



# Initial Poverty and Social Analysis

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## Sri Lanka: Strengthening Regional Development Bank Project

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Asian Development Bank

## INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Sri Lanka	Project Title:	Strengthening Regional Development Bank Project
Lending/Financing Modality:	Financial intermediary loan	Department/Division:	South Asia Department Public Management, Financial Sector and Trade Division

### I. POVERTY IMPACT AND SOCIAL DIMENSIONS

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

The financing of [\$40] million for tier 2 capital for the Regional Development Bank (RDB) is in response to the government's request for funding to support micro-, small- and medium-sized enterprises (SMEs) and rural development with the aim to create high and inclusive economic growth.

The government's Vision 2025<sup>a</sup>, launched in 2015, foresees Sri Lanka to become a social market economy with upper-middle income status and improved equity by 2025. The principles which underpin a social market economy according to this vision are a well-functioning and regulated market that foster competition and efficiency, combined with high standards of social welfare and protection for the vulnerable. The creation of 1 million new jobs in the formal economy, mainly by SMEs, is a cornerstone of the government's development strategy.

The government recognizes SMEs as the backbone of the economy, accounting for 45% of employment and contributing to 52% to gross domestic product. SMEs promote broad based equitable development and provide more opportunity for women and youth participation in economic development. However, with 60% of the workforce employed in the informal sector according to official estimates, social protection is low. That largely explains that 40% of the employed population is categorized as vulnerable employed. The limited geographical spread of SMEs due to limited access to finance and weaknesses in marketing and infrastructure have contributed to the high poverty levels in rural areas. Improving the enabling environment for SMEs by improving their access to finance, particularly in rural areas, is thus critical for the sector to grow and increase the number of jobs in the formal sector.

Vision 2025 also foresees agricultural reforms to minimize food insecurity and create inclusive growth by developing underserved districts. Sri Lanka has an estimated 4.7 million undernourished people in 2015 with high regional disparities. The government therefore aims to facilitate agribusiness development. More specifically, the government plans to help smallholders in the tea, rubber, and non-traditional export sectors to improve processing, enhance productivity, and align their products to take advantage of global market opportunities. Investment in the livestock sector, poultry industry, fisheries, and the development of milk-based products will also be supported by improving access to finance, among others.

The proposed project is in line with the government's inclusive development strategy, as summarized above, as it provides financial support and helps to strengthen the efficiency and governance of a financial institution that is dedicated to supporting the development of the rural economy, and SMEs in rural areas. Since its inception in 2008, the mission of RDB has been to improve the living standards of the rural population by providing them accessible and affordable credit facilities that contribute to strengthening the rural economy. With 6 million customers and 268 service points countrywide, RDB is ideally positioned to achieve this objective.

The project is consistent with one of the outcomes of the country operations business plan, 2018–2020<sup>a</sup> of the Asian Development Bank (ADB) for Sri Lanka—to strengthen regional plantation companies and SMEs' ability to access private investment from capital markets—and is aligned with the government's plan to concentrate on developing the sector by providing financial, marketing, and other related facilities to develop such enterprises.<sup>b</sup>

The project is consistent with ADB's Strategy 2020 and its country partnership strategy, 2018–2022 for Sri Lanka under Pillar 2: improve the quality of growth by promoting inclusiveness.<sup>c</sup> The project will help overcome sustained regional disparities in income, and gender inequality in employment, by strengthening a financial institution that focusses on the underserved.

#### B. Poverty Targeting:

General intervention  Individual or household (TI-H)  Geographic (TI-G)  Non-income MDGs (TI-M1, M2, etc.)

Subprojects will be limited to those located outside of Colombo District.

#### C. Poverty and Social Analysis

1. Key issues and potential beneficiaries. The expected beneficiaries are [micro- and small-sized enterprises located outside of Colombo District] that cannot access credit from private banks because of collateral requirements and the lack of nearby branches.

2. Impact channels and expected systemic changes. Access to credit allows SMEs to expand their businesses, which in turn generates employment. SMEs generally hire staff from lower socioeconomic stratum and so this hiring is expected to contribute directly to inequality reductions.

3. Focus of (and resources allocated in) the transaction technical assistance or due diligence. The transaction technical assistance will focus on strengthening RDB's operations so that it can more effectively intermediate to SME and on the financial literacy of RDB's clients.

## II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector and/or subsector that are likely to be relevant to this project or program? Women-led SMEs face greater barriers to credit because they often own less collateral or perceptions among banks that they are undesirable or higher risk clients.

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

The project is expected to both help RDB serve women better through introducing savings products specifically targeted to women and through introducing the collection of sex-disaggregated data and well as provide financial literacy training to RDB's women clients.

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

Yes  No

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 main stakeholders are SMEs, RDB, and the government. The project is not expected to negatively affect people.

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?

The project will contribute to engaging and strengthening stakeholders through economic empowerment. With greater access to credit SMEs are able to create economic opportunities for themselves and their employees.

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?

Information generation and sharing (M)  Consultation (M)  Collaboration (NA)  Partnership (NA)

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?  Yes  No

The project will include training for RDB's women customers. ADB will carefully monitor the training's assessments and adjust its content if it is not meeting the needs of the beneficiaries.

## IV. 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

2. What action plan is required to address involuntary resettlement as part of the transaction TA 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

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

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    Adhering to core labor standards    Labor retrenchment  
 Spread of communicable diseases, including HIV/AIDS    Increase in human trafficking    Affordability(M)  
 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 decrease the cost of its funding base. The lower it is able to borrower funds, the more it can pass on these savings to its clients through lower loan pricing.

**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?

Staff from ADB headquarters and Sri Lanka Resident Mission will prepare poverty, social, and gender analyses.

<sup>a</sup> Government of Sri Lanka. 2017. *Vision 2025*. Colombo.

<sup>b</sup> ADB. 2017. *Country Operations Business Plan: Sri Lanka, 2018–2020*. Manila.

<sup>c</sup> ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila and ADB. 2017. *Country Partnership Strategy: Sri Lanka, 2018–2022—Transition to Upper Middle-Income Country Status*. Manila.