



# Initial Poverty and Social Analysis

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Project Number: 55255-001  
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## Cambodia: Trade and Competitiveness Program, Subprogram 1

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## **CURRENCY EQUIVALENTS**

(as of 22 August 2022)

Currency unit	–	riel/s (KR)
KR1.00	=	\$0.00024
\$1.00	=	KR4,099

## **ABBREVIATIONS**

ADB	–	Asian Development Bank
COVID-19	–	coronavirus disease
CSO	–	civil society organization
OP	–	operational priority
RS	–	Rectangular Strategy for Growth, Employment, Equity and Efficiency (2018–2023)
TA	–	technical assistance

## **NOTE**

In this report, "\$" refers to United States dollars.

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## INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Cambodia	Project Title:	Trade and Competitiveness Program, Subprogram 1
Lending/Financing Modality:	Policy-Based Loan	Department/ Division	Southeast Asia Department/ Public Management, Financial Sector, and Trade Division

### I. POVERTY IMPACT AND SOCIAL DIMENSIONS

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

Under the “Rectangular Strategy” (RS) for Growth, Employment, Equity and Efficiency (2018–2023),<sup>a</sup> the government seeks to transform Cambodia into an upper middle-income country by 2030. The RS aims for 7% per annum economic growth and sets a target of reducing poverty levels below 10% of the population by 2023. Its strategic goals include “creating more jobs, in terms of both quality and quantity,” “enhancing market participation” of marginalized groups, and “enhance[ing] people’s livelihoods and welfare.” The RS identifies four “priority areas” for reform, namely: (i) human resource development; (ii) economic diversification; (iii) promotion of private sector development and employment; and (iv) inclusive and sustainable development. The need to strengthen the capacity and governance of public institutions is a key cross-cutting issue. The Asian Development Bank’s (ADB) country partnership strategy (CPS) for Cambodia (2019–2023),<sup>b</sup> is fully aligned with the RS. The four strategic pillars of the CPS focus on: (i) accelerating competitiveness and economic diversification (including the growth and development of women-led micro, small, and medium enterprises); (ii) strengthening human capital and lifelong learning; (iii) fostering green, sustainable, and inclusive development; and (iv) improving governance. The focus of this program is on the second and third “priority areas” of the RS, namely economic diversification, and promotion of private sector development, as well as on the cross-cutting issue of governance. The program also indirectly contributes to the first and fourth “priority areas” of the RS. The program also contributes to four of the operational priorities (OP) of the ADB’s Strategy 2030: (i) addressing remaining poverty and reducing inequalities (OP 1); (ii) accelerating progress in gender equality (OP 2); (iii) strengthening governance and institutional capacity (OP 6); and (iv) fostering regional cooperation and integration (OP 7).

#### B. Poverty Targeting

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

According to the latest official estimates, the percentage of people living below the national income poverty line declined from 33.4% in 2009 to 26.3% in 2014, and 17.8% in 2019 (endnote b).<sup>c</sup> Yet, many Cambodians continue to live marginally above the poverty line and despite advances in health, education, and other dimensions of human development. A large part of the population remains vulnerable to economic shocks and gender-related disparities. Moreover, poverty is more extreme in rural areas, while inequality is higher in urban areas. The coronavirus disease (COVID-19) has resulted in rising unemployment and a fall in remittances, exacerbating problems for the poor and pushing many of the near poor back into poverty. Pandemic-related supply chain disruptions, rising food prices and loss of household income also intensified pre-existing food security and nutrition issues, with many Cambodian households reducing food consumption. In early June 2020, the Ministry of Planning announced that 560,000 households (2.3 million people) were eligible for social assistance in the form of cash transfers. This number increased to 640,000 households (2.6 million people) in October 2020, and to 694,000 households (2.7 million people) in April 2021.<sup>d</sup> Most of the social assistance is estimated to have been spent on food.

#### C. Poverty and Social Analysis

1. Key issues and potential beneficiaries. COVID-19 threatens to undermine Cambodia’s progress in poverty reduction. The negative impact of COVID-19 on the real economy was concentrated in three key sectors: (i) leisure and tourism related services; (ii) garments, textiles and footwear (GTF) manufacturing; and (iii) construction and real estate. These sectors accounted for almost half of the gross domestic product (GDP), three quarters of exports, and two-thirds of GDP growth in 2019. The sectors also disproportionately employ vulnerable groups such as women, youth and migrant workers, many of whom remit part of their income to dependents in rural areas. Over 80% of GTF workers in Cambodia are female, and the same proportion are under the age of 35.<sup>e</sup> The United Nations estimates that the economy contracted by 3.1% in 2020 causing unemployment levels to rise to 4.2% of the working population.<sup>f</sup> This figure does not account for those people that have had to move to less productive jobs or lower pay sectors, such as agriculture, or who have had to drop out of the labor force altogether, such as women who have had to take up additional unpaid caring responsibilities. This shift inevitably leads towards an increase in the working poverty rate, or proportion of the employed whose employment-related incomes are not sufficient to lift them and their families out of poverty.

2. Impact channels and expected systemic changes. Unemployment and underemployment lie at the core of poverty. The program will provide low-income and vulnerable groups better opportunities to raise their income and improve their access to decent, remunerative work and employment. Impact channels from the program’s interventions include: (i) facilitating trade and investment to encourage a shift in the structure of employment towards higher productivity occupations and sectors; (ii) enhancing the business enabling environment for investors and small and medium-sized

enterprises to create jobs; (iii) supporting inclusive business to provide opportunities for the poor and vulnerable groups; and (iv) supporting the development of innovative digital financial products to promote financial inclusion.

3. Focus of (and resources allocated in) the transaction technical assistance (TA) or due diligence. ADB technical assistance will focus on, *inter alia*, supporting the following reform areas: building confidence in digital systems and encouraging innovation in the provision of financial services; improving the enabling environment for micro, small and medium-sized enterprises (MSMEs) and promoting inclusive business models; supporting technology transfer to MSMEs; and strengthening the resolution of domestic commercial disputes.

4. Specific analysis for policy-based lending. The transmission channel for the program's interventions includes the government and financial institutions by strengthening policy and regulations in the short term and by improving service delivery in the medium term. The impact will also be felt by businesses, workers, particularly women and youth, and households, through interventions designed to improve economic opportunity and empowerment.

## 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 labor force participation rate of women in Cambodia, at 80% in 2019, is one of the highest in the world,<sup>9</sup> and women own the majority of all businesses (65%), higher than in many ASEAN countries.<sup>h</sup> Specifically, 62% of microbusinesses and 26% of Small- and medium enterprises are women-owned.<sup>i</sup> However, only a third of women's MSMEs are registered businesses, and less than 1% of the businesses have more than 10 employees.<sup>j</sup> Most women-owned MSMEs are concentrated in a relatively smaller number of industry sectors, such as wholesale retail trade and services, accommodation and food, and manufacturing, as are female employees, creating a gender gap in terms of vulnerability to exogenous shock (for example, the sectors most severely affected by the COVID-19 pandemic in Cambodia include tourism and garment/footwear, which traditionally employ more women than men),<sup>(endnote e)</sup> remuneration levels, and the additional burden of unpaid domestic work and care.<sup>k</sup> Moreover, women generally face more limited access to resources, including education, training and government services.<sup>l</sup> There are still significant barriers to women's economic empowerment and the growth of women-owned business (endnote i). Women-owned businesses tend to be found in the informal sector due to high registration costs, lack of guidance on registration requirements, and lack of incentives for formalization. It is also generally harder for women to gain access to formal banking services and non-financial services, as well as to access markets and information.

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 access to and use of opportunities, services, resources, assets, and participation in decision-making?  Yes  No

This program aims to advance gender equality, primarily by improving the enabling environment for women-owned businesses and female entrepreneurs. The program will support the clarification and streamlining of business registration processes, and make paying taxes simpler, helping women entrepreneurs overcome many of the hidden costs of formalization. The program will help women access credit by modernizing the legal framework on secured transactions to facilitate alternative forms of financing, noting that women face greater restrictions in terms of collateral availability. This program will also promote the development of innovative fintech, e-commerce and other communications technology solutions that will better enable women entrepreneurs to overcome existing constraints, including time and mobility limitations. The program will create new markets for MSMEs, particularly women-owned MSMEs in rural areas, by developing e-commerce. The program will also support MSMEs, including women-owned businesses by reinforcing government capacity building and coaching platforms, such as digital support hubs. The program will support inclusive businesses, which can bring positive change for women through empowerment and by creating opportunities.<sup>m</sup>

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 EMPOWERING THE POOR

1. Who are the main stakeholders of the project, including beneficiaries and affected people? Explain how they will each participate in the project's design. The main government and institutional stakeholders are: The Ministry of Economy and Finance (MEF), Ministry of Commerce (MOC), Ministry of Justice (MOJ), Ministry of Industry, Science, Technology and Innovation (MISTI), and Ministry of Women's Affairs (MOWA). The local population at large, low-income and vulnerable groups, including women and youth, are among the beneficiaries. Government stakeholders and business representative organizations were consulted during the program design.

2. Who are the key, active, and relevant civil society organizations (CSOs) in the project area? The program will focus on business representative organizations active in Cambodia, many of which have been actively engaged in post-COVID-19 recovery issues at the Private Sector Sub Committee, under the ADB's CARES program.<sup>n</sup>

3. Are there issues during project design for which participation of the poor and vulnerable is important?  
 Yes  No If yes, what are these issues?

<p>4. How will the project ensure the participation of beneficiaries and affected people, particularly the poor and vulnerable and/or CSOs, during project design to address these issues? Engagement with stakeholders and beneficiaries will be through the various government channels. Reforms supported through technical assistance will include engagement of stakeholders.</p> <p>5. What level of CSO participation is planned during the project design?  <input checked="" type="checkbox"/> <b>M</b> Information generation and sharing <input checked="" type="checkbox"/> <b>M</b> Consultation <input type="checkbox"/> <b>NA</b> Collaboration <input type="checkbox"/> <b>NA</b> Partnership</p> <p>As the program is a PBL, engagement will primarily rely on government channels. However, some information sharing and consultation with CSOs, especially business representative organizations, including women's business associations, will be undertaken in accordance with the Country Engagement Framework.</p>
<b>IV. SOCIAL SAFEGUARDS</b>
<p><b>A. Involuntary Resettlement Category</b> <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI</p> <p>1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>2. What action plan is required to address involuntary resettlement as part of the transaction TA or due diligence process? <input type="checkbox"/> Resettlement plan <input type="checkbox"/> Resettlement framework <input type="checkbox"/> Social impact matrix  <input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None</p>
<p><b>B. Indigenous Peoples Category</b> <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI</p> <p>1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>3. Will the project require broad community support of affected indigenous communities? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>4. What action plan is required to address risks to indigenous peoples as part of the transaction TA or due diligence process? <input type="checkbox"/> Indigenous peoples plan <input type="checkbox"/> Indigenous peoples planning framework <input type="checkbox"/> Social impact matrix  <input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None</p>
<b>V. OTHER SOCIAL ISSUES AND RISKS</b>
<p>1. What other social issues and risks should be considered in the project design? Not applicable.</p> <p>2. How are these additional social issues and risks going to be addressed in the project design? Not applicable.</p>
<b>VI. TRANSACTION TA OR DUE DILIGENCE RESOURCE REQUIREMENT</b>
<p>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? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social, and/or gender analysis; and the participation plan during the transaction TA or due diligence?  Reforms supported by technical assistance will embed a requirement to analyze poverty, social and gender impact. In addition, regular consultation will be held with SERD and SDCC gender specialists on proposed reforms.</p>

Source: Asian Development Bank.

- <sup>a</sup> Government of Cambodia (RGC). 2018. *The Rectangular Strategy for Growth, Employment, Equity and Efficiency: Building the Foundation Towards Realizing the Cambodia Vision 2050, Phase IV*. Phnom Penh.
- <sup>b</sup> ADB. 2020. *Cambodia: Country Operations Business Plan (2021–2023)*. Manila.
- <sup>c</sup> RGC. 2021. *Poverty in Cambodia: Redefining the Poverty Line*. Phnom Penh.
- <sup>d</sup> World Bank. 2021. *Cambodia Economic Update: Road to Recovery*. Washington D.C.
- <sup>e</sup> ILO. 2018. *Cambodia Garment and Footwear Sector Bulletin: Living conditions of garment and footwear sector workers in Cambodia*. Phnom Penh.
- <sup>f</sup> UNDP. 2020. *COVID-19 Economic and Social Impact Assessment in Cambodia*. Phnom Penh. [Analysis currently being updated for 2021].
- <sup>g</sup> World Bank. 2021. *Development Indicators: Labor force participation rate – Cambodia*. Washington D.C.
- <sup>h</sup> ADB. 2015. *Promoting Women's Economic Empowerment in Cambodia*. Manila.
- <sup>i</sup> IFC. 2019. *Exploring the Opportunities for Women-owned SMEs in Cambodia*. Washington D.C.
- <sup>j</sup> OECD. 2017. *Strengthening Women's Entrepreneurship in ASEAN: Towards increasing women's participation in economic activity*. Paris.
- <sup>k</sup> As a result of COVID-19 related school closures, women in Cambodia are more likely to assume additional unpaid caring responsibilities, potentially leaving paid employment.
- <sup>l</sup> ILO & ADB. 2013. *Gender Equality in the Labor Market in Cambodia*. Manila.
- <sup>m</sup> ADB. 2016. *How Inclusive is Inclusive Business for Women? Examples From Asia and Latin America*. Manila.
- <sup>n</sup> ADB. 2020. *Cambodia: COVID-19 Active Response and Expenditure Support Program*. Manila.