APRACA FinPower Program

No. 4

COMPLETION REPORT:

FinPower National Dissemination Forum in Cambodia:

Revising and Deepening the Roles of MFIs in Poverty Alleviation

Facilitator:
Benedicto S. Bayaua

Documentor:
Enrique L. Navarro, Jr.

An APRACA FinPower Publication with the Special Sponsorship of the International Fund for Agricultural Development (IFAD)

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Message

In the past, the poor have depended and practiced some sort of borrowing from various sources to support their immediate small financing needs. This practice was later on termed as microcredit as it acquired a more formal definition. As time unfolded, this microcredit evolved to what is now called microfinance, wherein other financial and non-financial services were integrated into simple loans. Needless to say, this scheme has been globally known to serve the interest of the poor and therefore contribute to uplifting their lives.

At present, where countless microfinance institutions (MFIs) play pivotal roles in this tremendously vibrant industry, this forum highlights selected Asian MFIs and how they evolved from NGOs to MFIs. As we review the current landscape in Asia, we can also see how these institutions have expanded their outreach.

APRACA, being a regional player on mutual exchange of information and expertise on agricultural and rural finance and in collaboration with the International Fund for Agricultural Development (IFAD) through the FinPower Program, is very pleased to present this completion report on the evolution and current status of selected Asian MFIs.

It is hoped that this publication will further promote understanding and synergy among stakeholders and therefore create a stronger force battling against the world's yet unconquerable pain: poverty.

Mr. Abdurakhmat Boymuratov
Chairman, APRACA

Acknowledgments

APRACA FinPower wishes to thank Her Excellencies Mrs. Neav Chanthana, Deputy Governor of the National Bank of Cambodia and Mrs. Tal Nay Im, Director General, National Bank of Cambodia, for gracing the occasion and presenting an expansive view of the Cambodian microfinance development.

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We would also like to thank all microfinance institutions in Cambodia for their active participation during the forum. We are also grateful to the CEOs and senior officers of selected Cambodian microfinance institutions who presented their respective MFI experiences: Mr. In Channy, President and Chief Executive Officer, ACLEDA Bank Plc.; Mr. Pete Power, Chief Executive Officer, Angkor Mikroheranhvatho Kampuchea (AMK); Mr. Chea Phalarin, General Manager, AMRET; Mr. Michel Kindbeiter, Managing Director, Centre International du Credit Mutuel (CICM); Mr. Sim Senacheert, General Manager, PRASAC; and Dr. Bun Mony, CEO, Sathapana Limited.

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Won-Sik Noh
Secretary General
APRACA

Acronyms

ADB	Asian Development Bank
ADBL	Agricultural Development Bank, Ltd.
APRACA	Asia-Pacific Rural and Agricultural Credit Association
APROSC	Agricultural Projects Service Center
BoD	Board of Directors
SKBBL	Sana Kisan Bikash Bank, Ltd.
BAFIO	Bank and Financial Institution Ordinance
CWs	Community Workers
DDP	Dhading Development Project
FUG	Forest Users Group
GTZ	German Agency for Technical Co-operation
GO	Group Organizer
HMG/N	His Majesty's Government of Nepal
HHs	Households
IDP	Institutional Development Program
IFAD	International Fund for Agriculture Development
INGO	International Non-Governmental Organization
MFI	Microfinance Institution
NGO	Non-Governmental Organization
RRN	Rural Reconstruction Nepal
RTC	Regional Training Center
RUFIN	Rural Finance Nepal
SFCL	Small Farmers Cooperative Limited
SFDP	Small Farmers Development Program
SPO	Sub-Project Office
VDC	Village Development Committee
WUG	Water Users Group
SFG	Small Farmer Group

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Part 1:

Introduction and Summary of Proceedings

1.1 Introduction

The IFAD-APRACA FinPower National Dissemination Forum on Revising and Deepening the Roles of MFIs in Poverty Alleviation was held in Phnom Penh, Cambodia on September 6-7, 2010. The forum aimed primarily at reviewing the status of transformation of non-governmental organizations (NGOs) into full-fledged microfinance institutions (MFIs) while checking the relevance and usefulness of the regulatory policies and the propriety of the directions the regulatory authorities have set for the microfinance sector.

APRACA sponsored the forum under its 5-year FinPower program, which is supported by the International Fund for Agricultural Development (IFAD). IFAD aspires to reduce rural poverty through sustainable improvements in household food security and incomes and to improve financial and non-financial services in rural areas.

A total of 85 participants from the National Bank of Cambodia, Rural Development Bank of Cambodia, microfinance institutions, government agencies and the private sector in Cambodia joined the national forum. Guest participants from microfinance institutions in Bangladesh, India, Lao PDR, Nepal and the Philippines likewise shared their experiences in growth and transformation of their respective MFIs.

This completion report contains the following:

- A general paper on MFI Policy Environment and Regulatory Framework in Cambodia by H.E. Tal Nay Im, Director General of the National Bank of Cambodia
- Institutional paper presentations from ACLEDA Bank, AMK, AMRET, CICM. PRASAC and Sathapana
- Guest institutional papers from Bangladesh, India, Lao PDR, Nepal and the Philippines.

ACLEDA, AMK, AMRET, CICM, PRASAC and Sathapana from Cambodia presented their respective stories of growth. ASA from Bangladesh, CARD MRI from the Philippines, Microfinance Center from Lao PDR, Sana Kisan Bikash Bank/ADBL from Nepal, and SIDBI from India shared their long and rich experiences in organization change and development.

1.2 MFI transformation models

The subject MFIs transformed from their original structure differently. The examples of ADBL and ACLEDA illustrate the wide variety of models of transition from microfinance program to specialized bank to commercial banks. The Agricultural Development Bank, Ltd. (ADBL) of Nepal supported the development of Small Farmers Development Program (SFDP) to Small Farmers Cooperative, Ltd. (SFCL). The creation of the SFDP in the early 1970s marked the beginning of formal microfinance services in Nepal. ADBL created the Sana Kisan Bisan Bank, Ltd. in 2001 to address the need for wholesale loans to SFCLs and other MFIs. On the other hand, ACLEDA, the largest commercial bank in Cambodia grew from an NGO to a specialized bank then to a commercial bank after tripling its capital to US$13 M three years from its operation as a specialized bank. ACLEDA was established in 1993 as a national NGO that provides credit for micro and small enterprise development.

The organizational changes alongside innovations among the subject MFIs delivered tremendous benefits both for the MFIs and their clients as shown by their socio-economic data. For seven years, the Small Industries Development Bank of India has gathered national empirical data on the development impact of microfinance institutions. The microfinance support program of SIDBI has helped achieved the millennium development goal at least for their microfinance clients, developed savings habits among its clients, and empowered Indian women through asset build-up, personal development and participation in decision making. Besides supporting well-managed NGOs in its microfinance services for the poor, SIDBI provides transformation loan to its partner MFIs that are in the process of transforming into a more formal and regulated set-up. The transformation loan is unique in the microfinance business even if it is parallel to grants from donors in support of developing a microfinance program or NGO into a more formal and regulated microfinance institution.

Other than the transformation loan, innovative products like the agribusiness and education loans of the Association for Social Advancement (ASA) are worth mentioning as necessary part of the changes that microfinance institutions must undergo to keep alive. Founded in 1978 by Mohammad Shafiqual Haque Choudhury, ASA is now the world's largest user and promoter of the individual lending approach in microfinance. Aside from the two innovative products, ASA has implemented a series of other innovations in its history that earned them respect and accolade in the microfinance world.

Cambodia MFIs exemplify innovations for efficient operations like employing special or customized soft wares in its management information system and their so-called change from "bank-on-heels to bank-on-wheels to bank-on-phone".

1.3 Revision and Deepening

In general, the organization changes and innovations among the MFIs led to the following:

Benefits to microfinance clients and society

- Increase in women's involvement in enterprise development
- Increase in household income and assets
- Decreasing trend in the percentage of beneficiaries who are below the rural (food) poverty line or poverty status
- More children going to school
- Improved access to credit
- Competency enhancement of beneficiaries

Benefits to MFIs and the industry

- Growth in loan portfolio and outreach (including savers and savings)
- Growth of the microfinance sector
- Local and international recognition for several MFIs

1.4 Driving Forces

The innovations, of course, are reasons to explain the growth and development of the eleven MFIs described in this book. Also, common among them are factors within and outside the organizations that enabled them to take a level higher each time until their current state.

Internal

- Good governance and management (referred to as professional management by SIDBI that includes MIS)
- Strong internal control
- Training and institutional capacity building
- Unwavering commitment of MFI officers and staff

External

- Support from external funds and various stakeholders (including investors and creditors and government)
- Supportive regulatory policies

It is common knowledge that good governance and strong internal control have differentiated microfinance NGOs from credit cooperatives. Many MFIs create an excellent mix of the best individuals including client representatives in their Board. An increasing number of MFIs now have their internal audit units apart from the external auditors that they engaged usually by year-end. Capacity building that includes training has proven to be a powerful tool to induction and perpetuation in microfinance work. It is amazing that the microfinance industry around the world has engaged the services of men and women who are dedicated to pursue a profession that aims to improve the lot of socially and economically challenged people despite opportunities for a more lucrative job.

It is also known that many microfinance institutions like CARD MRI have started with funds sourced from donors and funding agencies. With excellent stewardship, they have grown huge in outreach and assets while achieving their social mission. More than this external financial capital support, an enabling and supportive regulatory environment plays a pivotal role. The National Bank of Cambodia (NBC) issued a number of rules and regulations that were neither strict nor relaxed to enable large NGOs to transform into official MFIs as well as to protect the interests of microfinance consumers. Licensing MFIs has been one good policy of NBC because it encourages more people to avail of microfinance services with the comfort of transacting with authorized microfinance operators.

1.5 Challenges

The challenges of MFIs especially in Cambodia are inadequate capital, high transaction or operation cost, lack of credit discipline, clients taking multiple loans, difficulty in mobilizing savings, and reaching remote areas due to geographic obstacles.

AMK fears that its low average loan size may affect its sustainability. AMK admitted that it has a high operating cost that need to be matched with increasing the scale or volume of beneficiaries to be sustainable. AMK differentiates itself by implementing SPM and actually measuring social performance. True to its mission, they want to serve the largest number of poor people as much as possible at any given time. In fact, it has specified having over 50 percent of their clients below the poverty line.

Multiple borrowing or excessive borrowings continue to be a major challenge for MFIs to find a lasting solution. It may now be imperative for Cambodia to pursue the creation of a credit bureau through the Cambodia Microfinance Association with support from NBC.

The commercialization of microfinance involving big loans disbursed has seemingly led to a "mission drift". It may be argued that mission drift does not depend on loan size. ACLEDA advises to select the right customer, provide the right amount of loan at the right time and make the loan provider and the borrower grow together.

The challenges are not insurmountable given the lessons from large MFIs that started small. They will remain challenges if not taken as opportunities for solutions and further changes including changes in the way we look at things.

Part 2:

MFI Transformation – The Cambodian Experience

2.1 MFI Policy Environment and Regulatory Framework in Cambodia
by H.E. Tal Nay Im, Director General, National Bank of Cambodia

2.1.1 The Beginnings of Microfinance

In the 1990s, microfinance operators were non-governmental organizations (NGOs), providing humanitarian and social welfare activities. The NGOs used parts of the financial aid by international donors to provide credit to the poor in improving their living standards, health care and education. Along with the existing NGOs, there were also many private money lenders who set high interest rates. However, these lending activities could not be sustained because there was no control over such activities.

Seeing these inactive and uncontrolled activities, the Cambodian Royal Government and the National Bank of Cambodia (NBC) developed a strategic plan to supervise the NGOs that operate microfinance activities.

The year 2000 marked a very important milestone for microfinance sector in Cambodia: the transformation of NGOs into registered or licensed microfinance institutions under the supervision of NBC. This transformation was firmly based on the law on banking and financial institutions promulgated on 26 November 1999.

The core banking operations under the Article 2 of this law included credit operations for valuable consideration, leasing, guarantees and commitments under signature, collection of non-earmarked deposits from the public, the provision of means of payment to customers and the processing of said means of payment in national currency or foreign exchange. This Article also stressed that any entity carrying out even one of these types of activities shall be *de facto* considered to be engaged in banking.

After the law promulgation in 1999, NBC initiated a policy to transform NGOs that provide financial services, especially microcredit to low-income people, into MFIs covered under this law, since these NGOs had lending and deposit-taking activities.

2.1.2 Reforming the Banking System

In this context, the priority of the National Bank of Cambodia was to disseminate the law on banking and financial institutions to banks, financial institutions and NGOs with banking activities to make known the objectives of NBC in greatly reforming the banking system.

There were two priorities: a) reforming the banking system to comply with the law such as increasing capital requirement from US$5 million to US$13 million, identifying permanent and influential shareholder and b) transforming potential NGOs into commercialized microfinance institutions under the control of NBC.

In 2000 and 2001, NBC issued a number of Prakas for banks and MFIs. NBC thoroughly considered issuing the regulations that are neither too relaxed nor too strict. In short, NBC was to provide a conducive environment, enabling some large NGOs to be able to smoothly transform into MFIs.

The first regulation was the Prakas on MFI licensing dated 11 January 2000 of which KHR250 million, approximately equivalent to US$60,000.00, was set as minimum capital requirement. The Prakas also stipulated shareholders' identities especially influential shareholders, the management of the institutions who shall have experiences in banking, lending, and other criteria to prevent risk, (i.e. non-MDI licensed MFIs are not allowed to mobilize savings from the public or to operate foreign exchange operations and money transfers). Likewise, the regulation requires MFIs to appoint external auditors to audit their annual financial reports.

On 14 August 2001, the Prakas on the calculation of interest rate on microfinance loans was issued, aiming at protecting clients' interests, which requires MFIs to calculate interest rates transparently based on the loan outstanding balance. Issuing this regulation had benefited clients who get loans from MFIs as the annual real effective interest rate of the loans with the monthly interest charged, as set by MFIs, decreases substantially.

Subsequently, many prudential regulations had been issued:

- Capital guarantee requirement: 5 percent of paid-up capital,
- Reserve requirement: 5 percent of deposits,
- Solvency ratio: 15 percent of net worth,
- Liquidity ratio: 100 percent,
- Loan classification and provisioning,
- Large exposure: not exceeding 10 percent of net worth and
- Interest calculation: real effective interest rate (based on remaining loan balance).

In the process of licensing MFIs, NBC faced several difficulties. As microfinance lending of NGOs was a part of the primary project which served the humanitarian and social welfare activities, prior to applying for license as MFIs, NGOs are to separate into two: NGOs, whose activities still remained humanitarian and social welfare and NGO with microfinance operations so as to be ready to transform into licensed MFIs.

After separation, the issue arose as to who would be the legal owner of the NGOs' existing funds. The funding source of NGOs through grants from foreign governments to Cambodian citizens is partially used to operate microfinance activity, while those funds shall be automatically regarded as State-owned. To solve this, NBC guided the NGOs or staff association to be shareholders; and most of the funds were kept as subordinated debts.

During that time, most shareholders were foreign financial institutions and under their own laws and regulations were not allowed to be influential shareholders. The Law on Banking and Financial Institutions considered those with at least 20 percent of the share capital to be influential shareholders. Thus, some foreign shareholders were not investing up to this level to avoid being influential shareholders. To facilitate and attract foreign equity participation, NBC offered waiver on influential shareholders for the period of three years upon request so as to encourage and facilitate the initial establishment of microfinance institutions in Cambodia.

In the early 21st century, there was a great shortage of human resource knowledgeable in banking and microfinance; consequently, it was a real challenge to find those experienced enough to work in this field. NBC, with the support from some international development partners, had gradually resolved the problems with the prioritization of capacity building. With regard to the effort and time devoted, considerable number of experienced staff had been employed by the banking and financial institutions until recently.

NGOs, which have never been under the supervision of the NBC, have raised their concern about the pressure that they may have as a result of the supervision. Nevertheless, NBC has addressed the significance of the regulations and supervision in fostering the microfinance sector by bringing in sustainability and confidence both from investors and the public toward their activities.

One of the issues is possibly the non-collectability of repayment on loans provided to poor and low-income borrowers. With experiences and data obtained from NGOs and MFIs, it seemed to contradict the above concern since the repayment rate stayed around 90 percent, especially showing that women were better in managing the family's finance. The importance is that the MFI shall educate its borrowers about credit culture, particularly in the regular repayment of both principal and interest in accordance with the loan agreement. In the case of *force majeure* which causes late repayment, borrowers are encouraged to negotiate with the institution and to seek for any possible solutions rather than running away or seeking intervention. The MFIs shall also thoroughly check their lending before taking any serious actions toward their customers.

Following the above discussions and reasons, the licensing process that commenced in 2000 was a little bit slow. Until 2002, NBC licensed only three microfinance institutions and then the number increased to five the following year and kept increasing steadily and until currently there are now 22 licensed MFIs, of which 14 were transformed from NGOs.

Along with licensing, NBC issued regulations that set criteria for microfinance operators (that were not yet ready) to transform into licensed microfinance institutions to register with the NBC. The requirements for registered MFIs are more relaxed than those for licensed MFIs.

Today, there are still many other small microfinance operators doing microfinance businesses without registration or license.

In particular, ACLEDA directly transformed itself from NGO into a specialized bank in 2002 then into a commercial bank in 2003. Hence, ACLEDA has not gone through the status of an MFI.

In 1998, the Royal Government established the Rural Development Bank (RDB). The primary objective of the Bank was to provide wholesale credit to microfinance institutions or potential NGOs. RDB subsequently expanded its activities in accordance with government policy to support agricultural sector, in particular stocking and improving agricultural products.

In short, since 2002 to the present date, licensed MFIs have been operating effectively and are well recognized locally and internationally.

The Cambodian microfinance sector has a major contribution in reducing poverty among the Cambodian poor. During the first phase of development, Cambodia microfinance had attracted confidence from investors, especially foreign investors who contributed their efforts in developing this sector through shareholding participation or through providing fund for capital, etc. Besides, microfinance institutions also improved their services by introducing new financial products in order to further gain their respective clients' confidence in accessing MFI services.

As a result, with the full implementation of the regulations, the regular on-site supervision of the NBC and the competition amongst MFIs, interest rates on loan had declined. Currently, the average interest rate on lending is 2.91 percent per month compared to 4 percent per month in the 1990s. Meanwhile, customers getting access to microfinance service had increased from 370,631 in 2000 to 926,856 as of end of June 2010. Credit at the end of June 2010 amounted to US$340 million, a big jump from only US$29 million in 2000.

Even though the credit amount and the number of customers increased, NBC understands that a big part of the fund that the microfinance institutions used comes from foreign borrowing that is expensive and unsustainable, while the capital, raised from the local deposits that are mostly cheaper and more stable, is still limited. To encourage deposit taking and to prevent the risks involved, NBC issued a new regulation in 2007 to facilitate potential microfinance institutions' deposit collection from the public.

This regulation set out that MFIs shall at least have obtained license for at least three years, shall have good governance and shall have modern information technology management systems. The regulation also limits the amount of deposit to be collected from each individual client by the deposit-taking microfinance institutions. Currently, there are five MFIs that had obtained deposit-taking licenses in addition to obtaining their business operation licenses. With the MFIs' receipt of their deposit-taking licenses, NBC had noticed that the overall deposit increased substantially from US$6.68 million to US$21.83 million.

To further strengthen and deepen the microfinance sector, NBC has developed some strategic plans including enhancing the use of riel in the microfinance sector, encouraging and creating a favourable environment for other potential microfinance institutions to obtain their respective deposit-taking licenses, making amendments on certain regulations to cope with the fast development of microfinance and strengthening supervision.

Meanwhile, the National Bank of Cambodia is considering making possible for other types of institutions such as credit cooperatives and financial leasing companies to operate under certain regulatory control as well as establishing a credit bureau to reduce credit risk.

2.2 Evolution and Transformation of the Association of Cambodian Local Economic Development Agencies (ACLEDA Bank Plc.)

by Mr. In Channy, President and Chief Executive Officer, ACLEDA Bank

2.2.1 ACLEDA – Spectacles

Southeast Asia, though known for its vibrant culture and arts, poses a tableau of bleak poverty to the global community. Countries like Cambodia trace back this strand of penury to years of war and civil unrest leaving the country one of the poorest in the Asia-Pacific region – with more than 30 percent of its 14 million citizens living below the poverty line.

Amidst this picture is the poignant drive of the poor to raise themselves from this quagmire. With the emergence of microfinance – the provision of integrated services from small loans to education, savings, money transfer, business development services, health and others – the poor are given access to resources, thus, given the chance to have control over those resources and eventually uplift their lives.

2.2.2 Cambodia's Banking Environment

Peeking a little closer into the banking landscape of Cambodia, there are 27 commercial banks and 6 specialized banks. Large distrust in banks is noted with deposits equal to 32 percent of GDP only. Lending ratio is at 27 percent of GDP and an average of 48 percent of total assets. Banks also have a limited financial product range; long-term lending to small and medium enterprises (SMEs) is almost absent. Furthermore, there are no inter-bank or money market transactions. ACLEDA Bank is the only bank that provides loans in the local currency (Khmer Riel).

The microfinance sector in Cambodia has already found its way into the country's financial map. Since 2001, a legal framework to regulate MFIs has already been in place. In total, there are 26 registered institutions and 20 of these are licensed and regulated; most of these are credit-oriented. Among them is the ACLEDA Bank Plc. It is noted that market opportunity in the rural areas is still large but there is increased competition.

2.2.3 ACLEDA: Rising from the Depths into a Brighter Horizon

During the difficult times between 1970s and the 1990s in Cambodia, heads, hearts and hands tied by a bond of friendship worked in establishing a microfinance institution (MFI) for micro and small enterprise development and credit. The year 1993 marked the realization of this venture, giving birth to the Association of Cambodian Local Economic Development Agencies (ACLEDA) as a national NGO.

From an initial of 28 staff over five branch offices in as many provinces, the institution has rapidly grown to 330 staff over 27 branches spanning 18 provinces and three towns in 1998. By the end of the same year, its loan portfolio scaled up to more than US$10 million serving roughly 60,000 active loan clients. During that time, ACLEDA was already profit-bearing, thus placing itself among the ranks of sustainable institutions. With this remarkable performance, its board and international partners prodded the transformation of the NGO into a commercial bank.

A three-year program for transformation started in 1998 with the technical assistance from United States Agency for International Development (USAID), Mekong Private Sector Development Facility/ International Finance Corporation (MPDF/IFC) and United Nations Development Program (UNDP), to name a few. ACLEDA was then transformed into a public limited liability company in August 2000 and received a specialized banking license the following month. In December 2003, ACLEDA Bank received a full commercial banking license from the National Bank of Cambodia and was re-named ACLEDA Bank Plc. This was also after tripling its capital to US$13 million.

ACLEDA subsequently increased its capital to US$68.15 million by June 2009. It was also the first bank in Cambodia to receive a perpetual license from the National Bank of Cambodia.

After over 17 years of presence in domestic financial services, ACLEDA today is the leading Cambodian bank with the largest network of branches and offices. By the end of June 2010, it has reached a US$615 million loan portfolio value with a total of 258,064 borrowing customers. This comes with total savings and deposits of US$793 million with 670,383 accounts. ACLEDA Bank's total assets have exceeded US$1 billion. It now employs 7,105 staff.

In sailing the complex realm of poverty and development, ACLEDA Bank Plc. upholds the following vision and mission:

Vision

ACLEDA Bank's vision is to be Cambodia's leading commercial bank providing superior financial services to all segments of the community.

Mission

ACLEDA Bank's mission is to provide micro, small and medium entrepreneurs with the wherewithal to manage their financial resources efficiently and, by doing so, improve the quality of their lives. By achieving these goals we will ensure a sustainable and growing benefit to our shareholders, our staff and the community at large. We will at all times observe the highest principles of ethical behaviour, respect for society, the law and the environment.

2.2.4 Rock-solid Foundation

Most organizations are founded on a strong structure giving shape to its operations and dictating their future actions. ACLEDA Bank Plc. is guided by a comprehensive and strategic organizational structure supported by guiding principles which the organization strictly lives by. These principles are therefore the elements that come together to build a storm-tested institution.

Governance

The Bank is governed by the following structures with segregate roles, duties and responsibilities to ensure good corporate governance and serve the best interests of the Bank and its shareholders: Shareholders, Board of Directors, Executive Body and Board Committee.

Shareholders

The Bank currently has eight shareholders. Two local shareholders, ACLEDA NGO and ACLEDA Staff Association (ASA) Plc, hold 51 percent. The other six, holding a total of 49 percent, are foreign shareholders: International Finance Corporation (IFC), Deutsche Investitions – Und Entwicklungsgesellschaft mbH (DEG), JSH Asian Holdings Limited (JSHAHL), Trios group Triodos-Doen (TD), Triodos Fair Share Fund (TFSF) and Trios SICAV II-Triodos Microfinance Fund (TMF). Below is the shareholding structure.

Table 1: Shareholding Structure of ACLEDA Bank, Plc.

Purchasers	Number of Subscribed Shares	Subscribed Price	Percentage of Subscribed Shares
ACLEDA NGO	21,808,000	$21,808,000.00	32.00%
ASA, Plc.	12,948,500	$12,948,500.00	19.00%
DEG	8,348,375	$8,348,375.00	12.25%
JSHAHL	8,348,375	$8,348,375.00	12.25%
IFC	8,348,375	$8,348,375.00	12.25%
TD	2,969,656	$2,969,656.00	4.36%
TFSF	2,945,141	$2,945,141.00	4.32%
TMF	2,433,578	$2,433,578.00	3.57%
Total	**68,150,000**	**US$68,150,000**	**100.00%**

The Shareholders hold the following authorities, roles and responsibilities:

- amendment of the Memorandum and Articles of Association;
- changes to the objectives or business of the Bank;
- changes to the banking license of the Bank;
- changes in the registered share capital of the Bank;
- merger, consolidation, reorganization or any other procedure under which all or substantially all of the assets of the Bank are transferred to some other entity;
- approval of the general policy of the Bank regarding the declaration and payment of dividends and any change to such policy;
- voluntary dissolution or liquidation of the Bank;
- amendment of the agenda of any shareholders' meeting;
- any repurchase or sale of shares; and
- ratification of the appointment and any change in the external auditors of the Bank.

Board of Directors

The Bank presently has nine directors. They are elected and can be removed by shareholders. They serve for a three-year term and are non-executive directors. The Board of Directors hold authorities and role and responsibilities as follows:

- provide entrepreneurial leadership of the bank within a framework of prudent and effective controls which enable risk to be assessed and managed;
- set the Bank's strategic aims, ensure that the necessary financial and human resources are in place for the Bank to meet its objectives, and review management performance;
- set the Bank's values and standards and ensure that its obligations to its shareholders and others are understood and met;
- constructively challenge and contribute to the development of its strategy;
- set performance objectives for management and monitor their progress towards achieving them;
- satisfy themselves that financial information is accurate and that financial controls and systems of risk management are robust and defensible;
- determine appropriate levels of remuneration for the President and CEO; and
- ensure that the succession planning for the President and CEO and senior management is in place.

The powers of the Board of Directors are to be exercised collectively and no individual Director shall have any power to give directions to the officers or employees of the Bank, to sign any contracts, or to otherwise direct the operations of the Bank unless specifically empowered to do so by a resolution of the Board of Directors.

Executive Body

The Bank's Executive Body has seven (7) officers led by the President/CEO with other following six members: Executive Vice-President (EVP) and CFO, EVP and COO, EVP and CTIO, EVP and CAO, Senior Vice-President (SVP) and Head of Internal Audit, and SVP and Head of Legal/Corporate Affairs and Company Secretary. The Executive Body has the following duties and responsibilities:

- recommending objectives and strategy for the stream in the development of its business, having regard to the interests of its shareholders, customers, employees and other stakeholders;
- agreeing on policy guidelines for business divisions based on approved stream strategy;
- successfully executing strategy;
- presenting the stream's budgets and five-year plan to the Board and, following their adoption, achieving the budgets and plans;
- developing and reviewing business division objectives and budgets to ensure that they fall within the agreed stream targets;
- ensuring appropriate levels of authority are delegated to senior management throughout the stream;
- reviewing the organizational structure of the stream and making recommendations for change;
- ensuring the control, coordination and monitoring within the stream of risk and internal controls;
- ensuring compliance with relevant legislation and regulations;
- safeguarding the integrity of management information and financial reporting systems;
- identifying and executing new business opportunities outside the current core activities, including geographic diversification;
- examining all trade investments, divestments and major capital expenditure proposals and recommending to the stream board of those which, in a stream context, are material either by nature or cost;
- approving all strategic or material alliances and partnership agreements;
- optimizing the allocation and adequacy of the stream's resources;
- ensuring the provision of adequate management development and succession and recommendation and implementation of appropriate remuneration structures within business divisions;
- developing and implementing stream policies; and
- ensuring the active liaison, coordination and cooperation between business divisions.

Board Committees

The Bank has four Board committees: Assets and Liabilities Committee (ALCO), Audit and Compliance Committee (ACCO), Credit and Risk Committee (CRCO), and Remuneration Committee (REMCO). These committees are created by the Board of Directors. They supervise the management of the Bank in certain areas and prepare recommendations to the Board of Directors.

The **Asset and Liabilities Committee (ALCO)** is established by the Board of Directors of ACLEDA Bank Plc. for monitoring and advising balance sheet management to ensure appropriate levels of liquidity and that the bank is not exposed to undue levels of risk in interest rate, period and foreign exchange mismatches.

The members of the Committee are appointed by the Board and consist of not less than three independent non-executive directors, one of whom shall be appointed as Chairman. In the absence of the Chairman of the Committee, the remaining members present elect one of themselves to chair the meeting. Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chief Executive Officer, the Chief Financial Officer, Chief Operations Offices, other directors and senior executives may be invited to attend all or part of any meeting as and when appropriate but may not vote.

This Committee has the following duties and responsibilities:

- ensure compliance to regulatory requirements (liquidity, foreign exchange positions, etc.) and policy guidelines;
- ensure effective implementation of cash-flow procedure;
- monitor balance sheet for excessive or inadequate liquidity and advise on action to achieve optimal return on risk;
- ensure balance sheet diversity (both assets and liabilities) to avoid concentration of risk and compliance with policy guidelines;
- monitor interest rate sensitivity and asset/liability maturities to avoid undue mis-matching and to achieve optimal return on risk;
- monitor foreign exchange exposure to ensure that positions are reasonable to the bank's (and customers') actual needs, are within policy guidelines and that no undue speculative positions are being taken; and
- evaluate proposed new product(s) for possible impact on balance sheet and asset and liability management.

The **Audit and Compliance Committee (ACCO)** is established by the Board of Directors of ACLEDA Bank Plc. for the following purposes:

- to monitor the integrity of the financial statements of the bank;
- to review the bank's internal financial control system;
- to monitor and review the effectiveness of the bank's internal audit function;
- make recommendations to the Board for shareholders approval on the appointment, reappointment and removal of the external auditors as well as the remuneration and terms of engagement of the external auditors;
- to monitor and review the external auditor's independence, objectivity and effectiveness;
- to develop and implement policy on the engagement of an external auditor to supply non-audit services; and
- to monitor all affairs of the bank to ensure compliance with all relevant laws and regulations, and that appropriate policies and checks are in place to provide the highest standards of corporate governance and ethical behaviour.

The members of Committee are appointed by the Board and consist of not less than three independent non-executive directors, one of whom shall be appointed as Chairman. In the absence of the Chairman of the Committee, the remaining members present shall elect one of themselves to chair the meeting. Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chief Executive Officer, the Chief Financial Officer, Chief Operations Offices, other directors and senior executives may be invited to attend for all or part of any meeting as and when appropriate but may not vote.

The Committee is authorized by the Board to investigate any activity within its terms of reference. It is authorized to seek any information it requires from any employee and all employees are directed to cooperate with any request made by the Committee. It is also authorized to obtain internal advice and outside legal or other independent professional advice, secure the attendance of outsiders with relevant experience and expertise; and with the prior approval of the Board, incur reasonable fees and expenses, which will be paid by the Bank.

The duties of the Committee are to:

Audit

- make recommendations to the Board for shareholders approval on the appointment, reappointment and removal of the external auditors as well as the remuneration and terms of engagement of the external auditors;
- each year before the audits commence, agree with the external auditors on the scope, approach and emphasis of their work, and the Management Letter;
- review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process, considering relevant professional and regulatory requirements;
- review and monitor the effectiveness of the internal audit function and ensure that its reporting processes are adequate and timely;
- develop and implement policy on the engagement of the external auditors to supply non-audit services, considering relevant ethical guidance regarding the provision of non-audit services by the external auditors; and to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;
- monitor the integrity of the financial statements of the Bank, and any formal announcements relating to the Bank's financial performance, reviewing significant financial reporting judgments contained in them;
- discuss issues arising from the audits and any matters which the external auditors may wish to raise (in the absence of management where necessary);
- approve (and amend as necessary during the year) the internal audit plan;
- consider the major findings of internal audit investigations and management's response, and ensure coordination between the internal and external auditors;
- review the effectiveness of the Bank's system of internal financial control and to report to the Board on an annual basis;
- review the external auditors' Management Letter and management's response;
- review the arrangements by which group employees may in confidence raise concerns about possible improprieties within the Bank ('whistle-blowing') and ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action; and
- consider other topics as requested by the Board from time to time.

Compliance

- set corporate "Code of Conduct" for good behaviour;
- ensure that the bank complies with all laws and regulations and that procedures are in place to verify such compliance;
- review and advise on all aspects of public affairs to ensure that highest principles of decency, morality and ethical behaviour (e.g., "Truth in Advertising") are observed;

- monitor the business activities of the bank to ensure compliance with all policies with regard to environmental and social issues; and
- foster good relationships with the regulators and other relevant parties to ensure that the bank is kept aware of trends and developments which might impact on any compliance issues.

The Credit and Risk Committee (CRCO) is established by the Board of Directors of ACLEDA Bank Plc. for the following purposes:

- to review and advise the main Board on credit policy and proposed amendments thereof and monitor portfolio quality, and
- to assist the Board of Directors in the effective discharge of its responsibilities for risk management and to regularly review management's ability to assess and manage the bank's risks.

The members of Committee are appointed by the Board and consist of not less than three independent non-executive directors, one of whom shall be appointed as Chairman. In the absence of the Chairman of the Committee, the remaining members present shall elect one among themselves to chair the meeting. Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chief Executive Officer, the Chief Financial Officer, Chief Operations Offices, other directors and senior executives may be invited to attend for all or part of any meeting as and when appropriate but may not vote.

The Committee is authorized by the Board to:

- have direct access to complete and open communication with management and be entitled to request such other reports and information as it may deem desirable and appropriate from internal and external source, including from other committees of Board;
- meet periodically with appropriate members of management in executive session;
- request any officer or employee of the company or the company's outside counsel or independent auditor to attend a meeting of the committee or to meet with any members of, or consultants to, the committee; and
- review and reassess the adequacy of these terms of reference periodically and recommend any proposed change to the board for approval.

The duties of the Committee are to:

Credit

- monitor that credit policies are in place, up to date, appropriate to the business and consistent with sound lending practice and review any amendments to those policies deemed required;
- monitor portfolio quality, identify any adverse trends and monitor remedial action taken;
- recommend provisioning and write-off policies and monitor that reserves are maintained at an adequate level in conformity with both the bank's approved policy and statutory requirements; and
- evaluate and approve credit applications where amounts and/or terms are outside the authorized limits of the management credit committee.

Risk

- annually review the adequacy risk management framework outlining organization wide high-level policies and division of authority and responsibility of risk management throughout the bank;
- regularly review all risk control limits as set and approved by the Board and advise on any changes deemed appropriate;

- review and approve management's risk assessment, its plan for risk control or mitigation through appropriate risk management practices, and ensure that risks are managed within tolerance level of bank;
- review and advise on stress tests and reverse stress tests conducted by management; and
- review quarterly risk management reports submitted by management.

The **Remuneration Committee (REMCO)** is established by the Board of Directors of ACLEDA Bank Plc. for the following purposes:

- provide an independent opinion in assisting the Board to determine the remuneration, reimbursement, compensation, and other benefits packages (the "remuneration") for the members of the Board and key executives;
- review the procedures for the initial determination and regular reviews of the remuneration of individual directors and the key executives;
- maintain an effective working relationship with the Board and the Management, while refraining from interfering in any business decisions;
- prepare a framework of remuneration for the Board members and key executives, for the consideration and decision of the Board. In preparing this framework, the Committee will ensure that the remuneration is reasonable in the light of the Bank's objectives, compensation for similar functions in other companies, and other relevant factors with due regard to the interests of the shareholders, the financial cost and commercial needs of the Bank; and
- review the employees' pension and retirement benefits scheme, and any other existing or future benefits scheme.

The members of Committee are appointed by the Board and consist of not less than three independent non-executive directors, one of whom shall be appointed as Chairman. A quorum will be two members or two thirds of the members whichever is the higher. In the absence of the Chairman of the Committee, the remaining members present shall elect one from among themselves to chair the meeting. Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chief Executive Officer, the Chief Financial Officer, Chief Administration Offices, other directors and senior executives may be invited to attend for all or part of any meeting as and when appropriate but may not vote.

The Committee is authorized by the Board to:

- investigate any activity within its terms of reference herein stated, or as maybe determined by the Board from time to time. It is authorized to seek any information it requires from any employee and all employees are directed to cooperate with any request for information made by the Committee;
- obtain internal advice and outside legal or other independent professional advice;
- secure the attendance of outsiders with relevant experience and expertise; and
- with the prior approval of the Board, incur reasonable fees and expenses, which will be paid by the Bank.

The duties of the Committee are to

Remuneration of the members of the Board

- Recommend to the Board a transparent policy for the determining of individual Board members' remuneration by way of fees and reimbursement of expenses, including payment for work as members of other Board Committees and such other activities and functions as may be connected with the effective and efficient working of the Board;

- Review proposals submitted by the President and the CEO for the engagement of directors in extramural work such as advisory or consulting roles, including their terms and conditions, and make appropriate recommendations to the Board for submission to the shareholders for final approval; and
- cover all aspects of Board members' remuneration packages, including but not limited to directors' fees, salaries, allowances, expenses, consultancy fees (where applicable) and benefits in kind, if any.

Remuneration of Key Executives

- be responsible for recommending to the Board a framework of remuneration packages for the Executive Vice Presidents and the specific remuneration package for the President and the CEO. The recommendations should be submitted for the decision of the Board;
- recommend to the Board the annual performance targets and incentive plan, including bonus and any other benefit scheme designed to encourage long-term corporate value creation, for the President and the CEO;
- consult with the other Board members in evaluating the performance and achievements of the President and the CEO in the previous year and recommend to the Board the quantum of bonus award, salary increase, and other benefits;
- review the adequacy and form of compensation to key executives to ensure that it is realistically commensurate with the responsibilities and risks involved in being an effective member of the management team;
- cover all aspects of remuneration packages, including but not limited to salaries, allowances, pensions, bonuses, options and benefits in kind; and
- review the pay and employment conditions within the industry and those from the peer companies to ensure that the key executives are adequately remunerated.

Pensions and retirement benefits plan

- review the employees' pension and retirement benefits plan submitted by the management;
- retain competent professional actuaries, if deemed necessary, to ensure that the Bank's long term contingent liabilities can be reasonably predicted and provided for;
- recommend the initial pension and retirement benefits plan, and any future amendments thereto, to the Board for consideration and decision;
- review and approve the audit report prepared by the auditors in connection with the Pension and Retirement Benefits Plan; and
- Satisfy itself that all relevant laws and regulations have been complied with.

2.2.5 Operations

Financial products and services

ACLEDA Bank Plc. has a rich product range for all segments of the community and support by both physical branches, office network and electronic banking system including ACLEDA Unity (mobile phone banking).

Its loan products include micro, small and medium business loans, personal loans, housing loans, overdraft, overdraft facility for depositors and revolving credit line. Its deposit products include the savings, demand deposit, current and fixed deposit accounts, Euro Flex account, corporate deposit account as well as trust account for real estate, trust services, individual retirement account, health savings account and education savings account. ACLEDA Bank provides normal commercial banking services including payroll service, traveller's cheque, safety deposit boxes and foreign exchange. It also provides trade finance and fund transfers, both domestic and international.

By the end of June 2010, ACLEDA Bank Plc. had a total of 258,064 clients, broken down into micro business loans (170,202), small business loans (59,907), medium enterprise loans (12,149), personal loans (4,055), public housing loans (13,340) and other loans (10,417).

The key financial indicators of the Bank are shown below:

Table 2: Financial indicators

Unit in US$'000 (except EPS and Dividend)	6/30/2010	12/31/2009	12/31/2008	12/31/2007	12/31/2006	12/31/2005
Assets	1,029,209	903,981	687,507	473,053	223,202	123,871
Loans (Net of Provision)	606,164	528,034	456,309	310,681	156,571	98,460
Liabilities	916,806	797,326	600,565	423,401	180,622	103,277
Deposits	793,181	687,699	487,032	344,533	123,150	61,901
Issued and Paid-up Capital	68,150	68,150	50,000	30,000	30,000	13,000
Shareholders' Equity	112,404	106,655	86,942	49,652	42,580	20,594
Gross Income	62,619	110,379	100,618	59,583	37,204	25,679
Profit Before Tax	11,787	12,116	26,622	12,278	8,361	5,275
Net Profit After Tax	9,429	9,713	21,187	9,739	6,668	4,205
Earning per share	$0.1384	$0.1425	$0.4237	$0.3246	$0.2223	$0.3235
Dividend	$0.0553	$0.0570	$0.1694	$0.1299	$0.0889	$0.1294
No. of Staff	7,105	7,013	6,128	4,401	3,028	2,484
No. of Branches	233	232	226	204	156	139

2.2.6 Networks

ACLEDA, presently, has a local network of 233 branches and offices and deployed 102 ATMs and 685 POSs in 24 provinces and in the Phnom Penh municipality.

ACLEDA has an international network of 443 correspondent banks in 54 countries in six continents: Africa (4), Asia (225), Europe (150), North America (45), South America (1) and Oceania (8).

2.2.7 Environment and Social Responsibilities

ACLEDA is committed to achieving strong, sustainable financial returns, while respecting the environment and communities where it is situated. It subscribes to the concept of triple bottom line ('people, planet, profit') reporting and are constantly developing indicators for measuring and reporting on our performance and impacts on the society and the environment and to implement a reporting structure based on the guidelines of the Global Reporting Initiative.

ACLEDA fully subscribes to international conventions which prohibit the provision of credit to, or otherwise support, any activities which might harm the environment, be morally repugnant or jeopardize human rights. In particular, the bank has in place policies which forbid involvement with exploitative forms of forced or child labour, trade in weapons and munitions, gambling, casinos, brothels, regulated wildlife or wildlife products and production or trade in radioactive materials or significant volumes of hazardous chemicals. The bank employs two full-time Environmental Officers who regularly undertake training and refresher courses to coordinate ACLEDA's environmental activities and monitor performance.

ACLEDA's corporate culture is built on respect for the society in which it operates and an inclusive perspective on its stakeholders embracing not just shareholders and staff, customers and business partners but the community at large. In addition to the environmental programs mentioned above, the Bank observes a policy of equality in all dealings with the public in general and customers and staff alike. Above all, ACLEDA has practiced from the very beginning 'zero tolerance' of corruption both internally and externally and transgressions are dealt with summarily.

The following are key principles in ACLEDA's corporate social responsibility policy:

- ACLEDA is an 'equal opportunity' employer. Apart from those jobs which involve a higher physical risk (e.g. guards and messengers), appointment to all positions at every level is based entirely on merit regardless of gender or physical disability.
- ACLEDA Bank aims at being the most progressive employer in Cambodia providing medical, pension and other benefits such as personal and housing loan schemes and an employee share-ownership program for all staff who have completed probation. It provides comprehensive training both for new recruits as well as experienced staff and encourages those who wish to further develop themselves through external programs.
- A high-level committee under the chairmanship of the Chairman of the Board has been specifically tasked with the responsibility of setting and monitoring the bank's moral and ethical standards and respect for human rights.
- In consultation with its staff, the bank has drawn up social policies covering i) Code of Conduct, ii) Human Resources Management, iii) Health and Safety, iv) External Relations, v) Freedom of Association and the Right to Collective Bargaining. These are now published on Lotus Notes so that every member of the staff has free (and paperless) access to the most up-to-date versions.
- The staff is represented by a self-elected Staff Representative Committee, which excludes management, and a Staff Sports Committee, to promote healthy recreation and good fellowship. At its headquarters, the Bank provides a clinic under the care of a full-time doctor and a full-time nurse. Healthy safe working practices are part of the training provided to all employees under the doctor's supervision. A Health and Safety Policy under the direct responsibility of the Senior Vice-President and Head of Human Resources Division is in place which includes a policy for the support of our staff and their families suffering from HIV/AIDS.

ACLEDA recognizes that playing its part as good citizens in the communities where it is situated is vital to its mutual interests and prosperity. The major initiatives being taken are as follows:

- Developing and offering appropriate products and services carefully selected and developed for the particular needs of Cambodian society. In 2006 the bank launched a housing loan scheme, with interest rates fixed for up to 10 years to enable Cambodian people, especially in the lower wealth segment, to purchase their own homes.
- Expanding outreach: opening up banking services to new communities in new locations by expanding our network in the provinces and extending on-line banking services to mobilize savings. The expansion of our 24/7 ATM network to all provinces in 2009 has enabled our customers to access their funds at their own convenience, irrespective of the normal opening hours of the bank or national holidays.
- During January 08 – February 12, 2010, we conducted our annual survey on our micro, small and medium loan customers' living standards to test the impact of our credit services. This involved 2,515 accounts randomly selected from our loan customers of whom 65.3 percent were micro loans, 26.1 percent were small loans and 8.6 percent were medium loan clients, as a proportion of our total loan customers. The responses indicated that across all sectors, 84.2 percent considered that their wealth had increased as a result of credit provided by ACLEDA Bank, 7 percent did not detect any noticeable change while 8.8 percent had the perception that they were worse off than before.

- Incorporated into its policies are strictures against overselling or encouraging customers to over commit themselves or buy inappropriate products or services. As a matter of principle, ACLEDA does not impose mandatory savings requirements on its customers.
- Transparency and 'truth in advertising' are strictly enforced when developing promoting and selling our products and services and full and detailed information is provided through brochures, our website and other promotional material.
- ACLEDA practices equality in its lending irrespective of gender or race: 55.97 percent of our borrowing customers are female.
- Customer confidentiality is inculcated in all its staff during induction training and transgressions are treated as a serious offence.
- Recognizing the particular problem of disability in Cambodia, ACLEDA is taking into account the special needs of the disabled when constructing new buildings or renovating old offices.
- As a commercial organization ACLEDA does not receive subsidies but may on occasion, and where appropriate, receive financial support to provide non-commercial services such as workshops for external trainees.
- ACLEDA does not ally itself to any particular political parties or creeds but seeks to cooperate and work in harmony with the elected government of the day. To this end the bank regularly participates in meetings with senior officials through industry associations, business forums, chambers of commerce and other group activities. Individual meetings with officials are conducted with transparency and important matters are recorded. ACLEDA has strict rules governing 'undue entertainment' or other activities which might be open to question on the grounds of probity, including the provision of banking services at non-commercial rates ('policy lending').
- To assist the development of microfinance, ACLEDA provided 1,981 internships for local students and 15 for international students from England, France, Japan, and Singapore.

2.2.8 The Key to Success

The broader financial product and service range, the open mind of the management and staff of the Bank for the inclusive financial services does offer broader opportunities for all kinds of customers to have sustainable access to financial services of ACLEDA Bank Plc. throughout the country. The large branches and office network close to the customers do convince the customers to bank with ACLEDA Bank Plc.

2.2.9 Looking Ahead

ACLEDA Bank Plc. continues to develop its electronic delivery systems so that it becomes globally accepted in a very broader sense and to provide its customers with secure and convenient interaction with the bank and offer new automated services in new locations across the country.

ACLEDA is conducting a feasibility study and gives a room for other professional and good reputation banks to set up a common switch to broaden its financial services to its customers.

ACLEDA is forging a regional expansion to build upon our model as an integrated microfinance, retail and commercial bank as a solid foundation for regional expansion beyond Lao PDR in the long run.

ACLEDA Bank Plc. has submitted the application to the Securities and Exchange Commission of Cambodia (SECC) to establish ACLEDA Securities Plc. to be able to offer brokerage services to its customers. Recently, ACLEDA Bank Plc. received the approval in principal from SECC as a brokerage. The new trend in Cambodia market, the age of Capital Market!

The institution also aims at developing new capabilities and financial services to be a Cash Settlement Agent of SECC. It also undertakes the feasibility study for developing bancassurance products which are expected to be launched in the following year.

2.3 Evolution and Transformation of the Angkor Mikroheranhvatho Kampuchea (AMK)

by Mr. Pete Power, Chief Executive Officer, AMK

2.3.1 AMK – A Bird's Eye-view

Standing on the alluvial soil near Mekong, Cambodia exudes fine beauty of a Junoesque amidst a Greek battle, carrying courage of a soldier. It is parallel to its countrymen living in utmost beauty, however enduring poverty, but still moving forward to alleviate themselves.

Looking at this spectacle, Concern Worldwide Cambodia, an Irish international NGO, pilot tested a credit and savings intervention program in 1993 to serve Cambodia's poor. The program was renamed "Thaneakea Ponleu Thmey" (TPT) or the Bank of the New Shining Light in 2001 and was registered as a rural credit operator with the National Bank of Cambodia a year later. The program specifically targets the economically active poor (EAP). In 2003, Concern created a separate company for its microfinance operations in Cambodia. This company eventually became known as Angkor Mikroheranhvatho Kampuchea (AMK) and received its license from NBC in May 2004.

AMK inherited operations in three provinces, approximately 12,000 clients, 55 staff members, a loan portfolio of US$600,000.00 (with a PAR of about 3.7 percent), and a balance sheet of US$800,000.

From that beginning, AMK has sought to become a significant provider of microfinance in Cambodia's rural areas. AMK has consistently posted double/triple digit growth since inception. AMK is now one of the largest microfinance institutions (MFIs) in Cambodia, with a staff of over 800, over 230,000 clients and a loan portfolio worth over US$27 million. Currently, AMK operates in over 6,600 villages in all provinces throughout the country. In January 2010 AMK received its MDI (Microfinance Deposit Institution) from NBC.

Banking on the capacity of the poor to uplift themselves from poverty — given access to resources and the trust that they really could — AMK pursues its operations guided with the following vision, mission and guiding principles:

Vision

AMK envisions a Cambodian society where citizens have equal and sufficient economic and social opportunities to improve their standards of living and where they can contribute productively towards the overall development of the country.

Mission

AMK's mission is to help large numbers of poor people to improve their livelihood options through the delivery of appropriate and viable microfinance services.

Guiding principles

AMK's strategy is guided by the following key principles:

- AMK will provide microfinance services to poor people in Cambodia that are grounded on sound financial discipline at all levels;
- AMK will be committed to openness and transparency in all areas of management and operations;

- AMK will be committed to developing processes/services and to adopting behaviours and standards that ensure optimum social performance, including client protection; and
- AMK will be a learning organization where appropriate exchange and sharing of information will contribute to staff development and training, and in improvements to policy and systems.

Client protection

Operationally, these translate into the following code of practice for client protection:

- **Inclusive:** We will maximize the inclusion of the poor and other marginalized segment of the population with AMK products and services.
- **Avoidance of over-indebtedness:** We will minimize the exposure clients (especially poor clients) have to products which may prove harmful and will avoid putting any client at risk to over-indebtedness.
- **Transparent pricing:** We will provide complete information to clients about policies and procedures, and ensure transparency in transactions and pricing.
- **Ethical staff behaviour:** We will ensure ethical and respectful behaviour towards clients by staff.
- **Appropriate collection practices:** Debt collection practices will work with our clients and will neither be abusive nor coercive.
- **Effective mechanisms for redress of grievances:** We will have in place timely and responsive mechanisms for complaints and problem resolution for clients.
- **Privacy of client data:** The privacy of client data will always be respected.

Social performance management

While the mechanism to analyze, monitor, and manage financial performance is well understood within the industry, AMK is a pioneer in the area of social performance management (SPM).

As SPM is one major axle that moves the wheels of AMK, it has set key differentiators of their SPM. Thus, AMK would:

- be the world leader in SPM;
- have 58 percent of all clients below the rural food poverty line;
- have 91 percent of clients having loans less than $300;
- be as inclusive as possible; and
- have no minimum loan size.

AMK's research department has developed tools to measure, monitor and manage the social aspects of AMK's performance. Throughout the life of this plan, AMK will maintain its focus on social performance and continue to develop and improve the tools and techniques it uses to ensure it is achieving its social mission.

2.3.2 The Building Blocks

AMK has functioned for six years as a wholly owned subsidiary of Concern Worldwide (http://www.concern.net/). Concern operates in more than 25 of the poorest countries of the world, specializing in various aspects of emergencies and development, including HIV and AIDS, health, education and livelihood support. From Concern's perspective, microfinance falls within their overall livelihood support program area.

Governance

At present, AMK's governance consists of nine non-executive Directors in addition to the CEO, who is the management representative on the Board. There are also five committees which are composed of board members, as well as external experts that report to the Board. These committees are Social Performance Committee, Risk Committee, Audit and Finance Committee, Nomination Committee and Remuneration Committee. Under the CEO, the committees are Product Development Committee, Assets and Liabilities Committee and Management Risk Committee.

2.3.3 Geographic Coverage

AMK currently operates in all provinces in Cambodia. A summary of district, commune, and village coverage by province is presented below. AMK continues to aggressively expand its village coverage.

Table 3: AMK Geographical Coverage

AMK Branches	Provinces/Krongs/ Cities	Districts	Communes	Villages
Banteay Meanchey	1	8	63	429
Battambang/Pailin	2	14	76	488
Kampong Cham	1	13	103	546
Kampong Chhnang	1	7	57	331
Kampong Speu	1	7	68	549
Kampong Thom	1	8	69	401
Kampot/Kep	2	7	72	295
Kandal	1	6	65	233
Kratie	1	6	41	167
Preh Vihear	1	8	45	161
Prey Veng	1	12	93	497
Svay Rieng	1	7	78	466
Takeo	1	7	72	456
Oddar Meanchey	1	6	30	218
Pursat	1	5	47	309
Siem Reap	1	11	84	499
Sihankv/Koh Kong	2	10	42	149
Stung Treng	1	4	23	54
Ratanakiri	1	8	39	128
Mondulkiri	1	5	17	56
Mukampoul	1	4	40	136
Phnom Penh	1	8	32	111
Total	**25**	**171**	**1,256**	**6,679**

2.3.4 Historical Results

Below is a summary of the progress made by AMK since it became a company in 2003.

Table 4: Operational and social highlights

AMK at a glance	Dec 03	Dec 04	Dec 05	Dec 06	Dec 07	Dec 08	Dec 09
OPERATIONAL HIGHLIGHTS							
– Number of branches/ sub-branches	3	3	5	9	15	20/25	22/50
– Number of villages	497	610	912	1,586	2,999	4,762	6,253
% coverage of total villages in Cambodia	*4%*	*4%*	*7%*	*11%*	*22%*	*36%*	*45%*
– Total staff	68	91	108	188	349	566	766
% field officers over total staff	*44%*	*51%*	*48%*	*48%*	*52%*	*57%*	*57%*
– Number of active borrowers (exc. staff)	18,422	20,464	36,221	67,006	120,111	188,696	217,477
• Group loan borrowers (%)	100%	100%	96%	95%	94%	85%	88%
• Individual loan borrowers (%)	0%	0%	4%	5%	6%	15%	12%
– Loan portfolio (US$, excluding staff loans)	$843,330	$1,189,094	$2,444,106	$5,230,443	$10,306,981	$23,187,911	$24,795,880
• Group loans (%)	100%	93%	91%	85%	80%	65%	77%
• Individual loans (%)	0%	7%	9%	15%	20%	35%	23%
– Number of voluntary savers	0	182	765	1,460	1,842	1,702	1,770
– Voluntary savings balance (US$)	$0	$1,075	$4,677	$8,335	$27,851	$11,494	$19,342
– Active borrower/ Average field officers	709	539	739	937	880	746	542
– PAR 30 days	2.51%	0.71%	0.05%	0.09%	0.06%	0.35%	2.85%
SOCIAL HIGHLIGHTS – (% and US$)							
– Women borrowers (%)	100%	85%	86%	85%	84%	85%	85%
– Loans below US$300 (%)	100%	100%	99%	99%	96%	89%	91%
– Rural borrowers (%) (estimation)				90%	88%	95%	93%
– Average outstanding loan per borrower (US$)	$46	$59	$68	$79	$87	$124	$116
• Group borrowers		$54	$62	$66	$68	$77	$99
• Individual borrowers		$151	$154	$227	$263	$286	$196
– Adjusted drop-out rate (minus resters,%)		34%	15%	11%	14%	13%	24%
• Estimation below rural food poverty line (%)		n/a	n/a	71%	75%	63%	56%

2.3.5 Key Success Factors

AMK's success has been due to a variety of factors, most notably, commitment to mission, emphasis on social performance as well as financial performance management, commitment to customer responsive product design, ability to execute at scale, investment in organizational capacity and focus on innovation.

Commitment to mission

AMK is constantly evaluating new product ideas to ensure they conform to our mission, "to help large numbers of poor people to improve their livelihood options through the delivery of appropriate and viable microfinance services". This means limiting itself to its core competency (microfinance services) and only commit to ideas that can be executed at scale (to help large numbers). It is also careful to ensure its target market (large numbers of poor people) is foremost in all product design and targeting. This necessitates that AMK sometimes ignores opportunities which may be exciting and/or lucrative because they do not support its mission.

Emphasis on social performance as well as financial performance management

It is easy to measure the financial success of an organization. Measures like profitability; RoA, RoE, PAR, etc. are well established in the industry. However, social performance measures and management are not as institutionalized. AMK is a pioneer in the area of social performance management having developed an array of tools that have contributed to the global development of social performance management.

Commitment to customer-responsive product design

AMK has over 230,000 active clients. It maintains a very close relationship with these clients and conduct regular client satisfaction surveys, etc. It has a dedicated research department which leverages this client information and works closely with the product development team to design customer-focused products.

Ability to execute at scale

With a national presence in every province and over 230,000 customers, AMK is one of the largest MFIs in Cambodia. This scale has required careful planning and execution over the last decade. AMK now has over 70 branches and sub-branches across the country. This gives AMK the ability to execute all initiatives, new product rollouts, etc. at scale.

Investment in organizational capacity

AMK continues to invest significant in organizational capacity as its business grows. This has included investment in new people, processes, and technologies. New corporate functions have been established such as Treasury, Risk Management, Product Development, and Marketing. New but experienced staff members have been hired. A new Core Banking System has just been implemented. These changes have been incorporated into the organization without any change in mission or culture.

Focus on innovation

AMK has always been an innovative organization concentrating on underserved geographic areas and market segments. AMK's finance-at-your-doorstep and mobile-client-officer approaches are unique at scale in Cambodia. AMK will continue to investigate and implement innovative approaches and technologies in the coming years. At present, AMK is most excited about the possibilities inherent in Mobile Money Technology (MMT) and the opportunities it presents to mobilize savings, remittance and transfers, and potentially change the cost structure for its credit business.

2.3.6 Challenges

Like any growing organization, some of AMK's strengths discussed above also represent on-going challenges: ensuring commitment to mission (i.e. no mission drift), maintaining culture of social performance management (as well as effective financial management), managing growth/scale at 250,000 plus clients and designing innovative new products and delivery models/channels.

AMK also faces several other external challenges, the biggest of which include the challenge of cross-lending and client over-indebtedness and obtaining local currency funding. AMK is eager to work with our competitors and the National Bank of Cambodia to help resolve this issue of cross-lending. In this regard, AMK is very supportive of the creation of a Credit Bureau.

Over 90 percent of AMK's portfolios are KHR denominated. Funding in US$is quite readily available at rates of 7-8 percent. However, it is very difficult to source KHR funding directly. AMK typically borrows in US$ and then has to hedge the associated currency risk. Hedging is typically accomplished through back-to-back loans which are expensive and cumbersome. AMK continues to seek alternative sources of local currency funding and/or affordable hedging products.

2.3.7 Future Strategy

AMK's mission will continue to drive its business strategy:

To help a *large number of poor people* to *improve their livelihood options* through the delivery of *appropriate and viable microfinance services*.

During the coming years, AMK will *help a large number of poor people to improve their livelihood options*, by growth of outreach, specifically continued expansion of existing rural credit business, a renewal of focus on the urban poor with the creation of a specifically tailored urban product line and the introduction of mobile money technology (MMT) as an alternative delivery product delivery channel, which should greatly reduce AMK's cost of service, thereby increasing the numbers of clients it can reach.

AMK will expand its provision of *appropriate and viable microfinance services* to include savings and deposit products – both branch-based and MMT-enabled and money transfers and remittances – MMT-enabled.

AMK will continue to leverage its branch network and finance-at-your-doorstep approach for all products, but sees greater long-term potential in alternative distribution mechanisms such as MMT. This strategy will transform AMK over the next several years, from a rural-based credit business to a much broader provider of a range of microfinance services in both urban and rural Cambodia.

2.4 Evolution and Transformation of Amret

by Mr. Chea Phalarin, General Manager, Amret

2.4.1 Looking through the Hourglass

Amret, formerly known as "EMT", is Cambodia's leading microfinance institution, with over 19 years of experience. Amret became a private limited company in 2000 with a registered share capital of KHR330 million from two shareholders: Group de Recherche et d'Echanges Technologiques (GRET) and SIDI at the Ministry of Commerce. Moreover, Amret was the first microfinance institution to receive a formal license from the National Bank of Cambodia (NBC). Amret obtained an additional license which is called "License to Conduct Deposit-Taking Business" dated 22 January 2009 from NBC.

It was initially founded as an experimental credit project in 1991 by the French NGO, GRET, to respond to the economic needs of the rural population of Cambodia which still represent more than 80 percent of employment.

AMRET believes in the ability of the rural communities to express their solidarity through the development of a trust-based relationship among their members. As a consequence, AMRET developed a credit-delivery methodology which relies on the involvement of the villages' representatives in the full credit process.

Vision

To be an outstanding financial institution that improves the living standards of the population and contributes to the economic and social development of Cambodia.

Mission

To provide a wide range of financial services for low income people as well as micro, small and medium enterprises – while at the same time achieving a high level of financial and social performance.

2.4.2 Milestones

1991: GRET, a French NGO, sets up an experimental project to deliver microcredit to the rural population of Cambodia. The first experimental phase is launched, with a single financial product known as solidarity credit.

1995: Initialization of a second experimentation phase. Solidarity credit is modified under new procedures while the individual credit product is launched. Meanwhile, GRET plans to transform the project into a microfinance institution.

1996: Conception of the name Ennatien Moulethan Tchonnebat (EMT).

1998: End of first experimentation phase. All activities transfer to second experimentation phase. As EMT becomes operationally self-sufficient, a new organizational chart is designed that transfers management responsibilities from technical assistants to local staff.

1999: EMT borrows from commercial banks for the first time.

2000: EMT becomes a private limited company, "Ennatien Moulethan Tchonnebat Ltd.", with a registered share capital of KHR330 million from two shareholders of GRET and SIDI.

2001: EMT receives its MFI license from the National Bank of Cambodia.

2002: EMT legally admits two new shareholders, Proparco and La Fayette Participations and considers investing in a new management information system (MIS). EMT launches certificate deposit product in two branches.

2003: EMT redesigns individual business loans market needs, and lowers the interest rate from 4 percent to between 3.5 percent and 3.0 percent, according to loan amounts. Permanent expatriate technical support is concluded. I&P joins EMT as a new shareholder.

2004: EMT is renamed as "Amret" on June 14, 2004.

2005: Amret rolls out a new MIS "Microbanker Windows Version". Amret diversifies individual loans into business loan, educational loan, home improvement loan and household consumption loan. Amret introduces the front-office operations, the conventional banking operations whereby borrowing clients come to institutional branches.

2006: Advans S.A. (Formely LFI) becomes a shareholder.

2007: Botta, the staff investment company, becomes a shareholder.

2008: In March, SIDI and I&P exit, but three new shareholders, Proparco, FMO and Oikocredit, join Amret.

2009: In January, Amret obtains an MDI License from National Bank of Cambodia to fully collect savings from public.

2.4.3 Management

Since the growth of the company is tremendous, the structure of managing the company has changed rapidly as well. Starting from NGO with GRET in 1991, this organization was managed by a technical assistance team with the local staff. During the transitional period, covering 1991 to 1997, it started to have local managers to manage the business activities with support from foreign technical assistance. When Amret commercialized its operations with the license from NBC as a microfinance company in 2000, it had its own capable management committee to oversee the business and keep the growth momentum.

2.4.4 Shareholders

- **Advans**, (previously known as LFI) registered in Luxembourg as SICAR in year 2005, was accepted as a new shareholder in 2006. Advans aims at encouraging private enterprise and contributing to poverty reduction in developing and emerging countries, by increasing the supply of high-quality sustainable microfinance services.
- **Botta**, a staff company registered at Ministry of Commerce of Cambodia in 2006, came to invest in Amret in early 2007. The company was created to invest in Amret only and approved as a new shareholder by current shareholders to attract a long-term commitment from the staff. Even if it is a small percentage, it is a long-term investment.
- **FMO** (The Netherlands Development Finance Company) supports the private sector in developing countries and emerging markets in Asia, Africa, Latin America and Central and Eastern Europe, through loans, participation, guarantees and other investment promotion activities. The goal is to contribute to the structural and sustainable economic growth in these countries and, together with the private sector, obtain healthy returns. These returns make FMO a valuable risk partner. FMO builds bridges between entrepreneurs and capital locally as well as across frontiers for sustainable development and healthy returns.
- **GRET** (Groupe de Recherche et d'Echanges Technologiques) is a non-profit private organization based in France, whose mission is to promote knowledge and understanding of

development methods and techniques in environment and rural development, urban planning and enterprises, and communications and media. GRET has been operating in Cambodia since 1988. In 1991, it started the microfinance project which became then Amret. GRET supports microfinance institutions in others countries such as Myanmar, Madagascar, Mauritania, and DR of Congo.

– **LFP** (La Fayette Participations) is a private company that was created by the consultancy firm 'HORUS Banque et Finance' and aims at providing financial services to the poor living in developing countries and wishes to become active in Cambodia. La Fayette Participations is a private limited company registered in France.

– **PROPARCO** is the Investment and Promotions Company for Economic Cooperation. Created in 1977 and originally specializing in venture capital, PROPARCO is a subsidiary of the Agence Française de Développement (AFD) dedicated to financing the private sector. A third of its shareholders are French, international financial institutions, and private French companies.

– **Oikocredit** (Ecumenical Development Cooperative Society, U.A.). incorporated under the laws of the Kingdom of Netherlands is a cooperative financial institution founded in 1975. Its registered office is in Amersfoot, the Netherlands. It offers loans or investment capital for microfinance institutions, cooperatives and small and medium-sized enterprises in developing countries, aimed at development financing. Oikocredit is privately financed. Individuals and organizations invest in Oikocredit shares. Oikocredit pays its shareholders a modest yearly dividend.

Amret shares distribution as of September 2010 is shown below.

Table 5: Amret shares distribution

Shareholder	Number of Shares	Face Value is 1,250,000 KHR/ share, (1,000 Riels)	Share Capital (%)
Advans (previously known as LFI)	2,566	3,207,500	31.32%
Botta	161	201,250	1.96%
FMO	1,031	1,288,750	12.58%
GRET	1,623	2,028,750	19.81%
LFP	332	415,000	4.05%
Oikocredit	1,031	1,288,750	12.58%
Proparco	1,450	1,812,500	17.70%
Total	**8,194**	**10,242,500**	**100%**

2.4.5 Board Members

AMRET board membership is composed of adept individuals representing the stockholders. The Board serves as a guiding vehicle of the organization to keep itself on track. The current Board is composed of Dr. Claude Falcon, Mr. Christian Henri Baron, Mr. Steven Duchatelle, Mr Adriaan Ruth Van der Pol, Ms. Marjorie A. Marasigan, Mr. Emerson Mar and Mr. Chea Phalarin (General Manager).

2.4.6 Internal and External Control

The mission of the Internal Audit Committee is to ensure the effectiveness and efficiency of internal audit tasks and internal control system and ensure the adequacy of reporting and decision tools. The Audit Committee meets four times each year – in March, June, September and December. The Internal Audit Department reports to the committee on finding issues and provides reasonable recommendations for improvement.

The Risk Management Committee's objective is to oversee the risk management systems, practices and procedures to ensure effectiveness of risk identification and management, and compliance with internal guidelines and external requirements.

From the beginning, Amret's accounts have been audited by international audit firms such as Kak Association, PWC, KPMG, and Ernst and Young. Ernst and Young is the present external auditor.

To be transparent, Amret had contracted with International Rating Agencies such as M-CRIL and Microfinanza for credit and social rating. M-CRIL is current year's credit rating agency. Amret is rated with Grade $\alpha -$ which is characterized as with "*Strong Board with good second line, Healthy capital adequacy, Profitable operation, Qualified trained and experienced human resource, and Strong fund mobilization*".

2.4.7 Organization

As of June 2010, Amret employed 1,061 staff members. The management team consists of eight persons, most of whom have been promoted and provide assistance to reach institutional requirements. Of the total employees, 28 percent are support staff and 72 percent are commercial staff.

2.4.8 Distribution Network

By June 2010, Amret has been operating in 14 provinces (out of a total of 24) and 98 districts (out of a total of 138) in Cambodia. The 46 branches are monitored by seven provincial offices. Two categories of credit agents deliver the credit products: a) the General Credit Agents which serve solidarity groups and individual credit in the field and b) specialized credit agents which serve individual credit both in KHR and US$, receiving the clients in the branches.

The specific Amret operational model is to offer solidarity credits through the villages credit committees. These local committees are in charge of helping mobilize potential borrowers, create groups and follow up reimbursements. They are also responsible of strengthening the livelihood of medium-sized income families as well as offering individual credit to those who have funds used as collateral in order to borrow bigger loans either for their business or to improve their living condition.

Along with the Government's attempt in poverty reduction, Amret is also introducing other products like savings, inter-branch money transfer and others programs to provide more convenience and fulfill the demands of its stakeholders, especially those from the rural areas.

2.4.9 Products

Amret has designed and developed products to meet its target local clients' needs in a competitive environment. Amret presently offers the following credit and deposit products in both US$ and local currencies (KHR).

Credit products

Comprehensive credit packages are specifically tailored to the needs of the people in the country for a better and more secure future.

Amret's **Solidarity Credit** is a joint-liability microcredit in local currency, designed for groups of rural people who have a specific purpose of using the loan for general business activities to improve their household economy. Clients can apply for loans up to KHR1,000,000 (approximately US$250.00) with a maximum payment duration of 12 months. The interest rate is charged from 3 percent to 3.50 percent per month, using a declining balance calculation method.

Amret's **Individual Credit** is a larger loan in both local and US$ currencies, targeting clients who have physical collateral to be pledged as security. This loan varies from KHR1,000,000 to 40,000,000 KHR (US$100 – US$10,000) with a maximum payment duration of 36 months. The interest rate is charged at 1.2 percent to 3.50 percent per month depending on the loan amount, type of currency, and the level of individual customer's risk exposure. A declining balance calculation method is used for the interest calculation. Individual credit is categorized as follows:

- **Business Loan:** A business loan is for individuals setting up a new business or expanding an existing enterprise. It is an ideal way for small- and medium-scale entrepreneurs to gain access for their needed capital.
- **Home Improvement Loan:** A home improvement loan provides individuals with the necessary funds to carry out renovations or extensions of their existing house (e.g., fence, roof, kitchen, toilet, living room).
- **Consumption Loan:** A consumption loan is for individuals intending to purchase household equipment or personal items such as a vehicle, computer, furniture, or any other household equipment. They can also use this loan to pay for tuition fees for high school, technical school, university and post-graduate studies to enhance family's member capacity.
- **Bio-digester Loan:** A bio-digester loan is designed to particularly target group of household who need loans for improving their household conditions through a creation of substitution of conventional fuel sources (fuel wood, charcoal, kerosene, battery charging), creating additional production of organic fertilizer for fish feed or agricultural production, improving health and hygiene due to reduced indoor air pollution and better waste management of dung and human waste, and reducing workload for women.

Deposit products

Being recognized at the local and international level and upon getting its MDI license from the National Bank of Cambodia, Amret designed flexible deposit products for the clients' needs so that they can manage their cash surplus economically for the present and future to make sure their money keeps growing with reliable services.

Deposit products are categorized as follows:

- **Happy Account** is an interest earning, demand withdrawals, and passbook user account. It is designed for customers who have irregular income or expense and would like to use this account for facilitating their business transactions. Happy account is an easy, simple and convenient way to deposit and withdraw money, while enjoying a reasonable interest rate. Only KHR12,000 (US$3) is needed as an initial balance for opening account. Customers will earn interest up to 4.5 percent (US$) or 5 percent (KHR) per annum.

- **Goal Account** is a simple contractual savings account with a small minimum deposit target, and passbook user account. It is designed for customers who receive regular income and are willing to use saving-up strategy for future investment or expenses such as business investment, children investments, buying assets, or retirement plan, etc. It allows customers to make deposits at their own pace, with the option to fulfill their monthly deposit commitments in advance. Customers can choose the different contractual amount or period for an opportunity to gain any differently desired interest rate. Only KHR20,000 or US$5 is needed as a minimum deposit to open a Goal Account. Customers will earn interest up to 7.5 percent (US$) or 8.5 percent (KHR) per annum.

- **Wealthy Account** is a fixed-term deposit account and certificate user account. It is divided into two types, interest and principal repayable at maturity, and monthly interest paid and principal repayable at maturity with different interest rates. It is designed for customers who have much cash surplus for savings and wish to deposit long term to gain higher interest. Customers can choose from different period options for opportunity to gain any differently desired interest rate. Only KHR200,000 or US$50.00 is needed as a minimum deposit to open an account. Customers will earn interest up to 8.5 percent (US$) or 10 percent (KHR) per annum.

Inter-branch money transfer service (IMT)

IMT is designed for everyone or anyone who needs to transfer his/her money to a relative, friend or a business partner. There are several types of transfer such as cash-to-cash, cash-to-account, account-to-account, and account-to-cash. Both KHR and US$ currencies are permitted to be transferred with the highest amount of 20 million riel or US$5,000.00 per transaction. The minimum fee charge is 6,000 KHR (US$1.5) per transaction for an amount equal or less than 6 million or (US$1,500.00). For bigger amounts, there is a flexible charge from 0.08 percent to 0.15 percent per transaction according to type of currency and type of transfer.

2.4.6 Financial Results and Funding

Funding coverage

Amret finances its portfolio with a range of commercial borrowing from both local and international institutions. As of June 30, 2010, Amret's commercial borrowing stood at KHR181,309 million (2009: KHR197,859 million), consisting of loans from the National Bank of Cambodia, Foreign Trade Bank, Solidarité Internationale pour le Développement et l'Investissement (SIDI), Triodos-Doen, BlueOchard Finance S.A (BOLD), Oikocredit, OPEC Fund for International Development (OFID), Agent French Development (AFD), NEDERLANDSE FINANCIERINGS-MAATSCHAPPIJ VOOR ONTWIKKELINGSLANDEN N.V. (FMO), Global Microfinance Facility (GMF), Global Commercial Microfinance Consortium, Ltd. C/o Deutsche Bank, Symbiotics S.A. Information, Consulting and Service, PROPACO, Norfund, Groupe de Recherche et d'Echanges Technologiques, ALTERFIN and PlaNet Finance. Amret continues to pursue a policy of diversifying its borrowings across a number of institutions.

Financial ratios

Regulations issued by National Bank of Cambodia stipulate that a licensed microfinance institution must maintain a capital adequacy ratio of 15 percent across eligible capital and the institution weighted risk assets. As of June 2010, Amret's capital adequacy ratio is 27.9 percent.

Since the beginning, Amret has demonstrated an excellent performance with its operational autonomy and financial sufficiency being over 134 percent in June 2010. The operating cost ratio has also been constantly improving to 17 percent for the 1st semester of year 2010. RoE reached 23.4 percent and RoA 5 percent for the 1st semester of year 2010.

2.4.7 Evolution of Activities

From the beginning, Amret has maintained a steady growth. For the first quarter of year 2010, Amret had distributed more than **214,939 loans** (181,046 solidarity credits and 33,893 individual credits) and **222,584 billion KHR (more than US$52.5 million)** through more than 3,438 village associations. Despite the increasing competition in this industry, Amret's average portfolio growth has been more than 51 percent for the past three years. The potential market is a considerable 75 percent of the households that are still excluded from financial services offered (1,641,071 out of 2,188,094).

Amret's share of the current microfinance market in Cambodia is 19 percent in term of clients, although this is close to 24 percent on average in Amret's operating provinces.

While priority is given to rural activities in villages and districts which represent 70 percent of the portfolio amount, Amret does not, however, neglect the need for microfinance services for those customers who live in provincial towns. Amret is extending its efforts to meet this growing demand as well. In particular, this means adapting its Credit Agent training and recruitment to better understand urban economic activities and their financing needs, and pursuing further product development as appropriate.

The PAR >60 days has decreased from 2.82 percent to 1.81 percent in June 2010. The repayment rate is more than 97 percent. The credit quality worsened in 2009 but has improved to its normal practice in 2010.

Credit Agents' productivity is in line with the international standards for group loans. The number of active clients per general credit agent is 549. In addition, a general credit agent delivers 60 individual credits and the specialized credit agent delivers 109 individual credits.

2.4.8 Success Factors

The growth of population in terms of labour forces plays a very vital role in the economic transaction. Cambodians mostly are familiar with NGOs, because NGOs have been established to help and work with the rural people. Moreover, some MFIs have been developed from some NGOs, therefore, they have a keen sense of the NGOs' mode of work and activities.

In the strategy of poverty reduction and improvement of business competitive environment, the Royal Government of Cambodia has implemented a free and open market policy. Moreover, the Government has also created and adopted the investment, commercial and anti-corruption law to protect local and foreign investors in their business. This is a really good support from the Cambodian Government. The Government and the National Bank of Cambodia also give strong support to MFIs, because MFIs can provide better living condition for rural people.

On top of that, the culture of the Cambodian people is also one of the most significant factors that made the operation of the MFIs well-suited to the rural areas. Majority of Cambodia consisting up to 80 percent of the population are Buddhists, and they are trying to do good things to get good things in return.

Internally, Amret gets very good support from all of its stakeholders, donors, operators, shareholders, as well as suppliers that make the operation and management a lot easier for the company. Moreover, our people, from the field staff to the top management, are very productive and dedicated, enabling the whole team to work harder for the continued growth of the business.

2.4.9 Plan 2007-2010 and Prospects

Amret has indisputably achieved its strategic objectives over the past years both in its capacity to service the client's needs in good conditions and to ensure its long-term sustainability. To achieve these, firstly, Amret continues to expand geographically. The objective is to be active in all the provinces at the end of the four-year plan. Moreover, Amret plans to open two new provincial offices and 13 new branches. The company also plans to maintain high levels of productivity and profitability. Progressively as a part of the solidarity group, solidarity clients clients will move to individual credit.

In order to retain a high level of profitability, AMRET has to tackle on increasing competition in interest rates, and higher levels of risks due to the development of individual credits. To reach its profitability objectives, AMRET continues to reduce its operational cost ratio. Lastly, Amret plans to maintain a sound structure ratio for the betterment of the services provided by the company.

To maintain the company's growth momentum and to cope with the existing competition in the market, Amret has identified some of the internal and external challenges needed to be dealt with. Internally, there is a need to develop the human resources in order to be more productive and efficient in all of its operations. Technology is another aspect which it is working on. Amret is currently acquiring to undergo a new feasibility and comparability system in order to make the process of dealing with customers more efficient. The company is also highlighting the customer service and product differentiation as critical factors to overtake the competitors and stay as the leading organization in the industry. Externally, the toughness of the competition both from the existing and new entrance companies is squeezing the growth and Amret needs to fine tune competition strategies in order to get advantage from the common strength that we are possessing.

According to the demand survey, the opportunities of introducing new products is large but would require undergoing negotiations with the NBC and applying for banking license.

2.5 Revising the Roles of NGOs-MFIs in Poverty Alleviation – The Experience of Centre International du Credit Mutuel (CICM)

by Mr. Michel Kindbeiter, Managing Director, CICM

2.5.1 Through the Eyes of Time

The **Centre International du Credit Mutuel (CICM)** is a non-profit organization created by the France *Cooperative Bank Credit Mutuel* in 1979. Over the past decades, CICM has developed several mutual microfinance programs in countries such as Senegal, Congo, Central African Republic, Philippines, Nigeria, Cameroon and Burkina Faso.

In March 2004, CICM received a letter of support from the Ministry of Economic and Finance to develop a mutual microfinance program called "Cambodia Mutual Savings and Credit-CMSC Network". On September of the same year, CICM signed a Memorandum of Understanding (MoU) with the Ministry of Foreign Affairs as an international non-profit organization in Cambodia.

It was then in July 2005 that CICM Cambodia got registered as a Rural Credit Operator at the National Bank of Cambodia.

In January 2008, in view of its quality of work and its long-term vision, CMSC received additional financial support from the French Embassy in Cambodia to expand its operation's network through out the kingdom.

Vision

The vision of CICM is to promote economic and social development by giving everyone, especially those who are excluded from the banking sector, access to financial service.

Mission

CICM's mission is to set up a microfinance network based on a mutual approach, which focuses on encouraging savings and providing loans.

Principles

Based on the above vision and mission, CMSC has followed seven main principles in running the organization:

Solidarity

Solidarity is strongly expressed between members who save and members who borrow money. Furthermore, cooperation among the cooperative is developed, especially through the federation.

Proximity

Proximity is encouraged thanks to a wide network of its branch cooperatives. A genuine relationship based on reciprocal trust is developed between the members and the cooperative.

Equality

Each member is considered equally, without taking into accounts his/her social status or wealth level. Each member has the right to vote with the principle of one vote = one person.

Transparency

Transparency is mainly ensured thanks to the control of members, highly performing banking software and frequent audits.

Autonomy

Savings is used only to provide credit. The network aims to reach sustainability to ensure financial and technical independency.

Participation

Members participate economically with a capital share of KHR8,000.00. They participate as well in decision making by voting during their annual meeting and by electing representatives. Any members can participate, whatever the social or economical level.

Professionalism

CMSC benefits from the great expertise of the well-known French cooperative bank, Credit Mutuel. CMSC ensures security and a high quality of service, thanks to banking software, skilled employees and well trained elected members.

The organization also gives high regard to the practice of self-responsibility, democracy, education and training, opens access, and social responsibility.

2.5.2 Organization

Technical Staff

The technical staff consists of a Managing Director an Internal auditor, and the following officers: Public Relations and Marketing Officer, Human Resource and Administrative Officer, Sales Manager, Finance Officer and IT Manager. Under the Sales Manager are the Credit Officer, and two Sales Coordinators, who supervise the Phnom Penh branches and the provincial branches.

Board of Directors and Committees

The Board of Directors is composed of all the Presidents of the BMC from all branches, based on the election for the nine positions. There are three Committees: Central Credit Committee, Branch Management Committee and Credit Committee. The Central Credit Committee is composed of five members from the Board of Directors, responsible for credit decisions. The Branch Management Committee composed of nine persons to be elected upon during the Annual Meeting. The Credit Committee composed of five persons from the Branch Management Committee responsible for credit decisions.

2.5.3 Operations

The CICM Cambodia/CMSC Network provides the following financial services: savings, credit, salary payment and fund transfer.

The table below shows the comparison and growth of pertinent data in terms of number of members, number of branches, elected members, total staff, savings portfolio, total outstanding loans and outstanding number of borrower.

Table 6: Comparison and growth of pertinent data

CICM Cambodia	2009	July 2010
Number of members	5,087	6,430
Number of branches	14	16
Elected members	77	99
Total staff	62	57
Savings portfolio	US$673,000	US$712,000
Total outstanding loan	US$187,000	US$262,000
Outstanding number of borrowers	333	399

The table below shows key financial indicators between 2009 and July 2010.

Table 7: Key financial indicators between 2009 and July 2010

Key financial indicators	2009	July 2010
Commitment ratio (Prudential ratio)	28%	37%
Sustainability ratio	25%	24%
Average Loan portfolio per borrower	US$560	US$656
Average savings portfolio per member	US$132	US$111
Share of members	KHR38,480,000	KHR48,584,000

2.5.4 International Links

In March 2009, CICM Cambodia invited Mr. You Vanthon, President of Elected Members, to join the CICM's Seminar in France.

In September 2009, the organization invited representatives from the Ministry of Economy and Finance (MoEF) and the National Bank of Cambodia to a study trip in France in order to reinforce their knowledge of mutualist/cooperative financial institutions as well as to adapt the Cambodian regulation to specificities.

In October 2009, CICM Cambodia collaborated with the National Bank of Cambodia under the financial support from AFD, having celebrated a workshop drafting a law on "Financial Cooperative".

The workshop was participated by many key management staff and officials from the NBC, MoEF and French Embassy in Cambodia.

In January 2010, CICM Cambodia sent two staff from the Information Technology Department to attend a training course at the Mutual Savings and Credit Cooperative of the Philippines (MSCCP), CICM's network in the Philippines.

In June 2010, Mr. You Vanthon, President of Elected Members, was again invited to attend a seminar in France.

2.5.5 Success Factors

CICM Cambodia/CMSC Network' factors includes a strong membership, specific vision for the future, well-trained elected members, strong management, skilled employees, high transparency, the support of authorities, appropriate member services and retention and the use of available technology.

2.5.6 Future directions

In the future, its trademark name CMSC Network shall be changed to "*Credit Mutuel Kampuchea*". CMSC Network also aims at transforming CICM Cambodia, Rural Credit Operator into "Microfinance Cooperative Institution". It shall attract more members and elect more officers. It intends to broaden its outreach by establishing more branches in the cities and provinces. It shall create more savings and credit products and further improve the quality of loan repayment. Finally, CMSC Network will further develop the organization into a more sustainable institution.

2.6 Successful Transformation of PRASAC Microfinance Institution

by Mr. Sim Senacheert, General Manager, PRASAC

2.6.1 Introduction

The PRASAC Microfinance Institution (PRASAC) was formerly a credit component of PRASAC's project, funded by the European Union and implemented by three ministries of the Royal Government of Cambodia.

The project started in 1995 with the goal of rehabilitating and supporting the agricultural sector in Cambodia in six provinces around Phnom Penh, i.e. Kompong Cham, Kompong Chhnang, Kompong Speu, Takeo, Prey Veng, and Svay Rieng. PRASAC started as an integrated project which had several components consisting of agricultural and rural infrastructure, community development, institutional strengthening, credit and microenterprise development.

The whole PRASAC's project was concluded in December 2003. However, to ensure the access to financial services to rural communities and microenterprises, PRASAC's Project Steering Committee made a strategic decision to transform its credit component into a licensed MFI. The transformation was started in March 2002 by creating PRASAC Credit Association as a credit operator registered with the National Bank of Cambodia (NBC).

In 2003, the Cambodia Rural Development Foundation (CRDF) and PRASAC Staff Company were established to facilitate such transformation. With these two trust funds as the initial shareholders, PRASAC was established by registering it with the Ministry of Commerce as a private limited liability company in August 2004 and eventually got its license from the NBC in November 2004 that allowed them to legally provide financial services to rural communities and microenterprises.

To finalize its transformation, PRASAC started to identify and negotiate with different investors in 2005 in order to replace the temporary shareholders such as the CRDF.

It was in 2007 that PRASAC finally completed its transformation by replacing CRDF with five new shareholders namely, Belgian Investment Company for Developing Countries (BIO), Dragon Capital Group, Ltd. (DCG), the Netherlands Development Finance Company (FMO), Lanka Orix Leasing Company, Ltd. (LOLC) and Oikocredit.

2.6.2 Milestones

1995-1999: PRASAC I, three EU funded rural development projects in six provinces, with three different credit components.

2000-2003: Extension as PRASAC II, combined into one project, one credit component.

2000: First strategic decision to create a sustainable institution beyond the closure of PRASAC II project.

2001: Head office and branch offices separated from PRASAC II, with separate management but still as part of the project.

2002: Creation of PCA (PRASAC Credit Association), registered with the NBC in March 2002 as Rural Credit Operator.

2003: Two initial shareholders were created, a Trust Fund called CRDF created by PRASAC II and PRASAC Staff Company created by staff members.

2004:	Registered as PRASAC MFI, Ltd. with Ministry of Commerce as a private limited liability company and received license from NBC.
2005:	The credit fund was transferred from EC to the government and finally to PRASAC MFI Ltd. as subordinated debt.
2006:	The commercialization process was to seek for equity investment participation from commercial and social investors.
2007:	PRASAC completed its transformation by replacing CRDF with new five shareholders, BIO, DCG, FMO, LOLC, and Oikocredit. PRASAC received a permanent license from NBC in December 2007.
2008:	PRASAC increased its capital to 15 billion riels from six shareholders. PRASAC extended its financial services throughout the country.
2009:	PRASAC selected Oracle FLEXCUBE Universal Banking to modernize its MIS to build competitive advantages, offer more diversified ranges of products and prepare for the next level.

2.6.3 Vision, Mission and Objectives

The vision and mission of PRASAC was formulated during its initial stage which was then transferred to now PRASAC MFI. The vision and mission is clearly defined as follows: *To contribute to sustainable rural economic development in order to improve the living standards of the rural people through creation of sustainable access to financial services for rural communities and microenterprises.*

The main business objective of the company is to effectively carry out microfinance activities by providing financial services to rural households and small- and medium-sized enterprises which includes, but not limited to credit services in the form of group and individual loans, savings and money transfer services, fund raising or money lending in a manner the company sees fit and to secure the payment of any money borrowed, raised or owed to the creditors, and to do all such other things as incidental or which the company may deem necessary and conducive in the attainment of the above objectives.

2.6.4 Institutional Structure, Governance, and Management

Ownership structure and shareholders

In order to facilitate the transformation of PRASAC, a trust fund called Cambodia Rural Development Foundation (CRDF) was established and registered in 2004 with the Ministry of Interior as both a non-governmental and non-profit organization. The purpose of creating the CRDF was to act as a temporary shareholder that will be liquidated after the completion of the transformation. In the meantime, PRASAC Staff Company, a private limited company was established to participate with this early share mission in PRASAC MFI, Ltd. Currently, PRASAC is a private limited liability company registered with Ministry of Commerce and a licensed institution with the NBC.

After the privatization plan has already been finalized, PRASAC officially has the ownership structure and shareholders as follows:

- Belgian Investment Company for Developing Countries (BIO)
- Dragon Capital Group, Ltd. (DCG)
- The Netherlands Development Finance Company (FMO)
- Lanka Orix Leasing Company
- Oikocredit
- PRASAC Staff Company

The registered share capital of the Company as of December 2009 was KHR15 billion equally distributed at 18 percent each among the five shareholders: BIO, DCG, FMO, LOLC and Oikocredit, as well as 10 percent for PRASAC Staff Company.

Governance

Board of Directors

The governing body of PRASAC is its Board of Directors which is appointed during the shareholders' meeting. According to the PRASAC's Article of Incorporation, the Board consists of seven (7) members of which the highest is the Chairman. The Board of Directors also includes representatives of the above mentioned shareholders. The current members of the PRASAC Board of Directors are as follows:

- Mr. MICHAEL TEMPLE, Chairman of the Board, Representative of DCG
- Mr. STEFAN HARPE, Director, Representative of Oikocredit
- Mr. RANJIT MICHAEL SAMUEL FERNANDO, Director, Representative of FMO
- Mr. ISHARA C. NANAYAKKARA, Director, Representative of LOLC
- Ms. ANNE DEMEUSE, Director, Representative of BIO
- Mr. OUM SAM OEUN, Director, Representative of PRASAC Staff Company

Based on the Prakas on Governance in Banks and Financial Institutions, PRASAC has planned to add two independent board members in 2010.

The Board of Directors' main duties include representing the Company and to sign the company name with legal responsibility, hiring and evaluating the performance of the General Manager and the other members of the management, deciding on strategic matters by approving work plans and budgets proposed by the management and support them in their implementation, and supervising and overseeing its business activities through regular reports from the General Manager.

Board of Directors' Committees

With full capacity of the Board of Directors, permanent and *ad hoc* committees were set up to delegate authority to each committee in order to supervise and support the management as well as to oversee the whole operations of PRASAC:

Audit Committee: Led by Mr. Michael Temple and Mr. Ranjit Fernando as well as an Internal Audit Department Manager, the duties of the Audit Committee are to review the report of the internal and external audit reports, monitor the integrity of the financial statements, ensure compliance to the policies and procedures, review the internal control system and risk management of PRASAC, and provide recommendations for implementation. In addition, the non-executive members will meet the external auditors in March of each year after the completion of the external audit assignment and thereafter, meet every quarter.

Human Resource and Remuneration Committee: Headed by Mr. Stefan Harpe and Ms. Anne Demeuse, the key role of the Human Resource and Remuneration Committee is to evaluate the performance and to determine remuneration of the top management.

Management structure

In 2007, PRASAC increased its functional structure from five to seven departments. Such were the Finance, IT, Credit, Marketing, Audit, Branch Support and Human Resource department which were put up in order to reduce the workload of the existing departments, segregate the responsibilities of each, and improve the whole operation of the company.

The day-to-day operations of PRASAC are led by a management team consisting of 11 members: General Manager, Deputy General Manager and Chief Operations Officer, Deputy General Manager and Chief Finance Officer, seven Department Managers and Corporate Secretary.

Branch structure

As of July 2010, there were already 18 branches within the 24 provinces of the operational areas in Cambodia. Each branch is managed by a Branch Manager with a sub-branch as a second layer. The sub-branch manager position was created to take over some tasks of the branch managers and streamline the loan process. On the average, there are seven (7) credit officers per sub-branch, three (3) tellers, and other support staff.

There are currently 1,435 staff working for the PRASAC Microfinance Institution of which 663 are credit officers who directly work with the clients in the field.

2.6.5 Operations

Target clients

Living up to its vision and mission, PRASAC targets rural village households, small farmers, and microentrepreneurs, who have income-generating activities and debt repayment capacity. PRASAC is also targeting microenterprises for individual business loans for investment and working capital purposes. The three key client target groups of PRASAC are defined as follows:

Village Households: Village households that constitute up to 90 percent or more of all households located in rural areas. Majority of the clients are involved in rice production and farming and have diversified income generating schemes such as trading or service activities. The cash income of a household determines the debt capacity for taking out a loan.

Microentrepreneurs: The large majority of microentrepreneurs are family businesses where family members help out in the operation of the business. They are mainly located in market centers in or nearby district or provincial centers, and in the rural villages as well. They have few employees (1-3), mostly of which are family members.

Small Entrepreneurs: They are mainly located in market centers that are in or nearby district or provincial centers, and in the rural villages as well. They have few employees usually ranging from four to ten.

Loan products

PRASAC is offering varieties of loan products to suit its client's demands and preferences. These loan products differ by loan amount, loan term, repayment interval, lending methodology and currency. Following are the loan products offered by PRASAC:

Group Loans

PRASAC is offering two group loan products by using group solidarity as loan security. These two group loan products have characteristics as follows:

End of Term Loan (Single Repayment): Loan size ranges between KHR50,000.00 to KHR1,000,000 (US$15.00 – US$250.00). The clients can borrow up to 12 months depending on the duration needed for its purpose. The interest rate is 39 percent per annum for KHR currency and 36 percent per annum for US$ currency which is computed on a declining basis. This particular loan product is designed for agriculture purposes mainly rice production in which clients have no other source of income during the loan period, therefore, they can only repay both the principal and interest at the end of loan term which is mainly after the harvest season.

Interest Monthly Installment: The customers can borrow from KHR50,000.00 to KHR1,000,000.00 (US$15.00 – US$250.00) for a period of 12 months. The interest rate is 36 percent per annum for KHR currency and 32.4 percent per annum for US$ currency computed on a declining balance. The interest repayment is monthly and principal can be repaid at the end of the loan term or on any month during the loan contract.

Individual Loans

PRASAC is also offering flexible individual loan products to its customers as follows:

Agriculture – End of Term: Loan size ranges from KHR300,000.00 to KHR2 million (US$75.00 – US$500.00). The interest rate is 39 percent per annum for KHR currency and 36 percent per annum for US$ currency computed on a declining balance. The customers can borrow up to 12 months and both the principal and interest can be repaid at the end of the loan term. The loan's main purpose is primarily for clients in the rice production, particularly, for dry season rice with which they can use the money as a working capital to acquire rice seed, fertilizer, labour, and so forth.

Agriculture – Monthly Interest Installment: Loan size ranges from KHR300,000.00 to KHR40 million or (US$75.00 – US$25,000.00). The interest rate stretches from 25.2 percent to 34.8 percent per annum for KHR currency and 19.2 percent to 32.4 percent per annum for US$ currency on a declining balance. The loan term is between 4 to 26 months of which the interest can be paid on a monthly basis and the principal at the end of loan term. The client can also opt to pay on a more frequent installment mode depending on loan term, loan size and the harvest of the agricultural production and loan used for working capital or investment in fixed assets.

Microenterprise Loan: Loan size ranges from KHR300 thousand to KHR40 million or (US$75.00 – 25,000.00). The interest rate is from 25.2 percent to 34.8 percent per annum for KHR currency and 9.2 percent to 32.4 percent per annum for US$ currency on a declining balance. The loan term is between 4 to 26 months. The interest is on monthly installment and principal can be repaid up to every fourth month depending on the cashflow of clients. Such repayment interval is determined by credit officer based on the client's business plan.

Personal Loan: The customers can borrow an amount ranging from Riel 300,000 and Riel 40 million (US$75.00 – US$10,000.00) and the interest rate of 25.2 percent to 34.8 percent per annum for KHR currency and 19.2 percent to 32.4 percent per annum for US$ currency is computed on a declining balance. The loan term is between 4 to 26 months with a monthly installment basis for both the interest and principal. This particular loan is used for non-productive purposes such as house repair. However, in order to avail this loan, client must have income generating activities as proof of ability to pay without difficulty.

Biodigester Loan: In the goal to contribute in social development and poverty aleviation, PRASAC also provides loan to construct biodigester plant for people in rural areas who are in the business of raising animals such as cows, buffalos, pigs and so forth. With this loan, customers are able to purchase items necessary in this particular industry. They can borrow from US$75.00 to US$1,000.00 with only 14.4 percent interest rate per annum. The term is between 4 to 24 months with a monthly interest payment scheme while the principal can be paid up to every fourth month based on the cash flow of the client.

Lending methodology

In line with its mission of providing sustainable access to financial service for rural communities and microenterprises, PRASAC uses two lending methodologies to help its intended market achieve their needs and preferences.

Group lending methodology

Group lending is a group solidarity lending mechanism where the group selects between two to five members and a group leader. The groups are not homogeneous, but they should have similar economic activities and household status, permanent residence in the same village, one member from the same family, must know each other and agree to become a guarantor in case the members default. Group guarantee is used as a collateral substitute. Loan is given to individual member and all transactions i.e. disbursement and repayment are made in the village by the credit officers on a fixed banking day.

Individual lending

Individual lending is separated from the group lending (i.e. stepped or graduated lending is not used). The individual loans are used both for working capital and fixed asset acquisitions. It varies in term of loan size, terms and repayment schedule. Loans are tailored to fit client's needs. Loan approval is based on the customer's character, payment capacity or sources of repayments, as well as the cash flow generated from the business of customers. Collateral and co-signers are also required, but due to the fact that the traditional and official collateral are not always available in the rural areas, PRASAC also accepts unofficial collateral such as land certificate and pledged assets for small loans. The target clientele for individual lendings are mainly rural communities and microenterpreneurs.

The lending process and methodology of PRASAC increase the value of the services to its customers in the following manner:

- It reduces the transaction costs of customers due to the creation of office networks close to clients and some financial transactions made in the village level;
- It is convenient for customers to access loans because credit officers come to the villages;
- There are no compulsory savings or other fees in order to apply for loans;
- Loan products and processes are flexible in terms of loan term, loan amount, repayment interval based on the customer's business and cashflow making it more sensitive to the client's needs, and;
- Process is faster because of the decentralization of loan authorizations.

Lending risk mitigation

The loan products and lending methodologies can mitigate the risk because:

- There is no intermediary; credit officer directly contacts customers so that the CO can ensure that loans are given to real borrowers preventing ghost loans made by group leaders or village committee;
- Loan amount given to customers is based on their repayment capacity and demands of the business operations or expansions;
- Loan conditions such as the repayment interval and loan terms vary based on the cashflow or business cycle of customers as well as according to the type of their financial needs;
- Frequent meetings with customers are carried out through monthly collections and visits from credit officers, branch managers, sub-branch managers, and internal auditors;
- Loans are closely monitored through accurate and punctual reports generated by the MIS; and
- Immediate follow-up on late repayment loans is done.

Accounting and MIS

PRASAC has been adopting the Chart of Accounts proposed by the NBC for licensed MFIs with few modifications in order ensure that it can capture all reporting requirements for the management and external users. PRASAC also has a stable, reliable, and high-security MicroBanker System (MIS) which allows the company to expand its operations without any constraints.

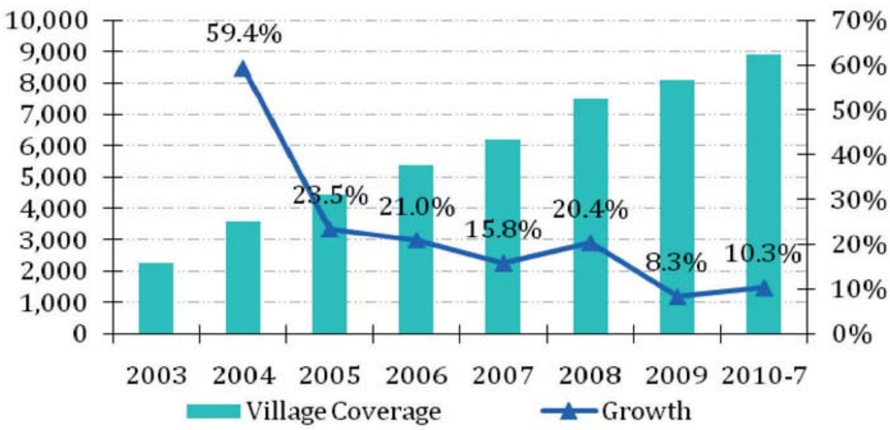
This MIS can track all financial transactions and produce necessary operations for auditing trial. MicroBanker System is an integrated accounting and portfolio tracking system. MB can keep track of any loan portfolio, savings, deposits, or client information. With the Seagate Crystal Report Designer and MB, PRASAC also developed reports required by all users such as clients, credit officers, branch managers, and so on. However, MB is a DOS version and stand alone system which poses a limitation for future growth of PRASAC's operations, therefore, it has decided to change the MB System to Flexcube. Flexcube is a core banking system that will enable PRASAC to produce more effective reports that complies with all regulator and creditor requirements and would enable PRASAC to diversify more financial products to meet with the client's needs which, in return, would result to a more effective client information tracking, as well as general ledgers, general journal, and other accounting reports necessary for auditing trial.

Achievements after transformation

Coverage area and office network

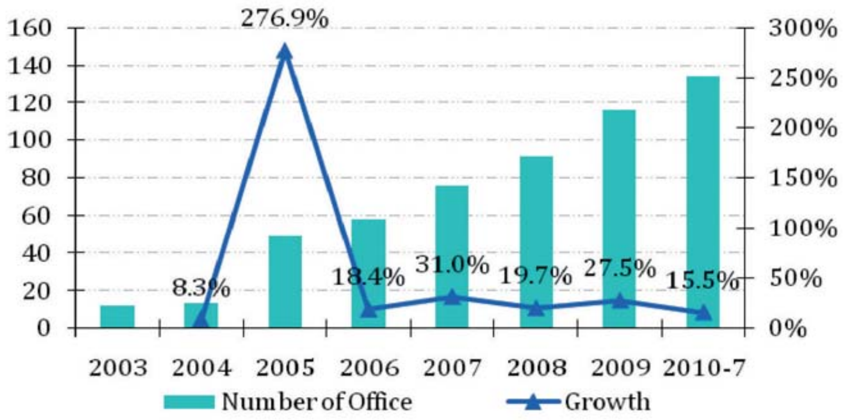
During the project, PRASAC covered only 2,252 villages in 6 provinces. After the transformation, the number of village covered by PRASAC's operations increased by almost 4 times to 8,931 villages in 160 districts, 1,372 communes of all 24 provinces at the end of July 2010.

Graph no. 1. Number of Village Coverage



Due to the limitation of the project, PRASAC only had 12 offices in the six provinces of the targeted areas before the transformation of the project. After the transformation and in order to increase access to financial services, serve more clients, and reduce the transaction costs of the clients, the number of outlets was increased by more than 10 times from 12 outlets at the end of 2003 to 134 outlets (sub-branches and service offices) by the end of July 2010. There are now 18 branches, 89 sub-branches located in the district centres, and 45 service offices. Each branch office has one branch manager, 2 to 8 sub-branch managers, one accountant, one chief cashier, 2 to 4 cashiers, 8 to 18 credit officers, and other support staff. Each branch office serves clients who live within 15 km around the office, has a separate accounting and MIS system and is treated as a profit center.

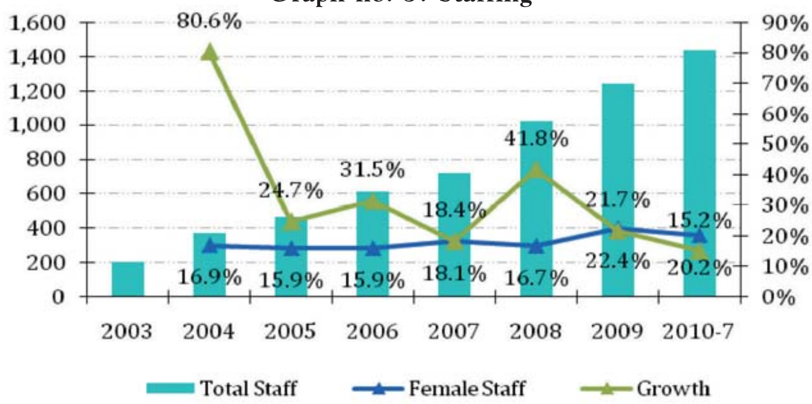
Graph no. 2. Number of Offices



Number of staff

The number of total staff increased by 6 times from 206 at the end of 2003 to 1,435 members by the end of July 2010. As of July 2010, the number of female staff consists of 20 percent of the total staff.

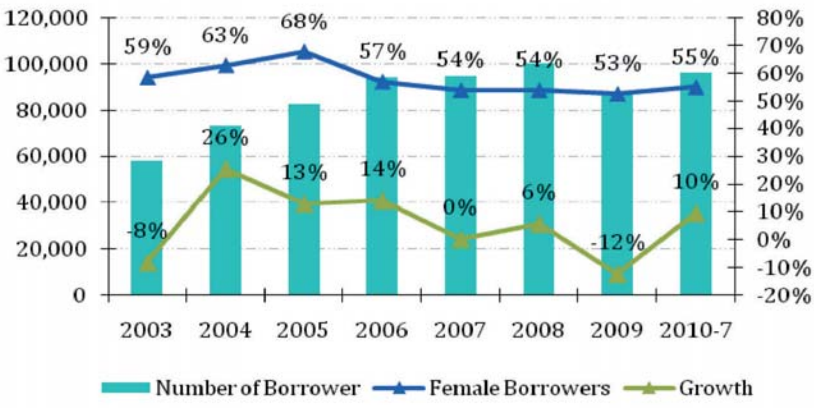
Graph no. 3. Staffing



Number of active borrowers

From 58,147 at the end of 2003, the number of loan borrowers had increased to 96,341 (66 percent) by the end of July 2010. The female borrowers remained at above 50 percent of the total borrowers for the whole six years after the project transformation. As of July 2010, group loan clients numbered 11,417 which represent 12 percent of the total clients. Around 90 percent of the clients were from the rural areas.

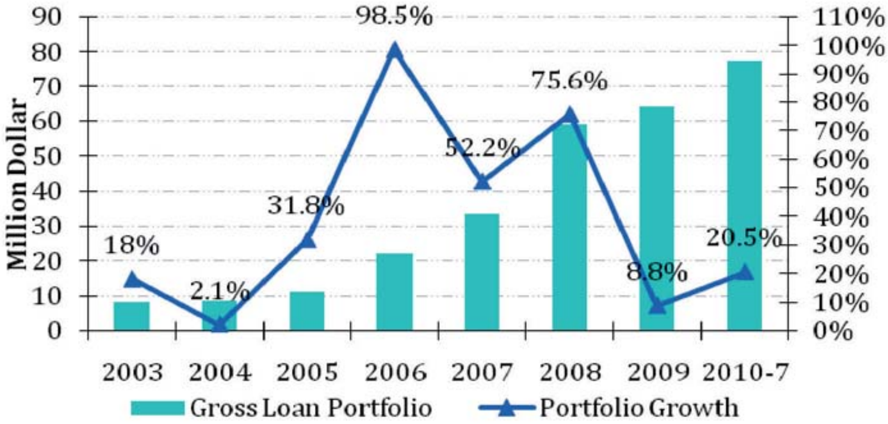
Graph no. 4. Borrowers



Outstanding loan portfolio

After the transformation from credit component, PRASAC's loan portfolio grew to 47 percent on an annual average from US$8 million at the end of 2003 to US$77 million by end of July 2010. As of July 2010, the company's loan portfolio consisted of 2 percent group loans and 98 percent individual loans. By sub-sector, the portfolio was composed mainly of trade and commerce (34 percent) followed by the agriculture sector (30 percent). The remaining percentage were distributed among service sector, transportation sector, and personal or household uses.

Graph no. 5. Portfolio Growth

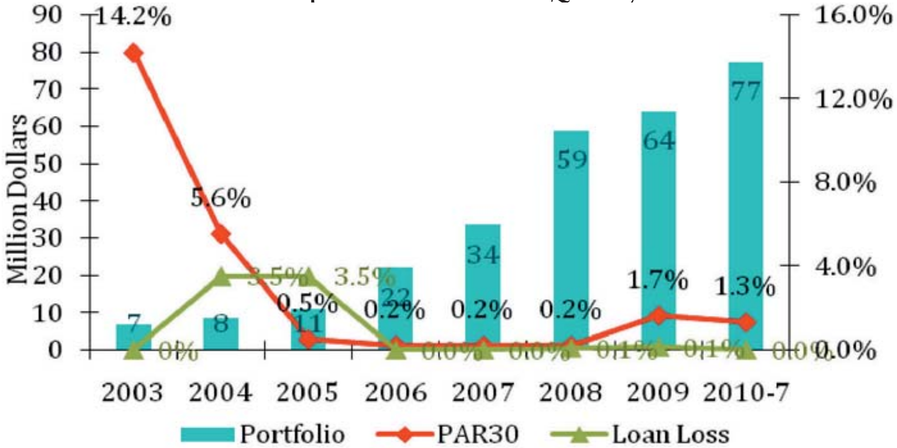


Portfolio quality

The portfolio at-risk ratio improved significantly from 14.2 percent in 2003 dropping to just 1.3 percent in July 2010. After transforming into a licensed MFI, PRASAC started to overhaul its operations and the portfolio quality started to improve from 2004. The following factors contributed to poor portfolio quality before the transformation:

- Lack of understanding of risks associated with operations;
- Donor driven;
- Poor product and lending methods designed;
- Lack of well-trained and professional staff;
- Too high staff productivity motivated by inappropriate incentive system;
- Inappropriate incentive system – The incentive was given to staff based on the disbursed amount;
- Lack of internal control and non-adherence to the policies.

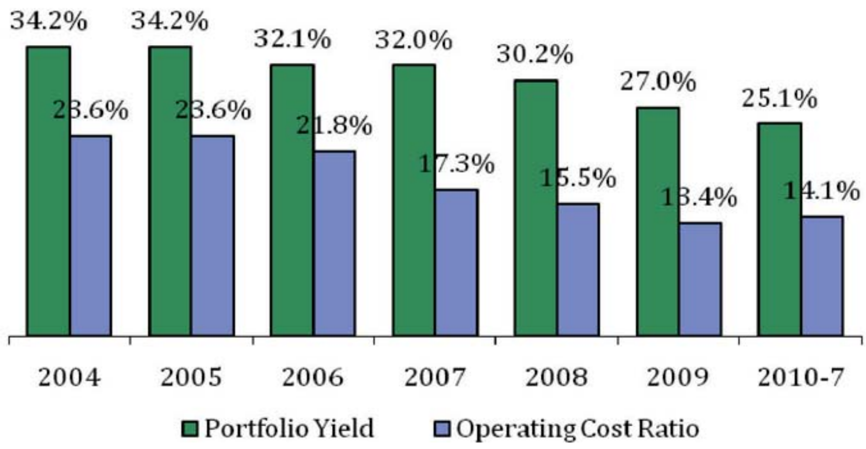
Graph no. 6. Portfolio Quality



Yield on Portfolio and Operating Cost Ratio

Yield on portfolio decreased significantly from 34.2 percent at the end of 2004 to 25.1 percent as of July 2010 due to the two main reasons – pressure from competitors and the improvement of operations. The operating cost ratio also decreased from 23.4 percent at the end of 2004 to 14.1 percent by the end of July 2010.

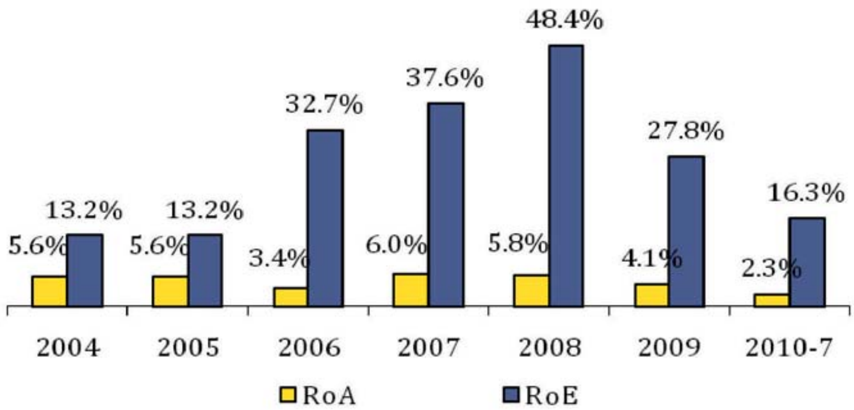
Graph no. 7. Portfolio Yield & Operating Cost Ratio



Profitability

After the transformation, the profitability of PRASAC improved in terms of return on equity, but it was significantly decreased due to the decrease of interest rate in 2009 and 2010.

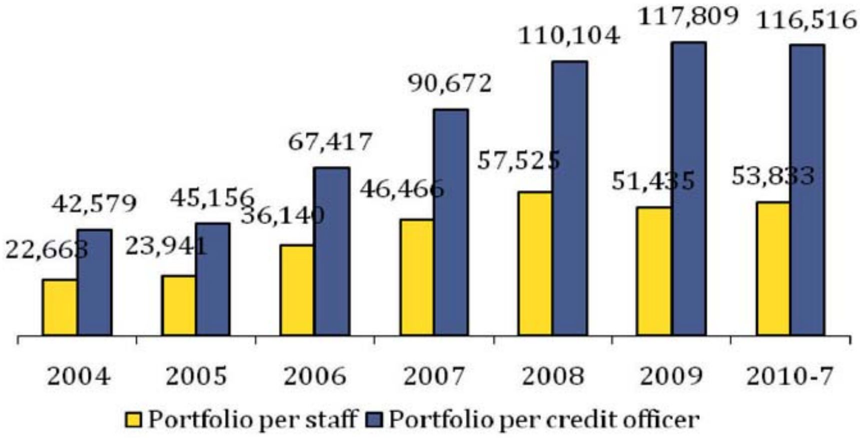
Graph no. 8. Profitability



Staff productivity

Staff productivity gradually improved after the transformation by increasing loan portfolio per credit officer from US$42 thousand to US$116 thousand at the end of 2004 and July 2010, respectively.

Graph no. 9. Staff Productivity (US$)



Success Factors

PRASAC has achieved outstanding results after the transformation from project component into licensed and regulated institution. The following factors have contributed to PRASAC's success:

Enabling legal framework and supportive regulators

Because of the enabling legal framework and environment and support from regulators, especially of the National Bank of Cambodia (NBC), PRASAC successfully transformed into a licensed and regulated institution and developed into a sustainable and professional institution which allowed the company to serve more customers in the country.

Support from PRASAC Project

As the main assisting organization, the European Union with the support from Cambodian Royal Government had good exit strategies by supporting and assisting the transformation of PRASAC's credit component into a licensed institution in order to provide access to credit and other financial services to the target clients after the closure of the project.

Strong support from local authorities

At the field level, PRASAC has good working relationships with the local authorities such as village chiefs and the commune chiefs. The support from these key people in the area contributes to the good portfolio quality of PRASAC through providing essential information about the clients to the company.

Good credit discipline of clients

After the transformation, PRASAC has been instilling good credit discipline to its clients through strict loan assessment. The clients increased the awareness of the knowledge, principles, and benefits of the financial services provided by an MFI and how to maintain good relationship with the MFI. As a result, PRASAC could improve and maintain good portfolio quality after the transformation.

Clear ownership and good governance

There has been strong support from the shareholders in the development of PRASAC into a professional and sustainable institution. In addition, the Board of Directors also plays a critical role in order to ensure the balance in all operational areas.

Strong internal control

By having appropriate policies and procedures, by firmly adhering to such and by having an independent team to check the implementation, PRASAC achieved strong internal control.

High professional staff with appropriate capacity

All the staff receive regular training based on their annual assessments. Each of the staff has a strong commitment in the development of PRASAC and its transformation into a professional and sustainable institution.

Challenges and Opportunities

Although PRASAC has already achieved a remarkable growth during the past years and has expanded its operations throughout the country in the constant goal of living up to its mission and vision, there are still more areas needed to be improved in order to increase customers' demands and satisfactions and become a stronger institution.

Product Diversification

Currently, PRASAC only provides credit services to its clients, but the clients need other financial services in which PRASAC could not provide them at the moment based on the company's current status. Therefore, there is a need to develop new products and services to meet the customers' demands in order to maintain its competitive advantages in the industry.

Risk Management Function

Although, the PRASAC portfolio quality and operations are of good quality, there is a need to develop a proper risk management that would suit the operations of the company.

Tough competition

In the considerable growth of the microfinance sector, many microfinance institutions emerged with the same products and services provided to the clients. In this regard, they provide loans in the same operational areas, interest rate, and other similar conditions. This leads to the overlapping loans for those clients who try to receive more loans that affect the quality of the loan portfolio.

High cost of fund and high cost of operation

PRASAC currently cannot mobilize local sources of fund, especially deposits from the public, therefore, the only source of funds is from borrowing overseas which incurs high funding costs. This leads to high interest rate charged from the clients.

PRASAC sees the opportunity to mobilize deposits from the public in which the funding might be cheaper and stable than the borrowing from the abroad.

Clients' lack of financial information and formal collateral

One of the challenges that PRASAC is currently facing is that the clients lack financial information and formal collateral such as official land title. Without formal land title, clients can get more loans by using the same collateral from different institutions.

2.7 Evolution and Transformation of Sathapana Ltd.

by Dr. Bun Mony, Chief Executive Officer

2.7.1 Where it All Started

Sathapana Limited was established as a Cambodian non-governmental organization (NGO) in 1995, under the name of Cambodia Community Building (CCB), to offer financial and health education services to poor communities. After financial grants were finished in late 1999, CCB adopted a minimalist microfinance approach focusing purely on credit loans and saving services. As a result, its lending operations shifted gradually from predominantly providing village banking group loans to providing a mix of solidarity group lending and individual lending. CCB has put forth its efforts to transform into a licensed microfinance institution.

CCB registered at the Ministry of Commerce in February 2003 with its new name, “Cambodian Entrepreneur Building Limited (CEB)”. In April 2003, CEB obtained its license to operate as a microfinance institution from the National Bank of Cambodia. The name of company was then changed in 2008 to Sathapana, Limited (SPN) with Reachasey, king of animals, as its logo. Sathapana, Limited was the first MFI to obtain deposit taking license from the National Bank of Cambodia in January 2009. Sathapana, Limited provides micro, small and medium loans as well as providing savings and local money transfer services.

Vision

To be the leading regulated microfinance institution in entrepreneurship building of poor people, especially women in the urban and rural areas throughout the Kingdom of Cambodia.

Mission

To empower entrepreneurial poor people, especially women in urban and rural areas in order to develop their income-generating activities and microenterprise through access to microfinance services including credit and savings at reasonable rates.

2.7.2 Highlights of the Evolution

1995

Cambodia Community Building NGO was established and registered with the Ministry of Interior as a local NGO, and obtained an operating license in August 1996 which allowed the organization to provide financial services and health education programs to poor communities. This was followed by a community banking model which required clients to form a solidarity group of an average of 5 members and a minimum of 4 solidarity groups merge into a community bank and select a bank leader, treasurer, health officer and secretary to work as partners with CCB. The interest rate was 5 percent per month followed by a flat rate formula. Weekly and bi-weekly meetings were required. Loan disbursements, collection, deposit taking and health messages were undertaken during these meetings. This practice continued till end of 2007. The logo is represented by the community supported by two hands of the CCB promoters, with the Cambodian Riel Currency symbol that brought to community the development and surrounded by two olive branches referring to peace.

1998

The community bank model of combined microfinance services and health education programs was offered to women in community banks. Different products and services were developed and offered to clients, including solidarity group loans, individual loan products, US$ currency loans and branch office services in addition to the mobile banking model. Individual lending model also made a significant impact as a favourable product in the market.

1999

CCB adopted a minimalist microfinance approach by providing purely microfinance services including credit and savings. There was also a reduction in the health education program at the end of the year until it was completely eliminated. CCB found success in rolling out its individual lending product and US$ loan currency in addition to Cambodian Riel Currency. Its branch office services served more than 80 percent of clients. The National Bank of Cambodia (NBC) has categorized microfinance institutions based on three criteria. Criterion 1 is to obtain a microfinance license. CCB falls into this criterion. The grace period for transformation was for three years counting from January 2000 till December 2002, meaning that CCB needed to obtain a microfinance license by the end of December 2002. The CCB managers and staff understood well their roles and duties and thus worked hard to fulfill all requirements to transform from NGO into profit-oriented institution in order to obtain the license.

2000

CCB managed to successfully transform itself from an NGO type of microfinance provider into a professional MFI operating autonomously from donor funds and assistance by covering costs from its operation without any subsidized funding. The management and staff successfully led and managed operations to achieve self-financing and sustainability. CCB was assisted by a total of 83 staff, operating in three provincial branches plus one district branch serving 5,355 clients and a portfolio outstanding of US$525,704.00. During this period, there were many training courses and workshops conducted to transform the staff's mind-set from an NGO into a profit-oriented organization. This option was considered as a basic need in order to build a profit-oriented institution.

2001

This was another critical year for CCB development at a young age as an autonomous institution. NBC issued a new Prakas by not allowing all operators to use flat rate calculation formula and required to apply a declining method. The declining method resulted in a drop of income by 50 percent versus flat rate, taking also into consideration that the interest rate that time dropped to approximately 3.5 percent per month due to competition. This was a challenging year for CCB given that the institution has limited capital to increase portfolio in order to maintain a stable income while working at break-even grounds only. Many strategies have been designed and many actions were taken to ensure effective operation even in such a difficult situation. The most memorable action taken that time was cost cutting including cutting staff salary from 5-30 percent each employee which, fortunately, was supported by all the staff. Such actions were necessary in order to keep the business alive. CCB gained more trust in the market through its performance and having access to commercial loans from the Rural Development Bank to increase its portfolio to US$877,604.00, thus maintaining an income level sufficient to cover its cost successfully and serve 3,975 clients.

2002

Like a diamond in the rough, the transformation had been moving progressively with the strategy to transform the staff mindset from NGO to a profit-oriented foundation. Many training courses have transpired during this period (3 years) on the topic of transformation under the support of MPDF and

GTZ. By the end of 2002, all the staff and managers were well-equipped with profit-oriented concepts. The transformation of documents was completed and submitted to the concerned Ministries. CCB increased its operational areas to three provincial branches and three district branches, with a portfolio outstanding of US$1,431,205.00 with 5,900 active clients and 93 staff.

2003

CCB obtained a license from the Ministry of Commerce as an Entrepreneur Building private limited company, and obtained its microfinance license from the National Bank of Cambodia. CCB under the new name of Cambodian Entrepreneur Building Limited (CEB). The Cambodian NGO owned 81 percent of total registered capital and Cambodian Entrepreneur Building Employee Company (CEBEC) owned 19 percent. Total shares registered were US$372,000.00. The license provided CEB with an access to international loans from other countries. BlueOrchard and Triodos were the first international creditors to work with CEB.

CEB increased its operational areas to five provincial branches and three districts, with a total of 116 full-time employees and serving 7,020 active clients alongside a portfolio outstanding of US$1,935,337.00. Starting from year 2000, the organization portfolio quality kept on improving as result of the microfinance operators' hard work to educate and convince the market, thus, making on-time repayment to CEB at 99 percent. This new company started to make profit since then.

2004

ShoreCap International was very interested in CEB's impressive output and the impact on poverty reduction of CEB services. Accordingly, they joined in sharing CEB's mission by investing in CEB a paid-up capital of 43 percent of the total shares. The new shareholdings at the time were: ShoreCap (43 percent), CCB NGO (45 percent), and CEBEC (12 percent). Total shares registered were US$1,158,470.00. CEB increased its operations to 14 branches with 135 full-time employees, serving 5,760 borrowers with a US$3,702,783.00 portfolio outstanding, and maintaining an on-time repayment rate of 99.36 percent. The company continued to make profit by making returns on equity at 14 percent after investment of ShoreCap International in December 2004.

2005

CEB conducted its operations in 5 provinces, with 14 branch offices, 191 staff and served 8,811 total clients. The portfolio outstanding as of December 2005 was US$6.3 million. The remarkable success was that CEB could manage its portfolio quality at a high level, by maintaining PAR after 30 days at 1 percent for several years to date. CEB was looking ahead to bring in two more new investors to increase its equity and to support its expansion plan.

2006

Two well-known investors from Netherlands, FMO and Triodos-Doen, were interested in an equity position in CEB, and each invested 18.47 percent of total registered capital. CEB had five shareholders; two were local and three were international. The new shareholders had brought in additional funds as well as diversified skills and experiences to the Board of Directors. Five directors represented a shareholding in CEB, while two were independent directors and together created a strong governance structure. MicroBanker for Windows (MBWin), a powerful integrated accounting software, was fully running to support the growth of CEB. This new system allowed CEB to extend operations to seven new branches, increased its portfolio by 96 percent while improving the PAR >30 days from 1 percent in 2005 to 0.23 percent in 2006. In addition, CEB received the Financial Transparency Award from CGAP as result of 2005 good performance. The Award had brought CEB to higher level, thus gaining more trust in the market. Moreover, at the renewal of the three-year operation license (2003-2006), CEB was granted a permanent operation license from National Bank of Cambodia due to trustworthiness of the company. Portfolio outstanding was US$12.3 million with 15,112 active borrowers and total full-time employees of 280 operating in 21 branch offices.

2007

This year was critical in CEB records as many achievements were made throughout the year, resulting from the efforts made in 2006 such as using the powerful MBWin accounting package and each department functioning very well. This enabled CEB to manage its business very well. Six more provincial branches plus another two district branches were established during the year bringing total branch operations to 29 and the new branches were reaching break-even after six months of operations. Portfolio grew at 82 percent while maintaining an on-time repayment of 99.94 percent and making an impressive return on equity at 31.06 percent. Total portfolio outstanding at yearend was US$22.4 million with active borrowers of 24,024 served by a total of 465 full-time employees. CEB was planned ahead to remain as the leading MFI for the long run. The Board of Directors approved the relocation of the head office to a new building located on Monivong Boulevard, which provided a larger space to support growth. CEB found success in piloting deposit taking and seriously committed to obtaining a deposit-taking license in the coming year.

2008

The microfinance industry grew very quickly and has led to a stronger competition among the operators. The management and staff have focused on product and service innovation as well as on strengthening the capacity of management to ensure long-term success and profitability. The company decided to change its name to Sathapana, Ltd. having Reachasey, king of animals as its logo.

The head office was successfully moved to the new building located in Monivong Blvd. #831C Boueng Trobek area and the company branding has also been established since then. All branch offices were renovated following the new branding of the company to build trust and confidence within the community. The company also established three provincial branches plus one district branch making a total of 33 branches served by 653 employees with a total of 37,159 clients (grew 55 percent) and a portfolio outstanding of US$37.5 million (grew 67 percent). This is a remarkably successful year for Sathapana, Ltd. as it was able to maintain an excellent portfolio quality amidst the competition, PAR >30 days at 0.16 percent while maintaining on-time repayment rate of 99.91 percent and achieving an RoE of 38.48 percent.

2009

Obtained the Deposit-Taking License from the National Bank of Cambodia in January; making Sathapana, Ltd. the first MFI to obtain this license together with offering payments via inter-branches to facilitate deposit collection. The license has enabled Sathapana, Ltd. to gain more advantages in attracting public deposit successfully. At the end of the year, the deposit figure of the company was on the top among the sectors (US$3 million collecting from 22,875 depositors). Sathapana, Ltd. has a portfolio outstanding of US$39.7 million, active clients of 36,228, and has established one new district branch totaling to 36 branches and outlets served by 747 employees. In April of the same year, ShoreCap International decided to leave and transfer its stake to a new shareholder, Developing World Market (DWM). Throughout the year, most of the businesses in the country was impacted by the global financial crisis affecting the MFI industry as well as the Sathapana, Ltd. The management and staff put its best effort to challenge the financial crisis and still maintain its smooth operations. As result, Sathapana, Ltd. was able to manage its growth portfolio at 6 percent maintaining portfolio quality, PAR >30 days at 2 percent while making net profit below plan 10 percent. Even with this figure, the performance of Sathapana, Ltd. has been considered excellent among players in the industry.

July 2010

Economics started to recover from the financial crisis and Sathapana, Ltd. (SPN) kept on moving ahead in its business activities. As a result, SPN has increased its branches and outlets to a total of 47 by the end of July of the same year. The total number of staff increased to 922, portfolio increased US$45.8 million while reducing PAR >30 days at 1.8 percent and active clients was 39,073. The remarkable success for this period was public deposits which SPN could bring in from US$500 thousand-US$1 million each month that could increase to US$6.5 million during the first 7 months of the year. Deposits at the end of July 2010 was US$9.5 million collected from 28,319 depositors.

2.7.3 Target Clientele

In line with its mission statement, Sathapana, Ltd. defines the entrepreneurial 'poor' and 'medium-poor' women/men in urban and rural areas as its target clientele. Entrepreneurial 'poor' are targeted for group loans that finance the expansion and diversification of income-generating activities. On the other hand, entrepreneurial 'medium-poor' are targeted for individual loans that finance the expansion and diversification of their microenterprises. A more detailed description of Sathapana, Ltd.'s target clientele is defined as follows:

- An entrepreneurial 'poor' woman/man runs one or more income-generating activities or an infant microenterprise. She/he is working in the semi-subsistence economy by employing some productive assets of her/his household, such as land, tools, livestock etc. Cash income in urban areas is mainly generated from trading, agriculture, service activities and part-time employment. Cash income in rural areas is mainly generated for the purchase of stable food which is rice and other food that is consumed by the household, as well to invest in different businesses such as trading, agriculture or service activities.
- An entrepreneurial 'medium-poor' woman/man produces, offers services, or trades predominantly in a public market. She/he runs a micro/small enterprise as a sole proprietor with a good track record for at least a year. Family members usually help in running her/his microenterprise which is mostly located in the market centers or in nearby district and provincial centers.
- Ever since SPN has adopted the individual lending methodology and the branch office service in 1998, trends showed that clients are more in favour of this product type given that the individual lending portfolio's share was more than 80 percent and the support of this product continued to increase each year. Until 2010, the individual lending product shares around 99 percent and branch office service shares 100 percent of the portfolio outstanding.

2.7.4 Lending Policies

Sathapana, Ltd. supports all legal business activities in the sectors of trade, manufacturing, handicrafts as well as the primary sector which includes mainly agriculture and fisheries. However, it strictly excludes lending for arms and drugs production and trade, prostitution, gambling as well as all other activities prohibited by the law and contrary to public morality.

General loan eligibility includes (a) entrepreneurial activities for at least one year, (b) good standing in the community in terms of reliability, honesty and responsibility to the family, (c) availability of some household and/or business assets such as land, house, motorcycle, livestock, and valuable household items among others as loan collateral, (d) no criminal record and legal action pending against the client, and (e) no outstanding loans that are in arrears.

Group loans are primarily for working capital and investment needs of entrepreneurial 'poor' women to expand and/or diversify their infant microbusinesses and/or income-generating activities. Loan appraisals concentrate on the client's character and the current cash flow of her household including the business activities financed by the loan products. This group loan model was offered at the beginning of 1995 and has not been a success especially after the introduction of individual lending in 1998.

Individual loans are exclusively for working capital and investment needs of entrepreneurial 'medium-poor' women/men to expand and/or diversify their microbusinesses. The client should have a successful business track record for at least one year. Apart from the client's character and the current (and, if necessary, the projected) combined cash flow of the household and microbusiness during the entire loan duration, loan appraisals also focus on a SWOT analysis of the microbusiness.

Sathapana, Ltd. finances up to a maximum of 70 percent of the investment costs and up to a maximum of 50 percent of the total assets of a profitable microenterprise provided that a sufficient combined household and business cash flow is projected during the entire loan period. A self-contribution or equity of at least 30 percent by the micro/small entrepreneur is required to prove her/his business commitment and to ensure the financial viability of the business. Her/his self-contribution can be in the form of fixed assets, inventory and family labour, and not necessarily in cash.

Sathapana, Ltd. requests regular monthly loan repayments including principal and interest to reduce borrowers' tendency of spending surplus cash other than for loan repayment. However, flexible repayment schedules are offered for agricultural loans if required by the agricultural cycle and the household's cash flow. Timely loan repayment collection is strictly enforced to reduce the risk of default.

In the case of loan delinquency, Sathapana, Ltd. is committed to the maximum reasonable leniency where justified by circumstances beyond the control and intent of the clients. When a client is capable, but not willing to honor her/his loan repayment obligations, or when a client has intentionally caused her incapacity to honor her loan repayment obligations, Sathapana, Ltd. applies strict loan enforcement measures thereby protecting its reputation as an MFI that enforces the loan repayment obligations of its clients in order to discourage clients from defaulting on their loans.

Sathapana, Ltd. perceives the business success of its clients as its best promotion and guarantee for its long-term financial self-sufficiency. Therefore, all lending decisions must be based on prudent and sound appraisal procedures and guidelines (as outlined in the Credit Manual) in order to ensure a positive return for both Sathapana, Ltd. and its clients. The management must ensure the full commitment of all credit officers to support the clients' business activities through a professional loan application, appraisal and monitoring process.

Loan products are priced according to all costs, including risk factors incurred by Sathapana, Ltd. Each loan product must generate sufficient return to cover all costs, including appropriate risk margins, plus a profit margin for financial reserves. In 2004, Sathapana, Ltd. began introducing loan pricing based on the track record of its clients. A 'good' client is a client who repaid all of her installments on-time during at least two consecutive loan cycles.

2.7.5 Lending Targets

From the beginning, Sathapana, Ltd. offered its community bank loan model to clients which requires that a group of people guarantees each other for their debts. This loan product was not successful due to the environment of the Cambodian market. Since 1998, Sathapana, Ltd. started to offer individual loan products together with community bank loans and allowed clients the freedom to choose between these two products. As of December 2006, individual loans represented more than 90 percent of the total portfolio outstanding. The quality of loans has improved so that it has the best performance in the sector by maintaining PAR >30 days at a rate of 0.16 percent by the end of December 2008. This is evidence that the individual loan product is best suited to the needs of the Cambodian market.

Small and medium enterprise (SME) loan products were approved by the Board of Directors in April 2006 to be covered by 5 percent of total portfolio. This was in response to the market demand as clients graduate from an individual loan into a higher level of business including potential clients that come to Sathapana, Ltd. with very good reputation, good business, and strong collateral. The purpose of these loans is primarily to provide the entrepreneur client access to a larger loan that would enable them to expand their business, thereby creating self-employment and contributing to poverty alleviation. Sathapana, Ltd. uses these loan products to build entrepreneurship of poor clients, to support economic development by mobilizing capital into productive sectors of society and thereby, to create wealth and increase employment generation, and of course to enable Sathapana, Ltd. to maximize its profit. Due to the good performance and management of this loan product, the BOD has given approval to increase the percentage of portfolio each year; consequently, as of July 2010, the limitation of SME portfolio was at 25 percent of total portfolio.

In April 2007, Sathapana, Ltd. Board of Directors approved a new loan product for agricultural clients to fit their needs. The options are a) a balloon loan which allows customers to repay principal at the end of the loan period and b) a semi-balloon which gives some grace period to clients before they start to harvest their produce. The latter option would mostly finance crop production and other agricultural products that need sometime before they can be harvested. These loan products were introduced for the purpose of promoting agricultural business for target rural clientele. While it can be viewed as high risk since Sathapana, Ltd. staff do not have skills in this product, the Board has set a limit for this product at 5 percent of the total loan portfolio. This loan product has increased to 15 percent of the total portfolio in 2010 due to good repayment records.

2.7.6 Deposits

SPN sees its deposit product playing an important role in supporting the long-term sustainability of microfinance, thereby, putting more focus on this product from the very beginning. It also introduced deposit product to its clients in a form of compulsory requirement. Since then, the public started to understand this product function. SPN continued this effort until 2005. It started to adopt volunteering deposits and started to create this product and prepared themselves through staff capacity building, office organization and preparations for compliance to the legal framework. In January 2009, SPN obtained deposit-taking license from NBC, the first MFI to obtain this license. The deposit product was designed in the form of savings passbook, term deposit and access two currencies: US$ and Khmer Riel. SPN could collect up to $3 million in deposits during the year and known as best in the sector in term of public deposit collection. Deposits increased at a fast level. At the end of July 2009, SPN collected US$9.5 million from 28,319 depositors. This revealed that image and reputation are highly important in building trust.

2.7.7 Money Transfer

In order to further facilitate its clients' business, SPN has made business even more convenient through creating its money transfer which allows clients to remit fund through the SPN branches network. This product showed a significant support from clients as the numbers of transfer kept increasing every month.

Sathapana, Ltd. has successfully developed from a small non-government organization providing microfinance services to a medium size microfinance operator and became the leading microfinance institution in Cambodia. SPN has managed its business very well in terms of cost reduction through increasing efficiency of its operations as well as improving the quality of its portfolio which allowed further reduction of selling price. As mentioned in year 2001, SPN forced itself to change its method of interest rate calculation from flat rate to a declining balance method and to reduce the rate each year. As result, the minimum interest rate change to client has gone to 1.5 percent per month in 2010. This showed that SPN performance was able to successfully follow its vision and mission to provide viable microfinance services by increasing its outreach and charging reasonable interest rate. The management and staff believe that "the success of the client is the success of Sathapana, Ltd. and the organization can never achieve success with its clients' failure". It should be noted though that even when the interest rate kept decreasing every year, the company was still making good profit for their shareholders.

2.7.8 2002-2009 Performance Indicators

Sathapana, Ltd. had increased efficiency and productivity significantly over the past eight years. The organization has shared its productivity gains with its clients by reducing effective interest rates since 2001. This reduction took place by changing from flat rate to a declining balance interest rate calculation method. Since 2002, the interest rate charged to clients was reduced due to the strong competition in the market. Starting from 2006, the company has also equipped itself with all the requirements to be a stronger professional microfinance institution through a proper governance structure composed of mixed skills from the members of the BOD, qualified and strong experience in business management as well as managers having long experience in microfinance work to ensure quality of its operations management in order to maintain the quality of its portfolio at the best levels and to increase the efficiency and productivity to an advanced standard of performance in the industry.

2.7.9 Shareholders

Cambodia Community Building (CCB NGO), a non-government organization, was established in 1995 and was registered with the Ministry of Interior as a humanitarian organization, providing microfinance and health education services to the poor, especially women, in urban and rural areas in the Kingdom of Cambodia. CCB NGO was started and operated by a group of Cambodian managers and staff in partnership with GTZ of Germany and World Relief USA. Eventually, CCB NGO became an NGO trust registered with the Ministry of Interior that had no activities, except its investment in Sathapana, Ltd. of 23.41 percent of the total shares.

Sathapana Employee Investment Limited-SEI Ltd. (Former CEBEC) was registered with the Ministry of Commerce as a private limited company. This company was organized by Cambodian staff from the beginning of Sathapana, Ltd. Approximately 10 percent of the Sathapana, Ltd. employees have invested in this company from the beginning and it owns 6.07 percent of the total shares.

Nederlandse Financierings Maatschappij voor Ontwikkelingslanden N.V. (FMO) has been a successful example of a public-private partnership for 36 years. The Dutch government holds 51 percent of the shares and Dutch banks hold 42 percent. The remaining 7 percent of the shares are held by employees' associations and trade unions as well as approximately 100 Dutch companies and individuals. With an investment portfolio of nearly EUR2 billion and over 200 employees, FMO is one of the world's largest bilateral development banks. FMO is a solid financial institution with a triple-A rating from Standard & Poor's. FMO's activities are carried out by two business units, FMO Finance and FMO investment promotion. FMO Finance provides interest bearing loans and risk capital to businesses and financial institutions in approximately 50 focus countries. It does so not just out of its own capital resources but also with special funds provided by the Dutch government. FMO owns 18.47 percent of the total shares of Sathapana, Ltd.

Stichting Triodos-Doen (Triodos) was founded by Triodos Bank and DOEN Foundation in 1994. Triodos-Doen's vision is to develop microfinance into a full-fledged and integral part of the financial sector in developing countries. Triodos-Doen is one of the three microfinance funds managed by Triodos Investment Management BV, part of Triodos Bank N.V. in the Netherlands. Triodos Bank is the leading sustainable bank in Europe. The company is also involved in 50 microfinance institutions in Asia, Latin America, Africa and Eastern Europe. Their total portfolio at the end of 2007 amounted to over EUR43 million. Other equity investments in microfinance banks, besides ACLEDA Bank, include K-REP Bank in Kenya, Mibanco in Peru, FFP FIE in Bolivia, Akiba Commercial Bank in Tanzania, XacBank in Mongolia, BRAC Afghanistan Bank in Afghanistan, Accès-Banque Madagascar, CEB in Cambodia, and Reliance Financial Services in the Gambia. Triodos owns 18.47 percent of the total shares of Sathapana, Ltd.

Table 7: Performance changes over the past eight years until December 2009

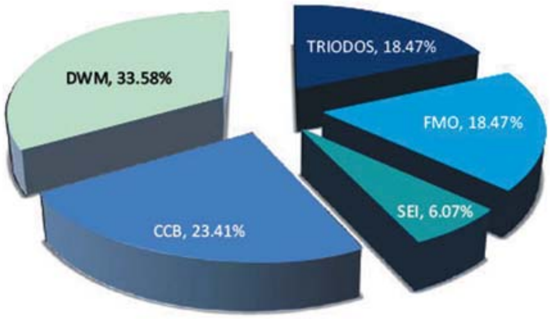
SPN Performance Criteria (2002-2009)	31-12-2002	31-12-2003	31-12-2004	31-12-2005	31-12-2006	31-12-2007	31-12-2008	31-12-2009
Total Disbursement each (US$)	1,676,000	2,814,000	6,628,353	11,670,282	21,123,721	35,725,490	57,876,455	52,360,269
Loans outstanding	92% $1,431,205	90% $1,935,337	85% $3,702,783	90% $6,282,784	93% $12,326,795	94% $22,455,107	91% $37,595,818	91% $39,686,438
Portfolio growth rate	62%	35%	91%	70%	96%	82%	67%	6%
Net Loan Outstanding	1,396,159	1,905,689	3,659,114	6,204,011	12,172,323	22,174,418	37,125,862	39,170,773
Liquidity (cash on hand and in bank)	2% $28,550	5% $117,988	13% $548,463	5% $371,910	4% $594,339	3% $744,964	6% $2,537,552	6% $2,395,224
Net Fixed Assets	5% $74,937	3% $70,191	2% $66,319	3% $199,121	2% $254,668	2% $423,656	2% $797,589	2% $924,924
Total Assets	$1,552,066	$2,156,698	$4,381,422	$6,953,742	$13,271,917	$23,934,288	$41,434,893	$43,474,199
Portfolio Quality								
1) Portfolio at Risk ratio (>30 days)	4.68% $67,015	1.49% $28,886	1.08% $40,117	1.00% $62,664	0.23% $28,443	0.14% $30,741	0.16% $60,898	2.13% $844,079
2) On time repayment	98.44% $22,338	98.91% $21,025	99.36% $23,806	99.33% $42,327	99.83% $21,401	99.94% $14,452	99.91% $34,060	98.69% $520,918
3) Write-off ratio	1.76%	0.58%	0.00%	0.00%	0.23%	0.08%	0.04%	0.26%
Cost Structure (Cost/Average Portfolio)								
1) Salary (and incentive) cost	20.97%	16.76%	12.80%	9.79%	7.61%	6.92%	6.96%	7.49%
2) Administrative cost ratio	12.03%	9.80%	8.74%	7.84%	6.58%	5.33%	5.76%	5.15%
3) Finance cost ratio	6.70%	7.74%	7.87%	8.84%	9.60%	9.71%	10.08%	8.76%
Total cost	**39.69%**	**34.31%**	**29.42%**	**26.47%**	**23.79%**	**21.97%**	**22.81%**	**21.40%**
Productivity								
1) Loan portfolio per C/O	$29,208	$35,840	$56,966	$69,809	$97,061	$110,074	$131,915	$124,800
2) Active Borrowers per C/O	120	130	130	122	115	128	130	114

Table 7: *(continued)*

SPN Performance Criteria (2002-2009)	31-12-2002	31-12-2003	31-12-2004	31-12-2005	31-12-2006	31-12-2007	31-12-2008	31-12-2009
Profitability								
1) Return on Average Equity	4.50%	0.20%	14.04%	19.57%	17.18%	31.06%	38.48%	26.07%
2) Return on Average Assets	2.00%	0.02%	2.80%	4.76%	3.97%	6.26%	6.08%	4.04%
3) Financial Self-sufficiency	105.40%	101%	110%	117%	124%	128%	134%	126%
Staff and Client Information								
Staff	93	116	135	191	280	465	653	747
Credit Officers	49	54	65	90	127	204	285	318
Clients	5,900	7,020	5,760	8,811	15,112	24,024	37,159	36,228
Depositors	6,014	7,058	8,493	11,119	15,870	18,194	21,174	22,785
Total income	$483,156	$586,383	$991,090	$1,655,440	$2,721,205	$5,285,208	$9,345,449	$10,445,392
Equity	$578,787	$631,721	$1,244,059	$1,513,910	$3,165,792	$4,329,815	$6,002,532	$7,169,572
Average Yield on Portfolio	41.85%	34.84%	35.16%	33.16%	29.25%	30.39%	31.13%	27.03%

Development World Market Microfinance Equity Fund I (DWM) owns 33.58 percent of Sathapana, Ltd.'s equity. It is a private equity investment fund managed by Developing World Markets, a financial services company specializing in socially responsible debt and Development World Market Microfinance Equity Fund I (DWM), equity investment and investment banking, based in the USA. (For more information, see www.dwmarkets.com.)

Figure 1. Distribution of Shareholdings



2.7.10 Governance Structure

Governance

Sathapana, Ltd. was founded by five shareholders. Three out of five are foreign shareholders with strong background in microfinance business worldwide while the other two are local shareholders which are deeply rooted in microfinance sector from very beginning. Currently there are seven directors in the Board. Three are independent directors, with different skills and background mostly related with banking and finance experience, have provided strong support and monitoring to the management. There are three committees under the Board: the Audit and Finance Committee, the Risk Management Committee and the Remuneration Committee. The number of shareholders can be increased based on the change of the business. The number of directors is kept at seven, while at least two are independent. The composition of both the Board of Directors and management has changed from time to time. The Assets and Liabilities Committee (ALCO) has been assigned under the authority of management. This committee function is to assure that assets and liabilities of the company are well managed. Below is the brief profile of current board and management structure 2010.

Board of Directors

Dr. Hun Monivann

Dr. Monivann has over 13 years of business experience in Cambodia. He has developed significant networks of local and international companies, NGOs as well as access to the key government contacts. Born in 1973, he graduated BBA in 1997 and immediately joined Ernst and Young Cambodia as auditor and later senior auditor of the company. In 2000, he joined Artisans Angkor as Finance Director. It was in December 2004 that Dr. Monivann was elected as a member of the Siem Reap Chamber of Commerce (SRCC). After leaving Artisans Angkor in July 2008, he started his own businesses and worked as CEO and/or member of Board of Directors for several companies. Dr. Monivann joined Sathapana, Ltd. as an Independent Director, and a member of the Audit and Risk Management Committee since April 2006.

Dr. Bun Mony

Born in 1957, Cambodian-born Dr. Bun Mony joined the Board in 1996 and was elected Chairman in 2001 and currently serves as Chief Executive Officer (CEO) of Sathapana, Ltd. He has 18 years of experience with microfinance institutions, seven years as Executive Director of CCB NGO before shifting his role to General Manager of CEB in 2001. He was also the Founder of CCB NGO in 1995. He obtained a Bachelor's Degree of Business Administration from the National University of Management, a Master's Degree of Business Administration from Malaysia and a Doctor's Degree of Business Administration from Preston University, USA. His fields of expertise include accounting, finance and management.

Mr. Brad Swanson

Born in 1954, Mr. Brad Swanson was born in 1954 and currently serves as partner of Developing World Markets, a socially responsible fund manager and investment bank. Mr. Swanson has over 30 years experience in financial services and international development. Prior to his role at DWM, Mr. Swanson also served in the following capacities: Managing Director of Global Environment Fund (Washington DC), Senior Vice President of BNP-Paribas (London), Vice President of Bankers Trust (New York and London), associated at DLJ Securities Corp. (New York) and Foreign Service Officer for the US State Department (West Africa and Washington DC). He holds a B.A. from Princeton University and an M.B.A. from Columbia University.

Mr. Michael Th. Moormann

Mr. Moormann started his career in the Netherlands within the foreign division of ABN AMRO Bank in 1971 and was transferred to Indonesia in 1973. He gained much experience serving in a variety of positions and working in many different countries before taking up senior management positions. He was the Regional Manager of a private banking of ABN AMRO in Latin America from 1994 to 1998 and served as the Country Manager for ABN MRO in several countries including Vietnam, Sri Lanka and the Philippines. Professional strengths include internal audit, HRM and change management. He presently works as a freelance consultant on corporate governance and internal audit.

Mr. Eelco Baan

Dutch-born Mr. Eelco Baan has more than 16 years experience in income generation of small and medium enterprise development, particularly in rural areas. Since 1999, he has worked with SNV Netherlands Development Organization in Cameroon, Nepal, and most recently, Lao PDR. His roles have included microfinance advisor, senior advisor for microenterprise development, and senior advisor for market access for the poor. He has also worked for 5 years with the ZOA Refugee Care as the Country Director for Cambodia, Vietnam, and Hongkong. He holds a Master of Science in Business Administration from Eramus University, Rotterdam, the Netherlands.

Dr. Yang Saing Koma

Dr. Yang Saing Koma was born in the Takeo province in 1966. After finishing high school in Phnom Penh in 1984, he continued his study in Germany. In 1995, he received his PhD in Agriculture from Leipzig University in Germany. Dr. Yang Saing Koma has 15 years of experience in agriculture and rural development, more particularly in the field of action research, training, educations, publication as well as organization development and management. From 1995 to 1997, he worked with Japanese NGO Japan International Volunteer Center (JIVC) and then went to set up his own NGO in August 2007 known as Cambodian Center for Study and Development in Agriculture (CEDAC), a leading Cambodian NGO in the field of agriculture and rural development. He is currently the President of CEDAC and the chairman of SAHAKREAS CEDAC, a social enterprise set up by CEDAC in August 2009. He has also helped to set up the National Farmer Association, which is known as Farmer and Nature Net (FNN) in 2003, and currently serves as an advisor to FNN. Besides working with CEDAC, he also served as Chairman and Member of the Board of Directors of six local NGOs.

Mr. Van Sou Ieng

Mr. Ieng graduated from the Institut Superieure de Gestion, Paris in 1976. He currently serves as Chairman of Garment Manufacturers Association in Cambodia (GMAC), the largest industry in

Cambodia, President of Cambodian Federation of Employers and Business Association (CAMFEBA). He is Board of Health Insurance Program (HIP), the worker's health insurance, and Honorary President of the Cambodia Business Coalition on AIDS (CBCA), an employers' coalition that protects employees from HIV/AIDS. He is Vice Chairman of Asia Insurance, Chairman of PPS garment, President of the Cambodian Country Club (CCC), and President of Golden Sorya Mall with 180 shops. He is also the owner of Van's restaurant, a renowned French restaurant in Phnom Penh.

Management

Human resource plays a very important role in any business operation as it is one of the key functions that affects the success or failure of any organization. With this in mind, SPN sees to it that the organization is equipped with a full human resource with strong qualifications and capability in each job function. Since SPN has already been operating its microfinance business, most of the staff and managers have built up on microfinance knowledge, and hence, SPN intends to retain all of these existing human resources. However, it needs to train these people on advanced microfinance professional operation. There are many training needs required in order to build up the capacity of the staff and be qualified as advanced microfinance provider. This requires strong cooperation from both the SPN and its staff. This concept is being introduced regularly to the staff at all levels. The management has been getting positive feedback from the showing of strong commitment to change.

The current management structure is composed of seven department functions at the head office, and the field levels breakdown into provincial branches and district branches.

The functions and the officers are as follows:

Top Management

Dr. Bun Mony, CEO

Dr. Bun Mony possesses many skills including business management and financial management and was the founder of the Cambodia Community Building (CCB NGO) in 1995. Under the leadership of Dr. Bun Mony, CCB was transformed into a microfinance institution in 2001 and obtained a license as a microfinance institution from the NBC under the new name of Sathapana, Ltd.

Dr. Var Muth, DCEO

Born on May 5, 1963, Dr. Muth obtained a Master's Degree of Business Administration from Norton University in Cambodia and earned a Medical Doctor Degree from the Faculty of Medicine in Cambodia. He has attended numerous courses on Management and Microfinance in Cambodia and overseas. Mr. Var Muth has five years experience in the medical field and more than ten years experience in microfinance. He began his career in microfinance by serving CCB NGO since 1997 as a branch manager. In late 1999, he was promoted to the position of Operations and Human Resource Department Manager. Based on his seniority and capability, he was promoted in 2006 as Deputy Chief Executive Officer, responsible for all strategic and technical issues related to the general management, operations, human resource, administration and marketing of the institution.

Human Resource Department

This department has a total of eight full-time employees and is responsible for supplying the human resources to all functions and branch levels. It is their responsibility to make sure that each staff is equipped with proper knowledge and is capable to do their jobs, including recruitment, performance appraisal, and compensation. The department has designed four units that run the department's operations namely, recruitment unit, remuneration unit, training unit and employee relation unit.

Mr. Ky Chivoon, HRM

Born on February 23, 1969, Mr. Chivoon earned a Bachelor's Degree in Finance Management from the Tun Abdul Razak University (UNITAR) of Malaysia in 2003 and earned a Master's Degree in Business Administration in 2007. He has more than 15 years of experience as Senior Management working for a wide variety of organizations and has more than seven years experience as finance manager. He began to work for Sathapana, Ltd. as Finance Manager in 2003. As the institution expanded, he was designated as Human Resource Manager in late 2004 based on his talent in leadership and human resource management.

Marketing Department

This department holds the responsibility of ensuring that public deposits are collected based on the plan set by the BOD each year. The Marketing Department needs to ensure that the name and reputation, product and service of Sathapana, Ltd. are highly promoted in the public. The department has three units, namely: Sales Unit, Marketing Unit and Research and Product Development unit. At present, the Marketing Department also takes responsibility of generating deposits, which is assigned under its Sales Unit. There are a total of 10 full-time employees in this department.

Mr. Keng Chhayhim, Act. MKM

Born on April 8, 1970, he obtained a Master's Degree in Business Administration from the National University of Management in 2005 and a Bachelor's Degree of Law from the Royal University of Law and Economic Science in 1997. He has attended numerous courses on management and microfinance in Cambodia as well as in other countries. He previously worked for CCB NGO in 1997 and has more than 10 years of work experience in microfinance and more than two years of work experience with specialized banking.

Credit Department

This department was the former Operations Department, responsible for credit, saving and product development, but has recently restructured to only pure credit function under the new department. The department's responsibility is to ensure that products and services offered in the market are very competitive, to define market segment and market expansion, and to support the credit activities in the field. Their duties also include policy and procedure development, as well as guiding, assisting, verifying, managing and controlling to assure that the field staff performance comply with the rules, loan disbursement and portfolio outstanding meeting plan, and maintenance of good portfolio quality, among others. The Credit Department has four units: Credit Management Unit, Credit Analysis Unit, Loan Recovery Unit and Legal Unit. There are a total of nine full-time employees in the department.

Mr. Neav Sokun, Credit Manager

Born on September 23, 1980, Mr. Sokun is currently pursuing a Master's Degree in Business Administration at the Norton University and has earned a Bachelor's Degree in Teaching English as a Foreign Language from the Build Bright University. He began his career with Sathapana, Ltd. at the end of 2003 as a Credit Officer, and in 2005, he was promoted as a District Branch Manager and later as Branch Manager of Kampong Cham in the beginning of 2006 until April 2010. After that, he was again promoted as Credit Manager. Mr. Sokun has more than six years of experience in microfinance.

Information Technology Department

This department is another important function of SPN as new technology can be a contributing factor to the success of the organization. However, this can also be a limitation to the Cambodian people, since not all have proper knowledge of its use. The IT Department needs to work harder to assure that the new technology used will meet the needs and demands of the SPN members. The department has four units: Management Information System, Data Centre, Network Security and Maintenance, and User Support and Help Desk. There is a total of 10 full-time employees working under this department.

Mr. Tor Vicheth, ITM

Born on September 9, 1972, Mr. Vicheth earned a Master's Degree in Computer Science from the UTARA University of Malaysia and a Bachelor's Degree in Computer Science from the Assumption University in Thailand, Bachelor's Degree of Public Law from CUS and completed CCNA and CCNP training certificates from Cisco Systems. Mr. Tor Vicheth has more than 18 years of experience in computer science and information technology. He began his career with computers and IT by serving as a computer operator for IRC/UNBRO in 1989-1990. From 1991 to 1995, Mr. Vicheth worked as a computer trainer. Mr. Vicheth then became the IT Manager for a computer supplier in 1999 wherein he became the General Manager of WAN/LAN Integration Co., Ltd. at the latter part of the same year. In August 2003, he worked as the IT Director for the Cambodian University for Specialties. Mr. Tor Vicheth began as the IT Manager for Sathapana, Ltd. on November 12, 2005.

Administration Department

This department is responsible for making sure that the assets of SPN are best used and well-managed as well as for supplying the demands of the operation, ensuring the security and safety of the offices, and monitoring inventory among many others. The department is divided into three units: Procurement, Fixed Assets Management, and Support and Security. It has a total of 28 full-time employees.

Mr. Chheng Bunthoeun, ADM

Mr. Chheng Bunthoeun, the Administrative Manager of SPN since 2007, graduated a Master's Degree in Law at CUP and obtained a Bachelor's Degree in Business Administration from WANLAN in Cambodia. He has more than 15 years of experience in microfinance by serving CCB NGO since 1994 as an office assistant. He was then transferred as Management Information System Assistant in late 1996, and later was promoted as a Deputy Branch Manager in 1998. In late 1999, he was again promoted as Branch Manager and later as Internal Audit Manager in 2003.

Finance Department

This department is responsible for making sure that funds of SPN are being managed well and used properly. This includes preparing financial reports as well as assisting and monitoring the performance of finance people (accountants, tellers and branch managers). The department is divided into six units: Financial Control, Treasury, Tax Declaration, Financial Management, Branches Reconciliation, and Daily Operational Accounting. At present, the Finance Department is assigned to supervise all head office operations.

Mr. Eap Bunthan, Finance Manager

Born on November 11, 1965, Mr. Bunthan earned a Master's Degree in Management from the Phnom Penh International University in Cambodia in 2007 and earned a Bachelor's Degree in Economic Science from the Economic Science Institute in Cambodia. He has over 19 years of experience in finance management. He began his career in finance management in the 1992, serving as the Credit Department Manager for CANADIA Bank, Ltd. In 1995, he worked for CARE International as a Credit Officer. In 1996, he became the Finance Manager of SEILANITHIH (NGO). He also worked for PRASAC CREDIT ASSOCIATION as Finance Director in 2002 and was transferred as Administration Director in 2004. He was employed by Sathapana, Ltd. as the organization's Finance Manager in 2006.

Internal Audit Department

This department is responsible for making sure that daily performance complies with the rules, regulations, and policies to help improve the business operation and reduce all kind of risks. The department has designed four teams to conduct regular internal audit based on the master plan and annual plan approved by audit committee each year. There are 17 full-time employees working under this department.

Mr. Song Davuth, IAM

Mr. Song Davuth graduated with a four-year degree in the field of accounting and finance in early 2000 at the National Institute of Management (now called National University of Management) and is currently pursuing a professional training course in Association of Chartered Certified Accountants ("ACCA"). He worked for KPMG Cambodia Ltd., a member firm of KPMG International, a Swiss association, for more than six years in auditing where he gained a substantial amount of experience in various industries and organizations. Mr. Davuth joined Sathapana, Ltd. as an internal audit manager on the October 1, 2007. His responsibilities include managing various activities of audit functions in order to help Sathapana, Ltd. accomplish its objectives by bringing an appropriate, systematic, and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The function departments' staff will need to increase consequently based on the growth of the company although SPN sees that there will be much training needed in order to build the capacity of the staff to be qualified with new business of commercial banking. There is a consideration to add new department functions (treasury department, branch office support department/operation department, and public relation department) in order to support the growing plans of the organization.

Branch Office

In addition to the department functions of the head office, Sathapana, Ltd. also assigns management to provincial and district branches. Sathapana, Ltd. defines its provincial and district branches as its distribution channel where clients can access the organization's services. This methodology is viewed as less risky compared to mobile banking services which serve clients at their door step in which the branch office considers to establish in the future when the market grows to a certain level of stability. Sathapana, Ltd. is gaining an advantage with this model and that is why Sathapana, Ltd. keeps expanding its branch network to gradually move closer to its clients. The function of the provincial and district branches is to sell products and services in the market including approving and disbursing loans and monitoring and controlling portfolio quality by ensuring on-time repayment. Branch offices are known as the front line for Sathapana, Ltd. business as well as the organization's profit centre. This is the most important part among all the functions within Sathapana, Ltd. The branch structure consists of a Branch Manager, District Branch Manager, Head Credit Officer, Credit Officer, Accountant, Cashier, Teller and support staff.

Each branch office is equipped with MIS to support effective management. The Point of Services (PoS) office (the place set for those far from any branch) was established for the clients' convenience and has one chief of PoS, one teller and a few credit officers. Sathapana, Ltd. currently operates within 17 provinces with a 42 branch offices and 5 PoS offices having a total of 922 fulltime employees. A branch manager has full managerial authority for all branch operations and manages within the operational policies, procedures and targets set by the head office. There is one or more district branch in each province and the provincial branch managers supervise the district branch managers. Depending on the scope of branch operations, each district branch has an average of 12 employees – one branch manager, one accountant, one cashier, one to two tellers, four to five credit officers and three to four support staff. Each branch, including district branches, submits monthly reports to the head office, including the loan portfolio reports and administrative financial activities and progress reports in the form of soft copy through an electronic network or in a flash drive. With the current integrated accounting system, MBWin allows each branch to easily generate its own financial statements monthly.

Partnerships

Poor entrepreneurial people are the key partners with whom CCB NGO and Sathapana, Ltd. have had strong partnership of trust since the very beginning. Sathapana, Ltd. could not develop into a leading MFI without the trust and support of its clients. Women run more than 70 percent of all microenterprises in Cambodia, but they still face socio-cultural and political discrimination as entrepreneurs, and employment opportunities remain limited for them. However, empowered with access to microfinance services at reasonable rates, their self-employment offers the opportunity for a better life and renewed confidence in their situations. Higher income for women as household financial managers has resulted in increased nutritional and welfare benefits for their children and other dependents within the family structure as well as better access to education for their children.

Sathapana, Ltd. is committed to networking and forming partnerships to achieve the common goal of promoting opportunities for entrepreneurial poor women. Its partnerships include the following:

GTZ supported CCB NGO as one of three MFIs to start microfinance operations in Kampong Thom Province in March 1997. GTZ also provided some technical assistance for the transformation process from mid-2001 until early 2004, including some co-financing with the Mekong Project Development Facility.

Mekong Project Development Facility (MPDF), administered by the IFC, supported Sathapana, Ltd. in its final transformation process in early December 2003 by providing technical assistance, capacity building and support in mobilizing equity investments and long-term borrowings.

Rural Development Bank (RDB), a government-owned bank, was the first creditor of Sathapana, Ltd. RDB has channeled different sources of funds to support the growth of Sathapana, Ltd. and eventually became the trust creditor to provide the organization access to commercial loans. Through RDB, in April 2001, the International Fund for Agricultural Development (IFAD) selected CCB NGO as one of the three MFIs to offer funding for microfinance services provided to farmers in the Siem Reap Province. It was the Asian Development Bank (ADB) that first provided a loan facility to the organization through RDB in July 2004 as well as in December 2006.

BlueOrchard (Dexia Fund), an international microfinance fund based in Switzerland, was the second creditor granting Sathapana, Ltd. a loan in June 2003.

Triodos Bank, a development-oriented bank based in the Netherlands was the third creditor that granted Sathapana, Ltd. a loan in August 2003 and continues to extend its loan facilities as needed.

Oikocredit, an international microfinance fund based in the Netherlands, the fourth creditor, granted Sathapana, Ltd. a loan in August 2003 and extended loans afterwards.

ShoreCap International Ltd., is a project of Shore Bank International and is based in the United States. They invested in registered capital together with a senior loan in December 2004.

ShoreCap Exchange, based in the United States, has provided Sathapana, Ltd. with technical support to improve the capacity of its management and staff since 2004.

Novib, a fund of Oxfam International, granted Sathapana, Ltd. a senior loan in 2005 and contributed some grant funds to share the costs of the new accounting software MicroBanker for Windows. Belgische Investeringsmaatschappu Voor Ontwikkelingslanden N.V./Sociate Belge d'Investissement Pour Les Pays en Developpement SA. granted Sathapana, Ltd. a senior loan in March 2005 and continued to provide loans in 2008.

FMO, Netherlandse Financierings Maatschppij voor Ontwikkelinslanden N.V. became a shareholder in 2006 together with a senior loan and continues to expand their loans to support the growth of Sathapana, Ltd.

Deutsche Bank. The Deutsche Bank (Cayman) Limited, through the Global Commercial Microfinance Consortium Ltd., signed a five-year loan agreement with Sathapana, Ltd. which was disbursed in 2007.

Global Microfinance Facility (GMF), registered in the Cayman Islands, head office in Lima, Peru, granted Sathapana, Ltd. a loan in 2007.

Symbiotic, Dual Return Fund SICAV, a société anonyme à capital variable organized and existing under the laws of Luxembourg, granted Sathapana, Ltd. a loan in 2007.

Developing World Market (DWM), based in United States, acquired partnership with Sathapana, Ltd. in 2007 and granted a loan in 2008.

NORFUND, based in Norway, acquired partnership in 2007 and granted Sathapana, Ltd. a loan in 2008.

ACLEDA Bank agreed to provide Sathapana, Ltd. a credit line in 2008.

2.7.11 Conclusion

Sathapana, Ltd.'s success was founded on four factors:

SPN's Management and Staff

SPN's management and staff have been working hard to apply professional microfinance into practice ever since the year 2000. Educating the market on how important the role of microfinance is in economic development, together with building good discipline in the area of microfinance, has created a good culture of the Cambodia microfinance sector.

Client's support

When the clients realized that microfinance service favoured economic development, they started to cooperate with SPN with honesty and loyalty. They understand very well that they have to manage well the loans they received and invest it properly in their business to assure that they can generate income to repay back SPN as scheduled.

Government support

The government support was seen mostly through the National Bank of Cambodia (NBC) that made proper regulations, awareness to the public and support from all the stakeholders.

Investors and creditors

The performance of SPN has not only gained the favour and trust of the international market but also has significantly improved the living standards of Cambodia as well. Through this, doors of opportunities were opened for capital investment, refinancing and technical assistance.

Part 3:

Microfinance Institutions in Selected Countries

3.1 The Evolution and Transformation of ASA

by Dr. K.M. Aminur Rashid, Director (Operations), ASA Bangladesh

3.1.1 A Glimpse to ASA

ASA is in the forefront among the NGOs working in Bangladesh and is one of the largest sustainable microfinance institutions (MFIs) in the world with a mission to 'create a lasting, positive change in the lives of the disadvantaged poor'. ASA is characterized as the 'fastest growing, cost-efficient, sustainable and best managed MFI' in the world.

In May 1978, ASA was founded by MD. Shafiqual Haque Choudhury, current ASA President. ASA started working as a development NGO. ASA's strategies are set in accordance with the philosophy of poverty alleviation and empowerment of the poor. It has started on a trial and error method of practice in close contract with grass roots people. After a long period of experimentation, ASA has concentrated on microfinancial services for economic empowerment of poor people, with special priority on women. The programs adopted by ASA are *savings, credit, insurance and ASA-NGO partnership program*.

By July 2010, ASA served 5.7 million poor with its 3,218 branch offices across Bangladesh with over US$500 million in loans outstanding. The recovery rate over the period remains more than 99 percent. ASA operation is not dependent on donor grants as sources of fund include a huge share of loan fund, which is 32 percent.

ASA has also developed and worked upon a strategy of expanding its financial services to the large numbers of poor through the involvement of small indigenous NGOs since 1995. The idea of involving other NGOs/MFIs working hand in hand in the microfinance arena is under the 'NGO partnership program', in which ASA is providing technical as well as financial support.

ASA believes that reducing poverty can be attained through teamwork. With about 23,000 employees, it has been on this mission for more than 30 years. Its amazing achievements were duly noted in the study materials of renowned authors, practitioners and partners such as CGAP, UNDP/UNCDF, Women's World Banking (WWB), Micro Finance Network (MFN), APDC, INAFI and CIRDAP.

ASA also expanded its responsibility to empower the poor in other countries. Hence, it began to render its services to other parts of the world. A total of 54 MFIs in the following 17 countries have received ASA's technical assistance: Afghanistan, Cambodia, Ethiopia, India, Indonesia, Jordan, Lao PDR, Mauritius, Myanmar, Nigeria, Peru, Pakistan, Philippines, Sri Lanka, Tajikistan, Vietnam and Yemen.

Moreover, ASA in tandem with Sequoia-Netherlands established ASA International, which is a private limited liability company, registered in Mauritius with US$125 million funds for equity investment in emerging MFI in Asia and Africa. ASAI is being managed by ASA, Bangladesh and Sequoia, Netherlands, with operational headquarters in Dhaka, Bangladesh. ASAI has a number of operational countries like Afghanistan, Cambodia, Ghana, India, Nigeria, Pakistan, Philippines and Sri Lanka.

3.1.2 Country context

The socio-economic condition of Bangladesh during the post-liberation period of 1971 was very deplorable. The overall situation of the war-devastated country was not suitable for nation building activities due to the prevailing instability in the political, social, economic and cultural fields.

As a result, most of the institutional resources could not reach the grass roots poor. On the other hand, the society's elite enjoyed the benefit through maintaining linkages with the people bestowed with the power to manage resources. This way, the means of production were controlled by the privileged group.

The rural society of the country is class stratified. The community development approach controlled by the elite failed to benefit the poor in the post-liberation period. The poor did not have any scope to participate in the decision-making process. Only the rich, upper and upper-middle class people had access to the institutional facilities hence their domination over the rural poor was institutionalized.

3.1.3 Development approach

Just after the liberation, the newly independent country needed huge infrastructural reconstruction, immediate relief and subsequent rehabilitation among the returnees. Both international and national NGOs played an important role during the period. The NGOs' work was visible and came to light prominently just after the liberation. They tapped cash and ideas from abroad, and attracted energetic and idealistic men and women locally. Many were keen to try out new ways of organizing and conscienticizing the rural poor guided by a secular, professionalized (and salaried) approach to project planning and implementation.

To complement the government's effort, NGOs working in the field of relief and rehabilitation also started to help the poor in their developmental efforts. The community development approach has been taken to solve the problem in implementing work in the rural areas. Here, the target group-formation approach, where the poor were organized for collective political or economic action, became popular.

Due to the multi-class composition in villages, the poor couldn't avail most of the services intended for them. NGOs have witnessed difficulties in reaching the poor, by-passing the traditional leaders who are rich in the villages. Benefits of development in the community are enjoyed by the rich. The poor again were deprived.

Along with the community development approach, subsequently cooperatives have been introduced for rural development. Cooperatives were formed by rich and poor. Ultimately leadership went to the economically better-off group; hence most benefits within cooperatives were also enjoyed by the rich.

Along with the cooperative approach, a sectoral approach for improving agriculture and fisheries was also tried with limited impact among the rich because of ownership problem.

3.1.4 Emergence of ASA

Through identification of the drawbacks of a hierarchical top-down approach and the constraints of the different development approach, the concerned social workers/development workers realized the need for a change in the traditional approach. They found it necessary to develop an alternative approach, which can ensure participation of the rural poor in the development process. They went on practicing a participatory approach through conflict strategy targeting the poor for their development.

Md. Shafiqual Haque Choudhury, founder and president of ASA, is the founder of the initiative which was given institutional shape in 1979, along with a few other fellow development workers from BRAC, CCDB and government.

Realizing the need of the day, the Association for Social Advancement (ASA) was formed in 1978 with the challenge to create an enabling environment to establish a just society. ASA analyzed the socio-economic condition of the poor and found out that the root cause of their misery was an unjust social structure, where poor are exploited by the rich and powerful. The exploitative mechanism is intrinsic to the social structure. Hence, without bringing a change in the situation no initiative of progress and development would come out more successfully. To change the situation it was essential to mobilize the poor and form their own organization at the grass roots for involvement in the development process and through promoting their participation in the socio-economic activities the desired objectives can be fulfilled.

The pledge

In March 1978, an unusual event occurred at a rest house in Manikganj district, west of Dhaka, the Bangladesh capital. One hot dry night, well after midnight, seven silent but excited young men approached and gathered in the garden. Each knelt and touched the earth with one hand, holding the other to his breast. They made a pledge, committing them to brotherhood and to a new form of organization to fight rural poverty. The short ritual marked the birth of ASA, the Association for Social Advancement.

Like many other thoughtful citizens of Bangladesh, a new country that had gained its independence only six and a half years earlier, they were disappointed by the new State's failure to establish justice and progress. Their late night debates had convinced them that not just the Government and the largely discredited political parties, but even the dynamic new NGOs were seriously flawed. Their bureaucratic structure, they believed, would render such organizations incapable of bringing about the kind of change that would propel Bangladesh into the progressive, egalitarian, exploitation free phase of development that, in their view, it so sorely needed.

The pledge was to develop an organization that would have its base in the country side, would recruit and train ordinary villagers rather than rely on the educated minority for staff, and would enjoy a shared, non-hierarchical leadership structure. It role would be to set off a process of rural change that would mature into a broad-based nation-wide political force that could take over the reins of power within a decade. Its uniqueness would lie in its democratic roots in the villages, where 80 percent of Bangladeshi lived, and its power would drive from its ability to express the real aspirations of the rural poor.

ASA: the biography of an NGO, Stuart Rutherford

3.1.5 ASA at its initial phase

During its initial formation ASA was managed by an eight-member Governing Body (GB) elected by the landless representatives and their sympathizers. The sympathizers of the landless were the volunteers. There was no salaried staff during the initial stage.

Ten volunteers were recruited from ten geographical locations. They reported to the GB of ASA, which was headed by its Chairman. The volunteer's job was to mobilize landless laborers into forming village level groups, along with an intermediary committee at union (lowest level local government structure) and thana (a local government level, next to union) level committee. The role of thana level committee was to guide the village committee through union level committee.

3.1.6 Philosophy and Vision of ASA

The vision of ASA was to create an enabling environment to establish a just society. ASA took up the concept of empowerment so that, being empowered, the powerless could resist oppression, injustices and establish their right of access to the institutional resources.

ASA also included the strategy of counter linkages in its concept of empowerment, which can stand against the linkages maintained by the influential section of the society with the powerful elite for protection of the exploitative mechanism. Through the counter linkages process, ASA aimed at developing an alternative communication network which started with awareness-based literacy.

ASA chalked out a long-term action plan and started working from the bottom level of society. It conceptualized that without creating its own organization through mobilization, a major achievement would not be fulfilled. ASA stressed the need for building peoples' organizations through mobilizing the landless rural poor. ASA intends to help create peoples' participation against various injustices and strives to establish their right through facilitating a continuous process of linkages among groups. A well-established communication network would lead the groups to be organized and turn into a collective force that resists injustice and protects their rights. Regular group meetings were held at night and all the group members were male.

3.1.7 Evolution and Transformation

ASA started working as a development non-governmental organization (NGO) in Bangladesh on May 1978. ASA geared to empower the oppressed through "peoples organizations." These organizations are mobilized for social action against exploitation and to fight social injustice through legal aid. The program's focus was on consciousness-raising and group organization for the poor. ASA later redesigned its strategies in accordance with its philosophy of poverty alleviation and empowerment of the poor. This brief account of the changes in its approach and programs will give a clear picture of how the organization reached its current mission.

Three distinctive phases can be identified in the transformation of ASA:

Foundation phase (1978-1984):

During this phase, ASA concentrated on building and strengthening peoples' organizations among the poor. The main activity of ASA was to organize the landless and the poor in establishing their rights.

The major streams of this phase were:

- **Conscientization/awareness-raising for social action**
  This program was designed for group members in order to achieve solidarity, awareness and identification of their position in the social structure to resist exploitation and protect their rights. Mobilization of landless labourers was done on the basis of issues. Village-based groups were formed. A weekly discussion forum was the means for planning, decision making, solidarity, etc. During this phase, members have taken social actions in the following areas:
  - Asserting rights to land;
  - Fighting structural injustices and gaining/increasing access into institutional resources;
  - Protecting their own legal rights and countering and challenging the rural elite;
  - Obtaining just/fair wages for their work; and
  - Participating in local government processes.
- **Awareness building of legal rights, supported by legal aid**
  Through this program, the target groups were motivated to launch group action against specific incidence of injustice. ASA facilitated the group members with publications, training materials, books, bulletins, etc. on legal rights. ASA also extended legal help to the victims by appointing lawyers for them. Legal aid committees at different levels were formed along with the lawyers and other professionals for helping the poor at the time of need.
- **Training for awareness as well as organizational and occupational skills**
  ASA considered training program as an effective tool for awareness and concretization build-up of the poor. It was expected that through training they would acquire the capability

to analyze the mechanism of exploitation and organize social action against all sorts of oppression. Through its training program ASA also strived to develop their human potentials and occupational skills.

- **Communication support service program**
  With a view to boost up its program of empowerment, ASA developed its communication support service program. A rural newspaper named 'ASA Barta' was first published by ASA in 1979. The objective was to provide the poor with information of current local and national events, to encourage their participation in the socio-economic development process and to ensure communication network building among the rural poor.

- **Training for rural journalists**
  ASA realized that the role of rural journalists could be made more effective through imparting training to them. It would create a positive impact on the program of empowerment. This aimed at creating awareness of the journalists about the rural power structure, motivating and creating the urge in them to find out the causes of poverty and other social problems and also promote solidarity among them to strengthen the struggle of the poor.

All of these programs were designed to make the poor conscious of their rights and enable them to take steps to stop social exploitation. Some examples of the actions taken by the groups mobilized by ASA include: initiatives to gain access to khas land (government-owned land); ensuring fair wages; and protecting the legal rights of the poor. Funding at this stage came from European donors such as Australian Council of Churches (ACC), HEKS, Switzerland, MISEREOR of Germany, Dutch Interchurch Aid (DIA) and CEBEMO of Holland. The Asian Partnership for Human Development (Australia) and the Australian Freedom from Hunger Campaign likewise sent funds.

During this period, ASA only organized men in the rural areas.

Impact of the foundation phase programs

Through implementation of the above mentioned programs for about six years, ASA was able to create a positive impact on the related fields of its intervention in 27 thanas among 50,000 members through 4,000 groups. During the time, ASA working areas witnessed a series of social actions against oppressions and violation of human rights. ASA succeeded to create a tremendous pressure on the existing exploitative mechanisms of the society. Being aware of their rights, the oppressed rural communities took the initiative for a change of the situation and involved themselves in the struggle for protection of their rights.

Limitations

Though the impact of this phase was found to be positive, but could not be made sustainable due to various constraints and limitations.

The social action program could not succeed in bringing long-term sustainability to the group members. The influential local elite after remain inactive for the time being due to collective group action, became active again. Powerful officials started harassment of ASA group members and kept them under constant pressure. But the group members failed to protect them from such oppression and injustice due to lack of financial solvency.

The poor are bound to sell their physical labour, local elite used to utilize this situation to exploit them through allowing a minimum wage. Due to collective pressure, the elite were compelled to pay relatively more wages. But the elite mobilized themselves and succeeded again to keep the situation under their control with the help of migrant labour. The group members did not have the ability to keep up their movement and resist permanently the penetration of low-wage laborers from outside.

As a consequence of their fragile socio-economic condition, the group members' attendance was reduced gradually, and ultimately such excessive drop-out created an alarming situation for the groups.

In summary, the programs have suffered from substantial limitations, notably the following:

- Because of their poverty, the groups could not retain possession of assets like khas land, ponds obtained from government;
- Once group members had successfully bargained for higher wages, the elite banded together and fought back using such measures as the importation of cheap migrant labour;
- The frequent natural calamities disrupted development activities and the huge inflow of emergency aid built up a relief mentality as well as financial gain among the members. They began to prefer the economic way of solving the problem rather than the long term conflicting way of solving it;
- Because of their weak financial base, members in the long term gave preference to IGAs over broader actions intended to change the social structure;
- Diseases and ill-health also stood as serious problem due to weak financial base. The poor had to remain busy for earning for survival and as a consequence, remained aloof;
- The idea of apex organizations, built up from and representing groups of the poor could not be sustained. Being poor, members entered these bodies with the expectation of personal gain and lost interest when this was not realized. Furthermore, the rural elite were suspicious of such bodies and became more hostile towards all NGOs activities because of them.

The transition to reformative phase programs

In 1985, ASA assessed the impact and limitations of its initial programs. The conclusion was that the impact of the programs was generally positive but could not be sustained. Another realization was that development could not be sustained without the economic emancipation of the poor. So an immediate need arose for integration of programs for sustainability along with change in implementation strategy.

In light of this analysis of the achievements and constraints, ASA adopted a revised approach.

Reformative phase (1985-1991):

From 1985, ASA decided to introduce an integrated approach which includes income generation, awareness education, health care, nutrition improvement, women's development, protection of environment destruction and ecological balance. For implementation of these programs ASA took up the strategy of socio-economic empowerment. Program focus shifts to the basic social branch-the family, recognizing the critical role of women must play in development. In this phase, development education pertaining to the everyday challenges of an impoverished household became a continuous process of empowerment through the tangible benefits of improved health, nutrition and sanitation.

This phase had the following program components:

– **Development education for empowerment program**

  Knowledge-of-life-centered issues were disseminated to make them aware of their rights so that they can protect their interests through collective group action and have access to institutional resources like health, nutrition, credit and other facilities.

  Inclusion of education on protection of environmental destruction and maintenance of ecological balance would benefit the rural poor in various ways. The knowledge would influence them to stop destruction of the environment through cutting trees, overgrazing cattle, overfishing, etc.

- **Credit for income generation for both collective and individual enterprises**
  This has been considered as an important component of empowerment in the integrated approach. Credit program is to facilitate income generation activities (IGA) to help create an enabling situation for the rural poor. Integration of other programs such as health, nutrition, environment etc. with credit would create a positive impact on their life through liberating themselves from the dependency of exploitative system of local moneylenders. This would bring a change in their life and enhance their socio-economic power.

- **Mini-irrigation program for landless and marginal farmers**
  ASA distributed Rower Pumps on credit, repayable through installments, among the marginal farmers. It aimed at creating self-employment opportunity of the poor and at increasing agricultural production that would help the marginal farmers improve their financial condition.

- **Women's development program**
  Women were recognized as partners in development and could take part in developmental activities as equal partners of men and contribute significantly to the effort for changing their socio-economic condition. Their integration and participation would facilitate the protection of women's rights, liberate them from traditional socio-economic bondage and enhance their economic emancipation. Emphasis was also given on the need for their leadership. Acceptance of their capability would ensure right protection through the removal of all social injustices like gender disparity, polygamy, dowry, physical humiliation and divorce. Participation with men in the decision-making process, women can contribute much to the efforts of establishing a just society.

- **Human development training**
  Training was regarded as a powerful instrument to empower the powerless. Through training, the poor became aware of their socio-economic situation. They developed skill to analyze the exploitative mechanism and became able to identify their friends and foes. Participation in need based training on various issues makes them capable of reacting against social injustice and protecting their rights. ASA undertook different types of training courses such as group management and leadership development to develop skills and capacity build-up.

- **Post-disaster management program**
  The occurrence of natural disasters and environmental destructions is frequent in Bangladesh. ASA extended its cooperation to the affected people through a relief and rehabilitation program, which included house reconstruction.

- **Health program, including primary health care, nutritional improvement and training of Traditional Birth Attendant (TBA) training**
  The integrated approach considers the health care and nutrition improvement components as complementary factors to achieve the desired objectives of ASA programs. Knowledge of health care and nutrition improvement would inspire the poor to maintain a good environment around them. It would also make them competent to keep themselves healthy, save on treatment cost, attain financial uplift and ensure their participation in socio-economic activities.

Although the new reformative approach gave special emphasis on economic activities, both for collective and individual enterprise, it also stressed the importance of social development aspect. The justification lay in the fact that the disadvantages would become socio-economically empowered and would counter act within the structural framework to get access to resources and thus succeed to overcome their disadvantaged position. ASA conceptualized that improvement of economic condition might lead people to take initiatives to solve other problems with enhanced income. It is expected that their combined effort can bring a fruitful result among the poor and ensure their better socio-economic status. This ultimately would lead the grass roots people to establish a just society.

Funding at this stage also came from HEKS, Switzerland, MISEREOR of Germany, Dutch Interchurch Aid (DIA) and CEBEMO of Holland.

Impact of the reformative phase programs

Reformative phase programs had succeeded in creating a remarkable impact on the grass roots communities through individual initiative in economic aspect and collective initiative in social aspect.

Limitations

Against the successes, ASA again assessed the constraints and found that its achievements had been impaired by three main factors, namely:

- Many ASA members left the organization to join other organizations/institutions because ASA could not meet their needs for credit for income-generation purposes;
- The development and implementation of integrated development programs took a long time for the preparation of group members, who in the meantime must wait (sometimes for years) to obtain credit, identified as their critical need;
- The absence of a minimum amount of credit for members led to uneven distribution, which meant that a few members could get large amounts while others got nothing.

Transition to Program Specialization Phase

After several years of involvement with the poor for their development, ASA as well as group members realized that their development is delayed. Many ASA members decided to leave ASA and join other NGO-MFIs which were providing full-scale credit for income generation. An integrated approach took much time for preparing the group members. Over and above this, there was no provision for a minimum standard amount for all group members. Several thousand group members waited for several years to get credit.

The peoples' desire prompted ASA staff members to consider the economic approach of development very seriously. The main justification for specialization is to achieve quicker result in an effective way.

In response to the assessment, ASA moved into its current phase.

Program specialization phase (1992 to date):

During the 1980s, the credit program became very popular and development practitioners became convinced that providing financial resources in the form of credit was an effective way to create self-employment, providing for income generation and poverty alleviation for the poor. Most NGOs introduced credit programs for accelerated development, but ASA lagged behind. Thousands of group members were asking for loans which ASA was unable to provide for several years. The members' demand for loans prompted ASA to review its approach. Since 1992, ASA has concentrated on a credit program to provide loans to members at a reasonable interest rate allowing clients to improve their standard of living. ASA also changed its strategy by becoming an organization for women from men.

ASA's cost-effective and sustainable microfinance model

ASA developed a model for implementation of savings and credit programs which provided quality financial services and meets the needs of its members. In 1995, ASA was successful in merging the concept of financial sustainability with empowerment through increasing the number of its disadvantaged women clients with quality financial services. At the same time, ASA was able to provide sustained service delivery by attaining financial viability as an organization.

Legal Status

ASA is an MFI, licensed by the Microfinance Regulatory Authority under the central bank of Bangladesh, and also registered as a company under the Societies Registration Act, XXI of 1860, Joint Stock Companies, Bangladesh.

Mission Statement

To support and strengthen the economy at the bottom by facilitating access to financial services for the poor

Objectives of ASA

The overall objective of ASA is to improve the quality of life of the poor, by facilitating, dispensing/ providing, expanding financial services that include but not limited to savings, credit, insurance, remittance etc.

Present programs under implementation

The following programs are under implementation:

Credit programs

- Small Loan (female)
- Small Business Loan
- Small Entrepreneur Loan
- Agribusiness Loan
- Education Loan
- Disaster Loan (interest free)

Insurance services

- Loan insurance
- Members (female) security fund (life insurance)
- Members (male) security fund (life insurance)

Microsavings program:

- Mandatory savings
- Voluntary savings
- Deposit scheme

ASA-NGO Partnership program:

In 1995, ASA implemented its NGO Partnership program. ASA's small NGO partners operate in remote areas of Bangladesh, and serve a client population that ASA itself currently does not reach. The objective of this program is to help small MF/NGOs become more efficient by providing them with skilled manpower, technical support and loan funds. Since the program's inception, more than 125 MF/NGOs have received training/technical support from ASA. ASA is able to use its experience to channel soft loan funds from major donors to its partner NGOs.

ASA currently has 30 partners which are involved in this program throughout the country. At the end of December 2009, they had received loan funds amounting to US$6.5 million. Total active borrowers of the partner NGOs were 89,471. Loans outstanding was US$8.09 million and their savings balance was US$2.34 million.

Financial Assistance Program:

ASA's financial assistance goes to institutions dealing with mentally and physically retarded children.

ASA also provides a lump sum financial support to clients who suffer serious illness like cancer, heart disease, kidney troubles and complicated surgical operation of various kinds.

ASA's Global Operation

CMI is a private equity microfinance fund that invests in and intends to build a diversified portfolio of emerging, high potential microfinance institutions in Asia and Africa. CMI has been formed by ASA and Sequoia (corporate finance and private equity specialists in Netherlands). Total equity for microfinance is US$125 million. Types of investors include pension funds (28 percent), investment funds (43 percent), private investors (18 percent) and investment managers (11 percent).

CMI established ASA International (ASAI), a private limited liability company, registered in Mauritius for equity investment in emerging MFI and managed by ASA, Bangladesh and Sequoia, Netherlands, with operational headquarters in Dhaka, Bangladesh.

ASAI has a number of operational countries like India, Sri Lanka, Afghanistan, Cambodia, Philippines, Pakistan, Ghana and Nigeria.

ASA Overseas TA

ASA provides technical assistance (TA) in implementing high-growth ASA Model mainly through establishing and operating model branches as well as upgrading the existing branches.

Types of TA included adjustments, implementation, exposure and staff visits to ASA, ASA model presentation, analysis and diagnosis of MFI performance, systems installation through hands-on demonstration (3 months to 3 years).

ASA has been providing TA, since 1993 with the help of HEKS-Switzerland, Save the Children (USA), Irish Aid, Asad, CORDAID, HIVOS, SIDBI, GTZ, UNCDF, UNDP, etc. A total of 54 MFIs in the following 17 countries have received ASA's TA: Afghanistan, Cambodia, Ethiopia, India, Indonesia, Jordan, Lao PDR, Mauritius, Myanmar, Nigeria, Peru, Pakistan, Philippines, Sri Lanka, Tajikistan, Vietnam and Yemen.

ASA Foundation International:

Many MFI in the world are willing to replicate the ASA cost-effective and sustainable microfinance model and this demand is increasing rapidly. But to get TA is, very often, tough. On the other hand, people of the other countries are also not well aware of the microfinance program.

To meet all these challenges, ASA Foundation International was established in September 2006. The Secretariat office is in New York, USA.

How ASA is Characterized?

ASA is characterized as ***Fastest Growing***, ***Cost-efficient***, ***Sustainable*** and ***Best Managed MFI*** in the World[1] .

[1] MICROSAVE/UNDP/CGAP Report and ADB Newsletter, June 2002.

Sources of fund (as at 2009)

- Own fund: 51.58 percent;
- Borrowed 34.11 percent of which 0.06 percent from PKSF, 20.04 percent from Members' savings, 8.86 percent from Security funds, 3.5 percent from commercial banks and 1.65 from ADB for agribusiness loan;
- Other 14.13 percent e.g., loan insurance, staff security deposit, debt management reserve etc. and
- CORDAID loan 0.17 percent for partnership program.

Reasons behind ASA's success

- ASA restructured and shed all other services to become a specialized microcredit NGO in 1992;
- It became obsessed with cost-efficient and sustainable microfinance with large outreach;
- It decided to shift from donor dependency to commercial borrowing for funding its operations; and
- Instead of following the traditional approach, ASA decided to go for microfinance in an innovative manner.

Success factors: innovations of ASA

- Specialization in microfinance;
- Simple, manageable and cost-effective branch structure;
- Highly decentralized system where necessary decision making authority is delegated at the branch level;
- Cost-effective staff recruitment and on-the-job training following an alternative approach "each one teach one";
- Simplified and easy accounting and record keeping, thereby eliminating the need for separate accountants and cashiers in the branches;
- Quick service, reduction of paper work and formalities;
- No group guarantee by the borrower;
- Well-written manual on operations, accounts, audit, etc.;
- Streamlined MIS and monitoring system;
- Cost-effective and lean mid- and senior-level management.
- Mobilization of local resources through savings and other products, thereby reducing donor dependency; and
- Sustainable and cost-efficient operation where branches are expected to cover costs in 9-12 months of operations.

Few words on ASA innovation

- ASA methodology is developed through learning by doing;
- Weakness is closely observed and remedial action devised;
- ASA mechanism and system is improved to be cost-effective;
- ASA judiciously combines the maximum level of delegation with the minimum level of discretion;
- Competitive interest rates were offered. Client makes the decisions and is offered options to choose from;

- Feedback from the field contributes to policy making;
- Group members are not financially responsible for others but act as a moral pressure group;
- ASA run like a client-responsive financial institution and revised the financial products based on feedback from clients and staff; and
- ASA's main strength lies on its specialized financial services.

Lessons from ASA operation[2]

- Sustainable and cost-efficient microfinance operation is a direct function of organizational architecture, operating system and institutional culture. It also requires a strong commitment by the management;
- The ASA model shows how tight cost control, emphasis on transaction costs, loan officer's productivity, and a lean administrative structure can efficiently deliver financial services to millions of poor clients; and
- It has systematically cut costs and avoided the fat of a top heavy organization.

Cost reducing factors

- Selection of staff and short duration (one month) on-the-job training based on "each-one-teach-one method";
- Branch office furnished with minimum, simple furniture and used collectively;
- Branch expenditure is structured and standardized. ASA has set a cost ceiling for all kinds of expenditures;
- Increase of active clients and portfolio per LO and a high-fund revolving rate minimizes fund requirement;
- Simple and easy operational system with effective supervision.
- Simplified and fewer accounts form without an accountant;
- There is no office assistant or night guard in the branches;
- Decentralized operation and management following a written manual;
- Reduced administrative overhead costs, all necessary decision-making power including fund management is delegated to the branch office;
- No expenditures for technical assistance;
- Provision of one mid-level supervisor for 7-9 branch without separate offices and secretarial staff;

Income increasing factors

- No group liability hence non-defaulters are getting loans;
- Quick expansion in new areas, fast group formation and high density of groups in working areas;
- Fast provision of the first loans to new members and immediate start of repayment;
- Strict control on weekly installments and promotion of savings mobilization;
- Mandatory savings allows predictable funds to be efficiently lent out;
- Quick information on default;
- Insurance to cover the repayment risk due to the death of borrowers;
- Flexibility in changing conditions to increase turnover and improve income; and
- Fund revolving and savings allow a branch to minimize halve of total fund requirements, which ensures availability of funds for quick disbursement.

[2] ADB Newsletter, June 2002.

Elements of effective and fast scaling up of ASA's program[3]

Fast scaling up is best understood as meeting unique challenges of effective organizational management that characterizes fast expanding programs. These relates to:

- Ensuring effective decision making by an ever expanding work force. The following features of ASA policies ensure effective decision making in the face of its fast expansion:
  - Minimize decision errors through minimal decision making load on new and less experienced employees by the reliance on simplified and standardized service procedures following written manual;
  - Simplified administrative and accounting approval and decision making process;
  - Unambiguous indicator-based performance review;
  - Quick and close-to-field problem solving; and
  - Responsive decision making.
- For managing organizational and staff learning, ASA employs the following four policies:
  - Minimize information carrying and analysis load;
  - Limited needs of complex group/institutional development skills;
  - Guided decision-making based on a manual; and
  - Officer presence in the field.
- Management of resource acquisition. Two of ASA policies are crucial in this regard, namely:
  - Strategic viability and positioning on the basis of cost-efficiency and not on novelty and
  - Tapping existing non-political institutional resources.
- Management of organizational development. Developing organizational capability in the form of technology, systems and culture, constitutes a great challenge in a fast expanding organization. ASA adopted a multi-pronged approach to organizational development that reduced demands of complex organizational development process.

  The following are the outline in this regard.
  - Absence of complex group development;
  - Start simple and grow elaborate;
  - Market competitive staff incentive policy; and
  - Insulating staff from social pressures.

ASA program policies can be seen as responses to effectively manage the above four demands of effective organizational management. These policies, thus, constitute a managerial agenda for scaling up in fast expanding programs.

ASA efficiency[4]

As one of the largest cost-effective and financially sustainable MFIs in the world, ASA's efficiencies are the fruits of its willingness to experiment with innovative and simple management systems and learn from the environment. The following table summarizes the key success factors along with the actions/process contributing to the success in improving efficiency.

[3] Managing Fast Expansion of Microcredit Programs, P.S. Jain.

[4] Reference: Customized performance reports, Microfinance Information Exchange (MIX), July 2003

#	Key success factors	Actions/process in each key factors
1	Clear mission, vision, and principles that guide and motivate.	Clearly defined and carefully formulated statements of mission, vision and principles
2	Strong leadership.	Dynamic leadership with a view to build responsive and competent decision-makers at all levels with responsive guidance from the top management.
3	Capacity to change, innovate and motivate.	During implementation of microfinance services, organizations may face various problems at different stages. In such cases, policy flexibility and modification is required. Feedback from the field level for problem identification and possible solutions should be the guiding principle of taking new policies or modifications. A flexible policy atmosphere, which allows for continuous improvements and adaptation to new situations, is the core of organizational development and dynamism as well that eventually improves the organizational capacity to change, innovate and motivate.
4	Specialization.	As an MFI, ASA concentrates only on providing financial services and thereby its operation doesn't mix up with other non-financial services. Moreover, ASA follows a single loan policy per client.
5	Targeting financial self-sufficiency with borrowed fund/capital.	Gradual decrease of dependency on grant for loan fund while at the same time gradual increase of borrowed fund in the loan fund. Cost-effective operation. Staff well aware about the source of loan fund, which constitutes the only income source of the organization.
6	Simple organization.	ASA's simple organizational set-up is represented by its two tier/layer office structure i.e., head/central office and branch office. Branch office is the centre of providing financial services. This represents ASA as one of the least hierarchical organization in the world.
7	Decentralized and standardized guided operation.	All sorts of administrative and program policies are documented in detail in a working manual, which is kept at each field office. All approvals per this manual are deemed as given requiring no reference to or permission from the higher authority i.e., delegation of administrative and program-related decision-making power to the field office.
8	Simplification and understandable as well as transparent operational procedures.	Simple and easily understandable methods in all aspects make ASA operation a transparent one, some of which are given hereunder: • Client selection and loan processing is simplified with nominal paper work focusing mainly on informal analysis through practical observation. • ASA follows a totally non-conventional and self-maintained accounting system and MIS with less paper work. • All formats are self-explanatory and designed to give a monitor like effect/ performance. • Simplicity and transparency is also ensured through the provision of working manual which clearly states all sorts of administrative discipline, job responsibility and approval levels along with the interpretation of policies, guidelines and procedures at all levels.
9	Cost-effective management.	Branch structure and expenditure is structured and standardized with a cost ceiling for all sorts of expenditure, all of which are stated in the manual that updated in every year. Branch office is used as an office-cum-residence. Collective utilization of resources and utilities. No secretarial staff and guard in the field office. Office-less and assistant-less mid-level management. Simplified and self-maintained accounting and MIS systems without provision for an accountant and MIS personnel.

#	Key success factors	Actions/process in each key factors
10	Effective organizational management that relate to: 10.1 Effective decision-making. 10.2 Managing organizational and staff learning. 10.3 Management of resource acquisition. 10.4 Management of organizational development	Minimize decision errors through minimal decision load on less experienced staff by the reliance on simplified and standardized service procedures. Simplified administrative and accounting approval and decision process. Unambiguous indicator-based performance review. Quick and close to field problem solving. Responsive, not participative decision-making. As its capital includes a large share of borrowed money, ASA's decision-making becomes self guided rather than guided by the donors. Minimize information carrying and analysis needs. Limited needs of complex group/institutional development skills. Guided decision-making based on a manual. Officers' presence in the field. Strategic viability and positioning on the basis of cost-efficiency, not on novelty. Tapping existing non-political institutional resources and alternative resources other than grants. Due to decentralization, field level managers can transfer fund from surplus to deficit areas in order to ensure efficient fund utilization. Absence of complex group development. Start simple and grow elaborate. Market competitive staff incentive policy.
11	Innovative middle management.	As ASA follows a two-tier office set-up, middle management in ASA is office less, residing in a middle unit in their jurisdiction. Besides, instead of getting and working with documents in the office, they supervise, checks, monitor and guides operation by visiting unit.
12	Decentralized and simplified staff recruitment procedures and short duration on-the-job staff training.	Staff recruitment process is decentralized at field-based mid-level. Staff selection process focuses on mediocre qualifications but potential for rigorous fieldwork. No written examination are taken for hiring rather hiring undergo through group interview by judging physical fitness, presentation, quick and appropriate response, attentiveness etc. Newly recruited staffs are undergoing a nine-day on-the-job training at the field office. Each new staff is assigned with an old credit officer for hands-on experience.
13	Adequate MIS to trace key performance indicators and help manage operations.	Simple and informative monthly MIS. Report received on time and is ready for the top management within third week of the month next to the reporting month.
14	Rigorous monitoring from the upper level.	As ASA's unit is the only center for providing its services, rest of the management is involved in monitoring rather than in implementation.

3.1.8 ASA's Position in Global Microfinance

FT Sustainable Banking Award under the Category of Banking at the Bottom of the Pyramid (2008)

The Financial Times and IFC have jointly awarded ASA with the "FT Sustainable Banking Award" for 2008 under the category of "Banking at the Bottom of the Pyramid", June 3, 2008. ASA has been selected for the award from 129 institutions across 54 countries. Judges observed "ASA model has been adopted by many different countries to achieve the best results within the shortest possible timeframe.

ASA, the Best MFI on Forbes List (2007)

ASA has topped the famous US-based magazines first-ever list of 50 top MFIs considering Scale, Efficiency, Risk and Returns. The top 50 MFIs were chosen out of 641 microcredit providers across the globe. Microfinance Information Exchange (MIX) has prepared the list as per the direction of Forbes. Bandhan (India) has been ranked second in the list. To mention, Bandhan has best taking ASA's TA since its inception

ASA's Position in Global Microfinance according to MIX Report of 2007 MIX Global 100

Among this year's large sample of 820 MFIs, only one, **ASA** in Bangladesh, managed to rank in six of the seven **MIX Global 100 MFI rankings by category**. The variables for each category are as follows:

Category	**Variable**
Outreach – Borrowers	Borrowers
Outreach – Depositors	Voluntary Depositors
Scale	Gross Loan Portfolio
Profitability	Return on Assets
Efficiency	Cost per Borrower/GNI per capita (ranked inversely)
Productivity	Borrowers/Staff Member
Portfolio Quality	Portfolio at Risk >30 days (ranked inversely)

ASA's Position in Global Microfinance according to *"2005 MIX Global 100: MFI League Table"*

ASA has been ranked as one of the best three MFIs in the world by "The Microfinance Information Exchange (MIX)", a USA based internationally recognized microfinance research institution. This declaration is published in MIX's report titled **"2005 MIX Global 100: MFI League Table"** presented in the Microcredit Summit 2006, held in Halifax, Canada from 12-15 November '06. The report is prepared from 512 MFIs of the world considering six areas of performances namely outreach, scale, profitability, efficiency, productivity and portfolio quality as well as consulting investors, researchers, donors, media, etc. worldwide. About 300 MFIs of the world have been placed in at least one of the six tables prepared for the best hundred. Almost 10 percent of the MFIs have appeared as leaders across four or more categories. Here, ASA has been placed in all the six categories with exceptionally best results.

3.1.9 Challenges and Opportunities

Despite its enormous success, ASA faces some uncertainties. There is concern that microfinance breakneck pace of growth along with the entry of small and medium sized NGO MFI may mean that the market for its core product, the small, generalized loan, is nearing saturation, raising questions about what will then happen to the industry as a whole. The core microfinance product is widely available throughout the country, through many hundreds of providers. Away from extremely remote areas, most households have at least two or three service providers. Multiple loan accounts may lead to sharply declining repayment rates as borrowers became cavalier about the ease with which they could draw credit. There is also worry about unhealthy increase in indebtedness among users, as they borrow from one provider to repay the next.

Aware of the business risks if too many defaulted due to over indebtedness, but unequipped with any industry wide mechanism to curb growth, the NGO MFI have been indulging in a race to the cliff edge, with each organization determined to secure the largest possible share of the market before it starts to shrink.

Meanwhile, ASA has already on the way to develop a new market serving small business people as well as people with enterprises. ASA has already begun to work with a class of such client somewhat better off that the typical core product group member. ASA has been working with them as individuals, outside the framework of the group. ASA expects that lending to this class of people would not only help develop the microenterprise sector nationally, but would also create jobs for poorer workers.

3.1.10 Future Direction

The future direction of ASA would likely to center around the following three issues.

- ASA's pledge to go on supplying a high-quality general savings and loan service to its millions of poor group members will continue with the same level of importance as before and will continue put efforts to improve its range and quality.
- ASA will harness its talent for creating cost-effective reliable basic services to develop small business lending for hundreds of thousands of potential new clients.
- ASA also promises to export its skills and its services on a large scale to millions of poor people abroad.

3.2 Microfinance in India: The Experiences of the Small Industries Development Bank of India (SIDBI)

by Ms. Sumita Chowdhury, Assistant General Manager, SIDBI

3.2.1 Parts and Parcel

Increasing disparity between the rich and the poor is a stark reality of the global economy. What is worse, the contrast is ever widening. The affluent in both developed and developing countries enjoy privileged and comfortable lifestyles; while the world's poorest live in severe deprivation. World Bank estimates peg the number of people living in abject poverty, in the developing world, at a staggering 1.4 billion. It is estimated that women account for approximately half of the world's population and over two-thirds of the world's poorest people. Poverty across the world has a predominantly female face.

However, the silver lining to this global poverty scenario, consisting predominantly of women, is their willingness to pull themselves out of poverty, if given access to basic economic inputs in an enabling environment. This truism has led to the birth of microfinance for the poor across the world and has emerged as a powerful tool in the struggle to end poverty and economic dependence.

Microfinance refers to small savings, credit and insurance services extended to socially and economically disadvantaged sections of society. In the Indian context, terms like "small and marginal farmers", "rural artisans" and "economically weaker sections", "unorganized sector" have been used to broadly define microfinance customers. It is also defined as "provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas, for enabling them to raise their income levels and improve living standards."

Microfinance has not only helped the poor in improving their livelihoods and reducing their vulnerability but also has a significant positive impact on their economic and social empowerment, in terms of their ability to develop savings habit, access loans, own productive resources, engage in income generating activities, decision making and increased mobility.

The microfinance industry, as it is now referred globally, is striving to achieve the twin objectives: that of enabling the poor to generate additional income and savings to eventually move out of poverty and also to run the business of microfinance on commercially sustainable basis.

Microfinance in India – A historical perspective

In India, the concern for poverty alleviation has always been high on the agenda of policy makers. With nearly a third of the population below the poverty line, the Government has, over the past fifty years, initiated a number of steps in this direction. It created an extensive banking network, much of which was state-owned or controlled. These included public sector banks, regional rural banks and cooperative banks with a vast network catering to millions of small borrowers and depositors. At the same time, several wage and self-employment programs were introduced by the Government of India to provide financial assistance, at affordable cost, to the poor and disadvantaged. However, given the logistics in terms of the size of the nation, these institutions/programs have not been able to deliver financial services to the poor, both, in terms of outreach and sustainability of operations.

In response to the inadequacy of the formal financial institutions to meet the credit needs of the poor and non-availability of other financial services, an alternative financial services delivery mechanism started emerging in the villages and small towns of the country. The microfinance programs initiated by local NGOs started providing financial and non-financial support to the poor in an effort to lift them out of poverty. Over a period of time, these NGOs have grown to become MFIs and have created financial technologies that serve increasing numbers of the poor and sustain loan repayment rates that are not only competitive compared with traditional sources, but also offer profits without subsidies.

Microfinance institutions and financial inclusion

In the whole gamut of "inclusive growth" process, financial inclusion constitutes an important founding pillar to reach out to "excluded" sections of the society. Financial inclusion denotes delivery of financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups. The various financial services include credit, savings, insurance and payments and remittance facilities. The objective of financial inclusion is to extend the scope of such services in the organized financial system to include within its ambit people with low incomes.

Though the banks in India have adopted several facilitating measures with a view to promoting financial inclusion, the spread of banking facilities has been uneven in the country, throwing up challenge for achieving financial inclusion. In order to meet these challenges, the financial system witnessed the emergence of microfinance intermediaries, who over the years, through their dedicated assistance of microcredit, acquired "permission to speak" to the financially excluded groups in the unorganized, informal sector. Microfinance institutions (MFIs) play a significant role in facilitating inclusion, as they are uniquely positioned in reaching out to the rural poor. By virtue of their limited area of operation, they have a greater understanding of the issues specific to the rural poor, enjoy greater acceptability amongst the rural poor and have flexibility in operations, thus providing a level of comfort to their clientele. MFIs also played as catalysts in broadening the concept of microfinance, first from microcredit into microfinance, then into the concept of building entire financial systems that serve their poor and and low income population, viz., financial systems that are inclusive.

The microfinance sector in India has registered an impressive growth in the last few years. Much of the growth was led by microfinance institutions (MFIs), reducing cost ratios, improved financial performance and increasing efficiencies. The resultant decreasing interest rates to the clients along with increasing competition augured well for the competitive pricing scenario in the microfinance sector. However, this is an area which needs to be addressed further, particularly as the MFIs achieve substantial scales and because of increased use of technology to bring down the transaction costs. The bigger MFIs have also successfully raised equity at attractive premium, with a view to leveraging debt funds for upscaling and meeting their business plans and also to helping them get strategic inputs and insights into the international best practices.

3.2.2 SIDBI's Foray into Microfinance

Pilot phase

Since its inception in 1990, SIDBI under its mandate has been actively running several schemes and programs relating to the promotion and development of the MSME sector. Designed to address the weakness/constraints of the MSME sector at that point in time, the program focused on enterprise promotion, training and entrepreneurship development.

With small NGO-led microfinance interventions proving more effective than the formal financial sector as a tool for poverty alleviation, SIDBI launched the Microcredit Scheme in 1994 for extending financial support to the disadvantaged section of the society through well managed non-governmental organizations (NGOs). The NGOs were encouraged to on-lend to disadvantaged sections of the society with emphasis on women for setting up microenterprises.

Since the inception of SIDBI's Microcredit Scheme in 1994 till December 31, 1998, cumulative assistance of US$4.52 million (including grant) for meeting managerial costs was channelized through 132 NGOs across 23 States with a membership of over 139,000 rural poor-mainly women.

Though the pilot phase of the program contributed significantly in improving the standards of living of the poor and sensitizing the NGOs towards the efficacy and potential of microfinance in poverty elimination, it was noticed that besides procedural and operational problems, a number of assisted NGOs were ill-equipped in terms of size and absorption capacity to deal with large credit disbursements. This implied limited potential for growth of microcredit through these grass-root institutions. This was thus suggestive of making a major shift in focus from on-lending to a large number of NGOs – to building a select band of sustainable microfinance institutions.

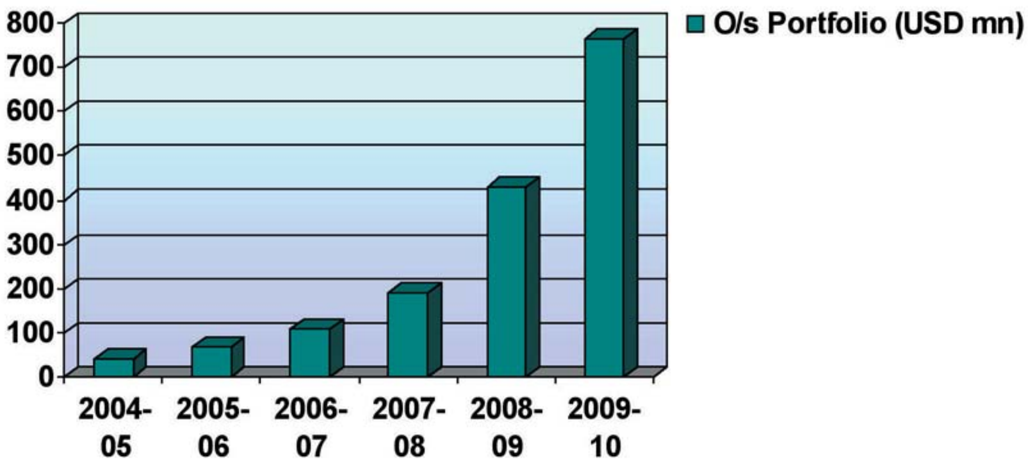
Launching of SFMC

In order to accelerate the process of financial inclusion, Small Industries Development Bank of India (SIDBI) had initiated microfinance activities by setting up of a dedicated department in 1999 called "SIDBI Foundation for Microcredit". The microcredit program of SIDBI is designed with the objective "*to create a national network of strong, viable and sustainable microfinance institutions for providing microfinance services to the economically disadvantaged people of India, especially women*" – a step towards financial inclusion.

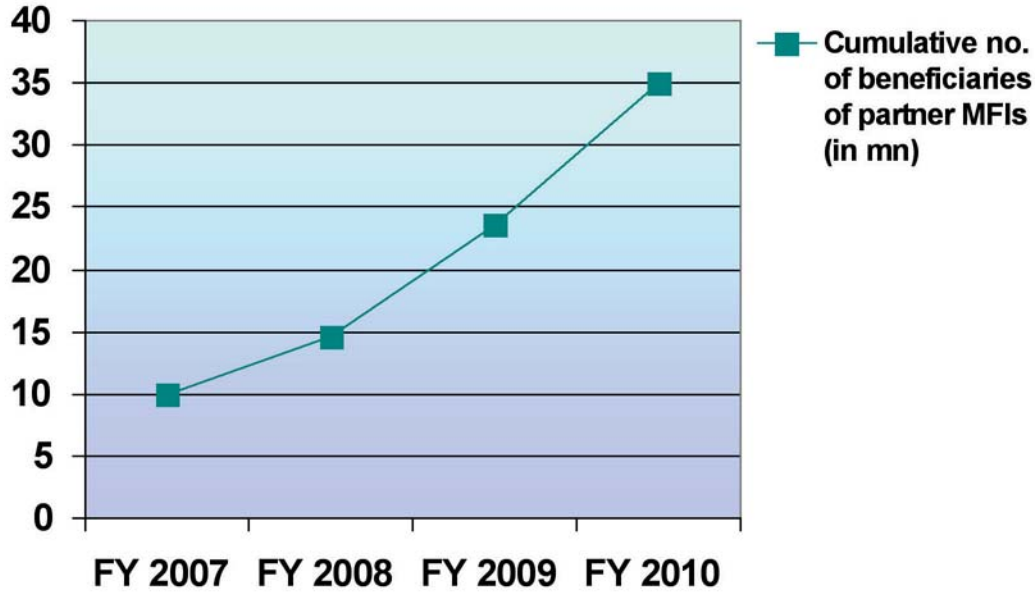
SIDBI provides microfinance services to the millions of poor in the country through a network of strong and vibrant financial intermediaries. SFMC also implemented the National Microfinance Support Project (NMFSP) in collaboration with the Government of India, the Department for International Development (DFID), UK and the International Fund for Agricultural Development (IFAD), Rome which was designed to address the lack of access to financial services by the poor in India and was expected to develop a more formal, extensive and effective microfinance sector on a national scale. The overall goal of NMFSP was to bring about substantial poverty elimination and reduced vulnerability in India amongst users of microfinance services, particularly women. It sought to make a contribution towards India's efforts of halving percentage of people in absolute poverty by 2015, by creation and expansion of microenterprises by poor people that would, in turn, lead to increased income and employment avenues as also increased assets of the poor.

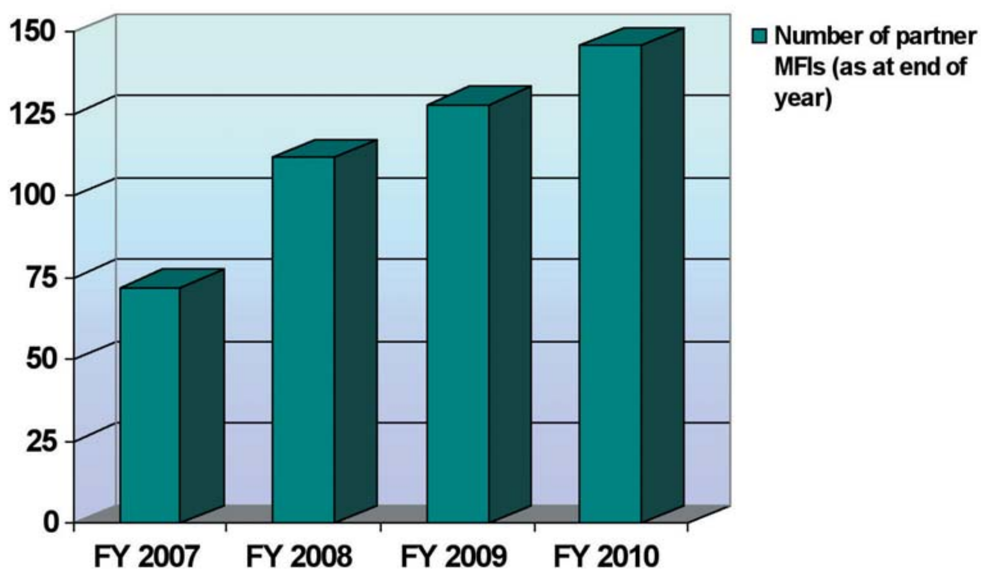
SFMC, with an outstanding portfolio of US$762.40 million as at the end of March 2010, has been able to create, develop and nurture a pool of about 150 partner MFIs representing a cross-section of organizational forms ranging from informal societies and trusts to the more formal and non-banking finance companies (NBFCs). The assistance through SIDBI's partners has benefited around 34 million disadvantaged people, most of them being women.

SIDBI's operational performance under microfinance



Cumulative no. of beneficiaries of partner MFIs (in million)





Developing microfinance sector – SIDBI's strategy

- Utilize existing grassroots institutions for channelizing credit;
- Institution building of MFIs by making them strong, formal, sustainable and responsive;
- Build access and capacity at grassroots level, instead of focusing on subsidies;
- Provide customized financial assistance and capacity building support;
- Encourage investment in microfinance by formal financial sector;
- Shift towards commercial sources of microfinance;
- Build favourable policy and regulatory framework to facilitate orderly growth;
- Nurture and equip financial intermediaries to deliver quality microfinance services; and
- Scientific appraisal instead of collateral – based lending;

Salient features of SIDBI's Microcredit Scheme

- Focus on poor, mainly women;
- Customized need based package of loan, grant and equity to partner MFIs to develop them into large and sustainable institutions;
- Capacity building of beneficiaries, MFIs and sector/training institutions;
- Capacity assessment rating and capacity building needs assessment (CBNA) prior to sanction; and
- Market-driven flexible approach for credit delivery with focus on financial sustainability.

3.2.3 The Product Range

Term loan for on-lending

SIDBI provides need-based assistance by way of term loans to partner MFIs on an annual basis for meeting their on-lending fund requirements. Loans to clients are provided for non-farm income generating activities, as also for construction of new dwelling units or for renovation and expansion. The partner MFIs represent a cross-section of organizational forms ranging from informal societies and trusts to the more formal and regulated non-banking finance companies (NBFCs), Section 25 companies, cooperative Societies/MACS and local area banks.

The assistance to MFIs is based on an independent capacity assessment rating (CAR) supplemented by in-house appraisal of financial, management and institutional aspects of the organization. CAR not only helps in assessing the creditworthiness of partner MFIs, but also enables the MFIs to get an insight into their strengths and weaknesses. SIDBI has also built in-house capabilities for rating of MFIs with technical support from ACCION, USA.

Microenterprise term loans

As a logical extension of microfinance, SIDBI has introduced a scheme to cater to the fund requirement of "the missing middle sector" – borrowers who are graduating from microfinance to microenterprises-both through direct lending and also through a network of financial intermediaries. Besides offering livelihood opportunities for the poor, the microenterprise sector has the potential for large-scale employment generation.

Transformation loan

Based on the evolution pattern of the MFIs and their emerging requirements, SIDBI has also provided transformation loans (TL) to its partner MFIs that were in the process of transforming their existing structure into a more formal and regulated set-up for exclusively handling microfinance operations in a focused manner. Being quasi-equity in nature, TL helped the MFIs in enhancing their equity base, in leveraging loan funds and expanding their micocredit operations on a sustainable basis. The product has the feature of conversion into equity after a specified period of time subject to the MFI attaining certain structural, operational and financial benchmarks. This non-interest bearing support has facilitated young but well performing MFIs to attract long-term institutional investments and acted as a constant incentive to transform themselves into formal and regulated entities.

Equity support

Keeping in view the need of the sector for equity capital for scaling up operations, SIDBI set up a US$200 million fund christened as 'SIDBI Growth Fund for MFIs' (SGF-MFIs)'. The fund makes equity investment in well-managed corporate MFIs that demonstrate the potential to scale up and generate returns. The fund also makes investments in the form of quasi-equity or mezzanine finance in medium rung non-corporate and start-up institutions which need funds for scaling up and can consider resource support to private equity (PE) funds for equity investments in Indian MFIs.

Capacity Building of MFIs

The program is perceived as a "credit plus" program in the sense that it does not restrict itself to funding alone. Ensuring sustainability of the entire sector is the main objective of the program, which is why need-based capacity building support has been provided to the MFIs for building their own capacities as well as those of the end-users. The package for MFIs is designed based on a diagnostic and intensive study of their capacity needs and includes support towards strengthening of HR and corporate governance, MIS and automation, development of strong credit delivery and monitoring systems, mentoring, documentation, etc. Besides the normal capacity building package to MFIs, SIDBI also offers a flexible capacity building (CB) product termed as 'Flexi-CB.' The support provides flexibility to the partners to design their own CB package, based on their immediate requirement.

Capacity building of the sector

With a view to developing the sector, SIDBI has laid great emphasis on building capacities of other stakeholders such as training institutions, consultants, technical service providers and microfinance networks, besides providing innovations and advocating appropriate regulatory and policy framework for the sector.

3.2.4 Development of the underserved areas

While the microfinance culture has been well entrenched in the four southern States of India, the other States continue to lag behind in the development of microfinance interventions. These lagging States have, therefore, been accorded special focus by the Bank since 2005 for development of microfinance.

One of the major strategies adopted by the Bank to address the issue is to induce the leading and well-performing MFIs from the developed Southern States to expand their operations in the north, east, and central parts of the country. Need-based support, both by way of loans and grants, has been provided to the MFIs for meeting their on-lending requirements and part of their cost associated with expansion such as branch infrastructure, MIS, information and communication technology and professional human resources.

Another approach in this direction involves incubation of new start-up MFIs promoted by first-generation development/microfinance professionals. The incubation support is either given through well-reputed management institutes or through institutions specializing in capacity building and technical support services. A large number of MFIs are being incubated in the underserved States through such programs.

As a result of the above efforts, the outstanding portfolio of the Bank in the underserved States as of March 31, 2010 was US$216 million – it being 28 percent of the total outstanding portfolio. This excludes the lending activities, in the underserved areas (as enumerated above), of the MFIs located in southern states. The total number of MFI partners in the underserved areas stood at 81.

3.2.5 Impact of SIDBI's Microfinance Program

SIDBI commissioned a seven-year impact assessment study to assess, on a national scale, the development impact of MFI program in relation to different product design and delivery system. The longitudinal socio-economic research study, conducted in two stages, covered a sample of 25 microfinance institutions across the country covering diverse credit delivery models. The study attempted to answer key questions such as profile of the microfinance clients being served by microfinance, use and access of microcredit, contribution of microfinance to enterprise growth and incomes, contribution of microfinance to different dimensions of poverty reduction and vulnerability and women empowerment. The findings indicated that most of the hypotheses stand supported.

The findings of the study established that the microfinance program of SIDBI has made perceptible impact on the lives of client households and has also helped in achieving the Millenium Development Goals. The program has, to a considerable extent, been able to fulfill its mandate of helping the poor, particularly women, in achieving a better standard of living by providing them easy access to credit to start/expand income generating activities of their choice and to reduce dependence on casual labour. Apart from poverty reduction, which was evident from the overall improvement in the household wealth, the program has helped inculcate the savings habit in end clients. Women empowerment was yet another significant achievement, helping in building self-confidence, ownership of assets, management of activities and participation of women in decision making. All this, without any significant cost to the state exchequer, as most of the activities are now being funded by commercial sources with focus on self-sustainability in the long run.

Impact Assessment Study – Snapshot of Findings

1. Base line sample: – 4,920 client and 1,772 non-client households.
2. End line sample: – 3,253 client and 1,257 non-client households.

Outreach

Microfinance is an effective strategy for extending financial services to the poor and other disadvantaged groups not reached by formal sector finance.

1. Two-thirds of the sample households belonged to rural areas
2. 80 percent of clients were women
3. Less than 10 percent of the sample clients had access to formal sources of credit and 15 percent had access to formal saving.
4. Non-farm activities were the main occupation for 39 percent of the sample

Microfinance services – access, contribution and use

There is an overall improvement in access and use of MFI loans but not of other services.

1. Savings under MFI program experienced a setback as its share in total savings went down in the end line (from 21.9 percent to 13.4 percent)
2. Availing of loan from MFI went up in end line (overall 66.7 percent to 77.5 percent) across all wealth categories but the increase is more visible for the 'very poor' category.
3. Direct investment occupied major share in MFI loan use pattern.
4. The next important expenditure out of microcredit was for risk needs.

Microfinance and enterprises

Microfinance increases enterprise activities

1. Proportion of enterprises with microcredit support went up from 42.7 percent to 44.7 percent in end line for client households.
2. Non-farm activities were pursued by 86 percent of individual banking clients and 60 percent of Grameen clients in the end line.

3. Microcredit supported non-farm activities were, emerging as the main and secondary income source for an increased proportion of client households.
4. Microcredit had thus provided not only increased employment opportunities to underemployed family members but also had a spill over effect of creating demand of hired labour.

Microfinance and income related effects

Microfinance contributes to improvement in income related aspects

1. All children (below 14 years) of 57 percent of the households were going for school education.
2. Sixty-five percent of the female children were going to school.
3. Proportion of households with multiple sources of income improved between base line and end line in ‘very poor’ and ‘poor’ categories.
4. Employment pattern of clients showed a shift from casual labour to other activities.
5. Between base line and end line, the proportion of households in the ‘very poor’ and ‘poor’ categories declined and those in ‘borderline, ‘self-sufficient’ and ‘surplus’ categories went up. This brought out, on overall basis, positive impact of microfinance in reducing poverty of various categories of clients and their shift to higher wealth ranks.

Microfinance and vulnerability

Microfinance builds capacity of vulnerable households to manage risks

1. MFIs could build up the resilience of the vulnerable households by enabling them to pursue multiple income sources and acquiring productive assets.
2. Proportion of client households’ borrowing in risk situations from MFI decreased sharply from 47.1 percent to 29.6 percent between base line and end line
3. With increasing support from the MFIs for risk borrowing, the dependence of client households on costly informal sources (CIS) (e.g. moneylenders) went down from 36.5 percent to 23.9 percent between base line and end line

Microfinance and women’s empowerment

Microfinance contributes to women’s empowerment

1. Share of women’s savings in total household savings was 28.1 percent as against 18.8 percent for non-clients.
2. Women with economic activity as main occupation as a proportion of total women stood at 64.9 percent.
3. Dominance of men in the matter of ownership of assets came down and joint ownership of asset gained importance.

Socio-economic effects of MFI assistance

Microfinance brings about overall improvement in Socio-economic Status of clients

1. MFIs with lower coverage of poor had higher level of average income.
2. Improvement in the diet was more noticeable among client households with longer association with the MFIs than among those with shorter association.

3. Proportion of client households having treatment at private hospitals increased sharply at the expense of government hospitals.
4. Proportion of households reporting insufficient employment declined marginally, but came down distinctly among 'very poor' and 'poor' households.

Others

Microfinance improves the terms, conditions and accessibility of other financial services

1. Proportion of client households holding formal savings accounts went up from 30 percent in the base line to 32.7 percent in end line.
2. Proportion of clients borrowing from formal sector increased from 7.2 percent to 8.6 percent.
3. In areas where the MFIs' intervention was strong or where the SHG-Bank Linkage movement gained momentum, the demand for loans from them came down and the rates of interest in the informal market declined.

3.2.6 Partners in Development

To supplement its resources for financing the sector, the Bank had collaborated with Government of India, Department for International Development (DFID), U.K. and International Fund for Agricultural Development (IFAD), Rome for its microfinance program. The IFAD collaboration provided low-cost funds for on-lending to MFIs. The DFID funds have been utilized for capacity building of the sector.

In December 2009, SIDBI had signed an agreement with KfW, Germany for a Line of Credit of Euro 85 million and financial contribution of EUR1.69 million for improving access to microfinance products in India among the poor, particularly women.

Another line of credit of US$300 million has since been negotiated with the World Bank with a view to increase access to finance particularly the underserved areas of the country. The financing linked to Responsible Finance initiative in the project would help improve management, governance, operational practices and disclosure.

SIDBI has also entered into collaboration with the Asian Development Bank for a funding support of US$50 million for upscaling microfinance and microenterprise lending. The project aims at bridging the gap between the demand and supply of financial services for the enterprises that have become too large to tap traditional microfinance but are unable to access conventional bank funds – the so-called 'missing middle sector' of MSMEs.

Thus, the entire funding of this sector by SIDBI is through its commercial borrowings from multilateral lenders/domestic borrowings/internal generation. The vast potential of the sector, coupled with the underlying potential for poverty alleviation has ensured the continued support of international funders/ donors to the sector

3.2.7 Indian Microfinance Sector-Challenges

Originally a small-scale, philanthropic movement to provide credit to the neediest, microfinance has grown enormously in recent years and is now firmly established as a major supplier of a wide range of financial services to millions of people around the world. The sector is also undergoing profound structural changes. Its success has attracted outside investment, fuelling rapid expansion. Convergence is also occurring between MF and mainstream banking as MFIs grow in size and sophistication, and commercial banks enter the market. These trends have not only boosted the dimension and quality of the MF sector, but also created new pressures of competition and sharper expectations which must be addressed with the legal and regulatory framework, transparency and fair practices, ownership structures and corporate governance, institutional and operational capacity, sustainability of operations etc.

3.2.8 Need for transformation and role of PE players

Most of the NGO MFIs had initial funds as grants to be revolved for further lending. Some of them gained large client outreach and became sustainable within a short span of time. However, to grow further and reach more number of poor they needed equity funds and access to debt funds. Commercial investors would not be ready to invest in entities that cannot share profits. This created a need for the 'not for profit' entities to transform their legal structure to a more regulated form suited for capital infusion.

Worldwide, several NGO-MFIs have transformed themselves into 'for profit' regulated entities to achieve higher growth. For instance, Caja Los Andes, a microfinance organization in Bolivia, increased its loan portfolio from US$4.2 million to US$732 million in two years after transformation into a commercial finance company. In India also, there are instances where the MFIs substantially increased their outreach and portfolio within a short span after transformation to NBFCs, by infusion of commercial capital from private equity funds.

The prime reason for the NGO MFIs to transform to a regulated entity is its potential to attract capital. As donor funds become scarce, access to other forms of capital assumes importance for future growth. A regulated entity facilitates access to capital, primarily due to the following reasons:

1. Availability of debt funds: Difficulty in determining ownership of the NGO MFIs makes banks uncomfortable in lending large sums, resulting in lower leveraging capacity.
2. Availability of equity funds: NGO MFIs are not allowed to distribute their surplus to their members, which makes them unattractive to private investors.
3. Improved transparency and efficiency: Regulated financial entities are more transparent with reporting norms as required by Company Law and RBI. Thus, support mechanisms like accounting and reporting systems, resources management, HR policies are also upgraded and finetuned to address credit and other risks and bring in more accountability.

Microfinance being an emerging sector, equity valuation of the MFIs is difficult, mainly because of the shorter track record of institutional finance and lack of comparative data on values, sometimes leading to unrealistic valuations. The situation is not as grim as it appears as there are some social investors as well (viz. Dia Vikas, Dell Foundation, Vinod Khosla) who remain with the MFIs for longer periods, bring international best practices to the board room and look for only conservation of capital. The more commercial PE players are also exhibiting patience and are willing to shoulder responsibility along with the promoter in running the organization on professional terms.

There has been a fear that the PE players would continue to drive the interest rates to maximize the returns on investment. However, there is a view that with the professionalism that these investors bring to the MFIs and by leveraging technology, the operational costs are bound to come down. As the volume of operations increases, and MFIs assume economies of scale, the incremental cost of lending also stabilizes. Higher capitalization, enhanced efficiency and professional management would also enable the MFIs to contract debt at competitive rates. This would result in lowering financial costs as well. Growing competition in the sector would also drive the interest rates southwards.

Further, the Central Bank's initiative on Business Correspondents/Business Facilitators would help the commercial banks to reach out to the rural poor and other marginalized segments of the society. This, coupled with the freeing of interest rates, would incentivise the formal financial institutions to take up the cause of financial inclusion in real earnest. Once the banks enter the microfinance sector, they would be the biggest competitors for the MFIs, which would ultimately lead to further lowering of cost of borrowing for the poor.

Perceived high interest rates

Interest rates charged in the microfinance sector are a function of two factors viz., absence of lower cost alternatives and the relatively high cost of providing microfinance services. Surveys of informal money lenders around the world typically come up with effective rates of 10-30 percent per month (120-360 percent per annum) or more. Often the loans extended by these moneylenders are very short term (a day or a week) and thus the actual rate of interest may be very difficult for a borrower to determine. The most expensive microfinance loans rarely reach the lower end of interest rates range charged by money lenders.

Worldwide, majority of MFIs charge effective annual interest rates of 25-45 percent. Interest rates are as high as 50 percent to 70 percent per annum in some Latin American and East European countries. Nearer home, it has been SIDBI's experience that the Indian MFIs normally charge in the range of 20 percent to 30 percent. In case of any anomaly observed, SIDBI has been urging the partner MFIs to bring down their effective rate to reasonable levels and as per industry standards. Further assistance to such MFIs is linked to their agreeing to bring down the rate of interest within a stipulate time frame.

Indian microfinance on-lending rates are amongst one of the lowest in the world, except those of countries like Bangladesh and Nepal. In these countries, MFIs are allowed to raise deposits from their members, a move which significantly brings down their costs, and hence, their on-lending interest rates. Deposits in Bangladesh constitute as high as 80 percent of the various sources of funds for the MFIs.

Even these, comparatively, lower rates raise two questions: how the poor can pay such rates and why should they pay more than better off borrowers? Small borrowers are able to pay the rate charged by the MFIs because the impact on their productivity of a small amount of capital is large and the relative burden of a high interest rate on this small amount of capital is low. There is abundant proof that poor people's tiny businesses can often pay high interest rates that may strangle a large business.

It has been observed that the rate of return generally decreases as the scale of investment increases. To illustrate, a rickshaw puller can earn a higher percentage return on his investment in the rickshaw than a taxi driver can earn on his car and a tailor can earn a larger proportionate return on the cost of her sewing machine than an entrepreneur can make on his investment in garment factory. Most MFIs, however, are not in the business of financing taxis or garment factories. Their high interest rates and demands for group memberships, regular meetings etc., discourage larger borrowers from using their services and thus protect them from client or mission drift towards higher income clients and larger loans.

SIDBI has been addressing concerns like transaction cost of MFIs, transparency in dealing with poor clients, effective cost of credit to clients etc. through its policy instruments. SIDBI endeavors to promote efficiency in MFIs so as the cost reduction could be passed on to the clients in terms of lower rates of interest. While providing assistance to MFIs, SIDBI stipulates that the MFIs should be transparent with respect to interest rates and other costs charged and effective cost of credit to the borrowers with an emphasis on self-governance and self-regulation by individual MFIs.

As regards interest rates, there has been an ever-growing debate of whether the interest rates should be regulated or whether there should be a cap on the on-lending rates of MFIs.

One must look at the experience of other countries that have tried to impose interest rate caps and perhaps learn lessons from them. Governments of several developing nations have used mandatory interest rate ceilings to address these kinds of concerns. However, the experience is that these caps often hurt rather than protect the most vulnerable by shrinking poor people's access to financial services. Interest rate ceilings make it difficult or impossible for formal and semi-formal MFIs to cover their costs, driving them out of the market (or keeping them from entering in the first place). Poor clients are either left with no access to financial services or must revert to informal credit markets (such as local moneylenders), which are even more expensive. Ceilings can also lead to less transparency about the costs of credit, as lenders cope with interest rate caps by adding/levying several types of fees/charges with various nomenclatures. Although interest rate ceilings do not have the desired effect, concerns about the high costs of microfinance and predatory lending practices still remain valid.

A CGAP study found that competition is the one of the most effective ways to reduce both microcredit costs and interest rates. Policies to promote competition among credit providers, combined with relevant consumer protection measures like truth-in-lending laws, can go a long way toward expanding the reach of sustainable microcredit while safeguarding consumer interests.

In Bolivia, for example, which has had a highly competitive microfinance market from the very beginning, there has been a sustained decline in microcredit interest rates over the past decade. On the contrary, in countries such as Bangladesh, which are also considered competitive, the interest rates had remained largely stagnant at 15 percent p.a. flat for many years and have only recently come down. The State-owned apex institution PKSF has, however, capped on-lending interest rates for its MFI clients at 12.5 percent flat.

It is very often argued that clients are more concerned with the timely availability of credit rather than pricing of loans. However, there is mounting evidence from the other countries which shows that price is beginning to matter more now to borrowers, even if it did not matter before. Awareness of and sensitivity to interest rates is likely to increase over time as microfinance clients become more experienced, sophisticated borrowers — a phenomenon that is already apparent in Bolivia. Likewise, interest rate sensitivity is likely to increase as clients become more literate and educated. These underlying shifts in client preferences means MFIs will need to pay more attention to their pricing in the future.

It is felt that the issue of interest rates could be best addressed by adopting policies such as: –

1. Standardized disclosure of interest rates, which would facilitate easier and fairer price comparison;
2. Requiring transparent, comparable pricing by providers;
3. Promoting consumer financial literacy;
4. Collecting and assessing credible market-level information; and
5. Developing reliable consumer credit bureaus to allow borrowers to build a good credit record that is accessible to competing lenders.

Absence of supervisory or regulatory norm for MFIs

Absence of a proper regulatory framework and supervision mechanism for the sector is a major hindrance that is constraining the growth of the sector. The need for regulation and supervision of NGO MFIs arises from several considerations like protecting the interest of the small savers, ensuring proper terms of credit and financial discipline, proper reporting system as also for their orderly development.

The need for regulation is all the more emphasized as the volume of financial transactions of the MFIs has been growing rapidly during the last 2-3 years and some of them have been mobilizing thrift/savings from their members as an integral part of their credit methodology.

It is expected that the proposed MF Bill would help to put in place a suitable regulatory mechanism.

Corporate Governance

The key risks of microfinance sector today appear to be growing competition as new players enter the industry and management quality/corporate governance.

Managing an efficient microcredit program requires, *interalia*, knowledge of financial management and efficient information systems. The sector presently does not have many experienced and professionally qualified personnel to manage such programs. There is a lack of experts and professionals who could be inducted on the Boards of MFIs so as to provide strategic direction in managing the program on acommercial and sustainable basis.

Keeping in view the huge growth in portfolio, client protection etc., need for having proper corporate governance is imperative. It is important that Board members must be independent from the MFI and be chosen for their professional expertise. Having a Board with members drawn from diverse fields would not only help them in getting more professional and strategic inputs but would also lend credibility to their entire set-up. It is in this area that the private equity players bring international experience and global best practices into the board room of the MFIs. Good governance gives confidence to shareholders, donors, governments, regulators and lenders that managers are being appropriately supervised.

Transparent and fair practices

Given the phenomenal growth rates, it should come as no surprise that Indian MFIs eagerly report their impressive outreach figures – rising numbers of borrowers, greater loan volumes, ever expanding geographic penetration. However, outside a small number of leading Indian MFIs, few institutions follow rigorous accounting and reporting procedures based on international standards resulting in Transparency Deficit.

The four most commonly cited sources of weak MFI financial transparency are portfolio quality reporting, loan loss provisioning, donation accounting, and loan liability accounting.

Accounting for portfolio quality involves, among other things, defining and processing overdue loans, write-offs, and refinanced or rescheduled loans. Given the link between portfolio health and institutional health, it is crucial that stakeholders have consistent access to standardized, detailed, and credible MFI portfolio quality reports.

MFIs often show higher profitability by pooling donation revenues together with revenues from their normal operations. To assess an MFI's long-term sustainability, stakeholders must be able to gauge an institution's financial performance excluding donation inflows. To achieve this, international MFI accounting standards recommend that income statements clearly distinguish between operational revenues and non-operational revenues such as grants and donations. They also recommend that lending institutions clearly explain their grant recognition policies.

As in other key accounting areas, NGO-MFIs have far more heterogeneous loan liability reporting practices than their NBFC counterparts. Loan liability accounting and reporting is, therefore, another key driver of the NGO-MFI transparency gap.

The field level practices employed by MFIs are still weak in some cases, though substantial improvements have been seen in the recent years. MFIs must bring about transparency in their field level operations, in their pricing mechanism and adequately disclose the same to their clients in the manner and language, which is simple and easily comprehensible.

Multiple financing and overlapping of clients

In order to expand aggressively, some of the MFIs have been accused of poaching clients, thereby lowering their group mobilization costs (which otherwise is a very cost-intensive process) and hence improving their efficiency indicators. While on financial terms, this sounds reasonable, but it vitiates the group building process, which is the building block of any microfinance program and is one of the major determinants of the strength of their operations.

There have been concerns of over indebtedness of poor borrowers. A borrower can get repeat loan only once she repays the first loan. This forces her to go to another MFI or other informal sources. There appears to be nothing wrong in the process, *per se*, but the requirement is to know the debt absorption and repayment capacity of the borrower and that is where information sharing among the MFI assumes importance.

Recent steps taken by MFIN – a network body of NBFC-MFIs – are an attempt in the direction of restricting multiple financing. Per the agreement made by them, multiple financing to a client may be allowed by a maximum of three MFIs subject to pre-decided aggregate loan ceiling. It is expected that MFIs within MFIN would follow the norm in their own interest and in the interest of the communities, at large. The network has also evolved a Code of Conduct, which its members are bound to follow.

Sa-dhan, another MF network that has been actively working on advocacy and other matters had also developed a Code of Conduct for its member institutions to follow. While some MFIs are following the same, there are several others, which need to adopt the code; merely adopting the code would also not serve the desired purpose till it is transmitted down the line to every field level employee. Sa-dhan, on its part, is now in the process of further refining and strengthening the Code of Conduct to make it more comprehensive and to build mechanisms such that the code is strictly adhered to by all members. These are some of the measures which have been initiated recently in India and which are in the nature of self-regulatory mechanisms.

The setting up of a credit bureau for microfinance clients is a welcome step in the direction of building a database of clients and establishing their credit track record. The need for credit bureau for MF in India was long felt.

Uneven distribution

Andhra Pradesh (AP) has emerged as the hub of the microfinance institutions' activity not only in the southern region but also across India. The big four MFIs of the Country – SKS Microfinance, Share Microfin, Basix and Spandana-based in AP, South India account for about around 75 percent of the microfinance operations of the country. In the last five years these MFIs have also spread their operations in other States and have pan-India presence.

While the presence and growth of MFIs in southern part of the country has been of immense help to large number of poor, particularly women, there remain large underserved geographical pockets in the country, with the demand for microfinance far outstripping the supply.

While SIDBI has supported 81 MFIs in the underserved States (out of total 146 partner MFIs as on March 31, 2010), there is an urgent need for further expanding the MFI activities in a visible manner in the north, north-east, west and eastern States. SIDBI has been providing need-based assistance to such MFIs desirous of expanding their network to such underserved States, besides seeding and incubating local, home-grown MFIs in these States.

The bigger partner MFIs are also urged/incentivised to expand in underserved areas and this is ensured by including in the sanction covenants, requirement of lending a specified part of SIDBI's assistance in these areas (which can be as high as 60 percent of the total assistance sanctioned). The efforts have borne fruits in the sense that some of the bigger MFIs are now operating in about 20 States.

The remuneration structure

Of late, the trend of extremely high managerial remuneration of chief promoters/CEOs/key managerial personnel vis-à-vis comparative jobs in the financial services sectors is an issue, which has caught the attention of the stakeholders. To some extent, this has been justified where the professionals have been inducted at salaries comparable to what they were drawing earlier. The debate is particularly, in regard to the promoter CEOs, raising their salaries, besides the benefits accruing through the sweat equity. The networks like M-FIN will need to be sensitized to concerns regarding the issue so that it can be adequately addressed by the sector.

3.2.9 The Way Forward – Responsible Finance

SIDBI has, over the years, made multifarious efforts to develop the MFI Sector. These have, no doubt, yielded good results and the sector has reached a take-off stage in India and is now poised for exponential growth. But still, much more needs to be done to enable the microfinance sector to increase its outreach and scale as a major step towards financial inclusion.

Responsible lending has been one of the top priorities of the Bank in the recent times. The Responsible Finance Initiative – cross-linked to financing – could help improve management, governance, operational practices and disclosure. SIDBI has been playing an active role in impressing upon its partner MFIs to adopt and practice fair means of managing the MF operations, besides sensitizing them on other issues. Promoting responsible finance and adherence to a laid down Code of Conduct would be a major intervention by SIDBI, with support from the World Bank.

As part of its responsible finance initiative, SIDBI has created a Lenders' Forum comprising key MFI Funders with a view to promote cooperation among MFI lenders for leveraging support to MFIs across the sector to promote more responsible lending practices. The forum seeks to work towards voluntary adoption of measures on governance, transparency, competitive practices, and condition support to MFIs on their adherence and adoption of these industry standards by building them into their covenants. A meeting of the forum was held recently which was attended by representatives of 15 major lenders in the sector. The issues regarding reduction of interest rates, transparency in reporting of interest rates being charged to ultimate beneficiaries, development of a Code of Conduct Assessment Tool and commissioning of joint Systems Study and Loan Portfolio Audits of MFIs etc. were discussed at length during the meeting.

Keeping in view the concerns of all stakeholders on the issues regarding high interest rates being charged by MFIs in the sector, SIDBI is commissioning a detailed study on the microcredit interest rates of 25 to 30 partner microfinance institutions. The study will particularly focus on the transaction cost under various models of microcredit, the cost of funds of MFIs, cost of delivery, margin, annual percentage rate to eventual beneficiaries of partner MFIs, interest rate comparisons with other sources of credit available to the beneficiary etc.

At the instance of the Central Bank of the country, SIDBI has carried out a quick study on the major partner MFIs, particularly NBFCs, operating in Andhra Pradesh. The broad terms of the study include costing of MFI operations with particular reference to resource mobilization and non-interest expenditure, cost of finance to the ultimate beneficiary, remuneration of key persons in MFIs, particularly NBFCs, impact on profitability ratios such as NIM and RoA, unethical practices by MFIs relating to poaching of borrowers, multiple lending, lack of transparency in interest rates and the use of coercive methods for recovery.

With a view to promoting transparency, SIDBI proposes to develop in collaboration with the World Bank, a common information platform for MFIs – a MIX market tailored for India – to provide and disseminate valuable information on the Indian MFIs.

SIDBI has also initiated discussions for development of a Code of Conduct Assessment Tool for MFIs to assess their degree of adherence to the voluntary microfinance Code of Conduct formulated by Sa-dhan.

Information sharing on the beneficiaries, among the MFIs is the crying need of the sector. This is required to suitably address the issue of multiple lending and credit absorption capacities of the ultimate beneficiaries. Though the Unique Identity Project of GOI would aid in borrower identification, setting up of a Credit Bureau for microfinance to act as the repository of all credit information on microfinance clients may help to specifically address the issue at the ground level. At this juncture, the MFI members have agreed to share their data with two credit bureaus viz, CIBIL and High Marks.

Besides, there are issues relating to competition, inter-MFI dealings, and ethical field level practices, which are extremely crucial and cannot be ignored, if the growth of the sector has to be sustainable. It is in the interest of all the stakeholders that such competition does not yield into unhealthy practices. Forming State-level MFI networks, either through MFIs' own initiative or through intervention of sectoral institutions would help to address these issues in a manner which protects the interest of the MFIs as also the clients

Enabling greater access to financial services for the poor in addition to being an important objective in its own right has the potential to provide growth impulses for the entire economy, and aid in bringing in inclusive growth via financial inclusion. Universalisation of access to financial services calls for enabling regulatory and policy environment. Effective synergies between all stakeholders in the sector will also serve as a major stimulus for overall sectoral growth.

Support to MFIs for on-lending particularly in the underserved States, would be the focus of SIDBI. As part of its medium term strategy, SIDBI is planning to explore possibilities of newer and innovative credit delivery channels with a view to identifying suitable intermediaries for channelizing credit to the target clients. Accordingly, the Bank would proactively provide loan support to MFIs to increase its outreach by going to newer areas and using innovative technological solutions to bring higher degree of efficiency in their operations as well as achieve greater outreach, along with lower interest rates for the eventual beneficiaries.

International organizations, lenders and donors and PE Funds have carried out their independent due diligence and are apparently convinced about the resilience of the microfinance sector, as a whole, in the country. The need of the hour is to bring about suitable mid-course corrections so as to foster a more responsible lending environment within the sector through concerted measures by all the stakeholders.

3.3 Microfinance in LAO PDR – Experiences and Lessons Learnt from Ek Patthana

by Mr. Chantha Mingboupha, Deputy Director,
Microfinance Center of Lao PDR

3.3.1 A Little Tour on the Surface

Lao PDR is a land-loved country with its pristine natural landscape, aiming at emerging from the depths of poverty to join its richer border neighbours: China, Thailand and Vietnam. Ninety percent (90 percent) of its 5.5 million inhabitants work in rural areas, mostly in subsistence agriculture. However, the formal banking sector is still underdeveloped, with three public banks, three joint-venture banks and eight foreign banks. The three public banks serve 70 percent of the financial sector and are going through a restructuring process, in order to modernize and reduce non-performing loans. The formal banking system is mostly concentrated in Vientiane and other cities and has limited outreach in rural areas, with only 11 percent of the rural population having access to formal financial institutions, and only 1 percent making savings deposit (Fukui and Llanto, 2003). It is estimated that 75 percent of the population do not have access to formal or semi formal services. According to a report from the Bank of Lao (BoL) (2000), the potential microfinance market is 268,000 borrowers and 500,000 depositors. The same report shows that only 20 percent of this market is currently served by microfinance providers (APB and moneylenders being the main financiers). Launched in 1997 at Lao PDR, the microfinance industry is considered to be in its early stages of development.

3.3.2 Microfinance Sector Background

Apart from the early financial cooperatives organized after 1975, microfinance was introduced in the form of rice and livestock banks in the late 1980s. The first formal regulation of credit cooperatives was issued by BoL in 1994. Two of the credit cooperatives from this era are still operating. In 1997 the UNDP/UNCDF was the first international development organization to launch a project in an attempt to introduce "good practice" and develop capacity. This was after the first two serious research reports on the Lao PDR MF sector were published in 1996-1997. The project was cut short some four years later, as the UNCDF and GOL had different ideas and expectations. However, a foundation for the sector was established. The remaining elements of the UNCDF project are 3 MF "providers", or rather, administrative parts of the governments of three provinces, delivering MF services on a small scale. The project also established a capacity building initiative, ultimately forming the basis for what is now the Microfinance Center, which is the most professional specialized MF training and consultancy provider in the Lao PDR

At the same time, another relevant initiative was undertaken by the Thai NGO Foundation for Integrated Agriculture Management (FIAM) – its collaboration with the Lao Women's Union (LWU) which continues to this day. The foundation was then laid for what is now the most prominent mechanism for microfinance services, locally referred to as "village savings groups" or "village development funds"; in CGAP terminology, it is better known as "community managed loan funds"

3.3.3 Lao Microfinance Sector Update

Policy Level:

- Bank of Lao PDR formed Financial Supervision Department in August 2010. This department will mainly focus on supervising microfinance institutions, savings and credit unions, etc.

- Bank of Lao PDR working on drafting microfinance decrees.

Funders/donor:

- The key players are: Asian Development Bank, GTZ (now GIZ), IFAD, Lux-Development, SFBIC, and UNCDF.

3.3.4 Service Provider (MFIs, SCUs, Village Developments)

The microfinance sector has growing quickly, the numbers of registered MFIs and SCUs with Bank of Lao PDR.

Type of Institution	Numbers
Deposit Taking MFI	5
Non-Deposit Taking MFI	7
Savings and Credit Unions	11
Village Development Fund	5,000

Transformation Pattern Issues and Challenges

Transformation to be MFIs or SCUs in Lao PDR mostly happened in two patterns:

Pattern	MFIs	Positive Factors	Challenge
Project to MFIs	– IFDP, Xayni Ngom MFI, Oudomxai Development MFIs.	– Well-trained staff – Exiting clients – Operation materials – Capital – Donors	– Staff mind-set – Project based (no initiative) – Strictly loan agreement and contract
Village Development to SCUs	– SCU Thakek, SCU Huachai, SCUs Songkone.	– Fund – Operational materials – Existing clients – Capital – Market-based – Strong ownership	– Committees lack professionalism – Community-based – The documents requirement concerned – Conflict of interest mind-set

3.4 Status of Transformation and Emerging Developments in Microfinance: Agricultural Development Bank, Ltd. (ADBL) and Sana Kisan Bikash Bank, Ltd. (SKBBL)

by Mr. Mrigendra Nath Rimal, Section Chief, and Mr. Toyanath Pandey, Section Chief, ADBL

3.4.1 The Birth of Microcredit in Nepal

The Agricultural Development Bank was established in 1968 under the ADBN Act 1967, as a successor to the cooperative bank. The Land Reform Savings Corporation also merged with ADBN in 1973. The enactment of the Bank and Financial Institutions Ordinance (BAFIO) in February 2004 abolished all acts related to financial institutions including the ADBN ACT, 1967. In line with the BAFIO, ADBL has been incorporated as a public limited company on July 14, 2005. Thus, ADBL operates as an 'A' category financial institution under the legal frame work of BAFIO and the Company Act. At present, this is one of the leading institutions in the country having wide network all over the country and working as a premier rural credit institution and contributing more than 67 percent of institutional credit supply in the country.

Moreover, the institution launched the Small Farmer Development Program (SFDP), a major poverty alleviation program from 1975 to 2007. The introduction of this program marked the formal beginning of microcredit in Nepal. Introduced with the support of the Asian Development Bank (ADB) and International Fund for Agriculture Development (IFAD), the SFDP started off with significant success.

The government followed up the SFDP program with the Priority Sector Lending Program, Intensive Banking Program and so on.

It was in the early 1990s that the campaign of microcredit spread through various NGOs and INGOs. In 1992, the government set up Rural Development Bank (Grameen Bikas Bank) which now have five branches located in the development region of the country. Similarly, different NGOs like Nirdhan, Chhimek and others came into being. These apart, there are hundreds of self-help groups and saving and credit organizations across the country.

3.4.2 Phases of the Small Farmer Development Program (SFDP)

Phase I

Phase I of SFDP was designed to assist small farmers and the landless rural poor in increasing their incomes and standards of living, as well as to promote self-help and self-reliance through the following:

- Building up the institutional base for organizing the disadvantaged rural poor into small-farmer groups around common economic activities and/or production resources;
- Providing supervised credit to enable these groups to undertake a range of income-generating activities; and
- Providing training and technical assistance to ensure effective utilization of facilities provided by the project.

The main components under Phase I of the project were of four types:

- **Provision of credit for livestock – related economic activities.**
  The project was designed to extend credit lines through the Agricultural Development Bank, Ltd. of Nepal (ADBN) to small farmer groups or individual small farmers within the small-

farmer groups for the purchase of milk buffalo, buffalo heifers, bullocks and bullock carts, goats, sheep, production of sows and other livestock related products.

- **Provision of training for small farmers and small farmer groups.**
  Training was to be provided in areas such as planning group activities, book keeping, livestock development and agro-processing activities.
- **Provision of technical assistance for institutional capacity-building.**
  A livestock-insurance specialist was to spend three person-months examining the viability and assisting in the establishment of a livestock-insurance scheme.
- **Provision of Social awareness program.**
  Under this program, small farmers were supported with literacy and primary health awareness programs as well as environment conservation activities.

Phase II

Phase II was designed to intensify and expand the activities of Phase I. It consists of two main components:

- **Provision of credit for livestock production.**
  Credit was to be provided to improve the productivity of buffalo and goats and, in the case of farmers with very little or no land, for animals to hire out for draught and transportation.
- **Provision of technical assistance for institutional capacity-building.**
  The project was to support training, establishment of sub-project offices and formation of small farmer groups.

Outcomes

Phase I

A significant number of small farmers were provided with access to institutional credit; disbursement of credit for livestock activities exceeded targets by 21 percent. A study carried out by the Agricultural Projects Service Centre indicated that income from livestock rose considerably in some project areas as a result of increased sales of milk and milk products. One of the factors that played a role in raising market demand was the restriction of imports of subsidized powdered milk from the European Union, which created new incentives and improved prices for Nepalese milk producers. The consequent establishment of a milk-collection system through the state-owned Dairy Development Corporation improved farmers' market access and linked them to urban milk consumers.

Project credit also provided its beneficiaries with the opportunity to take advantage of the rising market demand. Draught bullocks purchased under the project gave beneficiaries flexibility at land-preparation times and allowed timely planting of crops. Other beneficiaries were able to upgrade their transport businesses by acquiring bullock carts with rubber tires and superior load-carrying capacity.

A significant unplanned achievement was the participation of poor rural women in development activities through the creation of women's groups. These groups enhanced women's roles and status by increasing their incomes and economic independence.

Phase II

The project was successful in providing financial assistance to small-farmer group members and in encouraging them to save. The introduction of income criteria for credit eligibility paved the way for the inclusion of landless laborers and village artisans as members of small-farmer groups. About 40 percent of the credit was allocated to livestock, but credit was not associated with sustained adoption of improved livestock breeds, as intended at appraisal. Moreover, feed and fodder management did not improve over the project period.

The women's group organizers were a significant factor in increasing women's involvement in the project. The most common purpose of loans to women was livestock rearing, which accounted for 37 percent of the total. A common economic activity undertaken by women was the breeding of goats, buffalo, poultry and pigs.

Different banks and organizations have adopted different models of microcredit lending in the country. Government programs such as SFDP could not become sustainable because of high costs involved. It was expensive to mobilize bank staff to remote villages, form groups, impart training, administer loan and monitor the repayment. Gradually, the repayment rate, too, dropped and it had to be transformed into cooperatives. Although microcredit has been recognized globally as an effective tool to tackle poverty, it has its problems particularly in countries like Nepal. Because of social norms and geographical distribution, providing microcredit service to far-flung villages is costly. Besides, there is widespread illiteracy and lack of awareness, which greatly affects repayment.

The SFDP program has served over 300,000 small and marginalized farmers. Out of the bank's total number of 425,000 depositors, nearly 85 percent were microcredit borrowers who borrowed less than Rs50,000 (US$700). SFDP has invested Rs6.5 billion (US$93 million) in microcredit to help the farmers increase their income and has already recovered Rs5.5 billion (US$79 million), however, in past years, the repayment rate in SFDP declined and due to conflict, its operation has been severely affected, with more than 80 SFDP offices burnt, causing millions of rupees of losses.

Consequently, the bank planned to phase out the program and transform the SFDP units (there were a total of 425 such units across villages) into Small Farmers Cooperatives Limited (SFCL). Most of the units have been created. Here, the ownership is transformed to local cooperative, which has slightly increased the repayment and decreased the cost of loan administration from 8-9 percent to 2-3 percent.

3.4.3 Transformation of the SFDP to SFCL

Agricultural Development Bank, Ltd. (ADBL) implemented the Small Farmer Development Program (SFDP) since mid-1970s with the financial support from the Government and donors. In 1987, the ADBL introduced the Institutional Development Program (IDP) to transfer SFDP into member-owned and managed Small Farmer Cooperative Ltd. (SFCLs) registered under the cooperative act 1991. Rural Finance Nepal (RUFIN) – GTZ has provided financial and technical support to implement IDP. Until March 2009, 225 SFCLs have been providing financial and other services to more than 145,000 families in over 40 districts of Nepal. SFCL is a member-managed multi-service cooperative designed to deliver primarily financial, but also non-financial services to its members in rural areas.

The experiences have shown that if the stakeholders (donors, government, and promoter) focus on one part of the financial system only, microfinance Institutions (MFIs) may not be sustainable on the long run. So, an integrated approach is essential for successful transformation of a project to MFI.

3.4.4 Functional Modality of Small Farmer Cooperative Ltd. (SFCLs)

SFCLs are member-managed community-based financial institutions. It has a unique three-tiered organizational structure, which ensures the involvement of most members in the decision making process. The three-tiered organizational structures of SFCLs are as follows:

- **Small Farmer Groups (SFG)**
  Representatives of small farmer members (5-12 members) form a SFG at grass-root level. The SFGs are responsible in deciding on SFGs matters such as savings collection, decision on loan and community development activities in the village.

- **Inter-Group (IG)**
  Two or more SFG form an IG in ward level. The main role of IG is to supervise and coordinate SFG activities under it.
- **Main Committee (MC)**
  All IG Chairpersons from each IG form a Board of Directors (BoD) at the VDC level. The BOD is the main governing body of SFCLs which formulates plans and policies and hires staff to implement activities. Being the main governing body, the BoD is accountable to the General Assembly (GA).
- Day to day operation of SFCLs is handled by a Manager hired by the BoD. The Assistant Manager and other staff assist the manager to successfully implement the day-to-day activities of SFCLs.

3.4.5 Service Delivery System of SFCLs

Financial services are the core services of SFCLs. Besides financial services, many SFCLs also offer non-financial services based on members' demand. The main Committees (SFCLs' board) form sub-committees to manage each service/activity. If the volume of the particular service increases, SFCLs hire staff to manage it. The manager of the SFCLs will be responsible to supervise and control all the services of SFCLs.

3.4.6 Financial Products of SFCLs

SFCLs offer a variety of savings, loan, insurance and remittance services based on the members' needs.

Savings Products

1. **Group Savings.** Group Savings are a compulsory savings, accumulated over time. Every group member of an SFG has to save a fixed amount (NPR50-500) per meeting/month. The group savings is then used to provide emergency and other types of loans to members on group decision. In rare cases, some SFCLs have restricted to withdraw and use their group savings to lend to a member of the SFG.
2. **Inter-Group Savings.** Each member saves a fixed amount at IG meeting. IG savings are used for joint activities such as community development activities, repair and maintenance of road and other infrastructure at the ward level. This kind of savings is used for social and development purposes.
3. **Main Committee Savings (BoD of SFCL).** Each member saves a fixed amount at BoD meeting. BoD savings are used for joint activities such as community development activities, repair and maintenance of road and other infrastructure at the VDC level.
4. **Client Security Fund.** Five percent of the loan amount is deducted in each loan disbursement as Client Security Fund which is used as collateral in case of non-repayment of loan. Some SFCLs open these accounts as an individual voluntary savings and issue savings pass books to members. Withdrawals are allowed when outstanding loan is fully paid. As this savings product provides easy access to savings, it is popular among members. Each SFCL has fixed the withdrawal limit per day or week. If a member needs to withdraw more than the limit, prior notice is needed. The period of prior notice differ from SFCL to SFCL.
5. **Old Age Savings.** The target group of this savings product is elder members of the SFCL whose age are between 50 and 65 years of age. The product was designed to meet the elder members' demand for typical unanticipated expenses that they cannot finance from daily incomes. Examples are pilgrimage tours or health care, etc. The main motivational factor to participate

in this savings product is to save for old age. To participate in this savings, savers have to save a minimum of NRs.100 per month. The savings can be withdrawn in emergency cases. The minimum balance for this account is NRs.500.

6. **Pewa Savings.** The target groups of this savings product are women. Women receive gift in the form of goods or cash from their parents or brother. The women members at SFCL Anandaban have demanded suitable savings products to collect their Pewa. This is how the product was developed in Anandaban SFCL. Later on, other SFCLs also introduced this product. The main motivational factor to participate in this savings product is to save for old age or to meet unanticipated expenses. To participate in this savings, savers have to save minimum NRs.100 per month. The savings can be withdrawn in emergency cases. The minimum balance for this account is NRs.500.
7. I**ndividual Regular Savings.** The main motivation for offering individual regular savings products is to generate internal resources for lending for the SFCL and to access to a larger loan amount for the members (savings is link with loan). In most SFCLs, both members and their families can participate in this product. Members have to deposit NRs.100-1,000 per month.
8. **Daily Savings.** The purpose of offering daily savings is to provide opportunity to daily income earner to deposit small amount of income on a daily basis. The depositors can spend lump sum savings amount to purchase productive assets or to invest in business or to meet a social obligation.
9. **Voluntary Savings (Optional savings).** The purpose of offering voluntary savings is to provide access to use savings during emergencies or to maintain the short fall of cash need due to seasonality effect.

Loan Products

The loan products of SFCLs are defined according to their purpose and period. The different purpose loan products (cash crop, food grain production, livestock, business, marriage, health care, foreign employment, bio-gas, educational etc.) are further classified according to period: short-, medium- and long-term loans.

Short-term loan	:	6 months up to 18 months.
Medium-term	:	Loans with a term of 19 months to up to 3 years.
Long-term loan	:	Loans with a term of more than 3 years up to 8 years (Currently SFCLs dropped providing this type of loan.)

The conditions for interest payments are uniform for all products (i.e. monthly interest payment). Regarding the payments of principal installments and the overall term of the loan, a wide range of variations can be observed. In each case, the term and principal payment schedule are supposed to fit in with the production cycle of the respective activity financed by the loan. Interest rate varies from 12-18 percent per annum from depending on the SFCL. Interest is collected on a monthly basis and principle is collected on installment basis. Early repayment will be rewarded with discount on interest collected and late payments penalized by charging higher interest rates.

Most of the SFCLs offer mainly the following three types of loan:

1. **Agriculture loan** (cash crop and food grain production)
2. **Livestock loan** (purchasing milking cow/buffalo, ox, goat/pig farming)
3. **Business loan** (retail shop/trading, buying and selling agriculture product)

Insurance Products

1. **Livestock Insurance.** SFCLs are offering livestock insurance to those borrowers who borrowed for raising livestock. Possible livestock to be insured includes cows, buffalo, oxen, lambs and goats. SFCL collects 10 percent of the value of the livestock as a premium of which 50 percent premium is subsidized by the government. From last year, the Government has also provided premium support for agricultural insurance.
2. **Members' Welfare Scheme.** Besides livestock insurance, few SFCLs have designed and offered members' welfare schemes to help the members during adversaries in the family. Such schemes include helping members to pay certain portion of funeral cost in the case of death of a family member or to pay a certain portion of the maternity cost or other medical expenses. SFCLs don't collect premium for these schemes. They keep aside a certain portion of the profit to pay such expenses and these schemes are designed to motivate existing members and to attract new members as well.

The SFCL in Nepal is a self-reliant village cooperative staffed by local villagers with their own Board of Directors. Community leaders participate actively in the Board and in the operations of the SFCL. The strong community participation in determining the on-going mission and objectives of the SFCL has resulted in high levels of trust and encouraged depositors to have faith in such organizations.

3.4.7 Establishment of the Sana Kisan Bikas Bank Limited (SKBBL)

Upon the initiative of ADBL, the Government of Nepal established SKBBL in 2001 as an Apex Organization of SFCLs. SKBBL is a specialized wholesale microfinancing development bank established with the aim of promoting and strengthening the grassroots levels' Small Farmer Cooperatives Ltd. (SFCLs) in a particular and similar approach as to how other microfinance intermediaries do in general. The bank provide short- and medium-term wholesale credit or refinance to SFCLs and other similar grassroots level financial intermediaries. The bank is incorporated under the Company Act and licensed under the Bank and Financial Institutions Act (BAFIA) 2006 as a 'D' class bank. Currently, this bank has started providing wholesale credit to other saving and credit cooperatives and microfinance institutions (MFIs) too in order to expedite access to microfinance services for the low income people specially those living in the hills and mountains of the country.

Vision

To become the leading, financially viable wholesale bank in the microfinance sector, owned by SFCLs and similar rural MFIs, and to substantially improve the life of the rural poor.

Mission

The bank's core business is wholesale financing for SFCLs and similar rural MFIs, and it also advocates and supports capacity building of these institutions in cooperation with its partners.

Core Values

- Business orientation and financial viability
- Political neutrality
- Commitment to serve the rural poor
- Customer-oriented quality services
- Transparency of policies and operations

Objectives

- To provide wholesale credit and refinance facilities to the microfinance institutions for on lending to low-income households.
- To monitor and supervise the activities of the client MFIs and make sure that they adhere to the prudential and non-prudential regulations set for them.
- To provide technical assistance in the area of institutional strengthening and capacity development.
- To pool resources from the government and donors in carrying out social mobilization activities along with social and community development activities through client MFIs.
- To carry out farmer-to-farmer replication programs in order to rapidly expand the microfinance services in underserved areas especially those living in the hills and mountains, women, Dalits, Madhesi, Janjatis, indigenous groups and other backward communities.
- To provide technical and financial support to the client MFIs to expand their business to cover all the potential MF clients in the periphery.

Promoters

Agricultural Development Bank, Ltd. (ADBL), Government of Nepal, Nepal Bank Ltd., Nabil Bank, Ltd. and twenty-one SFCLs are the promoters of this bank.

Composition of Board

The Board of this Bank is composed of two representatives from ADBL, one each from the Ministry of Finance (Nepal Government) and the Commercial Banks and three from SFCLs. The board thus consists of seven members including a chairperson.

Management and Administration

The bank is headed by a Chief Executive Officer who takes care of the entire day-to-day activities in addition to executing policies/guidelines set by the Board of the bank. The bank has presently 50 core and supporting staff to carry out the job in both the Central and Area offices. Such activities are performed in accordance to the set of organizational structure of the bank.

Sources of Funds

- Share capital and retained earnings.
- Handed over and new loans from the Agricultural Development Bank, Ltd.
- Deprived sector loans from various commercial Banks.
- Loans from the Central Bank of Nepal.

Present and Potential Clients

Small Farmers Cooperatives limited (SFCLs), Savings and Credit Cooperatives (SACCOs)

Area Offices

The central office of SKBBL is located at Subidhanagar, Kathmandu. The bank has set up eight area offices in different locations in different development regions. The area offices not only provide wholesale credit to the Cooperatives and MFIs of their respective working areas but also assist in their capacity building and institutional development. Moreover, the Area Offices provide technical support in matters such as products innovation, market survey, effective service delivery mechanism, outreach expansion, and financial sustainability of the institutions.

Status of SKBBL as of Mid-April 2010

At present, the bank has covered 40 districts through its eight area offices with 50 core and support staff. There are 232 partner cooperatives/MFIs, twenty four among them are women cooperatives and 11 cooperatives from replication. The partner organizations have served over 156,721 members. Among them there are 90,495 females and the remaining 66,226 are male members. The cumulative loan disbursement, collection and outstanding loan portfolio are 5,601, 4,496 and 1,105 Million NPR, respectively. The current repayment rate is 99.78 percent.

3.4.8 Functional Linkage of SKBBL with SFCLs/MFIs

SKBBL as an apex microfinance bank emerged to provide wholesale credit along with the technical support services mainly to the Small Farmers Cooperatives Ltd. (SFCLs). Linkages to financial and non-financial services as well as the sound regulatory environment are necessary for the smooth operation of MFIs. Thus, the SKBBL systemic approach is based on the following three strong foundations:

1. **The SFCLs** at the grass roots level to provide microfinance services
2. The **Sana Kisan Bikash Bank, Ltd. (SKBBL)** to provide refinances facilities, and
3. Federations of **SFCLs** to provide non-financial i.e. social mobilization, training and technical support services.

In order to get loans from the SKBBL which, in turn, will provide microfinance services, the **SFCLs** at the grass roots level must fulfill the following indicators:

- Have a three- to five-year business plan;
- Have an annual operational plan to achieve goals and objectives set by the business plan;
- Have proper record keeping and accounting system;
- Have no delinquent loans with the board of directors, staff and the family members; and
- Have an experience of at least two years of successful operation of microfinance services.

3.4.9 Successful Transformation from SFDP (Project) To SFCL (MFI)

Looking Back

Nepal undertook poverty alleviation programs through various rural development efforts with the view to bringing about rapid improvement in the socio-economic condition of the rural poor. But all of the approaches to rural development largely failed to establish distributive justice in sharing the benefits within the Nepalese society. The main beneficiaries of the development programs were found to be the rural elites. The rural poor including women who actually needed genuine support were further deprived.

Then, since mid-1970s, the Government started undertaking the policies and programs such as Small Farmers Development Program, which was designed as the first target group focused model in Nepal to serve the people specifically below poverty line and then followed by other government, non-government organizations (NGOs) and INGOs to implement the poverty reduction programs in similar ways.

After the restoration of the democratic Government in 1991, poverty alleviation was accorded with high priority and incorporated in its Eighth Plan as a principal objective to mitigate poverty. The plan has set the target to bring down the incidence of poverty to 49 to 42 percent by devising policies and strategies of self-targeted programs.

This was continued in the Ninth Plan aiming at reducing poverty by 10 percentage points. Also found in the Tenth Plan, poverty reduction was set as the prime objective. The plan has envisaged bringing down the poverty below 30 percent over the plan period.

Emergence of the Small Farmers Development Program (SFDP)

The Small Farmers Development Program (SFDP) is a major poverty alleviation program of the government. The executing responsibility was vested on the Agricultural Development Bank, Ltd. (ADBL) since 1975. The group approach and bottom up planning are the main fundamental characteristics of this program to provide development services to the rural poor.

The overarching objective of SFDP is to improve the socio-economic condition of small farmers, the rural poor through provisions of basic inputs e.g. credit, technology, training and facilities related to social and community development.

Altogether, the number of sub-project offices (SPOs), field-based offices of SFDP, reached to 459 benefiting 15,473 small farmers and has covered 649 VDCs of the 75 districts in FY 1993/94. At present, all the SFDP have been transferred into small farmers-led local institutions such as Small Farmers Cooperative Limited (SFCL) and some non-performing SPOs were amalgamated with performing neighbouring SPOs and ADBN Branch offices.

Objectives

Based on such concept, the main objectives behind this institutional development are to:

- Develop local self-reliance by developing leadership and managerial abilities among the SFs themselves;
- Narrow down the cost and bureaucratic barriers between the delivery agencies and small farmers and establish an efficient delivery mechanism to reach the services towards the rural poor; and
- Expand and increase the scope of activities, area coverage and participation of beneficiaries in a cost effective and time effective manner.

Major Activities

SFDP implements both economic and social activities that provide microcredit for improving productivity of limited size of land holding together with improved production technologies for intensive cultivation practices. Social and community development activities include literacy, water and sanitation, rehabilitation of school buildings and family planning.

Moreover, SFDP undertakes other varied activities viz., marketing arrangement, creation of productive assets, training programs, group savings, livestock insurance, environmental conservation and women development program. The beauty of this program is that it covers all poor people and it cuts across gender and social status. The development workers can borrow different ingredients to design poverty reduction models applicable to the aforesaid groups.

Impact of SFDP

Impact evaluations of SFDP conducted by national and international organizations such as the Agricultural Project Service Center (APROSC), New ERA, and Asian Development Bank (ADB) have reported several positive changes brought by the SFDP with the help of economic, social and community development activities. Fairly encouraging changes were found to increase in the use of improved farming methods, increase in cropped area, use of improved seed and fertilizer and other inputs. Further changes found were the increase in-farm and off-farm income and self-employment opportunities.

The studies also found positive gains on social development front such as increase in school enrollment rate for boys and girls, adoption of family planning practices, and increase in adult literacy rate by raising awareness among small farmers. The study revealed that the irrigation project has significantly increased agricultural productivity as well as income and employment opportunities.

Problems and Constraints

Since SFDP has a high degree of demand for its expansion, the program could not spread to a desired extent due to staggering overhead cost. Therefore, the present coverage of the program at the grass roots level has felt short of expectation.

- The program was expanded all over the country resulted the program questionable regarding its financial viability and sustainability.
- The program has shortage of competent staff who could work in harmony with the local people in the remote areas.

To overcome these problems, ADBN realized a greater need for an Institutional Development Program aiming at the process of evolving the local level self-help organizations in the form of Small Farmers Cooperative Limited and building-up their managerial capacity to take-over the responsibilities of the SPO and operate and manage independently the process of organization, planning, implementation, monitoring and evaluation of the programs.

Small Farmers Cooperative Limited (SFCL)

Small Farmers Cooperative Limited (SFCL) refers to the small farmers (SF) organization which was developed with the goal to build up institutional management capacity to implement SFDP. In other words, it is an organization of the poor, developed by the poor to help the poor mitigate poverty. This effort made small farmers capable of planning, implementing, monitoring and evaluating the programs from their own levels for the benefit of their families on one hand and by minimizing the operational costs for implementation of SFDP on the other.

Moreover, the institutional development of small farmers plays immense role in graduating small farmers' organization as a whole rather than individuals, so that the collective graduation of small farmers could be initiated where SF-organization could prove self-reliant and capable of running the SPOs on their own.

Since on-going strategies of SFDP call for high cost of expansion and would take time in reaching the SF-families as a whole, ADBN realized the necessity of institutional development of SFDP and visualized the potentialities of experiment of such programs in the SPOs of Dhading district selecting them as "Learning Laboratories" and thereby replicating the similar programs in the SPOs of other districts based on successful outcomes.

Institutional Development Program Experiment

In order for the Institutional Development Program (IDP) experiment to push through, a five-year field based "action research" project was designed in 1987 by the joint efforts of ADBN and Dhading Development Project (DDP)/GTZ and was implemented in a few SPOs in the Dhading district since 1988. That followed a development process of continuous training of group leaders, promoters and youth workers who could finally take-over the responsibilities of operating the SPO affairs.

Based on some observations and studies, it was revealed that small farmers' organizations evolved under the "action research" in the Dhading district might manage the SPOs independently. Then, such organizations were registered as Small Farmers Cooperative Limited (SFCL) in order to identify them as a legal entity. The first four phases (Bhumisthan, Chhatredeurali, Dhuwakot and Maidi) of the 20 SPOs of Dhading district managed by ADBN were handed over to the respective SF-organizations from the beginning of July 16, 1993 and they have been managing the program agreeably. Based on the positive outcomes, other SPOs are gradually being transformed into SFCLs and the management of SPOs has started to be handed over to the SFCLs.

Policies and Strategies for the Replication of IDP

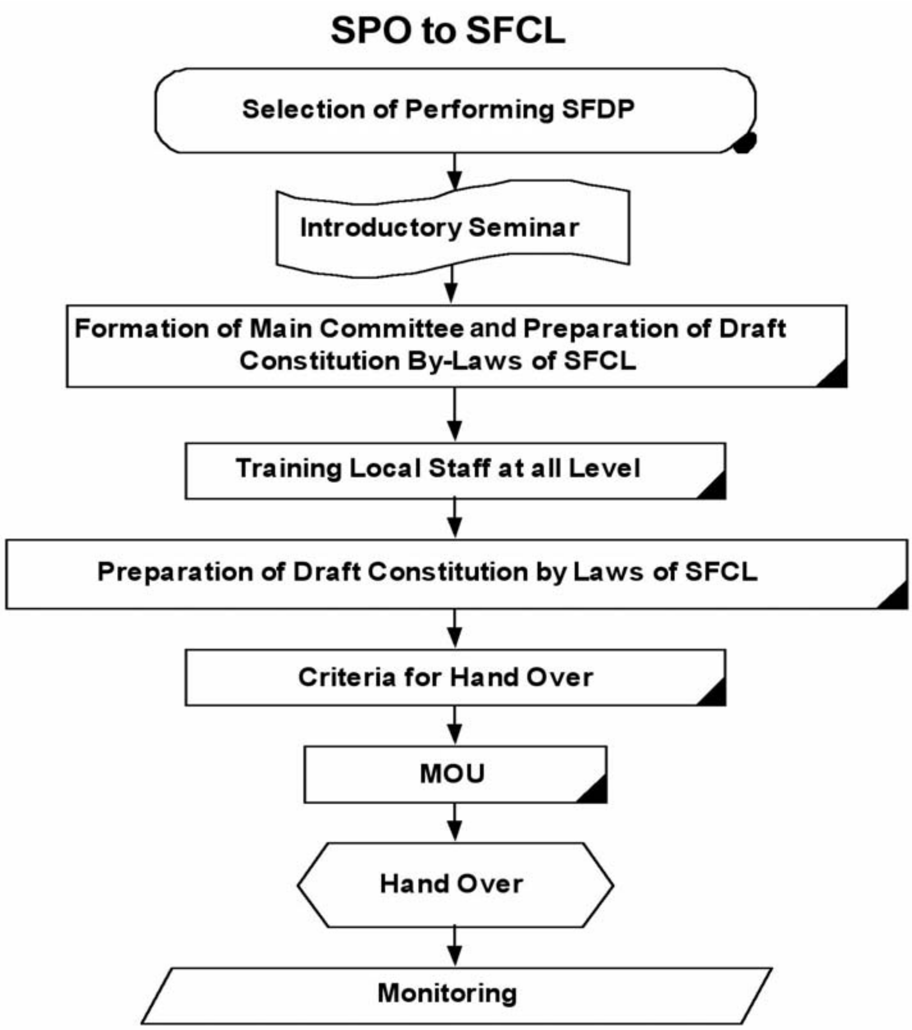
The IDP experience of Dhading district has stimulated small farmers of other districts as well. In this direction, SPOs have been assisting small farmers to evolve SF-Organizations by forming Inter-groups and Main Committees. In this regard, ADBN has devised some policies and strategies to replicate such programs gradually all over the country by selecting potential SPOs which have fulfilled the prerequisites to enter into the implementation of the institutional development process.

These policies/strategies are subject to change as per need arises. In the process, some potential SPOs have also been identified and the IDP process is currently being implemented.

Donors' Support

The SFCL is one of the many local resources-based institutions in Nepal. In addition, the German Agency for Technical Cooperation (GTZ) has been providing technical assistance in SFCL Management and Training Program and ADBN has been providing support in monitoring and supervision and refinancing facilities and coordinating with them through local line agencies and is seeking supports from them, for training, social and community development activities. Similarly, for the last couple of years Nepal government has initiated providing some grants for community development activities.

Figure 1. The broad transformation process of SPO to SFCL



Selection Criteria of SPOs (Entry Points)

- The SPO should cover 50 percent of the SF households and at least 75 percent of the groups should be active;
- Seventy five percent of the SF loaners should pay their monthly interest;
- Amount of saving deposit should be 5 percent of the total outstanding loan;
- Seventy five percent of the small farmers should join the reform program of ADBN;
- Delinquent loans should be below 20 percent of the total outstanding loan;
- The amount of Interest receivables should be less than 25 percent of the loan outstanding;
- Repayment rate should be more than 50 percent;
- Organize ward-level small farmer inter-groups and started the process of developing VDC level SF-main committee;
- Should be capable of generating income for handling the operational costs of the institution;
- Volunteer or paid youth workers and women group organizers should be appointed and there should be possibilities of having such small farmer members who are interested to work voluntarily like aforesaid workers;
- There should be higher degree of demand of IDP from small farmers and is in position to implement the program with the minimum support from other agencies;
- At least one promoter in each ward of SPO area should be managed;
- SPO should be capable of evolving autonomous and viable VDC level SF-organization and handing-over the management of SPOs to the latter within 2-year period of implementation of the program;

Pre-conditions for Hand-Over to SFCL (Exit Points)

- Introductory seminar on institutional development process should be held at the SPO level;
- Seventy five percent of the total small farmers in the area should be covered;
- The MC of the organization should be formed. Institutional laws, bylaws and working manuals should also be prepared followed by the registration of the organization in the respective District Cooperative Office under the Cooperative Act 1992;
- Staff should be trained in different areas of day-to-day operations such as record keeping, book keeping, account handling and credit operation;
- Groups, inter-groups and main committees should commit to take the responsibilities of management of SPO;
- The outstanding loan should be Rs3 million, hence, the institution must be capable of generating income to meet the operational cost;
- Delinquent loaners should be less than 15 percent of the total outstanding loan;
- Repayment rate should be more than 60 percent;
- Amount of interest receivables should be less than 20 percent of the outstanding loan;
- All the members should take the share of their SF institution;
- The amount of savings deposit should be 10 percent of the outstanding loan;
- Cent percent small farmers should join the ADBN reform program; and
- A Memorandum of Understanding (MoU) should be signed on behalf of both the parties (i.e. the bank and the SFCL) and finally be handed over to the management undertaken by SPO to the respective SFCL.

Governance: Board's Composition

SFCL is composed of a three-tier organizational structure i.e. group at village level, inter group at ward level and main committee at the VDC level – a governing body of the organization.

Key Operational Characteristics

- **Group Formation**
  This include small farmers with similar economic status, similar caste and residing in the same location, are organized into groups and preference is given to women and to those belonging to the lower caste, deprived groups and landless family.
- **Inter-Group (IG)**
  After forming groups at the village level, a member representing from each group forms the IG in the ward level.
- **Main Committee (MC)**
  After forming an IG in the ward level, a representative from each inter-group forms the MC or the governing body of the organization. The number of board members is between 9 and 11 who need to be literate and should have at least three years of experience.

On the average, there are two to three paid personnel who need to be S.L.C. However, higher education is preferred.

Figure 2. Small Farmers group building on different levels

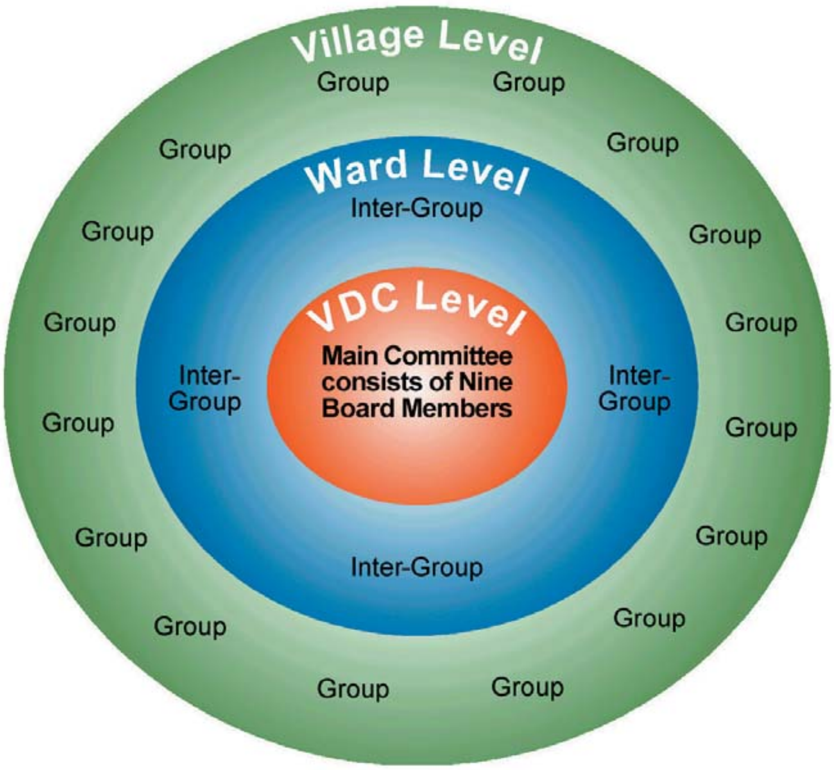
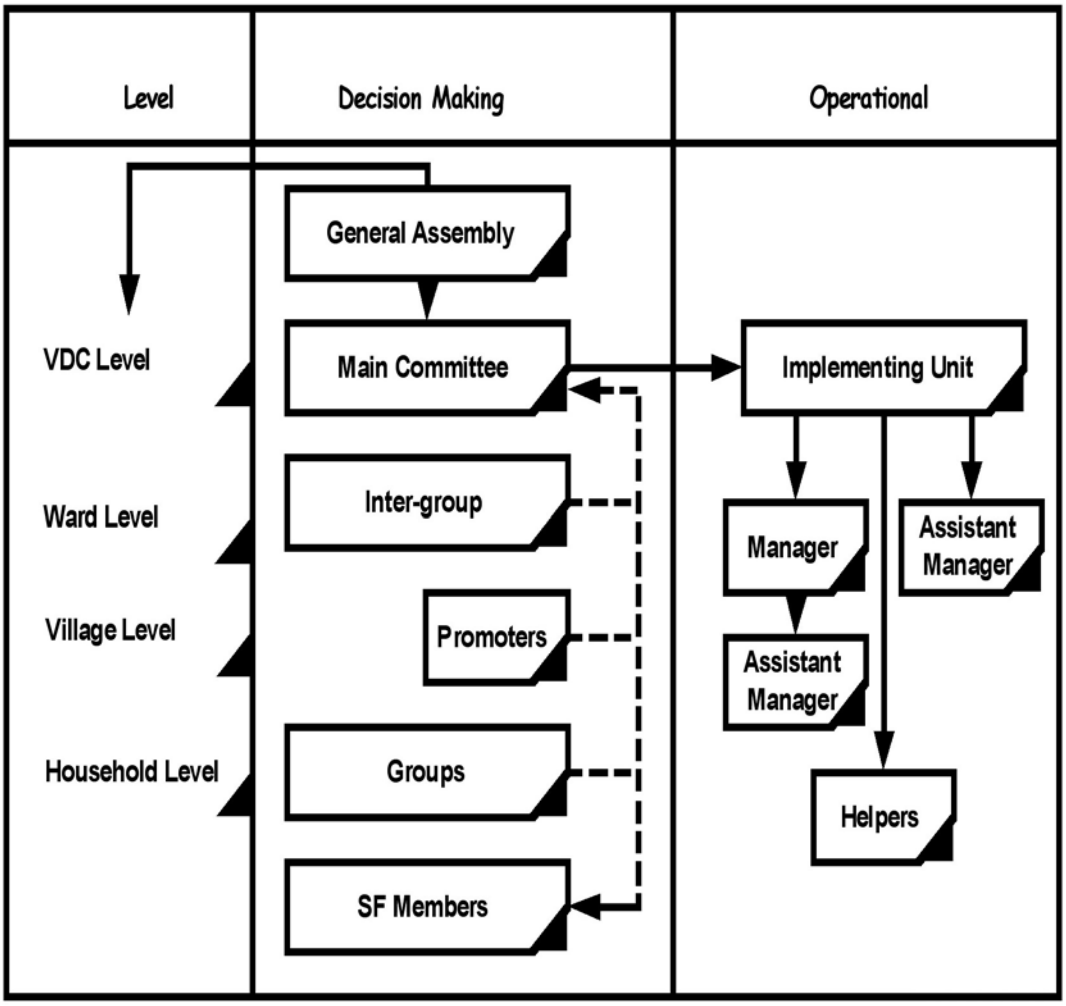


Figure 3. Organizational structure of an SFCL



Roles, Responsibilities and Liabilities of Groups

- Group management,
- Conduct of group meetings,
- Support with the financial and community development programs,
- Collection of loan demand and forwarding to the respective inter IG and
- Savings collection and mobilization.

Roles, Responsibilities and Liabilities of Inter-Groups

- Coordinate among groups of the respective wards for sharing the resources and utilizing it for collective benefits.
- Act as a mediator between groups and board members.
- Social mobilization for economic, social and community development activities.
- In-charge of savings collection and mobilization.
- Monitor and evaluate the program prepared by the groups and forward with recommendation to the main committee.

Roles and Responsibilities of the Main Committee

- Operation and management of SFCL,
- Production of plans and policies,
- Implementation of loan sanction,
- Develop linkages with line agencies,
- Provide leadership and build leadership capacity of the other members,
- Overall supervision and monitoring of the programs,

Impact of SFCLs

The impact evaluation study of SFCL based on some case studies following impacts has been noticed and is explained as follows:

Economic Impact

- The program has made sufficient contribution towards increasing household assets such as moderate housing, improved livestock, and bullock carts. Similarly, savings, shares and insurance funds have been increased. Irrigation systems, bridges, culverts, roads, community buildings, market centers and schools have also been developed as part of the economic impact of the SFCL.
- The cereal grains and vegetable production have been increased more than double in year 2000 as compared to before. Previously insufficient to feed local people of the community, this has now become a surplus even for export.
- The income of the SFCLs members have increased due to milk production, livestock farming and increase in employment opportunities.
- There has been a significant improvement in the access of the poor to institutional credit.
- Small farmers led local multipurpose institutions have evolved.
- Increase in the mobilization of local resources.

Social Impact

- Literacy and training programs have enhanced knowledge and skills of the SF members. The living standard of the poor has been improved.
- Women's empowerment was enhanced and their participation in SFCLs increased.
- Decrease in social and cultural malpractices of the society.
- Success in harnessing people's participation for creating infrastructures such as community building, school, irrigation canals, road bridges, culverts as well as water supply, latrines, milk collection and chilling center are other infrastructures.
- Promotion of marketing facilities of the local products.
- House rehabilitation for the ultra poor
- Contributed towards preservation and utilization of natural resources.
- Improvement in the health and hygiene situation of the community.

Problems and Solutions

Problems	**Solutions**
Lack of alternative leadership (Board members and staff)	Continuous effort to develop leadership through training and observation.
Insufficient support from line agencies.	Incessant effort for coordination and linkage development between line agencies and SFCLs through district ADBN offices.
Insufficient professionalism in entrepreneurship development.	Training to augment awareness, enhance knowledge and skill for entrepreneurship development to explore profitable businesses.

Politicization	Reduction of such through cooperative education.
Lack of discipline in some financial cases.	Controlled through social (groups) pressure and by laws.
Some SFCLs are reluctant to entertain a significant number of ultra poor families.	Creating awareness through training, interaction seminar and workshop.

3.4.10 Summary and Conclusion

Microfinance is a tool for improving the overall well-being of the weaker section of rural Nepal. The rural poor, however, have not been able to benefit to the desired extent due to lack of target group-oriented policies and implementation lapses in the past.

Hence, prior to 1975, there was no sound institutional mechanism to look into larger interest of the rural poor. SFDP, which evolved as microfinance development program in 1975, has the major task of identifying the poor, organizing them into homogenous groups with the help of group organizers and getting them involved in productive activities. Evidences suggest that farmers within SFDP are better off, from income, employment and social status angles, than their counterparts outside SFDP.

> *Because of the positive impact, the SFDP has its greater degree of demand for expansion. ADBN, however, has its own limitations faced as it is with staggering overhead costs. The positive gains do not provide any scope for complacency. It has to carefully look into the past implementation flaws and formulate ways to make SFDP and similar programs a self-reliant program aimed at making a frontal attack on rural poverty. One of the ways devised and implemented is the transformation of ADBN managed SPOs into farmers managed microfinance institution such as the SFCL. Transformation of SPOs to SFCLs has shown a highly positive impact on performance of the SFCLs in terms of loan disbursement, collection, savings generation, capital formation and lower operating costs.*

Since the initiative of the poor people is an urgent need to be developed, transformation of SPOs and effective replication of SFCLs model should be accorded with high priority. For the development of such organization in an accelerated manner, financial support of the Government is urgently required. Thus the SFCL replication strategy could help bring large number of real poor within the domain of the program to receive demand-driven services in a sustainable manner, thereby reducing abysmal rural poverty and inequalities.

3.4.11 SFCL Dumarwana: A Case Study of a Sustainable MFI

The country's Social Reform Agenda believes that microfinance institutions have a large role to play in poverty alleviation. Indeed, some literature on development finance report the unique and significant role played by microfinance institutions in the "war against poverty". Banks rarely lend to the poor, mostly because of information problems, high credit risk perception, lack of acceptable collateral and high transaction costs of processing small loans. MFIs are a valid solution to widespread financial exclusion in Nepal. In order to ensure access to basic financial services (bank accounts, savings, credit, insurance, remittances) to all excluded households, the financial sector will have to accept microfinance as the mainstream of finance. As such, the Government responded by creating a number of credit programs intended to provide the poor access to financial services. On the other hand, the private sector's approach is to use MFIs such as credit NGOs, rural banks, cooperatives and credit unions to reach the poor. However, despite the government's credit programs and the private sector's own approach to providing credit, the problem of lack of access to microfinancial services still persists. Despite the significant role of MFIs in the economy, many MFIs tend to be unsustainable. Among 1,300 MFIs reporting to the MIX in 2006, only about 565 showed a positive return on assets (Richard Rosenberg, 2008).

Many MFIs involved in poverty alleviation programs have weak institutional capacity; they lack a viable and sustainable delivery system. They have a relatively small financial base and face huge investment requirements in staff training and client orientation.

Objective

The basic objective of this study is to assess the sustainability of Dumarwana SFCL on the basis of its operational and financial performance, social performance and its impact on local communities.

A Glimpse of the SFCL Dumarwana

The SFDP Sub-Project Office (SPO) was established by the then Agricultural Development Bank, Ltd. of Nepal (ADBN). The project later transformed into SFCL. Loan assets of SPO was transferred to the Small Farmers Cooperative Ltd. (SFCL) Dumarwana. SFCL is a cooperative of small farmers duly registered under the Cooperative Act of Nepal. It is fully owned, managed and controlled by the local poor and marginalized farmers. The main working area of this SFCL is Dumarwana and Pipra Simra. The total population of these VDCs is 47,486 of which female population is 24,218 and male 23,268. Out of the total households 6,936, 6,321 households are poor likely to be served under microfinance program. Till date, this SFCL has served 2,289 households (36 percent) and has a plan to serve the remaining households within a period of coming five yrs. In the course of expanding its outreach, the SFCL has started providing microfinance services in neighbouring Nijgarh VDC recently. Tharus are the indigenous cast of these VDCs. However, other major ethnic communities are Brahmin, Chhetri, Newar, Magar, Gurung, Rai, limbu, Damai, kami, Srki, tamang, Yadav, Dhangar, Kalwar, Chamar, Dusadh, Musahar, Bhuihar and Muslims.

SFCL's Activities

- Animal Artificial fertility service
- Livestock medicine and food grains sales and distribution.
- Sale and distribution of chemical fertilizers, seeds and insecticides.
- Replication and Business expansion program.
- Milk collection and sale and processing (Dairy operation)
- School operation

SFCL Products

- **Savings Products**

Regular savings	Festival savings
Voluntary savings	Khutruke savings
Daily savings	Provident fund savings
Child savings	Pension savings
Fixed saving	Mahila Pewa savings
Insurance savings	

- **Loan Products**

Irrigation	Alternative energy
Agriculture	Livestock
Land purchase	Small trade (Rs100,000)
Large trade (700,000)	Hire purchase
Foreign employment	Housing loan
Social work (Rs25,000)	Contingent loan (Rs10,000)
Educational loan	

- **Insurance Products**
  Member's life/accident insurance
  Livestock insurance

- **Remittance Services**
  SFCL provides remittance facility to members and non-members as well.

SFCL Dumarwana: A Unique MFI

SFCL Dumarwana possesses the characteristics of both Development MFI and Commercial MFI. Developmental MFIs focus more on the poor and on social impact, and offer more broad based financial services such as micro insurance and remittances. On the other hand the commercial MFIs focus on microcredit to those slightly above the poverty line. They diversify in lending to include housing and personal loans. Their portfolio grows and they become increasingly dependent on banks for funding. Considering that Dumarwana SFCL is focusing more on the below poverty line population along with financial services to above the poverty line population as well pooling resources from banks and financial institutions, it can be considered as a unique MFI in Nepal.

Innovative Services Offered by the SFCL Dumarwana

Development and Social Works

- Secondary level English boarding school operation.
- Service for agricultural technicians along with distribution of seeds, fertilizers, insecticides and pesticides.
- Full Scholarship to 20 students from low income households (Dress, stationeries to 10 students).
- Maternity assistance of Rs500 for two deliveries.
- Respect with Dosalla to 10 old members above 60 years on the basis of their contribution and Rs1000 each for nutritious food.
- Community road construction, support to local school, temples, etc.

Social Safety Program

- Member's life and accident insurance of Rs40,000 with a premium of Rs400 annually.
- Free health check up once in a year.
- Rs25,000 to a family for death rituals in case the member dies.
- Livestock insurance along with the service of livestock technician, artificial conception (Rs150 if insured and Rs250 if not insured)

Performance Analysis

Operational Performance

- **Members/Borrowers**
  In mid of 2009, the total number of members and borrowers of Dumarwana SFCL were 2,843 and 1,980 having an annual increment of 15 percent and 19 percent, respectively. Out of the total number of borrowers, women borrowers constitute 86 percent (1,702). Borrowers are 70 percent of the total members. Annual increment in number of clients over the period of five years is 23 percent.

- **Loan portfolio analysis**
  The total loan outstanding in mid-July 2009 is Rs81,177 thousand with 1980 borrowers, average loan outstanding being Rs41 thousand. However, 436 borrowers have a loan outstanding of less than Rs10 thousands. Loan disbursement of this SFCL was Rs128,744 thousand in mid-July

2009 which was Rs19,132 thousand in mid-July 2005, the annual increment being 21 percent. Gross Loan portfolio annual growth over the period of five years has been 18 percent (Rs18,959 thousand in 2005).

- **Portfolio quality**
  The total non-performing loan assets of the SFCL is 758 thousands in mid-July 2009 which is about 1 percent of the total outstanding loan portfolio. This non-performing loan is annually decreasing by 27 percent (NPL was Rs1,236 thousand in 2005). Interest receivable which was Rs961 thousand in 2005 has become nil by mid-July 2009.

- **Internal Resources**
  Internal Resources include member's saving, share amount and client's security fund. Internal resources of this SFCL had seen exponential growth over the years. By mid-July 2009, this resource has come to be Rs66,304 thousands from Rs12,750 thousand in mid-July 2005 annual increment being 19 percent. The internal resources of the SFCL contributes to 82 percent of the total loan portfolio. Members' savings reached Rs57,683 thousand in July 2009 which was Rs11,945 thousand in 2005. Average saving amount per member was Rs20 thousand in 2009 from Rs11 thousand in 2005. Thus savings amount per member has annual increment of 10 percent.

- **Employee's Efficiency/Productivity**
  There are currently 10 employees working in SFCL. The number of clients per employee and the number of depositors per employee counts 198 and 284, respectively in July 2009. Loan outstanding per employee and savings per employee is Rs8,118 thousand and Rs5,768 thousand respectively. Loan outstanding per employee was Rs2,106 thousand and savings per employees was Rs1,327 thousand in July 2005.

- **Repayment Rate (RR)**
  The loan repayment rate of the SFCL in mid-July 2009 was 99.3 percent. It was 99.1 percent, 99 percent, 94 percent and 94 percent in the previous four years, respectively.

Financial Performance

Financial performance measures MFI's ability to attain operating and financial self-sufficiency. The analysis of financial performance includes income analysis, expenses analysis and self-sufficiency analysis.

- **Income Analysis**
  Interest is the primary source of income of MFIs. Income reflects the productivity of the MFI in mobilizing the available resources. Dumarwana SFCL has earned interest income of Rs12,845 thousand during the period of one year (2008/2009).The interest income has annually increased by 17 percent over the period of last five years (Rs2,990 thousand in July 2005). Interest income and interest expenses ratio was 2.53:1 in July 2009. However, it was 2.95:1, 2.98:1, 3.95:1 and 3.02:1 in previous years 2005, 2006, 2007 and 2008, respectively.

- **Yield on Gross Portfolio**
  Yield on gross portfolio was 8 percent in July 2009. The yield has a decreasing trend by 19 percent annually over the period of last five years. It was 14 percent in 2005 and 12 percent, 11 percent and 10 percent in the subsequent three years.

- **Operating Expenses Ratio**
  Operating expenses is 2 percent of loan outstanding in 2009. It was 4 percent and 3 percent in 2007 and 2008, respectively. These expenses being 2 percent and 3 percent in 2005 and 2006, respectively, with annual decrease over the years at 9 percent.

- **Risk coverage ratio**
  Risk coverage ratio in 2009 is 102 percent.

Table 1. Self-Sufficiency

	2005	2006	2007	2008	2009	Annual Increase (%)
OSS (%)	163	157	214	171	172	2
FSS (%)	134	138	167	133	134	0

Table 2. Return Analysis

	2005	2006	2007	2008	2009	Annual (%)
RoE (%)	19	29	23	20	26	2
RoA (%)	4	4	5	5	6	8

- **Book net worth and earning per share**
  There has been a substantial growth in book net worth of the SFCL. The net worth has reached Rs18,866 thousand in 2009 from Rs4,666 thousand in 2005, the annual increment of the net worth being around 20 percent. Earning per share of the cooperative is Rs57.38 in 2009 from Rs48.72 in 2008.

Table 3. Growth Analysis

	2005	2006	2007	2008	2009	Average Annual Increment
Portfolio Growth (%)	14	20	16	83	67	25
Performing Assets Growth (%)	18	21	28	66	63	21
Total Assets Growth (%)	17	21	24	64	62	21
Client Per Employee Growth (No.)	126	175	239	245	284	14

- **Governance and Transparency**
  Periodic group meeting, meeting of the Managing Committee in a regular basis to discuss and decide on policy issues, follow up and monitoring of the works performed by the staff, compliance with the cooperative Act and rules along with the prudential and non-prudential regulations set for the cooperatives and MFIs, Protection of the right of share holders by declaring reasonable dividends during annual general meetings, proper recording and reporting system, formation of audit committee, loan committee and various other sub-committees clearly mentioning their rights and duties, etc. ensure governance and transparency in the cooperative.

Social Performance of the SFCL Dumarwana

(Based on the Study Report of GTZ-PSP/Rufin in 2007)

Methodology of the Study Report

The methodology primarily followed a qualitative method which involved using a mix of secondary research followed by board members/employees workshops, purposive group discussions and in depth interviews with the SFCL manager. The study heavily drew on the findings of five focus group discussions (FGDs) with the members from the steering committee, women clients, clients from socially excluded groups, mixed group and non-SFCL members. The information was collected on the basis of indicators defined to measure the social performance and impact of the MFIs.

This report reviewed the social performance of Dumarwana SFCL on the basis of the following core social issues: a) outreach to the poor and excluded, b) adaptation of the services and products to the target clients, c) improvement of social and political capital of clients and d) social responsibility of the institution

Outreach to the Poor and Excluded

The area covered by the SFCL is rural where 74 percent of the members are women, 50 percent are socially excluded, 50 percent are landless tenants and 25 percent are illiterate individuals. It has to be noted that these categories are mutually exclusive.

In order to improve the depth of outreach, SFCL, together with the VDC conducted a household survey. Findings reflected that the poorest of the poor were excluded from using their services. The SFCL worked on looking for alternative means of loan security that suits the cash flow patterns of the asset less poor and the disadvantaged. The SFCL decided to increase their scale in terms of number of clients and the number of segments and declared fiscal year 2005/06 as "Membership Increment Year".

They developed strategies and invested resources to include socially and economically excluded women through collateral free loans. With this strategy, the SFCL has been able to increase its women membership to 72 percent from 693 to 1,192 in two years time by accepting to provide loans only secured through "social" collateral. The eligibility criteria for membership reflect that the SFCL believes in reaching the poor and excluded mass. The farmers who own more than one and half bigas (about 1 hectare) of land, government job holders or who has more than NPR2,500 monthly income are not eligible to avail loan from the SFCL.

The SFCL is now planning to expand to the adjoining VDC as per the model jointly developed by ADBL and GTZ. This strategy aims at diversifying the risk and reaching to the wider segment. The transaction size ranges from NPR10,000 to 75,000 depending on the client's need and performance over the period of time. However, it must be noted that the size of transaction cannot exceed NPR10,000 for the collateral free loan.

Adaptation of the Services and Products to the Needs of the Target Clients

Dumarwana SFCL provides two types of loan products, medium term (2 1/2 years) and short term (1 year). The types of short terms loans are production (agriculture), trade, hire purchase TV, motorbike, fridge), and foreign employment. The loans provided for livestock, irrigation, alternative energy, and cottage industry (sewing/cutting, tile, rice mill, bread factory etc.), would fall under medium term loan. Consumer/emergency loans are provided only up to NPR10,000 for members with good credit ratings (green card holder). Loans are also provided against the savings of the members.

The SFCL provides different types of voluntary savings products such as children savings, *pewa* savings, among several others. Pewa savings is designed exclusively for women, whereby they can save money collected from different sources like gifts from parents, as well as savings from household expenses. This kind of savings is kept confidential even from the other family members. The SFCL is planning to introduce emergency and education savings in the future, where the emergency fund would be used for health and education purposes. The institution has also been providing livestock insurance and has recently introduced loans for life insurance. Moreover, SFCL started a remittance services program through the SKBB wherein 60 percent of the commission goes directly to the bank.

Dumarwana SFCL has developed a number of new initiatives to meet the needs of those people excluded from its mainstream microfinance program. They have started providing banking services to the business community of that area and even non-members are encouraged to do regular savings.

Repayment is pretty adaptable as the members enjoy the flexibility of repaying the loan even before the maturity date. The installments on principal and interest are paid on a monthly basis in order to instigate regular paying habit. If a member fails to pay monthly interest, then he or she has to pay 2 percent more interest. If the principal is not paid within the due period, the borrower has to pay 4 percent more interest. Once the loan is sanctioned, SFCL employees themselves go to the members for the regular transactions. The credit committee meets once a month to decide the grounds of giving loans to a borrower.

At present, the client drop-out rate is only one percent. A wide variety of factors can influence a client's decision to stop borrowing, leave her savings account dormant for long periods, or withdraw from the program. But the SFCL has not conducted exit interviews to identify the reasons for dropping out. However, the SFCL warns the clients well in advance if they have intentions to willfully default. But the management would consider restructuring of loans if the client fails to repay the loan due to unforeseen situations.

The poor and the excluded require information, knowledge, and skills for growth and development. They have very limited opportunities for accessing these services, unless the MFI deliberately makes these available to them. The SFCL is instrumental in providing various services to ensure that the clients can have access to the non financial services as well. In some cases they have collaborated with other local organization like District Agriculture Development Office (DADO), District Veterinary Office (DVO), NGOs, and business community.

The SFCL had provided training on management of family budget to its clients where the clients were taught to calculate their disposable income to better manage their expenses and savings. Together with the local NGO, SFCL conducted literacy classes to its members. They have also set up milk collection facility to develop business linkages between farmers and the market. They also buy feed for the livestock in bulk and sell to the farmers to ensure higher quality and cheaper price. The SFCL acts as a focal point for any development or social projects who want to enter Dumarwana VDC with a view to facilitate access to other social organizations.

In order to enhance participation and generate ownership, the employees of SFCL discuss about the possibilities of introducing innovative services among the group members. As a result new services like milk collection, establishment of chilling center, mobilization of Junior Technical Assistants (JTA) were introduced.

The SFCL has invested in dairy products manufacturing with 35 percent shareholdings and has established one chilling center and seven dairy collection centers in different rural areas. The milk collected in all seven collection centers is brought to the chilling center from where it is sold to the private dairy firm called Amrit Dairy Pvt. Ltd., in Simara. They have also invested in private school.

Improvement of Social and Political Capital of Clients

A major cause of social exclusion is the lack of access to social and political capital on the part of the people. Dumarwana SFCL has tried to address this root cause. They believe that 'information is power' and provides adequate information about the financial terms and conditions to the clients. The monthly loan statement of the SFCL differentiates between the amount of the principal and the amount of the interests and fees to be paid. The clients are given passbooks where every loan as well as savings transactions are recorded. Annual accounts of the SFCL are published and the clients have access to it.

There are 13 inter-groups and one representative from each inter-group is elected as a Board member. One inter-group is composed of 6-10 groups. Among 13 board members, 2 are women and 4 are from *Janajaties*. The SFCL has 75 percent and 50 percent women and socially excluded membership, respectively, but this encouraging women participation is not reflected in the Board.

The term of the Board members is three years. These Board members meet once a month. The elected members have received training and study tours organized by GTZ, and SKBB. The SFCL has provided leadership trainings for the group leaders. The SFCL is very instrumental in influencing the decisions concerning the public policy of the local government as the local VDC has set aside a quota for representation from SFCL. The management feels that their representation in local VDC has enhanced the voice of their clients in influencing the public policy.

Social Responsibility of the Institution

SFCL's responsibility to society is to create sustainable value to all stakeholders, including clients/shareholders, employees and the community, in an environmentally and socially responsible manner. Social responsibility requires an adaptation of the MFI corporate culture to their cultural and socio-economic context, an adequate human resource policy, credit guarantees adapted to the local conditions, and balanced relationships between staff and clients.

Social Responsibility to Employees

The MFI enhances its social responsibility to its employees by being fair to them, taking care of them, and providing them opportunities for professional growth. With regards to employee participation in decision making, they feel proud that management decisions are mostly based on the minutes of the staff meeting. The recommendations made by the staff are well respected. In the period of the last 12 months, there has been no employee turnover.

Social Responsibility to the Clients

The MFI enhances its social responsibility to its clients by being sensitive to their needs, taking measures to understand their situation and local language, and providing them the means to recover in times of collective disaster. The SFCL had introduced a special kind of savings exclusively for women members where they have the opportunity to deposit their personal savings and keep it confidential. They have also introduced life insurance scheme for its members that frees the family from the burden of debt in case of death of the borrower. Further they provide additional fund to the deceased's family for performing death rituals. The management would consider restructuring of loans if the client fails to repay the loan in case of natural disaster.

Social Responsibility to the Local Community

The MFI enhances its social responsibility to the local community by understanding the people's culture and values, supporting community projects, and being sensitive to their situation and needs. The SFCL management and the staff respect the culture of the natives (Chaudhary) of that VDC and some of the staff even speak Bhojpuri. The SFCL has assisted the local community through financial support for community projects like school, temple, Monastery (Gumba), Chautara (shed under the three, when community people usually meet and converse on some issues), road construction and tap water distribution. The SFCL has invested in private school where the children from both the members and the non members can attend. The SFCL also provides non financial services to the non members as well.

Impact Assessment

Sustainable development means a balance between economic growth for more prosperity, equal opportunities, and natural resources use for the benefit of present and future generations. Microfinance holds a big promise to reach the poor, empower women, and alleviate poverty, support community development, address environmental concerns to name but a few such goals. In what follows we would aim at understanding Dumarwana SFCL's progress towards the achievement of these goals.

Social Impact

- **Employment creation for the excluded population**

  By the virtue of objective, SFCL has been promoting agriculture and livestock sector which seems to have more priority towards income generation (self-employment) rather than employment generation. The focus is on small savings and loan provision for consumption and production, group formation, etc. Further the SFCL has now concentrated in providing services to the landless tenants in smaller sizes of loans which has even narrowed down the prospective of inducing entrepreneurship which would create jobs. Up till now SFCL has been able to provide eight full-time jobs in the dairy program. However none of the employees represent women and socially excluded. But, the SFCL is instrumental in promoting self-employment.

- **Empowerment: position of individuals in their family and communities; social capital building**

  Access to savings and credit has generated a greater economic role in decision-making among women from Dumarwana. This has enabled women to increase expenditure on the well-being of themselves and their children. Women's control over decision-making is also seen as benefiting men through preventing leakage of household income. With improved women's skills, mobility, access to knowledge and support networks, they have been able to speak up their minds at the community level as well. The women's motivation and confidence level has gone up compared to the time when they were confined within their household. They would go for study tours, trainings if given the opportunity. This confidence was not apparent among the women from the non member group as they feel that they are confined within their own household and don't have the opportunity and courage to participate in community activities.

  Women reflected high confidence in their ability to cope with economic shocks (e.g. loss of an important family member, natural catastrophes etc.), by means of savings, credit, micro insurance products.

  There is a strong cooperation among the women members and this cooperation has led to formation of other social networks as well. One of the strongest social networks is *Ama Samuha,* which consists of mothers with at least one child. These women are instrumental in solving household disputes to major crime like girl trafficking.

  The women were proud that the household disputes have gone down because the women now have a strong unity and if the husband drinks and beats up his wife, the group of SFCL members would go to their house and warn the husband or even take him to the police. The SFCL members with the help of Human Rights organization brought back two of the community girls who were working for circus in India. Two men who were involved in girls trafficking were caught by women members and handed over to the police. The women feel much secure with this safety net. The women members confirmed that the relationship with their husbands has also improved.

- **Health Improvement**

  In the context of savings/credit groups, members started educating and helping each other through health improvement measures being exchanged among the *Pahadis* and *Madheshis* in the area. As a result, *janajatis* have now started investing in cleanliness measures.

  SFCL Dumarwana also provides loans for alternative energy and charges 1 percent less interest for such loan. This innovation in energy has helped improve the health of the members and the rate of respiratory-related diseases has significantly gone down. One of the women member from *dalit* community said that her son had died due to some common illness but in present context such ill luck hopefully would not happen again. Members confirmed that the occurrence of common illness has also gone down. Members would collect money and the SFCL would lobby for discounts in the hospitals to contribute some amount in case a client would need such for hospitalization. Members also confirmed that there have been more and more households that are building toilets. However, in the *janajati* community, such improvement is still not very visible.

  When compared to the non-members, there is no visible difference in health awareness and improvements.

- **Child Education**

  SFCL Dumarwana works to strengthen the livelihood of poor women which would thereby enable children to be freed from obligations at home and pursue their education. The SFCL has also invested in a private school with 25 percent share capital with the objective to increase the quality of education in the community. In 5-6 years' time, Dumarwana has now nine government and three private schools meaning that both the men and women members of the SFCL are very much aware about the importance of child education.

  The awareness level has gone up especially among the girls that they should first attain a college education before getting married. However, a significant proportion of women from the *janajati* group still believe that girls should be married soon after puberty.

- **Conflict Management**

  The SFCL is operating in an area which is highly affected by conflict. But due its good social performance, the SFCL has been able to work smoothly with all the conflict actors. The SFCL does not have any inclination towards any of the leading political parties but works with its own ideology. The membership is not biased against any class, ethnicity and political parties. The SFCL has been instrumental in bridging the gap among different class and caste. At one occasion, members from socially excluded groups were invited by the SFCL to cook and serve food to the so-called 'higher' caste.

  According the members, even, the emerging *Madhesi-Pahari* discord has not influenced them, as the Dumarwana VDC consists of multi-ethnic people who have blended with each other culturally and respect each other's ideologies. The higher comparative living standard and the embracing of women, socially and economically disadvantaged groups have also lowered the potential for any conflict to emerge within the community.

  "Building Local Capacity for Peace at SFCLs" with a mix of Do No Harm approach and some of the analytical tools of Conflict Sensitive Approach to Development has been developed after conducting several field tests in SFCL Dumarwana. Outcomes of this study highlights that addressing the following issues might lower conflict through the following:

- Inclusion of disadvantaged groups like the landless, *dalits* and women even in the decision-making level.
- Changing the lifestyle of the SFCL leaders and staff members by keeping a low profile during the conflict period (i.e. using bicycle instead of motorbikes for field activities).
- Making commitments such as "No use of SFCL property for personal work", among others.
- Conducting regular auditing from internal and external bodies and presenting reports during General Assemblies.
- Inviting different actors involved in the village during the GA.
- Educating SFCL members and other actors on an interest rate structure.
- Giving high priority on savings collection from members instead of depending on bank financing.
- Giving priority on community development activities to show social responsibilities in the village.

Economic Impact

- **Increased Income**

  Most of the households in the member group had access to more than two livelihood sources, and were earning higher income, which had a favourable impact on the acquisition of consumer durables and expenditure on food, education and health.

  As mentioned by the women and men members from the mixed group, purchasing land, feeding quality food to the children, renovation of house were the indicators for their increased income. Some had roof of rice straw in their house, which was then replaced with iron sheet (tin). Similarly, one of the members had purchased two *bigha* (1.25 ha) of land. However, increase in income for the *dalit* community meant their ability to get access to food, treat their children during illness, change of their income-generating activities from temporary wage labour (sand collection and cleaning) and sewing clothes to animal husbandry like goat raising, buffalo raising and opening of cloth shops.

  Non-members also experienced increased income in their households, but they considered that it was not as par with that of the members. However, both member and non-members confirmed that remittance played a dominating role with regards to the increase in income.

  Although the SFCL has been providing access to finance for more than a decade now, the members have surprisingly not yet graduated from income-generating activities concentrated mainly in agriculture and livestock sector to the creation of microenterprises. In agriculture sector, they have been confined to paddy farming. Alternative crops like, fruits, vegetables have not been significantly introduced which would have yielded higher return.

- **Increased Savings**

  Members also affirmed their increase in savings. They clearly attributed this to SFCL because of having a safe place to their savings. Some have made their savings through other informal groups, which are also deposited in the SFCL. According to the participating members, they had about ten million of rupees as savings which was deposited in the SFCL. Non-members, however, did not experience increase in savings. They reflected that they lack the capacity to better manage their funds. This can be contributed to the prior orientation of money management and mandatory savings scheme for the members which non-members do not have the privilege of.

- **Increased Access to Food**

  Increase in access to food was experienced by all groups of respondents including women members, *dalit* groups, members from mixed group as well as the non-members. Such result can also be indicated by the increase consumption of vegetables, meat and other food items in the local market. Male members from the mixed group mentioned that the VDC lacked the capacity to consume one goat some years back. Now, two buffalos and goats are consumed in the local market within one week. Open air market is being run twice a week in the VDC and about seven to eight hundred kilograms of vegetables are consumed in this market. According to them, increased consumption of food is due to the increase in population, but can also be contributed due to the increased income (increased purchasing power) of the people in the community. The intensity of access to food, however, was different for different groups of respondents. Its intensity was higher for women and male members from mixed group than that of the *dalit* members.

- **Increased Access to Credit**

  All groups of respondents acknowledged the contribution of the SFCL for easy access to credit. They also acknowledged the convenience of loan repayment. According to them, they need not to come to the SFCL office to repay the loan and instead repay loan installments from the IGs, which saves their opportunity cost. The *dalit* respondents mentioned that it was easy to acquire loan from the SFCL, but since they had to repay the loan on time they were reluctant to reap this benefit. This statement pointed that the *dalits* lack the knowledge and the capacity to make productive use of the financial resources. All of the respondents mentioned that government owned Grameen Bikash Bank was operating in the VDC, but most of the community people took services from the SFCL because of their prompt service.

- **Women's Increased Self-Confidence in Financial Transactions**

  Increased self-confidence in financial transactions was strongly seen among the women members, which was well endorsed by the male members. Discussions have shown that women can independently handle the financial transactions with the SFCLs. They can come alone to the office to take a loan amount and repay the installments either at the inter-group level or at the SFCL office. However, in *dalit* community, some women still bring their husbands with them while taking loan from the SFCL. This indicates that although the women from *dalit* community have access to credit, they do not have control over it. It can be suggested that they still do not have self-confidence in financial transactions. On the other hand, women from non-members' households are rarely involved in financial transactions.

- **Women's Increased Participation in Income-Generating Activities**

  The discussion affirmed the increase in women's participation, both those from the households of members as well as the non-members, in different income generating activities. In the case of members, SFCL provided opportunity of credit services for the women for initiating income generating activities like farming, animal husbandry, trading etc. Since SFCL has also emphasized in increasing women membership and providing microfinance services to them, their increased participation in income generating activities is prevalent. However, in the case of non-members, their increased participation in the income-generating activities was only a part of their assistance to the activities initiated by their husbands or family members and not by themselves as done by the women members.

  The discussions with different groups of respondents show that the financial performance of SFCL is quite good in terms of increase in income, savings, access to credit, access to food, self-confidence in financial transactions and women's participation in income-generating activities. Members, as well as non-members, were satisfied with the financial services provided by the SFCL. However, this increase in income cannot be attributed to SFCL alone because remittance has also played an important role in the process.

Ecological Impact

The household of Dumarwana VDC confirmed that the availability of loan for the alternative energy has resulted in a positive ecological impact as the trees are not being cut down for energy consumption. The SFCL has subsidized 1 percent interest for the loans taken for alternative energy which reflects their commitment towards the ecological aspect of the area. Additionally, the SFCL also initiated a Tree Plantation program within the vicinity where they planted 7,000 trees.

The farmers have also confirmed an increase in the awareness on use of compost fertilizers for their production. Compost has several environmental benefits as it has the ability to help regenerate poor soils, prevent erosion and reduce the need for water, fertilizers, and pesticides.

Major Findings and Conclusions

The Small Farmers' Cooperative Ltd. Dumarwana can be considered as one of the best performing sustainable MFI in Nepal from the view point of its outreach expansion both in terms of scale and depth, financial sustainability and impact. Discussion with some clients of the SFCL and observation give adequate evidence that the SFCL Dumarwana in a period of a decade has significantly contributed in the socio-economic transformation of the poor communities of two VDCs. Financial sustainability indicators of the last five years mainly RoE, RoA and FSS give a clear indication that Dumarwana SFCL's sustainability is unquestionable. Moreover, the improving financial health of the SFCL over the years as well as its corporate governance and borrower's sustainability along with the organizational sustainability further corroborates the SFCL Dumarwana's further growth and development.

Dumarwana SFCL is an example of how the financial, social and environmental performances of the MFI have complemented each other for the promotion of sustainable development. The SFCL has been instrumental in the instigation of social harmony an itsd sense of belongingness among the diverse community of Dumarwana, especially among women members. The SFCL also endorses the fact that transparency and social inclusion are the key ingredients to make any organization conflict sensitive. Due to its positive social performance, the SFCL has been surviving and growing even in the conflict affected area of the country. The condition of households among the members was significantly better with regards to access to savings and credit facility. Almost all of the households in the member group had access to more than two livelihood sources, and were earning higher income, which had a favourable impact on the acquisition of consumer durables and expenditure on food, education and health.

Recommendations

Based on the above facts about Dumarwana SFCL, the following are recommended for its further viability and sustainability:

- Build up the equity base by infusing more capital from existing owners and new investors;
- Diversify loans, savings and other financial products/services according to client needs and demands;
- Externalize the training costs of the poor by providing access to grants and government financial assistance but abiding by the principle of matching grants with MFI funds;
- Promote training in financial operations, resource mobilization, portfolio management, risk assessment and management, product pricing, management of loan arrears, strategic and business planning, among others;
- Invest in the development of new product lines and services, new microfinance technologies, broadening and deepening of microfinancial services, and adaptation of the "best practices in microfinance";

- Improve systems and procedures such as automating systems and operating procedures, upgrading and institutionalization of performance standards, setting up internal control systems, conduct of periodic management audits, installation of updated and standardized accounting and reporting system;
- Training and development of career paths for capable staff, upgrade pay scales and incentive schemes to retain good personnel;
- Professionalize management and staff, and;
- Set competitive but sustainable pricing of products/services.

3.5 From Microfinance NGO to a Microfinance-oriented Rural Bank: The CARD MRI Continuing Saga

by Dr. Enrique L. Navarro, CMDI Institute Director, CARD MRI

3.5.1 Start of the Saga

The year 1986 was an epiphany for many Filipinos. The people power revolution liberated the Philippines from years of dictatorship. Suddenly, hope and euphoria took over the once tumultuous and fear-stricken land. It was the beginning of change.

Optimism was in the air. The clamor for transformation resulted to at least 3,000 NGOs that capitalized on the interests of international donor agencies to help rebuild the country. In December 1986, Dr. Jaime Aristotle B. Alip organized the Center for Agriculture and Rural Development (CARD) together with 14 development practitioners. He worked with an initial capital of Php20.00 ($0.50) and a battered typewriter. Amidst the scarcity of resources was an overflowing passion and commitment. The group has one goal in mind: to promote rural enterprises among the poor. CARD became a social development foundation responding to the growing needs of the impoverished communities in regions 4 and 5, particularly in the provinces of Laguna, Quezon, Mindoro Oriental, Marinduque and Masbate. Its vision was to establish a bank created for, owned and managed by landless poor women.

In 1988, CARD received its first grant from the Asian Community Trust (ACT), then headed by Takayoshi Amenomori. The fund, amounting to US$20,000, was used to implement a training-focused economic assistance program for landless rural workers in San Pablo City and Bay, Laguna.

CARD pilot-tested the solidarity group lending in 1989. The group modified and tailored the Grameen model to suit the Philippine context. In 1990, CARD launched its flagship program – the Landless People's Development Fund (LPDF). The group continuously refined their methodology, keeping in mind their twin goals of outreach and sustainability. The process unfolded challenges that proved to be strenuous yet awe-inspiring.

As CARD continues with its mission, it caught the attention of other donors: PDAP, DAR-DRDAP, Philippine-Australian Community Assistance Program, UNESCO, Grameen Trust, Catholic Relief Services, Land Bank of the Philippines, RKK Fund for Peace, Misereor, Bilance, PCFC, Plan International, World Vision, German Savings Bank Foundation and CGAP, among others.

3.5.2 The Big Leap

A convergence of factors opened the door for CARD's transformation from a microfinance-oriented NGO to a microfinance-oriented bank. A number of key motivating grounds for the "big leap" happened in late 1995 to early 1996. These were:

1. *CARD NGO experienced donor agency fatigue*. The funding agencies could only support CARD NGO during the pilot phase. This posted a challenge on CARD's plan for expansion since it would deem bigger financial requirements.
2. *CARD NGO felt pressured from networks as well as its own Board Members to undergo a rapid expansion*. CARD NGO felt the demands from different networks such as PHILNET, CASHPOR and GRAMEEN. The pressure increased as the MicroCredit Summit of 1996 came near. Nonetheless, these networks that pursued CARD NGO to an ambitious expansion never left its side. Grameen Trust helped CARD NGO to open new branches, CASHPOR provided

technical and training assistance while PHILNET aided in policy advocacy and convinced the government (through the PCFC) to provide more funds to microfinance institutions.

3. *CARD NGO was rejected by big donors because they (donors) wanted to work only with formal microfinance institutions.* CARD NGO was denied of partnerships or assistance because some donors wanted to deal with well-known and established microfinance institutions.
4. *Bank establishment become more conducive because of liberalized banking regulations.* The 1980s marked the liberalization of interest rates and the 1990s broadened the reforms of financial sector. The Philippine government under President Fidel V. Ramos, together with the country's major decision makers, also showed an unwavering commitment to develop and reorganize the financial sector, especially the banking segment.
5. *CARD NGO worried that the Central Bank of the Philippines will soon ask NGOs to stop mobilizing savings.* The deposit-taking function of NGOs involved in credit and savings programs stirred a debate in 1996 to 1997. Legally speaking, only banks and cooperatives are allowed to mobilize public savings.
6. *CARD NGO succeeded in the replication of Grameen Bank.* After subsequent modifications to make the Grameen model work in the Philippine context, CARD has proven that an NGO can be both organizationally and financially viable and sustainable.
7. *CARD NGO learned that banks can access other lending windows, rediscounting windows and other financial services and products both from the government and other financial institutions.* Through their interviews and dialogues with banking experts, CARD NGO realized the advantages of being a bank and the role it would play in its expansion plans.
8. *CARD NGO placed a huge weight in the members' expectations.* CARD NGO felt that the members would like to realize their dream of having their own bank. After all, it was the group's vision from the very beginning.

The increasing number of CARD members also meant another important occurrence- the members' growing needs. This calls for another venue wherein these needs can be addressed, hence CARD's transition from an NGO to a bank. If the functions of a bank will be added to the existing features of the CARD NGO, the services will be more functional and more suited to their needs.

Finally, in August 1997, the *Bangko Sentral ng Pilipinas* granted CARD NGO the license to operate as a rural bank in San Pablo City. Their initial paid-up capital was Php5 million (US$167,000). During this time, 4 out of the 13 NGO branches were transformed into a bank using a phased approach.

The transition from CARD NGO to CARD Bank has begun. Transitioning enables CARD NGO members with good or prime credit standing to avail of the microfinance, small and medium (MSME) loan facility or services from CARD Bank. This results to more loans and deposit products to borrowers/members. The business strategy or model promotes religious payment of obligation among the members as this is a qualification for transitioning.

As in all processes that require transition, confusion and disarray are inevitable. In order to ensure a smooth flow and conduct of the said process, a Transition Team was organized. This is composed of CARD Bank, CARD NGO unit to be transitioned and internal Audit, and IT officers. Also, a Task Force composed of CARD Bank's officers was created to make sure that there will be a smooth orientation from the first day of the transition onwards. Their task was to do an initial orientation of the staff and centers.

The Transition Team has several objectives. These are:

1. To ensure that the grant of new loan facility to borrowers/members are in accordance with borrower's paying capacity, among others, and CARD Bank's existing lending policies and procedures;

2. To ensure that appropriate loan review/evaluations and documentations are done by CARD Bank as transition progresses;
3. To ensure accurate, timely and risk-free transitioning of all qualified members to CARD Bank with full understanding, participation and commitment by all staff involved in different areas covered for transitioning;
4. To monitor the transition process giving importance to any issues and concerns that may arise concerning members/clients, mandatory savings more popularly known as capital build-up or CBU, accounts, the processes and staff, among others; and
5. To ensure that the transaction is in accordance with BSP rules and regulations.

The transition process involves a number of procedures. **First** is the **proper orientation and briefing of CARD NGO borrowers/members**. Once both the management of CARD Bank and CARD NGO have agreed and recognized areas to be transitioned, borrowers/members are informed of the intended transitioning. The benefits they can avail under CARD Bank are also discussed. Once qualified, members/borrowers who wish to avail microfinance loans or small and medium loans will be required to apply for a loan facility with CARD Bank. All forms, CIBI/validations of loan applications, loan evaluations, documentations, disbursements and administration as well as monitoring and attendance in center meetings shall be in accordance with CARD Bank's standard operating procedures. There are two general criteria required for a member to be qualified as a borrower. First is a good or outstanding repayment record and second is her willingness to obtain or avail a loan facility or service based on her paying capacity, among others, under the policies and procedures of CARD Bank. Those with past due accounts or unpaid amortizations are not qualified to be transitioned. This policy will make certain only those with good quality loan portfolios are transitioned. It also encourages the members to maintain their good credit standing. Furthermore, two items – loans and CBU – are considered during the transition.

Second is a **Comprehensive Data Review and Audit to be conducted by the Internal Audit Team.** This is done to determine the accuracy of member's record and to guarantee that there are no past due accounts or unpaid amortization.

Third is the **performance of standardized steps or procedures in data migration courtesy of the CARD MRI Information Technology Company.** After all the issues regarding accuracy of records and correctness of balances of CBU and loans have been cleared or settled, CMIT performs a standardized steps or procedures in data migration. These are:

a. Encoding of balances by CARD NGO as of cut-off date into the excel format;
b. Encoding of on-going transactions from cut-off to the intended date of data migration;
c. Balances are compared with the AO ledgers and AO Summary (these are simultaneously being audited by the audit team);
d. Upon reconciliation and audit, data migration to E-banker is done from the branch opening onwards; and
e. Data migration of one CARD, Inc. branch takes about a week provided all data are reconciled.

Lastly, all loan documents are processed from CARD NGO forms to CARD Bank forms.

3.5.3 Making Waves

From four transitioned banks in 1997, CARD Bank has 39 branches to date and is serving 430,399 members all over the Philippines. Its vision-mission has clearly been a guiding force to the institution. CARD Bank has remained tenacious with its goals and objectives in mind.

"Sikap" is a Tagalog term for "effort," "zeal" or "diligence." It is a highly regarded nature of the Filipinos epitomized by their decisive work ethics, time management, a strong guard against laziness, and full concentration in their work. This is also the term used by CARD Bank to name its products and services. "SIKAP" is a regular loan. It is also called "Regular" or "Project" loan as it is primarily used as a start-up or additional capital for a microenterprise. "Additional SIKAP" is intended for the family's emergency needs such as medicine, tuition or hospital fees. Members with higher loans can avail the SIPAG Flex or SIPAG Term loans. "Sipag" is another positive Tagalog word which means "industrious." Other products and services such as Kiddy Savers (children's savings scheme), PhilHealth Loan (health loan), Hapinoy Loan (convenience store loan) and time deposit plans are some of the innovations created by CARD Bank to continuously respond to the needs and demands of its continuously growing members.

Headed by President and CEO Dolores Torres, CARD Bank proves itself as one of the movers and shakers in the field of Microfinance. Along with the captain are her comrades in this bout to meet the needs and uplift the lives of the Filipinos.

3.5.4 The Saga Continues

The transition from CARD NGO to CARD Bank, though quite a stretch, proves to be a feat. Employees and members are found to be "informed and well-acquainted" with the process involved in transitioning. Benefits and all relevant matters were also tackled to the members before the transition. Transparency is always observed and valued.

The transition process is *still* a challenge. Time unfolds itself as a "difficulty" since the process requires sufficient time and attention. Other than that, the method is deemed acceptable. Training for the officers who will be involved in the transitioning process is being tackled as well. This is to improve their capabilities in handling such functions.

CARD MRI always listens to the continuous requisites of its members, making sure that everyone is heard and recognized. Like a two-way street, the transition from CARD NGO to CARD Bank will always be imminent. The saga will always continue.

Annex 1

Closing Speech of
Her Excellency TAL NAY IM,
Director General, National Bank of Cambodia

Mr. Won-Sik Noh, APRACA, Secretary General
Excellencies, Distinguished Guests, Ladies and Gentlemen.

Our two-day event, the **National Microfinance Development Forum: Revising and Deepening the Roles of MFIs in Poverty Alleviation,** is coming to an end. Overall, I highly appreciate the active discussions that resulted to a successful and fruitful forum. Through the presentations and discussions raised by representatives of the supervisory authority – National Bank of Cambodia, international financial institutions, ACLEDA Bank, microfinance institutions, Cambodian MFIs, I believe that all the participants broadly understood the microfinance policy environment and regulatory framework exchange and share experiences. All of these would serve as a good basis for preparing strategies and future direction to outreach financial service access, and making recommendations to strengthen the individual institutions.

May I take this opportunity to take the Excellencies, ladies and gentlemen for taking your valuable time to attentively participate in this forum and sharing your meaningful discussion. Also, may I express my gratitude to Asia-Pacific Rural and Agricultural Credit Association (APRACA) for both moral and material support to make the forum successful. I would also like to thank presenters from different international financial institutions, ACLEDA Bank and Cambodian MFIs for the excellent presentations and experience sharing.

Excellencies, Ladies and Gentlemen, Distinguished guests

I would like to sum up the main points of the presentations and discussion of this two-day forum as follows:

A – MFI Policy Environment and Regulatory Framework

As a supervisory authority of banking and financial system, the National Bank of Cambodia is responsible for licensing, issuing prudential regulations, and supervising the whole banking and financial system including MFIs.

Before issuing any regulations and Prakas, the National Bank of Cambodia has always provided opportunities to and taken into consideration the ideas of all related parties; moreover, the issued-prudential regulations are always appropriate to the size, characteristics, operation and activities of microfinance sector. Furthermore, the National Bank of Cambodia has regularly reviewed to find means to maximize the prevention of risks and to provide a conducive environment for the sustainability of microfinance institution as well as the sector as a whole.

B – Successes and Challenges of Microfinance Institutions

We found that the microfinance sector has had a great success in sustainability helping the poor. This success is owing to the sustainable policy and economy. Meanwhile, this success is also due to the participation and support of all parties concerned such as supervisory authority, local authority, donors and lenders, especially the efforts of individual MFI.

However, MFIs still face challenges, such as shortage of source of fund in riel, high cost of borrowings, multiple loans, and lack of financial information and collateral of the customers. Another challenge is maintaining the culture of social performance management. These factors are obstacles to the expansion of the microfinance institution to meet the demands on time.

C – Status of Transformation and Emerging Developments in Microfinance

Based on the presentations of the forum, we found that in order to successfully transform into a licensed-MFI, there should be clear identification of shareholders, capital, business plan, human resources, management structure, and management information system. This experience tells the NGOs and registered rural credit operators aiming to become a licensed-MFI to always prepare and be ready to overcome any challenges.

Excellencies, Ladies and Gentlemen, and Distinguished Guests!

Microfinance sector plays a very important role in poverty alleviation. In particular, under the wise leadership of Samdech Akka Moha Sena Padei Techo Hun Sen, the Prime minister of Cambodia, our microfinance sector has played an active role in contributing to the poverty alleviation and developing sustainable economic development through the small financial intermediation in rural areas and providing credit to the poor for establishing and expanding their businesses.

Meanwhile, I believe that the two-day forum really sparks new ideas and experiences to the microfinance sector as a whole. It also served as a reminder to continuously strengthen and expand institutions in the sector and to extend their services to the poor even more.

Finally, I would like to thank again the Excellencies, ladies and gentlemen, and distinguished guests for attending this forum and I would like to wish all of you good health, happiness, and success in all your future endeavors.

With this, I declare the closing of the **National Microfinance Development Forum: Revising and Deepening the Roles of MFIs in Poverty Alleviation.**

Annex 2

Program
National Microfinance Development Forum: Revising and Deepening the Roles of MFIs in Poverty Alleviation

Hotel Cambodiana, Phnom Penh, September 06-07, 2010

Day 1: September 06

08:00–08:30	Registration
08:30–08:40	Arrival of honorable guests
08:40–09:20	Opening Ceremony – Speech by **Mr. Won-Sik Noh,** APRACA Secretary General – Speech by **H.E. Neav Chanthana**, Deputy Governor of the National Bank of Cambodia
09:20–09:50	Photo Session, Press Interview, Break
09:50–10:30	MFI Policy Environment and Regulatory Framework By **H.E. Tal Nay Im**, Director General of the National Bank of Cambdoia
10:30–12:00	Plenary Presentation – Status of Transformation and Emerging Developments in Microfinance – The Case of the Philippines: CARD MRI – The Case of Nepal: Sana Kisan Bikash Bank/ADBL – Q&A
12:00–13:30	Lunch
13:30–15:15	Plenary Presentation – Status of Transformation and Emerging Developments in Microfinance (Con't) – The Case of ACLEDA Bank – The Case of AMK Microfinance Institution – The Case of Prasac Microfinance Institution – Q&A
15:15–15:45	Break
15:45–17:00	Plenary Presentation – Status of Transformation and Emerging Developments in Microfinance (Con't) – The Case of Sathapana Microfinance Institution – The Case of CICM Cambodia – Q&A

Day 2: September 07

08:30–10:00	Plenary Presentation – Status of Transformation and Emerging Developments in Microfinance (Con't) – The Case of Lao PDR: Microfinance Center of Lao PDR – The Case of Bangladesh: ASA – Q&A
10:00–10:30	Break

10:30–12:00	Plenary Presentation – Status of Transformation and Emerging Developments in Microfinance (Con't) – The Case of India: SIDBI – The Case of Amret Microfinance Institution – Q&A
12:00–13:30	Lunch
13:30–15:00	Panel Discussion – Access to Finance and the Ways Forward Panelists: 1. H.E. Son Koun Thor 2. H.E. Tal Nay Im 3. ASA 4. MFC Lao PDR 5. ADBL Nepal 6. Sathapana Microfinance Institution 7. Mr. Benedicto S. Bayaua, APRACA Consultant, (Moderator)
15:00–15:30	Break
15:30–17:00	Synthesis, Conclusion and Recommendations – **Dr. Enrique L. Navarro**, Director, CMDI, CARD MRI – **H.E Tal Nay Im**, Director General, National Bank of Cambodia
17:00–17:30	Closing Speech by **H.E. Tal Nay Im**, Director General of the National Bank of Cambdoia
17:30–21:00	Dinner Party Hosted by NBC
Day 3: September 08	
	City Tour
Day 4: September 09	
	Departure

Annex 3

National Microfinance Forum
Cambodia, 6-7 September 2010

List of Participants

LOCAL PARTICIPANTS

Cambodia

1.	H.E. NEAV CHANTHANA, Deputy Governor	National Bank of Cambodia
2.	H.E. TAL NAY IM, Director General	National Bank of Cambodia
3.	H.E. SON KOUN THOR, Chairman & CEO	Rural Development Bank
4.	MR. IN CHANNY, President & CEO	ACLEDA Bank
5.	MR. CHEA PHALARIN, General Manager	MFI AMRET
6.	MR. SIM SENACHEERT, General Manager	MFI PRASAC
7.	MR. PETER PATRICK POWER, General Manager	MFI AMK
8.	MR. SOKRETH THAN ISSARA	Rural Development Bank
9.	MR. NHEN BORADEN	Rural Development Bank
10.	DR. BUN MONYCEO	MFI SATHAPANA
11.	MR. HORN SEANG HO	CICM-Cambodia
12.	MR. CHOU VANNAK	Ministry of Economy and Finance
13.	MR. TUNG TITHANOU	Ministry of Economy and Finance
14.	MR. NEY SAKAL	Ministry of Economy and Finance
15.	MR. CHHAN PONLOEU	ACLEDA Bank
16.	MR. CHAR SOPHEAP	ACLEDA Bank
17.	MISS. HOY SOPHEA	Cambodian Microfinance Association
18.	MR. CHEANG VANNA	Cambodian Microfinance Association
19.	MR. PHAT REATANA	AMRET MFI
20.	MR. TEANG SRENG	AMRET MFI
21.	MR. TOUCH LINA	Hathakaksekar MFI
22.	MR. SAR SOKHA	Hathakaksekar MFI
23.	MR. CHOUN SOPHAL	TPC MFI
24.	MR. MICHAEL SPRINGLER	TPC MFI
25.	MR. VAR MUTH	MFI SATHAPANA
26.	MR. NEAV SOKUN	MFI SATHAPANA
27.	MR. KUCH SETHA	Seilanithi MFI
28.	MR. KUCH KUNTHEN	Seilanithi MFI
29.	MR. PETER PATRICK POWER	AMK MFI
30.	MR. KEA BORANN	AMK MFI
31.	MR. PAUL LUCHTENBURG	AMK MFI
32.	MR. CHEE CHIN HOE	VFC MIF
33.	MR. CHANN SAVOEUNG	VFC MIF
34.	MR. HEANG KIM	Credit MFI
35.	MR. ROM VANNARA	Credit MFI
36.	MR. OUM SAM OEUN	MFI PRASAC
37.	MR. OUM SOPHAN	MFI PRASAC
38.	MS. MEAS PISEY	CCSF Registered Rural Credit Operator
39.	MS. CHHONG LYDANE	CCSF Registered Rural Credit Operator
40.	MR. KIM BUNTITH	CBIRD MFI

41. MR. SIN SINN	CBIRD MFI
42. MRS. SRENG SIVECHHENG	Maxima MFI
43. MR. PA PONNAK KIRY	Maxima MFI
44. MR. HORT BUN SONG	IPR MFI
45. MR. CHIM PHALRITH	IPR MFI
46. MR. KUY SENGMOEURN	SAMIC MFI
47. MR. THA THON	SAMIC MFI
48. MRS. TAN PHALLY	EAP MFI
49. MR. SAR KIMLOMOUTH	EAP MFI
50. MR. YON LEE NAM	FUDF MFI
51. MS. JENNY AI. CHENG CHEI	Green Central MFI
52. MR. PATH CHHEAN	Green Central MFI
53. MR. LY SOKLEANG	Green Central MFI
54. MR. LIM HAK KHOUN	First Finance MFI
55. MR. HENG SAKADA	First Finance MFI
56. MS. KHUN SONITA	YCP MFI
57. MR. CHHUN SARATH	YCP MFI
58. MR. MARK LEE	Cam Capital MFI
59. MR. HUN SAMNANG	Cam Capital MFI
60. MR. TAING NGOUN	SAMRITHISAK MFI
61. MR. KHOI VU	SAMRITHISAK MFI
62. MR. VOY DINA	Camma MFI
63. MR. CHHAY CHANSOVANNAVATEY	Camma MFI
64. MR. UY SAVY	CCAPO Rural Credit Operator
65. MR. UT SINEANG	CCAPO Rural Credit Operator
66. MRS. CHEA CHANDA	CCSF Registered Rural Credit Operator
67. MR. NORNG CHANNY	NWDA Rural Credit Operator
68. MR. MICHEL KINDBEITER	CICM-Cambodia
69. MISS. PHAN SOVANNOTY	CICM-Cambodia
70. MR. LEUNG KIMSIAN	TA 0ng Soybean DA Rural Credit Operator
71. MR. LEUNG RAVUT	TA 0ng Soybean DA Rural Credit Operator
72. MRS. NORNG SOPHANARY	Cambodia Mutual Rural Credit Operator
73. MR. CHHENG SINORN	CEN Rural Credit Operator
74. MR. NOU NAVUTH	PDI Rural Credit Operator
75. MR. SLESH ROMLY	CHAMROEUN Rural Credit Operator
76. MR. DOK LUON	VIDA Rural Credit Operator

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Bangladesh

77. DR. AMINUR RASHID, Director	ASA

India

78. MS. SUMITA CHOWDHURY, Assistant General Manager	SIDBI

Laos

79. MR. CHANTHA MINGBOUPHA, Deputy Director	Microfinance Center of Lao PDR

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80.	MR. TOYANATH PANDEY, Section Chief	Agricultural Development Bank, Ltd. of Nepal
81.	MR. MRIGENDRA NATH RIMAL, Section Chief	Agricultural Development Bank, Ltd. of Nepal

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