



Concept Environmental and Social Review Summary

Concept Stage

(ESRS Concept Stage)

Date Prepared/Updated: 07/10/2019 | Report No: ESRSC00651



BASIC INFORMATION

A. Basic Project Data

Country	Region	Project ID	Parent Project ID (if any)
Nepal	SOUTH ASIA	P170215	
Project Name	Rural Economic and Enterprise Development Project		
Practice Area (Lead)	Financing Instrument	Estimated Appraisal Date	Estimated Board Date
Agriculture	Investment Project Financing	12/6/2019	1/31/2020
Borrower(s)	Implementing Agency(ies)		

Proposed Development Objective(s)

To enhance the ecosystem for rural entrepreneurship and to strengthen the market linkages of rural entrepreneurs, including smallholder farmers and producers.

Financing (in USD Million)	Amount
Total Project Cost	170.00

B. Is the project being prepared in a Situation of Urgent Need of Assistance or Capacity Constraints, as per Bank IPF Policy, para. 12?

No

C. Summary Description of Proposed Project [including overview of Country, Sectoral & Institutional Contexts and Relationship to CPF]

The proposed REED project aims to strengthen the market linkages of small scale farmers and other rural entrepreneurs and to enhance the ecosystem of services supporting those value chains, by building on Nepali experiences (PACT and PAF), and global experiences of the Productive Alliance (PA) approach, developed in the Latin America Region, and replicated the other regions. In the spirit of supporting the transition to the federal structure, REED also aims to support the enabling environment, by helping the federal and decentralized governments to fill the identified gaps in policies, services and capacity to support the development and upgrading of the rural based value chains. The project design will also benefit from the PA pilots under the on-going FANSEP and NLSIP, and also from the recently completed Country Private Sector Diagnostic (CPSD) and Agribusiness Deep Dive.



D. Environmental and Social Overview

D.1. Project location(s) and salient characteristics relevant to the ES assessment [geographic, environmental, social]

The proposed project has been developed to strengthen the market linkages of small scale farmers and rural producers and enhance the ecosystem of supporting those market linkages and promoting entrepreneurship. The proposed project will be fully aligned with the GoN’s federalism agenda, particularly in “federalizing the MFD approach” for rural economic growth. It will directly support this process by seeking close collaboration with the three-tier government, i.e. at the central, provincial and local levels. In particular, the project will play an important role in strengthening the institutional capacity of the relevant government agencies at various levels to carry out their mandate on business climate and service delivery in rural areas and to facilitate the participation of the private sector in the delivery of relevant services where a case can be made for outsourcing to private firms. The project has three major components:

- Component 1: Strengthening Market Linkages through Productive Partnerships (US\$ 95 million);
- Component 2: Creating Ecosystem to strengthen market linkages and to promote entrepreneurship (US\$ 60 million)
- Component 3: Project Management (US\$ 15 million)

D. 2. Borrower’s Institutional Capacity

The initial discussions with the GoN indicated that the project should be implemented by the decentralized governments (Provincial Governments and Local Level Governments-LLGs), while the federal ministry will be in charge of overall coordination and policy-related matters. It is therefore planned that there will be two layers of implementation setup (i) Federal-level Project Management Unit (PMU); (ii) Provincial-level Project Implementation Units (PIU) in the seven provinces. In addition, the project will work with Local Level Governments (LLGs) for coordination and co-financing public goods under Component 1. To date, the environmental and social capacity of MoALD is weak and so is the capacity of the at the provincial and local level units responsible for environmental and social issues management. An E&S capacity assessment for the implementing agencies will be undertaken during preparation and a capacity building program will be developed and implemented as part of this project--all aimed at supporting decentralization and building capacity at the federal and subnational levels. Furthermore, with the roll out of new environmental and social framework of the Bank, the project will also need handholding support to implement the new requirements.

Public Disclosure

II. SCREENING OF POTENTIAL ENVIRONMENTAL AND SOCIAL (ES) RISKS AND IMPACTS

A. Environmental and Social Risk Classification (ESRC)

Substantial

Environmental Risk Rating

Substantial

The project will support rural infrastructure, such as rural roads, irrigation, food safety and SPS facility, agricultural roads, rural bridges, market infrastructure, quarantine facility for enhancing opportunities for market access and trade, and which will now fall under the responsibility of the decentralized governments.

These infrastructures will be selected based on their relevancy to the potential productive partnerships or aggregations thereof, in accordance to national and local level policies critical to rural economic growth. As the



location of these infrastructure not known, depending on locations - possibility of impacts on bio-diversity including agricultural diversity and natural habitat, soil erosion & landslides/ slope stability & land degradation may not be ruled out. The main associated other impacts will be related to air pollution, water rights, health and safety, labor working conditions, use of hazardous chemicals, quarry site, water pollution and pesticides.

Given the scale of support and investments and the nature of activities, which are mainly community-based and small to medium scale implemented by both community and local government, and the uncertainty of how the ongoing decentralization process will proceed and turn out, environmental risk is assessed to be substantial. Substantial Risk could change if we have more clarity on the types of activities/ their scale, and locations, as well as implementing agencies.

Social Risk Rating

Substantial

The rural infrastructure works to be supported under Components 1 and 2, which include rural and agricultural roads, small scale irrigation schemes, rural bridges and market infrastructures, may have some resettlement impacts in terms of physical resettlement, economic displacement or permanent land acquisition. However, as activities are expected to be small in scale, impacts are not expected to be significant. There may be temporary impacts on private assets and businesses, disruptions to local residents and communities. There may also be some health and safety risks to workers and community members during infrastructure work. Further, in Nepal project workers come from outside project areas, for large infrastructure requiring skill labour which may lead to labor influx and the social issues that come with it, such as risks of migrant labor, forced labor and gender-based violence (GBV).

A risk of exclusion of vulnerable and disadvantaged groups from benefits and opportunities to participate in project activities may arise, particularly for vulnerable groups such as remote indigenous communities or Dalits, if their participation in project design and implemented is not secured. Capacity limitations on local governments to effectively consult and engage with stakeholders may have negative impacts on stakeholders. An extensive stakeholder engagement process during preparation and implementation is therefore needed to mitigate against exclusion and stakeholder risks. Given that the exact nature and location of project activities has not been determined, and the low institutional capacity of local and provincial governments to manage and mitigate social risks, the social risk is assessed to be substantial. However, if the project is able to manage possible risks, it is expected that the project will have beneficial impacts on the rural economy such as through increased connectivity and access to rural markets.

Public Disclosure

B. Environment and Social Standards (ESSs) that Apply to the Activities Being Considered

B.1. General Assessment

ESS1 Assessment and Management of Environmental and Social Risks and Impacts

Overview of the relevance of the Standard for the Project:

This standard is relevant as the project includes support to rural infrastructure such as rural roads, irrigation, food safety and SPS facility, quarantine facility, which will enhance opportunities for market access and trade, and which will now fall under the responsibility of the decentralized governments., in addition to capacity building and technical assistance activities. Activities that may cause environmental and social impacts are expected mostly in relation to the rural infrastructure construction activities under Components 1 and 2, which include support to rural roads and



agricultural roads, small-scale irrigation schemes, rural bridges and market infrastructures.. These infrastructures will be selected based on their relevancy to the potential productive partnerships or aggregations thereof, in accordance to national and local level policies critical to rural economic growth. As the location of these infrastructure not known, depending on locations - possibility of impacts on bio-diversity including agricultural diversity and natural habitat, soil erosion & landslides/ slope stability & land degradation may not be ruled out. The main associated impacts will be related to air pollution, water rights, health and safety, labor working conditions, use of hazardous chemicals, quarry site, water pollution and pesticides. Components 3 and 4 are not expected to finance civil works. The project will conduct an Environmental and Social Assessment (ESA) a will develop an Environment and Social Management Framework (ESMF), Resettlement Policy Framework (RPF) and Vulnerable Communities Policy Framework (VCDF), given that the geographic location and exact nature of the activities are not yet determined. The ESMF, RPF and VCDF will outline planning, design and implementation stages for environmental risks and impacts. Additional assessments and/or plans required under the ESF or other World Bank requirements, including the environmental and social capacity assessment at the different levels of government and community level, Labor Management Procedures, the Stakeholder Engagement Plan (SEP), a GBV risk assessment and GBV Action Plan will also be prepared. Based on the findings of all these assessments, the Environmental and Social Commitment Plan (ESCP) will be prepared.

Areas where “Use of Borrower Framework” is being considered:

Borrower’s framework will not be considered for this project although the project will adhere to the National requirements and World Bank Standards

ESS10 Stakeholder Engagement and Information Disclosure

Nepal has a long history of engaging with citizens and stakeholders, and a wide range of collective action and/or local institutions including user groups, cooperative organizations have existed in Nepal for a long time, which will be drawn upon in carrying out stakeholder engagement. Achieving the project objectives would require engagement from an extensive range of stakeholders and targeted project beneficiaries including: small-scale farmers; cooperatives, entrepreneurial-minded community-groups involved in a rural activity; agri-businesses; growth-orientated MSMEs; entrepreneurs; intermediary institutions that deliver services to the entrepreneurial system – BDS services, accelerators and incubators; banking institutions; and federal, regional and local governments. Local governments will require close support and capacity building to effectively engage with stakeholders and target beneficiaries and to avoid exclusion. An SEP will be prepared prior to appraisal, consistent with the requirements of ESS10. The SEP will include interested parties, target beneficiaries, and those directly impacted project affected persons, including disadvantaged and indigenous groups. The draft SEP will be disclosed as early as possible before appraisal to allow meaningful stakeholder consultation before finalization for appraisal. Other project-related information will also be made to stakeholders in a timely manner and in a form and manner they can understand, including through translation to indigenous languages where necessary. Updating of SEP proportionate to the nature and scale of project during implementation will be a condition in ESCP. The ESMF will also include a grievance redress mechanism, drawing on existing systems established at the local and provincial levels, to respond to enquiries and concerns.

B.2. Specific Risks and Impacts

A brief description of the potential environmental and social risks and impacts relevant to the Project.



ESS2 Labor and Working Conditions

As the project supports rural infrastructure different types of workers, including direct workers, contracted workers, community workers and primary supply workers will be employed. However, given the nature of the project, majority of the workers are likely to be both from community and contractors from the local area with likelihood of skilled labour from outside project area. However the risks of labor influx for infrastructure projects remains. Appropriate Labor Management Procedures (LMP) will be developed and a standalone worker-specific GRM (for direct and contracted workers) will be established. In addition, LMP will also specify the mechanism to raise grievances related to the project. In developing LMP, an assessment is also required if there is a risk of child or forced labor within community labor. The LMP will identify main labor requirements (how different categories of workers will be managed, in accordance with the requirements of national laws and ESS2) and risks associated with the project and determine the resources necessary to address labor issues. For direct, community, or SME workers, the ESMF will provide guidelines on the use of PPEs (helmets, etc.) during the construction of the infrastructure.

ESS3 Resource Efficiency and Pollution Prevention and Management

As the project supports the rural infrastructure which will use local natural resources, the project should consider ambient conditions and apply technically and financially feasible resource efficiency and pollution prevention measures (solid and liquid waste) in accordance with the mitigation hierarchy. The project envisages to support SMEs in their value chain and expanding their business which may use pesticides and other hazardous chemicals thus creating associated of pollution. Similarly, investment in irrigation schemes will lead to increase in use of pesticides for better agriculture production. Specific plans may need to be prepared to manage and prevent pollution from the quarantine process, etc., if the results of the E&S screening as per the ESMF require the preparation of those plans. The requirement for preparation of specific plans will be spelled out in the ESMF.

ESS4 Community Health and Safety

As that the project involves support to rural infrastructure which may traverse through or in the vicinity of community areas and public places, ESS4 is relevant to the project. However given the rural setting, impacts are expected to be minimal. Extent of expected impacts will be determined during preparation stage. Infrastructure works will adopt risk-proportionate safety measures, which may include traffic and road safety measures, proper management of agriculture wastes, pesticides, solid and liquid waste disposal, and community health and safety plans. The management of community health and safety issues will be described in the ESMF and integrated into specific ESMPs as applicable. The project will apply the concept of 'universal access' to the design of any new infrastructure, where technically and financially feasible.

ESS5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement

Rural infrastructure activities taking place under Components 1 and 2, such as support to 'last-mile' infrastructure including rural infrastructure roads, small-scale irrigation, rural bridges or market infrastructures, may result in some resettlement impacts in terms of physical or economic displacement. However, given the nature of the project, the infrastructure support is likely to be located in rural areas such that any resettlement impacts are expected to be minimal. However, as infrastructure sites are yet to be determined, an RPF will be prepared prior to project appraisal



to address potential land acquisition issues. Infrastructure sub-projects will be screened for resettlement impacts, and Resettlement Action Plans (RAPs) will be prepared and implemented where applicable.

ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources

Given that the location of the sub-projects/activities are not known and the nature of the project activities are not determined, biodiversity risks will be assessed later and the mitigation hierarchy and precautionary approach will be used during design and implementation.

ESS7 Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities

The National Foundation for the Development of Indigenous Nationalities (NFDIN) identifies 59 groups in Nepal as ethnic indigenous groups or nationalities. It defines indigenous groups as 'those ethnic groups or communities who have their own mother tongue and traditional customs, distinct cultural identity, distinct social structure and written or oral history of their own'. Of these 59 groups, 17 groups live in the Mountain region, 24 live in the Hills, and 18 live in the Terai. Whilst the exact locations of projects are not yet defined, given that indigenous groups live throughout the country there is a high likelihood that they will be affected under the project. Further, given that many vulnerable groups including indigenous groups and Dalits are engaged in the agricultural sector through for example, farming or under tenant arrangements, these groups will be particularly affected. ESS7 is therefore relevant for this project. A Vulnerable Communities Development Framework (VCDF) will be prepared which will serve to ensure that vulnerable groups- including indigenous people- benefit from the project. The VCDF will include specification of the process for free, prior and informed consent (FPIC) where required under ESS7. During preparation the project will consult with any relevant affected indigenous peoples' representative institutions at multiple levels to ensure that the project enjoys their broad support.

ESS8 Cultural Heritage

Some areas within the project area may be considered sacred by participating local communities while others may have presence of tangible and intangible cultural heritage. The project will avoid impacts on cultural heritage and chance finds procedure will be included in all contracts related to construction of rural infrastructure. This will be further studied as part of the ESA and any potential negative impacts will be addressed through the ESMF, the VCDF and potentially specific plans.

ESS9 Financial Intermediaries

As of the concept stage, the project will not channel funds through financial intermediaries, hence ESS9 FI is not relevant.

The project will provide matching grants to the targeted beneficiaries, which can help to leverage commercial funds from financial institutions. The project will not channel funds through FIs).

However, during preparation, the project will conduct various diagnostics to assess the rural finance needs. The project may consider several potential interventions to support financial instruments for PPs, which could include, i)



supporting the setting-up a partial credit guarantee facility/first-loss default guarantee (FLDG) ; and ii) support scaling-up of agriculture insurance, both of which could help de-risk financial institutions from lending to the agriculture sector. Additionally, the project will evaluate the feasibility of developing and/or introducing new agriculture value chain financing products such accounts receivable financing, discounting etc.

B.3 Other Relevant Project Risks

Since the country has moved to federal structure and functions are decentralized to local and provincial government, it is not clear how this structure will unfold which will pose governance and institutional risks as the capacity of the new government is weak.

C. Legal Operational Policies that Apply

OP 7.50 Projects on International Waterways No

The project is unlikely to trigger the OP 7.50 while there is a likelihood that the project will support small scale irrigation schemes (to be co-financed with Local Governments) which will use the water from tributaries and streamlets and not impact the countries downstream.

OP 7.60 Projects in Disputed Areas No

III. WORLD BANK ENVIRONMENTAL AND SOCIAL DUE DILIGENCE

A. Is a common approach being considered? Yes

Financing Partners

IFAD, as co-financier, will use our approach and we will design and supervise the project on behalf of IFAD. WB’s safeguard will be applied for the entire project, including IFAD co-financing portion.

B. Proposed Measures, Actions and Timing (Borrower’s commitments)

Actions to be completed prior to Bank Board Approval:

Actions to be completed prior to Bank Appraisal:

- Environmental and Social Assessment;
- ESMF;
- Indigenous and Vulnerable Communities Development Framework;
- Resettlement Policy Framework;
- Institutional Capacity Assessment and Capacity Building Program;
- Stakeholder Engagement Plan;
- Gender based violence Action Plan
- Environmental and Social Commitment Plan.

Disclosure of the aforementioned Documents prior to appraisal.

Public Disclosure



Possible issues to be addressed in the Borrower Environmental and Social Commitment Plan (ESCP):

- Labor Management Procedures (including specific Occupational Health and Safety Checklist and Procedure)
- Specific plans (ESMP, PMP, RAP, VCDP, SEP, LMP) for some subprojects;
- Screening reports showing the results of E&S screening of subprojects;
- Implementation of specific plans;
- Implementation of the Capacity Building Program;
- Implementation of the FPIC process.

C. Timing

Tentative target date for preparing the Appraisal Stage ESRS

29-Nov-2019

IV. CONTACT POINTS

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V. FOR MORE INFORMATION CONTACT

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VI. APPROVAL

Task Team Leader(s):	Mio Takada
Practice Manager (ENR/Social)	Magda Lovei Recommended on 10-Jul-2019 at 10:14:26 EDT
Safeguards Advisor ESSA	Maged Mahmoud Hamed (SAESSA) Cleared on 10-Jul-2019 at 21:38:36 EDT

Public Disclosure