

**Microfinance Conference**  
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**“ACLEDA Bank's experience, and the applicability of the international experience to the Cambodian case”**

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## **1. Overview of Cambodia (2006):**

- **Population: 14 Million**
- **Gender: 51% are female**
- **Annual growth rate: 2.4%**
- **Average household size: 5.2 persons**
- **Population in the rural area: 84%**
- **The annual Income per capita is mere US\$512**

## **2. Overview of Banks in Cambodia**

- **17 commercial Banks**
- **7 specialized banks**
- **17 licensed Micro-finance Institutions, and**
- **24 MFI NGOs registered with the National Bank of Cambodia**
- **Cambodia has no capital market**
- **No credit bureau, but credit information sharing bureau.**
- **No deposit guarantee facility, and**
- **No inter-bank market**

# Overview of Banks in Cambodia

## 2.1. Highlighted Law on Banking and Financial Institutions

Commercial Banking Activities: Pursuance to the Article 2 of the law on Banking and Financial Institutions a bank can do full banking activities as follows:

- Credit operations for valuable consideration, including leasing, guarantees and commitments under signature;
- The collection of non-earmarked deposit from the public;
- The provision of means of payment to customer and the processing of said means of payment in national currency of foreign exchange.

## **2.2 The development and the improvement of the law on banking and finance.**

The National Bank of Cambodia (Central Bank of Cambodia) works in hand with micro-financial institution and micro-credit practitioners to develop and improve the law on banking and financial institutions to pave the way for more MFIs' integration into the financial industry and to grow. There was the improvement of the law on banking and financial institutions from late 1999. Microfinance Institutions have been recognized among other industries after the transformation of ACLEDA Bank in late 2000.

## **2.3 The development and the improvement of the law on banking and finance (cont.).**

Under the improved financial institutions law, banks are required to increase their capital base from US\$5 M to US\$13 M minimum capital. Compliance with the rules and regulations is strictly enforced. About half of them were closed, and others that could not qualify got downsized to specialized banks. The banking sector become stronger, more professional banks were established with more branches and offices. They expand to be closer to the customers. Among them ACLEDA Bank has expanded to 187 branches and offices throughout Cambodia , and it is the only bank that provides worldwide financial services for both urban and rural areas, especially targeting the lower segment of the market for small and micro enterprises, and others.

# Overview of Banks in Cambodia

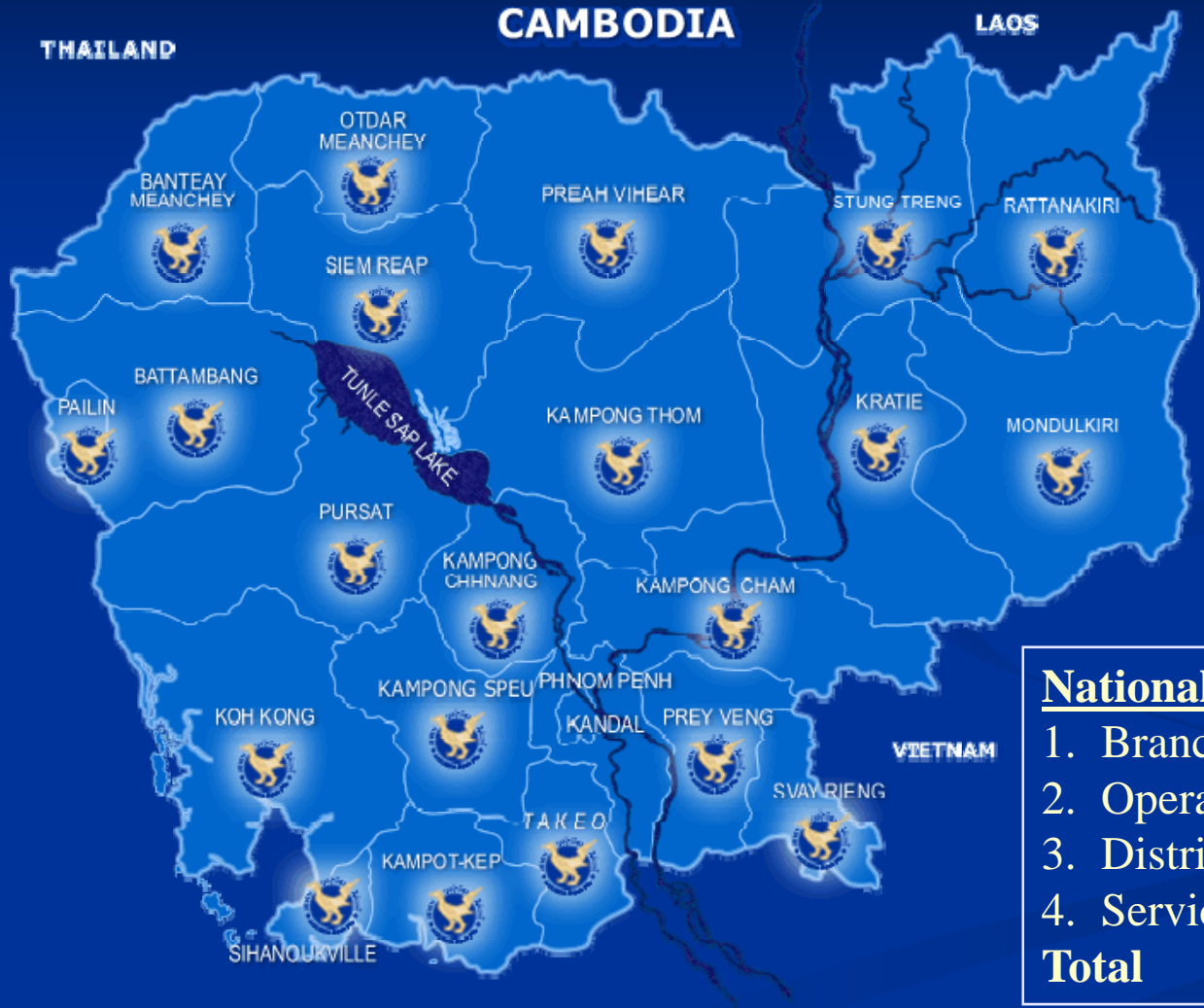
## 2.4 Highlight on savings & Deposits, Credit, and Assets

Year	Deposit		Credit		Assets	
	All Banks	ACLEDA	All Banks	ACLEDA	All Banks	ACLEDA
2003	606.1	13.2	361.2	40.5	974.3	48.2
2004	797.0	31.7	472.8	65.9	1,168.7	84.1
2005	908.7	61.9	549.1	99.9	1,356.8	123.8
2006	1,312.7	122.8	894.2	158.5	1,962.8	223
2007 (9 mths)	2,013.4	278.0	1,318.9	253.6	2,883.0	399.5

### 3. The experiences of ACLEDA Bank



### 3.1 ACLEDA Bank's network



**National Network:**

1. Branch	45
2. Operation Office	1
3. District Office	43
4. Service Post	98
<b>Total</b>	<b>187</b>

## **3.2 ACLEDA Bank's Vision & Mission**

### **a) ACLEDA Bank's Vision**

ACLEDA Bank's vision is to be Cambodia's leading commercial bank providing superior financial services to all segments of the community.

### **b) ACLEDA Bank's Mission**

Our mission is to provide micro, small and medium entrepreneurs with the wherewithal to manage their financial resources efficiently and by doing so to improve the quality of their lives. By achieving these goals we will ensure a sustainable and growing benefit to our shareholders, our staff and the community at large. We will at all times observe the highest principles of ethical behavior, respect for society, the law and the environment.

## **3.3 Evolution of ACLEDA**

**1992- UNDP/ILO Project SEISP**

**1993- ACLEDA NGO**

**1994- ACLEDA NGO Sub-contracted**

**1995- ACLEDA became MFI NGO**

**2000- ACLEDA became a specialized bank**

**2003- ACLEDA becomes a commercial bank**

**2006- ACLEDA granted first permanent license**

**2007 and Following years: ACLEDA Bank today and the future**

### 3.4 ACLEDA NGO, and NGO MFI

	1993	1994	1995	1996	1997
Portfolio (Mln)	0.22	0.35	1.16	2.56	3.91
Borrowers	1,475	2,344	6,539	19,409	44,533
Av. Per staff	53	35	65	98	195
Branches	5	6	11	20	27
OSS	0.07	0.18	0.25	0.47	0.85
ROE	- 0.82	-0.47	- 0.38	- 0.24	- 0.10

## 3.5 NGO to Specialized Bank

In ACLEDA's experience, there are three criteria, which we had to meet before taking this step of transformation into a specialized bank: ACLEDA needed to be fully sustainable in four aspects:

**Programming-** having the right products and Business plan.

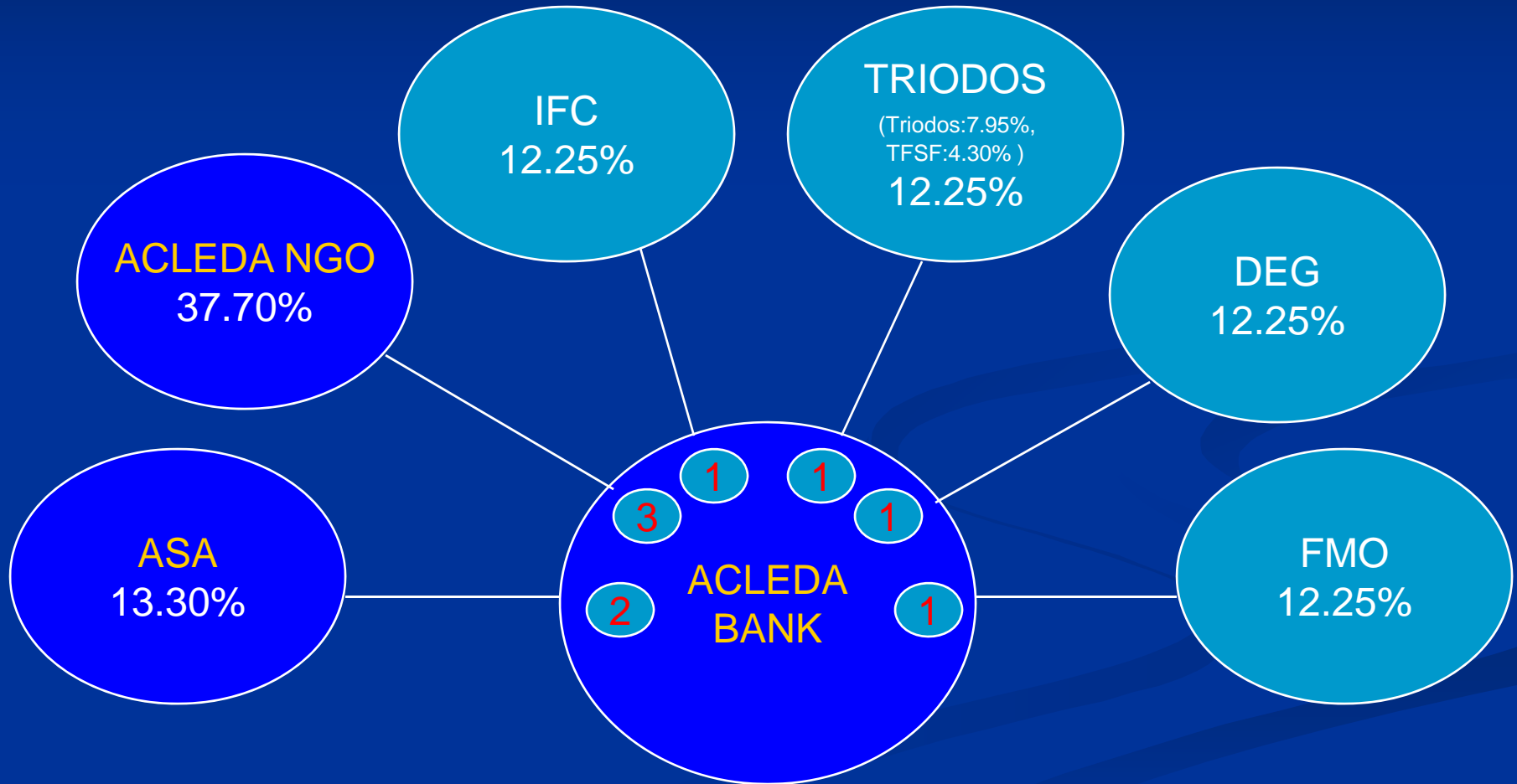
**Technical-** having the right skills and training to meet the business plan.

## NGO to Specialized Bank

**Organizational-** having the right management structure and network and  
**Financial viability-** controlling costs, ensuring portfolio quality and repayment regularly, and pricing loan products to cover administrative and funding costs.

ACLEDA needed to meet the **National Bank of Cambodia's (the Central Bank) criteria** to qualify for a banking license among the most important of which for to strengthen our capital base, diversify our ownership (ie. shareholder) structure and reinforce management.

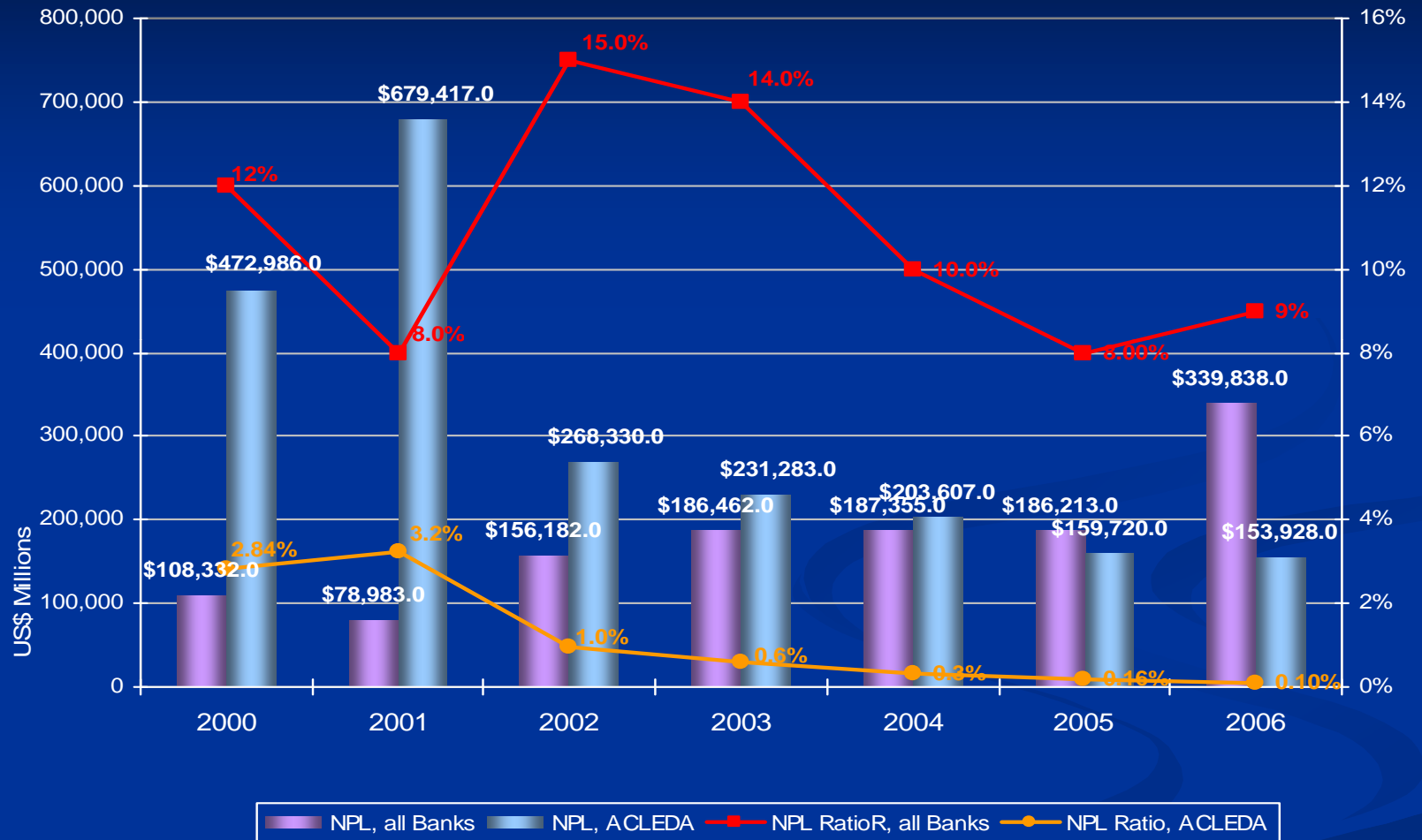
## 4. From MFI to Commercial Bank



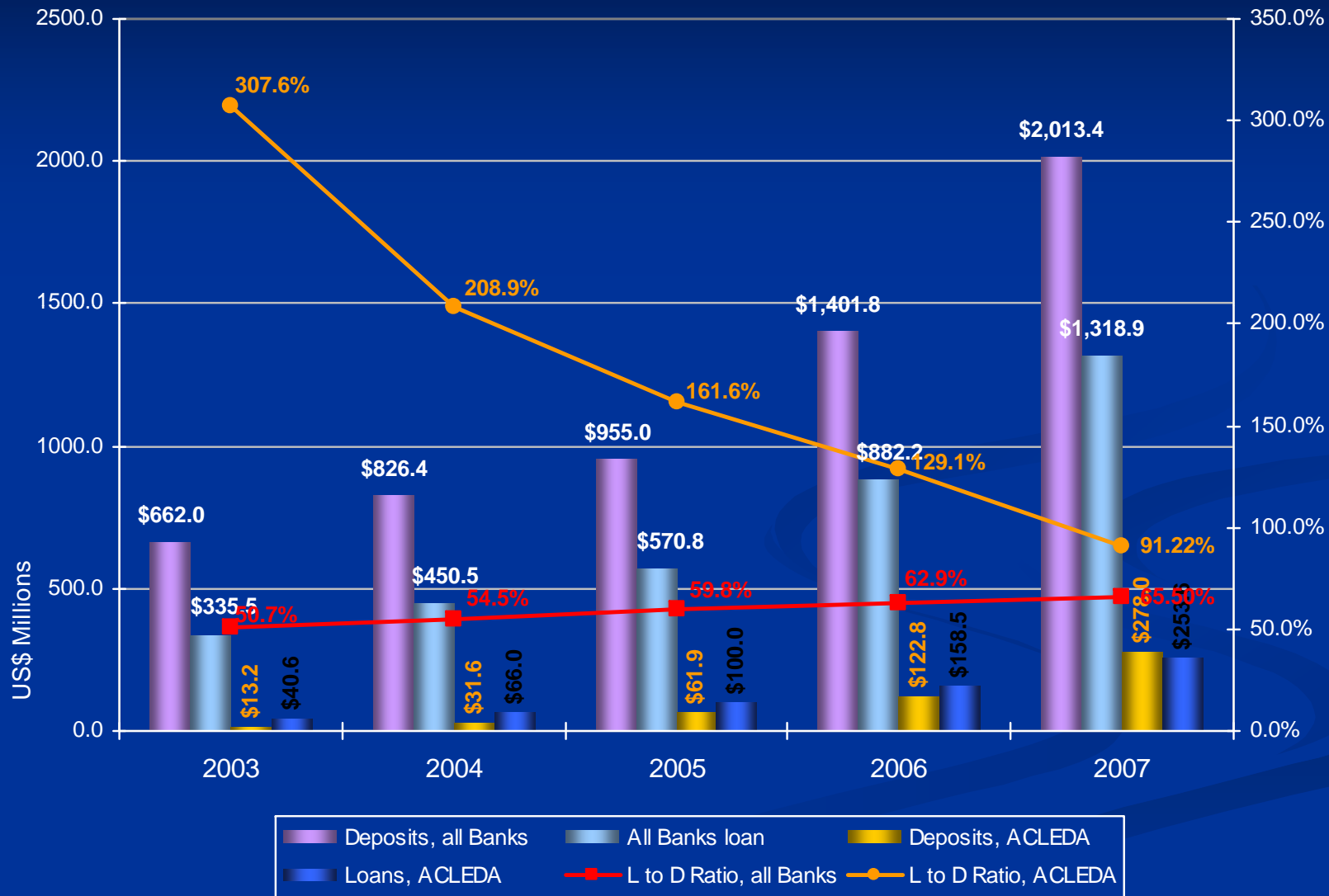
## 4.1 ACLEDA as commercial bank

	2002	2003	2004	2005	2006	2007 (10mths)
Assets (\$M)	31	48	84	124	223	424
Portfolio (\$M)	27	40	65	98	158	273
Borrowers	82,976	98,905	122,173	140,920	159,930	183,141
Av. Loan O/S	325	404	532	695	982	1,490
Deposits (\$M)	5.7	13	31	62	123	298
Branches	75	97	119	139	156	187
Profit after tax (\$M)	0.59	1.9	2.1	4.2	6.7	7.7
ROE	11.5 %	12.4%	12%	20.4%	15.7%	17.28%

## NON PERFORMING LOANS



## LOANS AND DEPOSITS 2003-2007



## 4.2 ACLEDA Bank vs. Traditional Commercial Bank

### ■ ACLEDA Bank

- Flexible for collateral
- Lending any amount from US\$20
- Accept any amount of savings and deposits
- Bank officers work in the community
- Branches and Offices in both urban and rural areas
- Offer bank products/ services tailor made to the customers' needs.
- The only bank in Cambodia gets rated

### ■ Traditional Commercial Bank

- Collateral only
- No loan less than \$1,000
- No small amount of deposit less than \$10 or provide no interest
- Customers always approach them at their branches and offices
- Branches and Offices only in urban areas (major towns or cities).
- Structured bank products/ services

### 4.3 Highlight some of ACLEDA Bank's Achievement.

□ The largest Bank in Cambodia, with more than 800,000 customers (198,796 loan customers; 237,422 depositors; and 370,642 customers for fund transfer); 187 branches and offices nation-wide, and internationally, ACLEDA Bank works with 82 Banks in 48 Countries with 785 Correspondent Branches. By the end of October 2007, ACLEDA Bank has total assets of US\$424 M.

□ Headquarters in Phnom Penh, Cambodia

□ Providing a wide range of Financial products and services in retail, and Electronic banking Services (such as ATMs, POS, Phone-Top-Up services).

□ The Best Partner of the Year award from Triodos-Doen at their 10th anniversary ceremony held in Netherlands in June 2004.

□ a Certificate of Excellence for outstanding performance and exceptional commitment for straight-through processing of payment and cash management from the Hong Kong and Shanghai Banking Corporation (every year) and in 2007 one from Standard Chartered Bank.

□ Received the Client Leadership Award for Good Corporate Governance, Community Involvement, Environmental and Social Sustainability and Commercial Success, from IFC in September 2005.

□ received the Financial Transparency Award from CGAP of the World Bank in June 2006.

- ❑ Became a member of VISA, the international card payment organisation in June 2006 to enhance our expanding ATM and point-of-sale network.
- ❑ Received the first permanent license from the National Bank of Cambodia in late 2006 in recognition of the bank's full compliance with the banking laws and regulations.

□ The first bank in Cambodia to take out Bankers Blanket Bond Insurance, Electronic and Computer Crime Insurance, and Directors and Officers Liabilities and Company Reimbursement Insurance on the international insurance market to protect customers' assets.

□ Became a member of the International Finance Corporation's Global Trade Finance Program in February 2007.

## **5. ACLEDA Bank, the strong believer in Inclusive Financial services for all:**

It has started its financial services with lending and business consultancy services to the entrepreneurs of micro-business, small business, and medium enterprises and gradually add other financial services such as:

### **A- Credit**

Micro, Small, Medium, Personal Loan; Housing Loan; Overdraft; Staff Loan; Revolving Credit Line, etc.

### **B- Cash Management**

Bank Confirmation; Cashier's check; Payroll; Cash/Distributor Collection; Supplier Payment; Cash Consolidation Account; Standing Order/Direct Debit; Exchange; Bank Draft; Foreign; Check Purchasing.

**C- Deposits**

Savings, Demand, Current, and Fixed; Corporate; Trust Account;  
Notice withdrawal.

**D- Transfer**

Local; International (SWIFT & Western Union)

**E- Trade Finance**

Documentary Credit (L/C); Documentary Collection; Shipping  
Guarantee; Bid Guarantee; Performance Guarantee; Advance  
Payment Guarantee; Payment Guarantee; Retention Guarantee;  
Traveler's Check

## 6. Other Bank's Services

In addition to the current financial services and products, ACLEDA Bank is developing Electronic Banking Systems so that ACLEDA Bank can services its customers 24 hours a day and 7 days a week and it is currently servicing the customers across the country:

- Start with 21 ATMs and will expand to match with our numbers of branches and offices in 5 years time.

Point of Sales introduction start with 2,000 POS.

- Phone top up service.
- Since ACLEDA Bank is already the VISA membership, the VISA Card service will be available at all ACLEDA Bank branches and offices later this year.
- International Expansion to ASEAN countries starting next year.

## **7. The applicability of the international experience to the Cambodian case:**

**Changes needed to be done for the transformation and to cope up with the new trend.**

Cultural: to change from NGO to a commercial organization requires an entirely different attitude, which must be adopted by the entire organization. While borrowers will beat a path to your door, depositors have to be enticed to trust their money with you. A whole new approach to service was required.

Management: a bank is a much more complex organism than microfinance NGO. The product range is more complex and Asset and Liability management becomes all important as resources of funding diversify. The management structure needs to become more formalized with specific responsibilities more clearly defined.

**Changes needed to be done for the transformation and to cope up with the new trend.**

**IT/MIS:** a more sophisticated organization requires more sophisticated IT and MIS systems and the information produced must be available on time if it is to be of any use. Apart from the cost, this also demands a more disciplined approach to managerial responsibilities in particular the use of management reports.

**Internal Controls:** more diversity in product and service range as well as customer base requires more precision in internal controls. Checks and Balances have to be introduced in key functions to reduce the risks of serious mistakes; the internal audit function must be strengthened to ensure that control procedures are being followed.

## Changes needed to be done for the transformation and to cope up with the new trend.

**Board of Directors:** a new Board with a broader range of skills and experiences was required to govern a more complicated business and give comfort to an expanded shareholder base, which included international shareholders.

**External Relations:** as an NGO we attract little outside interest, except for our immediate relationships with our customers and the donors. Now we have to deal with the public at large, other members of the financial community, regulators and even the media whose interests don't always coincide!

Products and services are developed according to the need of the customers.

Customers focus is enhancement.

## 8. Some Suggestions:

I would like to offer four suggestions to strengthen MFIs so that they can have a better chance to survive in high risk environments:

(i) '*Be sustainable*' MFIs should not be afraid of making known the fact that they are profitable and they will quickly find friends in the financial sector ready to support them in need.

MFIs should not assume that 'off-the-shelf' products that have worked elsewhere are sufficient for their own market. Whilst it is true that to achieve the necessary economies of scale microfinance products need to be homogeneous, the products themselves must to be well tuned to the needs of the local community.

(ii) '*Listen to your customer*', broaden the range of products outside lending into such areas as savings and transfers and the MFI will diversify its income stream and quickly achieve the critical mass to endure any upsets.

(iii) *MFIs should proactively integrate themselves into the mainstream financial system rather than operate outside it.* This will strengthen the system itself by making it larger, more diversified and inclusive and, most importantly, allow the MFIs to influence the evolution of the financial infrastructure from within. (Example: ACLEDA's role in encouraging more transparency and better corporate governance in Cambodia.).

**(iv) . *Act like a bank and you will be treated like a bank.*** MFIs often have larger office networks than the commercial banks so they can offer correspondent (transfer and cash management) services to the larger financial institutions – including foreign ones. This will broaden the base of relationships in the financial sector so there will be more people that the MFI can turn to in a crisis. It is also good business!

## **9. Conclusion**

With the investment of Shareholders, and partnership with the private sector, Banks and MFIs can continue to grow, and expand. With strong network both local and international, well-trained and professional staff, well managed financial recourses, and of course with diversified bank products/ services of choices, Banks and MFIs can capture large market share of both customers base and volume and increase the access to financial services for the majority in very sustainable manner, and for this, Banks and MFIs can achieve their utmost goal of the increase of its shareholders' value.

“More access to finance, more economic development. More microfinance institution need to be established since I also firmly believe that sustainable microfinance is an important tool for economic growth at the grass roots level. It provides a stimulus to social development and is a powerful weapon in the fight against poverty”.



[www.acledabank.com.kh](http://www.acledabank.com.kh)