NGOS IN BANKING: INSTITUTIONAL TRANSFORMATION, OWNERSHIP AND CONTROL OF CAMBODIA’S ACLEDA BANK

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Abstract

The incorporation of banks by NGOs in developing economies to funds the poor has catapulted microfinancing to the forefront of poverty alleviation strategies. This development is drawing attention to an interesting phenomenon: the transformation of social activists into a managerial class. Although starting life under NGO ownership and control as non-profit oriented, these entities can experience ‘mission creep’ as ownership changes and sustained profitability emerge as goals. This article assesses, through a case study of a major microfinance institution in Cambodia, whether the managerial elite can adapt from a welfare-based to a profit-oriented enterprise, while retaining its original social goals.

**Key Words:** NGOs, banking, ownership & control, managerial elite, Cambodia
In 1993, Cambodia’s war-torn economy began its slow recovery with the aid of a whole host of non-governmental organizations (NGOs). These NGOs would come to have a huge presence in the re-development of the Cambodian economy, specifically through the provisioning of credit to urban and rural communities to help nurture micro-enterprises. These enterprises would provide poor communities with sufficient subsistence as well as serve as an opportunity through which they could alleviate themselves out of poverty.¹ During the course of this attempt to reconstruct this extremely devastated economy, the need for NGOs themselves to incorporate companies that would operate as financial institutions providing aid to local communities became apparent. Finance-related companies that would be incorporated would include banks.

This practice of creating NGO-led banks to channel funds to the poor is not unique to Cambodia. Financial institutions of a similar sort have been established in other developing economies including in Bangladesh, the Philippines, Bolivia, El Salvador, Peru, and Kenya (Campion and White 2001; Bateman 2012). The Grameen Bank experiment in Bangladesh catapulted microfinancing to the forefront of poverty alleviation strategies and drew attention to the viability of NGOs in banking. However, microfinancing – and the institutional framework through which it has been practiced – has been the subject of much debate in the world of development studies. This debate extends to whether microfinancing is an instrument of poverty alleviation, since the issue of causality linking them is contested (see, for example, Ito 2008, 21). This debate also raises concerns whether the institutionalization of microfinancing as a business enterprise has compromised its original goals. These institutions have garnered much negative attention lately, interestingly enough because of the travails of Grameen’s founder Mohammad Yunus in his attempt to retain control of that institution.²
These debates are hardly surprising for two reasons. First, when the business ventures of NGOs, including those involved in the provisioning of funds to the poor for micro enterprises, emerge as major institutions, the issue of “mission drift” can arise (Adams and Perlmutter 1991). This drift involves a situation where tensions surface in the NGO between fulfilling its social objectives and running the enterprise in a manner that will help sustain its profitability and longevity. Second, even if NGOs and their businesses share common objectives, the nature (and efficacy) of microfinance institutions depends on the socio-economic and political environment under which they function. For instance, microfinance institutions may develop autonomously where banking sectors are weak or just emerging, while banks in well-developed financial sectors may initiate microfinance lending. However, whichever side one takes in the debate, there is no question that this subsector of banking has experienced and is undergoing rapid expansion.

The growing phenomenon of NGOs in business, specifically in banking, is increasingly drawing attention to the transformation of social activists into a managerial class. A growing coterie of executives in control of new forms of corporate institutions, in terms of their ownership pattern, has emerged; the primary goal of these executives is not profit maximization. This phenomenon in play is one where a shift is occurring in ownership and control of the enterprise, from local and international NGOs to a new professional managerial elite with a social orientation. The manner in which this socially-oriented managerial elite develops a banking enterprise within a typical neoliberal economic environment while also fulfilling their social missions has not been adequately assessed.
Cambodia’s ACLEDA Bank is widely acknowledged as one of the most successful financial institutions in terms of social provisioning for the poor. This bank is also one primary example of the emergence of an NGO institution controlled by a managerial elite long associated with the enterprise. It began life in 1993 as a national NGO, the Association of Cambodian Local Economic Development Agencies (ACLEDA). Originally a small business development project, ACLEDA has since progressed to become the largest domestically-owned commercial bank in Cambodia. Accounts of this institution have generally focused on its evolutionary trajectory, viz. how it prospered despite operating in a difficult if not hostile environment (see, for example, Clark 2006). Others trace how ACLEDA transformed itself from a welfare-oriented organization to one that adopted commercial principles as it began to function as a bank (Heng 2008, Mot 2008). In this process of transformation, Ito (2008) dealt with the important issue of whether ACLEDA’s original objectives had been compromised. The only work that viewed this NGO from a contextual perspective is that by Clark (2004, 1), a glowing appraisal of the role of donors who “found the winning instrument in each stage of ACLEDA’s development”.

This article reviews the growth and transformation of ACLEDA’s ownership and control pattern under this managerial elite, in a situational context characterized by poor infrastructure, limited entrepreneurial capacity, and a government bureaucracy that had insufficient resources and know-how to create a viable and well-functioning business environment. The limited capacity of national institutions to deliver financial aid and a dearth of fiscal resources presented ACLEDA with an economic opportunity to facilitate its development, led by executives who knew how to channel aid productively to people in search of a livelihood. ACLEDA Bank’s rapid rise to prominence as an NGO-led institution in the forefront of nurturing thriving enterprises that help alleviate poverty highlights the
important role of ownership and control of the organization, one that can be structured differently from profit-driven financial institutions. In the specific context of war-torn Cambodia, it was the interaction between stakeholders and the management that determined the bank’s mode of development, while fulfilling its social responsibilities.

This article is organized as follows. The next section lays out the particular country context under which ACLEDA had to function. Section 3 provides a brief overview of ACLEDA’s development since its inception in 1993. Section 4 discusses the roles played by ownership and control in the organization’s growth. Section 5 concludes by drawing lessons from this institutional framework for an accountable and sustainable functioning of microfinance institutions as a whole.

**Cambodia’s Country Context: A Fragile State**

Cambodia today is defined by a traumatic phase of its contemporary history. During the period of the Khmer Rouge from 1975 to 1979, the regime of Pol Pot evacuated the cities and sent the entire population on forced marches to undertake rural work projects. Taking a leaf from revolutionary Maoism, the regime espoused class struggle and destroyed all things considered Western, modern, and religious. An estimated two million Cambodians died from executions, overwork, starvation, and disease under the brutal regime. Thousands more fled as refugees into neighboring Thailand. All social and economic institutions were destroyed during the period of Cambodian banking system was completely destroyed. The national currency was abolished and the financial services sector obliterated. The invasion by the Vietnamese army in late 1978 ended the regime. Vietnamese rule over Cambodia was not accepted by the Khmer
Rouge in coalition with several Cambodian groups but more important China, which supported Pol Pot, and the United States, which imposed sanctions. It was only after a peace settlement was reached in October 1991 and the United Nations Transitional Authority was given the mandate to govern the country until elections were held that a degree of normalcy returned. Although elections in 1993 returned the country to civilian rule, it was not until a coup d’etat in 1997 by Hun Sen, the current prime minister, that Cambodia was ruled by a sole leader.⁴

Cambodia in the 1990s and even today is aptly characterized as a fragile state. According to UNESCO’s International Institute for Education Planning (IIEP 2011, 24), this fragility has several sources. In terms of governance, it suffered from weak institutions. In terms of security, it had a legacy of conflict and violence. Economically, it suffered widespread poverty and income inequality. Socially, there existed high levels of youth unemployment and marginalization of the poor. And, there was extensive environmental degradation. In this situation, institutions that are part and parcel of the government infrastructure remain poorly developed, while the bureaucracy has inadequate capacity to conceive and implement policies involving major structural changes and improving social services. Projects involving reconstruction and development were largely donor conceptualized and driven. While meeting short-term needs, such projects contributed little to solving the country’s institutional capacity development problem, while the domestic private sector has struggled to nurture dynamic entrepreneurial enterprises that contribute productively to the economy (Godfrey et al. 2002). Public capacity is further handicapped by the fiscal resource constraints the government faces, including to fund small-scale enterprises on a large-scale.
This institutional void has left the door open for NGOs to play a major role in the provision of services that are typically the responsibility of public institutions (ADB 2000, 41). Rasmussen (2010, 4) opined that NGOs had also played “a pivotal role in advocating for the rights of marginalized people, and increasingly in facilitating the strengthening of grassroots civil society organizations.” NGOs reputedly play a complementary role to the donor community in project implementation. As of 2009, about 300 international NGOs and 450 local ones were reportedly active in agriculture, health, and education, their main areas of activity (Rasmussen 2010, 7). NGO concerns included community development and training for the disabled. NGOs also saw themselves playing a role in giving civil society voice in national development (Rasmussen 2010: 16). In this last role, NGOs have begun to participate in national policy formulation (Chanboreth and Hach 2008).

But this positive view of Cambodia’s NGO sector is disputed. Concerns have been expressed that “white middle-class do-gooders seeking to make an ethically orchestrated impact” might not in fact be fostering the rise of a local civil society and that this development model of international donors working hand-in-hand with international NGOs might represent a form of “new colonialism” (Gellman and Dankoff 2007). In 2009, the Cambodian government prepared a law to regulate the many NGOs as a means of reducing abuses. These abuses include for-profit enterprises registering as NGOs to avoid payment of taxes. In doing so, they gained unfair advantage over registered private enterprises and contribute to retarding the development of the private sector (Guthrie 2008). The proposed law was challenged by no less an NGO than Amnesty International (2011). In effect, this challenge is not just to the law but to the government’s sovereignty over its domestic affairs.
One manifestation of institutional incapacity is the state of the Cambodian banking system. With the complete destruction of the banking system by Pol Pot, the Vietnamese administration that overthrew him had to introduce a mono-banking system when the National Bank of Cambodia (NBC), the government-owned central bank, was established in 1979 (Heng 2008, 28). Over time, a rudimentary banking system developed, but banks did not command public confidence and in any case had virtually no coverage outside towns. Microfinance institutions launched by NGOs and aid agencies emerged to fill this void. Many such institutions were established from around 1995 to 2000, a period described as “institutionalization” (Chou et al. 2008, 2).

Commercialization occurred as these institutions grew and prospered, creating a sector that rivaled the formal banking sector in size (Channy 2012, 5). Their growth had not gone unnoticed by the government, which instituted in 2000 mandatory licensing of microfinance institutions larger than a given size. The NBC issued regulations that divided microfinance institutions into three classes. The largest of these needed to be licensed, the medium-size ones only registered, and the smallest one could operate without registration. Regulation of the largest institutions were similar to that of commercial banks but that of the medium-sized institutions were lighter (Wada 2012, 20). The government, however, recognizes the contribution of the microfinance sector, as evidenced by Prime Minister Hun Sen declaring 2006 the “year of microfinance” (Heng 2008, 41).

The Cambodian government adopted a much more flexible attitude towards regulation, unlike many countries that seek to regulate the entire financial sector. Thus, some 60 NGOs in the microfinance sector operate unregistered (Channy 2012, 5). This “business friendly” approach is dictated partly by the government’s recognition of its own capacity and financial
resource constraints (Channy 2012, 10; IMF 2012). But it also reflects the government’s pragmatism with regard to this sector. Microfinance institutions are explicitly recognized as playing a major role in the country’s development in both the Financial Sector Development Plan 2001–2010 and the Plan for 2006 to 2015. The latter Plan explicitly recognizes that the microfinance sector has different needs and modes of operation from commercial banking (Cambodia 2007, 11). It also articulated the need to assist non-registered and community-based institutions (Cambodia 2007, 12). To give substance to these priorities, a special section had been established in the NBC to monitor and support microfinance institutions (Wada 2010, 18-19). 5

**ACLEDA Bank: Brief History**

The story of ACLEDA’s growth is very much affected by the above developments. It was born as a national NGO in January 1993 when Cambodia first returned to civilian rule, with practically no functioning institutions, and with resources coming mostly from foreign aid and priorities driven by donors. It was hardly surprising then that ACLEDA began life as a UNDP/ILO project, receiving strong support from other international development agencies along the way. ACLEDA’s objective was to promote micro as well as small- and medium-scale enterprises (SMEs) in rural areas by advancing credit as well as facilitating local economic development through business training programs (Heng 2008, 47). Its target groups were micro- and small businesses, while both individual and group lending was undertaken. Not much has been written about ACLEDA’s early operations, except that its mission and rural focus would have allowed it to establish a presence in the countryside that no commercial bank could match. Although other microfinance NGOs existed, ACLEDA was
the only one to operate in rural areas, giving it a major competitive advantage.\textsuperscript{6} An electronic brochure issued through the ILO (ACLEDA 1996) stated that as of 1996, the NGO had “more than 130 professional staff members in nine provincial branches and 11 district offices located in Phnom Penh, Battambang, Banteay Meanchey, Siem Reap, Kompong Cham, Takeo, Kompot, Sihanouk Ville, and Pursat provinces.…” As for performance, “in (the) three years (since its inception) ACLEDA has disbursed more than 4 million dollars in loans to more than 20,000 clients. The recovery rate for micro loans is 98 percent and for small business loans 96 percent. More than 90 percent of the clients are women… 34 percent of the loans go to production, 19 percent to services business, 21 percent to trade and 26 percent to agricultural activities.”

While the first phase of increasing outreach involved expanding geographical coverage, the second took the form of restructuring to become a bank. This second phase, commercialization, represents a logical extension of the first. Geographical expansion had allowed ACLEDA to achieve critical mass as a viable financial institution but this growth strategy had also reached its limits. At the same time, the competitive edge it enjoyed in the countryside meant that ACLEDA’s management could compete successfully with commercial banks. The benefits of this conversion include the ability to provide a larger range of financial services, such as deposits and savings, and the ability to raise equity and access commercial funds, especially from foreign sources (Channy 2002, 2-3; Mot 2009, 64). Impetus also came from feasibility studies undertaken by the ILO and UNDP, and by successful transformation precedents in Latin America (Clark 2006).\textsuperscript{7} However, the decision by ACLEDA to make the transition to a bank coincided with the NBC’s decision that microfinance institutions above a certain size had to obtain a license to operate. Furthermore,
the NBC had initiated discussions with microfinance institutions to integrate them into the national finance system (Chou et al. 2008, 2).

Thus, it was as much push as it was pull, as In Channy, a cofounder of ACLEDA, acknowledged when deciding whether the NGO should function as a bank (Channy 2002: 2-3). In fact, Channy (2002, 1-2) justified the transition in terms of the need to create a secure regulatory framework that would expedite the range of its activities including accepting deposits and obtaining inter-bank loans, though he was clear that these new ventures were to fund the expansion of its core activity, microfinancing. In effect, Channy hoped to ensure ACLEDA’s long-term viability by transforming it into a commercial enterprise that could function in a modern developed economy while also preserving itself as a bank for the poor. Having met all requirements, ACLEDA received a license in October 2000 to operate as a specialized bank and in December 2003 as a full commercial bank. The new corporate entity was named ACLEDA Bank Plc.

ACLEDA’s progress since it began life as a bank is best seen from its performance indicators (Table 1). Since its inception, ACLEDA Bank’s growth, measured in terms of assets, loans made, and shareholders’ equity had been over 40 percent a year. It also weathered well the global financial crisis that began in 2008, with assets increasing by 33 percent, loans by 18 percent, and shareholders’ equity by 22 percent between 2008 and 2009. This growth has continued through 2010 and 2011. The share of non-performing loans was negligible. These figures attest to ACLEDA Bank’s effective commercialization, whether defined in terms of the application of market-based principles to microfinance or in terms of moving from a subsidization/welfare orientation to one that stressed profit maximization.
Ownership, the managerial elite, and control

One major feature of the development of ACLEDA Bank was the personal knowledge that the founding managers had of the local context and the problems encountered by communities they targeted as their clients. Channy, ACLEDA Bank’s chief executive officer, has been with the NGO since its inception in 1993. Under Channy, ACLEDA grew from one of many finance NGOs to the largest; it is now the largest commercial bank in Cambodia as well.

Channy was raised in the city before becoming a victim of the Khmer Rouge’s internment in the “killing fields” in 1975; he would subsequently become a refugee in Thailand. Channy moved into teaching and then secured a scholarship to pursue tertiary education in business in the United States (Montlake 2011). His training in business as well as his knowledge of the institutional problems of post-conflict Cambodia proved crucial in his endeavor to establish a finance-based NGO that would microfinance communities attempting to re-build their lives.

Channy also managed to retain the services of a large number of ACLEDA’s original employees, who would go on to constitute this new managerial elite (see Table 2). Montlake (2011) reported that 14 of the original 28 staff when ACLEDA began as an NGO had remained with the Bank. Among the Board of Directors, five of them, including the Chairman and Vice Chairman, had been with the bank since its establishment, while one was appointed in 2002 (Table 2). Yves Jacquot, the most recently appointed director, replaced Jutta Wagenseil who stepped down in 2011 after serving since 2001. Alain Cany, who joined
in 2010, replaced Joseph Hoess, who joined the Board in 2005. Every member of the senior management team had worked in the ACLEDA NGO. Besides Channy, two are co-founders of the ACLEDA NGO, one had worked in the NGO from the beginning, two from 1994, and one from 1998.

Channy’s Cambodian colleagues shared similar experiences of the Khmer Rouge’s reign. They had deep knowledge of the structural problems that had emerged in the post-conflict period and how these issues could be rectified. The managerial team’s intimate knowledge of Cambodia’s post-war political, social, and economic landscape and Channy’s business training were essential in helping them build a niche industry in finance. This management was acutely aware that the re-building of Cambodia would be a slow and tedious process, where entrepreneurial communities would have to be built through micro and small enterprises. The management’s shared experience of oppression with the people they were supporting through microfinancing and the creation of non-hierarchical organizational links with poor communities appreciably helped to increase the bank’s client base.

Channy’s status in Cambodia’s financial sector, built on the remarkably rapid growth of ACLEDA Bank, is reflected in his being the co-chair with the NBC governor in the Working Group on Banking and Financial Services in the Government-Private Sector Forum, as well as his membership of three government committees. Channy’s stature, undoubtedly helped by the presence of the International Finance Corporation (IFC) and other development finance institutions which have actively supported ACLEDA, has enabled him to resist corrupt practices. Commentators attribute to him the Bank’s culture of ethics and integrity. Another
example of his different form of corporate development was his reluctance to list ACLEDA on the new stock exchange when he was given the opportunity to do so (Montlake 2011). This allowed Channy and his management to retain ownership and control of ACLEDA Bank to determine its pattern of growth as well as be free of the volatility of private markets and the demands of dividend-driven public shareholders.

ACLEDA Bank’s early growth is evidently attributable to the particular environment in which it operated. A confluence of needs, involving the re-building of a society shorn of nearly all its economic infrastructure and the financing of microenterprise and SME endeavors to generate income for improvised communities, created a niche that ALCEDA Bank could tap into. The management’s subsequent venture into more commercial banking activities, including deposit-taking, was motivated by a desire to nurture a more long-term and sustainable banking enterprise as the Cambodian economy was re-built. The bank’s effective commercialization owes much to its ability to adapt its management system and work culture from that of a welfare-based NGO to a profit-oriented enterprise, while retaining a degree of its original social role. This adaptation had to occur in three areas – governance structure, products and services, and service culture. Adapting to these issues would involve the need to alter the constitution of its board of directors as well as re-constituting its primary activities, bringing into question the possibility of a “mission drift.”

With respect to governance, ACLEDA Bank had to conform to the NBC’s requirements for commercial banking. This meant, among other actions, a new board of directors with a broader range of skills than before, reflecting also a larger ownership base. The 2001 board consisted of nine directors of whom six were foreign nationals (ACLEDA 2001). This new board oversaw four board committees – assets and liabilities, audit and risk, compliance and
ethics, and credit (ACLEDA 2001: 5). The formation of these committees reflected the bank’s efforts to further institutionalize its internal control and administrative processes, issues that served the administrative development of the bank. A new management information system was installed, which was also used to store information on its expanding client base.

In terms of new products and services, ACLEDA Bank needed them to expand its client base to lower costs and ensure financial sustainability. Whereas the ACLEDA NGO offered only credit and mobilized savings, the ACLEDA Bank provided a range of loans (for micro-businesses and SMEs) in multiple currencies (Cambodian Riel, US dollars and Thai Baht), deposit accounts, payroll accounts, money transfer, and cash management services (Heng 2008, 57). The diversification of its activities strengthened its portfolio quality, though this involved a major shift from its predominantly microfinance activities. This shift resulted in major changes. From a deposit to loan ratio of 10 percent in 2001, a ratio of over 100 percent was achieved by 2007 (Table 1).

With this transformation, there was a need to expand the client base and ensure financial sustainability. This meant that these products had to be demand-driven. It also required trained staff to serve clients’ needs, including reorienting employees about their customer base. Clark (2004, 3) noted that practically the entire staff had undergone training by 2003, with nearly 500 courses delivered and each staff member having attended five training courses on average. Since 2000, training had been undertaken at the bank’s training department, which also delivered training to external clients – women and micro-entrepreneurs among others – as part of ACLEDA Bank’s social responsibility objective.11
The most fundamental change during this transformation from an NGO to a bank involved the ownership structure of ACLEDA Bank. During the transformation, ownership was restructured through the transfer of the NGO’s assets to the Bank in return for equity. A trust for the employees (ASA Plc) was established to eventually purchase 19 percent of the Bank’s stock. When the Bank was established, ACLEDA NGO held 45 percent of its stock with ASA Plc holding 6 percent (Table 3), giving Cambodians a 51 percent share in the bank. ASA’s share was progressively increased until it reached 19 percent while ACLEDA NGO’s share was pared down to 32 percent. Foreign investors, i.e., the IFC, DEG Germany, FMO Netherlands, and Triodos-Doen Foundation each held 12.25 percent of the equity, making up 49 percent altogether. Germany’s DEG (Deutsche Investitions-und Entwicklungsgesellschaft GmbH), a member of the KfW Group (Kreditanstalt für Wiederaufbau) is a development finance institution specializing in long-term project and corporate financing. FMO (Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden NV) is the Dutch development bank. Triodos-Doen Foundation was founded by Triodos Bank and DOEN Foundation in 1994, and is one of the first private funds worldwide investing in microfinance institutions (ACLEDA 2001, 9). Of these development finance institutions, the catalytic role of the IFC had been particularly important. In 2010, FMO exited, its share taken up by JSH Asian Holdings, part of the Jardine Matheson Group. A year later, DEG was replaced by COFIBRED, a subsidiary of the French cooperative Banque Populaire. The exit of two development finance institutions led to a ratings downgrade on its local currency debt by Moody’s, but was defended by ACLEDA Bank’s senior management as moving this financial institution strategically, in a more commercial direction (Khmer Banking 2011).
This ownership structure, with its domestic-foreign split unchanged since the bank began, was material to its development. First, with the largest equity share going to the NGO this ensured that ACLEDA Bank’s original mission of assisting micro-entrepreneurs would not be undermined. Second, together with the share of the Bank’s employees, ownership and control would remain in the hands of Cambodians. Third, employee equity ownership built loyalty among the Bank’s staff and gave them a voice in the policy-making process as well as to determine strategies for the future. Fourth, foreign ownership in the form of development institutions ensured not only a stable source of equity finance but also access to expertise in development banking. They further helped build public confidence and facilitated the Bank’s acquisition of its operating license. The strong presence of these foreign institutions whose influence extended to the national level, given Cambodia’s aid dependence, helped insulate ACLEDA Bank from political interference. Even with the exit of two government-sponsored development finance institutions, the continued participation of the IFC, through its World Bank leverage, would have been sufficient to leave this assurance intact. This inner group of long-serving directors and managers, evidently the dominant managerial force in ACLEDA Bank, were the leading planners of the mode of development of this financial institution. Crucially too, this new managerial elite did not differ socially from the clients they served, having as they had a shared history of poverty and the trauma of a deeply debilitating civil war. After all, the bank’s target groups have long remained predominantly the owners of micro and small businesses, in both urban and rural areas.

Maintaining this client base has been important as one issue that had been raised about ACLEDA’s transformation from NGO to a bank was the risk of a “mission drift,” when the original mission of assisting micro-entrepreneurs would give way to banking for profit. Interestingly enough, ACLEDA Bank’s vision and mission statements reflect these divergent
objectives. Its vision was stated as its desire to become “Cambodia’s leading commercial bank providing superior financial services to all segments of the community.” Its mission, however, was “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” (ACLEDA 2011, 1).

The IFC, in awarding ACLEDA its Client Leadership of the Year Award for 2005, and citing its many achievements for the poor and women, implicitly assumed that the marriage between the objectives had been successful (MPDF 2005). Ito (2008, 19), using field data from the bank’s operations in Sihanoukville, concluded that “large-scale mission drift has been prevented so far by the field-level discretion exercised by its credit officers.” This finding suggests the importance of retaining a core of staff from the NGO days as a factor. However, as the bank expands and its personnel increase, this core will progressively be dwarfed in numbers by those recruited to undertake commercial banking services. Even with board members and senior management dating from those days, this factor does not provide more than a temporary guarantee of adherence to the original mission. Leaders and staff eventually retire or leave the institution and their successors might not have the same vision. 12

The current ownership structure in which the NGO is the largest shareholder provides a much better guarantee. Indeed, while commercial banking obviously generates higher returns than microenterprise lending, the fact that dividends accrue to the NGO has institutionalized income transfer from the former to the latter to ensure the viability of the latter. 13 Another guarantee afforded by the current ownership structure is that provided by the presence of the IFC, whose vision overlaps ACLEDA’s. 14 Thus, as long as the current ownership structure
remains intact, the original objective of serving microenterprises will be preserved. However, the reality may be that this target group will become a diminishing share of the bank’s clientele as the bank expands.

As transformation to a business enterprise continues and as ACLED A Bank’s capital base evolves from donated equity and retained earnings to share capital, this will contribute to the creation of an ownership base of individuals or entities seeking some form of return on their investments. Increasing equity ownership by private investors at the expense of international development funds and employee stock ownership programs will inevitably reduce the managerial control of the founding members of the NGO. While ownership pattern trends are changing in this direction as the bank expands its commercial activities, since the membership of the board of directors has remained in the hands of those long associated with ACLED A Bank, a clear case of mission drift has not occurred. However, representatives of the new shareholders have and will inevitably increase among the board of directors, to better reflect a link between ownership and governance. The implications of this is that as the original members of ACLED A Bank pass on, this institution’s mission to microfinance poor communities may also change.

Conclusion

This historical review of ACLED A moves beyond what all other studies have reviewed by emphasizing context as a key factor in the bank’s growth while also giving due credit to ownership and control, again not emphasized in the literature, and how this informs governance. ACLED A’s history indicates its capacity to finance microbusiness and SME activities in a manner that the government cannot has contributed significantly to helping to
alleviate hardcore poverty while also contributing to its growing reputation as a leading NGO. This NGO was able to offer incentives to the poor through an institutional framework where the risks of providing credit on a large scale to poor communities were minimal. Its subsequent role as a bank meant that it now had the dual goal of creating a thriving commercial banking enterprise, along with the preservation of its microfinancing niche. ACLEDA Bank’s directors would well argue that this was an attempt by the NGO to prepare for a future where more sophisticated forms of financing would be required as the Cambodian economy was re-built. However, its commercialization process poses a serious risk of mission drift as the nature of the economic institution can shape or alter the form of economic incentives of offer, a process clearly evident in ACLEDA Bank. The relationship between the NGO and the poor can also change when the former no longer relies on donations and begins operating as a business, specifically as the owner of its own bank.

What prevents this mission drift is actual control of the bank, that is with whom managerial decision-making rests. ACLEDA Bank’s managerial control structure has helped ensure that its primary social objectives are observed. These managers acted not as finance capitalists motivated by profit maximization but as funders of micro-based enterprises. The managers and clients’ shared intra-class history and experience of civil war meant that irrespective of this managerial elite’s position in a rapidly fledgling financial institution, the bank’s mission was retained. It helped too that the senior management of the bank had been with this institution from the time of its incorporation. Of equal importance was this managerial elite’s capacity to intervene directly in poverty alleviation programs by channelling credit to potentially viable micro enterprises; their extensive knowledge of the local context enabled them to determine the viability of projects. Micro enterprises that were provided with credit at low interest rates could price their products at sufficiently reasonable rates to allow them to
develop a market base. The knowledge available to the managerial elite that has helped spur productive and efficient enterprises with adequate credit ensured ample returns for the bank.

The gradual transformation of equity ownership involving private investors that could lead to a shift to more commercial and presumably profitable activities may contribute to less enabling financial support for poor communities that can boost productivity, particularly in rural communities. It is, after all, the social ownership structure, with majority equity in the hands of the NGO and its staff association, that has served as a form of self-insurance against a mission drift. The institutional history of ALCEDA Bank, involving its original mission, was preserved even as ownership changes transpired. Extending equity ownership to foreign entities such as a subsidiary of a French cooperative bank has helped ACLEDA Bank enhance its innovation capacity in terms of banking provisions for the poor while retaining its social ownership feature. However, the involvement of more profit-oriented institutions such as JSH Asian Holdings to develop its commercial banking expertise does raise concerns that this could well undermine its social mission. The incorporation of JSH Asian Holdings also suggests a long-term desire to turn to more traditional modes of commercial banking rather than nurturing more innovative forms of microfinancing. If this trend continues, including with support from the managerial elite, this can subject the management to serious criticism of mission drift, a situation akin to that encountered by the Grameen Bank. This suggests that the management and the present owners should be cautious about new equity owners as well as a desire to expand by moving into the activities of commercial banks. Interestingly too, this shift in its targeted clientele may bring ACLEDA Bank into serious competition with other financial institutions, including foreign-owned banks, while also undermining their own niche market, i.e., the financing of micro and SME industries.
An issue this case study has raised is that institutional reforms, due to a change in equity ownership pattern, can contribute to alterations in governance structure. In this regard, separation of ownership and control in ACLEDA Bank is one crucial structural feature that has ensured that the NGO’s original objectives have been maintained even as it began to operate as a commercial enterprise. The type of major shareholders, however, remains a core issue, while concerns have to be raised about managerial changes if a new major shareholder is to emerge. This is particularly true in a thriving institution such as ACLEDA Bank with possibilities of greater expansion given Cambodia’s still weak banking sector and the government’s limited capacity to provide aid to poor communities in search of funds to develop self-sustaining economic livelihoods. After all, stockholders view firms primarily as investments and have the power and incentive to replace the management even if this results in a mission drift. This suggests that the managerial class that now controls the mode of development of ACLEDA Bank may be removed unless this financial institution’s private investors gain sufficient equity returns.

The ACLEDA Bank remains a good case of an NGO-guided form of capitalism, a structure of economic organization that has been crucial to rebuilding a war-torn society and economy, while its mode of development provides important lessons on equitable growth in less developed countries. The ACLEDA case indicates that a mix of an NGO-created bank and micro enterprises helps nurture nascent entrepreneurial capacity which can help local communities develop thriving enterprises. But as this post-war torn society is slowly shorn of the power and class conflicts that now rent its social fabric, the orientation of the bank may similarly change. This suggests that to ensure that there is no mission drift managerial control must continue to be exercised by managers with a long history with the bank, or one with a strong NGO background. In the organization, its mission has to be embedded, with
control in the hands of the management to ensure that the broad policies guiding the
corporation are preserved.

References

(1), 25-38.

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Alternatives, Inc.


Jovanovich.

Presentation at the ASEAN-EU Business Summit, Phnom Penh, April 1.


Table 1: ACLEDA Bank’s Financial Performance, 2000-2011

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Assets</th>
<th>Total loans</th>
<th>Shareholders’ equity</th>
<th>Gross income</th>
<th>Deposit to Loan Ratio %</th>
<th>Share of NPLs %</th>
<th>Net profit after tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>22</td>
<td>17</td>
<td>4</td>
<td>2</td>
<td>0</td>
<td>0.3</td>
<td>0.5</td>
</tr>
<tr>
<td>2001</td>
<td>27</td>
<td>20</td>
<td>4</td>
<td>7</td>
<td>10</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>31</td>
<td>27</td>
<td>17</td>
<td>8</td>
<td>22</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>48</td>
<td>40</td>
<td>25</td>
<td>12</td>
<td>32</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>84</td>
<td>65</td>
<td>26</td>
<td>17</td>
<td>49</td>
<td>0.57</td>
<td>2</td>
</tr>
<tr>
<td>2005</td>
<td>124</td>
<td>98</td>
<td>32</td>
<td>26</td>
<td>63</td>
<td>0.31</td>
<td>4</td>
</tr>
<tr>
<td>2006</td>
<td>223</td>
<td>157</td>
<td>48</td>
<td>37</td>
<td>79</td>
<td>0.10</td>
<td>7</td>
</tr>
<tr>
<td>2007</td>
<td>473</td>
<td>310</td>
<td>50</td>
<td>59</td>
<td>111</td>
<td>0.06</td>
<td>10</td>
</tr>
<tr>
<td>2008</td>
<td>693</td>
<td>457</td>
<td>86</td>
<td>101</td>
<td>106</td>
<td>0.22</td>
<td>20</td>
</tr>
<tr>
<td>2009</td>
<td>923</td>
<td>540</td>
<td>105</td>
<td>112</td>
<td>130</td>
<td>0.76</td>
<td>9</td>
</tr>
<tr>
<td>2010</td>
<td>1,192</td>
<td>750</td>
<td>127</td>
<td>139</td>
<td>123</td>
<td>0.43</td>
<td>26</td>
</tr>
<tr>
<td>2011</td>
<td>1,527</td>
<td>1,024</td>
<td>177</td>
<td>180</td>
<td>115</td>
<td>0.17</td>
<td>50</td>
</tr>
</tbody>
</table>

% Growth rate 2000-2011: 47.0% 45.1% 41.1% 50.5% 59.2%

% Growth rate 2007-2011: 34.0% 34.8% 37.1% 32.2% 49.5%

Notes: All figures are in US$ million.
<table>
<thead>
<tr>
<th>Board Member</th>
<th>On Board since:</th>
<th>Senior Management</th>
<th>Employed since:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chea Sok, Chairman</td>
<td>2000</td>
<td>In Channy, President &amp; CEO</td>
<td>ACLEDA NGO co-founder</td>
</tr>
<tr>
<td>John Brindsdon, Vice-Chairman</td>
<td>2000</td>
<td>Chhay Soeun, Exec. VP &amp; CFO</td>
<td>ACLEDA NGO co-founder</td>
</tr>
<tr>
<td>Peter Kooi</td>
<td>2000</td>
<td>So Phonnary, Exec. VP &amp; COO</td>
<td>1993, in ACLEDA NGO</td>
</tr>
<tr>
<td>Lon Thol</td>
<td>2000</td>
<td>Cheam Teang, Exec. VP</td>
<td>ACLEDA NGO co-founder</td>
</tr>
<tr>
<td>Sok Vanny</td>
<td>2000</td>
<td>Chan Serey, Exec. VP</td>
<td>1994, in ACLEDA NGO</td>
</tr>
<tr>
<td>Femke Bos</td>
<td>2002</td>
<td>Kim Sotheavy, SVP</td>
<td>1994, in ACLEDA NGO</td>
</tr>
<tr>
<td>Sted Aftab Ahmed (IFC)</td>
<td>2007</td>
<td>Prom Visoth, SVP</td>
<td>1998, in ACLEDA NGO</td>
</tr>
<tr>
<td>Alain Cany</td>
<td>2010</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yves Jacquot</td>
<td>2011</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources: ACLEDA Annual Reports, 2010, 2011
Table 3: ACLEDA Bank Ownership 2000-2012

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Shareholding in 2012 (%)</th>
<th>Shareholding in 2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACLDA NGO</td>
<td>32.00</td>
<td>44.91</td>
</tr>
<tr>
<td>ASA plc</td>
<td>19.00</td>
<td>6.09</td>
</tr>
<tr>
<td>International Finance Corporation</td>
<td>12.25</td>
<td>12.25</td>
</tr>
<tr>
<td>JSH Asian Holdings (since 2010)</td>
<td>12.25</td>
<td></td>
</tr>
<tr>
<td>DEG Germany (until 2011)</td>
<td></td>
<td>12.25</td>
</tr>
<tr>
<td>FMO Netherlands (until 2010)</td>
<td></td>
<td>12.25</td>
</tr>
<tr>
<td>COFIBRED (since 2011)</td>
<td>12.25</td>
<td></td>
</tr>
<tr>
<td>Triodos-Doen Foundation ¹</td>
<td>4.36</td>
<td>12.25</td>
</tr>
<tr>
<td>Triodos Fair Share Fund ²</td>
<td>4.32</td>
<td></td>
</tr>
<tr>
<td>Triodos Microfinance Fund ²</td>
<td>3.57</td>
<td></td>
</tr>
</tbody>
</table>

¹ Separately shown since 2006  
² Separately shown since 2010  

1 See, for example, Chanboreth and Sok (2008) and Rasmussen (2010).

2 In March 2011, the Bangladesh government removed Yunus from his position in the Grameen Bank, citing his violation of rules and exceeding the age limit for employment (Polgreen and Bajaj 2011). In 2010, a documentary “Caught in Micro-debt” targeted Grameen and painted a bleak picture of micro-credit. Among the works highlighting the negative aspects of microfinance are Dichter and Harper (2007).

3 An estimated 50,000 Cambodian refugees fled to Thailand, while 150,000 refugees, many ethnic Vietnamese, fled to Vietnam during the Pol Pot regime. When Vietnam invaded in late 1978, even more – about 630,000 – left between that year and 1981 (see “Cambodia: migration and refugees” in the Encyclopedia of Nations at http://www.country-data.com/cgi-bin/query/r-2118.html).

4 An excellent account of Cambodia under the Pol Pot and Vietnamese regimes is that of Chanda (1986).

5 In the authors’ interview with NBC Assistant Governor Pal Buy Bonnang and Director General of Banking Supervision Kim Vada, the message of pragmatism was clear. The NBC’s role was to support microfinance institutions, even those too small to be registered.

6 The other microfinance NGOs were GRET (1991), World Relief (1992), and CRS (1993) (Hoy and Foelster 2010: 2).

7 ACLEDA’s senior management traveled to Bolivia in 1998 to learn about the transformation of Bancosol and Prodem (Mot 2009: 1).
The IFC is a specialized agency of the World Bank tasked with promoting private sector development in emerging economies.

Montlake (2011) cited an instance when Channy contacted the Ministries of Finance and Land Development to override attempts by corrupt businessmen in league with officials to understate the acquisition price of a piece of land ACLEDA Bank purchased so that the seller could avoid paying tax.

This transformation has been the focus of most of the literature on ACLEDA Bank. See, for instance, Clark (2006), Heng (2008), and Mot (2009).

In August 2011, the Training Department was merged with the ACLEDA-ASEAN Regional Microfinance Training Center set up with German government funding to become the ACLEDA Training Center Ltd., a subsidiary of ACLEDA Bank.

Heng (2008: 81-87) noted that some of the programs offered by the NGO – vocational training, women empowerment, client follow-up, high loan targets for loan officers – had been canceled.

Fernando (2004) found other instances of success in other parts of the world as NGOs transform into microfinance institutions.

According to its website: (http://www1.ifc.org/wps/wcm/connect/corp_ext_content/ifc_external_corporate_site/about+ifc/vision), the IFC’s mission “is that people should have the opportunity to escape poverty and improve their lives”.

A visit by the authors in August 2012 to rural communities around Cambodia indicated the importance of microcredit funding to help sustain as well as upgrade industries in areas such as weaving and production of herbal products. These industries, particularly weaving, involved the employment of a large number of villagers, especially women, in an industry
that had export potential. Such enterprises would not have emerged without funding from NGOs, including ACELEDA Bank