



Intean Poalroath Rongroeurng Ltd.	Cambodia																										
Limited Liability Company with MFI license	December 2009																										
PERFORMANCE RATING	SYNOPSIS																										
<table border="1"> <tr> <td>SOCIAL RATING</td> <td>β</td> </tr> <tr> <td>CREDIT RATING by M-CRIL, India, September 2008</td> <td>β+</td> </tr> </table> <p>Mission Statement: “to provide convenient financial services adapted to farmer-specific needs in order to improve their living conditions while sustaining the institution’s profitable growth.”</p> <p>Vision is “to be the leading Cambodian MFI serving the agricultural sector.”</p> <table border="1"> <thead> <tr> <th>Social Rating dimensions</th> <th>Rating</th> </tr> </thead> <tbody> <tr> <td>Process/organisational systems</td> <td></td> </tr> <tr> <td>Mission and Systems</td> <td>β</td> </tr> <tr> <td>Responsibility to clients</td> <td>β</td> </tr> <tr> <td>Other Social Responsibility</td> <td>β</td> </tr> <tr> <td>Results/outputs – client level information</td> <td></td> </tr> <tr> <td>Depth of outreach</td> <td>β+</td> </tr> <tr> <td>Appropriate services</td> <td>β</td> </tr> </tbody> </table> <table border="1"> <tr> <td>Model:</td> <td>Individual-based</td> </tr> <tr> <td>Services: Financial</td> <td> <ul style="list-style-type: none"> Loan products – working capital loan and investment loan for individuals, no investment loan given till now Savings products – none Insurance products – none </td> </tr> <tr> <td>Non-financial</td> <td> <ul style="list-style-type: none"> None (Agricultural training in collaboration with other agriculture-focussed organisations is planned) </td> </tr> </table> <p>US\$ = Kh. Riel 4017 (June2009) Organisational data as of end June 2009</p>	SOCIAL RATING	β	CREDIT RATING by M-CRIL, India, September 2008	β+	Social Rating dimensions	Rating	Process/organisational systems		Mission and Systems	β	Responsibility to clients	β	Other Social Responsibility	β	Results/outputs – client level information		Depth of outreach	β+	Appropriate services	β	Model:	Individual-based	Services: Financial	<ul style="list-style-type: none"> Loan products – working capital loan and investment loan for individuals, no investment loan given till now Savings products – none Insurance products – none 	Non-financial	<ul style="list-style-type: none"> None (Agricultural training in collaboration with other agriculture-focussed organisations is planned) 	<p>Intean Poalroath Rongroeurng Ltd. (IPR) was started as a credit unit of the Federation of Cambodian Rice Millers Association (FCRMA) in 2002 to assist rice miller members and farmers in accessing credit. In 2005 it registered with the National Bank of Cambodia (NBC) as a rural credit operator and later transformed into a private limited company in the same year. In July 2008 it received its permanent microfinance license from NBC. Since inception it has expanded its operations in six provinces of the country through six branches serving the rural areas exclusively. Collaboration with Baitang Kampuchea Plc, an agricultural processing and trading private company co-established by IPR’s Chairman, would enable IPR to expand its operations into other unreached provinces. The Bank focuses its services on farmers and business person.</p> <p>Strengths</p> <ul style="list-style-type: none"> ⇒ Purely rural operations due to primary focus on farmers as target clients ⇒ Good performance on aspects of client protection ⇒ Appropriate product design suiting client needs <p>Issues</p> <ul style="list-style-type: none"> ⊖ Inadequate focus on social performance resulting in absence of social indicators in the systems, processes and reporting formats ⊖ There is scope for a clearer definition of ‘small farmers’ and application to target markets, with tracking of client profile at entry; <u>work in progress</u> to develop appropriate poverty indicators with market segmentation for social reporting ⊖ No information on client dropouts or exit ⊖ Lack of diversified products – financial as well as non-financial <p>Despite low staff productivity IPR has been able to maintain low operational costs at 14.0% mainly due to high loan size. Low operating expense ratio (OER) coupled with low financial cost ratio (FCR) and good portfolio quality has resulted in reasonable RoA (return on assets) at nearly 10% in December 2008. However in the current year poor harvest in the dry season cropping has had a substantial negative impact on its portfolio quality.</p> <p>IPR has performed moderately on social parameters despite lack of social focus by the Board and the management. Its focus on farmers in the rural areas, offering products specifically designed for them and good performance on aspects of client protection are some positive indicators of social performance. At the same time there is scope for including gender and poverty specific targeting, assessing client satisfaction and tracking dropouts among other efforts.</p>
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Micro-Credit Ratings International Limited, Gurgaon, India M-CRIL Grading symbols described on last page																											

Rating Rationale

Governance: IPR recently restructured the Board by inducting professionals. Core concern is to achieve growth, increase outreach and maintain operational sustainability. Lack of commitment towards tracking performance on social mission can be observed in the Board.

Mission and strategy: IPR has been able to achieve its mission partially by offering a single loan product adapted to farmers' needs; it has however failed to provide a "range of convenient financial services". Other products (lending in seeds, fertilizers, paddy collateral) were discontinued on account of its own limitations in offering them. It has recently partnered with 'Baitang Kampuchea Plc' for providing credit to members of Baitang. IPR also plans to collaborate with other agriculture-focussed organisations to provide technical expertise to its clients to adopt better farming practices.

Targeting: Substantial efforts have been made to extend credit to the farmer segment in the villages, primarily those which are not covered by other MFIs. IPR does not use any screening tool based on income or on landholding size. However staff are encouraged (rather than incentivised) to lend to the small farmers, for which there is no specific categorisation in terms of landholding. Average loan outstanding size vis-à-vis other MFIs in the country and region indicate that IPR's lending is to not-so-poor farmers.

Products: Well aligned with the mission of the company to adapt to farmer specific needs; however tends to expose portfolio to high risk of default on account of covariant risk, as experienced during 2009. Lack of other financial and non-financial products may provide competitive advantage to other players and also indicate mismatch between the mission to provide a 'range' of financial services, and operations in practice.

Information systems: The MIS at IPR is totally focused towards financial and operational reporting. No information pertaining to social indicators is collected from the clients. There is scope to build in more social analysis including disaggregation of data based on gender, maintaining cycle wise client data, tracking of dropouts and exit monitoring.

Client protection: No formalised Code of consumer protection; however some of the policies and systems emphasise on client risk assessment, maintaining transparency and privacy of client information and behaving ethically and in a friendly manner with the clients, all of which are well imbibed by staff.

Human Resource: IPR performs moderately on aligning its human resource systems including recruitment, training and appraisal with its mission.

Non-financial services and linkages: IPR plans to collaborate with other agricultural organisations to provide training to its clients on better farming practices for higher yield.

SOCIAL PROFILE as on June 2009	
Systems and MIS	
Mission orientation: Working capital loans to primarily farmers in the rural areas, no focus on women or the small or very poor farmers, no additional financial or non-financial services	
Clients (active borrowers)	3,865
Rural (based on branch location)	~100%
Women - clients (Oct'09)	69%
Women - staff	18%
Client protection: No Code of ethics policy formalised; however some of the client protection principles are inherent part of processes and culture	
Average outstanding loan size	\$942
Average disbursed loan size	\$885
Loans <\$300	20%
EIR - for working capital loan (8 months tenure)	24.0%-45.1%
Average loan outstanding as % of per capita GNI	149%
Drop-out rate (borrowers)	NA
Client information Indicative sample data	
[country comparative data 2006/07]	
Depth of outreach^a	
Below national poverty line	NA [35%]
Below \$1.25/day at PPP	NA [40%]
Client services (based on M-CRIL observation)	
• Awareness of product conditions	Good
• Processes and service support	Moderate

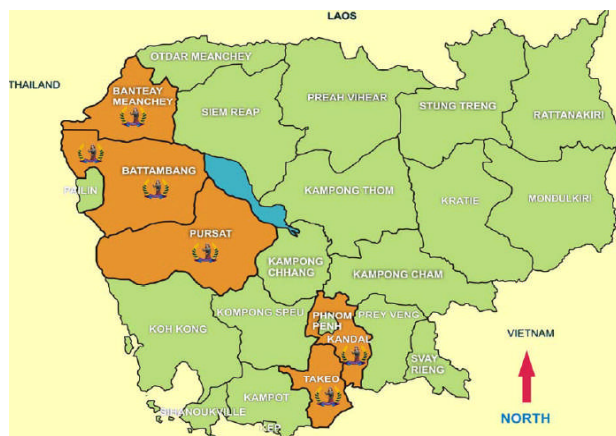
^a UN Human Development Report, 2009 (UN HDR)

Financial performance	Dec-08
Operational Self Sufficiency	172.2%
Borrowers/field staff	144
Operating Expense Ratio	14.8%
Portfolio at Risk (30 days)*	0.4%
Annualized Percentage Rate	36.0%-38.3%
Portfolio yield	44.9%
Financial expense ratio	7.8%
Return on Assets	9.7%

* Portfolio at Risk₃₀ as on 30 June'09 is 8.1%

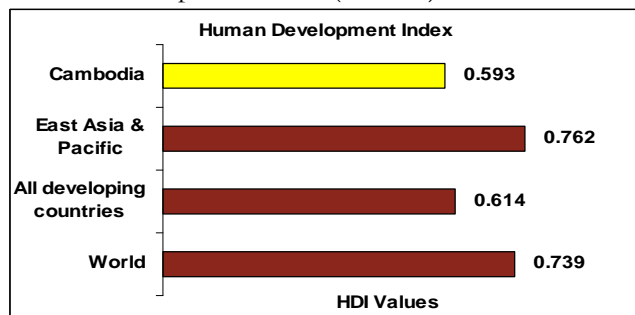
CONTEXT

Cambodia – development indicators



IPR is headquartered in the capital city of Phnom Penh, with operations only in the rural areas of the country.

Cambodia has a population of roughly 15 million, 80% rural. Out of 182 countries in the world, Cambodia ranks 137 on the Human Development Index (which reflects life expectancy, literacy/education and per capita GDP) as per Human Development Report (HDR) 2009. Its Gender Development Index (at 0.588) is 99.2% of HDI.



UN Human Development Report, 2009 (UN HDR)

Agriculture employs over 70% of the workforce with rice as the primary crop. Despite the primacy of agriculture in Cambodian life, it accounts for just 31% of GDP. Urban centres are the main drivers of economic growth. Economic linkages between urban centres and rural areas are limited, but growing in the form of remittances going back to the rural areas.

With an annual per capita gross national income of \$600 in 2008, Cambodia is one of the poorest nations in Southeast Asia. Based on research undertaken by the World Bank in 2004, 35% of the population is below the national poverty line (derived from the minimal nutritional requirement). Poverty incidence has decreased from 47% in 1994, though the reduction has been more pronounced in urban areas. Thus the rate of poverty is 39% in rural areas, compared to 5% in Phnom Penh and 25% in other urban areas. It is estimated that 91% of the poor live in rural areas.

Intean Poalroath Rongroeurng Ltd, 2009

40% of population in Cambodia lives below \$1.25/day, while those living under \$2/day constitute a significant 68% of the population as per World Bank.

Millennium Development Goals: indicators		
Poverty (2006, 2007)	Population < Cambodia poverty line	35%
	Population < \$1.25/day at PPP	40%
	Population < \$2/day at PPP	68%
Education	Adult literacy (15 years +)	76%
	Combined gross enrolment ratio	59%
Gender Equality	Female ratio to male – gross enrolment	0.88
	Women as a % technical and professional workers	41%
	Women in Govt- Ministerial ^a	7%
Health	Life expectancy (years)	55

UN Human Development Report 2009 (data --2007)

^a: Data for 2008

HIV/AIDS is a growing concern – 1.6% of the adult population (aged 15-49) were estimated to have HIV/AIDS in 2005 (UN HDR).

Cambodia – microfinance

Cambodia's financial sector is still at a rudimentary 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. The main nine players in the microfinance market in Cambodia serve over 95% of the formal sector market.

There are currently 18 MFIs and one commercial bank reporting as members of the Cambodia Microfinance Association. As of end June 2009 the 18 MFIs were serving 824,986 borrowers with total portfolio outstanding of nearly US\$262 million. IPR ranks eleventh in terms of market share in the country amongst 18 MFIs as on 30 June 2009. The average loan outstanding of the 18 reporting MFIs is \$430 – 72% of per capita GNI, compared to 149% for IPR.

Top Cambodian MFIs (Data as of June 2009)

MFI	Clients	Portfolio US\$ mill.	Av loan outstanding \$	As % p.c. GNI ^a
ACLEDA (small loans)	210,892	163.7	776	138%
AMRET	227,405	54.6	240	40%
PRASAC	81,202	50.4	621	108%
SATHAPANA	36,106	34.5	956	169%
HKL	44,037	26.9	610	109%
AMK	194,039	22.3	115	21%

Cambodia Microfinance Association

^a Per capita GNI, Atlas Method (current US\$): US\$600 in 2008 (World Bank)

INTENT & DESIGN

MISSION

Clarity and communication

IPR was founded in 2005 “to be a leading Micro Finance Institution in Cambodia providing clients with a comprehensive supply of financial services”. The vision was revised in November 2009 by the management in discussion with the Board “to be the leading Cambodian MFI serving the agricultural sector”, hence making it more target specific and in tandem with the basic objective of its establishment.

The revised mission is “to provide convenient financial services adapted to farmer-specific needs in order to improve their living conditions while sustaining the institution’s profitable growth”. The old mission of the organisation was more detailed, though the meaning and intent remain the same.

Some of the staff did not seem to be acquainted with the new vision and mission at the time of the rating visit. However, since there is not much difference between the old and the revised vision and mission, discussions with field staff and branch management indicate clarity in their understanding of the intent behind the vision and mission.

In terms of target clients, IPR has narrowed its client profile down to farmers and those involved in the agricultural sector, in view of its background. However it has no policy with respect to minimum or maximum limit for size of landholding to define its target farmer clients. It does not state or indicate any priority for rice growing farmers and also lends to farmers cultivating cash crops. Animal rearing is also included in the agricultural sector purview. IPR also lends for production of seasonal crops unlike commercial banks. Even though IPR collects information pertaining to annual income and expenditure, it does not identify or screen its clients on the basis of income.

IPR’s social goal is to “improve the living condition” of its clients. However, no SMART objectives have been defined, neither is there a clear indication of how IPR would measure improvements in living conditions. Since target clients are farmers IPR’s operations are purely rural. Majority of its clients though unintended are women. IPR does not have any poverty based targeting, neither does it measure its outreach to poor/ women/ vulnerable groups. As mentioned above it does not target even its main clients; farmers on the basis of income or landholding.

Governance

IPR is registered as a private limited company with a permanent microfinance license granted by the National

Bank of Cambodia in July 2008. The company was started as a credit unit of the Federation of Cambodian Rice Millers Association (FCRMA) in 2002 to assist rice miller members and farmers gaining access to credit.

The bank has a six-member Board, including the General Manager (GM), Mr. Hort Bun Song who has worked in the Ministry of Commerce and subsequently in FCRMA. Mr. Bun Song was instrumental in developing the credit unit of FCRMA. The Chairman is the major shareholder (65%) and a rice miller by profession. In order to strengthen its Board, the management replaced previous Board members (who had an agricultural background) with persons having financial expertise. Mr. Chan Sophal, President of Cambodian Economic Association and Mr. Mao Savin, consultant at Emerging Market Consultant (EMC) were inducted in the Board in November 2009 in addition to Mr. Narath Veasna, COO of First Cambodia Ltd. The Vice Chairperson is a woman, co-founder and shareholder (35%) of IPR.

The tenure of the Board is three years and Board members are required to meet 5-6 times in a year. The Board reviews financial performance, growth targets, decides on addition of new members in Board and injection of capital. Reports on operational and financial performance are presented; however no reports pertaining to social performance are presented, indicating that issues related to social performance do not feature in the meetings.

ALIGNMENT OF SYSTEMS

Model for service delivery

IPR has an individual lending model, targeting those involved in agricultural farming and small business in rural areas. Credit is provided only to those farmers who possess land title (agricultural land or house) which can be accepted as collateral.

In order to align its operation with the mission of the company, areas with potential in agriculture are chosen to create awareness about IPR and its products. The area is carefully chosen usually based on secondary data and sometimes a survey is informally conducted by the IPR staff. Subsequent to identification of the area, the field staff creates awareness about IPR and promotes its products in the village. Promotion is preferred through village chief as they play a crucial role from identification of creditworthy clients to ensuring repayment of loan amount. Terms and conditions of the loan product are clearly explained to the potential clients. At the time of loan application as well as during appraisal, product and policies are again explained in order to ensure clear communication and to comply with transparency, one of the six principles of client protection. Client evaluation is done by COs based on 5 Cs (character, capital, capability, confidence, collateral).

The field staff are known as Credit Officers or COs. The COs report to the Branch Manager (BM). Additionally the branches have a Branch Assistant (BA). The COs are required to visit the field everyday for promotion, disbursement and collection of repayments. The BM is primarily responsible for monitoring branch operations, managing cash flow and reviewing staff performance. BM visits the field for loan appraisal, disbursement and spot checks. The BA assists the BM in monitoring and control in addition to maintaining records and preparation of reports after verifying disbursement and reimbursement vouchers. Loans of less than \$5,000 can be approved by the BM and beyond that the Credit Committee consisting of a member of the Board, GM and Operations Manager has loan sanctioning authority. Repayment capacity of clients is assessed based on estimated cash flows, with the twin objective of preventing over burdening of clients and thereby reducing default risk.

Loans are disbursed in cash in three currencies namely: Khmer Riel, Thai Baht and US Dollar. Disbursements are made in the village (usually at village chief's house) if it is to be done for a group of people otherwise the loan is disbursed in the branch office. Similarly reimbursement or repayment is done at the branch if there are very few clients and the CO is not scheduled to visit the village on the given due date. Usually COs visit a village twice a week. An individual receipt is issued to the clients for any reimbursement made.

Market strategy

Areas: IPR commenced its operations through four branches in the densely populated as well as rice growing provinces of Kandal, Kampong Chhang and Takeo in Cambodia. In five years of operations it has added just two branches in the provinces adjoining Thailand, catering to Pursat, Battambang and Banteay Meanchey which have close trade links with the bordering areas of Thailand. The two north-western provinces are not as densely populated as the other operational areas of IPR and also have large landholding size with high agricultural potential.

In one of these provinces IPR has partnered with 'Baitang Kampuchea Plc', an agricultural processing and trading private company co-established by IPR's Chairman for providing credit to members of Baitang. Baitang also buys produce of its members in addition to providing technical guidance. Thus association with Baitang would also reduce risk of default by its clients. IPR plans to expand its operations to other provinces in collaboration with Baitang.

IPR wants to extend its outreach to additional three-four provinces where the existing MFIs lend only for the purpose of business and trade. In line with its mission IPR wants to provide credit access to the farmers in those regions.

Clients: IPR has segregated its target clients into (i) farmers and (ii) enterprise, business persons and crafts persons. IPR does not use either national poverty yardstick or any internal screening tool for poverty targeting. Instead of classifying into poor or remote rural clients, IPR classifies its clients as rice farmers, maize farmers and soyabean producers etc. However there is no deliberate targeting approach based on income level, asset holding, or landholding size. Nevertheless the company encourages its staff to focus on small farmers as opposed to large farmers. The clients are also selected by the village and commune chiefs for which they are paid a commission by the company subject to full repayment from clients.

Eligibility follows standard banking criteria, including: minimum age of 18, possession of a valid government ID card, own house, having collateral in farmhouse/field land or guarantor and experience in farming or business.

Products: IPR does not have an array of products to offer to its clients. The only product it offers is the Working Loan product in cash for individual clients. IPR does not offer deposit and insurance products.

Credit: IPR's only loan product is the individual cash loans which are classified as follows:

- (i) Working Loan
- (ii) Investment Loan

So far IPR has not disbursed any investment loan and does not plan to do so in near future. Investment loans are of bigger size-more than \$5,000 with tenure of 12-36 months.

IPR loan products – description

Product Name	
Methodology	Individual
Clientele	Rural
Purpose	Agriculture inputs, livestock, stock for trading
Authorized loan size ()	Min-\$25, Max-10% of registered capital
Authorized loan term	Min-1month, Max-36months
Guarantor	None
Collateral requirement	Agricultural or residence land title
Repayment Schedule	Bullet repayment of principal at the end of the term. Three interest repayment options (i) monthly (ii) 50% advance and 50% mid-term (iii) 50% advance and 50% end of the term
Nominal annualized interest rate	36%
Interest Type	Declining
Upfront fee ()	None
Other costs	None

The loan product is designed as per customer needs. Since agriculture does not have regular cash flow, the bullet repayment of principal suits farmers, IPR's main client base. Clients are allowed to choose the tenure suitable to their farming requirements. Additionally the loan is disbursed in three currencies according to client's requirement. Loans in Battambang and Banteay Meanchey province are mostly disbursed in Thai Baht. Higher interest rate is charged for disbursements made in Khmer Riels, because of the high fluctuations in the value of this currency. However the guidelines for charging interest rate are not strictly followed and flexibility in determining interest rate was observed by the rating team.

IPR loan products – distribution As on Oct'09

	Khmer Riel	US Dollar	Thai Baht	Total
No. of loans	1,489	2,143	565	4,197
% of loans	35.5	51.1	13.5	100
Portfolio o/s (in million Riels)	3,958	9,341	2,890	16,190
% of portfolio	24.5	57.7	17.9	100
Av loan o/s (\$)	638	1,047	1,228	926

Prepayment of principal amount is allowed without penalty. In case of overdue, a grace period of five days is given to the client. Penalty is imposed for more than 5 days of overdue; however not in the cases of genuine default. The MIS calculates the penalty on a daily basis for the number of overdue days as per the formulae given below.

Penalty = A*n*N

A = Amount of overdue

n = (2*3%)/30

N = Number of overdue days

In case of genuine default, loans are rescheduled on request of BM and after approval by the Board.

Loan processing time is roughly a week for first cycle loans; repeat cycle loans are disbursed in 3-4 days of loan application. Subsequent to full recovery of principal and interest from the client, 2% of the interest collected is paid to the village chief and 1% to the commune chief for their services. This ensures correct identification of clients and co-operation in recovery, particularly overdue collection.

Savings: IPR can mobilise savings from its members but does not have proper systems in place to do so. Consequently, it does not offer savings products at present. As per NBC norms, IPR would also be allowed to mobilise savings from the public once it fulfils the minimum equity requirement of US\$2.5 million.

Insurance: There is no insurance provider in Cambodia. Hence due to lack of re-insurance facility and its own inexperience, IPR does not have any in-house insurance product.

Remittances: IPR does not provide remittance facility to its clients. The management does not plan to launch this service.

Approach to product development

IPR does not have a structured process for product development. Over the years its product offering has changed more on account of its own limitations than in response to changing market conditions or client's needs. In its initial years IPR also lent in seeds and fertilizers; however due to high transportation cost and other factors it discontinued the in-kind loan products. IPR also discontinued with policy of accepting paddy as collateral due to inadequate warehousing facility. These efforts were made to meet borrowers' needs, but have failed. It has not yet disbursed any investment loan due to fund shortage. It is also planning to provide agricultural trainings to its clients in collaboration with other agricultural organisations but has not conducted any study/survey to substantiate the need for such a service. However the interest rate on existing cash loan product varies in different regions based on competition. Disbursement of loan in three different currencies is also based on clients' needs.

Human Resources

IPR performs moderately on aligning its human resource systems including recruitment, training and appraisal with its mission.

The recruitment process begins with advertisement through internet, newspapers and universities. This is followed by different written tests for various profiles to select suitable candidates, followed by a personal interview. Since the vision and mission of the organization is closely linked with the agriculture sector, candidates for field level positions are judged on their awareness with respect to agriculture and geography of the country. IPR is open to hiring people from other MFIs; however no preference is given to them.

Formal orientation of the staff is done by way of 7 days classroom training and on-job training which focuses on operating policies and procedures. Probation period extends for three months. Efforts are made during the induction process to orient staff towards the mission of the organization. The revised vision and mission is yet to be communicated to the staff.

IPR does not have a separate training team and internal trainings are provided by staff from requisite departments, depending on identified training needs. In the past two years no one has attended any external training/workshop except the Operations Manager.

25% of salary is given as bonus in the months of April and September to every staff, irrespective of performance. Though staff are given targets, no

performance based incentive is given. Social security fund maintained with the government covers risk of accident during working hours. IPR offers maternity payment benefit and insures its staff against risk of disability and death at work. Performance appraisal is annually done for permanent staff as well as for staff under probation. Factors including moral conduct, communication with colleagues and clients, vision and initiative for development of the company are assessed as part of the appraisal process.

Information and reporting

IPR is currently using MFISYS software, which has been developed by a local programmer and is still being tested. Information is also maintained in MS Excel at the branches and at HO. The MIS at IPR is completely focused on operational and financial reporting. No information pertaining to social indicators is collected from the clients. However in the proposed format for loan survey form, information on number of family members and number of children below and above 18 years will be collected. Reporting on social indicators is absent in both internal and external reports. This can be attributed to lack of any clearly defined social goal of the company.

Monthly reports have an analysis of outreach based on gender (commenced since August 2009), rural/urban location, loan size and currency. However these are not used by the management for any specific purpose. No information is compiled separately for remote/backward areas or for repayment problem areas. Loan utilisation checks are occasionally performed on a sample basis without any documentation. Dropout is not defined; hence monitoring of dropouts is not undertaken. Tracking of loans cycle wise was started in September 2006 wherein all borrowers were assumed to be the 1st cycle clients. Thus the existing cycle wise client information may not be completely accurate.

Despite having a mission to improve living conditions of its clients, IPR does not capture any information which could be used as baseline data for an impact study in the future. Though the management is keen to know if its credit programme has contributed towards improvement in the living conditions of its clients, it has not conducted any in-house impact study as it feels IPR is still too young to conduct such a study. It however needs to define the relevant social indicators and integrate it into the MIS for being able to map quality of life and monitor change later when required. It has therefore formed a working group to develop a format for capturing general information of its clients which would eventually be integrated into the MIS.

For the first time in July 2009 the company engaged Emerging Market Consultant (EMC) to conduct a client satisfaction survey. The sample (30 clients) of this survey was too small to arrive at definite conclusions. The

management plans to soon add a marketing unit who would be responsible for conducting research for better product development.

SOCIAL RESPONSIBILITY

IPR's responsibility towards its clients, society and country is apparent from its focus, outlined in its credit policy. The target market segments involve agriculture and small and medium enterprises in order to enable the development of these sectors, for the purpose of meeting the nation's primary needs and moving to exports. This would contribute to the poverty reduction in the country's rural areas, facilitate socio-economic development, and at the same time sustain the institution itself.

CLIENT PROTECTION

IPR is not a signatory to any charter on client protection. However the top management and to some extent, the middle management are aware of client protection principles.

IPR staff are compulsorily required to read all information of the loan contract to the clients and explain terms and conditions prior to loan disbursement. A copy of the contract and repayment schedule is provided to the client. Correct evaluation of the clients by CO is an essential part of the process which is to be monitored by the BM as well as during internal audit. The management proposes to calculate debt service ratio and compare debt vis-à-vis assets to avoid over-indebtedness of the clients. Additionally they share information about their clients with other MFIs to prevent multiple lending without divulging loan details in order to maintain privacy of the client. IPR's commitment towards maintaining privacy of client data was also reflected during field visits, during which management were not comfortable with questions which required clients to share their loan information in front of a group.

Internal audit function at IPR focuses more on adherence to operational policies and documentation requirements than on client selection and loan utilisation checks. However client level risk assessment forms an important part of the internal audit. Due to inadequate staff, branches are usually audited once in a year in spite of very few numbers of branches at present.

Avoiding Over-indebtedness

IPR has always been committed to avoid over-indebtedness amongst its clients indicated by importance accorded to the survey and appraisal process conducted by CO. Capability of the client is assessed by analysing its farming/business activity and existing as well as projected cash flows. Existing loan detail is also captured

in the appraisal form. Additionally cross verification with respect to existing loans and credit history of the client is done from neighbours and village chief. In view of the competitive microfinance market in Cambodia, having meetings amongst MFIs to share client lists is an important step to restrict over-leveraging. The MFIs have informally agreed to not lend to clients of other MFIs. In spite of this, multiple lending was observed in one of the branches visited by the rating team.

Other efforts include not incentivising the field staff to increase outreach, as a result of which they have no reason to increase client numbers indiscriminately. Assessing CO's capacity to correctly appraise the clients forms part of internal audit function. The BMs are also responsible to check (on a sample basis) if the client has provided correct information and if their repayment capability has been reasonably and thoroughly evaluated by the CO.

In order to enhance the rigour of risk assessment, IPR proposes to calculate debt service ratio and compare debt vis-à-vis assets in the new format of survey and appraisal form. These ratios will be calculated in addition to the existing analysis on collateral which is the only security for the company.

Transparent and fair pricing

The credit policy of IPR gives adequate importance to being transparent. Every CO is required to clearly explain the product policies, terms and conditions to the clients at different points of time including promotion and appraisal. This was corroborated by the clients during FGDs. Lastly prior to loan disbursement, the CO is required to read out the loan contract including interest rate, tenure, repayment conditions and other charges. A copy of the contract, repayment schedule, mortgage agreement and disbursement and reimbursement voucher (in case of advance interest option) is provided to the client. High transparency level was evident from the high awareness level of the clients visited.

As regards transparency to third parties, the Board of Directors of IPR has the responsibility of presenting information in fair and transparent manner.

IPR charges an interest rate ranging from 2% to 3.5% declining per month on its loan product. In effect interest charged is on a flat rate since principal repayment is made at the end of the term. The credit policy of IPR clearly states the interest rate but not the actual Effective Interest Rate to clients which ranges from 24.0% to 45.1% depending upon varying interest rate, tenure and repayment options. Though the credit policy outlines basic guidelines to determine interest rate including higher interest rate for loans disbursed in Riel and Baht, to newer clients and for small loan amounts,

non-compliance with these guidelines and flexibility in determining interest rate was observed by the rating team.

IPR shares the interest rate it charges in Loan Breakdown by Currency Report submitted to National Bank of Cambodia. Other MFIs in Cambodia charge in the range of 1.2%-3.5% per month, while commercial and individual moneylenders charge exorbitant rates of 12%-30%.

Cost structure: % of avg gross portfolio	IPR Dec 2008¹	Cambodia MFIs [2008]¹	East Asia & Pacific [2008]¹
[number reporting]		15	[153]
Average loan o/s (\$)	896	531	319
Borrowers/ field staff	144	212	222
Costs			
Operating expenses	14.8%	15.6%	19.8%
Financial expense ^a	7.8%	9.4%	7.3%
Loan loss provision ^a	0.0%	0.2%	1.1%
Total costs	22.6%	25.2%	28.2%
Yield	44.9%	36.2%	33.6%
Surplus	22.3%	11.0%	5.4%
PAR /o/s portfolio (30 days)	0.4%	0.4%	1.7%
Write-off	0.2%	0.1%	0.3%

¹ MIX medians for IPR, 15 MFIs in Cambodia and 153 MFIs in East Asia and Pacific region for 2008

^a Ratios based on average assets are recalculated as ratios of average gross portfolio.

The low operating expense ratio at IPR despite low staff productivity can be attributed to big loan size. Compared to other MFIs in Cambodia, the loan size is almost double, indicating that the clients of IPR may not be very poor. Significant difference can be seen in the surplus reported by IPR vis-à-vis other MFIs in the country and East Asia and Pacific region. This is on account of higher interest rates charged by IPR than the other MFIs and the option of advance interest repayment. IPR could lower its interest rates to become more competitive and reach a wider section of the farmer segment.

Appropriate collection practices

There is no guideline with respect to appropriate collection practices though the credit policy outlines process for collection especially in case of overdue loans. The process indicates non-coercive collection techniques including discussion with the client to find solutions to repay. Grace period of five days is given to the clients beyond which penalty is charged on overdue amount. In case of genuine default or natural disaster the loans can be rescheduled subject to approval from HO. In practice it was observed that IPR has soft collection practices manifested at all layers of organization from top management to the COs. Pressure is not exercised while

collecting reimbursements from the clients. In the last cropping season (February-April' 09) due to poor harvest PAR at IPR significantly increased resulting in roughly 5% of its loan portfolio being rescheduled as on 31 October 2009. However at the branch level it was observed that substantial number of overdue loan were not rescheduled and at the same time efforts to recover the overdues had not yielded significant results.

Ethical staff behaviour

IPR has not framed any code of conduct for staff to appropriately and ethically behave with the clients. However, the staff gradually assimilate these values as a part of the orientation process and under the guidance of their supervisor. The staff are expected to treat the clients with dignity and in a friendly manner and disclose all terms and conditions related to the product in a fair manner. Staff behaviour is verified with the clients by the auditor during internal audit. The HR policy prohibits the staff from accepting gifts, bribes and eatables from customers, and staff could be dismissed in the event of violation. IPR has never witnessed any case of staff fraud or disciplinary issues (for which checks are performed by the internal audit).

Grievance redressal mechanism

IPR does not have a formal grievance redressal mechanism for clients. However during the promotion CO gives his/her contact number and that of the branch (usually maintained only by the village and commune chief). None of the loan documents mentions address and contact details of the branch. Despite inadequate redressal system, clients are aware that village chief is the first contact point followed by CO and so on. The branches do not have suggestion boxes available for client complaints and suggestions.

Privacy of client data

IPR strictly maintains privacy of client data. It shares the list of its clients with other MFIs and commune authority without disclosing the loan amount, interest rate and other features. The staff are supposed to maintain confidentiality about the company in accordance with the HR policy.

Non-financial services and linkages

IPR has a business background and lending is the only activity it has been engaged in since inception. It may be noted that the vision of the company stresses on 'improvement in living conditions'; however not directly through non-microfinance interventions such as health, sanitation, education etc. The management feels that credit assistance would ultimately help its clients to improve their living conditions. In due course of time

IPR intends to achieve scale before offering non-financial services also in sync with its mission.

However in terms of livelihood expansion and diversification, IPR plans to collaborate with other agricultural organisations to provide training to its clients on better farming practices for higher yield. CAVAC and CEDAK are the organisations identified by IPR to offer training services since IPR lacks the requisite technical expertise. Offering of the new service which will also minimise default risk of IPR on account of better yield, is already stated in the business plan for 2010. Association with Baitang Kampuchea Plc would also ensure ready market for the produce of its clients thereby providing forward linkages.

OTHER SOCIAL RESPONSIBILITY

GENDER APPROACH

Context: In Cambodia, women in rural areas are the prime decision makers. They handle cash and are also involved in small business as well as assisting their male counterparts in agricultural work. Usually the land title in Cambodia is in the name of both husband and wife. In urban areas a higher proportion of women are financially independent.

Client level: IPR has always collected information on gender of the client but segregation based on gender is not done for increasing outreach to women clients. It does not consciously target women since both husband and wife jointly hold the property in Cambodia. Whoever signs on the promissory note is ultimately treated as IPR's client in MIS. However in order to attribute prime responsibility for loan repayment, IPR started identifying the actual client in the existing loans wherein the spouse is considered as guarantor. Consequently since August 2009 IPR could track number of women clients in MIS for the purpose of reporting to external agencies. As per Network Information submitted to National Bank of Cambodia of the 4,197 clients as on 31 October 2009, 2,882 were women, forming 68.7% of the total client base.

There is a need for a clear policy on identifying the actual client between husband and wife so that in addition to attributing responsibility of the loan IPR is also able to judge its achievement on gender specific outreach. However since IPR mainly lends for agricultural purposes, it is expected that men would be the prime end user of its loan even though the entire household is involved in agricultural activity and hence loans to women would turn out to be "loan pass" to a male relative, husband or son.

Staff: One of the six Board members is a woman who is also the co-promoter and shareholder in IPR.

Amongst staff, women account for roughly 18% of the total in June 2009 with significant proportion only in the lowest category of staff. Only 1 credit officer is a woman. Women's representation at middle management level is nil.

IPR does not have any policy on a definite proportion of women working at each level. Neither is there a policy on sexual harassment. Nevertheless, the women staff in IPR feel that the company provides a comfortable environment for women to work. They are not discriminated against, in terms of salary, career growth and other benefits.

IPR cites low education level of women in Cambodia for poor representation of women in its total staff. Women are encouraged to join IPR and are preferred while selecting for interview. The management at IPR feels that woman staff have better personality traits than men. However due to inadequate number of qualified women in the country, very few women apply. The company is planning to add position of Account Assistant in all the branches and are targeting women for the new position. Though the job announcement made on employment websites encourages women to apply, it does not indicate any preference for women for the position of Accounts Assistant.

Staff profile

As on 30 June '09

Staff level	Total	Women	% Women
Management	1	0	0
Middle management	10	0	10
Field staff	27	1	4
Administrative staff	17	7	39
Support staff	6	3	50
Total	61	11	18

RESPONSIBILITY TO STAFF

IPR has a separate HR and Administrative department with two staff including the HR manager. It has clearly laid out HR policy and Administration policy documents. IPR hires permanent staff for all functions and departments.

Staff is considered as the most important asset of the company. Salary increments are dependent upon profit potential of the company. Salary revisions are made annually based on performance appraisal. Staff feel that salary levels at IPR is not at par with other MFIs in Cambodia. However they understand that IPR is relatively small to offer same levels of salary as the other MFIs.

Staff are eligible for pension and pity fund (in the event of death of staff during non-working hours). IPR also makes maternity payment and for disability and death during work. Additionally staff are insured for treatment

cost due to accident in work as part of 'social security insurance' scheme of Ministry of Labour.

IPR has listed out guidance on safety in its administration policy focusing particularly on credit officers since they deal with cash at the field. Though no instance of robbery has been observed, staff face security risk in the field in view of lack of cash insurance. Working hours for all staff is defined as in accordance with the labour law. In case of urgent work, staff particularly COs work beyond the official hours. Presently Saturday is a half working day which the management is planning to make a holiday as is the case with other MFIs in Cambodia. Policies on annual leave, maternity leave and special leave for family occasions are properly stated.

There is no policy on staff rotation and staff are transferred as and when required based on organisation's needs. However staff are transferred on their request on account of personal reasons also.

As per IPR's administration policy, branches are required to have weekly, monthly, semi-annual and annual meetings. COs are encouraged to share their problems related to work and other issues, if any.

IPR does not conduct staff exit interviews. The HR policy lays out the process for staff complaint redressal which is essentially discussion and negotiation. No study has been conducted to assess the satisfaction level of the staff. However the management is planning to soon conduct a benefit survey for staff.

Staff drop out has increased from 11.7% in 2008 to 15.8% in September 2009. The seven staff who left in the period January to September in the current year left to start their own business or on account of personal reasons as cited by the management.

RESPONSIBILITY TO COMMUNITY
Values and engagement

IPR was set up with a commercial approach and has therefore not focused on specific social issues. Until now no formalised efforts have been made to interact with the community. The only interaction with community happens through commune and village chief who are the first contact point for promotion in a new area. IPR shares close relationship with the community leaders. Beyond this at this stage IPR does not want to engage in community development programmes but concentrate on achieving sufficient sustainability.

IPR does not have a policy on specifically supporting new enterprises in case of loans given for business purpose or women oriented enterprise. It however

prohibits lending to people having background of criminal activity.

IPR does not have any policy of hiring local people as staff, since there are no vast differences between language and cultural aspects between provinces.

RESPONSIBILITY TO ENVIRONMENT

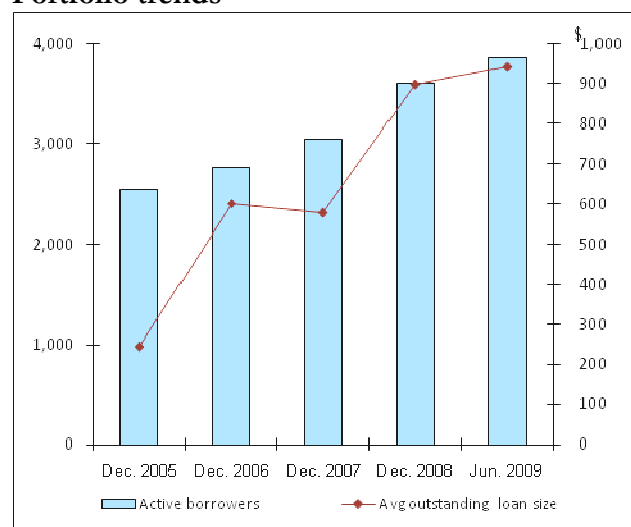
IPR's responsibility towards environment is limited to designing its lending policy to focus on agriculture which is a sustainable environment activity. It does not have a list of activities or purposes for which lending is prohibited as they are hazardous to the environment. The organisation has not so far considered the need for specific attention to environmental issues in its activities and operations.

RESULTS - OUTPUTS

OUTREACH

IPR's portfolio significantly grew by 164% in its second year of operation; however since then the portfolio growth has slowed down. Borrower numbers have grown moderately in the first half of 2009 at 7%.

Portfolio trends



On account of the mismatch in the growth in number of clients and in portfolio, the average outstanding loan size is on a rise. Though IPR's management is committed to lend to small farmers, an increasing average loan outstanding size may either result in shift from smaller clients or over burdening of the target clients.

Areas of operation

Excluding the most poor (mountainous region in the east) and the least poor (coastal region) zones of the country, IPR operates in relatively poor and densely populated provinces of Cambodia. The four provinces namely Kampong Chhnang, Batdambang, Pursat and

Banteay Mean Chey (of the Tonle Sap region) have high poverty incidence compared to 35% poverty rate of the country. These provinces also report high human poverty indices as per Human Development Report (2004). Majority (55.6%) of IPR clients are from Takoe and Kandal provinces, which have a higher population share, as well as the largest share of poor in the country (40%) followed by other provinces in Tonle Sap .

IPR outreach – provinces by poverty level

Province	% Share of poor in total Cambodian population	% Poverty rates ^a	% IPR clients
Kandal			22.8
Takoe	40*	32*	32.8
Kampong Chhnang			3.2
Batdambang			22.2
Banteay Mean Chey			8.6
Pursat	37	43	10.5
Cambodia	77	35%	100

^a Ministry of Planning (2006)

* Figures are for the entire plain zone including Kandal, Takoe, Prey Veang, Svay Rieng and Kampong Cham provinces

IPR's operations are spread only in villages across these six provinces. In order to make it accessible to clients branches are located in remote areas and not in the provincial towns. The poverty rate in rural areas is more than 39% compared to 25% in the urban areas. Of the total number of poor, more than 91% live in rural areas thereby indicating that it is likely that a significant proportion of IPR clients would be poor. However, average loan outstanding size (\$934 in December 2008) and visited client's profile (59% are above \$1.25/day 2005 PPP line) suggests moderate poverty outreach.

Financial inclusion

IPR collects information on existing loans during the appraisal process. However this data is not consolidated to analyse what percentage of its clients were financially excluded at the entry level in IPR.

- the poor

IPR does not have any data on poverty outreach. However based on household net income (as reported in MIS) of the clients visited during focus group discussions; households of 41% clients were below the \$1.25/day 2005 PPP line. Average family size in Cambodia is assumed to be five and net income of the client's household is calculated by deducting operating expenses from income. The limitation of this data comes from lack of rigour in collecting income data by the CO.

Support to employment

IPR's loans are used mainly for agricultural purposes and some for small business. Though the entire loan portfolio by number of loans and amount as reported to NBC is fully concentrated in the agriculture sector, one of the internal reports indicated 10.2% of the portfolio was in small businesses (mostly supplying agricultural inputs) as on 30 June 2009.

Client profile

Following is the data related to IPR's clients based on FGDs during client visits in three branches. The rating team undertook Focus Group Discussions with clients in two villages each of three branches: Kandal, Traing and Bakan. Of the 68 clients in the sample, 46 were women clients.

- Most of the clients visited had borrowed from moneylender and now borrow from them only to meet emergency needs
- Some of the members save in a group (ROSCA or chit fund) in the village
- 15% of the clients had no agricultural land title while 37% did not have house title
- 34% of the clients had agricultural land with an area of less than 1 hectare. While 87% of households in Cambodia had less than 1 hectare of agricultural land holding, the average household landholding in between 1 to 1.4 hectares as per HDR 2007.

APPROPRIATE SERVICES

The following observations represent indicative feedback from IPR's clients visited by the rating team.

Client awareness

The awareness level of clients was fairly good. Clients were aware of the loan amount, tenure, interest rate and repayment option chosen. However some of the clients did not know different options available for interest repayment and some of the old clients did not correctly remember which cycle loan they had availed.

Client feedback

Positive feedback

- ⇒ Bullet repayment option for principal and different interest repayment option is the major attraction for IPR's clients. Bullet repayment perfectly matches with the cash flow pattern of its clients who are primarily farmers and do not have steady cash flow.
- ⇒ Quick service especially at the time of disbursement which takes 2-3 days for existing clients and a week for the new clients.

- ⇒ Disbursement and repayment is mostly at doorstep and documentation process is simple which makes it easier for clients to avail loan.
- ⇒ Clients are happy with the staff behaviour.

Issues

- Clients are only dissatisfied with the interest rate offered by IPR and feel it is higher than other MFIs.

Client exit

IPR has so far not defined client drop out; hence does not track client drop out rate. Non-monitoring of dropout amongst client is an issue for monitoring of both operational and social performance.

The management feels that client dropout is on account of funds shortage with IPR. Since IPR focuses on agriculture, all of its clients would need loans at the time of ploughing season. Making available a large amount of funds for disbursement at the same time becomes difficult for IPR resulting in its clients switching to other MFIs for loans. Therefore calculating dropout rate would be advisable when the organisation has sufficient funds. However rest period (gap between completion of a previous loan and availing subsequent loan) would differ for clients doing single cropping and those doing double cropping and this would require different definitions of dropout. Therefore if the gap is more than period between two successive cropping seasons, the client can be assumed to be a drop out from IPR's programme.

OUTCOMES

IPR has so far not conducted any study to measure changes in the living condition of its clients after availing loan from IPR. It has not been able to do so since it does not have the database of relevant information. In order to be able to gauge its performance on social parameters, it plans to update the information collected from clients with demographic indicators, and integrate these into the MIS. Additionally it plans to set up a marketing unit which may also engage in tracking change in client living conditions.

PERSPECTIVE – Conclusion

IPR has grown moderately in terms of outreach and so far has concentrated in areas where MFIs already exist. However the fact that in tandem with its mission, its operations are spread across purely rural areas is commendable. Currently IPR offers a single product (working capital loan) but is planning to partner with other organisations in order to diversify its product offering by adding non-financial services.

In terms of defining and tracking its social performance, IPR needs to show more commitment and accordingly develop its processes and systems. Limited social

performance can be attributed to management's belief that credit assistance ultimately helps clients to improve their overall living conditions. Consequently IPR has not clearly defined its social goals, which is also reflected by lack of social indicators in the reporting formats and management information system. It has however performed well on aspects of client protection.

Other aspects that need attention are

- Setting up a proper grievance redressal mechanism for clients and imparting training to clients about the mechanism
- defining dropout and monitoring dropout and reasons for client exit,
- including more gender disaggregated data as part of regular reporting
- reviewing the scope of internal audit so as to include aspects of staff behaviour and loan utilisation checks
- making efforts to achieve gender balance amongst staff
- including staff satisfaction surveys as part of the HR system
- undertaking client satisfaction surveys with twin objective of delivering better services and product development.

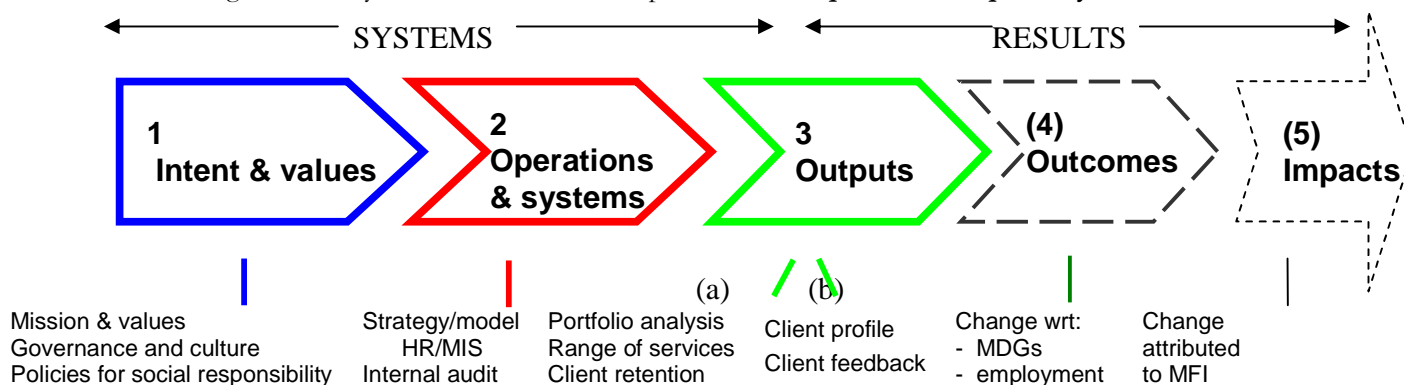
M-CRIL's Microfinance Rating Symbols

Grade	Credit Rating description	Social Rating description	Grade
$\alpha++$	Excellent systems, highest safety ➤ most highly recommended	Excellent systems and evidence for very strong adherence to social mission and values	$\Sigma\alpha++$
$\alpha+$ α	Very good systems, high safety ➤ (very) highly recommended	Very good systems and evidence for strong adherence to social mission and values	$\Sigma\alpha+$ $\Sigma\alpha$
$\alpha-$ $\beta+$	Good/satisfactory systems and safety ➤ recommended, needs monitoring and improvement to handle large volumes	Good /satisfactory systems and evidence for adherence to social mission and values	$\Sigma\alpha-$ $\Sigma\beta+$
β $\beta-$	Borderline to weak systems, significant risk ➤ acceptable after improvement	Weak systems, with evidence of limited adherence to social mission and values	$\Sigma\beta$ $\Sigma\beta-$
$\gamma+$ γ	Weak systems, very high risk ➤ not ready for investment	No systems, no evidence reflecting social mission or values	$\Sigma\gamma+$ $\Sigma\gamma$

□ The capital sigma, represents the ‘S’ for Social Rating

- Mission and values relate primarily to: financial inclusion, client protection and quality services
- The social rating covers organisational systems alignment and field level evidence for outputs (who are the clients at entry, are the services appropriate). Field level information may be collected as part of the social rating exercise, if not already available as part of the MFI’s own reporting system.
- If the MFI has robust evidence for change (outcomes/impact), this will be documented as part of the social rating report.
- Otherwise a first social rating does not directly collect information on outcomes, and it is not included. A subsequent social rating, however, can include direct follow up of the initial client survey to profile change at the client level.

Social rating thus usually covers the first three steps of the *social performance pathway* as shown.



This is the framework for social performance reporting.
The findings of the social rating may be applied directly for social reporting.