Financial sector – East Asia

More jobs through access to loans

ACLEDA Bank has been active on the Cambodian market for almost thirty years, starting life as a non-governmental organisation before becoming an institute with a full banking licence in 2003. It issues loans to micro, small and medium-sized enterprises (MSMEs). ACLEDA is now one of the country’s largest commercial banks and has also expanded its reach to the neighbouring countries of Laos, Myanmar and potentially Vietnam. It helps the population, particularly people in rural areas, to gain access to financial services, which still remains limited in all of these countries. KfW has been supporting ACLEDA Bank on behalf of the German Federal Government for a number of years, most recently issuing a loan to improve its equity basis. This allows ACLEDA to provide businesses with sustainable and need-based financial products so they can improve their productivity. In turn, this taps into entrepreneurial potential, creates jobs and generates income for poorer members of the population.

And yet, people in rural areas have only limited access to loans. In Myanmar and Laos, the financial sector also lacks efficiency and transparency. Government intervention paired with a weak capital base and poor banking expertise on how to properly issue loans place additional strain on the sector. Making the financial sector more accessible contributes greatly to using the agricultural potential in the CLMV states much better than today.

Context

The social and economic development of the countries of Cambodia, Laos, Myanmar and Vietnam, also known as the CLMV states, is behind other ASEAN states, such as Indonesia, Malaysia, the Philippines, Thailand and Singapore. The CLMV states are still heavily influenced by agriculture. Almost 30% of their gross domestic products is generated in this sector (compared to less than 1% in Germany), which also provides around 60% of all jobs. Need-based financial services can contribute considerably to making agriculture more productive and generating better yields and income for the population who live off this type of work. Agriculture is considered an emerging sector of the economy in all of these countries.

Project information

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<th>Promotion of rural development (employment and income) through financial sector development.</th>
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<td>Commissioned by</td>
<td>Federal Ministry for Economic Cooperation and Development (BMZ).</td>
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<tr>
<td>Country/Region</td>
<td>Cambodia, Laos, Myanmar, Vietnam.</td>
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<td>Lead executing agency</td>
<td>ACLEDA Bank Plc.</td>
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**Project approach**
ACLEDA Bank Plc. has made a successful and as yet unique transformation, turning from a Cambodian NGO into the largest local private-sector bank with a focus on small and medium-sized enterprises. In a period of over two decades, ACLEDA has gained extensive expertise in this area. It offers a suitable range of deposit facilities, loans and insurance policies. ACLEDA is also one of the few banks in Cambodia to stay loyal to its original target group, despite its growth and current size. Its strategy nowadays focuses on regional expansion and even better coverage in rural areas.

In 2008, ACLEDA Bank Laos was founded, which has been on a strong growth trajectory ever since. Between 2009 and 2015 alone, the number of employees rose from just under 250 to almost 1,200. The number of branches increased from 12 to 41 in the same period and is expected to grow even more rapidly, particularly in rural areas. Following Cambodia and Laos, the subsidiary ACLEDA MFI Myanmar opened in 2012. It has almost 200 employees in six branches and is also on course for expansion. Maybe a further subsidiary in Vietnam is set up.

ACLEDA Bank has been in a long-standing partnership with Germany, receiving various forms of promotion from the German Federal Government. Most recently, it received approval for a EUR 10 million loan to boost the bank’s equity basis. A further EUR 2.5 million has been committed for training and education measures for bank staff. The aim of Germany’s involvement is to contribute to ACLEDA Bank’s achievement of its strategic objectives and enable it to expand its credit activity, especially in rural areas.

**Impact**
In Cambodia, ACLEDA has developed a very large network of branches, consisting of 250 outlets across the entire country. This enables the bank to reach urban and rural clients in equal measure. It has already achieved strong growth in Laos, while Myanmar – its most recent addition – is also expanding, though at a slightly slower pace.

Loan provision is sustainable with a marginal default rate of less than 2%. The majority of loans – around 80% – are issued to micro, small and medium-sized enterprises with an average loan amount of less than USD 6,000. The ACLEDA training centre is supposed to improve banking expertise in Southeast Asia as a whole. When combined, all of these factors are designed to further increase the effectiveness of ACLEDA Bank, in the spirit of the Sustainable Development Goals (SDGs).