MicroRating International

rating of Cambodia Business Integrated in Rural Development (CBIRD)

CBIRD MFI Ltd.

Limited Company licensed as an MFI

Battambong, Cambodia

December 2008

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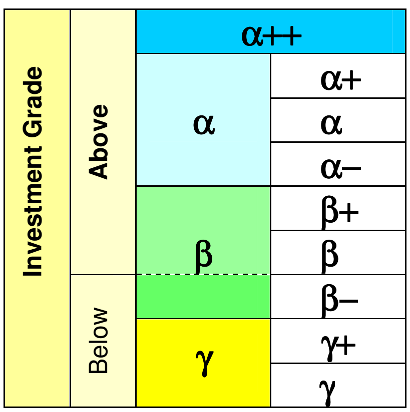
CREDIT RATING	β
RATING OUTLOOK*	*positive*

*M-CRIL's viewpoint (positive, neutral or negative) of the future prospects of the organisation

Date of visit 15-17 December **2008**



Main Performance Indicators	Dec-07	Nov-08
Gross portfolio (US$ '000)	870.5	1,048.2
Number of active borrowers	1,668	2,058
RoA*	5.0%	6.1%
Portfolio yield*	38.9%	39.5%
Portfolio at Risk> 60 days	0.8%	0.4%
Operating expense ratio*	24.3%	24.0%
Average loan disbursed(US$)	453	754
Average loan o/s (US$)	522	509
Borrowers per field staff	128	147

Note: *Figures for Nov. 08 are annualised

Synopsis

Cambodia Business Integrated in Rural Development (CBIRD MFI Ltd) is a limited liability company which registered as an MFI in July 2005. It began its microfinance related activities in 2002. CBIRD has performed moderately well on management parameters, while its financial performance and portfolio are good. It has earned profits since its inception and has excellent capital adequacy which will allow it to leverage funds.

CBIRD is facing a challenge in its governance, as its Board and top management have no prior experience related to microfinance. CBIRD is finding it difficult to raise funds within Cambodia and has been unable to raise funds from outside the country. Shortage of funds has severely affected its growth and hampered achievement of potential outreach. Despite having committed staff and management there is low productivity amongst field staff. The internal control and audit mechanisms are moderate. CBIRD charges high interest rates, which negatively affect its ability to face competition. The organization is also exposed to high exchange risk as it borrows US dollars and disburses loans in three different currencies, Khmer Riel, Thai Baht and US$. The future performance of CBIRD in a highly competitive microfinance market will largely depend on its ability to mobilise adequate equity and on-lending funds.

A rating update after one year is suggested to ascertain changes in the creditworthiness of the institution. This rating is valid, subject to reasonable inflows of loan funds into the organisation and to no other significant changes in the organisational structure and external operating environment.

Highlights

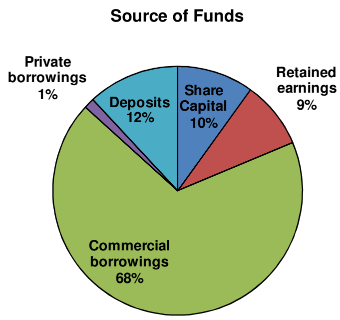
Positive

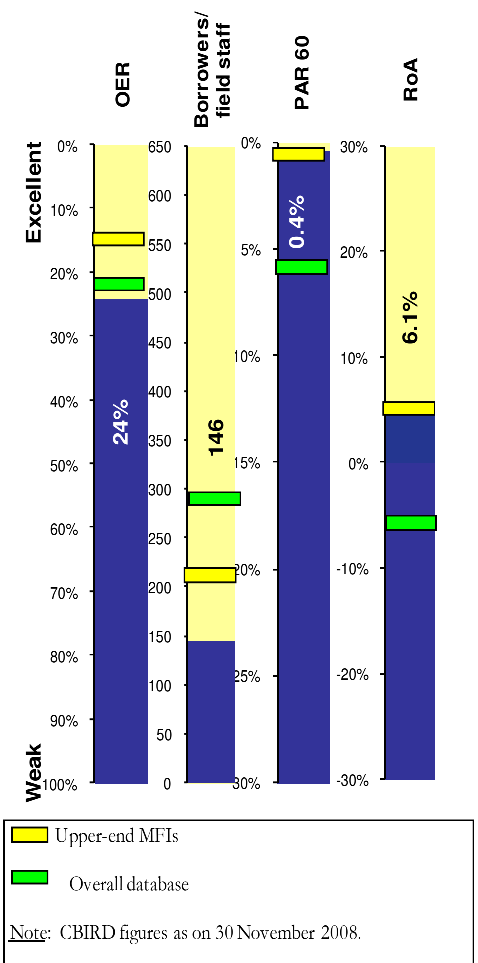
- Good portfolio quality
- Good performance on profitability and sustainability
- Rigorous loan screening process

Negative

- Limited experience of Board in microfinance
- Foreign exchange risk
- High Interest Rates
- Weak second line of leadership
- Low staff productivity
- High competition
- Weaknesses in MIS

Sources of Funding





Comparison of CBIRD's performance with MFIs rated by M-CRIL

Rating Rationale

Rigorous Loan Screening process: CBIRD's loans are sanctioned by a loan committee of four, after a detailed survey of client's repayment capacity, and field checks by supervisors.

Good portfolio quality: The MFI has very good portfolio quality with PAR_{60} of 0.4% in November 2008.

Good performance on profitability and sustainability: CBIRD has sound financial performance with RoA of 6.1% and OSS of 118.4%. CAR is healthy at 20.4%.

Limited experience of Board in microfinance: The microfinance experience of the Board members is limited to their involvement with CBIRD and they are all shareholders in the company. The Board would benefit from an independent Director, especially with expertise in the sector.

Exposure to foreign exchange risk: CBIRD borrows in US$ and disburses loans in different currencies: Khmer Riel (27%), Thai Baht (16%) and US$ (57%) exposing it to exchange risk.

High Interest Rates: CBIRD's interest rates are higher than those of its competitors, limiting its capacity to capture a significant part of the existing market.

Weak second line of leadership: The second line of leadership is limited to the CEO. As he is being groomed for taking on the role of a full-time Director, CBIRD needs to strengthen its second line. The current functional heads, although competent in their functional responsibilities still need time to shoulder higher management roles.

Low staff productivity: The staff are committed and motivated, but there has been severe low productivity due to the shortage of funds, and partially due to problems with limited staff capability, and lack of dynamism of branch heads. Low productivity is reflected in high OER of 24%.

High degree of competition: Intense competition in its operational area may force CBIRD to reduce interest rates in future, lowering profitability.

Weaknesses in MIS: The MIS is unable to track overdues of less than 90 days and the PAR calculation for this is done manually. This leaves scope for human error, which is further aggravated by the quality of manual records maintained..

Weak performance on fund mobilisation: The future performance of CBIRD depends on its ability to mobilise external funds. At present, CBIRD is totally dependent on Rural Development Bank of Cambodia, ACLEDA Bank and a couple of local investors.

Comparative Performance Highlights

Rating Grades

Category	September 2008
Governance & strategic positioning	β
Organisation & Management	β
Financial performance	β+
Overall	β

Select indicators/ratios

Indicator/ratio	November 2008
1 Growth	
Loans outstanding (US$ '000)	1,048.2
Outstanding borrowings (US$ '000)	816.2
Active borrowers	2,058
Average loan size o/s (US$)	509
Number of loans disbursed during t he period	2,059
Average amount disbursed during the period	754
2 Credit performance	
Portfolio at risk (>=30 days)	0.4%
Portfolio at risk (>=60 days)	0.4%
3 Efficiency and profitability	
Active clients per field staff	147
Active clients per staff	37
Net loans to total assets	89%
Operating expense ratio*	24%
Annual return on assets*	6.1%
Operating self-sufficiency	118.4%
Capital adequacy ratio	20.4%

Note: *Annualised figures

Country overview

Cambodia is a Southeast Asian country, bordering the Gulf of Thailand. The country has a history of invasions, wars and political unrest. After it gained independence from the French in 1953, the communist Khmer Rouge forces captured power in 1975. At least 1.5 million persons were either executed or killed due to forced labour during the Khmer Rouge regime. In 1978, the Cambodian army together with the Vietnamese army attempted to overthrow the Khmer Rouge, which started a 13-year period of civil war. The Paris Peace Accord in 1991 brought about the establishment of a democratically elected coalition government in 1998. Elections were again held in 2003, leading to the establishment of another coalition government in 2004.

In 1999, the first full year of peace in 30 years, the government made progress on economic reforms. From 2002 to 2007, the economy grew at an average rate of 7.5%, driven largely by an expansion in the garment sector and tourism. In 2005, exploitable oil and natural gas deposits were found beneath Cambodia's territorial waters, representing a new revenue stream for the government once commercial extraction begins in the coming years. However, the long-term development of the economy remains a daunting challenge. The Cambodian government continues to work with bilateral and multilateral donors, including the World Bank and IMF, to address the country's many pressing needs. The major economic challenge for Cambodia over the next decade will be fashioning an economic environment in which the private sector can create enough jobs to handle Cambodia's demographic imbalance. The population lacks education and productive skills with 74% still fully engaged in subsistence farming. However, in terms of the contribution of different sectors to GDP, agriculture contributes only 35%. Today, Cambodia is one of the poorest countries in the region: 36% of its 13.8 million citizens live below the national poverty line and 20% of the households are headed by a woman. Further, a weak social infrastructure – evident in the United Nations Development Programme's (UNDP) Human Development Index rank of 130 (out of 175) in 2003 – has meant that gender inequality, rural-urban regional disparities and poor health facilities continue to be significant hindrances to development.

The financial and banking sector were destroyed by the Khmer Rouge regime, which abolished money for a number of years. In the 1990s, Cambodia's banking sector went from a single public bank to a two-tiered public banking system that separated the functions of the Central Bank from the Commercial Banks. The Royal Government of Cambodia (RGC) introduced banking regulations in 1999 and bank-restructuring programmes in 2000 and, as a result, a number of non-viable banks were liquidated. Today 17 banks remain in operation, including one state owned bank, three foreign bank branches, 10 local banks and three specialized banks (one of which is state owned). The government has liberalized interest rates, established reserve requirements, capped total exposure allowed to any one individual or client, and capped bank positions in foreign currency as a percent of the bank's net worth. However, most banks are highly liquid, conservative and serve a narrow elite clientele.

Cambodia's financial sector is still at a developing stage: the number of commercial banks is limited and effectively non-existent outside the capital city. With the exception of ACLEDA Bank (commercial bank) and the RDB (specialized bank) formal banks do not yet serve the poor. In this context, microfinance operators and the informal financial sector have been the de facto providers of financial services in rural areas. Currently there are at least 100 registered and unregistered lending bodies serving the rural population in Cambodia, including 16 licensed Microfinance Institutions (MFIs) and 24 registered rural credit operators. The main nine players in the microfinance market in Cambodia serve over 95% of the formal sector market.

National Bank of Cambodia (NBC) is responsible for regulating and supervising microfinance in Cambodia. The NBC has the authority to regulate, supervise, license and revoke licenses of MFIs, to issue prudential regulations and strengthen supervisory capacity.

Registration or licensing by NBC of microfinance providers is compulsory when operators meet one or more of the following conditions:

If engaged in	Registration by NBC	Licensing by NBC
Credit	Loan portfolio >= KHR 100 million (USD 25,000)	Loan portfolio >= KHR 1,000 million (USD 250,000) or >= 1,000 borrowers
Savings	Voluntary savings: >= KHR 1 million (USD 250) or >= 100 depositors	Voluntary savings >= KHR 100 million (USD 25,000) or >= 1,000 depositors

MFIs are required to be incorporated as limited liability companies or as cooperatives and require a minimum registered capital of approx US$62,500.

Microfinance operations

Main Indicators	31-Dec-05	31-Dec-06	31-Dec-07	30-Nov-08
Gross Loan Portfolio (USD '000)	636.1	844.4	870.5	1,048.2
Gross Loan Portfolio (KhR Million)	2,544.3	3,377.6	3,481.9	4,192.7
Number of Active Borrowers	1,835	1,697	1,668	2,058
Asset Quality				
Portfolio at Risk (>30 days) / Gross Loan Portfolio	1.2%	0.8%	0.8%	0.4%
Loan Loss Provision Expense / Average Gross Portfolio	0.9%	1.5%	1.0%	0.6%
Loan Loss Reserves / Average Gross Portfolio	2.3%	0.9%	0.7%	0.4%
Write-offs / Average Gross Portfolio	1.0%	0.7%	0.1%	0.0%
Efficiency and Productivity				
Operating Expenses / Average Gross Loan Portfolio	19.9%	21.7%	24.3%	24.0%
Cost per Borrower (USD)	121	158	186	146
Average Outstanding Loan Size	347	498	522	509
Number of Borrowers / Field staff	153	154	128	147
Number of Borrowers / Total Staff	37	32	28	37

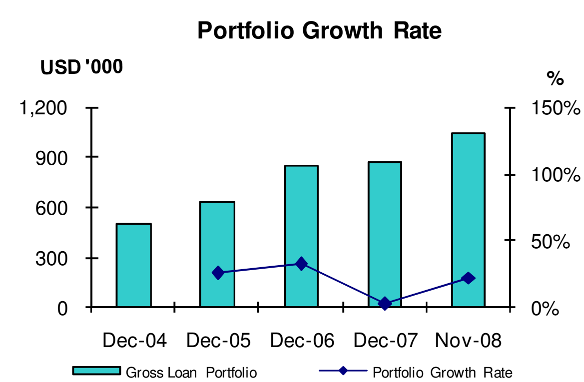
Exchange Rate : 1 USD = 4,000 KhR (2006), 1 USD = 4,116 KhR (2007), 1 USD = 4,070 KhR (2008),

Cambodia Business Integrated in Rural Development MFI Ltd. (CBIRD) was started in 2000, as an NGO providing literacy and computer skills training in Banteay Meanchey and Battambong districts of Cambodia. Facing a financial crisis, and realising that funds were available from the Rural Development Bank of Cambodia for microfinance, CBIRD expanded the organisation's activities to savings and lending in 2001. Certification as a Rural Credit Operator was granted in August 2002 by the National Bank of Cambodia. Following satisfactory growth, CBIRD was registered by the Ministry of Commerce as Cambodian Business Integrated in Rural Development Micro Finance Institution (CBIRD MFI) in July 2005, making it compliant with the National Bank of Cambodia as an approved micro credit provider. CBIRD has has its Head Office in Battambong, the second largest city in Cambodia. It has expanded operations into the provinces of Battambang, Banteay Meanchey, Pailin, Prey Veng, and Siem Reap. The promoters are also shareholders of the company, and directors on the Board.

CBIRD does not specifically serve the lower economic segments, rather concentrates on marketing its financial services to the untapped segments in the districts of operation, which include small farmers and traders. Lending is done in three currencies: US dollar, Khmer Riel (local currency) and Thai Baht. CBIRD lends to groups of clients as well as individuals. Group lending is targeted for persons not having adequate collateral to get individual loans. Under IFAD project, CBIRD also adopted village bank model.

The CEO of CBIRD is also a shareholder and promoter of the organisation, and he performs the fund mobilisation and overall monitoring activities along with the Chairman. CBIRD has five functional departments: Credit, Finance, Administration, Human Resources (HR), and IT. The internal auditor reports directly to the Chairman.

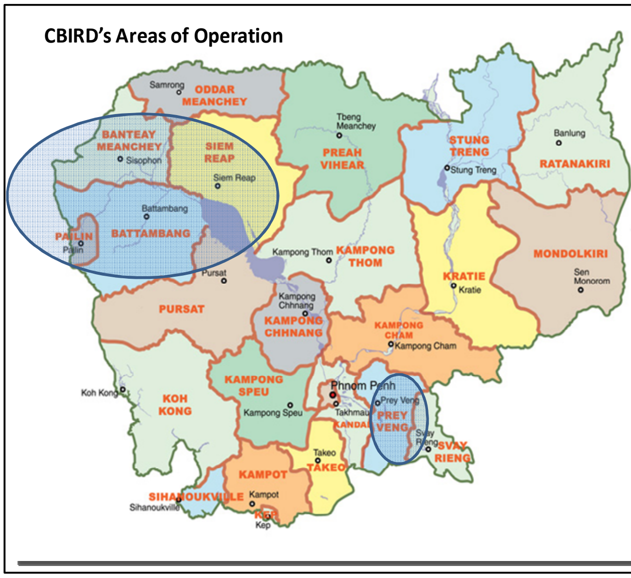
At the branch level, the operations are overseen by the Branch Manager (BM), with the support of a Credit Supervisor (who undertakes client level credit assessment), 1-3 Credit Agents (loan officers), a Cashier and an Accountant. The CAs are responsible for generating loan proposals, loan disbursement and collections. Currently there are five branches in each of the districts of operation, and three sub-branches in Siem Reap, Banteay Meanchey and Battambong. The sub branches were set up under IFAD project for taking care of village banks and are manned by CAs).



Though CBIRD's operations show growth in the last four years, the growth rate has fluctuated between 3-33% in various years, due to the shortage of funds. CBIRD has hitherto raised only local funds which are limited, and the management feels that the growth could have been significantly augmented with the inflow of funds from external financial institutions. The major provider of funds for CBIRD is RDB (accounting for 92% of its borrowings), however RDB restricts its exposure to four times of capital.

As of November 2008, CBIRD had 2,058 active borrowers, and a portfolio outstanding of just over 1 million USD.

CBIRD's Areas of Operation



Microfinance policies

CBIRD has not adopted any single methodology, rather it leaves the choice of group or individual borrowing to its clients. Clients who do not have collateral to offer, join in groups of 2-5 and co guarantee each other to take small loans, while those who have collateral take an individual loan.

The credit agents (CAs) market the services of CBIRD door to door, and also rely on word-of-mouth from existing customers to generate business. Potential clients are initially screened through an in-depth survey which is conducted by the CA, in order to assess the asset-holding, income, and potential of the client's business.

Once this initial screening is done, the client is trained about the terms and conditions of CBIRD's loan, and is visited by the Credit Supervisor (CS), for a final assessment. The visits by the CS are done for a wide sample of clients, ranging from 80%-100% depending on the size of the branch (except for the very small amounts, under 300 USD). The BM also visits a small sample (around 15-20%) of the prospective clients. Visits to the guarantors are also made. The guarantor should be someone with same or higher standard of living as the client, and can be chosen from the family or the same village. The commune leader's recommendation is usually sought before the CS approves the loan.

The maximum loan size is 300 USD per person if there is no collateral. For all loans of above USD 300 collateral is required. In some cases, a group can present a single collateral, if it is sufficiently valuable to cover the loans of all the group members. This dispenses with the need for each individual to have collateral, and emphasises group cohesion and solidarity. The cash flows of the client's business are analyzed, as well as the business stock and external cash flows including pensions. The client's attitude and business capacity are also assessed, to give a complete picture whether the business will succeed or not.

Clients also have to compulsorily submit their identification, as well as proof of residence along with the screening documents. The clients are also required to submit the original certificate of property ownership issued by the commune authority along with their identity card.

A credit committee consisting of the BM, CS, Accountant and CA approves the loans, and sends all approved applications to the CEO for final sanction. The Head Office makes decisions in the case of loans above 5,000 USD (Credit manager, finance manager, internal auditor and CEO constitute the committee for this). The comments of each of the members of the loan committee are recorded clearly in the loan approval document.

The collateral is taken merely for rigour in processing the loan rather than because of enforcement. This is because all collateral has to be registered with the local authority and the charges for seizing collateral in order to liquidate outstanding debts are prohibitive because of the court procedures and the time involved.

A CA generally covers a radius ranging from 15-50 kms, and each branch caters to 12-20 villages. The loan amount is disbursed by the CA in cash at the client's home, or at the village bank representative's home (where the village bank model is operational). For loan amounts greater than US$1,000 the BM & BA accompany the CA to the client's home for disbursement.

For collection, the clients (individual or group representatives) come to the branch to deposit their payments. There is no compulsion for clients themselves to deposit the money, and often a family member or representative is sent. Under village bank model used in all IFAD loans, clients form a Village Bank, elect a representative who assists the CA in client creation and collection. The village bank collections are made by the representative, who also reminds the clients about the approaching repayment day,

aggregates the collection and hands it over to the CA on the day of the visit (on a fixed date once a month). If the collection is sizable, the CS or BM accompanies the CA on the collection exercise, for security.
The village committee consists of members elected by all the clients of CBIRD in the village. These representatives get 5% of all interest from the village, as compensation for working (at end of loan cycle).

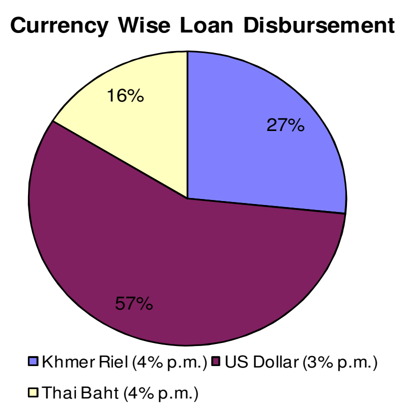
Staff are also eligible for loans, up to five times their monthly salary, and go through a similar process of evaluation for availing this facility. The staff apply to BM and it is forwarded to the HO. The staff loan is generally given to those who have been with CBIRD for less than a year at 3% and others at a slightly lower rate.

The branch managers and the credit officers also have targets for growth and client addition. The Credit Manager visits the branches, covering all of them once in a quarter.

Loan products

The organization does not offer specific loan products to its clients. Rather, the loan products can be differentiated on the basis of whether they are IFAD loans or not. IFAD loans are extended only in the village bank model and for agricultural purposes. The other loans are extended in group/ individual models and are not restricted by purpose.

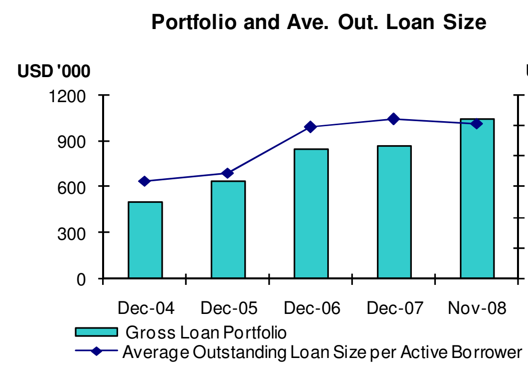
The client has three options in which to repay the loan: monthly interest payment and capital payment at the end of term; reducing balance interest and capital; or monthly interest payment and capital paid monthly as a percentage of the loan. The maximum loan for any individual client is USD 1,000 for group loans and USD 10,000 for individual loans. The maximum loan period is 12 months. Differential interest rates are charged, based on whether the loan is extended in Khmer Riel, Thai Baht (4% per month), or USD (3% per month).



There is a lot of flexibility in the interest rate setting, so that the branches can tackle competition. The Loan Committee makes decisions on rate of interest, and this is approved by the HO. Interest rates are lower for larger loans. Negotiations are made between BM and clients for deciding the rate, within limits specified by CBIRD.

In case of overdues, follow up is done by the CA, and discussions are held with the client and the Village Bank representatives or group members regarding rescheduling. A new contract in front of the village chief is drawn up in the case of rescheduling of principal payments. Interest payments cannot be rescheduled in any circumstance. The organization charges penalty at 1% of the amount due for repayment, per day from the due date till the date of repayment.

CBIRD does not take any up-front charge from clients, but clients must deposit at least 5% of the amount of loan as compulsory savings before their loan can be disbursed. This acts as an additional security for the clients. Advance payment and foreclosure is allowed, but interest is charged for half term if the loan is closed before half-term, or for full term if the loan is closed after half-term.



Saving products

CBIRD is not legally permitted to collect voluntary savings, at present. As per NBC norms made applicable in 2007, an MFI can mobilise savings from the public only if it fulfils the minimum equity requirement of US$2.5 million. CBIRD had extended voluntary savings facility to its clients encouraging them to save at least 4,000 Khmer Riel (1 USD) per month. This is not an enforceable rule, and clients who are interested save much more, while those who cannot save are not compelled to do so.

Interest is paid at 7-12% per annum on savings which have not been withdrawn for the entire year. Usually the higher rates of interest are extended to clients who do not withdraw their savings for three years. 12% p.a.

is only paid to those clients with balances of over USD 1,000. CBIRD is planning to return all voluntary deposits of clients in the beginning of 2009, to comply with notification from the NBC regarding capital requirements for voluntary collection of savings.

Governance and strategic positioning

CBIRD has a moderate performance on governance with a rating grade of β. The Board members are all shareholders, and have experience in various fields ranging from business, to academic to social development. Their microfinance experience is limited to their association with CBIRD. CBIRD has been weak in mobilising funds from other financial institutions, and high competitive pressure may force it to lower interest rates in future, affecting profitability.

Governance structure

CBIRD has a five member Board which consists entirely of the shareholders of the company. The Board members are dedicated and attend the meetings regularly. However, they lack microfinance experience e and exposure. Mr Sao Roeun, the CEO, is the most active Board member and is responsible for day to day functioning of the company and has been associated with the organization since inception. However, his experience in microfinance is also limited to his association with CBIRD.

The Chairman spends full-time at the Head Office, and is grooming the current CEO as his successor. CBIRD would benefit from the presence of independent directors with experience in the microfinance sector,and fund-mobilisation capabilities. The CEO, also a member of the Board, does the major portion of fund mobilisation along with the Chairman.

The Board is required to meet twice in a year. The last Board meeting was held in July 2008. The Board meets oftener if there are important issues to discuss. The internal auditor reports directly to the Chairman, and submits his findings to the Board at its meetings.

The CEO updates the Board members on the progress of CBIRD's performance from time to time. The management realises the lack of adequate MF experience on the Board and plans to restructure it in 2009. However, appropriate persons have yet not been identified. CBIRD is open to representatives of potential investors joining the Board, and is making efforts to broaden its equity base too, which will result in dilution of existing members' control.

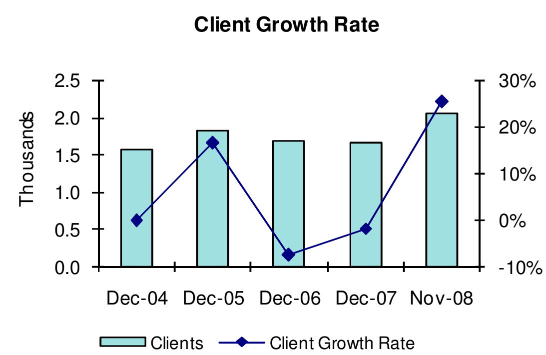
Operational and growth strategy

The organization will continue to follow the present operational/lending methodology. In order to increase organizational efficiency it is planning to hire a microfinance consultant for advisory services but no individual had been identified at the time of the rating visit.

CBIRD has always chosen to locate its branches in places where there is a concentration of financially underserved persons, rather than the urban centre of the province. In terms of expansion, CBIRD plans to cover the remaining potential in Siem Reap, Battambong, and Pailin, which the organisation claims has a large population of underserved potential clients. Banteay Meanchey currently has several players and competition is stiff. CBIRD does not plan to immediately expand to any other provinces. The expansion strategy hitherto was contiguous districts with sufficient untapped clientele, except for Preah Veng, which is close to Phnom Penh, where operations were started due to IFAD's preference for CBIRD to extend agricultural loans in that district.

In the long run it has plans to expand to other parts of Cambodia subject to the availability of funds. The organization has a business plan for the coming five years, and subject to availability of funds, expects to grow to USD 1.5 million by the end of 2009. However, the current year has recorded an under-achievement of the planned figure of 1.2 million USD, primarily due to a shortage of funds from local providers, and an inability to approach external funding institutions.

The number of borrowers has increased from 1,668 to 2,058 between 31 December 2007 and 30 November 2008 (reflecting an annualised growth rate of 25% annualised).



Fund mobilisation

CBIRD has a very limited lending base, with most of its funds raised from Rural Development Bank (RDB) which has been its main source of funds since 2002. In its effort to widen its base, CBIRD received a loan from two individuals, during the year 2005. A long term loan (of 116 months repayment period) has been taken from IFAD, but this is restricted to lending for agricultural activities only. A small loan was extended by ACLEDA Bank in the current year.

CBIRD plans to meet the need for funds by raising equity in the coming year, and also by mobilising funds from external sources. CBIRD is open to equity, debt or grant support, but requires the assistance of a consultant before it approaches external funding agencies. CBIRD has not moved fast enough on its fund mobilisation strategy, and its growth and achievement of business plan targets has been severely hampered by this. This is particularly noteworthy because of the presence of competitors who do not have any shortage of funds, and who may fast capture the potential market, affecting CBIRD's performance in the future. The list of lenders is as under.

'000 USD

Lender	Outstanding 30 Nov-08	Total interest rate
Rural Devlpt. Bank	748,083	9.0%
ACLEDA Bank	52,161	10.0%
Private Borrowings 1	10,000	23.4%
Private Borrowings 2	6,000	15.6%
Total	**816,243**	**12.9%**

The policy of taking funds from private lenders is not a long term strategy and CBIRD uses this as a means of tiding over fund shortages. This is a serious issue, especially due to lack of any policy regarding fund-raising and the maximum interest rates permissible for CBIRD's borrowings. The borrowings from private lenders are short term, and far more expensive than long term borrowings from institutions, thereby making it a unviable financing strategy for CBIRD.

In Cambodia, it is difficult to borrow from local financial institutions/banks. The local banks in Cambodia require significant collateral and as most of the MFIs have graduated from NGOs, they have limited resources to meet the collateral requirements of the commercial banks. Besides, the local banks focus on real estate and hence do not like to lend to MFIs. As a result, the MFIs are forced to explore sources like individuals and international lenders. However, borrowing from individuals, is not a regular source of funds. In the absence of a clear policy on interest rates payable to lenders, private individuals negotiate very high lending rates, which may prove expensive for the organisation. On the other hand, depending solely on external debt funding is also risky, since loans from international banks are exposed to exchange risk. The most viable solution is therefore to have a healthy mix of various sources of funding, including equity funds and capitalised grants. In order to do this, CBIRD will need to have a fund mobilisation plan and a strategy in place to garner the right mix of funds to fuel its future expansion. It plans to hire the services of a consultant for the same.

Letters of confirmation have been received from ADA (USD 200,000 for five years at 8% p.a.) and DWM (USD 200,000 for two years at BIBOR + 8% p.a.), extending funds to CBIRD in the year 2009.

CBIRD's existing shareholding pattern is as follows:

Name	No. of shares	Value of shares held
Mr. Prom Mary	707	70,700
Mr. Prom Marykethya	150	15,000
Ms. Kang Chhivkhiem	115	11,500
Ms. Path Sothalay	101	10,100
Mr. Prom Marypratna	808	80,800
Mr. Sao Roeun	20	2,000
TOTAL	1,173	117,300

The shareholding has been the same for the past four years. As per NBC directive, MFIs must have a CAR of 20%. While CBIRD's CAR is currently at 20.4%, if it raises further debt funds, the ratio will fall below the required level. The regulations in the country require domestic investors to have a minimum 51% share in capital. CBIRD has not planned who it will approach for equity investments, and has not planned what portion of shareholding it would like to retain. Neither does the business plan show any increase in equity until 2011, which indicates a lack of clarity on the amount of equity expected to be raised. These decisions are due to be made at the Board meeting at the end of the year (December 2008).

Competition

The microfinance sector in Cambodia is quite competitive as there are many other MFIs operating there. Some of the major MFIs operating in Cambodia ACLEDA Bank, PRASAC, CREDIT, Seilanithih and AMK are present in the operational area of CBIRD. In addition, smaller MFIs like Sathapana and IPR are also present, and have similar target segments. Most of the other MFIs have many years of experience and pose stiff competition to CBIRD which has been operating for four years.

Interest Rate

In addition to significant competition, CBIRD has the disadvantage of slightly higher interest rates than its competitors to the same segment of clients (some competitors charge 2-3% p.m. as compared to CBIRD's 3-4% p.m).

However, to deal with this, it has adopted a differential interest rate strategy in different provinces. CBIRD has a competitive edge in terms of flexibility in repayment (clients can choose to pay in monthly diminishing instalments, fixed percentage of principal, or bullet repayment at the end of loan term). Other MFIs require quarterly principal repayment which makes it difficult for clients to repay from their seasonal agricultural income.

CBIRD has recently allowed the Branch Managers flexibility in deciding the interest rates (the final loan sanction requires approval of the HO). This has led to interest rates being set keeping in mind client's access to competitors' loans. Some of the interest rates are significantly lower than those stated in the operational policy, but since the rates are approved by the HO, it is not seen as an unsafe practise. This will become a serious issue if a significant drop is experienced in the yield. There could also be misuse of the flexibility in interest rate setting, once the organisation grows in scale. Standardisation of the interest rates between a certain range would be ideal, and should be made a part of the operational policy.

Second line of leadership

The second line of leadership needs to be developed at CBIRD. The CEO who is in-charge of the organization has been with CBIRD since its inception. He is also a shareholder and a member of the Board. However, his only microfinance experience has been with CBIRD. He is being groomed to take over some of the responsibilities from the Chairman in the role of a Deputy Director (time envisaged for this is 2-3 years). Once this takes place, CBIRD will be in need of someone to replace the existing CEO, and there is a lack of such a person at this juncture. CBIRD will have to identify and groom such an individual or hire someone to take on this role eventually. While the functional heads are good in their roles, they lack requisite microfinance related experience outside CBIRD and do not have generalised skills for overall management of the organisation.

Organisation and management

CBIRD has reasonable management performance with a grade of β. This is primarily on account of inadequate internal control and audit, committed but moderate staff quality, low staff productivity, moderate MIS with some negative issues in portfolio tracking, and moderate accounting policies. However, it is in the process of standardizing operations, and has recently documented all its policies.

Human resource quality & management

CBIRD has a total of 56 staff as on 30 September 2008. The staff are qualified in various fields, but mostly have academic work experience and their first microfinance experience is with CBIRD. There is a high level of commitment but there needs to be further strengthening of staff capabilities through adequate training and in-depth analysis of staff responsibilities in relation to organisational procedures to identify gaps.

The field staff, (especially the CAs) have shown a high level of commitment but require training and more emphasis on targets so that they can focus on client addition, rather than limiting their role to reminding clients about repayments and following up overdues.

The HR Manager joined CBIRD in 2004 as a Credit Agent, was promoted to BM in 2005 and was promoted to his current post in January 2008. He is an MBA in general management and has a reasonable level of knowledge about his functional area.

For recruitment, CBIRD makes announcements in the local newspapers and universities and also on the radio. Applications are sorted on the basis of academic achievements (candidates should have a minimum of higher secondary education), and previous work experience. Prospective candidates are interviewed and a written exam is also conducted before appointments are finalised. CBIRD has never recruited from outside the organisation for the post of BM, but sometimes recruits from outside for accountant and cashier levels. CBIRD prefers not to take any staff from other MFIs.

Training and orientation are imparted through a three day classroom session, after which staff report to a branch for a probation period of three months. After completion of 3 months, their performance is evaluated by the BM and the HR before being confirmed. Refresher training courses are conducted every 6 months at the HO. Staff are also sent for trainings to the Cambodia Microfinance Association (CMA), and other training programs. The training courses of CMA focus on management staff. Credit Agents are trained internally. CBIRD spends around 5,000 USD on trainings annually.

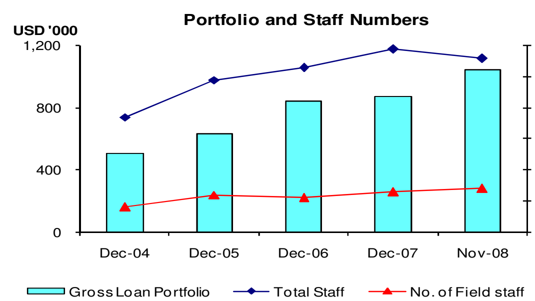
Evaluations are conducted annually and increments are decided by the Board on the basis of the recommendations of the assessing officer and the Credit officers also perform a self evaluation in addition to an appraisal by the branch committee (BM, CS and Cashier). In the head office, the executive committee, consisting of the functional heads of departments, evaluate each one of themselves in the relevant person's absence.

Bonus is allocated according to the target over-achievement at the branch level and HO incentives depend on the branch performance (overachievement of all branches results in 100% of salary payment as bonus to HO).

CBIRD's salaries are lower than competitor MFIs and some staff have left for more lucrative positions in other MFIs. Exit interviews are conducted for staff who are leaving and attempts are made to persuade them to stay, although increasing salaries is not a viable option at the moment with the organisation's struggle for funds, and its present size. As a deterrent, CBIRD has a two year agreement with the staff, making them liable to pay a bond amounting to 6 months of their current salary before they can leave the organisation. The staff who don't pay are taken to court. A contract is also signed with the parents of all staff, which renders the parents responsible for paying this bond, in case the staff leave without paying.

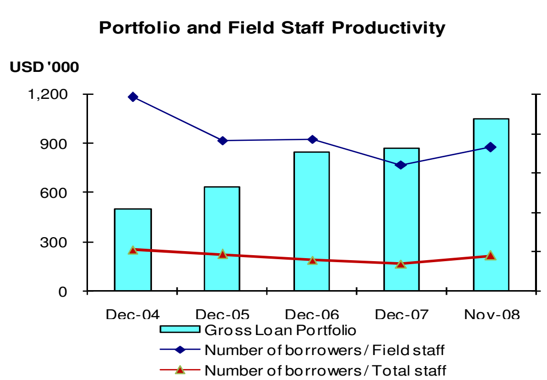
Disciplinary action has not been taken against any staff, although the procedure exists, because there has been no major problem as yet in this regard.

The growth in total staff has been commensurate with portfolio increases, except in the year 2008, due to a 22% drop out of staff. Most of the dropouts were replaced without difficulty; however CBIRD recognises that a major factor in staff exit is the low salary. CBIRD plans to eventually increase the salary, once it gets more funds; 15% per year is the intended hike to bring the salaries on par with competitors. Due to the mode of operations, field staff form a very small proportion of overall staff (a mere 25% compared to the industry standard of 70-75%).



Staff productivity

Staff productivity at CBIRD is low at 147 borrowers per field staff in December 2008 (down from 154 in December 2007). This is because of a significant under-utilisation of staff capacity, and lack of motivation for field staff to generate more clients due to the shortage of funds for disbursement.

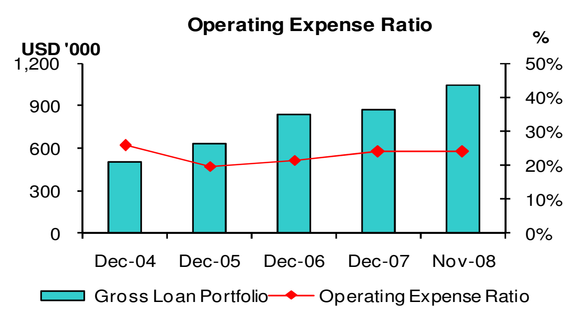


A declining trend can be seen in total staff productivity (in the figure above) except in the year 2008, due to a slight drop in overall staff numbers. The ratio is quite low at 37 borrowers per staff due to the low field staff to total staff ratio.

CBIRD staff often cover vast distances due to the scattered location of villages in the areas of operation. As a result, CAs have to travel long distances, which results in high cost and considerable time spent on travelling. This reduces CA productivity. The range of responsibilities also focuses more on reminders to clients and overdue follow-ups rather than client addition due to the fund shortage.

Operating efficiency

The operating efficiency of CBIRD has remained fairly consistent over the last three years (December 2006-November 2008), fluctuating between 21-24%. This is fairly high, given the industry standards, but can be attributed to the low productivity, and also the high costs of serving clients in geographically distant areas. To lower costs, new sub branches have been opened in three locations, so that staff's travel time and costs are reduced.



Accounting and MIS

The accounting systems and policies of CBIRD are good. It uses an accounting software which has been designed in-house by the previous MIS manager. The branch sends loan disbursement, loan repayment and expense vouchers along with the summary sheet (having figures in three currencies) on a monthly basis to the accounts department. These are checked by the Finance Manager and consolidated to prepare the accounts at the Head Office level. Savings are not recorded in the branch at all, except in a separate cash book, and an excel based program. These are included in the books of accounts only at the Head Office level and therefore do not form a part of branch accounting.

The accounts are maintained in US dollars, although loans are disbursed in Khmer Riel and Thai Baht also, and underlying records are maintained in the currency of disbursal. CBIRD follows a straight line method for calculating depreciation. CBIRD follows cash accounting for income, but accrual system for expenses. The organization is exposed to high degree of foreign exchange risk, but it does not create any provision for the same and has no hedging arrangement. Provisional financial statements are prepared monthly while audited financial statements are prepared annually with a lag of 2-3 months. CBIRD does monthly reporting to NBC (central bank). As per these norms, CBIRD being a limited liability company is required to maintain 5% of its net worth as interest bearing statutory deposits with NBC.

CBIRD has a write off policy for loans due for over a year, and in cases where the client has died or migrated from the area. For the loan loss reserve, CBIRD follows the Non Performing Assets (NPA) and investment provisioning norms of NBC, which classifies NPAs into different categories as follows:

NPA Category	Overdue duration (Working capital loan <US$10,000)	Overdue duration (Investment loan>US$10,000)	Reserve
Standard	1-30 days	1-30 days	0%
Sub Stdd	31-60 days	31-180 days	10%
Doubtful	61-90 days	181-360 days	30%
Loss	>91 days	>361 days	100%

The MIS at CBIRD is reasonable; however there are some limitations which need to be addressed. The branches make a weekly report to the HO telephonically. The MIS is updated at the branch level by the accountant, checked by the CS and BM and the updated database as well as the supporting documentation are mailed or delivered by post to the HO. The MIS is maintained on an in-house software which is supported by MS Access. The MIS is detailed and captures all the features of the loan, and also makes automatic adjustments for interest rates, loan terms and type of repayment structure.

The monthly reporting is done in the format of the NBC report, complete with balance sheet preparation. However, there were mistakes noticed in some of the reports, which had not been identified by the Head Office. It is the responsibility of the Credit Manager to check all the branch reports. It is easy for mistakes to escape, since all the branches are not visited every month for checking.

As regards updating client level records, the clients who pay at the branch get their receipt from the cashier. The clients under the village bank model make their interest payments to the village bank representatives, but meet the staff for the payments of principal. This ensures that they meet the staff on a regular basis and receive their payment receipts.

There are no "due disbursement" reports to indicate the amount of pending loans. This has to be calculated manually, based on branch loan applications. Prepayments are accepted, and interest is calculated automatically. Apportionment of part payments to interest and principal is also done automatically. Segregation is not done for compulsory saving clients and voluntary saving clients in the summarization of the report. The branches prepare reports on the total amount of savings collected and number of depositors in the month, but do not report on the details of all the clients who have deposits outstanding with CBIRD. The savings records do not list any client ID, so clients with the same name in the same branch could easily be mistaken for one another.

Monthly reports are generated to inform management about the overall organisational performance. Various customised reports are prepared when required by the management.

<u>Tracking system for overdues</u>

The tracking system for overdues requires improvement. At the branch level, the list of overdues is prepared monthly. However, since there is manual tracking of repayments, (by highlighting the month's payment in the branch copy of the repayment card), overdues sometimes escape notice.

The MIS does not capture the overdues of less than 90 days, and these are tracked manually, but errors were observed in the manual records, which could have resulted in mistakes in calculation of PAR 0, PAR 30 and PAR 60 figures. This is especially possible due to a lack of follow up and independent checking of the monthly reports by the Credit Manager. Considering that these figures are incorporated in the statement that goes to the NBC, there should be efforts to track overdues from the first day of their occurrence. Since the branch information on collections is updated once a month at the Head Office, there is a chance of overdues of a few days going unnoticed, unless reported telephonically. Another problem with overdue tracking for group clients is that there is no granularity in tracking which individual has not paid, since the group loan is treated as one account in the system.

The follow up process for overdue clients starts immediately when the loan becomes overdue. The BM visits the client's house along with the respective CA and tries to find out the reasons for non-payment. Some flexibility is allowed to the client if she agrees to repay the overdue amount on a later date, and such loan is not included in the overdue report. In several cases it has been noticed that the penalty due has not been charged from clients. Flexibility in principal payments are made only for rare cases, but this is not a good practice as it does not reflect the true portfolio quality and PAR would be higher than is actually reported by the branches if these were included as overdues. In case of default, the village chief/commune authority assists the BM and CA in collection.

Frequent instances of late payments ranging from a day to seven days were noted in Banteay Meanchey branch. Though CBIRD has a policy of charging 1% per day penalty on overdue instalment, inaccuracies were noted in penalty calculation. If the delay in payment is less than 30 days, penalty calculation has to be done manually as MIS calculates penalty only on a monthly basis.

There is also a Bad Debts Manager (currently functioning as the BM of Banteay Mancheay province for last three months), but he did not have a plan for approaching overdue clients and was unable to state how much follow up activity had taken place. A strategy should be put in place for overdue and bad debt follow up. It is imperative that CBIRD take stock of the discrepancies in overdues recorded, and make suitable changes to the software system to enable tracking from the day the loan becomes overdue. Reliance on manual systems for overdue tracking in the initial stages may result in inadequate attention to problems, and may be highly disadvantageous once the organisation grows in size.

Internal Controls and Internal Audit

The internal control system at CBIRD is moderate. There is a good reporting structure at each level of the organization. The roles and responsibilities of staff at each level are clearly defined. However, the quality of the internal control in the field is moderate. The frequency of field visits made by the BM is quite low at 3-4 days in a month, and only a sample of the loan applicants is checked by the BM, mostly those with loan size greater than US$1,000. The BM rarely makes any surprise visit to keep a check on the credit officers. Considering weak staff capacity at the field level and excessive reliance on CAs and CSs for appraisal and evaluation of collateral, only a few field visits by the BM weakens the internal control mechanism and poses a risk to the portfolio. The Credit Manager also does not spend much time at the branches.

The quality of internal audit at CBIRD is moderate with only one person involved in this critical function. The head of internal audit has been with the company since 2007. The internal audit functions under the direct supervision of the Board. The frequency of internal audit is quite low considering the small size of operations and the internal auditor spends only 5 days in the field, visiting each branch only twice in the year.

A branch is effectively audited for 5 days. The internal auditor spends time at the branch office and in the field, following up with overdue clients as well as regular clients. In branches with more than one CA, a sample of clients of each CA is checked. At the branch office, 40% of records including the loan documents are checked. Client visits cover 30-40% of the total and business viability of the client as well as correctness of appraisal done by the CA is assessed, in addition to the documents of the clients. However, the quality of such assessment is moderate, and given the flexibility in interest rate setting, rescheduling, and waivers of penalty, there is not much scope for reporting strictly on compliance with organisational policy. At the end, a report is prepared and submitted to the Chairman and the top management. No compliance report is filed by the branch management. The copies of the audit report are seen by the branch and compliance is checked on the next visit, but this too is not systematically done for 100% of errors found in the previous audit. A manual has recently been prepared to outline the internal audit procedures.

Morrisson and Kak is the new external auditor appointed by CBIRD. For last 3 years, Angkor Chartered Accountants was the external auditor. While Angkor covered only 1-2 branches in the external audit, it is expected that the new auditors will cover all branches. Financial records in the HO are also checked.

Each client has a repayment schedule and a copy of the loan contract with the interest rate clearly stated, so the flexibility in interest rates cannot be used to charge clients a higher rate of interest. Loan documents pass through several levels, and the currency lent in is also included so no gains can be made by manipulating currency transactions. Receipts are maintained in triplicate, one for the client, one for the branch office and one for the Head Office. However, in the case of savings receipts, only two copies are maintained (one is kept by the client and the other sent to the HO). Since there is no client ID recorded in the savings registers, clients with the same name could easily get mistaken for one another.

The internal auditor asks clients for their receipts as well as repayment cards, collects the details and cross checks at the branch level. There have been two cases of phantom loans and fraudulent practises in Banteay Meanchey branch. There has been no rotation of CAs and CSs. Special audits are also conducted with the Credit Manager to investigate staff with very high and very low productivity. A detailed audit plan is available to the Chairman, with the time, scope and cost of each branch audit included. In some cases where the internal auditor has too much work to cover in the branch, the Credit Manager and Finance Manager also perform some of the Internal Audit functions. However, this is not ideal and CBIRD will hire more staff for audit, once the organisation overcomes its fund crisis.

In order to maintain internal controls, big disbursements and collections are attended by the CS in addition to the CA, and sometimes even by the BM. All the staff have motorbikes, and for large cash transfers, the official car is used, since there is no cash-in-transit insurance. Deposits are kept in the branch overnight and large amounts of money are deposited in the branch bank account.

Financial planning and cash management

The Finance Manager has studied at the National Bank of Cambodia's Centre for Banking studies, where he did a specialized banking degree, after which he joined CBIRD, in 2003. His job responsibilities include producing a consolidated report, controlling cash flow of various branches, controlling the expense and incomes of branches, budgeting, and reporting to the NBC and RDB.

Interim statements have to be prepared to fulfil the requirements of these reports. The branches report weekly on the expenses and the cash balance and compile their reports every month. The branches produce financial statements every month. The branches report on their expenditures and the FM compares these against the branch budget every month. Most branches show losses due to exchange rates, but CBIRD has not provided for fluctuations in exchange rates by means of any provision.

The business plan is received from each of the branches and then consolidated to make the budget for the coming months, after discussions with the BMs and revisions at the HO level. The HO prepares the business plan for 5 years in advance, which is done independently by Ho. The Board approves the 3 year plan of the HO as part of the strategic plan. Every year there is a meeting with the branch staff at which the branches report on the reasons for variance on operational targets and budgeted expenses. The branches each have a one year cash flow budget which covers loan disbursement, expenses and incomes.

All the branches have a commercial bank account with Canadia Bank and cash limits for any branch is fixed at USD 10,000. Any amount more than this has to be deposited in the bank. The Finance Manager has a schedule of repayments to lenders and performs the cash management tasks, including informing the branch accountants to transfer money to the HO before big repayments. CBIRD has not defaulted on any repayments to lenders. Inter branch transfers are permitted and a direct account transfer facility is available for the same. The BM along with the cashier accountant are responsible for all cash handling and have the keys to the safe.

Physical verification of cash is done on a weekly basis and cross checked with the cash book, both at the branches and HO, thereby enabling quick detection in case of fraud.

Quality of clients/member groups

The quality of the clients visited was moderate. The clients are reasonably aware of the credit policy of the organization and are economically very active. They showed good performance on loan repayment and overall credit discipline. However, clients visited in Banteay Meanchay were not clear on the savings amount and its utility.

Infrastructure

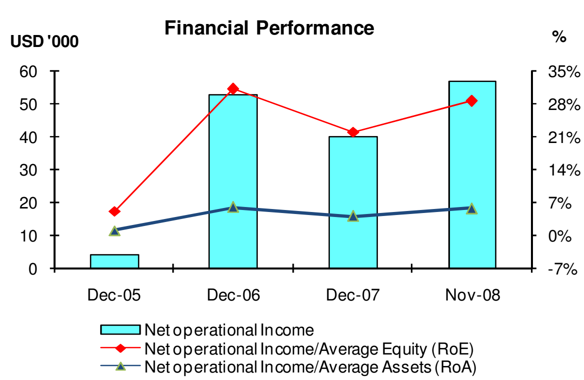
CBIRD has reasonable infrastructure for its operations. Fixed assets contribute around 4.6% of the total asset base as on 30 November 2008. Fixed assets mainly include, computers, office equipment and fixtures, vehicle, furniture and motorcycles for staff. The HO and its branches operate from rented premises.

Financial Performance

Financial Ratios	31-Dec-05	31-Dec-06	31-Dec-07	30-Nov-08
Capital Adequacy				
CAR	22.7%	21.1%	19.7%	20.4%
Asset Quality				
Portfolio at Risk (>30 days) / Gross Loan Portfolio	1.2%	0.8%	0.8%	0.4%
Loan Loss Provision Expense / Average Gross Portfolio	0.9%	1.5%	1.0%	0.6%
Loan Loss Reserves / Average Gross Portfolio	2.3%	0.9%	0.7%	0.4%
Write-offs / Average Gross Portfolio	1.0%	0.7%	0.1%	0.0%
Management				
Operating Expenses/ Average Gross Loan Portfolio	19.9%	21.7%	24.3%	24.0%
Number of Borrowers / Field Staff	153	154	128	147
Number of Borrowers / total Staff	37	32	28	37
Earnings				
Net operational income / Average Equity (RoE)	5.2%	31.1%	22.1%	28.7%
Net operational income / Average Assets (RoA)	1.0%	5.9%	4.1%	5.7%
Portfolio Yield	35.7%	38.1%	38.9%	39.5%
Interest and Fee expenses / Average Gross Loan Portfolio	12.3%	11.2%	10.6%	6.6%
Interest and Fee expenses / Average Funding Liabilities	0.0%	26.8%	13.0%	9.6%
Liquidity				
Cash & Liquid Assets / Total Current Assets	12.5%	5.7%	5.4%	6.7%
Cash & Liquid Assets / Total Assets	11.4%	5.3%	5.1%	6.4%

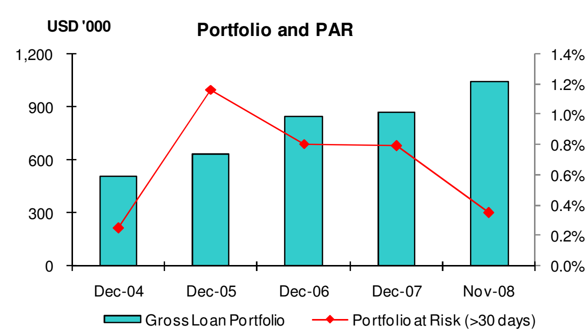
The financial performance of CBIRD is moderate with a rating grade of β+. This has resulted from good performance on profitability and sustainability. The organization has been making reasonable profits since its inception (see adjoining figure). The yield has improved owing to improved portfolio quality. The operating efficiency has decreased slightly because of high exchange loss incurred by the organization and low staff productivity.

The OSS has been maintained at a reasonable level and the RoA has been high, despite the small size of the organisation. CBIRD also has excellent capital adequacy, although it has to raise further equity to meet NBC norms. Performance has been restricted due to the absence of hedging arrangement against foreign exchange risk and limited lender base.

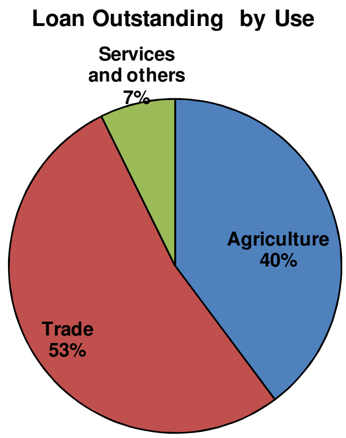


Credit performance and portfolio quality

The portfolio quality of CBIRD is good with PAR_{60} reported at 0.4% as on 30 November 2008 as shown in the figure above. M-CRIL expects the PAR to be slightly higher than reported due to the lacunae in the reporting of overdues as explained earlier. However, the portfolio quality of the branches visited by the rating team was good, due to the small size of operations, and the quick follow up with overdue clients.



CBIRD's portfolio is highly concentrated in trade and agriculture, since the organisation has focussed on lending to small micro-enterprises and to poor in rural areas. While the portfolio in trade is fairly diversified amongst a variety of enterprises, the portfolio in agriculture may be slightly risky given the seasonal nature of agriculture and its dependence on rainfall and the absence of crop insurance in the country. The risk is compounded by the easy repayment feature of the company's loan products. To avoid this risk, CBIRD lends in the areas with high agriculture potential and evaluates the borrower's ability to repay from other income sources, in case of crop failure.



Mobilisation of funds, equity & capital adequacy

CBIRD has a limited lender base with RDB, ACLEDA Bank, and two individual lenders as on 30 November 2008 with total debt outstanding of USD 0.8 million against USD 0.6 million on 31 December 2007, a significant increase of 33%. As indicated earlier, the financial institutions in Cambodia are not keen on lending to MFIs as they perceive it to be a risky proposition. As per the NBC norms, the capital adequacy requirements for Limited Liability Companies have been revised from 20% to 15% in the current financial year.

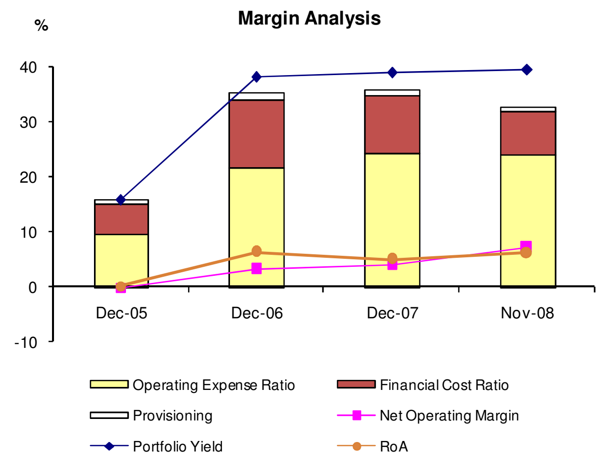
CBIRD's capital adequacy position has been excellent (between 19-22% from inception), due to a good level of profitability which has compensated for the increase in borrowings.

Asset, liability & equity composition

On 30 November 2008, the organization had deployed 89% of its total assets in loans, a reasonably high level. Its liquid assets were well maintained at 6.5% of the total and net fixed assets at 4.5%.

As on 30 November 2008, the total net worth accounted for 18.6% of the total balance sheet, out of which equity capital accounted for 10% and reserves and surplus accounted for 8.6%. Long term debt was 63% of the total assets on that date, while client deposits constituted 11.9% of the institution's liabilities.

Profitability and sustainability



The organisation has performed extremely well on profitability and sustainability indicators. The yield on portfolio increased from 38.9% for 2007 to 39.5% (annualised) up to November 2008, primarily because of the improved portfolio quality. The financial cost ratio has decreased from 10.6% for 2007 to 7.9% (annualised) for 2008, while the operating expense ratio decreased from 24.3% to 24% (annualised) during the same period.

The Operational Self Sufficiency (OSS) was good at 118.4% for 2008, an improvement from 113% in December 2007. Financial Self Sufficiency (FSS) improved marginally from 108% to 109% between December 2007 and November 2008. Return on Assets (RoA) and return on equity (RoE) are excellent at 6.1% (annualised) and 28.7% (annualised) for November 2008, compared to 4.1% and 22% respectively for December 2007.

CBIRD at present has no mechanism in place to hedge forex risk, which can substantially impact its profitability in the event of devaluation. To begin with, it can create an 'Exchange Risk Reserve Fund' with accretion from its annual surplus.

Future plans and prospects

CBIRD is a growing organization that has been operating profitably since 2005. CBIRD wants to continue its focus on the current areas of operation and feels that it has a sizable potential to cover in Battambong, Pailin and Seam Reap provinces, since these provinces have been only marginally tapped by other MFIs. It does not plan to open branches in any other provinces in the immediate future. Despite the far-flung operations in Prey Veng, there is no plan to close the branch after IFAD's loans are closed, since this will diminish confidence in the organisation. In the long run it has plans to increase its outreach to other parts of Cambodia as well. The organization is in the process of revising its business plan for the next financial year and is estimating its equity and debt requirements for the next few years before its Board meeting at the year end.

For its expansion plan, CBIRD is making every effort to raise equity capital from foreign investors. CBIRD is also actively scouting for loan funds. It is also planning to hire a microfinance consultancy firm for helping it prepare business proposals for raising debt funds from outside Cambodia. CBIRD requires improvement in staff capacities which in turn will increase productivity and effectiveness. The organisation's staff and management display a high level of commitment, but require more exposure and training in order to hone the skills required in their current roles. In view of the present operations and the expansion plan, CBIRD has good prospects for the future.

Validity This rating is valid till the next loan proposal made by the MFI to any financial institution or till any other significant change in the structure of the loan programme or in its external environment. A **rating update** (comprehensive repeat rating) is recommended whenever such changes take place or at the end of **one year** from the date of the initial assessment, whichever is earlier. Any substantial additional information that becomes available could also result in a rating update or a rating review (revision of rating grade based on a desk analysis).

Liability The rating assigned is a professional opinion of the assessors and M-CRIL does not guarantee the information and cannot accept any legal responsibility for actions arising out of the recommendations made.

Financial statements for CBIRD operations

Balance sheets (as on)

In USD

Dec-05	Dec-06	Dec-07		Nov-08
			Assets	
			Current assets	
77 215	46 691	28 450	Cash and cash equivalents	64 343
15 577	5 241	22 030	Other deposits with bank	11 325
5 950	5 950	6 938	Statutory deposits with NBC	
20 252	17 343	6 300	Other debtors, deposits and prepayments	5 938
			Loans outstanding	
6 36 087	8 44 402	8 70 487	Gross loans outstanding	10 48 173
- 3 131	- 5 443	- 1 176	Write off (fraud portfolio)	
6 32 956	**8 38 959**	**8 69 311**	Gross loans outstanding after write off	**10 48 173**
- 7 379	- 6 471	- 5 831	(Loan loss reserve)	- 4 223
6 25 577	8 32 488	8 63 480	Net loans outstanding	10 43 950
7 44 571	**9 07 713**	**9 27 198**	**Total current assets**	**11 25 555**
			Long term assets	
66 449	65 128	57 573	Net property and equipment	53 695
66 449	**65 128**	**57 573**	**Total long term assets**	**53 695**
8 11 020	**9 72 841**	**9 84 771**	**Total Assets**	**11 79 250**
			Liabilities and Networth	
			Current liabilities	
83 727	1 20 462	1 48 646	Deposits from clients	1 40 483
3 860	27 197	13 166	Accounts payable and other liabilities	2 053
141	1 399	422	Deferred revenue	475
	37 000	16 000	Borrowings from Private Loans	16 000
3 04 000			Borrowings from Rural Development Bank	
2 35 000			IFAD	
			ACLEDA	52 161
5 39 000	37 000	16 000	Total short term debt	68 161
6 26 728	**1 86 058**	**1 78 234**	**Total current liabilities**	**2 11 171**
			Long term liabilities	
			Long term Borrowings	0
0	3 66 000	4 10 000	Rural Development Bank	7 48 083
30 000	0	0	Other loans	
0	2 35 000	2 19 333	IFAD long term	
30 000	6 01 000	6 29 333	Total long term debt	7 48 083
30 000	**6 01 000**	**6 29 333**	**Total long term liabilities**	**7 48 083**
6 56 728	**7 87 058**	**8 07 567**	**Total Liabilities**	**9 59 253**
			Net worth	
1 17 300	1 17 300	1 17 300	Paid in capital	1 17 300
36 917	18 000		Subordinated debt/ ending fund balance	
74	50 483	59 904	Retained earnings	1 02 697
1 54 291	**1 85 783**	**1 77 204**	**Total net worth**	**2 19 997**
8 11 019	**9 72 841**	**9 84 771**	**Total Liabilities and Net Worth**	**11 79 250**

Note: The financial statement for the financial year 2005 are a combined statement for CBIRD as a limited liability company since August 2005 and CBIRD as a rural credit operator from January to July 2005. (The financial Statement from January 2005 to July 2005 is unaudited.)

Income statements (for the year ending)

USD

Dec-05	Dec-06	Dec-07		Nov-08
			Income	
2 25 662	2 88 446	3 36 702	Interest on Loans and Advances	3 62 330
147	21	88	Interest on bank deposits	160
			Non Interest Income	3 883
4 004	10 175	2 053	Other income	990
	18 440	12 011	Foreign Exchange	
3 063	6 576	8 902	Extraordinary items	5 330
2 32 876	**3 23 658**	**3 59 756**	**Total income**	**3 72 693**
			Financial costs	
8 586	8 155	11 534	Interest on deposits from members	6 845
77 812	84 577	73 341	Interest on Short and long term borrowings	62 473
289	0	6 678	Others	3 688
1 46 189	**2 30 926**	**2 68 203**	**Gross financial margin**	**2 99 687**
10 169	11 111	8 651	Provision for loan losses	6 443
1 36 020	**2 19 815**	**2 59 552**	**Net financial margin**	**2 93 244**
			Operating expenses	
68 221	90 250	1 20 911	Salaries and staff costs	1 20 463
15 549	17 294	17 113	Depreciation of property and equipment	13 105
16 325	23 297	25 299	Office rent	25 458
14 504	16 490	22 762	Office supplies	24 538
11 290	15 849	22 324	Travel expenses	26 348
	467	1 567	Patent Tax	2 370
802	309	388	Other charges and non interest expenses	8 376
4 742			Foreign Exchange Losses	11 938
1 31 433	**1 63 956**	**2 10 364**	**Total Operating expenses**	**2 32 596**
4 587	**55 859**	**49 188**	**Net Surplus/Deficit**	**60 653**
4 587	55 859	49 188	Profit before tax (PBT)	60 648
608	2 895	9 165	Tax expense/credit	3 660
3 979	**52 964**	**40 023**	**Profit after tax (PAT)**	**56 988**

Notes to the financial statements

1. All loan portfolio income is recognised only when it is actually received (**cash basis**).
2. Financial costs (interest on borrowings, if any) and operating costs are calculated on an **accrual basis**.
3. Depreciation is calculated on a straight line method.
4. For loan loss provisioning and write-off, CBIRD follows the NBC guidelines as stipulated earlier in this report.
5. Assets and liabilities expressed in currencies other than US$ are converted into US$ at the rates of exchange quoted by NBC on the balance sheet date.

Glossary

1. Current repayment rate: Ratio of principal recovered (net of pre-payments) to the principal due for the last one year.
2. Portfolio at risk (PAR_{30}): Ratio of the principal balance outstanding on all loans with overdues greater than or equal to 30 days to the total loans outstanding on a given date.
3. Yield on portfolio: The interest income on loans divided by the average loan portfolio for the year.
4. Other income to average portfolio: Total income other than from the interest on loans divided by average portfolio.
5. Financial cost ratio: Total interest expense for the year divided by the average portfolio.
6. Loan loss provisioning ratio: Total loan loss provisioning expense for the year divided by the average portfolio.
7. Operating expense ratio: Ratio of salaries, travel, administrative costs and depreciation expenses to the average loan portfolio.
8. Net operating margin: Difference of (yield on portfolio+ yield on other income) and (financial cost ratio+ loan loss provisioning + interest loss provisioning) – also known as spread on portfolio
9. Average loan portfolio: This represents the average loan outstanding for the year computed on a monthly basis.
10. Average total assets: This represents the average total assets for the year calculated on an annual basis.
11. Operational Self-Sufficiency: Ratio of total income to total costs for the year.
12. Financial Self-Sufficiency: Ratio of total income to total adjusted expenses for the year. Adjustments have been made for subsidised cost of funds (w.r.t. market interest rate), equity (w.r.t. inflation) and in-kind donations.
13. Risk weighted capital adequacy ratio: Ratio of networth to risk weighted assets
M-CRIL Risk weights: 100% for all assets except the following: fixed assets & interest bearing deposits: 50%; cash 0%.
14. Return on assets: Ratio of operational income/(loss) to average total assets
15. Return on equity: Ratio of operational income/(loss) to average net worth

Abbreviations

ADA	Appui au Developpement Autonome
BIBOR	Bangkok Inter Bank Operating Rate
BM	Branch Manager
BOD	Board of Director
CA	Credit Agent
CAR	Capital Adequacy Ratio
CBIRD	Cambodia Business Integrated in Rural Development
CEO	Chief Executive Officer
CMA	Cambodian Microfinance Association
CS	Credit Supervisor
DWM	Developing World Markets
FCR	Financial Cost Ratio
HO	Head Office
HR	Human Resource
IFAD	International Fund for Agriculture Development
IT	Information Technology
LLP	Loan Loss Provision
LLR	Loan Loss Reserve
M-CRIL	Micro-Credit Ratings International Ltd
MFI	Micro Finance Institutions
MIS	Management Information System
NBC	National Bank of Cambodia
NGO	Non Governmental Organization
NPA	Non Performing Assets
OER	Operating Expenses Ratio
OM	Operations Manager
OSS	Operational Self-Sufficiency
PAR_{30}	Portfolio at Risk (>=30 days)
RDB	Rural Development Bank
RGC	Royal Government of Cambodia
RM	Regional Manager
RoA	Return on Assets
RoE	Return on Equity
USD	United States Dollar