



Initial Poverty and Social Analysis

Project Number: 55143-001
November 2021

Sri Lanka: John Keells Modern Retail Infrastructure Expansion Project

This document is being disclosed to the public in accordance with ADB's Access to Information Policy.

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 4 November 2021)

Currency unit – Sri Lanka rupee/s (SLRe/SLRs)

SLRe1.00 = \$0.00496352

\$1.00 = SLRs201.47

ABBREVIATIONS

ADB	–	Asian Development Bank
COVID-19	–	coronavirus disease
ESCA	–	Environment and Social Compliance Audit
ESMP	–	Environment and Social Management Plan
ESMS	–	Environmental and Social Management System
GDP	–	Gross Domestic Product
IEE	–	Initial Environmental Examination
ILO	–	International Labour Office
LEAP	–	Leading Asia's Private Infrastructure Fund

NOTE

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

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Sri Lanka	Project Title:	John Keells Modern Retail Infrastructure Expansion Project
Lending/Financing Modality:	Equity	Department/ Division:	Private Sector Operations Department / Infrastructure Finance Division 1 (PSIF1); Agribusiness Investment Unit (OPSD-AIT); and Equity Investments Unit (OPSD-EIU)

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy
 ADB will make an equity investment of up to \$40,000,000 (in the Sri Lanka rupee [SLRe] equivalent) in John Keells Holdings ('JKH' or 'the Company') for the John Keells Modern Retail Infrastructure Expansion Project in Sri Lanka. An equity investment of up to \$40,000,000 (in SLRe equivalent) will also be provided by the Leading Asia's Private Infrastructure Fund (LEAP)^a and administered by ADB. The project, part of a multi-year, multi-business corporate capital expenditure program, will support the expansion of modern retail infrastructure, including supermarkets and back-end supply chain infrastructure including centralized distribution logistics centers. The project is consistent with ADB's Strategy 2030,^b ADB's country partnership strategy, 2018–2022 with Sri Lanka,^c since the project aims to promote private sector development; and is also consistent with Sri Lanka's national development strategy which focuses, amongst other things, on job creation, rural development and middle-class expansion.^d

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

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries. Sri Lanka is close to becoming an upper middle-class country but has been facing some key fiscal challenges in recent years. Growth-slowing shocks such as droughts in 2017, a constitutional crisis in 2018, coordinated terror attacks in 2019, and the coronavirus disease (COVID-19) pandemic in 2020 and 2021 have weakened its economy. Owing to the budgetary targets of reducing the fiscal deficit and controlling the level of sovereign debt, it is difficult for the government to provide additional fiscal stimulus, even with development assistance. It will therefore be, to a large extent, up to the private sector to lead the turnaround and drive the transformation of the economy. Agriculture in Sri Lanka is plagued by issues such as fragmentation of land, unclear land rights, low levels of farmers' knowledge and skills, and a limited focus on research and technology. This has led to low land productivity and volatile production levels. Inefficient value chains have also resulted in substantial post-harvest losses. The project will benefit the large workforce of JKH's business units through Company growth and job opportunities, and by promoting gender equality through a project-specific gender action plan. It will also provide potential indirect benefits to the consumer goods and agricultural supply chain participants by expanding trade networks through the supermarket expansion program. This will be supplemented through an ADB-administered technical assistance program designed specifically to complement the investment project.

2. Impact channels and expected systemic changes. The investment has the potential to reach a large number of beneficiaries since it employs more than 20,000 people and engages with more than 8,000 farmers.^e Impacts will be driven by support towards the completion of construction and equipping of a distribution centre and construction of new supermarkets which will help create and maintain jobs within the company and amongst contractors. Also, the increase in supermarket outlets will bring supply chain-related benefits to local producers and traders which will be supplemented by the targeted farmer assistance program.

3. Focus of (and resources allocated in) the transaction due diligence. ADB's due diligence will focus on the results of the third-party Corporate Environmental and Social Management System (ESMS) and subproject Environmental and Social Compliance Audit (ESCA), review of company materials and engagement with Company personnel. The due diligence will focus on the effectiveness of the Company's ESMS and compliance with national legislation and ADB's policy requirements, and the organizational capacity of the company to manage E&S risks and impacts broadly and with regard to the targeted business areas supported through the investment. Where gaps are identified, these will be addressed through a Corrective Action Plan.

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? While Sri Lanka has achieved positive developments in health and education, gender inequality in employment persists. Women's participation in the economy was only 37% in 2017, compared with men's 75%.^f The unemployment rates of women are more than double those of men at all age levels, and there is a large concentration of economically active women in unpaid family labor, particularly in agriculture.^g Women's labor force participation in the country is often hampered by a lack of affordable and quality childcare services, little inclination on the part of men and boys to share household work, and some workplace cultures that are not supportive of women employees.^h

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

Due diligence will identify potential gender mainstreaming measures that may be incorporated in the project design. Gender measures may include increased female employment, professional development opportunities for women, gender awareness-building of company staff, improved workplace practices for gender equality and training of female farmers supplying to the company on farming best practices and financial literacy.

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 Company and relevant business unit personnel, contractors, government regulatory institutions, people affected by construction activities, potential clients and customers, and farmers and supply agents within the supply chain are considered the major stakeholder groups for the investment. The Company undertakes consultation with land-owners for negotiated land acquisition or lease, and, when required by government regulations, conducts consultation with affected people during the development of environmental and social assessments. The audit will review the effectiveness of this level of consultation and will seek areas for enhancement to ensure meaningful consultation principles are attained for the Project including the Company's current grievance mechanisms for staff and community members and its overall stakeholder engagement approach for business operations and project development.

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? Due diligence will assess current stakeholder engagement activities to determine effectiveness in ensuring stakeholders have appropriate levels of information to effectively contribute to projects, where their input is deemed necessary and appropriate. The ESMS stakeholder engagement tools will be reviewed and enhanced where necessary to ensure engagement tools and media are enhanced including review of the effectiveness of the grievance mechanisms.

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 (NA) Consultation (NA) 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

There may be potential risks associated with development of supermarkets on land acquired/leased from legitimate owners but currently occupied by informal land users, for whom displacement may increase vulnerability. The ESMS enhancements will include appropriate procedures to ensure these issues are either avoided or mitigated through adoption of appropriate screening, assessment and management planning in line with ADB's requirements.

1. 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 JKH currently acquires land through willing buyer, willing seller arrangements or leases on a negotiated acquisition and access basis. Due diligence will determine if the current approach to land acquisition and access is free from involuntary displacement risk and impacts and if it meets ADB's requirements with regard to negotiated acquisition and access. Where remedial actions are required a corrective action plan will be developed and implemented. Land access for all ADB financed activities will be screened for involuntary displacement impacts and the ESMS will guide JKH to undertake specific categorization and impact avoidance and management procedures in line with ADB's requirements.

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 No impacts on indigenous peoples or vulnerable ethnic

minorities associated with the proposed investment are anticipated, though the due diligence will confirm this. JKH will be required to develop screening and categorization procedures at the business unit level to identify and avoid indigenous people impacts.

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 due diligence process?

- Indigenous peoples plan Indigenous peoples planning framework Social impact matrix
 Environmental and social management system arrangement None

2. 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 (L) Labor retrenchment
 Spread of communicable diseases, including HIV/AIDS Increase in human trafficking Affordability (L)
 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 Company will be required to ensure adherence to national labour laws and the International Labour Organization's Core Labour Standards. Due diligence will evaluate the company's measures to demonstrate adherence to all regulations set by the government related to COVID-19.

VI. TRANSACTION DUE DILIGENCE RESOURCE REQUIREMENT

1. Do the terms of reference for the transaction due diligence contain key information needed to be gathered during transaction 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? A third party environmental and social specialist will be engaged to conduct the ESMS and environmental and social compliance audit.

Source: Asian Development Bank.

- ^a Japan International Cooperation Agency (JICA) is the financing partner.
^b ADB. 2018. [Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific](#). Manila.
^c ADB. 2017. *Country Partnership Strategy: Sri Lanka, 2018–2022—Transition to Upper Middle-Income Country Status*. Manila.
^d Government of Sri Lanka, Ministry of National Policies and Economic Affairs, Department of National Planning. 2017. *2017-2020 Public Investment Program*. Colombo.
^e John Keells Holdings. 2021. JKH PLC. Annual Report. (Accessed: 12 November 2021).
^f World Bank. 2018. *Getting to Work: Unlocking Women's Potential in Sri Lanka's Labor Force*. Washington, DC.
^g Asian Development Bank. 2015. [Country Gender Assessment: Sri Lanka \(An Update\)](#). Manila.
^h UN Women. [UN Women Sri Lanka](#) (accessed 23 September 2021).