

# AMK Microfinance Institution (PLC)

Microfinance Deposit-taking Institution {3<sup>rd</sup> update}

Phnom Penh, Cambodia

## Social Rating

Standard Comprehensive<sup>1</sup>

November 2018

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

This report updates the previous rating by M-CRIL in 2015

1 USD = 4000 KHR (as of August 2018)  
All data – as of June 2018 unless otherwise stated

**Disclosure:** M-CRIL's Co-Founder/Director, Frances Sinha, is a member of AMK's Social Performance Committee. She has not influenced the rating.

	2013	2015	2018
SOCIAL RATING	$\Sigma\alpha$	$\Sigma\alpha$	$\Sigma\alpha$
RATING OUTLOOK	Positive	Positive	Positive
<b>Rating dimensions</b>		<b>2015</b>	<b>2018</b>
<b>Process/organisational systems</b>			
Governance and strategy		$\Sigma\alpha+$	$\Sigma\alpha+$
Monitoring social goals		$\Sigma\alpha$	$\Sigma\alpha$
HR & responsibility to staff		$\Sigma\alpha-$	$\Sigma\alpha-$
Client protection		$\Sigma\alpha-$	$\Sigma\alpha-$
<b>Results/outputs – client level information<sup>1</sup></b>			
Depth of outreach		$\Sigma\alpha-$	$\Sigma\alpha-$
Quality of services		$\Sigma\alpha$	$\Sigma\alpha$

<sup>1</sup>Client level information based on data available with the MDI.

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# Disclaimer

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- ▶ Our services were performed and this report was prepared in accordance with the Contract dated 27 June 2018, subject to the terms and conditions included therein.
- ▶ The information captured in this Report is based on the documentation and information received from time to time from AMK. The findings contained herein are limited to the extent of the procedures conducted by M-CRIL till 30 November 2018, which are described in this document. Accordingly, changes in circumstances or information newly available after this date could affect the findings outlined in this Report.
- ▶ We have relied upon representations of employees of AMK that all data and information provided by them are correct to the best of their knowledge. We accept no responsibility for any fact or information that has been intentionally withheld or otherwise omitted which could have had a material bearing on our findings.
- ▶ M-CRIL has relied upon the information supplied in connection with this engagement including management information. M-CRIL did not audit or otherwise verify the information supplied in connection with this engagement, from whatever source obtained, except as may be specified in this Report.
- ▶ In no circumstances shall we be liable, for any loss or damage, of whatsoever nature, arising from information material to our work being withheld or concealed from us or misrepresented to us by any person to whom we have made information requests.
- ▶ The findings contained in this Report are limited to the extent of the procedures performed by M-CRIL, which are described in this Report. The findings, which are hearsay in nature, should not be construed as an opinion, legal or otherwise, on the rights and liabilities of the Company or any other third party that may be, directly or indirectly, concerned with findings in this Report.
- ▶ All the information presented in this Report from our market sources/third parties are the personal perceptions of the sources. Wherever possible, we have corroborated the information provided to us with the information that may be available in the public domain or that which has been provided to the client, however, we have not done so independently.
- ▶ The Report will be furnished by us is solely for the information of AMK, which had requested M-CRIL to undertake the engagement. Hence, the Report should not be used, circulated, quoted or otherwise referred either wholly or in part.
- ▶ AMK shall be fully and solely responsible for applying independent judgment, with respect to the findings included in this Report, to make appropriate decisions in relation to future course of action, if any. We shall not take responsibility for the consequences resulting from decisions based on information included in the Report.

# Structure

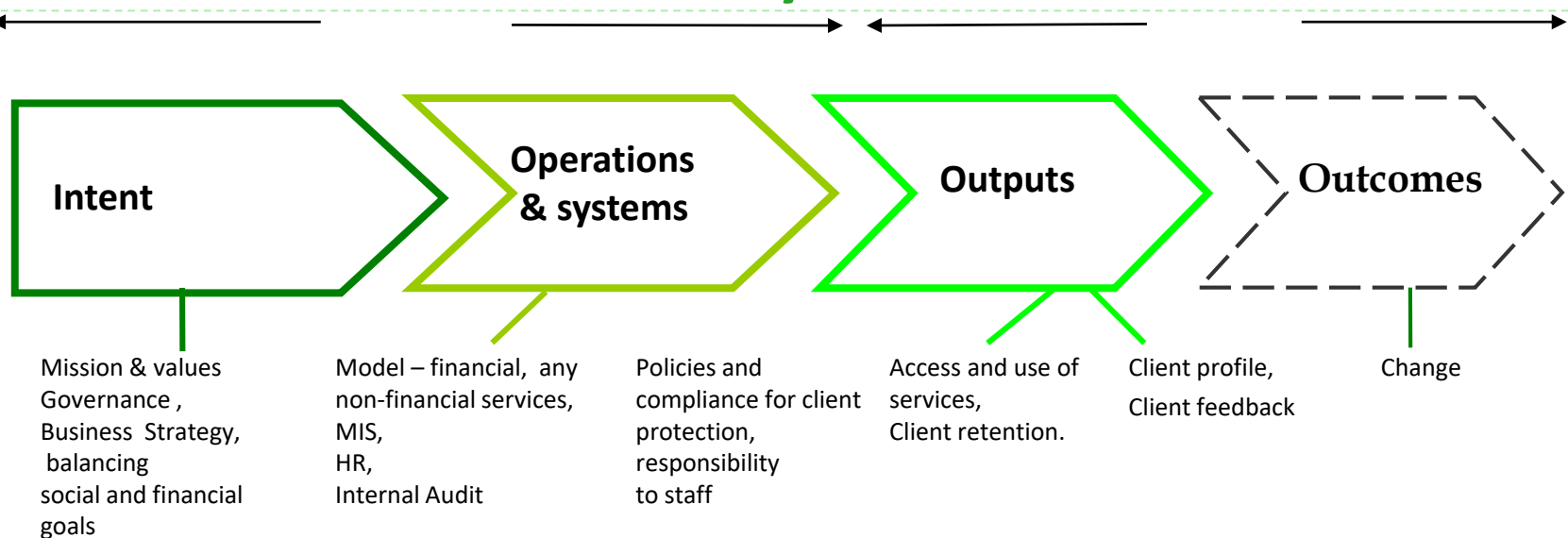
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- ▶ Introduction – Social Performance Pathway
- ▶ Synopsis
- ▶ Rating Rationale
- ▶ Intent: Mission, Governance and Strategy
- ▶ Systems alignment
- ▶ Client protection
- ▶ Results: outputs and outcomes
- ▶ Annexes

## 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 Universal Standards of Social Performance Management (USSPM [www.sptf.info](http://www.sptf.info) ).
- ▶ This standard comprehensive social rating covers the first four steps of the social performance pathway, drawing on FI data for results and outcomes.
- ▶ This rating includes SPI4 (<http://www.cerise-microfinance.org/>) as a systems measure of the Essential Practices of USSPM.

# Context – Cambodia Country Development

- Economy largely driven by garment exports and tourism, coupled with International aid and investment and a rising tax base.
- Main opposition party dissolved by Supreme Court in November 2017; elections held in July 2018.
- Cambodia sustained an average growth rate of 7.6 percent in 1994-2015, ranking sixth in the world, and has now become a lower middle-income economy. <sup>a</sup>
- High levels of foreign investment (90%) in garment industry.

Population (Socio-Economic Survey, 2016)	15.6 million
Rural population (ibid)	76%
Women headed households (ibid)	22%
Av. Household size (ibid)	4.6
Adult literacy rate (%) women/men (ibid)	79/90
Per capita GNI (World Bank, 2017)	\$3,760
GNI rank (ibid)	150/187
HDI rank (UN, 2015)	143/188
GDI (UN, 2015)	Low equality

## Poverty and vulnerability

- Achieved MDG of halving poverty in 2009.
- Official estimates show that poverty incidence under the national poverty line fell from 47.8 percent in 2007 to 13.5 percent in 2014, a trend supported by improvements in other indicators of living standards such as asset ownership, housing amenities, and human development outcomes. <sup>a</sup>
- Some population groups still experience marginalization and exclusion, preventing them from sharing the benefits of growth. For example, 10% of the population suffers from at least one form of disability. About 45% of adults with disabilities do not earn an income, and household wealth for people with disabilities is about half that of non-disabled people. <sup>a</sup>

<sup>a</sup> World Bank. 2017. Cambodia - Sustaining strong growth for the benefit of all.

(<https://hubs.worldbank.org/docs/imagebank/pages/docprofile.aspx?nodeid=27520556>)

# Context – Cambodia: Financial Services

- The National Bank of Cambodia (NBC) regulates the operations of the banking system in the country: 39 commercial banks, 15 specialized banks, 7 licensed Microfinance Deposit Taking Institutions (MDIs - including AMK), 69 licensed Microfinance Institutions (MFIs) and 1 credit bureau.
- In a significant move in 2017, NBC capped the interest that MFIs/MDIs could charge to clients at 18% (declining). Since then, total microcredit borrowers have reduced (from 1.9 mn to 1.75 mn by December 2017 (Kimsay, 2018), whilst average loan size increased substantially (from \$1,600 to \$2,500) reigniting concerns of borrower over indebtedness in the sector (Yun, 2018).
- There is a trend to MDIs/MFIs being acquired by Banks from outside Cambodia. In 2018, South Korean banks have bought majority stakes in VisionFund (Cambodia) and Samic Microfinance.
- Refinancing of loans has emerged as a significant issue in the microfinance sector. The Cambodian Microfinance Association (CMA) is seeking to address this through its Lending Guidelines (LG) of May 2018. Under these, refinanced loans have to be classified by level of risk with thresholds prescribed on the % of loans in each category that an MFI can disburse monthly.

Global Findex 2017 indicates continuing low financial inclusion:

- 22% of adults had a formal account; no gender gap, but 12% points gap between high income and low income households. Nearly a third of all accounts are reported to be dormant: no transaction in previous 12 months.
- >40% of adults sending or receiving domestic remittances; mostly through regulated transfers.

References:

1. Kimsay, H. (2018, January 09). *Delinquent loan rate continues to rise*. Retrieved from The Phnom Penh Post: <https://www.phnompenhpost.com/business/delinquent-loan-rate-continues-rise>
2. Yun, S. (2018, July 19). Executive Director, Cambodia Microfinance Association.

# Synopsis

- AMK received its MFI operating license from National Bank of Cambodia (NBC) in 2004 and its Microfinance Deposit-Taking Institution (MDI) license in 2010.
- With its Head Office in the Capital city of Phnom Penh, AMK's operations are spread across all 25 provinces of Cambodia, reaching 89% of all villages in the country. It is one of the 7 MDIs in the country with outstanding loan portfolio (as of June 2018) of \$232 million and total deposits of \$129 million.
- AMK offers a range of financial services: credit – group based and individual loans, voluntary microinsurance, savings, remittance services, payment services, agent banking, payroll and ATM services.

Organizational overview	June-2018
Number of provinces operating in/total in Cambodia	25/25
Number of branches + offices	150
Number of borrowers	323,027
Number of loan accounts	339,042
#%group/%individual	75/25
Number of voluntary savings accounts (excl. dormant) <sup>a</sup>	379,069
Number of agents (approx.)	3,500
Number of transactions through agents	1,410,293
Number of microinsurance accounts (health and accident)	274,393
Number of ATMs/CDMs	61
Total number of staff (women staff) <sup>b</sup>	2,624 (777)
Borrowers per Credit Officer <sup>b ^</sup>	333

Outreach Profile	June-2018
Women borrowers	81%
Rural borrowers	93%
Av. loan outstanding per loan account \$	676
group loan account	509
individual loan account	1,184
Av. loan outstanding/GNI per capita	17%

\* Cluster of offices under each branch

<sup>a</sup> 205,507 dormant savings accounts

<sup>b</sup> Staff figures as of March 2018

# Estimates provided to rating team but not confirmed

<sup>^</sup> Credit Officers handle individual as well as group loan clients

# Rating rationale

## Strengths

- ▶ Inducted a new majority shareholder using a very careful compatibility review and without losing sight of the mission.
- ▶ Wide range of financial products and services – new products launched after full survey and risk assessment. Product Development team focus on product pilot.
- ▶ Extensive agent network offering a range of services (although yet to be fully leveraged)
- ▶ High outreach in rural areas; operates in nearly 90% of Cambodian villages
- ▶ Strong SPM reporting; board committee reviews data to monitor value for clients; also reports to management, evidence of use.
- ▶ Good opportunities for staff by way of internal promotions

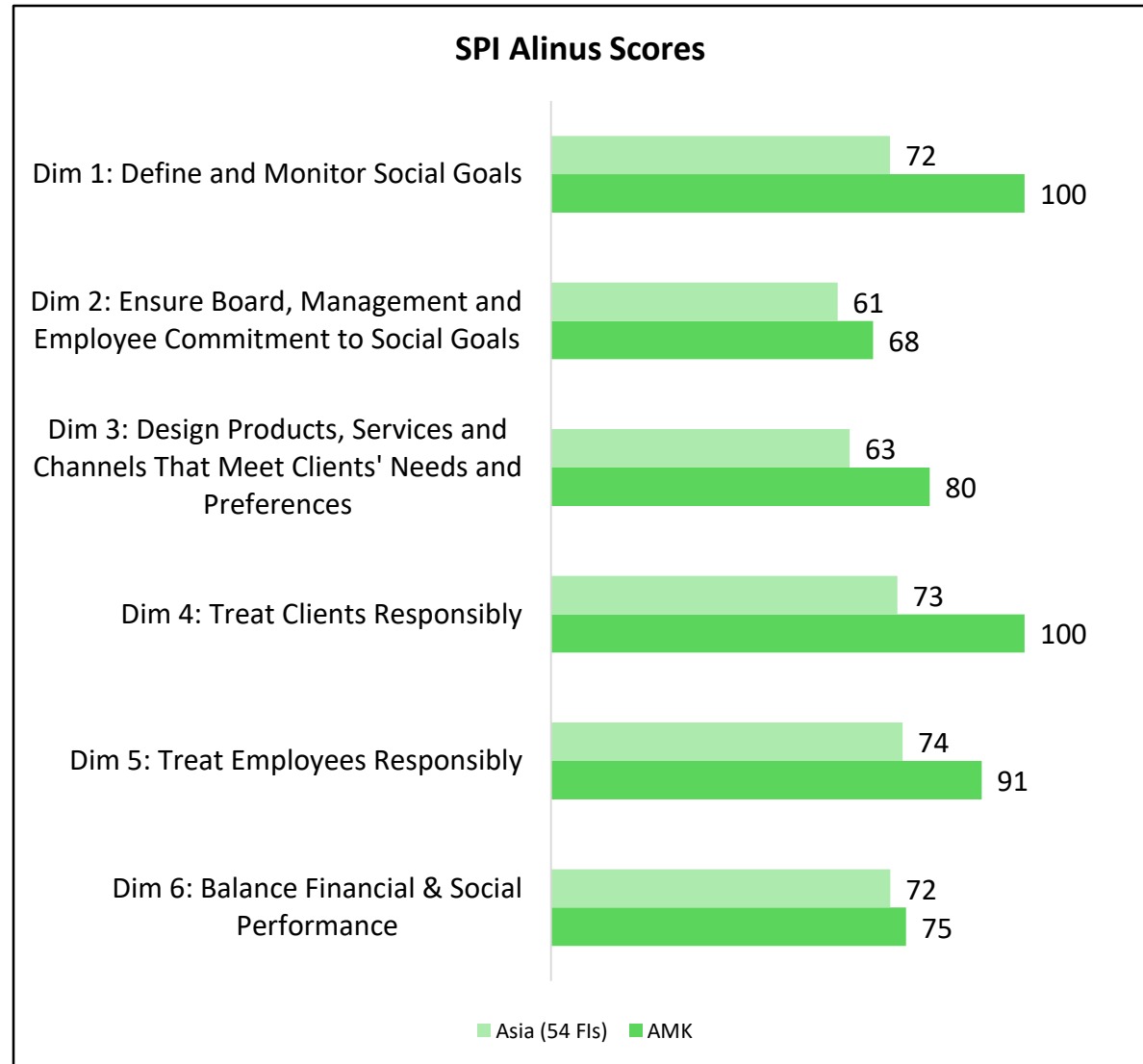
## Issues

- ▶ High dormancy of savings accounts on basis of no transaction for 6 months.
- ▶ Increasing staff turnover (from 12% in 2012 to 19% in 2017)
- ▶ No tracking of borrowers who may be borrowing from 3 or more institutions.



# SPI (Alinus)

- ✓ AMK scores above the Asia average for all six dimensions.
- ✓ AMK scores highest on defining & monitoring social goals and treating clients responsibly.
- The score on Dimension 2 is low on account of AMK not setting specific Social Performance targets with related assessment of the CEO on achievement of those targets.



**Note:** Scores above derived from 68 SPI indicators, based on the USSPM

# Intent: Mission, Governance & Strategy

Process

Results

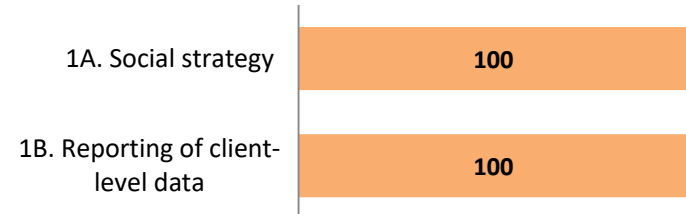
Intent

Mission: goals and objectives  
Governance and strategic planning

# Mission: Goals and Objectives

- Continuing clear mission statement.
- No specific SPM targets. The Social Performance Committee (SPC) and the board feel no need to set targets as long as AMK is not drifting from its mission.
- SP data is collected annually and reported systematically.

## USSPM 1 - Define and monitor social goals



	Goal Statement	Indicators/reporting
<b>Target Area</b>	➤ Rural areas	<ul style="list-style-type: none"> <li>➤ Extent of penetration in Cambodian villages</li> <li>➤ Proportion of rural borrowers</li> </ul>
<b>Target clients</b>	➤ Poor people – women and men	➤ Poverty of new client households measured on sample basis; now using Govt programme tool (IDPoor) and PPI
<b>Services</b>	➤ Appropriate and viable financial services	<ul style="list-style-type: none"> <li>➤ Availability of client centric products and services</li> <li>➤ Access to different products is tracked and service quality, satisfaction and awareness is assessed.</li> </ul>
<b>Outcomes</b>	<ul style="list-style-type: none"> <li>➤ Improvement in livelihood options</li> <li>➤ Improvement in clients well-being</li> </ul>	➤ Periodic longitudinal surveys to measure change for clients, compared to non-clients



# Governance

- ✓ Board members undertook a very careful fitness and compatibility review to choose SCSB as the new shareholder.
- Board composition has undergone significant change with Shanghai Commercial and Savings Bank (SCSB) taking up 80% of equity by replacing PROPARCO, CLDF and Rural Impulse Fund (see Slide 32 in Annex for details).
- ✓ Shareholding of Agora Microfinance N.V. has dropped from 51% to 19% as they continue to work with the new shareholders by suitably inducting them to avoid any mission drift.
- ✓ Minutes reflect discussions on client centric aspects with feedback from board on improving social performance reporting and prompting further investigation of client complaints and dropouts amongst microinsurance clients.
- As part of the new shareholding, 5 of 9 board members represent SCSB. The independent directors and Social Performance sub-committee members are being retained for continuity reasons.
- ✓ The SPM committee advises the board on the social implications and impact of AMK's operating strategy in addition to updating them on social performance issues and developments globally.
- ✓ Reasonable remuneration ratio of CEO to field staff (25, down from 32 in 2014); but ratio not assessed by the Board.

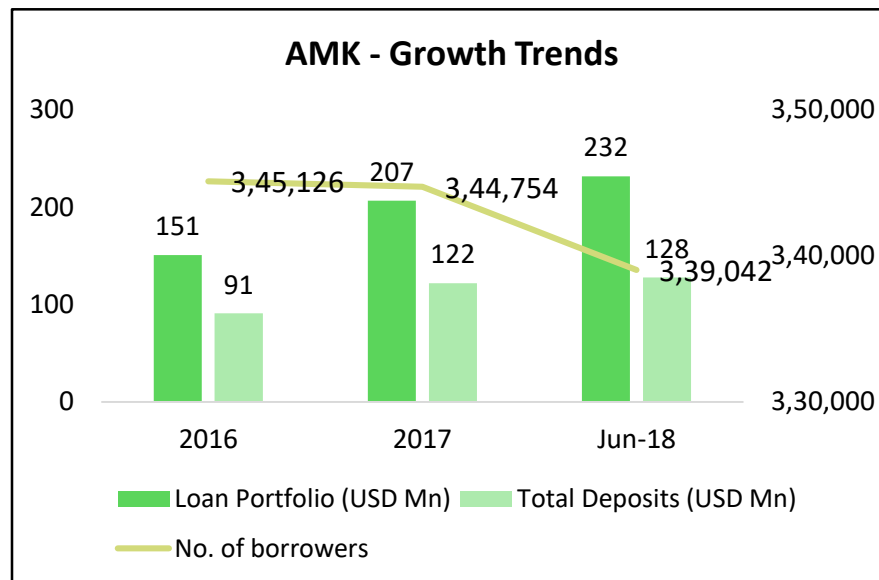
Board	Performance
Directors	9
Independent directors	3
Women directors	2
Directors with SP related skills	2
Number of meetings prev. year	6
Use of social performance indicators for strategic direction	Yes
SPM committee	Yes
Achievement of social goals is part of the evaluation of the CEO's performance	No
Ratio of CEO's total remuneration to average field staff	25



# Strategic planning

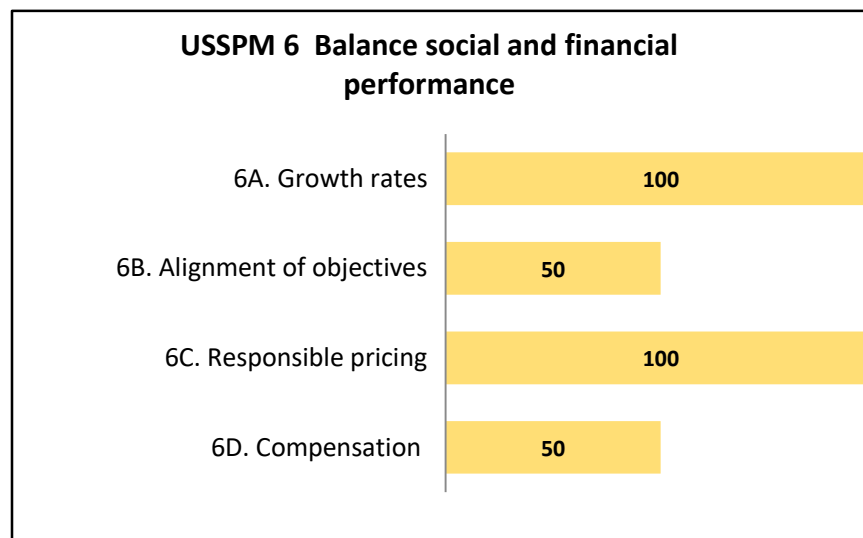
## Growth

- ❑ Slowdown in growth of savings; management feels the general elections in 2018 created a scare amongst depositors.
- Loan portfolio continues to grow, but with a fall in the number of borrowers as AMK loan size has increased. This has been a response both to the interest rate cap and to try to mitigate multiple borrowing.
- Since January 2017, individual borrowers have increased by 17% while group borrowers have decreased by 5%, bringing the overall borrowers down by nearly 2%.



## Efficiency and profitability

- Ambitious profitability projections depending on high productivity and efficiency targets
- ❑ No cap on RoA or RoE to reflect being a social business. High projections - By 2022, RoA projected at 3.5% and RoE at 23.2%.
- Productivity of Credit Officers targeted to go upto 800 clients (1 individual loan client = 2 group loan clients). Target arrived at through cost analysis.
- ✓ OER declined from 19% in 2016 to 15% in 2017. Projected to go down to 8% by 2022 once the agent network is leveraged for repayments.



# Alignment of systems

← **Process** → ← **Results** →

**Operations  
& systems**

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

# Market strategy

- ✓ Providing diverse financial services including digital technology and an agent network. Only Cambodian MFI/MDI to have a payment service provider license (2016) and to use an agent network (since 2012).
- In 2018, operations restructured by retail (=traditional microfinance segment) and commercial business (see right). While main target is still mass market, management envisages a distinct and significant market for SME loans.
- Recently started offering SME loans under commercial segment but facing challenges – strong appraisal leading to several rejections. Less than 100 loans disbursed so far; temporarily suspended disbursements to strategize and relaunch shortly
- ✓ Multiple strategies to generate deposits – reaching out to corporate employees, affluent individuals and lowering fees for retail segment clients.
- ✓ Through the payroll channel in 2017, AMK disbursed 1,478 loans amounting to \$ 1 million and generated \$ 2 million in deposits through 18,934 accounts.

## Retail and Commercial Segmentation of Services

Segment	Services
Retail	<ul style="list-style-type: none"> <li>➤ Loans &lt; \$20,000</li> <li>➤ Savings &lt;\$10,000</li> </ul>
Commercial	<ul style="list-style-type: none"> <li>➤ SME loans</li> <li>➤ Payroll services for corporates (119 corporates; 30% are garment factories)</li> <li>➤ Payday loans to corporate employees</li> <li>➤ Payment services (&gt; 200 billers for utility payments)</li> <li>➤ Affluent segment (targeted for big deposits; 1200 clients being offered personalized service &amp; fee waivers)</li> </ul>

# Market strategy – Agent network

- Network of nearly 3500 agents. Services – remittances, deposits, withdrawals and utility payments.
- Most agents are small entrepreneurs (men/women) running an existing business from the same premise (clothes shop, provisions store)
- ✓ Loan repayment at agents being piloted; expecting half of loan repayments to happen through agents by end of 2018. This will free up time for field staff to mobilize new clients.
- ✓ Clients pay only for remittances through agents (sending as well as receiving). Other transactions are free. AMK pays the agents a commission for every transaction at their outlet
- Many cases of agents within 100 metres of each other but agents assert that they feel assured of business
- AMK tries to prevent its agents from tying up with other competitors but has not been able to enforce this. Major competitors in this market are Wing and TrueMoney (see Slide 33 for price comparison)
- ✓ A comparison of fees with Wings and True Money reveals that AMK's clients are charged the same or less in some cases.
- ✓ Agents follow up with AMK's customer care in case of failed transactions which are promptly settled.
- Most of the failed transactions are due to network issues which AMK hopes to resolve once they complete their integration of the new core banking solution.

**Key transactions through agent network - 2017**

Transaction	Details
No. of transactions	1,410,293
No. of new depositors	3,080
as % of all depositors	3.5%
Total amount of loan repayments	\$ 3.6 million
as % of all repayments	4%
Total amount of money transfers	\$ 441 million
as % of all money transfers	81%
Failed transactions (%)	< 1%



# Financial Services

## Credit [product summary in Annex, Slide 34]

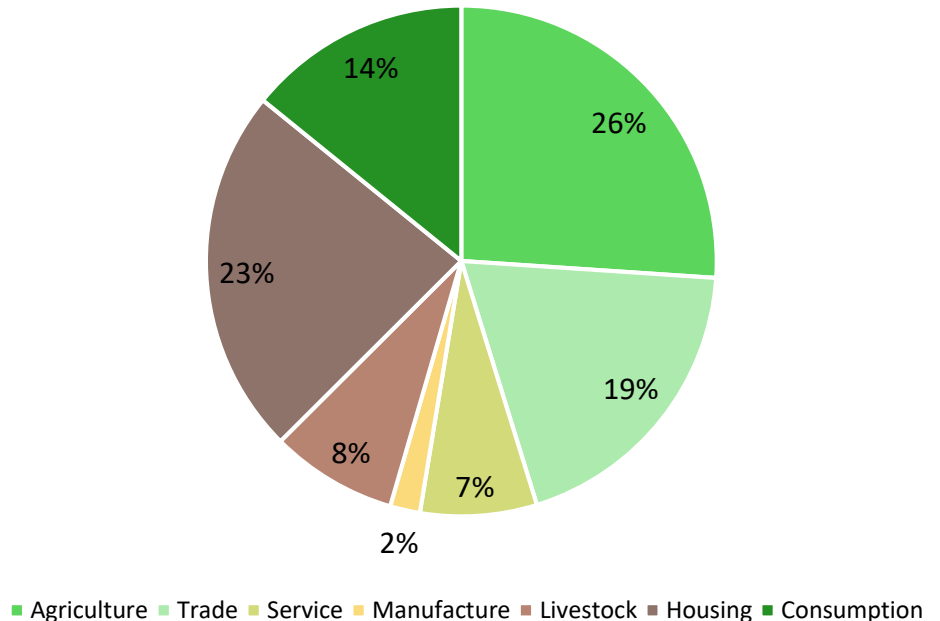
- Nearly 55% of AMK's US\$ 232 million loan portfolio comprises of group loans while group borrowers account for 75% of all borrowers
- ✓ Loans are put to diverse use without any stipulation on how clients should use them.
- ✓ AMK's average loan size was \$715 while the average for the 7 MDIs was \$2,800 indicating AMK's focus on their rural and poor client base

### \*Loans disbursed by size – June 2018

Loan size (US\$)	Proportion
<100	5%
100-200	6%
201-300	10%
301-400	8%
401-500	14%
>500	57%

\*Group + Individual loans

Loan usage by portfolio share (June 2018)



# Financial Services ...continued

## Microinsurance [product overview in Annex, Slide 35]

- Borrowers are offered microinsurance (health and accident) through Forte Microinsurance.
- Health microinsurance covers 83% of AMK's borrowers.

## Savings [summary overview in Annex, Slide 36]

- The average savings per account of AMK at \$340 is on the lower side when compared to the industry average of \$1,239 (7 MDIs and Sathapana Bank)
- The above in spite of having 584,576 deposit accounts (active + dormant) which is much higher than industry average of 262,375 accounts.

### Microinsurance – Key data for 2017

Items	Figures
Total insurance accounts	285,541
No. of claims in 2017	11,660
No. of payouts in 2017	11,545
Number of rejected claims	115
Claims/accounts	4%
Payouts/claims	99%

### Savings – Key data (June 2018)

Items	Figures
No. of depositors	295,446
No. of active accounts	379,069
No. of inactive accounts	205,507
Deposit portfolio	\$129 mn
Avg. savings per (active) account	\$340

# Social Reporting

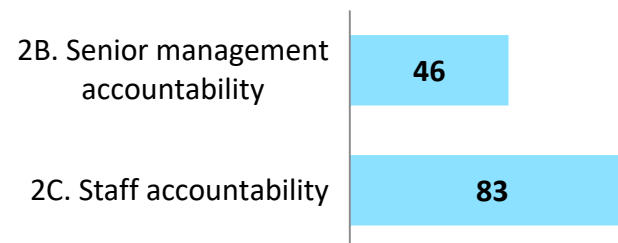
- ✓ Social research division (6 staff) conducts sample client surveys; reports to the board level Social Performance Committee (SPC) annually.
- Data collection is outsourced to enumerators who are trained and monitored by the research team.
- An adequate sample is chosen for these studies across branches which is also representative of the different products and services being availed by the clients
- ✓ Results (from most studies) are disaggregated by – product, poverty level of clients and years of clients’ association with AMK.
- ✓ Poverty outreach measured each year through IDPoor (government definition to identify poor HHs) as well as PPI (since 2015 after PPI was launched for Cambodia)
- “Change Study” to understand impact on clients’ lives was last conducted in 2012 using baseline information from 2006-07. The next round of this study has been completed and the report is expected to be finalised in early 2019.

SPM Report	Description
Depth of outreach	✓ Outreach to poor households measured using IDPoor and PPI
Client profile	✓ Cash flow assessment, access to fin. Services, usage
Loan Satisfaction	✓ Level of satisfaction with different loan products and terms & conditions associated with them
Microinsurance satisfaction	✓ Satisfaction with various features of the insurance product –premium, coverage and claim procedure
Client exit and reject	✓ Reasons for exit as well as reasons for loan rejection
Multiple loans	✓ Exploring reasons for multiple sources of credit, level of indebtedness and repayment problems
Client grievance report	✓ Client grievances from usage of various products and services

# HR aligned to Mission and Values

- ✓ Induction and refresher trainings include mission, vision, values and code of conduct amongst others.
- Annual Performance Appraisal (PA) for all employees includes (i) business acumen (ii) risk control (iii) data & financial acumen (iv) management & workplace and (v) personal effectiveness. Annual salary increments are linked to PA grade achieved, with nil for the lowest grade, up to 8% for the highest (reduced since last rating - as part of drive to limit expenses, as explained to staff).
- ✓ One of the eligibility criteria for monthly incentive of field staff, PAR<sub>30</sub>, has been eased from less than 1% to less than 2% since last rating. Other conditions being a minimum of 300 clients or \$180,000 loan portfolio.
- In spite of above, most of the 50 staff interacted with have never been able to meet eligibility for incentive. However, they are aware of the structure and do not think it is unfair.
- Women are more than half of non-field staff in the branches, but much less at management level, and among field staff.
- According to management, most women who apply for jobs at AMK, do so for desk based office jobs.

## 2 - Commitment to social goals



## Staff data (March 2018)

Management levels	No. of staff	Women (%)
Senior management	19	26%
Middle management (upto BMs)	193	8%
Field staff (COs)	1095	6%
Other branch staff	1198	54%
Support staff	76	33%
<b>Total</b>	<b>2581</b>	<b>30%</b>



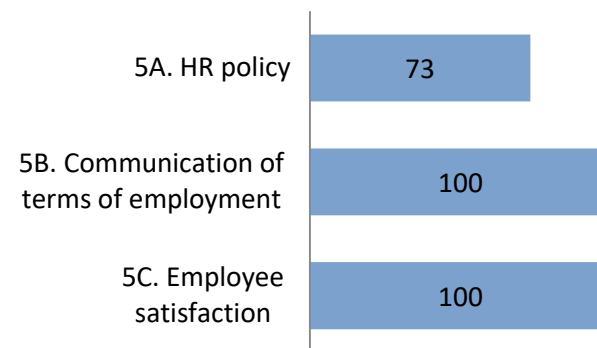
# Responsibility to staff

- Well staffed HR team that handles recruitment, staff development, personnel & compensation and employee relationship.
- ✓ Comprehensive and elaborate HR manual which is updated each year and approved by the board.
- Staff satisfaction surveys are conducted annually. Although results for 2017 were not formally shared with employees, staff were aware of the changes that took place as a result of findings from the survey.
- ✓ Adequate growth opportunities: between January and July 2018, 300 staff members were promoted.
- Staff turnover has been on the rise from 13% in 2012 to 19% in 2017 while the industry average was 16%. However, this is reflective of the reported churn in the sector.

A few issues were raised in FGDs with 50 staff by the rating team (Annex, Slide 38):

- Mobile allowance too low – when COs spend more than US \$11/month in speaking with clients.
- Benefits under National Social Security Fund (NSSF) not fully clear. They feel benefits can be availed only at government hospital although treatment at private hospitals is covered.

## USSPM 5 - Treat employees responsibly



## Staff Turnover

	No. of staff	2016	2017	2018*
a	At the beginning of year	2125	2349	2494
b	New during the year	721	742	205
c	At the end of year	2349	2494	2581
	<b>Turnover [(a+b-c)/(a+b)]</b>	<b>17%</b>	<b>19%</b>	<b>17%</b>

\* Annualized on basis of March 2018 figures

# Internal audit

- 40 member strong Internal Audit (IA) team of which 10 are based out of Head Office (HO) for audit of HO. Rest of the team conduct branch audits. These cover the offices as well as agents under each branch.
- ✓ Depending on number of offices under a branch, the audit of a branch might take between 15 – 60 days. More emphasis on auditing offices with high level functional audits taking place at branches.
- Branches are audited at least once each year. Depending on risk identified, they may be audited more frequently. Risk based categorization of branches began in 2018.
- ✓ Auditors visit a sample of clients and IA summaries show that auditors verify client protection related aspects and highlight any shortcomings

## Risk categorization of branches\*

S.No	Risk category	Scores
1	High risk	0-2
2	Medium risk	3-6
3	Low risk	7-9

\* score range is 0-9

## CPP related aspects verified by IA

- ✓ Loan appraisal process and cash flow statements of clients
- ✓ Loan utilization (whether being passed on to someone lese)
- ✓ Borrowing from multiple sources
- ✓ Client awareness
- ✓ Completeness of client passbooks
- ✓ Awareness of microinsurance clients on premium paid, coverage and claim process
- ✓ Family of clients who have passed away visited to check for transparency in claim process
- ✓ Agents' understanding on policies and servicing clients



# Client Protection

# Client Protection Principles

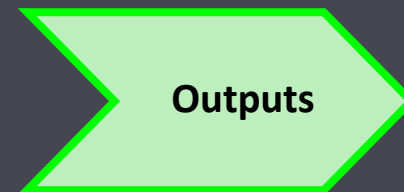
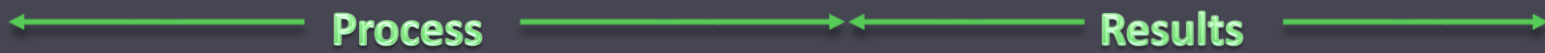
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- ✓ AMK obtained SMART Certification for full compliance with the Client Protection Principles 1.0 in November 2016 and underwent a check-in concurrently with this rating in July 2018. The check-in used Version 2.0 of the CPP tool and was more elaborate in its scope.
- ✓ Full compliance for the check-in is expected in January 2019.
- ✓ AMK is well within the CMA refinancing guidelines.
- The interest rate and the admin fees charged are in line with NBC's guidelines (18% interest and 8% admin fees)
- ✓ Whilst providing smaller loan sizes the effective cost to clients is 34.82% (US \$500 loan with a 12 month tenure which is most preferred option) and 29.84% for individual loans (US \$1,500 with 18 months tenure).





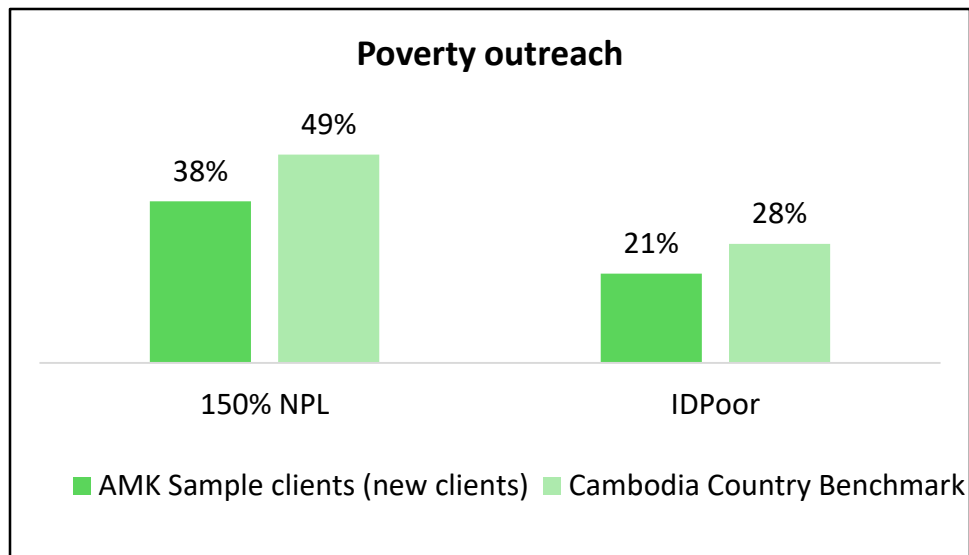
# Results: outputs



- Outreach – area, clients
- Client feedback
- Client exit
- Change

# Outreach

- ✓ AMK operates in all 25 provinces of Cambodia with services reaching people in 90% of all Cambodian villages.
- ✓ 93% of AMK's borrowers are from rural areas, 81% are women
- ❑ The proportion of savers who have also obtained a loan from AMK appears to be low and under 10%.
- Estimated poverty rate of AMK new borrowers indicates significant poverty outreach, though falling short of the 2011 Cambodia country benchmarks available. However, the comparison could be significantly different in case more recent benchmarks were available
- There is no difference in the poverty rates of individual and group borrowers when compared using the PPI.



- Data collected by AMK in 2017 for a sample of 184 new borrowers (120 group + 64 individual).
- 150% of national Poverty Line (NPL) using PPI scoring, based on 2011 national data. Benchmark reflects the bottom half of households in that year, which may have decreased since.

# Client satisfaction

- Levels of satisfaction with various features of loan products were assessed for a sample of 492 clients in 2017. Similar assessment was done with a sample of 310 microinsurance clients.
- The satisfaction scores ranged from 1 (strongly dissatisfied) to 6 (strongly satisfied).
- The number of complaints received from clients in 2017 has gone up by 143% when compared to 2016 figures.

## Client Satisfaction Study 2017 – key findings

- ✓ Overall level of satisfaction amongst borrowers (4.5) is higher for poor clients when compared to non-poor clients (IDPoor definition)
- ✓ High satisfaction of 5.5 on disbursement and collection location
- ✓ In case of microinsurance clients, high level of overall satisfaction at 5.24
- Score of 3 on upfront and monthly admin fee. AMK responded by reducing this fee in June 2018
- Score of 3 on penalty on foreclosure of loan

# Client retention

- While the retention of group borrowers has fallen, it has improved for individual borrowers.
- Senior management at AMK strongly feels that cohesiveness amongst group clients in Cambodia has been on the decline and it is becoming increasingly difficult to bring group members together during collection (also evident from poor attendance in meetings) for a specific period of time.
- The spike in individual borrowers between January 2017 and June 2018 is in response to the above and also in response to AMK's competitors' increased focus on individual lending.

## Borrower retention – group (MIX formula)

Borrowers	2016	2017	*2018
a At beginning of the period	268,996	268,255	254,755
b New during the period	73,833	74,618	34,753
c At end of the period	268,255	254,755	223,008
<b>Rate of retention [c/(a+b)]</b>	<b>78%</b>	<b>74%</b>	<b>77%</b>

\*figures up to June 2018

## Borrower retention – individual (MIX formula)

Borrowers	2016	2017	*2018
a At beginning of the period	66,805	76,871	89,999
b New during the period	26,365	25,365	39,248
c At end of the period	76,871	89,999	116,035
<b>Rate of retention [c/(a+b)]</b>	<b>82%</b>	<b>88%</b>	<b>90%</b>

\*figures up to June 2018

# Outcomes for clients

- AMK conducted a “Change Study” in 2012 to assess change in income, expenditure, assets and education due to access to financial services.
- The change was assessed by revisiting the 416 households (320 client + 96 non-client) that were covered during the baseline in 2006-07.
- Additional panel data for this study was collected in 2018 while the latest report is expected to be completed in early 2019.

## Key findings from the 2012 Change Study

- AMK clients showed small gains on the relative poverty scale with 5% each moving out of poorest and poor categories and 9% entering less poor category. Non-clients showed no significant movement on the relative poverty scale.
- Positive improvements in well-being were noted in form of expenditure on education and ability to afford large expenses.
- The study also noted that overall vulnerability to shocks, particularly health crises remained unaddressed. This finding lead to AMK’s foray into offering microinsurance which now has nearly 275,000 policy holders.





# Annexes

# Profile of the Board

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S.No.	Board Member	Position on Board
1	Mr. Tanmay Chetan	Director, Board Chairman, Chairperson of Remuneration, Nominations, and Corporate Governance Committee, and Member of Audit Committee
2	Mr. John Con-Sing Yung	Director and Chairperson of Social Performance Committee, Member of Audit & Finance Committee (AFC), Remuneration, Nominations and Corporate Governance Committee (RNCG) and Board Asset and Liability Committee (B.ALCO)
3	Mr. Kea Borann	Director & Chief Executive Officer
4	Mr. Peter Power	Director, Member of SPM and AFC
5	Ms. Heng Seida	• Director & Chairperson of AFC and member of Board Risk Committee
6	Mr. Tip Janvibol	Director and Member of B.ALCO
7	Mr. Ru-Hung Wei	Director, Member of Remuneration, Nominations and Corporate Governance Committee
8	Mr. Chin-Kang Liu	Director and Chairperson of BRC
9	Ms. Pi-Fen Hsieh	Director and Member SPC

# Shareholding details

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## Old structure

Shareholders	% of shareholding
Agora Microfinance N.V	51%
Rural Impulse Fund II	4%
PROPARCO	15%
CLDF	7%
AMK – Staff Association	3%

## New structure

Shareholders	% of shareholding
Shanghai Commercial and Savings Bank	80%
Agora Microfinance N.V	19.99%
AMK – Staff Association	0.01%



# Comparison of agent transaction fees

- The table below presents a comparison of prices across various agents only for remittances done through them.

WING				True Money				AMK			
Amount	Fee	Sender	Receiver	Amount	Fee	Sender	Receiver	Amount	Fee	Sender	Receiver
<=25	0.38	0.15	0.15	<=25	0.375	0.125	0.125	<=25	0.63	0.25	0.25
25.01-50	0.75	0.25	0.25	25.01-50	0.625	0.225	0.225	25.01-50	0.63	0.25	0.25
50.01-100	1.00	0.30	0.30	50.01-100	0.875	0.300	0.300	50.01-100	0.63	0.25	0.25
100.01-200	1.50	0.45	0.45	100.01-200	0.875	0.300	0.300	100.01-200	0.88	0.30	0.30
200.01- 250	1.50	0.50	0.50	200.01- 250	1.375	0.550	0.550	200.01- 250	0.88	0.30	0.30
250.01- 500	1.50	0.50	0.50	250.01- 500	1.375	0.550	0.550	250.01- 500	1.25	0.55	0.55
500.01- 1000	2.00	1.00	1.00	500.01- 1000	2.250	1.000	1.000	500.01- 1000	2.00	0.90	0.90



# Financial products - Credit

	Loan Product	Activities funded	Loan size	Term	Interest per annum
<b>Individual</b>					
1.	General Loan	General household	Max \$2,500	Up to 18 months	18%
2.	Motor Loan	Motor vehicle purchase	Max \$2,000	Up to 36 months	18%
3.	Business Loan	Business use	Max \$5,000	Up to 36 months	18%
4.	Home Improvement Loan	Home construction/repair	Max \$5,000	Up to 36 months	18%
5.	MSME Loan	Capital for new/existing business	\$5,000 - \$20,000	Up to 60 months	14% to 18%
6.	SME Loan	Capital for new/existing business	\$20,001 - \$50,000	Up to 60 months	13% to 18%
<b>Group</b>					
7.	Village Bank Loan	For group members looking for small capital infusion	Max \$750	12 to 24 months	18%
<b>Individual + Group</b>					
8.	Emergency Loan	Only for clients who have completed at least 6 months	Max \$100	Up to 10 months	18%

## Note:

- The interest rate is on declining balance method.
- Clients can simultaneously service 2 loans from AMK (1 group + 1 individual or 2 individual)
- Group as well as individual loan clients who have availed a loan up to 12 month tenure can avail end of term repayment option to match their cashflows

# Financial products - Microinsurance

- The microinsurance products offered through AMK are voluntary
- There is no compulsory credit linked insurance offered to the borrowers.

Details	Product 1	Product 2
<b>Name</b>	Health & Accident	Individual Personal Accident
<b>Introduced in year</b>	2014	2017
<b>Offered by</b>	Forte Insurance	Forte Insurance
<b>Target customer</b>	Only for AMK borrowers	General public
<b>Extent of coverage</b>	Offered in all branches of AMK	Offered only in 3 branches - Phnom Penh, Kampot & Banteanmenchey.
<b>Premium</b>	US \$7.5	3 options – US \$ 5/10/19
<b>Tenure</b>	12 months	12 months
<b>Claim benefits</b>	<ol style="list-style-type: none"> <li>1. Hospital income (Max 60days) - US \$5/day</li> <li>2. Surgery - US \$150</li> <li>3. Death cause of accidents - US \$750</li> <li>4. Permanent disability by accident - US \$500</li> <li>5. Family benefit by accident – US \$1,000</li> <li>6. Funeral benefit – US \$150</li> <li>7. Death due to pregnancy – US \$500</li> </ol>	Death & Disablement by Accident <ol style="list-style-type: none"> <li>1. Premium \$5 - Sum insured \$2,500</li> <li>2. Premium \$10 - Sum insured \$5,000</li> <li>3. Premium \$19 - Sum insured \$10,000</li> </ol>



# Financial products - Savings

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- A variety of normal and fixed term savings accounts offered including for youth as well as senior citizens.
- There is no minimum deposit that is required and nor are there any limits on number of free withdrawals that can be made in each month.
- The interest rates offered vary from 1.5% to 5% per annum for normal savings accounts. In case of fixed term savings accounts, the interest offered varies from 4% to 9% per annum.

## Other services

Service	Description
<b>Money transfer</b>	<ul style="list-style-type: none"><li>○ Extensive agent network (2,800 agents) through which clients can send and receive money anywhere within Cambodia</li></ul>
<b>Payment service</b>	<ul style="list-style-type: none"><li>○ More than 200 billers associated with AMK through whom clients can pay utility bills (water, electricity)</li></ul>
<b>Payroll service</b>	<ul style="list-style-type: none"><li>○ Organizations can use this service to pay staff salaries. Staff can access their salary account through AMK's ATM network</li></ul>
<b>Foreign exchange</b>	<ul style="list-style-type: none"><li>○ Provides foreign exchange service (US Dollar and Thai Baht)</li></ul>



# M-CRIL Branch Visit Details

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Branch	No. of staff in FGD	Groups visited	No. of group clients	No. of individual clients	No. of agents visited
Angk Snuol	6	1	2	2	1
Prey Veng	15	1	4	1	1
Mukh Kampul	9	1	27	2	3
Kampong Cham	20	1	30	7	3
<b>Total</b>	<b>50</b>	<b>4</b>	<b>63</b>	<b>12</b>	<b>8</b>

## Note:

- Interactions with staff were through FGDs, involving: Province Manager, Branch Managers, Area Managers, Channel Managers, Underwriting Officers and Credit Officers.
- Interactions with group and individual clients were done individually or through FGDs during collection meetings or at their homes/businesses.

# Staff Feedback

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Working conditions (reasonable)	<ul style="list-style-type: none"><li>➤ Working hours in accordance with labour law; pregnant women can arrive 15 minutes late and leave 15 minutes early.</li><li>➤ Productivity is affected due to excessive paperwork</li><li>➤ Limited time for new client acquisition.</li></ul>
Salary (reasonable)	<ul style="list-style-type: none"><li>➤ Satisfied with the salary structure and staff feel that it is competitive.</li></ul>
Salary increment (neutral)	<ul style="list-style-type: none"><li>➤ The structure for increments was recently revised in light of the interest rate cap. Staff were not too happy about this.</li></ul>
Incentive scheme (steep but reasonable)	<ul style="list-style-type: none"><li>➤ Most staff reported never having been eligible for incentive because of portfolio quality issues in certain areas.</li><li>➤ However, they understand this and think it is fair</li></ul>
Benefits (reasonable)	<ul style="list-style-type: none"><li>➤ Range of staff centric benefits – National Social Security Fund (NSSF), mobile phone allowance, medical insurance for family, reward program, retirement benefit, staff loans</li><li>➤ Staff feel that the mobile allowance is insufficient and there is some confusion on coverage under NSSF.</li></ul>

Feedback gathered by the rating team from observations and Focus Group Discussions (FGDs) with 50 staff across 4 branches



# Abbreviations

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<b>APR</b>	Annual Percentage Rate	<b>MFI</b>	Microfinance Institution
<b>BAC</b>	Automated Teller Machine	<b>MSME</b>	Micro, Small and Medium Enterprises
<b>BM</b>	Branch Manager	<b>NBC</b>	National Bank of Cambodia
<b>CDM</b>	Cash Deposit Machine	<b>NPL</b>	National Poverty Line
<b>CEO</b>	Chief Executive Officer	<b>OER</b>	Operating Expense Ratio
<b>CMA</b>	Cambodian Microfinance Association	<b>PAR</b>	Portfolio at Risk
<b>CO</b>	Credit Officer	<b>PLC</b>	Private Limited Company
<b>GDI</b>	Gender Development Index	<b>PPI</b>	Poverty Probability Index
<b>GNI</b>	Gross National Income	<b>RoA</b>	Return on Assets
<b>HDI</b>	Human Development Index	<b>RoE</b>	Return on Equity
<b>HH</b>	Household	<b>SME</b>	Small and Medium Sized Enterprises
<b>HO</b>	Head Office	<b>SP</b>	Social Performance
<b>HR</b>	Human Resources	<b>SPC</b>	Social Performance Committee
<b>IA</b>	Internal Audit	<b>SPM</b>	Social Performance Management
<b>IT</b>	Information Technology	<b>SPI</b>	Social Performance Index
<b>LG</b>	Lending Guidelines	<b>SPTF</b>	Social Performance Task Force
<b>LLP</b>	Limited Liability Partnership	<b>USD</b>	United States Dollar
<b>M-CRIL</b>	Micro Credit Ratings International Limited	<b>USSPM</b>	Universal Standards for Social Performance Management
<b>MDG</b>	Millennium Development Goal		
<b>MDI</b>	Microfinance Deposit-taking Institution		



# Glossary

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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.

Client retention:  $\frac{\text{\#clients at end of the year}}{(\text{\# clients at beginning of the year} + \text{\# new clients joined during the year})}$

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

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.

PPI: A set of proxy indicators that are used to score the likelihood that clients fall below a particular poverty line. Statistically derived from the NSSO sample survey.

RoA: Annual profits before grant upon average assets

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

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.*