

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Regional	Project Title:	Creditor III, LP
Lending/Financing Modality:	FI	Department: Division:	Private Sector Operations Department Investment Funds and Special Initiatives Division

I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY

Targeting classification: General intervention

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

The proposed equity investment fund will focus on middle market companies in Southeast and South Asia, including Malaysia, Indonesia, the Philippines, India, and Sri Lanka. The fund will be established to make equity and equity-linked investments of more than US\$10 million each across various industries, including: (i) financial services (banks, finance companies); (ii) consumer goods and services (healthcare, education); and (iii) business services (B2B services, outsourcing, payment processing, logistics).

The proposed investment in the Fund aligns well with ADB's Strategy 2020¹, which seeks to promote inclusive growth. Accordingly, the Fund intends to invest in the financial services sector by increasing the capacity of financial intermediaries to expand lending to SMEs and low and middle income consumers, which is essential to ensuring sustainable private sector-led growth. The Fund also plans to invest in healthcare companies, including those that support delivery of more cost-effective health services and goods. The investment proposes to participate in secondary and tertiary education institutes, thereby helping to improve access to and quality of skills development in target markets to reduce skills shortages. Several investments align with ADB's inclusive growth mandate. These include (i) an affordable housing company focusing on semi-urban and rural areas in India; (ii) a tertiary education centre that aims to improve the quality of healthcare professionals skills (medical and pharmacy) in Malaysia; and (iii) a housing finance company India focusing on underpenetrated non-metro areas. Finally, the Fund supports ADB's vision of expanding its partnerships with a diverse group of stakeholders to maximize returns as well as development impact potential of its investments. The proposed investment is consistent with ADB's financial sector operational plan,² which prioritizes the need to enhance SME access to finance as part of financial sector development agenda, and the need to support the three key pillars of the real economy: households, SMEs and infrastructure.

B. Results from the Poverty and Social Analysis during PPTA or Due Diligence

1. **Key poverty and social issues.** The Fund's focus towards financial services, healthcare, and business services complements ADB's mandate of supporting socially inclusive sectors to create economic opportunities and expand access to these opportunities for underserved communities. Creditor's previous experience in investing in these industries based on their potential to improve the lives of semi-urban and rural populations, mitigate extreme inequalities, and drive economic growth anchors ADB's rationale for proposing to invest in the Fund. The Fund aims to invest roughly equally among the three main markets of Malaysia, Indonesia, and India, with investments in first time markets in the Philippines and Sri Lanka. Sector wise the Fund Manager sees compelling opportunities primarily in financial or business services and healthcare. The proposed project will enable the Fund to expand its consumer goods and services (healthcare and education) exposure.

2. **Beneficiaries.** Creditor is one of Southeast Asia's most experienced private equity investors and has been successful in the past mainly due to its in-depth local knowledge of target markets and sectors. Since its founding in 2011, Creditor has built a strong network covering business owners, senior executives, financial institutions, government institutions, M&A advisors, consultants, industry analysts and current and former employees of portfolio companies. This has reduced the Fund's need to source deals through competitive processes as evidenced by the fact that all investments from the previous two funds (Creditor I and Creditor II) have been sourced directly or through referrals. To date, Creditor has made 17 investments using a highly selective approach, investing in roughly 1% of deals considered. The potential beneficiaries of the project are the Fund and their customers, who previously have not been able to access SME credits. The investment aims to invest roughly equally among the three main markets of Malaysia, Indonesia, and India, with investments in first time markets in the Philippines and Sri Lanka. Sector wise

¹ Asian Development Bank, 2008. Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008-2020. Manila, 2008.

² ADB. 2009. *Financial Sector Operational Plan*. Manila.

the Fund Manager sees compelling opportunities primarily in financial or business services and healthcare (accounting for 37% and 30% of the pipeline, respectively).

3. Impact channels. The impact is increased private equity funding in the Asian middle market segment. The Fund's success is expected to catalyze additional PE funding measured by the increase in PE funding in Asia as a percentage of global PE funding. The Fund also expects to improve the corporate governance and transparency of its investee companies, wherever possible, and to contribute to overall (i.e., net) job creation and tax contributions.

4. Other social and poverty issues. The Fund's focus towards financial services, healthcare, and business services complements ADB's mandate of supporting socially inclusive sectors to create economic opportunities and expand access to these opportunities for underserved communities. Creador's previous experience in investing in these industries based on their potential to improve the lives of semi-urban and rural populations, mitigate extreme inequalities, and drive economic growth anchors ADB's rationale for proposing to invest in the Fund.

5. Design features. The investment aims to invest roughly equally among the three main markets of Malaysia, Indonesia, and India, with investments in first time markets in the Philippines and Sri Lanka. Sector wise the Fund Manager sees compelling opportunities primarily in financial or business services and healthcare (accounting for 37% and 30% of the pipeline, respectively).

C. Poverty Impact Analysis for Policy-Based Lending

Not applicable.

II. PARTICIPATION AND EMPOWERING THE POOR

1. Summarize the participatory approaches and the proposed project activities that strengthen inclusiveness and empowerment of the poor and vulnerable in project implementation. The Fund conducts consultations with stakeholders, including local residents; all their concerns will be incorporated for implementation. The investment on financial services, healthcare and business services will improve the lives of peoples living in rural and semi-urban areas, provide mitigation measures to fill in the gaps of inequalities amongst population.

2. If civil society has a specific role in the project, summarize the actions taken to ensure their participation. Not applicable.

3. Explain how the project ensures adequate participation of civil society organizations in project implementation. Not applicable.

4. What forms of civil society organization participation is envisaged during project implementation: high (H), medium (M), low (L), or not applicable (N).

(M) Information gathering and sharing Consultation Collaboration Partnership

5. Will a project level participation plan be prepared to strengthen participation of civil society as interest holders for affected persons, particularly the poor and vulnerable?

Yes. No.

The Fund will develop its environmental and social management system (ESMS) to include the conduct of consultations and participation during project implementation. The Fund will adopt the ESMS prior to disbursement for the first subproject investment.

III. GENDER AND DEVELOPMENT

Gender mainstreaming category: No gender elements

A. Key issues. The Fund upholds gender equality and provides equal benefits and training opportunities for men and women. The proposed project is anticipated to share equally benefits for women in the consumer goods and services regarding to healthcare and education. The proposed project is not expected to cause any specific cultural or social impact upon or exclude any socioeconomic group, including women, from benefiting from the investment.

B. Key actions.

Gender action plan Other actions or measures No action or measure

The Fund does not expected to have new or additional gender equity features at the corporate level apart from implementing present practice. At the investee companies' levels, the ESMS will include provisions to ensure that women are included in the consultation process.

IV. ADDRESSING SOCIAL SAFEGUARD ISSUES

A. Involuntary Resettlement

Safeguard Category: A B C FI

1. Key impacts. The proposed equity investment will promote the development benefits associated with increased investee companies and private sector development in the Fund's target areas: (i) financial services (banks, finance companies); (ii) consumer goods and services (healthcare, education); and (iii) business services (B2B services, outsourcing, payment processing, logistics). The investment activities which are classified as category A for involuntary resettlement will be excluded for ADB funding. Thus, the project might involve involuntary resettlement issues at the modest level.

2. Strategy to address the impacts. The fund will establish an ESMS satisfactory to ADB Safeguard Policy Requirement before first disbursement. The Fund will maintain a screening, categorization and review procedure within its ESMS to manage the involuntary resettlement impacts. In case the policy is triggered the ESMS will provide guidance on matters pertaining to due diligence, corrective actions.

3. Plan or other actions.

Environmental and social management system

B. Indigenous Peoples

Safeguard Category: A B C FI

1. Key impacts. Is broad community support triggered? Yes No

The investment will not engage in activities that will directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples (IPs) or affect the territories or natural or cultural resources that IPs own, use, occupy or claim as an ancestral domain or asset.

2. Strategy to address the impacts. The fund will establish an ESMS satisfactory to ADB Safeguard Policy Requirement before the first disbursement. The Fund will maintain a screening, categorization within its ESMS to manage Indigenous Peoples issue.

3. Plan or other actions.

Environmental and social management system

V. ADDRESSING OTHER SOCIAL RISKS

A. Risks in the Labor Market

1. Relevance of the project for the country's or region's or sector's labor market: high (H), medium (M), and low or not significant (L).

unemployment underemployment retrenchment (H) core labor standards

2. Labor market impact. The capital will be deployed among 12-13 portfolio companies by 2020 which is expected to generate jobs for local residents.

B. Affordability

The project will not have any impact, as poor and vulnerable groups are included in the customer beneficiaries who previously have not been able to access SME credits.

C. Communicable Diseases and Other Social Risks

1. Indicate the respective risks, if any, and rate the impact as high (H), medium (M), low (L), or not applicable (NA): The investment on healthcare will have a positive impact on healthcare treatment and rehabilitation of the local populations.

Communicable diseases Human trafficking

Others (please specify) _____

2. Describe the related risks of the project on people in project area. None

VI. MONITORING AND EVALUATION

1. Targets and indicators: The project is expected that the capital is deployed among 12-13 portfolio companies by 2020. This target is included in the regular monitoring report.

2. Required human resources: The Fund will assign and train staff to be capable for ESMS implementation.

3. Information in PAM: Private sector project does not have a PAM.

4. Monitoring tools: The tools for poverty and social dimensions include annual environmental and social performance reports or annual environmental and social monitoring reports which will be parts of ESMS.

Source: