

## INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	<input type="text" value="Sri Lanka"/>	Project Title:	<input type="text" value="Capital Market Development Program"/>
Lending/Financing Modality:	<input type="text" value="Policy-based loan"/>	Department/ Division:	<input type="text" value="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 program supports the poverty reduction development goals of the Government of Sri Lanka, and the Asian Development Bank (ADB) for Sri Lanka. Thanks to strong economic growth after the civil war, poverty has dropped significantly. The latest household income and expenditure survey (2012/2013) showed that poverty had dropped from 22.7% in 2002 to 6.7% in 2012/13. Sri Lanka is on track to meet most of the key targets of the Millennium Development Goals.

The government is strongly committed to capital market development as a critical element in achieving sustainable and robust growth. In 2006, the Securities and Exchange Commission (SEC) of Sri Lanka established the Capital Market Master Plan (2006-2015) with support from ADB. Building on it, the SEC and the Colombo Stock Exchange (CSE) formulated the Capital Market Development Road Map in 2012, and have been implementing it to make the regulatory system more proactive, in line with international standards.<sup>1</sup> The current government also recognizes the need to shift from overreliance on public-sector-funded infrastructure projects toward stimulating domestic consumption and promoting public-private partnership investments.

The proposed program is consistent with the goals of ADB's interim country partnership strategy, 2015-2016 for Sri Lanka (to catalyze private investment and promote inclusive growth), is built on Strategy 2020, and supports the focus of ADB assistance on private sector development, including projects that accelerate the pace of private sector participation and promote financial sector development.<sup>2</sup>

#### B. Poverty Targeting

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

The program is targeted to tackle the country's finance sector issues and the constraints in the development of a capital market. The intervention will have a broad and nationwide direct impact on inclusive growth, and an indirect impact on poverty reduction.

#### C. Poverty and Social Analysis

1. **Key issues and potential beneficiaries.** The potential primary beneficiaries include (i) the government because the outcome of the program will contribute to national economic growth; (ii) market participants, i.e., public and private corporations, financial institutions, and individuals; and (iii) regulatory agencies. The poor and the socially excluded will benefit from the program indirectly.

2. **Impact channels and expected systemic changes.** These would include (i) finance sector stability, (ii) long-term funding source, and (iii) diversified and efficient investment channels.

3. **Focus of (and resources allocated in) the PPTA or due diligence.** The focus of (and resources allocated to) the project preparatory technical assistance (TA) and due diligence is to identify policy measures to support the development of a robust financial market system in Sri Lanka. Targeted are five areas: (i) improvements to legal and regulatory structures, (ii) bond market development, (iii) development of financial-instrument tax policies, (iv) an enabling environment for derivatives (including commodities), and (v) development of the insurance and pension industries. The TA's due diligence will be carried out by the project processing team of the Public Management, Financial Sector and Trade Division of ADB's South Asia Department.

4. **Specific analysis for policy-based lending.** The program will benefit all citizens, including the poor, through the development of an efficient capital market that will ensure an optimal allocation of capital. By enhancing the availability of capital and optimizing its cost, it is expected that private sector investment will increase and help finance infrastructure, spur economic growth, and create jobs. Stronger governance of Sri Lanka's financial and capital markets will help attract foreign investments, including foreign direct investment, which generates jobs for skilled and unskilled labor. The intervention will have a broad and nationwide direct impact on inclusive growth, and an indirect impact on poverty reduction.

### 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?  
There is no key gender issue in this program because the development of a capital market empowers all individuals'

equal rights to access to the market, financial resources, and opportunities. It does not minimize the benefits to women. The processing team will further consider these issues while designing the program.

2. Does the proposed project or program have the potential to make a contribution 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

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 theme)  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 potential initial stakeholders will be (i) government agencies, i.e., Ministry of Finance, Central Bank of Sri Lanka (CBSL), and Securities and Exchange Commission (SEC); (ii) market participants such as financial institutions, as well as public and private corporations. The preparation of a Consultation and Participation (C&P) plan and stakeholder analysis will be done during project design.

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? – Preparation of the C&P plan and stakeholder analysis will be done during project design.

3. What are the key, active, and relevant civil society organizations in the project area? What is the level of civil society organization participation in the project design?

Information generation and sharing  Consultation  Collaboration  Partnership

4. 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

### 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 TA or due diligence process?

Resettlement plan  Resettlement framework  Social impact matrix

Environmental and social management system arrangement  None

Since the program is about budgetary support for capital market development, it will not engender the need for involuntary resettlement.

**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 TA or due diligence process?

Indigenous peoples plan  Indigenous peoples planning framework  Social Impact matrix

Environmental and social management system arrangement  None

Since the program is about budgetary support for capital market development, it will not engender any issue with regard to indigenous peoples.

### V. OTHER SOCIAL ISSUES AND RISKS

1. What other social issues and risks should be considered in the project design? – Not applicable

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 \_\_\_\_\_

2. How are these additional social issues and risks going to be addressed in the project design? – Not applicable.

### VI. PPTA OR DUE DILIGENCE RESOURCE REQUIREMENT

1. Do the terms of reference for the TA (or other due diligence) contain key information needed to be gathered during

the 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

No key poverty, social, or gender issues are manifest at this early stage. The processing team will consider these aspects while designing the program.

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 TA or due diligence?

Preparation of the C&P plan will be part of the consultants' assignment, while poverty, social and/or gender analyses will be carried out by the processing team.

<sup>1</sup> Government of Sri Lanka, Securities and Exchange Commission. Capital Market Development Road Map 2012. [http://www.sec.gov.lk/?page\\_id=5495](http://www.sec.gov.lk/?page_id=5495) (accessed 25 April 2016).

<sup>2</sup> ADB. 2015. *Interim Country Partnership Strategy: Sri Lanka 2015-2016*. Manila; ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008-2020*. Manila.