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Cambodian Community Savings Federation

ANNUAL REPORT 2013



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MESSAGE FROM THE CHIEF EXECUTIVE OFFICER



*Ms Pisey
Phal, CEO*

This year we celebrate a significant milestone. The Cambodian Community Savings Federation (CCSF) has been operating for 15 years and continues to play a crucial role in providing financial education and services to rural communities.

Beginning under the auspices of CARE Cambodia in 1998, we had a simple view that a community can be strengthened by helping people to help themselves. Our communities take immense pride in their local organizations, participating in AGMs with vigor and enthusiasm. The success of the community-based microfinance organization (CBMIFO) model is thanks to the passion and integrity of their Boards, volunteers and staff.

The CBMIFO model develops savings habits and provides access to credit with the support of the community. Our success demonstrates that this is a sustainable model for economic development and alleviating poverty. Sadly, there is still an urgent need for CCSF to play this role. Many Cambodian people live in rural and regional areas where access to healthcare, education, sanitation and safe housing is limited.

Today, we support over 45,000 people and their families to save money safely, to borrow money responsibly and to achieve their financial goals. Over the last 15 years we have delighted in our members' achievements as they create opportunities to secure a better future.

The dedicated staff and volunteers are true ambassadors, and I thank them for demonstrating our values every day. I also extend my gratitude to our partners across the globe who share our vision for sustainable, community-based solutions to drive development.

We take great pride in our success and invite you to join us as we celebrate 15 years of supporting our community.



Ms Pisey Phal

CEO
Cambodian Community
Savings Federation

WHO WE ARE



A sustainable community-based microfinance organization involved in poverty alleviation.

Our vision

Since 1998, CCSF has been striving to empower low-income families in Cambodia by building a network of Community Based Microfinance Organisations (CBMIFOs).

CBMIFOs are owned, managed and governed by their communities. They provide members and their families with:

Today, CCSF works in partnership with 27 CMBIFOs to support more than 45,000 members and their families across Battambang and Banteay Meanchey provinces. CCSF also provides microfinance services directly through its Small and Medium Enterprise (SME) Program.

By providing affordable financial services through a sustainable business model, we are helping Cambodians to achieve financial independence and alleviate poverty.



Savings education



Access to credit



Employment and skills

Our strategy (2012 - 2015)

We are pleased to be well on track to achieving our strategic priorities. In 2013 we have:

1. **Strengthened CBMIFOs:** Improved information management and developed our people
2. **Planning for a cooperative stabilization fund:** Planning stage has begun
3. **Expanded operational coverage:** Identified growth opportunities
4. **Continued advocacy efforts:** Seeking legislative recognition for credit unions in Cambodia
5. **Worked closely with our partners:** Collaborating with like-minded partners

As we look beyond 2015, we continue to make gains towards our vision for empowering Cambodians with financial knowledge and security.

Our values

We are guided by the international operating principles of credit unions. These principles are founded on the philosophy of cooperation and the central values of equality, equity, self-help and mutual help.

- Democratic structure
- Service to members
- Social goals

At the heart of these principles is the concept of human development and people working together to achieve a better life for themselves and their community.

Our partners

We are committed to building valuable, long-term collaborations founded on shared values, complementary skills and open communication.

We thank our partners for continuing to share their knowledge with us and strengthening our operations. Together, we are providing over 45,000 members and their families with access to financial resources.



Associations



Local Authorities

A close working relationship with local authorities throughout the Battambang and Bateay Meanchey provinces provides critical support to us in realizing our vision. We are grateful and acknowledge their ongoing support.

Registration with National Bank of Cambodia

CCSF operates as a federation of credit unions through registration with the Ministry of Interior of the Royal Government of Cambodia as well as a rural microfinance service provider by virtue of registration with the National Bank of Cambodia.



Samnang Oeur
Battambang Province

Samnang is a young entrepreneur who runs a general store from her home. At 25 years old, Samnang supports herself and her elderly mother.

The small store stocks a variety of goods such as kerosene, sugar and soft drinks. In the beginning, Samnang would visit the local market and restock her store daily. This would drive sales of around \$25 a day.

Local villagers who are repeat customers are most important to this business. Samnang recognised that her customers were returning if she supplied essential foods and a good variety of products.

With a small loan from her local CBMIFO, Samnang was able to buy larger quantities of stock and increase the range of products. Her sales have doubled to \$50 a day and Samnang has already repaid most of her loan.

Samnang is looking ahead to the next opportunity for growth. She plans to expand the physical site so she can stock even more items in the future.

OPERATIONS

Governance

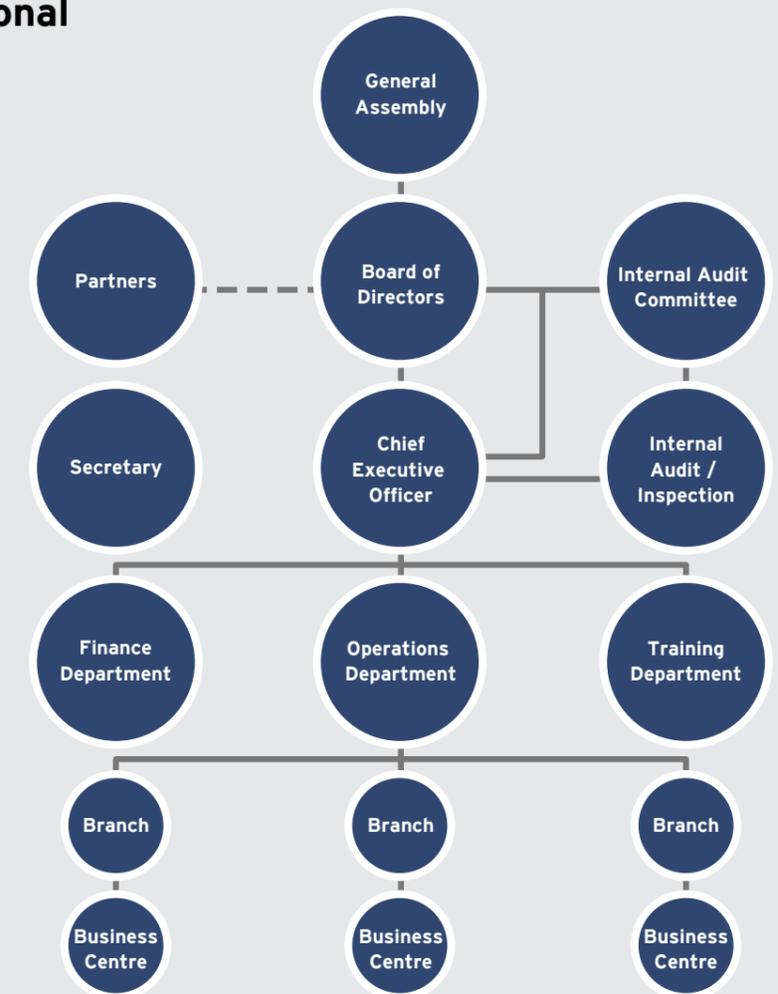
CCSF is governed by a Board of Directors which is elected at the CCSF Annual General Meeting. The AGM has representation from all CBMIFOs across the network. These Directors are also Directors of their local CBMIFO Board. Directors serve a term of three years, and can serve up to three terms at a maximum.

The CEO and the Head of Internal Audit are directly accountable to the Board.

Board of Directors as elected on 21 June 2013:

- Mr Peach Sopheak (Chair)
- Mrs Keo Sambath (Deputy Chair)
- Mr Chao Ly
- Mr Moeurn Moeurth
- Mrs Oeurb Koem Hieng

Organisational structure



CCSF Senior Management



Meas Thon
BBA, Human Resource Management
Chief Operating Officer



Nget Ny
BBA, Accounting
Manager of Accounting & Administration
Department



Diep Kitya
BBA, Management
Manager of Internal Audit Department

CCSF Branches

CCSF branches are critical to the success of our 27 CBMIFOs. The branch managers and their teams provide transactional services and business support to CBMIFO staff.



Chea Chanda
BBA, Management
Manager, Battambang Branch



Eng Kunthy
Manager, Bavel Branch



Voeun Phally
BBA, Management
Manager, Banteay Meanchey Branch

Our members

Our members have transformed CCSF from a financial inclusion project into a strong and enduring community.

Participation is critical to the CBMIFOs' success. Members have learned to save and protect their families. They have had confidence to borrow and grow their businesses. They have attended AGMs, become Board Members, and some have gained new employment skills and opportunities.

45,776 savers

8,927 borrowers

66% of our members are women

19% of our members are young or elderly people



Chhang Soa Heang
Chief of Accounts
Ek Phnom CBMIFO

“I have been working for the CBMIFO since 2005. My parents were members, so I knew about the work they did. I started as a Field Officer doing loan assessments.”

“It was really the wrong job fit for me as I am an introvert, so I had the opportunity to move to accounts. Now, my regular day involves entering data to our MIS database. I like it but it is still challenging to identify problems and solve them.”

“My family is very happy for me that I have this good job. For the future, I want to keep working at the CBMIFO and learn many new skills.”

Soa Heang’s manager says, “she arrived here as a field officer assistant but was not improving her communication skills. Despite not having higher study at university, she attended CCSF training for accounting and is good at her work. It is difficult to recruit skilled applicants so we do most of the training on the job.”

“Today, Soa Heang is very committed to her work and sometimes even comes in on weekends!”

Translated

FINANCIAL HIGHLIGHTS

CBMIFO performance

CBMIFO financial activity is based around three product types:

- Savings products
- Lending products
- Loan Protection & Life Savings program

Below is a summary of this year’s financial performance of the 27 CBMIFOs that comprise the local network:

In 2013, CBMIFOs significantly increased deposits through savings accounts (29%) and shareholder investment (28%). This funding has allowed each organisation to broaden its membership base and offer more life-changing loans (lending increased by 29%). This solid growth is consistent with performance over the past five years.

The loan portfolio is monitored carefully, and we will look to intensify savings promotions in 2014 to continue to maintain the right funding mix.

CBMIFO Highlights	Dec-13	Dec-12	Change (%)
Number of saver members	45,776	42,249	8%
Amount member's savings	10,257,694	7,969,177	29%
Amount member' s share	1,330,724	1,039,287	28%
Value of loan outstanding balance	29,835,269	23,165,984	29%
Value of loan outstanding in arrears	828,197	692,798	20%
Portfolio at risk ratio	2.77%	3%	-0.23%

Table 1: CBMIFO Key Performance Indicators (figures in KHR'000)

OUR LENDING



The average loan size is
3,342,000 KHR
 (~\$USD 836)

73%
 of loans support
 women

53%
 of loans are for
 agricultural use

33%
 of loans are for
 critical items

11%
 of loans are for
 small businesses

CCSF portfolio

In addition to providing CBMIFOs with technical and operational support, CCSF acts as a wholesale lender to CBMIFOs. CCSF also provides financial services to individuals (SMEs) on occasion. Table 2 details the performance of CCSF in 2013:

CCSF HIGHLIGHTS	Dec-13	Dec-12	Change (%)
Number of CBMIFOs	27	29	-7%
Number of groups	3,153	2,989	5%
Number of LPLS members	48,852	44,261	10%
Total amount of LPLS claims	220,172	135,240	63%
Amount of savings	5,167,363	4,069,003	27%
Amount of members share	227,435	178,377	28%
Value of gross loan outstanding balance	22,812,338	17,703,196	29%
Return on assets	5.7%	7.0%	-1.3%
Return on equity (ROE)	16.1%	19.1%	-3%
Operating expense ratio	11.8%	12.3%	-0.5%
Cost of savings ratio	7.8%	7.2%	0.6%
Cost of borrowing ratio	7.1%	6.9%	0.2%
Loan loss provision ratio	0.0%	0.0%	-
PAR 31-365 days	0.1%	0.2%	-0.1%
PAR > 365 days	0.2%	0.2%	-
Cost of borrowing ratio	0.0%	0.1%	-0.1%

Table 2: CCSF Key Performance Indicators (figures in KHR'000)



In 2013, our CBMIFOs reduced to 27 as two were merged to strengthen their viability, to great success.

A review of interest rates was conducted this year. In order to remain competitive within the market, lending interest rates were lowered. This has impacted ROE, which is down to 16.1% but we already see retention figures improving and expect this to recover next year.

The Loan Protection Life Savings program is a critical differentiator for CCSF in a crowded market, and also protects our most vulnerable members. 2013 was a particularly difficult time and we are pleased to have supported all the families impacted by loss.

As we look to the future, our financial priorities are to establish a stabilization fund and to look for expansion opportunities.

Monitoring and Internal Control

Regular on and off-site monitoring of the CBMIFOs is conducted by CCSF Member Service Officers (MSOs) and supplemented by monthly off-site monitoring performed by the Chief Operating Officer. This ensures the operation complies with internal policy and procedures, and that transparency within the system is in place. Twice a year the internal audit of all CBMIFOs is conducted by the CCSF Internal Audit Team. Review of the internal control system of the head office, branches and business centres is also conducted twice per year.

Supporting communities



Nuch Khat
Boeng Prey Village, Sning Commune

Nuch and her husband have been rice farmers for the past 20 years. They have two children and education is the biggest priority for the family. Nuch wants her children to have employment opportunities beyond farming.

The family produces wet-season rice on 12 hectares of land. Nuch and her husband need to spend around six months cultivating the rice for harvest. They also have a small maize crop. It takes three months to grow their maize until it can be picked and sold.

The long time between harvests means that cash flow is an issue for Nuch. To manage this, Nuch has taken a 24 month loan with their local CBMIFO to purchase seeds, insecticide, diesel, and to pay for additional labour. They intend to hire around 20 people to assist them for the harvest of their rice and maize crops this year.

This loan not only helps Nuch and her family to send her children to university, but it also strengthens the local economy through critical job creation.

OPERATIONAL HIGHLIGHTS

The strength of our financial position has allowed us to make great progress towards our 2015 goals. Here are some of our achievements this year:

Strengthening CBMIFOs

Information management across our CBMIFO network has been a manual task to achieve standardisation. This year, CCSF developed a custom software package for significant efficiency gains. The software is ready for rollout to CBMIFOs in early 2014 for significant efficiency gains.

Training and development of CBMIFO employees is essential and an ongoing priority for CCSF. In 2013, key training topics included financial decision making, management information systems, credit risk and stakeholder management. This professional development is a critical way CCSF retains and strengthens talent within the community network.

Across the CBMIFO network, Annual General Meetings were held to report on achievements and to elect the Boards and supervisory committees for each CBMIFO. This is a huge annual undertaking but critical to the transparency and good governance of each organisation.



Growth and opportunity

With the success of the CBMIFO model in building community trust, we recognized an opportunity to strengthen our product suite.

In 2013 we undertook an in-depth review of loan policies and 'mystery shopper' style surveys of our competitors. As a result, we have recently expanded our lending to incorporate a third currency and adjusted our interest rate to be more competitive with our commercial peers.

We also completed the exploratory phase of new product development with a focus on increasing deposits to strengthen CCSF funding. We are excited that our new product is scheduled for launch in late 2014.

Professional development of CCSF head office staff is critical to the continued strategic success of the CBMIFO network. Staff developed their skills in performance and relationship management, financial decision making and credit risk. CCSF staff also attended training conducted by the Cambodian Microfinance Association on industry-wide issues.

Advocacy and partnerships

We continue to advocate for legislation that recognizes the unique credit union model in this country. We maintain and enjoy our strong relationships with government. This year, we were pleased to host a representative from the National Bank of Cambodia at the 2013 ACCU Forum in Nepal.

We continue to grow and learn with our partners. In 2013, Rabobank provided us with invaluable technical support for improved customer relationship management. Australian Youth Ambassadors for Development provided assistance with developing selling technique training and marketing guidance. We appreciate their support and welcome future collaborations.



Prak Sarany
General Manager
Ek Phnom CBMIFO

Sarany manages one of the fastest-growing CBMIFOs in our network. She manages 20 staff, and is a great example of leadership to her local community.

“I have been the General Manager at Ek Phnom CBMIFO for 9 years. In that time there have been many changes.”

“In the beginning, the CBMIFO office was operating under one of our member’s houses. We had one motorbike to use in the field and we had just a few members. Today, we have our own building. We have equipment, computers, and many motorbikes!”

“I enjoy my job very much. Leadership development training has taught me about roles and responsibilities within the CBMIFO, and how to manage staff in daily operations. I feel very happy and proud with my staff’s progress and the CBMIFO growth.”

“There are always obstacles. We have to consider the villages where flooding makes it difficult for people to repay their loans. There is a lot of people movement as people go to work in other provinces or other countries. And we need a strong position in the market to compete with other organisations.”

“However, our membership is increasing every month. Our field officers and our cashiers have good relationships with our members. And members are opening accounts for their children and extended family. Today, we have over 5,000 members. I think we will continue to grow.”

Translated

2014 AND BEYOND

As we look ahead, we are on track to achieve our strategic priorities by 2015 as planned.

In 2014, we will:

1. **Strengthen CBMIFOs:** Invest in our staff and our information systems for consistent good management
2. **Build a cooperative stabilization fund:** Reduce network risk and enhancing trust
3. **Expand operational coverage:** Successfully launch a new savings product to increase market share
4. **Continue advocacy efforts:** Move closer towards legislative recognition for credit unions in Cambodia
5. **Grow and learn with our partners:** Maintain strong relationships with like-minded partners

The strategic planning process for 2015 – 2020 will commence next year.

As CCSF moves in to its 16th year of operations, we welcome our partners’ input and support to pursue our vision for economic empowerment in Cambodia.



Khan Khom
Thoul Lvieng Village, Odambang li Commune

Khan is 38 years old and is a widower, supporting three children. As a farmer, he currently produces cucumbers and cauliflower. The cucumbers take one month and 10 days until they are ready for sale.

Khan previously took a small loan with his CBMIFO and demonstrated his ability to repay on time. This year, with a bigger harvest and tighter cash flow, Khan took a larger loan with his local CBMIFO in order to cover the costs of seeds, irrigation, insecticide and fertilizer.

At harvest, Khan sold his cucumbers at the local market and earned a \$250 profit.

Khan now has 1,500 cauliflowers ready to be harvested. This time he has negotiated for wholesale buyers to visit farm, establishing loyalty and guaranteeing sales.

The business knowledge and the access to funds provided by his CBMIFO at a critical time have allowed Khan to grow his business with confidence and to financially support his family.



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REPORT OF THE INDEPENDENT AUDITORS To the Board of Directors Cambodian Community Savings Federation

We have audited the accompanying financial statements of Cambodian Community Savings Federation ("CCSF" or "the Organisation"), which comprise the balance sheet as at 31 December 2013, and the income statement, statement of changes in fund balance and statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information as set out on pages 4 to 30. These financial statements have been prepared by the management of the Organisation based on the basis of accounting and the accounting policies described in Note 2 to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation of these financial statements in accordance with the basis of accounting and the accounting policies described in Note 2 to the financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Cambodian International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements of Cambodian Community Savings Federation as at and for the year ended 31 December 2013 are prepared, in all material respects, in accordance with the basis of accounting and the accounting policies described in Note 2 to the financial statements.

Basis of accounting and restriction on distribution and use

Without modifying our opinion, we draw attention to Note 2 to the financial statements, which describes the basis of accounting and the accounting policies adopted by CCSF. The financial statements are prepared for the information and use of the management of CCSF. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the management of CCSF and should not be distributed to or used by any other parties.

For KPMG Cambodia Ltd

Nge Huy
Audit Partner

Phnom Penh, Kingdom of Cambodia

27 August 2014

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Balance sheet at 31 Dec 2013

	2013 KHR'000	2013 US \$	2012 KHR'000
ASSETS			
Cash on hand	52,888	13,239	66,656
Deposits and placements with banks	1,375,262	344,246	1,458,491
Loans to customers	22,776,022	5,701,132	17,674,339
Other assets	199,684	49,983	112,711
Property and equipment	46,399	11,614	34,982
Deferred tax assets	61,368	15,361	-
TOTAL ASSETS	24,511,623	6,135,575	19,347,179
LIABILITIES			
Deposits from customers	5,167,363	1,293,458	4,069,003
Loan protection and life savings	2,729,690	683,277	2,109,867
Borrowings	6,804,047	1,703,141	4,870,879
Amounts due to saving bank members	227,435	56,930	178,377
Other liabilities	918,789	229,985	814,881
Current income tax liability	388,866	97,338	282,120
TOTAL LIABILITIES	16,236,190	4,064,129	12,325,127
FUND BALANCE			
Opening funds	86,720	21,707	86,720
Project SEED capital	949,821	237,752	949,821
Retained earnings	7,238,892	1,811,987	5,985,511
TOTAL FUND BALANCE	8,275,433	2,071,446	7,022,052
TOTAL LIABILITIES AND FUND BALANCE	24,511,623	6,135,575	19,347,179

Income statement for year ending 31 Dec 2013

	2013 KHR'000	2013 US \$	2012 KHR'000
Interest income	4,636,773	1,160,644	3,767,439
Interest expense	(772,408)	(193,344)	(566,437)
Net interest income	3,864,365	967,300	3,201,002
Other income	161,934	40,534	331,226
Administrative and other expenses	(2,397,388)	(600,097)	(1,946,445)
Operating income	1,628,911	407,737	1,585,783
Allowance for bad and doubtful loans	(7,459)	(1,867)	(13,891)
Profit before income tax	1,621,452	405,870	1,571,892
Income tax expense	(368,071)	(92,133)	(348,682)
Net profit for the year	1,253,381	313,737	1,223,210

Statement of changes in fund balance for year ending 31 Dec 2013

	Opening funds KHR'000	Project SEED capital KHR'000	Retained earnings KHR'000	Total KHR'000
Balance as at 1 January 2012	86,720	949,821	4,762,301	5,798,842
Net profit for the year	-	-	1,223,210	1,223,210
Balance as at 31 December 2012	86,720	949,821	5,985,511	7,022,052
Balance as at 1 January 2013	86,720	949,821	5,985,511	7,022,052
Net profit for the year	-	-	1,253,381	1,253,381
Balance as at 31 December 2013 - KHR'000	86,720	949,821	7,238,892	8,275,433
Balance as at 31 December 2013 - US\$	21,707	237,752	1,811,987	2,071,446

Statement of cash flows for year ending 31 Dec 2013

	2013 KHR'000	2013 US \$	2012 KHR'000
Cash flows from operating activities			
Profit before income tax	1,621,452	405,870	1,571,892
Adjustments for:			
Depreciation	34,505	8,637	36,271
Allowance for bad and doubtful loans	7,459	1,867	13,891
Foreign exchange loss/(gain)	307,963	77,087	(159,572)
	1,971,379	493,461	1,462,482
Changes in:			
Loans to customers	(5,417,105)	(1,355,971)	(3,640,706)
Other assets	(86,973)	(21,770)	1,973
Deposits from customers	1,098,360	274,934	645,972
Loan protection and life savings	619,823	155,150	539,851
Amounts due to saving bank members	49,058	12,279	46,913
Other liabilities	103,908	26,010	52,709
Cash used in operations	(1,661,550)	(415,907)	(890,806)
Income tax paid	(322,693)	(80,774)	(209,086)
Net cash used in operating activities	(1,984,243)	(496,681)	(1,099,892)
Cash flows from investing activities			
Acquisition of property and equipment	(45,922)	(11,495)	(25,771)
Net cash used in investing activities	(45,922)	(11,495)	(25,771)
Cash flows from financing activities			
Proceeds from borrowings			4,043,935
Repayments of borrowings	4,780,201	1,196,546	(2,881,728)
Translation difference	(2,847,033)	(712,649)	(57,859)
Net cash generated from financing activities	1,933,168	483,897	1,104,348
Net decrease in cash and cash equivalents	(96,997)	(24,279)	(21,315)
Cash and cash equivalents at beginning of the year	1,525,147	381,764	1,546,462
Cash and cash equivalents at end of the year	1,428,150	357,485	1,525,147
Cash and cash equivalents comprise:			
Cash on hand	52,888	13,239	66,656
Deposit and placements with banks	1,375,262	344,246	1,458,491
	1,428,150	357,485	1,525,147

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