Draft Southeast Asia Strategy

Creating a Nation of Women Savers

Contents

Annexes

I. Executive Summary

The proposed 2011-2013 Southeast Asia strategy is to engage a consortium of Cambodian microfinance deposit-taking institutions (MDIs) in creating a nation of women savers. This is a strategy to focus not on an institution but on a country for greater leverage and wider impact.

This will allow WWB to fulfill its mandate of expanding the low income women's economic assets, participation and power through access to financial services particularly savings. Success will also serve as proof of the business case for serving women.

There is a confluence of elements that clearly point to a strategy of incubating savings in Cambodia with a consortium of 3 to 4 Cambodian MDIs. The consortium, pending further evaluation, is proposed to include AMK, Credit, VFC and Amret. Microcredit has experienced a compounded growth rate of 53% in portfolio and 22% in borrowers over the 5 year period from 2004 to 2009 while savings has been left behind. Savings is a huge unmet need by clients (particularly women) as a service; by Cambodian MDIs as a source of fund; and, by the nation, as source of investment. Savings to loan ratio is at 3% and savers to borrower ratio is at 0.13[1]. The favorable enabling environment and the acquisition of MDI licenses by the strong MFIs over the last 3 years increase the chances for success. The opportunity is made more appealing because very few international (and local) savings service providers are adequately addressing this need and taking on the opportunity despite the fact that Cambodian microcredit was built on the initiatives of INGOs and international development agencies. This is the perfect time for WWB to come in with the savings expertise that it has gained as well as demonstrated over the years most notably, in Kenya, Pakistan, Colombia and the DR. WWB can also build on the previous savings initiatives in Cambodia by the ADB. The savings strategy should also include a financial education component. This will impact the wider population and future generations. It will also be responsive to the need of the sector. After savings, come opportunities in microinsurance. And finally, Initial conversations with potential donors reveal their serious interest in Cambodia as a target country; and, in savings as a microfinance offering; and, in WWB as a savings service provider. The funding is proposed to be done in 2 stages with a feasibility study and an implementation stage.

As a long-term "bonus", Cambodia is a gateway to Vietnam, a larger microfinance market that will open up 2013 and beyond. There are also the nascent but smaller markets of neighboring Lao and Burma. Once WWB has set a foothold and establishes its brand in Southeast Asia's Mekong region, there may be future opportunities in the rest of Southeast Asia, i.e., as soon as we figure out how to enter the heavily government-dominated microfinance markets of Thailand and Indonesia and how to compete in the highly competitive Philippine microfinance. Moreover, there will be the benefit of discovering potential new network members for WWB, investment-grade institutions for the ISIS Fund, and potential partners for the WWB Hold Co.

All of this will uniquely position WWB to influence and leave its mark in creating a more inclusive finance especially for low-income women in a significant region of Asia.

[1] The figure is net of Acleda Bank figures.

II. Background

A. WWB's 2011-2013 Strategy

WWB developed a 3-year corporate strategy that will enable its network members as well as collaborating partners to serve women effectively and to help prove the business case for serving low income individuals especially women. While this strategy has many elements, it has a sharp focus on product innovation and diversification. Under the strategy, WWB will work with institutions to incubate, develop and scale credit, savings and insurance products that are responsive to women's financial needs.

There is a hypotheses posited that "there are countries within the Southeast Asia region that can help WWB further its strategic agenda". The Southeast Asia region comprises of 11 nations, 7 of which have microfinance sectors of some levels of significance. It is important to note that outside of the Philippines, WWB has no presence in and has little knowledge of the region.

This regional strategy exercise directly responds to the hypothesis. It looked broadly at 5 of the 7 nations and more sharply at 3 that provide the greatest chance for success in product incubation and scaling. While there is a product focus, the regional strategy was open to identifying opportunities in areas that WWB is also invested in, e.g., promotion of women's leadership, investments in progressive like-minded institutions, spread of financial education and research that advances women's empowerment.

The resulting Southeast Asia strategy is meant to take advantage of opportunities in the region that expands the WWB product-focused strategy.

B. Approach to Defining WWB's Southeast Asia Strategy

The first key task is to identify and prioritize potential partners within and outside the WWB network that will collaborate in developing innovative products. The task answers two key questions, "<u>What product will we incubate or scale, where and when?</u>", and "<u>With whom will we partner?</u>" The innovation partners may be MFIs, banks and other appropriate entities that will serve as beta sites in incubating or scaling innovative products. The second key task is to identify potential funding as well as financing arrangements that will support these initiatives. The task answers the question, "<u>How will this partnership be financed?</u>" The financing may be through grant funds, the partner's own funds, fee for service arrangements or some combination thereof.

In getting answers to these 3 questions, the following steps were undertaken over a 3 month period to ensure that the strategy is data-driven:

i. Preparations – plan; organize the resources including the services of interns and the inputs of an advisory team; develop the budget and the logistics; get a deep understanding of WWB's product development agenda and capabilities; get an understanding of WWB's funding strategy and plans; develop the research framework

ii. Secondary research – generate relevant country data; develop a country prioritization criteria; generate relevant individual MFI data per country; develop an implementing partner prioritization criteria; develop hypotheses on country and partnering opportunities including country focus; develop hypothesis on funding options

iii. Field research – develop the interview list and interview guides for 3 countries; land the interviews of key informants; test, confirm and disconfirm different hypotheses; get fresh industry information; meet and gauge CEO's of potential implementing partners; promote WWB and its offerings; analyze findings and integrate observations

iv. Strategy development – opportunity identification (identify the clear country opportunities that match the WWB offerings); identify the implementing and funding partners; recommend the approach and action plan; write the strategy paper and create the powerpoint presentation; get inputs from the advisory team; refine and finalize the strategy

It should be noted that significant amount of analysis used MixMarket data which may not cover all the MFIs in the country. The data is also mostly circa 2009 which were updated if newer data was available.

III. Microfinance in Southeast Asia

A. Regional Overview

Of the 11 Southeast Asian countries Singapore, Brunei and even Malaysia are wealthy countries that have no or limited microfinance. While, there is microfinance, Timor-Leste and Lao have relatively very small economies and Burma has a closed economy. That leaves 5 countries for WWB's consideration: Cambodia, Indonesia, Philippines, Thailand and Vietnam. Refer to Table 1below.

Table 1: Countries for WWB's Consideration

Country	Area (km^2)	Population(2009)	Density (/km^2)	GDP USD (2009)	GDP per capita (2009)
Brunei	5,765	428,000	70	10,405,000,000	$25,386
Burma	676,578	50,020,000	74	34,262,000,000	$571
Cambodia	181,035	14,805,000	82	10,871,000,000	$768
Timor-Leste	14,874	1,134,000	76	556,000,000	$499
Indonesia	1,904,569	240,271,522	126	539,377,000,000	$2,329
Laos	236,800	6,320,000	27	5,598,000,000	$886
Malaysia	329,847	28,318,000	83	192,955,000,000	$7,525
Philippines	300,000	91,983,000	307	172,196,000,000	$1,748
Singapore	710.2	5,076,700	7,023	182,231,000,000	$36,379
Thailand	513,120	67,764,000	132	263,979,000,000	$3,941
Vietnam	331,210	88,069,000	265	93,164,000,000	$1,068

Source: Wikipedia

In the 2009 MixMarket, 105 MFIS in the 5 countries under consideration account for a total of US$5.5 billion in gross loan portfolio and 11.9 million active borrowers with an average loan balance of $462. These figures do not have the numbers for the huge government-controlled institutions like Bank Rakyat Indonesia (BRI), Bank for Agriculture and Agricultural Cooperatives (BAAC) and Government Savings Bank (GSB) of Thailand. Refer to Table 2 below.

Table 2: Portfolio Characteristics

Country	MFIs	Number of active borrowers	Gross loan portfolio (USD)	Average Loan Balance (USD)
Cambodia	14	1,110,687	828,738,672	746
Indonesia	16	286,124	90,052,775	315
Philippines	59	2,680,065	590,353,449	220
Thailand	1	4,860	1,253,479	258
Vietnam	15	7,798,660	3,978,479,323	510
	105	**11,880,396**	**5,488,877,698**	**462**

**MFI's reporting data to the Mix for 2009*

Table 3 below gives a flavor of how microfinance in the 5 Southeast Asian countries compares with their South Asian neighbors and with the other regions.

Table 3: Comparative table of the microfinance industry in Southeast Asia

Country	MFIs	Number of active borrowers	Gross loan portfolio (USD)	Average Loan Balance (USD)
South Asia	185	50,435,120	7,481,589,711	148
MENA	61	2,356,778	1,007,248,477	427
5 in SEA	105	11,880,396	5,488,877,698	462
Africa	189	5,729,394	4,385,583,987	765
LAC	342	14,185,027	19,520,731,045	1376
EU/Central Asia	218	2,753,714	7,434,456,721	2700
	1100	**87,340,429**	**45,318,487,639**	**519**

*MFI's reporting data to the Mix for 2009

The two tables show that there is a vibrant microfinance sector in Southeast Asia that compares well with other regions. The picture even improves if Southeast Asia region is expanded to include East Asia dominated by China and the Pacific island nations.

B. Country Overview

1. Cambodia

The Cambodia economy has severely hit by the global financial crisis in 2008-9 and recorded negative GDP growth in 2009 but the recovery has been acute since 2010. GDP is the smallest among the peer in Southeast Asia and it is one of the poorest countries in the region, with 58% of the country living under $2/day. The Cambodian government created favorable market conditions for microfinance and relatively strong regulation framework. Licensing, regulation and supervision of microfinance are conducted by the Central Bank, National Bank of Cambodia (NBC). The microfinance market has been open to international NGOs and investors. The onset of the global financial crisis revealed over-indebtedness and multiple-lending problem in the sector.

2. Indonesia

Indonesia has the highest population in the region at 231.1 million people, 54.6% of whom live under $2/day. GDP as of 2009 was also the highest in the region at USD $960 billion and GNI per capita of $1,880. State banks still have a significant share of the overall banking system in Indonesia. Market-led microfinance does not have a strong role in the country, particularly due to competition with the government represented by Bank Rakyat Indonesia (BRI). 60 MFIs reported to Mix in 2009 with a reach of 286,124 active borrowers. 2010's EIU Microfinance Business Environment ranked Indonesia #41 among 54 countries, because of the state intervention and regulatory restrictions. Government intervention through regulation and lending programs creates a crowding-out effect and limits private sector MFI development.

3. Philippines

For 2010 as a whole, Philippine economic growth amounted to 7.3 percent, the highest since 1976, and in sharp contrast with the 1.1 percent expansion in 2009. The country's population is 92.2 million people, of which 65% reside in urban areas. Despite the economic strength in the last year from private consumption, investment, and net exports, the Philippines still has a high percentage of the population in poverty. 45% of the country lives under $2/day. As of 2009, the Mix had 60 MFIs registered reaching 2.7 million active borrowers. 2010's EIU Microfinance Business Environment ranked the Philippines #2 among the 54 countries, moving up from #3 in the 2009 report. The Philippines was ranked #1 in regulatory framework by the EIU report.

4. Thailand

Thailand has relatively large GDP among the region and considered as an advanced economy with GNI per Capital to be the highest and the poverty rate is the lowest at 12%. There is a stable economic environment, with inflation rates to be low and the strongest industrial production growth rate. Microfinance sector in Thailand is characterized as the involvement of the government into the sector and the crowding effect. Lower-income households rely mainly on government agencies such as the Government Savings Bank (GSB) and Bank of Agriculture and Agricultural Cooperatives (BAAC). The authorities intend to relax some regulations to allow new domestic or foreign microfinance providers to set up operations. However, the practical implications of the new regulations have yet been detailed.

5. Vietnam

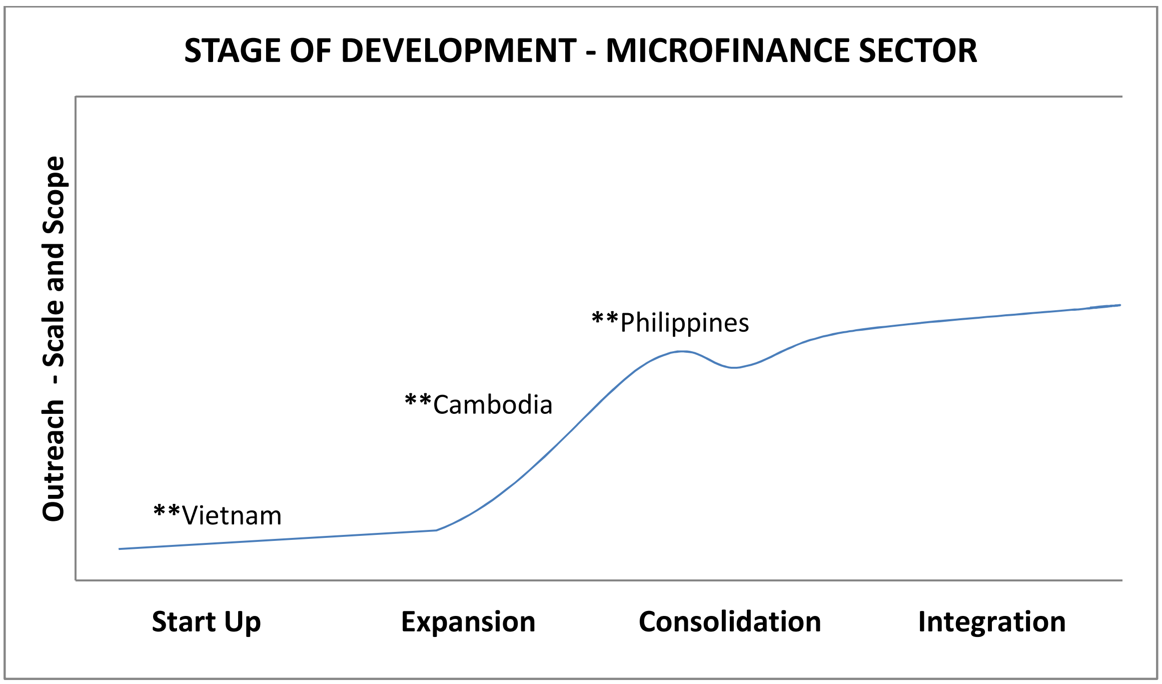
Vietnam has relatively large population within the region. It also has a large low-income segment with poverty rate at 48%. Despite the global financial crisis in 2008-9, historical GDP growth rate has shown constant growth. The issue in microfinance sector in Vietnam is the government led industry. The market is dominated by the government funded organization, primarily the Viet Nam Bank for Social Policy (VBSP), which is mandated to provide supply-driven policy lending at unsustainable low interest rate. The government is in the process of crafting a national microfinance strategy including licensing microfinance providers and easing market entry for new domestic and international institutions.

C. Trends, Opportunities and Challenges

Both Thailand and Indonesia have microfinance sectors that are dominated by huge government owned or controlled institutions. They in effect, dictate the trends and influence the opportunities for private-led microfinance operations. This government dominance is the challenge in these 2 countries.

The three countries of Vietnam, Cambodia and Philippines are in different stages of development. Figure 1 gives some rough visual indication of where the microfinance sector is for each of the countries.

Figure 1: Stages of Development for the Microfinance sector in Vietnam, Cambodia and Philippines[2]



For each country, there will be different trends, opportunities and challenges uniquely corresponding to the sector's stage of development.

Vietnamese microfinance is in a nascent stage of development. Like Indonesia and Thailand, there is government dominance of the sector. But unlike Indonesia and Thailand, the government has taken concrete and comparatively aggressive steps to open up the sector and allow it to be more market-driven. The Bank of Vietnam has issued two decrees related to microfinance that will encourage the growth of licensed microfinance providers. The ADB and other international agencies like the ILO are continuing to support this shift. As the framework is put in place, many opportunities will come in the

[2] Please note that this was prepared qualitatively for visualization using a 2004 UNCDF chart as a template.

not-so-distant future to build the appropriate meso-level infrastructures and to build institutions and institutional capacities including product innovation. The challenge is how to speed up this change process.

Cambodian microfinance is emerging and is in a growth stage. Favorable policy and international attention and investment have spurred the growth of the sector. Investor scrutiny that came with international capital has led to a more transparent and open sector. Based on MixMarket data, the sector has experienced an amazing compounded growth rate of 53% in loan portfolio and 22% in borrowers for the 5-year period from 2004 to 2009. However, in a small market like Cambodia, this has raised the specter of overlapping clients, client over-indebtedness and market saturation. The growth has been more in portfolio than in borrowers. While there is the challenge of managing overcrowding in credit, the situation represents an opportunity for product diversification that includes savings and microinsurance.

Philippine microfinance is still in the expansion stage but entering a level of maturity leading to consolidation and integration into the financial system. It has grown at a more modest compounded annual growth rate over the period 2004 to 2009 at 27% in loan portfolio and 21% in borrowers. The more organic steady growth has allowed the sector to better manage potential for client indebtedness. There is also a strong support by donors in diversifying products beyond credit into microinsurance. The use of technology particularly mobile banking as an alternative delivery channel of microfinance services is being actively pursued both by banks and telecommunication companies. This will help address the long-time challenge of high operating costs that besets the sector. In a maturing market, there is also competition not just among MFIs but also among service providers. In both case, there is the challenge and the opportunity to compete in price, quality of service and innovation.

IV. Southeast Asia Strategy

A. Priority Countries

What product will we incubate or scale, where and when?"

The 5 countries were put through a prioritization process that had 7 categories that drive microfinance success. The categories or questions touched on the country context and the microfinance environment. The questions were answered by integrating 33 quantitative indicators and 19 qualitative considerations to form an opinion of WWB's probability of success in that country. The answers were weighted according to perceived relative importance of each category. The 7 categories with their weights are in Table 4.

Table 4: Categorization Process

Categories or Questions	Weight
1) Stable country context **How supportive and stable is the country environment?**	10%
2) Strong market potential **How big is the potential demand for microfinance services?**	10%
3) Microfinance enabling environment **How supportive is the microfinance environment at the macro level?**	20%
4) Microfinance enabling infrastructure **How supportive is the microfinance infrastructure at the meso level?**	15%
5) Sufficient commercial finance and funding for growth **How much private-led funding is available to the sector?**	15%
6) Vibrant microfinance sector and supply **How vibrant is the microfinance retail sector?**	20%
7) Women-friendly culture and society **How women-friendly or gender sensitive is the society or culture?**	10%
Total	**100%**

The 5 countries were forced rank from 1 to 5 against each category with 1 being the relative best and 5 the relative worst ranking. This led to a preliminary list of countries that WWB should prioritize. See Figure 2 below. Indonesia and Thailand wound up as less priority countries primarily because they scored low on almost all the categories especially on the questions of enabling environment and sector vibrancy. Moreover, these two countries are economically more advanced than the other three countries. The hypothesis to be validated in the field research is, "the Philippines, Cambodia and Vietnam in that order, present the countries of opportunity for WWB's product-focused strategy."

Figure 2: Prioritization Process

	Weight (%)	1 Philippines	2 Cambodia	3 Vietnam	4 Indonesia	5 Thailand
Stable country context (How supportive and stable is the country environment?)	10%	3	5	4	2	1
Strong market potential (How big is the potential demand for microfinance services?)	10%	1	3	2	4	5
MF enabling environment (How supportive is the microfinance environment at the macro level?)	20%	1	2	3	4	5
MF enabling infrastructure (How supportive is the microfinance infrastructure at the meso level?)	15%	1	2	3	4	5
Sufficient commercial finance (How much private funding is available to the sector?)	15%	1	2	3	4	5
Vibrant MF sector and supply (How vibrant is the microfinance retail sector?)	20%	1	2	3	4	5
Women-friendly culture & society (How women-friendly or gender sensitive is the society or culture?)	10%	1	5	4	3	2

However, further research and field interviews did not fully confirm this hypothesis. The WWB product offerings for incubation and scaling were matched against the three country markets. Information gathered from interviews and secondary researches were then analyzed and integrated that created a picture that helped identify the business and strategy opportunity for WWB.

Philippines. The Philippines is a well-developed market where both microfinance and the technical assistance space are highly competitive. Technical assistance or technical service provision are both high quality and price sensitive. It is a challenge for a technical service provider to differentiate itself from the rest of the competition. There are listed in the MixMarket 11 specialized and general Technical Service Providers (TSPs) excluding numerous local TSPs. In the MixMarket, there are also listed 13 national and international networks and 10 funds/funders, many of whom bring their own TSPs. CGAP also has in its database of consultants, 15 individual Filipino and Philippine-based consultants with a good number having, international experience. Add to this, there are 75, non-Filipino consultants in the database who have experience consulting in the Philippines. In the CGAP database only India, Kenya and Uganda beat the Philippines in the number of consultants that have experience working in that country, i.e., India has 244; Kenya has 113 and Uganda 108. The Philippines with 90 consultants beats the mature markets of Bangladesh, Bolivia, Peru, etc. Vietnam and Cambodia have 52 and 39 listed

> "The demand (for TA) is there but the supply of service providers is high…Some institutions are willing to go only as high as $50 per day."
> Microsave Regional Manager
>
> "The price point for TA is about $100 per day at the low end and $300 per day at the high end."
> Microfinance Council of the Philippines
> Executive Director

consultants with those country experiences, respectively. This gives a flavor of the broad and deep level of microfinance consulting that has taken place in the Philippines relative to other places. In addition, donors are also starting to exit the country due to the maturing stage of Philippine microfinance. For WWB to be able to compete, it has to be able to price itself at the rate that the market can bear or match local providers or justify with funders the much higher price for the unique value that it brings.

It is important to note that the 2 network members in the Philippines, CARD Bank and NWTF while expressing full support for WWB's product focused strategy did not express interest in accessing WWB's technical assistance especially in this area. In the case of CARD Bank, they are already in partnership with a number of TSPs including Grameen Foundation under a Gates-funded savings project. In the case of NWTF, they have a more conservative growth strategy and they are directionally focused on broadening financial and non-financial services further down market. They are relying primarily on organic growth. However, both of them expressed continuing interest in information exchange and peer learning opportunities on the products that we are focusing on. In any case, they have categorically stated no objection to WWB offering its TA services to non-network member MFIs even if they may be their competitors. They also offered to be used as WWB resources if needed.

In speaking with some MFI NGOs and rural banks, it was clear that there is a range of interest from mild to eager in WWB inputs in the different product offerings. However, the key concern is how it will be paid for. They do not expect to shoulder the cost of incubation without significant grant funding. In addition, because of the sophistication of the market, they are not interested in receiving the full suite of offerings but only certain modules that will fill in gaps and complement their areas of strength.

Beyond the MFI NGOs and rural banks that are the traditional market for technical assistance, there are new entrants to Philippine microfinance, the universal and commercial banks which may represent a new market for TA since they presumably do not know the business of microfinance. The idea that Philippine commercial banks that are going down market into microfinance would be willing to pay the full cost of technical assistance was tested. This hypothesis was quickly disconfirmed at least in the case of a leading universal bank that established a microfinance subsidiary, Rizal Micro Bank. Their strategy is to hire experienced microfinance people rather than hire the services of microfinance consultants which they have done. They attracted people from other microfinance institutions or microfinance service providers to establish the business. Besides this, the bank is not solely in the microfinance space. They are disbursing loan sizes that go beyond micro and straddle the SME space. This allows them to get to break even and eventually, profitability at the shortest possible time.

Cambodia. What the research and interviews consistently revealed in the case of Cambodia is that Cambodia offers the best chance for success for WWB's product incubation and scaling strategy for the period 2011 to 2013. Apart from revealing that Cambodia should be the priority country for WWB, the research and field interviews further revealed that savings is the biggest opportunity for WWB. This is where the most urgent need is for Cambodian MFIs. Following that are girl's savings and health microinsurance. All the interviewees talked about the need to diversify their products within microcredit and beyond, e.g., microfinance that at least, has savings in the equation. Of the 8 largest MFIs reporting to the Mix (excluding ACLEDA), 7 have acquired licenses from the National Bank of Cambodia as Microfinance Deposit-taking Institutions or MDIs. The first 2 acquired their licenses in January, 2009; 4 got theirs in 2010 and 1 in 2011. The 8th one is looking at applying also in 2011. All of the 7 have what they call "copycat" basic savings products. Table 5 below was generated from the MixMarket using 2009 data. It gives an indication that present savings level among Cambodian MFIs/MDIs excluding ACLEDA Bank. If ACLEDA's 128% deposit to loan ratio is used as a gauge of the potential for savings, all the MDIs have a long way to go to get to this point since their combined deposit to loan ratio is only 3%. The ratio of 0.13 depositors for every borrower also shows how far the destination is. Looking at the ratios for the other countries show how much work needs to be done to bring the level of savings in Cambodia to a comparable stage. They have all expressed the need to significantly improve their savings offerings. This will require varying degrees of inputs or TA in market research, product design, costing and pricing, marketing, delivery channels, training, pilot-testing and roll-out. While there is a strong need for TA, there are not enough high quality local or international TSPs that are engaged in the Cambodian market. It will also be ideal to embed a financial education element to the savings engagement. This is an urgent need by the sector in response to client indebtedness as expressed by the Chair of the Cambodian Microfinance Association (CMA).

> "The major challenges for the Cambodian microfinance sector are:
> - Lack of diversity in products
> - Difficulty in implementing client protection
> - 80% of the sector's funding is foreign and with only 2 local commercial banks as lenders
> - Preventing overlapping of clients
> - Absence of local microfinance consultants"
>
> Cambodia Microfinance Association General Manager

Table 5: Savings levels

	Deposit-to-loan ratio	Depositors-to-borrowers ratio
Cambodia (excluding ACLEDA)	3%	0.13
ACLEDA alone	128%	2.43
Vietnam (excluding the giant, VBSP that does not have savings)	30%	1.11
Philippines	73%	1.27
Bangladesh	77%	1.35
Bolivia	91%	2.19

	Deposit-to-loan ratio	Depositors-to-borrowers ratio
Dominican Republic	53%	1.1
Uganda	98%	4.01
Kenya (excluding KPost Bank	93%	3.87

And the timing is perfect where 2011 can be spent strengthening relationships, establishing the WWB brand, deepening the research and preparing funding proposals. 2012 and 2013 will be the period for product delivery.

Vietnam. The Interviews did reveal that Vietnam represents an opportunity beyond 2013. Vietnam is the country that is full of product diversification opportunities for 2013 and beyond. As earlier referenced, the government is both regulator and dominant provider of microfinance. Market distortions exists for example where the government microfinance institution rather than market competition influence the way the game is played particularly in setting interest rates. The government interest rates are inevitably subsidized. The government owned and controlled MFI is able to live with its losses and negative returns but it puts pressure on the survival of non-subsidized MFI NGOs. Fortunately, the few MFIs that compete with government are still able to price their services just slightly higher. They justify the premium in prices that clients have to pay with better services. Moreover, since the loans coming from government are never enough to meet the needs of the clients, the MFI NGOs are still able to have a slice of the market. The ADB has a continuing country program to help transform the sector into a more market-driven system. And once the change takes root, the sleeping microfinance giant that is Vietnam will wake up and quickly move into the growth stage.

"We are there now because we want to be there when things ease up" Oiko Credit Regional Director in reference to their foothold presence in Vietnam

And beyond Vietnam, there are the nascent Lao and Burmese microfinance sectors which by then would have followed the Cambodian track. Once WWB establishes a strong credible presence in the Mekong region, it can explore possibilities in Indonesia and Thailand, which by then, might also have opened up their markets.

The opportunities or the absence of it in the Philippines, Cambodia and Vietnam are summarized in Table 6.

Table 6: WWB Product Offerings for Incubation or Scaling

<table>
<tr><th>Priority Country Markets</th><th>Women-focused Individual Lending</th><th>Women-focused Rural Lending</th><th>Women’s Savings</th><th>Girl’s Savings</th><th>Health Microinsurance</th><th>Mobile Banking as an ADC</th><th>Financial Education</th></tr>
<tr><td>Philippines</td><td>NO opportunity because of a long established USAID MABS Project on IL and targeting women is not seen as an urgent need nor a priority</td><td rowspan="2">Little opportunity because Planet Finance has an on-going project that has a strong component on improving access to microfinance services for small farmers together with the other components on financial literacy and SPM</td><td>Little opportunity unless WWB's TA pricing can compete with the local market or WWB’s TA is differentiated differently</td><td>Little opportunity unless WWB's TA pricing can compete with the local market or WWB’s TA is differentiated differently</td><td>NO because of the GTZ Microinsurance project that is addressing many aspects of microinsurance including hospitalization and the existence of the PhilHealth System which aims at universal coverage; there is also MICRA of Mercy Corps</td><td>NO because of a long established USAID MABS Project on mobile banking</td><td>NO as the Philippine central bank has this as its initiative and the Planet Finance project has a financial literacy and an SPM component</td></tr>
<tr><td>Cambodia</td><td>Little opportunity because IL is doing well and targeting women is not seen as an urgent need nor a priority</td><td>YES, the timing and the conditions are perfect – deposit to loan ratio is at a low 3% and there are 7 relatively new MDIs</td><td>YES – there are expressed interests but as a 2nd priority to adult savings</td><td>In the future, YES once the microinsurance legal framework is put in place probably by 2012 or 2013</td><td>In the future, YES once the telecommunication sector passes the infant phase and mobile phone penetration goes much higher than the current estimate of around 30%</td><td>YES - 2nd priority; in response to the request of the Chair of the microfinance network</td></tr>
<tr><td>Vietnam</td><td colspan="7">In the future, YES once the difficult regulatory environment with government as dominant competitor and regulator eases; Note that language translation to Vietnamese is a must and this adds significantly to the cost of foreign technical assistance</td></tr>
</table>

B. Focus on Cambodia

1. Implementation Partners - "With whom will we partner?"

The data clearly led to narrowing down the choice of implementation partners to Cambodian MDIs or MFIs. The question narrows down to which of the 14 Cambodian MDIs or MFIs reporting to the MixMarket is the best potential partner for WWB. Of the 14, ACLEDA Bank was taken out primarily because it has an average loan balance per capita GNI of 278% and an average loan balance of $2,170 when the average loan balance of the 13 other institutions is only $337. This proxy measure of how poor the client base shows that ACLEDA has gone upmarket significantly moving in a different segment. Of the remaining 13, this was further narrowed down using as a cut-off, the WWB performance standard of a minimum of 25,000 clients. This left 8 institutions that have an outreach of at least 25,000 active borrowers.

The remaining 8 institutions were then put through a prioritization process that involved forced ranking them from 1 to 8 against 3 categories. The first 2 category takes off from the WWB NM segmentation framework where NMs where judged against their focus on women and their institutional size and strength. However, instead of using just the focus on women, we expanded focus on women to alignment with WWB. This had a weight of 50%. The 3 indicators used were the 5-year trend (not just the latest year's data) on % of women clients, the 5-year trend on average loan balance and whether they submit themselves to a social performance rating or submit a social performance report to the MixMarket. These 3 indicators constitute some evidence that the institution is progressively targeting women; is maintaining their focus on the low-income segment and is holding itself publicly accountable for social performance. The second category defines institutional capacity beyond institutional size and strength. This had a weight of 33%. The indicators used are the institutions performance against WWB performance standard and the perceived leadership advantage. The WWB performance standard gives an idea of the strength of the institution's financial and social performance. The perceived leadership advantage is the subjective assessment of leadership strength and leadership commitment to serving low-income women which came out of the 1 to 2 hour meetings. And the third category is the stated interest in WWB offerings. This is pretty straightforward and has a weight of 17%. Please refer to Table 7 below for a summary of the selection criteria.

Table 7: Selection Criteria

Categories or Questions	Indicators
1) Alignment with WWB **What has been the trend of the % of women clients over the last 5 years?**	% of women clients, 2006-10 trend
What has been the trend of the average loan balance over the last 5 years?	Average loan balance, 2005-09 trend
Does the institution report its social performance and what is the quality of that reporting?	Social performance reporting in the Mix

Categories or Questions	Indicators
2) Institutional Capacity **What is the demonstrated performance capacity of the institution?**	WWB performance standards
How strong is the leader	Perceived leadership advantage
3) Stated interest in WWB offerings **How interested is the institution in WWB offerings?**	"Twinkle in the eyes"
Deposit taking license **Does the institution have an MDI license?**	

The result of this selection process using the above criteria is found in Table 8 below. HKL, PRASAC and Sathapana are the least preferred partners. A consortium or syndication approach among the remaining MDIs is being recommended. This will create a faster scale up and a larger impact. While forming a consortium has special challenges, the challenges are not expected to be insurmountable given the history of cooperation and collaboration in Cambodian microfinance. In 2006 to 2008, the ADB had initiated a technical assistance project entitled, "Developing Deposit Services in Rural Cambodia.[3]" It achieved some of its objectives especially in relation to influencing the National Bank of Cambodia (NBC) to create a legal framework that allowed MFIs to register as MDIs. It provided TA to Amret, TPC and Sathapana in savings mobilization. Based on current savings results, the success with these 3 institutions has been very modest. And it's partly a timing issue. In any case, it shows that a consortium approach is not unheard of. In addition, there is a high level of camaraderie among the CEOs. They even have a CEO club that meets regularly sponsored by the Cambodian Microfinance Association. All the CEOs queried expressed openness to working as a group in the area of savings. Of the 5 preferred partners, only TPC still has to secure a license. It has intentions to become an MDI pending approval by its Board. The Chair and Acting CEO believes that it will take only a couple of months to secure the license. Incidentally, TPC showed the most interest in having a partnership with WWB. But given that TPC does not have a deposit-taking license yet, the preliminary recommendation is to work with AMK, Credit, VFC and Amret. It should be noted that the choice of partners will have to be subjected to a more rigorous institutional diagnostic and partnership assessment at the appropriate time. A key factor to consider is the ownership of the institution and whether the owners would approve of a TA partnership with WWB. The perceived institutional and leadership strengths will also have to be validated. However, should a consortium approach prove not feasible, plan "B" calls for working with a single institution? The best candidate appears to be AMK based on their clear alignment with WWB, strong leadership, acceptable performance and stated interest in the partnership. Furthermore, they mentioned that they can pay for the engagement so long as the engagement pays for itself.

[3] Hickson, Robert, "TA4755-CAM: Developing Deposit Services in Rural Cambodia", 2008, ADB.

Table 8: Results of Selection Process

		1 AMK	2 TPC	3 CREDIT	4 VFC	5 AMRET	6 HKL	7 PRASAC	8 Sathapana
Alignment with WWB	% of women clients, 2006-10 trend	4	1	3	2	5	6	7	8
	Average loan balance, 2006-10 trend	1	2	5	3	4	6	7	8
	Social performance reporting in the Mix	1	4	4	2	7	7	4	7
Institutional Capacity	WWB performance standards	4	6	3	8	2	1	7	5
	Perceived leadership advantage	1	3	7	6	4	5	2	8
Stated interest in WWB offerings	Based on conversation	3	1	2	7	6	5	4	8
Deposit taking license		Yes 2010	No	Yes 2010	Yes 2011	Yes 2009	Yes 2010	Yes 2010	Yes 2009

It should also be noted that all 8 Cambodian institutions fare very well compared to the top WWB network members using the WWB performance standard as the yardstick for comparison. See Annex C.

2. Funding Options - "How will this partnership be financed?"

This is the question the answer to which will breathe life to the strategy or leave it lifeless. The first task is to make the concept exciting, attractive and therefore, fundable. The proposed consortium approach mentioned above is consistent with the idea or approach of creating nation of women savers instead of just building an institution that provides savings services. This concept can be appealing to funders as it leverages the benefits of their funding beyond the institution into the country. It is also important to package Cambodia where a dramatic savings gap exists and how the gap can be turnaround into an opportunity to create financial assets for low-income women and their households and further the cause of financial inclusion.

The objective of this section is to identify generic funding options open to WWB and identify early leads that, if cultivated well, may translate to viable funding options. It is imperative that the Development and the Strategy/New Business Development teams work together and coordinate very closely with the Program Teams in creating funding proposals or financing arrangements. Some of the generic options and leads are as follows:

a) Get grants from development agencies or corporates

(1) Raised primarily by WWB

Both the International Finance Corporation (IFC) and the Asian Development Bank (ADB), for example, commented that WWB is on the right track in terms of its strategy and in terms of the choice of Cambodia. Some European development agencies have also expressed interest in Cambodia and savings. After a successful implementation of the Gates-funded WWB savings projects, Gates may find it exciting to fund a potentially impactful project – creating a nation of women savers in Cambodia and subsequently, in Vietnam.

(2) Jointly raised by WWB and its Cambodian partner/s

The MDIs are ok with the idea across the board with the exception of AMK which has a policy of not getting donor funding that have strings attached to them. It should also be noted that AMK may not have had a pleasant experience being part of a network. AMK's performance apparently benefitted the Unitus network more than AMK benefitted from its Unitus membership.

b) Fee for Service

(1) MDIs

AMK would be willing to pay for service and the challenge for WWB is competitive pricing and proving value for money. The other challenge is ensuring that lessons learned and experiences gained are not treated as proprietary knowledge that limits the benefit of the engagement.

(2) IFC

The Southeast Asia office indicates that IFC has the same country priorities. The key is for WWB to earn a reputation with both the regional practice leader and the country heads. The first step to be able to do that is to get into the IFC database of contractors and consultants.

(3) ADB

The Southeast Asia division also mentioned that they have the same country priorities. The Microfinance Specialist further mentioned, that "If you (referring to WWB) want quick results, do Cambodia. If you want impact, do Vietnam." They suggested that WWB gets into the consulting database of the ADB and respond to request for project proposals.

(4) Investor shareholder

Shareholders can pay for service, e.g., Netherlands Development Finance Company (FMO) as a shareholder funded part of a TA to Amret and Oiko uses consultants to support their investee institutions.

(5) Combination

It is possible to have an arrangement where WWB's services are partially paid by the funders and by the MDI. This gives the engagement both a private and public nature, i.e., it will generate both private benefit and public good.

3. Risks

The proposed Southeast Asia strategy of creating a nation of women savers is not without risks as follows:

a) Timing – Is this the right initiative at the wrong time or is this really the perfect time?

b) Consortium – While there had been demonstrated cooperation and active collaboration among the institutions but ever tightening competition might change this relationship dynamics. Plan "B" which calls for working with 1 or 2 institutions separately has less impact, leverage and possibly, funder appeal.

c) WWB – WWB is not known to the local players but is probably known to most of the investors behind the institutions. Could there possibly be unknown challenges, e.g., the investors are not aligned with WWB?

d) Capacity – Does WWB have the capacity to deliver on its promises? Can WWB adapt its operating model that will suit the circumstance, e.g., the need for local presence and institutional "hand-holding"?

e) Corruption – Cambodia ranks 23rd in perceived corruption out of 178 nations. Will this be a factor in dealing with an entire sector?

f) Economy – Cambodia faces the risks associated with a dollarized economy. What unforeseen global economic developments may severely impact Cambodian microfinance?

V. Conclusion

The hypothesis that "there are countries within the Southeast Asia region that can help WWB further its strategic agenda" is confirmed. In the process of confirming the hypothesis, 3 questions were asked and answered, namely:

- What product will we incubate or scale, where and when?
- With whom will we partner?
- How will this partnership be financed?

The proposed 2011-2013 Southeast Asia strategy is to engage a consortium of Cambodian microfinance deposit-taking institutions (MDIs) in creating a nation of women savers. This is a strategy to focus on women savings not for an institution but for a country for greater leverage, resulting in wider impact. It will be valuable to have financial education embedded in the savings engagement. During this period, the ground will also be prepared for the incubation of girl's savings and health microinsurance products to be launched beyond 2013. The consortium, pending further evaluation, may be composed of AMK, Credit, VFC and Amret. The funding will be done in 2 stages beginning with a feasibility study stage before moving to the implementation stage.

VI. Next Steps

Once the proposed strategy is approved, the following needs to take place in quick order to ensure that the opportunity is exploited just in time. Many opportunities are lost either because the actions taken are too early or too late.

Please note that responsibilities have not been assigned and timelines identified pending approval of the proposed strategy. The next steps are:

1. Continue validating and refining the research findings in consultation with other key regional players in Asia who are familiar with the region, e.g., Heather Clark, Eric Duflos of CGAP, Liz Larson of MixMarket, Banking with the Poor, etc.

2. Convert the strategy into an implementation plan with a budget

3. Take concrete funding initiatives starting with identifying potential donors, establishing or deepening relationships with them, writing concept notes, and expanding the concept note to full blown proposals covering the following:

    a) Targeting smaller and immediate funding for a feasibility study in 2011 covering among others, needs assessment; the viability of a consortium; diagnostics of potential implementing partners; market research to determine market size and consumer behavior; looking at MIS; looking at treasury and risk management systems; looking at timing; etc. This should also include funding for a one-time conference (see below).

    b) Targeting larger and longer term funding for 2012 to 2013 for the implementation plan that will come out of the feasibility study.

4. Increase networking and collaboration with MDI shareholders many of whom are investor-friends of WWB; CARD Bank who has a stake in smaller MFIs; National Bank of Cambodia; Cambodian Microfinance Association; IFC; ADB, etc.

5. Deepen the relationships with the 8 MDIs identified preceding the conduct of institutional diagnostics; and establish relationships with smaller MFIs.

6. Look at potential MDIs or MFIs for network membership, ISIS fund investment and HoldCo partnership.

7. Review WWB's operating model, i.e., "parachute" consultancy to on-the-ground consultancy; explore Cambodia-based staffing; review service delivery cost; improve knowledge management including documentation of lessons learned, experiences gained and impact accomplished; and knowledge dissemination including publications, etc.

8. Conduct an industry-wide high profile conference or seminar on savings to share the findings of the feasibility study and feature WWB network member as speakers sharing their experiences

under the Gates savings program. This will raise WWB visibility; improve WWB credibility; promote savings and financial education; prime or pump up demand for savings technical assistance; and improve chances for funding.

9. Start exploring and preparing the ground for the introduction of microinsurance to Cambodian microfinance and WWB's entry into the Vietnamese microfinance market.

Annex A - Southeast Asia Regional Review

I. Introduction

Southeast Asia is defined as a sub region of Asia that is geographically located below China, east of India, and north of Australia. It consists of Brunei, Burma, Cambodia, Timor-Leste, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand, and Vietnam. Excluding Timor-Leste, these countries are all part of the Association of Southeast Asian Nations (ASEAN), which is a geopolitical and economic organization dedicated to providing its members economic growth, social progress, beneficial cooperation and regional peace.

Within Southeast Asia, the eleven countries represent a wide range of economic progress, political stability, and development. Singapore, with a population of 4.7 million people, has the highest GNI per capita (Atlas method) at USD$34,760 and is ranked number 1 of all 178 countries in corruption, meaning it has the little to no corruption relative to all other 177 countries measured. On the other end of the spectrum, Myanmar is ranked at 176 with a corruption perception index score of 1.4. The economics of the region vary country-by-country, but for many of the rural-based economies, there is a high level of poverty. The countries with the lowest GDP also have the highest proportion of poor in the country. Laos has a GDP of USD$13.8 million and a percent of the poor living under $2 a day of 76.9%. Timor-Leste has the lowest GDP in the region of USD$959 million and 72.8% living in poverty under $2 a day.

A. Objective

Women's World Banking seeks to address the needs of these poor in Southeast Asia. In line with the 2011-2013 WWB corporate strategy, there is a need to develop a supporting strategy that looks at and takes advantages of regional opportunities that promotes WWB's strategic objectives including proving the business case for serving low income individuals especially women. One of the three priority regions that will be explored in 2011 is Southeast Asia, with a particular eye for the five countries of:

- Cambodia
- Indonesia
- Philippines
- Thailand
- Vietnam

The five countries (the "region") in this review represent a range of economic progress. Indonesia is an emerging market and the largest economy in the region. Indonesia is the most developed in the set, while Thailand and the Philippines are newly industrialized countries on its way toward more economic development. Vietnam and Cambodia are heavily dependent on agriculture, although making steady progress on developing its industrial sectors. Vietnam had the highest GDP growth rate at 5.3% in 2009. Thailand has the lowest amount of poverty at 11.5% and the highest Human Development Index (HDI) of .783. The HDI factor is a measure of human development in a particular country, not purely by economic variables, but using Health, Education, and Living Standards as added factors. The Philippines is another country with a high HDI of .751. Cambodia is notably the only in the country in the region with all low rankings and relative values. Cambodia has the lowest GNI per capita of $610 and the lowest GDP at

$9.9 million, which is down 2% from the previous year. They have the lowest HDI of .593 and the most poverty at 57.8%.

Table 9: Key macro- economic Indicators

	Indonesia	Thailand	Philippines	Vietnam	Cambodia
GDP	$540,273,507,315	$263,772,103,261	$161,195,818,768	$90,090,966,131	$9,872,222,155
GNI per Capita (Atlas method)	$2,050	$3,760	$2,050	$930	$610
Population	229,964,723	67,764,033	91,983,102	87,279,754	14,805,358
% classified as poor	13.3%	8.5%	32.90%	21.5%	25.8%
% of Women	50.1%	50.8%	49.6%	50.6%	51.1%
% of Rural population	47.0%	66.0%	34.0%	72.0%	78.0%
Inflation (Consumer Price)	6.4%	-0.8%	3.2%	7.1%	-0.7%
Literacy Rate (15 yo+)	92.0%	94.0%	94.0%	93.0%	78.0%

Source: WDI Data

B. Microfinance Sector Overview

Defined by the Asian Development Bank, microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and their microenterprises. Microfinance is provided by formal institutions, informal institutions, and informal sources. Institutional microfinance has evolved over the past decade in Southeast Asia, which suggests that a large proportion of the millions of poor people can be provided access to financial services.

Formal microfinance has changed to involve private sector institutions, cooperatives, and NGOs, which has allowed microfinance services to increase dramatically in recent years. Despite the increase, challenges to the sector include inadequate financial infrastructure (legal, information, regulatory, and supervisory systems), inadequate investments in agriculture and rural development, and also in social intermediation (women, ethnic minorities).

The Southeast Asian countries have significant differences in microfinance structures, including amount of government involvement, NGO or commercial financial sector reliance, products/services, and microfinance models employed. MFI models employed in Southeast Asia are the Grameen Bank model, the Village Bank model, credit unions, self-help approach and rural financial systems approach. Innovations like mobile banking, microinsurance, savings mobilization contribute to the growth of the industry across the region. The innovations help reduce the MFIs transaction costs and risks. They also make it possible for poor households to satisfy their investment and consumption smoothing requirements.

Indonesia and the Philippines have marked contrasts in MFI models. Indonesia is largely operated by regulated financial institutions with few NGOs present, whereas the Philippines has a burgeoning NGO community. The Philippine government has specifically encouraged microfinance growth in its poverty alleviation strategies and is beginning to transform successful NGOs into regulated financial institutions. Both Vietnam and Cambodia are two economies in transition, with increased regulatory changes in the recent years to support microfinance growth.

II. Philippines

A. Overview

The Philippine Islands is an archipelago made up to 7,107 islands located in the Philippine Sea, south of China and east of Vietnam. The country was a Spanish colony in the 16th century and was ceded to the US in 1898. It became a self-governing commonwealth in 1935 and fought Japanese control in WWII to again achieve independence in 1946.

The country's population is currently 90.3 million people. The country capital is Manila, located in the central part of the Philippine Islands. The government type is a republic made of 80 provinces. The current President Benigno Aquino will be in power for a single six-year term, which began July 2010.

B. Key Macroeconomic Indicators

For 2010 as a whole, Philippine economic growth amounted to 7.3 percent, the highest since 1976, and in sharp contrast with the 1.1 percent expansion in 2009. Growth is due largely in part by private consumption, investment and net exports. Industry, services, and agriculture all contributed to the GDP growth. The future outlook for the Philippine economy remains positive, particularly due to better investment prospects. Risks to this growth include rising global food and fuel prices. Despite the recent economic rebound, unemployment remains high at 7% and continues to affect one-fifth of the workforce.

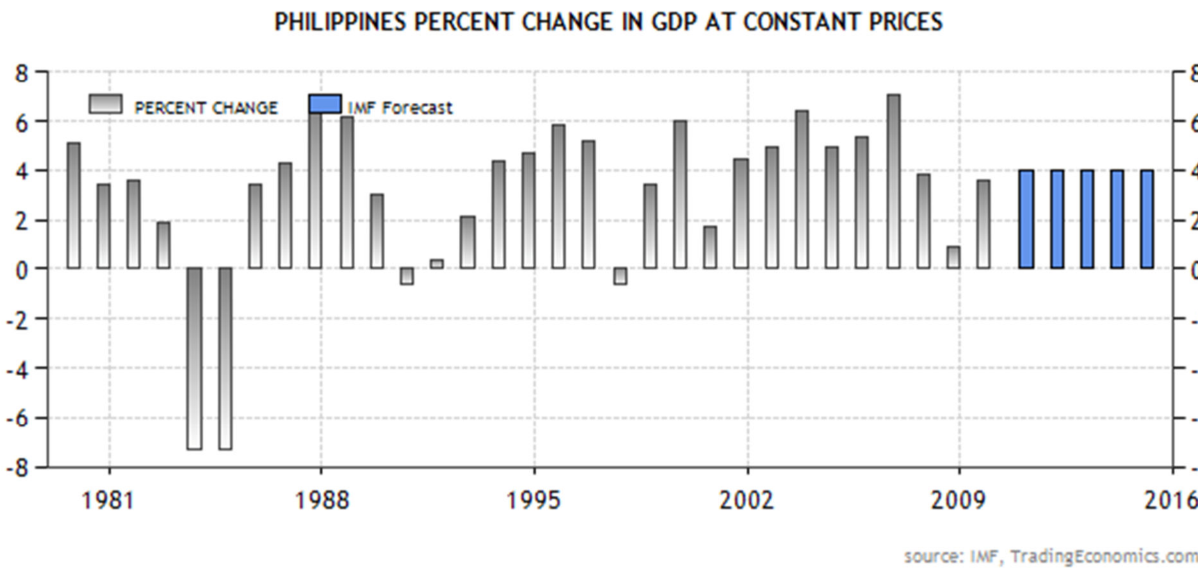
Table 10: Key macro- economic Indicators

Indicator	Output	Year	Source
GDP	$161,195,818,768	2009	WDI
GNI per Capita (Atlas method)	$2,050	2009	WDI
Population	91,983,102	2009	WDI
% classified as poor	32.90%	2006	CIA
% of Women	49.6%	2009	WDI
% of Rural population	34.0%	2009	WDI
Inflation (Consumer Price)	3.2%	2009	WDI
Literacy Rate (15 yo+)	94.0%	2008	WDI

C. Financial Sector

The financial sector is underdeveloped, however financial regulation quickly becoming is modernized and higher capital requirements have been implemented, prompting mergers. The resiliency of remittances helped sustain the Philippine economy in the recent financial crisis. It accounts for 10% of GDP.

Table 11: Historical GDP grow rate and future projection (IMF)



1. Formal Finance Sector:

- The Philippines' Central Bank is Bangko Sentral ng Pilipinas (BSP).
- The banking system is composed of commercial banks (universal and regular commercial banks), thrift banks, rural banks/cooperative rural banks (RB/CRBs) and government banks.
- Banking in the Philippines is highly concentrated, with the largest six commercial banks controlling around 60% of all financial assets and 90% of all banking assets. The major domestic commercial banks include: Philippine National Bank, The Bank of the Philippine Islands, Metropolitan Bank & Trust Company, Far East Bank & Trust Company, and Equitable Banking Corporation.
- Rural banks are the main entity within the formal financial sector that provides microfinance services.
- In general, commercial and thrift banks in the Philippines are not engaged in microfinance because they have no expertise in handling or appetite for small loans without any collateral.

- Government/Programs offering microfinance:
- People's Credit and Finance Corporation (PCFC): provides wholesale funds to retail MFIs
- Land Bank of the Philippines (LBP): provides guarantees to loans
- Development Bank of the Philippines (DBP): more SME and new to microfinance
- Small Business Corporation (SB): microfinance provider

2. **Informal sector:**

- Informal providers supply about two-third of microcredit outside urban centers and highly-populated rural areas.
- Over 4,000 savings and credit cooperatives provide microfinance services.
- Moneylenders, called "5-6ers", provide credit for 1-6 months and charge 10-30% interest / month.

D. Microfinance Sector Overview

In the Philippines there are three categories of MFI and each answer to a different regulator. These are rural and thrift banks, NGOs which provide microfinance services, and credit unions or cooperatives. Characteristics of microfinance NGOs in the Philippines are their capital consists substantially of donated funds, they have engaged in very limited borrowing from commercial sources, they have typically mobilized only small amounts of savings from their members, but they employ innovative lending techniques.

Smaller banks include thrift banks, rural banks and cooperative banks. These banks offer a smaller range of services than commercial banks and typically serve a community or a limited geographic area. They have much lower minimum capital requirements than the commercial banks and these are lower depending on the size of the urban center in which they are located. This is a provision favorable to NGOs, such as CARD and the APPEND group of NGOs, seeking to obtain bank licenses for their microfinance business.

Philippines' larger commercial banks are beginning to offer microfinance services by acquiring rural banks. For example, Rizal Commercial Banking Corporation, the nation's seventh largest lender, acquired JP Laurel Rural Bank in February 2009 and issued its first microfinance loan in July through JP Laurel Rural Bank's branches.

Microfinance in the Philippines is conducted in a generally supportive policy environment and within a substantially liberalized financial system. The Credit Information System Act (CISA) was signed into law in September 2008 to develop an appropriate credit information system. Small credit bureaus exist, but reporting is limited and no credit bureau as yet covers microfinance borrowers. Until this system is in place, and with a growing number of MFIs arising in rural areas, there is a risk that customers will borrow from multiple MFIs to assist in repayments of other loans.

The central bank of the Philippines requires all regulated MFIs to disclose effective interest rates and be audited by an external auditor. They also encourage rating of local MFIs by accrediting microfinance rating agencies.

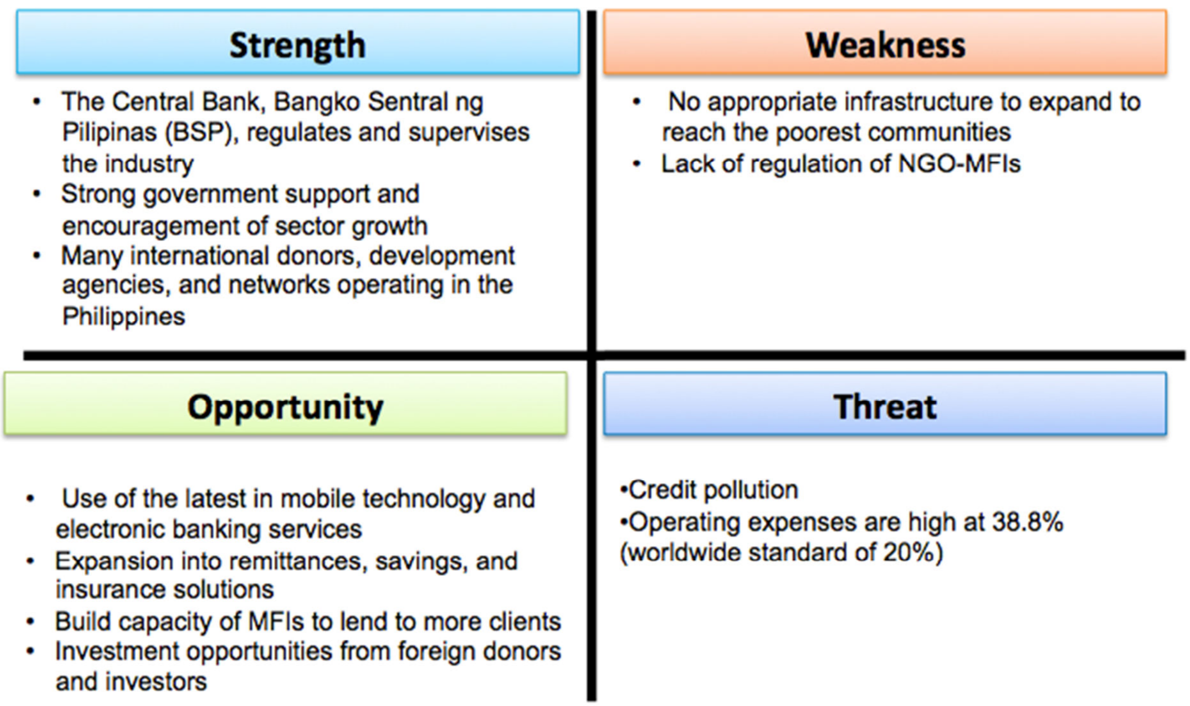
The group lending model is most often employed by microfinance providers, although the ASA model, whereby each group member is responsible for his or her loan, is also used. Another methodology is an upgraded Trust Bank model, called the APPEND Scale-Up Branch Model. Practiced by the Alliance of Philippine Partners for Enterprise Development (APPEND) network, a group of 10-30 selected, mainly female, entrepreneurs create the group and participate in business training.

In the Philippines, microfinance loans cannot exceed PhP 150,000 (US$3,218). Although still very much credit-oriented, MFIs in the Philippines are able to offer a variety of services and many do, including accepting deposits and remittances. Recent developments include partnerships with insurance providers to offer authorized microinsurance products.

The microfinance sector's strengths include regulatory provisions which make possible the establishment of small banks with modest minimum capital requirements and an energetic NGO sector, which displays an awareness of the need to define and employ best practice operating procedures. Many NGOs however, may be dependent on the relationship with donors.

The Microfinance Council of the Philippines, Inc. (MCPI) is a national network of 40 institutions created in 1997.

Figure 3: SWOT Analysis



III. Cambodia

A. Overview

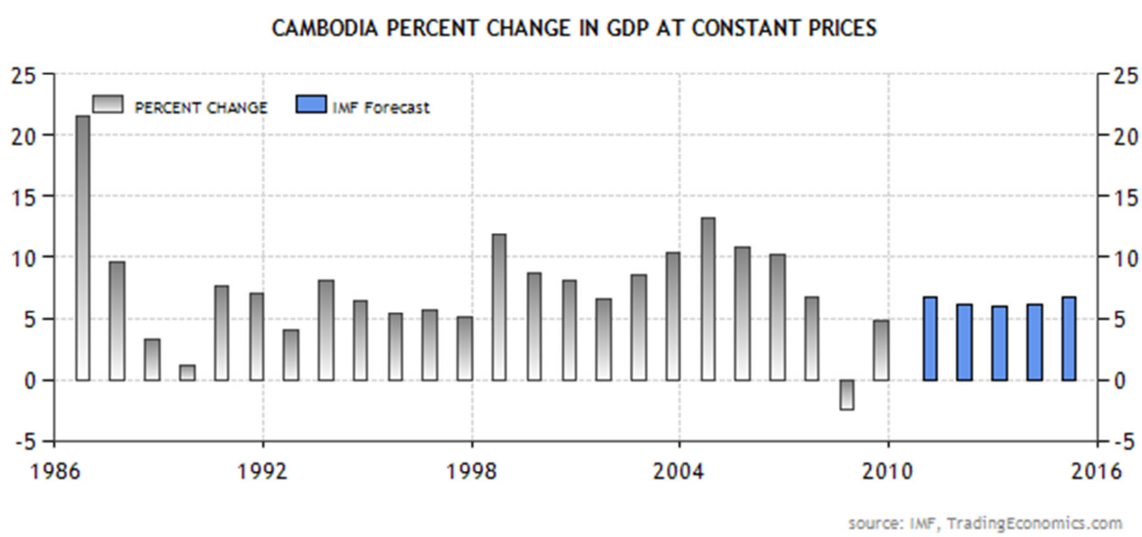
The politics of Cambodia takes place in a constitutional monarchy operated as a parliamentary representative democracy. Political environment has been quite favorable and this enabled consistent economic growth for the past decade. Still, per capita income, although rapidly increasing, is low compared with other Southeast Asian courtiers. Cambodia is one of the poorest countries in the region and 25.8% of the population is considered to be living below poverty line. The main domestic activity on which most rural households depend is agriculture and its related sub-sectors. The economy has severely hit by the global financial crisis in 2008-9 and recorded negative GDP growth. Microfinance sector as well, had significant negative impact from crisis and most of the MFIs experienced lower asset quality and had higher PAR > 30 figures. However the economy and the microfinance sector have been recovering since the crisis. Women are particularly affected by poverty in Cambodia. Education level is relatively low with the literacy rate at 78.0%.

The Cambodian government created favorable market conditions for microfinance and relatively strong regulation framework among the region. Licensing, regulation, and supervision of microfinance are conducted by the Central Bank, National Bank of Cambodia (NBC) under the Law on banking and Financial Institutions (LBFI) of 1999. The NBC actively encourages the transformation of microfinance institutions into regulated institutions. The microfinance market has been open to international NGOs and international investors. This phenomenon has led to relatively strong governance standards. The onset of the global financial and economic crisis revealed a severe over-indebtedness problem in the Cambodian microfinance sector. A plan to create a credit bureau exists, but it is not expected to be operational before 2011.

Table 12: Key macro- economic Indicators

Indicator	Output	Year	Source
GDP	$9,872,222,155	2009	WDI
GNI per Capita (Atlas method)	$610	2009	WDI
Population	14,805,358	2009	WDI
% classified as poor (below $1.25/day)	25.8%	2007	WDI
% of Women	51.1%	2009	WDI
% of Rural population	78.0%	2009	WDI
Inflation (Consumer Price)	-0.7%	2009	WDI
Literacy Rate	78.0%	2008	WDI

Table 13: Historical GDP grow rate and future projection (IMF)



B. Financial sector overview

Cambodia's financial sector has expanded since early 1990s. The NBC divides financial institutions into three categories: commercial banks, specialized banks, and MFIs. By June 2009, after a long period of export-fueled growth, Cambodia had 32 banks, including 26 commercial banks and 6 specialized, non-deposit taking banks. Despite this growth, bank assets, totaling approximately 4.1 billion USD, accounted for only 40.5 % of GDP, a low figure in comparison to other economies in the region. This indicates that there are still large unmet markets for financial services. On the other hand, licensed MFIs accounted for 333 million USD, nearly one-twelfth that of the formal financial sector. The majority of the country's commercial banks serve only the urban elite in Phnom Penh and a few provincial capitals, and only approximately 5% of the total population has access to formal financial services, according to CGAP. ACLEDA Bank is the exception, which began as an NGO MFI in 1993 and converted to a commercial bank in 2003, but remains committed to microfinance. ACLEDA is Cambodia's second largest financial institution.

C. Microfinance sector overview

The combination of a well-designed regulatory framework, the shallow reach of traditional banks, and Cambodia's strong economic growth has provided a strong foundation for the growth of the microfinance industry over the past decade. By March 2010, the Cambodia Microfinance Association (CMA), the country's main microfinance support network, reported that their members operated in all 24 provinces and had over 1 million, and 770,000 depositors. These figures represent a nearly 20% increase in gross loan portfolio and a 56% growth of total deposits from December 2008. Despite this rapid expansion, some observers still see room for growth in Cambodian microfinance, as MFIs increase their ability to mobilize savings more efficiently and use better information and financial training to reduce loan losses. Nonetheless, falling returns and rising levels of non-performing loans indicate that the Cambodian credit market has reached a degree of maturation. The global financial turmoil also severely damaged many of the international financial institutions upon which Cambodian MFIs rely for funding. As a result, many Cambodian banks and MFIs have downgraded their outlooks for 2010 and beyond.

In 2000, the NBC made its initial effort to regulate MFIs by introducing legislation which established two tiers: licensed MFIs and registered MFIs. Any MFI with an outstanding loan portfolio of at least 25,000 USD, 250 USD in deposits, or 100 or more depositors is required to register and obtain the most basic level of formal recognition. MFIs with a gross loan portfolio of 250,000 USD or more, 10,000 or more borrowers, 25,000 USD or more in total deposits, or 1,000 or more depositors must obtain a license from NBC. Both registered and licensed MFIs must adhere to a strict set of reserve requirements and accounting practices, most of which depend on deposit base and loan portfolio size. In late 2008, NBC issued new legislation that allows strong MFIs to collect public deposits. As of March 2011, 7 MFIs have deposit-taking status. Those MFIs include PRASAC, AMRET, Sathapana, HKL, AMK, CREDIT and VFC.

1. Product Mix

Product offered by MFIs in Cambodia is credit focus. Large MFIs have access to mobilizing saving after 2008. There is untapped demand for diversification of products offered by MFIs such as insurance, leasing and remittances. Regarding micro-insurance, at this moment, there is no legal framework for micro-insurance in Cambodia. However, regulations to cover large micro-insurance initiatives have been drafted by the Ministry of Economy and Finance last year and are expected to be effective in near future. MFIs are working on drafting the insurance services to prepare for the regulation change. PRASAC signed a MoU with Forte Insurance, one of the 5 insurance companies in Cambodia, to provide micro-insurance. Based on the MoU, PRASAC would act as the sales agent for Forte – offering credit life, health and accident micro-insurance to their customers.

2. Funding sources

Approximately 80% of the funding to MFIs comes from international investors. Shareholding structure is also typically dominated by international investors.

Table 14: Major MFIs' shareholders

HKL	HKNGO, **Oikocredit, SIDI, ASN-Novib Fonds, NORFUND, CORDAID**, HKSA, Mr. Dy Davuth
CREDIT	**World Relief, World Hope International**
AMRET	**Advans Luxembourg**, Botta Cambodia, **FMO Netherlands, GRET French NGO, LFP French Invest. Co., Oikocredit Netherlands, Proparco France**
AMK	**Concern Worldwide (Dublin), Concern Worldwide (UK)**
TPC	**Developing World Market (DWM)**
Sathapana	**DWM, Triodos, FMO**, Cambodia Community Building
VFC	**VFC**
PRASAC	**Dragon Capital Group, Belgian Investment Company for Developing Countries (BIO), FMO, Lanka ORIX LEASING Company, Oikocredit**

* Shareholders with bold letters are foreign investors

Source: MFI website, MFI annual report

3. Accounting standard

Major international accounting firms such as KPMG, PWC and EY audit MFIs and the governance is quite advanced.

4. Key concern about the industry

Lack of Product Diversification: Credit is the primary financial product offered by MFIs and in offered mainly to small businesses and individuals, with decreasing group lending options. Current number of savings accounts is relatively low.

Multiple lending: The prevalence of multiple lending, whereby an individual has taken out loans from more than one MFI, has reached a strenuous point. Some clients have taken out as many as four to five loans, which they are unable or unwilling to pay back.

Need for credit bureau: Rising competition has given rise to the need for a credit bureau to avoid over-indebtedness of clients who are borrowing concurrently from different MFIs. The Cambodian financial sector is serviced by a Credit Information Sharing System (CIS) that is deemed by users as being of limited value. It is based on a single database owned by the National Bank of Cambodia (NBC), which MFIs have very limited access to in addition to being considered not user-friendly. Furthermore, the system provides only negative information and consumer rights regarding data are not properly addressed. On May 12th 2008, the NBC signed a MOU with the IFC wherein it was appointed to conduct a feasibility study for establishing and operating a for-profit credit reporting company to serve both the financial and nonfinancial sectors.

Cambodian Stock Exchange Market (CAMEX) and ACLEDA's IPO
ACLEDA Bank, which converted to a commercial from an MFI in 2003, has received a significant amount of international investment and is widely expected to go public during the debut of Cambodia's national stock exchange, an event scheduled for late 2010. This potential IPO, along with more stringent capital requirements that come into effect at the end of 2010, may prompt more consolidation in the banking industry and pressure other commercial banks to downscale their services

5. Key Network

Cambodian Microfinance Association (CMA): CMA was created by a group of 6 MFIs in April 2004. The Association has benefited the industry as a whole by organizing trainings, providing benchmarking reports, and by creating an arena for various organizations to share information and best practices.
Others; CARE, CRS, GRET, Save the Children, SCE, SEEP, Vision Fund, World Relief, World Vision, Planet Finance (Rating and investment)

				Asset/Liability Management			Profitability		Efficiency	Portfolio Quality		Women's Presence
	Gross loan portfolio	Number of active borrowers	Deposits	Portfolio to Asset	DE ratio	Yield on gross portfolio	Return on assets	Return on equity	Operating expense/ loan	PAR <30	Write-off ratio	% of women borrower
ACLEDA	538,237,407	247,987	687,698,796	59.5%	7.48	19.86%	1.22%	9.81%	13.25%	0.87%	0.08%	56.0%
PRASAC	64,428,018	87,945	483,807	90.4%	2.24	26.42%	3.63%	11.51%	14.39%	1.66%	0.14%	52.7%
AMRET	53,428,951	217,376	2,944,055	74.8%	3.41	36.81%	4.47%	21.16%	14.40%	3.71%	0.54%	84.0%
Sathapana Limited	39,686,438	36,228	3,055,413	91.3%	5.06	26.79%	4.04%	26.07%	12.64%	2.13%	0.26%	69.9%
HKL	31,180,474	41,110	1,506,614	93.2%	3.37	27.33%	3.45%	16.57%	11.15%	3.05%	1.58%	77.4%
AMK	25,127,058	217,477	173,003	66.4%	2.55	34.62%	1.10%	3.51%	20.82%	2.85%	0.39%	85.1%
CREDIT	22,372,833	39,358	608,938	91.2%	3.64	27.97%	1.47%	6.65%	14.10%	3.15%	0.23%	92.4%
VFC	21,314,258	98,777	50,832	80.3%	2.75	30.71%	-1.77%	-7.52%	21.04%	3.42%	1.91%	86.7%
TPC	17,467,999	91,170	101,903	61.7%	4.5	33.08%	1.46%	8.29%	12.09%	4.35%	1.65%	90.1%
Seilanithih	6,291,573	10,433	406,212	81.6%	3.92	35.13%	1.40%	8.43%	21.26%	2.85%	1.11%	66.9%
SAMIC-Limited	5,551,096	10,987	617	90.3%	2.99	32.20%	4.31%	19.68%	14.10%	4.89%	0.00%	80.4%
Maxima	1,717,806	2,373	0	94.6%	2.59	29.04%	3.01%	12.48%	18.46%	1.96%	0.00%	61.1%
CBIRD	1,255,580	2,308	123,365	83.4%	5.5	38.04%	1.43%	8.43%	25.51%	2.81%	0.42%	69.3%
Chamroeun	679,182	7,158	200,102	89.9%	1.96	50.13%	-8.39%	-25.14%	57.88%	0.64%	0.27%	82.2%
Average				82.0%	3.71	32.0%	1.5%	8.6%	19.4%	2.7%	0.6%	75.3%
Average (weighted by GLP)				67.8%	6.03	23.6%	1.8%	11.0%	13.9%	1.6%	0.3%	62.7%

Figure 4: SWOT analysis

Strength

- Relatively solid regulatory framework
- Strong governance and transparency
- Highly commercialized and market incentives work
- Market openness to international stakeholders

Weakness

- Market is maturing
- Vulnerable to global markets

Opportunity

- Growth potential in low-income population
- Need for strong TA for saving product
- Establishing regulatory framework for micro-insurance and MFIs can offer insurance services soon

Threat

- Issue of multiple lending
- High competition among MFIs

IV. Vietnam

A. Overview

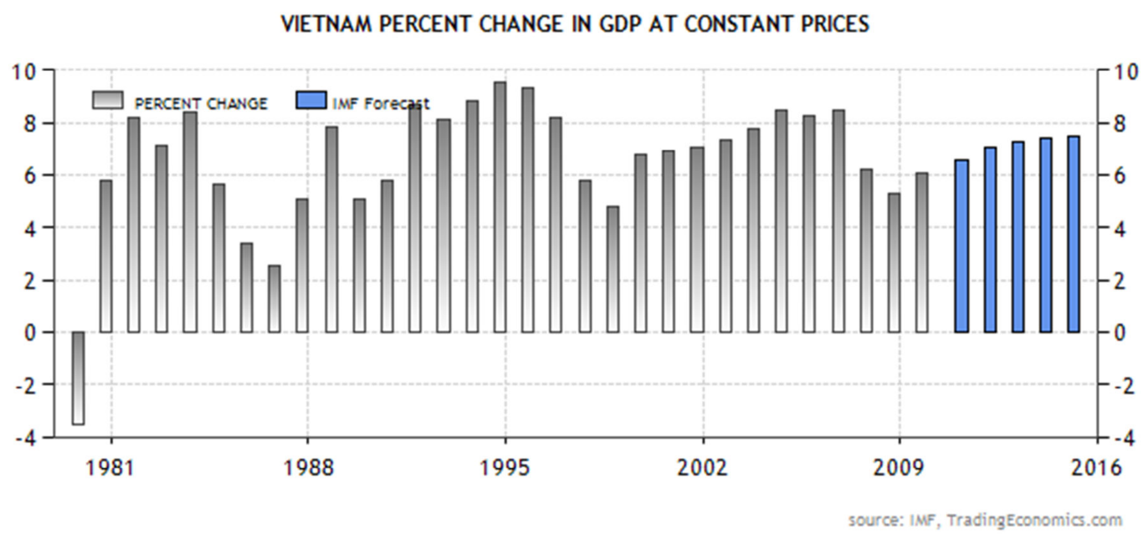
The politics of Vietnam takes place in a framework of a single-party socialist republic. Since the economic reforms initiated in 1986, Doi-Moi, Vietnam has experienced strong economic growth and achieved political stability. Geographically Vietnam is divided into the Highlands and the Red River Delta in the North, the Giai Truong Son (Central Highlands), the coastal lowlands, and the Mekong River Delta in the South. It is prone to natural disasters including drought and cold in the North, floods in the deltas, and typhoons along the coast. Vietnam has the largest population within the region. It also has a large low-income segment. Despite the global financial crisis in 2008-9, historical GDP growth rate has shown constant growth and this tendency is expected to continue for the next five years by achieving the highest growth rate among Southeast Asian countries. In addition, other macroeconomic indicators show favorable market condition for microfinance with high potential of growth with large population and high poverty rate. There is also a large population of educated women: 93.0% (Literacy Rate). Most low-income households are in rural areas and are predominantly engage in agricultural crop production, raising of small livestock, and selling any surplus produce at the local markets. There is a large difference between the average per capita income for urban residents and the rural average per capita. Poverty is more strongly related to ethnicity than to geography and remoteness. 52% of ethnic minorities live below the poverty line. There has been a sign of overheating of the economy and inflation rate remains relatively high.

The issue in microfinance sector in Vietnam is the government led industry. There has been a lack of national microfinance strategy in Viet Nam and the principles of sustainability underpinning 'Good Practice' microfinance are not widely embraced in the country's policy framework. The market is dominated by the government funded organization, primarily the Viet Nam Bank for Social Policy (VBSP), which is mandated to provide supply-driven policy lending at unsustainable low interest rate. In addition, to date, the only legal basis on which to operate microfinance in Vietnam has been a partnership with a socio-political Mass Organization (MO), a local People's Committee, or a similar entity permitted by special authority to conduct financial services. Therefore, typical microfinance institutions in Vietnam are called MFO and domestically funded. In Vietnam, microfinance is still widely seen as a social tool to combat poverty.

Table 15: Key macro- economic Indicators

Indicator	Output	Year	Source
GDP	$90,090,966,131	2009	WDI
GNI per Capita (Atlas method)	$930	2009	WDI
Population	87,279,754	2009	WDI
% classified as poor (below $1.25/day)	21.5%	2006	WDI
% of Women	50.6%	2009	WDI
% of Rural population	72.0%	2009	WDI
Inflation (Consumer Price)	7.1%	2009	WDI
Literacy Rate	93.0%	2008	WDI

Table 16: Historical GDP grow rate and future projection (IMF)



B. Financial sector overview

A diverse range of banks provide wholesale and retail banking services to different market segments, namely state-owned, urban and rural joint stock, joint venture, and foreign banks. There is no clear market delineation between the formal banking sector and the microfinance market. Most poor and low-income households have access to some form of credit, and the formal banking system appears to reach a substantial number of them. Small loans (up to VND 30 million or US$1,875) are quite readily available to farmers and micro-businesses in large part because of the government policies. However, slightly larger businesses and households that need credit but do not qualify as 'poor', face difficulties accessing credit and other financial services. Unfortunately, most providers are relatively supply-driven and do not have markedly adjusted products and services to changing needs among their clientele.

Therefore, customers generally appear to compose a suitable package of financial services for themselves from multiple sources.

Table 17: Type of Financial Institutions in Vietnam

Type of institutions	Name	#
State-Owned Commercial Banks (SOCBs)	VietComBank, VietInBank, BIVD, Vietnam Bank for Agriculture and Rural Development (largest bank)	4
Joint Stock Commercial Banks (JSCBs)	Asian Commercial Bank (ACB), Sacombank and Techcombank (holds about a third of total JSCBs assets..etc	37
Joint Venture Banks (JVBs)	VinaSiam, Vietnam-Laos JB Bank..etc	5
Foreign Banks	Citi, ANZ, HSBC	28
Cooperatives	People's Credit Funds and their apex the Central Credit Fund	982
Policy Lending Banks	Vietnam Bank for Social Policy (VBSP), Vietnam Development Bank	2
Non-Bank Financial Institutions	Vietnam Postal Savings Company (VPSC), 5 sectional financing companies, 12 leasing companies and 37 insurance companies	55

Source: BWTP, Microfinance Industry Report (Vietnam)

C. Microfinance Sector Overview

The Vietnamese microfinance market is characterized by the dominance in scale and depth by three formal providers, the state-owned VBARD, the policy lender VBSP and the 984 People's Credit Funds (total of the three categories comprise around 90% of the whole micro credit markets). These main providers all pursue the market for small, particularly rural loans and savings accounts.

1. Formal Providers

Vietnam Bank for Social Policy (VBSP)
VBSP was reconstituted in 2002 from the Viet Nam Bank for the Poor, and has a nationwide network, partly subsidized by Local People's Committees. VBSP is fully guaranteed by the government and exempt from taxes.

Viet Nam Bank for Agriculture and Rural Development (VBARD)
VBARD is the largest bank in the country and by far the largest provider of the full range of financial services in rural Vietnam.

People's Credit Funds (PCFs)
PCFs are community-based financial cooperatives that are owned, operated, and governed by shareholding members, modeled after the Desjardins in Quebec, Canada.
Vietnamese microfinance has unique characteristics compared with other international peers as follows;

- Mostly public or semi-public entities, not privately owned
- More poverty focused by having a smaller loan sizes
- MFOs lend almost entirely women
- Charge lower interest rate and have lower expenses due to government subsidies
- MFOs are small and services are geographically limited and only two of them (TYM and CEP) are sizable

2. Market Gaps

The largest quantitative gap relates to the 'missing middle' of small businesses and non-poor households, rather than to the poor. Greater diversity of financial services, including leasing, remittances, small-balance savings and insurance products. While credit is available to the majority of low-income population, the quality of these services, and the range of products provided, is not meeting the demand for well-designed, affordable and customer-responsive financial products.

3. National Microfinance Strategy Revision

The government is in the process of crafting a national microfinance strategy. The Bank of Vietnam has issued two decrees related to microfinance: Decree 28 and 165. Both have been viewed as initial steps towards the formalization of the microfinance industry and will provide a path for unregulated entities (including NGOs and INGOs) to become licensed microfinance providers. Only two MFOs (CEP and TYM) are in the process of transformation and TYM has received MFI license in October 2010.

Table 18: Major regulation changes by Decree 28 and 165

	Previously	Today
Capital requirement	(a) To accept voluntary saving, required legal capital is >= 5bn VND ($313,000) (b) Without accepting voluntary saving, required legal capital is >= 500m VND ($31,250) (c) If MFO cannot be licensed, it has to shut down	(a) To accept voluntary saving, required legal capital is >= 5bn VND ($313,000) (b) If MFO chooses not to be licensed, it can still operate so long as (i) it does not accept voluntary savings; and (ii) savings are less than 50% of equity
Ownership	MFIs must be wholly owned by a Vietnamese socio-political organization	(a) One-owner Company - MFIs must be wholly owned by a Vietnamese socio-political organization (b) Multiple-owner Limited Company - Between 2 to 5 owners (except if authorized by the Governor of the SBV). Eligible owerners are (i) Socio-political organization, (ii) Social organization, (iii) Charities & Social Funds, (iv) vocational organizations, (v) Vietnamese NGOs, local indivisuals, foreign indivisuals & organizations. Owners (i) - (v) must own at least 25%, and must be the largest owners. Foreign owners can have a maximum 50% share

Source: BWTP, Microfinance Industry Report (Vietnam)

4. Key Network

Vietnam Women's Union (VWU)

VWU is a well-formed, far-reaching organization that promotes the rights and interests of women through a large network of members. With approximately 11 million members accounting for more than 50% of the female population over 18, the VWU is committed to providing a range of support services, including financial support and microfinance. VWU is already working in conjunction with the Vietnam Bank for Agriculture and Rural Development (VBARD) and the Vietnam Bank for Social Policies (VBSP).

Microfinance Working Group (MFWG)

MFWG was created in 2004. It represents the gradual expansion of infrastructure to support MFIs, donors and other support services within the microfinance sector. The working group currently includes more than 50 organizations, including Action Aid, Plan International and World Vision among others.

Other microfinance network and TA:
CASHPOR, BWTP, Save the Children, Planet Rating (possibly start rating for TYM and CEP)

Product Mix
The market for microfinance services in Vietnam is not very diversified and the majority of providers offer similar and standardized credit and savings products. A few MFOs also provide individual loans and housing loans. PCFs can usually provide more varied loan products and are currently introducing an electronic payment and fund transfer product, as well as remittances for its members, supported by the Bill and Melinda Gates Foundation. There has been untapped demand for insurance. A few MFOs have developed an informal credit-life product, where in some cases; the household of the insured person also receives a funeral grant. When Decree 28/165 enters into force, however, licensed MFIs can no longer provide micro insurance services on their own, but they may become agents of regulated insurance companies.

5. Funding sources

No MFOs has accessed commercial credit yet, but CEP is now borrowing on concessional base. Access to capital is clearly a constraint for MFOs

6. Accounting standard

Although CEP is audited by KPMG, generally accounting and governance standards are poor.

Table 19

				Asset/Liability Management			Profitability		Efficiency	Portfolio Quality		Women's Presence
	Gross loan portfolio	Number of active borrowers	Deposits	Portfolio to Asset	DE ratio	Yield on gross portfolio	Return on assets	Return on equity	Operating expense/ loan	PAR <30	Write-off ratio	% of women borrower
VBSP	3,929,035,635	7,536,960	217,231,898	97.6%	3.49	5.91%	-1.84%	-7.46%	7.32%	na	na	na
CEP	28,297,377	134,141	9,371,890	94.9%	1.88	25.24%	9.75%	29.00%	9.36%	0.52%	0.04%	76.0%
TYM	9,836,185	40,282	2,428,083	82.6%	1.64	23.91%	7.95%	22.70%	11.22%	0.03%	0.00%	100.0%
WU Ha Tinh	2,681,343	23,400	313,637	94.3%	4.43	na	na	na	na	na	na	100.0%
HCM	1,719,144	9,812	190,306	na	na	na	na	na	na	na	na	na
Dariu	1,196,777	10,841	181,215	93.0%	0.19	24.12%	6.51%	7.86%	20.04%	0.39%	0.00%	100.0%
CAFPE BR-VT	1,080,727	8,000	364,672	81.4%	1.37	na	na	na	na	na	na	na
M7 Dong Trieu	966,712	8,485	485,100	100.2%	2	17.41%	5.14%	14.21%	8.41%	0.00%	0.00%	97.2%
M7 Can Loc	752,369	5,148	459,382	100.5%	1.59	15.18%	3.27%	8.45%	7.29%	0.50%	0.00%	99.8%
M7 Uong bi	739,846	3,092	403,476	101.2%	1.58	19.00%	5.97%	13.84%	10.26%	0.00%	0.00%	99.9%
M7 Mai Son	650,931	3,995	267,149	76.2%	1.00	16.97%	6.81%	12.94%	6.26%	11.00%	0.00%	99.9%
Binhminh CDC	596,312	4,063	213,557	79.2%	1.23	27.90%	-0.26%	-0.51%	26.43%	0.00%	0.00%	97.0%
M7 Ninh Phuoc	381,401	4,610	90,552	94.7%	0.29	18.65%	8.54%	11.40%	18.75%	0.96%	0.00%	100.0%
M7 DBP City	335,436	2,487	178,406	100.6%	1.15	17.32%	5.58%	11.66%	9.25%	0.00%	0.00%	98.5%
M7 DB District	209,130	3,344	69,298	97.0%	0.47	18.12%	7.87%	11.36%	8.23%	0.26%	0.00%	99.7%
Average				92.4%	1.59	19.14%	5.44%	11.29%	11.90%	1.24%	0.00%	97.33%
Average (weighted by GLP)				97.5%	3.47	6.1%	-1.7%	-7.1%	7.3%	0.0%	0.0%	nm

Figure 5: SWOT analysis

Strength

- Large economy and favorable macro-economic condition

Weakness

- Government-led market
- Regulatory Framework
- Closed microfinance industry
- Information transparency
- Institutional Capacity
- Small institutions

Opportunity

- Growth potential with low market penetration and highly educated women
- Regulation changes might foster market entry opportunities for new comers
- There are needs for product diversification and strong TA providers

Threat

- Regulation changes will be slow

V. Indonesia

A. Introduction

Indonesia is an archipelago of 17,508 islands between the Indian and Pacific Oceans. It is the world's third most populous democracy and largest Muslim population. Indonesia is the most-populated country at 229 billion people. Jakarta is the capital city and houses the Chief of State/Head of Government, President Susilo Bambang Yudhoyono, who has held the office since 20 October 2004. Indonesia was previously led by the President Suharto, who controlled a repressive government for 32 years from 1967 to 1998.

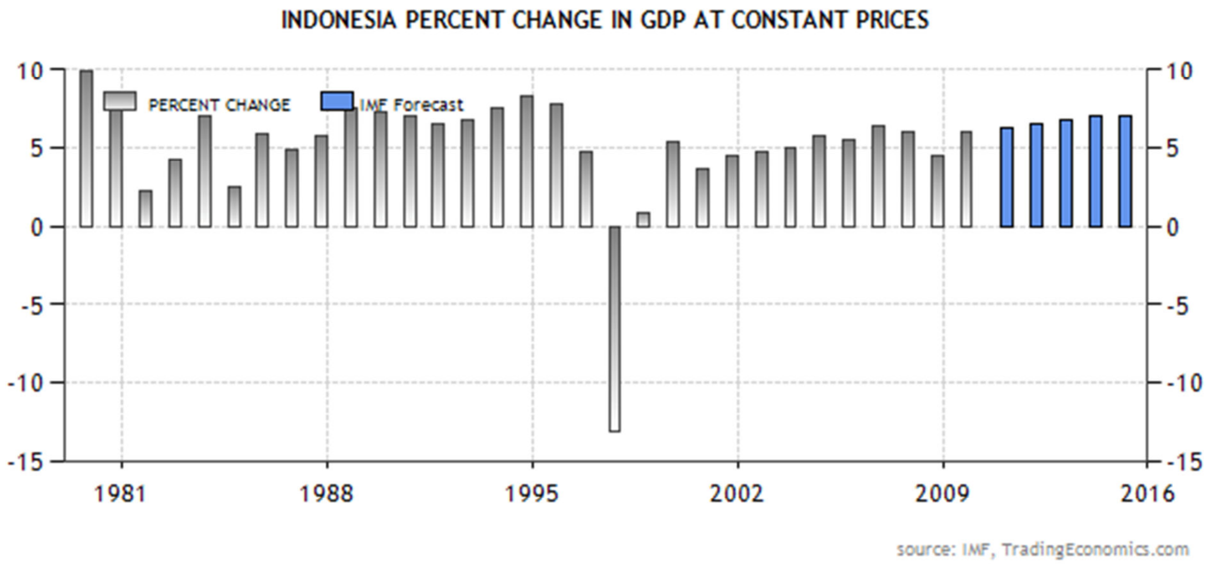
B. Macroeconomic structure

Indonesia is heavily reliant on domestic consumption, allowing it to weather the financial crisis well. GDP is growing at 6% annually and unemployment is currently at 7.1% rate. 13.3% of the population is below the poverty line (2010).

Table 20: Key macro- economic Indicators

Indicator	Output	Year	Source
GDP	$540,273,507,315	2009	WDI
GNI per Capita (Atlas method)	$2,050	2009	WDI
Population	229,964,723	2009	WDI
% classified as poor	13.3%	2010	CIA
% of Women	50.1%	2009	WDI
% of Rural population	47.0%	2009	WDI
Inflation (Consumer Price)	6.4%	2009	WDI
Literacy Rate (15 yo+)	92.0%	2006	WDI

Table 21: Historical GDP grow rate and future projection (IMF)



C. Financial Sector Overview

Financial regulators are Bank Indonesia, Ministry of Cooperatives and Small-Medium Enterprises, and the National Consumer Protection Agency. State bank share of overall banking system has dropped from 46% in 2003 to 36% in 2007, indicating increasing role of private banks. Government is helping Small Medium Enterprises (SMEs) benefit from market-based services. Loans to SMEs comprised 52% of total loans in 2007, compared to 47% in 2003. Start-up time for new business has been reduced from 168 days in 2003 to 60 days in 2009.

The regulatory and institutional framework has improved for public-private partnerships (PPPs). A new decree was issued requiring transparent competitive bidding for PPPs; special committees and units have been established within Ministry of Finance to determine public funding for PPPs.
Microfinance institutions need a formal legal framework to build institutional capacity and clarify issues around savings mobilization. Stalled for almost a decade, the Microfinance Law should be a priority.

One third of Indonesians has no savings and can be considered “financially excluded”. Meanwhile, less than half of all Indonesians save money with banks and informal institutions actually cater for more savers in Indonesia than the banks do. Only about 17 percent of Indonesians borrow from banks, with about one third borrowing from the informal sector, while about 40 percent of the population is “financially excluded” from credit. The most important reason for being excluded appears to be either having incomplete documentation or lacking any collateral.

At the aggregate level, the banking sector displays relatively low loan to deposit ratios and is not achieving its full capacity to finance income and employment growth through the provision of credit. Despite a number of recent reforms to the banking system, the Indonesian government has admitted that ’the banking system is not adequately performing its financial intermediation role and contributing to economic growth'. Particularly lacking is "the willingness or capacity to lend for infrastructure projects and small-and medium-sized businesses" (IMF, 2007b: 50).

Bank of Indonesia is the central bank and Bapindo is the development bank. The formal banking sector is comprised of commercial banks and BPRs (rural banks). A listing is below.

Table 22: Regulated banking institutions by category (2007)

State commercial banks	5
Regional Development Banks (BPDs)	26
Private commercial banks	67
Joint venture banks	19
Foreign commercial banks	11
Total number of commercial banks	128
Number of branches	9,888
Rural Banks (BPRs)	1,880

Source: Bank of Indonesia, 2008

1. **Key Players**

There are a total of 60 MFIs in Indonesia, across all dates, according to MIX. They reach 286,124 borrowers at an average loan balance of USD$505.1 per borrower.

Networks in Indonesia (8):
BWTP, Gema PKM, Grameen Foundation, MFN, Opportunity International, PERBARINDO, Unitus, Vision Fund

Funders and service providers (24):
BlueOrchard, BWTP, CORDAID, Dignity Fund LP, Gema PKM, Gradatim, Grameen Foundation, Grameen Trust, Hivos, Incofin Fund, Kiva, M-CRIL, MFN, MICRA, MicroCredit Enterprises, Microfinance Alliance Fund, Oikocredit, Opportunity International, PERBARINDO, ProFI, Standard Charted Bank, Triple Jump, Unitus, Vision Fund

Large commercial banks and smaller regulated financial institutions play significant roles in microfinance, many of which are government owned at the central, provincial, or local levels.
The generic term for small regulated financial institutions in Indonesia is 'Bank Perkreditan Rakyat' (People's Credit Bank, or BPR). Another significant player in the formal microfinance market is the state-owned pawnbroker, Perum Pegadaian, serving millions of low-income people. Perum Pegadaian has 812 branches and reached 15 million customers (as of 2004) by providing generally small loans in exchange for valuables. With these three main players (BRI units, BPRs, and the Pegadaian), the formal financial sector is the dominant force in Indonesian microfinance, and outperforms the semiformal and informal sectors by a large margin.

Other microfinance services are supplied by a semiformal financial sector composed of thousands of non-bank financial institutions, such as Badan Kredit Desa (BKDs, or village credit organisations), and the

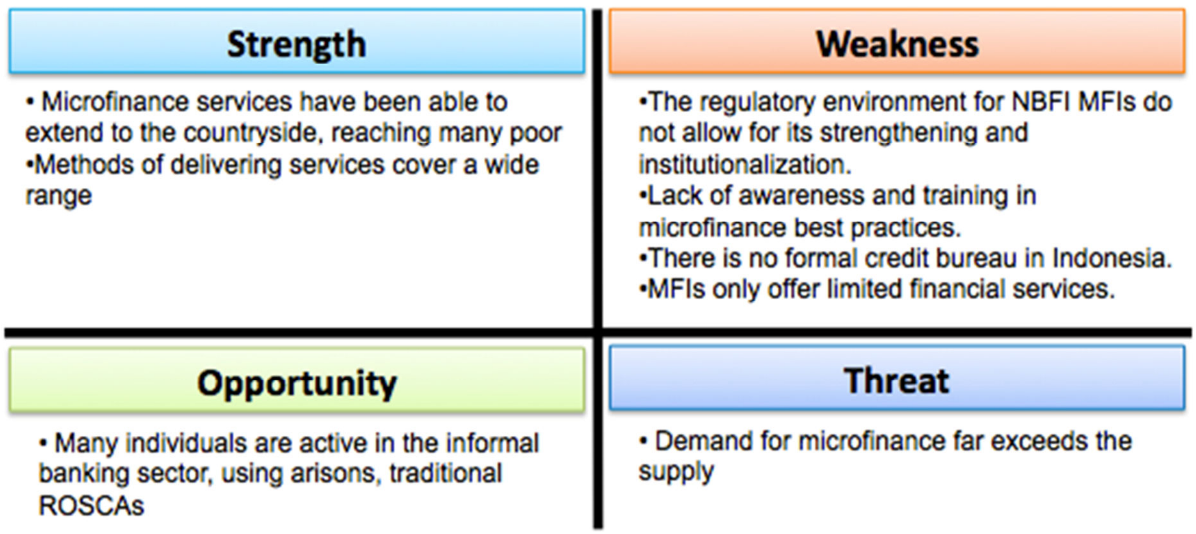
LKDP, 'rural credit fund institutions', as well as finance and insurance companies, cooperatives, credit unions, and NGOs. As NBFIs, these institutions are not regulated by Bank Indonesia, but by other state or regional authorities/governments. BKDs finance their lending requirements through earnings on deposits, compulsory savings and borrowing from BRI.
Savings and credit cooperatives exist and are mainly subsidized by government programs. NGOs were discouraged during Suharto's regime and play a minor role in microfinance. At present, the great majority of financial-service NGOs remain unsustainable and dependent on government or donor funds to operate. The poor also manage their own financial service provision using arisan, traditional ROSCAs which are very common in Indonesia.

Commercial banks are the microcredit providers in Indonesia, providing 90% of loans. Bank Rakyat Indonesia (BRI) is government-backed and the largest single microfinance provider. The conversion process for an NGO into a bank is considered onerous. Demand for microfinance far exceeds the supply and several large commercial banks besides BRI are offering these services.

Yayasan Mitra Usaha (YMU) is an example of an organization which has adopted the Grameen approach and now reaches 12,000 clients. Mitra Bisnis Keluarga (MBK), or "Family Business Partners", is a microfinance institution also employing Grameen methods and regulated by the Ministry of Finance as a non-bank finance company. Currently it operates in six rural districts in Java and reaches nearly 80,000 members as of April 2008. MBK is the fastest growing and largest NGO-MFI in Indonesia and serves women exclusively.

The 'Women Heading Households Empowerment Program', reports that female-headed households represent 13.4% of the 60 million households in Indonesia, with 50% being located in conflict-affected regions. The program, reaching 7,000 women in eight provinces, encourages the development of credit and savings associations to support business creation by women. The country's global gender gap is 66.15% with a rank of 87.

Figure 6: SWOT Analysis



VI. Thailand

A. Overview

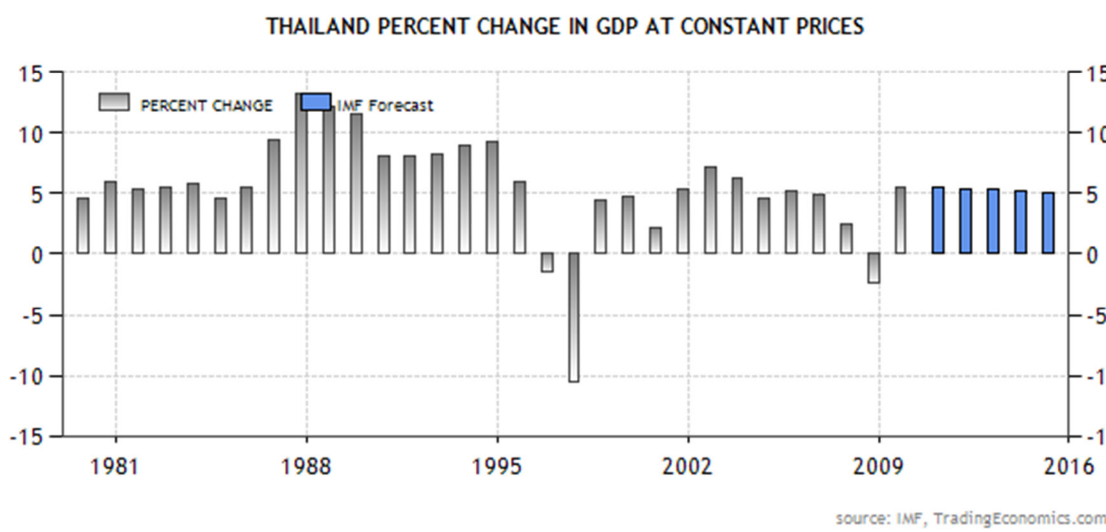
Thailand has experienced political crisis since 2008 with the civil disobedience and unrest, however, as the recovery of GDP growth rate shows in 2010, the impact of political instability toward the development of the economy is considered limited. Thailand has the largest GDP out of the five countries investigated and solid individual income basis with the GNI per Capital to be the highest. In addition, other macroeconomic indicators show favorable market conditions for microfinance with high potential of growth. Not only is there a large population but there also is a large population of educated women: 94.0% (Literacy rate). There is a stable economic environment, with inflation rates to be low and the strongest industrial production growth rate, which may turn out to foster development. As Thailand is in an advanced stage of economic development compared with other Southeast Asian countries, poverty level is relatively low (8.5%, below poverty line). Although global financial crisis hit the economy and the GDP growth rate went negative in 2009, the recovery is strong. IMF predicts that Thailand will achieve consistent economic growth for the next five years.

In terms of the microfinance sector in Thailand, major concern is rather the involvement of the government into the sector and the crowding effect. Politics in Thailand since the election of Thaksin in 2001 has been an increased level of government involvement in the provision of financial services to the poor. The government currently controls the majority of all microfinance institutions and operations maintaining extremely tight regulations over the industry. Lower-income households rely mainly on government agencies such as the Government Savings Bank (GSB) and Bank of Agriculture and Agricultural Cooperatives (BAAC). Therefore, crowding effect in the microfinance sector is significant and the market entry for new institutions is highly regulated. Under the Financial Sector Master Plan (FSMO) Phase 2 for 2010-14, the authorities intend to relax some regulations to allow new domestic or foreign microfinance providers to set up operations. However, the practical implications of the new regulations have now yet been detailed.

Table 23: Key macro- economic Indicators

Indicator	Output	Year	Source
GDP	$263,772,103,261	2009	WDI
GNI per Capita (Atlas method)	$3,760	2009	WDI
Population	67,764,033	2009	WDI
% classified as poor	8.5%	2007	NSO
% of Women	50.8%	2009	WDI
% of Rural population	66.0%	2009	WDI
Inflation (Consumer Price)	-0.8%	2009	WDI
Literacy Rate	94.0%	2005	WDI

Table 24: Historical GDP grow rate and future projection (IMF)



B. Financial sector overview

After the Asian financial crisis in 1997–1998, the formal banking sector in Thailand has strengthened and the sector now is considered quite advanced compared with other Southeast Asian countries. There are established domestic and foreign commercial banks. Regulatory framework and transparency are quite strong. Despite a return of profitability after the crisis, banks in Thailand continue to struggle with the legacy of the financial crisis in the form of unrealized losses and inadequate capital. Therefore, the government has committed various reforms and this has led to the trend that primary credit providers to the poor are government owed banks such as BAAC and GSB. There is no clear distinction between the existing banking sector and the microfinance sector in Thailand and each banking sector categories somewhat have exposure to low-income customers. Detailed banking categories are as follows.

Formal Banking Sector	
USD 234 Billion (90 % of total asset)	
- Commercial Banks (15 banks in 2007)	- BAAC (Bank for Agriculture and Agricultural Cooperatives)
- Financial Companies	- GSB (Government Saving Bank)
- Foreign Banks (17 banks in 2007)	- GHB (Government Housing Bank)
- Credit Fonciers	- EXIM Bank (Export - Import Bank of Thailand)
- Insurance Companies	- Islamic Bank
- Non-bank Financial Institutions	- SME Bank

Semi-formal Banking Sector
USD 26 Billion (10 % of total asset)
- Village and Urban Communities Revolving Fund - Agriculture / Saving / Credit Union Cooperatives - Registered Savings for Production Groups

informal Banking Sector
USD 0.9 Billion (0.3 % of total asset)
- Saja Saving Groups - Village Bank - NGOs MFIs - Other Financial Intermediary organizations

Source: BWTP, Microfinance Industry Report (Thailand)

C. Microfinance sector overview

The size of the microfinance industry in Thailand is small, as the government has been the main provider to the sector. There has been a lack of concerted effort in creating a legal environment friendly to private and/or NGOs microfinance operations. Market competition does not work because those governmental institutions offer below market interest rate and this became burden for new institutions to enter into the market.

As of February 2010, only one MFI, SED, is registered at the MixMarket. Information on MFIs is limited and lacks the transparency. There is no adoption of international accounting standards. As organizations are government funded, funding structure is highly depending on the government subsidies and is not open to domestic and international markets. In additional institutional capacity is also considered weak due to lack of market-based competition.

1. Formal banking sector

- Bank for Agriculture and Agricultural Cooperatives (BAAC)
  BAAC provides credit and saving services to mainly farmers at below market interest rates for agriculturally related activities using government subsidies.

- Government Saving Bank (GSB)
  GSB offers 21 savings products and 16 loan products, 7 of which are in line with government policy to support grassroots development and 9 products to support SMEs and general businesses, as well as other financial services.

- Commercial retail banks
  Following the implementation of the Financial Sector Master Plan in 2004, banking services started to reach out to the lower income segments, especially SMEs. The government encouraged existing commercial banks to downscale to microfinance in the second phase of the National Financial Sector Master Plan in 2009.

- Non-Bank Financial Institutions (NBFI)
  Commercial banks are reluctant to take risks since the crisis of 1997. NBFI has also taken the role to provide credit to SME, though the portion is small, about 9.5% of total asset in the whole financial sector. A few NGOs have taken the form of NBFIs to implement their microfinance activities in Thailand. However, the minimum capital requirement (approx. $1.4 mm) has been the main burden.

2. Semi-Formal banking sector

- Cooperatives Institutions (CIs) and Savings-for Production Groups (SGCs)
  CIs and SGCs are the second largest group of microfinance service providers in Thailand. The main businesses of these groups are providing savings and credit services, as well as products distribution services through membership. As of September 2009, there are 13,453 registered CIs and SGs in Thailand.

3. Informal banking sector

- NGO MFIs
  Currently, there are only a handful (less than 30) NGOs that have microfinance related programs. Small Enterprise Development (SED) and Common Interest Foundation are the main players.

				Asset/Liability Management			Sustainability & Profitability		Efficiency and Productivities	Asset Liability Management		Women's Presence	Auditor
	Gross loan portfolio	Total borrowings	Deposits	Portfolio to Asset	DE ratio	Yield on gross portfolio	Return on assets	Return on equity	Operating expense/ loan portfolio	PAR <30	Write-off ratio	% of women borrowers	
SED	1,253,479	1,004,159	0	96.1%	4.07	16.64%	0.01%	0.05%	14.62%	11.18%	0.00%	89.0%	No data

4. Microfinance Networks

- Banking with the Poor (BWTP), Catholic Relief Services (CRS)

(There is no microfinance network focusing on domestic microfinance in Thailand)

Figure 7: SWOT Analysis

Strength	Weakness
• Large economy and favorable macro-economic condition	• Government-led market • Regulatory Framework • Closed microfinance industry • Information transparency • Institutional Capacity
Opportunity	**Threat**
• Growth potential with low market penetration and highly educated women • Regulation changes might foster market entry opportunities for new comers	• Regulation changes will be slow

Annex B - Potential Cambodian Partners – Quick Profile

	Company Vision	Years in Business	No. of Branches	No. of Staffs	Shareholders
AMK	Help large numbers of poor in Cambodia to improve their livelihood options through the sustainable delivery of appropriate and viable microfinance services	8 yrs (Since 2003)	65	766	Concern Worldwide (Dublin: 99.99), Concern Worldwide (UK: 0.01)
TPC	Provides poor rural women with the economic opportunities to transform the quality of their lives with a social vision and a business orientation	17 yrs (since 1994)	24	368	DWM (87.8), ESOP (12.2)
CREDIT	Provides diverse and innovative financial solutions while maintaining organizational sustainability with a commitment to the poor	11 yrs (since 2000)	31	524	World Relief US (81.7), World Relief Canada (12.8), World Hope International (5.6)
VFC	A Christian company that provides financial services to help the poor liberate themselves from poverty	10 yrs (since 2001)	11	637	VisionFund International (99.999), World Vision International (0.001)
AMRET	Provide a wide range of financial services to low income people as well as MSMEs, while achieving a high level of financial and social performance	20 yrs (since 1991)	45	964	Advans (31.8), GRET (19.4), Proparco (17.3), FMO (12.6), Oikocredit (12.6), LFP (4.1), Botta Cambodia (2.2)
HKL	Committed to long-term social and financial sustainability and improving the income of its clients	17 yrs (since 1994)	54	510	Oikocredit (20.0), HKNGO (20.0), SIDI (15.0), NORFUND (14.2), ASN-Novib Fonds (14.2), HKSA (7.7), CORDAID (7.00), Mr. Dy Davuth (2.0)
PRASAC	Contribute to sustainable rural economic development in order to improve the living standards of the rural people	16 yrs (since 1995)	18	1246	Dragon Capital Group (18.0), BIO (18.0), FMO (18.0), Lanka ORIX LEASING Company (18.0), Oikocredit (18.0), ESOP (10.0)
Sathapana	Empower Entrepreneurial poor especially women in urban and rural areas to develop their income generating activities and micro enterprise	16 yrs (since 1995)	37	748	DWM (33.58), CCB NGO (23.41), Triodos (18.47), FMO (18.47), SEI Ltd (6.07)

ANNEX B - Potential Cambodian Partners – Quick Profile (Con't)

AMK

AMRET

CREDIT

HKL

ANNEX B - Potential Cambodian Partners – Quick Profile (Con't)

PRASAC

VFC

ANNEX B - Potential Cambodian Partners – Quick Profile (Con't)

TPC

Sathapana

Annex C - Potential Cambodian Partners – WWB Performance Standards

Rank	Institution - Global	Score
1	Bangladesh - SHAKTI	100.00%
2	Sri Lanka - Janashakthi	94.65%
3	HKL	93.98%
4	AMRET	90.82%
5	CREDIT	90.35%
6	India - SHARE	90.00%
7	Philippines - CARD	90.00%
8	India - Ujjivan, India	88.48%
9	Bangladesh - ASA	85.00%
10	India - Spand	85.00%
11	Philippines - NWTF	85.00%
12	AMK	84.22%
13	SATHAPANA	83.06%
14	TPC	82.05%
15	PRASAC	73.71%
16	VFC	72.62%
17	India - SEWA	68.90%
18	Pakistan - KASHF	59.65%
19	Mongolia - XacBank	57.44%
20	Sri Lanka - SEEDS	41.56%
21	Bangladesh - Delta Life	25.00%
22	India - FWWB INDIA	25.00%

Rank	Institution - Global	Score
1	Bangladesh - SHAKTI	100.00%
2	Tunisia - ENDA	98.47%
3	Kenya - KWFT	96.18%
4	Sri Lanka - Janashakthi	94.65%
5	Dominican Republic - ADOPEM	94.39%
6	Colombia - FMM Popayán	94.29%
7	HKL	93.98%
8	Colombia - FMM Bucaramanga	92.56%
9	Jordan - Microfund for Women	91.08%
10	AMRET	90.82%
11	CREDIT	90.35%
12	India - SHARE	90.00%
13	Philippines - CARD	90.00%
14	India - Ujjivan, India	88.48%
15	Bangladesh - ASA	85.00%
16	India - Spand	85.00%
17	Philippines - NWTF	85.00%
18	AMK	84.22%
19	Peru - MIBANCO	83.97%
20	Egypt - LEAD	83.25%
21	SATHAPANA	83.06%
22	TPC	82.05%
23	Peru - Caja Municipal de Ah	78.39%
24	Ethiopia - Peace	77.73%
25	Bolivia - FUNBODEM	76.94%
26	Colombia - WWB Colombia Cali	74.86%
27	PRASAC	73.71%
28	VFC	72.62%
29	India - SEWA	68.90%
30	Brazil - Banco da Família	66.53%
31	Uganda - UFT	66.25%
32	Bosnia and Herzegovina - MI-BOSPO	64.20%
33	Bénin - PADME	60.87%
34	Burundi - CECM	60.43%
35	Pakistan - KASHF	59.65%
36	Mongolia - XacBank	57.44%
37	The Gambia - GAWFA	55.32%
38	Mexico - FinComún	52.46%
39	Morocco - Al Amana	48.98%

Rank	Institution - Global	Score
40	Kenya - EBL	43.79%
41	Sri Lanka - SEEDS	41.56%
42	Paraguay - Interfisa	40.00%
43	Russia - RWMN	39.15%
44	Ghana - WWBG	28.16%
45	Bangladesh - Delta Life	25.00%
46	India - FWWB INDIA	25.00%
47	Chile - Banefe Banco Santander	

Annex D - List of Interviewees

US (phone call)		
Jenny McGill	Professor; ADB Consultant	Columbia University SIPA
Heather Clark	Consultant	Freelance Consultant
Philippines		
Cecile del Castillo	Executive Director	NWTF
Dorie Torres	President	CARD Bank
Happy Tan	Southeast Asia Regional Director	Grameen Foundation
Andrea Silva	Program Officer	Grameen Foundation
Eleanor So	COO	TSPI
Susan Trinidad	General Manager	TSPI Mutual Benefit Association
Tes Pilapil	Southeast Asia Regional Director	Oiko Credit
Jesi Ledesma	Regional Manager, Southeast Asia	MicroSave
Joseph Silvanus	Regional Head, Development Organizations	Standard Chartered Bank
Trina Sebastian	Associate Director	Standard Chartered Bank
Kelly Hattel	Financial Sector Specialist (Rural and Microfinance)	ADB
Hiroyuki Aoki	Senior Financial Sector Specialist	ADB
Ed Jimenez	Consultant	BSP (Central Bank of the Phils.)/Alliance for Financial Inclusion
Pia Roman Tayag	Head, Microfinance Unit	BSP (Central Bank of the Phils.)
Tomas Gomez	President	GM Bank / RBAP Foundation
Dante Portula	Senior Finance Adviser	GIZ_ Microinsurance Innovations Program for Social Security (MIPSS)
Dan Songco	President and CEO	PinoyMe Foundation
Lalaine Joyas	Executive Director	Microfinance Council of the Philippines
John Owens	Chief-of-Party	Microenterprise Access to Banking Services USAID
Lourdes Pineda	SVP – Head, Microfinance	RCBC Universal Bank
Benjie Montemayor	Board Member	OK Bank
Jesse Ang	Resident Representative	IFC Phiippines
Cambodia		
Hout Ieng Tong	General Manager	HKL
Michael Spingler	Chair and Acting CEO	TPC
Chea Phalarin	General Manager	Amret
Sim Senacheert	President & CEO	Prasac
Bun Mony	CEO	Sathapana
Mach Chan	General Manager	Credit
Pete Power	CEO	AMK
Rommel Caringal	Asia Regional Director and Board Member	Vision Fund; VFC
Sophea Hoy	General Secretary	Cambodia Microfinance Association
Si Len	Executive Director	Cambodia Microfinance Association
Kao Kok	Country Manager	OikoCredit
Julie Cheng	Director	Blue Orchard Finance (Cambodia)
Linda Ren	Senior Investment Officer	IFC Resident Mission, PROC
Hang Nguyen	Project Manager	IFC Access to Finance, Vietnam
Vietnam		
Phan Thi Tuyet Thanh	National Project Coordinator	ILO, Microfinance Support Program
Marlyn Manila	International Group Manager	CARD MRI

Annex E - REFERENCES

Alkire, Sabina and Maria Emma Santos. 2010. Multidimensional Poverty Index: 2010 Data. Oxford Poverty and Human Development Initiative. Available at: www.ophi.org.uk/policy/multidimensional-poverty-index/

2009 CGAP Microfinance Survey
http://www.cgap.org/p/site/c/template.rc/1.11.131057/1.26.13769/

Association of Southeast Asian Nations (ASEAN) Website
http://www.aseansec.org/

Cerise Social Impact

ADB. 2000. “Finance for the Poor: Microfinance Development Strategy”

Conroy, John. 2003. “The Challenges of Microfinancing in Southeast Asia”, The Foundation for Development Cooperation.

Asia Focus Microfinance in the Philippines Jan 2010
http://www.microfinancegateway.org/gm/document-1.1.4528/18.pdf

UN Advisors Group Philippines Financial Sector Assessment, March 2008
http://www.microfinancegateway.org/gm/document-1.9.42308/Philippines%20Financila%20Sector%20Assessment.pdf

Philippines Development Report 2009 World Bank

Innovations in Microfinance in Southeast Asia report 2003

Ronald E. Dolan, ed. Philippines: A Country Study. Washington: GPO for the Library of Congress, 1991.

EIU Global Microscope

CIA World Factbook

World Bank data

Microfinance Industry Report Indonesia 2009
http://www.microfinancegateway.org/gm/document-1.9.36444/MF_Industry_Report_Indonesia.pdf

World Bank in Indonesia: Finance and Investment Climate

Yoko Doi, World Bank Indonesia article