

## INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	People's Republic of China	Project Title:	Microfinance in Poverty-Stricken Counties
Lending/Financing Modality:	Senior Loan	Department/ Division:	Private Sector Operations Department/ Private Sector Financial Institutions Division

### I. POVERTY IMPACT AND SOCIAL DIMENSIONS

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

ADB will provide a senior secured loan of up to \$50 million to CFPAMM to fund microfinance operations in counties designated by central and local government as poverty-stricken areas. The sub-loans will be primarily used for agricultural and farming purposes, and may also be used to support individual microbusinesses in trade, manufacturing, and services as well as other rural economic activities. The proposed loan will particularly benefit women, as CFPAMM specifically targets women in rural areas as its core customers.

The project is aligned with the PRC Country Partnership Strategy (CPS) 2011-2015<sup>a</sup>, Pillar 1 on inclusive growth which supports improving access to microfinance and small and medium-sized enterprise finance to help boost rural livelihood. The CPS also indicated that one of the drivers of change is private sector development focusing on innovative financing solutions including microfinance. Moreover, the project is aligned with the current PRC country operations business plan, 2015–2017<sup>b</sup>, which prioritizes promoting balanced development of rural and urban areas, supporting catalytic nonsovereign projects, and private sector development.

#### B. Poverty Targeting:

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

ADB's loan will support the expansion of CFPAMM's microfinance lending to rural households and micro-entrepreneurs in poverty-stricken counties. The bulk of the sub-loans to rural households will be primarily used for agricultural and farming purposes, while the rest are provided to micro-entrepreneurs. ADB's assistance is expected to support income generating activities of poor households.

#### C. Poverty and Social Analysis

1. Key issues and potential beneficiaries. China's average GDP growth of 10 percent in the past years allowed it to lift more than half a billion people out of poverty. However, as of end 2012 still almost 99 million people still lived below the poverty line.<sup>c</sup> Data from the 2015 World Development Indicators showed that the poverty headcount ratio at \$1.90/day have improved from 14.7% in 2008 to 11.2% in 2011.<sup>d</sup> Poverty remains a salient challenge in the PRC. The CPS 2011-2015 noted that a large number of near-poor or vulnerable households are located in the rural areas. It cites that rural poverty can be attributed to low productivity in agriculture and gaps in access to finance. Many financial institutions are reluctant to offer financing to rural households, which in some ways have contributed to the widening gap in urban-rural incomes.

The majority of the sub-loans will be provided to rural households, primarily for agricultural and farming purposes, while the rest will be provided to micro-entrepreneurs. The proposed loan will particularly benefit women, as CFPAMM specifically targets women in rural areas as its core customers.

2. Impact channels and expected systemic changes. As the microfinance sector in the PRC is still in the early stage of development, there is vast unmet demand for microcredit for the rural population. ADB's loan to CFPAMM will focus on lending in rural areas, particularly women, thus contribute to the development of this underdeveloped sector. CFPAMM's expanded lending capacity will allow them to reach and offer financial access to more rural poor households, targeting mostly women borrowers, and help improve and sustain their livelihood and incomes. This will also help empower women in terms of building their financial management and skills capacity through some trainings to be offered by CFPAMM.

3. Focus of (and resources allocated in) the PPTA or due diligence. ADB Team will conduct a due diligence on the CFPAMM's environmental and social management system implementation, how CFPAMM identified and addressed its subloans' impacts on environment, land acquisition and involuntary resettlement, indigenous peoples/ethnic minority issues, gender aspects, labor practices, stakeholder engagement, among other related issues.

4. Specific analysis for policy-based lending. Not applicable.

### 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? With PRC's economic growth and improvements in poverty reduction, strides were also observed in terms of policies that placed emphasis on gender equality. However, there are remaining gender disparities that still need attention.

The CPS' gender analysis indicated that women in rural areas continue to perform most of the agriculture work. They are often marginalized because of lower education and the lack of access to skills and information. Laws on land management and rural land contracting have been in place to promote gender equality in land rights but it remains that women's rights to land is limited. A survey done in 2011 cites that "only 17.1% of existing contracts and 38.2% of the existing certificates include women's names."<sup>e</sup>

As of 2015, people's access to bank accounts reached 78.9%, with the rural population and the women posting a lower outreach ratio of 74.3% and 76.4%, respectively.<sup>f</sup> Overall, rural women lack endowments, access to finance and livelihood activities. Programs that will facilitate their access to finance and provide better attention to appropriate financial products will help women to participate in income generating activities, lift themselves from poverty, and empower themselves.

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 CFPAMM's program recognizes the issues raised in the CPS and primarily targets underserved rural women clients. Its main product is the group loan offered to up to five households with female household member as direct borrowers. A gender action will be prepared.

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

Yes  No The project is expected to provide positive advantage and benefits to women.

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.

The stakeholders of the project include the CFPAMM and its local branches/cooperatives, and rural women borrowers. The CFPAMM will integrate in its design the gender action measures intended to enhance opportunities and empowerment of women.

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?

During the project preparation, the project team will discuss and consult with the CFPAMM Management on how it will engage better with the targeted women group subborrowers in the rural areas.

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?

M  Information generation and sharing  Consultation  Collaboration H  Partnership

CFPAMM carries out its operations through 20 branches under the two subsidiaries with microcredit company licenses in Liaoning and Sichuan Provinces and 144 local cooperatives under CFPA. These 144 local cooperatives are county-level NGOs established by CFPA.

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 (treated as C)

1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement?  Yes  No ADB's proposed Loan will fund sub-loans to be provided to a group of up to 5 women under a joint liability model, with a maximum limit currently set at CNY16,000 per borrower. Majority of the subloans will be provided to rural households for agribusiness and microentrepreneurial purposes related to trade, handicraft, and services. The subloans under ADB Loan are expected to have minimal or no adverse social impacts, no land acquisition and/or physical/economic displacements are foreseen in relation to any activities of the sub-borrowers.

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

<p><b>B. Indigenous Peoples Category</b> <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input checked="" type="checkbox"/> FI (treated as C)</p> <p>1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No The proposed Loan will fund CFPAMM's microfinance operations in counties designated by central and local government as poverty-stricken area. ADB's proposed Loan will fund sub-loans to be provided to a group of up to 5 women under a joint liability model, with a maximum limit of RMB 16,000 per borrower. Majority of the sub-loans will be provided for agribusiness (e.g. livestock raising, farming) and micro-entrepreneurial purposes related to trade, manufacturing and services. The subloans under ADB Loan are expected to have minimal or no adverse social impacts to Indigenous Peoples communities.</p> <p>3. Will the project require broad community support of affected indigenous communities? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>4. What action plan is required to address risks to indigenous peoples as part of the PPTA or due diligence process?  <input type="checkbox"/> Indigenous peoples plan <input type="checkbox"/> Indigenous peoples planning framework <input type="checkbox"/> Social Impact matrix  <input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None</p>
<p align="center"><b>V. OTHER SOCIAL ISSUES AND RISKS</b></p> <p>1. What other social issues and risks should be considered in the project design?  <input type="checkbox"/> Creating decent jobs and employment <input checked="" type="checkbox"/> Adhering to core labor standards <input type="checkbox"/> Labor retrenchment  <input type="checkbox"/> Spread of communicable diseases, including HIV/AIDS <input type="checkbox"/> Increase in human trafficking <input type="checkbox"/> Affordability  <input type="checkbox"/> Increase in unplanned migration <input type="checkbox"/> Increase in vulnerability to natural disasters <input type="checkbox"/> Creating political instability  <input type="checkbox"/> Creating internal social conflicts <input type="checkbox"/> Others, please specify _____</p> <p>2. How are these additional social issues and risks going to be addressed in the project design? CFPAMM will comply with the national labor laws and will take measures to comply with the International Labor Organization's core labor standards.</p>
<p align="center"><b>VI. PPTA OR DUE DILIGENCE RESOURCE REQUIREMENT</b></p> <p>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?  <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No ADB team will include in its due diligence exploring measures to improve opportunities as well as promote empowerment of CFPAMM women borrowers and staff.</p> <p>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? ADB team will conduct review of relevant documents and due diligence to identify gaps and explore gap-filling measures, as required.</p>

<sup>a</sup> ADB. May 2012. Country Partnership Strategy: People's Republic of China, 2011-2015. Manila.

<sup>b</sup> ADB. February 2015. Country Operations Business Plan: People's Republic of China, 2015-2017. Manila.

<sup>c</sup> The World Bank. China Overview. Available at <http://www.worldbank.org/en/country/china/overview>

<sup>d</sup> The World Bank. World Development Indicators. Available at

<http://databank.worldbank.org/data/reports.aspx?source=2&country=CHN&series=&period=>

<sup>e</sup> Landesa. Summary of 2011 17-Province Survey's Findings. Available at <http://www.landesa.org/china-survey-6/>

<sup>f</sup> World Bank. 2015. The Little Data Book on Financial Inclusion 2015. Washington.