

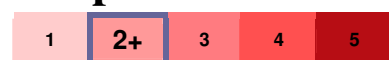
## CREDIT Ltd., Cambodia

Cambodia Rural Economic Development Initiatives for Transformation Co. Ltd. (CREDIT) was initiated by the Christian US based NGO World Relief (WR/US) in 1993 and transformed into a Limited Liability Company in 2003. Anchored in a concern for community development, CREDIT envisions that “the economically active poor and small entrepreneurs have the opportunity to develop their livelihoods. CREDIT believes that the best way to achieve this vision is by providing inclusive financial services tailored to the clients’ needs through excellent services and positive relationships while maintaining organizational sustainability”. It offers both group and individual loans for business and agriculture purposes in USD and KHR. As of June 2009, CREDIT serves 35,065 clients with a portfolio of 18.7 M USD across nine provinces, through a network of seven branches and 31 sub-branches.

### Social Performance Rating

#### Rating

**Incipient**



#### Date of the Rating

**September 2009**

Indicator	Camb.	EA
<b>Demography</b>		
Urban population	20.0	44.3
<b>Poverty lines</b>		
Population below NPL	35%	n/a
Population below FPL	20%	n/a
Population below 1\$/day	40%	6.6%
<b>HDI</b>		
	0.575	0.762
Rank out of 177 countries	136	n/a

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#### Rating highlights

- CREDIT’s decision makers show a strong dedication to the achievement of the social mission but because social goals have not been accurately defined there is only limited integration of this intent in CREDIT’s strategic planning.
- To the exception of the gender ratio, some drop out data and client’s level of satisfaction, CREDIT does not monitor specific social performance indicators.
- The lack of definition of its target group in its social mission and the inconsistent use of geographic targeting mechanisms, limits CREDIT’s targeting capacity. This is partially mitigated by the type of loan products offered, which indirectly play the role of targeting tools.
- While belonging to the top 10 community of microfinance players in Cambodia, with a market share of 4.4%, CREDIT has a moderate breadth of outreach of 1.7% of the total households in the provinces where it operates.
- CREDIT’s portfolio yield (29.3% as of June 2009) has been consistently decreasing over the years and is within national benchmarks.
- CREDIT charges declining interest rates with no additional service charges and follows some basic policies in line with the Client Protection Principles.
- Basic HR policies ensure staff’s commitment to CREDIT’s social mission and guarantee staff equal treatment, yet female presence is low (23% as of June 2009).
- CREDIT also provides non-financial services to some of its clients, even though no formal monitoring of the performance of these services is conducted.

#### Social Performance Indicators

	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	June. 2009
<b>Social Performance Indicators (see also annexes)</b>					
% of women borrowers	95.0%	95.0%	95.0%	95.0%	94.0%
% of rural borrowers	70.0%	70.0%	70.0%	60.0%	60.0%
Retention rate	n.a.	n.a.	n.a.	n.a.	n.a.
PAR 31-365	4.5%	3.0%	0.3%	0.3%	2.4%
Portfolio Yield	38.8%	34.1%	30.2%	29.6%	29.3%
% of women among staff	33.6%	33.8%	27.9%	22.8%	22.7%
# of training days per staff	n.a.	n.a.	0.3	0.4	0.1
<b>Institutional Performance Indicators</b>					
Loan portfolio (USD)	2,576,065	4,622,004	10,303,487	19,060,212	18,746,427
Outstanding deposits	349,922	571,268	1,190,584	863,484	537,752
Active borrowers	11,451	10,796	18,273	33,887	35,065
Active savers	11,669	11,024	12,924	3,429	2,837
Staff	128	142	222	391	422

**Note:** in the absence of indicators on social performance, institutional performance indicators are provided for informative purposes.

## Socio-economic Environment

After decades of internal conflict that has torn the country apart during the Khmer Rouge Regime, the Cambodian economy has shown impressive growth capacity for the past ten years with an average annual growth of 9.5% during the period 1998-2007. The high level of openness and dollarization of the Cambodian economy, which relies mainly on garment exports, foreign direct investment (FDI) and tourism, coupled with a stable inflation (at 4.7% on average over the decade 1997-2007), explain this growth. However, following the global financial crisis, because of the country's importance reliance on international markets and affected by a sudden pick of inflation up to 19% at the end of 2008, Cambodian economy has been slowing down. During the Third Cambodia Economic Forum organized in February 2009, the Cambodian government announced that it expected the annual growth for 2009 to hardly reach 7%. Furthermore, one IFC observer mentioned that the garment industry could have already laid-off up to 20% of its labor force, while real estate growth dropped by 30%.

Through the economy's good performance, incidence of poverty has been improving in the country. According to the World Bank's Poverty Assessment (2006), the percentage of Cambodians living below the national poverty line fell from 47 percent in 1993/4 to 35 percent in 2004, while the GDP per capita went from 987 USD in 2001 to 1,949 USD in 2007. However, at the same time, inequality has increased as reflected by Cambodia's Gini coefficient,<sup>1</sup> which is up from 0.35 to 0.42 over the same period, making Cambodia one of the most unequal countries in the region.

Poverty in Cambodia remains highly rural, with poverty incidence ranging from a low 10-15% in the city of Phnom Penh to 40-45% in rural areas, reaching 70-80% in some rural areas around the Tonle Basin. Given the large rural population and pressing needs for livelihood improvements, the government has made agricultural development its primary strategy for achieving higher growth and poverty reduction. As a result, agricultural growth has shown solid progress. Nevertheless, agricultural production remains far below its potential because of low productivity, high vulnerability to weather, constrained access to land and markets, and lack of adequate infrastructure.

Gender equality continues to be an issue in Cambodia as women remain marginalized. For instance, between 1998 and 2003 the percentage of female members seating at the National Assembly members only moderately increased

from 11.5% to 12.2%.<sup>2</sup> Furthermore, in 2001, while women outnumbered men in the labor force (more than 50% of the work force is female), 53% of economically active women, as compared to 32% of economically active men, worked in the unpaid family labor category and almost all of them were agricultural workers.

The education sector has gone through significant improvements in the past decades, and according to the UNDP, as of 2007 the average adult literacy rate was 78%. Particularly focusing on primary school enrollment, the introduction by the government of a sound pro-poor policy framework has allowed that a greater number of Cambodian children attend some schooling (85% of 15 to 19 year olds completing grade 1).

On the environmental front, the economic growth has accelerated the migration of population to urban centers. In addition, the rapid development of cities has resulted in increasing pollution, higher quantities of untreated urban domestic sewage, industrial effluent and solid waste. In the meantime, sewerage system coverage over the country is limited or no longer functioning. The growth of unplanned settlements outside of big cities has also increased pressure on existing infrastructure and systems of natural drainage, which are crucial to safeguard against flooding. The disposal of hazardous (mostly industrial) waste is also a growing problem in Phnom Penh. There are no special landfills or other treatment facilities for waste, which is often burnt at open dumpsites, together with solid waste. The fact that two of Cambodian key industries, agriculture and tourism rely on environmental preservation means that sustainable management of natural resources are vital for improving rural livelihoods and for economic growth.

The health status of the population in Cambodia is amongst the poorest in Asia. The government spending on health is approximately 3 USD per capita per year. This is mainly due to the lacks of the public health system, which are characterized by a shortage of critical skills, an under-utilization of public health services due to poor quality and very limited public financial resources. This results in a slow improvement of child and maternal mortality (infant mortality rate is still 70‰). On the other hand, the Cambodian government has put strong emphasis on communicable disease control through relatively well funded vertical programs for HIV/AIDS, TB, malaria and immunization. As of 2007, the estimated adult HIV prevalence rate (aged 15-49) was 0.8%.

Cambodia has a developing AML/CFT system. The 2007 AML/CFT legislation broadens and clarifies Customer Due Diligence requirements for Financial Institutions and makes

<sup>1</sup> Where 1.0 equates with perfect inequality

<sup>2</sup> World Bank Gender Assessment in 2004 (<http://web.worldbank.org>)

possible a significant improvement of the AML/CFT framework in Cambodia, largely superseding the law on drug control (1997) and the Prakas issued by the NBC (2002). However, it does not criminalize ML/TF and suspicious transactions are not yet reported to a Financial Intelligence Unit. The most common ML techniques are supposed to involve real estate investments, banking transactions and casino gambling. Corruption is perceived as widespread in Cambodia. With a score of 2/10 in 2009 (from 1.8 in 2008), Cambodia ranked 158 out of 180 countries on Transparency International's Corruption Perceptions Index.

Indicators as of Dec. 2007	Cambodia	East Asia
<b>Demography</b>		
Urban population	20.0	44.3
Life expectancy at birth	62.1	72.0
<b>Health</b>		
Access to safe water (% of population)	41.0	-
Mortality rate (<5) per 1,000 births	8.08	-
<b>Education</b>		
Adult literacy rate (%)	78.0	92.3
Primary school enrolment ratio (%)	98.9	69.2
<b>Gender</b>		
% of parliament seats held by women	12.2	-
<b>Poverty lines</b>		
Population below NPL (%)	35	n/a
Population below FPL (%)	20	n/a
Population below 1\$/day (%)*	40	6.6
Population below 2\$/day (%)*	68	27
Gini index	0.42	n/a
<b>HDI</b>		
Rank out of 177 countries	136	n/a

Source: National Institute of Statistics of Cambodia, COFACE Country Risk Assessment, ASEAN Statistical Yearbook. World Bank East Asia update (March 2006); UNDP 2008 HDI report;

\* For Cambodia, \$1 and \$2 poverty lines based on 2005 PPP; for East Asia, \$1 and \$2 poverty lines based on 1993 PPP

## Microfinance sector

Microfinance services started in Cambodia in the early 1990s and were initially provided by internationally-backed NGOs. The Royal Government of Cambodia (RGC) strongly supports rural finance and by extension microfinance as effective tools to fight poverty. Micro/rural finance is one of the two core functioning elements of the current financial system. The National Bank of Cambodia (NBC) has traditionally opted for a self-described “market-based approach”, favoring “light” intervention. Overall, the responsibilities for the sector are divided between the Ministry of Economics and Finance (MEF), NBC and the Cambodian Microfinance Association (CMA).

The microfinance industry has shown significant growth in the past years (55% in 2007 and 65% in 2008). As of December 2008, there were 60 unregistered and 26 registered NGO credit programs (with very limited outreach), while there were 18 MFIs registered as limited liability companies and one commercial bank (ACLEDA) reaching more than 1 million clients. At the end of 2008, the gross loan portfolio for registered MFIs reached an impressive 426.2 M USD.

However, despite strong growth in the sector, demand continues to outstrip supply for microfinance services. Estimated demand for microfinance services is around 1 to 1.5 million active clients out of a total potential client base estimated at 3 million. However, microfinance growth is not equally spreading throughout the country. While the industry is reaching saturation in some provinces, other provinces still show untapped demand. As the sector becomes more saturated, competition also becomes cutthroat imposing portfolio yields to progressively decrease. In the recent past, portfolio yields for the major MFIs have reduced to a measurable degree: on the whole, revenue gained on each unit of loan portfolio outstanding (i.e. portfolio yield in nominal terms) averaged 36.2% in 2006 while it dropped to 34.2% in 2008.<sup>3</sup> As of December 2008, the average EIR stands at 35.1%.<sup>4</sup>

With increased competition, Cambodian MFIs are slowly shifting their mindset from considering their clients as pure recipients of credit programs, to treating them as customers to be satisfied. In addition to lowering their price, MFIs are making more concerted efforts to diversify their product offering in order to better suit their clients' needs. Some MFIs have improved their product development skills by strengthening their marketing or R&D departments, pilot testing products and conducting client satisfaction surveys, among others. Certain MFIs recently launched products more fine-tuned to their clients' appeal: micro-loans, micro-agro loans, higher loan amounts with more flexible collateral requirements, wider range of repayment options. Some MFIs are also exploring the possibilities of developing mobile banking services; while a few others are looking at legal options to offer micro-insurance products through the set up of a mutual benefit association (MBA). Eventually, several MFIs offer non-financial services to clients, mostly in the form of trainings on topics such as credit management, product development and marketing, among others. This recent new trend is positive for clients as continuous product innovation will ensure that a greater

<sup>3</sup> Planet Rating calculation from MixMarket data taking for the following MFIs: PRASAC, CREDIT, AMRET, CHC, TPC, AMK, VisionFund.

<sup>4</sup> Eleven Cambodian MFIs reported detailed pricing information to MFTransparency, a global initiative for fair and transparent pricing in the Microfinance industry ([www.mftransparency.org](http://www.mftransparency.org)). The average stated above is weighed by the number of clients.

portion of microfinance clients receive financial services that best suit their evolving needs.

On the flip side, increasing competition in the microfinance industry has led to a rising incidence of credit ‘pollution’ among MFI clients. Anecdotal evidence suggests that borrowers with loan collection problems use loans from one MFI to repay debt from another one. This situation remains all the more worrying as, with the economic recession due to the financial crisis, the delinquency issue has worsened with the non-performing loans in the industry increased from 0.4% PAR 30 at Dec. 2008 to 3.2% in September 2009. Due to the absence of credit bureau, the nature and extent of this cross-indebtedness remains unclear. However, estimates evaluate that out of the total number of active borrowers (around 1 million) there are only around 700,000 unique clients.

Such cross-indebtedness highlights the urgent need for the implementation of a credit bureau in Cambodia. With support of IFC, NBC is currently working on drafting legislation and investigating options for the institutional set-up of the credit bureau even though the bureau is unlikely to become active before 2011. In the meantime, members of the Cambodian Microfinance Association (CMA) have recently agreed to cooperate in order to exchange information on delinquent clients, through the signature of an MoU on “Fair Competition”. While only partially mitigating problems of cross-indebtedness, this MoU also raises the issue of the client protection principle on bank secrecy as it allows exchange of clients’ information.

Most Cambodian MFIs systematically charge interest rates on a declining basis without any additional fee, demonstrating a fair level of transparency when compared to other countries. Transparency of services is expected to further improve as the majority of MFIs recently cooperated with Microfinance Transparency to calculate and disclose effective interest rates.

Leading MFI (members of CMA) have recently made efforts to improve their social responsibility to staff. Salary surveys were conducted on nine MFIs in 2005 and 2007 and provided MFIs with interesting benchmarks on staff remuneration and turnover.<sup>5</sup> The survey also reviewed the MFIs’ respect for labor laws, resulting in noticeable improvements in this field.

Since 1999, the Royal Government of Cambodia (RGC) introduced new banking regulations for the supervision of microfinance through the issuance of a government decree that imposed MFIs with a portfolio over 1 billion KHR (230K USD) to be licensed as Limited Liability Company

<sup>5</sup> HRINC conducted the survey. The results are confidential.

or as a cooperative in order to, ultimately, fall under the supervision of the NBC. More recently, in 2007, NBC has issued a new decree on licensing of deposit taking institutions. With this decree all MFIs had to stop mobilizing savings unless they obtain a license as a mobilizing deposits institution (MDI). All licensed MFIs must provide monthly reports and comply with well defined prudential regulations. With yearly supervisory visits, the NBC ensures an adequate supervision of the sector overall.

Microfinance Institutions still have to be brought in the Anti Money Laundering (AML) and Combating the Financing of Terrorism (CFT) regime. However, the NBC has already organized workshops for MFIs to prepare to be regulated on AML/CFT.

## Institutional Presentation

### Social Mission

Following a major revision in 2006,<sup>6</sup> CREDIT now **envisions** that the economically active poor and small entrepreneurs have the opportunity to develop their livelihoods and experience full and productive lives. Its **mission** is to provide inclusive financial services tailored to clients’ needs through excellent services and positive relationships while maintaining organizational sustainability. CREDIT has defined three sets of core values: 1) religious faith (motivation through Christ’s love); 2) organizational (sustainable, transparent, efficient, accountable); and 3) client oriented (non-discriminating, responsive to clients needs, encouraging female entrepreneurs).

### Characteristics of Outreach

No nationally or internationally benchmarked data is available on the poverty status of CREDIT’s clients. Rough assumptions on the poverty status of CREDIT’s clientele can be made by comparing national poverty statistics with the general characteristics of MFI clients in Cambodia and of CREDIT’s clients. The following information is only provided to draw a rough picture of the institution’s capacity to reach its target clientele.

- As of June 2009, 50% of CREDIT’s borrowers are located in rural areas, where the incidence of poverty is significantly higher than in urban areas. More than 90% of the poor population in Cambodia live in rural areas.

<sup>6</sup> Before 2007, CREDIT’s vision was that poor and needy Cambodian women and their families will be empowered to live full and productive lives. Its mission was that micro-entrepreneurs and farmers will have access to a full range of financial services at an affordable rate.

- Also, it is estimated that while Cambodia national poverty incidence is around 29.6%, the average poverty incidence in the provinces where Credit operates is CREDIT is 27.7%, while CMA MFIs' clients' poverty incidence level is 30.8%<sup>7</sup>.

Province As of December 2004	CREDIT Borrowers	CMA MFIs Borrowers	Poverty Incidence
Kampong Chhnang	5,578	19,118	28.0%
Kampong Cham	10,650	49,468	32.0%
Siemreap	4,013	45,748	46.0%
Prey Veng	3,865	18,546	30.0%
Phnom Penh	4,105	206,539	4.0%
Kandal	3,697	36,030	17.0%
Battambang	1,538	32,033	27.0%
Takeo	681	14,417	23.0%
Kampong Speu	389	22,335	53.0%
<b>Total Cambodia*</b>	<b>34,516</b>	<b>1,035,878</b>	<b>29.6%</b>

Source: Cambodia Socio-Economic Survey 2004. Cambodia Microfinance Association Information Exchange. \* Weighted Average

- CREDIT's total portfolio is distributed among households engaged in trade and commerce (36%), agriculture (29%), and other industries (35%). The agriculture sector in Cambodia accounts for 63% of the total number of poor in the country.
- As of June 2009, women represented 94% of CREDIT's borrowers. In Cambodia, women have generally less access than men to resources, education and health care. Furthermore, the civil war left many women widowed with an estimated 25% of female-headed households which are particularly vulnerable to poverty.

## Market Penetration

CREDIT maintains seven provincial branches and 31 sub-branch office outlets in nine provinces in Cambodia in addition to the set up of two Vulnerable Service Units since 2007. Expansion to 12 provinces to increase and deepen outreach is planned for 2011.

CREDIT covers 1.2% of the households in Cambodia and serves 1.7% of the households in the provinces where it operates. With an estimated 2,832,691 households in Cambodia, the combined penetration of the 19 MFIs reporting to the CMA is 36.6% for credit services. This ratio does not consider cross-indebtedness, after which it could go down to 25%.<sup>8</sup>

<sup>7</sup> This is only a rough estimate of the poverty incidence in Credit's areas of operations as poverty data is not available by district.

<sup>8</sup> The penetration rate is 36.6% if we consider that the number of active borrowers is more than 1 M and it drops to 25% if we consider that there are only 700,000 unique borrowers.

CREDIT's operations are located in areas where there is slightly less concentration of microfinance borrowers such as Battambang, Phnom Penh and Kampong Cham, while avoiding highly saturated provinces such as Kampot and Sihanoukville.

Province	CREDIT Penetration Rate	CMA MFIs Penetration Rate <sup>9</sup>	Total Number of HH <sup>10</sup>
Kampong Chhnang	5.5%	41.9%	101,122
Kampong Cham	2.9%	31.7%	368,871
Siemreap	2.2%	38.3%	180,097
Prey Veng	1.7%	42.4%	226,764
Phnom Penh	1.6%	11.0%	257,828
Kandal	1.4%	50.7%	257,857
Battambang	0.7%	29.4%	210,327
Takeo	0.4%	50.2%	183,905
Kampong Speu	0.3%	46.5%	149,132
Banteay Meanchey	0.0%	30.7%	144,400
<b>Total in operating provinces</b>	<b>1.7%-</b>	<b>25%</b>	<b>2,080,303</b>

Source: Cambodia Socio-Economic Survey 2004. Cambodia Microfinance Association Information Exchange.

## Products and Services

Loan products are categorized in either individual or group loans, given in KHR or USD. Individual loans in KHR range from 200 K to 40 M KHR (50-10,000 USD). Individual loans in USD range from 100 to 10,000 USD. Group loans in KHR maximum amount is 1.2 M KHR (300 USD) while disbursement can start at 100K KHR (25 USD). USD group loans amount vary from 50 to a maximum of 300 USD. Loans are further categorized in business or agriculture and agriculture loans are limited to 4 M KHR (1,000 USD). Loan terms range from four to 24 months for individual loans and from four to 12 months for group loans. Repayments are flexible where clients can choose one of the four options (weekly, bi-weekly, four weekly or monthly) and are conducted at the branch most of the time even though exceptional field collection can be allowed. Loan EIRs range from 24% to 36% depending on the terms and the repayment methods).

Since 2007, CREDIT launched the Vulnerable Services Unit (VSU) unit and started offering community bank loans which are group micro loans (a joint-liability group of four to six), with loan amounts from 500 K KHR to 1 M KHR (125-250 USD) (for the whole group), which do not require

<sup>9</sup> CMA MFIs' penetration rate is the percentage of borrowers from 19 MFIs in Cambodia to the total households per province.

<sup>10</sup> HH stands for households. The total poverty line used in CSES 2004 is US\$0.59 in Phnom Penh, US\$0.49 in other urban areas and US\$0.44 in rural areas. The total poverty incidence calculated here is the weighted average of poverty incidence in provinces where CREDIT borrowers are located.

physical collateral. It aims to serve the most vulnerable (the family of HIV/AIDS infected persons, the family of the victim of human trafficking) in the rural communities. Loan EIR is around 34%, repayment is conducted monthly.

Through partnership with local and international NGOs, CREDIT also offers training to its VSU community bank lending clients on various topics such as debt management, household income/expenditure management, savings, and rural product market strategy.

## Social Performance Rating

### ■ Institutionalization of the Mission

#### Social Mission and Strategy

With long term work experience in social development and microfinance, both the board of directors (BOD) and the management team (MT) show a clear intent to achieve CREDIT's social mission. The social vision, mission and core values of the institution are well articulated and taken into account in the decision making process, most notably at the BOD level. Major decisions (e.g. branch expansion, service offering, pricing) are taken towards both social and financial performance.

The intent to achieve the social mission was particularly illustrated in 2006 when CREDIT's BOD and MT decided to revise the institution's mission and vision as well as to start community bank lending whose objective is to target lower income population. While proving the dedication of CREDIT's decision makers to the achievement of its social mission, the revision process would have been more valuable to the institution if: 1) it had been more participatory, including input from all staff; 2) it had been based on a precise evaluation of the social challenges faced by CREDIT in its current operating areas; 3) it had led to a precise definition of terms, the identification of relevant social goals, and, further, to the extraction of social objectives.<sup>11</sup> Instead, the revision led to a situation where despite the intent to achieve CREDIT's social mission, the BOD and the MT are unable to clearly formalize and integrate this intent in their strategic planning.

CREDIT's BOD and MT are making concerted efforts to maintain a strong connection between the social mission and the lending activities of CREDIT. With the future licensing of CREDIT as an MDI, decision makers plan to further refine the institution's social mission. The change of

<sup>11</sup> SPM best practices recommend to define social objectives according to the SMART principles (specific, measurable, achievable, realistic and time bound)

legal status is seen as an opportunity to develop the range of financial services (through savings) and therefore to better equip the institution to fulfill its mission.

#### Social Performance Monitoring

CREDIT has not defined a set of relevant social indicators that could be monitored. It is currently tracking only two ratios: 1) the gender ratio, despite the fact CREDIT's social mission does not define women as a target group; 2) the drop out rate, even though CREDIT does not calculate and track this ratio in a consistent way through the whole organization. Furthermore, the institution does not use these indicators to guide management decisions. In fact, the current MIS would have the capacity to be customized to generate data that could be used to produce social indicators such as penetration rates per region, cost of services, market shares, client drop-out rate, client poverty level, etc.

Regarding the assessment of the quality of its services, CREDIT conducts client satisfaction surveys on a bi-annual basis since 2003. It also continuously collects informal feedback from its marketing and business development officers throughout the year. Furthermore, with the recent creation of a marketing department, CREDIT has further enhanced its client satisfaction monitoring tools. While subject to some delays due to the financial crisis, the marketing team has now finished a well designed and comprehensive questionnaire and is planning on conducting a new formal client satisfaction survey by Q1 of 2010.

Monitoring of social indicators is not part of the scope of work of the current internal audit team, who would require training in order to learn on how to rightly integrate Social Performance Management (SPM) within its audit methodology. In the absence of proper SPM tools and checks, there is a risk of social mission drift.

#### Staff Mobilization

Some basic processes in order to ensure staff's commitment to CREDIT's social mission are in place: 1) after recruitment, the vision and the mission of the institution are briefly presented during the two-day orientation; 2) the mission is portrayed on the walls of every branch for field staff and clients to see; 3) CREDIT Marketing department has recently started conducting training on customer care and services to both newly recruited and current staff.

However, these processes are still insufficient and to reinforce staff buy-in. CREDIT could ideally further enhance its HR processes as currently: 1) social indicators are not part of the operational targets, they are therefore not linked to staff performance nor to the incentive system of field staff; 2) staff input is not included in the definition of

social strategies and only the MT took part in the 2006 revision of the social mission; 3) staff is not specifically informed about the social impact of its work.

## ■ Targeting and Service Offering

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### Breadth of Outreach

Serving 35,065 clients as of June 2009, CREDIT has a low to moderate breadth of outreach with a national market penetration of only 1.2% of the total households in Cambodia and 1.7% of the total households in the provinces where it operates, while it is estimated that CMA's members serve 25% of Cambodian households (see Penetration of Services section).

As of December 2008, CREDIT's market share in terms of number of active clients represented 4.4% of the total microfinance market (accounting for all CMA MFIs), which makes CREDIT part of the top 10 of the Cambodian microfinance players. Over the past years and despite the recent global financial crisis, which affected its breadth of outreach, CREDIT has in fact been able to continuously increase its market share, which increased from 2.7% in 2006 to 4.4% in June 2009.

### Client Targeting

CREDIT's targeting capacity is first of all limited by the fact that its target group is only defined in very general terms in its social mission (there is only one general reference to "the economically active poor"). Furthermore, CREDIT uses basic geographic targeting mechanisms that are still insufficient in order to ensure it actually reaches its target.

Geographic targeting studies are not systematically conducted when expanding.<sup>12</sup> When they are, targeting studies only take into account general criteria such as total population, type of economic activities, limited credit and savings habits, level of infrastructure, presence of competitors, etc. However there is no decisive criterion (such as level of penetration, level of poverty) that would dictate the selection of a new area of operation by CREDIT. Regarding the set up of the first VSUs, areas of operation have been defined mainly by donors' preferences and/or partners' presence rather than by specific market surveys. Nevertheless, more recently, CREDIT has started taking into account the level of poverty incidence as one general criterion to decide on the opening of a new VSU.

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<sup>12</sup> CREDIT conducts targeting studies when opening new branches in unknown areas, but not when opening sub-branches where it already has basic knowledge of the socio-economic profile of the area.

Within the regions it has chosen to operate, CREDIT does not conduct individual target studies that would enable to further identify the categories of people it shall serve in accordance to its social mission. The introduction of individual target tools such as the development of client poverty assessment scorecard, would allow this type of study to be conducted.

Nevertheless, the lack of active geographic and individual targeting is partially mitigated by the type of financial services offered by CREDIT, which implicitly function as targeting tools. Even though, credit officers (COs) do not actively target specific clients in their daily work, CREDIT increases the likelihood that it reaches its target group, by providing individual and group lending products including low loan amounts, group liabilities schemes and non collateralized community bank lending.

### Service Design and Client Satisfaction

Since 2003, CREDIT has been systematically conducting client surveys, to assess its clients' financial needs and level of satisfaction notably in order to feed new product development ideas. Yet, while tracking clients' drop out rate at the branch level, CREDIT does not consolidate these data at the headquarter (HQ), neither does it conduct exit surveys to understand the reasons behind clients' decision to cease benefiting from CREDIT's product offering. Nevertheless, for the first time this year, CREDIT's newly created product development team has started collecting and consolidating formal feedback from clients by sending its own marketing officers to the field. This initiative is recent though, and the first findings are yet to be consolidated and analysed in order to feed a proper product development strategy.

CREDIT has also recently streamlined its product pilot testing processes, which now allows a more cautious launching of new products. Under the leadership of the operations manager, each department is involved in testing and making adjustments to the newly introduced product for a period of at least six months before submitting a final proposal to the MT and the BOD.

Currently, even though CREDIT has four main product categories,<sup>13</sup> in reality, to the exception of VSU community lending, product characteristic differences are minimal. For instance, the recently launched individual agricultural loan in USD is in fact, similar to the agricultural loan in KHR. Moreover, the range of accepted collaterals is not very wide as land and real estate are the compulsory main collaterals while moveable assets are only accepted as complementary collaterals. Nevertheless, CREDIT's line of individual

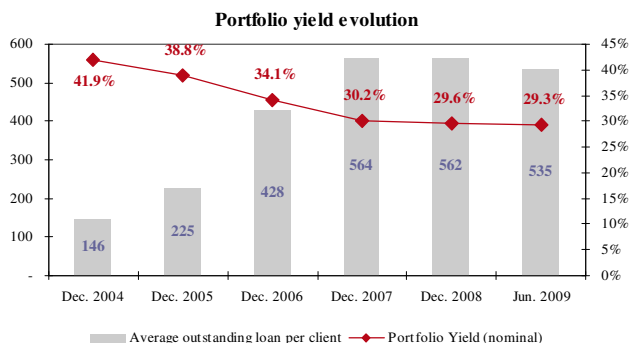
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<sup>13</sup> Individual, solidarity group, VSU and agricultural loans

products still offers more flexibility than most of its competitors. Furthermore, in the medium term, with the progressive deployment of VSU community bank lending as well the future licensing as MDI, CREDIT will introduce new and clearly different loan and saving products.

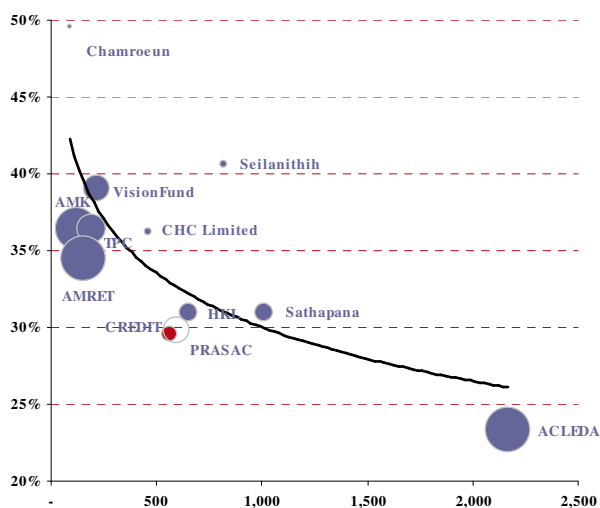
### Cost of the Services

CREDIT has been slightly decreasing its pricing over the years, with a portfolio yield<sup>14</sup> decreasing from 34.1% in 2006 to 30.2% in 2007 and remaining stable since (29.6% in 2008).



It is relatively average when compared to Cambodian benchmark (32.4% in 2007) and CREDIT’s portfolio yield is within the same range of pricing as the ones of its competitors offering loans of similar amounts (see graph below).

Loan size (USD) vs. Portfolio Yield - December 2008



CREDIT is currently conducting interest rate analysis in order to offer lower interest rates to its clients and increase its competitiveness, which will indirectly benefit its clients as they will be offered cheaper financial products.

Transactional costs borne by clients are currently high even though CREDIT is not making any specific efforts to lower

them. With the intention to reduce risks of frauds, CREDIT has recently decided to reduce field collection and most clients now have to travel to branches both for disbursement and repayments. Furthermore, while the field collection procedure is still possible if requested, it bears a higher interest rate than branch repayment. For loan amount superior to 5K USD (21M KHR), for which collaterals registration is compulsory, CREDIT requires that the client go to the provincial cadastral office him/herself. The registration involves the payment of a fee between 50 to 100 USD (200 to 400 KHR). For every new loan, applicants need to get local village/commune council leaders’ loan approval by themselves.

## Social Responsibility

### Client Protection

CREDIT provides sufficiently Financial conditions are clearly stated in the contract and the loan repayment schedule provided to the client clearly details the amounts of principal and interest to be paid by installment.

- Interest rates are declining and CREDIT does not charge service fees to the client.
- Effective interest rates are clearly displayed in each branch’s walls. The rates are however only stated in monthly interest rates, which is common practice in Cambodia. However, with the future introduction of interest rates ranges, this current practice could potentially affect transparency of information.
- At the moment of disbursement, tellers read out contract’s conditions to the client while COs provide field orientation sessions to clients (for VSU and solidarity group mainly) to raise awareness on loan conditions.

One area of opacity remains within the credit process, as clients sign their future loan contract while it is still not fully filled in.<sup>15</sup>

CREDIT is joining some concerted efforts to prevent over-indebtedness by sharing information on delinquent clients with other CMA members (see microfinance sector section). This practice only partially mitigates problems of cross-indebtedness and anecdotal evidence seem to show that cases of loan applicants already enrolled in another financial institution are increasing. In the medium term, it will be difficult to prevent the rise of over-indebtedness given the absence of a credit bureau, see Microfinance Sector. Furthermore, some gaps in COs’ financial analysis

<sup>14</sup> Portfolio yield is used as a proxy for EIR (28%) with minor yield gap.

<sup>15</sup> This is done for operational efficiency purpose in order to simplify and speed up the disbursement process.

skills also limit CREDIT's capacity to rightly assess members' financial needs.

Asset collaterals are only used as pressure mechanisms and actual cases of seizure of collaterals never occurred. Currently 12 cases of delinquent clients were taken to court with no record of seizure or sale of collaterals.

To the exception of staff training on customer care, CREDIT has not set up any formal policy to ensure fair and equal treatment of clients during the full loan process:

- First of all, CREDIT currently does not have any complaint mechanism for clients. Nevertheless, because disbursement and repayment mostly happen at the branch level and thanks to the frequent field visits conducted by SBMs and BMs, clients have opportunities to voice their complaint about their CO to other CREDIT staff if needed. Furthermore, CREDIT's Marketing department is currently in the process of setting up a hot line, which is expected to be operational by January 2010.
- As for delinquency management, even though CREDIT does not have any formal code of conduct in place, collection practices are respectful of clients and CREDIT has made concerted efforts to specifically train its COs on customer-friendly collection processes.
- Cash risk is mainly borne by clients as disbursements are systematically conducted at branches since CREDIT took the decision to reduce field collections to minimum.

Measures to protect bank privacy are insufficient: 1) client files are stored in open filing racks subject to manipulation or fire/water damage; 2) branch back-ups are not securely stored as they are often taken home by the branch IT staff,<sup>16</sup> 3) CREDIT (like all other CMA members MFIs) informally exchanges list of delinquent clients with competitors without clients' pre-approval on dissemination of their personal and banking data.

## Human Resources Policy

CREDIT professionally manages its HR Department, which ensures the equal treatment of staff in recruitment, remuneration, evaluation as well as good self-development and staff morale (low staff turnover of 6.9% in December 2008). Transparent recruitment processes are in place through the public dissemination of information on vacant positions while priority is given to internal promotion. After recruitment, sufficient information is given to staff including an individual contract, a detailed job description, a manual of CREDIT key policies, and its code of conduct.

<sup>16</sup> There have been instances of Cambodian MFIs where the IT staff sold clients' databases

The dissemination of CREDIT's salary grid is conducted in a transparent way.

Once hired, staff benefits from formal training sessions including in-house and outsourced trainings, as defined within the annual training plan. Nevertheless, training opportunities are not distributed equally enough as the current main beneficiaries are middle managers while other staff do not receive sufficient training opportunities.

Women presence within CREDIT staff is low. Only 23% of CREDIT's staff is female, with no female within the MT even though three female sit at the BOD. Furthermore, most females hired by CREDIT work as administrative and support staff (82% as of June 2009).

CREDIT has a very pro-active compensation policy, which ensures a fair remuneration of staff. Using the conclusions of the HR Inc. Cambodia "MF sector salary survey" that it purchases every year, the HR Department frequently updates staff compensation level. CREDIT complies with Cambodian basic labor legislations on social benefits, vacation and sick leave, and offers a comprehensive insurance package to its staff (covering staff's relatives).

So far, the HR Department has never measured CREDIT's staff level of satisfaction, even though it is planning on conducting its first survey at the end of Y09.

As for work conditions, CREDIT adequately ensures a safe working environment for its staff even though processes in place require more formalization. A specific policy on cash management requires daily deposits of collections by field tellers and states that in case of robbery, CREDIT will bear the responsibility of cash losses. No manual on health and security conditions is in place but employees benefit from appropriate insurance coverage. The HR Department provides staff with informal instructions on rules of safety and hygiene, but has not incorporated them into a proper manual yet.

While some mechanisms are in place, staff representation is insufficient. Even though CREDIT proceeds with the election of staff representatives every two years, in practice no staff has ever approached them to voice a concern. Given the size of the institution, CREDIT's staff representation would benefit from setting up an independent elected body.

The IA department integrated the HR processes in the scope of its work and conducts yearly checks.

## **Social Responsibility towards the Community**

Through the launching of the VSU initiative, CREDIT is providing more and more access to non-financial services to some of its clients even though the quality of these services still needs to be measured. For instance, VSU clients receive trainings on debt management, household income/expenditure management, savings, and rural product market strategy. Furthermore, through the development of partnerships with local and international NGOs (World Relief Cambodia, HOPE and SPY) CREDIT slowly managed to expand the scope of its training offering.

With an active participation in the CMA, CREDIT has proven to have a fair behavior in the microfinance industry. It is for instance, one of the signatories of the MoU on “Fair Competition” signed by all CMA members (see microfinance section).

However, CREDIT has not developed any written policy on prohibiting lending to certain types of businesses that could be harmful to the community.

## **Social Responsibility towards the Environment**

CREDIT has issued an environment policy document stating rules regarding: 1) eco-friendly business practices to be set up by CREDIT itself (office supplies, monitoring of electricity, recycling of paper, etc); 2) compulsory training of LOs on the type of activities deemed harmful to the environment that shall not be financed (even though the policy document does not specify a precise list); 3) assessment of the ecological impact of current business activities in new areas of operation. While field staff received training and is aware of these policies, in practice, there is no systematic monitoring or checks on actual implementation.

*The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee the validity of the opinions contained herein, and recommends that a new rating evaluation be undertaken. Planet Rating cannot be held responsible for investments/financings that are made based on this report.*

## ■ Performance Indicators

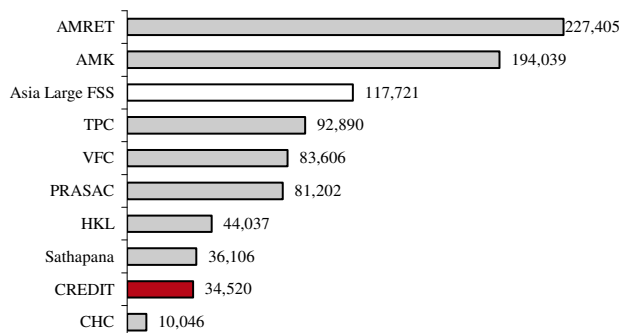
Social Performance Indicators	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Jun. 2009
<b>Outreach</b>						
% of women active borrowers	95.0%	95.0%	95.0%	95.0%	95.0%	94.0%
% of women active savers	95.0%	95.0%	85.0%	85.0%	85.0%	90.0%
% of rural active borrowers	70.0%	70.0%	70.0%	60.0%	60.0%	50.0%
% of rural active savers	85.0%	85.0%	85.0%	75.0%	75.0%	75.0%
% of socially marginalized or excluded groups	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Service Offering</b>						
PAR 31-365	3.5%	4.5%	3.0%	0.3%	0.3%	2.4%
PAR > 365	n.a.	n.a.	0.3%	0.0%	0.0%	0.1%
Client Retention	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Proportion of socially-based collateral	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Proportion of asset-based collateral	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Proportion of salary-based collateral	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Average amount disbursed per client	146	225	428	564	562	535
% of GDP per capita	37.2%	49.5%	83.5%	86.9%	68.8%	62.7%
Portfolio Yield (nominal)	41.9%	38.8%	34.1%	30.2%	29.6%	29.3%
<b>Human Resources policy</b>						
% of women among your professional staff	39.8%	31.9%	33.8%	27.9%	22.8%	22.7%
% of women among management	0%	0%	0%	0%	0%	0%
% of employees who received at least 2 days of training	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Number of training days per staff	n.a.	n.a.	n.a.	0.3	0.4	0.1
Min/Max LOs salary ratio	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Min/Max professional staff salary ratio	2.1	2.2	2.2	2.2	2.2	2.2
Yearly salary increase reported to inflation	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Life&health insurance expense / personnel expense	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Traffic accidents per loan officers	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Instances of assault per loan officer	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Working hours ratio	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Vacation days ratio	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

**Note:** These indicators are currently being tested by the social performance taskforce (SPTF) and MixMarket for social performance reporting. The answers to the qualitative indicators being tested by the MiX are stated in the rating.

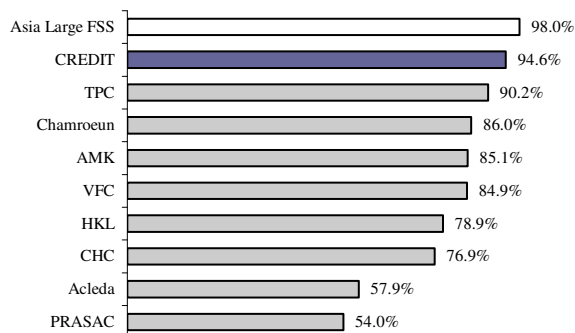
Other Mix Market indicators	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	June. 2009
<b>Entering clients / Active borrowers / savers</b>						
% Below the national poverty line	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
% Bottom 50% below the national poverty line	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
% Earning less than 1 USD a day per household member	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
% Earning less than 2 USD a day per household member	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
% Poor or low income	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>School enrollment</b>						
% School enrollment of clients children	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
% primary/secondary school age girls/boys	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Achievement of change (3-year or 5-year clients)</b>						
% of clients who witnessed a positive change in their social status	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
% who have moved above the relevant poverty line still below the relevant poverty line	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

## Benchmarking

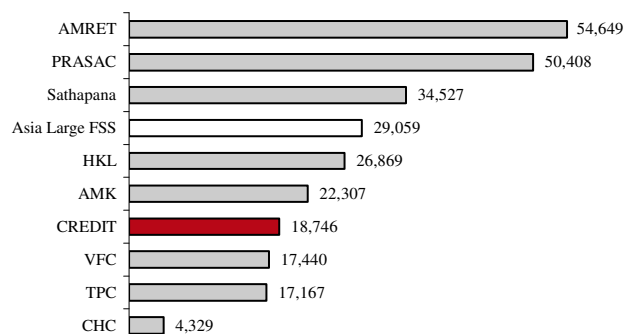
Active borrowers



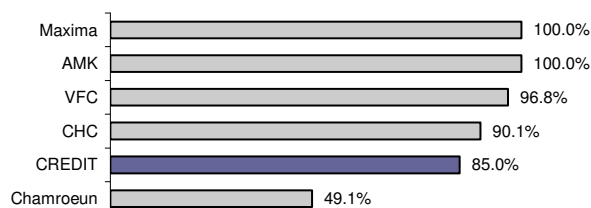
Proportion of women clients



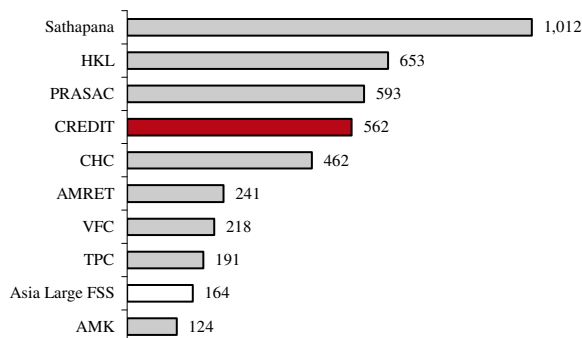
Loan portfolio ('000 USD)



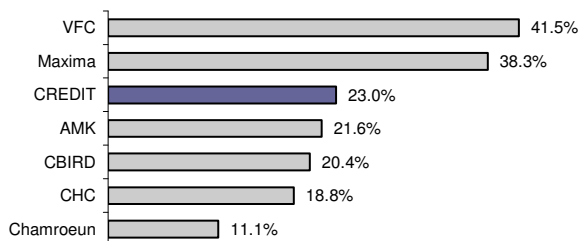
Proportion of rural and semi-urban clients



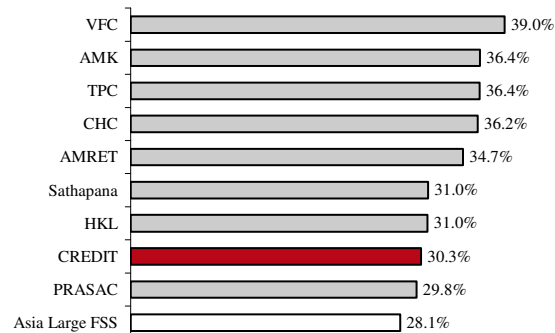
Average outstanding loan per client



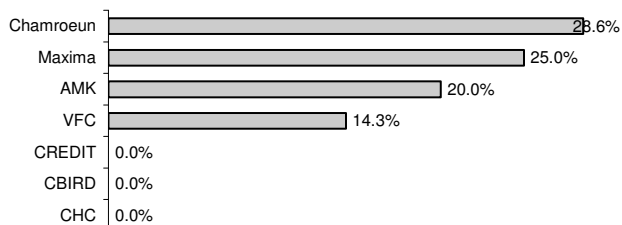
Proportion of women in staff



Portfolio yield



Proportion of women in management



Source: CMA data for Active borrowers, Loan portfolio and PAR 30, data as of June 2009; www.mixmarket.org for other indicators, data as of December 2008; Asia Large FSS as of December 2007.

## ■ Formulas

Portfolio yield:	$\text{Portfolio revenue} / 13\text{-month average gross outstanding portfolio.}$
Retention rate (basic formula):	$\text{End borrowers} / (\text{beg. borrowers} + \text{new borrowers}).$
Retention rate (enhanced formula):	$(\text{end borrowers} - \text{borrowers with the same loan during the period}) / (\text{beg. borrowers} + \text{new borrowers} - \text{borrowers with the same loan during the period}).$
Retention rate (CGAP formula):	$\text{Repeat loans} / \text{repaid loans.}$
Penetration rate:	$\text{Active clients} / \text{number of households}$

## ■ Rating Scale

Rating	Definition
5+ 5 5-	<b>Advanced:</b> Long-lasting commitment to social goals; efficient management of social performance and social responsibility risks; institution very likely to achieve a positive social impact
4+ 4 4-	<b>Convincing:</b> Clear commitment to social goals; reasonable management of social performance and social responsibility risks; institution likely to achieve a positive social impact;
3+ 3 3-	<b>In progress:</b> Clear intent to reach social goals; social performance management systems being implemented
2+ 2 2-	<b>Incipient:</b> Clear intent to reach social goals; low capacity to manage social performance
1+ 1 1-	<b>Intangible:</b> Intention to reach social goals is non tangible; low level of management of social performance