

INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	<input type="text" value="Bhutan"/>	Project Title:	<input type="text" value="Hazelnut Value Chain Development Project"/>
Lending/Financing Modality:	<input type="text" value="General Corporate Finance"/>	Department/ Division:	<input type="text" value="Private Sector Operations Department/ Office of the Director General"/>

I. POVERTY IMPACT AND SOCIAL DIMENSIONS
<p>A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy</p> <p>The proposed transaction will provide an equity investment of up to \$3 million in Mountain Hazelnuts Group (MHG), which is engaged in promoting hazelnut production in Bhutan since 2010. ADB's investment will be instrumental in helping the company achieve the required scale for sustainable operations and an ultimate trade sale. ADB's engagement in the project will help demonstrate the strength and the replicability of a business model founded on environmental sustainability and social inclusiveness.</p> <p>The project is consistent with the Bhutan Country Partnership Strategy 2014–2018: (i) inclusive economic growth and (ii) environmental sustainability.¹ The project is aligned with Midterm Review of Strategy 2020, which emphasizes the need for ADB to continue to support food security, agricultural productivity, and inclusive business such as “agribusiness development that connects farmers to local and global food markets”.² The project is fully aligned with ADB's Operational Plan for Sustainable Food Security (2009), which recommends an expanded partnership with the private sector in order to attract more direct investments in agribusinesses.³ The project is expected to address the operational plan's objective of enhancing synergy and value addition in the linkages along the food and agriculture value chains. Improved linkages along value chains enhance productivity, employment opportunities, exports and regional trade, but also food security for the poor in both rural and urban areas.</p>
<p>B. Targeting Classification:</p> <p><input checked="" type="checkbox"/> General Intervention <input type="checkbox"/> Individual or Household (TI-H) <input type="checkbox"/> Geographic (TI-G) <input type="checkbox"/> Non-Income MDGs (TI-M1, M2, etc.)</p> <p>The project is expected to provide additional income opportunities to 15,000 smallholder contract farmers and their families. MHG targets lands above 1,600 meters in altitude (the ideal agro-climate for hazelnuts), where farmers are largely excluded from earning meaningful agricultural income.</p>
<p>C. Poverty and Social Analysis</p> <p>1. Key issues and potential beneficiaries. The agriculture sector's share in the gross domestic product (GDP) is only at 16% but most Bhutanese, particularly the poorest, depend on agriculture as their main source of income and food. For the period 2010–2014, agriculture gross value added growth was only 2.2% per year on average, compared to 7.4% for GDP as a whole. While agriculture employs a significant proportion of the workforce (62%), agriculture's performance has lagged behind other sectors. The project is expected to help boost Bhutan's agriculture GDP and exports.</p> <p>2. Impact channels and expected systemic changes. The project will contribute to poverty reduction in the Dzongkhags where hazelnut trees will be planted, most of them in the Eastern zone of the country, and which have an average poverty rate higher than the national average (16% against 12% as of 2012). People in these Dzongkhags also tend to be less happy with their lives than in the rest of the country, based on the Gross National Happiness survey conducted by the government in 2010. About 15,000 smallholder contract farmers and their families will be engaged by MHG. The Company expects that the project can help increase incomes of participating contract farmers and contribute to improving the standard of living of their families.</p> <p>3. Focus of (and resources allocated in) the PPTA or due diligence. The borrower has engaged an Independent consultant to conduct due diligence on safeguards and other social dimensions.</p> <p>4. Specific analysis for policy-based lending. Not Applicable.</p>
II. GENDER AND DEVELOPMENT
<p>1. What are the key gender issues in the sector/subsector that are likely to be relevant to this project or program?</p> <p>ADB Gender equality diagnostic of selected sectors in Bhutan identified the following key gender issues for the agriculture sector: limited access to trainings and information for women farmers, farm labor shortage due to rural-urban migration and additional work burden for women staying behind, need for promotion of women cooperatives, farmer groups and self-help groups to provide means to increase women's options, need for planning and extension services and training targeted to increased access by women to result in increased productivity and output for women farmers.</p>

2. Does the proposed project or program have the potential to make a contribution to the promotion of gender equity and/or empowerment of women by providing women's access to and use of opportunities, services, resources, assets, and participation in decision making?

Yes No

MHG estimates that approximately 50% of the farmers are women. To help enhance their agricultural skills and better contribute to agriculture productivity as well as lighten up the workload of women in the farm, the due diligence will assess in consultation with MHG identify measures to address these. Further, measures to help offer better opportunities, facilities, and capacity building activities for women staff of MHG will be explored during the due diligence and incorporated in the gender action plan.

3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality?

Yes No The project will offer new employment opportunities to women. The number of MHG employees is expected to increase to 1,000 by 2020 (including at least 50% women) from 500 in 2014 (including 47% women).

4. Indicate the intended gender mainstreaming category:

EGM

III. PARTICIPATION AND EMPOWERMENT

1. Who are the main stakeholders of the project, including beneficiaries and negatively affected people? Identify how they will participate in the project design.

Project stakeholders include the MHG, relevant national and local government authorities, contract farmers and hazelnut farmers to be involved, MHG employees, and nearby communities in the project area. The existing standard operating procedures of MHG on stakeholder engagement and participation will be reviewed as part of the audit carried out. Modifications to these procedures to ensure the participation of beneficiaries and affected people in MHG operations will be agreed during the due diligence.

2. How can the project contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly, the poor, vulnerable and excluded groups? What issues in the project design require participation of the poor and excluded?

MHG will develop its environment and social management system (ESMS) and will include the process of communication and engagement with various stakeholders including affected people, nearby communities, local government units, and contractors.

3. What are the key, active, and relevant civil society organizations in the project area? What is the level of civil society organization participation in the project design?

Information generation and sharing (L) Consultation (N) Collaboration (N) Partnership (N)

4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how shall they be addressed? Yes No

MHG's procedures on stakeholder engagement and extension works with the contract farmers will be assessed during the due diligence. Improvements, if any, required, to these existing procedures to ensure participation of the poor and vulnerable farmers and workers. These procedures will be incorporated in the ESMS by MHG.

IV. SOCIAL SAFEGUARDS

A. Involuntary Resettlement Category A B C FI

1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? Yes No

Involuntary resettlement impacts are not envisaged as hazelnut trees will be developed by contract farmers on their own lands, and on a voluntary basis, or on government land leased on a long-term basis. The project will avoid conversion of lands with customary or traditional rights. The proposed project will use only individual farmers' land, monastic land (and considered as fallow lands) would be primarily used for the hazelnut cultivations. Lands for all facilities required for the MHG operations, including nursery, processing facility and distribution centers, as required, will be on leased lands either from the private owners or government agencies on a voluntary basis. If any lands are required to be acquired, MHG will acquire through negotiated settlements. This will be confirmed during the due diligence and procedures incorporated in the ESMS to avoid involuntary resettlement impacts in MHG operations.

2. What action plan is required to address involuntary resettlement as part of the PPTA or due diligence process?

Resettlement plan Resettlement framework Social impact matrix
 Environmental and social management system arrangement None

For all lands to be considered for MHG operations, the ESMS will include screening procedures and its ESMS to ensure avoidance of involuntary resettlement impacts.

B. Indigenous Peoples Category A B C FI

1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? Yes No

No community owned/indigenous people owned land/asset would be used by MHG. MHG operation is unlikely to have any impact on identity, culture, and natural resource-based livelihoods. The project will not have any adverse impact on indigenous peoples.

2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? Yes No No community owned/indigenous people owned land/asset would be used by MHG.

3. Will the project require broad community support of affected indigenous communities? Yes No Broad community support is not required for category C projects.

4. What action plan is required to address risks to indigenous peoples as part of the PPTA or due diligence process?

Indigenous peoples plan Indigenous peoples planning framework Social Impact matrix

Environmental and social management system arrangement None

An ESMS for MHG will be developed and will include indigenous peoples screening procedures to ensure that there are no adverse impacts on ethnic minorities.

V. OTHER SOCIAL ISSUES AND RISKS

1. What other social issues and risks should be considered in the project design?

Creating decent jobs and employment (L) Adhering to core labor standards (L) Labor retrenchment (N)
 Spread of communicable diseases, including HIV/AIDS (N) Increase in human trafficking (N) Affordability (N) Increase in unplanned migration (N) Increase in vulnerability to natural disasters (N) Creating political instability (N) Creating internal social conflicts (N) Others, please specify _____

The project will contribute to the labor market through (i) creation new job opportunities during its operations, (ii) temporary employment of local workers during the processing plant, and (iii) new opportunities for contract farmers.

2. How are these additional social issues and risks going to be addressed in the project design?

MHG and its contractors will comply with the national labor laws of Bhutan and adopt measures to adhere to the CLS in compliance with ADB's Social Protection Strategy (2001).

VI. PPTA OR DUE DILIGENCE RESOURCE REQUIREMENT

1. Do the terms of reference for the PPTA (or other due diligence) contain key information needed to be gathered during PPTA or due diligence process to better analyze (i) poverty and social impact; (ii) gender impact, (iii) participation dimensions; (iv) social safeguards; and (v) other social risks. Are the relevant specialists identified?

Yes No An independent consultant was engaged to conduct safeguards due diligence including the project's other social dimensions.

2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social and/or gender analysis, and participation plan during the PPTA or due diligence?

An independent consultant has been engaged for the conduct of safeguards audit and social due diligence and the scope of works include coverage of issues related to poverty, social analysis and participation

¹ ADB. 2014. *Country Partnership Strategy: Bhutan, 2014–2018*. Manila.

² ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

³ ADB. 2009. *Operational Plan for Sustainable Food Security in Asia and the Pacific*. Manila.