

INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Armenia	Project Title:	Senior Loan to FINCA Armenia Rural Financial Inclusion
Lending/Financing Modality:	Senior Loan	Department/ Division:	Private Sector Operations Department/ Private Sector Financial Institutions Division

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

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

ADB will provide a senior loan of up to \$6 million to support Finca Armenia UCO OJSC's (FIAR) lending to lower income customers, particularly MSMEs and agriculture related clients in the underbanked and rural regions. Servicing to MSMEs and agriculture related clients in regions is expected to be improved. Funding private MSME and agriculture activity will provide employment and income benefits for business owners.

The proposed project is aligned with ADB's Midterm Review of Strategy 2020^a which aims to strengthen its support for the finance sector by assisting the development of financial infrastructure, institutions, and products and services; and by promoting inclusive growth. The project will help FIAR fund segments where the potential for employment and income generation is high and will support inclusive growth. The ADB loan will help the borrower provide loans to MSMEs in order to realize their investment needs. This is consistent with the government's efforts to promote growth and ADB's country partnership strategy with Armenia, 2014-2018.^b

B. Poverty Targeting:

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

ADB's proposed loan to FIAR will be primarily geared towards the rural areas and for agriculture and farming purposes. The project is expected to help improve rural households' access to finance to boost the economic activities of rural farmers and entrepreneurs, hence improve the incomes and standard of living of people.

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries. Armenia has a population of below 3 million and continued emigration is an ongoing challenge for the country. Rural and urban poverty have increased since the global financial crisis and ADB estimates that the country's poverty incidence has worsened from 28% in 2008 to 32% in 2013.^c The geography of poverty in Armenia shows substantial gaps between Yerevan (25.2%), rural areas (29.9%), and other urban areas (35.1 percent).^d Much of the labor force is engaged in low productivity agriculture, trapped in low wage jobs or experience long-term unemployment.^e Supporting private investment in rural areas provides major benefits for low-income families and stimulates demand for goods and services produced by farmers and MSMEs.

2. Impact channels and expected systemic changes. There is vast unmet demand for microcredit for the rural population. ADB's loan to FIAR will focus on lending in rural areas, to provide households in the agriculture sector better access to credit, thus contributing to the development of this underdeveloped sector. The expanded lending capacity will allow FIAR to reach and offer financial access to more rural poor households and help improve and sustain their livelihood and incomes.

3. Focus of (and resources allocated in) the PPTA or due diligence. ADB Team reviewed FIAR's environmental and social management system, how FIAR identifies and addresses its subloans' environment and social impacts, gender aspects in its operations, labor practices, and stakeholder engagement practices.

4. Specific analysis for policy-based lending. Not applicable.

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? Entrepreneurship is seen in Armenia as a crucial option for women to gain a livelihood. In terms of loan requirements, women and men face similar obstacles in accessing finance.^f FIAR has designed specific products for rural and agriculture customers and operates through an expansive branch network, giving it a unique advantage in the Armenian market. FIAR is an equal opportunity employer and undertakes considerable efforts to service women customers. From 2014-2016, of the total MSME loan applications, 23% were from women entrepreneurs. Female borrowers currently represent 33% of loan volume and 38% of outstanding loans. Women's business activities include service and sale sectors. FIAR is committed to the principle that all customers are equal, and has no gender preferences with regard to loan approval and disbursement.

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 FIAR's program recognizes the issues raised in the CPS that both men and women face challenges of accessing financing for entrepreneurial activities. FIAR, through this proposed loan, will help extend more loans to women farmers and entrepreneurs.

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

Yes No The project is expected to provide women in the rural areas better access to credit.

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 stakeholders of the project include the FIAR and its local branches, and subborrowers (farmers and entrepreneurs) from the rural areas.

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?

FIAR has been actively engaged in client outreach, as part of its branch network expansion in the country. One of the newest FIAR Initiatives, Borrow Wisely campaign, is a financial literacy outreach Program to its clients to promote good practices on responsible finance and offer microfinance services to the poor in the rural areas. This program ensures that clients understand the importance of calculating repayment capacity, are able to compare the terms and total costs of different loans, understand the contents of the contract, understand and use their right to complain, and are aware of the risks and consequences of over indebtedness. FIAR also organizes community outreach meetings, where FIAR staff explains to potential and existing clients how microfinance works, what it means and how one can benefit from it. This creates a great platform for questions from the clients and immediate response from the staff.

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? There is a very limited space to involve CSOs.

L 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 (treated as C)

1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? Yes No The proposed loan will fund FIAR's lower income customers as well as MSMEs in underbanked rural regions. The majority of the sub-loans will be provided for agribusiness (e.g. livestock raising, farming) and micro-entrepreneurial purposes. The subloans under the ADB loan are expected to have minimal or no adverse social impacts: no land acquisition, physical/economic displacements nor impact on Indigenous Peoples communities is foreseen in relation to any activities of the sub-borrowers. FIAR will apply ADB's prohibited investment activities list, exclude subloans that are classified as Category A or B for involuntary resettlement, and ensure that investments using ADB funds abide by applicable national laws and regulations. FIAR's environmental and social management system (ESMS) will be enhanced to ensure that subloans will be screened and categorized for involuntary resettlement impacts.

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

2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? Yes No Majority of the sub-loans under the project will be provided for agribusiness (e.g. livestock raising, farming) and micro-entrepreneurial purposes. Most of subloans will be used in the rural areas. None of the subloan activities will be confined to any specific ethnic group or implemented in habitats or territory of indigenous peoples. The subloans are not expected to have direct or indirect impacts on Indigenous

Peoples' dignity, human rights, livelihood systems, culture or impact the cultural territories or natural or cultural resources that they own, use, occupy, or claim as an ancestral domain or asset. FIAR will apply ADB's prohibited investment activities list, exclude larger individual sub-loans and all projects that are classified as Category A or B for indigenous peoples, and ensure that investments using ADB funds abide by applicable national laws and regulations.

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? FIAR will comply with the national labor laws and will take measures to comply with the International Labor Organization's 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 (v) other social risks. Are the relevant specialists identified?

Yes No ADB team reviewed the environmental and social management system of FIAR and discussed possible gender targets and measures that may be considered in the design.

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 PPTA or due diligence? ADB team conducted review of relevant documents and due diligence to identify gaps and explore gap-filling measures, as required.

^a ADB. 2014. Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific. Manila.

^b ADB. 2014. Country Partnership Strategy: Armenia, 2014-2018. Manila

^c ADB. 2014. Country Partnership Strategy: Armenia, 2014–2018 (Poverty Analysis). Available:

<https://www.adb.org/sites/default/files/linked-documents/cps-arm-2014-2018-pa.pdf>

^d World Bank. 2016. Global Economic Prospects. Washington, DC.

^e EV Consulting. 2014. National Competitiveness Report of Armenia. Yerevan.

^f ADB. 2014. Country Partnership Strategy: Armenia, 2014-2018. Manila. (Gender Analysis) Available at <https://www.adb.org/sites/default/files/linked-documents/cps-arm-2014-2018-ga.pdf>