

Ex-Ante Evaluation (for Japanese ODA Loan)

Private Sector Investment Finance Division,

Private Sector Partnership and Finance Department, JICA

1. Name of the Project

Country: Kingdom of Cambodia (Cambodia)

Name of the Project: Rural Area Agricultural Sector Supporting Project in Cambodia

(Based on the Facility for Accelerating Financial Inclusion in Asia (FAIA))

Loan Agreement: May 13 2022

2. Background and Necessity of the Project

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

The agricultural sector plays a very important role in the Cambodian economy, accounting for 22.1% of Cambodia's GDP and 32.3% of its employment (2.99 million people) in 2019. 90% of the poor (1.5 million people, calculated by the 2020 poverty rate) are said to live in rural areas. 78% of rural residents are farmers, and there is an income gap as rural incomes are only 50-60% of those in urban areas. (Source: ADB, Phnom Penh Post). In addition, it is estimated that, due to the impact of COVID-19, 400,000 people across the country lost their jobs in the first half of 2020 alone, with 100,000 of these people returning to their rural homes after losing their urban employment, so creating rural jobs has also become an issue (Source: ADB, July 2021). The growth of the agriculture sector and the accompanying job creation is also important from the perspectives of sustainable economic growth, poverty reduction and helping those who are unemployed due to the effects of COVID-19.

On the other hand, one of the challenges in the agricultural sector is to improve labor productivity (As of 2021, Source: ADB). Restraints on improving productivity include access to transport, information, technology and finance. Improving financial access will contribute to improving labor productivity by enabling the purchase of agricultural materials and equipment, high quality seeds, and necessary fertilizers, but financial access in the agricultural sector accounts for only 9.4% of the country's total loans (as of 2018. Source: ADB) and 53% of farmers do not have access to finances (as of 2016. Source: National Bank of Cambodia).

Under these circumstances, this project aims to improve financial access in the agricultural sector through loans to ACLEDA Bank Plc., a local financial institution

in the country. In its National Strategic Development Plan 2019-2023, the Cambodian government identifies the agricultural sector as important in terms of providing employment, reducing poverty, and developing rural areas. The challenges facing the agricultural sector include increasing labor productivity, poor product quality, and inadequate supply chains and irrigation facilities. The Cambodian Ministry of Agriculture, Forestry and Fisheries addressed the challenges facing the Cambodian government through its “Master Plan for Agricultural Sector Development towards 2030” and “Agriculture Sector Strategic Development Plan 2019-2023,” and this project is in line with the challenges facing the sector and the policies of the Cambodian government.

(2) Japan and JICA’s Policy and Operations in the Agriculture Sector

Japan’s Development Cooperation Policy for the Kingdom of Cambodia (July 2017) lists support for promoting industry as a mainstay of one of its priority areas, and as an initiative for the promotion of agriculture, a key industry in rural areas, this project is consistent with this policy. In addition, this project will be extended to a financial institution with the aim of improving financial access in Cambodia in the ASEAN region, as well as empowering women, low-income earners, micro, small and medium enterprises, etc., and comes under the "Initiative on Overseas Loans and Investments for ASEAN." As well as supporting the agricultural sector through technical cooperation projects such as the Project for Rice Seed Production and Distribution (2017-2022) and the Project for Establishing Business Oriented Agricultural Cooperative Model (2014-2019), JICA has been assisting the national road infrastructure development and supporting the agricultural supply chain through the National Road No.5 Improvement Project, an ODA Loan project (L/A signed in 2014), the Project for Improvement of the National Highway Route 6, Siem Reap Section, a Grant Aid project (E/N signed in 2000). Also, ACLEDA Bank Plc. is encouraged to promote female executives in consideration of gender balance, and this project is expected to contribute to the 2X Challenge.

3. Project Description

(1) Project Objective

The objective of this project is to improve financial access in the agricultural sector, especially for small and medium-sized farmers, by providing long-term loans to ACLEDA Bank Plc., a major financial institution, thereby contributing to the expansion of agricultural production, the improvement of farmers'

income, and the maintenance and expansion of employment in Cambodia.

(2) Project Site / Target Area

The whole country of Cambodia

(3) Project Components

Promote lending to the agricultural sector (farmers, MSMEs), focusing mainly on small and medium-sized farmers, through a long-term loan to ACLEDA Bank Plc.

(4) Financing plan

US \$135 million

(5) Project Implementation Structure

1) Borrower: ACLEDA Bank Plc.

2) Executing Agency: ACLEDA Bank Plc.

(6) Environmental and Social Consideration / Cross-Sectoral Issues / Gender Category

1) Environmental and Social Consideration

① Category: C

② Reason for Categorization: Based on the JICA Guidelines for Environmental and Social Considerations (announced in April 2010), this project's undesirable impact on the environment and society is judged to be minimal.

③ Other/Monitoring: The main use of funds is for investment in materials and equipment required for agricultural production

2) Cross-sectional Matters: None in particular

3) Gender Category:

[Gender issues] ■GI (S) (Gender Activities Integration Project)

< Activities / Reasons for classification >

As it's a loan to a financial institution which aims to help improve access to finance in Cambodia in the ASEAN region and empower women, low-income earners, and small and medium enterprises.

(7) Other Important Issues

This project is an application case of the Sustainable Finance Framework for co-financing between SMBC and JICA that was introduced on March 30, 2021.

4. Targeted Outcomes

(1) Quantitative Effects

Indicator	Baseline (2021)	Target (2025)
-----------	-----------------	---------------

Loan balance for the agricultural sector	\$1,094 million	\$1,611 million
Number of borrowers who receive loans financed by JICA	0	12,000 cases

(2) Qualitative Effects

Improvement in financial access in the agricultural sector

(3) Internal Rate of Return

Since this is a bank loan project, the Economic Internal Rate of Return (EIRR) and the Financial Internal Rate of Return (FIRR) are not calculated.

5. External Factors and Risk Control

None in particular

6. Lessons Learned from Past Projects

The results of the ex-post evaluation of the Strengthening of the Agricultural Sector Project (II) in Paraguay identified the importance of setting up a loan scheme that matches the objectives of the project. It was pointed out that the loans did not reach the originally intended targets as they didn't meet the screening conditions of the intermediary financial institution. Thus we learned the importance of setting the loan conditions of the intermediary financial institution at an appropriate level. The project reviewed and checked ACLEDA's loan screening conditions and confirmed that there was a high probability that the loans would be given to the expected agricultural sector.

7. Evaluation Results

This project is consistent with Cambodia's developmental issues and policies, as well as Japan's and JICA's cooperation policies and analyses, will contribute to poverty reduction through improving financial access to the agricultural sector, and it will likely contribute to five of the SDGs: Goal 1 (No Poverty), Goal 2 (Zero hunger), Goal 5 (Gender Equality), and Goal 8 (Decent Work and Economic Growth). This, therefore, suggests that it is highly relevant to support the implementation of the project.

8. Plan for Future Evaluation

(1) Indicators to be used:

As shown in Section 4

(2) Timing:

Ex-Post Evaluation is scheduled for 2026.

End