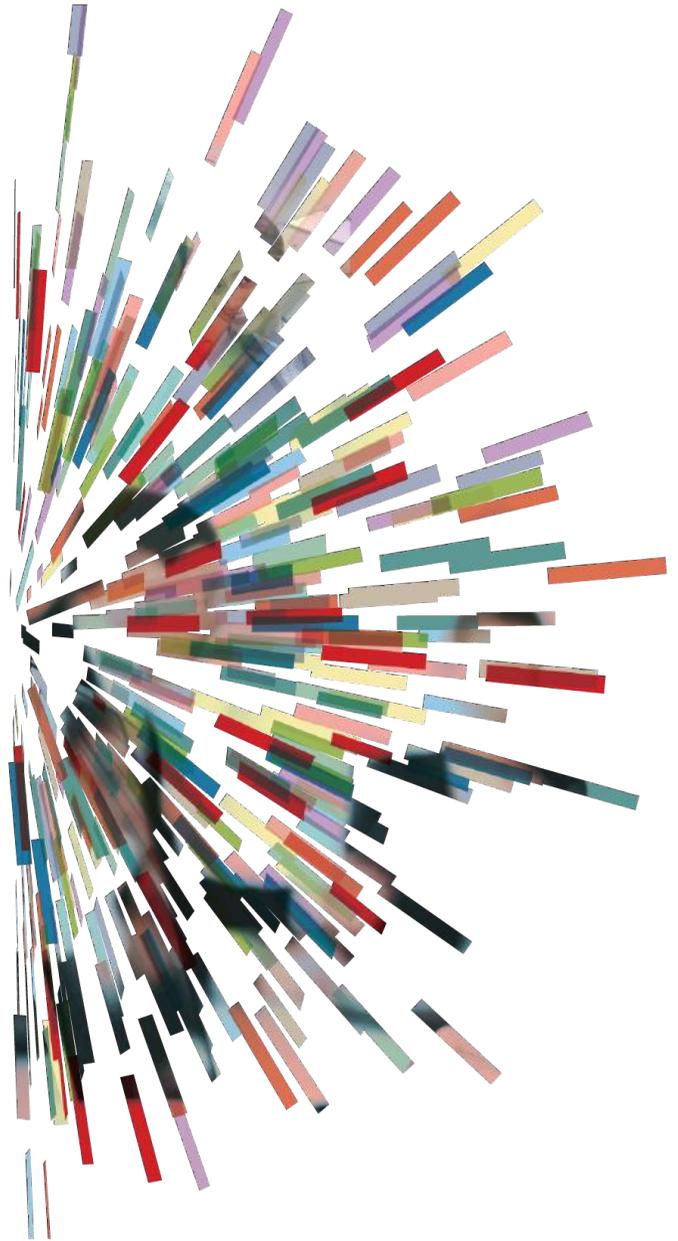




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ASIAN INSTITUTE OF FINANCE

A Case Study
on ACLEDA
Bank Plc.:
Making
Commercial
Microfinance
Work in
Cambodia





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A CASE STUDY ON ACLEDA BANK PLC. : MAKING COMMERCIAL MICROFINANCE WORK IN CAMBODIA

INTRODUCTION

Leaning on the backrest of his black leather chair, In Channy gazed out the window of the six-storey building that serves as ACLEDA Bank's corporate headquarters. As the President and Group Managing Director of one of the largest commercial banks in Cambodia, Channy was optimistic that 2015 will be another great year for the bank. For one, the new 20-storey headquarters building is scheduled to complete by the third quarter. After successful foreign operations in Lao PDR and Myanmar, ACLEDA had just entered into an agreement with Sumitomo Mitsui Banking Corporation to expand their business cooperation in Lao PDR. ACLEDA's latest venture onto the stock exchange reflects Channy's vision of the bank's future that stretches beyond the Cambodian borders.

Though the bank has long outgrown its NGO roots and no longer considers itself a microfinance lender, as one of the co-founders, Channy is fiercely loyal to the business idea that built ACLEDA. Having dedicated 22 years of his adult life to build ACLEDA, Channy who is well known for his humility and quiet confidence sees a bright future for Cambodia and the bank. But he knows that while the road ahead may not always be straight, it is one that he has worked hard for.

Now, at the age of 55, Channy continues to drive the business strategy. But can ACLEDA maintain and sustain its original mission as it ventures into commercial banking? Can ACLEDA stay ahead of the curve amidst growing competition among other commercial banks for bigger loans? These questions ran through Channy's mind as he began flipping through the pages of the business report on his desk, oblivious to the buzzing chaos of motorcycles, tuk-tuks¹ and SUVs slogging their way in the bustling morning traffic of Cambodia's commercial centre in Phnom Penh.

Keywords: Microfinance, organisational transformation, organisational culture, Cambodia, banking, NGO, ACLEDA

¹ Tuk-tuk is a three-wheeled motorised rickshaw used to transport people and goods.

WHERE IT BEGAN

The darkest segment of Cambodia's history occurred some 40 years ago, in 1975. Forced dispersals of people residing in urban areas such as Phnom Penh were common with thousands of inhabitants marched off to far-flung villages. The people-on-the-run experienced cold, brutal and inhumane treatment by the extremely cruel regime at the time. Life was hard. Many perished.

After years of debilitating unrest, economic stagnation and unparalleled poverty, Cambodia's economic prospects became brighter with the return to normalcy in the early 1990's. Though agriculture remained dominant in the rural economy, the country began its growth forward, albeit admittedly at a slow pace, based on industry and manufacturing. International development partners and non-governmental organisations (NGOs) collaborated to implement credit projects to supplement traditional banking services and provide broader financial access.

Amidst the tension between opposing political parties, the Association of Cambodian Local Economic Development Agencies (ACLEDA) was set up by the United Nations Development Program (UNDP) to finance initiatives of non-governmental organisations (NGOs) with the short term objective: "to have a great and immediate impact on the ground". ACLEDA's parent project, The Small Enterprise and Informal Sector Promotion Project (SEISP), was a roughly drawn small business development, vocational education and employment generation project for demobilised soldiers. The provision of microfinance together with non-financial services (training, enterprise development and social services, among others) gave the project a social dimension. When the project was approved for USD4.3 million, it was decided that the geographic focus would be on five provinces in Cambodia while target groups were to include returned refugees, widows, internally displaced persons and other victims of war.

The breakthrough for ACLEDA came when The International Labour Organisation (ILO) asked SEISP staff if there was any interest in creating their own organisation. On January 19, 1993, twenty-eight SEISP staff convened to plan the next steps. Organisational options were discussed. In all honesty, this group of founders did not expect that they could become a private business. Hence, an NGO seemed the best option. They submitted the application to the Supreme National Council. In February 1993, a messenger brought a letter from King Sihanouk confirming the Supreme National Council's recognition of ACLEDA as an NGO. The International Labour Organisation (ILO) provided USD630,000 in funds and dispatched some of their top experts to help set up the NGO.

With the ILO and UNDP as ‘godparents’, ACLEDA’s headquarters was set up in Phnom Penh (Figure 1).

Figure 1 ACLEDA’s first headquarters where they operated from 1992-1993.



The first meeting was to decide on the logo. The entire staff of 28 gathered to decide on a symbol that would represent the newly set-up organisation. Hoping to spark an inspired discussion, Channy opened the floor to suggestions from employees. However, no one dared to speak-up. Years of war and oppression had left them fearful. Channy, primarily to get the discussion moving, then suggested a pig as their logo. This worked and several hours of lively debate ensued. After much deliberation, the golden Hong bird (Figure 2) was

chosen as ACLEDA’s logo. In Khmer folklore, the mythical golden creature rescues people from drowning.

Figure 2 The golden Hong bird on ACLEDA’s logo.



Although the Cambodian Banking Law already existed at that time, it had no regulations for microfinance. The newly set-up organisation sent delegations to visit and conduct dialogues with several innovative leaders and institutions - Professor Dr Muhammad Yunus and his Grameen Bank in Bangladesh, the Bank for Agriculture and Agricultural Cooperatives’ joint liability groups in neighbouring Thailand, the Unit Desa methodology of Bank Rakyat

Indonesia and the NGO for commercial bank transformation of BancoSol in Bolivia. The delegation observed that the establishment of these foreign institutions was unlike the experiences and challenges ACLEDA had to deal with as they were not established in countries recently recovering from war. Challenges they faced included the threat of the country's central bank being blown up and the national currency, the Riel, being declared worthless. Distrust of the currency and the financial system had remained high among Cambodians.

Nevertheless, these situations did not deter ACLEDA's founders from building a professional, values-driven organisation. Channy, the current President and Group Managing Director of ACLEDA, together with his colleagues at that time, wrote the by-laws establishing ACLEDA. Leading by example and equal employee opportunities were set as corporate values. ACLEDA also embraces transparency in all its work processes. Much later, these values would be seen as being key to ACLEDA's growth and garnered a lot of respect from other finance players.

In its first year itself, five branches or 'service posts' were formed. However, making ACLEDA known to the public was a slow process. At that time walkie-talkies with high antenna were the main form of communication. Advertising was limited to one weekly local newspaper and a single local radio station. Refusing to be deterred, ACLEDA took creative advertising to another level. The bank hired the country's most famous pop star to come up with a theme song to reach its customers in rural areas. The music was well-received, people started dancing and ACLEDA's message was spread widely - the simple lyric explained to Cambodians how a metal box can spit out money when you slide a card into it.

There were two types of loans being offered by ACLEDA – one for the informal sector using the group loan and group guarantee methodologies and the second type being offered to individuals to set up small businesses. Funds for the loans were generated from international development partners. At each 'service post', there would be two to three credit officers in-charge of giving out loans. Credit officers were allowed to authorise loans of up to USD5,000. Anything higher would need to be referred upwards. Credit checks included interviews with the local authorities, neighbours and friends which could take one to two days. Credit officers rarely turned down customers but would usually advise them to borrow less than what they asked for. ACLEDA also provided entrepreneurship training which was focused on business plan development including costing, pricing, financial accounting, stock taking and marketing. This unique and responsible formula not only attracted Cambodians but was also true to the founders' intention of combating poverty by providing capital and knowledge for entrepreneurship.

However, due to the rules and regulations of the donors' organisations, funds from the international development partners were only available for 2 years. Even though the sizes of loans given out were small, at the end of its second year, ACLEDA was having problems meeting the high demand for loans. ACLEDA relied totally on grants and donors' support. Without them, it would not be able to maintain both its operations and programmes.

Another challenge faced by ACLEDA was skill sets among the staff. Employees recruited into ACLEDA were not university graduates. Some came from the government and some from refugee camps in Thailand. Therefore, educational background, experience and culture varied hugely.

Hence, ACLEDA started looking ahead to develop its business plan and undertook financial projections to address key sustainability targets. ACLEDA identified four sustainability areas to be developed within five years. They were:

- **Organisational sustainability**, which refers to the recognition of ACLEDA as an NGO for small and micro enterprise development by the public, as well as the target group of customers.
- **Programming sustainability**, which refers to training programmes developed and conducted for micro-entrepreneurs and small enterprises, as well as loans for them.
- **Technical sustainability**, which refers to the ability of ACLEDA to develop its own credit and other policies, procedures and guidelines themselves without the technical support from outside consultants and experts.
- **Financial sustainability**, which refers to full self-financing for its operations.

All four sustainability aims were successfully carried out in stages within the five-year time frame: Organisational sustainability in 1995, programme expansion by 1996, technical expertise by 1997, and financial sustainability by 1998.

THE MAN BEHIND ACLEDA

For those living in a war-torn country like Cambodia, trauma is not only a permanent state of mind but it also becomes a way of life. No one understood this better than In Channy, President and Group Managing Director of ACLEDA Bank. Like millions of Cambodians, he was forced to leave his home at gunpoint when the Khmer Rouge invaded and captured the capital city of Phnom Penh in 1975. At the age of 14, Channy was separated from his family and forced into hard labour in Cambodia's infamous "killing fields".

In between forced runs from village to village, he found himself assigned by the regime's local village chiefs to do back-breaking menial tasks such as rice planting and looking after herds of cows. "I remember the exact number of cows under my care vividly until this day – 320," Channy recalled. "I had to count them every day. Every morning when I sent them to the field and every evening when the cows came back. Losing one cow would mean I would be killed," he said. "We had very little to eat and the physical hardship was back-breaking". That was how hard and terrible life was under the Khmer Rouge regime.

Two years after the Vietnam invasion of Cambodia in 1979, Channy fled his home country to take refuge in neighbouring Thailand. Here, he would spend the next decade growing up in a series of refugee camps along the country's border. It was during these repressive times that he completed his high school studies under the United Nations (UN) continuing education programme, obtained his bachelor's degree and subsequently embarked on a career as an English teacher in a refugee camp. Channy's first big break came in 1989 when he was awarded a US government scholarship to study business management and management accounting at the Gwynedd Mercy College in Pennsylvania. Channy was one of two Cambodians lucky enough to be awarded scholarships.

Armed with a scroll, Channy returned to Phnom Penh in 1992 to work as a loan officer in a small relief organisation funded by the UNDP and ILO, which provided loans to disadvantaged groups, mostly former refugees, demobilised soldiers and war widows. But much to his dismay, he soon realised that the country needed much broader access to finance. Living in a post-conflict country with a struggling economy and limited formal employment, many Cambodians had to turn to self-employment by starting their own small businesses. But financial infrastructure to support these micro entrepreneurs was limited. This realisation inspired him and a small group of people to come together to establish ACLEDA with a strong belief in transparency and zero tolerance for corruption. As the first president of the association, Channy began on a journey that would see him staying at the helm of ACLEDA until today.

But what had started out as a credit programme under the UNDP/ILO to aid poor Cambodians to rebuild their lives and create new livelihoods soon transformed into a viable microfinance institution. Channy soon realised that he needed to better equip himself with the business of making loans. He started attending night school to earn his Masters and then his Doctorate Degrees in Business Administration from Norton University, Phnom Penh, Cambodia. In 1998, he completed an executive course on Financial Institutions for Private Enterprise Development (FIPED) at Harvard University, USA. He also received a Diploma on

'Productivity Improvement and Management for Asian Economies in Transition', from the International Labour Organisation Training Centre (ITCILO), Torino, Italy. The former English teacher is also a Graduate of the Australian Institute of Company Directors (GAICD).

Despite his many accolades, Channy is a man of no airs and graces. His character is reflected in the bank's virtues – ACLEDA has always stayed close to its original customers, the rural poor. Channy maintained that the bank would not stray from its philosophy. The teacher from the refugee camp had financed a number of dreams and along the way seen his own dream come true of empowering Cambodia's poor through enterprise financing. Channy has certainly made a great difference in the way financial services reach the Cambodian people.

TRUST IS A PRECIOUS COMMODITY

The deep scars in the psychology of the nation left by the Khmer Rouge form the backdrop to much of the inherent mistrust amongst Cambodians. Money and education were abolished and all aspects of life were controlled by the regime. As part of the re-education process, the Khmer Rouge targeted the educated elites, those in possession of private property, those with Western values, or who practiced religion, as these people were labelled as being enemies of the state. People had to hide their pasts and personal circumstances for the fear of being captured and executed or sent to the killing fields. People were incentivised to give information that could lead to the identification and arrest of these so called enemies of the state. This created a culture of total fear and suspicion and ultimately destroyed trust among family members, neighbours and friends. Years of civil wars had also left the people of Cambodia traumatised.

At a time when trust was low, ACLEDA was eager to do business. As Channy recalls "one of the most daunting challenges to overcome was the lack of trust". Low-income Cambodians, whether they live in rural or urban areas, do save. However, because of the inherent distrust in formal institutions borne out of bank failures in the past, as well as a result of uncertainty in the political arena, poor people prefer to save through informal savings mechanisms over which they feel they have greater control. As a matter of principal, ACLEDA did not impose mandatory savings requirements on its customers.

ACLEDA was very focused in promoting transparency in banking and finance that the customers can fully trust, hence, its slogan "The Bank for the People, The Bank You Can Trust". As part of its effort in gaining the trust of Cambodians, 'truth in advertising' was

strictly enforced when developing, advertising and selling its financial products and services. The bank ensured that full and detailed information was provided in its brochures, on its website and in other promotional materials. In addition to that, customer confidentiality is inculcated in all its staff during induction training.

PAVING THE ROAD FOR TRANSFORMATION

During the rehabilitation stage of the country, commercial banks were providing credit, savings and payment services to people living in the city centres and well-populated areas. They found it difficult to lower their criteria to reach the rural and poorer segments, due to a lack of expertise and not having wide enough networks. The high cost and staff requirements for a small transaction also did not appeal much to commercial banks. While, the MFIs had the expertise but they were only allowed to perform one of the three banking services, usually credit provision. ACLEDA however, was dominant in the financial inclusion market, had all the resources and was willing to reach out to people outside of the city. It was safe to say that ACLEDA was ahead of the pack.

In due course, ACLEDA realised that its growing customers were in need of other services besides loans such as savings and payment services. Hence, in 1997, it began its plans for transformation into a licensed microfinance institution. Three independent appraisals were conducted to assess ACLEDA's potential to transform. The appraisals compared ACLEDA's performance, structure and environment with other notable institutions of the time.

In 1999 the National Bank of Cambodia promulgated the Law on Banking and Financial Institutions, which defined running a banking operation. It stated clearly that any institution providing loans, savings, or payment services is subject to licensing.

Upon seeing the new law on banking, Channy had doubts that ACLEDA would be able to comply. As an NGO, it could not involve itself with any form of borrowing, be it from local and international banks or other financial institutions. Added to that, there were no parties interested in investing in the organisation's future plan for loan growth. Investors that he approached were hesitant noting that there were no owners or persons responsible and that the current funds were only donations or grants from donors.

Channy changed his strategy. He convened a staff national assembly to explain the proposal to transform into a bank. Some of the staff requested to know why ACLEDA NGO needed

to transform itself into a commercial entity when it was already becoming self-financing. The assembly discussed the pros and cons at length. Out of 319 members of staff, less than 10 of them voted against the transformation.

With assistance from the US Agency for International Development (USAID), International Finance Corporation (IFC)/Mekong Private Sector Development Facility (MPDF) and UNDP, a three-year transformation programme was developed. From 1998 – 1999, ACLEDA was focused on meeting The National Bank of Cambodia's (NBC) criteria to qualify for the specialised bank license. Areas that were developed over this period were its capital base and ownership structure as well as its management team being strengthened. Finally, on 7 October 2000, NBC granted ACLEDA NGO a specialised banking license transforming it into ACLEDA Bank Ltd. with a paid up capital of USD4 million. During this process, the existing NGO transferred its assets and liabilities (long term loans from donors) to the new ACLEDA Bank. In return, it received 32% of the Bank's capital of USD4 million; the ACLEDA Staff Association, a trust established to give its staff an equity interest, purchased up to 19% and the remaining 49% was taken up in equal parts by four foreign investors, namely the International Finance Corporation (part of the World Bank), DEG (Germany), FMO (Netherlands) and Triodos Doeun (Netherlands).

ACLEDA viewed the specialised banking license as a stepping stone to a commercial license. Plans were made to remain as a specialised bank from 2000-2006 with microfinance remaining a core business.

ACLEDA leveraged on its dominant position in provincial and rural areas by targeting the lower segment of the market. It provided micro and small scale credit, small to medium enterprise banking, retail banking and cash management services. The public at large was enjoying the benefits of ready access to a whole range of savings and transfer products. Both individuals and small businesses benefited from this. Its total assets grew to USD22.2 million. At the same time an increasing number of companies also grew from small to medium-sized firms. ACLEDA's customers were growing along with the organisation.

With peace and political stability, the speed of financial sector development in Cambodia picked up between 1999 and 2007. Strong credit growth was observed as the country caught-up with the rest of the region. In 2002, the number of depositors grew from 3,636 to 19,070 – an increase of 424 percent. ACLEDA Bank became the leading supplier of retail banking services in Cambodia.

By the end of March, 2003, ten years after its establishment ACLEDA had seventeen branches across the country and employed 971 people. The bank expanded its network connecting villagers to the modern economy. Factory workers were able to send salaries home to their families in the villages, and were also able to open bank accounts from a local branch. Farmers could travel to the nearby ACLEDA branch to deposit their savings and small enterprises transfer payments to suppliers. Being close to its customers, ACLEDA was able to serve them better and faster. This factor became the competitive advantage of ACLEDA since other financial institutions were still concentrating their operations in the city area.

At the rate that ACLEDA was expanding, the organisation found it challenging to manage many different projects in different locations across Cambodia due to limited connectivity and communications plus a very poor road infrastructure. Hence, it invested in an online Information Technology System connecting all branches and offices where the management and staff could monitor performance regularly and the managing of loan portfolios could have done in a timely manner. The system was also able to keep track and prevent any potential fraud in real time. The bank opened up banking services to new communities in new locations by providing on-line banking services. In 2010, its ATM network was also made available 24/7 which enabled customers to access their funds at any time and at their own convenience, irrespective of the normal opening hours of the bank or national holidays. In the same year, ACLEDA also launched 'ACLEDA Unity', its mobile phone banking service which offered financial services in both Khmer and English languages to every village across Cambodia.

The specialised banking license was limited to specific banking activities and it was only valid for a three-year period. In view of the bank's vision to expand its range of funding options (for example, equity injection, taking public deposits and obtaining commercial interbank loans) to support its core microfinance business, ACLEDA's board of directors, its international development partners and the management concluded that ACLEDA should apply for a license as a full-fledged commercial bank. The move would also provide a secure regulatory framework which was lacking under its current status.

However, that decision did not come without its challenges. Channy found it difficult to convince commercial investors to invest in an organisation like ACLEDA. The bank could only attract Development Financial Institutions (DFI) such as IFC, DEG, FMO and Triodos Doen since these organisations were mandated to help organisations like ACLEDA to

build their capacity and to be able to stand on their own feet. Besides, the company by-laws of those DFIs stated clearly that they could only invest in a company like ACLEDA for 3 to 5 years. If they chose to invest for longer, it would be seen as a violation of their statutes. In the case of ACLEDA, the DFIs helped bridge the transformation from a specialised bank to a fully-fledged commercial bank by attracting commercial investors to invest in ACLEDA. Eventually, with a paid up capital of USD13 million, ACLEDA Bank Ltd. was licensed by the National Bank of Cambodia as a commercial bank and renamed ACLEDA Bank Plc on December 1, 2003. ACLEDA Bank Plc would provide full banking services according to the needs of its customers and the market.

In January 2009, ACLEDA's capital was increased from USD50 million to USD60 million and thereafter further increased to USD68.15 million in June 2009. However, the global financial crisis dented Cambodia's economy and ACLEDA's growth was affected. Its net profit was down by more than a half. Still, Channy insisted that Cambodia's recession would be short and that the bank should position itself for a recovery. So he asked ACLEDA's board to support more staff recruitment and training, despite the sharp slowdown. In June 2011, the bank successfully increased its capital to USD78 million and further increased it to USD88 million in February 2012. On 25 May, 2012, ACLEDA Bank raised its issued and paid-up capital from USD88.4 million to more than USD113 million.

The bank's capital grew exponentially in the years following its inception. By the end of 2013, ACLEDA had captured 20% of the credit market share and 21.2% for savings and deposits respectively. It had 335,627 active borrowing customers (63% were micro business customers; 24% were small business customers; and 13% were medium and corporate customers); with loans outstanding of USD1.47 billion. It had accumulated 1,105,167 accounts with a balance of USD1.64 billion. As at 31 December 2014, the authorised share capital comprised USD225,535,605² ordinary shares. All issued shares are fully paid by its shareholders and their respective interests in ACLEDA (Table 1, page 20).

Within ten years of its original launch, ACLEDA had the largest retail-bank network in the country. Today it has 255 branches in Cambodia where 63% of the roughly 1.3m Cambodians with a bank account have one with ACLEDA. Its total loan portfolio is worth over USD2 billion. As part of its growth strategy, ACLEDA replicated its success in Cambodia

² Source: ACLEDA Bank, Annual Report 2014.

to other ASEAN countries, especially along the Mekong region. In 2008 ACLEDA moved into neighbouring Lao PDR, where it now has 27 branches. When ACLEDA Bank Laos Ltd. met its break-even point in early 2013, it expanded into Myanmar with a paid-up capital of USD10 million. In March 2013, ACLEDA invested and owned 100 percent of ACLEDA MFI Myanmar Co. Ltd. Vietnam, Thailand and China were also included in its long-term expansion plans.

In June 2015, ACLEDA injected another USD40 million to finance branch expansions locally and internationally as well as its electronic banking infrastructure. This was the twelfth time ACLEDA injected profits back into its operations, which now stands around USD266 million in registered capital.

UNITY AND TRANSPARENCY – A RECIPE FOR SUCCESS

In the beginning, skills in accounting were weak, and management members as well as the staff needed to be trained. Being well versed in accounting, Channy himself took time to teach these skills to his colleagues. This move was well appreciated and cultivated a culture of support for each other – an attitude which continued through the years. Appointments and promotions of staff at every level are based entirely on merit regardless of gender or physical disability (apart from jobs which would require physical abilities like guards or messengers.) As the bank grew, the number of staff increased as much as 84 percent from 2003 to 2012. By the end of December 2013, more than 9,000 staff were manning the 238 offices of ACLEDA Bank located all around the country. The bank not only provided university graduates with good jobs, but it also reached out to the country's poorest through its widespread branches making their life a little easier by protecting them against failed harvests and industrial accidents.

ACLEDA promotes itself as a learning organisation. Whenever possible, ACLEDA will recruit fresh graduates and inexperienced talent. The bank would provide them with comprehensive training programmes. Whereas, experienced staff who wish to further develop themselves were also encouraged to do so through external programmes. ACLEDA established its ACLEDA Training Centre in January 2009 with financial support from KfW³

³ Formerly known as KfW Bankengruppe (banking group), KfW is a German government-owned development bank, formed in 1948 and based in Frankfurt. Its name originally comes from Kreditanstalt für Wiederaufbau (“Reconstruction Credit Institute”).

to provide training in microfinance services. Through this in-house training centre, ACLEDA welcomed bankers from around the world. In 2012 alone, it provided training to 265 local students and 110 international students from Laos, Myanmar, Afghanistan, China, Indonesia, Luxembourg, Nigeria, Philippines, Sri Lanka, Thailand, Timor Leste, and Vanuatu. To assist in the development of microfinance, ACLEDA also provided 1,280 internships for local students and international students from Malaysia and Thailand.

Working with a group of staff that hailed from different backgrounds, Channy as well as members of the board and management team had to come up with a strategy which would allow them to work together with complete trust to ensure decisions could be made with confidence. A set of general policies, procedures, and guidelines were produced with the participation of all staff at all levels to ensure their commitment and devotion for the long term development of the bank. In consultation with the staff, the bank drew up social policies covering matters of Code of Conduct, Human Resources Management, Health & Safety, External Relations, Freedom of Association and the Right to Collective Bargaining. These were published on Lotus Notes⁴ so that every member of the staff had free (and paperless) access to the most up-to-date version.

The Health and Safety Policy fell under the direct responsibility of the Executive Vice President & Group Chief Administrative Officer. ACLEDA's headquarters were equipped with a clinic under the care of a full time doctor and two full time nurses. Training on health and safety working practices was provided to all employees under the doctor's supervision. Taking into account the number of physically challenged individuals in Cambodia, the organisation ensured that new or refurbished office buildings were equipped with adequate access facilities. As part of its commitment to being an environmental-friendly organisation, ACLEDA also incorporated energy efficient systems into its buildings.

It was imperative for ACLEDA that staff, its greatest asset, should have a stake in the bank. ACLEDA's management invited employees to participate as owners through its Employee Stock Ownership Plan (ESOP). The management team felt that this move could enhance employee productivity. In its effort to show dedication and care towards the welfare of staff, employees were also represented by an elected Staff Representative Committee, which excluded the management.

⁴ A desktop application that organises and displays databases on a user's local workstation.

Channy declared that “the organisation is us, not only me. We talk, we participate”. According to Channy, he puts 100 percent trust in his employees and this has allowed them to make decisions with confidence. He and his management team employ the participatory approach when it comes to decision making. The team together with himself will do the presentation, conduct research and brainstorm on the pros and cons of a proposal or new ideas. Albeit it may be slow in getting the information through the research and information gathering process and long hours of discussions, the management feels that this approach provides the avenue for all staff to share their opinions and for their voices to be heard which assists in the implementation of new ideas. Similarly, in such matters as partnerships, joint ventures and referrals, it is participatory decision making that has the final say. Differences among the board and senior executives in a decision are also resolved through a participatory approach. This is because Channy believes that presentation skills as well as the ability to explain both sides of an argument are crucial skills to acquire as a leader. This enables the leader to encourage the whole group to work together to solve any problems they might be facing and to participate fully in decision making.

ACLEDA does not ally itself with any particular political party or creeds but seeks to cooperate and work in harmony with the elected government. To this day, the bank regularly participates in meetings with senior officials through industry associations, business forums, chambers of commerce and other group activities. Individual meetings with officials are conducted in a transparent manner.

ACLEDA also has strict rules governing ‘entertainment’ or other activities which might be open to question on the grounds of integrity, including the provision of banking services at non-commercial or preferential rates. The bank practices ‘zero tolerance’ for both internal and external corruption and any transgressions are dealt with seriously. A high level committee under the chairmanship of the Vice-Chairman of the Board has been specifically tasked with the responsibility of setting and monitoring the bank’s moral and ethical standards and respect for human rights. ACLEDA supports international conventions which prohibit the provision of credit to, or otherwise support, any activities which might harm the environment, be morally repugnant or jeopardise human rights. In particular, the bank has in place policies which forbid involvement with exploitative forms of forced or child labour, trade in weapons and munitions, gambling, casinos, brothels, regulated wildlife or wildlife products as well as production or trade-in radioactive materials or significant volumes of hazardous chemicals. Strict monitoring processes have been instigated which require customers to verify that their businesses conform to these principles.

NON-PERFORMING LOANS

Even after the transformation to a commercial bank, ACLEDA continues to serve the same type of clients. ACLEDA has policy restrictions against staff overselling and encouraging customers to over-commit themselves or to buy inappropriate financial products or services. ACLEDA's loan officers were trained to be selective when it comes to loan applicants. To ensure the staff do not oversell or over commit its customers, ACLEDA required all small and medium business loan applicants to submit a simple business plan. Loan officers would 'test' its potential viability with questions e.g. business location, rent, and estimated daily profit. Various informal measures were also taken such as speaking to the applicant's neighbours, friends, relatives as well as leaders of the community such as village chiefs and monks. ACLEDA tried its best to appoint loan officers that are from the same district or community as the applicant. From experience, it noticed that female borrowers client, which make up 52 percent of its loans profile are lower risk clients and are typically aged between 35 to 65 years of age.

Hence, most of ACLEDA's customers tend to be less affluent and its small loan sizes tend to have better repayment records. Since 2010 onwards, ACLEDA has managed to maintain the non-performing loan ratios at below 1.0%.

Year	2010	2011	2012	2013	2014
Loans growth	38.4%	35.4%	24.44%	16.92%	35.82%
NPL	0.43%	0.17%	0.27%	0.55%	0.36%
Deposits increment	32.5%	25.9%	27.29%	12.47%	34.04%

In 2010, loan demands picked-up in agriculture, the service sector and tourism, while general buying and the selling of homes also increased. With this diversification of loans into many economic sectors as well as support from better risk management, the amount of loan loss was reduced. The bank's strict portfolio quality control reduced the NPL ratio from 0.43 percent in 2010 to 0.17 percent in 2011.

Though there was an increment of 0.1 percent of the NPL ratio (0.17 percent in 2011 to 0.27 percent in 2012), this did not deter the bank. 2012 had seen a strong recovery in the agriculture sector despite the incidence of some drought and seasonal floods in several provinces. However, there was a slowdown in merchandise exports and the industrial sector, including construction.

The sluggish global recovery, floods and a slowdown in economic activity during the election period were seen as the reasons for the high increment in NPL in 2013. However, ACLEDA remained confident in the farmers due to the Government's new rice export policy. The policy had increased the availability of high grade rice mills for export, which guaranteed an available market for farmers. Also, although the NPL ratio increased to 0.55 percent, it was still low compared to Cambodia's NPL which was at 2.5 percent⁵ in 2013. Besides that, loan growth and deposits also saw the lowest increment in 2013. This was mostly due to substantial post-election deposit withdrawals.

However, things started to pick up in 2014. Challenges faced in the aftermath of political and social disruption (anti-government protests due to widespread allegations of electoral fraud) following the election had forced ACLEDA to take a new approach to risk management. Due to the bank's continuous efforts in cost reduction and risk control, ACLEDA's loan portfolio quality remained satisfactory with NPLs at 0.36 percent. The bank continued its efforts towards maintaining its low NPL rates by strengthening the quality of staff, so that they could better judge clients in terms of receiving loans, implementing a more stringent regulations on loan provisioning and imposing new limits on loans to the property sector and related parties.

As a domestic bank, ACLEDA has the added advantage of understanding its customers. The bank recognises that its customers have seasonal requirements for loans e.g. just before a festival season or public holiday. This profiling helps facilitate a low level of NPLs and allows the bank to manage its cash-flow effectively.

ACLEDA AND CAMBODIA'S ECONOMIC SITUATION

Cambodia was a post-conflict country with a struggling economy and limited financial infrastructure. Opportunities for formal employment were limited and many people, especially women, turned to self-employment by starting their own small businesses. The country needed broader access to finance, as well as strong financial institutions, that would make loans available to low-income people and micro entrepreneurs.

⁵ Source: National Bank of Cambodia, Annual Report 2013

MFIs and ACLEDA played an important role in providing loans to the rural sector, where agriculture is the main source of livelihood. In 2012, 18 percent of ACLEDA loans went to agriculture, which is high compared to other commercial banks in Cambodia. However, the credit supply is still far from meeting demands for credit in the agriculture sector. Moreover, the link between commercial banks and agriculture finance is still limited.

Typically, a commercial bank does not provide financial services to low-income communities for reasons such as the transaction size would likely be too small, the cost too high and it would require too much staff time to manage. However, ACLEDA viewed this from a different perspective altogether. ACLEDA considered its social performance to be very important and crucial to its business operations. One of its commitments towards social performance is by continuing to allow access to financial services to low income communities, while still making good returns for its shareholders, the management, and the staff. In 2012, there was an increase of 62,441 (42.63%) new micro business loans provided to the lower segment of the population compared to the previous year.

Servicing the low income community allows them to grow with the bank and opens doors and opportunities for them to utilise other financial products and services especially as it is observed that the customers do not stay as micro or small businesses forever. Every year, ACLEDA would conduct surveys on the living standards of its micro, small and medium business loan customers to look at the impact of its credit services. In its 2012 survey, 2,389 respondents were randomly selected from a sample of 288,775 active borrowers where 48.2% were traders, 46.9% were farmers/workers and 4.9% of them were from private companies/NGOs/civil servants. The response indicated that, across all sectors, 89.7% of respondents considered their wealth to have increased as a result of the credit provided to them by ACLEDA, while 8.2% who did not detect any noticeable change and 2.1% perceived that they were worse off than before. This shows that the bank had supported economic development and provided a very powerful tool in alleviating poverty.

ACLEDA Bank noticed that financial intermediation is a vital element in developing local economies and reduces the relative dependence of the country on foreign capital by utilising domestic savings for investments. Experience has shown that providing access to financial services to people raises income level and creates efficiency in the use of available capital. Therefore, further growth and development of banks/MFIs is likely to stimulate local economies which is one of the most effective ways to alleviate poverty.

WHAT THE FUTURE HOLDS

ACLEDA is one of the largest commercial banks in Cambodia, reaching over 350,000 clients through its branches across the country⁶. It followed a path to commercialisation as it had to comply with new regulations, but also because it wanted to expand the range of financial services it provided to its customers. Since it was granted a full commercial banking license, it has been expanding the range of services it offers. Besides rapid expansion in domestic and international transfers, ACLEDA has introduced cash management services like payrolls, payments, cheques and overdrafts. Its payroll services were widely used in Cambodia, with NGOs and international aid agencies as clients. Housing loans, credit cards and ATMs were launched in 2006. Subsequently, the bank not only cooperated with other commercial banks to provide inter-bank payment systems but also collaborated with other MFIs.

ACLEDA Bank is the first bank in Cambodia to be assigned international credit ratings by top international credit rating agencies. In November 2008, ACLEDA was issued a Counterparty Credit Rating of B+/B with a stable outlook by Standard & Poor's. While in June 2009, Moody's Investors Services issued ACLEDA a B1 rating with a stable outlook.

Cambodia has grown as a member of ASEAN with its microfinance framework and a more stable policy environment in place. ACLEDA Bank, rising from the scourge of war and nurtured by loyal staff and supportive development partners, has become a beacon of hope for MDIs, MFIs and other microcredit operators to emulate and follow. ACLEDA still maintains its original intention of servicing the lower income community by providing micro, small and medium entrepreneurs with the wherewithal to manage their financial resources efficiently. In doing so, ACLEDA has materially improved the quality of Cambodians' lives. This will ensure a sustainable and growing benefit for its shareholders, staff and community at large.

In order to continue to grow, the organisation realises that it needs to continue to be transparent in all manners of operation to remain a trusted bank that protect its clients, listens to them and grows with them. Channy, together with his team, the shareholders, Board of Directors and the Management Team continuously seek the highest level of excellence through regular meetings and dialogues and ensure that information moves

⁶ Source: www.ifc.org. "Expanding Access to Microfinance in Cambodia through a Strategic Partnership" (March 2014).

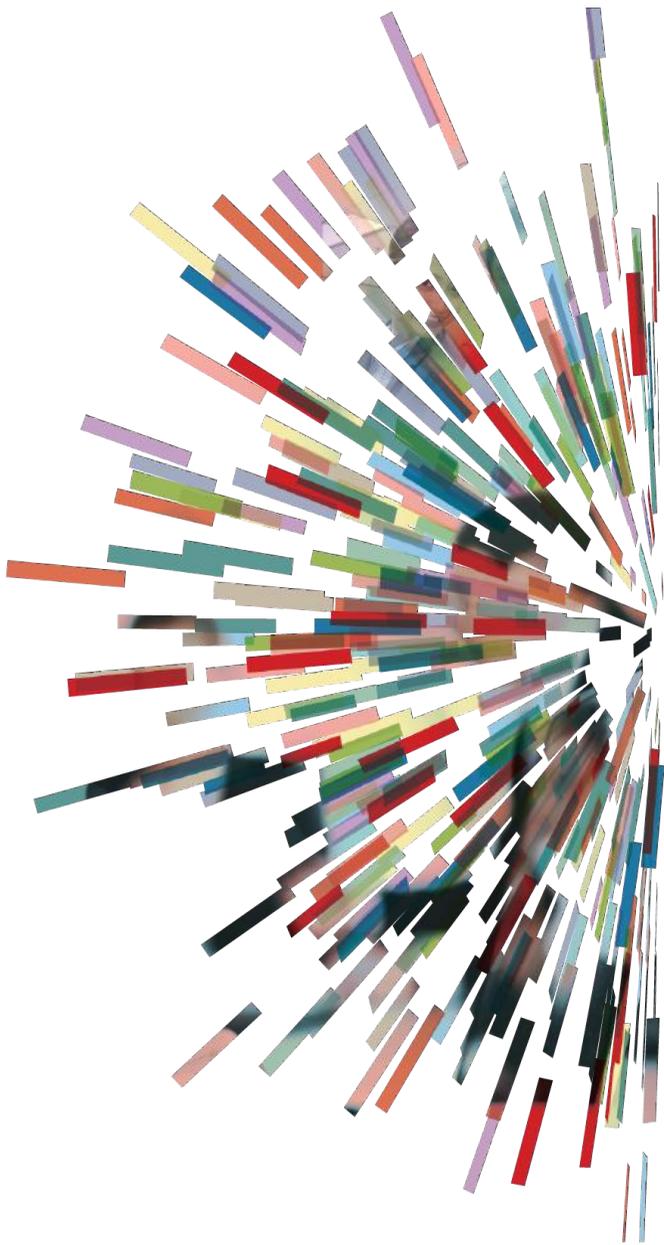
freely from the management to the employees and vice versa. Through its transformation, ACLEDA also transformed its people. On the day ACLEDA staff voted in favour of the transformation, opting to depend on themselves and leave the donors' protective cocoon, the company's horizons expanded.

The interview with Channy concluded with him reflecting on what is next for his bank which has grown, over a twenty year period, from humble beginnings to become a world-renowned commercial microfinance bank? "Is it now ripe to turn into a public bank?", "Can the bank still maintain and sustain its original mission of providing financial access to the small borrowers, the disadvantaged, the marginalised?" "Can it maintain its social responsibility and performance as it expands to more clients and geographic areas?" "Should the bank go for a full commercial bank and create another subsidiary to cater to the poorer segment of society?" "Should it further expand to other countries in the region?" "Are these moves helpful toward the fulfilment of its mission?" Channy is clearly not a man for standing still for long.

Table 1 Shareholders plus their share capital, amount and number of shares as at 31 December 2014⁷

Shareholders	Ownership (%)	Share Capital (USD)	Number of Shares
ASA Plc.	25.8939	58,399,925	58,399,925
ACLEDA NGO	25.1061	56,623,238	56,623,238
Sumitomo Mitsui Banking Corporation	12.2500	27,628,111	27,628,111
JSH Asian Holdings Limited	12.2500	27,628,111	27,628,111
COFIBRED S.A	12.2500	27,628,111	27,628,111
IFC	0.0000	-	-
ORIX Corporation	6.0000	13,532,136	13,532,136
Stichting TriodosDoen	1.5178	3,423,197	3,423,197
Triodos Fair Share Fund	2.1814	4,919,790	4,919,790
Triodos Microfinance Fund	2.5508	5,752,986	5,752,986
Total	100	255,535,605	255,535,605

⁷ Source: ACLEDA Bank, Annual Report 2014.



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