

# Angkor Mikroheranhvatho Kampuchea Co Ltd (AMK)

Microfinance Deposit-taking Institution – licensed by National Bank of Cambodia

Phnom Penh, Cambodia

June 2013

## Microfinance Institutional Rating

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

	Dec 2006	Mar 2008	Jul 2011 <sup>^</sup>	Current
RATING	$\alpha$	$\alpha+$	A	$\alpha$
RATING OUTLOOK*	<i>Positive</i>	<i>Positive</i>	<i>Stable</i>	<i>Positive</i>

NOTE: In 2010, M-CRIL revised its rating scale from 9 grades (alpha++ to gamma) to 8 grades (alpha+ to gamma)

\*M-CRIL's viewpoint (positive, neutral or negative) of the future prospects of the organisation;

<sup>^</sup>Rating by Microfinanza

Visit: 3-7 June 2013

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## Rating by dimensions

Dimensions rated	Dec 2006	Mar 2008	Jun 2013
Governance & strategy	$\alpha-$	$\alpha$	$\alpha$
Organisation & Management systems	$\alpha$	$\alpha$	$\alpha$
Financial performance	$\alpha+$	$\alpha+$	$\alpha+$

# Structure

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  - Prevention of over-indebtedness
  - Responsible pricing
  - Transparency
  - Fair and respectful treatment of clients
  - Mechanism for complaint resolution
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- ▶ **Management systems**
  - Human resource quality and management
  - Staff productivity & operating efficiency
  - Accounts and MIS
  - Social data and reporting & tracking system for overdues
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  - Financial planning and cash management
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# Context

- ▶ Cambodia has a history of wars and political unrest but has been largely politically stable since 1998.
- ▶ Cambodia's economy grew at ~10% per year between 1998 and 2008. This growth was slowed by the global economic downturn in 2008-09; however, it grew by 7.2% in 2012. The momentum is expected to continue with projected growth rates of 6.7% in 2013 and 7% in 2014. [World Bank, country overview].
- ▶ The rapid economic growth created employment opportunities which contributed to a decline in the poverty headcount from 34.7% in 2004 to 20% in 2011.
- ▶ In 2011, services, agriculture and industry accounted for 38%, 32% and 22% of GDP respectively.
- ▶ Garment exports and tourism are the two main industries in the country.
- ▶ Cambodia faces a number of challenges – corruption and poor public services impede inclusive development.
- ▶ In 1996, the National Bank of Cambodia (NBC), the central bank, was established and led to the introduction of a basic legal framework for the financial sector in 1999. In 2000, NBC issued regulations to facilitate the transformation of NGOs into formal MFIs.
- ▶ The players in the financial sector are divided into four main categories (i) Commercial and Specialized Banks (ii) Licensed Microfinance Institutions (iii) Registered Rural Credit Operators and (iv) Informal Moneylenders
- ▶ In Dec 2007, NBC created a new category of MFIs called Microfinance Deposit-taking Institutions (MDIs) which were allowed to mobilise savings from the general public. The minimum capital requirement for MDIs is KHR10 bn (US \$2.5 mn), compared to only KHR250 mn (US\$ 62,500) for licensed MFIs. The MDIs are required keep 10% capital deposit at NBC (5% for licensed MFIs).
- ▶ The Cambodian microfinance sector has grown tremendously from 50,000 borrowers in 1995 with outstanding loans of just \$3mn to 1.1mn borrowers in 2012 with outstanding loans of \$732mn.
- ▶ In 2008-09, the microfinance sector was affected by the global economic crisis and significant multiple lending. The sector has now successfully emerged from the crisis; for most of the MFIs the current priority is to widen their product range by offering deposit and remittance services. Also, leading MDIs are shifting their focus to mainstream clients and intend to transform into banks.

Indicators	2012
Population (mn)	14.8
GDP growth rate, %	7.2
Inflation, % (2011)	5.5
GNI/capita (\$) (2011)	830
HDI Rank (out of 187)	138

	2011
Commercial Banks	31
Specialized Banks	7
MDIs	7
MFIs	25

# Synopsis

- ▶ ---Angkor Mikroheranhvatho (Kampuchea) Co. Ltd originated from the credit and savings programme of Concern Worldwide in Cambodia in the 1990s. In accordance with the new Cambodian microfinance regulation, in 2003 AMK was registered as a Limited Liability Company wholly owned by Concern Worldwide to run its credit and savings operations. In 2004 AMK received an MFI licence and, in December 2010, a “deposit-taking” licence from the National Bank of Cambodia (NBC).
- ▶ In the last few years, the MFI has expanded its coverage across all provinces of the country reaching 99% of the districts and covering 72% of the villages through 25 branches and 100+ sub-offices. At the end of December 2011, roughly 87% of the borrowers were women and 94% from rural areas. AMK has adopted both village bank (VB) and individual lending methods; VB borrowers formed 91% of the client base. The portfolio grew by 31% in 2012 to \$61.3mn. However, the client base grew by only 6% owing to the management’s conscious effort to slow down AMK’s growth.
- ▶ In order to serve its customers better and to fulfil its mission in spirit, in 2010 AMK introduced voluntary savings and domestic money transfers in 2011. To make savings easily accessible, AMK launched an agent based mobile banking service in 2012 and is now set to launch an ATM service. It has also diversified its credit products. It has continued its focus on the poor, unlike some other MFIs, by offering small loans. Owing to these efforts, AMK has been able to maintain a good client attrition rate of 13% (adjusted for rejoiners) in 2012.
- ▶ Good quality of human resources being a challenge in the country, AMK also focuses on its staff resulting in a low staff attrition rate. Both the second line of leadership as well as branch staff are committed to its mission and are reasonably competent though many are new. The management regularly receives strategic guidance from its highly experienced and active Board.
- ▶ AMK reported good portfolio quality with low PAR<sub>60</sub> of 0.1% in 2012. Though OER is still high vis-à-vis other players, AMK has managed to generate profits consistently over the past few years and strengthened its net worth position. However, considering the competition in the country, it continues to face risk posed by the high growth of the sector.

## Synopsis...continued

Main Performance Indicators				
	Dec-09	Dec-10	Dec-11	Dec-12
Number of savers	1,770	2,781	8,924	29,910
Total deposits (\$)	81,029	1,149,067	4,182,760	8,220,415
Number of money transfer transactions	-	-	1,700	78,655
Amount of money transfer (\$)	-	-	428,681	29,259,691
Number of active borrowers	217,477	250,930	275,251	291,859
Gross Portfolio (\$ million)	24.79	31.33	47.25	61.36
Average Loan Disbursed (\$)	147	176	198	241
Average Loan Outstanding (\$)	114	125	172	210
RoA	2.6%	2.7%	3.8%	4.7%
Portfolio Yield	35.9%	35.7%	35.7%	36.2%
Portfolio at Risk (>60days)	2.2%	1.4%	0.1%	0.1%
Operating Expense Ratio	22.1%	20.3%	18.1%	18.4%
Borrowers per field staff	513	531	549	487
Capital adequacy ratio	39.8%	35.7%	27.8%	26.2%

A rating update after one year is suggested to ascertain changes in the creditworthiness of the institution. This rating is valid, subject to no other significant changes in the organisational structure and external operating environment.

## Strengths

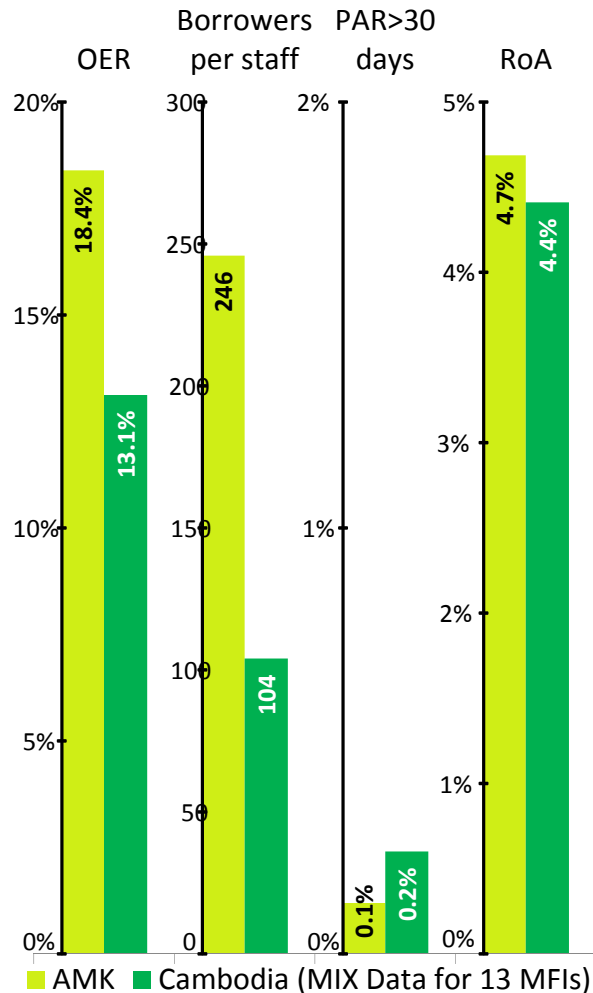
- ▶ Highly qualified, experienced and active Board, competent second line of management
- ▶ Product innovation - diversified range of products and services
- ▶ Good portfolio quality
- ▶ High commitment towards its mission and Code of Practice for Client Protection across all levels
- ▶ Strong social performance monitoring; unique in having a Social Performance Committee
- ▶ Comfortable net worth position owing to sustained profits
- ▶ Low staff attrition

## Issues

- ▶ High competition
- ▶ Scope for improvement in application of MIS and operating systems which has lagged with growth
- ▶ Inconsistency in client cash flow analysis
- ▶ Moderate awareness amongst clients of loan conditions and low awareness of complaint mechanism

# Rating rationale

Comparison of AMK's performance with MIX benchmarks for 13 MFIs in Cambodia



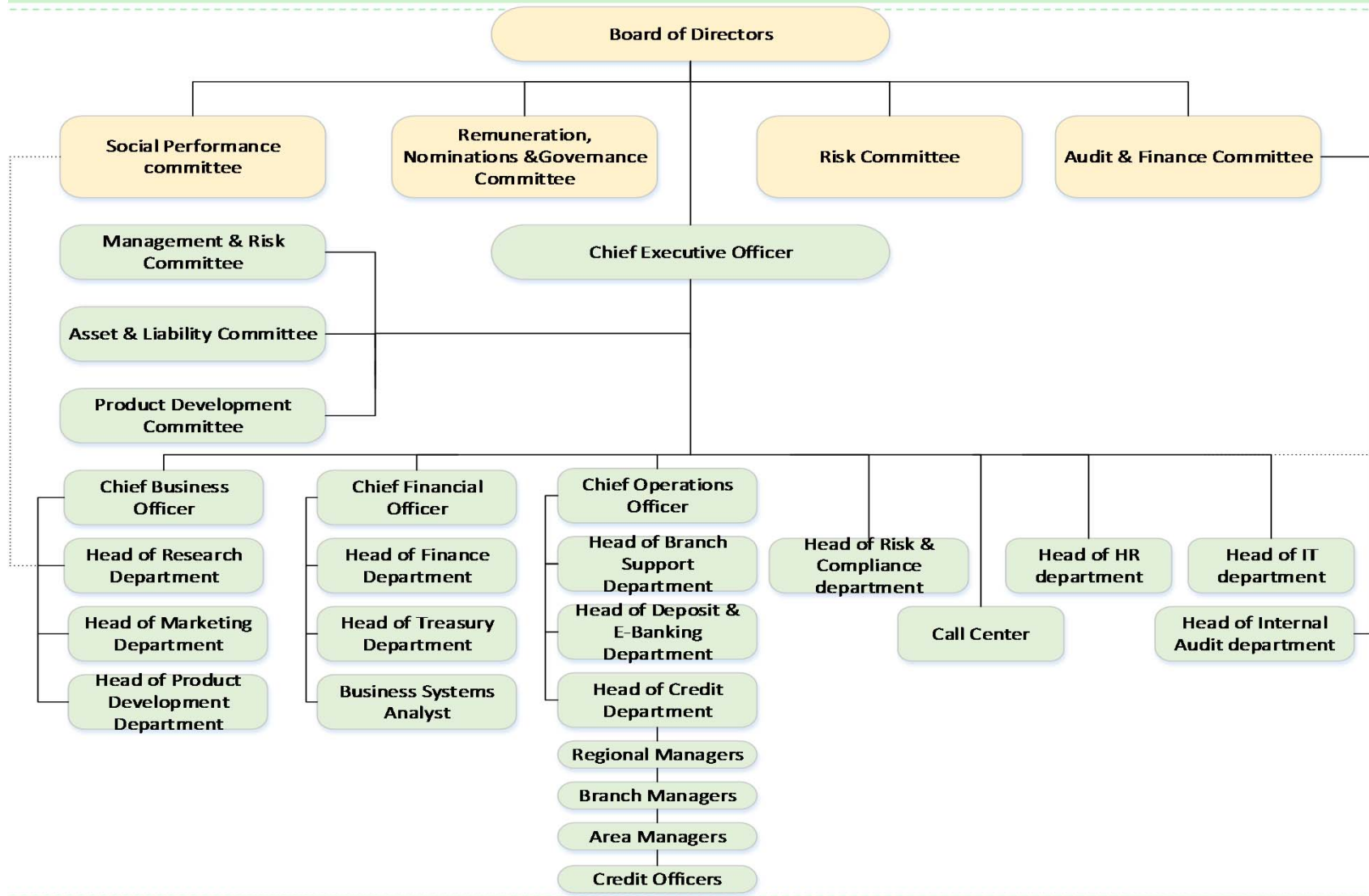
- ▲ **Highly qualified and active Board, competent second line:** AMK's Board includes microfinance experts from across the world, who are actively involved. Second line managers are also competent; though some are new.
- ▲ **Diversified product range:** Wide range of products including multiple options for each financial service; technological innovations facilitate product delivery.
- ▲ **Good portfolio quality:** After the near-crisis of 2009, has successfully improved its portfolio quality; reported PAR<sub>60</sub> for 2011 and 2012 was 0.1%.
- ▲ **High commitment to mission and client protection principles:** Highly committed to mission. All policies and systems are geared to achievement of mission. Has adopted an expanded Code of Practice for client protection
- ▲ **Strong social performance reporting:** Has a strong social focus; regularly monitors and reports on breadth and depth of outreach, adequacy of products/client satisfaction, transparency and multiple borrowing.
- ▶ **Staff attrition:** Staff attrition rate has increased but is still low at 13% in 2012 owing to good HR practices.
- ▼ **High competition:** Faces strong competition in most operational areas; however still able to maintain low client attrition at 13% in 2012.
- ▼ **MIS:** Discrepancies were observed in MIS reports; needs further thought and discipline in application as does the application of all operating systems
- ▼ **Client cash flow analysis:** AMK relies heavily on future client cash flows, but the calculation is impressionistic and loan amounts are not adequately linked to the estimated cash flow.
- ▼ **Limited client awareness:** Clients are not adequately aware of the grievance redressal mechanism; very few actually come to VB meetings.



# Introduction

- ▶ Angkor Mikroheranhvatha (Kampuchea) Co. Ltd originated from the credit and savings programme of Concern Worldwide in Cambodia in the 1990s. On account of increasing operations and the new Cambodian microfinance regulation, in 2003 AMK was formed and registered as a Limited Liability Company wholly owned by Concern Worldwide to run its credit and savings operations. In 2004 AMK received an MFI licence from the National Bank of Cambodia (NBC), the Cambodian central bank.
- ▶ In 2010, AMK obtained a licence as a Microfinance Deposit-taking Institution (MDI) and in line with its mission, it started offering additional financial services in the form of deposits and domestic money transfers. In order to make deposits easily accessible to the poor, AMK piloted and, in 2012, launched an agent based mobile banking service. It has also diversified its credit products in recent years.
- ▶ The MFI expanded its coverage across all provinces of the country reaching 99% of the districts and covering 72% of the villages while limiting its growth in saturated areas. In December 2012, AMK reported 291,859 borrowers and 29,910 voluntary savers. Roughly 87% of these borrowers were women and 94% from rural areas. AMK has adopted both village bank (VB) and individual lending methods; VB borrowers are 91% of the client base. The portfolio grew by 31% in 2012 to \$61.3mn.
- ▶ AMK has a highly professional and committed Board with strong social focus. The organisation is led by Mr Kea Borann who assumed charge in July 2012. He is well supported by senior management including the Chief Operations Officer (COO), Chief Business Officer (CBO), Chief Financial Officer (CFO) and heads of other departments. In December 2012, AMK had a total staff strength of 1,187, of which 27% were women.
- ▶ AMK currently operates through 25 branches and over 100 sub-offices, divided into 5 regions each led by a Regional Manager; 4-5 sub-offices report to each Branch Manager.

# Organisational structure



# Microfinance policies

- ▶ AMK has continuously reinvented itself through changes in its product offerings, systems and processes responding to the needs of its clients. Resulting from the delinquency crisis in 2009, as other MFIs AMK revisited its product design and methodology. A few changes included limiting liability in case of default to the group members instead of an entire Village Bank and the offer of the Credit Line (CL) product also to 12 month old AMK clients instead of only 24 months.
- ▶ Expansion to a new province or district is based on poverty level (as per census), market size, competition, occupation, road condition and access to banks. For selection of villages, a village risk profile is prepared. If the village has acceptable scoring, the Credit Officer (CO) meets the Village Chief who invites the community to a promotion meeting. In this meeting, staff shares information about the product range, methodology and options for group loans. After 2-3 days, a refresher meeting is held.
- ▶ AMK does not use any targeting tool for client identification. Groups are self-formed by members and 3-6 groups form a Village Bank (VB). A President (VBP) is elected by the VB members; s/he visits every clients' house along with the CO to fill up the loan application form. Details of household, assets, income, expenses and collateral (in case of individual loans) are recorded in the application form. Both movable and immovable assets are accepted as loan collateral. Appraisal of repayment capacity forms the basis for the loan amount. A VBP is eligible for an incentive of 4.5% of interest collected if repayments are on time.
- ▶ Information on the applicant's indebtedness is sought from the Village Chief. The credit history of the applicant is also checked at the branches by sending a query to the Credit Bureau of Cambodia (CBC). The CBC has been operational since April 2012. According to AMK policy, it can be a client's 2<sup>nd</sup> but not 3<sup>rd</sup> lender.
- ▶ This is followed by house verification by the Area Manager (AM) for 10% of applicants. In case of individual loans, collateral valuation and loan guarantor information is also confirmed during house verification. Subsequently, the loan is approved by the AM/BMs. Loan approval authority varies with the maximum loan amount for individual loans or per VB and differs for old and new VBs.

# Microfinance policies

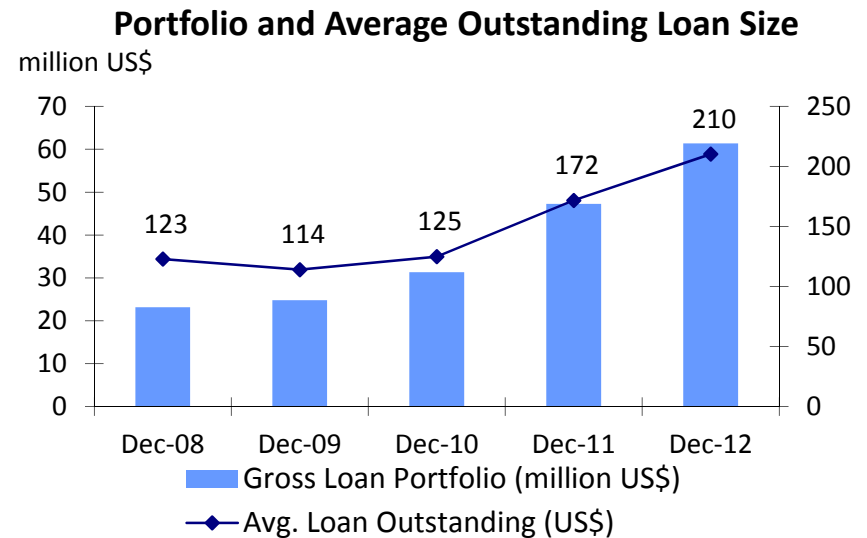
- ▶ Disbursement is done in the presence of the AM at VB meeting in the community in cash in one of 3 currencies (in Riel for all except Home Improvement Loans, in US\$ for other loans and Thai Baht in Banteay Meanchey, bordering areas of Battambang and Kah Kong). Prior to disbursement, 0.5% of the loan amount is collected as processing fee. The client is also provided with a loan card which has a printed repayment schedule. Usually it takes 3-10 days from application to loan disbursement.
- ▶ For individual loans, disbursement can be made at the clients' house (preferably in the presence of the guarantor) or at the AMK office.
- ▶ Repayments are collected from clients by the CO at VB meetings and client loan cards are updated.
- ▶ Loan utilisation check (LUC) is compulsory for all individual clients and is conducted by CO/AM/BM depending upon the loan amount within 3 months of disbursement. LUC for group loans is not formally undertaken.
- ▶ In case of default, the CO initially exercises the group guarantee. In case of a genuine reason, a grace period is given by the CO and AM as well as BM are informed. Even in cases of intentional default, staff use soft collection practices. For individual loans, AMK has so far not seized any collateral.
- ▶ Clients are allowed to prepay or foreclose without penalty; however, a penalty of 1% of principal overdue is charged in case of default.
- ▶ In addition to the loan products, AMK offices also service clients with deposits and money transfer facilities. Typically a branch has AMs, COs, Tellers, Client Relationship Officers and Accountants led by the BM.
- ▶ Sub-offices have fewer staff but may serve more clients than the branch does independently. Sub-offices are led by an Area Manager/Sub-BM who performs the dual role of AM and BM.
- ▶ Monthly staff meetings are held at the branch where staff of all sub-offices under the branch meet and discuss all aspects of branch/sub-office performance and progress as well as their relationship with clients. Minutes of the meetings are sent to the HO. The BM also conducts a separate meeting with AMs on a monthly basis. The Credit Head at Head Office conducts monthly meetings with RMs and BMs.

## Loan products

- ▶ VB Loans are the major product in AMK's loan portfolio. Three repayment options are provided to VB clients:
  - End of Term (EoT),
  - Instalment and
  - Credit Line (CL).

Loans with monthly instalments have a lower interest rate at 2.8% per month.

- ▶ Individual loans meet the need of its existing clients for larger loans, since introduction maximum loan amount for these loans have been \$2,000. Such loans are given for both business and agriculture purposes for varying loan tenures and there is even a credit line product that is increasingly popular.
- ▶ Formally or informally collected feedback from the clients forms the basis for market research for new products in AMK. In 2013, based on a study, AMK introduced a Home Improvement Loan. Also to widen its client base, it added an Easy Loan in its loan portfolio. House ownership is not a pre-requisite for this loan.
- ▶ Additionally, AMK has an Emergency Loan which is highly appreciated by clients. Earlier clients who had completed one cycle with AMK were eligible for the Emergency Loan; now clients who have completed 6 months can take the Emergency Loan in case of accident, death or any other crisis situation.



## Loan products...continued

Product Name	Group Loan	Installment Individual Business Loan	Individual Seasonal Loan	Individual Credit-Line Seasonal Loan
Target	For poor people	For expanding an existing business	For people who need funds for agriculture	
Loan amount	Eot-VB: Up to 1,000,000 Riel CL-VB: Up to 1,000,000 Riel Inst-VB: Up to 1,500,000 Riel	Up to US\$2,000	Up to US\$1,500	Up to US\$1,000
Term	EoT and Ints 3 to 12 months CL-VB upto 24 months	Up to 18 months	Up to 12 months	Up to 12 months
Repayment Frequency	Monthly	Monthly	Monthly	Monthly
Rate of Interest % (pa)	EoT and CL min 33.6% max 36% Inst min 31.2% and max 33.6%	Min 26.4%, Max 36%		Min 26.4%, Max 36%
APR	32.2%-36.7%	27.1%-37.0%	27.0%-36.7%	
Processing fee	0.5% loan amount			
Insurance charges	N/A	N/A	N/A	N/A
Penalty on overdues	1% on overdue principal amount			
Guarantee	Group guarantee	Personal guarantee		
Collateral	Not required	Required	Required	Required
Prepayment & foreclosure charges	No	No	No	No
Share in portfolio 31-Dec-2012	77.1%	7.8%	10.1%	2.9%

## Loan products...continued

Product Name	Home Improvement Loan	Easy Loan	Emergency Loan
Target	For clients who need funds to improve their home	For poor clients with low incomes but have repayment capacity	For existing clients (> 6 months) for health crisis, accidents, or death
Loan amount	Up to US\$2,500	Up to US\$300	Up to Riel400,000
Term	Up to 18 months	Up to 12 months	Up to 6 months
Repayment Frequency	Monthly	Monthly	Monthly
Rate of Interest % (pa)	Min 26.4%, Max 36%	Min 30%, Max 36%	30.0%
Processing fee	0.5% of loan amount		
Insurance charges	N/A	N/A	N/A
Penalty on overdues	1% on overdue principal amount		
Guarantee	Personal guarantee	If own house, not required If rented house, 1 guarantor	Personal guarantee
Collateral	Required	Not required	Not required
Prepayment & foreclosure charges	No	No	No
Share in portfolio 31-Dec-2012	0.0%	1.4%	0.8%

## Savings

- ▶ From early 2011 (after AMK received its deposit licence) till April 2013, a General Savings Product was offered to the AMK VB clients wherein deposit and withdrawal could be made at VB meetings. Since villages covered by AMK are a significant distance from its offices, savers found it inconvenient in case they needed to make a deposit/withdrawal on other than meeting days; hence the product is no longer offered to additional VB clients.
- ▶ To facilitate easy access to deposit services to its poor clients, AMK has now introduced agent based e-banking services in Takeo, Kandal and Prey Veng provinces. AMK received the license for mobile banking in December 2011. Mostly shopkeepers in villages are selected as agents after depositing a security amount of \$50 up to \$10,000; currently AMK has 157 agents. An agent receives a commission of 0.1% of the deposit per month and 50% of the withdrawal fee between 400-1,200 Riel.
- ▶ Currently target customers for deposit products are people residing in urban areas and preferably within 3-4 km from the office, those who can comfortably visit the office for transactions. As a result only 3% of borrowers have saving accounts but constitute 29% of the savers.
- ▶ AMK's savings products are shown in the table below

Product Name	Easy Saving Account	Fixed Deposit (EoT)	Fixed Deposit*	Future Account
Minimum deposit	N/A	KHR100,000/ USD25/THB1,000	KHR400,000/ USD100/THB4,000	KHR20,000/ USD5/ THB200
Maximum deposit	3% of net worth	3% of net worth	3% of net worth	3% of net worth
Interest rate	5% KHR, 4% THB & US\$	4.25%-12%	4.5%-11%	4.25%-10%
Terms	Unlimited	3-36 months	3-36 months	3-36 months
Frequency of deposit	N/A	N/A	N/A	Monthly
Share on 31-Dec-2012	19.8%	77.8%		2.4%

\* Monthly interest withdrawal

- ▶ Only 10% of deposits in 2012 were for more than 12 months maturity. Though a higher interest rate is paid for deposits made in Riel, 53% of deposits were in US\$ vis-à-vis 46% in Riel as savers prefer US\$ deposits.



## Money Transfer

- ▶ In July 2011, AMK widened its services by offering domestic money transfers. The fee for the remittance service depends on the type of transfer as shown in the adjacent table.

Type of transfer	Fee, in Riel
Account to Account	4,000
Account to cash/Cash to account	6,000

- ▶ In agency banking the sender agent receives 35% of the transfer fee amount, while the receiving agent gets 20% of the fee amount. AMK keeps the remaining amount (45% of fee) as income from money transfer services.
- ▶ Money transfer has gained popularity in some provinces. It was apparent during branch visits and client interaction, that money transfer services were viewed as highly useful; which is apparent from the significant increase in the number of transactions (table below)

Type of transfer	2011	2012
No. of transactions	1,700	78,655
Total amount of transactions, US\$	428,681	29,259,691
Average amount per transaction, \$	252	372



# Governance and strategy

Governing Board

Operational growth and strategy

Competition & second line management

Fund mobilisation & type of outreach

# Governance and strategy

AMK has a highly qualified and experienced Board which actively participates in the formulation of strategies. It has successfully negotiated the 2008-09 microfinance delinquency crisis in the country and, based on the lessons of the crisis, modified its growth strategy while keeping clients' needs at the forefront. All these factors have contributed to a grade of  $\alpha$  on governance.

## Governing Board

- ▶ AMK is governed by a 10-member (including CEO) Board chaired by Mr Tanmay Chetan, ex-CEO of AMK. He was instrumental in establishing AMK and even now the senior management regularly seek advice from him.
- ▶ The other members are also well qualified, highly experienced and possess a reasonable understanding of the country context; 5 out of the 10 members are independent while others represent AMK's investors and lenders. The board is actively involved in providing strategic guidance to AMK's management.
- ▶ The Board meets at least three times a year to discuss and review the organisation's performance, policy, financial planning and fund mobilisation.
- ▶ AMK's Board has also constituted sub-committees on (i) Remuneration, Nomination & Governance, (ii) Audit & Finance (iii) Risk and (iv) Social Performance. The first three committees perform traditional corporate governance functions. The Social Performance Committee advises the Board on AMK's performance in terms of poverty outreach, product suitability, client protection, and overall social responsibility. The sub-committees meet at least 2-3 times a year.
- ▶ Though AMK has an experienced and active Board, it has been a challenge to find appropriate Cambodian nationals and currently only one member is local.

## Operational and growth strategy

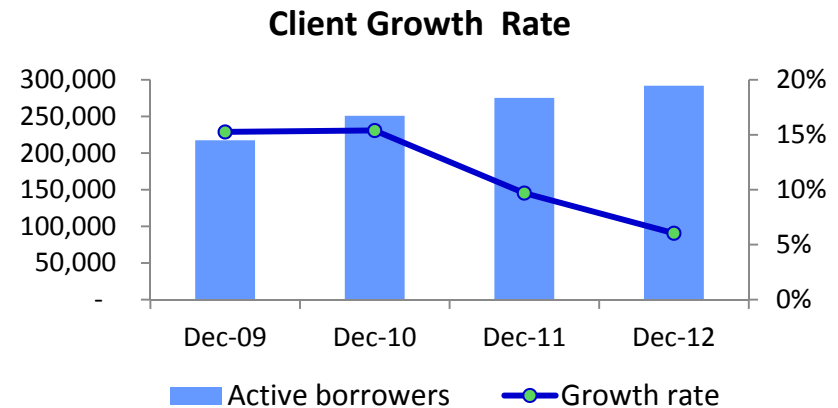
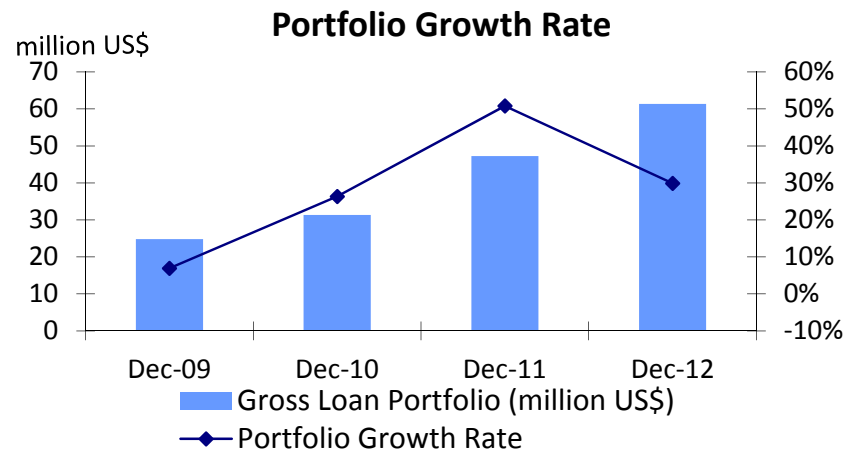
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- ▶ AMK has continued to evolve to fulfill its mission effectively. Even though it aims 'to help large numbers of poor people' through its microfinance services, since the microfinance crisis in Cambodia it has revised its growth target. It now wants to focus on improving its depth of outreach by venturing into unreached areas. Since the crisis, the 4 leading MFIs have semi-annually shared data with each other to enable over-indebtedness mapping. As a result, AMK now avoids increasing exposure in areas with high concentrations of microfinance clients. Consequently AMK has a geographically diversified portfolio, operating in all 24 provinces and city.
- ▶ AMK has continued to focus on rural areas as it believes this helps to increase its poverty outreach. Unlike the trend in the microfinance sector in the country, AMK does not want to serve better off clients. While others are planning to convert to banks, AMK feels it does not need to do so since it already has a deposit licence.
- ▶ Based on its mission, AMK also diversified its products which resulted in significant growth in its loan portfolio in the period 2010-12. Receiving the MDI license enabled it to offer saving products to its members and non-members. Having tried a village-based general savings product, AMK is now focusing on using mobile banking technology for the convenience of its clients. It is set for the launch of an ATM service in mid-2013. Currently ATMs are being piloted at 10 locations.
- ▶ It has also diversified its loan product range. In 2011, the MFI added the Individual Seasonal Loan and Easy Loan. To meet emergency needs such as in cases of death and accidents, AMK introduced Emergency Loans. In 2012, the Credit Line facility was also offered to individual clients, while in 2013 based on clients' need a Home Improvement Loan was added. Except for 2010, the share of VB-CL loans in the total portfolio has been constantly rising, from 23% to 32% in 2012.
- ▶ AMK understands that as the market has developed, the group methodology does not always work as desired. Hence the VB methodology was changed by limiting the group liability to members of a group and not to the entire village bank. Nevertheless, it does not want to shift substantially to individual loans and has capped the share of individual loans in terms of number in the total portfolio at 10%.

## Operational and growth strategy...continued

- ▶ At the same time, the MFI tweaks its operational strategy based on market conditions. Since the group model for lending would not work owing to the low population density in the northeastern provinces, only individual loans are offered in those areas.
- ▶ The adjacent table shows that the relative share of VB Loans and Individual Loans has not changed significantly over the years. The figures below show higher portfolio growth in 2010 and 2011 on account of product diversification, as mentioned earlier. However the client growth rate has been declining since 2010 despite a marginal reduction in the client dropout rate from 23% to 20% in the period. Accounting for the resters, AMK reported attrition rate of 13% in 2012. The decline in client growth rate can be attributed to AMK's conscious strategy to slow its growth.

	Share in portfolio			
	2009	2010	2011	2012
VB Loans	76%	85%	83%	77%
Individual Loans	24%	15%	17%	23%



## Competition – *high*

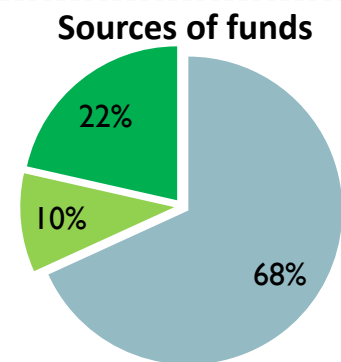
- ▶ Cambodia is a highly competitive market resulting in multiple lending which apparently led to the high delinquency levels in 2009 & 2010 but was limited to a few provinces.
- ▶ In most of AMK's operational areas except the north and north-east, multiple MFIs, including all the leading MFIs in Cambodia, operate. According to a recent study of over-Indebtedness commissioned by investors in June 2012, 21% of borrowers had more than 1 loan (though the view of industry observers is that this is an underestimate). During client visits, some of the clients were observed to have loans from other MFIs too.
- ▶ In recent years, many of the MFIs wanting to become banks or already banks (ACLEDA) have moved upmarket. In view of this change in the sector, AMK considers Amret to be its main competitor. The latter is present in 17 of the 24 provinces of the country. Quick service (disbursement within a day of application), high loan amount, gifts to the Village Chief are some of the advantages of Amret as cited by the AMK staff. However only about 50% of Amret's portfolio is in rural areas while AMK continues to focus only in rural areas. TPC and Vision Fund are some of the other competitors operating in 15 of the provinces.
- ▶ Even for the savings product, Amret is considered to have the first mover advantage. Institutions with better infrastructure attract clients who view these institutions/banks as safer options for maintaining deposits. AMK faces competition from ACLEDA Bank for its remittance services.
- ▶ In an environment of stiff competition, AMK's Emergency Loan, the facility to write off the outstanding loan amount in case of a client's death, polite staff and a low fee for money transfers provide it a competitive edge.

## Fund mobilisation – *reasonably well diversified*

- ▶ AMK has successfully obtained debt funds from multiple sources over the years and moved beyond its historical dependence on Concern Worldwide/equity funders. Borrowings are 64.3% of the total; its largest lender, ICO of Spain, provides 22.3% of total funds but other sources provide much smaller proportions. It has creatively used the services of the Foreign Trade Bank of Cambodia to hedge its foreign exchange risk. On 31 December 2012, AMK had debt funds from 16 lenders.

## Fund mobilisation...continued

- ▶ The figure alongside shows that debt funds accounted for 68% of total funds in 2012 from 72% in 2011.
- ▶ Due to an increase in the deposit base, the share of deposits in total funds has increased to 10% and is likely to increase further which will also have a positive impact on the financial cost.
- ▶ AMK's strong equity base also substantially contributes to its fund source. Concern Worldwide being the promoter of AMK, still holds majority stake. In 2013 it divested 45% of its holding between Agora Microfinance and Incofin.
- ▶ AMK is in discussions with a few institutions for an additional equity investment; the main criterion is to find an institution whose mission is aligned with AMK's mission. By the end of 2013, a new investor is expected to be identified resulting in a change in the shareholding pattern.
- ▶ In 2011, AMK issued shares to its staff through the Staff Association (SA). In 2012, it issued additional share capital of 12,085 shares valued at \$83,505 to SA but it had not been approved by the NBC by the end of 2012.



■ Borrowings ■ Deposits ■ Network

Shareholding pattern	December 2012	
	Amount , \$	%
Concern Worldwide (Dublin)	8,527,347	98.52
AMK (Staff Association)	127,648	1.47
Concern Worldwide (UK)	625	0.01
<b>Total</b>	<b>8,665,620</b>	<b>100.0</b>

\*Added Agora Microfinance & Incofin as investors during 2013

## Second line of management – *competent and fairly stable*

- ▶ AMK has a strong and qualified second line of management. Almost the entire senior staff have years of relevant experience in the microfinance sector. The staff also shares the vision of AMK. Half of the senior management have been with AMK for over 5 years as seen in the adjacent table; however, a significant 31% have joined since January 2012.

Year of Joining	Senior Mgt.	
	No.	%
2012-2013	5	31
2008-2011	3	19
Before 2008	8	50
<b>Total</b>	<b>16</b>	<b>100</b>



# Management Systems

Human resource quality and management  
Staff productivity & operating efficiency  
Accounts and MIS  
Social data and reporting & Loan tracking  
Internal audit and control  
Financial planning and cash management  
Infrastructure and quality of clients



# Management systems

AMK's grade on management parameters is  $\alpha$ - due to moderate application of MIS which has scope for improvement. The MFI has good quality human resources at all levels with low staff attrition, good internal audit which is supplemented by the risk & compliance function.

## Human resource quality and management – good

- ▶ Human resources is one of the strengths of AMK. Staff display a high level of commitment and reasonable level of satisfaction. The HR Head is from a mainly training background and has experience of MFI as well as NGOs. The HR team is divided into sub-teams for recruitment, training, staff development and personnel and compensation and has a total 23 staff including the Head.
- ▶ The quality of staff at AMK is good. Staff visited at branches by the assessment team were well aware of processes, product terms and conditions; however they displayed moderate understanding of mission and client protection issues. The total number of staff on 31 December 2012 was 1,187 which included 321 (27%) women staff. At CO level, only 9% of staff were female. AMK would like to have 50% women staff and makes conscious efforts towards have resulted in more women (29%) at senior management level.
- ▶ Apart from training for new staff, AMK offers regular trainings on new products, IT & MIS and soft skills. Staff are also sent for external trainings and exposure visits. Every year training needs analysis is done through a self assessment process and discussion with the supervisor. A training calendar is prepared based on the needs identified by the staff. In 2012, trainings were provided to a total of 4,380 staff which translates into more than 3 trainings/staff member.
- ▶ Staff salary includes a fixed and a variable component. Incentive for the CO is based on the number of clients and PAR and capped at about 1 month's salary, while for all other branch staff maximum incentive is capped at 2 months' salary per quarter. HO staff receives incentive once in 6 months and can get maximum incentive of 2 months' salary in a year. According to most of the staff at the visited branches, salary levels of AMK are lower than other MFIs.

# Management systems

- ▶ Benefits to staff include pensions, insurance cover, bonus, festival bonus, staff loan (general loan, study loan, housing loan, asset purchase loan), annual leaves as well as maternity and paternity leave in accordance with the labour law of the country.
- ▶ In 2011, AMK also offered shares to staff who had joined before 2011, to be allotted in 2011, 2012 and 2013.
- ▶ Performance assessment is done twice a year and parameters for assessment include (i) outputs vs objectives (ii) organisational development (iii) work ethics and (iv) work quality. Increments are based on the performance assessment. Promotions are based on recommendations, written tests and interviews.
- ▶ The MFI has multiple processes for staff feedback; at every branch a feedback box is placed. It also has a whistleblowing policy wherein calls are directed to the Risk Department. Additionally, a 360 degree feedback survey is done wherein peers and supervisors give their feedback through the internal portal. An open house session is organised in all branches once a year and the plan is to increase its frequency to twice a year from the current year. The session is attended by the Head of Department and one person each from the Executive Committee and support function. The research and HR team jointly conducts an annual staff satisfaction survey.
- ▶ The staff attrition rate is low and comparable with other players in the sector. The attrition rate is higher amongst men and at the CO level. Roughly 30% of staff who left AMK in 2012 were women. Better positions in other organisations and reluctance to move out of their own provinces are the main reasons for attrition.

	Dec 08	Dec 09	Dec 10	Dec 11	Dec 12
Staff attrition rate	8%	9%	11%	13%	13%

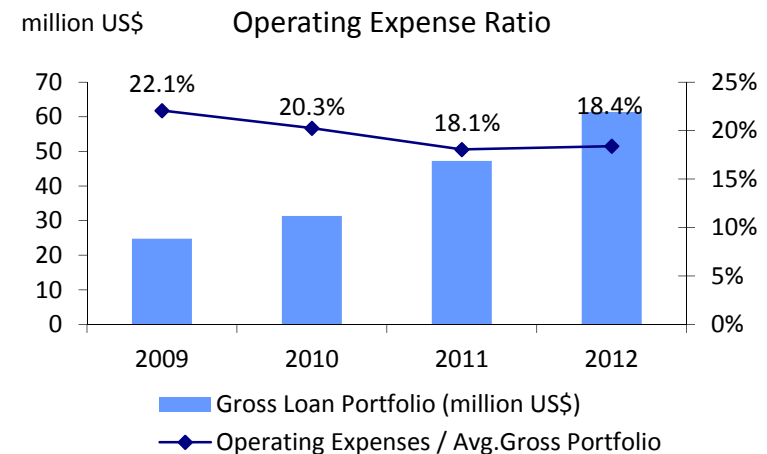
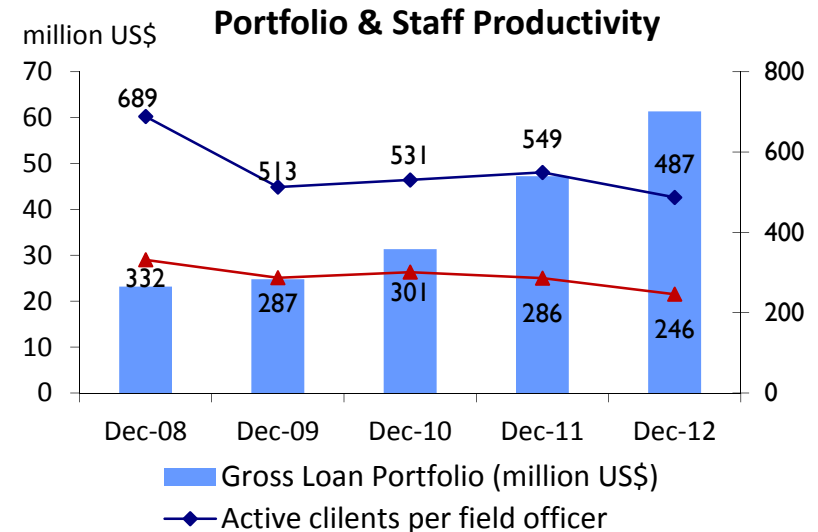
- ▶ In order to monitor the reasons for attrition, the HR team also conducts an exit survey.

## Staff productivity – high

- ▶ On account of an increase in the proportion of individual clients, there was a small decline in staff productivity in 2012.
- ▶ This decline can also be attributed to a conscious decrease in the client growth rate in 2012 and slight reduction in Credit Officer/total staff ratio over the years.
- ▶ AMK's staff productivity is higher than the other MFIs in Cambodia as 91% of its clients are VB clients. Field staff productivity was at 240 and total staff productivity at 104 in 2012, according to MIX data.

## Operating efficiency – good relative to loan size

- ▶ Despite a decline in staff productivity, the operating expense ratio (OER) has improved over the years.
- ▶ However, plans to foray into unreached and remote villages along with modest growth (around 6% increase in client base) might add to costs in future. Its current OER is higher than the industry average of 13.1% in 2012 as reported in MIX.



## Accounting and MIS – moderate

- ▶ AMK uses a software called 'Abacus 1 World' for accounting and MIS (both credit and deposit). A different software, 'Under Tree (UT)' is being used for its remittance product.
- ▶ All branches and sub-offices have their own servers which are used for recording daily operations. At the end of the day, branches connect to the HO server to upload data. During the visit the branches were found not to be closing consistently at the end of the day for various reasons. Slow internet connectivity is one of the challenges AMK faces, since sub-offices do not have fibre optic connections.
- ▶ In order to prevent data loss, a secondary data centre is also maintained since 2011. However, this database is only for savings, mobile transfers and payroll. For the credit database, a backup is maintained at HO. In case the HO server collapses, the branches can switch to secondary internet connections and data centre.
- ▶ Entries for savings and remittance transactions are made by the tellers. Credit transactions are entered in MIS by the Branch Accountant. Reports enable disaggregated analysis based on product, loan cycle, CO and gender. However, the MIS is not always accurate; discrepancies in information in different reports were found during the visit. The software has restricted access depending upon the user, hence management level staff at HO cannot access credit reports. Loan portfolio information is viewed by HO staff through Cube Reports, another linked software.
- ▶ Though sub-offices operate as independent units, their transactions appear as part of the main branch transactions as the software does not allow data tracking by sub-office. This limits the quality of monitoring and may result in overlooking credit risks at the sub-office level.
- ▶ Verification of entries is regularly done by Accounting Officers each of whom is responsible for providing support to 8 branches. They also visit branches in case of complaints, frequent errors or other issues with the aim of strengthening the capacity of branch staff.
- ▶ Consolidated financial and portfolio reports are presented to the Board during quarterly Board meetings.
- ▶ Relative to its larger size and contemporary good practice, the overall focus of MIS and operating systems at AMK appears to have slipped below the high standards set in earlier years.

## Social data and reporting – *strong*

- ▶ There is strong research and reporting on breadth and depth of outreach, adequacy of products, transparency, multiple borrowing and client satisfaction levels.
- ▶ Analysis of socio-economic parameters is regularly done and expected by the Board.
- ▶ A ‘change study’ was also done in 2012 to measure the impact of AMK’s services.

MIS	Tracking
Client profile (poverty level, income, gender, etc)	Data collected and entered in MIS
Client satisfaction survey	Part of cash flow survey conducted annually
Drop-out numbers	Tracked and reasons analysed, adjusted for rejoiners
Client exit survey	Annually, for 150-200 exiting clients
Client feedback/quality data	Formally through client satisfaction survey, market survey; informally by CO or other staff during supervisory visits
Client trainings/seminars	Limited to product related training

## Tracking system for overdues – *reasonable*

- ▶ AMK has reasonable systems for tracking overdues. During disbursement meetings, clients are oriented on the importance of on-time recovery. They are also briefed about 1% per month charge on delayed payment as penalty. Since the VB Chief’s incentive is linked to on time collection, the VB Chief plays a key role in this.
- ▶ AMK follows a policy of ‘talk and negotiate’. In case of genuine reasons for default, a grace period is given by the CO and AM and the BM is informed. Even in case of intentional default, staff use soft collection practices. Though collateral is taken for individual loans, AMK has so far not seized collateral. Repeated visits are made by the CO to the clients’ house along with the VB Chief and if required the Village Chief.
- ▶ CO-wise Daily Collection Report, Performance Report enables the tracking of overdues on a daily basis. Detailed Loan Overdue report can also be generated by the software on a daily basis. On a monthly basis, sub-offices send Overdue Reports to BM. The senior management analyses product-wise ageing to monitor overdues.

## Internal audit and control – *exhaustive and detailed*

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- ▶ Due to the lack of an adequate number of Internal Audit Officers (IAO), currently branches are audited on an average once a year, 1-2 visits by Internal Control Officers complement the IAOs' visit to the branches. The internal audit team currently has 11 IAO and 8 ICOs apart from the Head. The plan is to have at least one ICO per branch in future for better control.
- ▶ Visits made by Internal Control Officers are for 3-12 weeks, depending upon the number of sub-offices a branch has; however limited to the BM's general management, credit operations and savings & transfer management.
- The internal audit visit to a branch is for 2-3 weeks; in addition to documentary and policy compliance checks, visits to clients are also made. At least 1% of borrowers are visited and documents are reviewed for 5% of savers and 5% of remittance clients.
- ▶ For borrowers, information in the loan application form is verified, loan utilisation is checked as well as outstanding balance and repayments are cross-checked with client documents. Clients with overdues and those written-off are also visited by the audit team and feedback on staff behaviour is collected. Additionally, client awareness is checked; responses are consolidated and analysed by the research team.
- ▶ A report is prepared separately for every sub-office and findings are shared with the branch offices.
- ▶ Individual reports of the branches are sent to the Audit and Finance Committee of Board. Summary analysis of findings and action items are prepared and discussed with the committee 3 times a year.
- ▶ As another control measure, Area Managers are required to visit at least 8 VBs in a month. The quality of documentation of these visits can be strengthened to include detailed findings. The BMs also visit client meetings on a daily basis. To minimise fraud risk, staff have to be rotated across VBs on a monthly basis but this policy is often not followed.
- ▶ AMK allows prepayment and foreclosure, as it has loan products with end of term (EoT) repayment. This has resulted in fraud on some occasions.
- ▶ In order to improve customer service, AMK is planning 'mystery shopping' which it plans to implement in October 2013. Presently the plan is to cover 50% of branches and sub-offices.

## **Risk and Compliance – *measure not yet fully integrated into operations***

- ▶ AMK has a separate 3 member team to monitor operational risk, compliance and credit as well as IT risk and is led by a new person with over 8 years of experience in KPMG.
- ▶ The Compliance team reports to the Management Risk Committee (CEO, COO,CBO,CFO, Head of IT, Credit, HR and Risk & Compliance) on a monthly basis and 3-4 times a year to the Risk Committee of the Board.
- ▶ Since 2011, a Risk Register is prepared by the risk owner (branch offices & HO) at the end of the quarter. The branches are required to identify risks, allot a likelihood and consequence score and provide an action plan to minimise/mitigate those risks. Additionally, the BM/head of department are required to fill up a Risk & Control Self Assessment Questionnaire to record changes in the risks during the period and actions taken.
- ▶ A member from the Risk team visits branches once a year to refresh the staff's knowledge of risks. The Risk and Compliance function is a good precaution but is yet to be fully integrated into the MFI's operating culture.

## **Financial planning and cash management – *reasonable***

- ▶ The organisation has prepared a five year business plan for the period 2013-2017 covering all the operational and financial parameters. In view of intense competition and lessons from the 2008-09 crisis, AMK is not planning aggressive growth; instead it wants to increase the depth of its outreach.
- ▶ For business planning, AMK follows bottom to top approach with initial targets being set by the branches in discussion with the COs. Nevertheless overall growth objective is shared by the HO. In the visited branches, around 80%-90% of monthly targets in the current year were being achieved; marginal under-achievement by COs was attributed to rejection of clients after the due to the CBC check.
- ▶ The cash requirement format does not yet incorporate savings collected and withdrawal made from savings and remittances. This is an omission that is not critical at present but which will need to be addressed as the volume of deposits & remittances grows. In fact, average daily cash balances at the visited branches were often beyond the maximum permissible limit. During the assessment team's visits the branches were not found to have faced any notable fund crisis.

## **Infrastructure – *adequate***

- ▶ AMK has substantial infrastructure at the HO. The branch offices are comparatively better equipped than the sub-offices.
- ▶ Fixed assets mainly include computers, vehicles, office equipment, furniture and fixtures and intangible assets. The book value of its net fixed assets was \$1.76 million on 31 December 2012, which is 2.1% of its total assets. This is comparable with 1.4% for 13 MFIs in Cambodia reporting to the MIX in 2012.

## **Quality of clients – *moderately aware, well satisfied with AMK services***

- ▶ Visited VB clients showed good performance on repayment of loans. It was observed that very few clients in the village bank attend the meeting since the MFI does not insist on regular attendance.
- ▶ Client awareness about product features was observed to be moderate; clients were aware of tenure and number of instalments paid but not the amount outstanding and interest rate. Clients also knew the amount paid towards processing fee. Almost all clients visited were unaware of the toll free number for complaints.
- ▶ The loan card with the printed repayment schedule and receipt for processing fee is provided to each client. A copy of the loan agreement and disbursement receipt were seen with the VB Chiefs.
- ▶ A few members in the visited VBs also had loans from other MFIs, even before getting loans from AMK.
- ▶ Very few clients were aware of savings and remittance services of the MFI and had used these services.
- ▶ Clients were happy with the facility of Emergency Loan and write off in case of clients' death. There were no complaints about staff behaviour.





# Client Protection

- Appropriate product design and delivery
- Prevention of over-indebtedness
- Responsible pricing
- Transparency
- Fair and respectful treatment of clients
- Mechanism for compliant resolution
- Privacy of client data

# Client protection – adherence to client protection principles

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

## 1 Appropriate product design and delivery

- ▶ AMK has truly internalised its mission and all of its initiatives are directed towards fulfilling its mission. In early 2012, the mission “to help large numbers of poor people to improve their livelihood options through the delivery of appropriate and viable microfinance services” was broken down into measurable key performance indicators. One of the key aspects of the mission has been designing and delivering appropriate services which ultimately results in client satisfaction and retention.
- ▶ For this, as described earlier, AMK has a diversified product range. It commenced operations with the traditional group loan product. Based on informal feedback, in 2005 it introduced the credit line (CL) facility. Though lenders thought it risky due to its long tenure and flexible repayment terms, the MFI was committed to offer the product needed by its clients. The popularity of the CL product has made the organization liberalise its conditions (as discussed earlier). Analysis shows that the CL product has a higher client retention than others. In 2012, the credit line facility was further extended to individual clients.
- ▶ Apart from the credit line, AMK has a variety of repayment options to meet the diverse needs of both its group and individual clients. With its wide loan product range, AMK ensures that it serves its target client base. To fulfil the credit needs of a graduated group of loan clients it now offers individual loans up to a maximum of \$2,000.
- ▶ AMK regularly conducts market research studies for new products. In 2011, it added Individual Seasonal Loan and Easy Loan as a result as also the Home Improvement Loan. The emergency loan covers cases of death and accidents.

## Client protection...continued

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

## 2 Prevention of over-indebtedness

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

## Client protection...continued

Overall although business appraisal is a positive step towards the prevention of over-indebtedness, it has become a routine exercise and needs better staff orientation to do it well.

### 3 Responsible Pricing

- ▶ AMK charges interest at 2.3%-3.0% per month on a declining basis for VB Loans. It feels this is competitive. Many other MFIs charge more than 3% for some of their products. Additionally the MFI collects 0.5% of the loan amount as processing fee. Considering different repayment options, tenure and interest rates, APR for VB Loans ranges from 32.3% to 36.7% while APR for individual loans ranges from 27% to 37%. This is on the low side for microfinance in Cambodia.

### 4 Transparency

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

## Client protection...continued

### 5 Fair and respectful treatment of clients

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

### 6 Mechanism for complaint resolution

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

## Client protection...continued

### 7 Privacy of client data

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



# Financial performance

Portfolio quality

Portfolio diversification/analysis

Profitability and sustainability

Capital adequacy

Asset & Liability composition

# Financial performance

AMK's financial performance is rated at  $\alpha+$  on account of good portfolio quality and improved returns in spite of a lower than industry average operating expense ratio. Though the CAR has declined over the years, it is well above regulatory requirements.

Financial Ratios	Dec-09	Dec-10	Dec-11	Dec-12
<b>Capital Adequacy</b>				
Risk Weighted Capital Adequacy Ratio (Tier-I)	39.8%	35.7%	27.8%	26.2%
<b>Asset Quality</b>				
Portfolio at Risk (>30 days)/ Gross Loan Portfolio	2.9%	1.6%	0.1%	0.1%
Loan Loss Reserves/ Gross Portfolio	2.6%	2.3%	1.4%	1.1%
<b>Management</b>				
Operating Expenses/Average Gross Loan Portfolio	22.1%	20.3%	18.1%	18.4%
Number of Borrowers/Field Staff	406	425	437	399
Number of Borrowers/Total Staff	287	301	286	246
<b>Earnings</b>				
Net income from operations/Average Assets (RoA)	2.6%	2.7%	3.8%	4.7%
Net income from operations/Average Equity (RoE)	7.0%	6.9%	12.7%	18.6%
Portfolio Yield	35.9%	35.7%	35.7%	36.2%
Interest and fee expense/Average Gross Loan Portfolio	9.4%	10.2%	10.5%	10.1%
<b>Liquidity</b>				
Cash & Liquid Assets/Total Assets	27.8%	20.7%	24.5%	20.2%



## Portfolio quality – excellent

- ▶ AMK has been able to maintain excellent portfolio quality with reported PAR<sub>30</sub> at 0.12% in December 2012. PAR was higher in 2009 and 2010 as a result of the overall deterioration in portfolio quality due to multiple lending and associated factors in a few provinces in 2009.

Portfolio quality					
	Dec 08	Dec 09	Dec 10	Dec 11	Dec 12
PAR>30 days	0.36%	2.89%	1.59%	0.10%	0.12%
Write off	NA	0.4%	1.2%	1.4%	0.1%

- ▶ Write-offs also increased in the same period but, as the table alongside shows since then AMK has been able to maintain very low PAR.

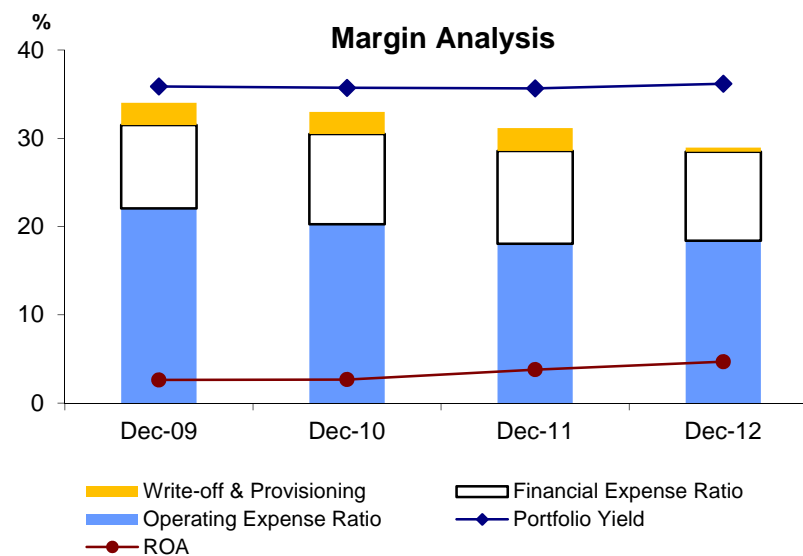
## Portfolio diversification/analysis

- ▶ A disaggregation of portfolio by purpose (in the table), shows that agriculture is the leading use of AMK's loans on account of largely rural operations. Portfolio diversification is difficult to comment on in the absence of a more detailed breakdown of loan purpose – which is recorded but not compiled or monitored by AMK. In practice, lending for a variety of crops and different types of animal husbandry activities provides an adequate degree of diversity.
- ▶ The portfolio was reasonably spread across the 24 provinces and Phnom Penh in December 2012, with the share ranging from 1% to 6% except in Kampong Speu which accounted for 8% of the total portfolio. This is due to a conscious strategy of reaching unreached areas in the northeast. Its approach is based on market potential and external risks inherent in geographical concentration.

Purpose wise portfolio	December 2012	
	Proportion of	
	loans	portfolio
Agriculture	68.4%	69.4%
Trade	15.6%	16.7%
Household needs	10.7%	8.3%
Service	3.7%	4.1%
Manufacturing	1.6%	1.5%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

## Profitability and sustainability – *positive and steadily increasing returns*

- ▶ The recovery from the crisis is clearly visible in the adjacent figure. Relatively high loan loss provisioning and write-offs in the years 2009-11 resulted in lower Returns on Assets (RoA).
- ▶ On account of no change in interest rate on the VB loan product, yield continued to be within 35%; however lower PAR is reflected in slightly higher yield in 2012.
- ▶ As discussed earlier, AMK has reduced its operating expense ratio (OER). A marginal increase in the financial expense ratio (FER) is on account of an increase in interest charged by lenders. With an increase in deposits in future, FER is not expected to increase much.



## Capital Adequacy – *high*

- ▶ Continuous surplus has contributed towards a high net worth of AMK. Though the capital adequacy ratio (CAR) has reduced from 39.8% in 2009 to 26.2% in 2012, it is still well above the NBC requirement of 15%. Comfortable CAR has ensured that the MFI does not face any difficulty in mobilising debt funds.

## Asset, liability and equity composition – *reasonable*

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- ▶ AMK had 72.2% of its total assets in loans outstanding on 31 December 2012. Asset utilisation has gradually improved from 2009 to 2012. Cash in hand and at bank reduced but is still significant at 20.2% of total assets in December 2012. AMK is required to maintain fixed deposits with the Foreign Trade Bank of Cambodia (FTB) in order to hedge currency exposure which has led to high bank balances. Excluding these fixed deposits, the average cash and bank balance as a proportion of its average total assets for January-December 2012 was reasonable at 5.3%.
- ▶ The amount of deposits with AMK has been increasing over the years; the share of deposits in total long term liabilities doubled from 4% to 8% after AMK received the MDI license. In 2012, deposits accounted for 10% of total funds in 2012. With increasing focus on mobile banking and launch of ATMs soon, the share of deposits is likely to increase further.
- ▶ Increase in the share of deposits has led to a reduction in the share of bank borrowings in total liabilities. At the same time sustained profits have strengthened the net worth position of the organization.
- ▶ While 68% of borrowings at the end of 2012 are for a period of over 1 year, only 14% of portfolio had a maturity period of more than 1 year indicating a healthy match of assets and liabilities.

# Financial Statements of AMK, Cambodia

## Balance Sheet as on

in USD

ASSETS	Dec-09	Dec-10	Dec-11	Dec-12
<b>Current assets</b>				
Cash in hand & bank	10,540,358	9,079,380	16,748,193	16,973,253
Balance with NBC	433,395	1,286,709	1,202,115	1,675,130
Staff loan	331,178	385,721	475,725	934,685
Interest receivable	483,916	643,752	1,163,512	1,291,479
Deferred tax assets	165,065	59,755	196,452	242,611
Other receivables	693,648	311,431	487,080	535,032
<u>Loans outstanding</u>				
Village bank loan	18,958,278	26,747,832	39,014,808	47,332,578
Individual loan	5,837,602	4,582,025	8,233,792	14,034,897
<i>Net loan loss reserve</i>	<i>-646,542</i>	<i>-726,475</i>	<i>-660,987</i>	<i>-655,147</i>
Net loans outstanding	<b>24,149,338</b>	<b>30,603,382</b>	<b>46,587,613</b>	<b>60,712,328</b>
<b>Total current assets</b>	<b>36,796,898</b>	<b>42,370,130</b>	<b>66,860,690</b>	<b>82,364,518</b>
<b>Long term assets</b>				
Intangible assets	88,504	586,727	459,662	539,238
Net property and equipment	974,511	941,060	1,077,233	1,219,180
<b>Total long term assets</b>	<b>1,063,015</b>	<b>1,527,787</b>	<b>1,536,895</b>	<b>1,758,418</b>
<b>Total Assets</b>	<b>37,859,913</b>	<b>43,897,917</b>	<b>68,397,585</b>	<b>84,122,936</b>

## Balance Sheet as on

in USD

LIABILITIES AND NET WORTH	Dec-09	Dec-10	Dec-11	Dec-12
<b><u>Liabilities</u></b>				
Savings: Staff	91,974	277,464	406,025	394,487
Member deposits	81,029	1,149,067	4,182,760	8,220,415
Soft loan from Concern Worldwide	891	18,917	0	0
Tax payable	163,888	164,288	521,657	689,725
Interest payable	453,983	576,189	1,019,360	1,562,818
Staff bonus & incentive payable	220,437	254,130	408,079	444,106
Other payable	35,566	91,269	519,500	279,990
Borrowings	25,622,630	28,911,773	46,672,916	54,147,887
Provision for retirement & pension	509,903	503,159	745,551	1,037,140
Accrued loss on forward exchange rate	0	0	0	300,797
<b>Total long term liabilities</b>	<b>27,180,301</b>	<b>31,946,256</b>	<b>54,475,848</b>	<b>67,077,365</b>
<b><u>Net worth</u></b>				
Share Capital	8,172,044	8,405,934	8,561,327	8,655,620
Share premium	0	0	23,646	23,906
Currency translation differences	-59,143	31,445	51,337	51,337
Advance Capital contribution	0	0	0	83,505
Reserve	0	382,585	818,108	1,483,885
Donated Equity (Grant)	77,649	236,779	364,002	365,506
Retained net surplus/(deficit)	2,115,727	2,118,809	2,463,605	3,496,315
Current net surplus/(deficit)	373,335	776,109	1,639,712	2,885,497
<b>Total net worth</b>	<b>10,679,612</b>	<b>11,951,661</b>	<b>13,921,737</b>	<b>17,045,571</b>
<b>Total Liabilities and Net Worth</b>	<b>37,859,913</b>	<b>43,897,917</b>	<b>68,397,585</b>	<b>84,122,936</b>

## Income Statements for the period

in USD

	Jan-Dec 09	Jan-Dec 10	Jan-Dec 11	Jan-Dec 12
<b>Income</b>				
Interest on loans	8,308,377	9,893,958	13,377,410	19,484,349
Loan Fee	148,808	201,187	306,225	381,253
Interest on bank deposits	213,135	329,240	574,880	556,493
Bad debt recovered	8	5,011	26,789	29,527
Other income	34,273	52,860	31,729	57,958
Loss/Gain on foreign exchange	0	106,916	-10,430	0
Remittance fees	0	0	0	100,121
<b>Total operational income</b>	<b>8,704,601</b>	<b>10,589,172</b>	<b>14,306,603</b>	<b>20,609,701</b>
<b>Financial costs</b>				
Interest expense on deposits	11,240	57,288	198,429	462,251
Interest expense on borrowings	2,213,636	2,836,265	3,831,683	5,072,176
Fees and commission	283,427	498,897	752,720	1,201,305
<b>Gross financial margin</b>	<b>6,196,298</b>	<b>7,196,722</b>	<b>9,523,771</b>	<b>13,873,969</b>
Provision for loan losses	498,079	382,782	464,588	203,340
<b>Net financial margin</b>	<b>5,698,219</b>	<b>6,813,940</b>	<b>9,059,183</b>	<b>13,670,629</b>
<b>Operating expenses</b>				
Personnel	3,139,251	3,594,529	4,619,297	6,001,542
Administrative expenses	1,231,317	1,119,905	1,188,558	2,445,160
Travel	302,317	361,407	470,410	689,935
Other	137,842	228,030	203,503	444,542
Depreciation	391,185	420,679	447,920	515,896
<b>Total operating expenses</b>	<b>5,201,912</b>	<b>5,724,550</b>	<b>6,929,688</b>	<b>10,097,075</b>
<b>Net Surplus/Deficit – operational</b>	<b>496,307</b>	<b>1,089,390</b>	<b>2,129,495</b>	<b>3,573,554</b>
Income Tax	122,972	313,281	489,783	688,057
<b>Net Surplus/Deficit</b>	<b>373,335</b>	<b>776,109</b>	<b>1,639,712</b>	<b>2,885,497</b>



# Annex

List of Board Members  
Abbreviations & Glossary  
M-CRIL's grade table

## Profile of the Board

	Supervisory Board	Experience	Years of association
1	Tanmay Chetan, Chairman & Chair of Remuneration, Nominations & Governance Committees	He is a co-founder and Managing Partner of Agora Microfinance Partners LLP. He has over 15 years of experience in areas such as credit ratings, consulting & implementation. From 2003 to 2007 he served as the first CEO of AMK. Tanmay holds a Masters in Public Administration from the Harvard Kennedy School.	10
2	Patrick Peter Power, Director	Peter was CEO of AMK from 2010 to 2012. He has also served as a Managing Director of Claritee Group, a US Based software company and COO of Prosperity Initiative, a Vietnam based NGO focused on private sector enterprise development. Pete is a MBA from Tulane University.	8
3	Rebecca Ann McKenzie, Director & Member of Remuneration, Nominations & Governance Committee	Rebecca is a co-founder of the Agora Group and Director of Operations at Agora Microfinance Partners LLP. She is a capital markets expert and has worked in DEPFA Bank plc., UBS, Credit Suisse and Paribas. She holds a Bachelor of Arts from Scripps College.	6
4	Irina Ignatieva, Director & Member of Social Performance Committee	Irina is a Concern Worldwide's Microfinance Advisor. She has over 15 years of experience as a microfinance consultant and trainer and has done MA from St.Petersburg University.	3
5	Marcus Fedder, Director, Chairperson of Risk Committee & Member of Audit and Finance Committee	Marcus is a banker with over two decades of experience of investment & development banking and was a Managing Partner at Agora Microfinance Partners LLP from 2009 to 2012. Prior to that, he was Vice Chair and Head of Europe & Asia-Pacific of The Toronto Dominion Bank and Treasurer of the European Bank for Reconstruction and Development. He also worked for the World Bank, the Canadian Imperial Bank of Commerce and Deutsche Bank. He holds a PhD in Politics from Berlin & post graduate degrees in International Relations from LSE & Cambridge.	3



## Profile of the Board...

	Supervisory Board	Experience	Years of association
6	Tip Chanvibol, Director	Tip is a managing partner at Tip & Partners law firm. He is a member of the Cambodian Bar Association and has served on the Governing Bar Council in Cambodia. Tip has also served as a legal consultant on numerous projects for organizations including the United Nations, The World Bank, and the Asian Development Bank.	8
7	Howard Dalzell, Director & Chairperson of Social Performance Committee	Before his retirement from Concern Worldwide's Senior Management Team in 2008, Howard served in various positions in Concern, including as Overseas Director and Policy Director. His first involvement in microfinance was in the 1970s in India, where he was based for 17 years. He has over 40 years' practical experience in development and humanitarian assistance and wide ranging knowledge of social policy and impact-related assessment. Howard holds a Bachelor's degree in Agriculture and a Master's in Animal Nutrition.	8
8	Adrian Graham, Director, Chairperson of Audit and Finance Committee & Member of Risk Committee	Adrian Graham brings 19 years of finance experience to the AMK board. He began his career with PricewaterhouseCoopers in audit and advisory services. He has worked in the NGO sector for the last 8 years, including 5 years as the Financial Controller and then Finance Director of Concern Worldwide. Adrian is currently the Chief Financial Officer of UNICEF Australia	3
9	Tom O'Higgins, Director	A former partner at Pricewaterhouse Coopers (PwC) and an expert in human resources, audit committees and corporate governance. He is a member of the board and a former chairman of Concern Worldwide, and a member of the Irish Human Rights Commission.	10

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

# Abbreviations

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AM	Area Manager	HR	Human Resources
AMK	Angkor Mikroheranhvatha (Kampuchea)	LLP	Loan Loss Provision
ATM	Automated Teller Machine	LLR	Loan Loss Reserve
BM	Branch Manager	IAO	Internal Audit Officers
CAR	Capital Adequacy Ratio	ICO	Internal Control Officers
CBC	Credit Bureau Cambodia	LUC	Loan Utilisation Check
CBO	Chief Business Officer	M-CRIL	Micro-Credit Ratings International Ltd
CEO	Chief Executive Officer	MDI	Microfinance Deposit Taking Institution
CFO	Chief Financial Officer	MFI	Micro Finance Institution
CL	Credit Line	MIS	Management Information System
CO	Credit Officer	NBC	National Bank of Cambodia
COO	Chief Operating Officer	OER	Operating Expense Ratio
EoT	End of Term	OSS	Operational Self-Sufficiency
FCR	Financial Cost Ratio	PAR	Portfolio at Risk
FD	Fixed Deposit	RM	Regional Manager
FTB	Foreign Trade Bank of Cambodia	ROA	Return on Assets
FSS	Financial Self-Sufficiency	ROE	Return on Equity
GDP	Gross Domestic Production	US\$	United States Dollar
HO	Head Office	VB	Village Bank

# Glossary

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Capital adequacy ratio: Total net worth divided by risk weighted assets (*M-CRIL Risk weights*: 100% for all assets except fixed assets, 50%; cash & bank, 0%)

Portfolio at risk (PAR (>60days)): Ratio of the principal balance outstanding on all loans with overdues greater than or equal to 60 days to the total loans outstanding on a given date.

Yield on portfolio: The interest income on loans divided by the average loan portfolio for the year.

Other income to average portfolio: Total income other than from the interest on loans divided by average portfolio.

Financial expense ratio: Total interest expense for the year divided by the average portfolio.

Loan loss provisioning ratio: Total loan loss provisioning expense for the year divided by the average portfolio.

Operating expense ratio: Ratio of salaries, travel, administrative costs and depreciation expenses to the average loan portfolio.

Net operating margin: Difference of (yield on portfolio + yield on other income) and (financial expense ratio + loan loss provisioning + interest loss provisioning) – also known as spread on portfolio

Staff turnover rate: Total staff left/staff at the beginning of the year+ staff joined during the year.

## M-CRIL rating grades

M-CRIL Grade	Description
$\alpha+$	Strong governance, excellent systems and healthy financial position. Without a foreseeable risk ➤ Most highly recommended
$\alpha$	Good governance, excellent/good systems, healthy financial position ➤ Highly recommended
$\alpha-$	Good governance, good systems and good financial performance; Low risk, can handle large volumes ➤ Recommended
$\beta+$	Reasonable performance, reasonable systems. Reasonable safety but may not be able to bear an adverse external environment and much larger scale ➤ recommended, needs monitoring
$\beta$	Moderate systems. Low safety ➤ acceptable only after improvements are made on specified areas
$\beta-$	Weak governance, weak systems. Significant risk ➤ not acceptable but can be considered after significant improvements
$\gamma+$	Weak governance, poor quality systems. High risk ➤ needs considerable improvement
$\gamma$	Weak governance, poor systems, weak financial position. Highest risk ➤ not worth considering

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