

INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Azerbaijan	Project Title:	AccessBank Azerbaijan (ABA) for Promoting Rural Financial Inclusion
Lending/Financing Modality:	Senior Loan	Department/ Division:	Private Sector Operations Department/ Financial Institutions Division

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

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

The global economic downturn negatively affected the Azerbaijan economy, as evidenced by the decline in oil and gas demand and the associated sharp decline in GDP growth. In banking, depositor confidence is weakened, loan growth is slowed and asset quality is deteriorated. Under Strategy 2020^a, ADB aims to strengthen its support to finance sector by supporting the development of financial infrastructure, institutions, and products and services; and by promoting inclusive growth. It is through these initiatives that channeling of savings into productive investments will be encouraged.

Based on Asian Development Bank (ADB) financial sector assessment^b, evaluation of ADB assistance to Azerbaijan^c and a new country partnership strategy which is still being prepared, developing private and financial institutions, and the need for intensified financial intermediation, especially in the regions are important.

The proposed loan will help ABA reach rural MSMEs which is consistent with Government of Azerbaijan's efforts to promote growth in these areas. Strategy 2020's target for poverty reduction through private sector development will be supported through ABA's emphasis on activities in the regions where poverty vulnerability is highest. These targeted MSMEs will act as trade and service hubs linking agriculture to national and regional markets.

B. Targeting Classification

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

With the impending need of Azerbaijan to diversify the sources of its economic growth away from oil and gas as well as from its growth center, the loan will be able to reach rural MSMEs. This financial access is critical to varied economic activities of these underserved MSMEs.

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries.

Development of micro, small, and medium-sized enterprises (MSMEs) and farms in Azerbaijan are presently constrained by access to finance. Although the government has implemented some positive steps, improved regulations, and various labor initiatives, the enterprises will not be able to grow and operate effectively without access to funding. The proposed loan to ABA, will help improve financial access and services to the underserved entrepreneurs and farmers in rural Azerbaijan.

2. Impact channels and expected systemic changes.

A study conducted by the World Bank^d highlighted that fast-growing areas such as trade and retail or oil had minimal impact on employment while agriculture and other services (excluding transport and tourism) employed 38% and 27% of the labor force in 2012, respectively. There is high potential benefits for poverty reduction through investments in business and farming.

3. Focus of (and resources allocated in) the PPTA or due diligence.

During project design, the following aspects should be explored: (a) how to reach more MSMEs as well as means to enhance their capacities and (b) how women-owned or managed enterprises can be served by the proposed project.

4. Specific analysis for policy-based lending. N/A

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? In ABA, 35% of total staff is women. Women represent 24% of senior and middle management. Also 27% of ABA borrowers are women (2012), the project may explore the possibility of targeting more women borrowers during its implementation to be able to provide more financing access to women entrepreneurs.

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 Please explain. ABA expects to reallocate and add new management and personnel to serve MSME clients effectively.

3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality?

☐ Yes ☒ No Please explain The proposed project is not anticipated to have any adverse impact on women and/or girls or widen gender inequality.

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 project stakeholders include the micro, small and medium enterprise owners who access funds through the banks, individuals who will be employed with the increase and expansion in MSME activities, funding sources, the Azerbaijan banking sector particularly the AccessBank Azerbaijan (AB).

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? AccessBank Azerbaijan will have continuous coordination with MSMEs throughout project implementation. ABA will develop and maintain its ESMS which will covers participation aspects.

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? None

☒ Information generation and sharing, L ☐ Consultation, L ☐ 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, treated as C

1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? ☐ Yes ☒ No MSME activities are unlikely to entail involuntary acquisition of land as well as involuntary restrictions on land use. All MSME activities that will entail economic or physical displacement will be excluded from ADB funding. Subloans under involuntary resettlement categories A and B will not be financed under the loan.

2. What action plan is required to address involuntary resettlement as part of the PPTA 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, treated as C

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 Subloans under Indigenous Peoples categories A and B will not be financed under the loan

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 PPTA or due diligence process?

☐ Indigenous peoples plan ☐ Indigenous peoples planning framework ☐ Social Impact matrix
☒ Environmental and social management system arrangement ☐ None

V. 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 ☐ 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? The enhanced ABA ESMS will include compliance with the national labor standards as well as crafting of relevant measures to comply with the core labor standards.

VI. PPTA OR DUE DILIGENCE RESOURCE REQUIREMENT

1. Do the terms of reference for the PPTA (or other due diligence) contain key information needed to be gathered during PPTA or due diligence process to better analyze (i) poverty and social impact; (ii) gender impact, (iii) participation dimensions; (iv) social safeguards; and (vi) other social risks. Are the relevant specialists identified?

☒ Yes

☐ No

ABA will develop and maintain its ESMS which will covers these aspects.

3. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social and/or gender analysis, and participation plan during the PPTA or due diligence? The ADB Team will conduct due diligence and meetings with ABA covering social safeguards, labor, gender, and other social aspects of the project.

^a ADB. 2008. Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020. Manila.

^b ADB. 2012. Azerbaijan: Financial Sector Assessment. Manila.

^c ADB. 2012. Azerbaijan: Validation of the Final Review of Country Operations, 2000–2011. Manila.

^d World Bank. 2013. Azerbaijan: Inclusive Growth in a Resource-Rich Economy. Washington, DC. p. 13.