

People's Republic of Bangladesh

Mission Dates: Supervision Mission - 4 to 15 November 2013
Document Date:
Project No. 725-BD
Report No: 3264-BD

Asia and the Pacific Division
Programme Management Department

Finance for Enterprise Development and Employment Creation FEDEC

Supervision report

Main report and appendices

Contents

Appendices

Abbreviations and acronyms

AWP&B	Annual Work Plan and Budget
BDT	Bangladeshi Taka
DMUS	<i>Dabi Moulik Unnayan Sangstha (PO)</i>
FEDEC	Finance for Enterprise Development and Employment Creation
IFAD	International Fund for Agricultural Development
LPA	Lead Partner Agency
MEs	Micro-Enterprises
PCD	Project Completion Date
PCR	Project Completion Report
PCU	Project Coordination Unit
PKSF	<i>Palli Karma-Sahayak Foundation</i>
POs	Partner Organizations
RIMS	Results and Impact Management System (IFAD)
SDR	Special Drawing Rights
SoE	Statement of Expenditures (IFAD)
SSS	<i>Samajik Seba Sangathan (PO)</i>
TMSS	<i>Thengamara Mohila Sabuj Sangha (PO)</i>
WA	Withdrawal Application (IFAD)

A. Introduction¹

1. The Finance for Enterprise Development and Employment Creation (FEDEC) project has been in operation since 2008. PKSf through its partner organizations (POs) implements the project all over the country. An IFAD supervision mission² undertook the annual review of the project from 4-15 November 2013. The mission focused on the overall implementation progress since the last supervision mission, reviewed progress recommendations made by the previous missions and provided guidance for the project completion activities to be undertaken the Project Coordination Unit (31st March 2014). The mission was disrupted by *hartal* (general strike initiated by political leaders) which prevented the mission to travel to the field and to move within Dhaka (*hartal* from 4 to 6 November and from 10 to 13 November). During its two days of field visits, the mission visited Tangail, Bogra, Naogaon and Joypurhat districts to observe microenterprise loan activities and value chain development of 4 different partner organizations (POs). Besides, the mission met with senior management of these POs and micro-entrepreneurs funded by them to discuss challenges and progress as well as financial and business issues of microenterprise borrowers. In Dhaka, the mission held working sessions with PKSf senior management.
2. The overall goal of the project is to contribute to economic growth in order to increase employment opportunities and reduce poverty. In doing this, it makes a direct contribution to the over-arching goal of the PRSP i.e. pro-poor growth. This is achieved through the immediate project objective of expanding existing and establishing new micro-enterprises. The project has three components: (i) microfinance services involving savings and credit services for micro-enterprises; (ii) value chain development services to improve access to markets and build the capacity of small businesses; and (iii) project management and coordination.
3. The Aide-Memoire represents the findings and recommendations of the mission discussed and agreed upon at a wrap-up meeting chaired by Dr. M Aslam Alam, Secretary, Bank and Financial Institutions Division, Ministry of Finance on 14 November 2013.
4. The mission wishes to thank Mr. Md. Fazlul Kader, Deputy Managing Director of PKSf for his support, Mr. Gokul Chandra Biswas, FEDEC Project Coordinator, and other FEDEC staff for their assistance and participation, as well as POs officials for their help and contribution to this mission.

B. Overall assessment of project implementation

5. *The overall implementation progress for the project is rated satisfactory.* FEDEC has completed a little over five years of operations since IFAD loan was approved on 12 September 2007. The project was declared effective on 8 January 2008 and since then, five supervision missions, including a midterm review, were conducted. As of 30 June 2013, the project recorded a cumulative financial progress rate of 98.2% against the approved revised total target. Financial achievements by financiers were 97.2% for the IFAD loan and 100% for Government's financing (POs contribution is only recorded for value chain development sub-projects). By component, the financial delivery rate ranged from 71% to 99% with the highest rate being recorded for the microfinance services component and the lowest rate for the value chain development. Late implementation of value chain subprojects explains the low disbursement rate on this component. In terms of cumulative physical achievements, project activities in the microfinance services component have reached or exceeded 100% of their target, while in the

¹ Mission composition: Mr. Thierry F. Mahieux (Mission Leader, Value Chain and Enterprise Development Specialist, Consultant); Mr. Peter Situ (Microenterprise Specialist, Consultant); Ms. Sinora Chakma (Gender and Targeting Specialist, Consultant), and Mr. Rajiv Sondhi (Manager Loans and Grants, Finance Office, IFAD). Mr. Nicolas Syed (IFAD Country Programme Officer) accompanied the mission during its field trip.

²

value chain component cumulative achievement rates range from 71% to 100% (43 value chain subprojects implemented against 60 originally planned).

6. The financial target of the 2012-13 AWPB was achieved at 107% against its budget of BDT 133.8 million with the delivery rate of 96% for the microfinance services component, 143% for the value chain development component and 97% for the project management component.
7. Recommendations from the last supervision mission have been addressed by the PCU and corrective measures implemented during the year under review.
8. Major achievements have been reached for the three major activities under the FEDEC project: microenterprise loan (ME loans), training, and value chain development. As of June 2013, cumulative loan disbursement has reached to BDT 128.8 billion with 503 750 outstanding borrowers and BDT 22.5 billion in loan outstanding (and only 4% overdue). Consequently, FEDEC has achieved 442.2% of its loans outstanding portfolio target and 359.6% of its number of active borrowers target, within 87.7% of the implementation period. PKSf and POs are expected to continue ME lending activity through revolving FEDEC funds and using their own resources. As of June 2013, 159 POs are providing ME loans for the following three categories: agricultural production (poultry, livestock, fisheries, crops and horticulture), manufacturing and processing, as well as trading. An increasing number of loans is disbursed to expand simple manufacturing and processing businesses. Ample evidence collected empirically from field visits and discussions with ME loan beneficiaries indicates that ME loans are a key factor for the creation of both full-time/part-time self-employment and wage employment. However, insufficient data collected prevents a precise assessment of the number of jobs created under the project.
9. To date, the project has approved 43 value chain sub-projects with 15 370 direct beneficiaries in different districts of the country (against a global target of 60 value chains to be originally developed at project completion. This target was modified at MTR and was now based on funds available). Progress reports (and impact assessments for completed sub-projects) on project's interventions at different levels of value chain sub-projects indicate a substantial increase in income for value chain stakeholders; creation of employment opportunities, and creation of equitable and sustainable linkages among value chain stakeholders. Several other project interventions are also aiming at meeting or creating market demand which also contribute to increasing producers' income and creating employment opportunities. Such achievements derive from the provision of skills training, capacity building, advisory services, as well as access to improved inputs, adequate financing, and markets and introduction of new products and dissemination of innovative technologies. 9 projects have already been completed (Phase I : testing the approach) while Phase II has been initiated for 7 sub-projects (geographical and outreach expansion). POs have covered around 33% of sub-projects' implementation costs; a good indicator for their commitment to further finance such activities. The project has trained PKSf and PO officials on microenterprise management, sub-sector analysis and value chain development as well as on environmental and regulatory issues related to MEs, and micro-entrepreneurs on production and technology related matters.

C. Outputs and outcomes

Component 1: Microfinance Services

10. *Major activities. As of June 2013, outputs and outcomes for this component are rated satisfactory.* The microfinance services component includes three activities: a/ lending to micro-entrepreneurs; b/ training of borrowers on business management and technology in order to enhance their management capacities and productivity, and c/ skills development of PKSf and PO officials in micro-enterprise management and related subjects. The project has been designed to up-scale PKSf's existing microenterprise (ME) lending programme where POs lend larger loans to microenterprise borrowers.

11. *Lending activities.* From March 2008, when the 1st FEDEC loan was transferred, to June 2013, the project has made excellent progress to reach two critical lending targets: total loan outstanding and number of borrowers. At the start of the project (March 2008), PKSF recorded BDT 2 429.4 million in outstanding loans with 127 POs. By June 2013, this had increased to BDT 8 170.5 million with 159 POs, equivalent to an increase of BDT 5 741.1 million. During 64 months (or 87.7% of total implementation period), the project has achieved 156.2% of the target of loans outstanding from PKSF to PO. Similarly, POs recorded BDT 2 621.4 million as loans outstanding to end-borrowers at the project start-up, which has increased to BDT 22 473.7 million by June 2013, equivalent to a total increment of BDT 19 852.3 million in 64 months. It means, POs have achieved 442.1%% of their target in terms of outstanding loans in 87.7% of project time. Cumulative loan disbursement has reached BDT 118.5 billion during the project period corresponding to 2 049 121 loans extended. Similarly, during the period the number of active borrowers has increased from 79 403 to 503 750, an increase of 424 347 persons or 359.6% of the target.
12. *Portfolio analysis.* Credit portfolio performance is sound: only 2.0% of outstanding loans from PKSF to POs (June 2013 - slightly higher than in June 2012; partly explained by the expansion of the loan portfolio) and 4.03% from POs to their members were classified as overdue (against 3.6% as at June 2012). Overall, cumulative loan recovery rate of POs is 99.16%. Overdue are spread over only 19 POs (against 159 supported under the project). Field visits' findings tend to confirm this consistency of performance, as most of the POs have built a solid microenterprises customer-base. The current reporting from POs to PKSF emphasizes on recovery rate as one of the management performance indicators. Lending rate is recorded around 25% on a declining basis. Taking into consideration a weighted inflation rate of 7.5%, an average financial and operating cost of 13%, the overall POs' ME lending appears to enjoy a comfortable profit margin of 4-5%. The overall operational self-sufficiency is estimated at 1.2, which is within the benchmark of the MFIs in the sub-region. However, given the impact of inflation, the real yield on gross portfolio is close to zero, hence a need for either rising the lending rate to more than the current 25% or making substantial efforts for cutting financial and operating expenses. With a global refinancing amount of BDT 16.8 billion extended by PKSF to POs, these latter have been able to extend loans to beneficiaries for an amount of BDT 118.5 billion i.e. a 7.05 revolving of funds within a 5 years. This shows the extreme demand for loans from POs members and the absence of any idle funds considering the average 9 to 12 month-loan duration. While FEDEC and POs portfolio appears to perform soundly, the quality of these portfolio should be more thoroughly evaluated using best practices indicators (see working paper 1).
13. *Loan utilization by borrowers.* By June 2013, average loan size increased to BDT 80 000 (against BDT 59 000 as of Feb. 2008). The main use of loans as reported by 157 POs in June 2012 was for typical IGAs undertaken by the MEs, such as small retail businesses, basic processing and manufacturing, livestock, fisheries, as well as agro-based trade. Interviewed MEs attributed their success to: (i) continued support from POs under their lending programme; (ii) provision of other non-financial technical support, and (iii) sound market identification. The majority of MEs are reinvesting their profits in support of business expansion; some even diversified into a second business that helped secured the usually household-based business and therefore extended the overall business cycle. ME business constitutes the main source of income for more than 3/4th of micro-entrepreneurs while more than 70% of them attributes the increase in their income to the loan-supported MEs.
14. *Gender.* The cumulative number of loans disbursed to women since March 2008 amounts to 1 375 264 representing 67.1% of the total loans disbursed for the same period (2 049 121).
15. *Savings.* As of June 2013, the Project recorded a savings balance of BDT 63.1 million, which represents a leverage of 28% from its outstanding loans, or 6% of the cumulated loans disbursed. This indicates a consistent savings component built into the ME lending programme,

and hints off a sound stability of savings mobilization capacity that help secure the financial sustainability.

16. *Impact of ME loans.* ME loans create self and wage employment. The average ME loan size is small but gradually increasing. Larger loans are increasingly demanded as reported in the 2012 impact study (demand for loans larger than BDT 200 000 have increased from 3.3% to 17.6% of the overall demand while demand for loans smaller than BDT 50 000 has been concomitantly reduced from 52.7% to 14.5%). Empirically, these larger loans are creating substantial wage employment opportunities for poor people. Overall, ME lending operations have increased sales (by 31% from BDT 2.1 million to BDT 2.8 million), and net profit of microenterprises (by 28% from BDT 0.28 million to BDT 0.36 million). With larger loans extended to MEs, POs are able to finance larger investments (and related working capital) which are necessary to sustain the MEs growth.
17. Since May 2010, PKSf and POs have collected monthly data on employment for each ME financed under FEDEC. Unfortunately, data gathered does not enable an evaluation of jobs created as there is non-reconciliation between the situation of employment when a ME has been granted its first loan and the current situation of its employment. In addition, the exact number of effective borrowers cannot be precisely estimated (available are only the cumulative number of loans extended by POs and the number of active borrowers).
18. For the period May 2010 to June 2013, 1 685 259 loans have been extended an average maturity of around 10 months. Considering a repeat loan ratio of 75% (confirmed by studies undertaken by PKSf, by field visits and interviews of ME loan beneficiaries), the effective number of borrowers during the period amounts to approximately 1 100 000. As at June 2013, these borrowing MEs have declared 1 242 053 jobs of which 678 603 are self-employment, 297 389 are wage employment within the family, and 266 061 are wage employment outside of the family. Out of these 1 242 053 jobs, 770 517 are for female (62%).
19. Since employment creation is a major objective of the project, and despite the absence of any precise indicator in the RIMS table or in the initial logframe, the mission recommends the PCU to undertake the following actions to be completed for the Project Completion Report: (a) determination of the effective number of new borrowers for the period May 2010 - December 2013; (b) sampling between 40 and 100 MEs beneficiaries proportionate to the total number of borrowers. The sampling should also be representative of all activities financed by POs; (c) based on loan application, determination of the incremental number of jobs for each sampled ME, and (d) extrapolation for each activity financed of the overall number of jobs created. Although based on a sample, the extrapolated result will provide a sound proxy for the number of jobs created under FEDEC during the period May 2010 - December 2013. Of course, access to ME loans should be regarded in that respect as one parameter among others having contributed to jobs creation.
20. *Technology adoption and access to markets.* Access to markets either local or national ones is not an issue for most microenterprises supported as they are successfully selling products through mainstream marketing channels. Unanimously, micro-entrepreneurs would like to access larger loans as demand for their produce is still largely unmet. However, products of many microenterprises visited are of poor quality standards and lack innovations. Considering the increasing consumers' awareness for quality products, these micro-enterprises might face difficulties in the near future to commercialize their products. Improved quality and quality control, design and packaging, diversification, compliance with standards are issues that are now addressed during borrowers' training course facilitating the understanding and compliance with consumers' demand for better products. Field visits indicate that interviewed entrepreneurs maintained a firm command of operational knowledge in their market area; they were capable of undertaking quick market analysis that leads to actions responding to the market uncertainty and opportunities. Visited entrepreneurs all expressed their confidence in their venture, while facing different market dynamics and life cycles.

21. *Environmental and regulatory issues.* PKSf has developed trainings on environmental and regulatory issues, has distributed guidelines on Environment, Health and Safety, and has conducted an environmental audit to assess compliance of microenterprises with the guidelines and to further improve them. These include instructions for small and medium enterprises on reducing environmental pollution, creating good work environments, ensuring security and safety in the workplace and preventing child labor.
22. *ME loan program management.* ME cells are operating in all POs with specifically trained and skilled staff. These cells have developed loan policies, are supervising ME lending, organizing training for staff members and borrowers, preparing analytical sector information and conducting profitability analysis. PKSf should further strengthen POs staff's capacity as ME cells quality remains uneven.
23. *PKSf staff training.* To date, physical achievement for PKSf staff training has reached 100%. Three training courses were organized during the period under review: 38 PKSf officers have attended a training on Microenterprise Management and Lending; 38 PKSf officers have received a training on sub-sector analysis and value chain development and 19 PKSf officers have been trained on Environmental and Regulatory issues. Cumulatively, 101 PKSf officers have been trained in microenterprise management and lending; 75 in sub-sector analysis and value chain development, and 65 on microenterprise-related environmental and regulatory issues.
24. *POs staff training.* Cumulatively, 5 555 POs staff have been trained by PKSf/FEDEC on ME management and lending; 119 POs staff on sub-sector analysis and value chain development, as well as 46 POs staff on environmental and regulatory issues applied to microenterprise.

Component 2: Value Chain Development

25. *Outputs and outcomes for this component are rated satisfactory.* As at June 2013, 43 value chain sub-projects have been approved against an overall original target of 60 sub-projects. 9 sub-projects have been completed while the remaining 34 are at different stages of implementation. Among these 34 sub-projects, 6 are the second phase of an already completed project (i.e. geographical expansion and increased outreach based on lessons learnt and experience from the first phase) and 3 are a geographical replication of one non-completed project (black goat rearing). Estimated total cost for 43 projects is BDT 150.5 million, with PKSf's and POs' shares of BDT 95.8 million (63.7%) and BDT 54.7 million (36.3%) respectively. 15 370 participants are direct beneficiaries of these sub-projects (BDT 9 800 per beneficiary or USD 126), but a larger number of micro-enterprises and households are expected to receive indirect benefits from project's activities, as confirmed by field visits and discussions with POs concerning the adoption rate of project-promoted technologies, inputs, and other actions by non-direct sub-project beneficiaries.
26. Training on business awareness and skill development have been provided to 7 612 micro-entrepreneurs (2 320 micro-entrepreneurs during the period under review) for a wide array of activities such as livestock, beef fattening, shoe making, small business management, poultry rearing, mix fish farming, safe and organic vegetables cultivation, among others. 11 100 planned number of trainees was modified at MTR and is now based on funds available and demand from the field.
27. Besides training and capacity building of POs staff and beneficiaries, two broad types of interventions are implemented under FEDEC value chain development component: (i) interventions aiming at comprehensively structuring/strengthening value chains such as prawn and fish culture. Under its interventions, PKSf and POs are tackling issues at different level of these value chains and are also assisting different stakeholders to engage into contractual agreements (suppliers, producers, processors, off-takers, and service providers), and (ii) punctual interventions aiming at answering or creating market demand (Sonali hen, pesticide-free vegetable production, health cards for cattle, power loom). Both interventions have been

successfully implemented and have achieved substantial results with regards to increased income and creation of jobs opportunities. The challenge, already partly addressed by PKSF and POs, will be the scaling-up of these rather small sub-projects (in both outreach and geographical terms). However, discussions with POs officials as well as the already important contribution extended by POs in the financing of these 43 sub-projects (around 33% of the total cost financed by POs) have highlighted the willingness of POs to further continue financing and expanding these sub-projects as well as benefiting from the experience of other POs to implement new sub-projects in the area of intervention.

28. The mission visited 5 sub-projects: (i) Sonali Hen rearing (Joypurhat, TMSS); (ii) Banana cultivation (Bogra, TMSS); (iii) Power Loom for shawl production (Bogra, DMUS); (iv) Fish culture (Tangail, SSS), and (v) black goat rearing (Joypurhat, Jakas Foundation). Main achievements for sub-projects visited are presented in the following table.

Table 1: Mission's assessment on sub-projects visited

Sub-project	Activities	Beneficiaries	Mission's remarks
Promotion of power looms	Provision of (a) training on power loom; (b) training on design; and (c) support for maintenance looms	42	Productivity increased by more than 2 times per loom. Income increased by around 150% per loom. 8 out of 12 trainees now operating power looms (others waiting for a loan). One trainee established as designer and assisting other women.
Promotion of intercropping (banana and vegetables/spices) and improved banana cultivation techniques	Provision of training on banana cultivation; introduction of high yielding banana variety; and introduction of intercropping cultivation techniques	600	Banana yield increase of 15% due to intercropping two or more banana varieties. Tumeric varieties intercropped in the banana field provide quick and additional cash income to HHs after two months, which represent 15% of annual income, thus generating additional cash for loan repayments, and diversifying HHs' income pattern that becomes more resilient to climate change. Successful cultivators used the field as demo sites and transfer the intercropping techniques to the other farmers. Potential for cooperative farming and contract farming to further link to the banana market chain.
Sonali Hen rearing	Provision of inputs for better poultry husbandry, technical assistance by external experts to farmers	600	Reduction of mortality due to health mitigation measures and access to vaccines. Demand for Sonali Hen has increased locally (with a correlative increased income). Around 150 additional farmers having implemented same activity. New hatcheries implemented to meet demand for increasing poultry farmers.
Fish and prawn culture	Provision of training for cultivation of mixed species, training on nursery management (Q5), training on fish production in paddy fields (Q5), workshop organized for producers, suppliers, off-takers, establishment of demonstration nurseries	285	Income increased by 300%. Linkages established with input suppliers and off-takers. Several nurseries implemented by fish farmers. Expansion of fish ponds for several fish farmers and creation of several part-time jobs (retainers). Several suppliers and off-takers are regularly visiting the region.

29. Considering the proximity of the Project Completion Date (31st March 2014), the PCU should establish a roadmap for the closing of each value chain development sub-project and the collection of necessary data to assess their performance and impact. Data to be collected should include, among others: (i) financial statements enabling the evaluation of increased turnover and profitability after project's interventions; (ii) jobs created; (iii) adoption rate of promoted technologies and services; (iv) additional outreach of promoted technologies and services outside of targeted beneficiaries, and (v) linkages and contractual agreements among stakeholders of value chains. Each FEDEC value chain development specialist should be responsible for monitoring the closure of 3 to 4 sub-projects and for issuing a sub-project completion report that would feed into the FEDEC PCR.

Component 3: Project Coordination and Management

30. *This component is rated satisfactory.* FEDEC project is managed as part of the overall microenterprise programme of PKSF, headed by Mr. Fazlul Kader, Deputy Managing Director,

who was formerly Project Coordinator of the project. The Project Coordinator is assisted by 8 full-time value chain officers, of whom one is also assisting POs for beneficiaries capacity building, and one accounts officer. Besides, a five-member FEDEC value chain project evaluation committee, headed by the General Manager, is working to review and approve the value chain proposals. Evaluation and supervision of FEDEC ME loans activity is carried out by PKSf Operation department. In addition, FEDEC receives services on financial management and accounts, recruitment and procurement, internal audit, and training from respective departments of PKSf.

Agreed action	Responsibility	Agreed date
Use best practices indicators to assess POs portfolio performance	PKSf/POs	31 Dec. 2013
Implement methodology to evaluate number of jobs created	PKSf/POs	Immediately
Define a roadmap for closing value chain development sub-projects and collect necessary data to assess impact and performance	PKSf/POs	31 Dec. 2013

D. Project implementation progress

31. **Project management performance.** *Project management performance is rated satisfactory.* With regards to lending operations, the project has already exceeded its targets of cumulative loan disbursement, loan outstanding and number of borrowers. It is expected that PKSf will continue to expand ME loan program with its own funds. With regards to value chain development activities, many subprojects have been successfully implemented with substantial impact on beneficiaries' income and adoption rate of improved technologies and inputs as well as on the creation of sustainable linkages between value chain stakeholders. As a result of substantial impact on income and jobs created, 7 projects have already been geographically expended and scaled-up with additional POs. Considering the positive impacts of most value chain development projects implemented under FEDEC, PKSf and POs have already agreed to geographically and scale-up these projects after FEDEC completion.
32. **Monitoring and evaluation.** *Monitoring and evaluation is rated satisfactory.* PKSf generates regular reports on the progress of ME lending and produces a specific FEDEC annual report. Sector-wise ME data are collected and a report is prepared regularly. This report includes comprehensive data on each PO's lending activity and also information on training and other grant-financed activities. Since May 2010, PKSf monitors the change in employment over time triggered by its loan operations and as a consequence of value chain development activities. In view of the 2014 project completion, the mission recommends the PCU to develop a multi-indicator impact assessment for all value chain subprojects (increase in turn-over, profitability and income, number of jobs created, adoption rate of promoted techniques and products outside of trained beneficiaries, additional funds provided by PO). Results of these assessments should form an integral part of the completion report, see also para. 19 on impact of ME loan programme.
33. **Gender focus.** *Gender focus for the project is rated satisfactory.* The project focuses on women, as evidenced by 67% share in ME borrowers. It is a lower percentage than in normal microcredit, where women are 90% of borrowers. The reason lies in the fact that large businesses financed by ME loans often involve more household members, including husbands and sons. Even if the woman group member is the borrower, the business is largely managed by her husband. For instance, a small enterprise of chips factory involving 60 workers (of which 88% are poor women) is operated and managed by the husband while the ME loan was extended to his wife. Evidence shows that larger MEs and value chain subprojects have created wage employment opportunities for women. Therefore, the expansion of MEs and

value chain projects is expected to cater for self and wage employment opportunities for women. A large number women borrowers received training under the project. In value chain development subprojects, training is generally provided to both husband and wife.

34. **Poverty focus.** *Poverty focus for the project is rated satisfactory.* ME borrowers include (i) 'graduates' from normal microcredit programmes (drawn from the poorer sections of society when joining microcredit groups), and (ii) near-poor micro-entrepreneurs not included under other microfinance programmes. Accumulated evidence suggests that project-supported MEs have created jobs, mainly for unskilled workers, and that MEs borrowers have benefited from a substantial increase in their income enabling them to sustainably shed off poverty. However, it has to be noted that access to value chain development benefits is sometimes prevented for extreme poor households with regard to selection criteria based on assets level (number of cattle, land/pond size).
35. **Effectiveness of targeting approach.** *Effectiveness of targeting approach for the project is rated satisfactory.* PKSf's ME programme primarily targets graduates from normal microcredit groups while the revised policy allows also 'lateral entrants'. To avoid elite capture and taking undue advantage of the new policy, restrictions have been imposed to 'lateral entrants' and PKSf is closely monitoring these restrictions. Furthermore, it has been found that POs remain cautious about the approach of 'lateral entrants' and continue their risk-mitigation approach. The average loan size is around BDT 80 000 indicating that most of POs' borrowers are on the lower-end of the micro-entrepreneur spectrum. Value chain development sub-projects are based on an inclusive approach in a community where not only ME borrowers can access project benefits but also very poor, poor and small farmers who are not eligible to ME loans.
36. **Innovation and learnings.** *Learnings and innovation under the project is rated satisfactory.* A number of learnings can be recorded: (i) larger borrowers generate wage employment for the poor, especially non-farm MEs because they can expand by adding new machines or receiving larger orders that require additional manpower whereas growth in other agricultural sectors is constrained by land/pond size; (ii) a two-phased approach of sub-project development has generated good results: Phase-I for experimenting and learning and Phase-II for expansion, and (iii) a combination of loan and non-financial services under value chain development is effective to ensure adoption rate and to generate income and employment.
37. Several innovations have been introduced by FEDEC under the value chain development component during the period under review: (a) supply of post-larva from a sub-project assisted hatchery to prawn farmers; (b) maximization of land profitability by introducing inter-cropping cultivation (banana and vegetables/spices), and (c) financing the creation of mini-labs to diagnose cattle disease. Last year's introduced innovations have reportedly had a substantial impact on farmers' income and sub-projects outreach (pesticide-free vegetable production; fish culture as a complementary activity to rice culture in paddy fields or floodplains, use of media support to develop awareness on FEDEC-supported production).
38. **Knowledge management.** *Knowledge management of the project is rated satisfactory.* Over the last years, FEDEC has developed knowledge and experiences that could interest a variety of audiences. Several knowledge management activities are currently on-going: (i) PKSf regularly publishes a book with case studies, also including FEDEC examples, distributed to all POs and other partners and stakeholders; (ii) upon completion of a subproject, PKSf organizes a review workshop (14 so far) to which other POs, who are interested in developing a similar project, are invited; (iii) every two years, PKSf organizes a trade fair where ME borrowers can showcase their products, attend seminars and connect with buyers; (iv) success stories and updates of FEDEC project are regularly published in the PKSf newsletter as well as in national newspapers, broadcasted on local TV channels; (v) a specific brochure on FEDEC's experiences including case studies and success stories; (vi) POs themselves organise study tours before adopting a new technology; (vii) POs produce posters and manuals for beneficiaries; (viii) PO-organized TV broadcast on pesticide-free vegetable production as well

as articles in national and local newspapers, and (ix) POs-promoted video documentary of beef fattening.

39. With FEDEC coming closer to completion, PKSf should look into ways to systematically document subprojects experiences and, most of all, to make these findings available for different audiences through a wide range of knowledge-sharing products such as videos, brochures and other written documentation. Existing knowledge products, such as brochures, videos and subproject completion reports submitted by POs could substantially strengthen knowledge management if accessible to all POs. The IFADAsia knowledge-sharing community portal could become an effective tool for knowledge sharing and dissemination as it allows for several products to be uploaded and shared. In that respect, the PCU should ensure that POs are registered onto the IFADAsia portal.
40. **Partnerships.** PKSf is partnering with 159 POs with regard to ME lending activity and with more than 45 POs with regards to value chain development activities. When scaling-up activities especially with regards to value chain development sub-projects, both PKSf and POs should play a more proactive role in facilitating more equitable and sustainable contractual arrangements between supported producers and other value chain stakeholders and further seek to develop partnership with other value chain stakeholders such as business associations, chambers of commerce, potential large buyers, technology providers.

E. Fiduciary aspects

41. **Financial management.** *Overall quality of financial management of the project is rated satisfactory.* The mission reviewed the financial management arrangements of the project, including the organization and staffing, budgeting, fund flows accounting, financial reporting, internal controls and audits. The project is almost fully disbursed at 97%. More than 92% of FEDEC funds were allocated for the Incremental Credit expenditure category, which has a relatively higher inherent risk profile due to its geographic spread and multi-level implementation structure. However, the mission noted that PKSf has applied a tested model to successfully manage this risk for many years over all its programs, covering 272 POs. The mission specifically reviewed financial control arrangements in this expenditure category and has found them to be satisfactory.
42. **Budgeting.** Annual work plans and budgets for FEDEC are prepared and aggregated for components and expenditure categories, and include budgets for each PO. Compliance with budgets is satisfactory. The Incremental Credit activities under FEDEC have been merged together with the same activity under the PKSf's own ME programme, and the combined disbursements under this have far exceeded programme budgets.
43. **Accounting and Financial Reporting.** *Financial accounting and reporting is rated satisfactory.* PKSf uses its institutional Oracle accounting software for accounting and financial reporting for its operations and all its programmes. Financial accounting for FEDEC has been integrated into the same accounting system. The Chart of Accounts has been modified so that FEDEC transactions can be recorded and extracted for customised reporting purposes. PKSf, as the LPA, follows an accrual basis of accounting under Bangladesh Accounting Standards and quarterly financial progress reports for the entity as well as for FEDEC are produced. The mission noted that the Chart of Accounts is structured to track assets, liabilities, revenues and expenses at a high level of detail for all major operating lending groups and financing streams, making it very complex. Yet it does not track expenditures by Expenditure Categories as defined in IFAD loan agreement, which is then manually compiled from figures extracted from the system. This arrangement, and the 10-year vintage of the Oracle system, increases the risk of inaccurate attribution of eligible expenditures to categories for purposes of financial reporting to IFAD. However, while this risk remains, no such inaccuracies have been reported by auditors in the recent audit report. PKSf is currently considering investing in a new and modern of its accounting system.

44. At the time of the mission, FEDEC accounting was updated up to 30th September 2013 and interim financial reports were available. However, financial reports do not include FEDEC expenditures against authorised allocations in the legal agreement. Since the loan is now nearing full disbursement and completion, this comparison should be tracked very closely every month in the remaining project period to ensure that expenditure commitment do not exceed allocations. As observed in the previous supervision mission, the accounting system is not set up to prepare Withdrawal Applications and does not include a module for commitments and budget monitoring. At the POs' level, accounting is in some cases carried out by a specific software and in others simply with Excel. Financial reports from each PO are received annually and audited.
45. **Disbursement.** *Disbursement of the project is rated highly satisfactory.* As at 30th October 2013, IFAD has disbursed SDR 22.5 million equivalent to USD 34.8 million or 97.2% of the approved loan of SDR 23.15 million (USD 35.0 million equivalent). The project completion date is on 31 March 2014. The Special Account initial advance has been fully recovered in November 2013. The largest expenditure category (Incremental Credit), for which funds are disbursed in a pooled manner, with the Borrower providing 40% financing, has already been fully disbursed.
46. *Statement of Expenditures (SoEs).* The mission reviewed some selected SoEs at PKSf and loan disbursements and observed that documentation was certified and approved. However for some expenditure categories, the SoEs and Summary Sheets provided did not provide complete audit trails to enable quick validation and processing by IFAD. Information frequently not stated in SoEs were details of payees for local and overseas training expenditure, nature of expenditure for Value Chain Development projects and names of individuals who were paid salaries as Value Chain Development Specialist. Since this information is available in the accounting system, the mission recommends that in future details on nature of expenditure and names of payees is clearly stated on SoEs to provide audit trails and to enable validation of eligibility of expenditure by IFAD.
47. With respect to expenditure under Incremental Credit category, (which is financed by both PKSf Micro Enterprise Program funds and IFAD FEDEC funds) the mission noted that disbursement of incremental credit to POs is not attributed to IFAD & PKSf in the agreed 60%-40% share at each disbursement transaction level. Instead, at an aggregate level, the net movement in credits outstanding from quarter to quarter is tabulated and the net movement is used as a proxy for Incremental Credit "expenditure", which is then financed at the agreed proportion of 60% from FEDEC and 40% from PKSf. This calculation is then used to support Withdrawal Applications. Funds from both FEDEC and PKSf are in effect pooled to facilitate these disbursements.
48. This method of determining disbursed amounts of credit has been accepted by IFAD for purposes of accountability. Aggregate calculations of amounts of credits disbursed to PO between March 2008, when FEDEC started and now, indicate that total disbursements have exceeded targets. PKSf loan outstanding to the POs (loan disbursements minus loan recoveries) amounted to BDT 2 439 million in March 2008. As of end of June 2013, the loan outstanding to the POs was BDT 8 171 million. The incremental difference of BDT 5 732 million represents net disbursements to POs during this period, of which the total attributable to IFAD would be 60% or BDT 3 439 million (equivalent to about USD 44 million). The amount of actual FEDEC disbursements for incremental credit has reached USD 32.0 million (or about BDT 2 617 million). It appears that in effect overall PKSf has financed more than its share on the incremental credit. The Incremental Credit expenditure category under IFAD Loan now stands fully disbursed.
49. **Internal Controls and Internal Audit.** *Internal controls and internal audit are rated satisfactory.* PKSf has a functioning Internal Audit Division which conducts post-audit of all financial transactions under an annual work program. The function reports to the Managing Director. It

- conducts yearly audit of all PKSf programs including FEDEC, provides an Internal Audit Report based on the Review of Compliance with PKSf/Project Procedures and carries out field audit of POs. The PKSf internal audit department conducts both pre- and post-audit of all transactions at PKSf level but post audit for transactions at POs level.
50. Disbursements of Incremental Credit is recognised as eligible expenditure at the time of disbursement to POs, although POs are only a financial intermediary to transfer funds to borrowing community members, and not at the time of disbursement by POs to field beneficiaries, which is the intended end use of funds. This accountability method is accepted considering appropriate oversight over disbursements from PO to field level, which becomes a key control to seek assurance that use of funds under the Incremental Credit Category have been as intended. This oversight is arranged by PKSf through a mandatory external financial audit of all 159 POs in the program. These are reviewed at PKSf annually. In addition, occasionally internal audit teams also visit a sample of POs and review financial controls. For the year 2012 all these POs were audited and audit reports with unqualified opinion has been received from all.
 51. Further, at the aggregate level, PKSf has determined that aggregate disbursement from POs to field level has increased substantially by BDT 118 500 million during the project period (financed by PKSf and non-PKSf sources).
 52. **Counterpart funds.** *Counterpart financing is rated highly satisfactory.* Counterpart funds are used to finance: 40% of the eligible expenditures under Category III Incremental Credit category, 100% of the duties on amounts financed under Categories I, II, IV and 100% of the salaries and allowances of project coordination staff with the exception of value chain specialists (paid by FEDEC) as per FA provisions. As noted above, Borrower funds channelled through PKSf as the LPA have in fact exceeded the amount committed for the Incremental Credit category under the financing agreement. As a result, in effect the counterpart financing has exceeded the proportion agreed.
 53. *POs and Beneficiaries' contributions.* Beneficiaries' contributions are not recorded by FEDEC. POs contributions related to value chain development activities amount to BDT 54.7 million (33% of the total implementation cost of sub-projects). However, PKSf doesn't record POs contributions related to microfinance services component as well as to training activities as disbursements in its financial reports.
 54. **Compliance with loan covenants.** *Compliance with loan covenants is rated highly satisfactory.*
 - *Financial Statements:* The Project submitted its 2011/2012 Financial Statements to IFAD in September 2012 in line with Art. V Sect. 5.01 of the Loan Agreement; the financial statement for the period 2012/2013 is currently under audit.
 - *AWPB and Annual Procurement Plan (APP):* The Project timely submitted the 2012/2013 AWPB and APP to IFAD in accordance with the provision of the Loan Agreement;
 - *Audit and Progress Reports:* They were timely submitted to IFAD respectively: (i) Audit Report by end of December 2012, and (ii) semi-annual progress report by 15 February and annual report by 15 August.
 55. **Audit.** *The project audit is rated satisfactory.* A private sector audit firm conducts annual external audits of PKSf, including transactions relating to FEDEC. Audited financial statements for 2012 have been received timely and with an unqualified audit opinion on the financial statements, the Special Account transactions and the Statements of Expenditure. Bangladesh standards on auditing, which are aligned in all material respects with International Standards on Auditing (ISA200) have been followed. A management letter has also been received. The mission recommends that the external audit scope and reporting to IFAD is modified in future to strengthen compliance with IFAD's Audit Guidelines. Auditors have focused adequately on the

audit of financial statements (including SOEs and special account), but more attention to other matters in the TOR, such as compliance with the FEDEC financing agreement, internal controls over downstream disbursement and accountability of funds, accuracy of the MIS, and loan recovery rates is recommended. No loan debtor balance confirmations were obtained. The management letter provided to IFAD included only one comment relating to over-provisioning for loans, without substantive comments on internal control arrangements at either PKSf or at the 159 POs who channel FEDEC funds to field locations. Although 32 separate audit firms have been appointed to conduct annual audits on the 159 POs, their findings on financial controls at POs level were not considered in forming the overall audit opinion for FEDEC purposes. The mission recommends that the auditor is requested to submit substantive comments on internal controls along with the next audit report in compliance with IFAD Audit Guidelines. For this purpose, FEDEC auditor should summarize the main findings of other auditors and internal auditors in his management letter, and consider these in forming his audit opinion with respect to FEDEC.

56. Considering that the project closing date is 30th September 2014 whereas the financial year ends on 30th June, the mission recommends that the final FEDEC financial statement covers an extended period from 1st July 2013 to 30th June 2014 to coincide with the project closure consistent with the Financing Agreement. Correspondingly, the audit report for this period is submitted to IFAD for review, along with a response to any issues raised by the auditor, before the financial Closing Date of 30th September 2014, no later than 31st December 2014. This report will be considered the final audit report for FEDEC project. Considering the limited number of financial transactions incurred between 1st of July and 30th September 2014, IFAD will accept a Statement of Expenditures certified by the PKSf management in lieu of a separate audit report for this short period.
57. **Project completion. Loan Closing procedures.** The loan completion date provided in the financing agreement is 31st March 2014. The mission confirmed that the project will be closed on schedule and any expenditures incurred after this date (other than the limited expenditures for winding up the project) will not be eligible for financing. The loan account will therefore be closed after the Financing Closing Date (30th September 2014) when IFAD has determined that no further disbursements or refunds are likely to be made, and when the final audit report has been received and reviewed and any required follow-up action has been taken.
58. To facilitate timely closure, the following has been agreed:
- (a) Closing period expenditures agreed include expenditures relating to contracted services to complete the Programme Completion Report (PCR) and expenses related to an impact survey (Category IIA) and Salaries and Allowances for Value Chain Development Specialists up to 30th September 2014 (Category IV) (this latter provided that sufficient resources are available). The contracted services should be procured before Project Completion Date to be eligible for financing.
- (b) Since the Initial Advance to Special Account has already been fully justified, any closing expenditure to be incurred should be pre-financed by PKSf and a Reimbursement Application submitted to IFAD. The final Withdrawal Application and Completion Report before the financial Closing Date of 30th September 2014.

Agreed action	Responsibility	Agreed date
Strengthen audit trail information on SOEs for disbursement	IFAD/PKSf/FEDEC	On-going
The FEDEC auditor is requested to submit to IFAD substantive comments on internal controls after considering audit findings of separate POs audits, as part of his management letter	PKSf/FEDEC	31 Dec. 2014
The final Withdrawal Application and Completion	PKSf/FEDEC	31 Sept. 2014

Report before the financial Closing Date of 30 th September 2014		
For closing expenditures as agreed during this mission and paid during the July-September 2014 period, a certified SoE shall be submitted to IFAD in lieu of an audit report	FEDEC/PKSF	31 Dec. 2014

F. Sustainability

- 59. Institutional sustainability.** *Institutional sustainability is rated satisfactory.* PKSF is a well-established institution in Bangladesh and ME lending is an important part of its portfolio that will be continued after FEDEC's completion. 159 POs have developed considerable capacity and are fully covering their operating and financial costs from micro-finance income. All POs have created a separate ME Cell at head office level and most of them have posted skilled additional officers at the branch level to manage ME loan operations. Necessary procedures have been developed and practiced for this program. However, only a few POs will have the necessary skills and financial resources to continue the development and financing of such subprojects after FEDEC's completion. After FEDEC's completion, cost of activities that were subsidized by FEDEC can be covered by subproject beneficiaries, as per their statement.
- 60. Social sustainability (Empowerment).** *Social sustainability is rated satisfactory.* FEDEC is directly contributing to social sustainability through enhancing income of large number of micro-entrepreneurs and poor by giving them access to finance, market, technology, and management skills as well as employment opportunities that enable them actively participate in economic growth. The process enhances capacity of a large number of socially and economic vulnerable families to directly interact with markets, government and private system. Women have been able to develop their activities as micro-entrepreneurs, farmers, and small producers even though marketing activities are still men's responsibility. Introduction of electrical powered looms has in a first stage increased the workload of women (more time spent in weaving to meet increasing demand) but in the longer run, women are deciding which activity they want to continue and have hired additional aids/workers for other works (weavers or household aids); hence improving their social position within the family.
- 61. Economic and financial sustainability.** *Economic and financial sustainability is rated satisfactory.* MEs have reached profitability level ensuring sustainable business and income for HHs. The continued provision of loans from POs ensures access to capital, while training and inclusion in strengthened value chains are improving productivity of microenterprises. Based on outcomes related to the nine value chain development subprojects completed as at June 2013, activities' profitability is ranging from profitable (cow rearing) to highly profitable (prawn farming and safe vegetable growing). All POs are reportedly profitable and enjoy a solid 4 to 5% profit margin on ME lending operations. In addition, POs are gradually introducing full cost-recovery concept and best practice in value chain development subprojects where services are currently fully subsidized by the project. MEs are reportedly enjoying a solid profitability thanks to better access to market and better production management (quality and quantity). However, it is to be noted that before the loan is fully repaid, micro-entrepreneurs are barely taking any 'salary' in order to avoid risk of non-repayment of the loan.
- 62. Environmental sustainability.** *Environmental sustainability is rated satisfactory.* FEDEC is predominantly a finance project that on-lends to microenterprises. FEDEC's training and soil testing program has led to reduced application of chemical fertilizer in flower production fields, increased application of compost, balanced application of fish feed, and propagation of pheromone traps as opposed to excessive use of chemical pesticides. FEDEC/PKSF has implemented a subproject on the development of safe vegetable production and has organized consumers' awareness campaign. For the past two years, PKSF is conducting trainings on environmental and regulatory issues for 46 POs officials and has distributed to all POs

guidelines on Environment, Health and Safety, including instructions for small and medium enterprises on reducing environmental pollution, creating good work environments, ensuring security and safety in the workplace and preventing child labor. When scaling-up value chain development projects, PKSf and POs should pay particular attention to health issues especially with regards to women who generally developed home-based activities that have serious negative impact on their environment (power loom weaving and Sonali Hen rearing to name two visited value chains).

- 63. Exit strategy.** *Exit strategy is rated highly satisfactory.* FEDEC being fully mainstreamed as part of PKSf's ME activities, no specific exit strategy is required. The forthcoming Promoting Agricultural Commercialization and Enterprises (PACE) Project, currently under design, will capitalize on and scale up the experiences of FEDEC.

G. Other

- 64. Physical and financial assets.** *Project impact on households' physical/financial assets is rated satisfactory.* Access to financial resources, technical services, and participation in strengthened value chains have substantially contributed to qualitatively and quantitatively increase household assets (increase in land ownership, improved housing, and increase in business capital in the form of cash, inventory, and machines, and increased livestock ownership), thus resulting in improved households' livelihood as confirmed by beneficiaries during field visits.
- 65. Increase in incomes and employment.** *Project impact on increase in incomes is rated satisfactory.* From May 2010 to June 2013, 1 685 259 ME loans extended have contributed to an increase in the micro-entrepreneurs' income deriving from: (i) fetching higher market prices due to improved quality; (ii) reducing operating costs; (iii) promoting complementary activity; (iv) adopting innovative techniques and know-how, and (v) promoting equitable and sustainable linkages and contractual arrangements among value chain stakeholders. Due to a lack of adequate data collection, it is still very difficult to assess the number of jobs created for each loan extended. Empirical evidence through partial sub-sector studies, discussions and field visits tends to demonstrate that ME loans have contributed to increase jobs opportunities, especially for non-skilled workers. At least, considering that most ME loans were extended to finance expansion of income generating activities, the project has been able to transform most of related part-time jobs into more secured full-time jobs.

H. Conclusion

- 66.** FEDEC's overall performance is rated as satisfactory. It has already exceeded its targets with regards to the microfinance services component (number of borrowers, loan disbursement and outstanding). However, the lack of accurate data collected on employment prevents any precise determination of jobs opportunities created by the project. Although based on a small number of closed value chain development sub-projects, the positive impact of combining access to finance, technology transfer, new market development, value chain structuring, and training has been clearly demonstrated. Seven sub-projects have initiated phase II i.e. geographical and outreach expansion. POs contribution is the financing of sub-projects' implementation costs is a good indicator for their level of present and future commitment. In addition, as reported by beneficiaries during field visits, some costs currently fully subsidized by the project will be financed by beneficiaries after project completion. Innovations promoted and financed under the project have substantially contributed to increase income, to create job opportunities, and to link targeted beneficiaries with other stakeholders of value chains. The project has successfully introduced training on environmental and regulatory issues related to micro-enterprises for PKSf and POs staff. All POs have now their own ME cell which monitors the ME activity and provide technical assistance to beneficiaries. These ME cells at the level of each PO contribute to the long-term operational and technical sustainability of FEDEC interventions. The excess of

financial resources spent by PKSf for FEDEC interventions compared to the initial project's budget clearly indicates the commitment of PKSf to contribute to the long-term financial sustainability of FEDEC interventions, even after project completion.

67. Bearing in mind the proximity of the Project Completion Date, the PCU should introduce additional best practices indicators to assess the performance and impact of POs loan portfolio. It should also implement a methodology aiming at estimating the number of jobs created under the microfinance services component through a sample of MEs in each activity financed and the extrapolation of results for the sample to the total number of beneficiaries. Finally, a roadmap should be elaborated for each value chain development sub-project detailing the necessary data to be collected for the assessment of their impact, performance and outreach.
68. All project activities are expected to be completed within stipulated project time.
69. A Project Completion Mission will be fielded by IFAD during the second quarter of 2014 (Project Completion Date is 31st March 2014).
70. IFAD and the Government of Bangladesh endorse the findings of the supervision mission.

Appendix 1: Summary of project status and ratings

Basic Facts

Country	Bangladesh			Project ID	1402	Loan/ DSF Grant No.	725
Project	Finance for Enterprises Development and Employment Creation Project					Supp. Loan/DSF Grant	
Date of Update	15-Nov-2012					Financing terms	HC
Supervising Inst.	IFAD/IFAD						
No. of Supervisions	4	No. of Implementation Support/Follow-up missions	1				
Last Supervision	15-Nov-2012	Last Implementation Support/Follow-up mission	24-Mar-2012				

USD million Disb. rate %						
Approval	12-Sep-2007			Total costs	57.79	
Agreement	10-Oct-2007	Effectiveness lag	3.9	IFAD Total	35.03	97
Effectiveness	08-Jan-2008	PAR value		IFAD loan	35.03	
MTR	20-Dec-2010			DSF grant		
Current completion	31-Mar-2014	Last Amendment		IFAD grant		
Current closing	30-Sep-2014	Last Audit	18-Dec-2011	Domestic Total	22.76	
No. of extensions	0			Beneficiaries	0.06	0
				NGO(s) Local	0.68	0
				Done. Fin. Inst.	22.02	100
				Co-financing total		

Project Performance Ratings

B.1 Fiduciary Aspects	Last	Current	B.2 Project implementation progress	Last	Current
1. Quality of financial management	5	5	1. Quality of project management	5	5
2. Acceptable disbursement rate	6	6	2. Performance of M&E	5	5
3. Counterpart funds	5	6	3. Coherence between AWPB & implementation	5	5
4. Compliance with loan covenants	5	6	4. Gender focus	5	5
5. Compliance with procurement	5	5	5. Poverty focus	5	5
6. Quality and timeliness of audits	5	5	6. Effectiveness of targeting approach	5	5
			7. Innovation and learning	5	5
			8. Climate and Environmental Progress	na	5
B.3 Outputs and outcomes	Last	Current	B.4 Sustainability	Last	Current
1. Microfinance Services	5	5	1. Institution building (organizations, etc.)	5	5
2. Value Chain Development Services	5	5	2. Empowerment	5	5
3.			3. Quality of beneficiary participation	5	5
4.			4. Responsiveness of service providers	5	5
5.			5. Exit strategy (readiness and quality)	5	6
6.			6. Potential for scaling up and replication	5	6

B.5 Justification of ratings:

- Project disbursement is close to 99%. GoB counterpart financing met 100% of its commitment. POs contribution recorded only for value chain development sub-projects (nothing for microfinance services and training) . PKSf own resources used for microfinance activities largely in excess of amount budgeted, thus ensuring long-term financial sustainability.
- Both microfinance services and ME loans in accordance with farmers and entrepreneurs' needs and requirements.
- Substantial impact in terms of sustainable income increase.
- Insufficient data collected to assess jobs created under ME lending activities (however, empirically MEs loans have enabled

part-time jobs to be transformed in a vast majority into full-time jobs).

- Gender and poverty focus are satisfactory. Most jobs created reportedly taken by unskilled workers. More than 2/3rd of beneficiaries are women.

- Impressive knowledge management through an array of media (video, TV programmes, newsletters, newspapers, brochures).

- All fiduciary aspects are meetings IFAD standard requirements (with the exception of audit reporting).

- Sustainability and exit strategy ensured as PKSF is a solid governmental financial institution which will continue project activities after completion with its own resources and as POs have also contribute to the financing of FEDEC activities.

Overall Assessment and Risk Profile

		Last	Current
C.1	Physical/financial assets	5	5
C.2	Food security	5	5
C.3	Quality of natural asset improvement and climate resilience	na	5
C.4	Overall implementation progress (Sections B1 and B2)	5	5

Rationale for implementation progress rating:

Cumulative financial achievement reached 98% against the approved total target. Physically, most of the project activities are 100% or close to 100% completed against their respective targets. The recommendations of the last supervision and follow-up missions have been well addressed.

C.5	Likelihood of achieving the development objectives (section B3 and B4)	5	5
-----	--	---	---

Rationale for development objectives rating:

Project has exceeded its target for microfinance activities and is well in line with its target for the value chain development activities. Impact of both activities are substantial and impressive in terms of increase in income and enterprises established/created. Phase II (replication and expansion) initiated for 7 sub-projects. Adoption rate of innovations promoted largely exceeds the number of training/support beneficiaries.

Poverty and gender issues are well addressed.

Overall sustainability of FEDEC activities ensured by PKSF and its POs that have already started to finance similar sub-projects from their own funds.

C. Risks Short description of major risks for each section and their impact on achievement of development objectives and sustainability

Fiduciary aspects	No major risk. International standards for financial management are applied by PKSF.
Project implementation progress	No major risk. Project implementation is well on-track and has reached excellent momentum
Outputs and outcomes	Limited risk associated with: (i) M&E system unable to determine the number of jobs created under the ME lending activity, and (ii) the non-utilization of best practices indicators to assess performance and impact of POs portfolio.
Sustainability	No major risk. FEDEC fully mainstreamed in PKSF's activities

Proposed Follow-up

Issue / Problem	Recommended Action	Timing	Status
Outputs/outcomes	PKSF and POs to implement a specific methodology to estimate the number of jobs created under the ME lending activity through the determination of exact number of borrowers, determination of number of jobs created for a sample of ME loan beneficiaries representative of all activities financed, and extrapolation of sample results for the total number of loan beneficiaries. PKSF to use a more comprehensive list of indicators compliant with microfinance best practices to assess POs performance and impact	31 Dec. 2013	

Appendix 2: Updated logical framework: Progress against objectives, outcomes and outputs

Narrative summary	Verifiable indicators	Means of verification	Assumptions and risks
Goal			
Pro-poor growth in order to increase employment opportunities and reduce poverty	<u>Reduced stunting of children*</u> <u>Household asset index*</u> <u>Increased numbers of children at school</u> Increased household assets Increased assets owned by women <u>Improved food security</u>	RIMS anchor surveys Project impact surveys	Overall economic situation remains stable Real price of rice does not increase sharply
Purpose			
Expanding existing and establishing new micro-enterprises	<u>Number of enterprises established</u> Number of enterprises expanded (by gender of owner) Percent of enterprises increasing employment Total employment generated (male/female)	Project impact surveys Loan application form (baseline data)	Small scale enterprises remain profitable relative to other opportunities and competitive with large-scale industries.
Outputs			
1. Increased lending by PKSF partner organisations to micro-enterprises	<u>Number of micro-enterprise borrowers (m/f) increases by 118,000</u> <u>Value of outstanding micro-enterprise loans increases by Taka4,489 m</u> <u>Portfolio quality indicators remain acceptable</u> <u>Number of PO staff rating training as satisfactory</u> No. of POs with improved capacity to manage micro-enterprise lending	PKSF monitoring data Project monitoring data	NGO-MFI micro-enterprise lending able to compete with banks and NBF New MF law and regulations remain supportive to expansion of microfinance sector
2. Improved access of micro-enterprises to complementary business development and value chain services	Number of sub-sectors and enterprises supported by FEDEC value chain projects Number of enterprises accessing new markets <u>Number of ME borrowers saying training satisfactory</u> <u>Number of PO and PKSF staff rating training as satisfactory</u>	Project monitoring data	PKSF and POs able to develop effective means of enabling access to improved value chains.
3. Influence, through project outcomes, sub-sector development policy and lesson learning	Reports on outcome of project with lessons learnt Participation in discussion forums. Number of subsector policy issues addressed	Project reports	Project produces outcomes that generate useful lessons for the future.
Activities			
1. Micro-Enterprise Lending Micro-enterprise lending fund of Taka2,625 million Training of 1,350 PO staff in micro-enterprise lending Development of risk management and credit scoring systems	2. Value Chain Development Services Implementation of 60 value chain projects by PO Enterprise workshops for 6,300 borrowers Entrepreneurship training for 3,150 women and 3,150 men Production training for 5,550 women and 5,550 men Sub-sector development training for 190 PO and 265 PKSF staff Sub-sector and value chain studies (10)	3. Project Management and Monitoring Project integrated into PKSF mainstream micro-enterprise programme RIMS anchor indicator surveys Ad hoc studies and knowledge management Impact evaluation surveys Progress reports	

Appendix 3: Summary of key actions to be taken within agreed timeframes

Action Area	Action Agreed	Date	Whom	Progress
Project Implementation				
Outputs	Use best practices indicators to assess POs portfolio performance	31 Dec. 2013	PKSF/POs	
	Implement methodology to evaluate number of jobs created	Immediately	PKSF/POs	
	Define a roadmap for closing value chain development sub-projects and collect necessary data to assess impact and performance	31 Dec. 2013	PKSF/POs	
Sustainability				
Fiduciary Aspects	Strengthen audit trail information on SOEs for disbursement	On-going	IFAD/PKSF/FEDEC	
	The FEDEC auditor is requested to submit to IFAD substantive comments on internal controls after considering audit findings of separate POs audits, as part of his management letter	31 Dec. 2014	PKSF/FEDEC	
	The final Withdrawal Application and Completion Report before the financial Closing Date of 30 th September 2014	31 Sept. 2014	PKSF/FEDEC	
	For closing expenditures as agreed during this mission and paid during the July-September 2014 period, a certified SoE shall be submitted to IFAD in lieu of an audit report	31 Dec. 2014	FEDEC/PKSF	
Other				

Appendix 3-b: Implementation Status of Agreed Actions of last Supervision Mission

Agreed action	Progress (as at June 2013)
Adjust loan products to make it flexible and quick access to the matured segment of micro-enterprises	As per PKSF's current ME loan policy a PO can disburse any amount ranging from BDT 30 000 - 1 000 000 for any visible, legal and environment

Agreed action	Progress (as at June 2013)
	friendly enterprises. Loan products are now very flexible and suitable for most of the ME activities.
Introduce on-time repayment rate as regular monitoring indicator by POs	POs calculate on-time repayment rate on a regular basis as an important monitoring indicator.
Training on business development should be provided to PO technical staffs in order to advise beneficiaries in business specialisation and diversification	FEDEC provides training on ME management and lending to the POs' officials concerned with ME Loan management.
Replicate successful innovations in all similar subprojects (animal health card, pesticide free vegetable production)	Successful innovations are being replicated in other similar sub-projects.
Develop and finance at least 20 sub-projects	PKSF has so far taken 36 value chain projects. Apart from the 36 value chain projects, we are providing supports to 5 sub-sectors under BDS.
Formalize annual market rapid assessment for all subprojects and activities financed	There is unmet demand for products of project beneficiaries. Entrepreneurs can easily sell their products. In our regular field visits, we suggest possible measures (especially with regards to quality and innovation) that could be taken to ensure better prices for the entrepreneurs.
Further strengthen the capacity of POs to design and implement subprojects and to provide assistance and advisory services to value chain stakeholders	The value chain projects implementing POs are now familiar with procedures of analysing sub-sectors. PKSF has provided training to the POs officials on sub-sector analysis and value chain development.
Assist POs to ensure the designing of subprojects encompassing all indirect benefits obtained under value chain subprojects	PKSF provides all supports to POs in designing project proposals; indirect benefits are also mentioned in the detailed project proposal.
Develop a specific label for safe vegetable production	At present, farmers sell their vegetables to some specific wholesalers at higher price from nearby market places. The project helped them develop this linkage. The amount of safe vegetables is not large enough to use specific label.

Agreed action	Progress (as at June 2013)
Allocate SDR 50,000 for capacity building of PKSF/FEDEC/POs and end-borrowers and submit a request to IFAD for allocation of the SDR 50 000 and revision of AWPB 2012/13.	Unallocated SDR 50 000 have been allocated with IFAD's no-objection
Proceed to the recruitment of at least 3 value chain officers with a business-oriented academic background and experience	PKSF recruited officers required to work as value chain development officers.
Assess impacts of ME loan and value chain development subprojects using changes in production, sales, employment, profit, adoption of technology etc. as indicators	Impacts of value chain development projects are being assessed using changes in production, sales, employment, profit, adoption of technology etc. PKSF conducts studies to assesses impacts of ME loan using the same indicators.
Introduce mitigation measures in value chain subprojects to ensure that sub-projects and benefits are going to women	Out of total 12 110 beneficiaries of 36 values chain projects 4 388 are women, representing 37 %. It is to be mentioned that one male and one female member from each household (husband and wife) are being trained under livestock value chain projects.
Develop an impact assessment roadmap for value chain subprojects to be used for the completion report	Implementing POs collect baseline data and information of all beneficiaries in the beginning of the project. Impacts of the projects are measured against the base line data after completion of the project.
Utilize subprojects completion reports to share findings and benefits with various stakeholders such as partner POs, potential private sector partners, relevant public sector entities	PKSF arranges workshops to disseminate results of completed value chain projects (other means of communication/information dissemination are also used such as videos, leaflets, brochures, newspapers articles, TV/radio programmes). Implementing POs present project completion report. PKSF and POs officials take part in these workshops.
Seek partnerships with other value chain partners, such as large buyers, input suppliers, producers associations....	Some value chain development projects build relationship with large buyers and input suppliers.

Agreed action	Progress (as at June 2013)
	More difficult is the relationship with producers' associations because of weaknesses of these institutions.
Install the commitment and budget monitoring module in the FMS for accurate reporting and analysis of budget variances.	PKSF's software generates financial reports for all of its components and projects. PKSF has its own budget monitoring system, which is able to monitor the project budget. PKSF is adjusting the amount within October, 2013 by the WA no. 27
Recovery of the balance of initial advance of USD 1.48 million against WAs to be submitted by PKSF	
Include in the fixed assets software a provision for accomplishing Receipt and Issue Report for every equipment item purchase to be acknowledged and signed by the ultimate user	PKSF keeps records of required information regarding the ultimate use of the equipment.
Itemization of the differential or reconciling amount reflecting interest income, foreign exchange differential and any pre-financing from PKSF	Done
Collect and consolidate POs financial information on their actual contributions to the project	PKSF suggested POs to mention their contribution in the sub-projects completion reports.

Appendix 4: Physical progress measured against AWP&B, including RIMS indicators

Indicator	Level	Multiplier	Unit	Appraisal target	FY07/8 Actual achievement	FY08/9 Actual achievement	FY09/10 Actual achievement	FY10/11 Actual achievement	FY11/12 Actual achievement	FY12/13 Actual achievement	Cumulative Achievement to date
Enterprises accessing facilitated financial services	1		#	117,730	85,643	40,275	63,462	127,802	113,374	73,194	503,750
*Enterprises accessing facilitated non-financial services	1		#	3,000	n.a.	-	-	-	-	-	-
*People trained in business/entrepreneurship	1	men	#	6,300	n.a.	-	-	-	-	-	-
*People trained in business/entrepreneurship	1	women	#	6,300	n.a.	-	-	-	-	-	-
*People trained in income generating activities	1	men	#	5,550	n.a.	-	-	-	-	-	-
*People trained in income generating activities	1	women	#	5,550	-	-	880	1,288	3,337	2,107	7,612
Business Awareness and Skill Development Training		Men/ women	#	on the basis of fund availability and demand from the entrepreneurs	-	-	-	-	-	-	-
Effectiveness of creation of employment opportunities	2		Rating		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Jobs generated by small and medium enterprises	1		#		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Enterprises still operating after 3 years	1		#		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Likelihood of sustainability of enterprises	2		Rating				-	-	-	-	-
Active borrowers	1	men	#	58,865	26,282	41,213	65,899	108,051	143,831	167,997	167,997
Active borrowers	1	women	#	58,865	59,361	84,705	123,481	208,131	286,725	335,753	335,753
Financial institutions participating in project	1		#	120	120	127	142	151	157	159	159
Value of gross loan portfolio	1		BDT	91,360	2,903,106,000	4,741,442,000	7,621,418,000	12,754,563,000	18,094,840,000	22,473,690,000	22,473,690,000
Value of voluntary savings mobilized	1				741,939,000	1,102,978,000	1,694,766,000	2,955,143,000	44,302,410,000	63,074,910,000	63,074,910,000
Voluntary savers	1	men	#		26,282	41,213	72,843	118,358	157,529	187,047	187,047
Voluntary savers	1	women	#		59,361	84,705	132,032	223,083	309,876	370,193	370,193
Likelihood of sustainability of improved financial institutions	2		Rating								
Operational cost/loan portfolio*	1		%								
Operational self-sufficiency*	1		%								
Portfolio at risk	1		%	3.08%	3.08%	3.51%	3.01%	3.46%	3.66%	4.02%	4.02%
Groups receiving project services	1		#								
Individuals receiving project services	1	men	#	58,865	26,282	41,213	72,843	118,358	157,529	187,047	187,047
Individuals receiving project services	1	women	#	58,865	59,361	84,705	132,032	223,083	309,876	370,193	370,193
Households receiving project services	1		#	117,730	85,643	125,918	204,875	341,441	467,405	557,24	557,24
* As per recommendation of 2nd and Mid-Term Supervision Missions, the training courses titled "People trained in business/entrepreneurship", "People trained in business/entrepreneurship", "People trained in income generating activities (men)" and "People trained in income generating activities (women)" have been consolidated under the title "Business Awareness and Skill Development Training". Training courses are being organized on the basis of fund availability and demand from the entrepreneurs.											

Appendix 5: Financial: Actual financial performance by financier; by component and disbursements by category

Table 5A: Financial performance by financier

Financier	Appraisal (USD '000)	Revised (MTR) (USD '000)	Disbursements (USD '000)	Per cent disbursed
IFAD loan	35 031	35 741	34 785	97
IFAD grant				
Co-financier (POs)	676	0	0	0
Government	22 021	22 021	22 021	100
Total	57 728	57 762	56 806	98

Table 5B: Financial performance by financier by component (USD '000)

Component	IFAD loan				IFAD grant			Co-financier (POs)				Government			Total		
	Appraisal	MTR	Actual	%	Appraisal	Actual	%	Appraisal	MTR	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%
Microfinance	32 383	34 332	33 814	98				60	0			21 467	21 467	100	55 799	55 281	99
Value Chain Development	2 254	1 072	763	71				616	0						1 072	763	71
Programme Management	394	337	208	62								554	554	100	891	762	86
Total	35 031	35 741	34 785	97				676				22 021	22 021	100	57 762	56 807	98

Table 5C: IFAD loan disbursements (SDR, as at 30-10-2013)

Category	Category description	Original Allocation	Revised Allocation	Disbursement	W/A pending	Balance	Per cent disbursed
I	Vehicles, Office Equipment	40 000		36 088		3 912	90.2
II-A	TA Studies	605 000		308 999		296 000	51.1
II-B	Local training	285 000		232 696		52 304	81.6
II-C	Value Chain	700 000		483 640		216 359	69.1
III	Incremental Credit	21 300 000		21 300 000		956	100.0
IV	Salaries and Allowances	220 000		133 065		86 966	60.5
	Initial deposit						
	Total	23 150 000		22 491 723		658 277	97.1

Appendix 6: Compliance with legal covenants: Status of implementation

Section	Covenant	Target/Action Due Date	Compliance Status/Date	Remarks
2.03	Opening of Special Account		Complied	
	Lead Agency can operate special account		Complied	
2.04	Use of proceeds for eligible expenditures		Complied	
3.02	PMU to prepare AWP&B for each project year	March 31	Complied	
	PMU to submit AWP&B to IFDMOF and IFAD for comments/clearance	March 31 & April 30	Complied	
3.03	Lead Agency shall open and operate Project Account		Complied	
3.04	Borrower shall make available loan funds for the LPA in accordance with AWP&Bs and SLGA		Complied	
3.04	Borrower shall make available additional funds if necessary. The LPA shall make available to the Project, from its own resources a sum equivalent to USD 22 million as per SLGA		Complied	
3.06	All procurement in line with schedule 4 and IFAD's procurement guidelines		Complied	
4.01	Maintain information management and progress monitoring system		Complied	
4.02	Submit semi-annual and annual progress reports to IFAD	August 15 & February 15	Complied	
4.03	Undertake MTR		Complied	
4.04	Undertake PCR		Not applicable to date	
4.05	Facilitate future evaluations		Not applicable to date	
5.01	Prepare and submit consolidated financial statements	September 30	Complied	
5.02	Appoint auditor and undertake annual audits	December 31	Complied	
Sch. 2 para 3	Withdrawals of no less than USD 20 000		Complied	
Sch. 3 para 1.3	Appointment of Project Coordinator and other project staff		Complied	
Sch. 3 para II.7	Insurance of project staff and project assets		Complied	
Sch. 3 para II.1	Consideration of gender issues in project implementation		Complied	
Sch. 3 para I.4	Selection of POs		Complied	

Appendix 7: Knowledge management: Learning and Innovation

Innovation: Describe any interesting innovation noted during supervision

- a) **Supply of post-larva from a sub-project assisted hatchery to prawn farmers**
- FEDEC has financed a Value Chain Development Sub-Project aiming at establishing a prawn hatchery. Under FEDEC project, PKSf and its Partner Organization (CCDA) have successfully developed prawn culture in floodplain areas. Before the implementation of this prawn culture sub-project, farmers were only growing various carp species in their floodplains. Income generated by this activity was low and productivity of floodplains was not maximized. Based on experience in other regions of Bangladesh but also experiences in other countries and considering the number of ponds and area of floodplains in the region, PKSf and its Partner Organization has promoted prawn culture to about 500 farmers. Among other things, farmers were trained on prawn husbandry, proper feeding for prawns and for other species of fish, water treatment and management. At first, the project had difficulties convincing farmers of the potential of prawns. However, with a quasi-immediate impact on income after the first harvesting (prawns have a very good market in the whole country and so have other species of fish that are yet farmed in floodplains), many more farmers outside those trained and supported by the project started to produce prawns. The project also provided training courses on nurseries and a good number of farmers have set-up their own nursery for their own supply and also the supply of an ever-increasing number of prawn farmers (existing nurseries face serious problems in quality of fingerlings and availability. In addition, they are located far from the region and transportation cost are hampering the profit generated by the prawn cultivation). As a result of these new nurseries, the demand for quality post-larva has enormously increased. In this regard, in order to encourage private owners to establish hatcheries, FEDEC Project had developed a Hatchery Establishment Project as demonstration sub-project. The establishment of the hatchery has been completed for a total amount of BDT 16.8 million (approximately USD 230 000). This hatchery has a capacity to produce 4 000 000 post-larva per season. However, the company's production will only meet a small percentage of the total demand for post-larva in that area. This sub-project illustrates the methodology to develop and structure a value chain. The first step was to train farmers on prawn culture, then introduce the concept of nursery and then finally establish a post-larva hatchery supplying the nurseries. In addition, PKSf and the Partner Organization have assisted farmers to engage in contractual arrangements with input suppliers (water treatment, vets, other nurseries and hatcheries) and with buyers (mainly coming from Dhaka). Both input suppliers and buyers show great interest to come to the region because of the increasing number of prawn farmers, the quality of production, and its reliability. Some input suppliers are envisaging to open an office in the region to cut down transaction costs.
- b) **Maximization of land profitability through inter-cropping cultivation (banana and vegetables/spices)**
- Many people in the Northern region of the country are involved in banana cultivations. Farmers use to cultivate banana only once a year. First few months of the cultivation period they as the banana plants remain small, the farmers have enough scope to utilize the under used lands in that time. Under the banana cultivation value chain sub-project, FEDEC and its Partner Organization (TMSS) have introduced the maximization of land profitability concept through intercropping (banana and vegetables/spices). Farmers have been provided with technologies to grow vegetables and spices in banana fields at the initial stage of the banana cultivation. As a result of enhanced skills and techniques for the banana cultivation, farmers have enjoyed an average yield increase of around 15%. Furthermore, vegetables/spices varieties intercropped in banana fields provide quick and additional cash income for the households after two months. Additional income represents around 1/5th of the household's annual income and enables these households to face financial issues all-year round. Successful cultivators use their field as demo sites and transfer their handy techniques to other farmers. In addition, there is a high potential for the development of cooperative farming and contract farming aiming at further linking farmers with other stakeholders within the banana value chain. Several provincial and national buyers

have already expressed their interest for such contracts considering the large quantity that can be locally produced (preliminary requirements would be to have a collection point for bananas so as to reduce transaction cost for buyers).

c) Financing the creation of mini-labs to diagnose cattle disease

FEDEC has financed the establishment of several mini-veterinary labs to improve the early diagnosis of animal diseases particularly to identify worms. There were no adequate animal health services like this at farmers' doorstep. Such an intervention is very appreciated by farmers as it enables them to improve animal husbandry. All farmers in the vicinity of these mini-labs have adhered to them and are requesting their services. Additional farmers, not supported by the project, have also started to have their animal tested by these mini-labs. PKSF and its Partner Organization (Gramaus) have financed this sub-project benefiting initially 600 households but that has since expanded to more than 900 families. PKSF and its PO have also created the necessary linkage with the official veterinary services for the supply of the adequate medicine and the training of the responsible of mini-labs. This example illustrates the other aspect of the sub-project developed by PKSF and its Partner Organizations under FEDEC: this intervention is not a value chain development intervention per say but it meets a need for safe animal production. It also precedes the aspirations of the consumers for safe animal production. For the farmers, the establishment of these mini-labs reduces the mortality rate of their animals, thus ultimately increasing their income. Briefly describe innovations adopted during implementation that were identified by the supervision mission. The description should identify the type of innovation (adoption, adaptation or creation), the context in which it is/can be applied (project, country, or portfolio), and its potential for scaling up or replication. Successful and less successful innovations can be included.