

Managing Social Performance

AMK (Cambodia)



Introduction

Dedicated to the efficient provision of financial services for the poor by providing access to underserved families in rural Cambodia, **AMK is a fast-growing, commercially successful Microfinance Institution (MFI) which is also achieving excellent social performance.** This is a result of its clear strategy and committed leadership, strong information systems and a careful alignment of its organisational systems to its social mission.

A deliberate strategy of seeking financial sustainability while meeting social goals has given **AMK a very strong double bottom line. Grounded in sound financial discipline at all levels,** AMK achieved financial self-sufficiency in 2006, and has maintained strong portfolio quality and improving efficiency during a period of rapid growth (see Table 1). In the 'MIX Global 100' ranking of MFIs, AMK came 17th in 2006 and 19th in 2007, and first in Cambodia both years. Since 2007, AMK's strategy has been one of substantial growth – tripling client numbers by 2009 to 210,000.

AMK's social performance is also strong, and has been maintained during this rapid growth. Through its responsive product development, strong area targeting focusing on less developed and remote areas, and maintaining a small loan size, **AMK has achieved deep outreach,** with 56 per cent of clients below the national poverty line. AMK also has the country's lowest average loan outstanding at US\$115, compared to a

national average of US\$411.

Client satisfaction is also high with 86 per cent of new clients and 87 per cent of old clients giving positive feedback. This performance has been recognised in an Alpha plus financial rating and an Alpha Social rating by M-CRIL¹ in 2007 and in 2009 a Gold Award for Transparent Reporting on Social Performance from the Microfinance Information Exchange.

AMK is an outstanding example of an MFI successfully integrating social performance into its management, with a number of strengths discussed in this Practice Note:

- its Board Social Performance Committee (SPC);
- a Social Reporting Framework summarising social performance information;
- a concern for client protection, incorporated into its internal audit function;
- a very strong internal research function, whose benefits largely outweigh its costs;
- maintaining a strong social performance culture within a high growth strategy.

Key social performance issues

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.

AMK's approach to SPM is holistic and the MFI has taken practical innovative steps towards achieving its social mission.

¹ Micro-Credit Ratings International Ltd.

In terms of **governance**, AMK benefits from:

- leadership commitment from its experienced Board members with a balance of development and banking experience;
- a strong and clear articulation of its organisational mission and guiding principles;
- a Social Performance Committee with industry experts which balances the Audit and Finance Committee; and
- a Social Performance Reporting Framework which summarises and highlights current and future issues regarding social performance in AMK (see Figure 1).

AMK's **strategy and operations** are also designed with social performance in mind, by:

- offering a range of loan products for the rural poor, catering to varying cash flows,
- and responsive product development;
- keeping a cap on loan size;
- new area selection based on pragmatic balance between depth of poverty and operational practicality.

With regard to **management and systems**,

AMK's social performance is enhanced by:

- its well-aligned HR systems, with an incentive scheme including number of clients served, portfolio quality, a difficulty factor which takes into account the more challenging environments in which staff work and staff appraisals including task effectiveness and social responsibility;
- a designated and active Research Department focusing on systematic market

and social research and reporting;

- an Internal Audit Department covering financial and social aspects of client protection, including client awareness.

Social Performance Management in practice

The Board Social Performance Committee

Ensuring that decision-making considers both social and financial outcomes is a key SPM principle. Awareness of the social and financial consequences of decisions leads to better overall performance management.

A Social Performance Committee (SPC) guides the organisation in its management of social performance. It provides an overview of research and guides AMK in the presentation and use of information to better integrate social performance aspects into the institution's overall governance and management strategy.

The Committee also has an advisory role to the Board and broadly mirrors in the social sphere the function fulfilled by the Audit and Finance Committee. This dual committee structure aims to give the Board a balanced view of AMK's overall institutional performance so that governance decisions are appropriately aligned with the dual objectives of the institution.

Table 1: AMK – Operational performance at a glance

	Dec 2003	Dec 2004	Dec 2005	Dec 2006	Dec 2007	Dec 2008
Borrowers	18,000	21,000	36,000	67,000	120,000	189,000
% group borrowers	100	99	96	95	94	85
Staff	66	91	108	188	349	566
Gross loan portfolio (US\$million)	.843	1.2	2.4	5.2	10.3	23.2
% group loans	n/a	n/a	91%	85%	80%	65%
Voluntary savings (US\$K)*	0	1	5	8	28	11
Financial self-sufficiency (%)	n/a	70	75	101	100	104
Operational self-sufficiency (%)	72	93	103	122	125	117
Operating expense ratio (%)	n/a	46.7	36.9	28.5	24.5	22.4
PAR¹ >30 days (%)	2.51	0.72	0.05	0.09	0.06	0.35
Active borrower/loan officer	n/a	445	697	736	660	582

*Note: AMK currently does not have a licence to collect savings from the general public.

The **main social dimensions of AMK's work** include:

- poverty outreach – outreach of financial services in line with AMK's stated mission;
- demand-driven products and services;
- client protection;
- transparency;
- other social responsibility (staff, community);
- impact assessment (or well-designed change studies).

Social performance is presented to the SPC through a **Social Performance Reporting Framework** based on these dimensions (see Figure 1). It has a background section produced by AMK management that covers the main social dimensions, and a summary section that

is filled in by the SPC and passed along to the Board as an integral part of the SPC meeting minutes. This mirrors the structure of the reports from the Audit Committee, applying a 'Red-Yellow-Green light' assessment system (i.e. red signals a problem and green signals good performance).

Whilst AMK is still to develop formalised systems to pass on reporting framework information to the whole management team, it thus is a monitoring tool for improving management processes. The framework also has indirect inputs into creating products, processes and technology. For example, the SPC has been instrumental in prioritising areas of focus, addressing gaps and simplifying processes and formats.

Figure 1: AMK's Social Performance Reporting Framework (Summary Section) for Board of Directors

From AMK Management to SPC	AMK - Social Performance Reporting Framework					
	Year Evaluated	Regular Monitoring				Periodic Research
	Date:	Depth of Outreach	Adequate Products	Transparency & Client Protection	Other Corporate Social Responsibility (CRS)	Change
	Sources of Information					
	Indicators					
From SPC to Board of Directors	SUMMARY	Depth of Outreach	Adequate Products	Transparency & Client Protection	Other Corporate Social Responsibility (CRS)	When applicable Change
	Accuracy methodology and process?					
	Findings: currently in line with mission?					
	Is there info/data missing?	Tick as appropriate 	Tick as appropriate 	Tick as appropriate 	Tick as appropriate 	Tick as appropriate
	Issues to Report					
Any Other						

The increasing clarity on social performance issues, and the development of information to support those issues alongside the standard financial ratios have served to support balanced strategic decision-making, as well as to identify areas for more focused information and reporting in future.

Integrating client protection into internal audit

Designing and implementing systems for social responsibility, including client protection, is one of the key SPM principles. At a minimum, MFIs should ensure they do no harm.

AMK's commitment to ensuring client protection is formulated in a Code of Practice, and compliance is documented in guidelines. After data collected for the M-CRIL Social Rating revealed low levels of client awareness on products and systems, AMK's Internal Audit Department began to monitor and report on social indicators in early 2009, through regular inspection visits to branches and villages, guided by a formalised checklist. The audit checks that financial procedures and operations protect clients in relation to security, transparency, and timeliness.

Incorporating client protection makes sense for AMK since empowered clients reduce the chance of fraud and can provide an early warning system for potential problems. This has already had an effect on the overall quality and efficiency of AMK's work. The process of using this information for decisions and incorporating it into the incentive scheme still needs to be strengthened.

Another facet tackled by the Internal Audit and Research Departments is that of client access to other financial service providers. Recent findings indicate that more clients are borrowing from elsewhere (informal and formal/microfinance lenders), although the amount of liability – and the possibility of over-indebtedness – is still to be established.

Maintaining social performance within intense organisational growth

All aspects of an MFI's operations affect whether it achieves its social goals,

including marketing, recruitment, staff training, incentives, organisational culture and Board composition. Deliberately aligning business processes to achieve both social and financial objectives is a key SPM principle.

AMK has been particularly successful in building and maintaining a social performance culture in a context of rapid growth, and retaining this as personnel, management and Board members change. AMK has found that **its intense growth calls for formalising not just decision-making systems and processes, but also linkages and communication strategies with other departments.** The ownership of a balanced decision-making process is key and, as such, it is crucial that all departments arrive at the same conclusion. Regular reports on social performance serve to keep attention focused on the social aspects of the mission, and have led to integrating related reporting into other departments (Training, Operations, Internal Audit, HR and MIS¹), for example:

- formalising the training department, and making social performance a core element of staff training;
- incorporating a social dimension in staff appraisal through HR and Internal Audit, e.g. task effectiveness and social responsibility; and
- getting feedback and guidance from an annual staff satisfaction survey.

A strong information system and field research function

Tracking, understanding and reporting on whether an MFI is achieving its social objectives is another key SPM principle. An MFI that manages its SP is more effective at reaching its target market, delivering appropriate services and creating positive changes for its clients.

AMK has a very capable internal Research Department. The department conducts an annual sample survey of client households (to monitor client profile, wellbeing/poverty level, cash flow, indebtedness and satisfaction – at entry and subsequently over time), as well as a client exit survey, and market research for product development. Other research includes annual staff satisfaction surveys, competition

¹ – Management Information System (department).

reports (quarterly) and annual competition overviews.

All reports are shared directly at SPC and senior management level, and a summary Social Performance Report is provided to the Board. Reports and presentations also go to Operations and are discussed at management meetings and the staff annual retreat. Furthermore, reports are now being made in the local language (***Khmer***) for communication at branch and field levels.

Box 1: A single questionnaire to generate information for different purposes

The annual sample survey has been designed around a single questionnaire which provides client-level information on:

- household profiling – members, livelihoods;
- household cash flows – components, seasonality;
- financial transactions – including use of other financial services (informal, other MFI), extent of indebtedness, savings;
- loan use;
- poverty assessment; and
- client satisfaction – likes and dislikes about AMK, in comparison with alternative providers.

An important part of the Research Department's work based on this survey has been developing **an index of household wellbeing** as a strong holistic basis for poverty assessment of client households, and tracking AMK's impact over time. Change studies involve tracking sample clients over time, together with a comparison sample of non-clients. Any clients who exit are also covered. AMK believes these studies will provide information on changes at the household level and comparison between clients and non-clients, but may not amount to full impact studies in terms of attributing causation. This reflects the small number of non-clients sampled, and the difficulty of locating non-clients in follow-up rounds.

AMK's Research Department provides management with information that responds directly to its needs. The areas where social and market research has to date been most useful are new product design and delivery methodology, for example:

- client profiles have 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;
- exit surveys have highlighted problems such as the need to communicate better on, or do away with altogether, the practice of charging interest on a daily basis;
- satisfaction surveys provide feedback on both product and process suitability and those aspects that clients have particularly valued from AMK services (such as the respectful behaviour of credit officers), are being further emphasised within induction training for new staff. This links in to the contribution of the internal audit function to keep a check on client protection issues in practice; and
- scoping studies have been used to determine the demand for new products (individual loans, remittances).

In the future, AMK may begin to differentiate between information and reporting for strategic and external use (random sampling for assessing depth of outreach, change studies) and information collected more for routine internal monitoring (cluster sampling to reflect branch-level situation/issues, individual clients, reports adapted to immediate audiences). A key challenge is to be able to carry out portfolio analysis that combines operational, financial and social information. The integration of such analysis will be linked to the new MIS in AMK which will become fully operational during 2009. For example, analysis by branch, region, or nationally will include the information on exiting clients as well as segment information for the use of the Operations Department.

Evaluating the cost and benefit of AMK's social performance management strategy

MFIs that integrate a social lens into performance management processes will benefit not only from more loyal and satisfied clients, including the financial benefits of this, but also an ability to demonstrate social outcomes to external stakeholders.

AMK is producing high-quality and detailed research with the capacity to inform

management usefully and demonstrate results to external stakeholders. The cost of this – Research Department activities and the SPC – is approximately 3.8 per cent of total operating expenses. AMK estimates that the costs of external studies to carry out the same tasks as the Research Department would be similar – but their relevance and scope would not contribute as significantly to Social Performance Management for AMK as the in-house alternative. The value of AMK’s system is indeed the buy-in and customisation linked in to different department activities, and in its contribution to in-house monitoring, ongoing self-assessment, and capacity to inform external stakeholders, including social investors.

Future

Double bottom line management within high growth strategy

Since late 2006, AMK’s expansion and growth strategy has brought pressure to increase individual lending, with higher loan amounts. This is driven by three factors: (1) AMK’s growing ability to mobilise portfolio funds (to

terms not only of percentages but also absolute numbers.

Figure 2 shows that while the estimated percentage of new AMK clients below the poverty line has decreased (from 73 per cent to 63 per cent) because of more individual clients, within the overall growth of AMK’s programme, the *number of new poor* clients is still growing substantially. In the context of poverty incidence in the country (35 per cent of the population are estimated to be living below the national poverty line) the current depth of outreach and a trend towards servicing better-off individual clients is still consistent with mission. Operationally, however, there may be a tendency for AMK management to begin to pay more attention to individual loans because of their relative significance within the portfolio.

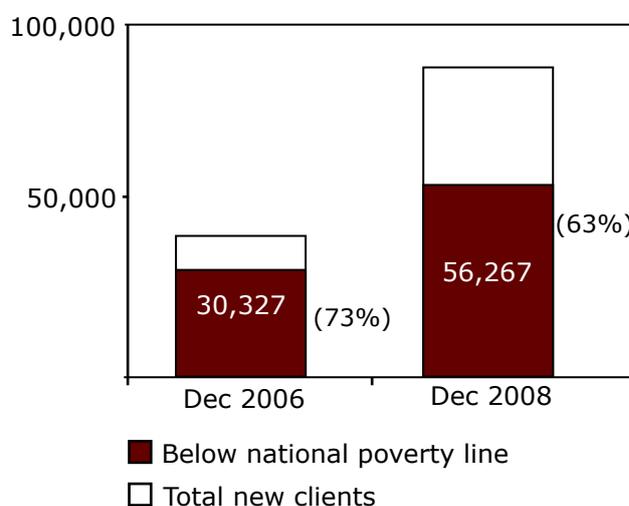
AMK needs to keep track of the relevant information – portfolio distribution between groups and individuals, as well as poverty outreach – as a basis for analysing what the appropriate level is for ‘balancing the double bottom line’. The challenge will be to define what the specific SMART¹ objective to set is, balancing financial sustainability with continuing poverty outreach.

Table 2: Variables

Programme features	Lower cost	Higher cost
Area	Urban/peri-urban	Rural/remote rural
Products	Large size	Smaller size
Clients	SME - better off	Poorer
Profit	More profitable	Tighter profit margins
Working conditions (staff)	Easier	More challenging
Limited number of clients	Limited but sufficient number of clients	Limited (very difficult to be sustainable long-term focusing solely on this group)

cater to larger loan sizes); (2) the need to balance the costs of providing smaller group loans – individual loans are more profitable; and (3) the realisation that there is not a large enough market to focus exclusively on remote rural micro-loans. Table 2 summarises why it is no longer viable for AMK to continue to focus only on small loans in more remote areas. The organisational strategy to expand lending to ‘non-target’ areas (i.e. urban and peri-urban) and ‘non-target’ clients (i.e. less poor) raised the Board’s concern about a potential ‘mission drift’ – to what extent does this constitute moving away from serving poor people, in rural areas? When the individual product was first introduced in 2006, there was a cap on its portfolio share at 25 per cent, but this was exceeded in 2008 and now stands at 34 per cent of the portfolio. To explore this further, it is interesting to look at the data more closely, in

Figure 2: Trend in poverty outreach, proportion and number



¹S – Specific; M – Manageable; A – Achievable; R – Relevant; T – Timebound

Setting 'Red Flags' as a first step towards SMART objectives

AMK is not yet setting SMART objectives, but in the context of its overall expansion, management and the Board have begun to reflect on appropriate cut-offs or benchmarks as more information becomes available. When setting a 'red flag', AMK ensures that the decision is based on different management perspectives. For instance, research data can provide information on exit rates but to set a benchmark above which alarms will ring loud and clear, AMK looks not only at the trends over time but also at what Operations would feel comfortable with or what other departments think about a potential exit level.

Plans to offer more diverse financial products (savings and insurance)

As it develops into a banking institution providing a range of financial services across Cambodia, AMK also plans to offer new product lines such as deposit-taking from the general public, using AMK's network of offices to offer teller-based services. Improving livelihoods remains the end goal for AMK's financial services, and for this the Research Department is planning to explore livelihoods through enterprise case studies to identify clusters and opportunities for growth, and issues to be aware of as a financial service provider. There is also scope for linkages with other NGOs to explore non-financial services in villages where AMK is also working.

Adapting research to cater to operational needs

AMK has found that the Research Department needs to be more closely attuned to management requirements, and its new growth strategy has brought about the need for focused market intelligence reports. Specific areas of research have been identified, such as:

- how can AMK reach down further?
- how many very poor people are there and why do they not join AMK?
- how can AMK respond effectively?
- what is the extent of client liabilities to other financial service providers?
- how can AMK identify and guard against over-indebtedness?

Imp-Act Consortium

The Managing Social Performance series captures good practice and lessons learnt from the *Imp-Act* Consortium Global Learning Programme on social performance management. The two-year programme involved seven organisations that strive for **balanced performance management**, making decisions based on an understanding of both social and financial outcomes.

This summary is based upon a longer case study of AMK written by Paul Luchtenburg, Olga Torres, Frances Sinha and Thun Vathana.

Seven microfinance institutions are profiled in this series:

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

To learn more about social performance management and the work of the Consortium, and access the full case study please visit: www.imp-act.org

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See two of the Microfinance Institutions presenting their work in the film Fulfilling the Promise: Managing Social Performance.
<http://www.youtube.com/watch?v=WKesX9KJ-9M&feature=related>

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