



AMK	CAMBODIA																
<i>Limited Liability Company with MFI license</i>	2007																
<p align="center">PERFORMANCE RATING</p>	<p align="center">SYNOPSIS</p>																
<table border="1"> <tr> <td>SOCIAL RATING (Proposed)</td> <td>$\Sigma \alpha$</td> </tr> <tr> <td>CREDIT RATING (M-CRIL)#</td> <td>α</td> </tr> </table>	SOCIAL RATING (Proposed)	$\Sigma \alpha$	CREDIT RATING (M-CRIL)#	α	<p>Angkor Mikroheranhvatho Kampuchea (AMK) originated from the development activities of the NGO Concern which started village banking in 1993. In 2003, AMK was registered as a limited liability company and was granted an MFI license by the National Bank of Cambodia in 2004. As of end 2006, AMK is operating in 9 out of 24 provinces in the country serving 67,000 clients with an outstanding portfolio of \$5.2 million.</p>												
SOCIAL RATING (Proposed)	$\Sigma \alpha$																
CREDIT RATING (M-CRIL)#	α																
<p># Credit Rating December 2006</p>	<p>AMK has a very strong double bottom line. AMK achieved operational self sufficiency in 2005 and has excellent financial performance and portfolio quality. The organisation has introduced sound organisational features to track its mission and values – achieving very substantial outreach to the rural poor, with a range of credit products.</p>																
<p>Mission Statement: To help large numbers of poor people in rural Cambodia to improve their livelihood options through the sustainable delivery of appropriate and viable microfinance services to the economically active poor.</p>	<p>AMK is growing rapidly, with plans to expand into all provinces of the country.</p>																
<p>Guiding principles:</p> <ul style="list-style-type: none"> ♦ financial discipline ♦ open and transparent operations ♦ a learning organisation ♦ client protection 	<p>Strengths</p>																
<table border="1"> <thead> <tr> <th>Social Rating dimensions</th> <th>Rating</th> </tr> </thead> <tbody> <tr> <td>Process/organisational systems</td> <td></td> </tr> <tr> <td>Mission and Systems</td> <td>$\Sigma \alpha+$</td> </tr> <tr> <td>Responsibility to clients</td> <td>$\Sigma \alpha-$</td> </tr> <tr> <td>Other Social Responsibility</td> <td>$\Sigma \alpha-$</td> </tr> <tr> <td colspan="2">Results/outputs – client level information*</td> </tr> <tr> <td>Depth of outreach</td> <td>$\Sigma \alpha++$</td> </tr> <tr> <td>Appropriate services</td> <td>$\Sigma \beta+$</td> </tr> </tbody> </table>	Social Rating dimensions	Rating	Process/organisational systems		Mission and Systems	$\Sigma \alpha+$	Responsibility to clients	$\Sigma \alpha-$	Other Social Responsibility	$\Sigma \alpha-$	Results/outputs – client level information*		Depth of outreach	$\Sigma \alpha++$	Appropriate services	$\Sigma \beta+$	<ul style="list-style-type: none"> ⇒ Leadership commitment (Board and senior management) to balancing financial and social goals ⇒ Balance built into governance structure with a Social Performance Committee mirroring the financial role of the Audit Committee ⇒ Organisational department focuses on systematic research and reporting related to social performance: annual sample based reporting on outreach (socio-economic profile of group clients joining AMK), client satisfaction, exit survey; systematic market research for new product development ⇒ Responsive product development ⇒ Strong area targeting focusing on less developed provinces (so far); and small loan size ⇒ Very deep outreach: est. 73% of clients below national poverty line, 49% below \$1/day.
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<p>* Information collected by AMK's own research department, and internal audit .</p>	<p>Issues</p>																
<table border="1"> <tr> <td>Model:</td> <td>Solidarity group & individual</td> </tr> <tr> <td>Services:</td> <td></td> </tr> <tr> <td>Financial</td> <td> <ul style="list-style-type: none"> • Credit: 3 group products, 1 individual product; and emergency loan • Savings: Voluntary savings; Compulsory savings linked to individual loan; </td> </tr> <tr> <td>Non-financial</td> <td>-</td> </tr> </table>	Model:	Solidarity group & individual	Services:		Financial	<ul style="list-style-type: none"> • Credit: 3 group products, 1 individual product; and emergency loan • Savings: Voluntary savings; Compulsory savings linked to individual loan; 	Non-financial	-	<ul style="list-style-type: none"> ⇒ Strategy for improving livelihoods ⇒ Developing SMART social objectives especially as AMK expands (e.g. for poverty and rural outreach) ⇒ Social analysis of portfolio information (men/women, trends by loan cycle/area) ⇒ Need to define 'dropout' (work in process) and incorporate into the portfolio MIS ⇒ More systematic definition and monitoring of client protection issues ⇒ Low client awareness of product options and terms. 								
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<p>Exchange rate: US\$ = KHR 4,009 Organisational data as of end December 2006</p>	<p>AMK is strongly on track in putting mission into practice in line with accepted social values – with quite robust and innovative systems for social performance management. There will be challenges ahead to manage this with rapid expansion, and greater diversity in (more costly) funding.</p>																
<p>Declaration: M-CRIL notes that Frances Sinha is a member of AMK's Social Performance Committee and also a Director of M-CRIL. All M-CRIL ratings are finalized by an <u>independent external review committee</u>. This is an integral part of the rating process, undertaken to ensure that the rating content and result are fair and balanced with no possibility of 'conflict of interest'.</p>	<p align="right">Micro-Credit Ratings International Limited, Gurgaon, India</p>																
<p>For the <i>Imp-Act</i> Global Learning Programme</p>																	

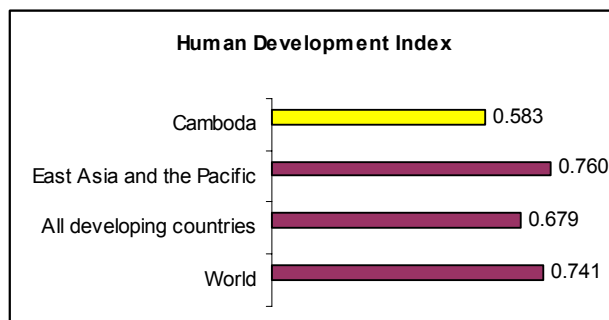
CONTEXT

Cambodia – development indicators



AMK is headquartered in the capital city of Phnom Penh, with operations outside the city, mainly in the western provinces of the country.

Cambodia has a population just over 14 million, 80% rural. Out of 177 countries in the world, Cambodia ranks 129 on the Human Development Index (which reflects life expectancy, literacy/education and per capita GDP). Its Gender Development Index (at 0.578) is 99.1% of HDI.



UN Human Development Report, 2006 (UN HDR)

Agriculture employs over 70% of the workforce with rice the primary crop. Despite the primacy of agriculture in Cambodian life, it accounts for just 31% of GDP. Urban centres are the main drivers of economic growth. Economic linkages between urban centres and rural areas are limited, but growing in the form of remittances going back to the rural areas. In 2004, 13% of rural households received remittances from family members working in the urban centres.

With an annual per capita gross national income of \$480, Cambodia is one of the poorest nations in Southeast Asia. Based on research undertaken by the World Bank in 2004, 35% of the population is below the national poverty line (derived from the minimal nutritional requirement).

Poverty incidence has decreased from 47% in 1994, though the reduction has been more pronounced in urban areas. Thus the rate of poverty is 39% in rural areas, compared to 5% in Phnom Penh and 18% in other urban areas. It is estimated that 91% of the poor live in rural areas.

The World Bank recommends the national poverty line as realistic for Cambodia. This is around \$0.51 estimated at 2006 prices. ‘\$1/day’ is lower than this, at an estimated \$0.35 PPP at 2006 prices. In 2004, 18.5% of the population in Cambodia was estimated to be living below the \$1/day poverty line.

Millennium Development Goals: indicators (2004)		
Poverty	Population < Cambodia poverty line	35%
	Population < \$1/day at PPP	19%
Education	Primary school enrolment	86%
	Secondary school enrolment	49%
Gender equality	Female ratio – primary enrolment	0.91
	Female ratio – secondary enrolment	0.70
	Women in the labour force ^b	51%

World Bank, 2006. Cambodia: Halving Poverty by 2015? Cambodia Intercensal Survey, 2004

HIV/AIDs is a growing concern – 1.6% of the adult population (aged 15-49) were estimated to have HIV/AIDs in 2005 (UN HDR).

Cambodia – microfinance

The few commercial banks in Cambodia operate primarily in the capital city. The exception is ACLEDA Bank which started as an NGO-MFI, and transformed into a licensed bank in 2000 with operations in rural areas. ACLEDA is the largest microfinance provider in the country, providing micro-enterprise loans up to \$1,500 and small enterprise loans up to \$10,000.

There are currently 16 MFIs reporting as members of the Cambodia Microfinance Association. As of end December 2006 they were serving 610,000 borrowers with total portfolio outstanding of nearly US\$250 million. AMK is the fourth largest MFI in the country in terms of outreach, with the smallest loan outstanding. The average loan outstanding of the 16 reporting MFIs is \$408 – 85% of per capita GNI, compared to 16% for AMK.

Top Cambodian MFIs (Data as of Dec 2006)

MFI	Clients	Portfolio US\$ mill.	Av loan outstanding \$	As % p.c. GNI
ACLEDA (small loans) ^a	157,249	95.1	605	126%
AMRE'T	141,957	17.6	124	26%
PRASAC	94,264	22.1	235	49%
AMK	67,006	5.2	78	16%
TPC	55,860	7.1	128	27%
VFC	35,289	6.0	170	35%

Cambodia Microfinance Association ^a ACLEDA data for March 2007

INTENT & DESIGN

MISSION

Clarity and communication

Moderate clarity, strong communication, lack specific objectives

The roots of AMK go back to 1993 in the introduction of Village Banks, conducting savings and credit, as part of community development work of the NGO, Concern. The mission statement of AMK as a newly registered MFI was drafted through an inclusive process involving staff at the time and ratified by the Board in 2003. At the same time, and derived from Concern's experience, the Board agreed to a set of guiding principles that stress the double bottom line and key values as follows:

- AMK will provide microfinance services to poor people in Cambodia that are grounded in sound financial discipline at all levels;
- AMK will be committed to openness and transparency in all areas of management and operations; and
- AMK will be a learning organization where appropriate exchange and sharing of information will contribute to staff development, training and in policy and systems improvements.

The mission thus specifies AMK's target market – large numbers of poor people in rural Cambodia, with the 'poor' being defined in terms of being 'economically active' – those who possess some assets, skills or ideas to generate an income for their families. The strategy is through appropriate microfinance services, which are viable - sustainably delivered. The aim is to improve, livelihood options (recently changed from 'increase'). This is in line with the broader vision statement: 'of a Cambodian society where citizens have equal and sufficient economic and social opportunities to improve their standards of living, and where they can contribute productively towards the overall development of the country.'

AMK's focus on the rural market reflects its 80% share in the population, the higher incidence of rural poverty and the belief therefore that any MFI that intends to serve the poor and make a lasting impact on the financial sector of the country cannot possibly ignore the rural market.

Through AMK's own research (see on TRAM below), AMK has defined a 'well-being index' to capture quality of life indicators that are relevant for rural Cambodia – as a basis for defining poverty. Though the organisation has not specified specific (SMART) objectives in terms of, for example, the different levels of poverty (what % of new clients should be very poor, less poor); or what % of clients should be rural (and different aspects of rural).

AMK's social goals are included in all policy documents, communicated to staff during induction and orientation, and emphasised during the annual retreat. Buy-in to the mission seems strong, particularly at senior management level, though there may be issues at field level as staff compare the orientation of other – competing – MFIs.

AMK has since 2005 substantively included aspects of social reporting in its Annual Report.

Governance

Strong governance commitment to social goals

AMK's ten-member Board reflects a good balance of financial and social skills and experience: apart from the CEO, five are senior staff of Concern Worldwide, the NGO which established AMK and is still the main fund provider; three having banking/accounting backgrounds, one is an expert in Cambodian law.

Since 2003, the fundamental principle for AMK has been to establish systems for financial sustainability whilst also setting in place the mechanisms for social performance, including regular social reporting.

In 2005, AMK set up a Social Performance Committee (SPC). This five member committee (with three external members who are senior research professionals and two Directors of the Board) has an advisory role to the Board and broadly mirrors in the social sphere the function fulfilled by the Audit and Finance Committee.

The SPC meets regularly before the Board meetings, to review and advise on AMK's research activities (discussed in social information section below) followed by a report during the Board meeting. The SPC is an innovative structural feature, which provides independent expertise in advising on appropriate data collection and reporting tools, monitoring the quality of field research, analysis and reporting, and contributing to AMK's social reporting framework.

In 2006, AMK's Board signed in to the common statement of principles in support of social performance, promoted by the Social Performance Task Force.

AMK has achieved financial sustainability and is moving into a rapid expansion phase, with plans to access additional investment funds, and in the long term (in 2009) to apply for a Banking licence. The organisation therefore faces substantial challenges at all levels. Currently the Board is firmly committed to AMK's mission, but as the organisation expands, it will be all the more important to clarify and track social objectives, and build on and adapt the systems currently being established for social performance monitoring.

ALIGNMENT OF SYSTEMS

Model for service delivery

AMK's primary model for financial intermediation is the solidarity group based 'Village Bank' – drawing on the organisational systems established in rural Cambodia during the 1990s as part of Concern's programme.

Up to 12 groups, each of 4-6 members, form a Village Bank (of 20-60 members), usually one VB in a village. Each group elects their own group leader from among themselves, who is responsible for ensuring member attendance to meetings and coordinating with the Village Bank President (VBP). The President is elected by all members of the Village Bank through secret ballot. The VBP supports AMK's field operations by helping to organise meetings, following up on cases of default, and dealing with membership issues. In return, VBPs are paid a percentage of the repayments (if collections are 100%). This methodology supports a very high client: credit officer ratio of over 700. It represents a 'modified Village Bank' structure, with the difference that group members can borrow different amounts and at different times.

AMK also began to provide loans to individuals from the end of 2004, with individual business based assessment.

Market strategy

Clear and systematic orientation to less developed rural areas; though now expanding to all provinces and covering semi-urban areas; client level indirect targeting based on small loan size; market responsive products with informal and formal systems for market research

Areas: Since 2003, AMK has gradually expanded into neighbouring provinces, from three initially, up to nine by end 2006 and seven more are planned in 2007. Decisions on geographical expansion have been guided by an orientation towards poorer rural areas, though taking into account practical considerations (proximity to existing branches, a reasonable population density, low incidence of floods and drought, relatively low competition from other MFIs, incidence of non-agricultural livelihoods as well as relatively high poverty level - of over 40% of households). In future however, area selection criteria may become less applicable as AMK aims to expand into all areas of Cambodia.

Although focusing on rural areas, AMK's services also cover semi-rural/urban areas close to the towns.

Clients: AMK aims to serve the 'economically active' poor, understood as those with at least one income generating activity (that enables them to repay the loan).

AMK services are open to all, women and men, without specific targeting but with indirect targeting - of those who

have a use for loans of \$125 or below (group loans). The individual loan product is larger, up to a maximum of \$500 by the third cycle (discussed under products below). AMK's business plan in 2003 set an upper limit of 25% portfolio exposure to higher value individual loans.

Thus, through its loan management, AMK aims to maintain a focus on lower-income clients, offering smaller loan products than other MFIs in Cambodia. This is reflected in the data for average loan outstanding of the top Cambodian MFIs (page 3).

Products: *AMK has a pro-active approach to developing appropriate financial services – within legal form.*

AMK provides a range of credit products, and a voluntary savings product. The organisation is also actively exploring opportunities for micro-insurance and remittances.

Product design depends on market research which is usually carried out once staff feedback is received on potential demand. It also reflects information about microfinance products introduced elsewhere in the world.

Catering primarily to rural agricultural households, AMK has diversified its credit products to cater to agricultural seasonality and diverse client needs, as well as to mitigate the risks of lending. These include:

- 3 group loan products that offer flexibility of repayment: either 'end-of-term' for lump-sum repayment of principal (for clients with seasonal agricultural cash-flows), or 'instalment' with monthly repayments of principal (for clients with regular cash flows); and 'credit line' – allowing clients to draw down credit and repay at any time in the loan term (available to clients who have completed 2 cycles of the other group product);
- Individual loan – (from 2004) larger loan sizes with monthly repayments, catering to larger agricultural needs and micro-trading businesses with regular cash flow, requiring smaller loans than other financial institutions offer;
- Emergency loan – (from 2005) to cover medical fees and other unexpected expenses (available to group and individual clients who have been with AMK for at least 12 months).

Loan details and access are described in the Tables on the next page. The 'End of term' Group loan is the main product, catering to nearly two-thirds of clients, with 46% of portfolio, and average loan outstanding of under \$60. Next is the group credit line, with 16% of clients, 27% of portfolio. Individual loans, with an average loan outstanding over \$200, cater to 5% of clients with 14% of portfolio. The emergency loan has marginal access - by under 1% of clients.

AMK Loan Products – Description

Type of loan	End of Term	Instalment	Credit Line	Instalment	Emergency
Clientele	Groups			Individuals	Group & individual
Loan guarantee	Social guarantee - no need for physical collateral or guarantors			Physical collateral & 2 personal guarantors	One personal guarantor
Maximum 1 st loan size - \$	50			250	
Maximum loan ceiling - \$	125	125	125	500	100
Maximum term	12 months		24 months	18 months	10 months
Principal repayment	End of term (or before)	Monthly (or before)	Variable within end of term	Monthly (or before)	End of term (or before)
Interest rate (% per month)	3%	2.8%	3%	3% (2.5% after 3 rd loan cycle)	2.5%
Interest rate type	Declining	Declining	Declining	Declining	Declining
Up-front fee	0.5% of loan amount				None
Late payment fee	1%/month				
Loan linked compulsory savings	None			Up front 2% of loan amount,	None

AMK Loan Products – Access Analysis

Type of loan	Total	Group loans			Individual	Emergency
Product Name		End of Term	Instalment	Credit Line	Instalment	Loan
Loans outstanding (no.)	67,524	43,410	8,173	12,084	3,339	518
Borrowers (%)	67,006	65%	12%	18%	5.0%	0.8%
Portfolio (%)	\$5.23 million	46%	12%	27%	14%	1%
Average loan outstanding \$	78	56	76	116	227	70
Average loan disbursed \$	138	89	107	123	361	68

AMK has two savings products:

- compulsory savings linked to the individual loan; repayable after loan repayment with 12% interest
- voluntary savings, with a minimum deposit (and maintaining balance) of \$ 0.125 with 18% interest.

HR

AMK's HR systems are quite well aligned to its mission, with social mission emphasised during staff induction and the annual retreats, and some social elements included in staff performance assessment and the incentive scheme.

AMK Savings Products - Description

Products	Loan-linked	General
Type of savings	Compulsory for individual clients	Voluntary
Amount (deposit)	2% of loan amount	Min. \$ 0.125
Interest p.a.	12%	18%
Withdrawability	Refundable after loan repayment	No restriction
Amount \$	22,506	8,335
Accounts (No.)	3,472	1,460
% of clients	5%	2%
Av. balance \$	7	6

A very small proportion (just over 2%) of clients have voluntary savings accounts with an average balance of \$6. There seems to be a mismatch here which AMK is planning to study.

Induction training (at Head Office over 3.5 days) is seen as a vital introduction to understanding AMK's mission and organisational culture, along with systems and operational details, including an emphasis on appropriate behaviour with clients.

Staff performance assessment is carried out twice a year and includes task based indicators as well as the overall work ethic – in terms of timeliness, staff discipline and behaviour with clients.

A staff incentive scheme is in place for staff more than one year with AMK, amounting to a possible 30-40% of basic pay. The incentives, at different levels, are based on operational and portfolio quality indicators, but include what the organisation calls an area potential adjustment, which adjusts the incentives to account for more difficult areas that may limit growth potential and portfolio quality.

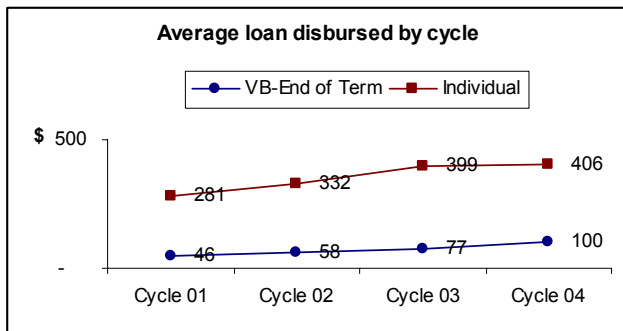
For all staff levels, eligibility for the incentive also depends on the operational unit obtaining a satisfactory audit score, which covers checks on both financial and operational procedures (relevant to the Code of Practice, discussed below under Social Responsibility to clients).

Information and reporting

AMK does not carry out portfolio analysis from a social perspective but is strong on client level research for which a separate department has been established – robust sampling and methodologies, including poverty assessment; reporting quite well adapted for internal use

Portfolio analysis: AMK does not undertake social analysis of its portfolio analysis. Certain data was provided for this rating, including average loan size distribution (70% of loans distributed during 2006 were <\$100) and average loan size for each product by cycle, showing gradual increase for ‘end of term’ Village Banking loan and the individual loan (instalment loans and line of credit start at \$125 and have remained at the same level).

Loans disbursed	%
<\$100	70.5%
\$101-200	25.1%
\$201-300	1.8%
\$301-400	1.9%
\$401-1,000	0.6%



Dropout rates are not being tracked. AMK is working on a formula to track dropout, allowing for a period of ‘resting’.

Client level research: AMK established a separate research division – part of the Training, Research and Marketing Division (TRAM) - in 2003. The research function was deliberately established as an internal but systematic and independent team within AMK. Internal, so as to be able to respond directly to organisational needs, and independent, so as to ensure quality control, minimize possible staff bias, and protect client confidentiality.

The TRAM team consists of three full-time staff – the manager (with strong research background and experience, responsible for research design and data analysis) and two researchers who carry out both the field work and the data entry, and are beginning to pick up data analysis and reporting skills.

Research outputs from TRAM have so far included:

- ⇒ Regular reports on an annual basis (2005 and 2006)
 - client household profiles and cash flows
 - client satisfaction reports
 - exit client reports.

[Findings from these reports are summarised under ‘results’.]

- ⇒ Other specific market research (on request by operations)
 - demand for individual loans (2003-4)
 - scoping study: death relief fund/insurance (2005)
 - scoping study: remittances (2006)

Client household data is collected on a random sample basis in different provinces, proportionate to outreach (AMK’s growth pattern is reflected in the sample), covering entry level clients each year and a comparable sample of non-clients. The sample (cohort) size of clients vs. non-clients follows a manageable ratio of 4:1, with around 300 clients and 75 non-clients covered in a year. This represents a practical approach to sampling, avoiding large numbers, with an emphasis on quality of data collection, and use of random sampling techniques to ensure representation and statistical robustness (as advised by the Social Performance Committee).

TRAM has used Principal Component Analysis of its survey data to derive a ‘well-being’ score based on a composite of indicators that reflect multi-dimensional aspects of poverty in rural Cambodia (physical assets, expenditure, human assets, social capital, vulnerability and food security). This ‘wellbeing’ score will be tracked periodically for each household sampled, and the differences in wellbeing scores in the same households over time, in comparison with the non-client sample will enable an assessment of ‘impact’. The data collected also includes household expenditure on food (in cash as well as consumption from subsistence livelihoods) which enables comparison with the ‘food poverty line’ estimated as part of the national poverty line for Cambodia.

The research is comprehensive, providing detailed profiles of group clients. Reports are reviewed by the Social Performance Committee, before presentation to the Board and management. Summaries are also communicated to different departments and staff during the annual retreat, with translation into Khmer. Nevertheless the presentation and conclusions from relatively complex data is a challenge.

In future, TRAM should consider including individual clients as part of the research – as well as defining different market contexts (including semi-rural) which will be relevant to AMK as it expands services into new areas.

SOCIAL RESPONSIBILITY

CLIENT PROTECTION

Comprehensive code of practice, partially monitored as part of internal audit – though some aspects need clearer guidelines for implementation and documentation

One of the guiding principles established by the Board in 2003 related to: developing processes/services and adopting behaviours and standards that ensure client protection.

This commitment was formulated two years later as a Code of Practice drawing on examples for client protection being developed internationally. The written code is quite comprehensive and includes:

- i minimising exclusion of the poor
- ii minimising over exposure of clients (over-indebtedness)
- iii providing complete information to clients
- iv facilitating freedom of choice
- v ensuring appropriate and respectful behaviour towards clients.

This code of practice has not been translated into Khmer. Otherwise, mechanisms to apply the Code of Practice are mostly in place, embedded in operational policies. Privacy of client information is well maintained with limited access to all systems, governed by User IDs. The first and fourth points of the Code need some clarification for effective implementation.

Monitoring is partially included in the regular operations assessment of the inspections (internal audit) team. This is a 6-member team, well trained, and expected to visit each branch at least once a year, with field level interactions in 5-6 villages (covering 300 clients at each branch). Inspections systems are quite strong, though annual visits/branch are not yet achieved. And the monitoring of client protection issues requires some additional guidelines and documentation.

Transparency

Information on product terms (amount, interest, and fees) and transactions (procedures, disbursement period, etc.) are expected to be fully explained to clients. This is initially communicated during the promotion activities and further emphasized during group formation and prior to loan disbursement, including a 'loan test' by the Area manager. An information packet printed in the local language (Khmer) contains detailed information on products and processes is also provided to each group (and each of the individual clients) – for those who can read.

Clients receive receipts for payments, which are group receipts for group loans. Each client also has a passbook where all disbursement and repayment transactions are recorded. The inspections team checks whether the passbooks are updated and with the clients.

Two procedures are intended to minimise over exposure of clients. Firstly, loan amounts are decided as a percentage of net household cash flow – based on the credit officer visiting each client household, and review by the Area Manager. Secondly, households with a member who is client of another MFI are not eligible for AMK credit. The inspections team monitors multiple loans – and this is also included in the TRAM household survey. Internal audit reports (after loan disbursement) show a marginal proportion of client households (2-3%) are also in debt to other MFIs/microfinance bank (see later page 13-14). But there may be issues in estimating household cash flow correctly.

Costs to clients - Comparable to other MFIs in Cambodia - though relatively high operational costs, and much lower cost of funds (so far)

Disbursements and collections take place at village bank meetings in the villages, or at the home or place of business of individual clients.

The effective interest rate (EIR) of AMK loans is 37.1% for the main group loans – 'end of term', credit line – and 34.7% for the group instalment loan - including interest rate and 0.5% upfront loan fee. The EIR on individual loans is slightly higher (37.4%) taking into account loan-linked compulsory savings, 2% of the loan amount upfront, refunded on loan completion with annual simple interest of 12%. Emergency loans have lower EIR of 30% (at 2.5% monthly interest declining, and no fees).

AMK's estimated **Annual Percentage Rate (APR)** is 36.4%, with a yield of 35.7%. This is slightly above the median for Cambodian MFIs. Annual inflation is around 5-6%.

Cost structure as % of portfolio	AMK	Cambodia	Asia 'Medium'
Average loan o/s (\$)	78	300	122
Costs			
Operating expense ratio	28.4	16.2	16.0
Financial expense ratio	0.5	7.8	6.9
Loan loss prov + writeoff	0.7	0.4	1.9
Total costs	29.6	24.4	24.6
Yield	35.7	34.4	29.8
Surplus	6.1	10.0	5.2
PAR (30 days)	0.1	0.2	2.3

Microfinance Banking Bulletin. Data for, 2006: medians for (39) Asian MFIs with gross portfolio of \$2-8million, >100% FSS; Cambodia data for 8 leading MFIs excluding ACLEDA Bank.

AMK has a higher operating expense ratio – reflecting the costs of smaller loan size and more rural outreach. Nevertheless, the cost of funds is very low (average 1.7%, with Concern Worldwide providing the main debt funds at 1% interest) providing AMK a comfortable surplus. This will reduce as AMK begins to access other investment funds, and will require AMK to look at means of reducing costs, so as not to increase the interest rate charged to clients.

AMK offers high interest on savings: 12%-compulsory savings, 18%-voluntary savings – compared to bank rates of under 4%.

Client interactions

Interaction with clients starts with group training by the credit officers, followed up by interactions during monthly collection meetings. Repayment takes place during this meeting which lasts about 45-60 minutes (except during principal payment for end of the term clients which lasts up to three hours). Loan disbursement is expected to take 1-2 weeks from the time of application. For an emergency loan, the time for disbursement is expected to be just 4 hours, once an application has been approved. Either the Branch Manager or Area Manager has to be present to oversee village bank loan disbursements, and reinforce client understanding of the terms.

Guidelines in case of default depend substantially on the VBP who has the responsibility of ensuring members’ repayment during the monthly collection meetings – and AMK pays them for this (3% of interest and 0.5% of principal repayments where collections are 100%).

All staff are expected to treat all clients (whether regular client or client in default) with professionalism, courtesy, honesty and politeness – and this is included as part of staff performance appraisal.

The information packet given to clients includes the contact numbers of the branch and head office where clients can call should they have a complaint.

OTHER SOCIAL RESPONSIBILITY

GENDER APPROACH

In the country context of active economic engagement of women, AMK has a broadly neutral-supportive approach to gender, providing financial services to women as economic actors within their households and offering equal opportunity to women employees.

Client level: AMK does not specifically target women as clients, although women are encouraged to join, and are mainly attracted to the solidarity groups. Eighty-five percent of AMK clients are women – including 74% of individual clients. Half (estimated) the Village Bank Presidents are women. It would be interesting to track information separately for women and men clients – for example loan trends, voluntary savings, and percentage of VBPs who are women.

Staff: AMK’s HR policy emphasises equality of opportunity for male and female staff. Women are encouraged to apply but the experience has been that women prefer office based employment to field work. Field work and the travel involved is seen to be difficult by women, but there are examples of women credit officers (though some have left to get married) and of women who have been promoted to be area and branch managers.

Just one of the ten board members is a woman. The proportion of women amongst staff is 22% overall; highest (45%) amongst office staff, lower at the management level and amongst field staff (12%). (Compare Prasad, 11% of total staff are women, with 60% women clients).

Staff level	Number	% women
Management	33	15%
Office/technical staff	33	45%
Field staff	91	12%
Support staff	31	29%
Total	188	22%

AMK has provision for both maternity and paternity leave (3 months and 5 days respectively), contribution to costs of delivery of women staff, and a time allowance for new mothers to feed their babies (1 hour/day for 12 months).

RESPONSIBILITY TO STAFF

Strong HR systems

AMK has a comprehensive HR manual and a separate HR department (manager and one officer) that is responsible for putting the manual into practice and ensuring a systematic approach to all aspects of staffing. This is seen as especially important for a rapidly growing organisation requiring committed management and able field staff in increasing numbers.

AMK offers good salaries (slightly above the average for the microfinance industry, surveyed by the HR department in 2005) and provides all benefits in compliance with the labour laws (leave and gratuity/pension contribution). Salaries are adjusted each year for inflation and all staff receive two bonus payments (one fixed, the other depending on AMK’s profitability).

In addition, AMK provides a range of financial benefits to its staff: loans (at 1% a month), deposit facility (paying 5% interest a year), and insurance cover (accident, life, medical – AMK covers medical expenses for the entire family).

AMK provides regular internal training programmes to its staff at all levels to enhance their skills and knowledge. Apart from regular induction of new recruits, about half of existing staff (field and management) have participated in internal programmes during the year. As opportunities develop, AMK is also sending its staff (mainly senior management) to external training programmes.

Official working hours are 8 hours a day, 5 days a week – though field work may go up to 9.5 hours in a day. Adequate safety measures are in place. Area or branch managers accompany the credit officers for disbursement or collection of \$500 to \$1,000. If the amount is beyond \$1000, the branch manager arranges for a hired vehicle to transport the amount. All cash in transit for branches that have more than 5,000 clients is insured.

AMK provides good opportunities for staff to participate in decision-making and give their feedback. These are mainly through monthly branch meetings, the annual retreat and a satisfaction survey conducted annually by the HR department. Findings from the staff satisfaction survey are discussed as part of the annual retreat, involving all staff in following up on ideas for improvement. In the 2006 staff survey, average scores are good, ranging from 4.4-3.4 on a 5 point scale. Higher scored issues (>4.1) included: leave, working hours, medical policy, pregnancy contribution, medical reimbursement, retirement and on the job training. Lower scores (<3.8) were: salary, performance incentives, allowances and internal training.

Turnover amongst professional staff was 9% in 2006; higher (26%) amongst support staff.

RESPONSIBILITY TO COMMUNITY

AMK prioritises hiring local staff, posting advertisements at branch offices and nearby vicinities.

The organisation does not support activities that are illegal in nature such as gambling - or activities that are harmful to the environment such as logging.

AMK encourages a delinking of its Village Banks from the village hierarchy: it actively discourages the election of the village chief (or his wife) as Village Bank President, which used to be the common practice. This is a move towards more broad based democracy, and perhaps lower costs to clients (not having to pay a commission for approving the

loan application) – as well as AMK being seen as an independent organisation.

AMK needs to consider a policy on whether it will include clients with HIV/AIDs – or allow them to be excluded by Village Banks; (this came up as a reason for dropout in the TRAM survey during 2005).

RESPONSIBILITY TO ENVIRONMENT

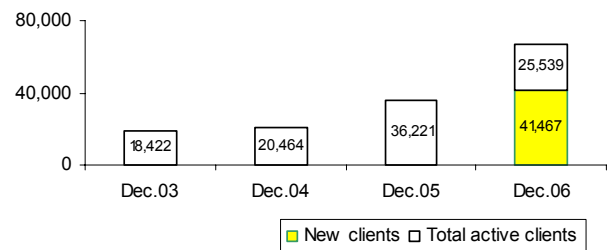
AMK does not have a formal policy on environmental issues, either for its clients or for its own organisational practices. This is not a priority area for an organisation working for the rural poor in a very poor country. Nevertheless, there may be aspects that AMK can consider, for example in agriculture, as the rural economy develops, and as it expands its operations.

RESULTS - OUTPUTS

OUTREACH

AMK has grown substantially since 2004, from three provinces and 20,000 clients to 67,000 clients in nine provinces by end 2006 – with new clients during the year accounting for 62% of total clients.

AMK growth



Areas of operation

The poorest areas of Cambodia are the four northeastern provinces, which also have very low population density (less than 10 persons/kilometre). Apart from these, five provinces covered by AMK are the lowest in the country on HDI (Siem Reap, Oddar Meanchey, Kampong Thom, Pursat and Banteay Meanchey) and in addition one province has relatively high poverty incidence (Kampong Chhnang) – Table next page.

Over half (56%) of AMK clients are located in provinces with poverty incidence (39-54%) above the national average (35%).

AMK outreach across provinces

	Provinces	Poverty rate ^a	HDI rank ^b	AMK Clients
1	Siem Reap	54%	16	14%
2	Kampong Chhnang	45%	8	4%
3	Pursat	41%	14	15%
4	Banteay Meanchey	41%	13	19%
5	Otdar MeanChey	39%	16	5%
6	Kampong Thom	29%	15	10%
7	Battambang	26%	6	9%
8	Kampong Speu	18%	7	17%
9	Kampong Cham	12%	5	8%
		35%		67,006

^a Ministry of Planning (2002)

^b Cambodia Human Development Report 2007 (2004 data)

AMK is operating primarily in rural areas, in 1,983 villages across nine provinces. Based on sampling, the villages are up to 75 kilometres (or up to 145 minutes of travelling time) from the provincial towns where AMK branch offices are based. An estimated 10% of AMK clients are living within 15 minutes travelling time of the branches and may be categorised as ‘semi-rural’.

Financial inclusion¹

- the unbanked

AMK has significant outreach to the unbanked. No households have a bank savings account. Up to 3% of households of group clients have accessed a loan from ACLEDA bank, 6% of individual clients.

Household access to formal financial services	% sample
Bank savings account	0
Bank loan – ACLEDA – group clients	3
Bank loan – ACLEDA – individual clients	6
More than one household member with AMK	-

- the poor

AMK has very substantial depth of outreach: tercile comparison of new clients with non-clients based on the well-being score shows the following as a relative measure.

Well-being score – Comparing clients and non-clients			
Tercile:	Lower	Middle	Upper
Clients [360]	48	37	16
Non-clients	33	33	33

Applying a poverty line measure, 73% of new clients are estimated to be below the national poverty line, 49% below the \$1/day poverty line.

Poverty outreach

Poverty line	Rural food line	% new clients
< national	R1,550 (\$0.39)	73
< \$1/day	R1,161 (\$0.29)	49

Poverty level based on household expenditure data from TRAM survey of group clients. Group clients are 95% of AMK clients. Individual clients are assumed to be above the poverty line.

- women headed households

Women-headed households are not seen as an especially vulnerable group in Cambodia. At the national level they are 26% of households – reflecting the fact that women are more likely to stay at home, whilst men go further distances for work. In AMK, they are 29% of group clients, 16% are the main income earner.

Women headed households	% sample (group)
Women headed households	29
Women the main income earner	16

Support to employment

Credit is used for more than one purpose: 36% of the group sample invested in farm activities (including 2% who purchased land), 30% invested in animals, 4% in other allied activities (fishing, wood); 24% invested in non-farm activities, 14% purchased household assets and around one-third used the credit for other household needs (food, medical, debt repayment), and a few for on-lending.

There is no data on employment in credit supported activities – whether family self employment or (which may be relevant for individual clients) hired, non-family, employment.

Client profile

AMK’s survey data for group clients and their households shows:

- over half of women clients (54%) have had no schooling – 13% have completed primary level or above (one-third completed less than primary); of the

¹ This section is derived from AMK’s sample survey undertaken by TRAM of 360 group clients in 2006: the data is robust and proportionate to AMK’s outreach in 7 provinces of Cambodia; 152 clients were in their first loan cycle. For access to financial services, TRAM data is supplemented by internal audit reports of the inspections team (6 branches, covering 591 group (village bank) clients, 330 group clients with line of credit, and 145 individual clients).

smaller number of men clients, 12% have had no schooling, 41% completed primary or above; [national data: 42% of adults (aged 25 yrs+) have completed primary – 32% of women, 50% of men]

- 84% of daughters of primary school age are in school, 91% of sons; secondary school attendance is lower at 38% for girls, 42% for boys;
- 95% of households have agricultural land, 58% have dairy animals (cow), 24% have motorised vehicle, and 48% have TV;
- 4% of client households have their own toilet facility; 95% have no toilet facility;
- 11% of recent clients (less than 2 years with AMK) reported times of food shortage in the previous year, 14% reported eating less than 3 times a day, and 20% reported eating low quality food.

APPROPRIATE SERVICES²

Client awareness

On a series of questions on aspects that AMK expects its clients to know, the average awareness rate is low at 41%: moderate (73%) on interest terms, but under 50% on all other aspects - details of the loan fee, the voluntary savings product, grievance mechanism and the range of credit products available from AMK. Over half had no knowledge of voluntary savings.

Awareness of products and transactions	% sample
Interest payable on loan	73
Details of upfront deductions	49
Voluntary savings product	44
Grievance mechanism	31
Group loan products available at AMK	10
Overall average	41

[136 clients randomly selected in three branches (TRAM – end 2007)]

Group systems

Group systems within the village banking methodology are quite regular, though some aspects emerge during inspections (sample in 6 branch audits): not all clients keep their passbooks (20-35%), some clients are making repayments through the Village Bank president rather than directly during meetings (18%).

Client awareness is high (87%) on what to do if there are loan repayment problems, but low (40%) on the role of the Village Bank President (including VBPs themselves!).

Group norms	% sample
Clients have their passbooks – village bank	80
- line of credit	65
Client awareness of group norms:	
What to do if loan repayment problems	87
Role of Village Bank President	40

[Passbooks – from internal audit reports of 6 branches. Awareness from TRAM sample (end 2007), 111 group clients in 3 branches.]

Most Village Bank Presidents are group members who are not (related to) the Village Chief. Though this old practice still continues in some cases: in 8% of Village Banks covered by the inspections team in 6 branches, the VBP was the wife of the Village Chief.

Client feedback

Access to other financial services

A small percentage (2%) of clients borrowed from other MFIs and NGOs operating in the area; 7% borrowed from a moneylender.

Other financial services	% sample
Other MFI/NGO	2
Moneylender (in last year)	7

[TRAM survey – 360 clients]

Data from internal audit reports indicate the main microfinance competitors – after ACLEDA Bank – include: Prasac, Hattha and TPC. The average outstanding liability to other microfinance organisations was \$280 (range \$25-1,200). And somewhat higher to ACLEDA (average \$285, maximum \$3,000). The proportion of clients involved is very low, though the liabilities may indicate cases of over-indebtedness. (TRAM analysis by well-being score/poverty level would be relevant here).

Some clients (7%) are also borrowing from moneylenders, with average liabilities of \$70.

Positive feedback

TRAM's client satisfaction report for 2006, covering 288 of group clients (55% with AMK for less than 2 years, 45% with AMK for more than 2 years) shows high level of satisfaction:

⇒ 88% gave positive feedback

Primary sources of satisfaction are:

- low interest rates on loan (compared to 3.5% per month charged by some MFIs)

² This section draws on a number of different TRAM surveys as well as the internal audit reports for 6 branches.

- the perception that AMK helps people/gives loans to the poor, and
- easy to get a loan
- friendly staff
- loan access within village
- flexible options for repayment.

Some issues

In the same report, 11% of the sample had some negative feedback: mainly

- small loan size
- strict procedures in calculating interest due on a daily basis.

TRAM analysis based on well-being score, found that it is mainly the medium and better off categories of households which have complaints on these issues – it is less of an issue for the poorest category. Nevertheless, it will be important for AMK to analyse loan size requirement relative to number of loan cycles a client has already completed. (Small loan size is also one of the reasons for client exit – see below). And the interest payments would be simpler if not calculated on a daily basis.

Two products have very low uptake – the emergency loan and the savings product. It would be interesting to have client feedback on these options.

Client exit

AMK is currently developing its approach to estimating the dropout rate in a way which will take account of the likelihood of clients reborrowing after a certain period of time. TRAM’s exit survey (of dropouts who have not borrowed for at least a year) indicates that 18-19% are likely to rejoin. Applying M-CRIL’s formula, and allowing for 19% later rejoining, the dropout rate will be around 11% which is about the current average in the microfinance industry.

Calculating the dropout rate		Dec-06
a	Total members – end of year	67,006
b	New members during year	41,467
c	Members at beginning of year	36,267
	Rate of dropout [(c+b-a)/(c+b)]*	13.8%
	Rate of dropout, allowing for 19% to rejoin (i.e. minus 19%*13.8%)	11.2%

* M-CRIL formula

Reasons reported for more permanent dropout (TRAM exit survey – 82 dropouts, 2006) are (number of reasons – some reported more than one reason):

- business does not need capital (48) – the main reason, accounts for 59% of the dropouts;

- issues with AMK services/staff (21): mainly small loan size, finding better alternative MFI/NGO sources with easy procedures, lower interest – 2% a month - and bigger loans
- business problems (17) – low profits/sales
- personal/family problems (12)– especially illness, and
- issues with the group (9) – group broke, disagreement with group rules.

Where there are staff issues, the staff have been identified within AMK for follow-up. Otherwise, microfinance competition is likely to be an increasing issue for AMK. Business and family problems point to wider issues that may be at least partially addressed by a financial service provider – as AMK is already considering, in relation to insurance, though this is not currently allowed under existing regulation. An analysis by well-being score or poverty level of reasons for dropout would help to assess issues for AMK’s target group.

PERSPECTIVE - CONCLUSION

AMK is strongly on track in putting its mission into practice in line with accepted social values. The organisation has strong systems for social performance management at different levels, including clear social goals and values of client protection, an internal research department guided by a Social Performance Committee at the Board level. Market strategies, product development, HR systems and inspections (internal audit) are well aligned.

Client level results – being tracked on a sample basis by AMK’s own research team – show substantial depth of outreach to the poor and high client satisfaction. A separate survey by TRAM has shown very low client awareness on most features.

Issues that need attention in tracking social performance include portfolio analysis from a social perspective – at branch level as well as for the overall organisation, clarifying social objectives (for example, what depth of outreach is AMK aiming to maintain? what level of dropout is acceptable?), strengthening the internal audit team approach to covering and documenting client protection issues, covering some of the gaps in TRAM research – e.g. individual clients, thinking of ways to track information at the branch level, and exclusion – and translating research into key findings and implications for management/operations within the organisation.

At the policy level, a response to potential clients with HIV/AIDS is likely to become an issue.

M-CRIL's Microfinance Rating Symbols

Grade	Credit Rating description	Social Rating description	Grade
$\alpha++$	Excellent systems, highest safety ➤ most highly recommended	Excellent systems and adherence to social mission and values	$\Sigma\alpha++$
$\alpha+$ α	Very good systems, high safety ➤ (very) highly recommended	Very good systems and adherence to social mission and values	$\Sigma\alpha+$ $\Sigma\alpha$
$\alpha-$ $\beta+$	Good/satisfactory systems and safety ➤ recommended, needs monitoring and improvement to handle large volumes	Good/satisfactory systems and adherence to social mission and values	$\Sigma\alpha-$ $\Sigma\beta+$
β $\beta-$	Borderline to weak systems, significant risk ➤ acceptable after improvement	Weak systems and adherence to social mission and values	$\Sigma\beta$ $\Sigma\beta-$
$\gamma+$ γ	Weak systems, very high risk ➤ not ready for investment	No systems, no social mission or values	$\Sigma\gamma+$ $\Sigma\gamma$