in a book in the prescribed manner.

8.10 - Demand Draft, Cheque & Pay-order Receipt Register:

Demand Draft (DD), Cheque & Pay-Order Receipt Register shall be maintained for each bank account separately in a book in the prescribed manner.

8.11 - Payment from Bank:

Any payment exceeding Taka 5,000 (five thousand) shall be made through an account payee cheque and payment less than Taka 5,000 (five thousand) may be made by cash from the cash in hand in head office level.

8.12 - Withdrawal of Cash from Bank:

For withdrawal of money (Liquid Cash) from the bank account for working cash or for any operational expenses, a requisition for fund must be prepared for approval in accordance with the delegated authority and withdrawal of cash from bank shall be in accordance with the guidelines of "Delegation of Financial Authority". When cash to be withdrawn, cash cheques should denote "Account Payee Cancelled".

Accounts personnel shall always keep in mind that the maximum closing cash balance in hand should not exceed Taka 50,000 after the day transaction in PKSF Head Office and Taka 40,000 in Regional Audit Offices.

8.13 - Bank Statement and Bank Certificate:

Collection of monthly bank statements along with Bank Certificates confirming bank balances on monthly basis and relevant advice from bank shall be the responsibility of Finance and Accounts Department.

8.14 - Bank Reconciliation Statement:

After receiving the monthly bank statement, the bank balance shown in that statement as of last day of the month must be reconciled with the balance shown in the cash book on the same day by preparing a bank reconciliation statement.

Bank reconciliation statements shall be prepared by Cash Officer duly checked by Assistant Manager (F/A) and Internal Audit Department and shall be submitted for approval of the Manager (F/A) and DGM (F&A).

The bank charge or interest detected to be not incorporate earlier in the cashbook should be entered in the cashbook by preparing a voucher to this effect.

Any deposit / interest, payment or cheques not record in the bank accounts or bank statement shall be reconciled by adding or deducting from the closing balance as shown by the bank statement.

A reversal entry should be processed for canceling the cheque issue entry if the cheque is found not presented within its validity period. Any difference should be thoroughly checked and investigated with the bank.

8.15 - Ordering of New Cheque book:

Respective Cash Officer with the approval of Manager (F/A) and DGM (F&A) shall initiate for ordering new chequebook when the cheque leaf reaches the order shed attached with the chequebook.

While receiving new chequebook from bank respective Cash Officer (F&A) shall count the cheque leaf and satisfy himself that the numbers of cheque leaves are found in order.

8.16 - Safety to Cheque Books:

Finance and Accounts Department shall be the custodian of chequebook and shall ensure that chequebooks are preserved safety. To be kept under lock (safe volt) and key by the Cash Officer and Manager (F&A) designated for this.

Fraud, defalcation and misappropriation of public moneys are largely attributed to inadequate measures taken by the authorized officers for the safety and security of the bank chequebooks and bank pass books etc.

The officers authorized to sign and / or entrusted with the custody of the cheques / pass books will be held personally liable for losses due to laxity or their parts for the safe-keeping and security of these books.

8.17 – Receipts of Cheque / Demand Drafts Pay-Order:

Cheques / demand drafts / pay-orders received in payment of dues cannot, however be admitted till they are cleaned from the bank. Final money receipt in printed forms shall not be granted till the cheques are en-cashed and proceeds credited to account.

A certificate of receipt quoting the number and the date of cheque tendered or a receipt with the following remarks may be given:

“Issued subject to collection of proceeds”

Cheques / drafts / cash received in the cash section must be deposited in to the bank without any delay, preferably on the same day, that are received.

Delay in deposit involves question of safety and security and sometimes may result in non-realization of the amount of the cheque.

8.18 – Dishonour of Cheques:

In the event cheques being dishonoured by the bank on presentation the fact mentioning the causes of dishonour, should be reported at once to the drawer of the cheque with demand for immediate payment and mean while the entry in the books of accounts should be reversed.

8.19 – Payment for Lost Cheques:

If a cheque is reported lost, contract should at once be made with the bank on which the cheque was drawn. The bank should be informed / instructed to stop payment on that cheque.

Fresh cheque may be issued only after obtaining non-payment certificate from the bank.

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CHAPTER - 9

INTERNAL CONTROL

9.1 – Introduction and Concept:

The internal control system is inevitable for an organization to control its financial matters as well as to maintain the continuity and accuracy in the arena of its financial affairs. With a view to maintain an effective and efficient work flow in all sphere of transaction procedures, it is essential to segregate a specific job in different segments and make a meaningful division of labour to accomplish that task. Some important elements of the internal control device are narrated below:

- The organization plan with particular reference to the allocation of staff function;
- Authorization, recording and custody procedures including internal check;
- Managerial supervision and reviews including audit.

An internal control system is defined as the whole network of systems established to provide reasonable assurance that PKSF objectives will be achieved, with particular reference to:

- The effectiveness of operations;
- The economical and efficient use of resources;
- Compliance with applicable policies, procedures, laws and regulations;
- The safeguarding of assets and interests from losses of all kinds;
- The integrity and reliability of information, accounts and date;

These embraces the concepts of effectiveness, value for money, compliance, irregularity, inconsistency and financial controls. The manual sets out to achieve is to promote an understanding of what constitutes good practice in respect of nurturing a robust control environment. It highlights the role of management in ensuring adequate systems of internal control are in place at strategic and operational levels.

9.2 – Internal Control Categories:

There are broadly eight categories of internal controls. The acronym "**SOAP MAPS**" can be used to categorized the controls as follows:

- 1 - Segregation of duties -** Roles and responsibilities should be clearly defined.
- 2 - Organizational structures -** Appropriate organization structures should be exists.
- 3 - Authorization & Approval -** Appropriate authorization & approval procedures should be well introduced.
- 4 - Physical Safeguard -** Appropriate physical safeguard should be established.
- 5 - Management review & Monitoring -** Financial and other performance should be monitored regularly.
- 6 - Accounting & Arithmetical -** Appropriate accounting and arithmetical procedures should be operated.
- 7 - Personnel arrangements -** Appropriate personnel arrangement should be exist.
- 8 - Supervision -** Appropriate supervision procedures should be exist.

9.3 - Classification of Control Procedures:

1 - Management Controls: These are detective in nature and encompass the high-level supervision and review. For example - Management review of exception reports, performance against budgets etc.

2 - Organizational Controls: These are both detective and preventive in nature and include well-defined responsibilities and the segregation of functions such transactions initiating, processing and recording.

3 - Authorization Controls: These are preventive in nature. Good authorization controls will be specific about who can approve what, the extent of checking required before approval and how the check should be evidenced.

4 - Operational Controls: These are either detective or preventive in nature. It includes sequence checking to provide assurance on the completeness of numbered documents, comparison of one set of documents to another (e.g. purchase order to invoice).

5 - Access Controls: These are detective in nature and includes control over access to assets and accounting records through simple physical measures such as locks and safes and procedural controls such as controls over petty cash issue.

9.4 - Internal Check System:

The absolute and independent control of one person in the financial transaction may create the opportunity of fund misappropriation. As such, to safeguard the interest of the organization, adequate control over financial transaction, internal check system is a must. The function of accounts department should be designed in such a way that the job done by one person is automatically checked by another and thus minimizing the possibility of fraud or irregularities. The job distribution of the personnel of finance & accounts department of PKSF head office shall be arranged in such a way that a person handling cash and posting Cash Scroll Book shall not be given the responsibility of preparing vouchers, writing of cheques and posting Cash Journal Register & General Ledger through computer.

It is therefore, recommended that:

- Cashier & Cash Officer shall be engaged for receipts and payments of cash, maintenance of physical cash and writing of Cash Scroll Book.
- Writing of various vouchers, like transfer vouchers, cash payment voucher, cheque payment voucher, money receipts, writing of cheque should be done by other person in finance and accounts section.
- The person who has no connection of maintaining cash and voucher preparation shall do posting in computer and other registers.
- The Manager (F&A) shall be responsible for the preparation of monthly trial balance, income statements and balance sheet, cash flow statements, notes to accounts.
- The DMG (F&A) shall be responsible for the preparation of reports to the Managing Director, Government & fund giving agencies as the case may be.

9.5 - Payment Management:

Before making payment in connection to all bills / vouchers for expenses of the organization shall be duly checked by finance & accounts section and shall be pre-audited as per rules and regulations of PKSF in this context and shall be finally approved by the competent authority as per the delegation of financial authority of the PKSF.

No payment shall be made without the prior approval of the above authority as narrated. The bills and the invoice for payment shall be canceled by affixing the stamp "Paid" and shall be dated. The payment voucher should always have the supporting documents in original as its attachments. All sums of money expended by the organization shall be recorded in books of accounts and there should be systematic procedures of payment that can ensure:

- a) Payment is made within the budget amount;
- b) Payment is made for organization;
- c) Payment is made properly to the right person;
- d) Vouchers are prepared correctly to record transaction in Cash Journal Register;
- e) Expenditures have genuine supporting documents;
- f) Documents are duly valid, authenticated & appropriate for the purposes;
- g) Payment shall be authorized and approved by competent authority.

Before making payment either in cash or cheque, person responsible to make the payment is to be ensured that payment vouchers have been prepared, checked and approved. Accounts shall prepare payment vouchers and shall be supported by documents like:

- ✓ Cash Memo / Bill
- ✓ Challan
- ✓ Indent
- ✓ Purchase order
- ✓ Money receipts
- ✓ Comparative statement
- ✓ Purchase committee resolution
- ✓ Job completion certificate
- ✓ Telephone bill, electric bill, rent bill etc.
- ✓ And any other document that are required.
- Approval of tour program along with tour plan;
- Air / Bus / Train / Launch tickets;
- Entitlement of class, Per-diem & DA according to grade as specified in the service rules.

Accounting offices shall keep the payment vouchers in chronological order. Each financial year shall maintain a serial number beginning from 01. Accounting office shall file the vouching along with all supporting documents. All vouchers and supporting documents shall be preserved for a minimum period of twelve (12) years.

A - Cash Payment System:

- Maximum up to Taka 5,000 can be paid from petty cash. All payments above Taka 5,000 are preferably be made through cheques;

- All payments shall be prior approved. Before the payment is made, the related person raises notes for the expenditure explaining the necessity of the payment to the departmental head in a proper file. If the payment seems necessary, then the file is forwarded to the competent authority who approve the payment;
- After the expenditure is incurred, the supporting are raised in the file;
- The file is sent to the Internal Audit Department for pre-auditing purpose;
- The file is sent to the proper authority for payment approval;
- Payment is made on producing the proper authorization and supported voucher to the cashier who makes the payment keeping recipient's signature on the voucher;
- The payment is entered in the cash scroll.

Cash handling -

- Cash is maintained on imprest system. The imprest amount depends on the decision of the management. At present the imprest amount is Taka 100,000 (Taka one lac), 50% of the imprest i.e., Taka 50,000 can be used against IOU for emergency purchase / payments against prior payments approval;
- Cash is kept in the Joint custody of two Managers (F&A). In case of leave of one Manager, Assistant Manager or any other officer approved by the authority will take the charge of the custody;
- The vault is kept in Joint Custody.

Cash Recording -

- Vouchers are punched in computer software by Assistant Grade-2 at the day's end;
- Cash & Cheque Summary (CCS) for the day is produced next morning that is checked by Assistant Manager (F&A) as regard to correctness of punching;
- CCS along with vouchers are checked & signed by the Internal Audit;
- Payments are posted to the ledger by computer.

Custody & Safeguarding of cash -

- Cash scroll is balanced by cashier;
- Physical cash is counted by Assistant Grade-2 & Officer (F&A) at day end;
- Cash scroll is signed by both Assistant Grade-2 and Officer (F&A);
- Kept at safe-custodian by two designated officers of Finance & Accounts.

B - Cheque Payment Procedure:

- Requisition from the respective department for expenditure is raised and sent for approval of proper and competent authority;

- Expenditure is approved in file by the proper authority recommended by appropriate purchase committee;
- Advertisement in national dailies for quotation is published; tenders are received; comparative statement is prepared and placed before the purchase committee; supplier selection is made by one of the two committees; printed order for supply is sent; Delivery Note is received; Material Receiving & Inspection Report (MRIR) is raised and invoice is received;
- Invoice is raised in the file along with all the papers and documents to Internal Audit for verification for pre-audit purpose;
- File moves to the proper person capable of authorizing the payment;
- Then file goes to Finance and Accounts Section for payment;
- Invoice is checked again by Manager (F&A) and Officer (F&A), voucher is prepared, cheque is prepared, recorded in the bank register;
- Cheque is checked by Manager (F&A) and DGM (F&A) - counter signed in bank register and cheque counterfoil;
- Cheque along with all the documents in the file goes to one of the co-signatory and then to the principal signatory for signature who signs the cheque and countersigns the register;
- Cheque is given to the proper person on getting receipt and after recording in the cheque issue register.

Cheque handling:

- Joint custodian;
- Joint Signatory as per delegation of authority;
- Pages are counted at the day end;
- Kept in safe.

9.6 - Payment to Partner Organizations (PO):

- Inspection of Partner Organization (PO) by Dealing Officers (DO) before disbursement of loan is done;
- DO reports in prescribed form and puts up in file if all the criteria are fulfilled. File goes to Supervising Officer (SO) and then to Deputy Managing Director (DMD) (operation) who finally sends the file to Managing Director.
- Managing Director being satisfied about the PO's performance places the proposal to the Governing Board where approves the loan.
- A Loan Installment Payment Requisition (LIPR) is raised by the DO in the file that goes to SO and finally to MD via DMD. They all except MD sign the LIPR and send it including copy of relevant attested note sheet to Finance and Accounts Section for Cheque payment;

- Officer (F&A) verifies the form in respect of all the information in the LIPR. He checks;
 - If the name of the PO has been written properly;
 - Previous payments have been mentioned properly;
 - Sanction of the Board;
 - Resolution of the board;
 - Conditions in the resolution if any;
 - Copy of the note sheet to see the approval of MD;
 - And or any condition for the payment – fills up a portion of the form for cheque signature approval-records the payment in specific sheet against the resolution for loan sanction-cheque is written-recorded in bank register-prepares the payment voucher and
- Then forwards to Manager (F/A) and thereafter to DGM (F/A) for verification. MF & DGM (F/A) verifies the documents and the cheque is prepared, they sign the LIPR, registers and records and send those to the signatories for signature.
- The joint signatories sign the cheque, register and LIPR. The cheque is recorded in Cheque Disbursement Register at the time of disbursement on receipt of properly executed Loan Agreement (LA).
- LIPR is kept in FA in custody and recorded in a separate register.

9.7 - Payment for Services:

Payment for services shall require the followings:

- ✓ Requisition / Indent;
- ✓ Resolution of the Governing Body if needed;
- ✓ Approval of Managing Director;
- ✓ Agreement / Deed of contract;
- ✓ Assignment letter which should include TOR;
- ✓ Assignment completion certificate

9.8 - Payment of Salaries:

Payment of salaries of PKSF staff members shall be made through bank transfer advice or cheque. Each employee shall open a bank account in his own name with the same bank where PKSF maintains its account and accounts number shall be intimated to the Finance & Accounts Section.

Accounting office shall issue transfer advise letter to the bank for total amount of monthly salary payable to credit the individual account of each staff member with the amount written against each individual.

The accounting offices shall maintain a salary register, which shall be prepared, every month.

Salary register shall be prepared considering the following points:

- a) Name and designation;
- b) Number of working days - as per attendance register;
- c) Increment, Promotion, Suspension, Transfer order / instruction;
- d) Leave without pay;
- e) Other deductions like Advance, Tax, etc.;

All the staff members working at different offices of PKSF will be paid their salaries after the 25th day of the month.

9.9 - Management of Receipts:

Source of receipts of the organization may be as follows:

- Receipts of grants from GOB;
 - Receipts of loan from GOB;
 - Receipts of repayment of loan from POs;
 - Receipt service charge from POs;
 - Sale of wastage;
 - Bank interest earned;
 - Miscellaneous income and etc.
- (a) Grants are received by the organization from government and different donor agencies against different projects / programs by cheque, after signing a letter of agreement between the parties mentioned above and recipients authorized official. In the event the authorized official is not available to collect each installment cheque, the officer or staff member designated to collect in cheque must have a letter signed by the authorized official, authorizing him / her to collect the cheque. Funds may be provided in one or more installments. Grants received must be entered in receipt side of the Cash Journal Register, loan register, grant register and deposited the same into interest bearing bank account.
- (b) Interest earned on the amount of fund kept in the bank shall be treated as income and entered in the receipt side of the cash journal register.
- (c) Income, which cannot be classified on any above group, shall be treated as miscellaneous income & entered in the receipt side of the Cash Journal Register.

Each receipt shall be acknowledged either through acknowledgment letter or a Money Receipt. Cashier shall prepare receipt voucher for daily receipt of money & a copy of acknowledgment letter / money receipt shall be attached to receipt voucher and indicating its head of account according to Chart of Accounts.

A - Cash Receipts System:

- Every employee of PKSF shall be personally responsible for the money that passes through his hand and for the prompt record of receipts in the manner prescribed below. All money, not banked, shall be kept in a strong safe;

- All receipts, other than cash drawn from bank for payments, must be deposited to bank intact preferably on the same day or positively on the next morning;
- Cash shall be received by the cashier or by any other person deputed by the management in his / her absence;
- Money Receipt (MR) must be issued immediately on receipt of cash. The cashier will enter the receipt in Financial Management System (FMS) in the computer from where Money Receipt will be generated in the printer;
- MR is to be checked and signed by an officer (F&A) and be issued to the payer;
- The receipt is recorded in cash scroll;
- Credit voucher will be generated in the FMS that will be checked by the Manager (F/A) and countersigned by DGM (F&A);
- Credit Voucher is posted in the FMS in the computer at the day end;
- Cash scroll will be checked with physical cash and signed by Cashier, Officer (F&A) at the day end;
- Cash will be kept in vault by the joint custodian as designated.

B - Cheque Receipts System:

- Mail will be opened at the reception by a responsible officer who will enter the checks/drafts/pay order etc. received in FMS and the Cheques/drafts/POs/DDs will be handed over to Finance and Accounts Section;
- Concern person will enter the instruments (Cheques/draft/PO/DD) in a register. He / they will check the advice sent with the instruments by tallying with PO cards as to the loan number, installment number, principal, service charge and by tallying with the advice and the instruments. He will check the entries made by the reception desk in the FMS and will correct the mistake if any. The system will accept the transaction on accepting by concern staff member;
- He will sort the instruments according to the PO nature, Loan nature, Project-wise and will prepare pay-in-slips and will arrange to deposit those instruments in respective bank accounts;
- The credit voucher will be generated by the FMS automatically;
- He will enter the receipts in the project-wise individual PO cards by allotment number, installment number of the allotment;
- He will then prepare pay-in-slips which is checked by Assistant Grade-1 and will send the instruments to banks on the same day. Assistant Grade-1 will check the pay-in-slips again after depositing whether those were properly received by the banks.

Dishonored / returned cheques:

- Dishonored / returned instruments will be received by Assistant Grade-1;
- He will check the reasons for dishonor and will put up the case in a file that will go to the DGM (F&A) via Manager (F&A);
- The dishonored instruments will then be sent to the respective PO with a forwarding letter stating the reasons of dishonor and asking them to send the instrument back after correction or to send a fresh instrument within seven days;
- Copy of the letter will be given to the Supervising Officer (SO) for information and necessary action;
- Assistant Grade-1 will check the position daily and will follow up the cases.

9.10 – Staff Advance and its' Liquidation:

Advance against any operational cost shall be initiated on Money Requisition and the delegated authority will approve such advance.

Approved advance requisition form shall be sent to the accounts which will be checked the particulars therein and then payment voucher shall be prepared by the accounts & shall disburse the amount of advance after obtaining the signature of the recipient.

Any advances to staff members may be made on specific requirement with the written approval of the competent authority as delegation of authority.

Any payment to staff as advance should be adjusted and replenished at regular interval on submission of bills / vouchers to the account section and must be adjusted within twenty (20) days of completion of the requirement.

9.11 - Physical Inventory Counting and Checking:

The status or existence of any organization is mainly determined by the volume of funds / property that are owned by the organization. Considering the same it is one of the prime responsibilities of an organization to protect / safeguard resources / property. PKSF has been implementing various programs / projects throughout the country by its own offices and resource are thereby granted / allocated to the said offices. There are lists of resources so far been sent to different corner of the country.

PKSF shall follow the noted steps in verifying / checking the validity of all the resources at its disposal.

- ❖ A committee comprising at least two (2) members shall be formed. The said committee shall do a feasibility study / checking of all the resources once in each year.
- ❖ Committee shall examine all of the resources in light of the lists prepared by Administration Department.
- ❖ The committee shall submit the feasibility report as per stipulated date and time.

- ❖ Required adjustment of any inconsistency shall be made having approval from the management as per delegated authority.

9.12 - Internal Audit - Pre-Audit:

To safe guard the financial & accounting system from frequent mistakes, frauds and misappropriations, the internal audit is needed as follows -

- ◆ Pre - auditing system should be introduced at any level in head office.
- ◆ Keep constant watch on records of financial transaction and to safeguard the organization from fraud.
- ◆ Keep updated accounts of the projects / programs / head office / Rangpur office.
- ◆ To establish strong financial discipline in the organization
- ◆ To enable and aware the accounts personnel to perform their duties with earnest sincerity and efficiently.

The internal audit department should be headed by a senior management position and have several audit officers working under him as per need of the organization. The internal audit department will work independently and should be reported to the Managing Director.

All financial and accounting activities of the particular accounting year of PKSF should be audited with in the fifth month of the following accounting year. Moreover, the internal department will constantly review the all activities of all projects / programs.

9.13 - Preservation of Accounting Records:

- All of the documents / records related to financial transaction shall be preserved for a period of twelve years.
- In case of project documents / records related to financial transaction shall be preserved at least for three phases including the current phase of the project. But by no way any of the documents of the previous phases can be burnt out.

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10 - FIXED ASSETS & DEPRECIATION ACCOUNTING

CHAPTER – 10

FIXED ASSETS AND DEPRECIATION ACCOUNTING

10.1 – Concept:

Fixed assets have the fundamental characteristics that they are held with the object of earning revenue and not for the purpose of sale in the ordinary course of business. Depreciable assets are assets that are expected to be used during more than one accounting period have limited useful life and are held by the organization for use in the production or supply of goods and services or for rental to others or for administrative purposes. Note that land generally has an indefinite life and is therefore not depreciable asset as defined above. Buildings are however different. Buildings do have a definite life and are therefore depreciable assets. Thus, for accounting purposes the value of land and buildings should be segregated. The land should be maintained in the accounts without depreciation. Building on other hand should be depreciated.

10.2 – Introduction:

The assets purchased / procured by PKSF could be termed as fixed assets, the expected life or duration of which are relatively longer period. The importance of proper accounting, maintenance and evaluation of current conditions and or expected remaining life of fixed assets cannot be over emphasized.

Unit price of any asset is at least Taka 1000 (One Thousand) only will be regarded as fixed asset of PKSF. For all that any item is below worth Taka 1000 (One Thousand) only but durable for many years will not be capitalized. This definition will hold good to all purchase items and items received as donation.

For this reason, proper register and accounting books are to be maintained in head office and also in Regional Audit Offices to fully account for fixed assets in their possession. Where fixed assets are procured, it will be necessary to keep an accurate account of such assets for physical control and inventory.

10.3 – Safe Custody of Fixed Assets:

Every offices of PKSF shall designate a staff member for maintaining the records of fixed assets and their movements and safe custody. Assets issued to various offices of PKSF shall remain in the safe custody of themselves and therefore they will be responsible for management of assets.

10.4 – Procurement of Fixed Assets:

Fixed assets can only be procured by PKSF head office centrally for its own use and for its Regional Audit Office. Regional Audit Office may procure assets with the approval of head office. In any case, purchase or procurement should always follow in rules & regulations of "Purchase Policy" made and constituted in this regard. To procure and purchase of fixed asset it should at least follows the under mentioned guidelines:

- Prior approval is compulsorily needed of the respective authority;
- Should follow the all rules and instructions of the purchase procedures as laid down in this context;

- Budgetary provision must be made and confirm for a fixed assets item before its procurement can takes place;
- Purchase of an assets will need the approval of Managing Director;
- Requisition from the user and need of use should be clearly identified and properly evaluated before placing the requisition of the concern asset purchased;
- Approval should be obtained for requisition of an assets in accordance with the authorization of the organization;
- Purchase requisition shall be raised by the department / person requiring the assets in a purchase requisition form;
- Approval of Managing Director is a must in case of decision of purchase committee;
- Manager Administration shall approve the purchase of assets up to Taka 1,000 thousand);
- DGM (F/A) shall approve the purchase of assets from Taka 1,001 to Taka 2,000;
- General Manager (Administration) shall approve the purchase of assets from Taka 2,001 to Taka 5,000;
- Managing Director shall approve the purchase of assets more than Taka 5,000 up to Taka 20,000;
- Purchase Committee-1 will recommend purchase of assets valued above Taka 20,000 and final approval is given by Managing Director;
- Purchase Committee-2 will recommend purchase of assets valued from Taka 20,001 (twenty thousand and one) to Taka 500,000 (five lacs) and final approval is given by Managing Director;
- For sole agent lone quotation is sufficient;
- For numerous suppliers, purchase shall be through quotation by advertisement in at least two National Dailies;
- Spot quotation or quotation is required for purchase through Purchase Committee-2;
- At least three quotations are required;
- Purchase over Taka 500,000 requires tender or quotation;
- Pro-forma invoice is required in case of sole distributor;
- Spot quotation / price collection by two officers / employees from at least three seller is required for purchase assets below Taka 20,000 for spot purchase;
- Purchase under TA program of the World Bank requires the purchase procedures of the World Bank to be followed;

- Comparative price statement shall be prepared for quotations received;
- Goods Received & Inspection Note should be prepared;
- Fixed Assets Register to be up dated.
- In case of fixed assets being supplied by the head office to the Regional Audit offices, corresponding challan advice must be sent as soon as goods are being sent. If there is delay of getting those challans advice or the challan advice gets lost in the process, then the offices should have to collect that particulars advice from head office by taking its own initiatives.

10.5 – Fixed Assets Registration:

Legal registration of all the purchased fixed assets shall be in the name of PKSF. Managing Director or authorized officer of PKSF on behalf of PKSF will sign in the deed / document related to registration.

10.6 – Classification of Fixed Assets:

Assets valued at Taka 1,000 or more and lasting for more than two (2) years shall be classified and entered in the assets register according to standard accounting practices. A proper record shall be maintained for all fixed assets whether procured or received from head office. The records of assets shall be maintained using the accounting codes and heads as illustrated in common chart of accounts.

10.7 – Identification of Fixed Assets:

Identification number of fixed assets is a compulsory item in the management of fixed assets and its control mechanism. An identification number for each category of fixed assets items should be assigned for easy identification of the assets. These identification numbers should be written on each item and the numbers should be indicated on the fixed assets register also for each fixed assets.

In doing so the following continuity shall have to be maintained:

- Name of PKSF;
- One or two letters introducing the group viz., FR for furniture;
- Two letters identifying the item viz., CH for chair;
- Two letters identifying location of the assets for example, HO for Head office;
- Three figures indicating serial number of same item such as 001,002,003 etc;
- Last figures indicating the year of purchase used in the purchased item, for example, for Head Office: PKSF/FR/CH/HO/001/02.

10.8 – Depreciation & their Accounting:

Every asset has a certain life span that varies depending on the particular characteristics of that asset. Dividing the purchase value of an asset by its expected economic life or duration period (in years) results in that asset's yearly depreciation. Depreciation for the accounting period is charged to income either directly or indirectly. The depreciation method selected should be applied consistently from the period to period unless altered circumstances justify a change.

Depreciation to be charged on fixed assets on reducing balance method. Special instructions are:

- ❖ The rate of depreciation will be instructed / circulated from head office;
- ❖ Depreciation of a fixed asset will have to be charged from the date of purchase;

10.9 – Sale of Fixed Assets:

If an item of fixed asset gets unusable, broken, obsolete, or no longer necessary, then this item could be eligible for sold out subject to the approval from the Managing Director.

To sale or disposal it should at least follows the under mentioned guidelines:

- Administration Department (Logistics section) in head office will prepare a statement containing all unusable fixed assets & submit it to the Managing Director through DGM & GM. He will then place it to purchase committee to assess the need of disposal;
- Purchase Committee will then assess the need of sale of assets, repurchase of same assets, feasibility of fund etc, and final recommendation will then be place to Managing Director in the matter of sale;
- Fixed assets could be sold by inviting press tender (If the approximate price of disposable asset is above Taka 100,000) or taking comparative quotation rates (If the approximate price of disposable asset is below Taka 100,000). This sale however, could be made also through mutual negotiation by taking at least three (3) quotations to avoid undue complications. In all cases the asset will be have to be sold to the highest bidder;
- Fixed assets are usually sold through the PKSF head office; Regional Audit office may only on special circumstances with the permission of Managing Director;
- Only approved and authenticated sales / disposal of fixed assets compulsorily shall be recorded and documented by doing accounting in books of accounts and concern fixed assets register accordingly.

10.10 – Accounting of Fixed Assets:

This has been considered in four ways – such as;

- At the time of purchase / procurement;
- At the time of sale / disposal;
- At the time of write off;
- At the time charging depreciation.

A) - At the time of purchase / procurement:

- 1) If a fixed asset (photocopier) is purchased or procured by the head office through making payment on cash / bank, then the journal entry in the books of accounts will be made through cash journal:

Debt	- Fixed Assets - Office Equipment	- (General ledger Accounts Code) - (Subsidiary ledger Accounts Code)
Credit	- Cash At Bank - HO Bank Account -	- (General ledger Accounts Code) - (Subsidiary ledger Accounts Code)

This will be recorded in fixed assets register.

- 2) If a fixed asset (photocopier) is purchased or procured by the head office on credit, then the journal entry in the books of accounts will be made through journal voucher:

Debt	- Fixed Assets - Office Equipment	- (General ledger Accounts Code) - (Subsidiary ledger Accounts Code)
Credit	- Accounts Payable - Accounts Payable - Suppliers	- (General ledger Accounts Code) - (Subsidiary ledger Accounts Code)

This will be recorded in fixed assets register and accounts payable – Suppliers subsidiary ledger and also in the registers.

- 3) If a fixed asset (photocopier) is purchased or procured by the head office on credit and make payment to the supplier later on, then the journal entry in the books of accounts will be made through cash journal:

Debit	- Accounts Payable - Accounts Payable - Suppliers	- (General ledger Accounts Code) - (Subsidiary ledger Accounts Code)
Credit	- Cash At Bank - HO Bank Account	- (General ledger Accounts Code) - (Subsidiary ledger Accounts Code)

This will be recorded in accounts payable - supplier subsidiary ledger & also in registers.

B) - At the time of sale / disposal:

- Journal entries to record the sale / disposal of fixed assets are as follows;

a - Sale of fixed assets:

Debit - Fixed assets Sold Account

Credit - Fixed Assets Account (Cost price)

b - Sale price received:

Debit - Cash / Bank Account

Credit - Fixed Assets Sold Account (Sale price)

c - For Accumulated Depreciation:

Debit - Accumulated Depreciation of Fixed assets Account

Credit - Fixed Assets Sold Account

C) - At the time of write-off:

- Journal entries to record the write-off of fixed assets are as follows;

a - Write of fixed assets:

Debit - Fixed assets Obsolete Account

Credit - Fixed Assets Account (Cost price)

b - For Accumulated Depreciation:

Debit - Accumulated Depreciation of Fixed assets Account

Credit - Fixed Assets Obsolete Account

D) - At the time of charging depreciation.

Through wear & tear, working lives of the fixed assets get shortened and gradual loss of their workability takes place depending, of course, on the rate of usage. To account for this loss / damage, depreciation as per schedule fixed by management will have to be charged on fixed assets.

Necessary entries through journal voucher for this depreciation charge will be:
(Photocopier)

Debit	-Depreciation Expenses -Depreciation of Fixed Asset - Office Equipment	- (General ledger Accounts Code) - (Subsidiary ledger Accounts Code)
Credit	-Accumulated Dep. Fixed Assets - Accumu. Dep. Fixed Assets Office Equipment	- (General ledger Accounts Code) - (Subsidiary ledger Accounts Code)

It is worth mentioning here that the fixed assets will always have to be shown in the books of accounts at the original cost. At the time of preparing final accounts, the total accumulated depreciation is to be deducted from the cost price of the fixed assets in question and the result is to be shown as the net book value.

10.11 – Fixed Assets Register:

Obviously, fixed assets play an extremely important role in every organization. As a result there is an overgrowing need to maintain and update various data and information with regard to these assets VIZ, the maintenance system, total numbers, total value, present conditions and location of all the fixed assets.

Considering this requirement, it is felt very necessary to keep a separate register for fixed assets (As per Format- Register No. - 202).

As soon as the procurement of fixed assets take place, various data related to that assets have to be recorded in the fixed assets register. The vouchers prepared (both cash journals and journal vouchers) in this connection will indicate where and how the particulars are to be recorded in the fixed assets register.

10.12 – Instruction to Write up Fixed Assets Register:

A - First stage - Particulars and references of assets:

- In column 1 put the date of acquisition of fixed assets purchased;
- In column 2 insert the references of cash journals or journal vouchers for the concern procurement / sale / adjustment;
- In column 3 put the quantity of assets;
- In column 4 put the unit price of the asset;
- In column 5 insert the cost price of the concern asset;

B - Second stage – Value of assets:

- In column 6 insert opening balance value at cost price of the asset of particular year;
- In column 7 insert the Taka amount for additional purchase during the period;
- In column 8 put the Taka amount cost price of sale / disposal / adjustment of asset for the period;
- In column 9 find out the Taka amount of total balance by adding the column 6&7 and then deducting the column 8 from the results of adding;

C – Third stage – Depreciation of assets:

- In column 10 insert opening accumulated depreciation of assets of particular period;
- In column 11 insert the Taka amount of depreciation charges during the period;
Depreciation = [(Column 9 less column 10) multiply by rate of depreciation]
- In column 12 insert the Taka amount of any adjustment of depreciation;
- In column 13 find out the Taka amount of total balance of depreciation by adding the column 10 & 11 and then deducting the column 12 from the results of adding;

D – Fourth stage – Written Down Value of assets:

- In column 14 find out the Taka amount of written down value of assets by deducting the column 13 from the column 12.

10.13 – Physical Counting of Fixed Assets & Reporting:

Every offices of PKSF shall make a provision of inspection and physical verification of assets, by the person not related with the record of assets, at least once in a year to find out the condition of moveable and immovable assets. All assets shall be inventoried at June closing each year compulsorily. Approved inventory sheet shall be used for this purpose. The stock on hand per fixed assets register shall be verified against the physical counts and physical quality shall be recorded in the fixed assets register.

10.14 – Damage, Loss & Destruction, and Insurance of Fixed Assets:

Each office of PKSF shall insure that proper system is installed to prevent assets from being damaged, lost or destroyed. Every office also shall, when feasible, insure fixed assets against theft, pilferage or possible loss due to accident, fire or natural calamities.

10.15 – Use of Fixed Assets on Payment:

On approval of management of PKSF any staff member of PKSF can use asset (particularly vehicles) of PKSF on payment through submitting a written application.

10.16 – Scrapping, Condemnation & Write-off of Fixed Assets:

A - Purpose:

Write-off the assets from the books of accounts of PKSF if it is found that:

- Life of the assets are over;
- Assets are discarded and disordered;
- Assets are damaged, broken and not repairable;
- Use and utility of assets are ended (non-useable);
- Assets are declared obsolete and scraped;
- Assets are lost;
- Assets are theft and etc.

B - Formation of Committees:

- i) - Inspection Committee - Consists of three (3) members - One from Administration Department and others two outside of Administration Department to be formed in Administration Department only to perform primary inspection in connection to the determination of saleable and obsolete assets of PKSF and make their list;
- ii) - Condemnation Committee - Two Condemnation Committees shall be formed like purchase committee.
 - a - Condemnation Committee-1: To perform the activity in to connection to the declaration of saleable and obsolete assets of PKSF amounting above Taka 500,000;
 - b - Condemnation Committee-2: To perform the activity in to connection to the declaration of saleable and obsolete assets of PKSF amounting from Taka 20,000 to Taka 500,000;

To perform the activity in to connection to the declaration of saleable and obsolete assets of PKSF amounting up to Taka 20,000 shall be accomplished with the approval of MD as per policy;

C - Procedures relating to write-off:

- Physical inspection and verification of assets by the Inspection Committee of Administration Dept. once in a year shall be conducted to determine the physical existence and position of unusable assets as outlined in above and prepare a comprehensive scrapping report. If circumstance permitted / arisen, the scrapping report is to be prepared at any time of the year based on the findings that assets are discarded, disordered, lost, theft, unusable, damaged, broken, life over, non-repairable, utility ended, obsolete;
- Inspection Committee after inspection shall prepare a detailed list of condemned goods / assets with their present position and placed it to the Condemnation Committee;
- On verification, examination and detailed review of the list prepared by Inspection Committee, the Condemnation Committee shall finalize the list of saleable assets and list of obsolete assets and submitted the same with recommendation to the MD in regard to the declaration of saleable and obsolete assets. Next step shall be taken as per the decision of the MD;

- Administration Dept. shall then take the initiative to place the file for final approval of proposal of write-off as per the decision;
- MD shall approve any amount total depreciated value of the total obsolete assets of PKSF.

D - Scrapping and Condemnation Procedures:

- Prepare a list of obsolete assets by Adm. Dept. and submitted the same to Condemnation Committee;
- On due verification Condemnation Committee shall then prepare a list of obsolete or disposable assets and accordingly recommended;
- On verification and review, if it is found that the assets are lost, theft, not found / available, Administration Dept. may take appropriate action on the basis of investigation and FIR may be lodged if found that assets are lost / theft;
- On verification, if it found that the assets are been damaged / lost by the staff members of PKSF due to the ground of negligence of duty, Adm. Dept. may recommended the authority for recovery of loss sustained / incurred through fixing up the responsibility and liability in the context;
- In determining the disposable cost of the assets the Condemnation Committee shall consider the market price of the assets;

E - Disposal Procedures:

- All assets shall be disposed as per set rules of PKSF;
- Value of condemned assets as determined by the Condemnation Committee shall be considered as the lowest price in case of sale / disposal. Sale shall be made to the highest bidder.
- 15% of the total sale value shall be taken as security money and shall be collected during the time of submission of tender / quotation. Remaining 85% shall be received before receiving the sold assets by the purchaser. If the purchaser, not intended to receive the disposable assets within the time frame as mentioned in the sale agreement/deed, 15% security money shall be lapsed.

F - Adjustment of Disposed & Write-off Assets:

- Disposal of assets shall be done immediately after declaration of assets disposed and condemned;
- If disposal value is more / less than the write-off value of the concerned assets, these shall be considered as income / loss of PKSF;
- Admin. Dept. shall submit separate proposal to the MD in connection to the write-off of obsolete assets immediately after disposal of disposable assets;
- Determine the loss /income of the obsolete assets;
- Lost assets shall be eliminated from the fixed assets register;
- Following is the format in connection to the submission of declaration of the obsolete and disposable assets of PKSF;

SI No.	Description of Assets	Quantity	Purchase Date	Purchase Value	Written Down Value	Remarks

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CHAPTER - 11

COMPENSATION PACKAGE & ACCOUNTING

11.1 - Introduction:

Policy instructions, payment and documentation in connection to the compensation packages of staff members of PKSF shall be conducted, controlled and constituted as per the existing "Service Rules" of the PKSF that are in force and act.

Expenditure on account of salary and allowances forms a major portion of the recurring or revenue expenditure of any large organization. This very fact, calls for the need of proper recording system as well as controlling mechanism to account for this expenditure. Various staff related activities VIZ, recruitment, salary, increment, transfer, promotion, termination, penalty imposition, salary deductions etc. are usually carried out by personnel department / administration department.

11.2 – Salary Payment:

In general, staffs are recruited by PKSF at certain salary level / scales. All particulars of staff members are notified to the head office finance & accounts department. Other staff related information such as staff salary increment, salary withholding, loan recovery through installments etc. are also provided by the personnel department. Payment of salary and the preservation of all the data related to staff salaries are done by the finance and accounts.

In case of Regional Auditing office, salary related matters, however, would be controlled by head office. Other wise incidents like presenting information about some bogus staff and then drawing his or her salary might take place or at least, possibilities of similar incident to happen cannot be totally written off.

11.3 – Some Noteworthy Points with Regard to Payment:

The following matters need to be dealt with prior salary payment:

- Up to date information regarding appointment or transfer of any staff member;
- Proper maintenance of salary register;
- Correct recording of all necessary data with regard to salaries and allowances to staff members;
- Collection and preservation of particulars in respect of deduction made or to be made from salaries on different accounts;
- Attendance register being properly maintained;
- Information of those employees who have resigned or have been terminated or whose transfer orders have been issued are to be recorded in the salary register and that salary to be withheld accordingly;

- Calculation of net salary after making all necessary additions or deductions correctly and appropriately.

11.4 – Attendance Register & Statement:

- ❖ The attendance register serves as the supporting document in the preparation of salary bills. Administration department shall provide the monthly attendance statement to the Finance and Accounts Section.
- ❖ This register will also help towards annual budget preparation of PKSF. Apart from this it creates effective pressure on the staff members to arrive at the office within stipulated time limit.
- ❖ From organization's point of view, the prime objective of this register, however, is to help the staff to attend office in time. So, attendance registers have to be maintained at all level offices of PKSF.

11.5 – Leave Statement:

It is essential to record particulars of leave in order to prepare salary bills by accounts department easily and correctly. If any staff member of PKSF wants to go on leave, he / she should apply in a prescribed form and get that leave application approved before actually leaving the workstation.

The officer dealing with the leave register will record all particulars about leave of a staff, so that, up to date information of the person's current leave position is readily available by Finance & Accounts Section.

11.6 – Procedures of Salary Payment:

All staff members have been advised to open a bank account and given the bank account number to accounts department at the time of joining in the PKSF.

Bank advice has been prepared by the accounts department to transfer the individual salary of to the individual staff salary account in bank at the end of the month whose salary became due after approval of DGM (F&A), General Manager and Managing Director as per delegation of authority.

11.7 – Timing of Salary Payment:

All the staff members working at head office will be paid their salaries after 25th day of a month. Preparation of the salary bills should preferably be started from the fourth week of the month so as to make sure that payment is made in time. If the salary bills are not prepared in advance, last minute rush in trying to complete the bills might result in occurrence of all sorts of mistakes in the payment of salaries.

11.8 – Deduction from Salary:

Some staff members may well be taken advances either to carry out official duties. Out of these advance payments, some are adjusted against bills submitted and the rest will have to be adjusted against salaries of the respective staff. Contribution to provident fund, advances and other deductible items shall be deducted from salaries and allowances.

11.9 - Overtime Management:

Payment of overtime should be discouraged in all respects. But in special circumstances the management may give over time to employees who have worked beyond office hours. In such case a prior approval for overtime must be taken from the appropriate authority. The overtime of a staff will be guided by following overtime policy of PKSF. Overtime for which payment [As per format Form No.-112] is to be made must be authorized in advance. On the form indicate the reasons for the overtime work and the estimated number of hours overtime as well as the period of days will be needed before it is completed. The form is dated and signed by the chief of the department / section and sent for approval to chief of personnel.

11.10 - Telephone:

Office telephone is only for official use. Personal call is entitled for meeting emergency whose duration should be as short as possible. Personal trunk call / overseas call shall be entitled only on payment and with prior approval. Budget allocation for head office and Regional audit office shall be monitored regularly.

11.11 - Accounting of Salary:

For payment / transfer of net salary from the bank account of PKSF to the bank of individual staff member after preparing bank advice and duly approved as per delegation of authority:

A) – Preparation of cash journal for making payment of salary:

Debit -	Salary & Allowances – Net Salary
Credit -	Cash at Bank

B) – Preparation of cash journal for making payment of PF deduction to PF Account:

Debit -	Contribution to Provident Fund Account
Credit -	Cash at Bank

C) – Preparation of journal voucher for deduction of salary for telephone / fax / e-mail / car use / petrol bill beyond ceiling / telephone bill beyond ceiling / staff house building loan / staff house building loan interest:

Debit -	Salary & Allowances - Deducted amount
Credit -	Telephone / fax / e-mail / car use / petrol bill beyond ceiling / telephone bill beyond ceiling / staff house building loan / staff house building loan interest

D) – Preparation of cash journal for making payment of staff Income Tax:

Debit -	Income Tax - Staff
Credit -	Cash at Bank

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CHAPTER – 12

ADVANCES, DEPOSITS, PREPAYMENTS & IT'S ACCOUNTING

12.1 – Introduction:

To fulfill different projects / programs and normal activities of PKSF it becomes essential to procure goods and services from different persons or organizations at different points in time and in doing so, advance payment need to be made from time to time. Depending on the particular situation, these advance payments at times are made directly to some outside person or organizations as well as PKSF's own staff members in some cases.

12.2 – Types of Advances to be Allowed:

Mainly categorized in two:

- ❖ Advance to staff members – these are commonly known as temporary advances and long term loans:
 - Advance against travelling expenses;
 - Advance against purchase of goods;
 - Advance against program expenses;
 - Advance against house building loan.
- ❖ Advance to third parties
 - Advance against house rent;
 - Advance to materials suppliers / contractors;
 - Advance to service providers;

12.3 – Staff Advances - Against Traveling:

PKSF staffs members are frequently travel to different areas of the country and also outside the country for official purposes. The staff members are entitled to take advances to bear the transportation and traveling expenses. Allowances for traveling inside and outside the country will be entitled by staff member as per the rules and regulations of the "Service Rules" of PKSF that are in force and act on.

General conditions are as follows:

Following conditions govern the sanction of temporary cash advances against traveling:

- Advance should preferably given to permanent staff members;
- No second advance will be paid unless the previous advance is adjusted fully;
- To be paid only against approved tour;
- Must be adjusted with in twenty (20) days from the date of payment;
- If a staff member to whom an advance has been made fails to submit bills / accounts supported by vouchers for adjustment with in stipulated time, total amount of advance will be deducted from his / her salary account till the accounts of advance are finalized with out any intimation to concerned person.

The accounting of the advances, their adjustment against submission of bills, payment of extra amount and deduction of salary for non submission of bills against advance will be made in due care and timely manner.

Accounting of advances and its' adjustment against submission of bills, payments of extra amounts & receipt of unspent amount will be as follows:

A - Journal entries through preparation of Cash Journal relating to the traveling advance payment of PO audit to Mr. X is as below:

Debt	- Advance against Evaluation & Monitoring	-	(General ledger Code)
	- Advance to Mr. X (Name of person)	-	(Subsidiary ledger Code)
Credit	- Cash At Bank	-	(General ledger Code)
	- HO Bank Account	-	(Subsidiary ledger Code)

(Only for advance amount given to Mr. X)

B - If the advance is adjusted on submission of approved bills, then the following Journal Voucher will be prepared:

Debit	- Evaluation & Monitoring Expenses-	-	(General ledger Code)
	- Audit Expenses - PO	-	(Subsidiary ledger Code)
Credit	- Advance against Evaluation & Monitoring	-	(General ledger Code)
	- Advance to Mr. X	-	(Subsidiary ledger Code)

(Only for Taka amount of advance given to Mr. X)

C - If the actual bills approved more than advance taken amount then, for payment of excess amount to Mr. X, the following Cash Journal will be prepared:

Debit	- Evaluation & Monitoring Expenses	-	(General ledger Code)
	- Audit Expenses - PO	-	(Subsidiary ledger Code)
Credit	- Cash At Bank	-	(General ledger Code)
	- HO Bank Account	-	(Subsidiary ledger Code)

(Only for excess payment of Taka amount to Mr. X against audit expenses of PO)

D - If the actual bills approved less than advance taken amount then, for receipt of balance amount from Mr. X, the following Cash Journal will be prepared:

Debit	- Cash In Hand	-	(General ledger Code)
	- HO Bank Account	-	(Subsidiary ledger Code)
Credit	- Advance against Evaluation & Monitoring	-	(General ledger Code)
	- Advance to Mr. X	-	(Subsidiary ledger Code)

(Only for receipt of balance Taka amount from Mr. X against audit expenses of PO)

12.4 – Staff Advances - Against Purchase:

To carry out the routine duties and activities related to different projects / programs of PKSF head office and Regional Audit office, all sorts of goods and materials need to be procured. Out of these materials, some are purchases through the staff members while others directly through outside parties / suppliers.

General conditions are as follows: Following conditions govern the sanction of cash advances against purchases of goods:

- That the stores are immediately and urgently required;
- That time at disposal does not permit purchase by open or selected tender;
- That delay in procurement would involve loss;
- That no second advance is given till the previous advance is fully accounted for and the balance, if any refunded to cash;
- That purchases be completed and account rendered within three (3) days of drawl of the advance and the balance, if any be refunded in cash immediately after purchase;
- In making the purchase basic principles of purchase policy shall be always kept in consideration and view;
- If a staff member to whom an advance has been made, fails to submit bills / accounts supported by vouchers for adjustment within the stipulated time, the total amount of advance will be deducted from his salary account till the accounts of advances are finalized without giving any intimation to concerned staff member.

Accounting of advances, their adjustment against submission of bills, payment of extra amount and deduction for non-submission of bills against advance will be made in due care and timely manner.

Accounting of advances and its' adjustment against submission of bills & payments of extra amounts will be as follows:

A - Journal entries through preparation of Cash Journal relating to the advance payment for purchase of printing & stationery to Mr. Y is as below:

Debt	- Advance against Administrative Expenses	-	(General ledger Code)
	- Advance to Mr. Y (Name of person)	-	(Subsidiary ledger Code)

Credit	- Cash At Bank	-	(General ledger Code)
	- HO Cash In Hand	-	(Subsidiary ledger Code)

(Only for advance amount given to Mr. Y).

B - If the advance is adjusted on submission of approved bills, then the following Journal Voucher will be prepared:

Debit	- Administrative Expenses	-	(General ledger Code)
	- Printing & Stationery Expenses	-	(Subsidiary ledger Code)

Credit	- Advance against Administrative Expenses	-	(General ledger Code)
	- Advance to Mr. Y	-	(Subsidiary ledger Code)

(Only for Taka amount of advance given to Mr. Y)

C - If the actual bills approved more than advance taken amount then, for payment of excess amount to Mr. Y, the following Cash Journal will be prepared:

Debit	- Administrative Expenses - Printing & Stationery Expenses	-	(General ledger Code) (Subsidiary ledger Code)
Credit	- Cash At Bank - HO Bank Account	-	(General ledger Code) (Subsidiary ledger Code)

(Only for excess payment of Taka amount to Mr. Y against purchase of printing & stationery expenses).

D - If the actual bills approved less than advance taken amount then, for receipt of balance amount from Mr. Y, the following Cash Journal will be prepared:

Debit	- Cash In Hand - HO Cash In Hand	-	(General ledger Code) (Subsidiary ledger Code)
Credit	- Advance against Administrative - Advance to Mr. Y	-	(General ledger Code) (Subsidiary ledger Code)

(Only for receipt of balance Taka amount from Mr. Y against purchase of printing & stationery expenses).

12.5 – Staff Advances - Against Program Expenses:

To carry out the program activities related to different projects and programs of PKSF, some expenses are need to be paid out to the staff members of PKSF in the form of liquid cash on the same date as the expenses as incurred for smooth completion of the activities find no other alternative as the situation arises.

General conditions are as follows: Following conditions govern the sanction of temporary cash advances against program expenses:

- Section / departmental heads' approval is needed before advance;
- That time at disposal does not permit purchase by open or selected tender;
- That delay in procurement would involve loss;
- That the payments from advance amount involves larges quantity but in a small form on each quantity;
- That no second advance is given till the previous advance is fully accounted for and the balance, if any refunded to cash;
- That advances should be compulsorily adjusted / settled with in twenty (20) days of drawl of advance and the balances, if any should be refunded accordingly. In no circumstances the office liquid cash will be lying in the hands of the staff members of PKSF. Thus, after making the payment of the related program expenses by the person whom advance has been taken, the remaining balance of liquid cash amount should compulsorily refunded / deposited to the cash section of finance and accounts.
- In making the payment basic principles of payment policy shall be always kept in consideration and view;
- If a staff member to whom an advance has been made, fails to submit bills / accounts supported by vouchers for adjustment with in stipulated time, the total amount of advance will be deducted from his salary account till the accounts of advance are finalized with out given any intimation to concerned staff member.

Accounting of advances, their adjustment against submission of bills, payment of extra amount and deduction for non-submission of bills against advance will be made in due care and timely manner.

Accounting of advances and its' adjustment against submission of bills & payments of extra amounts will be as follows:

A - Journal entries through preparation of Cash Journal relating to the advance payment to Mr. Z for seminar & workshop expenses for Institutional Development & Capacity Building is as below:

Debt	- Advance against Inst. Dev. & Cap. Building	-	(General ledger Code)
	- Advance to Mr. Z (Name of person)	-	(Subsidiary ledger Code)
Credit	- Cash At Bank	-	(General ledger Code)
	- HO Cash In Hand	-	(Subsidiary ledger Code)

(Only for advance amount given to Mr. Z).

B - If the advance is adjusted on submission of approved bills, then the following Journal Voucher will be prepared:

Debit	- Institutional Dev. & Capacity Building	-	(General ledger Code)
	- Seminar & Workshop	-	(Subsidiary ledger Code)
Credit	- Advance against Inst. Dev. & Cap. Building	-	(General ledger Code)
	- Advance to Mr. Z	-	(Subsidiary ledger Code)

(Only for Taka amount of advance given to Mr. Z)

C - If the actual bills approved more than advance taken amount then, for payment of excess amount to Mr. Z, the following Cash Journal will be prepared:

Debit	- Institutional Dev. & Capacity Building	-	(General ledger Code)
	- Seminar & Workshop	-	(Subsidiary ledger Code)
Credit	- Cash At Bank	-	(General ledger Code)
	- HO Bank Account	-	(Subsidiary ledger Code)

(Only for excess payment of Taka amount to Mr. Z against expenses of seminar & workshop for Institutional Development & Capacity Building)

D - If the actual bills approved less than advance taken amount then, for receipt of balance amount from Mr. Z, the following Cash Journal will be prepared:

Debit	- Cash In Hand	-	(General ledger Code)
	- HO Cash In Hand	-	(Subsidiary ledger Code)
Credit	- Advance against Inst. Dev. & Cap. Building	-	(General ledger Code)
	- Advance to Mr. Z	-	(Subsidiary ledger Code)

(Only for receipt of balance Taka amount from Mr. Z against expenses of seminar & workshop for Institutional Development & Capacity Building)

12.6 – Third Party Advance Against House Rent:

This is called as prepaid rent. In case of rental of houses for official purposes by PKSF Head Office and Regional Audit Offices, the following procedures are applicable:

- ◆ Rental of a house is initiated upon contractual agreement between PKSF and the owner of the house;
- ◆ Any authorized officer on behalf of PKSF can carry out the initial formalities prior to rental of house and then signed the agreement on behalf of PKSF;
- ◆ After agreement is done, the house owner may be given advance against office rent as per terms and conditions of that agreement;
- ◆ Adjustment of advances shall be clearly stated in the agreement and account department should have a copy of that agreement and accordingly adjusted the advance amount.

Accounting of advances & their adjustment against submission of bills will be made regularly. This advance will have to be adjusted as per terms & conditions.

Accounting of advances and its' adjustment against submission of monthly rent bills will be as follows:

A - Journal entries through preparation of Cash Journal relating to the advance payment for office rent expenses is as below:

Debt	- Advance against Occupancy Expenses	-	(General ledger Code)
	- Advance House Rent	-	(Subsidiary ledger Code)
Credit	- Cash At Bank	-	(General ledger Code)
	- HO Bank Account	-	(Subsidiary ledger Code)

B - This advance will have to be adjusted as per terms and conditions. If the advance is adjusted on submission of monthly rent bills, then the following Journal Voucher will be prepared:

Debit	- Occupancy Expenses	-	(General ledger Code)
	- House Rent Expenses	-	(Subsidiary ledger Code)
Credit	- Advance against Occupancy Expenses	-	(General ledger Code)
	- Advance House Rent	-	(Subsidiary ledger Code)

12.7 – Third Party Advance Against Material Suppliers / Contractors:

Advances to suppliers against material supplies / contractors are generally discouraged and every endeavour shall be made to maintain a system under which no payments are made except for works actually done. Following are the cases where advances can be given:

- ❖ If the contractual agreement permits, advances shall be made as per clause of the agreement;
- ❖ Section / departmental heads' approval is needed before advance;
- ❖ In all other cases, only with the sanction of the Managing Director, which may, in exceptional circumstances, authorize such advances as may be deemed necessary, taking the proper precautions against loss and for preventing the system from becoming general or continuing longer than is absolutely essential.
- ❖ Accounting of advances & their adjustment against submission of bills will be made on regular basis. This advance will have to be adjusted as per terms & conditions of the agreement;
- ❖ For payment of the submitted bill of the supplier / contractor: Noted that;
 - If the bill amount of the supplier exceeds the taxable limit for deduction of tax at source at the time of payment as per the Income Tax Ordinance 1984, then it should be compulsory to deduct tax at the rates applicable to this payment of the bill.
 - If the bill amount of supplier is subject to VAT deducted at source at the time of payment as per the VAT Act 1991, then it should be compulsory to deduct VAT at the rates applicable to this payment of the bill.
 - Finally, the deducted (TAX & VAT) amount from the supplier's bill should be deposited to the Government through treasury challan within the date (within 7 days from the date of such deduction) as specified in the Income Tax Rules.

Accounting of advances and its' adjustment against submission of bills & payments of extra amounts will be as follows:

A - Journal entries through preparation of Cash Journal relating to the advance payment to supplier (Rangs Industries Ltd.) against purchase of spare parts for car of PKSF is as below:

Debt	- Advance against Administrative Expenses	-	(General ledger Code)
	- Advance to Rangs Industries Ltd.	-	(Subsidiary ledger Code)
Credit	- Cash At Bank	-	(General ledger Code)
	- HO Bank Account	-	(Subsidiary ledger Code)

B - This advance will have to be adjusted as per the terms and conditions. At the time adjustment of advance on submission of bill, If the bill amount of the supplier exceeds the taxable limit for deduction of tax at source as per Income Tax Ordinance 1984, then it should be compulsory to deduct tax at the rates applicable to this payment of the bill and then, payments to supplier.

(I) - First of all, prepare a Journal Voucher for deduction of tax amount from the gross amount of suppliers bill:

Debit	- Administrative Expenses	-	(General ledger Code)
	- Car Maintenance	-	(Subsidiary ledger Code)
Credit	- Liabilities For Other Finance	-	(General ledger Code)
	- Income Tax Deducted At Source-Suppliers	-	(Subsidiary ledger Code)

(Only the tax deducted amount at source)

(II) - Secondly, prepare a Journal Voucher for adjustment of advance amount:

Debit	- Administrative Expenses	-	(General ledger Code)
	- Car Maintenance	-	(Subsidiary ledger Code)
Credit	- Advance against Administrative Expenses	-	(General ledger Code)
	- Advance to Rangs Industries Ltd.	-	(Subsidiary ledger Code)

(III) - Then, prepare Cash Journal for payment of rest amount (final bill is more than the advance amount) after deduction of tax amount:

Debit	- Administrative Expenses	-	(General ledger Code)
	- Car Maintenance	-	(Subsidiary ledger Code)
Credit	- Cash At Bank	-	(General ledger Code)
	- HO Bank Account	-	(Subsidiary ledger Code)

(Only the excess amount after adjustment of advance amount and tax deducted at source amount).

(IV) - Finally, prepare the Cash Journal for deposition of tax deduction amount from supplier's bill to the Government Treasury through treasury challan:

Debit	- Liabilities For Other Finance	-	(General ledger Code)
	- Income Tax Deducted At Source-Suppliers	-	(Subsidiary ledger Code)
Credit	- Cash At Bank	-	(General ledger Code)
	- HO Bank Account	-	(Subsidiary ledger Code)

(Only the tax deducted amount at source)

12.8 – Third Party Advance Against Service Providers:

Advances to consultant for providing services are, however, permitted in the following cases:

- ❖ As per contractual agreement with the consultants / consulting firm & organization.
- ❖ Cases, in which, in the interest of works, it is absolutely necessary to make advance;

- ❖ In all other cases, only with the sanction of the Managing Director, which may, in exceptional circumstances, authorize such advances as may be deemed necessary, taking the proper precautions against loss and for preventing the system from becoming general or continuing longer than is absolutely essential.

Accounting of advances & their adjustment against submission of bills will be made on regular basis. Advance will be adjusted as per terms & conditions with the service provider.

For payment of other part of submitted bills of consultant. Noted that:

- If the bill amount of consultant exceeds the taxable limit for deduction of tax at source at the time of payment as per the Income Tax Ordinance 1984, then it should be compulsory to deduct tax at the rates applicable to this payment of the bill.
- If the bill amount of the consultant is subject to VAT deducted at source at the time of payment as per the VAT Act 1991, then it should be compulsory to deduct VAT at the rates applicable to this payment of the bill.
- Finally, the deducted (TAX & VAT) amount from the consultant's bill should be deposited to the Government through treasury challan within the date (within 7 days from the date of such deduction) as specified in the Income Tax Rules.

Accounting of advances and its' adjustment against submission of bills & payments of extra amounts will be as follows:

A - Journal entries through preparation of Cash Journal relating to the advance payment to consultants (IBCS Primex) against consultancy in PKSF is as below:

Debit	- Institutional Dev. & Capacity Building	-	(General ledger Code)
	- Advance to IBCS Primex	-	(Subsidiary ledger Code)
Credit	- Cash At Bank	-	(General ledger Code)
	- HO Bank Account	-	(Subsidiary ledger Code)

B - This advance will have to be adjusted as per the terms and conditions. At the time adjustment of advance on submission of bill, If the bill amount of the service provider exceeds the taxable limit for deduction of tax at source as per Income Tax Ordinance 1984, then it should be compulsory to deduct tax at the rates applicable to this payment of the bill and then, payments to service provider.

(I) - First of all, prepare a Journal Voucher for deduction of tax amount from the gross amount of service provider's bill:

Debit	- Institutional Dev. & Capacity Building	-	(General ledger Code)
	- Consultants Service at PKSK Head Office	-	(Subsidiary ledger Code)
Credit	- Liabilities For Other Finance	-	(General ledger Code)
	- Income Tax Deducted At Source-Ser. Pro.	-	(Subsidiary ledger Code)

(Only the tax deducted amount at source)

(II) - Secondly, prepare a Journal Voucher for adjustment of advance amount:

Debit	- Institutional Dev. & Capacity Building	-	(General ledger Code)
	- Consultants Service at PKSK Head Office	-	(Subsidiary ledger Code)
Credit	- Advance against Inst. Dev. & Cap. Building	-	(General ledger Code)
	- Advance to IBCS Primex	-	(Subsidiary ledger Code)

(Only the advance amount adjustment)

(III) - Then, prepare Cash Journal for payment of rest amount (final bill is more than the advance amount) after deduction of tax amount:

Debit	- Institutional Develop. & Capacity Building	-	(General ledger Code)
	- Consultants Service at PKSK Head Office	-	(Subsidiary ledger Code)
Credit	- Cash At Bank	-	(General ledger Code)
	- HO Bank Account	-	(Subsidiary ledger Code)

(Only the excess amount after adjustment of advance amount and tax deducted at source amount).

(IV) - Finally, prepare the Cash Journal for deposition of tax deduction amount from service provider's bill to the Government Treasury through treasury challan:

Debit	- Liabilities For Other Finance	-	(General ledger Code)
	- Income Tax Deducted At Source-Ser. Pro.	-	(Subsidiary ledger Code)
Credit	- Cash At Bank	-	(General ledger Code)
	- HO Bank Account	-	(Subsidiary ledger Code)

(Only the tax deducted amount at source)

12.9 - Authorization of Advances:

The authorization of advances shall be made in the following ways;

- Prior approval from the Managing Director is compulsory for outside advances in cases of "advance against third party for material supplies", "advance against service providers", "advance against rent" and "advance against traveling - outside the country".
- Prior approval from the Managing Director is compulsory for staff advances in case of "advance against house building loan".
- Prior approval from the concern authority is compulsory for staff advances in case of "advance against traveling - in the country".

12.10 - Internal Control in Advance Management & Accounting:

PKSF management should establish a proper internal control system in such a manner that:

- One transaction of advance is never been completed without passing through the hands of at least three officials (preparation, authentication and financial clearance);
- Before authorization of adjustment of advances proper documentation, evidences and finally authenticity should be proved appropriately and accurately with due care;
- The authorities and responsibilities of various officials have to be arranged in such a way that the person who authenticating the advances, who authorizing the advances, who documented & recorded the advances, the person who receives the advances is always be different.

Internal control in connection to operational steps of advances:

- Advances will be initiated on advance requisition form.
- The advance will be approved as per delegated authority.
- The advances requisition form will then be handed over to the Finance and Accounts section to check the particulars therein.
- Accounts Section will prepare payment voucher and checked the same.
- Cash Section will then make payment after obtaining receiver's signature.
- Accounts section will make the cash entry in the cash Scroll.
- Staff advances will be adjusted with in twenty (20) days from the payment of advances.
- Maximum limit of advance shall be received by the staff members of PKSF is not exceeding the limited as outlined by the "Service Rules" of the PKSF in case of staff advance for traveling cost.
- Other advances will be adjusted as per PKSF's Service Rules and related Contract Agreement basis.
- Expenses incurred will subsequently be approved as per policy and guidelines.
- On approval of the bills, accounts section will make the payment voucher / journal voucher / received voucher as the case may be.
- Finance & Accounts Section will make entry in the computer and updated the all ledgers.

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13 - ACCOUNTING & RECORDING OF LOAN TO POs

CHAPTER - 13

ACCOUNTING & RECORDING OF LOAN TO POs

13.1 - Lending Policy - Introduction:

The broad objective of "lending Policy" of PKSF is to sponsor, promote and provide various forms of assistance including financial, institutional, advisory and training to Non-Government, Semi-Government and Government Organizations, voluntary agencies and societies, local government bodies, institutions and groups of individuals (named as Partner Organizations or POs) undertaking activities with a view to generating income and / or employment opportunities and alleviating poverty in conformity with the objects of, an in a manner approved by the PKSF. This provides key aspects of PKSF's lending policies and procedures, as approved by its Governing Body from time to time.

13.2 - Accounting of Loan to POs:

Presentation of loans to POs to the PKSF financial statement shall be shown as its gross amount. The presentation of "Loans to Partner Organization" (POs) shall be as follows:

A - Non Current (Due beyond a year)

B - Current (Due within a year)

PKSF has given loan to POs as per installment basis through Draft or Cheques to the concerned POs as the case may be.

Accounting of loan given to POs (Name of PO is ABC) [Rural Micro-credit to PO's under OOSA] will be journalized through making Cash Journal in the following way:

Debit	- Rural Micro-credit to PO's under OOSA - ABC (Name of PO)	- (General ledger Code) - (Subsidiary ledger Code)
Credit	- Cash At Bank - HO Bank Account	- (General ledger Code) - (Subsidiary ledger Code)

(Only for Taka amount of loan given to ABC - PO)

13.3 - Accounting of Recovery of loan to POs:

PKSF recovers its loan to POs as per installment basis through receiving Demand Draft or Cheques or Pay-Order from the concerned POs as the case may be.

Accounting of loan recovery from POs (name of PO is ABC) against loan to POs [Rural Micro-credit to PO's under OOSA] will be journalized through making Cash Journal in the following way:

Debit	- Cash At Bank - HO Bank Account	- (General ledger Code) - (Subsidiary ledger Code)
Credit	- Rural Micro-credit to PO's under OOSA - ABC (Name of PO)	- (General ledger Code) - (Subsidiary ledger Code)

(Only for Taka amount of loan realized from ABC - PO)

13.4 - Accounting of Recovery of Service Charge on Loan to POs:

PKSF recovers its' service charge from POs calculated as per rate agreed upon in the loan agreement on loan to POs on installment basis through receiving Demand Draft or Cheques or Pay-Order from the concerned POs as the case may be.

Accounting of service charge recovery from POs (name of PO is ABC) against loan to POs [Rural Micro-credit to PO's under OOSA] will be journalized through making Cash Journal in the following way:

Debit	- Cash At Bank	-	(General ledger Code)
	- HO Bank Account	-	(Subsidiary ledger Code)
Credit	- Service Charge Under RMC - OOSA	-	(General ledger Code)
	- ABC (Name of PO)	-	(Subsidiary ledger Code)

(Only for Taka amount of service charge realized from ABC - PO)

13.5 - Accounting of Accrual of Service Charge on Loan to POs:

PKSF accrue its' service charges on loan to POs as per policy instruction calculated based on rates agreed upon in the loan agreement with the POs as the case may be.

Accounting of service charges accrual but not due from POs (name of PO is XYZ) against loan to POs [Rural Micro-credit to PO's under OOSA] will be journalized through making Journal Voucher in the following way:

Debit	- Accrued Service Charge RMC - OOSA	-	(General ledger Code)
	- XYZ (Name of PO)	-	(Subsidiary ledger Code)
Credit	- Service Charge Under RMC - OOSA	-	(General ledger Code)
	- XYZ (Name of PO)	-	(Subsidiary ledger Code)

(Only for Taka amount of accrued service charge but not due from XYZ - PO)

13.6 - Accounting of Overdue Service Charge on Loan to POs:

Overdue service charges on loan to POs accounted for separately.

Accounting of over due service charge from POs (name of PO is NM) against loan to POs [Rural Micro-credit to PO's under OOSA] will be journalized through making Journal Voucher in the following way:

Debit	- Overdue Service Charge RMC - OOSA	-	(General ledger Code)
	- NM (Name of PO)	-	(Subsidiary ledger Code)
Credit	- Service Charge Under RMC - OOSA	-	(General ledger Code)
	- NM (Name of PO)	-	(Subsidiary ledger Code)

(Only for Taka amount of overdue service charge from NM - PO)

13.7 - Accounting of Loan Loss Provision:

The amount of accumulated provision made for the doubtful loans calculated as loan classification and provisioning policy of PKSF shall be shown as liability item of the balance sheet and debt management charges for the year shall be shown as an expense in the income statement.

Accounting of loan loss provision on loan to POs - OOSA will be journalized through making Journal Voucher in the following way:

Debit	- Debt Management Charges for Core Program- - D M Charges - Core Program	-	(General ledger Code) (Subsidiary ledger Code)
Credit	- Debt Management Reserve on Loan to POs - OOSA - Loan Component	-	(General ledger Code) (Subsidiary ledger Code)

(Only for Taka amount of debt management reserve)

13.8 - Records & Documentation of Loan to POs:

- ❖ Loan ledgers shall be maintained in finance and accounts section, Disbursement and repayment of loan shall be immediately documented evidently, recorded authentically and posted correctly in the ledgers as and when they take places and updated the ledgers regularly;
- ❖ Monthly reconciliation by the finance and accounts shall be conducted with figures of the MIS of the total loan outstanding, disbursements and recovery and prepare the reconciliation statement for the unmatched balances of accounting ledgers;
- ❖ Overdue statement of loan outstanding (as per format) shall be prepared on monthly basis regularly and also by MIS Section;
- ❖ Loan classification statements (as per format) shall be prepared yearly basis following the guidelines as stated in the policy - Matrix Methodology;
- ❖ Loan loss provision statement or calculation sheet (as per format) to be prepared based on loan classifications statements following the instruction & guidelines made in this regard;
- ❖ Separate statement to be prepared for the "Renegotiated Loans" and Non-performing Loans" as per statement (as per format) designed in this context.

13.9 - Internal Control in Loan Disbursement Process:

On getting the approval for payment on the file, a cheque requisition giving details of the board sanction, mode of payment etc, shall be prepared by the Desk Officer (Operations) approved DMD (Operations) asking the Finance and Accounts Department to prepare the cheque. File shall be moved to Supervising Officer and Deputy Managing Director (DMD-Operations) for their signatures. The cheque requisition along with other related necessary papers to process the loan disbursement to POs shall then, given to the Finance and Accounts Department for preparing cheque in favour of the POs.

Cheque requisition goes to Officer (F&A), to see if any condition is given in the requisition if followed. He then brings out the resolution file and check that requisition agrees with what is mentioned in the resolution. Then, he attaches a copy of the file note approving the payment with the voucher made for payment. He puts the cheque number and amount paid on the face of the resolution marking the payment.

Then, Officer (F&A) prepares the cheque recording the payment in Cheque Payment Register and on Customer Loan Card. The cheque, cheque register, resolution of minutes file and the voucher then sent to the Manager (F&A) who check that the cheque is prepared properly and all formalities regarding payment is maintained. Then, he signs on the counter foil of the cheque, cheque payment register, on the cheque requisition and on the resolution of minutes and also voucher prepared for this.

After verification and signing by Manager (F&A), the whole set then sent to the DGM (F&A) who again checks in the same way and sends those to the cheque signatories as per delegation of authority. On signing the cheque by the authorized personnel and file return to Finance and Accounts Department for delivery of cheque to the concern PO through concern Desk Officer of Operation Department.

Finance and Accounts Department then handed over the cheque to the concerned officer for delivering to the PO recording the same in the cheque disbursement register and the PO card. The deeds are entered in Deed Register where DO and AM signs. Deed of agreements along with other papers is kept in safe custody under the joint custodians.

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14 - GOVERNMENT GRANTS & IT'S ACCOUNTING

CHAPTER – 14

GOVERNMENT GRANTS & IT'S ACCOUNTING

14.1 – Definitions:

(I) - Government Grants -

Government grants are assistance by government or other agencies in the form of transfers of resources to PKSF in compliance with certain conditions relating to operating activities of PKSF.

(II) - Grants Related to Assts -

Grants related to assets are grants whose primary condition is that PKSF qualifying for them shall purchase or acquire long-term assets. Subsidiary conditions may also be attached restricting the type or location of the assets or the periods during which they are to be acquired or held.

(III) - Grants Related to Income -

Grants related to income are government grants other than those related to assets.

14.2 - Application of IAS - Government Grants Accounting:

International Accounting Standard IAS - 20 - "Accounting for Government Grants and Disclosure of Government Assistance" shall be applied in accounting for, and in the disclosure of, government grants received by PKSF and in the disclosure of other forms of government assistance.

Recognition of Government Grants & Accounting for Government Assistance by PKSF shall be as follows:

(a) - Recognition of Government Grants:

- Government grants shall not be recognized until there shall be reasonable assurance that:

(I) - The PKSF shall comply with the conditions attaching to it; and

(II) - The grant shall be received.

Government grants shall be recognized as income over the periods necessary to match them with related costs which, PKSF are intended to compensate, on a systematic basis.

(b) - Accounting of Government Grants:

(I) - Grant for current year's revenue expenses shall be recognized as grant income under other income account;

(II) - Government grants for expenses shall be recognized as deferred income to the extend of the amount of subsequent years and for equity as capital fund;

(III) - Amount equal to current years' depreciation under grant for assets shall be recognized as income. Rest / carrying amount of the relevant assets shall be accounted for as grant for assets;

(c) - Disclosure of Government Grants in financial statements of PKSF:

- (I) - The accounting policy adopted for government grants, including the methods of presentation adopted;
- (II) - The nature and extent of government grants recognized shall be disclosed adequately;

14.3 - Accounting of Government Grants:

Following accounting procedures / systems shall be followed by PKSF to the Government Grants:

(A) - Accounting against revenue expenditures:

- (I) - When revenue expenditures incurred and paid by PKSF:

Debit	- Relevant Revenue Expenditure	-	(General ledger Code)
	- Relevant Expenditure	-	(Subsidiary ledger Code)
Credit	- Cash At Bank	-	(General ledger Code)
	- HO Bank Account	-	(Subsidiary ledger Code)

(Only for Taka amount of revenue expenditures paid)

- (II) - When expenditures reimbursed by Government that paid by PKSF:

Debit	- Cash At Bank	-	(General ledger Code)
	- HO Bank Account	-	(Subsidiary ledger Code)
Credit	- Other Income	-	(General ledger Code)
	- Grant Under Project	-	(Subsidiary ledger Code)

(Only for Taka amount of revenue expenditures reimbursed by Government)

- (III) - For accrual of expenditures (not received with in particular year):

Debit	- Grants Receivables	-	(General ledger Code)
	- Receivable Under Project	-	(Subsidiary ledger Code)
Credit	- Other Income	-	(General ledger Code)
	- Grant Under Project	-	(Subsidiary ledger Code)

(Only for Taka amount of revenue expenditures not yet received with in particular year)

- (IV) - When grants received in advance:

Debit	- Cash At Bank	-	(General ledger Code)
	- HO Bank Account	-	(Subsidiary ledger Code)
Credit	- Deferred Income	-	(General ledger Code)
	- Deferred Income Under Project	-	(Subsidiary ledger Code)

(Only for Taka amount of revenue expenditures received in advance)

(V) - Revenue expenditure paid in advance for subsequent year but the eligible reimbursement did not received in the year in which advance is paid:

Debit	- Grant Receivable Account - Receivable Under Project	-	(General ledger Code) (Subsidiary ledger Code)
Credit	- Other Income - Grant Under Project	-	(General ledger Code) (Subsidiary ledger Code)

(B) - Accounting against capital expenditures:

(I) - When capital expenditures incurred and paid by PKSF:

Debit	- Relevant Fixed Assets Account - Relevant Fixed Assets	-	(General ledger Code) (Subsidiary ledger Code)
Credit	- Cash At Bank - HO Bank Account	-	(General ledger Code) (Subsidiary ledger Code)

(Only for Taka amount of capital expenditures paid)

(II) - When capital expenditures reimbursed by Government that paid by PKSF:

Debit	- Cash At Bank - HO Bank Account	-	(General ledger Code) (Subsidiary ledger Code)
Credit	- Grant for Assts - Grant for Asset Under Project	-	(General ledger Code) (Subsidiary ledger Code)

(Only for Taka amount of capital expenditures reimbursed by Government)

(III) - For accrual of capital expenditures (not received with in particular year):

Debit	- Grants Receivables - Grant Receivable Under Project	-	(General ledger Code) (Subsidiary ledger Code)
Credit	- Grant for Assets - Grant for Assets Under Project	-	(General ledger Code) (Subsidiary ledger Code)

(Only for Taka amount of capital expenditures not yet received with in particular year)

(IV) - When grants received in advance:

Debit	- Cash At Bank - HO Bank Account	-	(General ledger Code) (Subsidiary ledger Code)
Credit	- Deferred Income - Deferred Income Under Project	-	(General ledger Code) (Subsidiary ledger Code)

(Only for Taka amount of capital expenditures received in advance)

(V) - For depreciation of the assets:

Debit	- Depreciation of Fixed Assets - Depreciation of Fixed Asset Under Project	-	(General ledger Code) (Subsidiary ledger Code)
Credit	- Provision for Depreciation on Fixed Asset - Provision for Dep. on F. Asset Under Project	-	(General ledger Code) (Subsidiary ledger Code)

(Only for Taka amount of depreciation of fixed assets for the particular period)

(VI) - For adjustment of proportionate depreciation against grants for assets:

Debit - Grant for Assets - (General ledger Code)
 - Grant for Assets Under Project - (Subsidiary ledger Code)

Credit - Other Income - (General ledger Code)
 - Grant Under Project - (Subsidiary ledger Code)

(Only for equivalent Taka amount of yearly proportionate depreciation of fixed asset)

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15 - ACCOUNTING OF LIABILITIES & BORROWING COSTS

CHAPTER – 15

ACCOUNTING OF LIABILITIES & BORROWING COSTS

15.1 – Definitions:

(I) - Liabilities -

One of the elements directly related to the measurement of financial position of PKSF is liability. Liability is a obligation of the organization arising as a result of past events and from which future economic benefits are expected to flow to the organization.

An essential characteristic of a liability is that the organization has an obligation. An obligation is a duty or responsibility to act or perform in a certain way. Obligations may be legally enforceable as a consequence of a binding contract or statutory requirement. A distinction needs to be drawn between a present obligation and a future commitment. A decision by the management of the organization to acquire assets in future does not, of itself, give rise to a present obligation. An obligation normally arises only when the asset is delivered or the organization enters into an irrecoverable agreement to acquire the assets. Example of liabilities resulting from past transactions or past events is the receipt of loan results in an obligation to repay the loan with interest.

(II) - Borrowing Costs -

Borrowing costs are interest and other costs incurred by PKSF in connection with the borrowing of funds.

15.2 – Recognition of Liabilities:

A liability is recognized in the balance sheet when it is probable that an outflow of resources embodying economic benefits will result from the settlement of an obligation and the amount at which the settlement will take place can be measured reliably. Recognition of liabilities entails recognition of related assets or expenses.

15.3 - Accounting of Liabilities:

Generally, PKSF classified its' liabilities into two major categories as follows:

- (I) - Current Liabilities
- (II) - Long Term Liabilities

Following accounting procedures / systems shall be followed by PKSF to accounting its' obligation / liabilities:

(A) - Current Liabilities:

(I) - For accrual of expenses (Accrual of liabilities for expenses):

Debit	- Relevant Revenue Expenditure	-	(General ledger Code)
	- Relevant Expenditure	-	(Subsidiary ledger Code)
Credit	- Other Liabilities	-	(General ledger Code)
	- Provision for Expenses	-	(Subsidiary ledger Code)

(Only for Taka amount of accrued expenditures not yet paid)

(II) - For payment of liabilities:

Debit	- Other Liabilities - Provision for Expenses	-	(General ledger Code) (Subsidiary ledger Code)
Credit	- Cash At Bank - HO Bank Account	-	(General ledger Code) (Subsidiary ledger Code)

(Only for Taka amount paid against liabilities)

(B) - Long Term Liabilities:**(I) - For receipt of long-term loan under different projects:**

Debit	- Cash At Bank - HO Bank Account	-	(General ledger Code) (Subsidiary ledger Code)
Credit	- Long Term Loan Account - Loan Under Project	-	(General ledger Code) (Subsidiary ledger Code)

(Only for Taka amount of long term loan received under project)

(II) - For payment of long term loan:

Debit	- Long Term Loan Account - Loan Under Project	-	(General ledger Code) (Subsidiary ledger Code)
Credit	- Cash At Bank - HO Bank Account	-	(General ledger Code) (Subsidiary ledger Code)

(Only for Taka amount paid against long term loan)

(C) - Gratuity Fund:**(III) - For accrual of gratuity expenses:**

Debit	- Salaries, Allowances & Other Facilities - Gratuity	-	(General ledger Code) (Subsidiary ledger Code)
Credit	- Provision for Gratuity - Name of the Employee	-	(General ledger Code) (Subsidiary ledger Code)

(Only for Taka amount of accrued expenditures not yet paid for gratuity)

(II) - For payment of gratuity:

Debit	- Provision for Gratuity - Name of the Employee	-	(General ledger Code) (Subsidiary ledger Code)
Credit	- Cash At Bank - HO Bank Account	-	(General ledger Code) (Subsidiary ledger Code)

(Only for Taka amount paid against gratuity)

15.4 - Application of IAS - Borrowing Costs Accounting:

International Accounting Standard IAS - 23 - "Accounting for Borrowing Costs" shall be applied in accounting for borrowing costs of PKSF. Recognition of borrowing costs & Accounting for borrowing costs by PKSF shall be as follows:

(a) - Recognition of borrowing costs:

- Borrowing costs shall be recognized as an expenses in the period in which they are incurred;

(b) - Accounting of borrowing costs:

- Borrowing costs shall be interest and other costs incurred by PKSF in connection with the borrowing of funds;
- Borrowing costs shall be accounted for on accrual basis;

(c) - Disclosure of borrowing costs in financial statements of PKSF:

- The nature and extent of borrowing costs recognized shall be disclosed adequately in the financial statements;
- The accounting policy adopted for borrowing costs;

15.5 - Accounting of Borrowing Costs:

Following accounting procedures / systems shall be followed by PKSF to accounting its' borrowing costs:

(A) - Accounting for interest on loan:

(I) - For accrual of interest expenses on loan:

Debit	- Interest On Loan	-	(General ledger Code)
	- Interest On Loan Under Projects	-	(Subsidiary ledger Code)
Credit	- Interest Payable On Loan - Current	-	(General ledger Code)
	- Interest Payable On Loan U. Pro. - Current	-	(Subsidiary ledger Code)
Credit	- Interest Payable On Loan - Non-Current	-	(General ledger Code)
	- Interest Payable On Loan U. P Non-Current-	-	(Subsidiary ledger Code)

(Only for Taka amount of accrual of interest expenditure on loan)

(II) - For payment of interest on loan:

Debit	- Interest Payable On Loan - Current	-	(General ledger Code)
	- Interest Payable On Loan U. Pro. - Current	-	(Subsidiary ledger Code)
Credit	- Cash At Bank	-	(General ledger Code)
	- HO Bank Account	-	(Subsidiary ledger Code)

(Only for Taka amount paid against interest on loan)

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16-APPLICATION OF INTERNATIONAL ACCOUNTING STANDARDS

CHAPTER – 16

APPLICATION OF INTERNATIONAL ACCOUNTING STANDARDS

16.1 – *Introduction:*

Here, it will be better to give an overview of the meaning and objective of the International Accounting Standards (IAS).

The International Accounting Standard (IAS) are issued by the International Accounting Standards Committee (IASC) to bring world - wide "harmonization in the Generally Accepted Accounting Principles (GAAP), so that financial statements, as the bases for investment, credit and similar decision", standards (subject to local adaptation), which are meant for mandatory application wherever adopted.

International Accounting Standards are designed to achieve improvement in the degree of uniformity in accounting principles and disclosures and thereby effective harmonization in financial reporting of the concerned entities. Each IAS covers accounting standards (recognition and measurement related) and reporting standards (disclosure related).

Though accounting standards are generally similar, the reporting or disclosure standards may vary significantly from entity to entity and country to country, because of differences in corporate objectives and economic, socio-political environments. Hence, realization of disclosures is essential for achieving national and international harmonization in accounting practices and presentation.

16.2 – *Application of International Accounting Standards:*

While preparing the financial statements of PKSF, it always to follow the internationally generally accepted accounting principles and accounting standards issued by the International Accounting Standards Committee (IASC) considering the local adoption.

The preparation of financial statements and adoption & application of accounting policies of PKSF should be identical and as per the requirements of International Accounting Standards (IASs) as adopted in Bangladesh. The financial statements such as balance sheet, income statements, cash flow statements, disclosure of accounting policies are being prepared based on various important assumptions, concepts, principles and conventions as per International Standard.

The management of the PKSF is responsible for the preparation and presentation of its financial statement as per International Accounting Standards (IAS-1).

Financial statements shall present fairly the financial position, financial performance and cash flows of PKSF. The appropriate application of International Accounting Standards, with additional disclosure when necessary, results, in virtually all circumstances, in financial statements that achieve a fair presentation.

The following International Accounting Standards (IAS) shall be applicable in preparation and presentation of PKSF financial statements:

SI. No.	Number of IAS	Name of IAS
1	IAS-1	Presentation of Financial Statements
2	IAS-2	Inventories
3	IAS-7	Cash Flow Statements
4	IAS-8	Net Profit or Loss for the Period, Fundamental Errors & Changes in Accounting Policies
5	IAS-10	Events After the Balance Sheet Date
6	IAS-16	Property, Plant & Equipment
7	IAS-18	Revenue Recognition
8	IAS-19	Employee Benefits
9	IAS-20	Accounting Government Grants & Disclosure of Govt. Assist.
10	IAS-23	Borrowing Costs
11	IAS-30	Disclosure in the Financial Statements of Banks & Similar Financial Institutions

16.3 – Adoption of Accounting Policy As per IAS:

Accounting policies are the specific principles, bases, conventions, rules and practices adopted by PKSF in preparing and presenting financial statement.

Management of PKSF shall select and apply its' accounting policies in such a way, so that the financial statements comply with all the requirements of each applicable International Accounting Standard.

16.4 – Disclosure of Accounting Policies As per IAS:

As per the requirement of the International Accounting Standards (IAS-1), the preparation of disclosure requirement statements of accounting policies adopted to prepare financial statements in the organization as an integral part of the financial statements is compulsory.

This is why PKSF has to prepare disclosure requirements statements of accounting policies for its consolidated statements in head office centrally.

Each accounting policies of the PKSF should be disclosed that is necessary for a proper understanding of the financial statements. A specific accounting policy should be disclosed, where disclosure would assist users in understanding the way in which financial transactions and events are reflected in the reported performance and financial position.

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CHAPTER - 17

PREPARATION OF FINANCIAL STATEMENTS

17.1 – Introduction:

The financial statements of the PKSF shall be finalized (prepared and presented) through inserting the all disclosures requirements of the accounts as per International Accounting Standards (IAS) for each calendar month. Usually each month accounts shall be completed by third week of the next month. At the end of each month, the chief of finance and accounts shall prepare and submit monthly financial report to the Managing Director of PKSF.

At the end of the fiscal year, the chief of finance and accounts shall prepare the Annual Report including financial statements of the organization with full disclosures requirements of the accounts as per International Accounting Standards (IAS) duly audited and submit the same to the General Body through Managing Director. Financial statements also show the results of management's stewardship of the resources entrusted to it.

17.2 – Finalization of Monthly Financial Statements:

At the end of each month balancing of all records of accounts, control general ledgers, subsidiary ledgers and registers shall be carried out attentively and completed & updated accurately in all offices of PKSF. Then go for finalization of monthly basis accounts / financial statements of PKSF. The stages to complete the preparation of final accounts of PKSF are as follows:

- ✓ Preparation of trial balance;
- ✓ Preparation of income statements - Projects, funds and PKSF as a whole;
- ✓ Preparation of balance sheets - Projects, funds and PKSF as a whole;
- ✓ Preparation of cash flow statements - Projects, funds and PKSF as a whole;
- ✓ Preparation of notes to accounts - Projects, funds and PKSF as a whole;
- ✓ Preparation of all schedules & statements - Projects, funds and PKSF as a whole;
- ✓ Preparation of significant accounting policies adopted to prepare accounts;
- ✓ Preparation of all explanatory notes to accounts - Projects, funds and PKSF as a whole;
- ✓ Preparation of ratio analysis statements;
- ✓ Preparation of budget variance analysis statements;

17.3 - Income Statements:

As a process of preparation of periodical financial statements, PKSF shall have to prepare income statements to show the excess / shortage of expenditure over income for a particular period monthly / quarterly / yearly basis. It is required to be essential to prepare the income statement on monthly basis for all the offices including head office and a consolidated income statement of PKSF. To prepare the income statement:

- All revenue incomes balances of ledger accounts to be accumulated as per individual accounts head and codes in income side and all revenue expenditures balances of ledger accounts to be accumulated as per individual accounts head and codes in expenditure side;

- Then totaled the both sides (income and expenditure);
- The difference amount (excess or shortage) to be find out by balancing the total balance of both sides;
- Payments against advance or prepayments and the capital expenses should not be included in this account. This type of expenses should be treated as items to be shown in the balance sheet;
- The surplus or deficit as shown by this account shall be transferred to the balance sheet as capital fund;
- The depreciation charges relating to fixed assets and the provision for loan losses will be shown in the income statements.
- All revenue nature income and expenditure relating to the reporting period will be reflected in this account irrespective of the status whether income received or not and the expenditure paid or not.

17.4 - The Balance Sheet:

The balance sheet portrays the state of assets and liabilities of the organization as on a particular day. So, to depict the over all financial position of the organization, it is compulsory to draw up a balance sheet (As per Format) for PKSF at closing day of the financial year. To facilitate the easy accounting for PKSF, monthly basis preparation of balance sheet is acute to be needed. Besides, it is also needed to prepare balance sheet for all offices.

- a) The balance sheet shall have to be prepared on the basis of the ledger balances;
- b) For this purpose, all assets & property will be classified in one side and all liabilities & equities will be classified in other sides of balance sheet;
- c) Then after, totaled both the sides and examine whether the sum of equity and liability side agrees with the sum of property and assets side of balances sheet.
- d) So, the equation for balance sheet stands as below:

$$\text{Balance sheet} = \text{Equity \& Liabilities} - \text{Property \& Assets.}$$

- e) Excess of income over expenditure [surplus] or excess of expenditure over income [deficit] is to be adjusted against equity – as retained earning in balance sheet.
- f) The ultimate effects of the adjustments relating to advances, prepayments and outstanding expenses and depreciation shall be shown in the balance sheet.
- g) Details of fixed assets should be shown either in a schedule to be annexed with the balance sheet.

17.5 – Cash Flow Statements:

As per the requirement of the International Accounting Standards (IASs-1 & 7), the preparation of cash flow statements of the organization is compulsory. This why PKSF has to prepare Cash Flow statements for its all offices and consolidated statements in head office also. The cash flow statement has to be prepared as per format.

17.6 – Notes to Accounts:

As per the requirement of the International Accounting Standards (IASs-1), the preparation of notes to accounts as an integral part of the financial statements of the organization is compulsory. This is why PKSF has to prepare notes to accounts statements for its all offices & consolidated statements in head office.

17.7 - Subsidiary Ledger Accounts Statement:

To support the balance sheet, income statement and cash flow statements of PKSF is compulsory to prepare the statements of all subsidiary ledger accounts balances of a particular period – monthly, quarterly & yearly as required for explanation. This will be prepared as per the specified format by all offices.

17.8 - Accounts Schedules & Statements:

To support the balance sheet, income statement and cash flow statements of PKSF is compulsory to prepare the schedules & statements of balance sheet, income statement and cash flow statement items of a particular period – monthly, quarterly & yearly as required for explanation. This will be prepared as per the specified format by all offices.

All sorts of statements and schedules to be prepared as and when needed to clarify financial statements - such as fixed assets schedules, depreciation schedules, stock statements, prepaid expenses statements, inter office transactions statements, cash custody certificate, bank balance confirmation certificates, detail break up of sales & purchases, cash budget, budget variance analysis and etc.

17.9 - Interpretation of Accounts – Ratio Analysis:

Ratio analysis statement as whole of PKSF is compulsory to prepare at a particular period – monthly, quarterly & yearly as required for interpretation of the financial statements is necessary to measure the rate of performances in different sector of the organization. The achievement in different sectors of PKSF will be evaluated through finding out the calculation of certain ratio as delineated by the management.

17.10 - Other Reporting through Accounts Maintenance:

I - Accounts Maintenance:

PKSF accounts are developed in a computer-software - whole thing is a computerized one. The modern concepts and system of accounts keeping are followed in PKSF.

II - Preparing other reports:

- ❖ Loan & fund position;
- ❖ Loan disbursement to POs;
- ❖ Loan recovery of POs;
- ❖ Service charge recovery from POs;
- ❖ Net Loan disbursement summary of POs;
- ❖ DOSA - Accounts statements - IDA reporting;
- ❖ Other reports as per management requirement;

- ❖ Daily Transaction Report;
- ❖ General Ledger at different options;
- ❖ Cash and Bank Summary;
- ❖ Journal Voucher Summary;
- ❖ Demand Draft register;
- ❖ Other information as and when required.

III - Providing management information - As and when required.

17.11 – Budgeting:

I - Annual Budget Preparation:

- ❖ Annual Budget shall be prepared for the next year at the end of the current year and shall be placed at the board for approval;
- ❖ The budget shall be placed and approved in the Annual General Meeting.

II - Long Term Budget (LTB):

Shall be prepared as & when required by the management to foresee the future;

LTB shall also be prepared to see the trend at different scenario.

17.12 - Computerization of Accounts:

The accounting system of PKSF has been computerized. A well designed accounting software has been introduced in the organization to record the day to day financial transactions in such a way that a best presentation of the PKSF financial statements has been prepared which following the all requirements, guidelines and disclosures of International Accounting Standards (IASs).

To facilitate the whole accounting system and to prepare all financial statements of PKSF based on the generally accepted accounting principles required as per the International Accounting Standards processed through the newly introduced accounting software, a best commonly applicable chart of accounts adhere to record all financial transactions of the organization at all level linking with the budget line items of PKSF has been developed in this context.

Newly developed accounting software of PKSF considers location wise (means PKSF head office in Dhaka and all other Regional Audit offices through out the country) financial transactions recording and their preparation of related financial statements. Moreover, it also considered to record all financial transactions of project program wise, program activity wise and finally expense nature wise all financial transactions of all level of PKSF.

This would assist PKSF to record information conveniently and produce various financial statements and reports accurately and timely in regular basis.

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 - 18.7 - Tender Fees & Performance Bond***
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CHAPTER - 18

PURCHASE PROCEDURE & MANAGEMENT

18.1 - Introduction:

All types of purchases and procurements of head office and regional audit offices of PKSF should be made as per the procedures and guidelines narrated here in below. All procurement must be on fair competitive basis and a competitive price is made for goods and services. In order to implement the purchase procedures effectively, it is necessary to set up an efficient purchase unit under the administrative department. The staff members (may be changed from time to time) responsible for purchase should:

- Have considerable experience in buying;
- Have organizing ability;
- Have ability to negotiate;
- Be reliable, dependable and honest;
- Have broad base technical ability;

18.2 - Purchase Methods:

Generally following two methods will exist:

- | | |
|-----------------------------|---|
| I. Strictly by Requirement: | Purchases will be made only when need and the purchase unit should have up-to date knowledge of all reliable sources. |
| II. Group Purchase: | Purchase will be made in groups that are placing one order for a number of small orders. |

18.3 - Purchase Procedure:

Following procedures and guidelines have to be followed to ensure fair and competitive price, offers should be made to genuine dealers or suppliers through tender or quotation:

I. Purchase Requisition:

- This includes fixed assets, routine purchase, casual purchase etc. Administrative department shall send request to different department / section to send their requisition for purchase of bulk item. Administration Dept. shall also arrange to obtain budget from finance and accounts department to ensure primarily that the purchases are within the budget allocation.
- Purchase requisition indicating budgetary sanction or block allocation is to be initiated by user department, vetted by the concerned head. Requisition is to be made in duplicate. The person requisitioning retains one copy and the other copy is forwarded to the Administration Dept.
- Other than that Annual / Half Yearly / Quarterly bulk purchase all requisitions for regular weekly purchase shall have to be submitted by different Department / Section to Administration Department.

- After careful scrutiny of the requisitions submitted by different department / section, Administration Dept. shall take the initiative to process the file and necessary prior approval from the line authority as per authorization procedures.
- After careful scrutiny of the requisitions submitted by different department / section, Administration Dept. shall prepare indent & send the same to purchase committee for review / recommendation if purchase cost value is Taka 20,000 (Twenty thousand) and above.
- If purchase formalities are under the jurisdiction of purchase committee - the necessity of purchases shall duly approved by the Managing Director.
- Purchase proposal together with quotation / offer shall be placed to Purchase Committee.

II. Purchase Committee:

- There shall be two purchase committees (PC) to be constituted by the Managing Director to conduct purchase related activities.
- The committee may be consisted of minimum 4-5 members or as decided by the Management. At least three (3) members should always be available at the time of approving any purchase.
- All the purchases value exceeding Taka 20,000 are to be handled and maintained by purchase committee.
- The purchase committee shall reserve the right to accept or reject any or all quotation / tenders with proper justification.
- Purchase committee shall verify the quotation and the comparative statement and then recommend to Managing Director for approval.
- Purchase Committee-2: To perform the activity in connection to the purchase goods from Taka 20,001 up to Taka 5,00,000;
- Purchase Committee-1: To perform the activity in connection to the purchase of goods amounting to above Taka 5,00,000.
- When a particular item is purely of proprietary in nature, irrespective of the value of the purchase, single tender inquiry is to be used directly to the manufacturer or their authorized agents. On scrutiny, the purchase committee shall place the recommendation of purchase to Managing Director.
- If the suppliers' organization / source is more than one, purchase shall be made on competitive price basis through making necessary inquiry or through inviting Tender / Quotation / Offer at least two national newspapers / dailies.
- In case of quotation / tender purchase, at least three (3) quotation / tender will have to be collected / submitted from the different shop's / suppliers. Then, on scrutiny, the purchase committee shall place the recommendation of purchase to Managing Director.

III. Way of Purchase - Selection / Identification of Suppliers:

A - General Purchase:

- Administration Dept. can purchase when purchase requisition involves below Taka 20,000 (Twenty Thousand) with the approval of Managing Director.
- In this case, at least three (3) quotations will have to be collected / submitted from the different shop's / suppliers.
- Administration Dept. shall nominate / select two personnel of PKSF for collection of quotations.
- Then, on scrutiny, Administration Dept. shall place the recommendation of purchase to Managing Director.
- Administration Dept. shall purchase the daily supplies / canteen materials from the market by a survey to ascertain the prevailing competitive pricing.

B - Spot Quotation Purchase:

- If the purchase volume exceeding 20,000 (Twenty Thousand) but not more than Taka 500,000 (Five Lacs), purchase will be made through collecting spot quotations or sealed quotations.
- Written quotation at least from three suppliers, if not possible, at least from three sources with name, address and telephone number, to justify the market and those quotations need to be preserved with the relevant accounting record.
- Purchase formalities should be approved by the purchase committee-2.

C - Purchase From Selected Suppliers:

- If purchase volume exceeds Taka 20,000 (Twenty Thousand) but not more than Taka 500,000 (Five Lacs), purchase will be made through circulating sealed tender notice to the reputed suppliers.
- Enlistment of suppliers will be as per the norms and rules of the purchase procedures duly approved by Managing Director.
- At least from three sources, to justify the market and those quotations need to be preserved with the relevant accounting record.
- Purchase formalities should be approved by the purchase committee-2.

D - Purchase Through Press Tender:

- If purchase volume involves more than Taka 500,000 (Five Lacs) and the goods are of non-proprietary in nature, purchase shall be made through sealed tender / quotation inviting by at least two dailies national newspaper having reasonably wide circulation and circulation in the notice board.
- At least from three sources, to justify the market and those quotations need to be preserved with the relevant accounting record.
- Purchase formalities should be approved by the purchase committee-1.

E - Purchase From Single Suppliers:

- When a particular item is purely of proprietary in nature, irrespective of the value of the purchase, single tender inquiry is to be used directly to the manufacturer or their authorized agents.
- Purchase formalities should be approved by the purchase committee-1.

IV. Purchase Under TA Program:

- All purchases in respect of TA Program of Donor Agencies, shall be performed / constituted as per the circulated / instructed rules and regulations of the Donor Agencies made in this context to the PKSF.

V. Purchase Approval:

Following officers of PKSF, have been given the power of authority to approve / authorize the goods purchases:

- Manager (Administration) shall approve purchase/expense amounting up to Taka 1,000 (One Thousand). For non-recurring goods whether price verification is made or not, he shall taken the approval of higher authority in case of approval of Purchase Requisition.
- Deputy General Manager (F/A) shall approve purchase/expense from Taka 1,001 to 2,000.
- General Manager (Administration) shall approve purchase/expense more than Taka 2,000 (Two Thousand) and not exceeding Taka 5,000 (Five Thousand).
- Managing Director shall approve purchase any amount exceeding Taka 5,000 (Five Thousand).
- If purchase cost amounting to Taka 20,000 (Twenty Thousand), purchase committee recommendation shall be needed.
- In case of purchase amounting to Taka 20,000 (Twenty Thousand) and not exceeding Taka 500,000 (Five Lacs), purchase committee - 2 shall make the recommendation regarding purchase to the Managing Director.
- In case of purchase amounting more than Taka 500,000 (Five Lacs), purchase committee-1 shall make the recommendation regarding purchase to the Managing Director.

VI. Comparative Statement Preparation:

- Manager (Administration) shall prepare the comparative statement of the prices quoted by supplier/dealer & shall send it to the Managing Director for approval.
- Purchase committee shall prepare a comparative statement of the prices quoted by supplier / dealer and shall declare the lowest bidder as selected supplier. If the lowest bidder has not been declared as selected supplier, detail explanation of the reason shall be narrated / cited in the comparative statement.
- Details of the purchase recommendation mentioning the budget provision shall be written in a presentation form or minutes and the same shall be duly signed by the president / chairman and members of the purchase committee and then, presented the minutes / presentation to the Managing Director for approval

VII. Purchase Work Order:

- On getting the approval of purchase, purchase price and the supplier by the Managing Director, an authorized officer (Manager Administration) shall prepare the Purchase Order for procurement of goods or a contract for services.
- Administration Dept. shall issue the work order to supplier mentioning all term & conditions and details goods specifications and copies of such work order shall be sent to stores & accounts department and one retain with the administration.
- While rewarding a purchase order against the available bids, the consideration should equally be emphasized on price and quality. The price can be negotiated, but the quality cannot be compromised at any circumstance. The negotiation is, however, discouraged and it may be applied only when the situation will make it unavoidable and must be handled jointly by the purchase committee.
- While rewarding a purchase order, conditions regarding the income tax, value added tax, sales tax and other related matters should always be in properly inserted and clearly stated about the status of payment.
- Purchase committee should consider only the responsive bids, which meets both the desired quality and competitive price level.
- Repeat purchase order or purchase through negotiation is not allowed. Exception to this must be justified with reasonable grounds and may be considered only once a while to face emergency with the approval of Managing Director.

Purchase order should include the following points

- ❖ All materials shall be supplied as per order.
- All materials shall have to be supplied within the time as stipulated in the order, if not order shall be treated as canceled.
- Damaged or inferior quality or not as per specification of the order shall not be received.
- Short in quantity of material shall not be received.
- Tax, VAT & other Taxes will be clearly stated.
- Payment will be made through Account payee cheque.
- Printed bills along with the Challan shall have to be submitted to the office.
- Money Receipt to be submitted when the bill is paid.

VIII. Quality Control & Purchase Receipt:

- Quality of the purchase goods should always be maintained at all level. While receiving and storing the materials it should be done in presence of storekeeper, and one account's personnel.
- After receiving the necessary supply of items it should be certified by a competent person regarding the quality of the condition of the goods supplied.
- Stores shall receive the goods, if delivered within the stipulated time and according to specification.
- Damaged, broken, inferior quality and goods not as per the specification of the order should not be received at any circumstances.
- A quality control report mentioning the quality & quantity of goods, other conditions of supplies and finally remarks by the competent authority should be always be contained / inserted in the Goods Received and Inspection Report (GRIR).
- Copy of the Goods Received and Inspection Report shall be sent to accounts department, one copy to administration department and one copy to be kept by the store
- Storekeeper makes the record in the stock register and duly mentioned in the bill form of recording the goods in the stock register.

IX. Purchase Payment:

- All papers and documents with regard to purchase like requisitions, indent, quotation / tender, comparative statement, approval of purchase committee and Managing Director, challan / bill, money receipt, purchase order, goods received and inspection report shall be made available with the payment vouchers.
- Suppliers' bills in connection to process for making payment shall submit their all kinds of purchase bill to the Administration Department.
- After receiving the suppliers' bill, Administration Dept. shall check and verify the bill following the instructions:
 - At first verify through comparing the similarity of the goods ordered and bill amount with the purchase order;
 - Whether goods (quantity, size, & other specifications) are received as mentioned in bill shall be checked and verified through comparing the bill and goods received & inspection report prepared in this connection;
 - Whether the value of goods and related discount (if allowed) mentioned in the bill shall be checked and verified through comparing the bill and purchase order and quotation;
 - To check the calculations of bill whether correct or not;
 - To check the Government Tax, VAT, etc. are duly paid and deducted.

- After verification of bill, certify the bill in signing for making payment with mentioning the amount by narrating all references by the bill examiner of the administration dept.
- Then Manager (Administration) shall place the file by initiating note sheet to the line authority in connection to the approval of payment of purchase;
- On getting the approval of payment of purchase, then sent the file to Finance and accounts Department.
- Before making the payment to the suppliers against their bill Manager (F/A) shall also check the bill, material-receiving report, purchase order. All kinds of purchase must be within the approved budget.
- Then, accounts department shall arrange for issue of cheque. Payment to the supplier against their bill exceeding Taka 5,000 shall be made by Account Payee cheque only.
- For any discrepancies or error, Accounts Section will bring these to the notice of the Sanctioning Authority.
- Approval of purchase and their payment shall always be followed by the delegation of authority.

X. Settlement of Dispute:

- Settlement of dispute for any inconvenience or for any unwanted event regarding the purchase shall be settled down through the decision of the Managing Director and shall be treated as final decision.

18.4 – Tender Quotation Through Newspaper Advertisement:

The flowing principles shall be followed:

- ◆ This shall be done through in newspaper advertisement;
- ◆ On the date of paper advertisement or before tender, papers with necessary schedules shall be sent to cash section of finance and account dept. on due acknowledgement. The cash section will then enter the particulars in a register;
- ◆ Each tender sold will bear the signature and seal of Manager Finance;
- ◆ On closing date remaining tender documents will be counted by cash section and put them under custody with necessary remarks by the Manager Finance;
- ◆ On opening of tender only tenders bearing seal and signature of authorized officer of administration dept. will be taken into consideration;
- ◆ On opening of tender members of committee will sign all tender documents & papers;
- ◆ A separate tender register will be maintained where in all particulars be recorded and a comparative statement prepared. The comparative statement and the register will be signed by all the members of the committee with specific recommendation;

- ◆ In case, the lowest tender is not accepted, the reasons for non-acceptance shall be recorded in writing.
- ◆ On approval of the recommendation of the committee by the appropriate authority necessary supply order / work order shall be issued.

18.5 - Procurement Plan:

PKSF as far as possible should prepare a commodity procurement plan soon after the annual budget is approved. This is particularly important in case of commodities normally not available in the project area and those requiring heavy financial investment.

In case of daily consumable items, it is necessary to estimate the quarterly requirement in order to avail the benefits of bulk purchase and, procure them on quarterly basis.

18.6 - From Whom Should Purchase be Made:

Procurement of goods and services shall be made from reliable suppliers to ensure the supply of goods and services in time and at a competitive price.

A supplier firm should satisfy the following conditions:

- That is a bonafied business concern;
- That it is registered with income Tax authority or VAT authority;
- That it holds valid trade license;
- That it was never blacklisted before by the organization;
- That its past records and performance with the organization are satisfactory;

18.7 - Tender Fees & Performance Bond:

- PKSF shall charge appropriate fees for tender forms & schedules.
- In certain cases PKSF with the approval of Managing Director may ask the supplier to deposit some percentage of the contract amount as performance bond and any other deposits as required by regulations in Bangladesh.

18.8 - Procedures relating to Consultation Services:

- If the PKSF is required to avail the specialist consultation services such as development of systems, engineering, training, monitoring, and evaluations, proposals should be invited through "tender" or "request for proposal on quality & cost basis" in accordance with terms of reference (TOR) from persons, companies or firms experienced in the related subject and appointed through negotiation;
- Work order will be issued accordingly.

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CHAPTER – 19

BUDGET & BUDGETARY CONTROL

19.1 – Introduction - Budget:

Generally, budget means a statement of forecasted incomes or funds and expenditures of an organization at a particular specified time. A budget is not or should not be the same as a forecast. A forecast is a statement of what is expected to happen. Where as a budget is a statement of what it is reasonable to believe can be made to happen.

Thus, PKSF's budget is “a financial and/or quantitative statement prepared & approved prior to a defined period of time of the policy to be pursued during that period for the purpose of attaining a given objective. It includes incomes, expenditures and the funds.

19.2 - Budgetary Control:

Budgetary control is the establishment of PKSF's budgets relating to the responsibilities of executives to the requirements of a policy and the continuous comparison of actual with budgeted results either to secure by individual action, the objective of that policy or to provide a basis for revision.

It is apparent that a system of budgetary control provides the mechanism for controlling costs and revenues. Budgetary control is people oriented. It highlights the variance occurring in the various areas of an organization for which the departmental heads are responsible. Thus, PKSF management has to establish budgetary control techniques for its' head office and all regional auditing offices.

19.3 - Budget Centres:

A budget is a location, person, item or a group of items for which costs are ascertained and used for the purpose of cost control. In PKSF wherever possible budget centres should be identified with the responsibilities of particular executives. A group of computer machines under a supervisor may be a budget centres and all costs like payrolls, running expenses, maintenance, etc. may be his direct responsibility. A well-defined budget centre is an essential pre-requisite for any system of budgetary control.

19.4 – Accounting Records:

Periodically, the accounting records of PKSF must be able to highlights the variances from budgets. It is, therefore, important the PKSF's accounting heads must be comprehensive. At the same time, both financial accounts and the budget expenditure must be identical otherwise variances could not be ascertained.

19.5 - Budget Period:

A budget period is the length of time for which a budget is prepared and operated. There is no set rule as to what should be the budget period. Usually, master budgets are prepared for one year because it coincides with the financial accounting year of PKSF.

19.6 – Organization for Budgetary Control:

A senior executive of accounts, commonly designated as budget controller or budget officer, usually heads the budgetary control department. Another variant is the establishment of a budget committee.

The functions of the budget committee will interalia, be as follows:

- Receive, scrutinize, revise and approve budgets prepared by the various departments;
- Receive budget reports periodically comparing actual figures against those budgeted.
- Analyze variances with a view to locating responsibilities and finding those ways to prevent their re-occurrence.
- Periodically, reappraise the budgeted figures for revision, if any.

19.7 - Budget Manual:

The budget manual is a schedule or document that lays down the budgeting organization and operational procedures.

The main contents of a PKSF's budget manual are:

- Introduction – Short narrative explaining principles of the budgetary control system.
- Responsibilities and duties: The nature and extent of responsibilities and duties of all operational executives.
- Procedures: The manner in which each functional budget is to be drawn up, the time schedule for submission.
- Specimen forms and reports: Budget report forms must be standardized.
- Accounting classification: Accounting heads and codes must be clearly stated.
- Budget period: Length of period must also be clearly stated.
- Reporting schedules - detail schedules must be drawn stating the time for submission.

19.8 – Formulation of Budget:

Preparation of budgets for the head office and all regional auditing offices begins immediately after receiving specific instructions from the budget controller or budget committee. A program is drawn up stating the persons or departments responsible for preparation and formulation of specific budgets, person to whom they must be handed over & the timetable for their preparation. Usually such a program is contained in budget manual.

Then, prepare the budgets by the departmental heads of the PKSF Head Office. Regional Auditing Offices of PKSF shall also be requested to submit their budget to the budget committee.

Then, discussion meeting of the budget committee will be held to finalize the budget for all offices of PKSF.

Then, finally agreed the budget approved by the Governing Body and distributed the approved budget copy to the all concern offices for use.

While formulating the budget, the following three factors shall be considered by all offices of PKSF:

- To analyze the past trend of the specific budget heads;
- To determine the present conditions and anticipated future conditions of the relevant budget heads;
- To quantify through applying the specific rates in some cases of budget heads.

While formulating the budget, a workshop on draft budgets may be held at PKSF head office to review the overall budget for the year in order to exchange views and deliberate on problems and solutions. This feels that cross-fertilization of ideas between staff members of PKSF will achieve the objectives at hand.

19.9 – Process of Approval of Budget Allocation:

- (a) All allocation of both capital and revenue expenditures of projects / programs / regional auditing offices will be approved by the head office;
- (b) All projects / departments / all regional auditing offices shall submit the budget allocation to the head office in the month of March of every year;
- (c) Detail work sheets & calculation sheets must be accompanied with prepared budget allocation;
- (d) If the offices are anticipating any new heads of expenditure, then separate budget proposal shall be submitted by the concern offices;

19.10 – Budget Variance, Analysis & Reporting:

Budget variance can be found out by the differences between budgeted figure and actual figure. In budgetary control cycle it is in third stage.

First stage is agreed the budget and the second stage is incurred the expenditure.

Difference between two stages is known as budget variance. Two aspects will be come out from the analysis of budget variance – these are termed as favourable and unfavourable. A standard form has to be used by PKSF's Finance and Accounts Department to find out the budget variance. Comparison of budgets and actual shall be done in form of variance report.

The report should also clarify the reasons for major variances, which shall be marked as either "controllable" or "Uncontrollable". Controllable variance would indicate that variance could be brought under control by efficient management. Uncontrollable variance occurs due to exceptional circumstance hence this is not an indicator of management performance. There may be cases where variances occurred due to poor budgeting. These factor should be noted for next year budget preparation.

The variance report shall be reviewed by the Chief of Finance and Accounts and submitted to the Managing Director. Variance report shall be a more arithmetic exercise. The concentration shall be on identifying problems encountered enabling worse able solutions. Variance indicating departmental chiefs performance shall be taken as input in the staff appraisal system.

19.11 – Budget Monitoring & Control:

Generally budget shall be monitored in quarterly basis. Specific format must be used for the purpose of monitoring of budget of any offices / departments / projects of PKSF. Budget monitoring statement must be prepared and send it to Finance and Accounts Department of head office on regular basis.

Required information to be inserted very carefully in monitoring statement. The main purpose of budget monitoring is to control the expenditure and to develop the necessary & appropriate techniques & mechanisms how to control the expenditure.

19.12 – Long Term Budget of PKSF:

It is to be prepared by the Finance & Accounts Department:

- As and when required by the management to foresee the future;
- Also prepared to see the trend at different scenario.

19.13 – Functions of Budget Committee:

- ◆ Preparation of budgets for PKSF as a whole;
- ◆ Collection of information and data in connection to formulation of budget;
- ◆ Processing, editing and reviewing the collected information and data in connection to formulation of budgets;
- ◆ Setting of standards in relation to the formulation of budgets;
- ◆ Formulation of budgets and budget workshop;
- ◆ Maintenance of budget registers as per requirements;
- ◆ Preparation of budget monitoring statements;
- ◆ Preparation of variance statements;
- ◆ Analysis of variances and report preparation;
- ◆ Assessment of actual results with the budgeted ones and if any deviation is found, then to pinpoint the actual causes;
- ◆ To take the necessary steps to eradicate or minimize the deviations in future through a more realistic budget preparations and /or better performance;

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CHAPTER – 20

COMPLIANCE OF GOVERNMENT, TAX, VAT & OTHER LAWS

20.1 – Over View:

PKSF head office and it's Regional Auditing office concerned shall have to follow / abide by the concerned rules, regulations and financial & accounting implementations of the Government, Tax authority, Value Added Tax (VAT) authority and all other laws that are prevailing in the country and compliance thereon.

20.2 – Compliance Reporting:

PKSF shall select, adopt, apply and implement all relevant financial management techniques, accounting system, procedures, methods and maintain all books of accounts based on the following requirements, guidelines, instructions, rules and regulations:

- (a) - As per the rules and regulations, instructions, policies, guidelines, circulars, manuals and office order of the PKSF management issued and circulated on any matters time to time;
- (b) - As per the requirements of the Income Tax Ordinance 1984;
- (c) - As per the guidelines of the Value Added Tax Act 1991;
- (d) - As per the requirements of the International Accounting Standards (IAS);
- (e) - As per the requirements of the International Standards of Auditing (ISA);
- (f) - And, such other books of accounts as required, circulated and instructed by the management of PKSF from time to time.

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21 - RAO FUND MANAGEMENT & ACCOUNTING

CHAPTER – 21

RAO FUND MANAGEMENT & ACCOUNTING

21.1 – Introduction:

Regional Auditing Office (RAO):

Regional audit office means the office of PKSF established / set-up with an objective to conduct the audit (internal audit) of the financial activities of the PKSF fund of the Partner Organizations (POs) of PKSF through out the country.

This office of PKSF has no executive power, and shall be fully controlled, managed and directed under the rules and regulations of PKSF head office in Dhaka.

21.2 – RAO Controlling Officer:

An officer of PKSF, nominated and designated by PKSF head office management, as a controlling officer / supervising officer / officer in charge, shall be held responsible for the overall management of the RAO and conduct the overall activities of the RAO in connection to the set purposes / objectives following the instructions and directions of the PKSF head office management issued time to time through the Administration Department of PKSF.

The officer of PKSF, designated, as a controlling officer of RAO shall be held liable and responsible for all activities performed in the RAO to the PKSF head office management for each and every respect.

21.3 – RAO Bank Account:

To perform and mitigate all the banking activities, functions and financial transactions of the RAO as far as possible, shall open a bank account (specifically STD Bank Account) preferably with a nationalized commercial bank in the name of PKSF (organization but not in the name of RAO), where the RAO is located / situated.

Bank account shall be operated by any two of the four Senior Officers of PKSF Head Office.

Chequebooks shall be kept in head office of PKSF at Dhaka in Finance and Accounts Department.

Fund shall be placed / transferred from the bank account of PKSF head office in Dhaka through cross cheque / DD / bank transfer to the STD bank account opened in RAO office.

The balance of the STD bank account as fund balance shall in no case be exceeding amounting to Taka 200,000 (Two lac).

Any amount from any sources including the principal loan and service charge of POs shall not be received / deposited in any circumstances in the RAO STD bank account.

21.4 – RAO Petty Cash Fund:

Taka 40,000 (Forty thousand) shall be the maximum limit of petty cash fund of the RAO. This amount of money shall be given as advance to the controlling officer of RAO as petty cash advance of the RAO.

A bank account (named as current account) shall be opened in the name of controlling officer of RAO in the same bank where the PKSF STD bank account is opened exclusively to operate only for the petty cash expenses of the RAO as per set rules and guidelines of the PKSF.

No other personal / others receipts and payments shall be allowed or strictly prohibited on / from this bank account.

TA/DA expenses, local conveyance, postage expenses, office maintenance expenses, overtime expenses, entertainment expenses etc. and other daily expenses of the RAO, shall be paid out as cash from this petty cash fund kept by controlling officer of the RAO on primary approval of the controlling officer. Controlling officer of the RAO shall treat this primary approval of payment of expenses as temporary approval.

The controlling officer RAO shall request the replenishment of the petty cash fund by preparing a statement of the incurred and paid expenditure by showing the date of payment, name of payee, accounts head and the amount paid on approval of the controlling officer of RAO with vouchers and all supporting documentary evidences. Replenishment request shall be processed and sent to head office when 80% of the allocated fund (petty cash fund) will be exhausted.

On getting the final approval of the head office (as per normal procedures followed in connection to the authentication, authorization and final approval of expenses as outlined for PKSF head office), PKSF head office shall reimburse the amount to the controlling officer directly to his bank account.

If any expenses not approved by PKSF head office, controlling officer of the RAO shall be held liable and responsible for the bill amount not approved and replenishment will be made by PKSF head office after deducting the not approved bill amount in this respect.

21.5 – RAO Cash Payment Procedures & Its' Approval:

As a norm, the approval procedures of expenses in PKSF head office is generally shall be followed as the accepted rules and regulations in case of all regional auditing offices.

Following are the guidelines for payment procedures and its' approval from petty cash fund kept by controlling officer of the RAO:

I - TA/DA Advance:

TA/DA advance to the staff members shall be paid out from petty cash fund following the guidelines of the PKSF Service Rules on approval of the controlling officer of the RAO. Before making the payment, tour program shall be duly approved.

II - TA/DA Bill adjustment / payment:

TA/DA advance adjustment (all steps from submission to bill payment) to the staff members shall be made following the guidelines of the PKSF Service Rules. On submission of TA/DA bill, controlling officer of RAO shall verify, check, authenticate the bill and temporary approval of the same make the payment after adjustment. To claim TA/DA bill against traveling, if any staff member of the RAO travel more than 10 K.M. from the territory of the RAO where it is located, it shall be taken into consideration as traveling for this purpose.

III - Cash payment of the other expenses:

Only following expenses can be paid out as cash from petty cash fund kept under the controlling officer of the RAO - Local conveyance, printing & printing expenses, office repair & maintenance, electricity / water / gas bill, overtime bill and entertainment bill & etc.

Cash payment for other expenses (within budget) can be made not more than Taka 1,000 (One thousand) for each case, from petty cash fund as temporary approval of the head of RAO and final approval will be given at head office level during the time of replenishment of petty cash fund.

Cash payment for other expenses (within budget) can be made for more than Taka 1,000 (One thousand) but not exceeding Taka 2,000 (Two thousand) for each case, from petty cash fund by the head of RAO after taking necessary approval of the head office before making the expenditure mentioning the valid reason and final approval will be given at head office level during the time of replenishment of petty cash fund.

A - Local conveyance - Always try to avoid local travel. On necessity local conveyance shall be paid from petty cash fund subject to approval of controlling officer of RAO.

B - Printing & stationery - If necessary, can be purchase and paid from petty cash fund subject to approval of controlling officer.

C - Office repair & maintenance - If necessary, (out of rent agreement) can be paid from petty cash fund subject to approval of controlling officer.

D - Electricity/water/gas bill - If necessary, (out of rent agreement) can be paid from petty cash fund subject to approval of controlling officer.

E - Entertainment expenses - Present staff members of the RAO are entitled to have tea in morning and afternoon time. Expenses of daily tea can be paid out from petty cash fund. Entertainment of PKSF guest and staff member of PKSF if necessary, shall be allowed on monthly basis up to Taka 400 and paid from petty cash fund subject to approval of controlling officer.

G - Overtime bill - Shall be paid from petty cash fund on approval of the controlling officer following guidelines as per PKSF Service Rules.

21.6 – RAO Cheque Payment Procedures & Its' Approval:

Following expenses shall be paid out as cheque from RAO bank account - Salary & allowances, Festival bonus, Office rent, Telephone & fax bill, Lunch coupon bill of staff members, Fixed assets, other expenses as determined by PKSF head office & etc.

If other expenses amount incurred more than Taka 2,000 (Two thousand) for each case, payment shall compulsorily be made through cheque from the RAO bank account. In no case, the payment shall be made from petty cash fund.

In this case, each transaction shall be sent to head office for approval before making payment.

PKSF head office shall make the payment by issuing account payee cheque to the bill receiver through the RAO bank account after auditing and head office approval of the same.

In other cases, payment and approval shall be in following way:

❖ Salary, allowances & festival bonus:

After preparation of the salary, allowances and bonus statement (as per format) of the staff members of the RAO, PKSF head office process the approval and payment of the same as per practice for the staff members of the head office staff members.

Then, bank transfer advice in connection to the payment of individual salary of the staff members of the RAO shall then be issued drawn up on the bank account.

❖ Office rent:

Office rent of the RAO shall be paid through issuing cross cheque in favour of the landlord on request of the RAO with office rent bill and approval from head office. Cross cheque in connection to the payment of rent shall then be issued drawn up on the bank account of the RAO.

Cheque sent to RAO in the name of the landlord from PKSF finance and accounts department. Controlling officer of the RAO handed over the cheque to the landlord after receiving the money receipt / acknowledgment receipt.

Photocopy of the money receipt shall be kept by RAO and the original shall be sent to PKSF head office.

❖ Lunch coupon bill of the staff members:

A statement as per prescribed format mentioning the date and time of the staff members of the RAO duly singed by the controlling officer shall be sent to PKSF head office requesting for payment and approval.

Noted that payment of such coupon bill shall only be made to the staff member of the RAO for the full day attendance of the concern staff member.

On approval of PKSF head office, cross cheques/transfer advice in connection to the payment of individual lunch coupon bill of the staff members of the RAO shall then be issued drawn up on the bank account of the RAO and then sent to RAO in the name of the controlling officer from PKSF finance and accounts department by attaching a statement.

On receipt of the cheques, the statement shall be duly signed by controlling officer of the RAO and sent back the same to PKSF head office. All cheques shall be recorded in the cheque register and then, make payment to the staff members of the RAO maintaining all formalities.

❖ Fixed asset purchase:

Generally, purchase of fixed assets by the RAO is restricted. If necessary, on demand, furniture, fixtures office equipment electric fan and etc. shall be purchased on submitting the requisition and prior approval of the PKSF head office. Purchase shall be made strictly following the PKSF purchase procedures that are in force.

On procurement of the fixed assets by collecting at least three spot quotation accompanying by two officers as nominated by the controlling officer of the RAO and duly approved by the controlling officer sent the bill to head office for final approval and its' payment.

On approval of head office, cross cheques in connection to the payment of fixed assets of the RAO shall then be issued drawn up on the bank account of the RAO in favour of the supplier and sent the same to RAO in the name of the controlling officer from PKSF finance and accounts department. On receiving the cheque, the controlling officer of the RAO handed over the cheque to the supplier and collect money receipt. Photocopy of the money receipt shall be kept by the RAO and the original copy shall be sent to head office.

Fixed asset register shall be updated immediately after purchase.

21.7 – Maintenance of Records by RAO:

The controlling officer of the RAO shall be held liable and responsible for maintaining the following records, ledgers and register as per designed format for documentation all financial activities as a management control:

- ❖ Stock register for printing and stationery;
- ❖ Fixed assets register for fixed assets;
- ❖ Cheque register;
- ❖ Attendance register;
- ❖ TA/DA advance register;
- ❖ Other registers if necessary or as directed by PKSF head office;
- ❖ Petty cashbook & ledger books.

21.8 – RAO Reporting to PKSF Head Office:

1 - Replenishment of RAO Fund:

The controlling officer RAO shall request the replenishment of the petty cash fund by preparing a statement of the incurred and paid expenditure by showing the date of payment, name of payee, accounts head and the amount paid on approval of the controlling officer of RAO with vouchers and all supporting documentary evidences.

Replenishment request shall be processed and sent to head office when 80% of the allocated fund (petty cash fund) will be exhausted.

Following are the statements to be sent to PKSF head office:

- ❖ Petty Cash Payment Statement - Duly signed by controlling officer of RAO;
- ❖ Cheque Disbursement Statements - Duly signed by controlling officer of RAO;
- ❖ Bank Statement - RAO bank account statement - collected from bank.

2 - Monthly Statement:

Following are the statements to be sent to PKSF head office with in 7 days of the next month:

- ❖ Lunch Coupon Statement - Duly signed by controlling officer of RAO;
- ❖ Attendance Report / statement - Duly signed by controlling officer of RAO;

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CHAPTER - 22

FUND LIQUIDITY MANAGEMENT

22.1 - Introduction and Overview:

Palli Karma-Sahayak Foundation (PKSF) is an apex funding agency to sponsor, promote and provide various forms of assistance including financial, institutional, advisory and training to non-government, semi government and government organizations, voluntary agencies and societies, local government bodies and institutions undertaking activities with a view to generate income and / or employment opportunities and alleviating poverty in conformity with the objectives of, and in a manner approved by the Foundation.

Proper management of PKSF fund is an essential for attaining objectives of PKSF as well as attaining self-sufficiency. It is therefore essential to have appropriate policies of PKSF for proper utilization of its fund.

Capable General Body and Government Body, efficient management and staff of the Foundation is the basis of Foundation's good reputation. Fund management of PKSF is closely supervised which helped PKSF in developing a base for itself. Need for a "Liquidity Management Policy" was being felt to ensure efficient fund management and to ensure transparency in operating the fund consistent to the major objectives of PKSF.

22.2 - Objectives:

- To ensure the liquidity of the Foundation in all times, so that PKSF has sufficient liquidity in conducting the normal course of its business.
- The objective of this policy is to ensure proper management of the liquid fund that arises during day-to-day transactions of PKSF by keeping the fund in interest bearing accounts like FDR or otherwise for creating a strong base which would help in tiding up of difficult funds for a certain period before an investment is made.

22.3 – Policy of Investment:

- The aim of liquidity management is to maximize the earning of PKSF by timely and properly depositing the surplus fund of the organization to interest bearing accounts and other forms of deposits of various terms.
- To ensure that PKSF invests surplus funds in designated securities only e.g., bonds, treasury bills, savings certificates, FDRs etc. which typically safe from being doubtful of recovery.
- Ensure that the deposit is made to the best yielding securities and deposits, after giving due considering to risk and the rate involved.
- Ensure participating in call money market, as and when situation and opportunity permits with in the scheduled banks and other non-banking financial institutions.
- If investment policy permits, ensure safe investments are made in the secondary and primary market.

22.4 - Depositable Fund:

- The Governing Body of PKSF may decide to fix a certain percentage of its liabilities as fund to be kept compulsorily with an A-class bank if it so thinks necessary.
- Foundation may decide to deposit a portion of its surplus cash for amortizing its loan. In normal circumstance when sufficient fund is available to meet up the liabilities, normal procedure of making general deposit can be followed to avail the opportunity of market inflation, demand etc.
- The mid-term projection of the Foundation as well as the short-term projection can be helpful in detecting the fund required on the loan amortization date and available fund position on that date. These projections should be drawn and observed very carefully and routinely.
- Sometimes PKSF may need to give security deposit to the gas, electricity, and telephone authorities for taking connections. If acceptable to these utility service providers, security deposits may be given in the form of fixed deposit receipts or in the form of savings certificates to the authorities.
- The excess fund during a given period may be kept in the form of fixed deposit.
- Funds for special purpose, like gratuity fund, provident fund etc., can be kept in fixed deposits.

22.5 - Strategy for Determining Surplus Fund:

- Month-wise disbursement plan for partner organizations (PO) has to be prepared at the beginning of each year. The plan has to be checked each month to find out the variation. The monthly variations of the actual to be the plan to be adjusted in the flexible manner.
- Month-wise repayment schedule of the POs has to be prepared at the beginning of the year. Any variation to the plan has to be adjusted at the beginning of the next month. In preparing the repayment schedule care to be taken to consider the deferred payments.
- Month-wise expenditure schedule to be prepared along with the revenue expenditure, the capital expenditure also has to be reckoned. Any special type of exceptional payments like flood loan, HRD implementation or any other contingent liability, which may occur to be forecasted.
- Month-wise receivable has to be prepared. FDR maturing on months along with other receivable has to be considered.
- Government grant or loan, IDA grant or loan or grant and loan of any other funder will influence the figure in any month. FDR maturity for the months can be obtained from the FDR database to be reflected in the schedule.

- Month wise cash flow statement is to be prepared. 2-3 months' cash requirement shall have to be kept in liquid form. Those amounts can be deposited in STD accounts.

The excess amounts may be kept in various forms of deposits and investment pattern as follows:

- 7 days call notice deposit
- Treasury bills of various terms
- 3 months FDR
- 6 months FDR
- 12 months FDR
- Over 12 months FDR
- Call money market
- Government Bonds
- Other type of instruments under the regulations of Bangladesh Bank.

- The Cash flow statement, for at least 3 months, will show if any deposit in the first month will affect the liquidity in the subsequent two months. Cash flow over the next three months will determine the proportion of deposits in these types of instruments.
- If investment policy permits, investments can also be made in shares in primary market, which can be liquidated within six months from the date of investment.
- Provided investment policy permits, with due care and investment advice, investment can also be made in secondary market. Which can be liquidated at any time. Transaction cost and other risks associated with the market should be judged before any investment in secondary market is made.

22.6 - Internal & External Laws to be Followed:

A - Internal Laws:

Internal Laws of the Foundation has to be followed in case of keeping funds in fixed deposit. This is to affirm that the investment to be made as per the policy of the Foundation and that it follows the other rules. It must ensure that deposit shall not lodged to any risk institution just for the sake of high interest / return.

The following points may be highlighted in this regard:

- To see that the deposit does not contradict to the Memorandum and Articles of Association the Foundation.
- To see that Governing Body / General Body permits such deposit.
- To follow the normal ethics and norms.

B - External Laws to be followed:

In keeping the surplus fund in fixed deposit, care has to be taken to see that the laws / rules of the government and / or of the other bodies have been followed. The following laws / rules may be cited:

- To follow the Acts / Laws or circular of the Government.
- To follow the Banking Companies Act.
- To follow the Income Tax Act of Bangladesh.
- To follow the Companies Act.
- To follow Bangladesh Bank Circular(s) and guidelines.

22.7 - Scope of Area of Fund Utilization:

A - Long Term Fund Utilization:

A.1 - Criteria:

- The fund that Foundation wants to keep for over 4 years are termed as Long Term Fund.

A.2 - Purposes: The major purposes for depositing in Long Term are:

- To provide fund for the purpose of amortization of Long Term Loans.
- To provide funds for the purpose of replacement of Fixed Assets.
- To utilize extra fund revealed from Long Term Plan.
- For proper utilization of Gratuity Fund and other funds.

A.3 - Area of utilization of fund in long term:

- The deposit in long term should be preferably in Fixed Deposits of Banks & of Specialized Financial Institutions including Government Bonds.

B - Mid Term Fund Utilization:

B.1 - Criteria:

- Deposits that are over 1 year but up to 4 years are termed as Mid Term Deposits. Excess fund that can be realized from the Mid Term Plan can be utilized in fixed deposits with in that term.

B.2 - Purposes:

- Mid Term Deposits may be used for the purpose of amortization of Long Term Loans that has to be repaid during the period of 1 to 4 years. However, when there is sufficient fund available to the Foundation, specific deposit for sinking fund may be avoided to avail the opportunity of market rise and for taking advantage of compounding.
- Mid term deposits may be made for the purpose of creating earmarked funds for the purpose of replacement of Fixed Assets that are known certain terms.

- Mid term deposits may be made for Revolving Loan Fund (RLF) that will start after a definite period of time. As for example RLF for institutional development which will start after the closing of a period.
- Any excess fund that is foreseen from the mid-term plan can be deposited under mid term deposit scheme.

B.3 - Area of Investment:

- The utilization of fund in Mid Term should be preferably in Fixed Deposits with Banks and with Specialized Financial Institutes (SFI), Government Bonds and other securities.

C - Short term Fund Utilization:

C.1 - Criteria

- The funds that are kept with a bank or with a financial institution for a period of 1 month to 1 year may be termed as Short Term Fund.

C.2 - Purposes: The short-term deposit of fund is for the following uses:

- Short Term Fund is for the purpose of amortization of Long Term Loans that has to be repaid within a period of 1 month to 1 year.
- Short Term Fund may be for the purpose of replacement of Fixed Assets during the period of one year.
- Any excess fund that is foreseen from the Monthly Cash Flow Statement may be kept in short-term deposits.

C.3 - Areas of Short Term Fund Utilization:

- Fixed Deposits of Banks & Financial Institutions for three to six months.
- Short Term Deposits with Commercial Banks.
- Savings Accounts of Commercial Banks.
- Call money market

22.8 - Principles of Fund Utilization:

A - Fund Utilization Ratios:

This is refers the ratio to which the fund will be invested in different category in different terms.

B - Nature of Fund Utilization:

In deciding the ratio of fund utilization in different categories, care should be taken to select the category so that choosing the type of fund utilization can maximize interest. The fund requirement may vary from period to period depending on the cash flow forecast. If proportion or ratio is to be suggested, care should be taken so that the ratio is continuously revised so that cash need is reflected into the investment/deposit pattern.

Keeping the above in mind, in general terms, the following percentages may be taken in selecting the fund utilization sectors:

- 5% of surplus fund may be kept in Fixed Deposits with maturity of over 3 years or various Government Bonds.
- 10% of total surplus fund may be kept in Fixed Deposits for a period up to 3 years.
- 85% surplus fund may be invested in Banks and Specialized Financial Institutions as below:

C - Period of deposit:

- 20% may be held in Term Deposit of one year's maturity.
- 20% may be held in 6 months maturity Term Deposit.
- 10% may be held for Treasury Bills.
- 20% may be held in 3 months maturity Term Deposit.
- 30% may be held for investment in call Money Market.

If capital market instruments (primary and secondary shares, commercial papers, debentures) are allowed, then 15% of fund may be invested for period maturing between three to six months.

D - Total Exposure:

Given the number of commercial banks in the country, total exposures in any particular bank / organization should not exceed 10% of the total surplus fund. But in case where the banks having a very good profile and in case of nationalized banks, this limit may be relaxed to 15%.

The fund to be kept in various securities and deposits will be ascertained on the basis of past years' fund utilization trend, merit of the bank and Bangladesh Bank circulars.

22.9 - Selection of Banks / Financial Institutions:

In selecting the Banks / SFIs for fund placement, vision should be extended beyond the normal selection guidelines. The following points may be taken care of:

- The bank should be a reputed one.
- The management of the bank should be good.
- The bank holds regular Board meeting and Annual General Meeting.
- Sector of investment of the bank may be considered in choosing for fund placement. One bank may invest heavily in agricultural sector while the other may invest mainly in industrial sector while another bank in commercial sector. The risk of investment will be different in different sector.
- The accounts of the Bank are drawn up regularly.

- The bank should be computerized one, at least in deposit, cash and clearing section.
- The accounts of the Bank are drawn up as per IAS.
- The accounts of the bank are audited by a reputed Audit Firm.
- The Bank earns a profit.
- Directors' loan from the Bank is within the limit or is as specified by the Bangladesh Bank.
- The classified loan of the bank is over 12% of its total advances.
- The bank provides for classified loan fully.
- Earning per share, if available, is over Taka 30.
- The rate of return to capital employed is good.
- Different ratios in balance sheet can be calculated to detect the strength of the bank.
- That there is no internal conflict between the directors.
- That there is no court injunction on the management of the Bank.
- The CAMEL rating of Bangladesh Bank is to be considered in selecting a Bank for placing the fund. The selected Bank should be within 3rd composite rating of Bangladesh Bank.
- News of the media may be considered in knowing the inner information of the bank. In fact the news appears in the newspaper disclosing the discrepancies of a bank bears more weight than the published accounts.

22.10 - Maintenance of Deposit Register:

- ❖ The FDR will be recorded in FDR register. The register folios will be properly numbered. The name of the bank and the branch where the fund is placed will be written first. Then, FDR number, Date of purchase, amount, rate of interest and period will have to be recorded. In one folio, only one FDR will be recorded. For renewal, the same folio will be used recording the change of any condition.
- ❖ The custodians will physically keep the FDR in the safe custody jointly. They will, from time to time, count the FDRs jointly with the Officer in charge of FDR, at least once in every month.
- ❖ A computer-generated sheet of FDR will be produced which can be tallied physically with the FDRs.

- ❖ A copy of the FDR will have to be kept immediately in the locker of the bank for safe documentation.
- ❖ Letter to be issued at the time of renewal of the FDR asking the Bank to send quotation for the rate they want to offer if they are interested in keeping the FDR. This process may be made over phone for convenience.
- ❖ At the time of encashment, a letter may be sent to the bank for encashment of the FDR at least 7 days before the date. Otherwise the FDR can directly be produced to them for encashment.
- ❖ For renewal a letter is to be prepared asking the bank to renew the FDR at their offered rate of interest. The renewal will be for the principal only and for the interest, the bank will be asked to issue an “account payee” pay order in favour of Palli Karma-Sahayak Foundation. The bank account of PKSF where the pay order is to deposit will have to be mentioned in the letter. The amount of the pay order will have to be checked and be deposited to the main bank account of the Foundation.
- ❖ The banker will endorse on the back of the FDR as to the renewal, rate and period and will sign and seal the endorsement.
- ❖ If investment is made in other form of securities other than the FRDs, same type of recording, custodian and handling formalities will be followed.

22.11 - Management of the Fund:

The Managing Director is authorized to manage fund in the light of past experience and above guidelines.

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23 - AUDIT ARRANGEMENTS

CHAPTER - 23

AUDIT ARRANGEMENTS

23.1 - Introduction:

With the intention to focus and to attain the main objectives of PKSF and as a part of better financial management control and compliance with the Companies Act, 1994, conduction of different types of auditing with the in house professional staffs and external professionals of the financial, accounting, operational and management activities of the PKSF is felt necessary. Thus, auditing is always considered as a tool or mechanism of financial management control. The objective of the audit is to enable the auditors (both internal and external) to express a professional opinion as to the accuracy, correctness, authenticity, transparency, accountability, true and fairness of the financial position of the organization of a particular period.

An auditing is an examination, verification, inspection, review, analysis, interpretation, investigation, checking the financial transactions of the organization as per the international auditing standards based on organizations' policy, procedures, instructions, circulars, office orders, manual, guidelines, agreement, contract, deed, service rules, bills / invoices / cash memos / challans / delivery order / work orders / requisitions / receiving report / money receipts, vouchers, all sorts of supporting documentary evidences, government rules and regulations (Income tax, VAT, Companies Act, and others laws), internal control mechanism, accounting policy as per the generally accepted accounting principles, accounting records and documentation as per the requirements of the International Accounting standards with the view to pronounce an independent opinion.

23.2 - Purpose and Objectives of Auditing:

Purpose and objectives of PKSF auditing is enumerated as below:

- To see whether day to day financial transactions of PKSF are accounted for systematically maintained as per approved designed format in timely manner;
- To see whether financial transactions are done following through the organization policy and procedures made in this regard;
- To see whether all financial transactions are duly been authenticated and authorized as per set rules of the organization;
- To see whether all financial transactions are properly evident with necessary approved authenticated actual documents;
- To see whether organization has following the government rules & regulations in all respect to process the day to day financial transactions in clean way;
- To see whether all financial transactions have been processed, authorized and approved with adequate and valid supporting documents and evidences;

- To see whether expenses are duly authenticated, authorized and approved with the line authority before making / incurring the expenses.
- To see whether the expenses incurred are for the purposes of the organization;
- To see whether the expenses are in line with the approved budget and proper budget clearance has been duly taken before making the expenses;
- To assess the adequacy of the financial management system of the organization;
- To see whether goods and services are procured and purchased in accordance with the established policy and procedures;
- To see the system of internal control - such as adequacy and effectiveness of the accounting, financial and operational controls, and need for any revision.
- To assess the level of compliance with established policies, plans and procedures;
- To see whether the financial transactions and the preparation of financial statements have been prepared in accordance with consistently applicable International Accounting Standards (IAS);

23.3 - Types of PKSF Auditing:

Following are the different types of auditing is to be organized and conducted in the PKSF at different times or simultaneously:

I) - Pre-auditing: Pre-auditing of all daily financial transactions incurred in PKSF head office to be conducted by the trained personnel of in-house Internal Audit Department of PKSF.

II) - Internal Auditing: Half-yearly basis auditing of all financial, accounting and operational activities of PKSF to be conducted by the trained personnel of in house Internal Audit Department of PKSF.

III) - External auditing of PKSF: As an statutory requirements by the memorandum & articles of association of PKSF external auditing of all financial, accounting and operational activities of PKSF to be conducted by the reputed professional Chartered Accountant firms of the country in each financial / accounting year as per International Auditing Standards and International Accounting Standards.

IV) - Auditing (Internal) of POs: Auditing as a nature of internal auditing of all program, financial, accounting, operational activities of PKSF POs to be conducted by the trained personnel of in-house Internal Audit Department of PKSF.

V) - External auditing of POs: As a decision of the Governing Body in Annual General Meeting of PKSF external auditing of PKSF fund's or overall financial, accounting and operational activities of POs to be conducted by the reputed professional Chartered Accountant firms of the country in each financial / accounting year as per International Auditing Standards and International Accounting Standards.

VI) - Management auditing of PKSF: As per the decision of the General Body of PKSF management auditing of all financial, accounting and operational activities of PKSF to be conducted by the combination of the staff members of PKSF as selected by the board and professional personnel (in rank of FCA) of any reputed professional Chartered Accountant firm of the country of a particular financial / accounting period.

VII) - Performance auditing of PKSF: As per the decision of the General Body of PKSF performance auditing of all financial, accounting and operational activities of PKSF with object to measure economy, efficiency and effectiveness / value for money to be conducted by the professional personnel of reputed professional Chartered Accountant firms of the country of a particular financial / accounting period.

23.4 - PKSF Pre- Auditing:

Pre-auditing of the financial transactions is necessary in PKSF. Most of the financial transactions of PKSF shall be pre-audited by the Internal Audit Department.

At first, the expenses and the amount of expenses shall be duly approved and authorized by the line authority before making and incurring such expenses and amount of expenses.

Then, authenticate the expenses with the bills/invoices/receipts/memos and related supporting documentary evidences and then sent the files to the Administration Department.

Administration Department then overview the documents weather all formalities have been processed in connection to the payments and doing other related departmental formalities and sent the files to the Internal Audit Department.

On verification and examination of the expenses through applying substantive test and compliance test by the trained personnel of Pre-audit cell of the Internal Audit Department and then sent back the files to the Administration Department through affixed the seal of "Checked and found correct" which are eligible for payment. If pre-audit cell is not satisfied then initiating note with mentioning the reason about the grounds of sent back the files to the Administration Department.

On getting the positive clearance of the pre-audit, administration department then process the file for necessary approval and authorization from the line authority of approving the expenses and then sent the file to Finance and Accounts Department for process the payments of expenses.

23.5 - PKSF Internal Auditing:

To safe guard the financial & accounting system from frequent mistakes, irregularities, inconsistencies, frauds and misappropriations, the internal audit is needed as follows -

- ◆ Keep constant watch on records of financial transaction and to safeguard the organization from fraud.
- ◆ Keep updated accounts of the projects / programs / head office / regional audit offices.

- ◆ To establish strong financial discipline in the organization in all level.
- ◆ To enable and aware the accounts personnel to perform their duties with earnest sincerity and efficiently.
- ◆ The Internal Audit Unit will be placed directly under the Managing Director.

The Internal Audit Unit will provide practical support and effective advice in ascertaining accuracy of the transactions and in planning & monitoring through budgetary control. This may involve playing the following key roles:-

- The audit unit will ensure that all receipts are accounted for.
- To ensure that no irregular payments have been made.
- To ensure that all receipts and payments have been properly recorded.
- To verify the cash in hand and at Bank.
- To check that goods and services procured were properly ordered and received in proper system.
- Assets that acquired are properly recorded and are in existence.
- To prepare bank reconciliation statements on monthly basis.
- To check the Financial accounting systems and how accurately financial and loan data is collected and processed.

23.6 - PKSF External Auditing:

The annual accounts of the PKSF shall be audited by GOB registered reputed auditing firms for each fiscal year in accordance with the provisions of Memorandum and Articles of Association of the organization and as per the agreement with the loan giving agencies and donors.

The management of the organization will develop Terms of Reference (TOR) at the time of appointment of auditors on which basis the statutory auditor will audit the accounts and prepare their reports.

The auditing system of accounts is needed in order to establish accountability and transparency of the transactions, policy development, fund utilization and its accuracy confirmation through proper testing and verification of transaction by third party with an independent view. So, the following steps shall be involved in audit:

- a) Within five months of the completion of the financial year / accounting year, audits shall be completed.
- b) Approved audit firm is to be recruited by the PKSF management in AGM.
- c) To place with them a Terms of Reference (TOR) regarding audit work.
- d) Financial statement and management report is to be included in TOR.
- e) Audit report is to be based on the applicable rules of GOB and ICAB.

The main purpose and objective of external auditing is to enable the external auditor to express and pronounce a professional independent opinion on the financial position of PKSF as a whole as at June 30 of each financial year. External auditors have to be conducted in accordance with International Standards on Auditing (ISA).

External auditors have to prepare plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An external audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An external audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial presentation.

Opinion has to be express in following ways:

"The financial statements present fairly, in all material respect, the financial position of PKSF as at June 30 of a particular year, the results of its operations and changes in its cash flows for the year then ended in accordance with International Accounting Standards."

23.7 - PKSF External Auditing of POs:

Main functions of external auditor will be to examine the utilization of fund received from PKSF, whether proper books of accounts are kept by POs, whether accounting system maintained by them are clear and transparent and also to certify that the principal amount of loan or any part thereof have been utilized for the purpose for which it is given by PKSF. The audit shall be performed in accordance with International Standards of Auditing (or relevant national standards).

The auditor will submit project wise separate report(s) in the form of letter or otherwise to the Managing Director of the Foundation to cover the audit / review of POs' portfolio quality in respect of both POs' overall credit program and that financed by PKSF and PKSF's general accounting practices, adequacy of MIS and internal audit control systems, adequacy of loan classification and provisioning policies, adequacy of loan recovery rates and overdue reported in quarterly reports and accuracy of statements of expenditure used for withdrawing funds from the relevant project(s).

Reporting Requirements:

A report in two parts / volumes, as indicated below, shall be prepared by the auditor covering the period of audit

A - Management Report

B - Audit Report Regarding PKSF's Fund / Total Micro-Credit Fund and Financial Statements.

A. Management Report

Management report shall include observations and audit data on the following of the Partner Organizations:

1. Accounting System.
2. Accuracy in maintaining of Books of accounts as suggested by PKSF.
3. Utilization of fund received from PKSF (whether loans are properly distributed to the ultimate beneficiaries).
4. A summary analysis of unspent balance, committed loan as well as an analysis of faults and irregularities found in the audit.

5. System, procedure and documentation of loan disbursement to and recovery from beneficiaries.
6. A summary analysis of outstanding position.
7. System of internal control in operation particularly in respect of loan operation management.
8. An analysis of loan performance up to the last day of the period under audit showing: Repayable to PKSF up to 30-06-

Principal : Taka.

Service Charge : Taka.

Overdue Loan Repayable to PKSF on 30-06-

Principal : Taka.

Service Charge : Taka.

Subsequent repayment of overdue loan on 30-06-

Principal : Taka.

Service Charge : Taka.

9. Suggestion for improvement on administrations of funds.

B. Audit Report Regarding PKSF's Fund and Financial Statements.

The Audit Report regarding PKSF's Fund & Statements of Accounts shall provide a comprehensive picture of Partner Organizations. The auditor shall state in this part of his report that:-

- (i) Whether proper books of accounts have been maintained by the POs for fund received from PKSF;
- (ii) Whether Receipts & Payments Accounts have include all the transactions of the period under audit & whether such Receipts & Payment Accounts have been drawn up accurately & in agreement with the books of accounts maintained by POs;
- (iii) Findings on of Auditor.

The Report shall also include the following:

- (i) Certified Financial Statements;
- (ii) A schedule of fixed assets as per format.

23.8 - POs Internal Audit By PKSF:

Terms of Reference for Internal Audit Cell of PKSF regarding Audit of POs

The audit cell will audit the credit program of a PO once in every year. For a new PO, audit will be conducted after one year of its enlistment as a PO of PKSF. The audit report is to be submitted to the Managing Director of PKSF within two weeks of completion of audit at PO level with recommendations on probable remedial measures. Report in 3 sections as indicated below, shall be prepared covering the period of audit.

- A. Management Report
- B. Audit Report and Accounts
- C. Field Inspection Report.

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24 - DELEGATION OF AUTHORITY

CHAPTER - 24

DELEGATION OF AUTHORITY

24.1 - Introduction:

In order to mobilize and de-centralize the PKSF management in the best way, the PKSF Governing Body (GB) has approved the delegation of approval power, financial power and cheque signatories. To process the authorization and approval procedures in connection to the financial expenses, related bill vouchers and cheque signatures of the PKSF following the delegation of authority has been acted henceforth.

24.2 - Objective:

- a. PKSF's operations has expanded over time. As a result administrative as well as financial obligations also risen to a great extent. Considering the practicality of day to day operation smoothly, some of the administrative and cheque signing authority has been decentralized as per " Delegation of Financial Authority". This process will enhance management capability by ensuring internal control for accountability and transparency.
- b. If situation arises, MD may take necessary action in relevant matters after taking approval of the Board through circulation.
- c. Any alterations and revisions of "Delegation of Financial Authority" may be made by the Governing Body after review.

24.3 - Procedures for Obtaining Payment Approval:

- No payment can be made unless, a provision for the type of expenditure is included in the approved budget. Before taking approval involving financial payments budget clearance must be obtained except day to day expenditure.
- When a current payment exceeds budget provision, payment must be approved by MD.
- If expenditures exceed total approved budget, in absolute terms, Boards approval is required for a revision of the budget.
- Funds allocation for capital expenditures cannot be re-allocated for meeting operating expenditures or vice-versa.
- For payment action, all bills must be initiated by department concerned and certified by the section head/supervisor and approved by MD except where delegation of administrative power is applicable.

24.4 - Procedures for Approved Payments:

- All payments above Tk. 5,000 (five thousand) only are preferably to be paid through "Account Payee" cheques.
- When cash to be withdrawn, cash cheques should denote "Account Payee Cancelled".
- Cheques issued for loan disbursement to POs should denote "Yourself for DD favouring(Name of the PO)" or "Account Payee only"

24.5 - Cheque Signatories:

a. All the bank payments must be authorized by joint signatories i.e.

1. Principal signatory and
2. A cosignatory

For all kinds of transactions except where “Delegation of Financial Authority” applies PKSF's MD shall be the principal signatory and cosignatory can be any of the officials as mentioned below:

1. GM (Admin), or
2. DMD (O), or
3. DMD (B)

MD has the authority to make any changes, amendments in the bank signatory powers of the concerned PKSF's officials. Cheque signatories are mentioned in following serial b, c, d & e as follows:

b. Where approved bill/payment amount exceed Taka 500,000 (Five lakh).

- i. MD + GM (Admin)
- ii. In absence of GM (Admin), MD + DMD (O)
- iii. In absence of GM (Admin) and DMD (O), MD + DMD (B)

c. Where approved bill/payment amount does not exceed Taka 500,000 (Five lakh) and MD is in the office:

- i. GM (Admin) + DMD (O)
- ii. In absence of DMD (O), GM (Admin) + DMD (B)
- iii. In absence of GM (Admin), DMD (O) + DMD (B)
- iv. In absence of GM (Admin) and DMD (O), MD + DMD (B)

d. Where approved bill/payment amount does not exceed Taka 500,000 (Five lakh) and MD is absent from the office:

- i. GM (Admin) + DMD (O)
- ii. In absence of DMD (O), GM (Admin) + DMD (B)
- iii. In absence of GM (Admin), DMD (O) + DMD (B)

e. For salary & festival bonus payment:

- i. MD + GM (Admin)
- ii. In absence of GM (Admin), MD + DMD (O)
- iii. In absence of GM (Admin) & DMD (O), MD + DMD (B)
- iv. In absence of MD, GM (Admin) + DMD (O)
- v. In absence of MD & DMD (O), GM (Admin) + DMD (B)
- vi. In absence of MD & DMD (B), GM (Admin) + DMD (O)

f. If for any reason, MD, GM (Admin) and DMD (O) are absent with Board's approval by circulation, MD may instruct the bank beforehand, so, DMD (B) shall be principal signatory and DGM (F/A) shall be cosignatory, if needed.

- g. If for any reason, MD, DMD (O) and DMD (B) are absent with Board's approval by circulation, MD may instruct the bank beforehand, so, GM (Admin) shall be principal signatory and DGM (F/A) shall be cosignatory, if needed.

24.6 - Expenditures:

Any kind of expenditures either revenue or capital in nature, above Taka 5,000 (five thousand) only, shall be approved by MD.

As the volume of transactions has increased “ Delegation of Financial Authority” has delegated authorities in the following manner:

- a. When MD is absent from office, approval of salary payment is delegated. When MD is absent, DMD (O) shall approve the salary payment, and if, MD, DMD (O) are absent, DMD (B) shall approve the salary payment, If MD, DMD (O) and DMD (B) are absent, GM (Admin) shall approve the salary payment. Post facto approval is needed from MD when s/he is in the office.
- b. Approval for payment of Festival bonus is same as 24.6(a) above.
- c. GM (Admin) can approve expenditures Taka 2,001 to Taka 5,000 only.
- d. DGM (F/A) can approve expenditures Taka 1,001 to Taka 2,000 only.
- e. M (Admin) can approve urgent payments up to Taka 1000 (one thousand).
- f. M (Admin) can discharge payments through IOU slips for prior approved expenditures. The balance of IOU slips at the closing of the day should not exceed Taka 50,000 (fifty thousand).
- g. Cashier can discharge cash for approved payments only e.g. approved tour plan and requisitions for advances and TA/DA etc.
- h. Respective Division Heads shall approve tour plans and requisitions for advances up to Manager levels.
- i. MD shall approve local tour plans and requisitions for advances from AGM to DMD levels.
- j. MD's tour plan within Bangladesh are informed to the Chairman.
- k. All foreign tours up to DMD level are approved by MD.
- l. MD's foreign tour are informed to the Chairman/Board.

24.7 - Loan Disbursement:

Any loan disbursement is recommended by the Loan Committee and MD approves loan disbursements up to Taka 26,00,000 (Twenty-six lacs) cumulative only. Loan sanction above Taka 26,00,000 (twenty-six lacs) cumulative only are approved by the Board and disbursement is to be approved by MD.

Cheque signing authority of approved loan for disbursement up to Taka 5,00,000 (five lacs) only, has been delegated under “Delegation of Financial Authority”.

24.8 - Purchase Committee (1):

Purchase Committee-1 recommends purchases above Taka 5,00,000 (five lacs) only and final approval is given by MD.

24.9 - Purchase Committee (2):

Purchase Committee-2 recommends purchases from Taka 20,000 (twenty thousand) to Taka 5,00,000 (five lacs) only and final approval is given by MD.

24.10 - Imprest Petty Cash System:

Petty cash is maintained in imprest system with a limit of Taka 1,00,000 (one lac) only. Taka one lac balance shall be maintained in cash up to Taka 50,000 (fifty thousand) only, plus up to Taka 50,000 (fifty thousand) only, in IOU slips.

Each IOU slip should be adjusted within eight working days and any advances within 20 working days.

Cash withdrawals requisitions are approved by MD. When MD is absent, DMD (O) shall approve the cash withdrawal requisition, and if, MD, DMD (O) are absent, DMD (B) shall approve the cash withdrawal requisitions. If MD, DMD (O) and DMD (B) are absent, GM (Admin) shall approve the cash withdrawal. In all the relevant cases, post facto approval is needed from MD when s/he is in the office.

24.11 – Delegation of Authority:

DELEGATION OF FINANCIAL AUTHORITY
(Approved by PKSF Governing Body)

Nature	Administrative Approval	Remarks
Expenditures		
Up to Taka 1,000	M (Admin)	Emergency expenses payable from petty cash
From Taka 1,001 to Taka 2,000	DGM (F/A)	Payable from petty cash or by cheque
From Taka 2,001 to Taka 5,000	GM (Admin)	Payable from petty cash or by cheque
Above Taka 5,000	MD	i) Payable to employee: through cash or cheque. ii) Payable to outsider: through Account payee cheque.
TA/DA Local trip		
Up to Manager / equivalent levels	Division Heads	Cashier can discharge cash for approved payments only.
From AGM - DMD levels	MD	Cashier can discharge cash for approved payments only.
MD	Chairman to be informed	Cashier can discharge cash for approved payments only.
Foreign Tour Plan, TA/DA and Advances		
For all levels up to DMD	MD	
For MD	Chairman/Board to be informed	

Nature		Administrative Approval		Remarks
Salary & Festival Bonus				
i.	In MD's presence	MD		-----
ii	When MD is absent	DMD (O)		Post facto approval should be taken from MD.
iii	If MD and DMD (O) are absent	DMD (B)		Post facto approval should be taken from MD.
iv	If MD, DMD (O), DMD (B) are absent	GM (Admin)		Post facto approval should be taken from MD.
Loan disbursement				
i.	Up to Taka 26,00,000 cumulative	MD on Loan Committee's recommendations		-----
ii	Above Taka 26,00,000 cumulative	MD with GB's Approval		-----
Investments				
i.	As per liquidity Management Manual	MD, if necessary shall inform GB		-----

Explanations:

- (1) For all kinds of transactions, except where "Delegation of Authority" applies, MD shall be the principal signatory and cosignatory can be GM (Admin), or DMD (O), or DMD (B).
- (2) Absent means absent from office at least for a day due to leave or tour.
- (3) Abbreviations: MD = Managing Director, GB = Governing Body, GM (Admin)= General Manager (Administration), DMD (O) = Deputy Managing Director (OOSA), DMD (B) = Deputy Managing Director (BIPOOL), DGM (F/A) = Deputy General Manager (Finance & Accounts), M (Admin) = Manager (Administration).

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- 25.1 - Preservation of Financial Documents***
 - 25.2 - Periodic Review of Management Control System***
 - 25.3 - Amendment of the Manual***
-

CHAPTER - 25

FINANCIAL DOCUMENTS PRESERVATION & MANUAL MAINTENANCE

25.1 - Preservation of Financial Documents:

Financial documents include all books of accounts together with its supporting documents viz., the money receipts, bills, invoices, cash journals, journal vouchers, ledgers, subsidiary ledgers, registers and other accounting records, documents & statements.

In addition, loan agreement between the government, funding agencies and the organization, Lease Agreement, all financial agreement, contract & deed, Loan Agreement & Repayment Schedules with POs, Rent Agreement, Bank statements, cheque books, bank deposit slips, all documentary evidences to financial transactions, internal and external audit report and GOB letter of approval shall be counted as financial documents.

Accounts department will keep all the above documents and files in a safe custody under lock and key.

All financial documents shall be preserved at least twelve years time and may be destroyed thereafter with the decision from the Governing Body under recommendation from a committee specially formed for this purpose.

25.2 - Periodic Review of Management Control System:

The financial and accounting system is intended as a guide for financial control of PKSF. The procedures as recommended in this manual are based on the records and information made available at the time of preparation of the system.

However, the changing nature of circumstances demands periodic review of the existing system. Any proposed change or modification arising from such periodic reviews should not, however, be incorporated without consultation with Governing Body and also obtaining a prior approval of Governing Body.

The Governing Body may amend the guidelines for the following purposes:

- ❖ If need arises to accommodate relevant rules of the GOB / Grantor concerning financial management system;
- ❖ If the Governing Body is convinced about its need with the recommendation of the staff members of the organization for any amendment;
- ❖ The Governing Body will review the financial guidelines after a reasonable time of its approval and take necessary steps for amendments if need arises.

25.3 - Amendment of the Manual:

This manual is approved by the Governing Body and as such considered a mandatory guideline for the overall financial and accounting management control of the organization, PKSF. Any amendment of this manual requires approval of the Governing Body, except for the chart of accounts part.

The Chief of Finance and Accounts is empowered to modify and re-arrange the chart of accounts in order to cater to the needs of the organization.

It is recommended to preserve this manual in a loose-leaf binder. In that case, the subsequent amendments will be easy to handle and cheap to execute. Otherwise the entire manual will require to be reprinted for any future amendment.

Rigidity in financial management will enforce an effective accounting administration and a strong financial discipline in the organization. The management, therefore, should be cautious before considering any change in this manual. The amendment will, however, be essential with any material change in the organizational structure or with the new development in its financial activities.

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- 26.1 - Introduction**
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 - 26.3 - Coding Structure of Chart of Accounts**
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 - 26.5 - Necessary Steps to Prepare Chart of Accounts**
 - 26.6 - Coding System of Accounts**
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26 – CHART OF ACCOUNTS

CHAPTER – 26

CHART OF ACCOUNTS

26.1 – Introduction:

Palli Karma-Sahayak Foundation (PKSF) is quite a large organization by any standard. Various projects / programs undertaken by PKSF are being operated simultaneously. These projects / programs differ in nature and in length of duration. Fund, loan and financial support being received are earmarked for particular projects / programs by different government, funding agencies and organizations.

Financial statements have to be prepared in complete form following the guidelines of the generally accepted accounting principles with full disclosure requirements of the International Accounting Standards by the PKSF Head Office and also Regional Audit Offices.

PKSF has its different accounting offices in different part / places of the country. Thus, it is obvious for the organization to maintain uniformity in accounting heads of its own and in all over its all offices.

Uniform accounting heads / uniform chart of accounts will give the ideal instructions to get compete set of financial statements from all the offices of PKSF in regular interval and hence, a well designed chart of accounts is necessarily essential for PKSF head office and also for its' all offices.

26.2 – Characteristics of Chart of Accounts:

The characteristics of the chart of accounts of PKSF are outlined here in below:

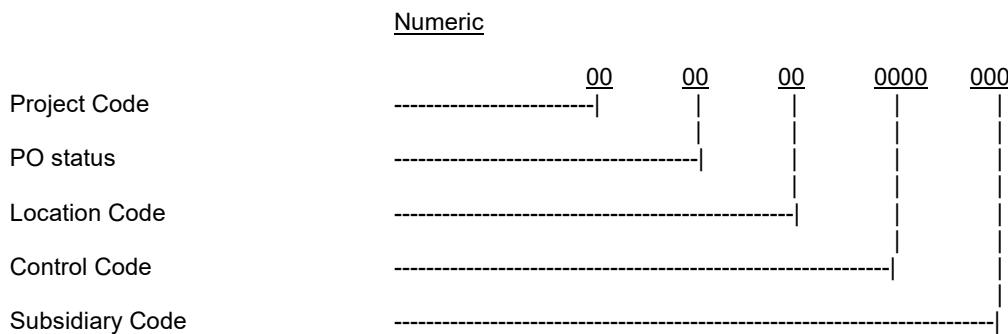
- All codes for different accounting heads in chart of accounts will consist of Thirteen (13) digits.
- Specific project can be identified by the first two (2) digits represents as "Project Code".
- Partner Organization (PO) status can be identified by the second two (2) digits represents as "PO Code".
- Specific office can be identified by the third two (2) digits represents as "Location".
- Fourth four (4) digits can identify the control general ledger as "Control Code".
- The last three (3) digits can identify the nature of expense, income, asset & liability. It will indicate the particular accounting head that is actually meant for use.

26.3 – Coding Structure of Chart of Accounts:

A nine character numeric coding structure is used for recording transactions.

The basic arrangements of character grouping for the accounts are as under:

- Coding arrangement for Assets, Liabilities, Income & Expenses Account



Total numeric is thirteen (13).

Here;

- Project represents the Crore Program, PLDP, IFADEP, JMBA and etc.
- PO status represents the BIPOOL, OOSA – Partner Organization of PKSF.
- Location represents the PKSF Head Office, Regional Audit Offices.
- Control code represents the control general ledger code.
- Subsidiary code represents the subsidiary ledger code.

The control general ledger codes (control code) are blocked-structured in groups as shown below:

<u>Type of Accounts</u>	<u>Control General Ledger Codes</u>	<u>Subsidiary Ledger Code</u>
All Assets -	0001 to 0399	001 to 999
All Liabilities -	0401 to 0899	001 to 999
All Income -	0901 to 0999	001 to 999
All Expenses -	1001 to 9999	001 to 999

26.4 – Application of Code Numbers:

❖ Code number application for Assets Account

Account Head - Code number for an account with Janata Bank, Stamasjid Road, STD - 36 at Head Office Core Program will be as - 01.01.01.0667.025 as explained below:

	<u>Numeric</u>	01	01	01	0667	025
Project Code - Core Program	-----					
PO status - Common	-----					
Location Code - Head Office	-----					
Control Code - Cash At Banks	-----					
Subsidiary Code - Janata Bank STD-36	-----					

❖ Code number application for Liability Account

Account Head - Code number for an account of IDA Loan Under SPAMFP of Head Office Core Program will be as 01.01.01.0124.002 as explained below:

	<u>Numeric</u>	01	01	01	0124	002
Project Code - Core Program	-----					
PO status - Common	-----					
Location Code - Head Office	-----					
Control Code - Loan Under SPAMFP	-----					
Subsidiary Code - IDA Loan Under SPAMFP	-----					

❖ Code number application for Income Account

Account Head - Code number for an account of Service Charge Under RMC-OOSA - Akota, at Head Office Core Program will be as 01.01.01.0901.067 as explained below:

	<u>Numeric</u>	01	01	01	0901	067
Project Code - Core Program	-----					
PO status - OOSA	-----					
Location Code - Head Office	-----					
Control Code - Service Charge Under RMC-OOSA	-----					
Subsidiary Code - Service Charge Under RMC-OOSA Akota	-----					

❖ Code number application for Expense Account

Account Head - Code number for an account of Printing & Stationery incurred for the Core Program OOSA at Head Office will be as 01.01.01.1759.001

	<u>Numeric</u>	01	02	01	1759	001
Project Code - Core Program	-----					
PO status - OOSA	-----					
Location Code - Head Office	-----					
Control Code - Printing & Stationery-OOSA	-----					
Subsidiary Code - Printing & Stationery-OOSA	-----					

26.5 – Necessary Steps To Prepare Chart of Accounts:

- a) Before preparing chart of accounts for PKSF, PKSF project codes will be selected at first.

This project code could be arranged serially for different offices in following way;

Name of Projects	Accounting code
➤ Core Program –	01
➤ PLDP –	02
➤ IFADEP -	03
➤ JMBA -	04

- b) Second step to prepare the chart of account is then select the PO (Partner Organization) status code for PKSF. PO status code could be arranged in following way;

Name of Projects	Accounting code
➤ Common –	01
➤ OOSA –	02
➤ BIPOOL -	03

- c) Third step to prepare the chart of account is then select the office code for PKSF offices. Office code could be arranged in following way;

Name of Offices	Accounting code
➤ PKSF Head Office –	01
➤ Rangpur Audit Office –	02

- d) Fourth step to prepare the chart of account is then selects the control general ledger code for broad head of PKSF assets, liabilities, incomes and expenses. Control general ledger account code could be arranged as broad head for assets, liabilities, incomes and expenses of PKSF office in the following way;

Type of Accounts	=	Control General Ledger Codes
All Assets	=	0001 to 0399
All Liabilities	=	0401 to 0899
All Income	=	0901 to 0999
All Expenses	=	1001 to 9999

- e) Fifth and final step to select separate accounting codes for subsidiary ledger account codes of control general ledger codes of PKSF assets, liabilities, income and expenses. Subsidiary ledger account codes could be arranged in the following way;

Type of Accounts	=	Subsidiary Ledger Codes
All Assets	=	001 to 999
All Liabilities	=	001 to 999
All Income	=	001 to 999
All Expenses	=	001 to 999

26.6 – Coding System of Accounts:

PKSF coding system of accounts has been classified here in below mainly considering the control general ledger accounts codes and subsidiary ledger accounts codes.

PKSF coding system of accounts has been enumerated as follows:

26.7 – Changes and Amendments of Accounting Codes:

The accounting codes have been arranged in such a way so that if required these can be changed or expanded with the demand of changing situation arises for the purpose. E. g; Fixed accounting code numbers have been assigned for all types of assets and liabilities.

Out of these serial numbers of accounting codes, some have not been allocated to specific accounting head as yet. These unallocated accounting code numbers could be used in future to accounts for any change or additions as demanded.

Similarly, there are some accounting code numbers under recurring expenditures and incomes that are not yet attached to any specific item, can be used under circumstances needed.

Usually, if some new Regional Audit Offices are started by PKSF, then the accounting code numbers which have been reserved for future use will come into operation after taking into account the characteristics of income and expenditure items of the new Regional Audit Offices.

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27.1 - Accounting Forms (Form No. 101 - 120)

27.2 - Accounting Registers & Books (Register No. 201-209)

27 – ACCOUNTING FORMS, REGISTERS & BOOKS

CHAPTER – 27

ACCOUNTING FORMS, REGISTERS & BOOKS

27.1 - Accounting Forms (Form No. 101 – 120):

1 - Cash Journal	Form-101&102
2 - Journal Voucher	Form-103
3 – Petty Cash Advance Slip	Form-104
4 – Daily Cash Balance Statement	Form-105
5 – Daily Bank Balance Statement	Form-106
6 – Bank Account Reconciliation Statement	Form-107
7 - Conveyance Bill	Form-108
8 – Travel Form & Requisition for Cash against Travel Advance	Form-109
9 – Travel Expenses & Allowance Bill	Form-110
10 – Detail Statement of Traveling Bill	Form-111
11 – Description of Travel	Form-112
12 – Overtime Payment Form	Form-113
13 – Store / Purchase Requisition	Form-114
14 – Material Receiving & Inspection Report	Form-115
15 – Tour Bill Register	Form-116
16 – Movable / Immovable Fixed Assets Statement	Form-117
17 – Statement of Budget Controlling & Monitoring	Form-118
18 – Physical Inventory Statement - Assets	Form-119
19 – Statement of Short Term Deposit & Interest Receivables	Form-120

27.2 - Accounting Registers & Books (Register No. 201 - 209):

1 - Cash Journal Register	R-201
2 – Subsidiary Ledger	R-202
3 – Fixed Assets Register	R-203
4 – Salary Register	R-204
5 – Cheque Issue Register	R-205
6 – Cheque/DD/PO Receipt Register	R-206
7 – VAT & Income Tax Register	R-207
8 – Petty Cash Advance Slip Register	R-208
9 – Budget Register	R-209



Investing in rural people

Bangladesh

Rural Microenterprise Transformation Project Project Design Report

Annex: RMTP Funds flow

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Asia and the Pacific Division
Programme Management Department

