



January 2019

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This report provides an in-depth analysis of the social performance of Borvor Finance PLC and should be read in conjunction with Inclusion [Social Ratings]'s Global Social Performance Rating Methodology.

The methodology is also available at www.inclusion-socialratings.org.

This report is not a credit rating or other opinion on creditworthiness.

Social Performance & Impact Rating:
BORVOR FINANCE PLC
CAMBODIA

Figure 1

SPIR Rating Snapshot

Final SPIR rating = SPIR 3-

-	SP5	SP4	SP3	SP2	SP1	+
	0 - 29	30 - 49	50 ——— 64	65 - 77	78 - 100	

Scorecard-implied rating: SPIR 3/overall score: 55

Borvor Finance PLC Snapshot

Year established	January 2003
Entity type	Rural Credit Operator
Gross loan portfolio (US\$ 000s)	8,919 (as of 31/12/17)
Active borrowers	4,031 (as of 31/12/17)
Average loan size (US\$)	2,212

Summary of Assessment Rationale

- » The rating committee determined that a downward adjustment of its implied scorecard rating of SP3 to the assigned final rating of SP3- for Borvor Finance PLC was appropriate given the weakening trend and the increasing risk from its funding structure and liquidity.
- » Borvor has undergone a restructuring of its legal organization, which transformed it from a cooperative structure operating under the name of Cambodian Community Saving Federation (CCSF) to a limited liability company under a new name.
- » Borvor offers its clients three types of loan products: productive, consumption and emergency loans. In addition, Borvor has a Loan Protection and Life Savings (LPLS) program to reduce the financial burden on families upon the death of a family/client member. Non-financial services is limited to training for clients on financial literacy.
- » The mission statement clearly indicates that Borvor will provide affordable financial services to its members in order to improve their living conditions, and emphasizes the outreach to women and low income people.
- » The social mission has been broken down into some specific and general objectives. However, no measurable indicators for the objectives have been developed and no evidence was found that management has institutionalized a formal monitoring system to track performance toward achieving those objectives.
- » In December 2017, Borvor has set a new Board of Directors, with extensive experience in the microfinance field. This board came to fill a gap in the structure, since CCSF's Board of Directors was disbanded in 2016 due to the lack of microfinance experience and qualifications of its members (who were CCSF client representatives).
- » Staff members have extensive experience in the micro-finance domain and working with the target market (average eighteen years for Senior Managers, ten years for Mid-level Managers and seven years for Credit Officers).
- » Field visits revealed that expertise in positions with social performance responsibilities was low at all levels, though higher than prior year, particularly at senior management level.
- » Social performance topics are covered during staff trainings (at the time of taking over the position and during refreshment training). Social performance topics include: the MFI's social mission, the prevention of over-indebtedness, pricing communication, acceptable repayment collection, and the respectful treatment of customers.
- » Some social performance topics (e.g. savings targets as KPIs) are reviewed at senior management meetings. However, these topics are not clearly listed on the agenda of the meetings.
- » A written debt collection policy (Inter Lending Policy) is in place and employees are regularly trained on the policy.
- » The policy describes the recovery steps that Loan Officers and other staff should follow. These policies are also communicated to clients orally.
- » Employees are trained to disclose product prices. Employees assess the level of understanding/awareness of loan terms and conditions by clients verbally. No survey/exam/test is carried out to assess clients understanding. Based on the interviews, the understanding and knowledge of clients of the conditions of the loan is moderate.
- » The written debt collection policy also includes a Code of Ethics that provides guidance to cashiers and concerned staff about the professional behavior during interaction with the members. This includes treating customers with respect, to communicate with them in a polite manner and always be professional and honest.
- » Borvor has written policies to prevent borrower over-indebtedness. Loan Officers conduct a loan assessment of applicants' income, expenses and debt details; visit their homes, workplaces and neighbors, and depending on the amount, will require the co-signature of a chief or commune village authority. Information on client experiences is sometimes shared between local micro-finance institutions.
- » Borvor has implemented in late 2017 a process for receiving complaints, according to the findings of a prior social rating. The phone number of both HR & Marketing manager and COO are disclosed at branches and marketing brochures. However, complaints are not monitored for timely and unbiased resolution, and a systematic record of complaints has not yet been developed.



- » Social data such as customer income, gender and geographic location is collected when customers apply for loans, but is not utilized in any systematic way to monitor progress in its social performance objectives, with the exception of gender related measurements.
- » The code of ethics includes policies that promote gender equality, confidentiality, professional behavior, and discourages conflict of interest, harassment and financial fraud. Respect to the code of conduct is part of the job description for each position and it should be signed along with the contract.
- » Borvor Human Resources manual does explicitly include that employees will not be discriminated against in hiring, promotion, training, or other employment matters of sex, race, color, religion, or any other status protected under Cambodian laws.
- » The proportion of women throughout the hierarchy is medium/low. Women account for 37% and 33% of loan officers and senior management levels, respectively.
- » There are no written policies on environmental practices neither internally within the institution nor relative to clients.
- » Historically, Borvor has demonstrated strong liquidity, very strong capital structure, stable funding sources, and a strong cost structure. However, regulatory changes in 2017 have limited the MFI's sources of funding, financial offer and products pricing, affecting its financial sustainability.

Institutional Profile

Mission Statement

“To provide affordable financial services to low-income families, especially women, responsive to their needs to improve their living standard.”

Key Data (date as of 31/12/17)	
Gross loan portfolio (US\$ oos)	8,919
Average loan size (US\$)	2,212
Products:	Productive, consumption and emergency loans. Loan Protection and Life Savings (LPLS).
Number of borrowers	4,031 (as of 31/12/17)
Number of staff (male/female)	148 (72 male, 89 female)
Customers per loan officer	96
Number of branches	10 branches, 2 service points
Country of operation	Cambodia
Areas of operation	2 Provinces: Battambang and Banteay Meanchey
Urban/Rural	Urban and Rural
Legal status	Rural Credit Operator
Regulator	National Bank of Cambodia

* Exchange rate: US\$ 1 to KHR 4,037

Figure 2

Geographic Footprint





SOCIAL INDICATORS	2015	2016	2017*
% of rural borrowers	94%	90%	89%
% of female customers	64%	67%	67%
% of female active savers	64%	60%	61%
% customers below \$1.25 per day	NA	NA	NA
% customers below \$2.50 per day	NA	NA	NA
% customers below poverty line	NA	NA	NA
% customers with no formal education	NA	NA	NA
% Customer Retention rate	NA	63%	92%
% female employees	45%	61%	50%

* a/o 14/09/2018

FINANCIAL INDICATORS	2015	2016	2017*
Portfolio yield (%)	17.5%	20.2%	21.4%
Operating expense ratio (%)	10.3%	10.7%	13.2%
Financial expense ratio (%)	5.5%	6.2%	3.0%
Provision and write-offs (%)	0.0%	0.0%	3.0%
Operational self-sufficiency (%)	137.0%	153.0%	148%
Capital/Asset ratio (%)	35.0%	36.7%	32.1%
Debt to equity ratio (x)	185.0%	173.0%	97%
Return on assets (%)	4.1%	4.8%	2.8%
Return on equity (%)	11.9%	12.5%	8.6%

* a/o 14/09/2018

BACKGROUND

- » Borvor Finance PLC was established in 1998 as the Small Economic Activity Development project of CARE Cambodia, financially supported by AusAid and CARE Australia.
- » The project was transformed into the Cambodian Community Saving Federation (CCSF) in January 2003 as a local non-governmental organization (registered with the Ministry of Interior) and as a Rural Credit Operator (RCO), registered with the National Bank of Cambodia).
- » From 2003 to March 2017, Borvor operated as a Federation of Community Based Microfinance Organizations (CBMIFOs), providing capital to these organizations to fund their retail lending activities, as well as, technical assistance and capacity building.
- » In March 2017, the MFI transformed itself into a one-tier organization, merging 6 of its 12 CBMIFO members into CCSF. The decision to create this new structure was driven by legislative and regulatory developments impacting the microfinance sector in Cambodia:
 - » The lack of a legislative framework for cooperative entities in Cambodia which placed Borvor's prior legal constitution in question;
 - » The adoption in 2015 of the new Cambodian Law on Associations and Non-Governmental Organizations (LANGO) which limits Borvor's ability to take deposits;
 - » The announcement by the National Bank of Cambodia of the new policy (which came into effect in April 2017) whereby microfinance institutions (MFI) operating in Cambodia are prohibited from lending at interest rates higher than 18 percent per annum.
- » In December 2017, Borvor restructured its legal organization, transforming itself from a community-based saving and lending association (CCSF) to a rural credit operator (limited liability company) under a new name.
- » Borvor operates in the northwest region of Cambodia; in the provinces of Battambang and Banteay Meanchey. As of December 2017, it had 4,301 active borrowers and 34,070 active savers and a portfolio outstanding of US\$ 8.9mn. Most of its clients live in rural areas, while women make up 67% of its portfolio.
- » Borvor's portfolio is largely concentrated on the agriculture sector, accounting for 60% of total loans disbursed. Interviews on site revealed that a proportion of loans classified as agriculture are used for land acquisition. In 2017, consumption loans have increased to c. 20% of portfolio, from 6% the prior year.
- » Borvor is a member of the Cambodian Microfinance Association (CMA) and the Association of Asian Confederation of Credit Unions (ACCU). In addition, Borvor has partnered with European-based social investors to receive loan funds and technical assistance.

SPIR Factors – Scorecard-Implied Grades

Scorecard Snapshot

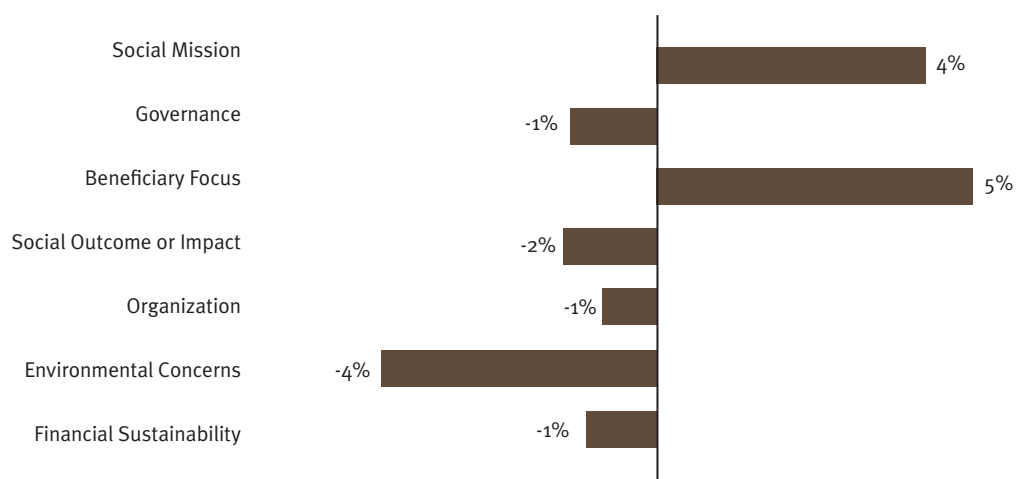
Figure 3

SPIR Factor Table

FACTOR	SPIR ₅	SPIR ₄	SPIR ₃	SPIR ₂	SPIR ₁
Social Mission				71	
Governance			51		
Beneficiary Focus				69	
Social Outcome or Impact		48			
Organization			50		
Environmental Concerns	20				
Financial Sustainability			51		

Figure 4

Relative Contribution





SPIR Factor and Sub-Factor Analysis

Social Mission	Governance	Beneficiary Focus	Social Outcome or Impact	Organization	Environmental Concerns	Financial Sustainability
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History of the social mission, goals and objectives | Focus of the social mission | Plans and communications for achieving social mission, goals and objectives

Scorecard-implied grade – SPIR2 (71)

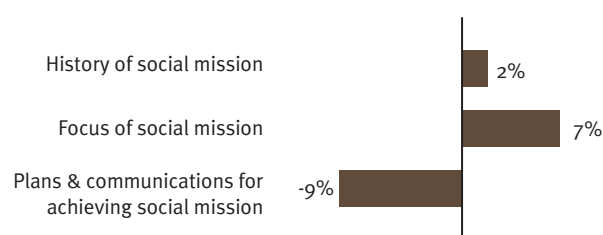
Figure 5

SPIR Sub-Factor Table

Sub-Factor	SPIR5	SPIR4	SPIR3	SPIR2	SPIR1
History of social mission					84
Focus of social mission					87
Plans & communications for achieving social mission			61		

Figure 6

Relative Contribution



Key Indicators

- » Borvor's social mission statement covers several indicators of the SPIR Scorecard, including access to financial services, poverty reduction and income generation. In addition, Borvor set at its By Laws that its business model is focused on the provision of financial services in rural areas, which is reflected in its clientele profile with 89% of rural borrowers.
- » During last review of the social mission in 2018, Borvor has made explicit the outreach to women as one of its cardinal goals and the new statement was communicated to its members during the Annual General Assembly.
- » Borvor has developed a Business Plan 2018-2020, which establishes goals in terms of outreach to women and rural clients, along with financial and operative goals. Although management has not yet institutionalized a formal monitoring system to track performance towards those objectives, Borvor's plan considers the inclusion of social performance management in their business cycle by setting, monitoring, and reporting social performance indicators.
- » Management team reveals high degree of self-awareness regarding Borvors' opportunities for improvement in terms of social performance and shows high receptivity to external feedback.
- » The new mission statement is visible within the branch network and senior management has demonstrated a good understanding of it, still there is scope to improve awareness of the same among recently hired field staff.

Social Mission	Governance	Beneficiary Focus	Social Outcome or Impact	Organization	Environmental Concerns	Financial Sustainability
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Management quality | Strategic leadership | Outreach and access | Administrative setup

Scorecard-implied grade – SPIR3 (51)

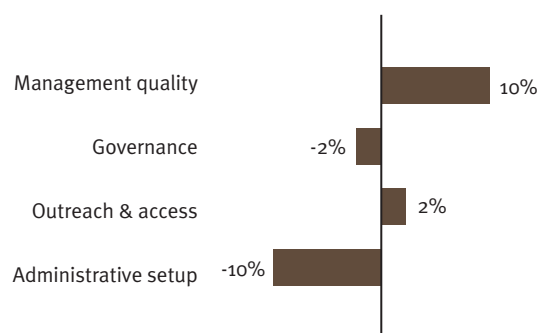
Figure 7

SPIR Sub-Factor Table

Sub-Factor	SPIR5	SPIR4	SPIR3	SPIR2	SPIR1
Management quality				71	
Governance		48			
Outreach & access			56		
Administrative setup		30			

Figure 8

Relative Contribution



Key Indicators

- » Staff members have extensive experience in the micro-finance domain and working with the target market (average eighteen years for Senior Managers, ten years for Mid-level Managers and seven years for Credit Officers).
- » Communication of social performance information to both employees and external stakeholders is limited.
- » Borvor set up its Board of Directors at the end of 2017, once the new organizational and governance structure was put into place (limited liability company / one-tier organization). Prior board was disbanded in 2016 due to the lack of microfinance experience and qualifications of its members
- » As of December 2017, Borvor had 4,301 active borrowers and 34,070 active savers. Women account for around 61% of the customer base, while nearly 90% of Borvor’s clients are from rural areas.
- » Loan repayments are normally done at Borvor’s offices as they are easily accessible for customers. When offices are not easily accessible for customers due to distances, Borvor organizes a “meeting point” with the cashiers in the local communities to collect the deposits and repayments. The average distance between an office and a client is 15km, with the furthest distance noted at 25km.



Social Mission	Governance	Beneficiary Focus	Social Outcome or Impact	Organization	Environmental Concerns	Financial Sustainability
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Management quality | Strategic leadership | Outreach and access | Administrative setup

Figure 9

SPIR Sub-Factor Table

Sub-Factor	SPIR ₅	SPIR ₄	SPIR ₃	SPIR ₂	SPIR ₁
Experience of staff					84
Professionalism of staff					85
Management turnover					83
Key worker risk			50		
MFI history/product history					82
Availability & quality of training		47			
Management transparency				76	

Figure 10

Relative Contribution



Key Indicators

- » Staff members have extensive experience in the micro-finance domain and working with the target market (average eighteen years for Senior Managers, ten years for Mid-level Managers and seven years for Credit Officers).
- » Field visits revealed that expertise in positions with social performance responsibilities was low, although there is evidence of an improvement at managerial level compared to prior year.
- » Staff turnover rate is negligible at senior and middle-management levels, while relatively low at loan officer level at 15%. Conversely, female loan officer turnover is high at 25%
- » Exit interviews are conducted at all levels.
- » Borvor developed a time-specific succession plan for the replacement of the CEO in December 2017, but since then it has not developed a new plan, despite some measures to ensure the replacement of key personnel when the need arises (e.g. building internal capacity within the organization).
- » Social performance topics are covered during staff trainings (during induction and afterwards at refreshment training). Social performance topics include: the MFI’s social mission, the prevention of over-indebtedness, pricing communication, acceptable repayment collection, and respectful treatment of customers.
- » Training is conducted both at the Head Office (classroom) and on the job.
- » Communication of social performance data to both employees and external stakeholders is limited.
- » The last Social Performance rating was conducted in 2017. The report has been shared with external stakeholders.

Social Mission	Governance	Beneficiary Focus	Social Outcome or Impact	Organization	Environmental Concerns	Financial Sustainability
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Management quality | **Strategic leadership** | Outreach and access | Administrative setup

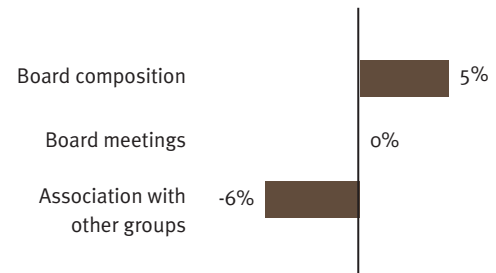
Figure 11

SPIR Sub-Factor Table

Sub-Factor	SPiR5	SPiR4	SPiR3	SPiR2	SPiR1
Board composition			54		
Board meetings		48			
Association with other groups		34			

Figure 12

Relative Contribution



Key Indicators

- » Borvor set up its Board of Directors at the end of 2017, once the new organizational and governance structure was put into place (limited liability company / one-tier organization). Prior board was disbanded in 2016 due to the lack of microfinance experience and qualifications of its members.
- » The members of current board of directors evidence a vast experience in various sectors, including the microfinance industry, human resources, marketing, business, fundraising and development.
- » No woman serves on the board, while 80% of board members are independent.
- » Board members are compensated based on Borvor’s financial results.
- » Current board structure faces Borvor with a number of potential conflicts of interests. The HR & Marketing manager is chief of the board, a body empowered to appoint and remove the CEO. Added to this, the same person acts as a staff representative before the board, and is, on his own, one of the five individual shareholders of the organization. The MFI plans to address the situation at the end of current board’s 2-year tenure by December 2019.



Social Mission	Governance	Beneficiary Focus	Social Outcome or Impact	Organization	Environmental Concerns	Financial Sustainability
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Management quality | Strategic leadership | **Outreach and access** | Administrative setup

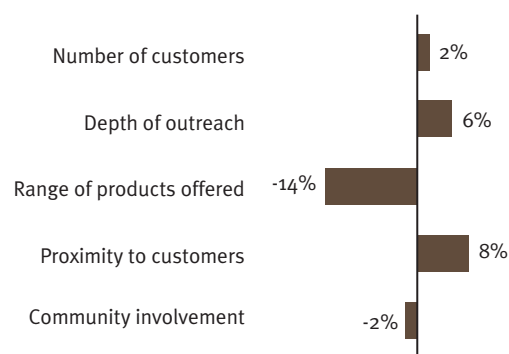
Figure 13

SPIR Sub-Factor Table

Sub-Factor	SPIR5	SPIR4	SPIR3	SPIR2	SPIR1
Number of customers				62	
Depth of outreach					72
Range of products offered	16				
Proximity to customers					79
Community involvement			50		

Figure 14

Relative Contribution



Key Indicators

- » As of December 2017, Borvor had 4,301 active borrowers and 34,070 active savers. Women account for around 61% of the customer base, while early 90% of Borvor clients are from rural areas.
- » Borvor offers individual loans (productive, consumption and emergency), and while it is allowed to retain current savers, cannot collect new savings (forced/voluntary) nor take deposits, owing to tougher banking regulation in force since 2017. Borvor's non-financial offer is limited to informal training on financial literacy.
- » Credit officers visit customer's homes and workplaces, and organizes "Promotion Sessions" to disseminate the institution's products within the local communities. Customer evaluation is carried out at prospective borrowers' homes and workplaces.
- » Loan repayments are normally done at Borvor's offices as they are easily accessible for customers. When offices are not easily accessible for customers due to distances, Borvor organizes a "meeting point" with the cashiers in the local communities to collect the repayments. The average distance between an office and a client is 15km, with the furthest distance noted at 25km.
- » Borvor undertakes community development work based on the demand from the communities it covers.

Social Mission	Governance	Beneficiary Focus	Social Outcome or Impact	Organization	Environmental Concerns	Financial Sustainability
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Management quality | Strategic leadership | Outreach and access | **Administrative setup**

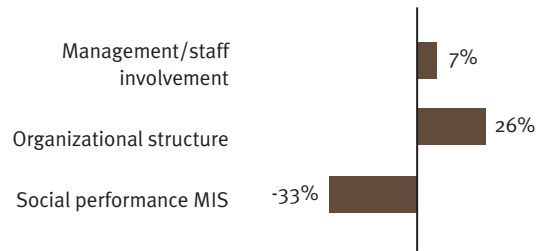
Figure 15

SPIR Sub-Factor Table

Sub-Factor	SP5IR	SP4IR	SP3IR	SP2IR	SP1IR
Management/staff involvement		44			
Organizational structure			52		
Social performance MIS	10				

Figure 16

Relative Contribution



Key Indicators

- » Some social performance topics (e.g. complaints received, employee retention, and inclusion of client protection principles) are reviewed at senior management meetings.
- » There is no separate social performance department.
- » Borvor plans to change its MIS to enable integrate the accounting and loan portfolio tracking system together. This upgrade could allow strengthening risk management and collecting and producing periodic reports on social performance, though the process of change may increase the risk of operational inefficiencies during data migration.



Social Mission	Governance	Beneficiary Focus	Social Outcome or Impact	Organization	Environmental Concerns	Financial Sustainability
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Beneficiary protection | Beneficiary service

Scorecard-implied grade – SPIR2 (69)

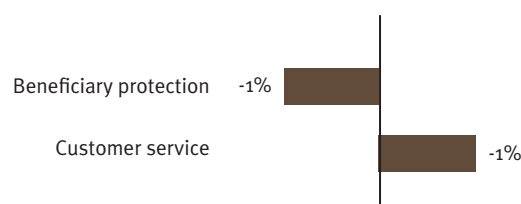
Figure 17

SPIR Sub-Factor Table

Sub-Factor	SPIR ₅	SPIR ₄	SPIR ₃	SPIR ₂	SPIR ₁
Beneficiary protection				65	
Beneficiary service				72	

Figure 18

Relative Contribution



Key Indicators

- » Nominal and Annual Percentage Rate (APR), interest rates, fees, penalties and other terms and conditions are disclosed verbally to borrowers during the promotion sessions and trainings. This information is also disclosed on the loan application forms/loan contracts.
- » A written debt collection policy (Inter Lending Policy) is in place and employees are regularly trained on the policy.
- » The policy describes the recovery steps that Loan Officers and other staff should follow. These policies are also communicated to clients orally.
- » Borvor offers to its clients three types of loan products: productive, consumption and emergency loans. In addition, Borvor has a Loan Protection and Life Savings (LPLS) product, which reduces the financial burden on families of a deceased member and to mitigate financial risk for the institution. Non-financial services include training for clients on financial literacy.
- » The waiting time for loan approval decision is reasonable, at about one to three days and the time required for loan disbursement after approval is one day.
- » Borvor has implemented in late 2017 a process for receiving complaints. Meanwhile, Borvor has started gathering customer feedback in all its branches.

Social Mission	Governance	Beneficiary Focus	Social Outcome or Impact	Organization	Environmental Concerns	Financial Sustainability
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Beneficiary protection | Beneficiary service

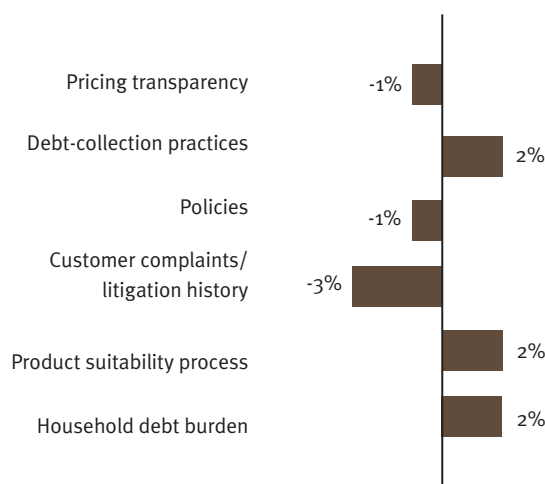
Figure 19

SPIR Sub-Factor Table

Sub-Factor	SPIR5	SPIR4	SPIR3	SPIR2	SPIR1
Pricing transparency				66	
Debt-collection practices				75	
Policies			60		
Customer complaints/ litigation history			55		
Product suitability process				76	
Household debt burden				75	

Figure 20

Relative Contribution



Key Indicators

- » Nominal and Annual Percentage Rate (APR), interest rates, fees, penalties and other terms and conditions are disclosed verbally to borrowers during the promotion sessions and trainings. This information is also disclosed on the loan application forms/loan contracts.
- » Total principal and interest to be paid over the tenure of loans is communicated verbally and is written on the loan application form/loan contracts.
- » Employees are trained to disclose product prices. Employees assess the level of understanding/awareness of loan terms and conditions by clients verbally. No survey/exam/test is carried out to assess clients understanding. Based on the interviews, the understanding and knowledge of clients of the conditions of the loan is moderate.
- » A written debt collection policy (Inter Lending Policy) is in place and employees are regularly trained on the policy.
- » The policy describes the recovery steps that Loan Officers and other staff should follow. These policies are also communicated to clients orally.
- » The written debt collection policy also includes a Code of Ethics that provides guidance to cashiers and concerned staff about the professional behavior during interaction with the members. This includes treating customers with respect, to communicate with them in a polite manner and always be professional and honest.
- » The written debt collection policy also states that Borvor staff be subjected to immediate dismissal without notice in case of any breach in the policy. This includes: deceptive collection practices, manipulation of information/ documents, or the application of violent/abusive tactics during the collection.
- » Borvor has written policies to prevent borrower over-indebtedness. Loan officers conduct a loan assessment of applicants' income, expenses and debt details; visit their homes, workplaces and neighbors, and depending on the amount, will require the co-signature of chief or commune village authority. Information on client experiences is sometimes shared between local micro-finance institutions.



- » Borvor approves loans for clients with other outstanding loans from another institution, as long as the client has the required repayment capacity for its total debt.
- » Borvor has implemented in late 2017 a process for receiving complaints, according to the findings of a prior social rating. The phone number of both HR manager and COO are disclosed at branches and marketing brochures. However, complaints are not monitored for timely and unbiased resolution, and a systematic record of complaints has not yet been developed.
- » Borvor has started gathering customer feedback in all its branches. The last Customer Satisfaction survey was conducted in August 2018 and is expected to be repeated on an annual basis.

Social Mission	Governance	Beneficiary Focus	Social Outcome or Impact	Organization	Environmental Concerns	Financial Sustainability
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Beneficiary protection | **Beneficiary service**

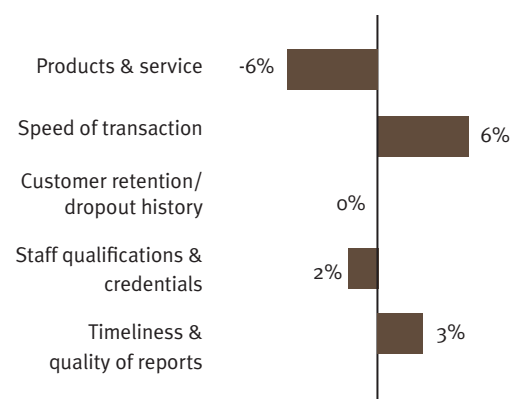
Figure 21

SPIR Sub-Factor Table

Sub-Factor	SPIR5	SPIR4	SPIR3	SPIR2	SPIR1
Products & services			51		
Speed of transaction					90
Customer retention/dropout history				69	
Staff qualifications & credentials			62		
Timeliness & quality of reports					80

Figure 22

Relative Contribution



Key Indicators

- » Borvor offers three kinds of loan products: productive, consumption and emergency loans. It has been observed during the visit that part of the so-called productive credits is used for land acquisition, posing a different kind of risk. This loan purpose is associated with a higher rate of disbursement in USD rather than in KHR and THB
- » Borvor has a Loan Protection and Life Savings (LPLS) product, which reduces the financial burden on families of a deceased member and to mitigate financial risk for the institution.
- » Regulatory changes in force since 2017 have limited Borvor’s financial services offer.
- » Borvor’s non-financial services include informal training for clients on financial literacy.
- » The waiting time for loan approval decision is reasonable, at about one to three days and the time required for loan disbursement after approval is one day.
- » Borvor’s borrower retention rate is high, at approximately 90%. Customer exit interviews are conducted, although this data is not systematically tracked or collated.
- » The total principal and interest amounts to be paid over the entire tenure of loans are disclosed in customers’ loan application/loan contract.
- » Client loan agreements inspected during onsite visit were found to be properly completed.



Social Mission	Governance	Beneficiary Focus	Social Outcome and Impact	Organization	Environmental Concerns	Financial Sustainability
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Participation in social outcome or impact studies | Explicit tool to measure social outcome or impact | Frequency of data collected on social outcome or impact | Transparency

Scorecard-implied grade – SPIR₄₊ (48)

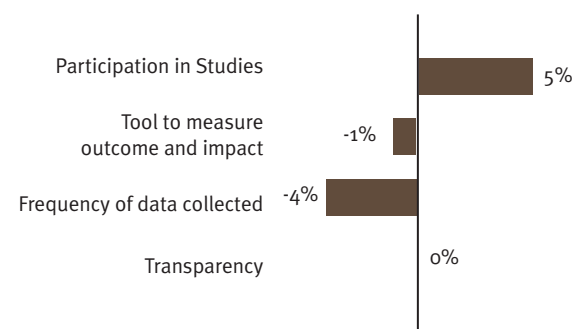
Figure 23

SPIR Sub-Factor Table

Sub-Factor	SPIR ₅	SPIR ₄	SPIR ₃	SPIR ₂	SPIR ₁
Participation in Studies				72	
Tool to measure outcome & impact		45			
Frequency of data collected		43			
Transparency		48			

Figure 24

Relative Contribution



Key Indicators

- » Social outcome and impact studies have been conducted during the last two years, and actions were taken to address the gaps for improvement in terms of social performance (eg. Client and employee satisfaction surveys were conducted, a complaint handling mechanism was established, a new board of directors was created, etc).
- » Social data such as customer income, gender and geographic location is collected when customers apply for loans, but is not utilized in any systematic way to monitor progress in its social performance objectives, with the exception of gender related measurements. Borvor’s 2018-2020 business plan considers the inclusion of social performance management in their business cycle by setting, monitoring, and reporting social performance indicators.
- » Internal communication mechanisms are in place, such as regular organization meetings, however these are not systematically utilized for communicating Borvor’s Social Performance.

Social Mission	Governance	Beneficiary Focus	Social Outcome and Impact	Organization	Environmental Concerns	Financial Sustainability
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Organization and facilities | Code of ethics | Hiring policies (gender and anti-discrimination policies) | Culture of delegation | Fair compensation | Staff skills and training | Promotion and retention | Staff incentives and audit

Scorecard-implied grade – SPIR₃- (50)

Figure 25

SPIR Sub-Factor Table

Sub-Factor	SPIR ₅	SPIR ₄	SPIR ₃	SPIR ₂	SPIR ₁
Organization and Facilities				70	
Code of Ethic			52		
Hiring Policies		42			
Culture of Delegation		46			
Fair Compensation			53		
Staff Skills and Training			55		
Promotion and Retention		45			
Staff Incentives and Audit		35			

Figure 26

Relative Contribution



Key Indicators

- » Borvor counts with a Human Resources Department headed by a Senior Manager.
- » The grievance redressal procedure for staff is clearly documented in the Human Resources Policy. Formal exit interviews are conducted in the event of departure of staff.
- » Borvor does not have a detailed health and safety written policy, however, details of health and safety incidents are recorded. The deployment of first aid kits in all its offices is expected to take place during 2019.
- » The code of ethics includes policies that promote gender equality, confidentiality, professional behavior, and discourages conflict of interest, harassment and financial fraud. Respect to the code of conduct is part of the job description for each position and it should be signed along with the contract.
- » Borvor Human Resources manual does explicitly include that employees will not be discriminated against in hiring, promotion, training, or other employment matters of sex, race, color, religion, or any other status protected under Cambodian laws. Borvor promotes work-life balance and provides maternity or paternity leave. It also includes sickness and emergency leave.
- » There is no staff quota policy in hiring or one that ensures women’s mobility in the field. However, interviews with field staff confirmed that safety measures for the cashiers (usually women), who are responsible for collecting the loan repayments, are put in place.



- » The proportion of women throughout the hierarchy is medium/low. Women account for 37% and 33% of loan officers and senior management levels, respectively.
- » There is no delegation of responsibilities for tracking social performance within the organization.
- » Borvor provides health insurance and work risk insurance to all its employees.
- » Borvor has a salary scale, which is used as a guideline to provide just and equitable salaries. This scale has been published in the Human Resources Policy. Staff compensation is reviewed annually taking into consideration the cost of living, merits and available budget.
- » On joining Borvor, each employee undergoes an induction session. Borvor regularly conducts trainings in topics such as Borvor's social mission, borrower credit analysis, the prevention of over-indebtedness, pricing communication and acceptable debt-collection.
- » Borvor employees are required to sign their job description form, outlining main responsibilities, tasks, and key performance indicators (KPIs).
- » Human Resources manual includes a Performance Management Policy, which is designed to promote result-oriented performance by establishing a clear relationship between performance and reward. During annual performance appraisal employees are evaluated based on collective and individual KPIs.
- » Annual incentives depend on realization of individual, competence and collective targets.
- » Annual incentives and annual performance reviews are based mostly on financial indicators.

Social Mission	Governance	Beneficiary Focus	Social Outcome or Impact	Organization	Environmental Concerns	Financial Sustainability
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Customer standards | Internal standards

Scorecard-implied grade – SPIR5 (20)

Figure 27

SPIR Sub-Factor Table

Sub-Factor	SPIR5	SPIR4	SPIR3	SPIR2	SPIR1
Internal standards	20				
External standards	20				

Figure 28

Relative Contribution

Internal standards	0%
External standards	0%

Key Indicators

- » There are no written policies on environmental practices neither internally within the institution nor relative to clients.
- » Interviews with staff confirmed that electricity efficiency measures are promoted.
- » As an informal practice, the institution does not finance unauthorized activities that can harm the environment such as the purchase of certain types of machines that are harmful to the environment (e.g. batteries for fishing purposes or tools to cut trees) as they are deemed illegal by local authorities. However, these informal restrictions are limited to whether the activity is legal or not.



Social Mission	Governance	Beneficiary Focus	Social Outcome or Impact	Organization	Environmental Concerns	Financial Sustainability
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Liquidity | Capital structure | Funding source sustainability | Cost structure

Scorecard-implied grade – SPIR3- (51)

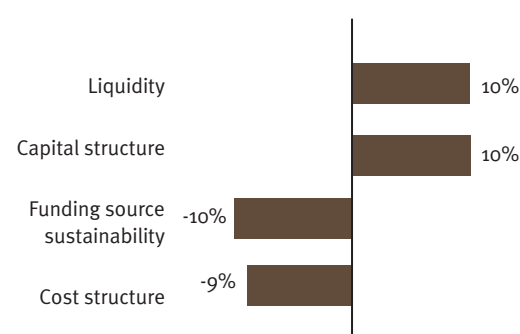
Figure 29

SPIR Sub-Factor Table

Sub-Factor	SPIR5	SPIR4	SPIR3	SPIR2	SPIR1
Liquidity				68	
Capital structure					85
Funding source sustainability		33			
Cost structure		32			

Figure 30

Relative Contribution



Key Indicators

- » Liquidity is deemed moderate, albeit improving in 2018 from the previous year end 2017, with current assets exceeding current liabilities by 1.2X. The improvement however, is mainly due to a decrease in customer deposits, as withdrawals have intensified resulting from regulatory changes, and while loan tenure has increased. PAR30 of 6.6% is a concern, and is an increase over previous years.
- » Capital structure has improved to very strong, with low leverage of <100%, down from prior year. Again, the improvement hides the fact that total assets (loan portfolio) has run down, as funding from deposits decreases.
- » Maturity of the portfolio has changed during 2017, with a larger proportion of loans disbursed in the 1-3 years segment. In addition, disbursement in USD has increased at a higher rate than loans in KHR and THB. Borvor's portfolio is largely concentrated on the agriculture sector, accounting for 60% of total loans disbursed.
- » Change in regulation during 2017 has prevented the MFI to take on new deposits and, intensive withdrawals from clients, has led to a high level of dependency on international financing. Although the MFI is entitled to maintain current deposits, it expects that within the period 2018-2020 c. 86% of deposits are expected to be withdrawn.
- » Non-financial sources of funding have been in place for over 3 years but they are rather concentrated in a small number of sources, whilst ability to diversify and obtain additional sources has been challenging.
- » Cost structure's strength is moderate. Borvor's operating expenses have increased as a percentage of financial income, mainly due to a decreasing loan book.
- » Although Borvor's capital structure is quite strong with very low relative leverage, all other key financial indicators have weakened, primarily driven by the intensive deposit runoff and lack of more stable funding. A falling loan portfolio resulting from a lack of funding plus a weakening asset quality, places a considerable strain on financial sustainability going forward.

The Cambodian Microfinance Market

Moody's Investor Services has assigned Cambodia a B2 credit rating, with a stable outlook.

Figure 31

Cambodia: Key Credit Metrics

	2015	2016	2017	2018E
Real GDP (% change)	7.2	7.1	6.9	7.0
CPI inflation (% change Dec./Dec.)	2.8	3.9	2.2	3.3
Gen. gov. revenue/GDP (%)	18.8	19.8	19.5	19.5
Gen. gov. financial balance/GDP (%)	20.3	21.5	23.1	24.4
Gen. gov. debt/GDP (%)	32.5	33.7	35.1	35.8
Current account balance/GDP (%)	-9.3	-8.8	-8.8	-10.7

Source: FMI

Key Credit and Macroeconomic Factors

Cambodia has undergone profound changes since the mid-1980s, while shifting from a centrally planned towards a market-oriented economy. A robust growth rate – driven by garment exports and, to a lesser extent, tourism – has led to a significant reduction in poverty (from 50.2% in 2004 to 13.5% in 2014), while price and exchange rate stability has fostered foreign direct investment.

However, Cambodia's macroeconomic outlook remains constrained by (1) the lack of economic diversification (2) rising vulnerabilities in the banking industry, and (3) persistent political tensions.

The country's economic strength is impacted by the economy's small size (with nominal GDP of US\$ 22.2 billion), (2) its low per capita income (US\$ 4,001 on a purchasing power parity basis), and (3) the extremely weak infrastructure as the result of decades of civil war.

Cambodia's institutional strength is considered low as reflected by its Worldwide Governance Indicators, receiving the lowest score across South East Asia for control of corruption and rule of law. Institutional weakness is also reflected in the difficulty of doing business, where Cambodia ranks among the worst performers in the region.

In 2017, through a ruling by the Supreme Court, numerous opposition politicians were banned from doing politics, the main opposition party The Cambodia National Rescue Party (CNRP) dissolved, and its leader, imprisoned. Political uncertainty worsened in July 2018, after elections highly questioned by the international community, in which the ruling Cambodian People's Party (CPP) won all seats in Parliament and amid a sharp rise in prosecutions for online speech. Certain relief came in December 2018, after the country's Parliament passed a Law that restores political rights to citizens who were banned during the previous year.

Current Market

In 2017, the National Bank of Cambodia (NBC) established an interest rate ceiling of 18% per annum. Meanwhile, average deposit interest rates for loans declined aiming to compensate the interest rate ceiling.

In terms of portfolio by economic activity, the household sector stands out, accounting for 31% of total outstanding loans, followed by the agriculture and the trade and commerce sectors (30% and 19%, respectively). Outreach to women is good, representing 77% of total portfolio.



Regulatory Environment

Cambodia's financial infrastructure includes the Central Bank (National Bank of Cambodia), commercial banks, specialized banks, financial lease companies and MFIs. The MFI segment, in turn, is divided into four categories comprising deposit-taking microfinance institutions (MDIs), non-deposit taking MFIs, registered microfinance operators and unregistered informal lenders.

The Law on Banking and Financial Institutions of 1999, along with the rules on licensing of Microfinance Institutions issued by the central bank a year later, laid the foundation for the microfinance regulatory body. Since then, the National Bank of Cambodia has issued a number of prudential regulations and guidelines for licensed MFIs including capital and liquidity ratios, credit exposure limits and reporting requirements.

In March 2017, the NBC set a maximum interest rate, granting institutions three weeks to implement the rate ceiling. The regulation, aimed to protect borrowers, has sparked widespread controversy within the sector.

Competition

The Cambodian microfinance sector has expanded remarkably in recent years. As of 2017, the microfinance sector took deposits for 8.1 trillion KHR (3-year CAGR of 24%) and disbursed loans for 15.9 trillion KHR (3-year CAGR of 14%).

Meanwhile, the fastest growing sector has been the one subject to fewer regulations. In 2017, the number of licensed microfinance institutions (deposit taking + non-deposit taking MFIs) rose by 5, to 76 (3-year CAGR of 14.5%). At the same time, registered microfinance operators surged by 141 to a total number of 311 (3-year CAGR of 68.9%).

Inclusion [Social Ratings] focuses exclusively on rating social performance and impact. Created as a social enterprise, its primary mission is to promote financial and social inclusion across the globe. It provides Social Performance Ratings (SPR) to microfinance organizations whose missions and goals promote financial inclusion and social responsibility. In addition to the rating of microfinance Institutions, Inclusion [Social Ratings] assigns social ratings, using its proprietary methodology, to rate financial institutions, insurance companies, businesses, social enterprises and other organizations active in the social sector field.

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