



Initial Poverty and Social Analysis

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Bangladesh: Microenterprise Financing and Credit Enhancement Project

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INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Bangladesh	Project Title:	Microenterprise Financing and Credit Enhancement Project
Lending/Financing Modality:	Project – Financial Intermediary Loan	Department/Division:	South Asia Department Public Management, Financial Sector, and Trade Division

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

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

The Government of Bangladesh's 8th Five-Year Plan (July 2020–June 2025) aims to achieve an 8% average economic growth rate and further strengthen the existing social security system while eliminating poverty and narrowing inequality.^a The plan focuses on (i) rapid recovery from coronavirus disease (COVID-19); (ii) GDP growth acceleration, employment generation, and rapid poverty reduction with a broad-based strategy of inclusiveness; and (iii) attaining Sustainable Development Goals targets and coping with the impact of least developed country graduation. To attain employment generation and rapid poverty reduction, the plan recognizes cottage, micro, small- and medium-sized enterprises (CMSEs) as the largest source of employment and commits to promote CMSEs with innovative financial solutions to improve access to commercial sources of credit.^b The plan also envisages to develop a credit guarantee scheme to help reducing credit risks and to provide startup capital for CMSEs.

ADB's Country Partnership Strategy (CPS) for Bangladesh for 2016–2020 set the objectives of (i) promoting economic diversification to enhance the economy's long-term growth potential, (ii) accelerating rural and regional development to make growth more inclusive, and (iii) increasing the productivity of agriculture and creating gainful rural employment opportunities outside agriculture.^c CPS's specific cross-cutting priority area includes creating conditions for greater private sector participation to increase investments, promote economic diversification, and expand employment opportunities. Specifically, CPS committed to support micro, and small- and medium-sized enterprises (MSMEs) to directly benefit women entrepreneurs especially in rural areas. ADB's Country Operations Business Plan for 2021–2023 confirmed ADB's engagement in microenterprise development along with support for economic recovery from the COVID-19 impact.^d

B. Poverty Targeting:

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

The project's preliminary design features include (i) a credit line to improve access to institutional source of finance to microenterprises especially microenterprises owned by small and marginal farmers and women through Palli Karma Sahayak Foundation (PKSF), a microfinance wholesale institution and PKSF's partner microfinance institutions (MFIs) – partner organizations (POs); (ii) a credit guarantee scheme to help POs access commercial sources of funding to expand their financing outreach to microenterprise; and (iii) PKSF's and POs' institutional strengthening to improve their capacity and viability in microenterprise financing. The project's credit line will be extended to rural microenterprises, including vulnerable rural populations and women with no collaterals. The PKSF institutional strengthening actions and POs' development plans will result in sustainable expansion of access to finance for rural populations, especially women, the vulnerable, and small farmers. The project's benefits will reach the target beneficiaries by ensuring that pro-poor and gender-inclusive PKSF business plan. In the medium- to long-term, the project will lead to increased rural employment opportunities and reduced social and economic disparity between urban and rural areas.

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries. The main beneficiaries are microentrepreneurs including those owned by rural population, small farmers, and women. Outside agriculture, microenterprises are the largest sources of employment in Bangladesh. Microenterprises are mostly informal, have low capital intensity, use low-level technology, involves small scale productions and operations, and mainly run by household members. Microenterprises face various constraints including access to finance, access to technology, marketing, taxation, regulation, etc. However, the access to finance is by far the largest constraints faced by microenterprises. Microenterprises were hit hard by the COVID-19 pandemic. Based on the study in 2020, 96 surveyed MSMEs reported a decrease in income due to the fall in demand, increase in supply and transport costs.^e The decrease in income was in the range of 10% to 100% with a median value of 82%. The impacts were more severe on rural MSMEs. While 80% of urban MSMEs reported the decrease in income, 100% rural MSMEs experienced income decrease.

2. Impact channels and expected systemic changes. The project will extend sustainable, affordable institutional sources of finance to microenterprises with focus on rural microentrepreneurs and women through PKSF and its POs. The project will include as an innovative feature of a credit guarantee scheme for POs to access commercial sources of funding to sustainably expand their microenterprise financing outreach.

3. Focus of (and resources allocated in) the transaction TA or due diligence. Due diligence is being conducted on gender and social inclusion, especially measures and approaches to include women and vulnerable groups as beneficiaries. Environmental and social safeguards will also be examined. The project's financial intermediary loan is tentatively proposed to be categorized *FI* for environment, and *FI treated as C* for involuntary resettlement and indigenous people.

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?

Of the almost 8 million businesses in Bangladesh, 99.93% are CMSMEs and 7.2% of registered businesses are owned by women, according to a 2016 study by the International Finance Corporation.¹ The study also found that women are perceived as having very little presence in most industries. Constraints that microentrepreneurs are facing are similar for both men and women; however, women have added difficulties in establishing and operating microenterprises. Key constraints for women microentrepreneurs include access to finance, handling bureaucratic enterprise registrations and loan application processes, community and family biases against women's involvement in business activities, insecurity and fear of harassment in businesses and physical travel, limited schooling and opportunities for skills development. Women-owned microenterprises are more likely funded by their own funding rather than financing from banks or MFIs. Since the COVID-19 outbreak, it is assessed that women's time spent on unpaid care and domestic work has increased significantly, which is an added obstacle for women's participation in economic activities.⁹ Among POs' microenterprise loan borrowers, 78% are women, compared to 92% women borrowers of smaller general microcredit. Digital financial services which potentially minimize women's unsafe physical travel are still outside of reach for most women microentrepreneurs.

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 provide affordable institutional credit to women microentrepreneurs. The project expects to expand loans to 3.6 million microentrepreneurs, of which 80% are women by end 2025. POs' development plans will include developing POs' capacity in management skills development support especially to women microentrepreneurs.

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

Yes No

The project will contribute to women's economic empowerment and employment generation by extending credit services.

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.

During the project, PKSf through its POs, which are NGO-MFIs, is conducting consultations with the potential beneficiaries to disseminate information about the project, identify microenterprise development needs and potential, identify potential nonfinancial assistances, assess capacity development and training needs, and discuss measures to include women and vulnerable populations.

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 will have specific outreach targets to finance women microentrepreneurs. The project's institutional strengthening support to PKSf and POs will enhance their capacity to extend outreach to women and vulnerable borrowers. NGO-MFIs will be engaged in project design through consultations with PKSf and POs, particularly for gauging their needs and priorities for capacity development and training.

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? Bangladesh microfinance sector includes large CSOs including internationally known NGO-MFIs such as BRAC, ASA, BURO. PKSf's POs are mostly licensed NGO-MFIs by Microcredit Regulatory Authority.

Information generation and sharing (M) Consultation (M) Collaboration (L) Partnership (NA)

ADB loan proceeds will be channeled through PKSf's POs. POs are NGO-MFIs that have close association with local communities. POs will actively conduct project information dissemination and consultation for their members of which the majority are women.

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

The project will establish clear beneficiary eligibility criteria and gender targets; and ensure access to finance will be extended to women and vulnerable populations.
IV. SOCIAL SAFEGUARDS
A. Involuntary Resettlement Category <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI (FI treated as C) POs will not finance subprojects with involuntary resettlement impacts (category A or B).
1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
2. What action plan is required to address involuntary resettlement as part of the transaction TA or due diligence process? <input type="checkbox"/> Resettlement plan <input type="checkbox"/> Resettlement framework <input type="checkbox"/> Social impact matrix <input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None
B. Indigenous Peoples Category <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI (FI treated as C) POs will not finance subprojects with indigenous peoples impacts (category A or B).
1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
3. Will the project require broad community support of affected indigenous communities? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
4. What action plan is required to address risks to indigenous peoples as part of the transaction TA or due diligence process? <input type="checkbox"/> Indigenous peoples plan <input type="checkbox"/> Indigenous peoples planning framework <input type="checkbox"/> Social impact matrix <input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None
V. OTHER SOCIAL ISSUES AND RISKS
1. What other social issues and risks should be considered in the project design? <input checked="" type="checkbox"/> Creating decent jobs and employment <input type="checkbox"/> Adhering to core labor standards <input type="checkbox"/> Labor retrenchment <input type="checkbox"/> Spread of communicable diseases, including HIV/AIDS <input type="checkbox"/> Increase in human trafficking <input type="checkbox"/> Affordability <input type="checkbox"/> Increase in unplanned migration <input type="checkbox"/> Increase in vulnerability to natural disasters <input type="checkbox"/> Creating political instability <input type="checkbox"/> Creating internal social conflicts <input type="checkbox"/> Others, please specify _____ Indicate high (H), medium (M), low (L) for selected boxes
2. How are these additional social issues and risks going to be addressed in the project design? The project will create employment opportunities especially for rural population and women.
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? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No If no, please explain why.
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? Yes, staff consultant in coordination with PKSF and POs.

- ^a The Government of the People's Republic of Bangladesh, Bangladesh Planning Commission. 2020. *8th Five Year Plan July 2020–June 2025: Promoting Prosperity and Fostering Inclusiveness*. Dhaka.
- ^b The National Industrial Policy of 2016 defines a cottage enterprise as a business entity with fixed assets less than Tk1 million excluding land and buildings, or with up to 15 employees for manufacturing sector; and a microenterprise as a business entity with fixed assets less than Tk1 million for service sector, and between Tk1 million and Tk7.5 million for manufacturing sector, or with up to 15 employees for service sector, and between 16 and 30 employees for manufacturing sector. In this document, microenterprises refer to both cottage and microenterprises.
- ^c ADB. 2016. *Bangladesh: Country Partnership Strategy (2016–2020)*. Manila.
- ^d ADB. 2020. *Bangladesh: Country Operations Business Plan (2021–2023)*. Manila.
- ^e MicroSave Consulting. 2020. *Impact of COVID-19 Pandemic on Micro, Small & Medium Enterprise (MSMEs) – Bangladesh Report*. Dhaka.
- ^f International Finance Corporation. 2017. *MSME Financing Gap: Assessments of the Shortfalls and Opportunities in Financing Micro, Small, and Medium Enterprises in Emerging Markets*. Washington D.C.
- ^g ZmPower, UN Environment Program. 2021. *The Impact of COVID-19 on Rural Women and Enterprises: A Rapid Socio-Economic Assessment in Bangladesh by the Empower Project*. Dhaka.