

## INITIAL POVERTY AND SOCIAL ANALYSIS

Country:  Project Title:

Lending/Financing Modality:  Department/Division:

### I. POVERTY IMPACT AND SOCIAL DIMENSIONS

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

The proposed project will finance the “integrated water ” investment plans of China Water Affairs Group Limited (CWA) and its subsidiary Gold Tact Environmental Investment (Shenzhen) Company Limited to develop municipal water supply and wastewater treatment subprojects, and related infrastructure in the PRC. This is ADB’s third transaction with CWA, which is now a nationally recognized pioneer in private sector urban water distribution and is expanding into waste water treatment and other ancillary urban water services in second and third tier cities. It is anticipated that the wastewater treatment and network infrastructure projects to be financed through this transaction would be co-located in cities where CWA has existing or planned water supply projects thereby promoting system and technology efficiency. The proposed project is aligned with ADB’s Mid-Term Review of Strategy 2020, Country Partnership Strategy 2016–2020 (CPS) and PRC government priorities of developing water infrastructure, implementing pollution controls, and rehabilitating degraded resources. The PRC recognizes the importance of water to sustain advances in poverty reduction and economic growth. The government’s Three Red Lines policy (2011) caps the total national water abstraction at 700 billion cubic meters in 2030 in a bid to drive investments in improved water productivity, water use efficiency across the economy, and improved water quality in rivers and lakes. The PRC’s 13<sup>th</sup> Five Year Plan 2016-2020 continues the government’s focus on strengthening water security through improvement of water infrastructure networks, promoting the scientific development of water resources, and increasing system and technological efficiency. According to the CPS, water demand is outstripping available supply in the PRC and water quality is not high enough for it to be used for drinking in more than half of the monitored sections of major rivers passing through large cities.

#### B. Poverty Targeting

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

The borrower’s subprojects are primarily located in second and third tier cities where water supply and distribution and wastewater treatment services are urgently required. Rapid growth in these cities has exceeded wastewater treatment capacity and exacerbated pollution of waterways. The CPS notes that the PRC discharges approximately 42 billion cubic meters of industrial and urban sewage annually, of which only 23% is treated according to national sewage effluent discharge standards while the rest is mostly discharged directly into rivers. ADB will support development in these cities by financing private sector-led municipal water supply, wastewater treatment and sewage pipelines, that will improve water quality and create efficiencies due to co-location of water and wastewater treatment facilities. Through supporting linkages between wastewater treatment facilities and water supply, the project will promote development of a complete chain of urban water systems, spanning design and construction of wastewater treatment, sewage systems and water supply network operations. Due diligence will assess how more efficient municipal water systems can affect income and non-income dimensions of poverty in cities in which the borrower will build and operate ADB funded subprojects. The due diligence will evaluate potential contributions to poverty alleviation.

#### C. Poverty and Social Analysis

1. Key issues and potential beneficiaries. The primary beneficiaries of the project are the borrower, its contractors, host local communities that will benefit during project construction and operation, and the wider population that will benefit from wastewater treatment, supply of improved quality water and pollution reduction contributions. Due diligence will consider poverty status in the regions in which the subproject concessions will likely be operated.

2. Impact channels and expected systemic changes. The treatment of municipal wastewater in rapidly urbanizing towns and cities will enhance quality of living of residents through pollution reduction contributions and associated recreational space. The project directly addresses environmental improvement on behalf of the government through the operation of wastewater treatment concessions and experiences very few constraints in achieving its intended impact.

3. Focus of (and resources allocated in) the due diligence. Extensive terms of reference for a corporate and environmental and social management system (ESMS) audit have been prepared for project due diligence. The audit will include due diligence reviews of CWA’s past and present performance on environment and social management systems, an audit of how safeguard issues (relating to environment, land acquisition and involuntary

resettlement and indigenous peoples/ethnic minorities) and social dimensions (relating to gender, labor practices, stakeholder engagement including potential involvement of local communities during construction and operation of the facilities) are addressed in CWA operations. The consultant will investigate past performance at selected subprojects and conduct interviews with residents and government officials. Inputs of a social development specialist have been included in the terms of reference for the lender's technical advisors.

## 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? The project involves construction, expansion and operation of wastewater treatment plants, water supply and sewage networks in less-developed cities. The most relevant gender issue in the water treatment sector is access to employment and participation in subproject related business opportunities. As subprojects involve roles not typically undertaken by women, potential exists for men to take up a greater share of employment through construction and operations. More generally, an early 2016 CWA audit report for ADB stated that CWA's male to female employee ratio is 54:46, and is the following for technical (57:43), administrative (38:62) and managerial (75:25) roles. Due diligence will assess how CWA will maintain inclusive participation of women through the borrower.

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. There is very little opportunity for the project borrower to promote gender equity beyond what it already does in providing equal opportunity in employment; however, due diligence will assess opportunities for greater inclusive participation by women.

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

Yes  No Please explain. Due diligence will determine company's policies on providing equal opportunities for women across its operations, including its contractors.

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 main stakeholders of the project are the municipal governments that engage the borrower through concession agreements to manage water and wastewater treatment plants and urban sewage networks. Other subproject level stakeholders include people living and working in proximity to the wastewater treatment plants and sewage pipelines affected by construction and operation impacts. More generally, other project beneficiaries include the wider population in subprojects areas who will benefit from supply chain business opportunities and water pollution reduction contributions.

2. How can the project contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly, the poor, vulnerable and excluded groups? Local governments are engaged through the concession bidding and negotiation process, while affected people are engaged through impact assessment and land access and acquisition procedures. These processes are typically controlled by government, while the borrower is either a participant or an observer with a monitoring and assurance role (as is the case with land acquisition). The borrower is most able to engage local subproject level stakeholders through its established corporate social responsibility platform, which is focused on transparency in procurement, pollution minimization, health and safety, employee training and development, post-disaster support, community volunteering and local charity support.

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 (L)  Consultation (M)  Collaboration  Partnership

The subprojects will require consultation and negotiation with local governments, construction and operation affected communities and supply chain businesses. Due diligence will assess the presence of any civil society organizations with an interest in water supply, wastewater treatment plants and urban sewage networks in the borrower's local areas of influence.

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 Treatment facilities are typically located on land that is typically of lesser or no agricultural value and therefore may be occupied by poorer households. While subproject facilities will likely only produce non-major involuntary economic and physical displacement impacts, audit reports for past ADB funded CWA water treatment subprojects have indicated positive beneficial impacts from subproject related resettlement. Due diligence will explore how the borrower has ensured past government-led resettlement activity has appropriately engaged and empowered the poor and excluded.

## 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 Future ADB funded subprojects may involve construction of new or expansion of existing water supply and wastewater treatment facilities, and installation and renovation of municipal sewage pipelines. Land acquisition for these is not expected to produce significant involuntary economic and/or physical displacement impacts and is typically undertaken by municipal governments in compliance with national law in non-residential industrial areas before a concession is awarded to the borrower. CWA's environmental and social management system (ESMS, updated January 2016), which applies to the borrower, includes a due diligence procedure for assessing past government-led land acquisition and house demolition impacts on subprojects with existing facilities including those under construction and for subprojects for which land acquisition and house demolition impacts have yet to occur. Due diligence would ensure that any involuntary resettlement has or will occur in compliance with national law and SPS SR2. The ESMS states that should a proposed subproject have involuntary resettlement impacts entailing physical and/or economic displacement, a resettlement plan will be prepared by the borrower for implementation by the local government prior to any construction activities in accordance with national and local laws and regulations and SPS SR2. The ESMS highlights gaps between national law and SPS SR2 requirements and provides recommended action to close them. The borrower will be required to implement supplementary action not undertaken by government to ensure compliance with SPS SR2. CWA has provided assurance that past government-led land acquisition on ADB funded subprojects occurred in compliance with national law, however due diligence will investigate the extent of procedural compliance in sample projects and provide instructive corrective action if necessary in the borrower's ESMS for future ADB funded subprojects.

2. What action plan is required to address involuntary resettlement as part of the 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

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 Prior to due diligence, the project team understands that preexisting subprojects are located in urban and peri-urban non-residential areas where no distinct or vulnerable ethnic minority groups have been adversely or beneficially affected. Despite this trend, the borrower's ESMS includes adequate measures to place to identify, categorize, mitigate and manage potential subproject impacts on ethnic minority groups in the PRC. Due diligence will confirm if future subprojects will maintain this siting trend.

3. Will the project require broad community support of affected indigenous communities?  Yes  No This matter will be further assessed during due diligence.

4. What action plan is required to address risks to indigenous peoples as part of the 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 <sup>(L)</sup>  Adhering to core labor standards <sup>(L)</sup>  Labor retrenchment <sup>(L)</sup>  
 Spread of communicable diseases, HIV/AIDS <sup>(NA)</sup>  Increase in human trafficking <sup>(NA)</sup>  Affordability <sup>(NA)</sup>  
 Increase in unplanned migration <sup>(NA)</sup>  Increase in vulnerability to natural disasters <sup>(NA)</sup>  Creating political instability <sup>(NA)</sup>  Creating internal social conflicts <sup>(NA)</sup>  Others, please specify \_\_\_\_\_

2. How are these additional social issues and risks going to be addressed in the project design? The project borrower provides comprehensive employment contracts for its employees and ensures that its construction contractors provide equal pay for equal work. Due diligence will review contracts and supply chain arrangements for compliance.

**VI. DUE DILIGENCE RESOURCE REQUIREMENT**

1. Do the terms of reference for the diligence contain key information needed to be gathered during 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

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 due diligence? Environmental and social due diligence will involve a corporate audit of the borrower's ESMS and inspection of two existing facilities. A technical adviser has been contracted and will report on SPS compliance, community health and safety, land acquisition, ethnic minorities, gender, labor and stakeholder engagement.

20 Oct 2016). [http://news.xinhuanet.com/politics/2016lh/2016-03/17/c\\_1118366322\\_9.htm](http://news.xinhuanet.com/politics/2016lh/2016-03/17/c_1118366322_9.htm); ADB. 2016. *Addressing Water Security in the PRC: the 13<sup>th</sup> Five-Year Plan and Beyond*. Manila; Global Water Partnership. 2015. *China's water resources management challenge: the 'three red lines'*. <http://www.gwp.org/> (website viewed 20 Oct 2016).