



Report and Recommendation of the President to the Board of Directors

Project Number: 54336-001
October 2021

Proposed Loan and Technical Assistance Grant People's Republic of Bangladesh: Supporting Post- COVID-19 Small-Scale Employment Creation Project

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 7 October 2021)

Currency unit	–	taka (Tk)
Tk1.00	=	\$0.0117
\$1.00	=	Tk85.7867

ABBREVIATIONS

ADB	–	Asian Development Bank
CMSEs	–	cottage, micro, and small enterprises
CMSMEs	–	cottage, micro, small, and medium-sized enterprises
COVID-19	–	coronavirus disease
GDP	–	gross domestic product
MFI	–	microfinance institution
NBFI	–	nonbank financial institution
OP	–	operational priority
PFI	–	participating financial institution
TA	–	technical assistance

NOTES

- (i) The fiscal year (FY) of the Government of Bangladesh and its agencies ends on 30 June. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2021 ends on 30 June 2021.
- (ii) In this report, “\$” refers to United States dollars.

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PROJECT AT A GLANCE

1. Basic Data		Project Number: 54336-001	
Project Name	Supporting Post-COVID-19 Small-Scale Employment Creation Project	Department/Division	SARD/SAPF
Country	Bangladesh	Executing Agency	Ministry of Finance
Borrower	Bangladesh		
Country Economic Indicators	https://www.adb.org/Documents/LinkedDocs/?id=54336-001-CEI		
Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=54336-001-PortAtaGlance		
2. Sector		Subsector(s)	
✓ Finance		Inclusive finance	
			ADB Financing (\$ million)
			150.00
		Total	150.00
3. Operational Priorities		Climate Change Information	
✓ Addressing remaining poverty and reducing inequalities		GHG reductions (tons per annum)	0.000
✓ Accelerating progress in gender equality		Climate Change impact on the Project	Low
✓ Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability			
✓ Strengthening governance and institutional capacity			
		ADB Financing	
		Adaptation (\$ million)	15.02
		Mitigation (\$ million)	0.00
		Cofinancing	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
Sustainable Development Goals		Gender Equity and Mainstreaming	
SDG 1.4, 1.5, 1.a		Effective gender mainstreaming (EGM)	✓
SDG 5.a, 5.c			
SDG 8.10, 8.3			
SDG 9.1			
SDG 10.1, 10.4		Poverty Targeting	
SDG 13.a		General Intervention on Poverty	✓
4. Risk Categorization:	Low		
5. Safeguard Categorization	Environment: FI-C	Involuntary Resettlement: FI-C	Indigenous Peoples: FI-C
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		150.00	
Sovereign Credit line (Concessional Loan): Ordinary capital resources		150.00	
Cofinancing		0.00	
None		0.00	
Counterpart		0.00	
None		0.00	
Total		150.00	
Note: An attached technical assistance will be financed on a grant basis by the Technical Assistance Special Fund (TASF-OTHERS) in the amount of \$900,000.			
Currency of ADB Financing: US Dollar			

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to the People's Republic of Bangladesh for the Supporting Post-COVID-19 Small-Scale Employment Creation Project. The report also describes proposed technical assistance (TA) for Capacity Development for Post-COVID-19 Small-Scale Employment Creation, and if the Board approves the proposed loan, I, acting under the authority delegated to me by the Board, approve the TA.

2. The proposed loan is a financial intermediation loan for a line of credit of up to \$150 million from the ordinary capital resources of the Asian Development Bank (ADB) to the Government of Bangladesh. Through Bangladesh Bank, the nation's central bank, the fund will be relented to participating financial institutions (PFIs). The PFIs will onlend the funds to cottage, micro, and small enterprises (CMSEs)¹ started or operated by targeted vulnerable groups—unemployed or underemployed youth, returning migrant workers, and rural entrepreneurs with a focus on women entrepreneurs. The attached TA amounting to \$900,000 will help strengthen the institutional capacity of Bangladesh Bank and PFIs, support the intended target groups, and develop an action plan to expand financial access to formal banking for micro and small entrepreneurs.

II. THE PROJECT

A. Rationale

3. Bangladesh has made substantial progress in social and economic development. Its gross domestic product (GDP) more than doubled from 2013 to 2019, growing at an annual rate of 7%. Powered by the strong economy and supported by inclusive economic policies, overall employment grew by 2.4% per year, with female labor participation increasing from 23.9% in 2000 to 36.3% in 2017. Despite this progress, the country still faces challenges in providing jobs for its growing population. Each year, about 2 million youths enter the job market with limited opportunities. In 2018, despite a low unemployment rate of 4.3%, the share of informal sector jobs remained high at 85.1%. The task of providing quality jobs is complicated by the decreasing correlation between job creation and GDP growth, as industries are becoming more capital intensive and agriculture production more mechanized.

4. The coronavirus disease (COVID-19) pandemic has exacerbated the employment problem. GDP growth slowed to 3.5% in FY2020 from 8.2% in FY2019.² The government estimated that the poverty level rose to 29.4% in 2020 from 20.5% in 2019.³ Millions of jobs are under threat, especially in the export and service industries. With the absence of any large-scale unemployment protection schemes, job losses lead to imminent poverty. A few groups—youth, returning migrants, and rural workers—have emerged as severely affected and are among the worst prepared to cope with the pandemic.

5. **Youth.** The share of youth who are not in education, employment, or training was 27.4% in 2017 (44.6% for women).⁴ The youth unemployment rate was high at 11.9% in 2019 and is expected to rise to 20.5% after the pandemic as youth tend to be employed in the sectors worst

¹ This project targets (i) cottage industry, (ii) microenterprises, and (iii) rural small business (located outside of Dhaka and Chattogram areas). The definition of cottage, micro, and small business follows Bangladesh Bank conventions.

² ADB. 2021. [Asian Development Outlook 2021 Update: Transforming Agriculture in Asia](#). Manila.

³ Government of Bangladesh, Bangladesh Planning Commission. 2020. [Eighth Five Year Plan July 2020–June 2025: Promoting Prosperity and Fostering Inclusiveness](#). Dhaka.

⁴ International Labour Organization. [ILOSTAT Database](#) (accessed 17 September 2020).

hit by the pandemic and lack financial resources to start their own businesses.⁵ Young women, concentrated in accommodation and food services, experience severe challenges.

6. **Returning overseas migrant workers.** About 400,000 overseas workers have returned to Bangladesh because of the pandemic. According to a survey conducted in 12 districts, 70% of the returning migrant workers are unemployed, 16% are in the informal sector, and 32% of the respondents aspire to start enterprises, but most lack access to funds.⁶

7. **Rural workers.** The agriculture sector employs 40.6% of the workforce, but farm workers have the lowest income of workers in all sectors. In 2019, the rural areas had 1.82 million unemployed people—more than double the 0.77 million in the urban area. A 2020 United Nations survey found reduced income in 33% of rural households after the pandemic.⁷ Internal migration to urban centers has been reversed, putting more pressure on rural employment.

8. The government has taken a three-pronged approach to assist these vulnerable groups. First, it expanded the social safety net to protect the most vulnerable. Second, it took steps to help the industry stay in business and keep workers employed. Third, recognizing the budget constraints to expanding the social safety net and the likely sluggish job creation by the industry, it has undertaken small-scale employment generation, in which the government supports members of targeted groups to engage in small-scale business activities to create livelihoods and potentially new jobs. ADB has provided active and timely assistance to the government to expand the social safety net and support employment protection.⁸ The proposed project to promote small-scale employment will mark ADB's comprehensive support to the government to mitigate the adverse impact of the pandemic on employment.

9. Most of the entrepreneurship activities in which the targeted groups engaged are in CMSEs, particularly cottage and micro enterprises. Although the pandemic highlighted the importance of CMSEs in employment generation, supporting CMSEs has been part of the government's long-term strategy to tackle employment challenges, as outlined in both the Perspective Plan of Bangladesh 2021–2041 and the Eighth Five Year Plan (footnote 3). While the short-term agenda of supporting vulnerable groups and the long-term strategy of CMSE development have good confluence, they also share challenges—heightened by the pandemic—and one of the most critical challenges is access to financing.⁹

10. Even before the pandemic, an International Finance Corporation survey found that 55% of small enterprises face challenges in accessing financing.¹⁰ During the pandemic, many of these enterprises are struggling to meet working capital shortfalls. Female workers and entrepreneurs experience more severe hardships because of their concentration in the service sector and weaker financial status.

⁵ ADB. 2020. [Tackling the COVID-19 Youth Employment Crisis in Asia and the Pacific](#). Manila.

⁶ International Organization for Migration. 2020. [Rapid Assessment Round 2: Needs and Vulnerabilities of Internal and International Return Migrants in Bangladesh](#). Dhaka.

⁷ United Nations Environment Programme. 2020. [The Impact of COVID-19 on Rural Women and Enterprises: A Rapid Socio-Economic Assessment in Bangladesh by the Empower Project](#). Dhaka.

⁸ ADB. 2020. [Report and Recommendation of the President to the Board of Directors: Proposed Countercyclical Support Facility Loans and Technical Assistance Grant to the People's Republic of Bangladesh for the COVID-19 Active Response and Expenditure Support Program](#). Manila.

⁹ World Bank. 2019. [Financing Solutions for Micro, Small and Medium Enterprises in Bangladesh](#). Washington, DC. The report ranked access to financing the third most important challenge, after political instability and access to electricity.

¹⁰ International Finance Corporation. 2017. [MSME Finance Gap: Assessment of the Shortfalls and Opportunities in Financing Micro, Small and Medium Enterprises in Emerging Markets](#). Washington, DC.

11. The survey covered the whole cottage, micro, small, and medium-sized enterprise (CMSME) segment. Within this segment, cottage and micro enterprises—where members of the targeted groups of this project are concentrated—are further marginalized. Among the CMSMEs, funding is skewed toward medium-sized enterprises, such that the situation is exacerbated for CMSEs where the financing gap is a significant percentage of the demand. A 2016 study estimated that the financing needs of the segment total Tk737 billion a year.¹¹ The cottage and micro enterprises are primarily supported by microfinance institutions (MFIs) or informal funding sources with very high lending rates and related fees. The banking industry provided only 4% of the financing needed by cottage and micro enterprises compared with 11% by MFIs, with the rest coming from the enterprises' own resources. With control of most of the financial assets and access to low-cost funds, the banking industry has the potential to provide more support to CMSEs. However, most of the banking industry is constrained by risk appetite, cost structure, branch locations, and lending practices.

12. To bridge the financing gap for CMSEs—facilitating the execution of the small-scale employment creation strategy, efficient financing conduits need to be identified or developed, not only to channel financial resources but also to champion workable solutions for accessing finance. A few banks, nonbank financial institutions (NBFIs), and specialized banks¹² stand out in their support for CMSEs. Commercial banks such as BRAC Bank and Bank Asia Limited,¹³ and NBFIs such as IDLC Finance Limited,¹⁴ have the expertise, processes, and systems in place to target the sector efficiently. However, they continue to struggle to provide affordable loans to the segment while maintaining a sustainable margin to offset the risks involved in lending to high-risk borrowers. A few state-owned financial institutions—Karmasangsthan Bank, Probashi Kallyan Bank, and Palli Sanchay Bank—specialize in this sector.¹⁵ They are mandated to lend to underserved sectors, operate in remote areas, and provide countercyclical support. Further, programs in these banks often provide extension services such as business support and linkage with skills development that help improve the success rate of their clients. However, these institutions are constrained by the lack of liquidity and high cost of funds because of their restricted access to low-cost deposits. Some of them are also constrained by weaknesses in their operations, financial management, and risk management capacities.

13. Considering the multitude of challenges and the urgent need for supporting CMSEs during the pandemic, the project team proposes a three-pronged approach in this project. First, funds should be provided and channeled through the most efficient institutions to ramp up lending to CMSEs and targeted groups. Funding costs need to be kept low to allow financial institutions to maintain a reasonable margin while keeping the costs down for borrowers. Second, the government and the regulators should work with the banking industry to take steps to lower

¹¹ Institute for Inclusive Finance and Development. 2016. [Research Study on Diagnostics of Micro-Enterprise Lending by MFIs in Bangladesh: Opportunities and Challenges](#). Dhaka.

¹² These are banks established under the special Act or regulation of the government.

¹³ BRAC Bank specializes in CMSME financing. In 2019, it disbursed Tk35 billion to CMSMEs—32,655 fresh loans through its 187 branches and 457 small and medium-sized enterprise offices in rural areas. Bank Asia disbursed Tk23 billion in 2020 to CMSMEs through its 129 branches, 6,000 agent points, and its collaboration with hundreds of Union Digital Centers and 20,000 micro merchants.

¹⁴ IDLC Finance Limited has the largest CMSME portfolio among the NBFIs at Tk34 billion. In 2020, during the pandemic, it disbursed Tk15.3 billion to 15,749 CMSME clients.

¹⁵ Karmasangsthan Bank focuses on lending to unemployed youth who have received trainings from certified government training programs. Karmasangsthan Bank's cumulative loan disbursement has reached Tk68.8 billion, creating 2.3 million jobs. Probashi Kallyan Bank provides rehabilitation loans to returning expatriate workers as well as migration loans, serving 42,800 clients. Palli Sanchay Bank promotes micro-savings and investments in rural areas and provides financial services to 3.61 million rural families.

operational costs and manage risks. Credit guarantees and insurance, though not available for this project, should be reformed and made widely available to mitigate the credit risk. Best practices such as fit-for-purpose management information systems, business support services, and fintech should be promoted within the industry. Finally, since state-owned specialized financial institutions will remain a significant force in financing CMSEs, especially during crises, it is critical to support their efforts while helping to improve their institutional capacities.

14. **ADB’s strategic context and policy framework.** This project is well aligned with the government’s top priority—addressing the challenges of COVID-19—as indicated in its Eighth Five Year Plan (footnote 3). It will help create gainful job opportunities, which is a priority area in ADB’s country partnership strategy, 2021–2025 for Bangladesh,¹⁶ and is included in the country operations business plan, 2021–2023.¹⁷ It is aligned with the operational priorities (OPs) of ADB’s Strategy 2030.¹⁸ The project will help alleviate poverty by creating employment opportunities and supporting entrepreneurship (OP1), help strengthen the governance and institutional capacity of several key institutions crucial for employment creation (OP6), support gender equality by providing inclusive financing and gender-sensitive capacity-building activities (OP2), and contribute to the development of sustainable financing to address climate change, building climate and disaster resilience, and enhancing environmental sustainability (OP3). Moreover, in line with ADB’s Strategy 2030, the project will help promote private sector development.

B. Project Description

15. The project is aligned with the following impact: rapid recovery from COVID-19 to restore employment, income, and economic activities (footnote 3). The project will have the following outcome: adverse economic effects of COVID-19 on migrants, youth, and rural entrepreneurs mitigated.¹⁹

16. **Output 1: Financial support to enterprises started or operated by migrants, rural enterprises, and youth from the formal banking sector increased.** The project will provide a \$150 million credit line to PFIs to increase financing to unemployed youth, returning migrants, and rural entrepreneurs to start or expand their enterprises. At least 20% of the borrowers will be female micro-entrepreneurs. Subject to meeting the eligibility criteria for PFIs (para. 28), funds will be allocated to the PFIs based on their projected 6-month funding needs for onlending to eligible CMSEs following the agreed selection criteria (para. 29). These PFIs are expected to put in place appropriate risk mitigation measures, including robust risk management and linkages with entrepreneurial training programs. The project will support 30,000 micro enterprises, with a targeted mix of 5,000 returning migrants, 14,000 youths, and 11,000 rural entrepreneurs. Bangladesh is highly exposed to climate change impacts. Many of the subborrowers, especially those in agribusiness, are extremely vulnerable to climate change risks. Through this project, they will benefit from both financial and technical support for climate risk adaptations.

17. **Output 2: Capacity of employment-supporting financial institutions strengthened.** The attached TA will support capacity development of the PFIs and potential PFIs. Based on the needs, diagnostics study will be conducted. Support will be provided to strengthen risk management capacities, business process and information systems. The TA will support the development of corporate strategies targeting CMSEs that encompasses best practices and

¹⁶ ADB. 2021. [Country Partnership Strategy: Bangladesh, 2021–2025—Sustain Growth, Build Resilience, and Foster](#). Manila.

¹⁷ ADB. 2020. [Country Operations Business Plan: Bangladesh, 2021–2023](#). Manila.

¹⁸ ADB. 2018. [Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific](#). Manila.

¹⁹ The design and monitoring framework is in [Appendix 1](#).

emerging trends such as mobile finance, value chain financing, gender-inclusiveness, and sustainable financing action plans tackling climate changes. The TA will also develop and conduct targeted training programs for PFI staff and officers.

18. **Output 3: Action plan for promoting formal banking sector support for cottage, micro, and small enterprises developed.** The TA will support the development of an action plan to be implemented by the Bangladesh Bank, focusing on improved processes, systems, and policy support for financing CMSEs. The action plan will give special attention to supporting women entrepreneurs and returning migrants. The action plan will promote mobile phone-based financing options, fintech platforms, sustainable financing, and value chain financing to enhance operational efficiency, risk mitigation strategies, and financial inclusion. The plan will evaluate the current credit guarantee scheme to broaden its coverage and improve its sustainability. The TA will support financial literacy training and business development services for entrepreneurs, especially women and returning migrants. The TA will provide support to introduce regional best practices and help local enterprises tap into national and regional supply chains.

19. The project team considered the country's experiences and pandemic constraints in the project design. The best distribution channels and programs with value added business support components are prioritized, to provide timely support and vulnerability of the target groups. In developing a sector-wide action plan, the TA will seek to combine introducing international best practices with identifying well-suited local solutions.

C. Value Added by ADB

20. The project continues ADB's long-standing support to Bangladesh in financial inclusion. The Microenterprise Development Project provided funding support through MFIs to the microenterprises.²⁰ The Second Small and Medium-Sized Enterprise Development Project loan and TA project focused on the financing of CMSMEs located outside the metropolitan areas and strengthened the capacity of entrepreneurs to access bank financing.²¹ The COVID-19 Active Response and Expenditure Support Program provided timely financial support to the industries worst hit by the pandemic to protect employment and industries, particularly CMSMEs (footnote 9). The success of these projects provided rich experiences and lessons learned, and cemented ADB's strong relationship with the government in working toward financial inclusion.

21. Mitigating the negative impact of COVID-19 pandemic is the government's most pressing priority. This project is focused on supporting three vulnerable groups for entrepreneurship activities through the banking industry. The intervention is also aligned with a broader financial inclusion agenda, especially for the support of CMSEs. This project will result in more sustainable and effective investments by the PFIs through ADB's safeguard, gender, and climate change requirements. Recognizing the important roles played by specialized banks, the project will support the strengthening of such institutions. Based on the lessons learned from past projects in the CMSE segment, the project aims to address key barriers for financing CMSEs by developing a comprehensive action plan at the central bank level that will tackle sector-wide challenges, promote best practices at the banks, and expand training and business development support to the borrowers. Another important lesson learned is that the project needs to balance the

²⁰ ADB. 2018. [Report and Recommendation of the President to the Board of Directors: Proposed Loan and Technical Assistance Grant to the People's Republic of Bangladesh for the Microenterprise Development Project](#). Manila.

²¹ ADB. 2015. [Report and Recommendation of the President to the Board of Directors: Proposed Loan and Administration of Technical Assistance Grant to the People's Republic of Bangladesh for the Second Small and Medium-Sized Enterprise Development Project](#). Manila.

affordability and availability of loans. Artificially low loan interest rates will disincentivize banks' lending to CMSEs. Project design needs to be flexible to respond to changing market dynamics.

22. Multilateral institutions have stepped up to address the challenges faced by these vulnerable groups. The World Bank's Resilience, Entrepreneurship and Livelihood Improvement Project has a component to provide technical support and skills development training for unemployed or underemployed youth and jobless migrant or immigrant returnees.²² The International Organization for Migration has programs supporting returning migrants with skills development and has provided a database to track returning migrants for support. These programs complement the proposed project and collaboration has been discussed.

D. Summary Cost Estimates and Financing Plan

23. The project is estimated to cost \$150 million (Table 1).

Table 1: Summary Cost Estimates
(\$ million)

Item	Amount ^a
Base Cost	
Credit line	150.0
Total	150.0

^a Private enterprises must contribute 20% of the total investments from their own sources.
Source: Asian Development Bank.

24. The government has requested a concessional loan of \$150 million from ADB's ordinary capital resources to help finance the project. The loan will have a 25-year term, including a grace period of 5 years; an interest rate of 2.0% per year during the grace period and thereafter; and such other terms and conditions set forth in the draft loan and project agreements.

25. The government will relend the loan proceeds to Bangladesh Bank in local currency under a subsidiary loan agreement. The government will determine the relending rate and bear the foreign exchange risk. Bangladesh Bank will onlend the funds to PFIs at an interest rate in line with that of similar Bangladesh Bank programs.²³ The loans from PFIs to eligible CMSEs will have a maximum maturity of 5 years, a maximum loan size of Tk5.0 million, and a market-based rate that reflects the funding cost of the PFIs and the credit risk of the subborrowers. Funds repaid by PFIs will be recycled in the program through a revolving account in Bangladesh Bank.

26. The summary financing plan is in Table 2.

Table 2: Summary Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Ordinary capital resources (concessional loan)	150.0	100.0
Total	150.0	100.0

Source: Asian Development Bank.

27. It is expected that agribusinesses, which are vulnerable to climate risks, will account for main portion of the borrowers and many of them will be in locations vulnerable to climate risks. Climate adaptation is estimated to account for \$15,000,000 or 10% of the loan amount. The TA

²² World Bank. [Resilience, Entrepreneurship and Livelihood Improvement Project](#).

²³ Bangladesh Bank's current CMSME support programs have interest rates of 2%–4%.

will provide additional support of \$15,000 for climate adaptation by strengthening PFI's capacity in financing climate risk adaptation (Section III).

E. Implementation Arrangements

28. The Ministry of Finance, through its Finance Division, will be the executing agency and Bangladesh Bank will be the implementing agency. Bangladesh Bank's project management unit will be established under the Small and Medium-Sized Enterprises and Special Program Department, which will help mitigate the risk in project implementation.

29. **Selection of participating financial institutions.** PFIs will be selected based on their financial strength and record of support to CMSEs. ADB will assess all potential PFIs to ensure that the eligibility criteria for PFIs have been met.²⁴ The PFIs must maintain a minimum rating of 2 or better on the CAMELS-based assessment carried out by Bangladesh Bank, which indicates demonstrated capital adequacy, asset quality, liquidity, profitability, and corporate governance. All potential PFIs must have extensive experience supporting the CMSE sector. Kamasangsthan Bank has a unique and successful program financing youth who have received proper training from government agencies. BRAC Bank is the largest bank in the country dedicated to supporting CMSMEs and is expanding its small-loan program targeting cottage and microenterprises. IDLC Finance Limited is the largest NBFIs supporting CMSEs. Bank Asia pioneered the agent banking model and continues to expand its reach to CMSEs in rural areas, now with digital technologies.

30. **Selection of the subborrowers.** The subborrowers will be CMSEs started or operated by members of three targeted groups, namely, unemployed or underemployed youth, returning migrants, and rural entrepreneurs. At least 20% of the subborrowers will be women. To qualify for the subloans, the subborrowers will need to prepare a business plan to detail the use of the funds and demonstrate the viability of the business, contribute at least 20% of the subproject cost, and meet other credit criteria established by the PFIs. The purpose of the subloan will be to establish, sustain, and expand business activities.

31. Implementation arrangements are summarized in Table 3 and described in detail in the project administration manual.²⁵

Table 3: Implementation Arrangements

Aspects	Arrangements
Implementation period	January 2022–June 2025
Estimated completion date	31 December 2024
Estimated loan closing date	30 June 2025
Management	
(i) Oversight body	Project steering committee; Finance Division, Ministry of Finance Official (chair)
(ii) Executing agency	Finance Division, Ministry of Finance
(iii) Key implementing agency	Bangladesh Bank
(iv) Implementation unit	Project management unit, 10 staff
Disbursement	Disbursement of the loan proceeds will follow Asian Development Bank's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and detailed arrangements agreed between the government and Asian Development Bank.

Source: Asian Development Bank.

²⁴ ADB. 2003. [Financial Intermediation Loans](#). *Operations Manual*. OM D6/BP. Manila.

²⁵ Project Administration Manual (accessible from the list of linked documents in [Appendix 2](#)).

III. ATTACHED TECHNICAL ASSISTANCE

32. TA will be attached to the project to support the strengthening of the institutional capacity of Bangladesh Bank and PFIs and to provide business support for the targeted groups. ADB will be the executing agency. The implementing agency will be Bangladesh Bank. The TA outputs include (i) capacity of employment-supporting institutions strengthened; and (ii) an action plan for promoting formal banking sector support for cottage, micro and small enterprises developed.²⁶

33. The TA is estimated to cost \$900,000, which will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-other sources). The government will provide counterpart support in the form of counterpart staff, office accommodation, office supplies, and other in-kind contributions. The TA funds will be disbursed in accordance with the *Technical Assistance Disbursement Handbook* (2020, as amended from time to time). All consultants will be recruited in accordance with the ADB Procurement Policy (2017, as amended from time to time) and associated staff instructions.

IV. DUE DILIGENCE

A. Economic and Financial Viability

34. The project will directly support 30,000 CMSEs in Bangladesh, 20% of which are operated by women, with low-cost financial resources. The project is expected to have positive impacts on economic growth, development, and employment creation. Significant economic benefits are expected from the increased income because of the jobs created, and outputs of the enterprises newly started or expanded. The project team conducted due diligence on the four potential PFIs and they are considered suitable financing channels for this project.²⁷

35. Selection of PFIs with track records and existing programs helps improve the targeting and mitigate risks. The borrowers will be screened based on PFI's established credit criteria. PFIs' auxiliary programs such as business support and required skills training further enhances the viability of the borrowers. The strength of the PFIs' risk management capacity—demonstrated by their low nonperforming loan ratios and robust financial performance and supported by ADB capacity support through TA—is key for the financial viability of the program.

B. Sustainability

36. The project has a three-pronged approach that will contribute to the sustainability of its impact: (i) financial resources provided through PFIs will be onlent to viable enterprises (selected based on established credit criteria) at a market rate that reflects the funding cost and credit risks, allowing CMSME programs in these institutions to grow sustainably; (ii) the attached TA and existing PFI programs will provide business development support for private enterprise borrowers to enhance their sustainability; and (iii) the TA will develop a long-term action plan to improve the enabling environment for sustainable lending to CMSEs.

C. Governance

37. ADB has discussed its requirements and policies on financial management and procurement measures, as well as environmental and social safeguards, with the government

²⁶ Attached Technical Assistance Report (accessible from the list of linked documents in [Appendix 2](#)).

²⁷ Economic and Financial Analysis (accessible from the list of linked documents in [Appendix 2](#)).

and Bangladesh Bank and incorporated them in the project design. The specific requirements are described in the project administration manual. The assessed pre-mitigation financial management risk is *moderate* mainly because of the deteriorating macroeconomic conditions caused by the pandemic. This is mitigated by Bangladesh Bank's strong financial management capacity, conservative approach, and experience working with ADB and many other development partners in similar projects.

38. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government. The specific policy requirements and supplementary measures are described in the project administration manual.²⁸

D. Poverty, Social, and Gender

39. **Poverty impact.** Job creation is the most effective and sustainable means of poverty reduction. The country is facing serious challenges in generating jobs in sufficient amount and quality. Supporting CMSEs is one of the most effective and sustainable approaches to growing the economy and generating jobs, especially during the pandemic when the poverty rate is soaring and jobs are scarce. This project will support 45,000 people—including many unemployed youths, returning migrants, and rural entrepreneurs—with access to financing, training, and other support that will enable them to create jobs for themselves and others.

40. **Gender and social dimensions.** The project is categorized *effective gender mainstreaming*. During the pandemic, women entrepreneurs who had enterprises in jute products, handicrafts, and online shops were affected the most—33% reported that their enterprises were not in operation during the pandemic, while 41% revealed that they had to lay off their employees during the lockdown.²⁹ The project commits to women's empowerment and gender equality by having explicit and high gender targets for project outputs. At least 20% of the project beneficiaries will be women, compared with 8% of women borrowers in the banking system. The project will focus on building the capacity of women entrepreneurs and provide financial support along with the support from Bangladesh Bank to recover their enterprises. Capacity-building programs under the TA will target women entrepreneurs for financial literacy and incubation programs. ADB will help develop gender-sensitive corporate strategy in the banks and an action plan at Bangladesh Bank to strengthen financial inclusion with a special focus on women.³⁰

E. Safeguards

41. In compliance with ADB's Safeguard Policy Statement (2009), the project's safeguard categories are as follows.³¹

42. **Environment (category FI–C).** The project will support banks engaged in microfinancing and rural microenterprise financing, with minimal environmental impact. The PFIs will carry out

²⁸ Project Administration Manual (accessible from the list of linked documents in [Appendix 2](#)).

²⁹ BRAC Bank. 2020. [Situation of Women CMSME Entrepreneurs and Informal Sector Workers: A Rapid Assessment and Quest for Recovery from Losses Induced by COVID-19 Pandemic](#). Dhaka.

³⁰ "Gender responsive" in banking refers to (i) assessing barriers to women's access to financial services; (ii) ensuring that banks finance the sectors where most women work; (iii) reviewing financial products to identify those that empower women economically; (iv) reviewing and establishing a sex-disaggregated management information system for evaluating financial services for women; and (v) documenting innovations in processes, mechanisms, and products for vulnerability reduction (e.g., pensions, insurance) and women's economic empowerment.

³¹ ADB. [Safeguard Categories](#).

the environmental screening during the subloan approval process. The project will not support category A or B subprojects.

43. **Involuntary resettlement (category FI–C).** Subprojects with involuntary resettlement impacts (category A and B) are excluded. The CMSEs in this project are not anticipated to have involuntary resettlement impacts because of the small scale of their operations.

44. **Indigenous peoples (category FI–C).** Subprojects with indigenous peoples impacts (category A and B) are excluded. Although the project will have no specific interventions to target indigenous peoples, any indigenous peoples and/or ethnic groups will have access to credit facilities under the project schemes.

45. Bangladesh Bank has developed environmental and social screening guidelines for the PFIs, which were agreed to by ADB. PFIs will screen all subprojects based on the screening checklist to exclude subprojects with category A or B impacts on the environment, involuntary resettlement, tribes, minor races, ethnic sects, and communities; and finance only subprojects that are classified category C. The TA will provide training for Bangladesh Bank and PFI staff on safeguards. Bangladesh Bank will assign experienced staff to oversee safeguard implementation.

F. Summary of Risk Assessment and Risk Management Plan

46. Significant risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.³²

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigation Measures
Weakness in the financial management and operational capacities of some PFIs	Bangladesh Bank will provide close supervision with the support of the attached TA. A financial management action plan will be designed and implemented for key banks with the support of the TA. Bangladesh Bank and ADB will apply strict criteria in PFI selection.
Sustainability of the CMSEs being supported	Capacity support in terms of skills development, and business support, are built into the project design.

CMSEs = cottage, micro, and small enterprises; PFI = participating financial institution; TA = technical assistance. Source: Asian Development Bank.

V. ASSURANCES

47. The government and Bangladesh Bank have assured ADB that implementation of the project shall conform to all applicable ADB requirements, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, financial management, and disbursement as described in detail in the project administration manual and loan documents.

48. The government and Bangladesh Bank have agreed with ADB on certain covenants for the project, which are set forth in the draft loan agreement and project agreement.

VI. RECOMMENDATION

49. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan of

³² Risk Assessment and Risk Management Plan (accessible from the list of linked documents in [Appendix 2](#)).

\$150,000,000 to the People's Republic of Bangladesh for the Supporting Post-COVID-19 Small-Scale Employment Creation Project, from ADB's ordinary capital resources, in concessional terms, with an interest charge at the rate of 2% per year during the grace period and thereafter; for a term of 25 years, including a grace period of 5 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan and project agreements presented to the Board.

Masatsugu Asakawa
President

26 October 2021

DESIGN AND MONITORING FRAMEWORK

Impact the Project is Aligned with Rapid recovery from COVID-19 to restore employment, income, and economic activities (Eighth Five Year Plan, July 2020–June 2025) ^a			
Results Chain	Performance Indicators	Data Sources and Reporting Mechanisms	Risks and Critical Assumptions
<p>Outcome Adverse economic effects of COVID-19 on migrants, youth, and rural entrepreneurs mitigated</p>	<p>By December 2025, at least 45,000 employment opportunities created among the beneficiaries of the program. (2021 baseline: 0) (OP1.2)</p>	<p>Business registry or project report using sample-based survey</p>	<p>R: Further economic downturn beyond projected levels exacerbates effective operations of banks and/or operations of the beneficiaries.</p>
<p>Outputs 1. Financial support to enterprises started or operated by migrants, rural enterprises, and youth from the formal banking sector increased 2. Capacity of employment-supporting financial institutions strengthened</p>	<p>1a. By June 2025, \$150 million credit line to PFIs to expand financing to unemployed youth, returning migrants, and rural entrepreneurs provided (2021 baseline: 0) (OP1.3.2) 1b. By June 2025, 30,000 returning migrants, unemployed youth, and rural micro and small business owners (20% women) supported with financing (2021 baseline: 0) (OP1.3.2, OP2.1.3) 2a. By December 2023, at least two financial institutions supported in enhancing their gender-responsive corporate strategy, credit guidelines, risk management, and anti-money laundering policies (2021 baseline: 0) (OP6.1) 2b. By December 2023, at least 100 PFI staff (40% female) have increased awareness of best practices in supporting cottage, micro, and small enterprises. (2021 baseline: 0) (OP1.1.1, OP2.1.1)</p>	<p>1a.–1b. Executing agency report, project periodical monitoring reports, banks’ annual reports 2a.–2b. TA reports, executing agency final report, bank letter confirmation of the policy actions taken</p>	<p>A: Banks’ capacity to meet the demand for managing the increased lending volume remains adequate.</p>

Results Chain	Performance Indicators	Data Sources and Reporting Mechanisms	Risks and Critical Assumptions
3. Action plan for promoting formal banking sector support for cottage, micro, and small enterprises developed	<p>3a. By December 2024, a gender-responsive action plan for enhancing access to finance through the banking sector developed by Bangladesh Bank (2021 baseline: not developed) (OP6.1.2)</p> <p>3b. By December 2024, at least 400 returning migrants (including at least 150 women) report increased knowledge of accessing financial services (2021 baseline: 0) (OP1.1.1)</p> <p>3c. By December 2023, an internet-based training platform for cottage, micro, and small enterprises is established (2021 baseline: not applicable) (OP1.1.1)</p> <p>3d. By December 2024, at least 200 women entrepreneurs are supported by incubation services (2021 baseline: 0) (OP2.3.2)</p>	3a.–3d. TA reports and final report	

Key Activities with Milestones

1. Financial support to enterprises started or operated by migrants, rural enterprises, and youth from the formal banking sector increased.

- 1.1 Disburse \$40 million through Bangladesh Bank to PFIs by Q4 2022.
- 1.2 Disburse an additional \$50 million through Bangladesh Bank to PFIs by Q4 2023.
- 1.3 Disburse an additional \$50 million through Bangladesh Bank to PFIs by Q4 2024.
- 1.4 Disburse an additional \$10 million through Bangladesh Bank to PFIs by Q2 2025.

2. Capacity of employment-supporting financial institutions strengthened.

- 2.1 Consultants support the PFIs and potential PFIs to enhance the financial inclusive strategies by Q4 2022.
- 2.2 Consultants support the PFIs and potential PFIs to enhance the policy frameworks by Q4 2022.
- 2.3 Consultants support the PFIs and potential PFIs to develop guidelines for credit department and various committees by Q4 2022.
- 2.4 PFIs take steps to improve underwriting standards to enhance the quality of the loan portfolio by Q4 2023.
- 2.5 Consultants support the development of procurement plans for the MIS by Q2 2023.
- 2.6 Capacity-building activities for PMU and PFI officials on underwriting standards, risk management, GESI mainstreaming, and environmental and social safeguards by Q4 2023.

3. Action plan for promoting formal banking sector support for cottage, micro and small enterprises developed.

- 3.1 Action plan developed and discussed with Bangladesh Bank, the MOF, and related agencies by Q3 2023.
- 3.2 Training and knowledge event conducted for PMU, PFIs, and stakeholders to promote best practices by Q3 2023.
- 3.3 Online platform developed to make training materials available to broader audiences by Q1 2023.
- 3.4 Outreach conducted, including online, to increase awareness of the program by Q1 2025.

Project Management Activities

Conduct regular project review missions in coordination with ADB's Bangladesh Resident Mission.
 Monitor banks' financial and operational reports and consultant reports.
 Conduct a survey of the project outcome.

Inputs

ADB: \$150 million (loan)

Technical Assistance Special Fund—other sources: \$900,000 (TA)

A = assumption, ADB = Asian Development Bank, COVID-19 = coronavirus disease, GESI = gender equality and social inclusion, MIS = management information system, MOF = Ministry of Finance, OP = operational priority, PFI = participating financial institution, PMU = project management unit, Q = quarter, R = risk, TA = technical assistance.

^a Government of Bangladesh, Bangladesh Planning Commission. 2020. [Eighth Five-Year Plan, July 2020–June 2025: Promoting Prosperity and Fostering Inclusiveness](#). Dhaka.

Contribution to Strategy 2030 Operational Priorities

Expected values and methodological details for all OP indicators to which this operation will contribute results are detailed in Contribution to Strategy 2030 Operational Priorities (accessible from the list of linked documents in Appendix 2). In addition to the OP indicators tagged in the DMF, this operation will contribute results for OP3: Tackling climate change, building climate & disaster resilience & enhancing environmental sustainability
 Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=54336-001-3>

1. Loan Agreement: Ordinary Operations (Concessional)
2. Project Agreement
3. Sector Assessment (Summary): Finance (Inclusive Finance for Small and Medium-Sized Enterprises and Leasing)
4. Project Administration Manual
5. Economic and Financial Analysis
6. Summary Poverty Reduction and Social Strategy
7. Risk Assessment and Risk Management Plan
8. Contribution to Strategy 2030 Operational Priorities
9. Attached Technical Assistance Report
10. Gender Action Plan
11. Environmental and Social Management System Arrangement

Supplementary Documents

12. Financial Management Assessment Report
13. Climate Change Assessment