



Initial Poverty and Social Analysis

April 2018

BAN: Microenterprise Development Project

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 24 April 2018)

Currency unit	–	taka (Tk)
Tk1.00	=	\$0.0118
\$1.00	=	Tk84.51

ABBREVIATIONS

MFI	–	microfinance institution
PKSF	–	Palli Karma Sahayak Foundation
PO	–	partner organization

NOTE{S}

- (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., FY2018 ends on 30 June 2018.
- (ii) In this report, "\$" refers to United States dollars.

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INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Bangladesh	Project Title:	Microenterprise Development Project
Lending/Financing Modality:	Project/Financial intermediary	Department/ Division:	South Asia Department (SARD)/Public Management, Financial Sector, & Trade Division (SAFF)

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy

Bangladesh achieved significant poverty reduction during the last few decades. Poverty incidence (people living below the national poverty line) declined from 48.9% in 2000 to 31.5% in 2016. Other measures of poverty such as poverty gap, which is the mean shortfall from the poverty line and shows the depth and severity of poverty, also improved from 21% in 2004 to 17% in 2010. However, despite the notable progress in poverty reduction, Bangladesh still has about 48 million people who still live below the national poverty line. The challenges in further poverty reduction in Bangladesh are rural-urban divide, regional variations with the western region having a higher poverty incidence. Limited access to financial and other economic resources, incidence of shocks such as natural disasters are closely associated with extreme poverty. In addition, people living in remote rural areas and ethnic minorities are more vulnerable.

Bangladesh has recently experienced high economic growth at over 6% on average since 2007. However, the benefits of economic growth do not accrue to all individuals or households equally. Households at lower end of social strata tend to miss the economic opportunities from the growth and the inequality has serious adverse effects on poverty reduction.

The Government of Bangladesh's National Sustainable Development Strategy (2010-2021)^a recognizes an accelerated growth is a key for ensuring higher quality of life, faster poverty reduction and employment generation and transforming the economy into a middle-income economy. To sustain the economic growth, the government identified agriculture and rural development, especially rural nonfarm activities as a priority sector for development. The Strategy recognizes key challenges in rural nonfarm activities include lack of access to credit, market and electricity and lack of education and training of entrepreneurs. The Strategy aim at removal of barriers to growth of rural nonfarm activities focusing on infrastructure, rural electrification, better physical and electronic communication services, education, training and skill formation, technological upgrading, access to market, rural financial services, and business development services for all including women and the poor.

Aligned with the Government's National Sustainable Development Strategy's objective for rural nonfarm sector, the project will provide a line of credit to further onlend to rural nonfarm sector, i.e., microenterprises, for rural employment generation and poverty reduction.

B. Poverty Targeting

General Intervention Individual or Household (TI-H) Geographic (TI-G) Non-Income MDGs (TI-M1, M2, etc.)

The project aims to provide loans to approximately 100,000 microentrepreneurs, of which 70% are women. Microentrepreneur borrowers are primarily members of microfinance institutions (MFIs) and include both poor and moderate poor. Poor refers to households whose total expenditures are below the food poverty line estimated by the National Bureau of Statistics. Moderate poor are households whose food expenditure is at the food poverty line. The food poverty line is a monetary value calculated based on the basic food basket corresponding to the nutritional requirement of 2,122 calories per person per day.

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries. The project's expected beneficiaries are microentrepreneurs who are also members of MFIs. Microentrepreneurs typically own and run businesses with an asset size of, excluding land and building, below Tk5 million (about \$62,500). Most microenterprises are small with an asset size less than Tk0.5 million (about \$6,250). Currently 70% of microenterprises serviced by MFIs are women.

Microenterprises are facing constraints in obtaining finance, and the market failure in extending loans to microenterprises does exist. A survey by the Business Finance for the Poor in Bangladesh reveals that the share of

own fund in total capital investment is around 84%. The share of bank credit is 4% while MFIs contribute about 12% of capital structure. Key issues in microenterprise financing are (i) banks' limited knowledge and risk assessment capacity on microenterprises, (ii) banks' limited rural branch network and outreach, (iii) banks' preference to large industrial loans, and (iv) microenterprises' difficulty in securing valid loan collaterals. MFIs can be a significant financing source for microenterprises. However, MFIs are also constrained due to (i) MFIs' limited sources of funding, (ii) limited enabling environment for MFIs to microenterprise loans, and (iii) MFIs' limited knowledge and capacity on microenterprise lending.

2. Impact channels and expected systemic changes. The project will provide loans to microentrepreneurs who are not serviced by banks or other formal financial institutions. The project will provide a loan to Palli Karma Sahayak Foundation (PKSF), a microfinance wholesaler, to further onlend to MFIs. MFIs will provide loans to its member microentrepreneurs. By providing loans to MFIs, the project will ease microenterprises' scarcity of funding. In addition, the project will develop enabling environment and MFIs' capacity to expand outreach to microenterprise borrowers including women.

3. Focus of (and resources allocated in) the PPTA or due diligence. During the processing, MFIs' microenterprise lending operations will be carefully reviewed and measures to further enhance their outreach especially to the disadvantaged groups would be developed.

4. Specific analysis for policy-based lending. n/a

II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector/subsector that are likely to be relevant to this project or program? PKSF's partner MFIs (partner organizations [POs]) currently provide loans to 1.2 million microentrepreneurs, of which 70% are women. However, there is a concern that as microenterprise loan activity expands, proportion of women borrowers may decline. During the processing, measures to maintain the right gender balance in microenterprise lending operations will be discussed with POs.

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 A gender action plan will be prepared during the processing.

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

Yes No

4. Indicate the intended gender mainstreaming category:

GEN (gender equity) EGM (effective gender mainstreaming)

SGE (some gender elements) NGE (no gender elements)

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.

Key stakeholders include microenterprise borrowers, POs, PKSF, Government, and regulators. There will be no negatively affected people. During the processing, consultations will be held with microenterprise borrowers and other stakeholders to discuss further key constraints in accessing finance for microenterprises.

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?

The project can contribute to engaging and empowering stakeholders and beneficiaries, particularly women by providing access to finance for their microenterprise development.

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 Consultation Collaboration Partnership

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

PKSF's POs, which are MFIs, will be strengthened by providing line of credit to onlend to microenterprises. The project will provide support, through an attached technical assistance, to enhance MFIs' capacity to expand their microenterprise loan operations for greater financial inclusion.

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
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

The project's subloans will be for activities such as cottage-scale livestock, farming, trade and services, that will not trigger any involuntary resettlements, nor have any impact on indigenous people.

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
2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? Yes No
3. Will the project require broad community support of affected indigenous communities? Yes No
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

The project's subloans will be for activities such as cottage-scale livestock, farming, trade and services, that will not trigger any involuntary resettlements, nor have any impact on indigenous people.

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

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

By providing loans to microenterprises, the project will generate additional rural employment opportunities. A microenterprise in Bangladesh, on average, employs 1.98 people. By providing loans to microenterprises, the project can generate about 200,000 additional employment opportunities in rural Bangladesh.

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

No PPTA is planned. Issues on poverty and social impact, gender impact, participation dimensions, social safeguards and other risks are analyzed by ADB processing team.

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? ADB HQ staff with support from RM staff as required.

^a Ministry of Planning, Government of People's Republic of Bangladesh. 2013. *National Sustainable Development Strategy 2010 – 2021*. Dhaka.