

## INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Nepal	Project Title:	Hydroelectricity Finance Project
Lending/Financing Modality:	Sector Development Program	Department/ Division:	SARD / SAPF

### I. POVERTY IMPACT AND SOCIAL DIMENSIONS

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

The proposed SDP supports the poverty reduction efforts of the Government of Nepal (GON) and the Asian Development Bank (ADB),

GON targets reducing the proportion of population living below the national poverty line to 18% from 25.2% in FY2011 and an estimated 23.8% in FY2013. Similarly, the targets for population with access to drinking water, sanitation, and electricity are set at 96%, 91% and 87%, respectively, compared with 85%, 32% and 67%, in FY2013. Poor reliability and access to power are the most serious infrastructure bottlenecks to growth and increasing access to electricity in a cost-effective manner is one of the most significant development challenges facing Nepal. While efforts to reduce the 16-hour load-shedding gap during the dry season have been unsuccessful, Nepal has one of the largest hydropower resources in the world with an estimated 83,000 MW of hydropower potential. Mains electricity is available only in urban areas and around 60% of Nepal's population does not have access to it. In this context GON targets to add 668 MW by FY2016. Energy generated is programmed to benefit small and micro businesses while improving living standards.<sup>8</sup>

According to the World Bank, Nepal needs \$13-18 billion from 2011-2020 to bridge the investment gap in infrastructure.<sup>9</sup> The report indicates that Nepal has one of the poorest infrastructure services along with Afghanistan and Bangladesh, and states that Nepal will require as much as \$5.3-\$7 billion of investment for power alone. Given the low investment so far, the report has stressed the need for private sector investment into infrastructure. Private sector's participation in infrastructure in Nepal is 0.66% of GDP, which is the second lowest in South Asia after Afghanistan.

#### B. Poverty Targeting

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

Poverty reduction will be supported indirectly by expanding financing for the energy sector. The expansion of financing options will not only reduce the gap in anticipated shortfall in infrastructure financing but may also reduce financing costs of projects in the medium to long-term. This analysis will focus on the need for improved access of the poor to employment, credit, and markets that improved infrastructure assets and a more robust financial sector can create. The vulnerability of the poor to economic shocks must also be reduced to encourage investment in human capital and in higher-risk and higher-return activities. Thus the proposed SDP will complement public policy reforms that contribute to socially-inclusive development. The project will support financial sector development in general, as financial sector instability undermines poverty reduction as the poor are more vulnerable to weak financial institutions and the negative macroeconomic impacts that accompany financial sector instability.

**Design features.** The key anticipated impact on poverty will be through financial sector development and greater affordability of high-quality infrastructure in the long run. More efficient and lower cost infrastructure will lead to greater affordability and higher usage and in turn to greater compliance with tariffs and reduction in leakages.

#### C. Poverty and Social Analysis

1. Key issues and potential beneficiaries. Investment in human capital and infrastructure interact and increase the returns of both. Investment in infrastructure services can contribute to sustainable growth by (i) reducing transaction costs and facilitating trade flows within and across borders; (ii) enabling individuals, firms, and governments to respond to new types of demand in different geographic areas; (iii) lowering input costs in production of goods and services; (iv) opening opportunities for entrepreneurs or making businesses more profitable; and (v) creating employment in public works.

The absence of infrastructure is felt most deeply by the poor, who are most acutely affected by the impact on livelihoods. Shocks, such as the rationing of electricity, are particularly hard on people employed in the informal sector. While indirect benefits are more difficult for the poor to perceive, the development and maintenance of national infrastructure is essential if Nepal is to secure potential gains from globalization.

<sup>8</sup> Nepal's Three Year Interim Plan FY2014-FY2016 Approach Paper. Nepal Rashtra Bank. Khatmandu July 2013

<sup>9</sup> Reducing Poverty by Closing South Asia's Infrastructure Gap. *World Bank. Washington DC. April 2014.*

2. Impact channels and expected systemic changes. By developing innovative domestic financing channels and introducing new financial sector products, the proposed SDP will help increase domestic financing of public and private investments and support higher economic growth. A recent International Monetary Fund working paper estimated the quantitative impact of financial sector development on poverty in 65 developing countries and found that (i) financial sector development raises economic growth and reduces poverty, (ii) financial sector development directly reduces poverty by raising investment and interest incomes of the 20% poorest households, and (iii) financial sector instability directly reduces the incomes of the poor.<sup>10</sup>

3. Focus of (and resources allocated in) the PPTA or due diligence. Resettlement and impact on indigenous people are key issues that need to be reviewed during project design. The mission team will engage an international safeguards specialist to review indicative transactions and develop an environment and social management unit for HIDCL, the implementing agency. SAPF has allocated \$32,000 for PPTA activities from staff consultancy budget.

4. Specific analysis for policy-based lending. The mission will engage with stakeholders to identify key policy action(s) that will trigger effectiveness of the DSRA trust account to support investment into the Nepal hydro sector.

## 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?

While the project will not have direct gender benefits, an indirect gender impact is envisaged via improved and more affordable power. Regular power supply for production units will give women more time to engage in supplementary economic activities. The subprojects supported under the project will also be encouraged to undertake gender specific interventions to the extent possible through corporate social responsibility initiatives, such as health programs for pregnant and lactating women, HIV information camps, and livelihood activities for women.

The environmental and social management unit of Hydropower Investment Development Corporation Limited (HIDCL) may also be sensitized to assess modalities to further strengthen the focus on gender in the subprojects, ensure adequate monitoring of social and gender-related impacts (including those on infant and maternal care), and undertake specific programs related to HIV and AIDS prevention. The need for gender-related checklists and/or training of staff will also be assessed.

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    A long-term positive impact is envisaged from the improved financing flow to infrastructure projects

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.

For all subprojects, compliance requirements will necessarily include conduct of stakeholder consultations on environmental and social safeguards issues. The consultations will assist the project developer in establishing an environmental impact assessment or the project information memorandum. Based on these, an environmental action plan, a resettlement plan, and a tribal development plan will be prepared with mitigations, where necessary.

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?

For subprojects, compliance requirements will include stakeholder consultations as per both the environmental and social safeguards framework of HIDCL and ADB requirements

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?

Key organizations include local NGOs, active in Nepal in the area of environmental and social protection.

☒ Information generation and sharing (M)    ☒ Consultation (M)    ☐ Collaboration    ☐ Partnership

<sup>10</sup> G. Jeannwney, S. and K Podar. 2008. Financial Development and Poverty Reduction: Can There Be A Benefit Without A Cost? IMF Working Paper #62. Washington, DC. The authors estimated quite large coefficients on the financial sector development variable. A 10% increase in the ratio of broad money (M3) to gross domestic product raised the incomes of the 20% poorest households by between 3% and 5%.

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  
For subprojects, compliance requirements will include stakeholder consultations as per both the environmental and social safeguards framework of HIDCL and ADB requirements

#### 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

In developing subprojects, the potential impacts on communities being displaced will have to be evaluated and the resettlement will have to be done in accordance with ADB and national norms.

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

While there is a possibility, the impact if any is not known as yet. However, in developing infrastructure, the potential impacts on communities being displaced will have to be evaluated and the resettlement will have to be done in accordance with ADB and national norms

2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? ☒ Yes ☐ No

While there is a possibility, the impact if any is not known as yet. In developing infrastructure, the potential impacts on the way of the life, customs, and religious traditions of communities will have to be evaluated. The mitigations to protect the above will also have to be in accordance with ADB and national norms

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

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 (L) ☒ Adhering to core labor standards (L) ☒ 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?

The subprojects supported under the project will comply with national labor laws and/or adherence to internationally recognized core labor standards.

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

☐ Yes ☒ No

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? Not applicable.