



# Initial Poverty and Social Analysis

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May 2019

## NEP: Rural Enterprise Financing Project

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Asian Development Bank

## **CURRENCY EQUIVALENTS**

(as of 21 May 2019)

Currency unit	–	Nepalese rupee/s (NRe/NRs)
NRe1.00	=	\$0.0089
\$1.00	=	NRs112.31

## **ABBREVIATIONS**

SFAC	–	small farmers agriculture cooperative
SFDB	–	Small Farmers Development Bank

## **NOTES**

- (i) The fiscal year (FY) of the Government of Nepal ends on 15 July. "FY" before a calendar year denotes the year in which the fiscal year ends, e.g., FY2019 ends on 15 July 2019.
- (ii) In this report, "\$" refers to United States dollars.

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## INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Nepal	Project Title:	Rural Enterprise Financing Project
Lending/Financing Modality:	Project/Financial Intermediary	Department/Division:	Public Management, Financial Sector, and Trade Division (SAPF)/ South Asia Department (SARD)

### I. POVERTY IMPACT AND SOCIAL DIMENSIONS

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

The proposed Rural Enterprise Financing Project (the project) will promote rural enterprises initiated by small farmers agriculture cooperatives (SFACs) with financing and capacity development support. It will facilitate small farmers to engage in rural enterprises for improved household income.

The government's 14th Development Plan (National Poverty Reduction Strategy) [the 14th Plan] for 2018 – 2020 has the goals of (i) improving the living standard of the Nepalese people through various policies of high economic growth, (ii) reducing the poverty by 21% through employment generation, (iii) achieving regional balance, (iv) eliminating social exclusions, (v) reducing economic inequalities, and (vi) generating dignified and gainful employment opportunities.<sup>1</sup> Further, the government's Agriculture Development Strategy (ADS) for 2015 – 2035 promotes the agriculture sector's profitable commercialization to transform the sector from subsistence farming to agribusiness enterprises for commercial purposes.<sup>2</sup>

The project is aligned with ADB's Strategy 2030's priorities of (i) generating quality jobs in addressing remaining poverty and reducing inequalities, and (ii) promoting women's economic empowerment in accelerating progress in gender equality.<sup>3</sup> The proposed project is consistent with Asian Development Bank (ADB)'s Country Partnership Strategy (CPS) for Nepal for 2013 - 2017 and Nepal Country Operations Business plan (COBP) for 2019 – 2021, which focused on private sector-led economic growth.<sup>4</sup> The new CPS for 2020 – 2024 is expected to include the operational priorities on (i) increased productivity for higher growth to expand economic opportunities; and (ii) equitable access to economic opportunities.

#### B. Poverty Targeting:

General intervention  Individual or household (TI-H)  Geographic (TI-G)  Non-income MDGs (TI-M1, M2, etc.)

The project will improve small farmers' social and economic wellbeing by developing rural enterprises comprising (i) collective enterprises, which are owned and operated by small farmers and (ii) individual enterprises. With enhanced value-addition and profitability, small farmers, especially women, can significantly increase their incomes.

#### C. Poverty and Social Analysis

##### 1. Key issues and potential beneficiaries.

Nepal is an overwhelmingly rural and agrarian economy. More than 80% of the population lives in rural areas, and nearly 60% of the labor force is engaged in agriculture and related activities. Of the Nepal's total population, 25.2% of the total population are still living below the national poverty line in 2011.<sup>5</sup> Of the 7.3 million poor population, 6 million live in rural areas. In rural Nepal, most of the employment opportunities are in the agriculture sector. However, most farmers cultivate less than half hectore of land and are limited to subsistence productions. Small farmers have limited linkages to processing, marketing, or sales support, and finance and other value chain service providers to upscale their primary productions. The project will facilitate small farmers' up-lifting from subsistence producers to rural entrepreneurs with financial intermediation and business facilitation.

<sup>1</sup> National Planning Commission, the Government of Nepal. 2018. *14<sup>th</sup> Development Plan – 2018 – 2020*. Kathmandu.  
<sup>2</sup> Ministry of Agricultural Development, the Government of Nepal. 2015. *Agriculture Development Strategy – 2015-2035*. Kathmandu.  
<sup>3</sup> ADB. 2018. *Strategy 2030 – Achieving a Prosperous, Inclusive, Resilient and Sustainable Asia and the Pacific*. Manila.  
<sup>4</sup> ADB. 2013. *Nepal: Country Partnership Strategy (2013 – 2017)*. Manila; and ADB. 2018. *Nepal Country Operations Business Plan (2019 – 2021)*. Manila.  
<sup>5</sup> The Nepal's national poverty line is defined as the population living below NRs12,000 per capita annual income, at current price. Central Bureau of Statistics, the Government of Nepal. 2011. *Nepal Living Standards Survey 2010 – 2011*. Kathmandu.

2. Impact channels and expected systemic changes.

The project will organize small farmers including women into collective enterprises, which engage in collection, storage, processing, and marketing of agricultural produce. By involving in collective enterprises, small farmers will receive better prices and a greater share of value-addition and can realize increased household incomes. The project will also promote individual enterprises focusing on women. Both collective and individual enterprises include all types of economic activities other than subsistence productions and can generate higher return to the households. Promoting rural enterprises will create gainful employment opportunities and increase rural households' incomes by linking them value chain activities to add value to their produce.

3. Focus of (and resources allocated in) the transaction TA or due diligence.

Due diligence will be conducted on gender and social inclusion, especially measures and approaches to include women and disadvantaged groups as beneficiaries. Environmental and social safeguard will also be examined to ensure no negative environmental and social impacts from rural enterprises will be financed under the project. The project is tentatively proposed to be categorized as FI for environment, and FI (treated as C) for the involuntary resettlement and indigenous people. The project is expected to have minimal environmental impact since the subloans are mainly small-sized enterprises. The project will not finance subprojects that will trigger any involuntary resettlements or have any impact on indigenous people. The environmental due diligence will be conducted to confirm the safeguard categorization and develop the Environmental and Social Management System (ESMS) in case of category B subprojects.

## II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector and/or subsector that are likely to be relevant to this project or program?

The project will promote and finance rural enterprises comprising (i) collective enterprises and (ii) individual enterprises through Small Farmers Development Bank (SFDB), an apex development bank owned by small farmers agriculture cooperatives (SFACs). SFDB provides wholesale loans to SFACs; SFACs then relend to their small farmer members. SFACs' currently provide mainly group-based microcredit. Under the project, SFACs will sub-lend the loan proceeds to their members' collective and individual enterprises. As of July 2018, SFDB has financed 680 SFACs in 68 districts with a total 670,866 members, of which 77% are women. Although majority of SFDB's microfinance beneficiaries are women, the women members are mostly microcredit borrowers and engaged more in primary productions rather than microenterprises as compared to the male members. As a result, women members' incomes are lower than male members. In general, women SFAC members have various financial and nonfinancial constraints, including lack of (i) business management skills, (ii) entrepreneurial and technical skills, (iii) start-up finance, (iv) information and access to networking support, (v) decision-making authorities, and (vi) self-confidence.

**B. Key actions.** The project will provide access to finance and capacity development support to women to participate in collective enterprises as well as develop individual enterprises. For the collective enterprises, the project will ensure at least 30% of shareholders of each enterprise will be women. For individual enterprises, the project will aim to achieve 30% of the individual enterprise loan borrowers are women. In addition, the project will emphasize gender-focused value chain development and business facilitation support for women's entrepreneurship development.

2. Does the proposed project or program have the potential to contribute 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

The project will improve women's access to finance and entrepreneurship skills and create employment opportunities for women.

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.

The beneficiaries are small farmers who are SFAC members. SFAC members are mainly low-income households and include minority groups, marginalized people and women. The project team is conducting consultations with SFAC members to disseminate information about the project, identify rural enterprise development potentials, develop potential financial and nonfinancial assistances, assess capacity development and training needs, and discuss measures and approaches to include women and disadvantaged members.

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 beneficiaries are small farmers. In addition, the project will ensure that benefits are extended to women, vulnerable and disadvantaged members of SFACs.

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

Information generation and sharing  Consultation  Collaboration  Partnership

SFACs are member-owned, and member-governed community-based organizations whose key objective is improving lives of poor small and marginal farmers. SFACs will participate in all phase of the project including designing, implementation and monitoring.

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

#### 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 transaction TA or due diligence process?

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

**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 transaction TA or due diligence process?

Indigenous peoples plan  Indigenous peoples planning framework  Social impact matrix  
 Environmental and social management system arrangement  None

#### 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 (H)  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? None

#### VI. TRANSACTION TA OR DUE DILIGENCE RESOURCE REQUIREMENT

1. Do the terms of reference for the transaction TA (or other due diligence) contain key information needed to be gathered during transaction TA 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

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 transaction TA or due diligence? Staff with inputs from staff consultants.