

INITIAL POVERTY AND SOCIAL ANALYSIS

Country: Project Title:

Lending/Financing Modality: Department/ Division:

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

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

The transaction will broaden access to finance for micro, small, and medium-sized enterprises (MSMEs) in Sri Lanka. ADB's funding will help DFCC to grow and provide much needed finance to MSMEs throughout the country. The project is aligned with Asian Development Bank's Sri Lanka Country Partnership Strategy (CPS), 2018-2022—Transition to Upper Middle-Income Country Status.^a The CPS' 2nd pillar focuses on improving the quality of growth by promoting inclusiveness in which the priority investment areas will be to (i) strengthen agriculture infrastructure and commercialization, (ii) improve rural connectivity, (iii) improve public service delivery, and (iv) expand access to finance for small and medium-sized enterprises (SMEs). The CPS also indicated that key thematic priorities includes promoting private sector development and public-private partnership (PPP) and (iii) promoting gender equality. The project is also aligned with ADB's Gender Equality and Women's Empowerment and Operational Plan, 2013-2020.^b

B. Poverty Targeting:

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

The project will benefit the micro, small, and medium-sized enterprises (MSMEs) in the country, especially those in the rural areas who have limited access to finance.

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries. Sri Lanka experienced rapid economic in the past years as its GDP growth averaged 6% from 2007-2016. The per capita income as of end 2016 hit \$3,835, government-financed education and health services improved, and poverty ratio has improved (endnote a). The country has also improved in providing basic infrastructure services.^c Despite all these, there are remaining challenges such that inequality remains, Poverty are relatively higher in some areas: poverty incidence is higher in the estate plantations (10.9%) and in the rural (7.6%) areas compared to the national rate of 6.7% in 2012-2013. Incomes of the bottom 20% from 4.8 percent in 1995-1996 to 4.5 percent in 2012-2013. Unemployment rate in the rural areas (4.2%) are higher than in the urban areas (3.8%) as of third quarter 2017.^d

2. Impact channels and expected systemic changes. The project will contribute to the financial sector's provision of more affordable and accessible credit services to micro and small and medium enterprises. The availability of finance to small entrepreneurs will help build their capacity to generate more employment and offer better incomes to local labor.

3. Focus of (and resources allocated in) the PPTA or due diligence. ADB Team will conduct a due diligence on the DFCC's environmental and social management system implementation, how DFCC 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? There are 1,325 DFCC staff in December 2016, of which 48.8% are women. Women represent 27.1% of the management, 42.2 % of executive staff, 52.2% of the supervisory staff, and 55.2% of junior staff. The share of women in the management positions had increased from 24.3% in 2014 to 27.1% in 2016. In 2017, DFCC provided loans to 358 women under its SBE program and 846 women under its SME program. DFCC has a Secure Environment Policy which prohibits discrimination and sexual harassment in the bank.

In Sri Lanka, gender mainstreaming has been positive in some fronts: progress was noted in raising life expectancy of women and achievement of gender parity in education, However, Sri Lanka remained low in areas of reproductive health, and labor market participation.^e Women exhibited lower participation in the labor market. Data as of third quarter showed that female (18 and above) labor participation rate was at 38.5 compared to males' 78.7%.^f Similarly,

females' employment rate was only 93.3%, 4.2 percentage points lower than the males. World Bank's study also noted that women's experiences in Sri Lanka's labor market remain characterized by low participation, high unemployment and persistent wage disparities between the sexes.⁹ It also stated that women are not acquiring the proper skills demanded by job markets.

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 DFCC will enhance its outreach program and encourage more female customers to access the financing offered by DFCC. The number of female borrowers is expected to increase. 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 DFCC and its local branches, and its borrowers, including women. DFCC 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?

DFCC has its social and environmental management system (SEMS) which covers consultation aspects. Subprojects are encouraged to develop a public consultation plan involving project affected groups, if any, and other stakeholders. DFCC also engage with local communities through their network branches and public events. DFCC also support local communities through volunteer efforts and corporate social responsibility activities that cover entrepreneurial development, education, environment conservation, and emergency relief, among others.

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

DFCC is a member of industry associations and organizations and its staff actively participate in activities coordinated by these institutions.

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 loan to DFCC will be used to expand its MSME operations. The MSME sub-loans are not expected to result in physical or economic displacements. Sub-loans will be screened under the guidance of ESMS. Category A and B on involuntary resettlement will be excluded from 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 DFCC's average loan sizes under SME and microfinancing portfolio is not expected to cause any adverse impact on indigenous peoples or ethnic minority groups. Risks of impacts

involving indigenous peoples or ethnic minority groups is assessed for each subloan. The sub-loans will be screened under the guidance of ESMS; category A and B on indigenous peoples will be excluded from financing.

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 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? DFCC will comply with the national labor laws and will take measures to comply with the International Labor Organization's core labor standards.

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 ADB team will include in its due diligence exploring measures to improve opportunities as well as promote empowerment of women borrowers.

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.

^a ADB. 2017. *Country Partnership Strategy: Sri Lanka, 2018-2022— transition to Upper Middle-Income Country Status*. Manila.

^b ADB. 2013. *Gender Equality and Women's Empowerment Operational Plan 2013-2020*. Manila.

^c ADB CPS indicated that Sri Lanka has the "highest road density in South Asia, 98% of the population has access to electricity, 96% access to safe water, and 95% access to sanitation."

^d Sri Lanka Department of Census and Statistics (SLDCS). 2017. *Quarterly Report of the Sri Lanka Labour Force Survey— Third Quarter*. Available: <http://www.statistics.gov.lk/samplesurvey/2017Q3report.pdf>

^e ADB. 2017. *Country Partnership Strategy: Sri Lanka, 2018-2022— transition to Upper Middle-Income Country Status*. Inclusive and Sustainable Growth Assessment. Manila.

^f SLDCS. 2017. *Quarterly Report of the Sri Lanka Labour Force Survey— Third Quarter*. Sri Lanka.

^g World Bank. 2017. *Unlocking Women's Potential in Sri Lanka's Labor Force*. <http://www.worldbank.org/en/news/feature/2017/11/15/unlocking-womens-potential-sri-lankas-labour-face>