

## SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

|                             |                                     |                       |  |
|-----------------------------|-------------------------------------|-----------------------|--|
| Country:                    | Nepal                               | Project Title:        | Rural Enterprise Financing Project   |
| Lending/Financing Modality: | Financial Intermediary Loan Project | Department/ Division: | South Asia Department<br>Public Management, Financial Sector, and Trade Division |

### I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY

Poverty targeting: General intervention

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

The proposed Rural Enterprise Financing Project aims to promote collective agribusiness enterprises initiated by small farmers agriculture cooperatives (SFACs) with financing and value chain development support through the financial intermediary, Small Farmers Development Bank (SFDB).<sup>a</sup> The project will also promote individual on-farm and off-farm micro and small enterprises especially focusing on women. It will promote agriculture sector commercialization and rural employment generation for inclusive economic growth in Nepal.

The government's 14th Three-Year Development Plan, fiscal year (FY) 2017–FY2019 has the goals of (i) improving the living standards of the Nepalese people through various policies of high economic growth, (ii) reducing the poverty rate 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>b</sup> Further, the government's Agriculture Development Strategy, 2015–2035 promotes the agriculture sector's profitable commercialization to transform the sector from subsistence farming to agribusiness enterprises for commercial purposes.<sup>c</sup>

The proposed project is consistent with the country partnership strategy for Nepal, 2013–2017 of the Asian Development Bank (ADB) and ADB's country operations business plan for Nepal, 2019–2021.<sup>d</sup> Consistent with the Agriculture Development Strategy, the country partnership strategy promotes the agriculture sector's productivity and sustainability, commercialization, competitiveness, and governance. The country operations business plan commits to supporting stronger agriculture value chains and private sector-led economic growth.

#### B. Results from the Poverty and Social Analysis during Project Preparatory Technical Assistance or Due Diligence

1. **Key poverty and social issues.** Nepal is an overwhelmingly rural and agrarian economy. About 80% of the population lives in rural areas, and nearly 70% of the labor force is engaged in agriculture and related activities.<sup>e</sup> However, the sector is largely subsistence in nature and confined to primary production of crops and livestock with little value addition and commercialization. The average landholding per household is 0.7 hectares (ha), and 51.6% of farm households have landholding of less than 0.5 ha.<sup>f</sup> In terms of per capita consumption, the average Nepali spent NRs80,807 in 2017; during the same year, the average urban consumption was NRs103,146 and the average rural consumption was NRs64,701.<sup>g</sup> Small farmers are largely primary producers and have limited linkages to processing, marketing, sales support, finance, and other value chain service providers to scale up their agriculture activities. To transform the rural subsistence farm households into commercialized farmers requires structured support of skills development and financing.

2. **Beneficiaries.** The beneficiaries are members of SFACs. SFACs are member-owned and member-managed community-based organizations. SFACs' main objective is to improve the livelihood of their members and provide savings and credit services and other technical support for the members' income-generating activities. SFAC members are small and marginal farmers and those who meet the following criteria: (i) a family with land area up to 0.76 ha in the hills and up to 0.67 ha in the Terai (a lowland area in southern Nepal); (ii) an individual or household with livelihood difficulties and no regular income; and (iii) an individual or household with no overdue loans with banks, financial institutions, or the government.

3. **Impact channels.** The project will organize small farmers, including women, into collective enterprises, which engage in collection, storage, processing, and marketing of agricultural produce and are jointly owned and operated by small farmers. Through their involvement in commercialized agribusiness 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. Individual enterprises are larger than cottage-sized income-generating activities and encompass all types of economic activities other than subsistence farming. A study conducted on 700 small farmers found that the incomes of the households that have microenterprises were at least 30% higher than the households engaged in the primary production of crops and livestock.<sup>h</sup> Promoting collective and individual enterprises will add value to small farmers' agriculture activities and create gainful employment opportunities.

4. **Design features.** The project will improve small farmers' social and economic well-being by promoting and financing collective and individual enterprises, collectively called rural enterprises. The project will (i) provide value



|   |
|---|
| <p>Is broad community support triggered? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>2. <b>Strategy to address the impacts.</b> Environment and social management system.</p> <p>3. Plan or other actions.</p> <p><input checked="" type="checkbox"/> Indigenous peoples plan (if triggered) <input type="checkbox"/> Combined resettlement plan and indigenous peoples plan</p> <p><input type="checkbox"/> Indigenous peoples planning framework <input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework</p> <p><input type="checkbox"/> Environmental and social management system arrangement <input type="checkbox"/> Indigenous peoples plan elements integrated in project with a summary</p> <p><input type="checkbox"/> Social impact matrix</p> <p><input type="checkbox"/> No action (social due diligence)</p>  |
| <p><b>V. ADDRESSING OTHER SOCIAL RISKS</b></p>  |
| <p><b>A. Risks in the Labor Market</b></p> <p>1. Relevance of the project for the country's or region's or sector's labor market, indicated as high (H), medium (M), and low or not significant (L). Not applicable.</p> <p><input type="checkbox"/> unemployment <input type="checkbox"/> underemployment <input type="checkbox"/> retrenchment <input type="checkbox"/> core labor standards</p> <p>2. <b>Labor market impact.</b> The project will generate rural employment opportunities.</p>  |
| <p><b>B. Affordability</b></p> <p>The project's beneficiaries will have access to affordable and reliable sources of institutional finance. The project's subloan interest rates are considerably lower than informal sources of finance such as money lenders, which typically charge over 120% per year.</p>  |
| <p><b>C. Communicable Diseases and Other Social Risks</b></p> <p>1. The impact of the following risks are rated as high (H), medium (M), low (L), or not applicable (NA):</p> <p><input type="checkbox"/> Communicable diseases (NA) <input type="checkbox"/> Human trafficking (NA)</p> <p><input type="checkbox"/> Others (please specify) _____ (NA)</p> <p>2. <b>Risks to people in project area.</b> Not applicable.</p>   |
| <p><b>VI. MONITORING AND EVALUATION</b></p>   |
| <p>1. <b>Targets and indicators.</b> Key targets include the following: (i) at least 30,000 small farmers engaged in rural enterprise activities, of which 40% are women; (ii) at least 15,000 small farmers engaged in collective enterprises, of which at least 40% are women; (iii) at least 2,500 small farmers engaged in individual enterprises, of which 30% are women; (iv) the average annual income of SFAC members engaging in rural enterprises increased to NRs170,000; (v) at least 500 individual enterprises financed by SFDB, of which at least 30% are women; and (vi) at least 500 individual enterprises received business development services, of which 30% are women.</p> <p>2. <b>Required human resources.</b> Human resources responsible for monitoring the poverty and social impact of the project include ADB staff, a project coordinator (implementing agency), and consultants (e.g., gender advisor).</p> <p>3. <b>Information in the project administration manual.</b> SFDB will submit quarterly project performance monitoring reports to ADB, SFACs will submit monthly project progress reports to SFDB, and SFDB will submit a project completion report to ADB.</p> <p>4. <b>Monitoring tools.</b> Monitoring tools for poverty and social dimensions include ADB project reviews, SFDB annual reports (including environmental and social screening), gender action plan monitoring, and consultants' reports.</p>   |
| <p><sup>a</sup> Sana Kisan Bikas Laghubitta Bittiyasanstha Ltd or commonly called SFDB.</p> <p><sup>b</sup> Government of Nepal, National Planning Commission. 2017. <i>14th Three-Year Development Plan, FY2017–FY2019</i>. Kathmandu.</p> <p><sup>c</sup> Government of Nepal, Ministry of Agricultural Development. 2015. <i>Agriculture Development Strategy, 2015–2035</i>. Kathmandu.</p> <p><sup>d</sup> ADB. 2013. <i>Country Partnership Strategy: Nepal, 2013–2017</i>. Manila; and ADB. 2018. <i>Country Operations Business Plan: Nepal, 2019–2021</i>. Manila.</p> <p><sup>e</sup> International Labour Organization. ILOSTAT. <a href="https://www.ilo.org/global/statistics-and-databases/lang--en/index.htm">https://www.ilo.org/global/statistics-and-databases/lang--en/index.htm</a>. The agriculture sector employment includes non-wage based self-employment.</p> <p><sup>f</sup> ADB. 2013. <i>Agriculture Development Strategy Prepared for the Government of Nepal</i>. Consultant's Report. Manila (TA 7762-NEP).</p> <p><sup>g</sup> Government of Nepal, National Planning Commission, Central Bureau of Statistics. 2019. <i>Annual Household Survey 2016–2017</i>. Kathmandu.</p> <p><sup>h</sup> ADB. Impact Study of Microcredit Component of Disaster Risk Reduction and Livelihood Restoration for Earthquake-Affected Communities Project (ADB. 2015. <i>Report and Recommendation of the President to the Board of Directors: Proposed Administration of Grant to Nepal for Disaster Risk Reduction and Livelihood Restoration for Earthquake-Affected Communities Project</i>. Manila). Unpublished.</p> <p>Source: ADB.</p> |