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# Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 02-Mar-2023 | Report No: PIDA34683



**BASIC INFORMATION**

**A. Basic Project Data**

Country Bangladesh	Project ID P178996	Project Name Sustainable Microenterprise and Resilient Transformation (SMART)	Parent Project ID (if any)
Region SOUTH ASIA	Estimated Appraisal Date 29-Jan-2023	Estimated Board Date 27-Apr-2023	Practice Area (Lead) Environment, Natural Resources & the Blue Economy
Financing Instrument Investment Project Financing	Borrower(s) People's Republic of Bangladesh	Implementing Agency Palli Karma-Sahayak Foundation (PKSF)	

Proposed Development Objective(s)

To increase resource-efficient and resilient green growth of microenterprises (MEs).

Components

Enabling capacity and systems for green growth of MEs  
 Providing Access to Finance for MEs to enable green growth  
 PKSF Project Management, Communications, Monitoring, and Evaluations, and Knowledge Management

**PROJECT FINANCING DATA (US\$, Millions)**

**SUMMARY**

<b>Total Project Cost</b>	400.00
<b>Total Financing</b>	400.00
<b>of which IBRD/IDA</b>	350.00
<b>Financing Gap</b>	0.00

**DETAILS**

**World Bank Group Financing**



International Development Association (IDA)	350.00
IDA Credit	350.00

**Non-World Bank Group Financing**

Counterpart Funding	50.00
Borrower/Recipient	50.00

Environmental and Social Risk Classification

Moderate

Decision

The review did authorize the team to appraise and negotiate

**B. Introduction and Context**

Country Context

- Bangladesh made rapid social and economic progress in recent decades and reached lower-middle-income status in 2015.** Annual Gross Domestic Product (GDP) growth averaged close to six percent since 2000. Strong labor-market gains contributed to a sharp decline in poverty, with the national poverty rate falling from 48.9 to 24.5 percent between 2000 and 2016, while extreme poverty declined from 34.3 to 13.0 percent. However, the pace of poverty reduction slowed in recent years even as growth accelerated, particularly in urban areas and in the west of the country. Annual consumption growth of the bottom 40 percent (1.2 percent) trailed that of the overall population (1.6 percent) from 2010 to 2016.
- While growth rebounded in FY21 and FY22, significant new headwinds have emerged.** Real GDP growth rebounded as pandemic-related restrictions were progressively lifted in FY21, accelerating to an estimated 7.2 percent in FY22 as private consumption and investment growth strengthened. Exports rose by 31.3 percent (y-o-y), buoyed by a gain in readymade garment (RMG) market share in Europe and the United States. However, the economy faces new headwinds. Inflation rose to 7.5 percent in as of July 2022 from 5.3 percent a year ago following a global surge in commodity prices, prompting the BB to raise the main policy rate by 100 basis points. The current account deficit widened as imports rose, exacerbated by a decline in official remittances inflows. A series of import suppression measures were subsequently adopted, including rolling electricity blackouts, reductions in Liquefied Natural Gas (LNG) imports, and reduced business and market hours. The overall balance of payments deficit rose to US\$5.4 billion in FY22, and gross foreign exchange reserves declined to US\$36.5 billion by September 2022.
- Bangladesh faces a high level of vulnerability to the effects of climate change.** Because of its topography and geographic location, the country has been catalogued as one of the most vulnerable to the effects of climate change, with high susceptibility to extreme weather events like cyclones, floods, and storm surges.<sup>1</sup> Extreme heat, sea level rise, strong winds, and droughts are also part of the climate and geophysical hazards

<sup>1</sup>Ministry of Foreign Affairs of the Netherlands. 2018. "Climate Change Profile, Bangladesh." Ministry of Foreign Affairs of the Netherlands.



that the country faces. Despite making small contributions to global greenhouse gas (GHG) emissions—less than 0.21 percent of the total in 2020—Bangladesh ranks seventh among 180 countries on the list of the economies most affected by climate change from 2000 to 2019, according to the Global Climate Risk Index.<sup>2</sup> The ND-GAIN Country Index catalogues Bangladesh as the 18th most propense country to be negatively affected by climate hazards.<sup>3</sup> Recent studies estimate that, by 2050, Bangladesh could have 13.3 million internal climate migrants.<sup>4</sup> Addressing these climate risks will support sustainable and resilient economic development, ensuring that the vulnerable populations are not left behind. Improved resilience to immediate and future climate risks is essential to Bangladesh’s development.<sup>5</sup>

#### Sectoral and Institutional Context

4. **Increased economic growth in Bangladesh came at the cost of inefficient use of resources, increased pollution, and reduced climate resilience.** Rapid economic growth has brought negative externalities resulting in significant degradation of environmental quality and natural resources, substantially affecting human health and the ecosystem.<sup>6</sup> A green growth approach at the ME level involves (a) resource efficiency and (b) employing adaptation and mitigation that are environmentally sustainable and resilient to risks related to climate change. Specifically, a green growth approach comprises (a) abating environmental damage, (b) securing new growth engines through research and development of green technology, (c) creating new job opportunities, and (d) achieving harmony between the economy and environment.<sup>7</sup> Green growth is achieved through knowledge and innovation allowing Bangladesh to access new markets, generate public goods, and reduce vulnerability to climate shocks. Embarking on a pathway of green growth would provide major benefits for Bangladesh.
  
5. **Microenterprises (MEs)<sup>8</sup> contribute to 25 percent of GDP and provide 56 percent of jobs in the country.<sup>9</sup>** According to Bangladesh's Economic Census, about 89 percent of the 7.8 million economic establishments in Bangladesh are MEs.<sup>10</sup> MEs underpin and provide the base for key economic sectors: livestock, agriculture, fisheries, food processing, garments, trade, services, and light manufacturing. The growth of MEs is a solution to poverty and social crises because they provide an empowering alternative for many individuals whose only other options are unemployment or low-wage jobs.<sup>11</sup> The MEs elevate economic growth and generate employment opportunities for the MEs and their communities. However, the rapid growth of MEs drives

<sup>2</sup> Eckstein, D., Kunzel, V., and Shafer, L. 2021. Global Climate Risk Index 2021. Who Suffers Most from Extreme Weather Events? Weather-Loss Events in 2019 and 2000-2019.

[https://www.germanwatch.org/sites/default/files/Global%20Climate%20Risk%20Index%202021\\_2.pdf](https://www.germanwatch.org/sites/default/files/Global%20Climate%20Risk%20Index%202021_2.pdf)

<sup>3</sup> University of Notre Dame. 2022. Notre Dame Global Adaptation Initiative. <https://gain.nd.edu/our-work/country-index/>

<sup>4</sup> World Bank. 2018b. Groundswell: Preparing for Internal Climate Migration. Washington, DC: World Bank.

<sup>5</sup> USAID. 2022. Bangladesh. Climate Change Fact Sheet. [https://www.usaid.gov/sites/default/files/2022-05/Climate\\_Change\\_Fact\\_Sheet\\_-\\_bangladesh\\_FINAL2.pdf](https://www.usaid.gov/sites/default/files/2022-05/Climate_Change_Fact_Sheet_-_bangladesh_FINAL2.pdf)

<sup>6</sup> World Bank. 2015. Bangladesh Systematic Country Diagnostic. Washington, DC: World Bank.

<sup>7</sup> OECD definition.

<sup>8</sup> Cottage businesses are defined as economic establishments with fixed assets, excluding land and buildings, of less than BDT 0.5 million, or with up to nine workers, including household members. MEs are defined as economic establishments with fixed asset value between BDT 0.5 million and BDT 5 million, or with between 10 and 24 workers. We refer to both cottage businesses and microenterprises as MEs.

<sup>9</sup> LightCastle Partners. 2020. CMSME Stimulus and Refinancing.

<sup>10</sup> Government of the People’s Republic of Bangladesh. 2013. Economic Census 2013. Dhaka: Bangladesh Bureau of Statistics.

<sup>11</sup> Banerjee, M. M. 1998. “Microenterprise Development: A Response to Poverty.” *J. Community Pract.* 5: 63–83.



unsustainable use of resources and degradation of the ecosystem due to multiple sources of pollution. The Sustainable Environmental Project (SEP), Palli Karma-Sahayak Foundation's (PKSF) project supported by the World Bank being implemented now, has already reached more than 40,000 ME beneficiaries in the manufacturing (30 percent) and agricultural sectors (70 percent). Most targeted MEs work in animal farming, crops and horticulture, and manufacturing. The success of SEP provides a rationale for expanding the scope and including further economic sectors in future projects.

6. **MEs clusters cause environmental pollution and ecological degradation that decrease MEs' competitiveness and climate resilience.** The rapid growth of MEs has dramatically increased their waste generation. Solid-waste generation from individual ME in the manufacturing sector ranges between 1.5 and 5 kilograms per day. The aggregated amount of waste from all MEs in a cluster can range between 2,200 to 3,500 MT per day.<sup>12</sup> Moreover, MEs in Bangladesh have limited access to Resource-Efficient and Cleaner Production (RECP) technologies and continue to contribute to air pollution and global warming through generation of greenhouse gases (GHG) emissions. A survey conducted by PKSF shows that around 50 percent of MEs lack access to electricity and rely on wood, agricultural waste, and diesel; and only 25 percent of MEs use energy saving bulbs or measures to maximize the use of day lightening.<sup>13</sup> In the agricultural sector, climate-resilient<sup>14</sup> RECP practices could abate 14 percent of emissions by 2050.<sup>15</sup> Up to 75 percent of those emissions reductions can be achieved through cost-saving options. The use of climate-resilient RECP in economic sectors dominated by MEs can relieve the pressure on the environment, improve living standards, and accelerate green growth in Bangladesh.<sup>16</sup> SEP successfully introduced environmental practices that were predominantly focusing on operational health and safety (OHS) with more than 21 percent of uptake, the new project will expand the scope and promote climate-resilient RECP technologies among targeted MEs. Based on the results from Sustainable Environmental Project (SEP), there is a high demand among MEs to grow in an environmentally sustainable way, to acquire environmental knowledge and to invest in environmental practices based on total 81 percent of environmental practice uptake.
7. **SMART uses an innovative approach to enhance scope and to deepen and escalate impact based on lessons from SEP to addresses continued market failures.** SEP (P163250) is an ongoing project implemented by PKSF to increase the adoption of environmental practices by targeted MEs. SEP implementation suggests that environmental knowledge together with microfinance support were critical for MEs to take up climate-resilient RECP at the ME level and lead to long-term behavioral change. Furthermore, at the cluster level, common services enabled public goods that improved the competitiveness of clusters and in other cases allowed for the creation of new MEs. SEP has proved that as we begin to address the gaps, MEs can grow sustainably. Therefore, in the upcoming Sustainable Microenterprise and Resilient Transformation project (SMART), the concept is to (a) focus on the most climate-vulnerable zones and key subsectors where most environmental benefits can be achieved, and (b) enhance the institutionalization of a green growth approaches by creating standard environmental metrics for MEs, and support standards and certifications

<sup>12</sup> PKSF. 2022. Updated Waste Inventory.

<sup>13</sup> PKSF. 2021. First Mid-Term Evaluation of the Sustainable Enterprise Project.

<sup>14</sup> We refer to climate-resilient RECP as RECP targeting both mitigation and adaptation.

<sup>15</sup> Sapkota, Tek B., Fahmida Khanam, Gokul Prasad Mathivanan, Sylvia Vetter, Sk. Ghulam Hussain, Anne-Laure Pilat, Sumona Shahrin, Md. Khaled Hossain, Nathu Ram Sarker, and Timothy J. Krupnik. 2021. "Quantifying Opportunities for Greenhouse Gas Emissions Mitigation Using Big Data from Smallholder Crop and Livestock Farmers across Bangladesh." *Science of the Total Environment* 786.

<sup>16</sup> SEP MTR report.



using digital tools and partnerships.

### C. Proposed Development Objective(s)

To increase resource-efficient and resilient green growth of microenterprises (MEs).

#### Key Results

8. The long-term objective of the project is to promote a transformation of the microenterprise sector into a more dynamic, lower polluting, resource-efficient, and resilient ME sector. The project will promote this transformation through encouraging MEs to initiate a technological transformation towards RECP; a digital transformation towards using information technology (IT) in managing businesses practices; and an environmental transformation with less impact of the business practices on the environment – cleaner air and water, less waste, lower GHG emissions.
9. **These aspects of integrating adopting green and resilient business practices is captured by the following PDO indicators:**
  - Number of supported MEs adopting at least two climate-resilient RECP practice (disaggregated by female- and male-ownership of MEs)
  - Number of supported MEs with improved knowledge on climate vulnerability
  - Number of supported MEs with increased revenues by 10% or more compared to non-supported MEs (disaggregated by female- and male-ownership of MEs)

### D. Project Description

10. **Component 1: Enabling capacity and systems for green growth of MEs.** Based on the lessons learned from SEP, this grant component will expand technical assistance to 80,000 MEs (through IDA 250) to acquire knowledge and capacity on climate-resilient RECP. This component will use a more institutionalized approach through conducting technical resource-efficiency, environmental technology, and environmental assessments. This will select and prioritize climate-resilient RECP practices and develop environmental and financial digital tools to support business plan development considering economic benefits in a climate hazard situation. The component will support two types of MEs: those starting new green businesses and those willing to convert existing businesses to more climate resilient and introduce digital tools and RECP. This component will enable MEs to adopt changes in their existing business practices and build awareness of critical environmental issues.
11. **Component 2: Provide Access to Finance for MEs to enable green growth. This component aims to expand income-generating opportunities for MEs by supporting investments in climate-resilient RECP practices, and thus enhance MEs' productivity and competitiveness.** Under this component, PKSf through its POs will provide loans to MEs to implement commercially viable investments in climate-resilient RECP. Importantly, PKSf will continue using its standard and well-tested approach for appraising commercial viability and repayment capacity, building on its impressive performance of over 99 percent loan repayment. The financing is largely expected to benefit MEs inclusive of the value chain operating in the selected 21 subsectors across agriculture, manufacturing, and services, including MEs concentrated in various clusters. However, based on exceptional climate-resilient RECP and pollution abatement cases, additional subsectors may be included. These subsectors and clusters have been identified based on an assessment of potential demand and impact. This component uses the success of microfinance in Bangladesh to better target environmentally friendly and climate beneficial activities in a package with



activities described in component 1.

- 12. **Component 3: PKSF Project Management, Communications, Monitoring, and Evaluations, and Knowledge Management.** This component will ensure timely and effective project implementation by building PKSF’s institutional and organizational capacity to expand the use of digital tools, data analysis, effective business practices, communications, knowledge, and monitoring and evaluation (M&E) management. Activities under this subcomponent will help institutionalize green-growth financing within PKSF and their network beyond the project’s lifetime by strengthening existing environmental and climate-change units (ECCUs). ECCUs will provide support from subproject formulation and screening and contribute to preparing ESF documents, climate-change adaption mitigation and environment screening checklists, guidelines, capacity building, subprojects monitoring, and assessment of subprojects performance. These activities will provide the essential green, resilient (where applicable) resource-efficient practices for the success of other components, since institutional and individual capabilities will ultimately ensure the broader transformation and future sustainability of the ME sector.

Legal Operational Policies

	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Assessment of Environmental and Social Risks and Impacts

- 13. **Overall environmental and social risks are assessed to be Moderate.** The activities with significant environmental or social impacts will not be supported by the Project, through screening of sub-projects against the exclusion list which will be part of PKSF’s Environmental and Social Commitment Plan (ESCP). However, this risk classification will be reviewed on a regular basis and be changed (if necessary). If significant legacy issues are identified during screening, such MEs will not be supported. Any change to the classification will be disclosed on the Bank’s website.
- 14. **Fiduciary risks are rated and Substantial.** PKSF has adequate experience in implementing Bank financed projects. This project will be the fourth project for the PKSF to implement under the World Bank’s Procurement Regulations. PKSF has own procurement cell which can support the procurement functions and contract management. The key procurement risks include: (i) delays in procurement process including evaluation (ii) poor contract administration control and oversight, including timely payment to vendors; (iii) the impact of the COVID-19 outbreak on construction and small medium industry. A detailed FM and procurement risks will be assessed for the project and a time bound action plan will be agreed to mitigate the risks.

E. Implementation

Institutional and Implementation Arrangements

- 15. **PKSF, affiliated with the Financial Institutions Division (FID) of the Ministry of Finance, has been identified as the project’s implementing agency.** PKSF is a semi-autonomous government institution with



a mandate of sustainable poverty reduction through employment generation, with a focus on the ultra and moderate poor and microentrepreneurs. The proposed credit line under component 2 will be provided to MEs through PKSf's POs. Therefore, it was designed in line with the World Bank Group policy OP 10.0 Financial Intermediary Financing (FIF) and the accompanying guidance note on financial intermediary lending.

16. **An assessment of PKSf's financial performance and institutional design indicates that it is a viable financial institution** with (a) good performance in terms of financial efficiency (return on assets, 4.97 percent); (b) strong capital adequacy (77.6 percent); (c) acceptable credit quality (nonperforming loan levels below 4 percent); (d) solid funding sources and diversification; and (e) adequate institutional capacity and systems. The appraisal team's view is that PKSf, under the country context, is qualified to act as wholesale organization for lending IDA funds to the microfinance sector as required under FIF criteria. On-lending through PKSf under this project will benefit the financial institutions or the private sector. There are multiple precedents of PKSf performing this role using IDA funds that date back almost 20 years—most recently with Sustainable Enterprise Development (P163250) as well as the proposed Rural Water, Sanitation and Hygiene for Human Capital Development (P169342). PKSf also has a good working relationship with the GoB.
  
17. **PKSf will establish a PMU.** A project coordinator will lead the PMU and oversee overall implementation. The coordinator will report directly to a PKSf senior official and will be the day-to-day point of contact for the World Bank. The project will be implemented in the field by POs that are selected according to criteria agreed upon with the World Bank. Those POs are responsible for putting together a proposal that includes loans for the MEs and shared services. The implementation arrangement of components 1 and 2 is presented in Annex 4. POs will institutionalize sustainable microfinancing through establishment of permanent ECCUs at POs' level. POs will require technical, environmental management and standard, assessment of MEs on environmental norms, climate-change risks, and use of digital tools for project monitoring. ECCUs at POs level will monitor ESF implementation to ensure that the activities of MEs meet the requirements. The POs will be responsible for managing the entire cluster-level common facility. The POs can manage the units/parts by leasing new MEs assets or entering service contracts with them. The POs will encourage one ME to slowly take over the entire I Common service, including all liabilities, revenues, and businesses, such that this does not remain a responsibility of the PO after the project is over. However, where no ME is available to operate any shared service, the POs will continue to operate and manage that common facility for at least 10 years after the project closes. As part of the Concept Plan for the cluster, the PO will, in detail, outline how the above objectives will be met. Once the Concept Plan is approved, the PO will prepare a clear business plan (including detailed estimates of overall revenue, operation and maintenance costs, and periodic augmentation cost). PKSf will disburse money to the PO only after the business plan/concept is approved.

## **B. Results Monitoring and Evaluation Arrangements**

18. **PKSf has its own intense monitoring system for subprojects that has proven to be a useful tool for keeping project implementation on track.** The PMU will have an M&E section that will develop a more detailed, results-based monitoring framework based on the project's Results Framework and the needs of economic and financial analyses, including capturing environmental outcomes when possible. These two systems will complement each other by integrating field implementation status and result outcome. A GIS approach will be used to show results along the lines of the mapping of results approach. The results-





based monitoring will also include a project management information system called Activity to Output Monitoring, which allows continuous monitoring of budget utilization at all levels of the project. This would provide an integrated platform for project monitoring using information and communication technologies to simplify bookkeeping and data entry modules. The implementing POs will share real-time monitoring data and pictures. Based on these monitoring data, quarterly reports from the POs to PKSf and quarterly reports from PKSf to the World Bank will be prepared.

**19. To ensure that monitoring is verified at the field level, the POs will conduct their own monitoring.** Each quarter, the selected POs will visit the site for cross-monitoring and share the reports with PKSf. This would include supervising data collection, updating and maintaining the project database, coordinating all M&E activities, and regularly analyzing monitoring data to improve project management and identify POs' implementation issues. From year 1 of the project, a biennial comprehensive impact survey will be conducted by a third party. The impact survey should examine the adoption of environmentally sustainable practices and their environmental effects, along with the economic aspects of reducing pollution and using resources more efficiently. Doing so can validate the project's concept of establishing a win-win situation for improving access to finance and creating environmental benefits. The baseline data will be established as MEs enter the program, and impacts will be measured against it after the subproject is implemented.

**20. At mid-term of the project implementation, PKSf will conduct a beneficiary assessment.** The beneficiary assessment will provide a basis for assessing progress in project implementation and may recommend steps to alter or improve interventions. Ideally, the beneficiary assessment is conducted by a third party to receive an independent assessment of the work of the partners in the field.

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**APPROVAL**

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