

INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Sri Lanka	Project Title:	Broadening access to finance for MSMEs
Lending/Financing Modality:	Project (Financial Intermediary)	Department/ Division:	Private Sector Operations Department/ Private Sector Financial Institutions

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

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

The proposed loan to Lanka Orix Finance PLC (LOFC) and LOLC Micro Credit Limited (LOMC) will broaden access to finance in Sri Lanka for micro, small and medium sized enterprises (MSMEs) and the leasing sector. The project is aligned with the government's development policy framework (DPF) for 2010-2016, which pursues strategies to accelerate economic growth, improve access to finance, address inadequate and poor quality of infrastructure, and increase the current low level of private sector investment. The project is also consistent with ADB's 2015-2016 interim country partnership strategy (CPS) for Sri Lanka, which is linked to the government's development policy framework. The CPS calls for ADB support for private sector development particularly in financial sector development as well as in agriculture, natural resources and rural development, which LOFC and LOMC directly serve.

B. Poverty Targeting

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

The project is designed to broaden access by MSMEs to leasing products that are asset backed and therefore overcome the often limiting need for collateral required by most banks and non-bank financial institutions. LOFC and LOMC will also provide products with longer-terms, thereby contributing to more effective household and business budget management through greater flexibility in repayments over time. As MSMEs account for 80-90% of enterprises and employ 70% in the business sector, they provide a catalytic role in the development process of a country by stimulating economic growth.

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries. The expected beneficiaries of the project are urban and rural MSMEs that need leasable equipment and access to debt finance to conduct their business.
2. Impact channels and expected systemic changes. The project will contribute to the financial sector's provision of more affordable products and services, thereby assisting MSMEs to improve their capacity to generate better incomes and sustainable employment. A parallel technical assistance will help LOFC and LOMC to reach the underserved and further develop mobile banking as a transaction mode.
3. Focus of (and resources allocated in) the PPTA or due diligence. Due diligence will include review of existing practices and systems of LOFC and LOMC on addressing social safeguards and other social issues including gender and labor. The due diligence will focus on the review of current environment and social management systems of LOFC and LOMC, and assess compliance with ADB's safeguard policy requirements. The due diligence will identify and agree upon with LOFC and LOMC the need for enhancements/improvements to the existing systems and work with them to attain SPS compliance.

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?
The CPS states that loss of assets owing to the civil war and past natural disasters makes it difficult for women to use formal banking and credit institutions, and lack of access to education and skills training during the conflict limits employment opportunities and prospects for engaging in economically productive activities.

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.

Some project outputs will be designed to directly improve women's access to economic and financial resources and opportunities. Gender-specific measures will be confirmed during due diligence with LOFC and LOMC.

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

Yes No Please explain

Both LOFC and LOMC target women as an important business segment, and LOFC has a dedicated business unit providing services to women entrepreneurs. Both value and promote gender equity and diversity in hiring and personnel management practices.

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 MSME borrowers in urban and rural areas are the main stakeholders of this project. Stakeholder needs are constantly assessed through marketing and product definition activity throughout the extensive branch network of each institution.

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?

LOFC and LOMC conduct extensive outreach activity in order to disseminate information about their various products and to undertake branchless banking, especially in rural areas. Both also undertake corporate social responsibility activity focused on empowering youth to build savings and to support children of migrant workers using LOFC for processing remittances.

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 (L) Consultation Collaboration Partnership

LOFC Islamic Business Unit, Al-Falaah, is supervised by a Shari'ah Supervisory Board comprised of local and international eminent Shari'ah scholars.

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

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 Sub-projects financed through LOFC and LOMC customers are not expected to require involuntary resettlement. Sub-projects that do will be excluded from financing under this project. Nonetheless, as part of due diligence, the adequacy of existing environmental and social risk management procedures to address involuntary resettlement will be ascertained.

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

2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? Yes No Sub-projects financed through LOFC and LOMC customers are not expected to generate impacts on communities of indigenous peoples. Sub-projects that do will be excluded from financing under this project.

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 Sustainability Policy provided by LOFC and LOMC shows a strong commitment to compliance with national labor law, which is in compliance with international labor standards, as well as ensuring that products are affordable to customers through

the loan or lease application process.

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? The project Team Leader will conduct due diligence with LOFC and LOMC in order to better understand poverty, social and/or gender issues and work closely with the social team to ensure appropriate outcomes can be designed and delivered.