

## Ex-Ante Evaluation (for Japanese ODA Loan)

Private Sector Investment and Finance Division,  
Private Sector Partnership and Finance Department,  
JICA

### 1. Name of the Project

Country: Kingdom of Cambodia

Project: Micro, Small, and Medium Enterprise Development Project (under the “Facility for Accelerating Financial Inclusion in Asia”)

Loan Agreement: March 27, 2020

Borrower: Hattha Bank Plc.

### 2. Background and Necessity of the Project

#### (1) Current State and Issues of the MSME Sector in Cambodia

In recent years, as Cambodia achieved stable economic growth (growing at an average annual rate of 7.0% from 2006 to 2017), the country’s poverty rate improved from 47.8% in 2007 to 13.5% in 2014. However, 90% of the population below the poverty line live in rural areas<sup>1</sup>, causing a regional gap. In addition, it is estimated that 4.5 million people (27.6% of the total population) in the population above the poverty line still remain at a level very close to the poverty line, and in order to further reduce poverty, it is important to ensure growth of micro, small, and medium enterprises (MSMEs), which account for a large percentage of total employment, and thereby create employment. MSMEs play an important role in the Cambodian economy, representing 99.8% of the country’s total enterprises, creating 70% of its total jobs, and accounting for 58% of its total GDP. However, many of the MSMEs (70.0% of the small enterprises and 44.2% of the medium ones) are informal, with their access to regular finance limited. Since MSMEs are forced to depend on their own funds or non-regular finance for 97.7% of their investment funds and 94.8% of working funds, the funding gap is large, at about 21%, and this hinders the growth of MSMEs (source: ADB and IFC). Furthermore, many of the MSMEs (62% of the micro enterprises and 26% of the small and medium enterprises) are run by female managers, and from the viewpoint of women’s empowerment, it is important to promote the growth of MSMEs.

In Rectangle 3 “Promotion of private sector development and employment” of its highest national development strategy known as the Rectangular Strategy, the Cambodian government aims at helping MSMEs create new businesses and improve productivity. In its Industrial Development Policy (2015-25) positioned just below the

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<sup>1</sup> Areas except for the Capital and Provincial capital

Rectangular Strategy, the government particularly points out the necessity of expanding MSMEs' access to financial services. In 2017, it decided to establish a special-purpose bank specialized in financing small and medium enterprises (SMEs) and urged the country's microfinance institutions (MFIs), which provide microfinance to MSMEs by making the most of their extensive office networks among private financial institutions, to actively work on MSME financing. The Project, which strives to expand MSMEs' access to financial services in rural areas of the country through Hattha Bank Plc., which boasts of its largest branch network among the Cambodian MFIs and focuses on financial services for rural and female customers, is in accord with the challenges faced by the sector and the policy of the Cambodian government.

(2) Japan's and JICA's Policy for the MSME Sector in Cambodia and the Priority of the Project

In his statement at the Japan-ASEAN Summit in November 2019, referring to financial inclusion in ASEAN and other Asian regions, including Cambodia, the Japanese Prime Minister stated that Japan committed to doubling JICA's overseas investments and financing, including expanding access to financial services in ASEAN and other regions and funding financial institutions in the regions to empower women, low-income earners, MSMEs, etc. Behind this commitment are the launch of the Global Partnership for Financial Inclusion (GPII) by the G20 participants, including the Japanese government, in 2010 and the adoption of 2X Challenge: Financing for Women by JICA and other development financial institutions in the G7 countries in 2018 in order to mobilize funds of \$3 billion by 2020 for projects that contribute to women's economic empowerment. Japan's Country Development Assistance Policy for the Kingdom of Cambodia (July 2017) cites industrial promotion support as its priority area, and its attachment "Business Development Plan" states that Japan will provide support to contribute to development of MSMEs, which account for the majority of total enterprises in the country, and strengthening of their management. As described above, the Project corresponds with the cooperation policy of Japan and JICA and the analysis conducted thereby.

3. Project Description
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(1) Project Objective

By providing long-term finance to Hattha Bank Plc. in Cambodia, the Project aims at expanding MSMEs' access to financial services in rural areas, thereby contributing to reducing poverty and filling the regional gap in the country and ensuring sustainable growth of the country's economy.

(2) Project Site/Target Area

Rural areas of Cambodia

(3) Project Component

Promote lending to MSMEs in rural areas, including businesswomen, through long-term finance for Hattha Bank Plc.

(4) Environmental and Social Consideration/Gender Category

① Environmental and Social Consideration

a) Category: C

b) Reason for Categorization:

It is judged under the JICA Environmental and Social Considerations Guidelines promulgated in April 2010 that the undesirable effects of the Project on the environment are minimized

② Gender Category: ■GI(S) (Gender Informed(Significant))

<Reason for Categorization> The borrower in the Project granted 64% of its loans to women in 2018. The Project will contribute to women’s economic empowerment because the borrower is expected to maintain the same level of lending even after it expands finance through the Project

(5) Other Important Issues

4. Targeted Outcomes

(1) Qualitative Effects

The balance of loans granted to MSMEs (and female customers) in rural areas will be measured.

(2) Quantitative Effects

Expansion of MSMEs’ access to financial services is expected.

5. Lessons Learned from Past Projects

(1) Results of Evaluation of Similar Projects

The results of ex-post evaluation of the Micro Enterprise Assistance Project, a Japanese ODA loan for the Arab Republic of Egypt, and other data drew one lesson: in developing similar projects to support loans for micro and small enterprises in two steps, it is important for JICA to grasp the loaning system of implementing agencies and intermediary financial institutions.

(2) Lessons for the Project

In the examination process, the Project has checked Hattha Bank Plc.’s financing experience and branch system and confirmed that the financial institution has sufficient ability to implement the Project.

## 6. Evaluation Results

The Project is relevant to the development issues and development policy of Cambodia and is consistent with Japan's and JICA's development cooperation policies. It will also contribute to sustainable industrial development by providing MSMEs with better access to financing. Therefore, the Project is expected to help achieve the two of the SDGs: Goal 8 (better access to financial services) and Goal 9 (promotion of industrial development through small enterprises' wider access to financial services), and is highly significant.

## 7. Plan for Future Evaluation

(1) Indicators to be used

As shown in Section 4. (1) above

(2) Timing

Future evaluation is scheduled for March 2027.

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