



Initial Poverty and Social Analysis

July 2019

Nepal: Food Safety and Agriculture Commercialization Program

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 3 July 2019)

Currency unit	–	Nepalese rupee/s (NRe/NRs)
NRe1.00	=	\$0.00906
\$1.00	=	NRs110.32

ABBREVIATIONS

ADB	–	Asian Development Bank
PBL	–	policy-based loan
TA	–	technical assistance

NOTES

- (i) The fiscal year (FY) of the Government of Nepal and its agencies ends in mid-July. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2019 ends on 16 July 2019.
- (ii) In this report, "\$" refers to United States dollars.

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INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Nepal	Project Title:	Food Safety and Agriculture Commercialization Program
Lending/Financing Modality:	Policy-Based Loan	Department / Division:	South Asia Department/ Environment, Natural Resources, and Agriculture Division

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

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

The proposed policy-based loan aims to unlock some of the key bottlenecks holding back the transformation of the Nepal agriculture sector from a predominantly subsistence farming system to a commercially oriented sector. The proposed program focuses on three reform areas: (i) promoting agriculture commercialization, (ii) improving food safety and quality monitoring systems, and (iii) strengthening institutional capacity. The proposed program is aligned with the Agriculture Development Strategy, 2015–2035, which sets a vision for a self-reliant, sustainable, competitive, and inclusive agriculture sector that drives economic growth and contributes to improved livelihoods, food and nutrition security, and food sovereignty.^a It is also aligned with the government’s 14th periodic plan, (FY2016/2017–FY2018/2019), 15th 5-year plan (FY2019/2020–FY2023/2024), and Envisioning Nepal 2030, which have highlighted commercialization of the agriculture sector as a national development priority in light of the country’s aspiration to attain middle-income status by 2030.^b The program is aligned with the country partnership strategy for Nepal, 2013–2017 and the draft country partnership strategy for Nepal, 2020–2024, to be approved by September 2019.^c The program is included in the country operations business plan for Nepal, 2019–2021 as part of the sector development program loan of \$70 million of Asian Development Bank (ADB) financing (the Targeted Value Chain Sector Development Program). At the request of the Government of Nepal, this sector development program has been separated into two loans: a policy-based loan, and an investment project.

B. Poverty Targeting

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

Over 71% of Nepalese people rely on the agriculture sector for their main occupation. Subsistence farming along with the predominance of smallholder farmers (landholdings of less than 0.5 hectares) are the main features of agriculture in Nepal. The program aims to promote commercial agriculture with a focus on food safety and quality, which is expected to increase farmers’ incomes and profitability and contribute to overall health outcomes.

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries. Structural transformation of Nepal’s economy has been slow with the agriculture sector still accounting for 57% of employment and 27% of gross domestic product in 2019. Around 79% of the population of Nepal still resides in rural areas, where the incidence, depth, and severity of poverty was twice as high as in urban areas in 2011.^d Overall headcount poverty fell from 41.8% in 1996 to 25.2% in 2011, but a large percentage of the population remained vulnerable.^e Poverty rates also differ by gender and social groups, by ecological belt, and by provinces. Marginalized groups such as the *Dalits*, *Madhesis*, Muslims, and Indigenous Peoples (IPs) experience multiple levels of exclusion.¹ For instance, in 2011, the incidence of poverty among *Dalits* was 43.6% in the hill areas and 38.2% in the Terai, compared to Newars (10.3%) and hill Brahmins (10.3%). Similarly, 15% of hill *Dalits* and 44% of Terai *Dalits* were landless.² Most farmers rely on subsistence farming and are constrained by (i) limited value chain linkages to increase their production; (ii) lack of timely availability of quality seed, fertilizer, and technology; and (iii) limited access to formal finance. The program seeks to align the policy and regulatory framework to address some of these constraints so that farmers can transition from subsistence farming to more profitable agricultural operations.

¹ The term “Dalit” is reserved for a certain socially marginalized caste group in Nepal who have historically suffered from caste-based discriminations such as untouchability. Dalits constitute 13% of Nepal’s population. Within the Dalit community, there are five sub-caste groups who are from the hills (Hill Dalits) and 22 sub-caste groups who are from the Terai (Terai Dalits); The term “Madhesi” relates to a distinct group of people whose origins are the plains of Nepal, or “Madhesh,” and who speak languages such as Maithali, Bhojpuri, Awadhi, and Hindi, spoken in the northern Indian regions of West Bengal, Bihar and Uttar Pradesh.

² The Government of Nepal officially recognizes 59 indigenous groups, who are categorized into several groups. The “Newars”, which originate from the Kathmandu Valley are considered “advanced” in this categorization

2. Impact channels and expected systemic changes. The envisaged policy reforms will contribute to poverty reduction through three channels: (i) increased incomes through more profitable farming and agribusinesses, and (ii) improved access to public goods and services as a result of improved supply of agricultural inputs, and (iii) strengthened institutions.

3. Focus of (and resources allocated in) the transaction technical assistance or due diligence. A policy impact assessment will look at the overall development impacts of the envisaged policy reforms, including impacts on smallholder farmers, marginalized groups, and women.

4. Specific analysis for policy-based lending. Environmental and social assessment of policy interventions will be prepared.

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? Nepal has witnessed a feminization of the agriculture sector. The participation rate of women in the labor force has risen much faster than for men, from 66.4% in 1996 to 79.4% in 2011, compared with a rise from 75.2% to 80.9% for men, suggesting a shortage of male workers in rural areas because of out-migration of men in search of employment. Compared to 62% of men employed in agriculture, 84% of women are engaged in the sector, but they lack equitable access to, and control over, productive resources such as land, credit, and technology. Shifts in the traditional division of labor are noted, with many women taking up additional responsibilities such as plowing and marketing in addition to weeding, harvesting, threshing, and milling, thereby increasing women's overall workload. Farms managed by women produce less value per hectare than those managed by men, suggesting the existence of gender inequalities, particularly in accessing, adopting, and using technologies.^f

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 envisaged reforms will look at strengthening institutional aspects around gender and social inclusion. Promotion of gender-friendly mechanization will also directly contribute to increasing access to technology and reducing women's workload. Training will enhance women's participation in commercial farming and value chains.

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 federal Ministry of Finance; Ministry of Agriculture and Livestock Development; and provincial Ministries of Land Management, Agriculture and Cooperatives are the key agencies responsible for the reforms. A program steering committee represented by these agencies will be established to provide overall guidance on program design and implementation.

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?

Attached transaction technical assistance (TA) will support program implementation. Consultations with key stakeholders including marginalized farmers and women will be carried out during vetting of the envisaged policies and plans included in the policy matrix.

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?

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

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 program seeks to address some constraints on commercialization of agriculture. Since 80% of the farmers are smallholders, they are likely to benefit from the program interventions.

IV. SOCIAL SAFEGUARDS
A. Involuntary Resettlement Category <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI
<p>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 The program is classified C for involuntary resettlement as no physical or economic displacement resulting from involuntary land acquisition or involuntary restriction on use of or access to land will occur.</p>
<p>2. What action plan is required to address involuntary resettlement as part of the transaction TA or due diligence process?</p> <p><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</p>
B. Indigenous Peoples Category <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI
<p>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 The program will not affect the dignity, human rights, livelihood systems, or culture of IPs or affect the territories or natural or cultural resources that IPs use, occupy, or claim as ancestral domain.</p> <p>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 Policy interventions will not be imposed in any territories, or upon natural and cultural resources owned, used, occupied or claimed by indigenous communities.</p> <p>3. Will the project require broad community support of affected indigenous communities? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No If policy interventions are requested or accepted by district IP communities, broad community support will be sought.</p> <p>4. What action plan is required to address risks to indigenous peoples as part of the transaction TA or due diligence process?</p> <p><input type="checkbox"/> Indigenous peoples plan <input type="checkbox"/> Indigenous peoples planning framework <input checked="" type="checkbox"/> Social Impact matrix <input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None</p>
V. OTHER SOCIAL ISSUES AND RISKS
<p>1. What other social issues and risks should be considered in the project design?</p> <p><input 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 checked="" type="checkbox"/> Affordability (L) <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_____</p> <p>2. How are these additional social issues and risks going to be addressed in the project design? The program design will seek to reduce transaction costs in public service delivery. N/A</p>
VI. TRANSACTION TA OR DUE DILIGENCE RESOURCE REQUIREMENT
<p>1. Do the terms of reference for the transaction TA (or other due diligence) contain key information needed to be gathered during the 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 The environmental and social assessment of policy interventions will be conducted by ADB staff.</p>
<p>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 or due diligence? The environmental and social assessment of policy interventions will be conducted by ADB staff.</p>

^a Government of Nepal, Ministry of Agricultural Development. 2014. *Agriculture Development Strategy, 2015–2035*. Kathmandu.

^b Government of Nepal, National Planning Commission. 2016. *An Approach Paper of Fourteenth Plan, FY2016/2017–FY2018/2019*. Kathmandu; Government of Nepal, National Planning Commission. 2018. *An Approach Paper of Fifteenth Plan, FY2019/2020–FY2023/2024*; and ADB. 2016. *Envisioning Nepal 2030: Proceedings of the International Seminar*. Kathmandu.

^c ADB. 2012. *Country Partnership Strategy: Nepal, 2013–2017*. Manila (extended to 2019).

^d Government of Nepal, Central Bureau of Statistics. 2011. *Poverty in Nepal 2010–2011*. Kathmandu.

^e World Bank Group. 2016. *Moving Up the Ladder: Poverty Reduction and Social Mobility in Nepal*. Kathmandu. At \$1.90/day, the poverty rate fell from 62% in 1995 to 15% in 2010, and 51% of people lived on less than \$3.20/day in 2010.

^f Food and Agriculture Organization of the United Nations 2019. *Country Gender Assessment of Agriculture and Rural Sector in Nepal*. Kathmandu.