

AMK

Microfinance Deposit Institution {1st update}

Phnom Penh, Cambodia

Social Rating

Standard Comprehensive¹

June 2013

Vision: The long term vision of AMK is of a Cambodian society where citizens have equal and sufficient economic and social opportunities to improve their standard of living, and where they can contribute productively towards the overall development of the country.

Mission: To help large numbers of poor people to improve their livelihood options through the delivery of appropriate and viable microfinance services.

DISCLOSURE: M-CRIL's co-Founder & Director, Frances Sinha is a member of AMK's Social Performance Committee. She has played no part in this rating.

	2011 [^]	Current 2013
SOCIAL RATING	AA-	$\Sigma\alpha$
RATING OUTLOOK		Positive
Rating dimensions		2013
Process/organisational systems		
Governance and strategy		$\Sigma\alpha+$
Monitoring social goals		$\Sigma\alpha$
HR & responsibility to staff		$\Sigma\alpha-$
Client protection		$\Sigma\alpha-$
Results/outputs – client level information¹		
Depth of outreach		$\Sigma\alpha-$
Quality of services		$\Sigma\alpha$

¹Client level information based on data available with the MFI.

[^] Rating by MicroFinanza

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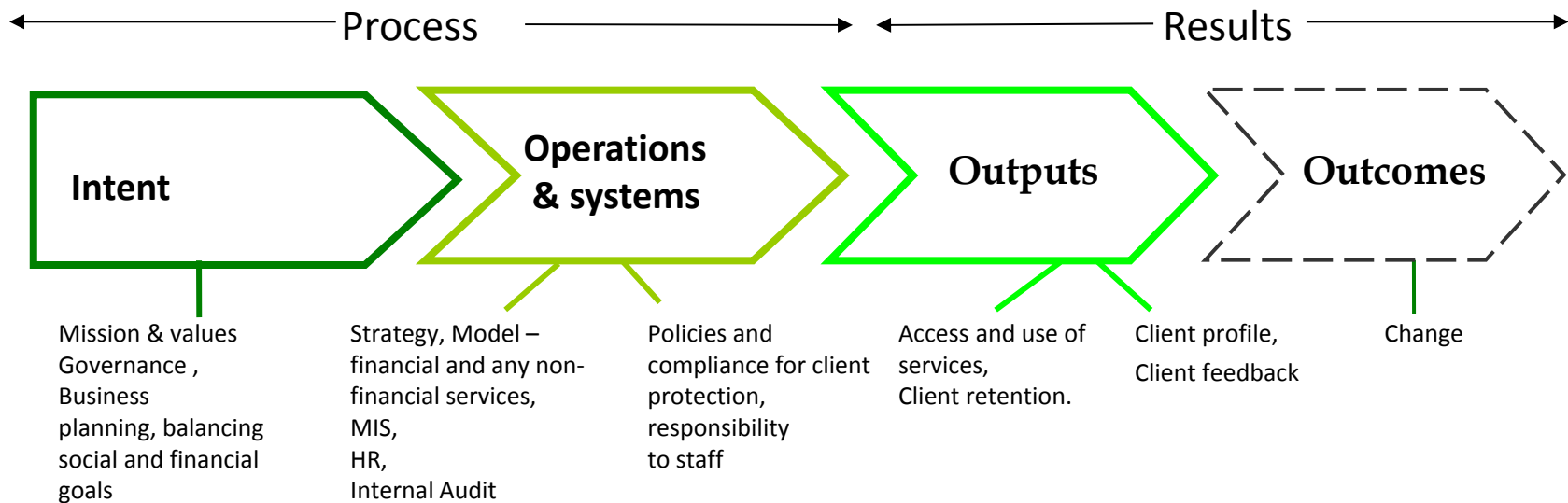
Structure

- ▶ Introduction – social performance pathway
- ▶ Synopsis
- ▶ Country context
- ▶ Strength and issues; Rating Rationale
- ▶ Intent: Mission, Governance and Strategy
- ▶ Alignment of systems
- ▶ Client protection
- ▶ Results: outputs and outcomes
- ▶ Annexes

Key for bullets:

- ✓ Positive
- Issue
- Description

Social performance pathway



- ▶ Social performance is: the ***effective translation of an institution's mission into practice in line with accepted social values***
- ▶ This definition is reflected in the new Universal Standards of Social Performance Management (USSPM www.sptf.info).
- ▶ This ***standard comprehensive*** social rating covers all steps of the pathway, including essential practices that are part of the USSPM and drawing on MFI data for results.

Synopsis

- AMK originated from the credit and savings programme of Concern Worldwide in Cambodia and was registered in 2003. Operations focused in the rural areas, expanded to all provinces over the past few years.
- Strong culture and focus on double bottom line microfinance; poverty focused intent and practice
- Microfinance model: Primarily Village Bank with 3-6 groups of 20-25 women but also caters to individuals; range of services including various product lines for credit, deposits and remittance services.
- Non-financial services: None – presently limited to financial services in line with its mission.

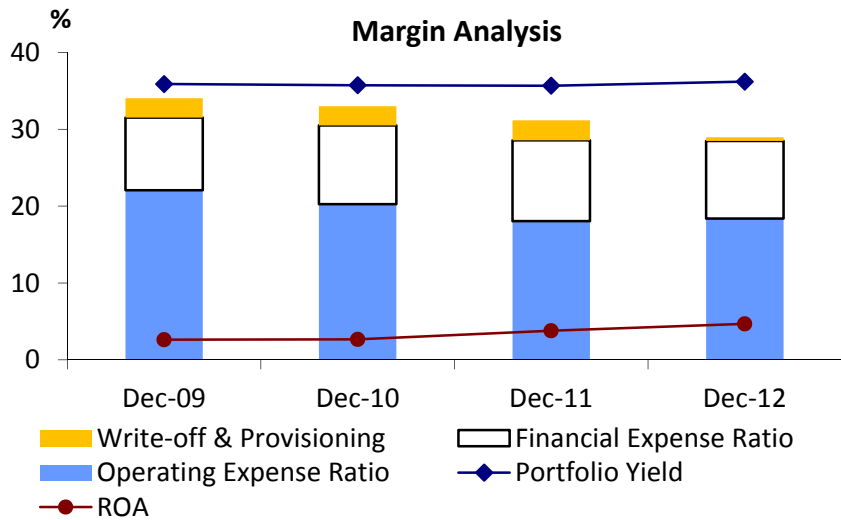
Organizational overview (December 2012)	
Number of villages (% of total villages in Cambodia)	10,116 (72%)
Branches & sub-branches	24 & 89
Active borrowers – VB	266,075
Active borrowers – Individual	25,784
APR	27%-37%
Voluntary savers, number	29,910
Borrowers with saving accounts	3%
Total money transfer transactions, 2012	78,655
Total number of staff (women staff)	1,187 (321)
Clients: Total staff	246

Transparency:	MFI efforts	Client awareness [^]
Interest rate on loan	High	Low
Processing fees	High	High
Grievance mechanism	Moderate	Low
Insurance benefit	Moderate	Moderate
Savings rate	Low	Low

[^] Based on M-CRIL's FGDs with clients in 4 VBs, 4 branches

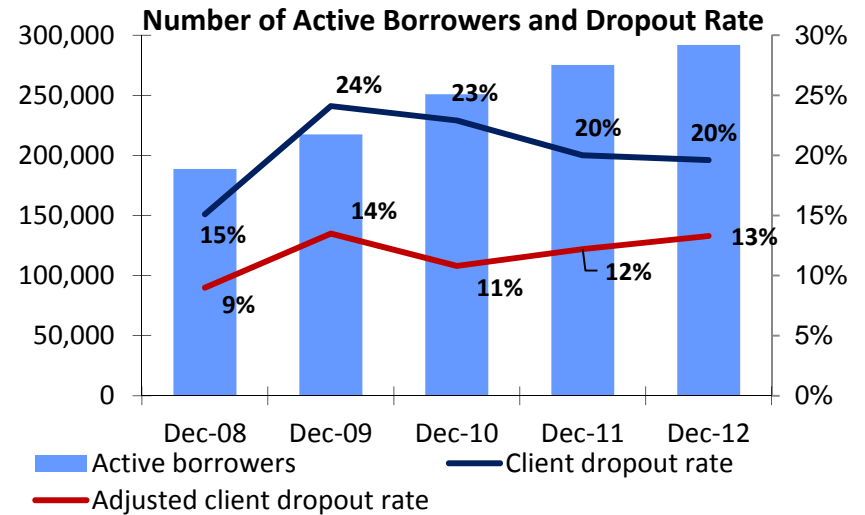
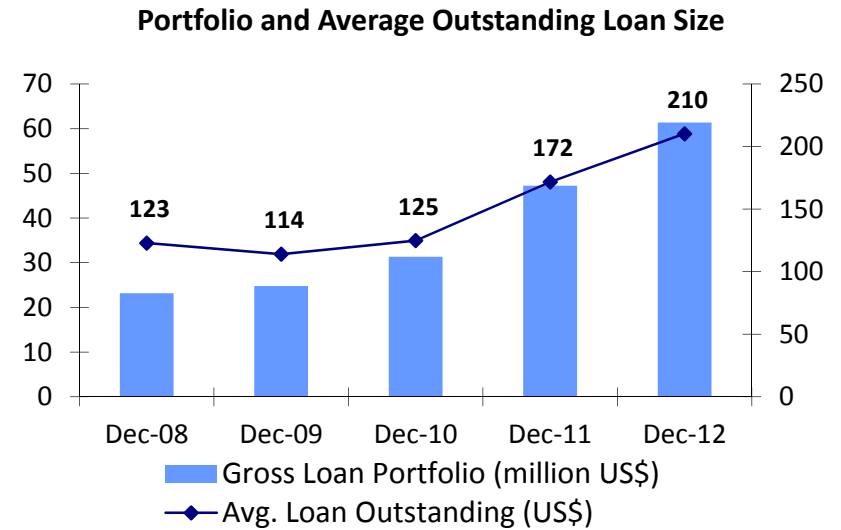
Depth of Outreach (December 2012)	
Women clients	87%
Rural clients	91%
Clients in 3 provinces with lowest HDI rank	7%
New VB clients<NFPL [Cambodia rate '04]	45% [16%]
Average loan outstanding per client	
	\$210
Average loan disbursed	
	\$241
Average loan outstanding per client/GNI	
	25%
Average loan size disbursed per client/GNI	
	29%
Loans<\$300	
	90%
Average savings per client	
	\$275
Average savings per client/GNI	
	33%
Average amount of money transfer	
	\$372
Average amount of money transfer/GNI	
	45%
Money transfer transactions<\$300, number	
	64%

Synopsis: trends data



Note: All ratios (except RoA) calculated on average gross loan portfolio

	Dec-10	Dec-11	Dec-12
PAR (30 days)	1.6%	0.1%	0.1%
Staff indicators			
Total number of staff	834	963	1,187
Clients/ credit officer	531	549	487
Staff attrition	11%	13%	13%



Dropout rate – staff , clients – presented here using MIX formula

Strengths

- ✓ Specific mission and vision statements, guiding principles - well penetrated to all levels
- ✓ Strong commitment at all levels to reach and serve the poor
- ✓ Socially committed experienced Board members – focus on double bottom line. Social data reported to Board and Senior Management.
- ✓ Poverty outreach above national poverty rates (food line)
- ✓ Low staff attrition
- ✓ Reasonable proportion of women in overall staff and top management, gender aware policies for staff
- ✓ Comprehensive internal audit - verifies social data and client protection principles

Issues

- ❑ Branch staff lack clarity on client targeting
- ❑ Low client awareness of grievance redressal mechanism
- ❑ Scope for improvement in client cash flow analysis done to assess their repayment capacity
- ❑ Staff feel salary levels do not match those of other large MFIs

Rating rationale

Governance

- ✓ Strong and involved Board; 2/10 women members.
- ✓ Minutes reflect focus on double bottom line; reports to Board on social performance.
- ✓ Reasonable salary parity. CEO's salary is ~26 times the entry staff's (after training).
- No cap on profit but shareholders do not seek RoE>20%

Mission and Strategy

- ✓ Spirit of mission stressed in policy documents and in trainings. Staff focused on achieving mission.
- Mission statement broken into Key Performance Indicators (KPI) which are tracked but no targets are set
- ✓ Annual client growth projected at <5% from 2014-2017; focus on increasing depth of outreach.
- ✓ Expansion plan considers poverty data and presence of other MFIs; efforts made to avoid overlapping.

Client Targeting and Outreach

- ✓ Focus on rural areas.
- ✓ Geographically diversified, in last few years expanded to unreached and sparsely populated north and north-east.
- Does not use any client targeting tool, staff lack clarity on targeting.
- Client outreach similar to national average

Social reporting/MIS

- ✓ Regular reports on poverty outreach, client satisfaction, client exit rate.
- ✓ Client dropout definition factors in re-joiners.
- ✓ Reports enable disaggregated analysis based on product, loan cycle, CO and gender.

HR and Responsibility to Staff

- ✓ HR systems reasonably aligned to social goals.
- ✓ Overall 27% women and 29% in top management; gender sensitive policies
- ✓ Low staff turnover (13%) in 2012.
- ✓ Annual staff satisfaction survey conducted.
- Staff feel salary levels and incentive do not match those of other MFIs

Internal Audit

- ✓ Audit covers operational & social performance issues.
- ✓ Findings reported to Audit committee of the Board.

Client Protection

- ✓ Diversified product range to meet varied client needs.
- ✓ Transparent systems: Efforts to provide information to clients on terms and conditions of products; added 'Freedom of Choice' principle.
- ✓ Added privacy clause in the loan application form.
- AMK is the price leader amongst MFIs in Cambodia, nevertheless there may be scope for reduction in pricing
- Scope to improve assessment of client repayment capacity

Client Awareness and Feedback

- ✓ Clients appear satisfied with products
- ✓ High awareness on some of the loan terms.
- Limited awareness of grievance redressal mechanism
- ✓ Reasonable adjusted client retention (87% for FY 2012).

Context

- ▶ Cambodia has a history of wars and political unrest but has been largely politically stable since 1998.
- ▶ Cambodia's economy grew at ~10% per year between 1998 and 2008. This growth was slowed by the global economic downturn in 2008-09; however, it grew by 7.1% in 2012. The momentum is expected to continue with projected growth rates of 6.7% in 2013 and 7% in 2014. [World Bank, country overview].
- ▶ The rapid economic growth created employment opportunities which contributed to a decline in the poverty headcount from 34.7% in 2004 to 20% in 2011.
- ▶ In 2011, services, agriculture and industry accounted for 38%, 32% and 22% of GDP respectively.
- ▶ Garment exports and tourism are the two main industries in the country.
- ▶ Cambodia faces a number of challenges – corruption and poor public services impede inclusive development.

Indicators	2012
Population (mn)	14.8
GDP growth rate, %	7.1
Inflation, % (2011)	5.5
GNI/capita (\$) (2011)	830
HDI Rank (out of 187)	138

- ▶ In 1996, the National Bank of Cambodia (NBC), the central bank, was established and led to the introduction of a basic legal framework for the financial sector in 1999. In 2000, NBC issued regulations to facilitate the transformation of NGOs into formal MFIs.
- ▶ The players in the financial sector are divided into four main categories (i) Commercial and Specialized Banks (ii) Licensed Microfinance Institutions (iii) Registered Rural Credit Operators and (iv) Informal Moneylenders
- ▶ In Dec 2007, NBC created a new category of MFIs called Microfinance Deposit-taking Institutions (MDIs) which were allowed to mobilise savings from the general public. The minimum capital requirement for MDIs is KHR10 bn (US \$2.5 mn), compared to only KHR250 mn (US\$ 62,500) for licensed MFIs. The MDIs are required keep 10% capital deposit at NBC (5% for licensed MFIs).
- ▶ The Cambodian microfinance sector has grown tremendously from 50,000 borrowers in 1995 with outstanding loans of just \$3mn to 1.1mn borrowers in 2012 with outstanding loans of \$732mn.
- ▶ In 2008-09, the microfinance sector was affected by the global economic crisis and significant multiple lending. The sector has now successfully emerged from the crisis; for most of the MFIs the current priority is to widen their product range by offering deposit and remittance services. Also, leading MDIs are shifting their focus to mainstream clients and intend to transform into banks.

	2011
Commercial Banks	31
Specialized Banks	7
MDIs	7
MFIs	25

Intent: Mission, Governance & Strategy

← Process → ← Results →

Intent

Mission: clarity and communication
Governance
Strategic planning

Mission: clarity and communication

- Mission and Vision statements were drafted at the time of formation of AMK in 2003 and were also approved by the Board. The statements are specific; some aspects need to be defined. At the same time, guiding principles were developed that emphasize the pursuit of financial and social goals together with client protection (slide 49).

Social goals	Definition and monitoring
Target Area: Rural areas	<ul style="list-style-type: none">➢ Not stated in the mission; however reflected in Key Performance Indicators (KPI) and well understood across all levels of staff.➢ Over 90% clients in rural areas, regularly tracks village penetration level.➢ First MFI to expand into north-eastern provinces that have the highest poverty rates, though still very low client base in these provinces.➢ Target is to reach nearly 13,000 villages by 2017 out of ~14,000 villages in the country. Future expansion plans will continue to focus on rural areas.
Target clients: Poor people	<ul style="list-style-type: none">➢ No targeting tool used; client identification depends upon staff's understanding of the client's poverty level.➢ However, depth of outreach (% of new clients below National Food Poverty Line) regularly monitored to assess if targeting is being done accurately.
Services: Financial services including credit, savings, money transfer and remittances	<ul style="list-style-type: none">➢ Wide range of loan products for both group and individual clients to provide appropriate options in line with the mission. Loans are secured through an in-house credit insurance facility.➢ In 2011 introduced voluntary savings for clients and non-clients, with varied deposit products. In 2012, launched agent based mobile banking services and now set to launch ATMs.➢ Further added money transfer services in 2011 to complete the spectrum of financial services.➢ Feedback on financial services is sought in the annual client satisfaction survey and cash flow survey.

Mission: clarity and communication

Social goals	Definition and monitoring
Outcomes: Improved livelihood options	<ul style="list-style-type: none">➤ Though key indicators (income, assets) captured for entry clients, not tracked subsequently.➤ Client's perception of change in their household economic situation, food situation and their ability to manage crises in addition to their main activities are part of an annual client cash flow survey conducted by the research team.➤ In 2012 AMK undertook a detailed time-series assessment of impact/change in clients' lives during their relationship with AMK. Baseline data was created in 2006 and 2007.

- ✓ In early 2012, mission was broken into strategic objectives and measurable key performance indicators; also includes aspects of client protection, staff responsibility and other social responsibility.
- ❑ Targets for these indicators not yet set.
- ✓ Clear commitment to double bottom line ethos.
- ✓ Spirit of mission and vision emphasised in trainings and manuals but staff at the visited branches display limited understanding of mission. The vision and mission statements, guiding principles are displayed in all branches and sub-branch offices.
- ✓ Alignment with AMK's mission is an important factor to be considered while identifying potential investors, as reflected in the Board minutes.
- ✓ Some of the key performance indicators incorporated into incentive calculations of the Executive team (CEO, COO, CBO and CFO).

Governance

- ✓ Board members possess extensive experience in microfinance and relevant fields such as banking, finance, law and development.
- ✓ Board has four committees - i) Remuneration, Nomination & Governance (RNGC) (ii) Audit & Finance (AFC) (iii) Risk and (iv) Social Performance (SPC).
- ✓ 10 Directors – 5 independent, 4 represent the investors, and 1 executive; includes 2 ex-CEOs and 2 women. (Annex; slide 48).
- ✓ Additionally, 3 members (2 women) in Social Performance sub-committee and 2 members (1 woman) in Audit and Finance sub-committee.
- ✓ Members on the Board from 3-10 years; no fixed term for Board members. Board acknowledged that all members should be committed to social performance as a prerequisite to their term. SPC Chairperson orients new members in the Board on SPM.
- ✓ Chairman has over 15 years of experience in microfinance rating, consulting and implementation. He served as the 1st CEO of AMK from 2003 to 2007 and is fairly aware of the operational issues, continues to guide the senior management regularly. The Chairman initiated and led the idea of integrating social performance management in AMK's systems and processes .
- ✓ Board meets at least three times a year; meetings are well attended and documented. Board minutes reflect concern for the double bottom line.
- ✓ Good reporting to the Board – reports include trends in social performance parameters including depth of outreach, level of compliance with Universal Standards for Social Performance Management (USSPM), change study results. Also reports on findings of client satisfaction study, client exit, multiple loans, client grievances based on call centre data and staff satisfaction.

Governance

- ✓ Comprehensive approach to evaluating performance of CEO, includes outreach on savings and money transfers in addition to borrowers, average loan size in relation to GNI, client level social performance goals, customer satisfaction; client retention is not an explicit component.
- ✓ Incentive cannot exceed 40% of the fixed salary, 30% of the incentive is paid in shares and divested over a period of three years.
- ✓ Remuneration (salary + bonus) of the CEO is around 26 times the salary of an entry level Credit Officer, which is reasonable.

Strategic planning

- ✓ AMK has continuously evolved to fulfill its mission effectively. After the crisis in the Cambodian microfinance sector, it revised its growth target and does not want to go beyond a 10% client growth rate; instead it wants to expand into unreached villages. The 5 year business plan projects <5% annual growth from 2014 to 2017.
- AMK understands that as the market has developed, the group methodology does not always work. Hence the VB methodology was changed by limiting liability to the members of a group and not to the entire village bank. Nevertheless, it does not want to shift to individual lending and has capped the number of individual loans in the total portfolio at 10%.
- In March 2013 the Board approved the gradual phasing of the VB methodology and rolling of the group methodology.
- ✓ The MFI tweaks its operational strategy if required; only individual loans were offered in the northern provinces as the group model for lending would not have worked owing to low density in those provinces.
- ✓ The institution has developed clear guidelines to deal with competition – scaling down in high risk areas, avoiding saturated areas and sharing village level data with 3 other MFIs to prevent overlap.
- ✓ Though AMK does not have a defined target for poverty outreach, the management is clear that it does not intend to transform into a bank which will entail serving upper income populations in the near future; it wants to maintain focus on the rural poor.
- ✓ Product diversification has been the core of AMK's operations; in accordance with its mission, new products are added or existing products are modified based on client feedback formally conducted through market research or informally collected during monitoring visits.
- ✓ Innovated with agent based mobile banking and is currently an piloting ATM service for making deposits easily available.

Strategic planning

- ✓ Despite popular belief that the credit line (CL) is risky, offered this facility to group loan clients and later to individual clients. Also offers Emergency Loans to meet emergency needs of clients.
- ✓ In July 2011, introduced domestic remittance services at a very low cost to clients.
- No plans for providing non-financial services.
- No policy on capping the RoA; however the institution chooses investors whose interests are aligned with AMK's mission and are not looking for high returns.

Alignment of systems

← **Process** → ↔ **Results** →

**Operations
& systems**

Model, market strategy
Products & services, non-financial services,
Information and reporting on social performance,
HR systems, internal audit

Market strategy

Areas

- AMK currently operates in all 24 provinces and Phnom Penh; expanded to northern and north-eastern provinces to offer services in the unreached areas. Amret, its main competitor is present in 17 provinces while a few others (TPC, Vision Fund) are in 15 provinces.
- ✓ Continues to focus in the rural areas as it believes that serving clients in the rural areas can help it to increase its poverty outreach.
- Expansion to a new province or district is based on poverty level (as per census), market size, competition, occupation, road condition and access to banks. For selection of villages, a village risk profile is prepared which includes information on the number of households, competition (presence of both MFIs and informal sector), default rate, culture, migration level, if any risk of disaster, security and if the Village Chief is influential or not.
- ✓ Shares data with 3 other MFIs to conduct an over-indebtedness mapping; objective is to avoid entering a village which already has microfinance penetration. AMK now avoids increasing exposure in highly concentrated provinces and areas; consequently it has a geographically diversified portfolio.

Clients

- ✓ Does not use any client targeting tool; in case of Village Bank (VB), groups are self-formed by members and 3-6 groups form a Village Bank. The management believes that focus on rural areas and the small size of loans filters out non-poor clients.
- ✓ Poverty level captured through National Poor ID Card but even persons with no such card are eligible to become AMK members.
- Field staff are broadly oriented to identify target clients; however appear to lack clarity on this, resulting in a loan of 1m Riel going to a family owning several taxis, for instance.
- Poverty outreach is measured regularly for a sample of clients; poverty level is one of the key performance indicators but no target has been set.

Microfinance policies

- Credit Officers (CO) meet the Village Chief and organise a promotion meeting. Staff brief the community members on the range of products, processes and terms and conditions. A refresher meeting is held after 2/3 days for interested members of the community.
 - Members form the groups by themselves, 4-5 such groups form a Village Bank (VB) and members elect a President.
 - Monthly collection meetings of 15-30 minutes duration at the villages; attendance is not compulsory.
 - The president visits clients' house along with the CO to fill the loan application form. Details of household, assets, cash-flow and collateral (for individual loans) are captured in the application form.
 - Appraisal of repayment capacity forms the basis for the loan amount.
 - Information on the applicant's indebtedness is sought from the Village Chief. The credit history of the applicant is also checked at the branches by sending a query to the Credit Bureau of Cambodia (CBC).
 - Area Manager (AM) conducts house verification for 10% of applicants. In case of individual loans, collateral valuation and loan guarantor information is also confirmed during house verification.
 - Subsequently the loan is approved by the AM/BMs. Loan approval authority is dependent on the loan amount, and age of the VBs.
 - Loans disbursed in the presence of AM at VB meetings in cash (in Riel for all except Home Improvement loans, in US\$ for other loans and Thai Baht in bordering areas of Battambang and Kah Kong).
 - For individual loans, disbursement can be made at the clients' house (preferably in the presence of the guarantor) or even at the AMK office.
 - CO collects repayments from clients at the meetings; clients' loan cards are updated.
 - Utilisation checks are conducted for all individual loans by the CO/AM/BM, depending upon the loan amount, within 3 months of disbursement. It is not formally done for group loans.
 - In addition to the loan products, AMK also offers deposit and money transfer services.
-

Financial products

- ▶ **Credit (direct):** AMK has continuously reinvented itself through changes in its product offerings, systems and processes responding to the needs of its clients. After the crisis in 2009 and 2010, similar to other MFIs AMK also revisited its product design and methodology.
- ▶ VB Loans are the major product in AMK's total loan portfolio. Three repayment options are provided to VB clients; End of Term (EoT), Instalment and Credit Line (CL). Loans with monthly instalment repayment option have a lower interest rate at 2.8% per month.
- AMK also offers individual loans up to \$2,000 to meet the needs of graduating clients and others. Individual loans for both business and agriculture purposes are given for varying loan tenures. The MFI started a credit line facility even though it was perceived to be risky by lenders, investors and the Board.
- ▶ In 2013, based on a study, introduced a Home Improvement Loan. To widen its client base, it added an Easy Loan wherein owning a house is not a pre-requisite for a loan.
- ▶ AMK has an Emergency Loan which was highly appreciated by clients the M-CRIL team interacted with. Earlier clients who had completed 1 cycle with AMK were eligible for the Emergency Loan; now clients who have completed 6 months with AMK can receive this Loan in case of an accident, death or any other crisis situation.
- ✓ Most of the loans are small sized (93% of loans \leq US\$300).
- ✓ Clients are allowed to prepay or foreclose without penalty; a penalty of 1% of principal overdue is charged in case of default; debts are forgiven in cases of client death.

Financial products

- ▶ **Savings:** AMK started offering deposit services after it received the license from NBC in 2010. Till April 2013, a General Savings Product was offered to AMK VB clients wherein deposit and withdrawal could be made at the VB collection meetings. Since AMK offices are far from its operational areas, poor clients found it inconvenient to visit the office for deposit/withdrawal on any day other than meeting days; hence the product was discontinued.
- ▶ To facilitate easy access to deposit services, AMK has recently introduced agent based e-banking services in Takeo, Kandal and Prey Veng provinces. AMK received the license for mobile banking in December 2011. Mostly shopkeepers in the villages are selected as the after depositing a security amount of \$50 to \$10,000; currently AMK has 157 agents. An agent receives a commission of 0.1% of deposit per month and 50% of withdrawal fee; the fee ranges between 400 and 1,200 Riel.
- ▶ Currently target customers for deposit products are people residing in urban areas and preferably within 3-4 km of the office so that they can comfortably visit the office for deposits and withdrawals. As a result only 3% of borrowers have saving accounts with AMK while 29% of savers had AMK loans.
Insurance (in-house): Compulsory credit life insurance is provided to clients at no extra charge. In case of a clients' death, the outstanding loan amount is waived.
Money Transfer: In July 2011, AMK widened its range of services by offering domestic money transfer services. The fee for the remittance service depends upon the type of transfer (4,000 Riel for account to account transfer and 6,000 Riel for account to cash/cash to account transfer). The sender agent receives 35% of the transfer fee amount, while the receiving agent gets 20% of the fee amount. AMK keeps the remaining 45% of the fee as income from money transfer services.
- ▶ Money transfer has gained significant popularity in some of the provinces. It was apparent during branch visits and client interaction, that money transfer services were viewed as highly useful.

Information and reporting on social performance

- ✓ Regular monitoring and reporting on social indicators to management and Board.
- **Client profiling at entry:** Indicators of socio-economic status of clients – Poverty level (ID Poor card), education, ownership of assets, earning members, extent of debt, household income and expenses are recorded in the loan application form.
- Most of the data is recorded in the MIS; the overall asset value and annual net income are recorded in the MIS but not the details of the assets, income or expenses.
- Some issues with data quality regarding estimation of assets and income-expenses in clients' cash flow.
- ✓ Supervisory staff (AM) monitor quality of data reported for 10% of applicants. Internal Audit (IA) also verifies client level data.
- ✓ Further detailed survey called the 'cash flow survey' is done for roughly 300-500 new clients in the first quarter of the year to define the poverty level of AMK clients.
- ✓ Once in two years, a Client Profile Report is prepared for the entire client base.
- **Client profiling over time:** During 2012, AMK undertook a detailed time-series assessment of impact/change in client lives during their relationship with the MFI. In order to create a baseline, AMK interviewed a sample of 416 clients in 2006 and 2007 and re-interviewed in 2012. The 'Change Study' is yet to be approved by the management and the Board.

Information and reporting...continued

Market intelligence:

- ✓ At HO level, village level data is shared with some other leading MFIs to avoid competitive lending; area selection based on this report.
- ✓ Data on multiple loans also collected for a sample of clients through cash flow survey.
- ✓ Conducted Product Positioning study for savings at the end of 2012 and for Easy Loans in early 2013, aimed at comparing strengths and weaknesses of AMK's product vis-à-vis competitors. Plan to conduct quarterly study for non-credit products and semi-annually for credit products to help in understanding the market better and increasing the appropriateness of own products.
- ✓ Dropouts in VB and clients tracked in the BMU and MIS; exit reasons discussed in monthly branch meetings.
- ✓ Data for dropouts analysed with respect to provinces, product lines and cycles.
- ✓ Exit survey conducted annually, sample selected through systematic random sampling.

Market intelligence	Method	Reports
Competition	Credit bureau check for all loans	
	Over-indebtedness mapping based on data shared with other leading MFIs	Annual
Client exit: - Rate	Part of MIS, different formula (slide 45), adjusts for resters; dropouts-inactive for more than 6 months	Routine monthly reports – BMU (Branch Monthly Update)
Client feedback/ Satisfaction study	Sample survey, also part of market survey; informally by CO or other staff during supervisory visits	Client satisfaction survey – Annual, Market survey – need based

Technology:

- 'Abacus 1 World' software used for MIS (both credit and deposit), information for remittance products entered in 'Under Tree (UT)' software.
- Client level data – and loan data updated at the head office server at the end of each working day.
- Requisite reports generated by a linked module, another linked software enables HO staff to view reports.
- ✓ Reports enable disaggregated analysis based on products, loan cycles, CO and gender.

HR systems – alignment with mission & values

- Detailed HR manual, HR team is divided into sub-teams for recruitment, training, staff development and personnel and compensation and has a total of 23 staff including the Head. The HR Head is mainly from a training background and has experience of MFIs as well as NGOs.

Recruitment: AMK makes fresh hires mainly for the position of CO and Tellers and for the senior management position, if required. For external hiring, announcements are made through its website, network, newspapers, career expos and in universities.

- ✓ Policies explicitly state that no individual or group within the institution is discriminated against on grounds of gender, race, age, colour, nationality, marital status, home responsibility, sexual orientation, physical ability, disability, health status, health culture, beliefs, religion, political affiliation or social background.
- ✓ Nevertheless in the northern and hilly areas, the 50% cut off for the written test is lowered.
- ✓ In the interview, willingness to work in rural areas and commitment are one of the main criteria for hiring which ensures the right fit to the role.
- ✓ Local persons are preferred for branch staff. Persons with MFI experience are preferred for the role of CO; despite no preference mostly women apply for the teller position.

Training: 5 day training provided to new COs on VB Loans. Thereafter, a rigorous test is conducted of awareness and understanding of vision, mission, client protection principles as well as the MFI's policies and products.

- Apart from training new staff, AMK regularly provides staff with training on new products, IT & MIS and soft skills. Staff are also sent for external trainings and exposure visits.

HR systems – Alignment with mission & values ... continued

- ✓ Every year training needs analysis is done through a self assessment process and in discussion with the supervisor. A training calendar is prepared based on the needs identified by the staff.
- ✓ Data on training disaggregated on the basis of gender and positions.
- ✓ In 2012, training was provided to a total of 4,380 staff which translates into more than 3 trainings/staff.

Staff appraisal: Performance assessment (PA) is done twice a year and parameters for assessment include (i) outputs vs objectives (ii) organisational development (iii) work ethics and (iv) work quality.

- ✓ COs are assessed on quality of all activities they conduct i.e. VB formation, loan disbursement, active clients handled, repayment collection, information management related to client, VBP and competitor, cash handling. Punctuality and discipline (behaviour with clients) are some of the other parameters.
- Assessment by staff themselves and by supervisor is done and variance in scores studied.
- ✓ Increment is based on grade achieved in performance assessment.
- ✓ 360 degree performance appraisal is currently done only for CEO, CFO, Heads of department and RMs.

PA Grades	Increment
A	14%
B	12%
C	10%
D & E	Nil

Incentives:

- In order to maintain high morale of field staff, the incentive structure was revamped and paid on a monthly basis.
- Incentive for CO is capped at 1 month's salary, while for all other branch staff the maximum incentive is capped at 2 month's salary per quarter.
- ✓ Adjustments for population density, share of non-primary sector livelihoods, flood/drought occurrence rates and % of non-poor population are made in the incentive calculation.

HR systems – alignment with mission & values...continued

- ✓ For AM and BM, adjusted RoA, PAR, growth in borrowers, savers, savings balance and number of money transfer transactions. Since savings and money transfer are new products, lower weightage is given to growth in savings balance and number of money transfer transactions.
- ✓ Group incentive is paid to branch staff every 6 months and is calculated based on average number of clients/staff, portfolio quality, average loans outstanding/staff, operating cost ratio, average savings balance/staff, average money transfer transactions/staff.
- ❑ None of the HO staff is eligible for incentive if overall PAR₃₀ of the institution exceeds 1%,

Bonus: AMK pays Khmer New Year bonus (1 month's salary) for all levels of staff. Additionally festival bonus of \$50-70 is paid to all staff once a year.



Responsibility to staff

Personnel development/Growth Opportunities:

- AMK prefers to fill vacancies for higher posts (especially in operations) internally. For top management and middle management level, external hiring can be done.
- Promotions are based on supervisor's recommendation. Written test and interview are also conducted.
- COs are eligible for promotion only after 2 years. Staff especially, female COs were not happy with the process of test and interview.

Staff satisfaction/motivation:

- Branch staff displayed limited understanding of mission and vision of AMK, and low awareness of client protection but were well aware of processes, product terms and conditions.
- ✓ Staff showed a high level of commitment and reasonable level of satisfaction.
- Some concern among field staff: feel salary levels of AMK do not match those of other MFIs.
- ✓ Staff satisfaction survey is conducted annually; it is detailed and analysed based on gender, position and years of service. Reported an average satisfaction score of 3.46 on a scale of 1-5 in 2012.

Grievance mechanism:

- Multiple processes for staff feedback; at every branch feedback box is placed, also has a whistleblowing policy wherein calls are directed to the Risk Department.
- ✓ Additionally, 360 degree feedback survey is done wherein peers and supervisors give their feedback through the internal portal.
- ✓ An open house session is organised in all the branches once a year and the plan is to increase the frequency to twice a year from the current year. The session is attended by the Head of Department and one person each from the Executive Committee (CEO, COO, CBO, CFO) and support function.

Responsibility to staff

Staff turnover:

- ✓ Low attrition rate compared to other MFIs.
- 17 (11.4%) out of 149 staff who left AMK excluding probationary staff, in 2012, were dismissed.
- Exit survey conducted by the HR team for all exit staff.
- Better positions in other organisations and reluctance to move out of own province are the main reasons for attrition.
- ✓ Attrition among probationers/women and level-wise, analysed separately.

	No. of staff	2010	2011	2012
a	At the beginning of FY	758	834	963
b	New recruits during the FY	183	272	402
c	At the end of FY	834	963	1,187
	Turnover [(a+b-c)/(a+b)]	11%	13%	13%
	% of women in total staff left	31	17	30

- ✓ Conditions and benefits for staff are aligned with legal requirements.

Working conditions – reasonable	Official working hours in accordance with the labor law but at times tellers and accountants have extended working hours. AMK has reasonable working conditions at its branches but limited facilities at sub-branch offices.
Remuneration – reasonable.	Entry level fixed salary is reasonable however lower than competitors. Staff feels due to small loan sizes in AMK, even incentives are lower.
Leaves – adequate	Staff are eligible for 18 days' earned leave, 3 months fully paid and additional 3 months' leave with half salary in case of certified sick leave.
Insurance/medi-claim	Accident insurance cover of \$10,000, coverage of \$5,000 in case of death due to illness. Full reimbursement of medical expenses for staff, spouse and children if treatment is in Cambodia, Thailand or Vietnam.
Other benefits	General Loan, Study Loan, Housing Loan and Asset Purchase Loan, Pension and equity options.

Responsibility to staff

Gender:

- Overall reasonable ratio of women staff and high in admin and support function as women prefer roles of tellers at branches.
- ✓ Recruitment announcements clearly state that ‘women are encouraged to apply’ and ‘equal opportunities for men and women’. Prefer women if both men and women are equally suitable for any role.
- ✓ Aims for overall 50% women in total staff. As per business plan, 35% of total staff in 2017 will be women.
- ✓ Avoid placing women staff in remote locations or sub-branch offices.
- ✓ Provides 3 months’ with pay and 3 months without pay maternity leave – plus time off to feed infants for the first 12 months; 5 days paternity leave.
- ✓ Reimbursement up to \$1,000 for C-section delivery, \$300 for normal delivery.
- Sexual harassment policy adopted but no separate channel for reporting harassment cases.
- ✓ If complaint is of serious nature it results in termination.

Management levels	No of women staff	No of staff	% women
Top management	4	14	29
Middle management	6	37	16
Field staff	69	732	9
Admin & support	210	349	60
Total	321	1,187	27

Internal audit

- Team of 11 Internal Audit Officers (IAO) and 8 (5 joined in June) Internal Control Officers (ICO). Plan is to have at least 13 ICOs by the end of the year and one ICO per branch in future.
- Due to an inadequate number of IAO, branches are currently audited on average once a year. Visits by the ICOs (1-2 per year) complement the internal audit visit to the branches.
- Extensive coverage of audit – BM’s general management, Credit operations, Savings & Transfer, Finance & treasury, MIS & IT and HR & training; in addition to documentary and policy compliance checks, visits to clients are also made. At least 1% of borrowers are visited and documents are reviewed for 5% of (the still relatively small number of) savers and 5% of remittance clients.
- ✓ For borrowers, information on income, indebtedness and loan purpose recorded in the loan application form is reviewed, loan utilisation is checked as well as outstanding balance and repayments are cross-checked with the client documents. Clients with overdues and those written-off are also visited by the audit team member and feedback on staff behaviour is collected from these clients.
- ✓ Client awareness on the importance of passbook, products they have used, complaint process, amount paid in previous month and ability to read the passbook is checked; responses are consolidated and analysed by the research team (see Slide 44).
- ✓ Focuses on multiple lending, quality of communication (use of backdrop, sharing of loan contract), assessment of repayment capacity (accuracy of client cash flows recorded), fair practices (providing VBP incentive), and other risks such as borrowing on others’ behalf or paying commission to the guarantor.
- Report is prepared separately for every sub-branch and findings are then shared with the branch offices. Response of the branch is also recorded in the audit report.
- Individual reports of the branches are sent to the Audit and Finance Committee of the Board when finalised. Summary analysis of findings and action items are prepared and discussed with the committee three times a year.



Client Protection

This section follows the seven principles of client protection evolved through the global SMART campaign (www.smartcampaign.org) to ensure that providers of financial services to low-income populations follow transparent and ethical practices in their interactions with clients.

Client Protection: Principle 1

AMK formally adopted a Code of Practice for client protection in 2005 in order to ensure fair and equal treatment of clients. In addition to the 7 client protection principles of the Smart Campaign, it has an eighth principle 'Freedom of Choice' for clients. The Code of Practice is an extension to the guiding principles of AMK.

Appropriate product design and delivery:

- ▶ AMK has truly internalised its mission and all of its initiatives are directed towards fulfilling its mission. In early 2012, the mission “to help large numbers of poor people to improve their livelihood options through the delivery of appropriate and viable microfinance services” was broken down into measurable key performance indicators. One of the key aspects of the mission has been designing and delivering appropriate services which ultimately results in client satisfaction and retention.
- ▶ For this, as described earlier, AMK has a diversified product range. It commenced operations with the traditional group loan product. Based on informal feedback, in 2005 it introduced the credit line (CL) facility. Though lenders thought it risky due to its long tenure and flexible repayment terms, the MFI was committed to offer the product needed by its clients. The popularity of the CL product has made the organization liberalise its conditions (as discussed earlier). Analysis shows that the CL product has a higher client retention than others. In 2012, the credit line facility was further extended to individual clients.
- ▶ Apart from the credit line, AMK has a variety of repayment options to meet the diverse needs of both its group and individual clients. Even though the organization has a wide loan product range, it ensures that it continues to serve its target client base. At the same time, to fulfil the credit needs of a graduated group of loan clients it offered individual loans up to \$2,000.

Client Protection: Principle 1...continued

- ▶ AMK regularly conducts market research studies for new products. In 2011, it added Individual Seasonal Loan and Easy Loan as a result as also the Home Improvement Loan. The emergency loan covers cases of death and accidents.
- ▶ The development of and modifications in the savings products were discussed earlier. Though the Board was earlier of the opinion that mobile banking and ATMs are not pro-poor, the MFI strongly believes that these technological interventions would help it to provide deposit services to its clients.
- ▶ Similarly, with the domestic money transfer services, it was observed during interaction of the rating team with clients and staff, that the remittance service is appreciated by the clients. This is also apparent from the substantial increase in the number of money transfer transactions.
- ▶ Apart from market research studies, AMK has also conducted a Product Positioning study for savings at the end of 2012 and for Easy Loans in early 2013. The study aimed at comparing strengths and weaknesses of AMK's product vis-à-vis those offered by its competitors. The plan is to conduct quarterly competition evolution studies for non-credit products and semi-annually for credit products and combining it with customer feedback to help in increasing their appropriateness.

Client Protection: Principle 2

Prevention of over-indebtedness

- ▶ Cash flow analysis is an important part of client appraisal for all loan products. According to the policy for VB Loans, the maximum loan amount cannot exceed 60% of net income less other loans. For individual loans, this percentage varies and the maximum loan amount is also linked to the value of collateral. Information regarding loans from other sources is also captured in the application form. AMK has a policy of not lending to clients who have loans from more than one other MFI. In order to prevent over-indebtedness, the MFI now also checks the clients' credit history with the credit bureau leading to significant rejections.
- ▶ The staff at the visited branches have understood this principle but a number of cases were found where the annual net income was equal to or even lower than the loan amount; analysis relied heavily on future rather than existing cash flows. In other cases, the disposable income of just 1-3 months was adequate to repay the entire loan indicating some inconsistency in determining the loan size.
- ▶ Overall although business appraisal is a positive step towards the prevention of over-indebtedness, it has become a routine exercise and needs better staff orientation to do it well.



Client Protection: Principles 3 & 4

Responsible Pricing

- ▶ AMK charges interest at 2.3%-3.0% per month on a declining balance basis for VB Loans. It feels this is competitive. Many other MFIs charge more than 3% for some of their products. Additionally the MFI collects 0.5% of the loan amount as processing fee. Considering different repayment options, tenure and interest rates, APR for VB Loans ranges from 32.3% to 36.7% while APR for individual loans ranges from 27% to 37%. This is on the low side for microfinance in Cambodia.
- ▶ Though operating efficiency of AMK is lower than its peers, it has reduced interest rates on its loans in the past. It plans to continue expanding into remote areas/villages which may increase OER in future. However in view of a high RoA (4.7% in 2012), there is scope for a further reduction in rates.

Transparency

- ▶ One of the guiding principles of AMK is commitment 'to openness and transparency in all areas of management and operations'. Communication to new clients regarding policies and products is mainly done during promotional meetings and at the time of loan disbursement. A banner with information about the products is used as a backdrop at each meeting location.
- ▶ Loan cards provided to clients have printed repayment schedules along with the interest rate. Details of other loan products are also printed at the back of the loan card. A copy of the loan contract is given to the individual clients or VB Chief which specifies the loan terms. Receipts are provided for all transactions.
- ▶ AMK has added another principle 'Freedom of Choice' which complements transparency and emphasises that clients should not be pressurised into using a particular product; instead they should be encouraged to make their own choice. This principle is of significance as AMK has a wide range of products – clients have to be informed of all product characteristics to enable them to choose.

Client Protection: Principles 5 & 6

Fair and respectful treatment of clients

- ▶ Fair and respectful behaviour is part of the orientation and training of staff. Behaviour with clients is one of the parameters for performance assessment of the CO and AM. AMK policies clearly state that clients should be treated respectfully at all times. Neither pressure nor abusive language can be used while recovering overdues from clients. Even in case of intentional default, it is the importance of a good track record that is to be stressed. Clients are encouraged to inform the management in case any undue charges are collected or if there is any issue with staff behaviour.

Mechanism for complaint resolution:

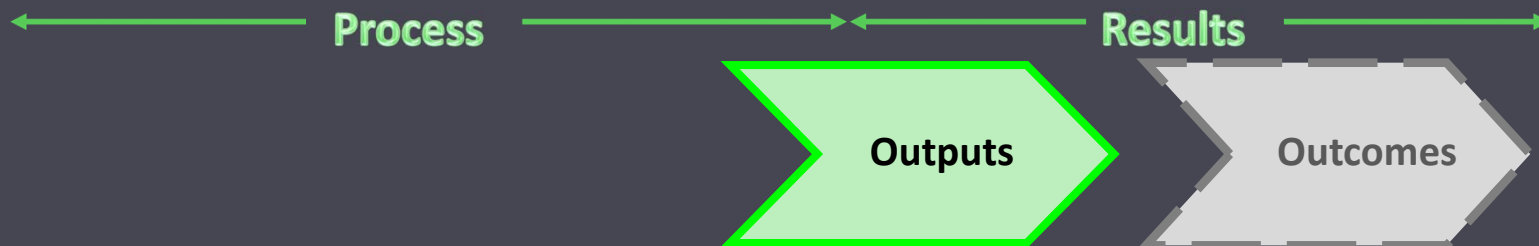
- ▶ AMK added a Call Centre exclusively for client grievances in early 2012. The customer toll free number is printed on the clients' loan card. Additionally branches have a complaint box.
- ▶ A daily track is maintained of the calls made. A majority of the calls are resolved on the same day. Calls are recorded and analysed on a monthly basis. The analysis report is discussed during monthly management meetings at the HO and are also briefly shared with the Board.
- ▶ The Complaint Cell report shows that the highest number of calls from clients and agents are about loan enquiries (37%). This is followed by enquiries regarding CO's phone number (24%) and AMK office and reset of PIN (10%). Only 2% of the calls were complaint in nature. Feedback is also sought through monitoring visits of the BM and visits made by the internal audit team. The M-CRIL team observed that awareness regarding the client complaint/grievance redressal mechanism is quite low.

Client Protection: Principle 7

Privacy of client data

- ▶ AMK shares indebtedness information of its clients with the Credit Bureau of Cambodia (CBC) on a daily basis but all client information is otherwise confidential. Application forms for all loans have a 'Consent and Privacy Clause' since July 2012 wherein clients agree to share their information with the CBC and NBC.
- ▶ Instructions are given to staff not to share client data and any client related discussion is allowed only with the Village Chief. Even at the HO, AMK has adopted a restricted data use practice.
- ▶ Despite inclusion of the privacy clause in the application form, some of the staff were not aware of its content. COs in the visited branches informally interact with staff of other MFIs to share information about clients. The nature of this interaction in relation to client data privacy bears further thought in relation to its benefit (avoiding over-indebtedness/multiple lending).
- ▶ AMK has adopted a restricted IT data usage practice at the Head Office.

Results: outputs and outcomes



Outreach – area, clients, Client household profile,
Products - analysis
Client satisfaction, awareness and feedback
Client dropout
Outcomes

Outreach – Areas

- ✓ AMK works in all provinces of the country, with the largest number of clients in Kampong Cham and Kandal. Of the 9 provinces where AMK has the highest outreach, 4 have higher poverty rates than the national average of 32%.
- ✓ Stung Treng, Ratanakiri and Preah Vihear have the highest poverty rates and lowest ranks in HDI; however these provinces accounted for 2%, 3% and 2% of the client base respectively.
- ✓ AMK has in recent years expanded to these sparsely populated provinces where other MFIs have not yet worked.

Clients by province, by level of development

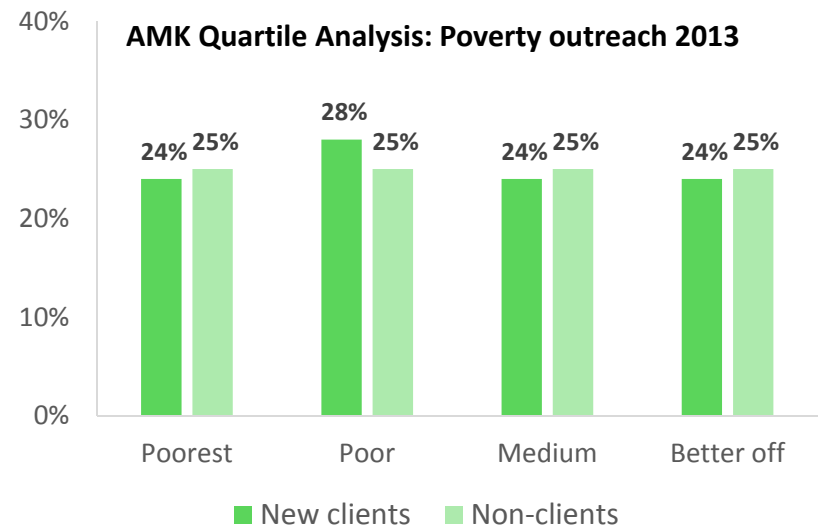
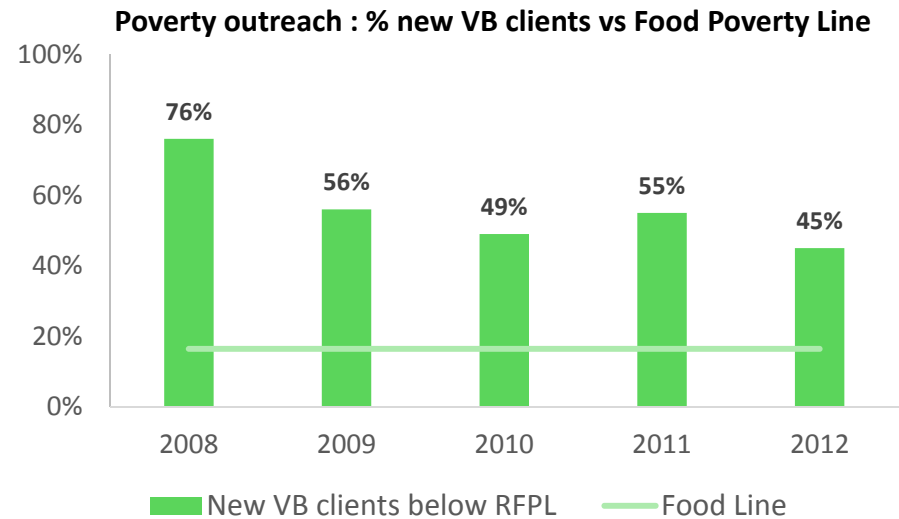
Province	Share in clients	Poverty Rate ¹	Literacy Rate (Women) ¹	HDI ²	HDI Rank ²
Kampong Cham	11%	32%	64% (57%)	0.624	13
Kandal	10%	17%	78% (73%)	0.700	2
Kampong Speu	8%	53%	61% (53%)	0.663	3
Prey Veng	8%	30%	61% (53%)	0.633	9
Battambang	6%	27%	74% (68%)	0.638	7
Kampong Thom	6%	48%	58% (53%)	0.603	16
Siem Reap	6%	46%	56% (48%)	0.625	12
Svay Rieng	6%	33%	64% (54%)	0.629	10
Takeo	6%	23%	69% (61%)	0.635	8
Overall Cambodia	67%	32%	67% (60%)	0.638	-

¹ <http://www.foodsecurityatlas.org/khm/country/provincial-Profile>

² http://hdr.undp.org/en/reports/national/asiathepacific/cambodia/Cambodia_2011_NHDR

Poverty outreach

- ✓ The figure shows very high outreach to poor new clients based on the food poverty line.
- Poverty outreach is declining, apparently the poverty rate in the country is also on the decline.
- AMK does not compare its poverty outreach with the international poverty lines but rather benchmarks it with a national tool to assess performance within its national context.
- On an annual basis, AMK uses data from the client cash flow survey to estimate its poverty outreach.
- AMK relies primarily on a New Client Relative Poverty Measurement to ensure that it continues to target the poor. Each household is assigned a Wellbeing Score, with higher scores indicating greater household prosperity. All non-client households are then divided into four equal quartiles, and these quartiles are compared with the AMK new entry clients' Wellbeing Scores.
- Depth of outreach is one of the key performance indicators.
- Overall, evidence on poverty profile of new clients vis-à-vis non-clients – figure alongside – is unclear. The two sets of respondents appear to have similar poverty profiles.

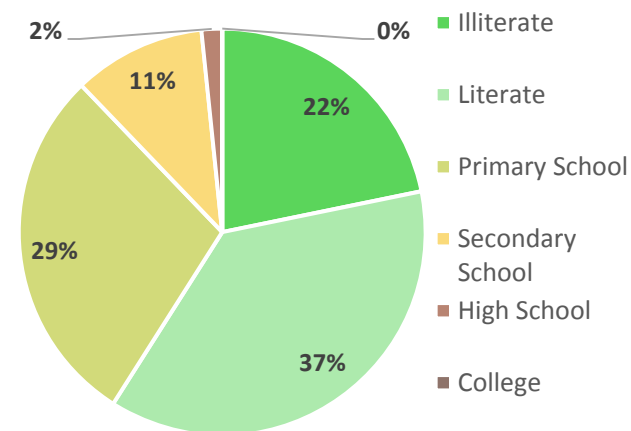


Client household profile (at entry)

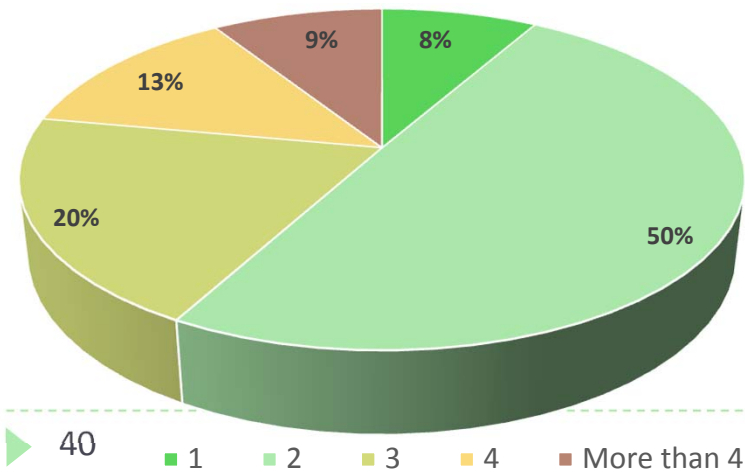
- A high number of clients were literate but only 2% completed schooling.
- About 57% of the clients were in the age group of 31-50, 29% above 50.
- Though AMK captures data on poverty level, it does not use the Poor ID Card for targeting; 61% of new VB clients in 2012 were classified as non-poor and 13% did not have the card. Level I and Level II clients with Poor ID Cards were each 13% of the total.
- Similar to the average household size in Cambodia, 60% of AMK's clients' household size was 3-5 members while 25% of them had 6-7 members. Hence 50% of households had 2 earning members. Consequently, households of all clients were engaged in more than 1 activity. A significant proportion of clients' families were engaged in more than 5 activities.
- Casual part time labour was the main activity, followed by salaried job, agriculture and petty trading.
- As the client base is mainly rural, 44% of clients had livestock.

[Cash flow survey data; new VB clients in 2012]

Literacy level



No. of active members in household



No. of activities	Clients
1	0%
2	6%
3	17%
4	19%
5	19%
More than 5	39%

Ownership of assets

Assets	Clients
Motor-cycle	58%
Bicycle	77%
Television	66%
Ox-cart	19%
Power tiller	6%
Plowing machine	6%
Rice milling machine	2%
Cows, Buffaloes	44%
Pig	20%

Product analysis

[AMK MIS, Dec 2012]

Credit:

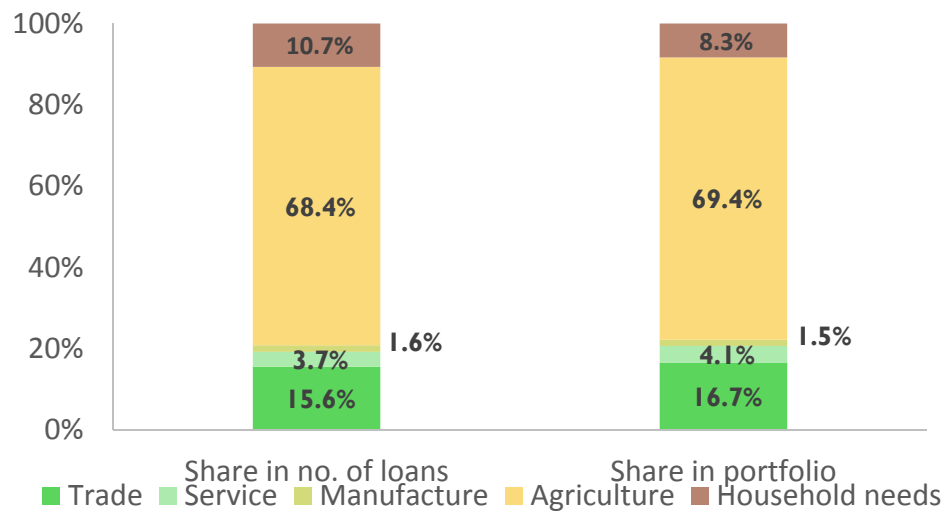
- Most of the loans are for agriculture, typical of an MFI lending to rural poor.
- 93% of the loans were lower or up to \$300.

	In US\$	As a % of per capita GNI
Avg. disbursed loan size	241	29
Avg. outstanding loan size	210	25
VB Loans	178	21
Individual Loans	526	63
Less than US\$300		36

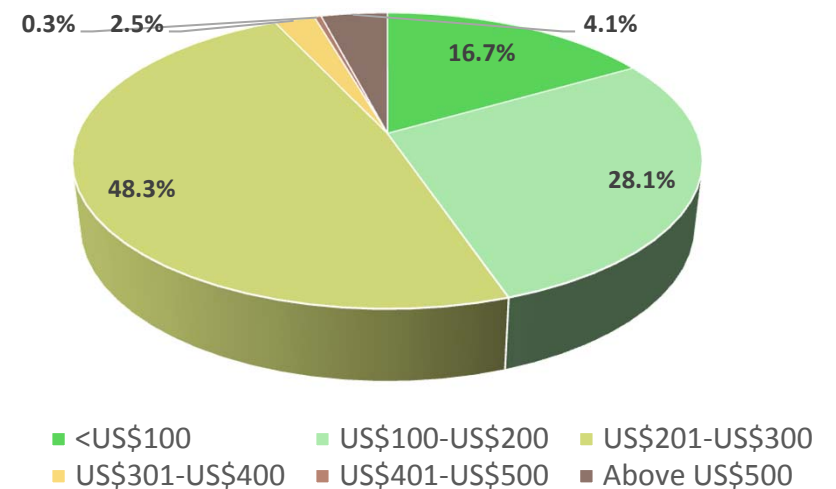
Cycle-wise loan clients

Cycle:	% clients
Cycle 1	25
Cycle 2	20
Cycle 3	19
Cycle 4	16
Cycle 5	10
Cycle 5+	10

Purpose-wise loans



Disbursed Loans by size



Product analysis

[AMK MIS, Dec 2012]

Savings:

- Of nearly 30,000 savers, 5,701 (~19%) were saving through AMK's mobile banking technology.
- The average deposit amount by mobile savers was \$6.50 while the average withdrawal amount was \$25
- Easy Saving Account has the highest number of savers and the Fixed Deposit for the largest amount.

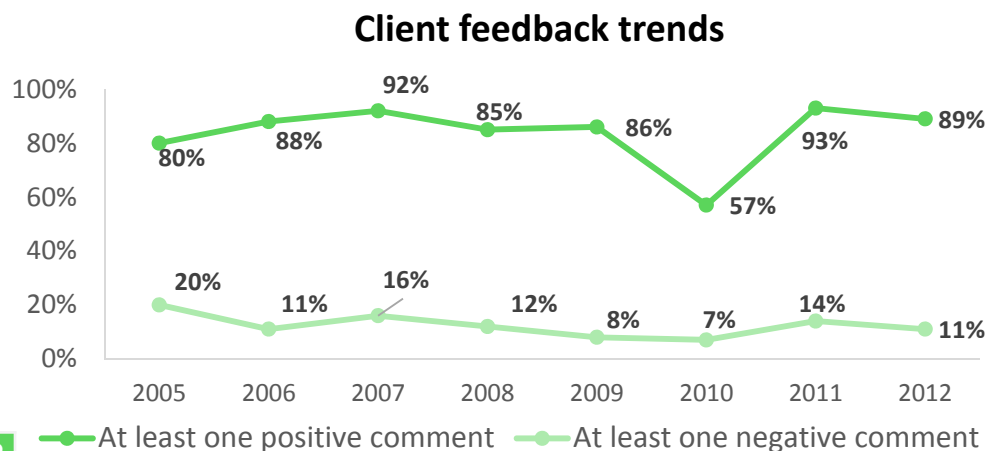
Savings	Dec
No. of savers	29,910
Average savings	275
As a % of per capita GNI	33
Savers with <=US\$ 300 saving balance	95%
Savers who also have AMK loan	29%
Borrowers who also save with AMK	3%

Money Transfer: There was a 45% rise in the number of money transfer transactions and 67% in value but from a very low base.

Money Transfer	Dec
No. of money transfer transactions	78,655
Average transfer amount	372
As a % of per capita GNI	45
No. of transactions with <=US\$ 300	64%

Client awareness and feedback (client protection issues)

- ✓ Client Satisfaction survey: AMK clients are largely satisfied as can be seen in the figure alongside.
- ✓ There has been a small reduction in clients with negative feedback.
- The tables below further explain reasons for satisfaction and dissatisfaction amongst clients and trends thereof.



Satisfaction Trends*	2008	2009	2010	2011	2012
Easy to get loan	-	-	14%	27%	44%
Finance at doorstep	19%	33%	27%	43%	29%
Product features	8%	10%	9%	24%	25%
Low interest	43%	48%	14%	31%	24%
Fast service	35%	-	8%	15%	24%
Staff	11%	14%	7%	17%	17%

*Annual client satisfaction survey, sample include new and old clients in all the years except 2009.

Dissatisfaction Trends*	2008	2009	2010	2011	2012
Staff	0.0%	1.1%	1.6%	2.0%	3.5%
High interest	2.0%	0.2%	1.8%	4.0%	3.0%
Small loan size	3.0%	2.2%	1.8%	5.0%	3.0%
Slow service	1.0%	2.0%	0.7%	4.0%	2.5%
Difficult to get loan	1.0%	0.7%	1.3%	2.0%	1.5%
Product policies	0.0%	0.9%	0.6%	0.4%	1.0%
Product features	0.0%	0.9%	0.6%	0.0%	0.5%

- AMK receives client feedback through calls made to a toll free number. In 2012 it received 2,517 calls; a majority of these calls were simply enquiries about services, only 2.2% were complaint calls.

Client awareness and feedback...continued

- ✓ AMK also collects feedback from its exit clients.
- ✓ Additional comments from 21 out of 192 clients included a need to reduce interest rate, removal of late fees, faster disbursement, penalties for group members rather than the whole group and allowing clients to request delays in interest payment. Based on the findings from M-CRIL client visits; clients appear to be partly aware.

Client feedback – Exit client revisit survey

	Frequency
Would not rejoin	15%
Would rejoin	73%
Would only rejoin after specific changes	12%
Would not recommend	5%
Unsure if they would recommend	11%
Would recommend to a relative/friend	84%

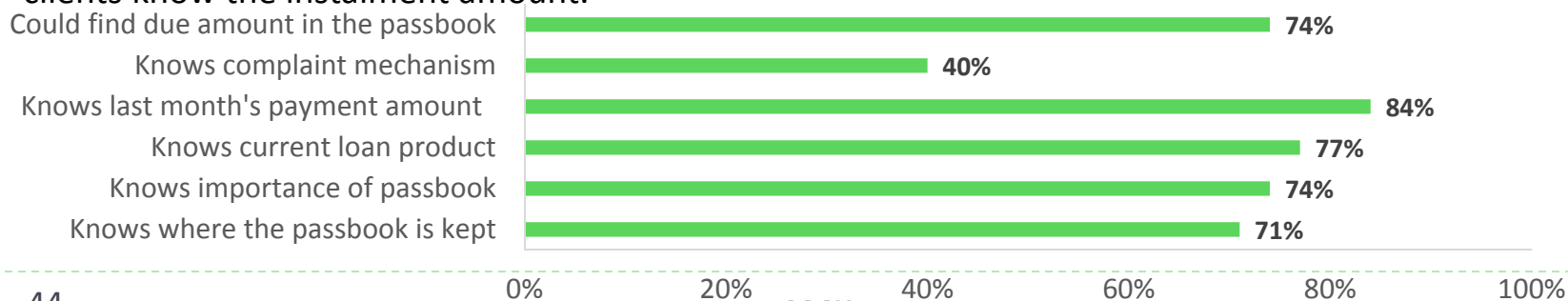
[Exit client revisit survey 2012; 192 deserting clients (no future plans to borrow within 6 months)]

Field observations by M-CRIL [^]	
Clients possess updated loan cards	Yes
Copy of loan contract given to VBs	Yes
Backdrop placed at the VB meetings	Yes

[^] Based on M-CRIL's FGDs with clients in 4 VBs, 4 branches

Level of client awareness [^]	
Interest rate	Low
Processing fee	High
Instalment amount	High
Insurance benefit	Moderate
Grievance process	Low
Savings interest rate	Low

- Results of client awareness from the survey conducted during the internal audit are similar to M-CRIL's findings – a relatively limited number know the complaint mechanism while a significant proportion of clients know the instalment amount.



Client retention

- AMK uses a different formula to calculate dropout rate:

$$\frac{\text{No. of clients dropped out}}{\{(\text{Clients at the beginning of the year} + \text{Clients at the end of the year}) / 2\}}$$
- However it adjusts for resters; % of resters is based on exit survey (2010, 2011) and revisited exit client survey (2012).
- Clients are considered as dropout if they do not re-borrow from AMK within 6 months of completing the loan.
- Major reason for dropout have been issues related to income (leaving of income earner, include, lack of time/ability to continue business at the same level, unable to pay loan due to poor sales).
- A significant number of clients also cited unfavourable loan terms and conditions as the reason for dropping out.

Client retention– applying MIX formula

Clients:	2010	2011	2012
a At beginning of the year	217,477	250,930	275,251
b New during the year	107,854	93,194	87,751
c At end of the year	250,930	275,251	291,859
Rate of retention [c/(a+b)]	77%	80%	80%
Rate of rejoiners	53%	39%	32%
Adjusted retention rate	89%	88%	87%
Reasons for client exit [^]			Frequency
Do not need money now/enough working capital			27%
Unhappy with loan conditions			22%
Unhappy with staff			2%
Income problems			28%
Group problems			9%
Others			14%

[^][Exit client revisit survey 2012; 192 exit clients (no future plans to borrow within 6 months)]

Outcomes: Poverty profile of mature clients

- In 2012 AMK conducted a 'Change Study'; baseline survey was conducted in 2006 and 2007.
- The study focuses on income, expenditure, assets, education. AMK measured changes since the previous interview and attempted to determine how much of this change could be attributed to access to financial services.
- Of the total of 593 new client and non-client households surveyed in 2006 and 2007 (combined), 416 (320 client households and 96 non-client households) were re-interviewed in 2012.
- ✓ Analysis shows that active clients' improvements during the five year period exceeded those of the comparison group of non-clients, with a greater frequency of well-being improvement and a lower frequency of decline during the survey period.
- ✓ In 2008 and 2012, exit clients were revisited and the change in their well-being status was analysed to find if exit clients were better off or worse off than when they first took the loan.
- The adjacent table shows that for 43% of surveyed clients, the economic situation had improved over a period of 12 months.

Evolution of economic situation

Change	
Increased greatly	3%
Increased	40%
Stayed the same	37%
Decreased	16%
Decreased greatly	4%

^ Annual Cash flow survey, 2012



Annexes

Profile of the Board

	Board Member	Position on Board	Experience	Since:
1	Mr. Tanmay Chetan	Chairman & Chairperson of Remuneration, Nominations & Governance Committee	Microfinance (Ratings, Consulting & Implementation)	Inception
2	Mr. Patrick Peter Power	Director	Microfinance, Development	2006
3	Ms. Rebecca Ann McKenzie	Director & Member of Remuneration, Nominations & Governance Committee	Investment Banking, microfinance	2008
4	Ms. Irina Ignatieva	Director & Member of Social Performance Committee	Microfinance (Consultant & Trainer)	2010
5	Mr. Marcus Fedder	Director, Chairperson of Risk Committee & Member of Audit and Finance Committee	Investment & Development Banking	2010
6	Mr. Tip Chanvibol	Director	Law	2006
7	Mr Howard Dalzell	Director & Chairperson of Social Performance Committee	Microfinance, Development	2006
8	Mr. Adrian Graham	Director, Chairperson of Audit and Finance Committee & Member of Risk Committee	Finance (Audit & Advisory)	2010
9	Mr. Tom'O Higgins	Director	Audit & Development	2012
10	Mr. Kea Borann	Executive Member	Development, microfinance	2012

Additionally, Frances Sinha (co-founder and ED of EDA Rural Systems), Janardhan Rao (Country Director for Concern Cambodia and Olga Torres (Head of Research at the Agora Microfinance Partners LLP) are members of the Social Performance Committee at AMK. Helen I'Anson (Country Director for Save the Children, Albania) and Heng Seida are members of the Audit and Finance Committee.

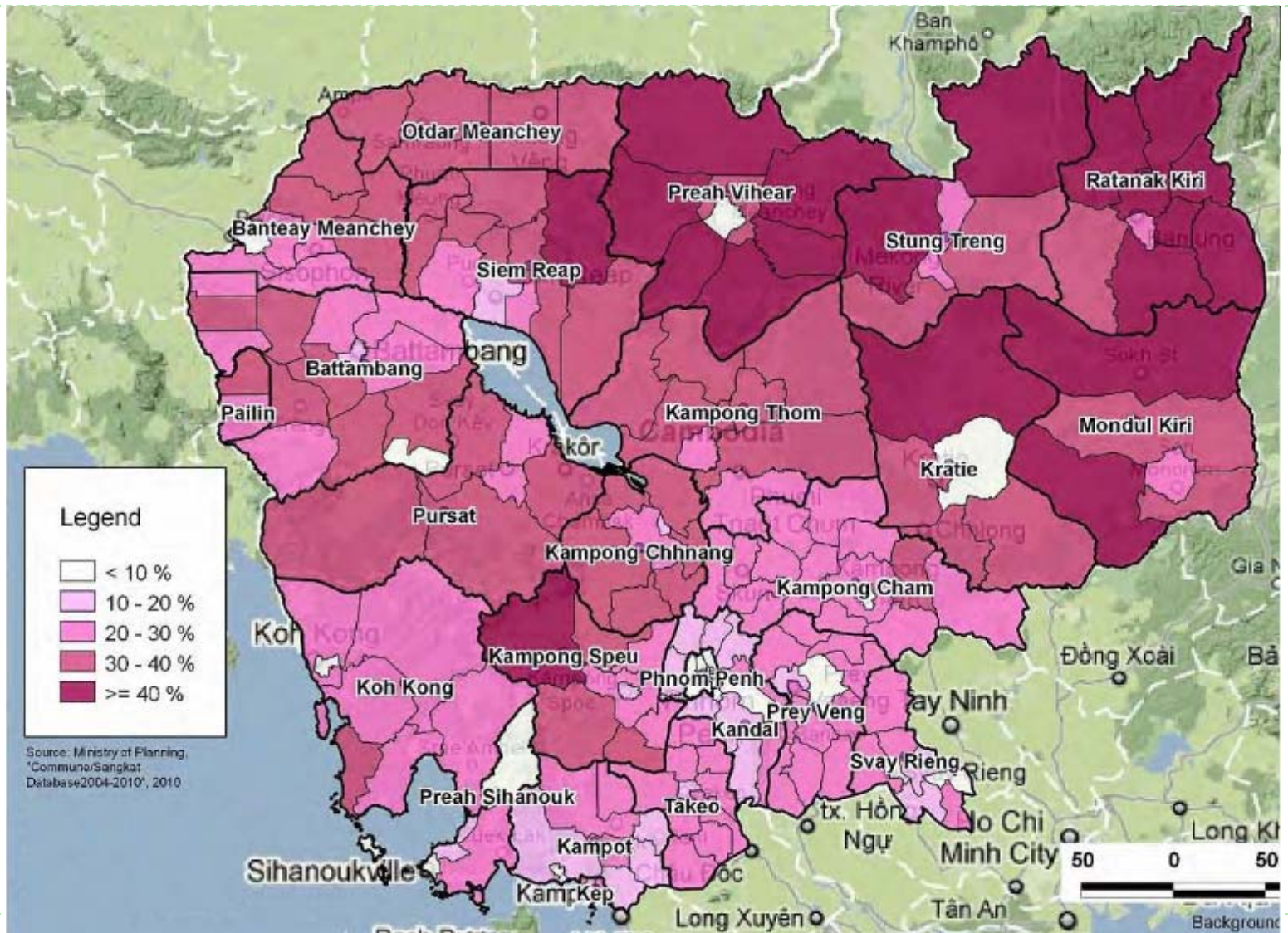
Guiding Principles

- AMK provides microfinance services to poor people in Cambodia that are grounded in sound financial discipline at all levels;
- AMK is committed to openness and transparency in all areas of management and operations;
- AMK is committed to developing processes and services and to adapting behaviors and standards that ensure optimum social performance, including client protection;
- AMK is a learning organization where appropriate exchange and sharing of information contributes to staff development, training and improvements in policies and systems.

AMK operations, December 2012

District Name	Proportion of savers	Proportion of clients
Banteay Meanchey	4%	3%
Battambang	6%	7%
Kampong Cham	11%	8%
Kampong Chhnang	4%	3%
Kampong Speu	8%	5%
Kampong Thom	6%	2%
Kampot	4%	4%
Kandal	10%	8%
Koh Kong	1%	0%
Kratie	5%	4%
Mondulkiri	1%	1%
Oddar Meanchey	3%	2%
Phnom Penh	2%	9%
Preah Sihanouk	3%	2%
Preah Vihear	2%	2%
Prey Veng	8%	11%
Pursat	4%	4%
Ratanakiri	1%	3%
Siem Reap	6%	6%
Stung Treng	1%	2%
Svay Rieng	6%	3%
Takeo	6%	12%

Poverty incidence by province - Cambodia



Abbreviations

AM	Area Manager	KPI	Key Performance Indicators
AMK	Angkor Mikroheranhvatha (Kampuchea)	IAO	Internal Audit Officers
APR	Annualised Percentage Rate	ICO	Internal Control Officers
ATM	Automated Teller Machine	LUC	Loan Utilisation Check
BM	Branch Manager	M-CRIL	Micro-Credit Ratings International Ltd
BMU	Branch Monitoring Update	MDI	Microfinance Deposit Taking Institution
CBC	Credit Bureau Cambodia	MFI	Microfinance Institution
CBO	Chief Business Officer	MIS	Management Information System
CEO	Chief Executive Officer	NBC	National Bank of Cambodia
CFO	Chief Financial Officer	OER	Operating Expenses Ratio
CL	Credit Line	OSS	Operational Self-Sufficiency
CO	Credit Officer	PAR	Portfolio at Risk
COO	Chief Operating Officer	RM	Regional Manager
EoT	End of Term	RoA	Return on Assets
FCR	Financial Cost Ratio	RoE	Return on Equity
FD	Fixed Deposit	SPM	Social Performance Management
GDP	Gross Domestic Production	US\$	United States Dollar
HO	Head Office	USSPM	Universal Standards for SPM
HR	Human Resources	VB	Village Bank
IT	Information Technology		

Glossary

APR: The annual rate that includes all fees, expressed as a single percentage number that represents the actual yearly cost of funds over the term of a loan.

CAGR: Smoothed annualized change over a given time period. $CAGR = [(final\ value / beginning\ value)^{(1/\#\ of\ years)}] - 1$

Client retention: $\#clients\ at\ end\ of\ the\ year / (\# clients\ at\ beginning\ of\ the\ year + \# new\ clients\ joined\ during\ the\ year)$

GDI: Introduced by the United Nations Development Program to add a gender-sensitive dimension to the HDI.

GNI: Gross National Income comprises the total value of goods and services produced within a country, together with its income received from other countries (interest, dividends, etc.), less similar payments made to other countries.

HDI: Human Development Index is a composite statistic of life expectancy, education, and income indices.

OER: Ratio of salaries, travel, administrative costs and depreciation expenses to the average loan portfolio

FCR: Ratio of financial expenses to the average loan portfolio (This should be differentiated from the cost of funds calculated on long term borrowing)

PAR: Ratio of the principal balance outstanding on all loans with overdue greater than or equal to 60 days to the total loans outstanding on a given date.

RoA: Annual profits before grant upon average assets

Staff turnover: $\# staff\ who\ left\ or\ were\ dismissed / (\# staff\ at\ beginning\ of\ the\ year + \# new\ staff\ joined\ during\ the\ year)$

Yield on portfolio: Annual income from portfolio upon average loan portfolio.



M-CRIL social rating grades

M-CRIL Grade	Description
$\Sigma\alpha+$	Strong social commitment, excellent systems, evidence for strong and comprehensive adherence to social mission and values.
$\Sigma\alpha$	Strong social commitment, very good systems, evidence for good adherence to social mission and values.
$\Sigma\alpha-$	Strong social commitment, good systems, evidence for good adherence to social mission and values.
$\Sigma\beta+$	Good social commitment, reasonable systems, evidence for reasonable adherence to social mission and values.
$\Sigma\beta$	Good social commitment, moderate systems, evidence of partial adherence to social mission and values. Many aspects of social performance need to be institutionalized.
$\Sigma\beta-$	Weak social commitment, weak systems, evidence of partial adherence to social mission and values.
$\Sigma\gamma+$	Weak social commitment, weak systems, no evidence reflecting social mission or values.
$\Sigma\gamma$	Very weak social commitment, very weak systems, no evidence reflecting social mission or values.

***Grade $\Sigma\alpha+$ also requires significant poverty outreach, in addition to performance in other aspects.**

In addition, a 'Positive' outlook given by M-CRIL suggests that the institution is expected to improve its rating in one year period to one higher notch, 'Neutral/Stable' suggests that the institution is likely to retain its rating till the end of one year from the rating, and 'Negative' outlook suggests that it is expected that the institution may lower its rating performance by one notch in one year period.