

INITIAL POVERTY AND SOCIAL ANALYSIS

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| Country: | SRI | Project Title: | Senior Secured Loan to Nations Trust Bank Plc (NTB) |
| Lending/Financing Modality: | Equity Investment | Department/ Division: | PSOD/PSCM |

I. POVERTY ISSUES

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

Under Strategy 2020, ADB will strengthen its support to the finance sector at the regional and national levels by helping to develop financial infrastructure, institutions, and products and services and by promoting inclusive growth. Through such initiatives, ADB will continue to assist in channeling the region's savings into the most productive investments, as well as continue to build the capacity of financial institutions by introducing international best practices.

Small and medium-sized enterprises (SMEs) are important drivers of economic growth and poverty reduction through their impact on individual incomes and employment creation. The SME sector is often described as the backbone of the Sri Lankan economy, contributing to about 70% of GDP. This proposal aims to develop the financial sector with a particular focus on SMEs via a mid-tier bank to cater to the large and growing demand for SME financing.

The proposed investment is consistent with the goals of the *2012-2014 Country Operations Business Plan (COBP)* to catalyze private investment and promote inclusive growth. The project is also aligned with the government's *Development Policy Framework for 2010–2016 (DPF)* which aims to inter alia accelerate economic growth, improve access to finance and address low private sector investment. The *2012-2016 Country Partnership Strategy (CPS)* is built on the DPF and Strategy 2020 and specifies a focus of ADB assistance on private sector development, including projects that accelerate the pace of private sector participation and promote financial sector development. The CPS notes that ADB's private sector operations should support banks with projects that have high development impact, such as is expected from this project.

B. Targeting Classification

Select the targeting classification of the project:

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

This project is expected to fund SMEs in Sri Lanka, with a special focus on post-conflict areas in the Northern and Eastern provinces of Sri Lanka.

C. Poverty Analysis

1. If the project is classified as TI-H, or if it is policy-based, what type of poverty impact analysis is needed? N/A

2. What resources are allocated in the PPTA/due diligence? N/A

3. If GI, is there any opportunity for pro-poor design (e.g. social inclusion subcomponents, cross subsidy, pro-poor governance, and pro-poor growth)? Please explain.

The Project will promote SME lending in areas outside Colombo, including South and in the post-conflict areas in the Northern and Eastern provinces of Sri Lanka. The Project will also promote gender equality by financing women borrowers and targeting training for female loan officers.

II. SOCIAL DEVELOPMENT ISSUES

A. Initial Social Analysis

Based on existing information:

1. Who are the potential primary beneficiaries of the project? How do the poor and the socially excluded benefit from the project? The primary beneficiaries of the project are NTB as well as its branches and their customers, who previously have not been able to access SME loans. The transaction will (i) increase access to finance for SMEs in Sri Lanka; (ii) contribute to diversifying the economy through an increased SME share in GDP and (iii) result in employment creation.
2. What are the potential needs of beneficiaries in relation to the proposed project? NTB and its branches need capital and capacity building support. The customers will need information on type of lending available.
3. What are the potential constraints in accessing the proposed benefits and services, and how will the project address them? None

B. Consultation and Participation

1. Indicate the potential initial stakeholders. The initial stakeholders include the members of the Bank management team.
2. What type of consultation and participation (C&P) is required during the PPTA or project processing (e.g. workshops, community mobilization, involvement of nongovernment organizations and community-based organizations, etc.)? Consultation and participation are limited to meetings between customers and NTB staff.
3. What level of participation is envisaged for project design?
☒ Information sharing ☒ Consultation ☐ Collaborative decision making ☐ Empowerment
4. Will a C&P plan be prepared during the project design for project implementation? ☐ Yes ☒ No Please explain. ADB fund is not expected to entail any environment and social safeguards impacts requiring a consultation and participation plan.

C. Gender and Development

Proposed Gender Mainstreaming Category: SGB

1. What are the key gender issues in the sector/subsector that are likely to be relevant to this project/program? No gender related issues are expected. NTB will offer loans to SMEs which result in employment for both men and women employees.
2. Does the proposed project/program have the potential to promote gender equality and/or women's empowerment by improving women's access to and use of opportunities, services, resources, assets, and participation in decision making?
☒ Yes Some gender benefits are expected as loans contribute to SMEs owned by women. ☐ No Please explain.
3. Could the proposed project have an adverse impact on women and/or girls or to widen gender inequality?
☐ Yes ☒ No The Project does not have any adverse impact on women and/or girl or to widen gender inequality.

| III. SOCIAL SAFEGUARD ISSUES AND OTHER SOCIAL RISKS | | | |
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| Issue | Nature of Social Issue | Significant/Limited/ No Impact/Not Known | Plan or Other Action Required |
| Involuntary Resettlement | The project will increase access to finance for SMEs and contribute to diversifying the economy through an increased SME share in GDP as well as result in employment creation. No involuntary resettlement involved. | | <input checked="" type="checkbox"/> None |
| Indigenous Peoples | Part of the proposed investments will be located outside Colombo such as South , and with special focus on post conflict areas in the Northern and Eastern provinces where Tamils exist. However, Tamils are just ethnic minorities in Sri Lanka whose lifestyle and economy is not different from the majority population (except different language but belonging to the same language family, and the Tamil language is also an official language of Sri Lanka along side of Sinhalese) and they do not qualify to be called Indigenous Peoples. | | <input checked="" type="checkbox"/> None |
| Labor <input checked="" type="checkbox"/> Employment Opportunities <input type="checkbox"/> Labor Retrenchment <input checked="" type="checkbox"/> Core Labor Standards | Employment opportunities for SMEs workers. | Limited. NTB will be required to apply ADB prohibited investment activities list | <input checked="" type="checkbox"/> Other Action |
| Affordability | No impact | No impact | <input checked="" type="checkbox"/> No Action |
| Other Risks and/or Vulnerabilities <input type="checkbox"/> HIV/AIDS <input type="checkbox"/> Human Trafficking <input type="checkbox"/> Others (conflict, political instability, etc.), please specify | No impact | No impact | <input checked="" type="checkbox"/> No Action |
| IV. PPTA/DUE DILIGENCE RESOURCE REQUIREMENT | | | |
| 1. Do the TOR for the PPTA (or other due diligence) include poverty, social and gender analysis and the relevant specialist/s? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Due diligence is undertaken by staff. | | | |
| 2. Are resources (consultants, survey budget, and workshop) allocated for conducting poverty, social and/or gender analysis, and C&P during the PPTA/due diligence? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Due diligence is undertaken by staff. | | | |