Initial Poverty and Social Assessment

Project Number: 38423
July 2009

Nepal: Crop Diversification and Commercialization Project
INITIAL POVERTY AND SOCIAL ANALYSIS

<table>
<thead>
<tr>
<th>Country and Project Title:</th>
<th>NEP: Crop Diversification and Commercialization Project</th>
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<tr>
<td>Lending or Financing Modality:</td>
<td>Project Department and Division: SARD/SANS</td>
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### I. POVERTY ISSUES

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

1. Based on the country poverty assessment, the country partnership strategy and the sector analysis describe how the project would directly or indirectly contribute to poverty reduction and how it is linked to the poverty reduction strategy of the partner country.

Although Nepal's poverty incidence declined to 31% from 42% in the last decade (between NLSS 1995/96 and 2003/2004), the disproportionate benefits to different regions, people from different origins, caste and ethnicity has been a bitter fact.\(^1\) Poverty issues remain as wide as before, with increasing disparity among poor and rich, rural and urban, and various social groups. One manifestation of divergent poverty effects within the country is the Gini coefficient which increased from 34.2 in 1995/96 to 41.4 in 2003/04. After the end of the 10-year long conflict, there was a high expectation of the people for faster development and new opportunities for the betterment of life. The Interim Constitution 2007 and the Three Year Interim Development Plan (TYIDP 2008/10) are the major policy documents the Government has so far formulated to respond to the people's aspirations, reconstruction and poverty reduction. The TYIDP aims for economic and social transformation through (i) employment-oriented, pro-poor and broad-based economic growth, (ii) reconstruction and reintegration, (iii) good governance and effective service delivery, (iv) investment in physical infrastructure, and (v) inclusive development and targeted programs. The thrust of the current TYIDP is more on ensuring growth contributing to social and economic equality as a means to poverty reduction. It aims for a GDP growth rate of 3.3 percent per annum in agriculture (6.8 percent in non-agriculture) and to lower the poverty incidence to 24 percent by 2010.

Approximately 85 percent of Nepal's population lives in rural areas, of which the majority depends on subsistence farming for their livelihoods. Agriculture and forestry together contribute 39.3% of total GDP, of which two-thirds is contributed by the crop subsector. Despite the fact that the potential of agriculture for development and poverty reduction has been underutilized in Nepal, it continues to be the largest contributor to the economy. Although the share of farm income in the average composition of household income in total has declined from 61% in 1995/96 to 48% in 2003/04 (NLSS II), it still generates employment to 66% of the population (78% of the poor) and supports livelihoods for 79% farm households. The income from agriculture makes 49% of the household income\(^6\).

There has been a gradual shift in Nepalese agriculture from subsistence to commercial farming; nevertheless the problems associated with the sector are yet to be addressed with adequate policies and mechanisms. The issues in agriculture sector are low production and productivity that have resulted due to constraining factors (i) issues of land fragmentation (ii) inadequate irrigation facility and poor coordination between agriculture and irrigation (iii) inadequate supply of quality improved agricultural production inputs (iv) lack of appropriate markets and right prices for farmer's produce (v) limited and no access by farmers of agricultural credits with low interest rates on time (vi) risks in commercialization due to internal conflicts and political instability and (vii) inadequate access of farmers to improved technologies. Meanwhile, agriculture is becoming more and more feminized due to high rural to urban migration (even overseas) of the male population. Therefore, it is high time for engendering the agriculture sector. The ADB-assisted Crop Diversification Project (CDP) had greatly emphasized the participation of women and disadvantaged communities. In CDP women farmers' participation was 48.5%. Of the total farmers' groups (2,914) formed by the project, 20% were exclusively women's groups. Similarly, disadvantaged groups comprised 54.7% of total farmers who participated. In CDP, women were empowered through group savings and utilization of funds in productive activities which

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1. Poverty incidence varies across geographical regions, rural/urban locations and identity (gender, caste and ethnicity). Poverty is higher in rural areas, across the mid and far-western regions, and among the socially excluded groups (Dalits, Janajatis, Muslims). The latest data and analysis confirm that in Nepal poor people's participation in the benefits of growth have been constrained for four main reasons: (i) their physical distance from markets (connectivity issues); (ii) low access to factors of production (finance, land, agricultural inputs); (iii) their low human capital (education, health, skills); and (iv) their discriminatory access to opportunities and assets (social exclusion). The incidence of poverty in Nepal is much higher among the landless and marginal farmers than among those with small or medium land holdings. The cause of higher poverty is the poor quality of land operated by marginal farmers and their lower access to agricultural inputs (in particular, irrigation systems, chemical fertilizer, high-yielding seed varieties and credit). The NLSS II exercise estimates that the poverty incidence among households that own 1 hectare or less of land (which comprises two-thirds of rural households) is 50 percent. NLSS also claims that the poorest households of all are those headed by agricultural wage laborers (approximately 9 percent of rural households), among whom the average poverty incidence has remained virtually stagnant since 1995/96. (MTR Report of CPS Nepal, 2008).

increased their access to income earning opportunities. A similar modality could be useful in the CDCP design by integrating the social empowerment component.

The Nepal Country Partnership Strategy (CPS 2005-2009) of ADB fully aligns its interventions with the poverty reduction strategy of the Government when it was formulated during the Tenth Five Year Plan period. The midterm review of the CPS held in 2008 had direct interactions with the people in the community and the government and nongovernmental organizations at the districts and the centre. These interactions clearly revealed and demanded more intensive, inclusive and result-oriented interventions from ADB to benefit the poor and the most disadvantaged population. The review noted that enhancing agricultural productivity, food security and diversifying rural economic opportunities are central to address the root causes of poverty and conflict. ADB CPS for 2010-2014 that is going to be prepared in the verge of new constitution making process of the country is expected to address these issues with full commitment.

ADB’s CPS recognizes the critical importance of improving the performance of agriculture sector for reducing poverty and promoting food security in Nepal. This project following the lessons learned from the previous Crop Diversification Project could be instrumental for promoting high value crops for commercialization and will benefit the majority of the poor in terms of food security and increasing income. The proposed project will support in developing production pocket areas, market infrastructures and provide new technology and access to credits to the poor farmers promoting private extension services and client-oriented researches.

### B. Targeting Classification

1. Select the targeting classification of the project:

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

2. Explain the basis for the targeting classification:

The project will target small farmers of the rural areas in the hills and terai districts of mid-western and far-western development regions. The project will target disadvantaged communities, if necessary, forming even homogeneous groups. The PPTA will clearly define 'disadvantaged groups' relevant to the project based on the analysis of existing national data and policies.

### C. Poverty Analysis

1. If the project is classified as TI-H, or if it is policy-based, what type of poverty impact analysis is needed? None

2. What resources are allocated in the project preparatory technical assistance (PPTA)/due diligence? [summarize after writing TOR]

   A Gender Specialist and a Social Development Specialist will be part of the PPTA team of consultants. They will prepare (i) poverty and social analysis of the project districts and potential beneficiaries (ii) stakeholder analysis to assess needs, resource, mandate and capacity (iii) assessment of social mobilization modality in the sector (iv) gender and social exclusion assessment of sector/sub sector policies, guidelines and institutional capacity (v) assessment of service delivery for inclusiveness (vi) gender and social exclusion analysis relevant to the sector and identification of alternative approaches for their inclusion in the project (vii) social impact assessment and preparation of IP plan, and (viii) preparation of gender and social inclusion action plan etc.

3. If GI, is there any opportunity for pro-poor design (e.g., social inclusion subcomponents, cross subsidy, pro-poor governance, and pro-poor growth)?

   There is an opportunity for pro-poor and socially inclusive design. The project will identify gender and social exclusion issues in the subsector and develop relevant approaches to ensure gender and social inclusion. The aim will be to mainstream gender and social inclusion in all project components and, if needed, design a specific component, based on the poverty and social analysis. The project design will keep in view the post-conflict situation and weak institutional capacities, and look for changes in policy, governance systems and structures for improved inclusiveness and decentralization.

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Disadvantaged groups are those marginalized and excluded from the mainstream development. Gender, caste, ethnicity, poverty, location, religion, regional identities are the causal factors of exclusion in Nepal. There are various groups socially excluded and economically poor who are considered as disadvantaged as per Government's existing national policies and plans. They could be dalits, indigenous ethnic minorities, madhesis, muslims, those from far and mid western regions, spatially marginalized and had remained poor due to several factors.
### II. SOCIAL DEVELOPMENT ISSUES

#### A. Initial Social Analysis

Based on existing information:

1. Who are the potential primary beneficiaries of the project? How do the poor and the socially excluded benefit from the project?

Small farmers are the primary beneficiaries. Social mobilization activities will help to organize poor farmers in groups and empower them to access project services. The project will address food insecurity among the poor farmers through diversification of crops thereby increasing the cropping intensity leading to more income. Land leasing options will be identified for the landless during PPTA to benefit them from project resources.

2. What are the potential needs of beneficiaries in relation to the proposed project?

Beneficiaries will need awareness about the project activities and empowerment to access and better utilize project inputs. They will also need effective extension services to help diversify crop production. Farmers will need access to credit; hence linkage to microfinance institutions is required.

3. What are the potential constraints in accessing the proposed benefits and services, and how will the project address them?

The potential constraints will be the lack of access to information by the poor and disadvantaged; could be weak extension services; lack of adequate number of service centers and microfinance institutions in rural areas; geographical difficulties and lack of infrastructure to access market. These constraints will be addressed by the project by social mobilization through NGOs, supporting improved extension services through service centers, developing market infrastructure and linkage with microfinance institutions.

#### B. Consultation and Participation

1. Indicate the potential initial stakeholders.

Farmers groups, farmers' associations, women farmer groups, local and national NGOs, District Agriculture Development Offices (DAO), Village Development Committees, District Development Committees, Department of Agriculture, Ministry of Agriculture and Cooperatives, Ministry of Local Development, District Women Development Office, other development partners and private sector service providers are the initial stakeholders.

2. What type of consultation and participation is required during the PPTA or project processing (e.g., workshops, community mobilization, involvement of nongovernment organizations and community-based organizations, etc.)?

During PPTA fact-finding a national and district level consultation process was implemented. Consultation was conducted in the one CDP districts in the far-western region with all stakeholders and community groups. The PPTA will conduct workshops at the community, district and central levels. Community-based organizations and local NGOs will be involved in mobilizing farmer's groups.

3. What level of participation is envisaged for project design?

- [ ] Information sharing
- [x] Consultation
- [x] Collaborative decision making
- [x] Empowerment

4. Will a consultation and participation plan be prepared? [x] Yes  [ ] No  Please explain.

#### C. 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?

It is a well known fact that women in Nepal makes majority of agriculture labor force, however women did not have legal rights to own land. The new Interim Constitution 2007 and the amended law in 2006 ensured women's equal rights over the ancestral property which mainly includes the land. In the last decade there has been increasing participation of women in the farmer's groups in an equal footing with the men farmers and representation in the decision making committees due to mandatory sector policy and project initiative. Yet gender discrimination does exist in agricultural wages for women, no matter even women's involvement is very high in the production. Ownership over the land is still very low. Increasing feminization of agriculture is another fact in the recent years because of high rate of male out migration from the rural villages. Women's issues related to the sector and sub sector are mainly the lack of adequate training programs that are suitable for illiterate and less educated farmers as majority of rural women are illiterate, no easy access to credit and agricultural inputs, less access to market knowledge and availability of appropriate technology and extension services. Lack of women extension workers can also be
considered as one of the issues in women's participation in the sector. Enhancement of leadership, decision making capacity and mobility are important skills for increasing their active participation when it is about commercial farming. Generally there has been less participation of women when it comes to commercialization of agriculture. Women's less access to market information and less risk bearing capacity are constraining factors to this. It is even harder for women from poor and disadvantaged communities and those from remote areas. The women of terai madhesi and muslim groups are socio-culturally more restricted compared to those of the hill caste and ethnic groups. Their participation in farmer's groups has been lower compared to their hill counterparts. Hence, a simultaneous sensitization and awareness raising among men is also necessary to create conducive environment for women within the household and in the community.

The National Agriculture Policy 2004 has ensured women's equal participation in farmers' groups and has recognized women as farmers. The Gender Equity and Environment Division within MOAC has been instrumental in mainstreaming gender equity in the programs of the Ministry, however to some extent the division itself faces challenges in implementing its responsibilities due to low budget and absence of a proper gender-sensitive monitoring mechanism. Undoubtedly there is an opportunity for strengthening existing institutional mechanisms for gender mainstreaming within the Ministry, Departments and its district offices. There is an increasing need for engendering the sector with efficient and effective institutional mechanisms.

2. Does the proposed project or program have the potential to promote gender equality and/or women’s empowerment by improving women's access to and use of opportunities, services, resources, assets, and participation in decision making? Yes ☑ No ☐ Please explain. A gender action plan will be prepared during PPTA implementation.

The project will help to empower women by raising their knowledge on high value crop production, participation in farmer's groups, marketing and planning, farm-related decision-making processes and in commercial farming activities. It will give them economic opportunities and raise their income earning capacity, leading to their social and economic empowerment. The project will ensure women's access to project resources and benefits by implementing a Gender and Social Inclusion Action Plan (include activities, target and performance/results indicators and adequate resource provisions) which will be integrated in the project design. Gender and Social Inclusion Action Plan will address gender inequity and social exclusion issues and recommend measures to be undertaken by the project. This action plan will be prepared during PPTA implementation.

3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality? ☑ Yes ☐ No Please explain (If yes, actions or measures should be prepared during PPTA or due diligence.)

### III. SOCIAL SAFEGUARD ISSUES AND OTHER SOCIAL RISKS

<table>
<thead>
<tr>
<th>Issue</th>
<th>Nature of Social Issue</th>
<th>Significant/Limited/No Impact/Not Known 12</th>
<th>Plan or Other Action Required 13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Involuntary Resettlement 14</td>
<td>No resettlement nor land acquisition are anticipated. Market centers will be constructed on government land. Project selection criteria will exclude any subprojects that may involve land acquisition and resettlement.</td>
<td>No impact</td>
<td>☐ Full Plan</td>
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<td></td>
<td></td>
<td></td>
<td>☐ Short Plan</td>
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<td></td>
<td></td>
<td></td>
<td>☒ Resettlement Framework</td>
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<td></td>
<td></td>
<td></td>
<td>☒ No Action</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>☒ Uncertain</td>
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<tr>
<td>Indigenous Peoples 15</td>
<td>The regions targeted for the project will have indigenous people. The project will have positive impact on them. Their inclusion and participation will be ensured through gender equality and social inclusion action plan. No adverse impacts are anticipated from the project. However, the TA will assess likely impact of the projects on these groups and prepare necessary documents, including indigenous people’s framework for the project and indigenous people’s plan for specific sample subprojects as needed.</td>
<td>Limited</td>
<td>☐ Plan</td>
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<td></td>
<td></td>
<td></td>
<td>☐ Other Action 16</td>
</tr>
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<td></td>
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<td>☒ Indigenous Peoples Framework</td>
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<td>☒ No Action</td>
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<td>☒ Uncertain</td>
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### Labor
- Employment Opportunities
- Labor Retrenchment
- Core Labor Standards

#### The project will enhance employment opportunities for the poor and marginal farmers, including both women and men by introduction of high value crops and commercialization.

#### Affordability
- TA will assess willingness to pay and affordability for agriculture extension services.

#### Other Risks and/or Vulnerabilities
- HIV/AIDS
- Human Trafficking
- Others (conflict, political instability, etc.), please specify

#### IV. PPTA OR DUE DILIGENCE RESOURCE REQUIREMENT

1. Do the terms of reference (TOR) for the PPTA (or other due diligence) include poverty, social and gender analysis and the relevant specialist(s)?
   - Yes
   - No

2. Are resources (consultants, survey budget, and workshop) allocated for conducting poverty, social and/or gender analysis, and consultation and participation during the PPTA or due diligence?
   - Yes
   - No