

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Regional	Project Title:	Investment in Northstar Equity Partners V Limited (NEP V)
Lending/Financing Modality:	Private Equity fund	Department / Division:	Private Sector Operations Department / Investment Funds & Special Initiatives

I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY	
Poverty targeting:	General Intervention
<p>A. Links to the National Poverty Reduction and Inclusive Growth Strategy and Country Partnership Strategy</p> <p>The Asian Development Bank (ADB) will commit up to \$40 million in equity as a limited partner investor in Northstar Equity Partners V Limited (NEP V or the fund), a targeted \$500 million fund that (i) aims to provide growth capital to 8-10 mid-sized Indonesian companies (at least [This information has been removed as it falls under the exception to disclosure in ADB's Access to Information Policy, para. 17.2.(v)] of committed capital),^a (ii) may invest up to [This information has been removed as it falls under the exception to disclosure in ADB's Access to Information Policy, para. 17.2.(v)] of the aggregate commitments in other countries in Southeast Asia,^b and (iii) may also invest up to [This information has been removed as it falls under the exception to disclosure in ADB's Access to Information Policy, para. 17.2.(v)] of aggregate commitments in 6 to 8 early-stage opportunities.^c The investment in NEP V aligns with ADB's Strategy 2030 Operational Priority 1 (addressing remaining poverty and reducing inequalities), which mandates ADB to undertake efforts to facilitate quality job creation, particularly by supporting small and medium-sized enterprises (SMEs) and inclusive businesses, and improve education and training outcomes; and ii) Operational Priority 2 (accelerating progress in gender equality), which calls for scaling up support for gender equality and promoting women's empowerment through increasing financial inclusion, and supporting women's entrepreneurship and access to job skills.^d</p>	
<p>B. Results from the Poverty and Social Analysis during Due Diligence</p> <p>1. Key poverty and social issues. NEP V intends to provide growth capital to SMEs and middle-market companies focusing primarily on consumers (including in the areas of education, health care and agribusiness), financial services, and the digital economy in Indonesia and more broadly in Southeast Asia; these are key sources of employment in Indonesia and across Southeast Asia. While Indonesia and several other southeast Asian economies have reached middle-income status, many continue to face challenges caused by entrenched poverty and vulnerability, and global economic uncertainty. This investment will help facilitate quality job creation in these economies, including by SMEs, by enhancing the sustainability of capital markets and providing finance to companies in growth areas. Analysis of the gender impact of investment has guided support for access to finance by women or women-led businesses.</p> <p>2. Beneficiaries. The proposed investment in NEP V is expected to improve financial inclusion and access to capital, contribute to economic growth and job creation, and promote innovation and technological adoption. The primary beneficiaries of the investment are the targeted 8–10 mid-sized companies and 6–8 early-stage companies in consumer goods, financial services and the digital economy, and their employees. The targeted companies will also benefit from recommendations from the NEP V fund manager on measures to adopt for greater gender mainstreaming. Indirect beneficiaries include the businesses and their employees within the supply chains of each of the companies, and the customer base.</p> <p>3. Impact channels. The impact is access to growth capital for SMEs and middle-market companies in Indonesia and Southeast Asia in the fund's target sectors improved at a time when capital availability for new investments is constrained, and when financial institutions and investors are increasingly risk averse given uncertainties arising from the coronavirus disease (COVID-19) pandemic.</p> <p>4. Other social and poverty issues. The nature of the project limits its capacity to address broader social and poverty issues, which are beyond the scope and intent of the investment.</p> <p>5. Design features. The investment is designed to strengthen the financial capacity of the targeted companies to encourage and expand key growth areas, principally in Indonesia, but also regionally. These companies will support financial inclusion, job creation, innovation, and economic growth, particularly in industries that are increasingly adopting technology, and that have a low environmental impact. The project will also improve gender inclusivity in the investee companies through specific measures to promote gender equality in human resource practices and the working environment.</p>	
II. PARTICIPATION AND EMPOWERING THE POOR	
<p>1. Participatory approaches and project activities. NEP V will have few opportunities for participation by the poor, given the financial services and commercial nature of the business activities with investee companies. If investee companies are required to conduct public consultation due to the nature of their business activities, Northstar, through the fund, will require such consultation to be carried out in accordance with applicable national laws and regulations in the jurisdictions in which they operate, and ADB's Safeguard Policy Statement, 2009.</p> <p>2. Civil society organizations. Northstar operates as a financial intermediary that aims to mobilize long-term institutional capital to finance growth in targeted sector-focused companies in Indonesia and Southeast Asia. Its role as</p>	

an intermediary provides limited to no opportunity for engagement with civil society organizations apart from information gathering and sharing in the public domain.

3. The following forms of civil society organization participation are envisaged during project implementation, rated as high (H), medium (M), low (L), or not applicable (NA):
☐ Information gathering and sharing (NA) ☐ Consultation (NA) ☐ Collaboration (NA) ☐ Partnership (NA)

4. Participation plan.
☐ Yes. ☒ No. The commercial nature of Northstar's financial intermediation business activities will not require project-level participation planning. The environmental and social management system (ESMS) for NEP V requires that Northstar assess the stakeholder engagement requirements of a of the investee companies during transaction due diligence. Northstar will enhance its investee companies' incident reporting and management procedures and establish a communication channel for NEP V fund's limited partners.

III. GENDER AND DEVELOPMENT

Gender mainstreaming category: Effective Gender Mainstreaming

A. Key issues. Globally, women are significantly underrepresented in investment decision-making and as founders of investee companies at private equity and venture capital firms. In 2019, companies founded by women received just 2.7% of global venture capital funding; 11.5% of the year's total funding went to mixed-gender founding teams, with the remainder (85.8%) going to all-male founder teams.^e In Southeast Asia, very few firms apply a gender lens to their investments, but gender lens financing is gaining traction in the region. In Indonesia, gender lens investing is increasingly having significant development impact, especially in the areas of financial services, agriculture, and workforce development.^f While women-owned businesses make up more than half of all small enterprises and about a third of medium-sized enterprises in Indonesia, they face multiple constraints, including in accessing finance.^g In Indonesia the most common gender lens investing strategies include providing critical goods and services to women and supporting women-led and -owned businesses.^h Gender analysis conducted during due diligence found that Northstar had not previously applied a specific gender lens in their investments, apart from including gender diversity among the standard environmental, social and governance factors. Northstar expressed its commitment to engaging internally and with portfolio companies on gender issues with the objective of promoting better gender equality in their operations.

B. Key actions. The project includes a gender action plan with key features aimed at improving gender equality in NEP V operations by (i) developing a gender equality scorecard for the fund's investment screening process, (ii) making recommendations on gender equality practices to investee companies, (iii) developing a diversity and inclusion policy to intentionally apply gender equality principles in human resource management, and (iv) conducting training sessions for staff on gender equality topics covering both the introduction of a gender lens investment tool (gender equality scorecard) and gender sensitive working environment. Northstar will submit periodic reports to ADB on implementation of gender measures.
☒ Gender action plan ☐ Other actions or measures ☐ No action or measures

IV. ADDRESSING SOCIAL SAFEGUARD ISSUES

A. Involuntary Resettlement **Safeguard Category:** ☐ A ☐ B ☐ C ☒ FI

1. Key impacts NEP V may finance companies engaged in business activities that may cause or have caused involuntary physical or economic displacement impacts.

2. Strategy to address the impacts. NEP V will establish an ESMS that includes procedures to screen and categorize potential investments. Where involuntary resettlement impacts are identified, the investee entity will be required to develop appropriate impact management plans (such as a resettlement plan, livelihoods restoration plan and/or a social compliance audit) to ensure adherence to national legislation regarding land acquisition and compensation. NEP V will be restricted from using ADB equity investment proceeds for any transaction that would finance involuntary resettlement impacts classified Category A under ADB's Safeguard Policy Statement.

3. Plan or other Actions.
☐ Resettlement plan (Temporary) ☐ Combined resettlement and indigenous peoples plan
☐ Resettlement framework ☐ Combined resettlement framework and indigenous peoples
☒ Environmental and social management system arrangement ☐ Social impact matrix
☐ No action

B. Indigenous Peoples **Safeguard Category:** ☐ A ☐ B ☐ C ☒ FI

1. Key impacts. There are no anticipated impacts on indigenous peoples or vulnerable ethnic minorities associated with NEP V investment activities. NEP V will develop an ESMS that includes screening and categorization procedures for indigenous peoples impacts. NEP V will be limited from using ADB equity investment proceeds for any transaction that would finance indigenous peoples impacts classified as category A or B under ADB's Safeguard Policy Statement. Is broad community support triggered? ☐ Yes ☒ No

2. Strategy to address the impacts. None required.

3. Plan or other actions.

<input type="checkbox"/> Indigenous peoples plan	<input type="checkbox"/> Combined resettlement plan and indigenous peoples plan
<input type="checkbox"/> Indigenous peoples planning framework	<input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework
<input checked="" type="checkbox"/> Environmental and social management system arrangement	<input type="checkbox"/> Indigenous peoples plan elements integrated in project with a summary
<input type="checkbox"/> Social impact matrix	
<input type="checkbox"/> No action	

V. ADDRESSING OTHER SOCIAL RISKS

A. Risks in the Labor Market

1. Relevance of the project for the country's or region's or sector's labor market, indicated as high (H), medium (M), and low or not significant (L).
☒ unemployment ☐ underemployment ☐ retrenchment ☒ core labor standards (L)

2. **Labor market impact.** While the companies that NEP V will support through its investments are expected to provide sustainable employment, it is not possible to directly link NEP V business activity with employment growth in these companies. NEP V will have in place an ESMS that will require assessment of labor-related risks in each client's business activity. Northstar will undertake business activities in accordance with national labor laws and applicable internationally recognized core labor standards pursuant to ADB's Social Protection Strategy (2001).

B. Affordability

The project is not expected to present affordability issues because it is not expected to limit or worsen the accessibility of the poor and other vulnerable groups to goods and services as a result of pricing mechanisms.

C. Communicable Diseases and Other Social Risks

1. **The impact of the following risks are rated as high (H), medium (M), low (L), or not applicable (NA):**
☒ Communicable diseases L ☐ Human trafficking (NA) ☐ Others (please specify) _____

2. **Risks to people in project area.** NEP V will have in place an ESMS that requires it to screen for and assess social risks in each investee's business activity. Where risks are identified, NEP V will advise measures to mitigate and manage these.

VI. MONITORING AND EVALUATION

1. **Targets and indicators.** The project targets and indicators are focused on increasing the availability of financing for enterprises in the digital economy, innovation or technology, and SME financing. The project will also monitor specific targets established in the investee companies for gender equality and mainstreaming.

2. **Required human resources.** Northstar will designate an environmental and social officer who will be primarily responsible for the implementation of the NEP V ESMS and engagement with investee companies.

3. **Information in the project administration manual.** Not applicable.

4. **Monitoring tools.** Northstar will be required to submit an annual environmental and social performance report to ADB. NEP V's annual development effectiveness monitoring reporting to ADB will address gender action plan implementation.

^a Northstar Capital Group V Limited, a Cayman Islands limited liability company, is the managing director of NEP V. The investment manager, Northstar Advisors Pte. Ltd., is a Singapore limited liability company. The managing director along with its affiliates comprise Northstar Group (Northstar). Indonesian companies are entities that are headquartered or have existing significant operations in Indonesia, or that the managing director reasonably believes will (within a 5-year period), either (i) derive at least 50% of their revenue, profit or market value from Indonesia; or (ii) expand significantly into or source a significant amount of business from Indonesia.

^b Southeast Asian companies are entities that are headquartered or have existing significant operations in Southeast Asia, or that the managing director reasonably believes will (within a 5-year period), either (i) derive at least 50% of their revenue, profit or market value from Southeast Asia; or (ii) expand significantly into or source a significant amount of business from Southeast Asia. Southeast Asia includes: Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Timor-Leste, and Viet Nam. ADB will only participate in any investments by the fund in portfolio companies operating in Cambodia, Indonesia, Lao PDR, Malaysia, the Philippines, Thailand, Timor-Leste, and/or Viet Nam. Specifically, ADB will have excusal rights in relation to investments in Brunei Darussalam and Singapore (being graduated developing member countries DMCs) and Myanmar. Based on discussions with Northstar, ADB considers that the likelihood of the fund investing in Myanmar is low.

^c Early-stage opportunities include any investment opportunity in a portfolio company where the aggregate amount invested by the fund is \$15 million or less.

^d ADB. 2018. [Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific](#). Manila.

^e E. Hinchliffe. 2020. [Funding for female founders increased in 2019—but only to 2.7%](#). *Fortune*. 2 March.

^f S. Biegel et al. 2020. [Gender Lens Investing Landscape: East & Southeast Asia](#).

^g International Finance Corporation. 2016. [Women-owned SMEs in Indonesia: A Golden Opportunity for Local Financial Institutions](#). Washington DC.

^h Global Impact Investing Network. 2018. [The Landscape for Impact Investing in Southeast Asia](#).

Source: Asian Development Bank