



Initial Poverty and Social Analysis

Project Number: 53228-001
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REG: Investment in Lombard Asia V, L.P.

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Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
CPS	–	country partnership strategy
CSO	–	civil society organizations
ESMS	–	environmental and social management system
SPS	–	Safeguard Policy Statement (2009)

NOTE

- (i) In this report, "\$" refers to United States dollars.

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INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Regional	Project Title:	Equity Investment in Lombard Asia V, L.P.
Lending/Financing Modality:	Financial Intermediary	Department/ Division:	Private Sector Operations Department/ Private Sector Investment Funds and Special Initiatives Division

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

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

The aim of the proposed investment in Lombard Asia V, L.P. (LAV) is to support midsize companies in Thailand, Viet Nam and opportunistically in Myanmar, Cambodia, and Laos with growth equity. ADB's proposed investment will indirectly contribute to efforts to counter coronavirus (COVID-19) pandemic related economic shock waves, supply-chain disruptions and labor shortages, however it has not been classified as part of ADB's COVID-19 response. It will provide growth equity to private companies at a time when few companies have capital available for new initiatives and when banks and investors are becoming increasingly risk averse from extraordinary pressures. ADB's proposed investment in the Fund aligns with several of Strategy 2030's operational priorities including priority 1 (addressing remaining poverty and reducing inequalities), whereby the Fund would be providing much needed growth capital for middle market companies in Southeast Asia, supporting small business and creating new job opportunities. The Fund's commitment to supporting gender equality aligns with Strategy 2030's operational priority 2 (accelerating progress in gender equality). The proposed investment is consistent with ADB's Country Partnership Strategies for Viet Nam, Cambodia, Laos PDR, Myanmar and the Country Operations Business Plan for Thailand.^a Each of these seeks to foster private sector development and promote market development in line with country poverty reduction and inclusive growth strategies.

B. Poverty Targeting:

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

The economic impacts of the COVID-19 crisis are disproportionately hitting low and middle-income countries and the poor; countries in Southeast Asia have fewer support systems and less capacity to withstand shocks than developed economies, which poses heightened social and economic risks. The LAV transaction pipeline includes services and manufacturing companies that typically require workers and will therefore maintain and generate employment opportunities.

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries. ADB would commit up to \$20 million as an investor at the Fund's first close in first quarter of 2021, which is expected to amount to 8-10% of the total Fund size at final close in first quarter of 2022. The proposed investment will provide financing to help companies build business operations, catalyze additional capital, and stem liquidity shortages. The expected direct beneficiaries of the project are the owners and employees of around ten companies in Thailand, Viet Nam, Cambodia Lao PDR and Myanmar. These companies need capital to continue growing and private equity provides an alternative to debt sourced from the banks.

2. Impact channels and expected systemic changes. The project contributes to the financial sustainability of LAV portfolio companies, thereby supporting jobs and incomes, delivery of services, greater gender equality and economic development. At the same time the project offers opportunities to improve mainstreaming of gender equality within the region's financial sector through the incorporation of additional gender measures in LAV deal appraisal and with Lombard as a company.

3. Focus of (and resources allocated in) the transaction TA or due diligence. The investment seeks to contribute to private sector development, improve investor confidence, and boost job creation in medium-sized companies in Southeast Asia (noting that the services sector accounts for a substantial share of developing Asia's output, employment, and growth). The investment aims to contribute to efforts to counter COVID-19-related economic shock waves, supply-chain disruptions, and labor shortages. The economic impacts of the COVID-19 crisis are disproportionately hitting low- and middle-income countries and the poor. Due diligence will consider Lombard's performance with past portfolio companies, especially its success in increasing employment growth.

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 are significantly underrepresented among the investment decision-makers at private equity and venture capital firms in Asia where women are 18% of employees on average and hold just 12% of senior roles.^b Lombard reports above industry averages with four women in its team of 12 investment professionals, two of whom are members of the Fund's investment committee (comprising five members total).

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

A gender action plan will be prepared during transaction due diligence. It will assess Lombard's readiness to implement a gender equality scorecard to support its investment decision making, and implementation of anti-sexual harassment policies within its own business and those of its portfolio companies, amongst other possible gender measures.

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 primary beneficiaries of the project are the target portfolio companies in the sectors in which LAV invests and their employees. Indirect beneficiaries include the businesses and their employees within the supply chains of each portfolio company following LAV investment. During due diligence, the project team will assess how beneficiaries in these sectors can benefit from LAV portfolio company business activities.

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 is expected to stimulate private sector investments that will maintain and expand employment opportunities primarily in the consumer goods and services (mostly food-related), agri-business, education, healthcare, and light manufacturing sectors. The project will have few opportunities for participation of others beyond immediate stakeholders given the private commercial nature of investments in companies. If LAV portfolio companies are required to conduct public consultation due to the nature of their business activities, the fund manager will require such consultation to be carried out in accordance with applicable national laws and regulations and the ADB Safeguard Policy Statement 2009 (SPS).

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 (L) ☐ Consultation ☐ Collaboration ☐ Partnership

The nature of private equity fund investment activity limits opportunities for engagement with civil society organizations with regards to the fund's investments in portfolio companies. The team will assess during due diligence any opportunities open to LAV for engagement with CSOs, such as unions, in the countries and sectors in which it invests.

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 commercial nature of fund investments will not require a participation plan, however any community outreach or support activities by portfolio companies will be monitored by the LAV fund manager and reported to ADB in its Annual Environmental and Social Performance Report.

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 Existing portfolio companies from earlier Lombard funds utilize land and building spaces that are either leased or purchased through willing seller-willing buyer arrangements. They have had no recourse to government-led compulsory acquisition that would result in involuntary land acquisition. The nature of existing portfolio company operations has also not required involuntary restrictions on land use or on access to legally designated parks or protected areas. The Fund's ESMS requires screening future proposed portfolio company business activities against ADB's PIAL and screens for involuntary resettlement impacts. ADB's side letter with the Fund will permit ADB to opt-out from contributing capital to any proposed investment in a company that would cause category A or B involuntary resettlement impacts.

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 Existing and future potential Portfolio companies are not expected to

<p>have any impacts on socio-cultural groups who may be considered “tribes” or “indigenous communities.” Lombard’s ESMS requires screening for impacts on Indigenous Peoples groups. ADB’s side letter with the Fund will permit ADB to opt-out from any investment in a company that would cause category A or B. impacts on distinct and vulnerable Indigenous Peoples or ethnic minority groups. ADB will not contribute capital to any proposed investment that is likely to cause adverse impacts on distinct and vulnerable groups of Indigenous Peoples.</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 transaction TA or due diligence process?</p> <p><input type="checkbox"/> Indigenous peoples plan <input type="checkbox"/> Indigenous peoples planning framework <input type="checkbox"/> Social impact matrix</p> <p><input checked="" type="checkbox"/> Environmental and social management system arrangement <input type="checkbox"/> None</p>
<p align="center">V. OTHER SOCIAL ISSUES AND RISKS</p>
<p>1. What other social issues and risks should be considered in the project design?</p> <p><input checked="" type="checkbox"/> Creating decent jobs and employment (M) <input checked="" type="checkbox"/> Adhering to core labor standards (L) <input type="checkbox"/> Labor retrenchment</p> <p><input type="checkbox"/> Spread of communicable diseases, including HIV/AIDS <input type="checkbox"/> Increase in human trafficking <input type="checkbox"/> Affordability</p> <p><input type="checkbox"/> Increase in unplanned migration <input type="checkbox"/> Increase in vulnerability to natural disasters <input type="checkbox"/> Creating political instability</p> <p><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? ADB’s participation in LAV aims to improve access to affordable financing for middle market companies that will contribute to growth in number of employees of portfolio companies. However, LAV may only take a minority stake in its portfolio companies, which limits its ability to influence labor-related aspects of each company’s business. During due diligence the team will assess the fund manager’s capacity and resources to identify and manage labor risks in portfolio companies.</p>
<p align="center">VI. TRANSACTION TA OR DUE DILIGENCE RESOURCE REQUIREMENT</p>
<p>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?</p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</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 transaction TA or due diligence? ADB has invested in three earlier funds managed by the Lombard platform between 1997 and 2007. All are fully divested except for one portfolio company in Lombard Asia III. ADB records contain no reports of safeguards and social non-compliances in these earlier (pre-SPS) funds. Due diligence will be undertaken by the project team in accordance with ADB requirements for financial intermediaries. The team will seek assurance that following ADB’s investment, the LAV fund manager has adequate resources and capacity to undertake required due diligence and analysis for its investments in target companies.</p>

^a ADB, 2019. [Thailand: Country Operations Business Plan \(2020–2022\)](#); ADB 2016. [Viet Nam: Country Partnership Strategy \(2016–2020\)](#); ADB, 2019. [Cambodia: Country Partnership Strategy \(2019–2023\)](#); ADB, 2017. [Myanmar: Country Partnership Strategy \(2017–2021\)](#); ADB, 2017. [Lao People’s Democratic Republic: Country Partnership Strategy \(2017–2020\)](#), Institutional Document, August 2017.

^b Preqin Ltd. 2019. Women in Private Equity. London.
Source: ADB