



Cambodian Health Committee (CHC) Ltd

Phnom Penh, Cambodia

<Risk Assessment>	
Rating grade	β+ beta plus
Assessment: Recommended, needs monitoring Reasonable safety, reasonable systems	
Visit dates: 17-20 May, 2007 Operational head: Mr King Kap Kalyan	
Maximum validity of rating*: till May 2008	

Rating

CHC Ltd records reasonable performance on governance. The organisation has committed members on the Board, with a long history of health-related development programmes in Cambodia. It also expects to receive significant financial and technical support from CARD MRI, Philippines and from CMI International (promoted by ASA, Bangladesh). The financial performance of CHC Ltd is reasonable, with good portfolio quality and reasonable performance on sustainability indicators.

The major cause for concern for CHC Ltd is its weak second line of leadership, which, coupled with its nascent management systems increases the risk of losses and may restrict the growth of the organisation. However, this is offset by the fact that CHC Ltd will get significant technical support from ASA, Bangladesh, as part of its strategic partnership with CMI International.

In M-CRIL's view, on account of good overall performance and the potential of the organisation to emerge as a market leader, CHC Ltd can absorb – from all sources – commercial loan funds of US\$1.0 million over the next one year for on-lending to its borrowers.

A rating update after one year is suggested to ascertain changes in the creditworthiness and absorptive potential of the institution. **This rating is valid, subject to no other substantial inflows of loan funds into the organisation beyond the limits specified here** and to no other significant changes in the organisational structure and external operating environment.

for Micro-Credit Ratings International Ltd

Sanjay Sinha, Managing Director

***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.



Category wise rating

<u>Category</u>	<u>Rating grade¹</u>
A <i>Governance aspects</i>	$\beta+$
B <i>Management factors</i>	β
C <i>Financial performance</i>	$\alpha-$
Overall	$\beta+$

Key Risk Factors

<p>1 Weak second line of leadership: The second line of leadership in CHC Ltd is presently very weak, with the organisation having no dedicated head of credit operations. This, coupled with the nascent stage of systems for internal control and monitoring, increases the risk of losses and could adversely affect the growth of the organisation.</p> <p>2 Weak systems for internal control: The organisation’s internal control systems are presently in a nascent stage. CHC Ltd does not have a robust MIS and it also lacks strong systems for monitoring and internal audit. This increases the risk of losses due to fraud/misappropriation and also due to possible high rate of client default.</p>
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Key Programme Strengths

Governance, experience and strategy	Management and operations	Financial
<p>1 Established reputation (of CHC NGO) as a voluntary organisation</p> <p>2 Support from CARD, Philippines</p> <p>3 Expected equity inflow and technical assistance from CMI International</p> <p>4 Good credit culture</p>	<p>1 Qualified staff</p>	<p>1 Good portfolio quality</p> <p>2 Reasonable capital adequacy</p> <p>3 Good performance on profitability and sustainability</p>

¹ M-CRIL’s grading sheet is attached at the end of the report.



CHC Ltd – Risk Assessment

Organisational Profile

Legal form	Years of m-f Operation	Number of			
		Active borrowers	Staff	Branches	Active borrowers/ Staff member
Limited Company licensed as an MFI	1.5 years	4,452	47	4	~95

Note: Although CHC NGO started its credit programme as early as October 1994, CHC Ltd was established in July 2005 and was registered officially as an MFI only in September 2005

Microfinance programme: Operational highlights

Client savings outstanding (KHR million, US\$ '000)	Outstanding borrowings (KHR million, US\$ '000)	Loan portfolio (KHR million, US\$ '000)	Cumulative loans disbursed* (KHR million, US\$ '000)	Average loan size from MFI to borrowers (KHR, US\$)
26.9	3,266.7	4,431.9	5,128.7	1,441,601
6.6	805.2	1,092.4	1,264.1	~355

Note: The cumulative amount of loans disbursed is the amount disbursed since 01 January 2005

Key financial ratios

Portfolio at risk (>=60 days)	Current repayment rate	Risk weighted capital adequacy ratio	Weighted average cost of funds	Yield to APR ratio
0.7%	97.0%	28.8%	9.4%	92.6%
Yield on portfolio	Other income to average portfolio	Financial cost ratio	Loan loss provisioning ratio	Operating expense ratio
34.3%	2.3%	8.0%	1.2%	26.0%
Total income to average total assets	Total expenses to average total assets	Return on average total assets	Operational self sufficiency	Financial self sufficiency
32.8%	31.9%	0.9%	103.8%	97.1%

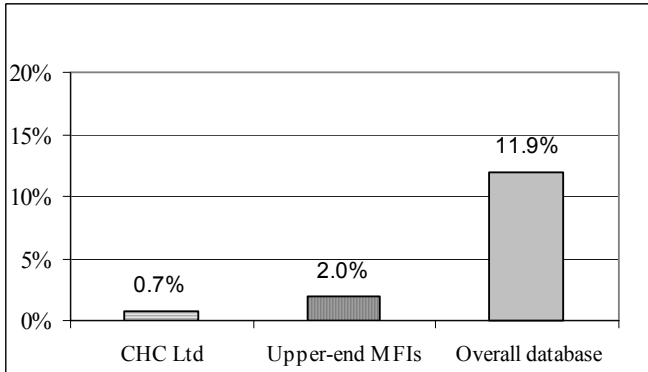
Notes

- All figures are for the organisation's microfinance programme as on 31 December 2006
- Throughout this report, US\$=KHR4,057
- The active borrowers figure includes Group clients as well as individual clients.
- Loan loss provisioning has been made for the current year at 1.2% of the average loan portfolio during the year, creating a loan loss reserve (LLR) of 1.0% on the loan portfolio outstanding at the end of the year.
- Other income consists mainly of foreign exchange gain, bad debts recovered and fee income.
- For calculation of FSS, the market rate of interest has been taken as six-month LIBOR+5%. As on 31 December 2006, the six-month LIBOR was 5.37%. The rate of inflation has been assumed at 5% (as estimated by The World Fact Book, 2006)
- The ratio of repayment rate and PAR₆₀ has been calculated from the MIS reports generated by CHC Ltd. The accuracy of data generated by the MIS has been verified by the rating team through an audit of the systems at CHC Ltd.

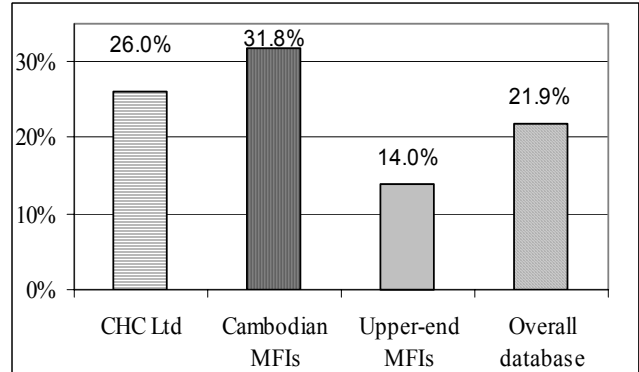


CHC Ltd – financial overview

Portfolio at risk (>=60 days): 31 December 2006

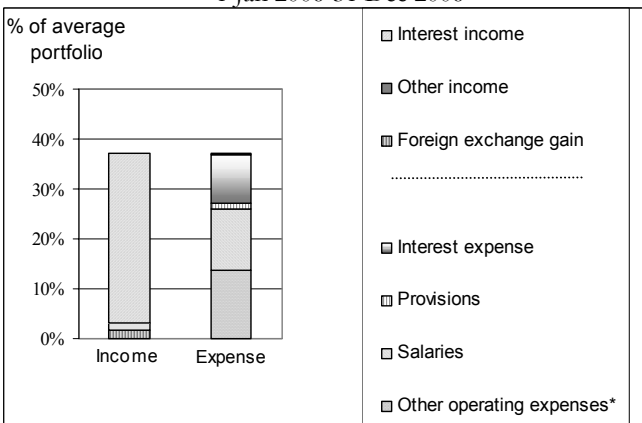


Operating expense ratio: 1 Jan 2005-31 Dec 2006

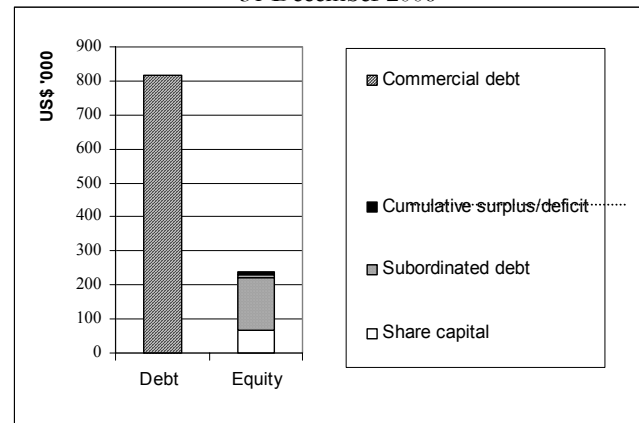


- Note:**
1. $n_{upper-end} = 10$ $n_{database} = 120$; Database figures as on 31 December 2005
 2. Cambodian MFIs are MFIs in Cambodia rated by M-CRIL
 3. Outliers and rated MFIs with no direct lending have been removed for analysis. Upper-end figures reflect **top 10 MFIs**.
 4. The upper-end MFIs and overall database ratios represent simple averages for their respective samples.
 5. The performance of either the Upper-end MFIs or all MFIs (overall database), do not necessarily reflect M-CRIL's rating standards.

Income and expense distribution:
1 Jan 2006-31 Dec 2006



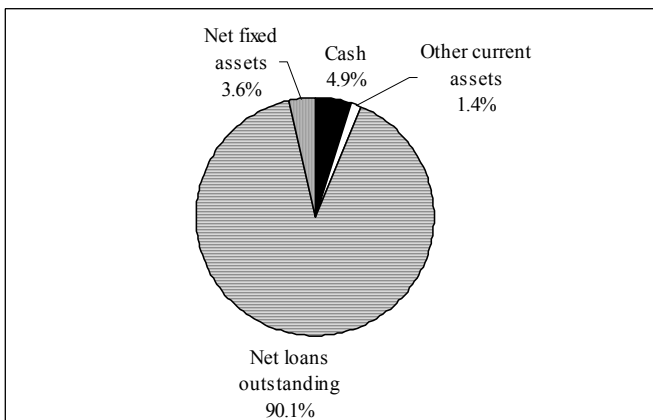
Debt and equity composition:
31 December 2006



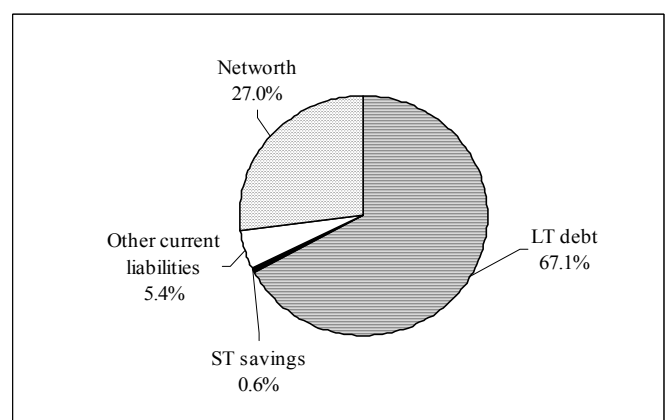
* Other operating expenses include travel, depreciation and administrative expenses

** Concessional debt is borrowing+comp.savings taken at < Bank PLR, voluntary savings taken at < bank deposit rates

Asset composition: 31 December 2006



Liability & net worth composition: 31 December 2006





Country Profile²

Cambodia is a Southeast Asian country, bordering the Gulf of Thailand, located between Thailand (in the West), Vietnam (in the East), and Laos (in the North). A majority of the population is Buddhist and speaks the Khmer language. The country has a parliamentary democracy. The population of the country is estimated to be about 14 million.

The country has had 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 hardships during the three-year Khmer Rouge regime. In 1978, the Cambodian army together with the Vietnamese army attempted to overthrow the Khmer Rouge regime, 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.

Cambodia is one of the world's poorest nations, as a result of its history of domestic unrest. In 2005, its rank on Human Development Index of the United Nations Development Programme was 130. Subsistence farming employs 75% of the workforce. Conditions are ideal for the cultivation of its chief crop, rice, with availability of water from the Mekong River and a fertile soil. Corn, vegetables, fruits, peanuts, tobacco, cotton, and sugar palms are widely cultivated. Livestock raising (cattle, buffaloes, poultry, and pigs) and extensive fishing are the other major economic activities.

The Cambodian economy grew by an average of 7.6% annually from 1987 until 1993 and then by about 4.5% annually during 1994-99. Growth remained about 5% from 2000 to 2004, but has been estimated at about 13% (by the Economic Institute of Cambodia) during 2005. The number of people living on less than one dollar per day declined from 36% in 1998 to 28% in 2005, according to the World Bank's estimate. Economic growth has been largely driven by expansion in the garment sector and tourism. Clothing exports were fostered by a US-Cambodian Bilateral Textile Agreement, which gave Cambodia a guaranteed quota of US textile imports. From January 2005, after the expiry of the WTO Agreement on Textiles and Clothing, Cambodia-based textile producers are in direct competition with lower priced products from countries such as China and India.

The long-term development of the economy after decades of war remains a challenge. The population lacks education and productive skills, particularly in the poverty-ridden countryside, which suffers from an almost total lack of basic infrastructure. Fear of renewed political instability and a dysfunctional legal system coupled with extensive government corruption discourage foreign investment.

The Cambodian government continues to work with bilateral and multilateral donors to address the country's many pressing needs. Donors including ADB and the World Bank, pledged \$504 million in aid for 2005 on the condition that the Cambodian government begins taking steps to address rampant corruption.

The major economic challenge for Cambodia over the next decade will be in fashioning an economic environment in which the private sector can create enough jobs to handle Cambodia's demographic imbalance. More than 50% of the population is 20 years or younger. In this scenario, microfinance is one of the areas that has attracted the attention of policy makers and the country has made significant progress in microfinance policy and regulation. The National Bank of Cambodia – the central bank – has been instrumental in bringing about regulatory changes that include the provision of a separate licence for microfinance institutions. As of 31 December 2006, there were 13 licensed MFIs, one NGO and one commercial bank operating in the microfinance market in Cambodia. While ACLEDA Bank is the largest, with close to 160,000 borrowers, other significant ones include Amret (141,957 borrowers), PRASAC (94,264 borrowers), AMK (67,586 borrowers), TPC (55,870 borrowers) and VFC (35,289 borrowers). The other organisations are relatively small, with the number of borrowers being between 700-12,000.

² Source: *The CIA World Factbook*, U.S. Department of State, *Area Handbook of the US Library of Congress*, <https://www.cia.gov/cia/publications/factbook/geos/cb.html>



1 Organisational background

Cambodian Health Committee (CHC) Ltd was created out of the credit and savings programme of Cambodian Health Committee, which is a local non-government organisation (NGO) providing health-care services to the poor in Cambodia. CHC NGO focuses on those suffering from tuberculosis (TB) and HIV/AIDS.

CHC NGO was started in 1994 by two Cambodian medical professionals – Dr Sok Thim in association with two Americans. The NGO has its origins in the anti-tuberculosis programmes of the American Refugee Committee operating in the late 1980s and early 1990s in Cambodian refugee camps. CHC NGO now has programmes for treatment and care of patients affected by tuberculosis and HIV/AIDS and also carries out research work in these fields. The NGO also runs the Maddox Chivan Children’s Center (MCCC) in Phnom Penh, established with the support of Hollywood actress Angelina Jolie in February 2006. MCCC has been established for the care and treatment of children affected by HIV/AIDS.

CHC NGO started the micro-credit programme in October 1994, realising the link between poverty and disease and that monetary support is as important as healthcare support for those affected by disease. The credit programme initiated by CHC NGO was hived off into a separate organisation (limited company) – CHC Ltd in July 2005, as mandated by Cambodian laws. CHC Ltd received its MFI licence in September 2005.

CHC Ltd has a five-member Board. Apart from Dr Sok Thim and Dr Chiv Bunthy, who are Directors of CHC NGO, the Board has Mr Chor Leng Houng, Deputy Director General of Rural Development Bank (RDB), Cambodia; Mr King Kap Kalyan, who is the CEO of CHC Ltd and had previously worked in the Banking Supervision department of the National Bank of Cambodia for nearly ten years and Mr Jaime Aristotle B Alip, who is Chairman and Managing Director of CARD-MRI, a prominent MFI in Philippines that is well-known across the world.

Till the time of the rating visit, CHC Ltd had a total paid-up share capital of US\$65,000 (as per initial contribution). The shareholding pattern is shown in the table below:

Shareholder	Capital (US\$)	No of shares	% of ownership
CHC NGO	45,250	4,525	69.6%
CARD NGO, Philippines	10,000	1,000	15.4%
Dr Chiv Bunthy	3,250	325	5.0%
Dr Sok Thim	3,250	325	5.0%
Mr King Kap Kalyan	3,250	325	5.0%
Total	65,000	6,500	100.0%

Apart from the paid-up capital shown above, CHC NGO had also allocated US\$87,750 as “Hybrid Capital”, which will be converted to fully paid-up equity capital later. In addition to this, CHC NGO had also provided CHC Ltd with subordinated debt valued at US\$156,250 as on 31 December 2006.



At the time of the rating visit, CHC Ltd was involved in negotiations with Catalyst Microfinance Investors (CMI International), which is an equity fund jointly set-up and managed by ASA, Bangladesh and Sequoia Capital, a UK based private equity fund. CMI has been floated as a private equity fund that invests in emerging, high potential microfinance institutions in Asia and Africa. CMI seeks to deliver to its investors, returns in USD in excess of 20% per annum, primarily by realising capital gains through the sale of its investments.

CMI plans to invest up to US\$200,000 in CHC Ltd. The proposed equity structure after the investment from CMI is presented later in this report.

2 Microfinance operations

2.1 Background of microfinance operations

The credit programme of CHC NGO was initially started in Svay Rieng province in South East Cambodia. Later, as the organisation extended its focus to the rural poor in general and not just those affected by TB, it expanded operations to Kampot province, Kep city and Phnom Penh province. At the time of the rating visit in May 2007, CHC Ltd had 5,122 borrowers spread across the four provinces of Kampot (150 kms from Phnom Penh), Phnom Penh, Kep and Sihanoukville (230 kms from Phnom Penh) (as on 30 April 2007). The organisation had four branches – two in Kampot province (Kampong Bay and Kampong Trach), one in Phnom Penh (attached to the Head Office) and one in Sihanoukville.

Apart from the CEO, the Head Office has one Accountant and Manager for HR, MIS, one person for Internal Audit and one Lawyer. CHC Ltd also had an Operations Manager and a Chief Accountant, who left a few months prior to the rating visit. The Finance Manager had been appointed recently to replace the Chief Accountant and CHC was looking for a suitable person for the vacancy of Operations Manager at the time of the rating visit.

Field operations are presently managed directly by the CEO, who is assisted by one Chief Credit Officer (attached to Phnom Penh branch). At the branches, the operations are led by the Branch Manager, supported by 2-3 Credit Assistants, 6-8 Credit Agents and one Cashier.

Till end-December 2005, the Rural Development Bank in Cambodia was the only source of borrowings for CHC Ltd. During 2006, CHC Ltd has borrowed loan funds from Oikocredit, the Netherlands and Consorzio Etimos, Italy. **Table 1** below shows the details of loan funds received by CHC Ltd.

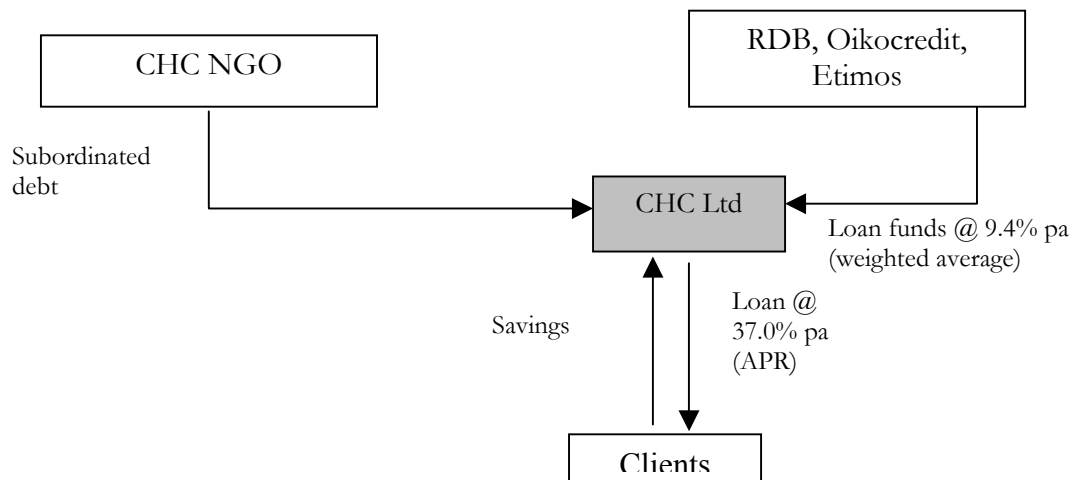
Table 1: Sources of loan funds

Source of funds	Amount sanctioned (US\$ '000)	Outstanding on 31 Dec 2006 (US\$ '000) (revalued)	Rate(s) of interest per annum
Rural Development Bank	350.0	350.0	9.0%
Oikocredit	355.2	355.2	10.0%
Consorzio Etimos	100.0	100.0	9.5%
Total	805.2	805.2	



CHC Ltd – Risk Assessment

The flow of funds to and from the organisation is depicted in the following diagram:



2.2 Microfinance policies

CHC Ltd lends to women and men from poor households, who may be organised into Village Banks or VBs or may be individual clients not associated with VBs. Clients within the Village Banks form themselves into groups of five-seven clients who are required to stand guarantee for each others' loans. Clients are selected from the village by the Village Bank committee, which is the initial group of persons interested in taking loan. The committee is formed by the Credit Agent and must be approved by the local village authorities. It is the Village Bank committee's responsibility to explain the rules and regulations of CHC Ltd to all clients and also to get loan applications from them.

Appraisal of loans is mainly the purview of the Branch Managers and the CEO, who approve the loans based on the recommendations of and information provided by the Credit Officers on the economic activity pursued by the client and other members of the household, their approximate monthly and annual household income, assets owned etc.

Loans are disbursed in cash in the field (where the Village Bank meetings are held), in the presence of the Credit Agent, Credit Assistants and the Branch Manager. In the case of loans to individuals, the Credit Agent goes to the house of the client for disbursement. Disbursements are made in Riel as well as in US Dollars.

Savings

CHC Ltd's Group loan borrowers are required to deposit minimum compulsory savings of KHR1,000 per month as long as the loan is active. Clients are allowed to withdraw the savings at the end of the loan term, if they decide to leave the programme or not borrow for some time. No interest is paid to clients on the savings.

Loan products

CHC Ltd offers a range of Group-based loan products as well as individual loan products to its clients. The organisation prefers to take 'real' collateral (with proper documentation of title)



CHC Ltd – Risk Assessment

even for the Group-based loans. However, smaller loans may be provided to clients who are not able to provide any collateral or collateral with proper title. The preferred form of collateral is land or house property or both.

The Group Solidarity Loan (GSL) is provided to clients having low or medium income, generally involved in agriculture, animal husbandry or trading in agricultural produce. The loan size ranges from KHR100,000 to KHR600,000 (or US\$25 to US\$150) if the client is able to provide ‘real’ collateral. If the client is not able to provide ‘real’ collateral or has no collateral, the loan size is increased in a graduated manner from KHR100,000 to KHR400,000 (or US\$25 to US\$100) across three or more cycles of loan. The Group loans constitute 26.2% of the portfolio of the organisation as on 31 December 2006.

The interest rate on the Group loan products is 3.5% per month and the loan term is from six to eight months. CHC Ltd offers its clients several repayment options: Balloon repayment (monthly payment of interest and principal repayment in a ‘balloon’ or gradually increasing manner), Bullet repayment (monthly payment of interest and principal repayment at the end of the term in one go) and regular monthly payment of principal and interest (on declining balance). At the time of the rating visit, all Group loans were balloon repayment loans.

The Individual Loan (IL) is offered to clients involved in trading or to professionals such as Doctors. The individual loan is fully collateralised and requires proper collateral. In addition to collateral from the client, a guarantor is also required. The individual loan is also provided for consumption purposes such as house construction or repair. The details of the individual loan product are given below:

Loan size	Interest rate	Processing fees	Loan term (months)
KHR500,000–2,000,000	3.5%	KHR3,000–5,000	6-12
US\$500– 2,000	3.5%	KHR5,000–10,000	6-12
US\$2,000– 4,000	3.0%	KHR10,000–40,000	6-18
US\$4,000–7,000	2.5%	1% of loan amount	6-24
US\$7,000–10,000	2.0%	1% of loan amount	6-24

Individual loan clients have the option of repaying the loan in Balloon method or through regular monthly payment of interest (on declining balance) and principal.

The Emergency Loan (EL) is offered to clients who have completed at least two loan cycles with CHC Ltd. The emergency loan is given to meet the working capital needs of clients and to cover shortages in the business or household cashflows. The details of the emergency loan product are presented in the table below:



Loan size	Interest rate & loan term			Processing fees
	1 month	2 months	3 months	
KHR500,000–2,000,000	5.0%	4.5%	4.0%	KHR5,000–10,000
US\$500–2,000	4.5%	4.0%	3.5%	KHR10,000–20,000
US\$2,000–4,000	4.0%	3.8%	3.5%	KHR20,000–40,000
US\$4,000–7,000	3.5%	3.0%	2.5%	KHR40,000–80,000
US\$7,000–10,000	3.0%	2.5%	2.0%	KHR40,000–80,000

The emergency loan is repayable as a Bullet repayment loan – monthly payment of interest and principal repayment at the end of the term.

Individual loans and emergency loans together constitute 73.8% of the loan portfolio of the organisation as on 31 December 2006.

Insurance

CHC Ltd plans to introduce a credit-linked insurance product for its clients. The product has been designed in association with CARD-MRI, Philippines. The product features and other modalities are presently being worked out.

CHC Ltd plans to introduce the product as soon as Cambodian laws allow MFIs to offer insurance products. Prior to that, the product may be pilot-tested in certain areas of operations of the organisation.

3 Observations

3.1 Governance & strategy

CHC Ltd performs reasonably on governance with a grade of **β+**. The grade is on account of the reputation and background of the promoters of the organisation and its reasonably experienced Board. Moreover, the proposed strategic partnership with CMI International will not only increase the organisation’s net worth but also bring about a significant change in its character, making it a more commercially oriented MFI that can compete with the other well-established MFIs in the country. However, one major cause for concern is the weak second line of leadership in the organisation at present.

➤ Governance and shareholding

Although small at present, the Board of CHC Ltd has a good mix of professionals from social work background as well as from banking and microfinance fields. The promoters of CHC Ltd have been carrying out healthcare programmes for the poor in Cambodia through CHC NGO for more than a decade. CHC NGO now has a well-established reputation as one of the leading healthcare providers for the poor.



CHC Ltd – Risk Assessment

CHC Ltd’s association with CARD MRI, Philippines – one of the world’s leading microfinance institutions – is also a significant strength for the organisation and would be of critical importance for its future growth and sustainability.

CHC Ltd’s proposed strategic partnership with CMI International also holds out several advantages for the future growth of the organisation and its emergence as a leading MFI in Cambodia. CMI International has been promoted by ASA, Bangladesh, another leading MFI in the world. Through this partnership, CHC Ltd would not only receive additional equity of US\$200,000 but would also receive technical assistance and strategic advice, which would be useful to set up a strong foundation for future growth of CHC Ltd.

Parallel to the expected inflow of equity from CMI International, the promoters of CHC Ltd as well as CARD NGO, Philippines also plan to increase their stake in the organisation. As per the draft copy of the agreement between CHC Ltd and CMI International, that was made available to the rating team, the shareholding pattern after the equity investment from CMI International is expected to be as shown below:

Shareholder	Capital (US\$)	No of shares	% of ownership
CHC NGO	229,500	22,950	38.3%
CMI International	200,000	20,000	33.3%
CARD NGO	47,000	4,700	7.8%
Dr Aris Alip	3,500	350	0.6%
Dr Chiv Bunthy	40,000	4,000	6.7%
Dr Sok Thim	40,000	4,000	6.7%
Mr King Kap Kalyan	40,000	4,000	6.7%
Total	600,000	60,000	100.0%

In addition to the equity investment of US\$200,000, as per the draft agreement (dated 01 May 2007), CMI International also intends to provide CHC Ltd with a convertible loan of US\$200,000. At the discretion of CMI International, the convertible loan may be converted to equity capital (20,000 fully-paid up shares) within a period of nine months from the date of the agreement. However, in case it is not converted, CHC Ltd would have to return the loan at its maturity (12 months from the draw-down date) together with interest at 10% per annum.

As per the agreement, between the date of the agreement and the date of conversion of the loan, CHC Ltd would need to seek the written permission of CMI International before increasing the equity of CHC Ltd. Once the convertible loan is converted, CMI International would own 50% of the share capital of CHC Ltd and would have 50% of the votes. Including the proposed equity investments described above, CMI International plans to invest a total of US\$1.0 million in CHC Ltd in the next few years.

➤ Leadership

The major issue for CHC Ltd is presently the weak second line of leadership, which results in the CEO having to handle several responsibilities at once. Although the operations are not



CHC Ltd – Risk Assessment

significant in scale at present, a weak second line of leadership would adversely affect the growth of the organisation.

CHC Ltd had hired an Operations Manager who lacked significant relevant experience and left a few months prior to the rating visit. Till the time of the rating visit, the organisation had not found a replacement for the position. The absence of any person to monitor overall field operations is a significant weakness and could lead to deterioration in the quality of the programme.

The Chief Accountant of CHC Ltd also left the organisation for a better job and a person who had previously worked with Singapore Banking Corporation had been recruited as Accountant to fill the vacancy. However, at the time of the rating visit, CHC Ltd was looking for another qualified person for the finance function, to be appointed at a level above the present Accountant.

The issue of weak second line of leadership is likely to be addressed to a certain extent after the partnership with CMI International is fructified. As per the terms of the agreement, CHC Ltd has the option to include in its management team, a qualified staff member of ASA, Bangladesh who will be assigned to the organisation full-time for a period of six months. He or she would assist the management in all operational responsibilities including branch expansion, cost reduction, product design, internal control and accounting/MIS.

However, taking the support of a staff from ASA, Bangladesh would be a temporary measure only. CHC Ltd needs to strengthen its second line of leadership by appointing qualified staff for the key functions of Operations and Finance.

➤ Microfinance products and competition

CHC Ltd has a package of clearly defined credit products aimed at different sections of the society. However, there is scope for improving the design and administration of credit products, since all the products (across all loan sizes) are presently provided with flexible repayment options (Balloon repayment, Bullet repayment or regular monthly repayment). While this may provide CHC Ltd with a distinct competitive advantage, it also increases the risk of default and high portfolio-at-risk, particularly as the loan size increases.

The rating team noted that even to a client who had the ability to repay regularly on monthly basis, CHC Ltd had allowed the Balloon repayment option, even when the loan size was high (US\$7,000-10,000). The risk of default on these loans is higher and in case of default, it would also be more difficult to recover the loans.

As per information provided by the CEO after the rating visit, generally CHC insists on monthly repayment for high-size loans (US\$2,000-10,000) and the balloon repayment option is given only in a few cases, particularly where the client is known to the CEO or other senior staff.

There is also scope for redesigning the Emergency Loan product. As it is presently designed, the loan product has the same loan size as the mainstream Individual Loan, but the repayment period is much shorter (maximum period: three months, as against the minimum period of six months in the case of the Individual Loan). This also increases the likelihood



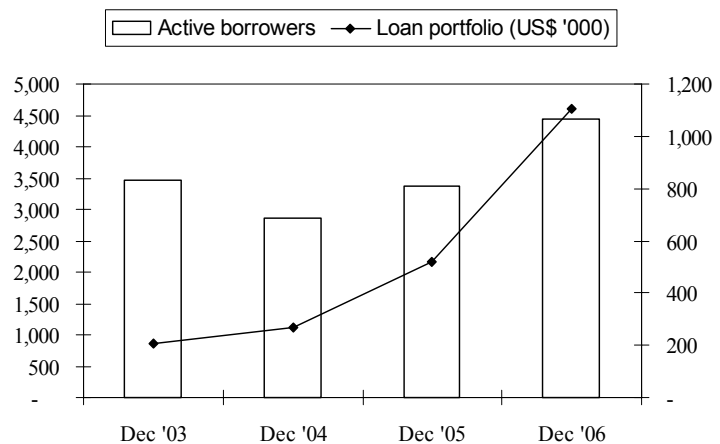
of default.

Like most other MFIs in Cambodia (except Amret and AMK), CHC Ltd is also presently focusing on the high loan size individual loans segment. Within this segment, CHC Ltd has slightly differentiated products (in terms of the repayment period and range of interest rates). However, this is a segment where the competition is increasing fast and CHC Ltd is likely to have difficulty in maintaining its competitive advantages in the future.

CHC Ltd is likely to face competition mainly from ACLEDA Bank, Amret, PRASAC, TPC and Hatta Kaksekar Ltd, which are well-established MFIs operating in the same region and also in the regions where CHC Ltd plans to operate in the future. These MFIs offer similar loan products at similar interest rates. In order to maintain a competitive edge, CHC Ltd would need to introduce innovative products for different market segments and also combine loan products with insurance and other financial products.

➤ Growth and expansion

As presented in the figure alongside, CHC Ltd has seen significant growth only during the last two years. Since 31 December 2004, the number of active borrowers has grown at a CAGR of 25%, while the loan portfolio outstanding shows a growth of 103% (CAGR), indicating a significant increase in the average loan size on account of the high size loans to individuals.



In terms of funding the growth, apart from equity and subordinated debt from its promoters – CHC NGO, CHC Ltd has been able to mobilise significant amount of borrowings from Rural Development Bank, Cambodia, Oikocredit and more recently, Consorzio Etimos, Italy. With significant funding expected from CMI International, CHC Ltd has the potential to grow at a fast pace in the short-medium term.

CHC Ltd has projected to have an outreach of around 9,200 active borrowers by the end of 2007 and an outstanding loan portfolio of US\$3.0 million. However, the organisation has fallen short of the projected outreach of 5,739 active borrowers by the end of 2006 (with the actual number being 4,452), although the loan portfolio outstanding is only a little less than the projected figure of US\$1.3 million. The variance from planned outreach is probably on account of the loss of key senior management staff (particularly the Operations Manager) towards the end of the year.

CHC Ltd plans to start operations in eight new provinces by 2010. While a new branch has already been started in Sihanoukville, two new branches would be established in 2007 in Siam Reap and Takeo provinces. During 2008-09, the organisation plans to start operations in the provinces of Kandal, Banteay Meanchey, Kampong Cham and Kampong Chnang.



Operations in another two provinces (to be decided based on the market conditions) will be started in 2010.

3.2 Management issues

CHC Ltd displays moderate performance on management with a grade of β . The grade reflects the qualified human resources and nascent MIS and control systems.

➤ Human resource quality and management

CHC Ltd has qualified staff at all levels. However, as described before, the weak second line of leadership is a significant weakness. Since its inception, the organisation has not been able to find a capable person to lead the Operations function. Although CHC Ltd did hire a person as Operations Manager, he was from the Credit department of a telecom company and lacked relevant experience.

The Operations Manager left the organisation a few months before the rating visit and that position was vacant till the time of the rating visit. In addition, the organisation's Chief Accountant had also left a few months prior to the rating visit. This has weakened the second line of leadership in the organisation, leading to increased workload for the CEO.

CHC Ltd has done well to create a separate HR department, with an experienced person as the head. Systems have been developed for recruitment and training of staff at all levels. The organisation is also presently working with an HR expert from CARD, Philippines for strengthening the HR policies.

CHC Ltd has a reasonable incentive system for its field staff that enables staff to earn higher incentives for growth in interest income from loan but also reduces the amount of incentive in case of high overdues. However, there is scope for improvement in the incentive system, since the disincentive for overdues is not very significant at present. This may lead to high growth at the cost of the quality of the loan portfolio.

➤ Accounting and MIS

CHC Ltd has reasonable systems for accounting. The branches send day-wise Principal and Interest collection details and loan disbursement statement at the end of each week to the Head Office, together with the expense vouchers. The receipt vouchers are sent at the end of the month. At the Head Office, consolidated financial statements are prepared based on the statements sent from the branches. These are finalised at the end of the month (after posting interest income), since time is taken to verify the receipt vouchers with the cashbook and collection summary sheets.

The financial statements are audited annually by Morison Kak and Associés, Cambodia. The quality of audited statements was found to be moderate, with a few clerical errors in the audited statements (for the year ended 31 December 2006) presented to the rating team.

At the senior management level in CHC Ltd, the understanding with regard to provision for loan losses was found to be incorrect. Loan loss reserve is created on overdue loans (in accordance with the guidelines of the National Bank of Cambodia) only to the extent of the



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amount overdue and not the amount outstanding against these loans. Although the organisation does not have many clients with overdues and the total amount of portfolio-at-risk is also not high at present, the incorrect provisioning results in incorrect reporting of PAR and hence, does not reflect the true financial health of the organisation.

CHC Ltd uses a locally-developed MIS software. While the software generates all necessary MIS reports, it has not been fully customised for the needs of the organisation. As per discussions with the MIS staff, several reports generated by the software are incorrect. The software generates a report on non-performing loans, with the amount of provisioning required against the loans, but the report is also incorrect. However, the software does correctly generate a list of clients with overdues, along with the amount overdue and the ageing.

CHC Ltd has been facing problems in getting the software updated and corrected. It is planning to purchase another MIS software, which is also made by a local vendor.

➤ Tracking system for overdues

CHC Ltd has reasonable systems for tracking overdues, but cases of overdues are not followed up strictly. The MIS reports on the clients with overdues, together with the amount overdue under different age categories (thus, a client who has overdues equal to three months' instalment would appear in both the 31-60 days category and the 61-90 days category). The Credit Assistants and Branch Manager are supposed to follow-up regularly on the cases of overdues. However, follow-up was found to be generally infrequent and lenient, mainly due to poor credit culture among staff. This needs to be addressed, so as to enable the organisation to maintain good portfolio quality as the scale of operations expands.

CHC Ltd also avails the services of a Lawyer, to assist in the recovery of overdue loans. Since the organisation takes collateral, taking the legal route for recovery of dues from clients who have defaulted has been effective. The rating team noted that in one case, CHC Ltd was able to take over the house owned by a client who had defaulted. In two other cases, the organisation was able to recover the dues after two-three hearings in Court.

➤ Financial planning and control systems

Financial planning is presently a top-down system. The CEO prepares an overall plan for five years, in consultation with the Board. Based on this, the Branch Manager is asked to prepare annual plans. Based on the annual plan, the CEO assigns targets to each branch on a quarterly basis. Variance analysis is carried out at the end of each month.

CHC Ltd presently has only a one-member Internal Audit team. The Internal Auditor of the organisation has previously worked as an auditor with Price Waterhouse Coopers (PWC), Cambodia. The Internal Audit system at present is at its nascent stage and is rudimentary. The audit process covers both operations and financial reports, but several important aspects of operations are left out since no proper system for Internal Audit has been developed.

With the organisation presently being at a developing phase, the systems for monitoring and internal control were generally found to be weak. In one of the branches visited, the rating team found that the original collateral documents of several clients had been handed over by the Branch Manager to the field staff (for updating of loan documents) without a proper



inventory for the same. This creates a possibility of theft of the documents, which increases the risk of loss for CHC Ltd. In the same branch, it was found that collections had been made from clients without a properly signed receipt, which increases the chances of loss due to fraud/misappropriation.

➤ Infrastructure

CHC Ltd has an infrastructure base of about US\$43,000 as on 31 December 2006, which is adequate for the present scale of operations. This includes mainly vehicles, computer hardware and software, apart from furniture and fittings in the Head Office and branch offices.

3.3 Financial performance

The financial performance grade of CHC Ltd is reasonable at **α-**. The grade reflects the organisation's reasonable portfolio quality, good performance on profitability and sustainability and reasonable capital adequacy.

➤ Credit performance and asset quality

With its operations at a relatively small scale at present, CHC Ltd has good credit performance. Its current repayment rate is 97.0% and the PAR₆₀ is 0.7% (as calculated by M-CRIL) as on 31 December 2006. It is also noteworthy that almost the entire portfolio of the organisation (99.3%) is under secured loans.

In terms of diversification of loans, most of the portfolio is in loans for trade (69%), while another 23% is in loans for agriculture. Within the remaining 8%, loans for services and consumption constitute 3% each, while the remaining is in housing and transportation.

➤ Mobilisation of funds

CHC Ltd shows reasonable performance on fund mobilisation. While the Rural Development Bank, Cambodia was the only source of funds for the organisation till end-2005, during 2006, CHC Ltd has been able to borrow a significant amount of funds loan funds from Oikocredit. It has also received loans from Consorzio Etimos, Italy during the year.

With reasonable capital adequacy at present, CHC Ltd is not likely to face difficulty in accessing commercial loan funds. The borrowing capacity of the organisation would also significantly improve once it receives the expected equity funding from CMI International.

➤ Asset, liability and equity composition

CHC Ltd shows good performance on asset utilisation. The loans outstanding constitute 90% of the total assets. Cash is reasonable at 5% and the remaining 5% is composed of fixed assets at 3.6% and other current assets at 1.4%.

On the liability side, long-term debts constitute 67% and the net worth contributes to 27% of the total liabilities. CHC Ltd has reasonably high capital adequacy at 28.8% as on 31



December 2006 and this would also improve substantially once there is infusion of equity from CMI.

➤ Profitability and Sustainability

CHC Ltd records reasonable performance on profitability and sustainability, in spite of its young age at present. The organisation has a positive (but low) RoA of 0.9% (which falls to a negative 0.8% on excluding foreign exchange gain) during 2006. The operational expense ratio (OER) of the organisation is relatively high at 26%, but is lower than the 31.8% of the typical MFI in Cambodia rated by M-CRIL. AMK has a relatively high yield of 34.3% on its loan portfolio, which is however lower than the 38.5% of Cambodian MFIs (simple average of portfolio yield of MFIs rated by M-CRIL).

CHC’s Operational Self-Sufficiency at 103.8% and Financial Self-Sufficiency at 97.1% are good. However, these ratios fall to 98.6% and 92.3% respectively, on excluding the foreign exchange gain.

The OSS and FSS are expected to improve in the future, as the organisation expands and starts achieving economies of scale.

4 Conclusions

Strengths	Weaknesses
<p><u>Organisational</u></p> <ul style="list-style-type: none"> ✓ Established reputation (of CHC NGO) as a voluntary organisation ✓ Committed members on the Board ✓ Support from CARD, Philippines ✓ Expected equity inflow and technical assistance from CMI International ✓ Good credit culture <p><u>Managerial</u></p> <ul style="list-style-type: none"> ✓ Qualified staff <p><u>Financial</u></p> <ul style="list-style-type: none"> ✓ Good portfolio quality ✓ Reasonable capital adequacy ✓ Good performance on profitability and sustainability 	<p><u>Organisational</u></p> <ul style="list-style-type: none"> ✗ Weak second line of leadership ✗ Product design may lead to weakening of credit culture and default <p><u>Managerial</u></p> <ul style="list-style-type: none"> ✗ Weak systems for internal control ✗ Incorrect provisioning <p><u>Financial</u></p>



5 Creditworthiness

CHC Ltd has achieved a rating grade of *beta-plus ($\beta+$)*.³ In terms of creditworthiness this implies **reasonable safety**. CHC Ltd shows reasonable performance on governance and financial indicators. With a committed Board and significant support from expected from well-established MFIs like CARD MRI, Philippines and ASA, Bangladesh; apart from equity funding from CMI International, the organisation could emerge as a promising MFI in Cambodia. Presently, the organisation's weak second line of leadership, coupled with the nascent systems for internal control, are its major weaknesses.

In M-CRIL's view, on account of good overall performance and the potential of the organisation to emerge as a market leader, CHC Ltd can absorb – from all sources – commercial loan funds of US\$1.0 million over the next one year for on-lending to its borrowers.

A rating update after one year is suggested to ascertain changes in the creditworthiness and absorptive potential of the institution. **This rating is valid, subject to no other substantial inflows of loan funds into the organisation beyond the limits specified here** and to no other significant changes in the organisational structure and external operating environment.

³ The Rating Grade given measures performance on the rigorous standards established by M-CRIL. The assessment uses an instrument designed specifically for the conditions and nature of MFIs operating in Asia and is comparable with other ratings done by M-CRIL in this region.



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Financial statements of CHC Ltd's microfinance programme

Balance Sheet – as on

31 Dec 2005				31 Dec 2006	
US\$	Assets	KHR '000	KHR '000	US\$	US\$
	Current assets				
34,195	Cash in hand and bank		240,515		59,284
3,294	Statutory deposits with NBC		13,185		3,250
253	Cash balances with NBC – current account		1,095		270
9,882	Amount due from shareholders				
5,523	Other current assets		51,593		12,717
	Loans outstanding				
514,990	Gross loans outstanding	4,431,917		1,092,412	
(1,520)	(Loan loss reserve)	(44,319)		(10,924)	
513,470	Net loans outstanding		4,387,598		1,081,488
566,617	Total current assets		4,693,986		1,157,009
	Long term assets				
21,819	Net property and equipment	174,755		43,075	
21,819	Total long term assets		174,755		43,075
588,436	Total Assets		4,868,741		1,200,084
	Liabilities and Networth				
	Current liabilities				
4,652	Client savings		26,926		6,637
167	Provision for income tax		7,565		1,865
11,730	Other creditors and accruals		253,085		62,382
	Short term debt				
50,367	Rural Development Bank				
50,367	Total short term debt				
66,916	Total current liabilities		287,576		70,884
	Long term liabilities				
	Long term debt				
202,711	Rural Development Bank	1,419,950		350,000	
	Oikocredit	1,441,083		355,209	
	Consorzio Etimos	405,700		100,000	
202,711	Total long term debt		3,266,733		805,209
202,711	Total long term liabilities		3,266,733		805,209
	Net worth				
65,881	Share capital	267,280		65,881	
245,440	Subordinated debt (CHC NGO)	626,429		154,407	
	Hybrid capital (CHC NGO)	352,427		86,869	
	Grants	33,866		8,348	
	Retained net surplus/(deficit)	30,375		7,487	
7,487	Current net surplus/(deficit)	4,055		999	
318,808	Total net worth		1,314,432		323,991
588,436	Total Liabilities and Net Worth		4,868,741		1,200,084

Exchange rate: US\$ = KHR 4,057

1 Hybrid capital is capital contributed by CHC NGO, which will be converted to equity share capital after the expected equity investment from CMI International is received

⁴ The **Rating Grade** given measures performance on the **rigorous standards** established by M-CRIL. The assessment uses an instrument designed specifically for the conditions and nature of MFIs operating in Asia and is comparable with other ratings done by M-CRIL in this region.



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Income Statement

for the one year period ended

31 Dec 2005		KHR '000	KHR '000	US\$	US\$
	<u>US\$</u> Income				
147,698	Interest on loans	1,116,313		275,157	
23	Interest on deposits	451		111	
6,648	Bad debts recovered	2,368		584	
14,959	Foreign exchange gain	59,655		14,704	
859	Other income	14,272		2,934	
170,187	Total income		1,190,691		293,491
	Financial costs				
14,043	Interest on borrowings	262,327		64,660	
21,501	Foreign exchange loss				
134,643	Gross financial margin		928,364		228,830
1,520	Provision for loan losses	38,152		9,404	
133,123	Net financial margin		890,212		219,426
	Operating expenses				
66,624	Personnel costs	399,734		98,529	
14,550	Travel	104,274		25,702	
9,499	Depreciation	58,423		14,401	
34,103	Administrative/office expenses	284,145		70,038	
124,775	Total operating expenses		846,576		208,670
8,348	Net Surplus/Deficit		43,636		10,756
8,348	Profit before tax (PBT)		43,636		10,756
860	Tax		11,254		2,774
7,487	Profit after tax (PAT)		32,382		7,982
	Dividend		28,327		6,982
	Profit to Balance Sheet		4,055		999

Exchange rate: US\$ 1 = KHR 4,057



Notes to the financial statements

1. Income includes interest income, fees and earnings from other microfinance related services offered by the MFI. All loan portfolio related income is recognised only when it is actually received (**cash basis**).
2. Financial costs (interest on borrowings and savings, if any) and operating costs are calculated on an **accrual basis**. Loan loss provisioning expense and the corresponding balance sheet entry (loan loss reserve) has been computed based on the quality of the portfolio.

Glossary

1. Current repayment rate
Ratio of principal recovered (net of pre-payments) to the principal due during the current year.
2. Portfolio at risk (PAR₆₀)
Ratio of the principal balance outstanding on all loans with overdues greater than or equal to 60 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. Average loan portfolio
This represents the average loan outstanding for the year computed on a monthly basis.
9. Average total assets
This represents the average total assets for the year calculated on an annual basis.
10. Operational Self-Sufficiency
Ratio of total income to total costs for the year.
11. 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.
12. Risk weighted capital adequacy ratio
Ratio of networth to risk weighted assets (Risk weights: 100% for all assets except the following: fixed assets & interest bearing deposits: 50%; cash 0%; cash with central bank: 0%).



Projected Cash Flows and Financial Statements for five years

- The following assumptions and projections - derived from the limited information available from the organisation on its future financial projections – are tentative in nature. These **should not be viewed in isolation nor be regarded as a basis for investing in the future** - only the main risk rating report provides an opinion on investments.
- All assumptions are based on the data gathered during the rating exercise and the savings and credit methodology used by the organisation.

1 Basic Assumptions

(see also Notes to Cash Flow Projections below)

For the year ending:	<i>31-Dec-06</i>	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11
Active clients	4,452	10,000	18,000	24,000	36,000	45,000
No of savers	891	2,000	3,600	4,800	7,200	9,000
Savings per saver/year (KHR)	10,303	10,561	10,825	11,095	11,373	11,657
Yield on average portfolio	34.3%	35.0%	35.0%	35.0%	34.0%	34.0%
Interest paid on savings	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cost of external funds	9.4%	10.6%	11.2%	11.1%	10.9%	11.1%
Repayment rate from groups	98.0%	97.0%	97.0%	97.0%	97.0%	97.0%
Loan loss reserve ratio	1.0%	1.2%	1.2%	1.3%	1.3%	1.3%
Number of active loan accounts	4,452	10,000	18,000	24,000	36,000	45,000
Number of loans disbursed		10,200	18,360	24,480	36,720	45,900
Average loan size to borrowers (US\$)	<i>355</i>	414	497	597	716	859



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2 Projected balance sheets

US\$ '000

As on:	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11
Assets						
Cash balance	60	79	233	394	663	692
Cash with central bank	4	6	13	21	37	56
Gross loan outstanding	1,108	1,852	3,983	6,404	11,504	17,313
Loan loss reserve	-11	-22	-48	-83	-150	-225
Net loans outstanding	1,097	1,829	3,935	6,320	11,354	17,087
Other current assets	13	22	46	75	134	202
Net fixed assets	44	74	159	256	460	693
Total Assets	1,217	2,010	4,387	7,066	12,648	18,729
Liabilities and Net Worth						
Outstanding borrowings	817	1,178	2,925	4,669	9,085	13,295
Savings	7	9	13	18	26	37
Taxes payable	0	22	63	127	211	361
Other liabilities	65	83	159	256	460	693
Provision for forex losses	0	4	11	24	46	82
Paid-up-equity	312	609	859	1,109	1,109	1,109
Donated equity	8	8	8	8	8	8
Retained surplus/deficit	8	9	97	349	856	1,701
Current surplus/deficit	1	88	252	506	846	1,444
Net worth	329	714	1,216	1,973	2,818	4,262
Total Liabilities and Net Worth	1,217	2,010	4,387	7,066	12,648	18,729



3 Projected Income Statements

US\$ '000

For the year ending:	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11
<u>Income</u>						
Interest	279	518	1,021	1,818	3,044	4,899
Other income	4	7	16	26	46	69
Foreign exchange gain	15	0	0	0	0	0
Total Income	298	525	1,037	1,843	3,090	4,968
<u>Cost</u>						
Financial	66	113	299	581	1,088	1,817
Loan loss provision	10	11	26	35	66	76
Depreciation	15	15	28	47	87	50
Provision for forex losses	0	4	7	13	22	36
Operating costs (excl.depr.)	197	273	362	534	769	1,185
Total Cost	287	415	722	1,210	2,033	3,163
Surplus/Deficit	11	110	315	633	1,057	1,805
Tax	3	22	63	127	211	361
Profit to balance sheet	8	88	252	506	846	1,444



CHC Ltd – Risk Assessment

4 Projected Cash Flow Statements

US\$ '000

For the year ending:	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11
Inflows					
Opening cash	60	79	233	394	663
External borrowings	950	3,750	6,125	11,250	14,500
Repayments from members	3,484	7,000	12,190	21,198	33,639
Equity investments	297	250	250	0	0
Savings deposits	5	10	13	20	26
Increase in other liabilities	18	76	97	204	232
Interest income	518	1,021	1,818	3,044	4,899
Other income	7	16	26	46	69
Total Inflow	5,340	12,202	20,751	36,157	54,028
Outflows					
Loan disbursement	4,227	9,131	14,610	26,298	39,448
Repayments to lenders	588	2,004	4,381	6,833	10,291
Withdrawal of savings	3	6	8	12	16
Operating expenses (excl. depr.)	273	362	534	769	1,185
Interest paid on borrowings	113	299	581	1,088	1,817
Increase in cash with central bank	2	7	8	16	19
Increase in other current assets	9	25	28	59	68
Taxes	0	22	63	127	211
Fixed assets purchase	45	114	144	291	282
Total Outflow	5,260	11,969	20,357	35,495	53,336
Net cash balance	79	233	394	663	692

5 Key projected performance ratios

For the year ending:	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11
Operational self-sufficiency	104%	127.8%	145.1%	154.0%	153.7%	158.9%
Return on average assets	0.9%	5.5%	7.9%	8.8%	8.6%	9.2%
Operating expense ratio	26.0%	19.4%	13.4%	11.2%	9.6%	8.6%
Average outstanding/borrower (US\$)	249	185	221	267	320	249
Portfolio growth rate	112.1%	67.1%	115.1%	60.8%	79.6%	50.5%
Risk weighted capital adequacy ratio	28.8%	37.4%	29.6%	29.9%	23.7%	23.9%



6 Notes to the projections

1. The operating expense ratio is based on current levels and is projected based on changes in overall productivity and growth in staff, branches and portfolio.
2. Estimated external borrowings are subject strictly to performance based on the findings of this microfinance capacity assessment (credit rating).
3. Average loan size to members increases steadily over the projected years.
4. Interest income is taken as [yield on portfolio*average portfolio for the year]. The yield is projected to increase first and then reduce over the years, assuming that the organisation would have to reduce its interest rates on account of competition.
5. Other income is the income that the organisation earns as bad debts recovered and bank interest.
6. Disbursements are taken as the [number of loans disbursed during the year*average loan size to borrowers].
7. Estimates on growth in outreach and demand for loans from the organisation have been made based on current growth levels and future expansion potential and capacity.
8. Repayments to lenders is 33.33% per annum on outstanding borrowings.
9. Interest paid is taken as the [average cost of external funds * the average external borrowing liability figure].
10. In the projections the net worth figure includes equity, retained surpluses and current surplus.
11. A provision of 0.25% of the outstanding portfolio has been created every year, to provide for foreign exchange losses.
12. It has been assumed that the organisation would have to maintain cash with the central bank at 0.3% of the outstanding loan portfolio.
13. Taxes are assumed to be 20% of the annual taxable income
14. The currency exchange rate used throughout the projected financial statements is US\$ 1 = KHR 4,000.



7 List of abbreviations

APR	Annual Percentage Rate
BM	Branch Manager
CHC	Cambodian Health Committee
CEO	Chief Executive Officer
CO	Credit Officer
DCB	Demand Collection Balance
FSS	Financial Self-Sufficiency
HO	Head Office
HR	Human Resource
KHR	Khmer Riel
LIBOR	London Interbank Offered Rate
LT debts	Long Term Debts
M-CRIL	Micro-Credit Ratings International Ltd
MFI	Micro Finance Institution
MIS	Management Information System
NBC	National Bank of Cambodia
NGO	Non Government Organisation
OER	Operating Expenses Ratio
OSS	Operational Self-Sufficiency
PAR ₆₀	Portfolio at Risk (greater than 60 days)
PAT	Profit after tax
PBT	Profit before tax
ROA	Return on Assets
VB	Village Bank



M-CRIL’s Microfinance Rating Symbols

M-CRIL Grade	Description
α++ alpha double plus	Highest safety, very good systems ➤ most highly recommended
α+ alpha single plus	Very high safety, good systems ➤ highly recommended
α alpha	High safety, good systems ➤ highly recommended
α– alpha minus	Reasonable safety, good systems ➤ recommended
β+ beta plus	Reasonable safety, reasonable systems ➤ recommended, needs monitoring
β beta	Moderate safety, moderate systems ➤ acceptable, needs improvement to handle large volumes
β– beta minus	Significant risk, poor to moderate systems ➤ acceptable only after improvement
γ+ gamma plus	Substantial risk, poor systems ➤ needs considerable improvement
γ gamma	Highest risk, poor systems ➤ not worth considering