



**JOURNEYS WITHIN OUR COMMUNITY**

**MICROFINANCE PROGRAM**

**SIEM REAP, CAMBODIA**

**SCOPING STUDY**

**Prepared for Australian Business Volunteers Limited**

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## 1. BACKGROUND OF PROGRAM

Client:	<b>Journeys Within Our Community</b> ('JWOC') is a Non-Government Organisation ('NGO'), structured as a non-for-profit Public Benefit Corporation based in California, United States of America. JWOC became a tax exempt organisation under 501 (c) 3 of the Internal Revenue Service Tax Code (USA) in March 2006.
Location:	Kruos Village, Svay Dangkom Commune, Siem Reap town, Siem Reap province, Kingdom of Cambodia. Website: <a href="http://www.journeyswithinourcommunity.org/">http://www.journeyswithinourcommunity.org/</a> .
Mission:	JWOC approached the ABV Country Manager Bruce Todd about obtaining volunteer support from ABV for the JWOC microfinance institution ('MFI') program in February / March 2008. The MFI pilot program has been running for 2 years – from July 2006 to date.
Methodology:	This Scope Report was compiled after conducting interviews in Siem Reap in July 2008 with JWOC management, staff, volunteers, borrowers and board members, a meeting with the Cambodian Microfinance Association and a literature review on microfinance in Cambodia (see Further Reading at the end of the report).

### 1.1 About JWOC – ABV Application Summary

JWOC runs grass roots development projects that aim to reduce poverty levels and increase educational and economic opportunities throughout South East Asia. JWOC began after an American couple, Brandon and Andrea Ross, who live and work in Siem Reap, saw the challenges faced by local communities. JWOC started by installing several hand pump wells and then moved into education projects. JWOC now provides free language classes for local villagers, university scholarships to Cambodian students and has installed 300 hand pump wells around Siem Reap. JWOC has issued over US\$25,000 in small business loans and US\$19,000 emergency housing loans through its MFI pilot program.

JWOC now seeks to transition its lending business to a 'formal micro-finance institution' ('MFI') by 2010 which provides not credit products but also savings and educational services<sup>1</sup>. JWOC would like to engage an ABV volunteer to help develop its operation. JWOC has also approached the US Peace Corps and the Fulbright Program for assistance.

JWOC anticipates that tasks for an ABV volunteer would include:

- Task 1 Liaison with Cambodian government officials related to MFI start-up.
- Task 2 Conducting research on loan and savings models best suited to target market.
- Task 3 Designing an educational program which compliments the financial services offered.
- Task 4 Developing the necessary management structure required for a successful MFI.
- Task 5 Advising on the various options for needed information technology.
- Task 6 Aiding and advising on sources of start-up capital for MFI creation.

This Scope Report analyses the existing JWOC program in the context of the local economy (see sections 1 and 5) and makes recommendations for ABV's involvement with JWOC along with a series of actions that JWOC should complete before the ABV volunteer is deployed (see sections 6, 7 and 8).

<sup>1</sup> For a recent paper on the issues related to the 'transformation' of NGO based MFIs see Lauer 2008.

## 1.2 Cambodian Economy

Cambodia is a rapidly growing developing world economy recovering from its modern history of war and colonization. GDP is now growing at around 10% per annum but at US\$8.6bil (2007) and a mere US\$597 per capita it remains the lowest in the ASEAN region.<sup>2</sup> Many Cambodians still live under the poverty line. Note that official data should be interpreted as indicative given the extent of the cash economy in Cambodia.

## 1.3 Siem Reap – Booming and Poor

JWOC works in Siem Reap – one of the poorest provinces in Cambodia<sup>3</sup>. Siem Reap town is Cambodia's second city behind the capital Phnom Penh which is experiencing a tourist boom. Its population is more than 100,000<sup>4</sup>, with rapid growth in recent years and projected growth of 17.6% over the period 2005 to 2020. Migrants have come from all over Cambodia to Siem Reap drawn in by economic growth and job opportunities.

Siem Reap has attracted substantial international investment in hotels and tourism driven largely by the Angkor Conservation Park which contains Angkor Wat and many other temples. The park is one of the major tourist drawcards of south-east Asia. Angkor is world heritage listed and its global profile was raised when part of the film *Tomb Raider* was shot at Angkor Thom in 2001.

The town is an urban hub with service industries (e.g banking and government) complementing tourism with fishing and agriculture predominant in the surrounding province. Economic data on the local economy has been hard to find, but Siem Reap looks set to continue its expansion.

## 1.4 The 'JWOC Communities'

The JWOC MFI lends into 3 village communities on the urban fringe of Siem Reap town. There is no formal data available on the population, demographics or economic profile of these villages. JWOC staff provided these estimates on dwellings and population:

- Veal – 600 homes and more than 2000 people
- Tropeangses – 100 homes and more than 400 people
- Kok Chork – more than 1000 homes, more than 4000 people.

The villagers are mainly internal Cambodian migrants living a subsistence existence. In Veal and Tropeangses, villagers live as squatters on land owned by the government and earmarked for road development or private ownership; in Kok Chork borrowers may have a lease or other more secure arrangements (e.g. police barracks accommodation).



***Housing in Veal and Tropeangses, Siem Reap Province. July 2008***

<sup>2</sup> Danida 2006, p.4 and Cambodia Today magazine (June 2008)

<sup>3</sup> In 2002, the poverty rate for the province was 75% and between 50% and 75% for the town, Danida 2006 at p.13.

<sup>4</sup> Town population 107,084 and Province 776,978 in 2004: Danida p.23

The villages have formed over the last 5 years as the economic opportunities in Siem Reap town have drawn migrants from the provinces. It is important to emphasise that the environment is not that of the traditional farming village – the typical province of microfinance around the world.

The housing in the villages is generally makeshift with dwellings built from wood and palm leaves, or corrugated iron, with a minority built from concrete or brick.



### ***Water use and wells in Veal, Siem Reap Province. July 2008***

In 2004, a Cambodian Government study found that 65.7% of households in Siem Reap province have no amenities, with a mere 5.6% having access to electricity, toilet and safe drinking water<sup>5</sup>.

There is no clean water, toilets, sewerage or sanitation service in the 3 villages. JWOC has provided clean water wells in the village Veal and Tropeangses, as well as some districts outside the Siem Reap area. JWOC also has presence in the villages via its dental hygiene and education activities.

Although Siem Reap is a boom town, JWOC appears to be lending to the 'poorest of the poor'<sup>6</sup>.

## **2. GOAL OF PROGRAM**

The goal of the JWOC MFI program is to:

- support JWOC's overall goal of 'reducing poverty and changing lives' in the communities where it is active;
- create a microfinance institution ('MFI') that supports the economic and social development of people in village communities in and around Siem Reap, Cambodia (and possibly elsewhere as the NGO expands its operations); and
- provide affordable loans to develop small businesses, start micro-business and assist in emergency in the communities where JWOC is active.

## **3. OBJECTIVES OF PROGRAM**

The objective of the ABV volunteer program is to build the capacity in the JWOC MFI.

JWOC has completed a successful MFI pilot program and now seeks to extend the reach of microfinance into its communities with improved products, integrated 'social performance management' and formalised management structure, processes and human resources.

<sup>5</sup> Danida, 2006, p.29

<sup>6</sup> For a discussion on the limited reach of microfinance see Hickson (2001)

An ABV volunteer would provide expert assistance in building capacity across the evolving MFI organisation.

#### 4. DEVELOPMENT OUTCOMES

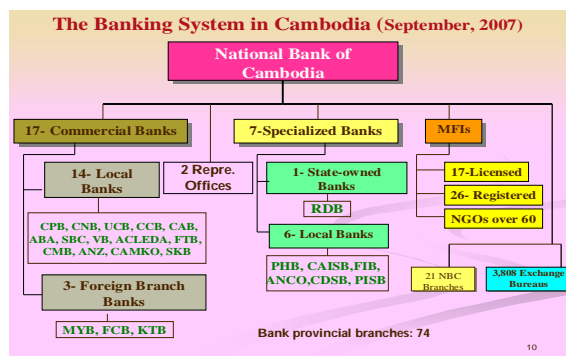
A fully fledged and socially integrated MFI within JWOC would have a number of potentially positive development outcomes:

- a) Poverty alleviation – provision of loans to small business and micro-business start ups in JWOC communities providing a source of income to many families on the urban fringe of Siem Reap;
- b) Crisis response – provision of low or no interest loans to address specific crises (e.g. fire, death of borrowers or bread winners) including the reconstruction of homes;
- c) Community building – growth of businesses and overall income of communities should improve housing, diet and overall health and prosperity; other JWOC programs in clean water, health and education will complement goals and outcomes of the MFI program<sup>7</sup>;
- d) Education improvement – growing prosperity should enable more families to send children to the local Siem Reap school (primary and secondary) and adolescents and young adults to the Build Bright University, local government schools and JWOC language schools;
- e) Advancement – over time, JWOC MFI borrowers may be able to move from their existing communities into permanent housing in Siem Reap town and access retail financial services products from established MFIs or banks operating in Siem Reap (e.g. AMK, ACLEDA or ANZ/Royal).

#### 5. SITUATION ANALYSIS

##### 5.1 Banking in Cambodia

Cambodia has a number of commercial and retail banks operating across the country. As at September 2007 there were 17 commercial banks, 7 specialised banks and over 100 MFIs<sup>8</sup>.



Source: National Bank of Cambodia ('NBC'). 2007

<sup>7</sup> JWOC could use the SPM methodology to maximize the complementary impacts of its MFI and other development activities. For more see Appendix 5 on Resources at the end of the report.

<sup>8</sup> The NBC reports that MFI lending (excluding ACLEDA) is around \$140m and approximately 10% of overall Cambodian lending (\$1.3bil) which would appear to include commercial bank loans.

The National Bank of Cambodia ('NBC') regulates MFIs in Cambodia by requiring licensing for the 'medium-sized' microfinance providers – 17 MFIs are currently licensed - and registration for the 'small' microfinance providers once their loan portfolio reaches US\$25,000. 26 NGOs are currently registered with another 60 or more unregistered MFIs run by NGOs. The JWOC MFI pilot program has operated 'under the radar' to date but as its loan portfolio has already reached US\$16,000, it will soon need to consider registration. Licensed MFIs are eligible for membership of the Cambodian Microfinance Association, and registered NGOs register with the NBC direct.

## 5.2 Microfinance in Cambodia

The Cambodian Microfinance Association ('CMA') provides this industry snapshot in its 2007 annual report:

*Today there are 17 MFIs operating under licenses from the NBC (National Bank of Cambodia), and one institution which hold a commercial bank license (ACLEDA). Institutions operate within all the 24 provinces. 777,481 families have loans from 17 MFIs and one commercial bank (a former MFI) with an outstanding loan portfolio of US\$ 272 Million, Savings collected from 355,951 accounts total US\$ 350 million. Assuming 5.5 members in each family, the beneficiaries of microfinance services can be estimated at more than 4.3 million people or an estimated 31% of the total population (based on 14 million inhabitants.)*

*This figure reflects the high demand for microfinance services and demonstrates the importance of microfinance in Cambodia. Growth continued in the sector throughout 2007 as can be seen in the comparative table below:*

	\$US\$m Loans	Customers	\$m Deposits <sup>9</sup>	Customers
<b>ACLEDA</b>	117	172,719	345	247,927
<b>17 MFIs</b>	155	604,762	5	108,024
<b>End 2007:</b>	272	777,481	350	355,951
<b>End 2006</b>	246	609,388	126	244,900

Source: CMA Annual Report 2007.

The Asian Development Bank provides this further summary of MFIs in Cambodia:

*... NGOs are the main supplier of small-scale credit but they reach only a small fraction of the population, 90 percent of whom live in the rural areas. Commercial banks are mostly confined to Phnom Penh and eight provincial towns. There are no commercial bank branches in 15 provinces in the country. There are about 90 NGOs, which are engaged in credit and savings operations in Cambodia, mainly for small-scale loans in the rural area. With growing demand for rural credit, there is a need to expand NGO activities in the medium term. While a number of NGOs are expected to become licensed microfinance institutions (MFIs) to expand their credit activities and deposit bases, other smaller NGOs require assistance in strengthening their technical capability for sound financial management and operations.*

Source: Global Development Resource Center Website 2008

<sup>9</sup> The deposit statistics quoted in the CMA report seem to include ACLEDA's commercial bank deposits. As a result the savings reach of MFIs is overstated. Savings mobilisation remains an issue for MFIs in Cambodia and beyond (see e.g. PACT report 2005, CGAP report 2004, Matthews 2005).

The Cambodian government has encouraged the growth of MFIs and is committed to supporting the growth of the banking sector from large commercial banks to smaller NGO based MFIs. In dealing with the extremely poor in urban fringe communities JWOC would appear to be servicing a group beyond the current reach of other MFIs.

**Commentary: ABV should be aware that MFIs in Cambodia now include many for-profit organisations. Microfinance in Cambodia has developed in the vacuum left in the banking sector after the Khmer Rouge and Communist periods. For example, some MFIs charge 3% per month<sup>10</sup>. This would place some MFI lending in the 'red zone' – interest of more than 15 per cent plus cost of funds – which is where lending approaches 'usury'<sup>11</sup>.**

### 5.3 Lending and Saving in Cambodia and Siem Reap

Banks, MFIs and Savings Banks are active in Siem Reap town and province. Broadly, the banks are focused on commercial clients or wealthier private clients (including expatriate workers), while MFIs and Savings Banks are focused on the needs of rural populations around Siem Reap. For a list of Cambodian banks and MFIs see Appendix 1.

ANZ Royal has 2 branches in Siem Reap town<sup>12</sup>. ACLEDA has more than 1 branch in Siem Reap, AMK has a branch in Siem Reap, and other MFIs are active outside Siem Reap town<sup>13</sup>. The focus of the CMA is clearly on lending to the 'rural poor'. Informal money-lending is active in JWOC communities at high rates of interest. Anecdotal evidence from JWOC staff and borrowers indicates that rates can be as high as 10% or 15% per month.

There are no banks or MFIs other than JWOC in Veal, Tropeangses or Kok Chork, although there is an ACLEDA branch on the nearby National Road Number 6.

JWOC staff and borrowers reported that people in the communities did not use banks or MFIs account to save money. This view is consistent with the literature on this point. A savings pattern survey conducted by a leading MFI TPC in 2003 found that:

- 96% of TPC clients kept their savings at home, while 2% kept it on themselves (cash, jewellery, etc.)
- Despite the large proportion of clients with savings, 52% claimed that they save on an irregular basis.
- Takmau and Phnom Penh were the regions with the highest amount of savings per depositor. 37% use the savings for family reasons (daily support), 15% to improve their current life, 10% for loan repayment.
- In case of emergency, 57% of people will borrow from friends, 28% from a moneylender<sup>14</sup>.

JWOC staff reported some borrowing in the communities from ACLEDA, a Cambodian commercial bank, which requires collateral or group guarantees and charges 2.5% to 3% per month. But generally JWOC management and volunteers claim that borrowers lack confidence in dealing with MFIs or banks, due to concerns about collateral and repossession and their lack of identification.

<sup>10</sup> 'Interest rates charged have declined every year, with current rates ranging from 24% to 36% per annum' see CMA Annual Report 2007

<sup>11</sup> For discussion of MFI interest rates see Yunus, 2007.

<sup>12</sup> ANZ Royal has recently employed the JWOC MFI 'project supervisor' as a teller in a Siem Reap branch.

<sup>13</sup> The CMA reported that 6 of its MFI members are active in Siem Reap province.

<sup>14</sup> Asian Resource Centre for Microfinance (2004); note also that microfinance does not always involve 'credit-first', for detail on a 'savings first approach' see, Newsom, 2002.

#### 5.4 JWOC Pilot Program - Background

The JWOC MFI program began in June 2006. JWOC had already embarked on its clean water and language class projects. A volunteer study group from Oxford University, UK (Travelaid) conducted a simple survey on the lives of villagers and discovered that access to (and cost of) credit was a significant issue for villagers.

JWOC decided to offer 5 loans of US\$100 each and sought 10 applications from across the 3 villages. The initial offering produced 37 applications. Only 5 loans were made, all of them repaid on their terms in full. Over the following 2 years JWOC has gone on to lend to over 115 villagers in its microfinance program and another 51 villagers have been given emergency housing loan assistance in the villages of Veal and Tropeangses (after fires in those areas).

The JWOC product is modeled on the Grameen Bank MFI approach with collateral free micro-loans, while the emergency housing loans are supported by security over the rebuilt homes. Lender groups have been established for both loan types but not all loans. Current policy is to require lending groups for all new loans.

Since inception, JWOC has lent over US\$46,000 in micro-loans and emergency housing finance. The total loans outstanding at July 2008 are above US\$16,000, with over US\$1300 in micro-loans and US\$15000 in the emergency housing loans. Although the MFI data is sketchy, JWOC estimates that half the borrowers are in Veal and Tropeangses, with the other half in Kok Chork.

#### 5.5 JWOC MFI Program – Lending Methods

JWOC has adapted the Grameen Bank model for its MFI micro-loan pilot program<sup>15</sup>. JWOC describes the process for granting **micro-loans** in these terms:

1. JWOC publicises the loans by dispersing information in the villages – Scholarship Students give applications to potential candidates with business plans for a new or developing business.
2. The students collect the business plans and review them. A rating of 1 to 5 is assigned to each application. The highest rated ideas are collected and a personal interview is carried out for each.
3. JWOC management then selects borrowers based on their business plan and personal interview. Borrowers are then organised into five person groups. Each application is translated into English and kept on file.
4. JWOC and the borrower sign a contract indicating the amount of the loan and weekly repayment. The contract is then executed by thumbprint by both JWOC and the borrower.
5. Scholarship students go the village once a week to collect repayments. The students record the payments on the loan “contract” document which contains a box for each of the repayments (typically 24 weeks at US\$100 each) which is ticked off as payments are made.

The initial interest rate for a micro-loan is 2% per month. The interest charged is simple, flat interest on the initial loan amount (that is, the loans are not reducible balance loans). If a borrower repays in full, they are eligible to borrow higher amounts (first US\$125, then US\$150 and so on). Most micro-loan borrowers have borrowed (and repaid) more than one loan.

Loans	Borrowers	Percentage
6	3	2.6
5	7	6.1
4	13	11.4
3	22	19.1
2	66	57.4
1	4	3.5

<sup>15</sup> See Appendix 3 for more on Grameen’s 16 Decisions and 10 Indicators.

Micro-loans are generally used to create and expand micro-businesses providing intra-community services. Borrowers are predominantly running subsistence businesses with more than 75% engaged in food vending or recycling as shown in the table below. Food related business include grocery selling, village 'restaurants' and corner stores. Recycling business involve gathering and purchasing recyclable garbage from the village and on-selling the material to another business.

The breakdown of MFI micro-loan borrowers by occupation is as follows:

<b>Recycling</b>	28	24%
<b>Food Vendor</b>	63	54%
<b>Vendor Other</b>	10	8%
<b>Trade</b>	9	8%
<b>Unknown</b>	7	6%

A minority (around 8%) of borrowers are in the process of establishing viable small businesses based on a 'trade' (e.g. bike repair and sale or clothing sewing, dress making).

JWOC provided copies of all the application obtained from the borrowers. The business plans are very basic and include simple estimates of anticipated income and costs. For example (note that applications have been translated from Khmer by the Cambodian volunteer scholarship students):

*Ngok Porm, 40 years old lives in Veal Village, Kok Chork Commune, Siem Reap District, Siem Reap Province. She has eight members in her family and has six children. She sells vegetable at Kralanh Market and spends 50,000 Riel and has an income of 60,000 Riel per day. A kilo of vegetable costs 2,500 Riel. She wants to borrow \$100 for six months to improve her business. She heard microfinance project through scholarship students.*

*Lom Hoerub, 49 years old lives in Veal Village, Kok Chork Commune, Siem Reap District, Siem Reap Province with her husband and a child. She does the recycling business and spends 100,000 Riel to 130,000 Riel and generates an income of 120,000 Riel to 150,000 Riel per day. Usually She collects recycling by bike around town. She wants to borrow \$100 and pay back over 6 months in order to improve her business. She heard microfinance project through her neighbor.*

Ou Chay Veng (Male) Veng have a skill to fix the bicycle, he use his loan of \$100 to expand his business selling and fixing bicycle at Kralanh Market. He spends \$80 to buy business supply and \$20 for transportation. He makes profit 15, 000 Riel per day. His shop is located in good place, have so many people and a lot of people like him and always talk their bicycle to fix at his shop, and also now so many people use the bicycle.

Yuon Rath (Male) Rath borrowed \$100 in the order to enlarger her business and will re-pay over 6 months. His business is selling balloon and the toy for children. He has an expenditure of 200,000 Riel to buy the balloon and toy one time (not everyday), and an income 50,000 Riel per day. He has experience so he thinks it's a good idea to create his business bigger.

Sok Pisey (Female) She used her loan of \$100 to expand her business selling noodle, duck eggs and rice soup to local near her village. She spends 40,000 Riel and makes an income 60,000. Pisey borrowed the loan of \$100 in the order to buy rice, bowls, spoon and more noodle for her business. One bowl of noodle or rice soup cost 1,000 or 1,500 Riel, depending on the size and duck egg cost 900 Riel.

Anecdotal evidence and my own borrower interviews indicate that some loans are used for other purposes (e.g. home improvements or debt consolidation).

JWOC are concerned about loans being used for purposes other than income generation or business development.

The **emergency housing loans** have been provided on different terms with most no interest or low interest (up to 1% per month), although collateral is required in the form of the rebuilt home. JWOC provided these loans in response to cooking fires in the villages of Veal and Tropeangses.

Micro-loan borrowers have the option to choose either 6 months or 1 year to pay back their loans. Terms are longer for emergency housing loans.

JWOC relies on scholarship students to fulfill the loan making process. The students travel to the villages each week to collect payments, offer basic advice for the micro-businesses, and keep accounting records for the MFI. The students attend Build Bright University under a JWOC scholarship. As a condition of the scholarship students must devote 5 to 10 hours per week to the MFI program.

Most JWOC loans are made to borrowers in repayment groups. This is a feature of the Grameen model. JWOC reports a better repayment rate on loans to borrowers in repayment groups. All borrowers in the Tropeangses emergency housing loan gram are in borrower groups which currently enjoys a 100% repayment rate.

JWOC says that it measures success based on repayment of loans and 'the impacts on lives of individuals and their families'. With the help of volunteers, JWOC makes periodic on-site evaluations to assess the benefits of the loans. These indicators include improvements in education of children, health conditions, and living conditions. This approach is currently informal and could be improved by introducing 'Social Performance Management'<sup>16</sup> and or the PPI (Progress out of Poverty Index<sup>TM</sup> tool).

#### **Analysis of JWOC MFI Performance Data – as at 30 June 2008**

<b>Key Performance Indicators</b>	<b>Micro-loans</b>	<b>Housing Loans Veal</b>	<b>Housing Loans Trop</b>	<b>Total</b>
<b>Number of clients served</b>	115	12	39	166
<b>% of female clients</b>	82%	8%	52%	69%
<b>Number of active clients</b>	94	12	39	145
<b>Total US\$amount loaned to date</b>	26,910.34	3,680.24	15,550	46,140.58
<b>Loans outstanding</b>	1,312.98	2,095.69	13,402	16,810.67
<b>Repayment rate (#s)</b>	85.06%	84%	100%	c.90%
<b>Repayment rate (\$s)</b>	90.41%	84%	100%	na

**Source: JWOC**

Repayment - the JWOC repayment rate is lower than typical for MFIs (e.g. Grameen bank and CMA members report better than 95%)<sup>17</sup>. Although the 100% repayment rate in Tropeangses demonstrates an improvement in JWOC's repayment record and lending discipline the higher than typical delinquency rate is not surprising given the nature of the community (i.e its transience, recent arrival in the area and heterogenous character).

Gender - the majority of MFI borrowers are women at 69% but the majority is lower than typical for microfinance<sup>18</sup>. This reflects the higher rates of lending to men in the emergency housing loan program. Most men in the communities work in the town as day labourers or fisherman or traders in the village or in transport or as policemen in the town.

<sup>16</sup> Note that AMK, another Cambodian MFI has implemented SPM in its business. See Appendix 3 for SPM principles adopted by AMK (note that AMK has a branch in Siem Reap).

<sup>17</sup> Philipino MFIs average a delinquency rate of around 3.5% ADB (2004). Note that the Grameen website has 3 different statements of its repayment rate – 95%, 96% and 97% - based on website views in July 2008.

<sup>18</sup> Grameen claims its borrowers are 97% female (see Grameen website 'At a Glance' document).

Funding and Profitability – formal financial reports have not been prepared to date for the MFI. Funds for the MFI program come from donations to the JWOC NGO and the surplus generated on the MFI program<sup>19</sup>. The MFI proposes to keep the surpluses generated by the business in the MFI, with money to be used for further loans. That said, there is no documentation supporting this or legal obligation compelling this.

#### **Commentary**

To date the MFI micro-loan program has been run separately from the emergency housing loans. To improve efficiency and performance evaluation among other things, JWOC should combine the two programs. JWOC has acknowledged this point and plans to incorporate the emergency housing loans in the MFI plans, budgeting and operations.

### **5.6 The JWOC Strategic and Business Plan**

The JWOC vision is both community-focused and entrepreneurial. The motto ‘See a Problem Solve a Problem’ is borne out in the pragmatic approach to development in the 3 villages and elsewhere.

At the time of the scope the formal strategic and business plans for the MFI are still evolving and are yet to be documented. Some time was spent during the scope project visit assisting JWOC in articulating and documenting these plans.<sup>20</sup>

JWOC now seeks to move beyond the pilot program and establish a fully fledged MFI offering a range of products including:

- SME Business loans – larger loans to borrowers with successful micro-businesses of US\$500 to US\$1000 or even more at 2% pcm, increasing year on year as demand grows; with balances or funding increasing as borrower repayment history is established. SME Loans will be provided to the most successful borrowers from the JWOC MFI pilot program.
- Start Up Loans – evolving the micro-loan program offering US\$100 to US\$200 at 2% pcm; Start Up loans will be provided to applicants able to present a good business plan to JWOC.
- Emergency Housing Loans – offer housing or other loans at 0% or 1% when required (e.g. house fire or loss of household breadwinner).

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<sup>19</sup> Estimate of profits and interest margin to be calculated when data is available.

<sup>20</sup> See also Ledgerwood, 2000 (World Bank Handbook) at p.123 for guidance on an MFI business plan.

**JWOC Borrower Profiles – Successful Micro Loan Borrowers and Potential SMEs**



***Suvat's Bike Shop and home, Kok Chork, Siem Reap***

**Suvat – Bike Business**

- Suvat runs a bicycle sale and repair business in Kok Chork
- He buys bike parts for \$15 and sells them for \$30 each, selling an average 5 bikes a week
- Suvat makes \$75 a week from bike sales and another \$10 a week from repairs
- He borrowed \$100, then \$125 and then \$150 and has repaid his loans to JWOC
- Suvat would now like to borrow \$1000 to expand his business
- Suvat's wife works in the business with him
- The family saves \$50 per month which is kept at home and set aside for the business
- Suvat and his wife have 4 children and 2 of them attend the JWOC language school
- Suvat rents his property – he has a 2 year lease. There is no water well near his home.



***Niri's Sewing Business and Workshop***

- Niri runs a sewing business from her home in Veal and also runs a food business
- She makes dresses and scarves for villagers and Nikaya
- Niri has borrowed and repaid 3 JWOC loans, she currently owes \$200
- She has a good repayment record and wants to expand her business into wedding costuming
- Niri estimates that she would need \$4000 to do this to meet a local demand
- This kind of loan is not currently available through the JWOC MFI program
- Niri used some loan funds for home improvement and owes money to relatives.

**Note: JWOC data on borrower business performance is not available.**

### **Market Analysis - Prospects**

There is no formal market research available to assess the demand for micro-credit in the JWOC communities. However, the microfinance literature on Cambodia and South East suggest there should be considerable unmet demand, even allowing for the recent growth in MFIs and consumer finance<sup>21</sup>. Ad hoc research has been conducted by visiting students from Oxford University (UK) and Loyola Marymount (USA) which indicated likely strong demand.

Formal data on Siem Reap and its villages is not available but economic growth and migration into Siem Reap should continue to give the JWOC MFI substantial growth opportunities. The Cambodian economy is expected to continue growing significantly in the next decade, with growth in Siem Reap underwritten by tourism.

My ad hoc interviews with several borrowers indicated that they would all borrow again from JWOC. JWOC is confident that demand exists for microfinance in the borrower villages based on the success of the pilot program and the reasonable repayment performance of the portfolio.

### **Risks<sup>22</sup>**

JWOC have not conducted a formal risk analysis for the NGO or the MFI. Any lending business should conduct an assessment of its business risks. The risk analysis should be part of the strategic and business planning process with board members involved either as a whole or by committee. The risks related to the growth strategy for the MFI include:

- Lack of microfinance and lending experience and skills in the JWOC organisation – this is a common problem for NGOs in microfinance and can only be met by skills exchange or transfer, training and operational experience over time.
- Transient nature of borrower communities – the lack of land security for many borrowers in the Siem Reap villages will remain an inherent problem; JWOC however, JWOC must remain in close contact with borrowers to minimise defaults and its community development activities, over time, could also mitigate this risk.
- Isolation from other MFIs, lenders and NGOs – JWOC is not ‘plugged in’ to MFI or NGO networks and should redress this in order to leverage support and learn good MFI practice.
- Competition from and presence of other money lenders including informal and established lenders – JWOC needs to price its products effectively to remain competitive and should be realistic about the indebtedness of its borrowers (and proactively manage over-commitment).
- JWOC overcommitment and distraction among its many projects – JWOC should treat the MFI as a commercial business and separate business unit within the NGO, with complementary goals but a singular focus on developing a self-sufficient MFI.
- Managing potential or perceived conflicts of interest between JWOC and related entities (‘Journeys Within’ and ‘Nikaya’) – reputation is a key NGO asset and any perception of conflicts of interest should be managed carefully to ensure that JWOC retains its non-profit character<sup>23</sup>.
- Health and disaster risks (e.g. fire) in borrower communities – JWOC experience indicates that fire is continuing risk; JWOC should consider community education and other preventative measures, along with policies on responding to likely ‘disaster’ events.

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<sup>21</sup> Pickens, 2004 and ADB, 2004

<sup>22</sup> For a complete analysis on Transformation of NGOs into for-profit MFIs see Lauer, CGAP 2008

<sup>23</sup> JWOC reports that Nikaya observes Fair Trade protocols on pricing and business practice.

- Interruption to lending – JWOC has suspended lending while it reviews its products and lending policies. If this continues villagers may lose confidence and trust – JWOC should address this risk with a clear communication of its plans into the borrowing communities.
- Trust<sup>24</sup> - trust and division are issues across Cambodian society given its recent history. JWOC has experienced inevitable problems in conducting community meetings but JWOC should explore and develop longer term plans to build trust among borrower groups.
- Insularity – most JWOC borrowers position their micro-businesses in the villages and may miss opportunity to tap into the larger, growing Siem Reap economy. The potential markets in Siem Reap town should feature in the business planning assistance JWOC and its students provide to borrowers.

### 5.7 JWOC Community Integration – Non MFI Projects

The MFI program is part JWOC's overall community development activity. This broader program gives JWOC an opportunity to implement Social Performance Management ('SPM'). The literature demonstrates that MFI performance can be hampered by a 'credit-only' approach to microfinance<sup>25</sup>. An SPM approach would involve, e.g.:

- community participation – in decision making and planning for the MFI
- alignment of MFI services with community needs; and
- development of community infrastructure for borrower communities.

From my experience of walk throughs in the villages, JWOC appears to be very welcome among the communities. Doubtless the projects in health and education alongside the microfinance have generated considerable good will.

The existing JWOC projects provide an excellent platform for SPM. The information in this section has been provided by JWOC. The claims have not been audited but from my visits to the borrower communities, along with discussions with borrowers and students, I have no reason to believe they are materially inaccurate.

**Clean Water.** JWOC has installed 300 hand pump wells at a cost of US\$300 each servicing 9000 Cambodians in and around Siem Reap. Villagers have tended to drink from standing water, streams or canals where the water is contaminated with bacteria and polluted with waste.

**Dental Hygiene.** JWOC provides basic dental hygiene materials and education. The program has just started, reaching 120 students since March 2008, with toothpaste, tooth brushes and basic dental care training.

**University Scholarships.** JWOC has financed the education of 40 scholarship students (14 of whom work in the MFI) at a cost of US\$30,000. University is beyond the reach of most Cambodians - tuition for one year of university is US\$400. Note that the local university would appear to be providing 'TAFE' level education.

**Language Schools.** 250 children and young adults are given free tuition in Khmer and English in schools run by JWOC; classes are given by JWOC scholarship students and volunteers.

**Photography Workshop.** JWOC runs a free weekly workshop for 25 students in digital and 35mm photography.

<sup>24</sup> For more see Pickens, 2004, there is no quick remedy to years of discord and distrust.

<sup>25</sup> See Ledgerwood, 2000 (World Bank Handbook) and Imp-Act website for more on this debate.

**Other Projects.** JWOC has done small scale emergency relief work in Burma, is establishing a language school in Laos and funds the Thanh Xuan Peace Village outside Hanoi, Vietnam providing shelter, food, physical therapy, health check-ups and education for over 100 second and third generation children who are the victims of dioxin used during the American-Vietnam War.

**Related Companies.** JWOC is related to another US registered company 'Journeys Within' which operates a hotel in Siem Reap and a travel company across South East Asia. There is a further related US registered company trading as Nikaya that sells local textiles and handicrafts into the USA. JWOC reports that one JWOC borrower supplies goods to Nikaya – which expands the micro-business for that borrower - and the proceeds of sale to Nikaya reportedly go back into JWOC.

#### Commentary

The geographical areas covered by the MFI program are not identical to areas covered by the other JWOC projects. Under a SPM approach, JWOC could develop a plan for each MFI area including the delivery of all of its services, namely:

- Microfinance
- Clean Water
- Dental Hygiene
- University Scholarships
- Language School

## 6. ORGANISATIONAL ASSESSMENT

### 6.1 Corporate Structure

JWOC is private NGO public benefit corporation based in California, USA. The MFI operates as a business unit of the NGO. JWOC is subject to US law and its own by-laws as well as Cambodian law. All board members are resident in the USA. Formal registered NGO status in Cambodia remains pending but the company has submitted its application to the Cambodian government.

'Journeys Within' is a separate company also registered in the USA running an accommodation and travel business; it pays company tax to the Cambodian government and has operated since 2003. 'Nikaya' is also a US registered company but it has only recently commenced trading.

To end December 2007 JWOC declared income just over US\$86,000 and expenses of US\$66,000 for a surplus of just under US\$20,000. JWOC provided a copy of its profit and loss and tax returns for review. The 2008 budget for JWOC is US\$162,138.

### 6.2 Local Participation in Ownership and Operation

The MFI is owned by the NGO. There are no plans for borrower participation in the MFI ownership. During the visit this issue was raised with the MD and options were discussed including the Grameen Bank shareholder participation model (with 94% borrower ownership) and the credit union or co-operative alternative (with 100% borrower ownership). JWOC could consider ownership options as it develops its MFI model<sup>26</sup>.

JWOC employs Cambodian staff in its operation (e.g. the Assistant to the MD – full time; and the Accountant – part time) but does not have any Cambodian national directors. There appear to be

<sup>26</sup> See Lauer 2008 on ownership issues in transformations of MFIs.

o borrowers working in the MFI. There appear to be no JWOC community members from the 3 villages working in the MFI (or enrolled as Scholarship Students).

### 6.3 Board, Management and Staff - Skills

The board of the NGO would not appear to have direct prior experience or formal qualifications in microfinance or development, although some directors have exposure to banking or lending through past work at the US bank Wells Fargo. Board members are all US based and come from a range of professional backgrounds including fundraising and education: for more details see <http://www.journeyswithinourcommunity.org/Board.html>.

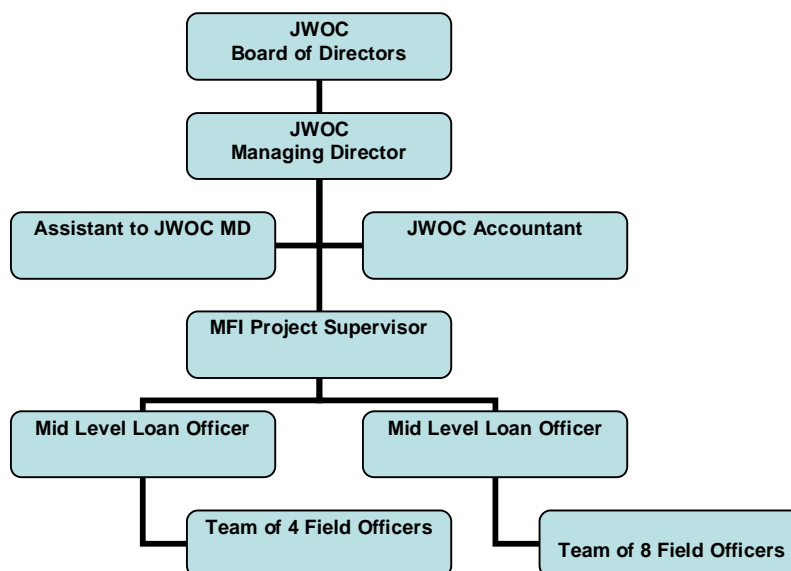
The management and staff have a good general knowledge of microfinance basics and the Grameen Bank model but do not possess formal microfinance or development skills other than the experience and skills generated by running the pilot and general reading on the subject. There were no formal tools used in the development or execution of the pilot. JWOC has a good library of materials on microfinance including the UN 'Microfinance Handbook'.

### 6.4 Operational Capacity and Execution

The MFI management capacity consists of the MD of the NGO (paid), an Assistant to the MD (paid - \$100 per month), the Project Supervisor (unpaid), 13 volunteers and the NGO Accountant (part time – paid \$40 per month)<sup>27</sup>. An organisation chart has now been developed – see below.

Operationally, volunteer students do all the work of the MFI - effectively half of one day a week each with ad hoc time through the week. The main lending and collecting activity occurs on Sunday afternoons.

A building is proposed for the NGO which will also house the Village Bank meeting place.



<sup>27</sup> To get a sense of the local economy, consider that the Assistant to the MD for JWOC earns US\$100 per month and the Project Supervisor works as a teller at ANZ Royal in Siem Reap town for \$180 per month.

## 6.5 Product Range

JWOC offers micro-loans and emergency housing loans; and it plans to expand its credit product range into 'SME loans.

There is no savings program in place at JWOC (although JWOC encourages savings and says it aims to help SME borrowers graduate to accounts with an MFI or bank). Note that Cambodian law allows MFIs to take savings or deposits from borrowers (however to take deposits from non-borrowers requires an MFI to lodge US\$2.5m with the NBC).

There are no insurance or other products currently offered by JWOC.

## 6.6 Business Documentation and Tools

JWOC has yet to develop formal business tools for the MFI.

There was no formal strategic plan or business plan on hand.

There are paper files tracking all loans to JWOC borrowers. No loan software is currently used for borrower accounts.

There is no profit and loss or balance sheet dedicated to the MFI - its business is recorded in the JWOC books as an expense or outgoing. There are no provisions currently for liquidity and capital adequacy.

## 6.6 Quick Wins

JWOC could also consider implementing a short term action to reactivate its MFI:

- Resume Lending – offering loans to established borrowers to train them a customers and avoid loss of confidence in the MFI
- Relaunch – conduct a meeting inviting applications using a more detailed application form increases the difficulty of application and potentially the quality of credit
- Beyond the Villages – encourage borrowers to develop markets beyond the illages to harness Siem Reap economic expansion
- Rostering - rotate student visits to the villages to stretch the collections process across the week and to raise profile of JWOC and in time improve the repayment rate
- Recognition and Incentives for Borrowers – consider introducing a 'small business award' or provide better borrowers with marketing support e.g. signs to advert borrower's businesses.

## 7. RECOMMENDATIONS

For ABV to assist JWOC with capacity building, JWOC should first undertake a program to strengthen its operation by:

- a) formalising its business planning and documentation
- b) engaging with its communities to develop the MFI 'from the 'inside out'
- c) beginning its own capacity building laying the foundations for a self-reliant MFI
- d) commencing training of management, staff and borrowers.

JWOC may wish to consider introducing small payments to Volunteer Staff to complete extra tasks (e.g. borrower survey and staff training).

### Action 1: Formalise Strategic Plan, Business Plan and Budget – August 2008

*This action should be completed prior to the engagement of ABV assistance.*

#### Recommendations

- 1.1 The Board and Managing Director of JWOC should formalise a Strategic Plan, Business Plan and Budget for the business (incorporating an enterprise wide Risk Analysis).
- 1.2 The JWOC Board should develop an overall Strategic Plan for the NGO and position the MFI within its overall strategies; in particular JWOC should prioritise JWOC resources and projects so that the MFI has a clear funding strategy to support business growth.
- 1.3 Additional notes:
  - a) The strategic plan should recognise the MFI as a separate business unit run on a commercial basis recognising all income and costs (with the aim of ultimately becoming self-sufficient and able to absorb cost of funds)<sup>28</sup>
  - b) The budget should recognize all funding sources, other income and expenses including JWOC paid staff time
  - c) JWOC should refer to the Strategic Plans of other organisations for further guidance (e.g. Trickle Up – see Further Reading)
  - d) JWOC should also harness the potential of all its activities to complement one another. JWOC could consider using the Social Performance Measurement methodologies in its work (visit <http://www.imp-act.org/> for more on SPM). See also Action 2.

**Responsibilities:** Chair and MD to complete planning tools by end August 2008.

### Action 2: Community Research and Consultation – September 2008

*This action should be completed prior to the engagement of ABV assistance – and the research and consultation programs will then be on-going.*

#### Recommendations

- 2.1 JWOC should conduct more formal community needs assessment using its student volunteers under the supervision of the MD and Project Supervisor. Each borrower should be interviewed using a basic application form / data sheet to ascertain current demand for

<sup>28</sup> For more on the commercialization of microfinance see ADB 2004.

credit among current and past borrowers (note that with 165 borrowers and 16 staff including the MD and assistant that would require around 10 interviews each).

- 2.2 JWOC should engage community members and leaders by holding meetings in Veal, Tropeangses and Kok Chork to identify community and borrowing needs using its student volunteers under the supervision of the MD and Project Supervisor. The Grameen Bank '16 decisions' could be used to help develop operating principles with borrowers (see Appendix 3).
- 2.3 The JWOC Board and MD should develop a plan for delivering the MFI as an integrated service and building community infrastructure based on identified community needs.
- 2.4 The JWOC MD could consult with Western universities for assistance with long range survey (e.g. Oxford or Loyola – or even an Australian University e.g. Deakin or Curtin). The JWOC operation would make an excellent research project for a post-graduate student.

**Responsibilities:** MD and MFI Supervisor to conduct initial research project and community consultation throughout August and September 2008.

### **Action 3: Capacity Building – September 2008**

*This action should be completed prior to the engagement of ABV assistance – and the research and consultation programs will then be on-going.*

- 3.1 JWOC should formalise its operational capacity with clearly documented:
  - a) Product Descriptions for all JWOC products
  - b) An Organisation Chart for the MFI (board, management, staff and volunteers)
  - c) Position Descriptions for all staff including volunteers
  - d) Processes for all JWOC operations.
- 3.2 JWOC should consider hiring a program supervisor and accountant (even if on a part time basis at first).
- 3.3 JWOC should establish its 'Village Banking' headquarters but also consider whether there is scope for creating meeting houses in the borrowing communities.

**Responsibilities:** MD, Assistant to MD and Supervisor to complete actions by end September 2008.

### **Action 4: Training Program – August to October 2008**

*This action should be completed prior to the engagement of ABV assistance – and the research and consultation programs will then be on-going.*

- 4.1 JWOC should build its competency through introductory MFI training for management, staff and student volunteers e.g. through CMA, UN Capital Development Fund, Rural Finance Learning Centre or Imp-Act, or CUFA (Training Centre in Phnom Penh).
  - a) Management Training – the MD and key volunteer staff (e.g. Supervisor, Assistant to MD and Accountant) should complete the UN online program, this can be found at: [http://www.uncdf.org/english/microfinance/pubs/newsletter/pages/2005\\_05/news\\_MFD\\_L.php](http://www.uncdf.org/english/microfinance/pubs/newsletter/pages/2005_05/news_MFD_L.php)
  - b) Volunteer Staff Training – the MD and Project Supervisor should implement a video learning program for volunteers on Sundays – e.g. watching a 30 minute video as a

group each week; and relevant Allocate Self-Study guides to management and staff (see Rural Finance Training Center for materials - <http://www.ruralfinance.org/index.jsp>)

- c) Borrower Training – the volunteer students should conduct business plan training with borrowers – using or adapting RFLC materials:  
<http://www.ruralfinance.org/servlet/CDSServlet?status=ND0xMjM1Ny40NjM0MyY2PWVuJjMzPWRvY3VtZW50cyZzaG93Q2hpbGRyZW49dHJ1ZSYzNz1pbmZv#koinfo>

- 4.2 JWOC should encourage Build Bright University to include a Microfinance component in its Business and Finance courses to make course more relevant to the needs of the MFI and the students. JWOC could network with local MFIs and NGOs in Siem Reap to implement this suggestion.

**Responsibility:** MD to implement initial training program by end October 2008.

## 8. PROGRAM PLAN

The following program of volunteer assistance is recommended:

1. **Financial Accounting** (3 months) migration from paper files to Octopus or other accounting system

*Background:* JWOC currently uses paper files for all loans and spreadsheets for reporting. This is not sustainable if JWOC is to transition to registered MFI status. There is no in-house expertise in this area.

*Objective:* Introduce electronic account-keeping and financial reporting

*Tasks:*

- Populate Octopus or other accounting package with customer data (165 plus customers)
- Train MFI staff on how to use the accounting software
- Develop automated reporting for MD and Board

*Skills required of volunteer:*

- Knowledge of MFI or lending accounting
- Knowledge of particular software program e.g. Octopus
- Knowledge of financial reporting – profit and loss; balance sheets; lending KPIs.

2. **Training Plan** (6 months – implementing management, staff and borrower training)

*Background:* JWOC MFI has little formal knowledge of microfinance. Structured learning will significantly increase capacity. JWOC can start the process and the ABV can then accelerate learning.

*Objectives:* develop and deliver on-going training plan for management, staff and borrowers.

*Tasks:* develop (or acquire) training courses and deliver training in class room and in villages.

*Skills required of volunteer:*

- Knowledge of MFI practice – operations, products, practices, reporting
- Knowledge of small business – background as business or management consultant useful
- Ability to design training courses
- Ability to deliver training courses.

**3. Product development:** (6 months – expanding JWOC product range based on borrower feedback, research and performance)

Background: JWOC currently offers micro-loans and emergency home loans, a fully fledged MFI could offer a broader product range including savings and insurance products. Linkage to other programs should be part of this process (SPM could be integrated).

Objectives: develop product range to suit the evolving needs of villages in JWOC communities.

Tasks:

- Continue and improve research program (using the Progress out of Poverty Index™) and / or Social Performance Management tools
- Liaise with Western university on long range survey (e.g. Oxford or Loyola)
- Develop new product descriptions, documentation and marketing
- Develop processes for marketing, approving, managing and collecting loans
- Staff training on new products

Skills required of volunteer:

- Knowledge of lending, savings and insurance products
- Survey design, conduct and analysis
- End to end operational delivery of lending products from marketing to collections
- Training design and delivery.

**4. Business Development (6 months –developing transition plan for registered MFI)**

**Objective** – achievement of registered MFI status

Tasks:

- Liaison with Cambodian government officials related to MFI start-up
- Aid and advise in sourcing start-up capital for MFI creation (e.g. MIX Market and IFC)
- Determine the necessary management structure required for a successful MFI.

Skills required of volunteer:

- Ability to consult with government officials and donor bodies
- Knowledge of law and finance markets
- Knowledge of organisational design.

## Appendices

### Appendix 1. Banks in Cambodia

#### Commercial Banks

ACLEDA Bank PLC  
Advanced Bank of Asia Ltd (ABA)  
Australia and New Zealand Royal Bank (Cambodia) Ltd (ANZ Royal Bank)  
Cambodia Asia Bank Ltd (CAB)  
Cambodia Mekong Bank PLC (MekongBank)  
Cambodian Commercial Bank (CCB)  
Cambodian Public Bank (Campu Bank)  
CAMKO Bank (CKB)  
Canadia Bank PLC (CNB)  
First Commercial Bank Phnom Penh Branch (FCB)  
Foreign Trade Bank of Cambodia (FTB)  
Krung Thai Bank PLC, Phnom Penh Branch (KTB)  
Maybank Phnom Penh Branch (Maybank)  
Prosperity Investment Bank PLC (PIB)  
Shinhan Khmer Bank (SKB)  
Singapore Banking Corporation Ltd (SBC)  
Union Commercial Bank PLC (UCB)  
Vattanac Bank Ltd (Vattanac)  
VIP Bank

#### Specialized Banks

ANCO Specialized Bank (ASB)  
Cambodia Agriculture Industrial Specialized Bank (CAISB)  
Cambodia Development Specialized Bank (CDB)  
First Investment Specialized Bank (FISB)  
Peng Heng SME Bank  
Rural Development Bank (RDB)

#### Cambodia Microfinance Association - Members

AMRET Co., Ltd  
Angkor Microheranhvatho Kampuchea (AMK)  
Cambodia Business Integrate in Rural Development (CBIRD)  
Cambodia Entrepreneur Building Ltd. (CEB)  
CHC Limited  
CREDIT Co., Ltd  
Entean Akpevath Pracheachun  
Farmer Union Development Fund  
Hatthakaksekar Ltd. (HKL)  
Intean Poalroath Rongroeurng (IPR)  
Maxima Mikroheranhvatho  
Piseth Akpuiwat Sethakech  
Prasac Microfinance Institution  
Seilanithih Limited  
Thaneakea Phum Cambodia  
Tong Fang Microfinance  
Vision Fund (Cambodia) Ltd.

## Appendix 2 - Regulation of Banks and MFIs - Legislation

Cambodian law recognizes three categories of banking institutions:

- Commercial banks, which require a minimum registered capital of US\$13 million and can carry out all banking activities.
- Specialized banks, which require a minimum registered capital of Riel 10 billion (US\$2.5 million) and can carry out a limited number of banking activities, as specified in the terms of their license.
- Micro Finance Institutions (MFIs), which require a minimum registered capital of Riel 250 million (approx US\$62,500)<sup>29</sup>.

Registration or licensing by the National Bank of Cambodia (NBC) of microfinance providers is compulsory when operators meet one or more of the following conditions:

Financial products	Registration	Licensing
Credit	<b>Loan portfolio outstanding Riel 100 million (US\$25,000) or more</b>	Loan portfolio outstanding Riel 1 billion (US\$250,000) or 10,000 borrowers or more
Savings	Voluntary savings mobilized: Riel 1 million (US\$250) or more or 100 depositors or more	Voluntary savings mobilized Riel 100 million (US\$25,000) or more or 1,000 depositors or more

*Note: MFIs can take savings or deposits from borrowers but cannot do so from 'members of the public' unless they register with the NBC an deposit \$2.5m capital.*

### Prudential Regulation of Cambodian Banks and MFIs<sup>30</sup>

Among others, key prudential regulations for MFIs include the following:

- Capital guarantee deposit of 5% of capital
- Capital adequacy ratio of 20%
- Reserve requirement: minimum 5% of voluntary deposits
- Liquidity ratio: liquid assets of at least 25% of voluntary savings
- Aggregate loan commitment to any one client cannot exceed 10% of net worth
- Bad Debt Provisioning requirements for MFIs

Loan Type	Definition	Provision
Standard	Loans with payments of principal and interest on time	None
Substandard	Loans between 30-59 days past due	10%
Doubtful	(a) Loans with original maturity <1 year that are 60-89 days past due (b) Loans with original maturity >1 year that are 60-179 days past due	30%
Loss	(a) loans with original maturity <1 year that are past due for >90 days (b) loans with original maturity >1 year that are past due for >180 days	100%

Source: Asia Resource Center for Microfinance. 2005.

<sup>29</sup> "Law on Banking and Financial Institutions" enacted in November 1999 and the government decree (Prakas) for implementation, enacted in early 2000,

<sup>30</sup> Note: how these provisions apply to registered NGOs microfinance program remains unclear (e.g. it seems unlikely that an NGO would be required to lodge 5% of capital with NBC if its loan portfolio is only US\$25,000).

### Appendix 3 – Grameen and SPM Model Materials

JWOC can use the following materials in developing and benchmarking its approach to community development through the MFI and its other complementary projects. As appropriate, the principles should be adapted to Cambodian conditions.

#### Grameen Bank Sixteen Decisions

1. The four principles of the Grameen Bank - Discipline, Unity, Courage and Hard Work - we shall follow and advance in all walks of our lives.
2. Prosperity we shall bring to our families.
3. We shall not live in dilapidated houses. We shall repair our houses and work towards constructing new houses at the earliest.
4. We shall grow vegetables all the year around. We shall eat plenty of them and sell the surplus.
5. During the planting seasons, we shall plant as many seedlings as possible.
6. We shall plan to keep our families small. We shall minimize our expenditures. We shall look after our health.
7. We shall educate our children and ensure that they can earn to pay for their education.
8. We shall always keep our children and the environment clean.
9. We shall build and use pit-latrines.
10. We shall drink tube-well water. If it is not available, we shall boil water or use alum.
11. We shall not take any dowry in our sons' weddings, neither shall we give any dowry in our daughters' weddings. We shall keep the center free from the curse of dowry. We shall not practice child marriage.
12. We shall not inflict any injustice on anyone, neither shall we allow anyone to do so.
13. For higher income, we shall collectively undertake bigger investments.
14. We shall always be ready to help each other. If anyone is in difficulty, we shall all help them.
15. If we come to know of any breach of discipline in any center, we shall all go there and help restore discipline.
16. We shall introduce physical exercise in all our centers. We shall take part in all social activities collectively

#### 10 Indicators

A member is considered to have moved out of poverty if her family fulfills the following criteria:

1. The family lives in a house worth at least Tk. 25,000 (twenty five thousand) or a house with a tin roof, and each member of the family is able to sleep on bed instead of on the floor.
2. Family members drink pure water of tube-wells, boiled water or water purified by using alum, arsenic-free, purifying tablets or pitcher filters.
3. All children in the family over six years of age are all going to school or finished primary school.
4. Minimum weekly loan installment of the borrower is Tk. 200 or more.
5. Family uses sanitary latrine.
6. Family members have adequate clothing for every day use, warm clothing for winter, such as shawls, sweaters, blankets, etc, and mosquito-nets to protect themselves from mosquitoes.
7. Family has sources of additional income, such as vegetable garden, fruit-bearing trees, etc, so that they are able to fall back on these sources of income when they need additional money.
8. The borrower maintains an average annual balance of Tk. 5,000 in her savings accounts.
9. Family experiences no difficulty in having three square meals a day throughout the year, i. e. no member of the family goes hungry any time of the year.
10. Family can take care of the health. If any member of the family falls ill, family can afford to take all necessary steps to seek adequate healthcare.

**General features of Grameencredit**

- a) It promotes credit as a human right.
- b) Its mission is to help the poor families to help themselves to overcome poverty. It is targeted to the poor, particularly poor women.
- c) Most distinctive feature of Grameencredit is that it is not based on any collateral, or legally enforceable contracts. It is based on "trust", not on legal procedures and system.
- d) It is offered for creating self-employment for income-generating activities and housing for the poor, as opposed to consumption.
- e) It was initiated as a challenge to the conventional banking which rejected the poor by classifying them to be "not creditworthy". As a result it rejected the basic methodology of the conventional banking and created its own methodology.
- f) It provides service at the door-step of the poor based on the principle that the people should not go to the bank, bank should go to the people.
- g) In order to obtain loans a borrower must join a group of borrowers.
- h) Loans can be received in a continuous sequence. New loan becomes available to a borrower if her previous loan is repaid.
- i) All loans are to be paid back in instalments (weekly, or bi-weekly).
- j) Simultaneously more than one loan can be received by a borrower.
- k) It comes with both obligatory and voluntary savings programmes for the borrowers.
- l) Generally these loans are given through non-profit organisations or through institutions owned primarily by the borrowers. If it is done through for-profit institutions not owned by the borrowers, efforts are made to keep the interest rate at a level which is close to a level commensurate with sustainability of the programme rather than bringing attractive return for the investors. Grameencredit's thumb-rule is to keep the interest rate as close to the market rate, prevailing in the commercial banking sector, as possible, without sacrificing sustain-ability. In fixing the interest rate market interest rate is taken as the reference rate, rather than the moneylenders' rate. Reaching the poor is its non-negotiable mission. Reaching sustainability is a directional goal. It must reach sustainability as soon as possible, so that it can expand its outreach without fund constraints.
- m) Grameencredit gives high priority on building social capital. It is promoted through formation of groups and centres, developing leadership quality through annual election of group and centre leaders, electing board members when the institution is owned by the borrowers. To develop a social agenda owned by the borrowers, something similar to the "sixteen decisions", it undertakes a process of intensive discussion among the borrowers, and encourage them to take these decisions seriously and implement them. It gives special emphasis on the formation of human capital and concern for protecting environment. It monitors children's education, provides scholarships and student loans for higher education. For formation of human capital it makes efforts to bring technology, like mobile phones, solar power, and promote mechanical power to replace manual power.

**SPM Model Material****Guiding principles and code of practice for client protection**

AMK's guiding principles<sup>31</sup>:

- Provide microfinance services to poor people in Cambodia that are grounded in sound financial discipline at all levels
- Be committed to openness and transparency in all areas of management and operations
- Be committed to developing processes/services and to adopting behaviours and standards that ensure client protection
- Be a learning organisation where appropriate exchange and sharing of information will contribute to staff development, training and in policy and systems improvements.

As an extension to its Guiding Principles, a Code of Practice for Client Protection was adopted in 2005 in order to ensure fair and equal treatment of clients. The Code states that AMK will strive to:

- Minimise the exclusion of the poor who meet AMK's other criteria for selection.
- Minimise the exposure of (poor) clients to financial products that may prove harmful if they promote over-indebtedness.
- Provide complete information to clients about policies and procedures, and ensure complete transparency in transactions.
- Facilitate/promote complete freedom of choice to clients.
- Ensure appropriate and respectful behaviour towards clients of staff and management.

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<sup>31</sup> Note: JWOC might wish to incorporate a similar statement of principles in its Strategic Plan.

#### **Appendix 4 - Further Reading:**

ANNUAL REPORT, 2007, Cambodian Microfinance Association.

ASIA RESOURCE CENTRE FOR MICROFINANCE 2004, viewed July 2008 (see also [www.bwtp.org/arcm/cambodia](http://www.bwtp.org/arcm/cambodia)).

ATLAS OF CAMBODIA, NATIONAL POVERTY AND ENVIRONMENT MAPS, 2006, DANIDA (see also <http://www.cambodiaatlas.com/>)

BOUGAINVILLE MICROFINANCE: REBUILDING RURAL COMMUNITIES AFTER THE CRISIS, 2002, John Newsom, Bougainville Microfinance Scheme

COMMERCIALIZATION OF MICROFINANCE: PERSPECTIVES FROM SOUTH AND SOUTHEAST ASIA, 2004, Charitonenko, S.; Campion, A.; Fernando, N. A., Asian Development Bank

COUNTRY LEVEL EFFECTIVENESS AND ACCOUNTABILITY REVIEW CAMBODIA January 2005, Mark Flaming, Eric Duflos, Alexia Latortue, Nina Nayar, Jimmy Roth, CGAP/The World Bank

CREATING A WORLD WITHOUT POVERTY, 2007, Muhammad Yunus, Public Affairs

FINANCIAL SERVICES FOR THE VERY POOR – THINKING OUTSIDE THE BOX, 2001, Robert Hickson, Small Enterprise Development

SAVINGS-LED AND SELF-HELP MICROFINANCE IN CAMBODIA: LESSON LEARNED AND BEST PRACTICES, Mark Pickens August 2004, Pact Cambodia

SUSTAINABLE BANKING WITH THE POOR, MICROFINANCE HANDBOOK, AN INSTITUTIONAL AND FINANCIAL PERSPECTIVE, 2000, Joanna Ledgerwood, World Bank

TOWARDS SAFETY AND SELF-RELIANCE, COMMUNITY FINANCE AND PUBLIC TRUST IN RURAL CAMBODIA, 2005, Brett Matthews, Microfinance Specialist, Canadian Co-operative Association

TRANSFORMING NGO MFIs: CRITICAL OWNERSHIP ISSUES TO CONSIDER, 2008, Katie Lauer, Occasional Paper No 13, CGAP

## Appendix 5 – Resources

### Microfinance Methodology Tools

- Organisational Evaluation Tool 'Appraisal Guide for Microfinance Institutions: Technical Guide' – CGAP - <http://www.cgap.org/p/site/c/template.rc/1.9.4394>
- PPI (Progress out of Poverty Index™) – Grameen Foundation  
[www.progressoutofpoverty.org/piloting-ppi](http://www.progressoutofpoverty.org/piloting-ppi)
- Social Performance Management – IMP-ACT (UK) - <http://www2.ids.ac.uk/impact/>

### Strategic and Business Plans Samples

- Bougainville Haus Moni – sample business plan for substantial MFI with 6million Kina (c.US\$2.4m): [www.devjobsmail.com/private/cpadocs/past-reports/Business-Plan-BHM.pdf](http://www.devjobsmail.com/private/cpadocs/past-reports/Business-Plan-BHM.pdf)
- Trickle Up – New York based MFI funder -  
[http://www.trickleup.org/about/PDFs/Strategic\\_Plan\\_2007\\_2012.pdf](http://www.trickleup.org/about/PDFs/Strategic_Plan_2007_2012.pdf)

### Relevant Microfinance Websites

- Banking with the Poor Network: [www.bwtp.org](http://www.bwtp.org) – information and lobbying
- Cambodian Community Savings Federation - <http://www.ccsf-cambodia.com/> - savings body
- Cambodian Microfinance Association: [www.cma-network.org](http://www.cma-network.org) – local advocacy and training
- CGAP - <http://www.cgap.org/p/site/c/> - World Bank based microfinance specialists
- Global Development Resource Center Website 2008: [www.gdrc.org](http://www.gdrc.org) - information
- Grameen Bank: [www.grameen-info.org/](http://www.grameen-info.org/) - prominent microfinance institution
- International Finance Corporation: <http://www.ifc.org/> - World Bank Group MFI funder
- Kiva: [www.kiva.org](http://www.kiva.org) – US based remote funder of MFIs
- MIX Market: [www.mixmarket.org](http://www.mixmarket.org) – marketplace for funders, information on MFIs
- PACT Cambodia - <http://www.pactworld.org/cs/asia/cambodia> - capacity builder
- Small Enterprise Education and Promotion (SEEP) Network: [www.seepnetwork.org](http://www.seepnetwork.org)
- The Association of Banks in Cambodia: [www.abc.org.kh](http://www.abc.org.kh) - banking sector trade body
- Trickle Up: [www.trickleup.org](http://www.trickleup.org) - US based remote funder of MFIs