



Initial Poverty and Social Analysis

September 2017

CAM: Equity Investment in BRED Bank Cambodia

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 30 September 2017)

Currency unit – Cambodian Riel (KHR)

KHR1.00 = \$0.0248

\$1.00 = KHR40.35

ABBREVIATIONS

ADB	–	Asian Development Bank
BBC	–	BRED Bank Cambodia
BFL	–	Banque Franco-Lao
BRED	–	BRED Bank Populaire
IFC	–	International Finance Corporation
SME	–	small and medium-sized enterprise

NOTES

- (i) The fiscal year (FY) of BRED Bank Cambodia ends on 31 December. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2016 ends on 31 December 2016.
- (ii) In this report, “\$” refers to US dollars.

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INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Cambodia	Project Title:	Equity Investment in BRED Bank Cambodia
Lending/Financing Modality:	Equity	Department/ Division:	Private Sector Operations Department Private Sector Financial Institutions

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

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

The proposed investment in BRED Bank Cambodia (BBC) will increase its capital base to meet new minimum capital requirements and allow it to both expand its loan portfolio to support small and medium-sized enterprises (SMEs) and meet growing retail banking needs. Cambodia's current policy framework for poverty reduction comprises the government's socioeconomic policy agenda the Rectangular Strategy Phase III (2014–2018) (RS III) and its implementation plan the National Strategic Development Plan 2014–2018 (NSDP). Through the RS III the national target continues to be poverty reduction at one percentage point per year. The proposed equity investment contributes to one of four priority areas in the RS III by strengthening private sector development of the financial sector and promoting investment and employment through improved access to stable and longer-tenor finance for SMEs. The proposed equity investment is aligned with the Asian Development Bank's (ADB) Country Partnership Strategy: Cambodia 2014–2018 (CPS), which includes a focus on finance as one of ADB's five core activities in the country. The CPS supports programs to transform agriculture from subsistence farming to a commercial orientation and to stimulate small enterprises through enhanced access to long-term non-sovereign finance.

B. Poverty Targeting

General intervention Individual or household (TI-H) Geographic (TI-G) Non-income MDGs (TI-M1, M2, etc.)

Income poverty has fallen but many families teeter only just above the poverty line. World Bank data lists the national poverty headcount ratio at \$1.90 a day at 3.4% (percent of population) in 2011 and 2.2% in 2012. ADB statistics similarly record a reduction in the national poverty headcount ratio from 25.9% in 2009 to 14.2% in 2014.

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries. SMEs play a vital role in Cambodia's economy, creating employment, generating income for poor and vulnerable families, and fostering economic growth. Limited access to long-tenor price-competitive finance is however a critical challenge faced by SMEs in Cambodia that constrains their growth. The expected direct beneficiaries of the proposed equity investment are BBC and its customers. Cambodia's financial sector will also benefit through the demonstration effect of an international bank offering a full range of products and services.

2. Impact channels and expected systemic changes. Poverty is overwhelmingly rural in Cambodia but in-migration to Phnom Penh and provincial capitals is driving employment demand and availability, especially in SMEs. ADB's equity investment will contribute to BBC's expansion in Phnom Penh and regional provincial capitals where SMEs require longer-tenor price-competitive finance to grow and to provide employment opportunity.

3. Focus of (and resources allocated in) the transaction TA or due diligence. Poverty and social related due diligence will focus on BBC's capacity to serve emerging SMEs with high quality products that foster increased uptake of financial services and promote inclusive economic growth. BBC's efforts towards enhancing the financial literacy of its SME customers will also be reviewed.

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

II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector and/or subsector that are likely to be relevant to this project or program? The most relevant gender issue for the proposed equity investment is inclusive access to finance for women owned and managed companies.

2. Does the proposed project or program have the potential to contribute 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

BBC plans to implement elements of its sister-company Banque Franco-Lao's (BFL) Women's Market program. BFL's program in the Lao PDR is a financing facility for women-led SMEs with a 50% risk sharing from the International Finance Corporation (IFC). The program allows BFL to provide loans to women entrepreneurs who would otherwise have been ineligible for financing due to a lack of guarantee or insufficient business history. BBC plans to continue this focus on its women entrepreneur client base by: exploring mechanisms to support individuals and businesses with varying degrees of collateral; providing dedicated support by relationship managers through the loan application process (including support to reapply in future if not approved); and through market research with women to better understand broader finance and training needs.

3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality?
 Yes No

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 investment are BBC's customers and the financial services sector more generally.

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? Stakeholders will participate through marketing outreach activities that will contribute to the design of relevant deposit and lending products. Customers will also benefit through the increase in BBC's capacity to service them as a result of the equity investment.

3. What are the key, active, and relevant civil society organizations (CSOs) in the project area? What is the level of civil society organization participation in the project design? The investment presents limited opportunity for the involvement of CSOs.

(L) Information generation and sharing (N) Consultation (N) Collaboration (N) Partnership

4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how should they be addressed? Yes No

An equity investment in a new Cambodian bank that is focused on SME and corporate customers raises no project design issues related to the participation of the poor and excluded. Due diligence will cover credit appraisal processes to ensure core issues such as over-indebtedness are considered.

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 While land lease and purchase can occur with BBC loan proceeds, due diligence will confirm that the small loan amounts and BBC assurances of adherence to national laws signal that such acquisition with the threat of expropriation is not possible.

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

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 BBC provides a range of credit products to borrowers who utilize the funding for agriculture, trade and commerce, manufacturing, construction and transportation. Due diligence will confirm BBC's report that none of its corporate and SME loans since commencement of operations in 2017 have been directed towards funded business activities that adversely or beneficially impact distinct and vulnerable ethnic minority and Indigenous People's (IP) communities in Cambodia.

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 transaction TA 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 (L) 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 equity investment is not expected to cause any significant impact on the local labor market beyond the generation of employment opportunities; however, due diligence will consider BBC's capacity to screen customer business activities for the presence of forced and child labor, as well as other labor related illegal practices.

VI. TRANSACTION TA OR DUE DILIGENCE RESOURCE REQUIREMENT

1. Do the terms of reference for the transaction TA (or other due diligence) contain key information needed to be gathered during transaction TA 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

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 transaction TA or due diligence? In accordance with ADB policy requirements for transactions with financial intermediaries, the transaction team will conduct the necessary poverty and social due diligence for the proposed equity investment in BBC.