

Cambodia: Promotion of Small Enterprises II

Ex-post evaluation

OECD Sector	24040 – Informal and semi-formal financial intermediaries	
BMZ project number	1999 65 146	
Project-executing agency	ACLEDA (Association of Cambodian Local Economic Development Agencies)	
Consultant	---	
Year of evaluation	2002	
	Project appraisal (planned)	Ex-post evaluation (actual)
Start of implementation	Q 2/1999	Q 3/2001
Financing, of which FC funds	EUR 3.6 million	EUR 3.6 million
Other institutions/donors involved	None	None
Performance rating	3	
• Significance / relevance	3	
• Effectiveness	2	
• Efficiency	3	

Brief Description, Overall Objective and Project Purposes with Indicators

The project involves the provision of a credit line of EUR 3.6 million for the Association of Cambodian Local Economic Development Agencies (ACLEDA) to enable it to grant loans to small and micro enterprises. ACLEDA was founded in 1993 as an NGO and obtained a banking licence in October 2000. The overall objectives of the project are to increase the income of borrowers and to build up structures and broaden their base in the formal financial sector. The project purpose is to sustainably improve the credit supply of the target group, for which the following indicators were determined:

- a) Minimum rise in the loan volume of ACLEDA equal to the financing amount until its full disbursement – approx. two years after the funds are ready for disbursement.
- b) Rise in the number of active borrowers by at least 5,000 until the full disbursement of the financing amount.
- c) Improvement of the financial efficiency of the project-executing agency, currently 113%.

The project carries on with the project “Promotion of Small Enterprises I” (EUR 2.5 million).

Project conception / Major Deviations from the original Project Planning and their main Causes

None.

Key Results of the Impact Analysis and Performance Rating

In Cambodia's little-developed formal financial sector ACLEDA with its 77,000 customers and its loan portfolio of USD 21 million is the clear market leader in the field of financing for small and micro enterprises. With 67 branch offices ACLEDA has the largest branch network of all formal financial institutions in Cambodia and is mainly active in regions where there are no other providers of financial services.

The FC funds were spent by ACLEDA in the period from November 1999 to January 2001. Indicators a) and b) were satisfied at the predestined time. The loan volume grew after January 2001 by USD 3.5 million, and the number of outstanding loans increased by 5,000. The indicator of financial efficiency was not satisfied (111%).

No indicators were set for the overall objective "increase in income for the project beneficiaries" since impacts on the target group can only be measured at relatively high expense in terms of time and cost. The results of a target group analysis carried out prior to the final evaluation show, however, that this overall objective was not met in full. Only 36% of those surveyed confirmed that they experienced positive effects on their income and standard of living. For a significant percentage either no impacts (28%) or even negative impacts (15%) were noted. 22% of the customers either did not want or could not provide any information. The results of such impact assessments should always be interpreted with caution since the causal connections are difficult to demonstrate because of the complexity of the influencing factors. It is to be expected, though, that the considerable institutional deficiencies of ACLEDA in the areas of personnel policy, organization, information systems and, in particular, applied loan technology contributed to these results. For example, before a loan is extended customers are not subjected to a detailed analysis, so they can easily become overindebted, putting them in a precarious situation.

In general this overall objective was only achieved with considerable cutbacks.

As regards the second overall objective "building up structures and broadening their base in the formal financial sector" it can be said that ACLEDA, as the market leader in the field of microlending and also owing to its large branch network, plays a crucial role in expanding the financial system. Some NGOs want to follow the example of ACLEDA and apply for a banking licence as a microfinancing institution with the banking supervisory authority in the next few years. Nonetheless, thus far there have not been any demonstrative effects on the formal financial sector in that commercial banks are also beginning to focus on financing for small and micro enterprises. This is due mainly to the fact that there is little competition in the Cambodian financial sector, and the target group of ACLEDA, in socioeconomic terms, does not coincide with the traditional customer groups of the commercial banks. But ACLEDA's institutional deficiencies are obviously another contributing factor. One of the leading banks (Canadia Bank) had expressed interest in microlending but, after taking a close look at ACLEDA's business policy and loan analysis, abandoned the idea. In general this overall objective can only be considered as achieved with the restriction described above.

The fact that ACLEDA primarily finances micro enterprises is one reason why – in contradiction to previous assumptions regarding the granting of the loans – only few jobs were created. Only about 6% of the borrowers surveyed in the target group analysis stated that they occasionally hire additional staff. In the large majority of cases the question of additional hired staff received a negative response. Usually, solely the work load of the borrower or the borrower's family members increased. As the target group that was reached is largely poor and the loans enable it to get along on its own responsibility, the project still focuses on self-help-oriented poverty reduction (classification as SHA).

The loan extension values women as particularly responsible borrowers, since they frequently manage their family's household finances. Women are not privileged when it comes to granting the loans, however. The published business principles no longer list women as a special target group, as had been the case in the past. Unlike previous estimates ACLEDA is not specialized in loans to women. Merely 5% of the loans are given only to women, and over 80% are taken out jointly by both spouses. According to the results of the target group analysis, family income is generated equally by men and women. On the level of the project-executing agency women are rather underrepresented and account for less than 10% of all those employed. Therefore, overall it cannot be attested that the project specifically supports gender equality. Due to the equal status and high degree of participation of women in a field in which women are generally disadvantaged, we retain the previous classification as G1.

ACLEDA does not finance activities that potentially endanger the environment. The environmental impacts of the granted loans are, overall, negligible (classification as UO).

In a summarized assessment of all future impacts and risks we have arrived at the following rating of the project's developmental effectiveness:

- With the exception of the improvement in ACLEDA's financial efficiency, the project purposes were fulfilled. As a result we assign the project a satisfactory degree of effectiveness (partial evaluation: rating 2).
- The project has great relevance for development policy. The lack of access to financial services remains a key obstacle to growth for small and micro enterprises. As market leader in this area, ACLEDA has made a significant contribution to closing this financing gap. The FC project made it possible for ACLEDA to – in view of its once limited access to sources of refinancing – expand its loan portfolio and its geographic presence quickly. In this way costs can be covered faster since economies of scale play a major role in financing for small and micro enterprises. Thus the FC funds also had a positive signalling effect on other donors.

The overall development-policy objectives were achieved, but with several restrictions, leading to reductions in the project's significance. Thus, overall we evaluate the project according to the criterion of relevance / significance as adequate (partial evaluation: rating 3).

The considerable deficiencies in loan technology lead to high operating costs and a relatively high default rate. ACLEDA's efficiency figures indicate a negative trend, but in international comparison are still within an acceptable margin. Thus we rate the efficiency as adequate (partial evaluation: rating 3).

Under consideration of its effectiveness, efficiency and significance/relevance we assess the project as overall having adequate developmental effectiveness (rating 3).

General Conclusions applicable to all Projects

None.

Legend

Developmentally successful: Ratings 1 to 3

rating 1	Very high or high degree of developmental effectiveness
rating 2	Satisfactory degree of developmental effectiveness
rating 3	Overall sufficient degree of developmental effectiveness

Developmental failures: Ratings 4 to 6	
rating 4	Overall, no longer sufficient degree of developmental effectiveness
rating 5	Clearly insufficient degree of developmental effectiveness
rating 6	The project is a total failure

Criteria for the Evaluation of Project Success

The evaluation of a project's "developmental effectiveness" and its classification into one of the various levels of success described in more detail below during the final evaluation concentrate on the following fundamental questions:

- Are the **project objectives** reached to a sufficient degree (aspect of project **effectiveness**)?
- Does the project generate sufficient **significant developmental effects** (project **relevance** and **significance** measured by the achievement of the overall development-policy objective defined beforehand and its effects in political, institutional, socio-economic and socio-cultural as well as ecological terms)?
- Are the **funds/expenses** that were and are being employed/incurred to reach the objectives **appropriate** and how can the project's microeconomic and macroeconomic impact be measured (aspect of **efficiency** of the project concept)?
- To the extent that undesired (**side**) **effects** occur, are these tolerable?

We do not treat **sustainability**, a key aspect to consider for project evaluation, as a separate category of evaluation but instead as a cross-cutting element of all four fundamental questions on project success. A project is sustainable if the project-executing agency and/or the target group is able to continue to use the project facilities that have been built for a period of time that is, overall, adequate in economic terms or to carry on with the project activities on its own and generate positive results after the financial, organizational and/or technical support has come to an end.