

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Cambodia	Program Title:	Inclusive Financial Sector Development Program, Subprogram 1
Lending Modality:	Policy-based lending	Department/ Division:	Southeast Asia Department/Public Management, Financial Sector, and Trade Division

I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY

Targeting classification: General Intervention

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

Cambodia's National Strategic Development Plan, 2014–2018 (Rectangular Strategy Phase III) identified private sector development and employment as the third element that supports the country's development. This element includes strengthening private sector investment and business and developing the labor market, industry and SMEs, and the banking and financial sectors.

The ADB Cambodia country partnership strategy, 2014–2018^a identifies finance as one of the five sectors of cooperation. Since 2001, ADB has been supporting the Financial Sector Programs. The reforms implemented under the ADB programs have contributed to a financial deepening and a relatively strong banking subsector. Increase in the supply of money has made credit more readily available for the private sector, supporting an increase in scope and depth of services provided to businesses. Further expansion of the financial sector requires more consultation with stakeholders so as to maximize the ability of the sector to reach poor and marginalized communities. To reach a larger segment of the population and to expand financing opportunities in remote areas, there is a need to improve understanding of how to extend financial services and financial literacy to people living in remote communities, where opportunities are scarce. Coordination and partnership with local CSOs is key as they have extensive experience in this area.

B. Results from the Poverty and Social Analysis during Assessments of the Program and its Systems

1. Key poverty and social issues. The ADB Cambodia country partnership strategy, 2014–2018 identifies low access to health services and water and sanitation, especially outside Phnom Penh, as major constraints on inclusive growth. Cambodia's poverty rate has fallen dramatically, from 47.8% in 2007 to 18.9% in 2012. The poverty incidence is highest in rural areas (19.9% in 2012), where 90.0% of poor people live. Despite the rapid fall in poverty rates and decreased inequality, vulnerability exists for a large share of the population. Vulnerability to falling back into poverty is high, with 72% of Cambodians living on less than \$3 per day. Poverty and vulnerability result in a high rate of child malnutrition. Borrowing to smooth consumption is a common coping mechanism for poor and vulnerable families in the absence of an adequate social protection system. The limited number of middle-level firms in the private sector hampers value chain expansion and economic diversification. The private sector is dominated by very small informal enterprises and farms, with only a few large and modern enterprises. More needs to be done to improve the investment climate and access to finance in order to mobilize investments that will generate jobs for an expanding labor force. Access to finance and inclusion in the financial sector has contributed to women's economic empowerment. However, more can be done to support gender equality in the financial sector. Women's businesses still lag behind men's in terms of the volume of loans accessed and formalization of their businesses. Constraints on growth include the cost of financing (23%), with access and cost of electricity ranking the highest at 42%.

2. Beneficiaries. The program aims to support and develop the growth of SMEs through working with the Rural Development Bank to support expansion of credit to the agriculture sector. As 65.2% of employed women in rural areas work in the agriculture sector, and over 60.0% of businesses are owned and operated by women, increasing equality of access to microfinance services for women through working with CSOs and microfinance institutions that target the poor will have a catalytic role in promoting women's economic empowerment and improve their family's economic well-being. Women microfinance users (there is an estimated 1,006,700 female clients from 37 microfinance institutions and 5 organizations) will indirectly benefit from the program; community savings groups (150,000 members)^b and SME owners are expected to benefit from this program.

3. Impact channels. The financial sector in Cambodia is an important part of the country's economic development and has been growing rapidly since 1996. Robust development is due to the strong contribution and involvement of MFIs in the absence of a developing financial market infrastructure. Since 2004, more foreign investors have invested in Cambodian MFIs. MFI access, depth, and efficiency has increased substantially, resulting in one of the largest MFI markets in the world. According to the Cambodia Microfinance Institution, there are currently 1.8 million Cambodian households with an account in an MFI and around 400,000 households have an account in the formal banking subsector. Supporting the country's poor and marginalized people to access financial literacy and financing can accelerate further poverty reduction. The rural marginalized communities, including women, who often engage in

agriculture production, can benefit further from expanded support for financing and strengthening of micro, small, and medium-sized enterprises. Establishing strong channels of support from MFIs and civil society organizations to micro, small, and medium-sized enterprises and extending financial literacy support for their owners and other constituents such as savings groups can improve financial inclusion opportunities for remote and marginalized groups.

4. **Other social and poverty issues.** Despite success in reducing the overall poverty rate, disparities in access to services are stark in Cambodia. Only 37% of the rural population has access to improved sanitation and 44% has access to clean water sources, compared with over 70% in urban areas. The Government of Cambodia is cooperating with civil society and other development partners to implement decentralization to support improved management of social services through the use of the social accountability framework to engage with citizens and engage their support to help monitor service delivery in education and health.

5. **Design features.** The proposed program supports the government's financial sector reform effort by expanding financial inclusion through promotion of financial inclusion in rural areas and the agriculture sector and the promotion of micro, small, and medium-sized enterprises. The program will also promote financial literacy and work with civil society to improve gender mainstreaming in the program. The program will establish a platform for coordination between civil society groups who work with community savings and microfinance organizations, and the government to increase financial literacy and expand and improve access to microfinance for women, the poor, and remote communities.

C. Poverty Impact Analysis for Policy-Based Lending

1. Impact channels of the policy reform(s). Policy reforms under the program will focus on financial inclusion, especially for rural areas, the agriculture sector, and SMEs. The poor households in rural areas and farmers will be major beneficiaries under the program. In addition, the program will establish the forum between the government and CSOs for financial inclusion, and the forum is expected to facilitate dialogue and improve transparency to address the issue of financial inclusion.

2. Impacts of policy reform(s) on vulnerable groups. No specific intervention for vulnerable groups under the program is planned.

3. Systemic changes expected from policy reform(s). Improved access to finance for rural areas and the agriculture sector will definitely bring pro-poor systemic change and contribute to inclusive growth in rural areas. The program is also in line with the government's overarching policy objective of the National Strategic Development Plan, 2014–2018 to reduce poverty to about 15% by 2018.

II. PARTICIPATION AND EMPOWERING THE POOR

1. **Participatory approaches and proposed program activities.** The policy loan subprogram triggers include working with civil societies to ensure gender mainstreaming. Workshops will be conducted on financial inclusion with focus on civil society participation and gender mainstreaming. The program will cooperate with development partners and CSOs to establish a forum on financial inclusion. Engaging with civil society and development partners are an integral part of the policy matrix, which is part of the program's DMF.

2. **Civil society.** Civil society is an important component of this program as many organizations work with the poor and marginalized. CSOs are active in supporting community saving groups, building the community's financial literacy, and helping to empower the poor to access services.

3. **Civil society organizations.** The program has consulted and will continue to consult with the CSOs who have worked with poor and vulnerable communities, as empowerment through microfinance is already a well-established area of local and international CSO work in Cambodia. The related policy triggers include a diagnostic analysis of financial inclusion with gender analysis of the demand-side survey. The program will partner with CSOs already working in the financial sector to support engagement with the poor and vulnerable groups to identify how to strengthen financial inclusion of the poor, identify which products and services would best serve marginalized groups and women, and identify and address the capacity development needs in the area of financial education.

4. **Forms of civil society organization participation envisaged during program implementation.**

Information gathering and sharing Medium Consultation Medium Collaboration Medium Partnership

5. **Participation plan.** As the program has policy triggers that include engaging working with CSOs on financial inclusion, it is expected that there will be further work with CSOs as part of the subproject policy triggers.

Yes No

III. GENDER AND DEVELOPMENT

Gender mainstreaming category: some gender elements

1. **Key issues.** While women run 65% of all businesses, the businesses are on average smaller and less profitable

