

INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	<input type="text" value="Azerbaijan"/>	Project Title:	<input type="text" value="Proposed Senior Loan to DemirBank for Supporting Micro, Small and Medium-Sized Enterprises"/>
Lending/Financing Modality:	<input type="text" value="Financial Intermediary"/>	Department/Division:	<input type="text" value="Private Sector Operations Department/ Financial Institutions Division"/>

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

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

The proposed project is a senior loan to Demir Bank which is designed to increase availability of bank credit to the non-oil economy and expand private banking services in Azerbaijan's underserved regions outside Baku. This is consistent with ADB's Azerbaijan Country Partnership Strategy (CPS) 2014-2018, which highlights the importance of developing private and financial institutions and the need for intensified financial intermediation. The project is aligned with the government's National Development Plan, which emphasizes more diversified financial services away from Baku and oil, and capturing essential qualitative growth opportunities in neglected regions and sectors. Demir's business approach is conducive for promoting inclusive finance in Azerbaijan, including significantly underserved regions outside Baku where it has 20 of its 33 branches.

B. Poverty Targeting

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

The project is expected to make financing more accessible to MSMEs in secondary towns and rural districts, and help them enhance their productive capacities. Demir's expansion plans include adding an additional 3 regional branches by the end of 2015. This will result in a total network of 36 branches, 23 of which will be in the regions outside Baku.

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries. Diversification of the economy is one of the main government priorities. In this regard, special efforts are needed to continue the support for increasing the share of micro, small and medium-sized enterprises (MSMEs) in GDP, expanding job opportunities for youth, improving competition in business development, lowering trade costs, and improving infrastructure. Towards this outcome, the project will support the growth of Demir's MSME finance business.

2. Impact channels and expected systemic changes Agriculture, which employed 38% of the labor force in 2010, grew at only 3.7%, far below the average GDP growth of 15.3% during 2001–2010. Also, services (other than transport and tourism) employed 27% in 2010 and grew at only 4.9%. The low productivity of agriculture and services point to high potential benefits for poverty reduction by investments in regional areas of the country. The proposed loan will help improve access to financial services for underserved entrepreneurs and small businesses in underserved regional areas.

3. Focus of (and resources allocated in) the PPTA or due diligence. Due diligence will include an assessment of the current practices of the borrower on managing social safeguards and other social dimensions including gender and labor.

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? Azerbaijan exhibits near gender parity in some spheres (education and literacy rates) but also shows distinctive inequalities in terms of women's empowerment overall, in business, and in decision making. Women constitute 17.9% of entrepreneurs. Nearly 60% of women entrepreneurs are registered in the regions and about 40% are in Baku. During 2002–2013, over AZN46 million in concessional loans were provided to women entrepreneurs by the National Fund for Enterprise Support.

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 Please explain. Gender measures will be determined during due diligence

3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality?

Yes No Please explain. Demir's human resource policies are based on equal opportunity principles no adverse impact on women or girls are anticipated.

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.

Potential borrowers are the main stakeholders of the project. The due diligence will assess the existing procedures of the borrower to reach out its potential and existing borrowers, especially in the underserved areas. Enhancements to the current processes, if required, will be discussed and agreed upon as part of the due diligence.

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?

Demir will develop and maintain its environmental and social management system (ESMS), which will cover participation aspects. Demir has developed extended outreach in underserved areas of the country. It will improve its service outreach to MSMEs in Azerbaijan and ensure that adequate investment is made in human resources, processes, and branch infrastructure.

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?

L Information generation and sharing Consultation Collaboration Partnership

Market outreach will be done to underserved areas.

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

A grievance mechanism will be established to address concerns with respect to the Bank's operation.

IV. SOCIAL SAFEGUARDS

A. Involuntary Resettlement Category A B C FI – (Treated as C)

1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? Yes No

The investment is categorized as FI treated as C, and will not result in any physical or economic displacement. For all MSME lending to be carried out using ADB funds, Demir shall ensure that each Sub-loan does not entail any involuntary resettlement impacts. Demir's ESMS includes procedures for screening of every loan application for involuntary resettlement impacts. Sub-loans with land acquisition and resettlement impacts will be excluded from consideration for ADB financing

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 (Treated as C)

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

2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? Yes No Azerbaijan is a multiethnic nation, majority of the population being Azerbaijanis. Indigenous groups are located in the mountainous regions bordering Dagestan in the north. The investment will not affect indigenous peoples or their ancestral domain

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 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?

Demir will report on subborrowers efforts to take measures to comply with core labor standards consistent with national laws.

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? Project team will conduct due diligence on social safeguards and other concerns on social dimensions (gender and labor).