

INITIAL POVERTY AND SOCIAL ANALYSIS

Country: People's Republic of China Project Title: PRC Loan to MicroCred China for Improving MSMEs' Access to Finance

Lending/Financing Modality: FI 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

MicroCred China Limited (MCC) was established in February 2007 in Hong Kong, China as an investment holding company with operations focusing on MSME financing in Sichuan which is one of the poorest provinces in People's Republic of China (PRC). MCC is one of the larger microcredit operating in the PRC. MCC has two fully subsidiaries, one is MicroCred Nanchong Company Limited which was set up in 2007 and the other is MicroCred Sichuan Company Limited which was set up in 2011. Both entities are PRC incorporated limited liability companies authorized and regulated by the local financial management office. MCC provides financial products and services to MSMEs which are excluded from the traditional financial system. MicroCred invests in innovation and technology to improve efficiency, customer experience and enhance portfolio management. MCC originates businesses through its branch network, with 39 branches and outlets in Sichuan province. MCC plans to further expand its business to several other cities in Sichuan with high growth potential and low competition. MCC is also implementing other initiatives to improve its IT infrastructure and applications which include paperless credit underwriting, loan agreement signing using digital signature, and disbursement and automated collections through third party payment platforms. The company is well recognized nationwide as one of the top performers in micro credit market.

The Country Partnership Strategy (CPS) for PRC (2016-2020) identifies that it will enhance finance sector infrastructure and support commercially viable business models to assist in the continued domestic balancing from industry to services. Also, the proposed investment supports Midterm Review of Strategy 2020 in private sector development, operations and financial sector development.

B. Poverty Targeting

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

MicroCred China Limited (MCC) is an investment holding company focusing on providing financial products and services to micro, small and medium enterprises which are excluded from traditional financial system. MCC has two fully-owned subsidiaries, MicroCred Nanchong Company Limited (MCN) and MicroCred Sichuan Company Limited (MCS). The ADB loan totaling \$20 million will be provided to (i) MCN (\$17 million) and (ii) MCS (\$3 million) as co-borrowers.

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries. The primary beneficiaries of the project are the company itself, MSMEs and consumers who generally benefit from services provided during project operation.

2. Impact channels and expected systemic changes. The company has a high cost to income ratio due to the need to maintain a large branch network and high staff members. MCC plans to reduce the operating costs by improving efficiency through the use of IT technology and integrating certain back office functions of MicroCred Sichuan Company Limited and MicroCred Nanchong Company Limited.

3. Focus of (and resources allocated in) the PPTA or due diligence. The company management will adopt an environmental and social management system (ESMS) acceptable to ADB before the first disbursement, and report annually on safeguards and other social dimensions on gender and core labor standards. The project will be following local laws and regulations as well

4. Specific analysis for policy-based lending. N/A

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? Effective gender mainstreaming (EGM) is anticipated for this transaction. A gender action plan will be developed which would be discussed further with the client during due diligence.

2. Does the proposed project or program have the potential to contribute 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. If yes, a gender action plan should be prepared during PPTA or due diligence.

3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality?
 Yes No Please explain If yes, actions and measures should be prepared during PPTA or due diligence.
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 stakeholders include consumers of services provided by company and its subsidiaries, the MSMEs, national and local government, regulatory agencies, and host local communities. The project affected persons might be involved with land acquisition and they will participate through community consultations conducted by the company and MSMEs.
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? Consultation meetings will be conducted by the company and the subsidiaries with the relevant stakeholders, especially the customers and host local communities.
3. 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 Please explain.
 Details of the consultation and grievance redress mechanism will be discussed in the company's upgraded ESMS.

V. 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 The loan is unlikely to involve involuntary resettlement resulting in physical and economic displacement. The company will adopt its ESMS prior to the first disbursement for the financing of investments.
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 The loan does not have potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of ethnic minorities in the PRC.
2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? Yes No
3. Will the project require broad community support of affected indigenous communities? Yes No Please explain.
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 _____
 Indicate high (H), medium (M), low (L) for selected boxes
2. How are these additional social issues and risks going to be addressed in the project design? The company and its subsidiaries will provide job opportunities for the peoples. This indicator has been put into DMF for monitoring.

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 If no, please explain why. There is no PPTA under private sector project but the client will mobilize competent staff to cover social safeguards issues and other social dimensions.

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? Due diligence is undertaken by staff