

# ***Are financial and social objectives mutually exclusive? The experience of AMK, Cambodia***

TANMAY CHETAN

*Cambodian microfinance is a financial success at present. In an increasingly competitive environment, properly designed, in-house social performance management (SPM) initiatives can provide a strategic edge to an institution's operations. This article examines the efforts of Angkor Mikroheranhvatho Kampuchea (AMK), a Cambodian microfinance institution (MFI), to balance financial and social objectives, and discusses some early indications from an in-house SPM initiative that AMK is trying to set up.*

*Some of the information from the SPM initiative is being used for AMK's operations and strategy in disbursement planning and product design. The challenges in internally managed social research lie in integrating the SPM framework into management decision-making, and in maintaining research quality within acceptable cost levels. The institution is hopeful that once the framework is fully established, it will be possible to merge commercially viable microfinance with improved social performance in a symbiotic relationship.*

DESPITE FINANCIAL SOPHISTICATION and significant outreach improvements, Asian microfinance still covers only a small fraction of the estimated demand. Different estimates put the outreach of microfinance globally at around 4 per cent of the total demand, and that of financially stable MFIs at 1 per cent of the total (World Bank, 2001).

In the last decade, there has been a lot of focus on the need for MFIs to move towards commercial operations and to strive for financial sustainability. This has helped MFIs in scaling-up operations and achieving a strong financial platform for the future. However, questions are often asked about the (lack of) social objectives of many of these fast-growing MFIs. In the absence of credible data in most places, it is difficult to differentiate between MFIs that are more exclusive in their outreach to the poor and those that are not.

This article looks at this debate in the context of an MFI that was created in 2003 by Concern Worldwide, an international NGO that specializes in relief, rehabilitation and livelihoods related development work in 32 of the world's poorest countries.

Angkor Mikroheranhvatho Kampuchea Limited (*mikroheranhvatho* is the Khmer word for microfinance), or AMK, was created out of Concern Worldwide's Cambodia programme in 2003. During the previous five years, Concern had been operating a credit and savings programme in the country, and it eventually decided to separate this 'project' into a more commercially oriented MFI. AMK was registered with the Ministry of

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It is difficult to differentiate between MFIs that reach the poor and those that do not

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*Tanmay Chetan is the Chief Executive of AMK Ltd. Thanks are due to Olga Torres and her team, who manage the client research activities at AMK. Thanks are also due to other members of the research team of AMK, who painstakingly collect all the research data through their intensive fieldwork, which is helping build SPM efforts at AMK.*

Commerce in May 2003, started independent operations from July 2003 and received its operating licence from the National Bank of Cambodia (NBC), Cambodia's central bank, in April 2004.

This article traces the two-year path of AMK since its creation and discusses important issues and indicators in relation to AMK's stated objective of maintaining a credible balance between its social and financial objectives.

### **Cambodia – economy and microfinance**

The Cambodian economy is in its early stages of development, which is understandable for a country that has a relatively new political and administrative structure. The first elections in Cambodia – after years of turmoil – took place only in 1993, and the country has made consistent but slow progress on its socio-economic development since then. The UN Human Development Report for 2005 gives Cambodia a HDI (Human Development Index) rank of 130 for the year 2003, marginally better than the rank of 137 given in 1997.

During the period 1997–2003, Cambodia saw slow improvement in its socio-economic indicators. However, in the last two years (2005–6), its economic performance seems to be rebounding, with an improving GDP/capita ratio and high overall GDP growth of between 8–13 per cent per year (Economic Institute of Cambodia, undated). However, the agrarian economy remains excessively dependent on inconsistent, rain-fed agriculture and the general economy is constrained by limited exports, high dependence on development aid and very little private capital flow, both foreign and domestic.

Poverty levels continue to be high, with 36.1 per cent of the Cambodian population below the national poverty line, and 77.7 per cent of the population living on less than US\$2 a day and 34.1 per cent on less than US\$1 a day (at purchasing price parity of 1990 prices) (UNDP, 2005). Agriculture accounts for 36 per cent of GDP and probably employs as much as 80 per cent of its population.

The financial sector of the country is still quite underdeveloped. Retail banks are virtually non-existent outside the capital Phnom Penh and the tourist cities of Siem Reap and Sihanoukville (Sihanoukville is also the only port in the country). In most other provincial capitals and towns, there is only one commercial retail bank in operation. The country awaits the creation of a stock exchange – planned for 2007 – that would hopefully allow more investment flows in a market largely dominated by a few big local business houses. In the last year, one multinational bank has started operating in the country and a couple of private commercial banks have opened new branches in a number of provinces. These are early days for the banking industry and recent developments will need to be strengthened significantly in order to make a substantive difference to money flows in the country.

A number of commercial banks – as many as 23 – were closed during 1995–2002 because they failed to meet new banking guidelines and because of charges of money laundering, with many depositors losing their savings in these banks.

In this rather weak financial environment, microfinance can be said to have made a valuable contribution during the last decade. Driven initially by a handful of donors and international NGOs, MFIs have taken financial services – mainly credit – to the poor's doorsteps. As elsewhere, clients have responded by showing remarkable credit discipline. The NBC has

**Microfinance in Cambodia is vibrant and reasonably competitive**

played an important role by formulating separate laws for the micro-finance industry and regulating the provision of financial services. The NBC has outpaced similar progress in a number of other countries and has helped considerably in the creation of a vibrant but reasonably well-regulated market.

A Country Level Effectiveness and Accountability Review (CLEAR) was conducted by the Consultative Group to Assist the Poor (CGAP) in late 2004. Its report states that ‘over the past decade, donors have achieved remarkable success in building commercially oriented micro-finance in Cambodia... Not only is microfinance flourishing, with a large number of promising retail institutions, but it is arguably the most sophisticated component of the national financial system’ (Latortue et al., 2005).

Today, a vibrant and reasonably competitive microfinance environment has the active participation of Aceda Bank, the largest retail commercial bank of the country, which also started out as a NGO initiative in micro-finance (Aceda Bank, 2004). At the end of 2005, there were some 15 licensed MFIs – regulations require MFIs with more than 1,000 clients to obtain a licence from the NBC – in addition to some 28 registered NGOs also active in microfinance. Some 60-70 smaller entities are also engaged in providing financial services at a much smaller scale.

The licensed MFIs and Aceda Bank together account for the bulk of the market. Their combined clientele roughly translates into coverage of 18 per cent of the country’s total households, and an average loan balance of US\$310 per client household at 31 December 2005. This scale of coverage compares well with the estimated coverage levels in more developed markets in Asia, barring Bangladesh – which might now be facing a problem of too much competition – and Indonesia. Outreach estimates for Bangladesh, adjusted for client overlaps – are in the region of 35–40 per cent of total households, one of the highest in Asia.

In the last three years, Cambodian MFIs have shown strong growth, albeit limited to the provision of credit. During 2002–05, the licensed MFIs and Aceda Bank together showed a simple average annual growth

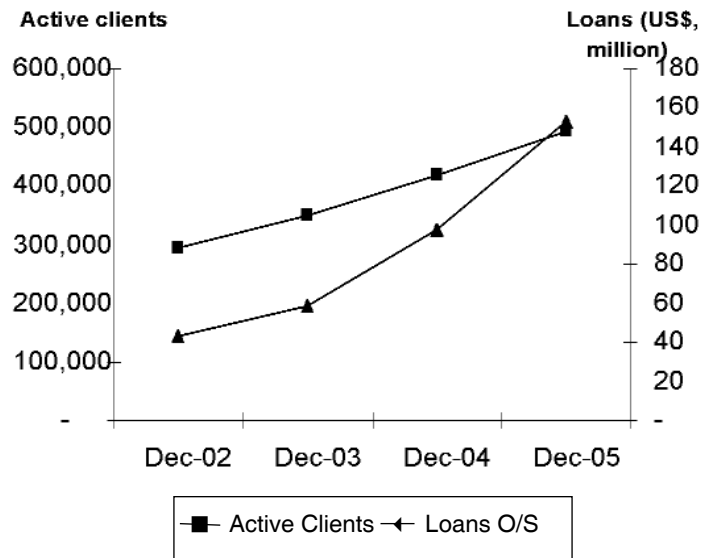


Figure 1. Growth of microfinance coverage, Cambodia  
Source: Cambodia Microfinance Association (2005)

of 23 per cent in numbers of outstanding loan clients and a high 86 per cent in the total outstanding loan portfolio (see Figure 1). On taking the numbers for only the licensed MFIs, the growth rates are 23 per cent and 77 per cent respectively.

### Concerns in Cambodian microfinance

While the industry seems to be growing well, ably supported and supervised by a microfinance-specific regulatory system, there are some grey areas too. The two most immediate issues of concern are, first, the limited focus on savings and the imbalance between credit and savings products, and second, indications of market shift.

*Savings as the weak link?* Most MFIs have not developed and marketed savings as an attractive product. This is perhaps because of the lack of competition among MFIs in the past, and the need to provide better product ranges was not a priority in the past. Since collection of savings is much more expensive than subsidized loans and grants (which have not been that difficult to obtain), and more expensive even than more commercial borrowings, MFIs have conveniently ignored this aspect of finance.

However, there has been some focus on savings in the very recent past, mainly under pressure from donors. Some MFIs today offer voluntary savings products to their clients, but product design leaves much to be desired, especially the returns being paid on deposits. Whereas loans are typically priced between 30–50 per cent annually, savings with most MFIs earn less than 5 per cent annually. This is partly indicative of the reluctance of MFIs to engage seriously in collecting small volumes of deposits, which is quite expensive with existing delivery models if done diligently. Models to explore efficiency in savings mobilization in Cambodia have not been tested.

In addition, there is also a question of trust. One argument often put forward is that the recent history of Cambodia has resulted in low levels of trust among individuals and from the civil society, and as a result, people might not want to risk their savings with private institutions. There is evidence of loss of savings during 1995–2002, when many banks were closed and people invariably lost their deposits in these banks. This affected the urban middle class, but possibly damaged the trust in financial institutions across the country.

*Signs of market shift in Cambodian microfinance.* It is evident that a faster growth rate in amounts lent, rather than in the number of active clients reached, is a result of increases in loan sizes. Very rapid increases in loan sizes are usually seen in more competitive environments where MFIs try to outperform each other by offering bigger – though not always better designed – loans to clients. Invariably, very rapid increases in loan size indicate some shift in the market segment of the institutions involved. In Cambodia, this reflects the growing presence of the MFIs in the more urban, higher value, primarily trade-oriented markets. These markets are located in provincial and district capitals and result in faster turnover of cash, and seem to have high demand at present. In this context, the overall growth in loan sizes for the main industry players is not surprising.

High average loan sizes, or high outstanding loan balances (a close approximation of loan sizes for short-term loans), often raise questions about the intentions of the MFIs. If this change is because of a shift towards a more prosperous segment of the market, it raises doubts over the focus of these MFIs to provide accessible finance to the poor, who

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People's experience makes them wary of risking their savings with institutions

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Loan sizes are increasing in Cambodian microfinance

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may remain excluded. The counter-argument to this is usually that there is substantial employment creation even in a microfinance model that concentrates on the higher value segments of the market. It is for each institution to decide its own priorities based on its own mission and objectives.

In this regard, Cambodia is at an interesting stage of its microfinance development; there is a considerable upward shift in loan sizes and also important changes in the delivery mechanisms. Many MFIs have moved from group-based lending to individual lending, often using collateralized lending methodologies. A number of the MFIs have stopped going to the villages and are instead focusing on office-based transactions, more like retail banks. This strategy seems to be working well from a financial perspective, since this market segment helps to increase loan volumes and office-based transactions reduce operating costs, though the time cost for the rural client increases. If the clients are small traders operating in nearby areas, it is not too inconvenient for them to transact at the office of the MFI, which usually lies within their operating areas and is easily accessible.

### **Creation of AMK and its long-term objectives**

AMK started in July 2003 with the mission ‘to help large numbers of poor people in rural Cambodia to increase their livelihood options through the sustainable delivery of appropriate and viable microfinance services to the economically active poor’.

It defined its market as that comprising of the ‘economically active poor’, or the poor who possessed some assets, skills or ideas to generate an income for their families. At the same time, a set of ‘guiding principles’ were agreed upon to bring together the financial and social objectives of the company:

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

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AMK committed itself to being a ‘learning organization’

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Efforts were initially directed towards creating structures and systems that were necessary for a financial operation. As it progressed, AMK also tried to strengthen its management and operations through better technology and information systems, product diversification, internal control mechanisms and governance.

AMK received its microfinance licence from the NBC in early 2004. In 2005, it received the CGAP Financial Transparency Award for full compliance with International Accounting and Reporting Standards and CGAP disclosure guidelines.

*Microfinance market segments.* As much as 80 per cent of the Cambodian population is rural and the agrarian economy is riddled with poor infrastructure and incessant floods and droughts. Rain-fed agriculture and livestock rearing or fishing are the main livelihoods in rural

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Each credit officer  
handles on average  
600-800 clients

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areas. In addition, there is also a small burgeoning semi-rural or peri-urban population that depends on small businesses – both trading and services but little manufacturing – for its livelihood. Typically, this market segment is located in provincial and districts capitals and has better connectivity with bigger markets such as of Phnom Penh and Siem Reap.

Due to the concentration of the population in rural areas, any MFI that intends to make a lasting impact on the financial sector of the country cannot possibly ignore the rural market. Financially, this segment offers the greatest opportunity to expand operations, achieve economies of scale and thereby attain long-term financial sustainability. At the same time, business models and the design of financial services need to reflect the seasonality and the uncertainty associated with rain-fed agriculture within client households in this rural market.

This market segment offers success only when there is high operating efficiency. AMK works primarily in rural areas, and each credit officer (CO) handles on average 600–800 clients, much higher than the micro-finance industry averages in Asia. The *MicroBanking Bulletin* (2005) reports an average of 268 outstanding loans per loan officer for Asian MFIs in 2003, and the M-CRIL top 10 – the top 10 per cent of MFIs rated by Micro-Credit Ratings International Limited (M-CRIL), has an average of around 300 (Sinha, 2005). While this might seem impressive, it can be seen in the context of average loan outstanding per borrower for the sample in the *MicroBanking Bulletin*. The 231 institutions reporting to the Bulletin average US\$689/borrower, with US\$402 being the average for Asian MFIs, against US\$66 for AMK on 31 December 2005. Thus, the value of money handled by each CO in AMK is still only one-third of the average reported in *MicroBanking Bulletin*, and probably half of those reported for Asian MFIs.

The business model therefore depends quite sensitively on the overall management of costs and the efficiency that can be achieved in operations. Poor physical infrastructure and security issues in Cambodia also add costs to operations. Thus, AMK still averages over 30 per cent on its operating expense ratio (operating costs/average loans outstanding), above the 26 per cent reported for Asian MFIs in the *MicroBanking Bulletin*, and just about comparable to the 33 per cent reported for the entire sample. This is, however, coming down consistently and will stabilize at less than 30 per cent.

Risks in lending to agriculture are minimized through flexible products. Cambodian agriculture depends entirely on the timeliness and adequacy of monsoons, and therefore suffers from uncertainty. Obviously it provides risky livelihoods for families, but is essential as land is one of the few resources that rural households possess. AMK attempts to minimize the risks in three ways:

- through loan products that offer complete flexibility of repayment;
- through an analysis of household cashflows to understand the extent of seasonality in client households (discussed in more detail below);
- through disaster mitigation products (loans for emergencies and micro-insurance, currently being planned).

### **Financial performance – some early successes**

In its limited history, indications of AMK's definition of its market and its design of products are positive. Its operating model has enabled high

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growth while continuous improvement in financial performance is also taking place. The institution started making profits in the second half of 2005, in a little over two years of active operations. This exceeds its own expectations of break-even in three years, and highlights the financial potential of microfinance implementation in rural Cambodia. Figure 2 indicates the financial success of AMK.

### Social objectives and social performance management

The success or failure of AMK lies not only in consistently making profits or in reaching large numbers of clients, but also in developing appropriate sensitivity towards its clients and staff and contributing the overall value system in Cambodian society. AMK's guiding principles speak of client protection, openness and transparency, and of AMK being a learning organization. In addition, AMK has also adopted a more detailed code to clearly state its understanding of client protection issues. The social performance management efforts of AMK aim to monitor:

- the outreach of financial services against its stated mission;
- demand-driven products and services for clients;
- client protection (transparency and clients' voice);
- other social responsibilities – corporate culture, policies for staff;
- impact assessment or transformation effects on clients.

AMK's client research function will help to address the first three issues, and will also create a baseline for the last, which can then be addressed more fully later. The idea is that social indicators have significant business value and will help AMK in areas such as product and delivery design.

The SPM efforts in AMK were designed after an initial review of current initiatives in this field and after an assessment of the suitability of different initiatives to AMK's context (see Table 1). The current design draws on the work of the Social Performance Initiative (SPI) supported by the Argidius Foundation, administered by CERISE and coordinated by CGAP.

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AMK aims to monitor the outreach of financial services against its stated mission

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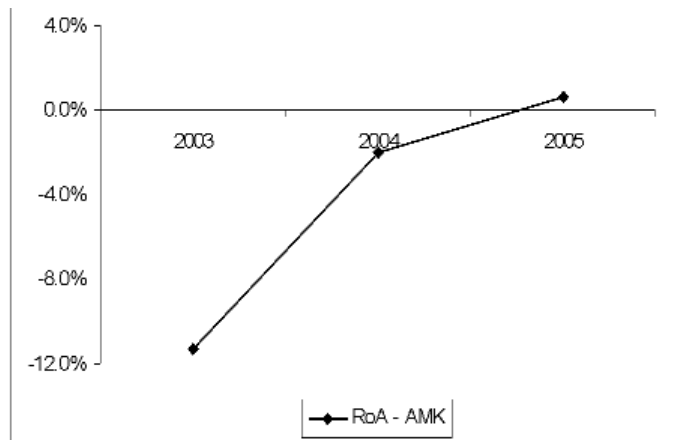


Figure 2. AMK profitability trend (return on assets)  
Source: AMK Management Reports

**Table 1. AMK's social performance monitoring mechanisms**

<i>Social performance parameters</i>	<i>Monitoring mechanisms/design</i>
Outreach of financial services against stated mission	Questionnaire-based quantitative analysis of household cashflow patterns, asset-holding, household expenditure patterns, indebtedness, and other vulnerability indicators, such as food security and social capital
Demand driven products and services for clients	Based on client research (above) and other specific exercises, such as client satisfaction and client exit surveys.
Client protection (transparency and clients' voice)	Based on client surveys and internal audit findings
Other social responsibilities - corporate culture, policies for staff	Board of directors and internal policies
Impact assessment or transformation effect on clients	Expanding and utilizing regular client-level research over time to assess impact

### **Client research – design, personnel and costs**

Once AMK decided that having an internal mechanism to manage client research was desirable, the obvious challenges related to ensuring research quality and optimizing costs. These issues are being addressed in the following manner.

The client research process aims to arrive at a poverty index for the sample covered. The first steps of this process are related to questionnaire design, decision on sampling techniques and the establishment of a client information system.

The research now uses proportional-to-size random sampling, whereby villages are selected at random and in proportion to the villages covered by AMK in its working areas (provinces). Within villages, random client households are being covered as the respondent group and a smaller sample of non-client households are being covered as a control group. In total, the research team aims to cover between 1,200 and 1,800 respondents during 2006–08, depending on the rate of growth in operations, which will be mirrored in the sample. The first round of household surveys that were carried out in 2004–05 essentially tested the sampling technique and questionnaire that is currently being used.

The research questionnaire covers individual and household (demographic) information, household cashflow, asset-holding and indebtedness patterns, and other household vulnerability questions, ranging from food security and health to household shocks and coping mechanisms. During 2004–05, the design was tested and accordingly amended. Principal component analysis (PCA) was used to test a poverty index score. In addition,

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The team comprises two or three full-time researchers and a research manager

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The research team had a cost share of 3–5 per cent of total staff costs

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frequencies analysis and levels of confidence, as well as other quantitative analysis, were carried out using SPSS statistical software.

The research team is structured on lines similar to the internal audit team at the headquarters of AMK. Keeping in mind the sample sizes for field data collection, estimates are that two or three full-time researchers are required – these will be AMK’s own permanent staff. In addition, a research manager supports the field team of researchers and contributes mainly to design, (statistical) analysis and reporting.

Along with internal management and field expertise, AMK has also constituted an advisory committee of experts to provide guidance and supervision to the internal research team. This committee reports to the board of directors and helps to ensure that social performance management in AMK conforms to acceptable standards. It is seen as a parallel mechanism to the audit committee of the board of directors, which provides a similar function with respect to financial reporting.

In its present form, the research team – which also handles marketing functions – had a cost share of 3–5 per cent of total staff costs in 2005, which including salaries, allowances, insurance, incentives, training and the like. The estimated share of research activities in total costs, including staff costs, travel and administration, was also in the range of 3–5 per cent in 2005. In addition, subsidized technical expertise has also been sourced from the parent company, which will continue for some time to come. If this subsidy was included, the share of research costs would increase to 8–10 per cent for 2005. Additional costs in 2006 relate to the social performance committee, which aims to meet two or three times a year. These costs are not subsidized by AMK and are covered fully.

In the absence of the SPM initiative, the operating expense ratio of AMK in 2005 would have reduced from 36 per cent to 34–34.5 per cent, and its return on assets would have increased three-fold, from 0.6–1.8 per cent. This is assuming that all other aspects of its operations remained constant. However, the cost share of SPM will reduce over time once SPM is fully established. With further growth in operations, SPM costs are likely to stabilize at around 2 per cent of total operating costs.

### **Client research – some preliminary findings for 2004-05**

As we present some of the findings from the first two years of in-house client research, it is worthwhile noting here that these findings are from the ‘test’ phase of the research. The information presented here has been taken from AMK’s first social research report for 2005 (AMK, 2005)

The first, previously elusive piece of information that is now available in-house is a general client profile. The sample data helps in understanding the broad differences among typical clients across different geographical regions. Especially useful, from a management perspective, is the detailed profiling of household cashflows, asset-holding and general well-being (or vulnerability). Some of the findings are already informing management decisions, which was one of the central objectives behind setting up the SPM mechanism.

*Demographic details.* Only about 54 per cent of the interviewees can read and write, which is below the average adult literacy rate for rural women of the Cambodia Inter-Census Population Survey 2004 of 61.6 per cent, but in tune with the 54.3 per cent rate from the 1998 census. Of the children living in the households, about 59 per cent are in school, 8 per cent are not in school, and 33 per cent are not yet of school age (i.e. below six years old).

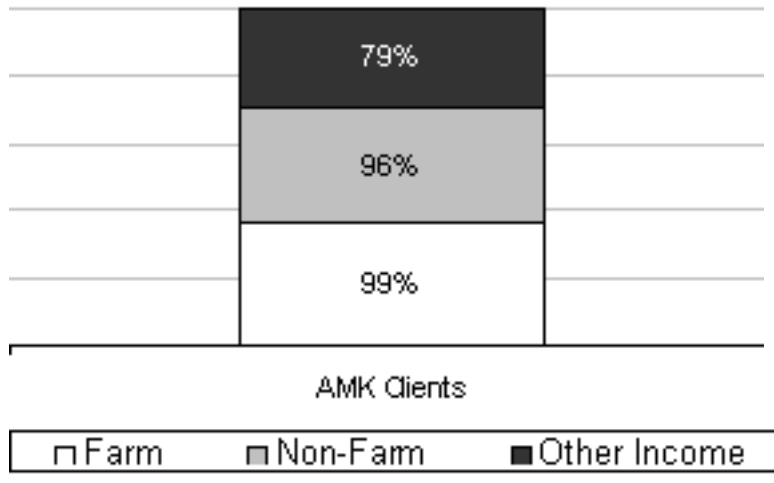


Figure 3. Percentage of rural households in three economic activities  
Source: AMK, 2005.

*Household livelihoods and cashflows.* The research provides valuable information on livelihoods. While most of the findings are quite detailed and require a complete reading of the AMK Social Research Report, some of these are illustrated in Figure 3.

Nearly all rural households undertake at least one farm activity and at least one non-farm activity and 79 per cent also benefit from other income sources such as rental property or remittances. There are no noticeable differences among provinces. This contradicts the general understanding of rural Cambodia that households are singularly dependent on agriculture – while most households work in agriculture, their dependence is much lower than generally understood. Opportunities exist for diversifying lending strategies on the basis of client livelihoods and their cashflows.

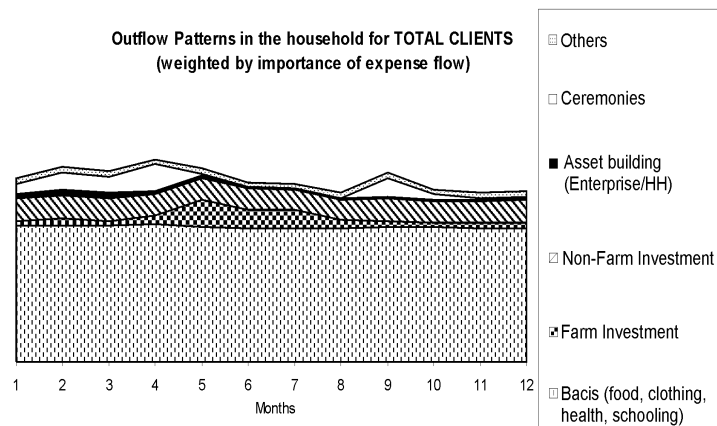


Figure 4 Client cash outflow patterns in AMK  
Source: AMK, 2005

Similarly, cashflow patterns provide a good sense of likely credit demand by season, as shown in Figure 4.

The value of timing in finance can never be emphasized enough, and the information in Figure 4 is a useful monitoring tool for assessing and estimating disbursement patterns. In addition, cashflow information on household livelihoods enables the designing products that are more appropriate to the nature of demand. For example, AMK recently introduced a longer-term line of credit option for its clients, based on its understanding of livelihood and cashflow patterns. The new product, while keeping the loan ceiling intact, provides much more flexibility in loan draw-down options to take care of the variability in household cashflows. This contrasted with the rest of the market that was vigorously competing on loan sizes. The product immediately saw a surge in demand and, by March 2006, accounted for more than 30 per cent of AMK's portfolio in a little over six months of its launch.

*Savings.* One of the reasons often given for Cambodian microfinance's poor savings levels is that the very poor in the country do not save much in cash. Figure 5 suggests otherwise.

As much as 44 per cent of the savings is in cash, and a further 21 per cent is in gold. There is clearly some opportunity here for provision of savings services.

Regarding poverty outreach, Figure 6 clearly indicates where the bulk of AMK clients lie in terms of consumption capacity. This is especially helpful in determining appropriate loan sizes in an environment where MFIs are typically trying to outdo each other by increasing – at somewhat alarming levels – the sizes of loan products. Is the MFI achieving long-term financial sustainability with these increases or is it risking it? Each MFI needs to attempt to answer this for its clientele. For AMK, this question can be addressed to some extent with the help of this distribution.

When compared to the poverty definitions commonly used, the results shown in Figure 6 indicate that almost the entire sample falls below the conventional definitions of the poverty line used internationally or by the

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Almost the entire sample falls below the conventional definitions of the poverty line

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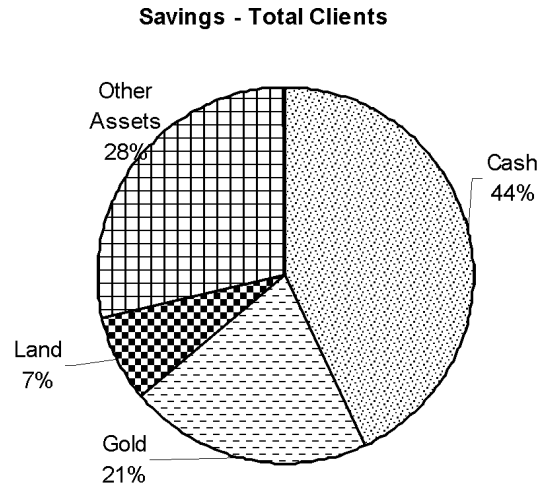


Figure 5. Savings behaviour of AMK clients

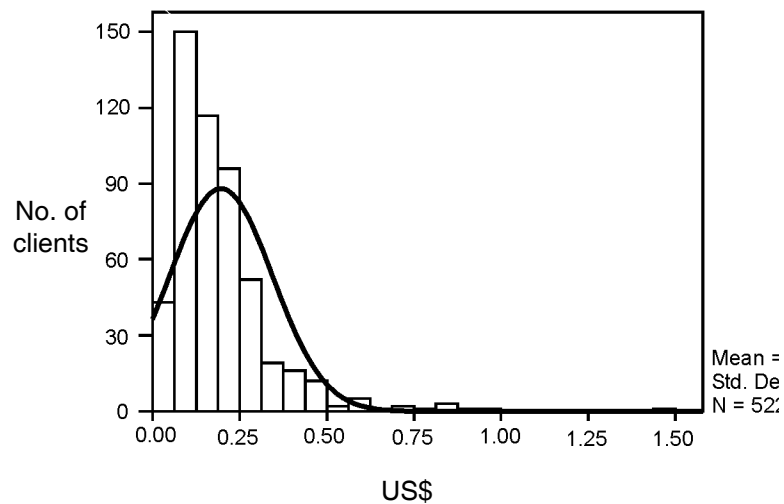


Figure 6. Daily per capita 'basic' expenditure (US\$) (with a normal curve)

Cambodian Government. This partially confirms AMK's commitment to work with the rural poor of the country.

### SPM – client protection and other social responsibilities

In 2005, AMK adopted a code of client protection, which it aims to monitor on a continuous basis. The adopted code states the following priorities:

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

Sections of this code are monitored through standard internal control mechanisms, such as internal audits. Other aspects of the code will be monitored through the client research results. Together, internal audits and client research will be able to effectively track the performance of the code.

Social responsibility can be interpreted in many ways. At the client level, it can relate to the kinds of relationships that exist with AMK staff. At a strategic level, it can be seen in the context of introducing products with features that rectify some of the design anomalies that exist in the market. A case in point is savings, on which returns offered to clients are

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**AMK recently introduced a savings account with an interest rate tied to its lending rate**

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very low and bear little relation to loan interest rates charged. AMK recently introduced a general savings account with an interest rate tied to its lending rate.

Overall, social responsibility also means removing prejudices and discrimination from the operating culture of the institution, whether it exists at the staff level or among clients, or between staff and clients. Being sensitive to gender discrimination is particularly important since this is very much a visible reality in Cambodia. There are issues also around discrimination on the basis of health (especially against people with disabilities or terminal illnesses), ethnicity and social hierarchy or class. Strategies will be introduced to monitor some of these aspects and systems for their monitoring will be incorporated within the SPM framework.

## Conclusion

As explained earlier, the social performance efforts of AMK clearly have some implication on AMK's costs. There are other perceived risks of the framework too, mainly in the context of possible client discrimination in response to unfavourable feedback or information. AMK manages the possible risks, or tensions related to client information, in much the same way as it does with information from internal audits. Individual client information is treated as confidential and handled only by the research team. This is to ensure that there is no discrimination against clients based on information or feedback provided by them. Besides these, there do not appear to be any other risks or tensions in the social performance framework.

Against the above costs and risks, the benefits of this effort – considered significant by AMK – are mainly in the form of better products and methodologies, which are often the main determinant of an MFI's success, for example:

- product development/design on the basis of 'real' market information;
- faster product innovation;
- methodologies fine-tuned to ensure timely provision of finance;
- better adherence to stated mission of working with the poorer segments of society.

Thus, it can be argued that the costs and the risks are more than justified by the range of benefits that accrue with the help of an effective SPM system in MFIs. Even though the results of the research work of AMK are not conclusive at this stage, it is clear that good-quality SPM can provide MFIs with important feedback on its business strategy.

Like many other service enterprises, microfinance depends significantly on the relationships that the institution builds with its clients. And like any business, success depends on knowing the market well. Monitoring social performance allows for both of these aspects to be integrated into the decision-making apparatus of MFIs. The efforts that are in progress in AMK enunciate some business benefits of a strong social research and monitoring system. SPM fits well in the long-term sustainability objectives of MFIs and can provide reliable, independent information for helping the strategic decisions of MFIs.

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**Good-quality SPM  
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