



Initial Poverty and Social Analysis

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ARM: Increasing Gender-Inclusive Lending to Micro, Small, and Medium-Sized Enterprises Project

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Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
AEB		Armeconombank
CPS	–	country partnership strategy
CSO	–	civil society organizations
ESMS	–	environmental and social management system
MSME	–	micro, small and medium enterprise
SME	–	small and medium enterprise
SPS	–	Safeguard Policy Statement (2009)

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INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Armenia	Project Title:	Increasing Gender-Inclusive Lending to Micro, Small, and Medium-Sized Enterprises
Lending/Financing Modality:	Financial Intermediary	Department/Division:	Private Sector Operations Department Private Sector Financial Institutions Division

I. POVERTY IMPACT AND SOCIAL DIMENSIONS
<p>A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy</p> <p>The project is aligned with the Government of Armenia's Development Strategy 2014–2025, which recognizes the importance of small and medium-sized enterprises (SMEs) in employment creation and export growth. Asian Development Bank's (ADB) country partnership strategy (CPS) for Armenia supports the development of the country's finance sector through private sector operations. The project is also consistent with ADB's country operations business plan, 2019–2021 for Armenia, which aims to support financial intermediation through local banks and nonbanks to improve access to finance for MSMEs.</p>
<p>B. Poverty Targeting</p> <p><input checked="" type="checkbox"/> General intervention <input type="checkbox"/> Individual or household (TI-H) <input type="checkbox"/> Geographic (TI-G) <input type="checkbox"/> Non-income MDGs (TI-M1, M2)</p> <p>The ability of micro, small, and medium-sized enterprises (MSMEs) to access funds has been constrained by lack of adequate bank lending and the absence of well-developed capital markets in Armenia. The senior loan of the ADB to Armeconombank (AEB) will provide critically needed longer-tenor funding to MSMEs by helping the bank extend the maturity of its lending and better match the tenor of its MSME products.</p>
<p>C. Poverty and Social Analysis</p> <p>1. Key issues and potential beneficiaries. Armenia has made considerable progress in poverty reduction since independence in 1991; however, according to the CPS, 32% of the population was still poor in 2013, of which 2.7% were extremely poor. According to ADB Basic Statistics, the rate fell to 29.8% in 2015 and to 25.7% in 2017. The CPS notes that poverty is higher in secondary towns than in the capital city of Yerevan, and is higher in northern Armenia, since economic opportunities are limited in smaller urban areas and the urban poor do not have access to farming or other kinds of self-employment in rural areas. According to government statistics, the poverty rate in 2017 in rural Armenia was 26.8%, above the national figure, and 1.9% of the poor were assessed as extremely poor. The ADB transaction to strengthen Armenia's finance sector will indirectly contribute to development and poverty reduction in the country by increasing AEB's capacity to service MSMEs and promote access to finance that creates employment and economic growth. The expected beneficiaries of the project are MSMEs seeking access to finance for their business activities. The World Bank estimates that, out of the 130,000 SMEs in Armenia, 50% have no access to finance, and this figure increases to 60%–70% in rural areas. The Armenia Development Strategy 2014–2025 also notes that SMEs are a key catalyst for employment in the country. ADB estimates made for this project indicate that nearly 40% of Armenia's employment in early 2017 was provided by micro businesses and SMEs. While this intervention by ADB will foster the development of the finance sector, it will also improve access to SME retail banking services with the intention of stimulating economic growth and employment opportunity among underbanked businesses.</p> <p>2. Impact channels and expected systemic changes. Through improvements in AEB's lending capacity and market outreach, individual entrepreneurs and SMEs will have broader access to better and more diverse banking services, which in turn are expected to provide opportunities to raise their income and improve their employment sustainability.</p> <p>3. Focus of (and resources allocated in) the transaction TA or due diligence. Due diligence will focus on the capacity of AEB to provide its services into areas outside of Yerevan and to MSMEs owned or co-owned by women.</p>
II. GENDER AND DEVELOPMENT
<p>1. What are the key gender issues in the sector and/or subsector that are likely to be relevant to this project or program? In Armenia, MSMEs are considered crucial for women because, besides public-sector jobs, they are the most promising entry points for women's participation in the economy.^a However, the World Economic Forum's Global Gender Gap Report (2018) estimates that the proportion of businesses in Armenia with women as either majority owners or minority co-owners is only 34.0%. The ratio is low because women often lack the business skills, knowledge, confidence, and access to networks and credit needed to start a business.^b</p>
<p>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? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>The project has the potential to introduce gender mainstreaming actions and measures within AEB and its customer base. AEB is committed to the development of women entrepreneurs through both financial and nonfinancial offerings. In relation to nonfinancial services, AEB provides development opportunities to its female borrowers aimed at improving their business skills through training and tailored educational seminars. AEB also trains its staff on how</p>

<p>to provide women with high-quality customer service. In 2018, AEB extended 14.9% of its total loan portfolio to women, with a greater share of loans (33.0%) going to women in its MSME portfolio. In 2019, 63.0% of AEB's 903 staff are women, but their representation varies. Women are underrepresented in decision-making roles, including the board (17.0%), in executive positions (22.0%), and in senior management (13.0%); however, they are over-represented in the more junior professional roles, holding 75.0% of them. Reasons shared by management for the low representation of women in senior positions include women's difficulty in balancing their work and care responsibilities, and the perception that men are better suited for the credit roles that are the career track to management.</p>
<p>3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>While such impacts are not expected, ADB will ensure during due diligence that AEB has appropriate policies and procedures in place to ensure that its business activities do not cause adverse impacts on women or girls or widen inequalities. For instance, AEB's human resources policy incorporates an anti-sexual harassment policy.</p> <p>4. Indicate the intended gender mainstreaming category: <input checked="" type="checkbox"/> GEN (gender equity) <input type="checkbox"/> EGM (effective gender mainstreaming) <input type="checkbox"/> SGE (some gender elements) <input type="checkbox"/> NGE (no gender elements)</p>
<p>III. PARTICIPATION AND EMPOWERMENT</p>
<p>1. Who are the main stakeholders of the project, including beneficiaries and negatively affected people? The main stakeholders of the project are MSMEs and women led and co-owned MSMEs seeking access to finance for their business activities.</p> <p>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? AEB's market analysis involves interactions with current and prospective clients, that may include poor and vulnerable people, to understand their needs and to develop products and outreach activities that will ensure that these needs are met. AEB will need to ensure that its environmental and social management system (ESMS) includes the development of mitigation and management measures through meaningful stakeholder consultation.</p> <p>3. What are the key, active, and relevant civil society organizations (CSOs) in the project area? What is the level of civil society organization participation in the project design? Due diligence will investigate the existence CSO groups in Armenia with an interest in the financing of MSMEs. If MSME clients are required to conduct public consultation due to the nature of their AEB financed business activities, AEB due diligence will include measures to assess if such consultation has been carried out in accordance with applicable national laws and regulations and the ADB Safeguard Policy Statement 2009 (SPS). <input checked="" type="checkbox"/> Information generation and sharing (L) <input type="checkbox"/> Consultation <input type="checkbox"/> Collaboration <input type="checkbox"/> Partnership</p> <p>4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how should they be addressed? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>A participation plan is not required, however the final ESMS to be submitted to ADB prior to first disbursement will include arrangements to conduct consultations following national laws and, as required, meaningful consultations in accordance with ADB's Safeguard Policy Statement (2009).</p>
<p>IV. SOCIAL SAFEGUARDS</p>
<p>A. Involuntary Resettlement Category <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 project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No AEB's portfolio includes financial services for trade, food and service, production, agriculture, and tourism. A few transactions of Euro 10,000–20,000 involve transport and communications, while some transactions of Euro 100,000–200,000 involve construction companies. These business activities are unlikely to entail any physical or economic displacement as a result of land acquisition using eminent domain laws, or restrictions of access on lands or natural resources, or any displacement of nontitled users of privately purchased land.</p> <p>2. What action plan is required to address involuntary resettlement as part of the transaction TA or due diligence process? <input type="checkbox"/> Resettlement plan <input type="checkbox"/> Resettlement framework <input type="checkbox"/> Social impact matrix <input checked="" type="checkbox"/> Environmental and social management system arrangement <input type="checkbox"/> None</p>
<p>B. Indigenous Peoples Category <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 AEB's lending activity are not expected to cause impacts on distinct</p>

and vulnerable indigenous peoples' communities in Armenia. AEB's ESMS requires loan officers to screen for impacts on vulnerable groups or ethnic minorities, and significant cultural heritage sites. The screening criteria will be further refined to ensure that AEB transactions using ADB financing will not entail Category A and B impacts on indigenous peoples.

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 transaction TA 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 (M) 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 project will have an indirect impact on the local labor market through the provision of finance to the underserved segment of individual entrepreneurs and SMEs, which employs a large proportion of Armenia's population. A strengthened finance sector will allow for more favorable terms, which in turn will contribute to reductions in unemployment and underemployment. Armenia has ratified all conventions related to core labor standards. The prevailing labor and industrial relations laws guaranteeing freedom from association, collective bargaining, non-discrimination, individual worker grievance resolution, and arbitration of labor disputes will apply.

VI. TRANSACTION TA OR DUE DILIGENCE RESOURCE REQUIREMENT

1. Do the terms of reference for the transaction TA (or other due diligence) contain key information needed to be gathered during transaction TA 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 transaction TA or due diligence? Due diligence will be undertaken by the project team in accordance with ADB requirements for financial intermediaries.

^a ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Grant to Armenia for the Women's Entrepreneurship Support Sector Development Program*. Manila.

^b [World Economic Forum. 2012 The Global Gender Gap Report 2018](http://www.weforum.org/publications/2018-01-16-the-global-gender-gap-report-2018)

Sources: ADB. 2019. *Country Partnership Strategy: Armenia, 2019–2023*. Manila; ADB. 2014. *Country Operations Business Plan: Armenia, 2019–2021*. Manila; Government of Armenia. 2014. Armenia Development Strategy 2014-2025. Yerevan; Government of Armenia (Armenian <https://www.gov.am/files/docs/1322.pdf>; English <http://policy.thinkbluedata.com/node/1492>); 2017. Ministry of Economy SME Employment Statistics (<http://mineconomy.am/media/2017/04/1929.pdf>). Yerevan; Government of Armenia. 2017. National Statistical Service national Labor Market Statistics (<http://www.armstat.am/en/?nid=12&thid=labr&type=0&submit=Search>). Yerevan; Statistical Committee Republic of Armenia. 2018. *Social Snapshot and Poverty in Armenia*. Yerevan; World Bank Group. 2016. Financial Inclusion Data. Washington, DC. [The Global Gender Gap Report, 2018, World Economic Forum](http://www.weforum.org/publications/2018-01-16-the-global-gender-gap-report-2018).