

INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Bangladesh	Project Title:	Second Small and Medium Enterprise Development Project
Lending/Financing Modality:	Project loan	Department/Division:	South Asia Department/Public Management, Financial Sector, & Trade Division

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

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

The Facility is expected to contribute to the Asian Development Bank (ADB)'s core mission of reducing poverty in Asia. It is aligned with Strategy 2020 and consistent with ADB's country strategy for Bangladesh. The objectives of developing the small and medium enterprises (SMEs) sector is envisaged as a key element in the development strategy of the Government of Bangladesh as noted in its 6th Five-Year Plan (FY2011–2015). The 6th Five-Year Plan embodies poverty reduction as its prime guiding principle and aims to foster a participatory process of inclusive growth and social development underpinned by steadily improving governance standards to meet poverty reduction goals. To foster pro-poor growth, the plan lays out strategies for promoting decent employment, improving the environment for private sector development, boosting agricultural growth and rural development, and providing essential infrastructure for pro-poor growth. The 6th Five-Year Plan also includes financial inclusion and broadening of access by increasing emphasis on financing needs of SMEs as part of a strategic action plan for the Government and, in particular, for Bangladesh Bank.

Although Government-supported initiatives have increased, the participation of women in the labor force, thereby raising the income of families, their participation rate is only half that of the men, and women's employment continues to be concentrated at the low end of occupations in the informal sector, with low returns on labor and temporary terms. Male-female differentiation in wages is pronounced—with the percentage of female laborers in the lowest income groups almost double that of men. The major challenges are to recognize women's economic contributions, address women's lack of marketable skills or access to capital, enforce labor conditions in the formal and informal sectors, support the marketing of products produced by SMEs, and address social norms that hinder women's wider participation in management and sectors traditionally reserved for men.

The ADB country partnership strategy for Bangladesh (2011–2015) supports the Government's commitment to private sector development and to private sector-led growth and, in particular, fostering the manufacturing SME sector by assisting in the development of the finance sector with an emphasis on clean energy, infrastructure finance, and credit for small and medium-sized enterprises.

B. Targeting Classification

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

In Bangladesh, micro, small, and medium-sized enterprises (MSMEs) account for about 80% of industrial employment and have the potential to create employment opportunities for the rural labor force. SMEs, through backward and forward linkages, can support higher productivity of the larger industries and boost the rural economy by absorbing a large proportion of the rural unemployed labor force.

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries.

The SME sector in Bangladesh plays a vital role in the growth of the country. It is estimated that the SME sector accounts for 90% of the private enterprises at 7.2 million firms and 99% at 7.9 million companies, if micro enterprises are included. The SME sector employs around 70%–80% of the non-agricultural workforce. In 2014, SMEs contributed 25% of Bangladesh's gross domestic product (GDP) and 40% of the manufacturing output.

The SME sector touches on the lives of many of the most vulnerable in society, including minorities, women, urban slums, and pockets of poverty in flourishing towns and cities. For many families, it is the only source of livelihood, while for others, it supplements family income. Women are mostly found in the unregistered sector—food processing enterprises, manufacturing enterprises, and weaving—and often work part time in the family enterprises. Women's enterprises are micro- and small-scale enterprises managed by one or more women as a proprietary concern, or in which they individually or jointly have a share of capital of not less than 51% as partners, shareholders, directors of a private limited company, or members of a cooperative society. In Bangladesh, rural enterprises owned by women are smaller, newer, and more likely to be informal

and home-based. Female entrepreneurs are less educated and have significantly less access to medium- to long-term credit (enterprise finance). Banks and other financial institutions generally prefer large enterprise clients because of the lower transaction costs and greater availability of collateral. Some of the MSMEs also fall outside the reach of microfinance schemes, and are thus compelled to depend more on informal sources of funds at higher interest rates.

2. Impact channels and expected systemic changes.

Pro-poor sustainable economic growth is to be achieved through the project's focus on measures to improve SME economic growth and development, especially in nonurban and rural areas, where the incidence of poverty is high. In addition, by ensuring availability of finance, more entrepreneurs—including women—will be able to expand their enterprises, establish new SMEs, or expand existing SMEs. This will create employment opportunities for entrepreneurs, employees, as well as laborers (skilled and unskilled), thereby contributing to social development and poverty reduction.

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

Not applicable

4. Specific analysis for policy-based lending.

Not applicable

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?

The rates of female entrepreneurship are lower among rural nonfarm enterprises as compared to that of metropolitan firms. Nonmetropolitan enterprises owned by women are smaller, younger, more likely to be informal and home-based. Female entrepreneurs are less educated and have significantly less access to enterprise finance. In this respect, SMEs play an important role in the nonfarm sector and serve as a means for sustainable employment, stemming distress migration, supporting value addition in rural areas, and enhancing productivity of agriculture by absorbing excess labor. In achieving these outcomes, SMEs benefit women both directly in terms of wages and indirectly by supplementing family incomes, reducing drudgery, and providing sustained social capital. Marginalized groups like small farmers also benefit from gains in productivity.

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

Gender design features include (i) earmarked resources, under the project's credit line, whereby a minimum of 10% of the funds are allocated for lending to qualified female entrepreneurs; and (ii) capacity development initiatives carried out under grant-financed technical assistance (TA) subproject to strengthen the ability of women entrepreneurs to avail of opportunities provided under the loan. In this context, the impact of the proposed activities will be the development of women's micro-, small and medium-sized entrepreneurship in the TA subproject area. The outcome will be enhanced capacity of women entrepreneurs and associations to fully access the financial resources and services earmarked for women's SMEs under the ADB loan.

The TA subproject will be implemented in selected zilla (districts) identified at subproject onset, based on a set of agreed criteria. All gender-relevant activities will be implemented by selection implementing agency in consultation with the Government (Finance Division of the Ministry of Finance), Bangladesh Bank, and other relevant partners (Bangladesh Small and Cottage Industries Corporation [BSCIC], the Bangladesh Industrial Technical Assistance Centre, the Bangladesh Institute of Management, the National Productivity Organization, the Small and Cottage Industries Training Institute, and other chambers in the selected districts).

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

Yes No

There are no legal impediments to women borrowing as participating banks will offer SME lending services to eligible men and women.

4. Indicate the intended gender mainstreaming category:

GEN (gender equity theme) 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 project will be prepared in consultation with a broad range of stakeholders, including Bangladesh Bank, the Board of Investment, the National Board of Revenue, Ministry of Commerce, Ministry of Finance, Ministry of Industry, BSCIC, the SME Foundation, city corporations and municipalities, various private sector agencies (including chambers of commerce and business associations), and development partners. The findings and recommendations of these discussions will result in the preparation of capacity development initiatives targeting the specific needs and constraints faced by women entrepreneurs.

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 proposed SMEDP2 addresses constraints faced by SMEs through an integrated approach that centers on forming partnerships between firms at the various levels of the value chains. The project pays particular attention to the development of rural and nonurban SMEs. By so doing, women who generally receive no wage income as household workers will be given the opportunity to be employed and to establish their own businesses.

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?

H Information generation and sharing **H** Consultation **M** Collaboration **M** Partnership

Among the key active civil society organizations are the Women Chamber of Commerce and Industry), the Women Entrepreneurs Association, and Micro Enterprise Development Assistance and Services.

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

The project will promote greater access by SMEs to financial services. It is important to carry out training and capacity development initiatives targeting the specific needs of low income SMEs to introduce them and contribute to greater knowledge about gender awareness and pro-poor initiatives such as promoting labor rights issues and core labor standards.

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

No involuntary resettlement will be triggered because all subprojects with potential safeguard impacts will be rejected during the subproject selection process carried out by the PFIs.

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

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

Not applicable

3. Will the project require broad community support of affected indigenous communities? Yes No

Not applicable

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

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(**M**) 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?

A small-scale TA will (i) help assess constraints and opportunities to women entrepreneurs' effective access to financial resources made available under the loan; (ii) support the financial and legal literacy of women entrepreneurs and

associations; (iii) enhance women entrepreneurs' capacity, productivity, and competitiveness; (iv) promote networking among women entrepreneurs' associations; and (v) develop a gender-disaggregated database for monitoring and evaluation of the social and gender equality results.

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 (vi) other social risks. Are the relevant specialists identified?

Yes No

There is no PPTA associated with this intervention.

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?

A separate small-scale TA is proposed to be processed separately to assist in the development of women's micro, small, and medium-sized entrepreneurship in the project area. The TA will enhance the capacity of women entrepreneurs and associations to fully access the financial resources and services earmarked for women-led SMEs under the project.