

## SPM in Practice

# AMK (Cambodia)



### Introduction

AMK became an independent local MFI in July 2003 with the mission to 'to help large numbers of poor people in rural Cambodia to increase their livelihood options through the sustainable delivery of appropriate and viable microfinance services to the economically active poor'. AMK defined its target market as 'poor people with at least one economic activity or business (that enables them to repay the loan).'

AMK originated from the savings and credit components of the community development work of Concern Worldwide in Cambodia. AMK built on the experience of the previous ten years as a Concern programme, which included overcoming the challenges of high levels of defaults, loan restructuring and fraud. In the first two years, AMK focused on creating a stable institution with a strong internal policy environment and appropriate management and information systems.

In the four years since its licensing, AMK has become the fourth largest MFI in Cambodia, with more than 70,000 clients — 86 per cent of these are women, achieved through encouraging their participation rather than a deliberate targeting or exclusion policy. AMK is notable for its focus on serving poor people in rural areas. It operates in a total of 15 provinces throughout the country in 67 different districts, and has a clientele around 90 per cent rural (reflecting the 80 per cent share of rural dwellers nationally). AMK has a policy of working in and expanding to relatively remote areas, where the competition from other

MFI is low. AMK also has one of the lowest average loan sizes at \$86, reflecting a client profile significantly poorer than the population in its operational areas. Low revenue per client (represented by low average loan size) is compensated for by very high staff productivity (6-800 clients per credit officer).

### Approach to social performance

From the start AMK was committed to developing a microfinance institution that strategically balances financial and social performance, in line with its mission and the expectations of its shareholders.

A deliberate strategic concern to achieve financial sustainability while meeting social goals was reflected in the formulation of a clear mission statement and guiding principles, as well as the creation of a separate department for research combined with training and marketing, and an external Social Performance Committee that reports directly to the Board.

AMK is committed to the idea that managing social performance will have significant business value, and will help AMK in areas such as product and delivery design. It has thus formulated a framework to manage social performance focusing on:

- Outreach of financial services against stated mission
- Demand-driven products and services for clients
- Client protection and transparency
- Other social responsibilities: corporate culture, policies for staff
- Impact assessment or transformation effect on clients.

## Focus on key issues

Social performance management (SPM) is an institutionalised process of translating an MFI's mission into practice. It involves setting clear social goals and objectives, developing a strategy to achieve these, monitoring progress, and using this information to improve performance and aligning organisational systems to the social mission. This section looks in detail at the key elements of AMK's SPM system.

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### Strategy: Understanding and responding to client vulnerability

**To manage its social performance, an MFI must be clear about what it seeks to achieve (its goals), have operational objectives to manage against, and a clear strategy to achieve these.** The case of AMK is interesting because it has developed a very clear strategy to achieve its social goals.

AMK caters primarily to rural agricultural households, a market that is characterised by poor infrastructure and regular floods and droughts. Rain-fed agriculture and livestock rearing/fishing are the main livelihoods in rural areas. This segment offers huge potential to expand operations, achieve economies of scale and thereby attain long-term financial sustainability. Yet it also involves substantial challenges. AMK's business model and the design of financial services reflect the seasonality and vulnerability associated with rural livelihoods.

**AMK does not directly target women, or the poor,** instead it attracts its chosen target group through:

- Maintaining relatively low loan ceilings on products (e.g. the maximum first group loan size is US\$50, and a first individual loan cannot exceed US\$250)
- Area selection: currently at least

two-thirds of AMK's operational areas are in provinces with higher poverty rates than the national average.

#### **AMK attempts to minimise risks:**

- Group loan products offer complete flexibility of repayment
- Individual loan product caters more to non-farm opportunities
- Analysis of household cash-flows highlight the extent of seasonality in client households
- Disaster mitigation products including loans for emergencies (and micro-insurance, which is under planning).

#### **AMK has developed a diverse range of products:**

- Three group-guaranteed loans without any physical collateral and with three distinct repayment modalities
- An emergency loan without collateral, which provides a flexible end-of-term repayment option
- A small business loan delivered through an individual loan methodology that requires physical collateral and personal guarantees
- AMK has also developed and marketed savings as an attractive product.

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### A deliberate approach to social responsibility

Social performance relates to who an organisation can serve, how it serves them, and the benefits of these services. It also relates to the way in which an organisation works in terms of its relationship with clients, staff and community, and its impact on the environment. The case of AMK is interesting because a concern for social responsibility,

particularly client protection, was defined within the Guiding Principles that provide the operating framework of the institution (See Box one).

This Code is translated into operating standards within AMK's policies and is monitored through the internal audit function and social research findings.

## Box one: Guiding principles and code of practice for client protection

AMK's guiding principles:

- Provide microfinance services to poor people in Cambodia that are grounded in sound financial discipline at all levels
- Be committed to openness and transparency in all areas of management and operations
- Be committed to developing processes/services and to adopting behaviours and standards that ensure client protection
- Be a learning organisation where appropriate exchange and sharing of information will contribute to staff development, training and in policy and systems improvements.

As an extension to its Guiding Principles, a Code of Practice for Client Protection was adopted in 2005 in order to ensure fair and equal treatment of clients. The Code states that AMK will strive to:

- Minimise the exclusion of the poor who meet AMK's other criteria for selection.
- Minimise the exposure of (poor) clients to financial products that may prove harmful if they promote over-indebtedness.
- Provide complete information to clients about policies and procedures, and ensure complete transparency in transactions.
- Facilitate/promote complete freedom of choice to clients.
- Ensure appropriate and respectful behaviour towards clients of staff and management.

In addition to its formal policies, AMK has developed a socially-responsible organisational culture. This is reflected in gender-aware policies, staff relations, and in relationships

with the communities in which it works, including feedback mechanisms and satisfaction surveys. AMK still needs to work on its environmental impact responsibilities.

## Monitoring and assessing progress towards social goals

**An MFI needs reliable and timely information in order to track, understand and manage its progress towards social objectives.** An information system needs to collect both routine monitoring and follow-up information, and communicate this effectively to the MFI's different stakeholders.

AMK systematically collects, stores and analyses information about clients on an ongoing basis through its TRAM (Training, Research and Marketing) team. It has devised a household survey as a starting point, which is applied to a sample of new, old and non-clients on questions of demographic information; household cash-flow patterns; consumption (as a proxy for income); variations in asset holdings; and other vulnerability factors (such as food security, coping strategies and indebtedness).

Principal Component Analysis was selected as the most suitable methodology to address the multi-dimensionality of poverty and provide a simple yet scientifically-sound indicator. The

resulting 'wellbeing score' is a composite indicator, and will be tracked over time to enable an assessment of impact on the households sampled. By the beginning of 2007, 1,000 old and new client households had been surveyed as well as a control group of non-clients.

### **A mechanism for social and market research**

The idea behind TRAM was to emphasise the linkages between information and communication, with research information seen as useful for AMK as part of training, operations, marketing, product development and external reporting.

Organisational understanding about AMK clients before the creation of TRAM was vague and based on assumptions only — for example that all clients were farmers cultivating only rice, hence the single loan product tailored to match seasonal or 'lumpy' cash-flows. TRAM's challenge was therefore to systematically deepen AMK's understanding of clients, and relate this to an understanding and measurement of poverty (client profiling) as well as to market development (household cash-flows, client satisfaction, client exit).

## Using information to improve performance

**The core of SPM is using information to improve performance.** Decision-making at all levels of the organisation needs to be based on a balance between both social and financial performance information. MFIs use information to track social performance against targets, create early warning systems, segment their portfolio, monitor product and service use, and generate baseline information for in-depth research.

### Using information to adjust products and systems

SPM has been most useful to AMK in new product design and delivery methodology:

- Client profiles helped in determining loan sizes (ceilings) and provided crucial information in the design of AMK's credit line product
- Client cash-flow information has helped in better anticipating AMK's own cash-flows and demand patterns.

Additionally, feedback from client satisfaction and exit surveys is being used to strengthen induction training for new staff.

### Focus on loan sizes

AMK's SPM has also led it to reflect on whether its current loan sizes and market focus are appropriate. AMK has an average loan outstanding of US\$86 compared to an average of US\$461 among the 16 other MFIs reporting to the Cambodia Microfinance Association, reflecting its clear focus on lower-income clients. The microfinance sector in Cambodia is shifting as growth increasingly reflects the growing presence of MFIs in the more urban, higher value, primarily trade-oriented markets. Given this, overall growth in loan sizes for the main industry players is not surprising.

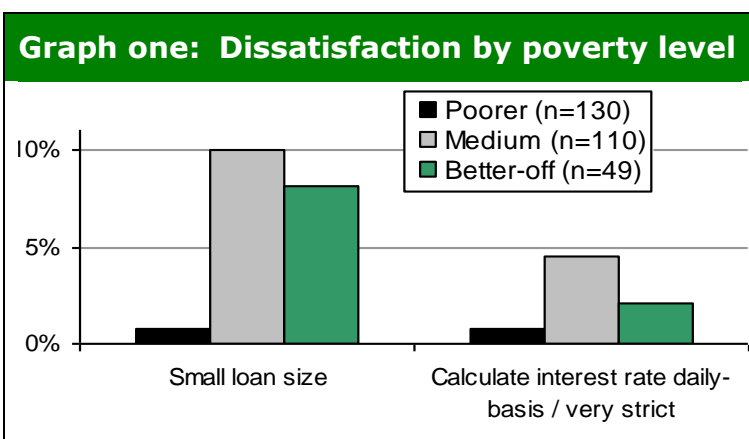
AMK's research and client feedback highlight two key issues brought up by the 11 per cent of clients who had any negative feedback: 'small loan sizes' and 'calculation of interest rates on a daily basis' (see Graph one). The fact that AMK's loan size is indeed the smallest in the local market (and has remained the smallest for the last several years) led management to wonder whether they were in fact becoming too small to fit the needs of clients. Based on the wellbeing score, TRAM analysis showed that it was mainly the medium category of households, and to a lesser extent the richer, who complain. As a result, loan sizes were maintained at the same level. Future monitoring of client feedback, credit use surveys and cost trends by province will feed into decisions about loan sizes.

### Strategic positioning in a changing market

Furthermore, the question of market focus is part of the issue: many MFIs in Cambodia have moved from small-size loans in group-based lending to larger loans and individual methodologies, and often focusing on office-based transactions more like a retail bank. This strategy works well financially, as well as for clients if they are nearby, but is less tempting for MFIs with social goals such as AMK and who aim to continue serving a rural, more remote clientele. Meeting social objectives such as AMK's – working in rural and more remote areas and providing appropriate products – invariably entails higher operational costs and requires high operating efficiency, which AMK has achieved through high staff productivity, thanks to the group model.

Expanding to more remote villages than other MFIs may introduce some 'inefficiency' in the short term, but as market research shows lower competition, the decision is thus both socially and financially sound because of the medium- and long-term market potential in these areas. Data for operations in different provinces reveals that the strategy of

targeting less-developed regions has substantially contributed to growth, at similar costs. In the future, AMK's cost of funds will increase as it moves into commercial borrowing. The plans to maintain efficiencies include developing additional products such as remittances or insurance, and probably increasing the individual market segment within the 25 per cent cap, whilst maintaining its social objectives to serve the poor.



## Aligning systems to SPM

### Institutionalising SPM requires that an MFI's systems and processes are aligned

to achieve its social objectives, not just the decision-making processes. The case of AMK is notable due to its highly supportive governance structure and internal controls.

### A supportive governance structure

AMK has taken care not only to select board members so as to maintain a balance of development and banking experience, but it also established a Social Performance Committee (SPC) in 2005 with an advisory role to the Board. The SPC ensures oversight of the social research (to advise on best practices, to guarantee data quality and robustness of findings) with external experts.

The SPC broadly mirrors (in the social sphere) the function fulfilled by the Audit and Finance Committee. This dual-committee structure provides the Board and all stakeholders with information on the achievement of AMK's mission and double bottom-line of financial return and social impact.

### A role for the audit team

The 'M' of TRAM initially stood for 'monitoring', but it became clear that it was difficult to combine independent research with

inspections. This function was thus allocated to the audit team. This team regularly inspects branches and visits villages to assess operations. Checks on financial procedures and operations are relevant for client protection in terms of security, timeliness and transparency.

To further encourage client protection, branches are scored on their operations management along with financial, MIS and human resources management. Social responsibility accounts for a significant part of each branch audit, and a less than satisfactory audit score (on any of the different dimensions) means that the respective team loses out on their quarterly incentive bonus.

### Box two: Staff and social focus

AMK encourages its staff to maintain its social focus through induction on mission and guiding principles, staff appraisals including social responsibility, and feedback and interaction through regular meetings.

AMK's incentive scheme for field staff is based on operational, portfolio quality and cost efficiency parameters, but also rewards staff working in more difficult and remote areas, by increasing the amount for staff in areas of lower population density, higher dependency on farm-based livelihoods, higher incidence of flood or droughts, and higher incidence of poverty.

## Assessing the value of SPM

The history of AMK gives us an interesting insight into the issue of balancing costs and added value. AMK does not perceive its decision to maintain focus on poor and remote areas as a trade-off, because its objectives are not to achieve short-term profit maximisation, but rather to foster balanced social and financial performance. The MFI estimates the share of social performance costs at about 7.5 per cent of total (adjusted) costs for 2006, including the cost of the Social Performance Committee and the TRAM research team.

The quantification of benefits of social performance is more difficult — as mentioned above, added value is mainly seen in the form of better products and methodologies, which

are often the main determinant of an MFI's success, for example:

- Product development/design on the basis of 'real' market information
- Faster product innovation
- Methodologies fine-tuned to ensure timely provision of finance
- Better adherence to stated mission of working with poorer segments of society.

Furthermore, SPM has allowed AMK to make informed decisions on how to maintain its social focus, in the knowledge that these will not have negative financial outcomes: for example the extra costs involved in reaching out to remote areas are more than offset by longer-term market potential of areas where few other MFIs operate.

**Table one: Operational performance at a glance**

	<b>Dec 2006</b>	<b>Dec 2005</b>	<b>Dec 2004</b>	<b>Dec 2003</b>
<b>Gross loan portfolio (\$K)</b>	5,277	2,474	1,202	843
<b>Savings (\$K)</b>	8	5	1	0
<b>OSS%</b>	122%	103%	93%	72%
<b>PAR &gt; 30 days (%)</b>	0.09%	0.05%	0.72%	2.51%
<b>Staff</b>	188	108	91	66
<b>Borrowers (K)</b>	67	36	21	18

## Challenges ahead



*SPM in Practice* aims to capture good practice and lessons learnt emerging from the *Imp-Act* Consortium Global Learning Programme on social performance management (SPM), a two-year project which seeks to gather evidence of effective SPM and understand its organisational value.

This summary is based upon a longer case study of AMK written by Olga Torres (AMK), Tanmay Chetan (AMK) and Frances Sinha (EDA). The analysis also drew from Chetan (2007), *Small Enterprise Development Journal*.

Seven microfinance institutions (MFIs) are involved in the global learning programme:

AMK (Cambodia)  
 CRECER (Bolivia)  
 FONKOZE (Haiti)  
 NTFW (Philippines)  
 PRIZMA (Bosnia)  
 Pro Mujer (Bolivia)  
 SEF (South Africa)

To learn more about SPM and the work of the Consortium, please visit:

[www.Imp-Act.org](http://www.Imp-Act.org)

In terms of challenges ahead, the next 2-3 years will see the consolidation of AMK's internal social performance management system, with an eye to maintaining the balance between social and financial performance in line with AMK's mission, vision and guiding principles. This includes:

### Ensuring staff buy-in for a balanced view of performance management

In the context of a competitive environment and fast-growing staff numbers, a key challenge is to maintain a supportive organisational culture which values both social and financial performance. To facilitate this, reports to communicate research findings must be relevant, timely and useful for all departments.

### Strengthening the research function

A key challenge for AMK is to strengthen its current research methodology, capacity and depth as well as ensuring its continuation by developing local capacity to fully undertake this research function.

### Consolidating linkages with SPM in all departments

A social lens is to be consolidated with Operations, Inspections and Human Resources and stronger linkages are needed with other functions such as the Management Information System (MIS) in order to produce future portfolio analysis which includes a social perspective.

### Create a mechanism to regularly update SPM system(s) to adapt to long-term strategies and changing needs of AMK

AMK's system to monitor social performance must be flexible and updated regularly so that it is integrated into long-term strategic planning process and appropriate to AMK's future needs. The goal of this SPM updating mechanism is to align prioritisation of main social focus areas and thus foster transparent decision-making processes that balance social and financial objectives. AMK will map and document how social and financial performance affects the operational and strategic decision-making processes.