Master’s Thesis

Commercialization of Microfinance
A Case Study of ACLEDA Bank of Cambodia

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Abbreviations

ACLEDA	Association of Cambodian Local Economic Agencies
ADB	Asian Development Bank
ASA	ACLEDA Staff Association, Inc.
ATM	Automated Teller Machine
BRI	Bank Rakyat Indonesia
CCRD	Coordinating Committee on Rural Development
CEO	Chief Executive Officer
CGAP	Consultative Group to Assist the Poor
CMA	Cambodian Microfinance Association
CCB	Cambodian Commercial Bank
CMB	Cambodian Mekong Bank
FTB	Foreign Trade Bank
GDP	Gross Domestic Product
IFC	International Finance Corporation
ILO	International Labor Organization
LEDA	Local Economic Development Agencies
MFI	Microfinance Institution
MPDF	Mekong Project Development Facility
NBC	National Bank of Cambodia
RDB	Rural Development Bank
RGC	Royal Government of Cambodia
NGO	Non-Government Organization
SEISP	Small Enterprise and Informal Sector Promotion Project
MIS	Management Information System
FMO	Netherlands Development Finance Company
SNV	Sihanouk Ville
SBC	Singapore Banking Cooperation
UCB	Union Commercial Bank
UNDP	United Nation Development Program

Chapter 1

Introduction

1.1 Background of the Study

Microfinance refers to *"the provision of financial services – primary credit and savings and other financial services – to low-income clients including the self employed"* (Ledgerwood 1999: 1). Microfinance has been recognized around the world as an important tool for poverty reduction, especially in developing countries by the facts that "financial services enable poor or low income households to take advantages of economic opportunities, to build assets and to reduce their vulnerability to outside shock that harmfully affects their living conditions" (ADB 2004: 16). Furthermore, Microfinance provides the funding for low income people to run their micro business or to spend on the household consumption. In the meantime, the poor and low income people have difficulties to access microfinance services from formal financial institutions such as Microfinance Institutions (MFIs) including commercial banks, because of the barriers of high collateral requirements and complicated application procedures (Yunus 2001; Hulme & Mosley 1996).

In order to become commercial and sustainable institutions with ownership structure and better governance, many donor-funded, non-governmental microfinance organizations are transforming themselves into Regulated Financial Institutions (RFIs) or commercial banks. Besides the purpose of independent self finance and sustainable institutions, the process of transformation is to increase the impact of development and the outreach of microfinance services. It is estimated that about 90% of people in developing countries, roughly equal to one billion poor people, still lack access to financial services such as credit and savings from formal institutions (Robinson 2001: 9). The reason is aggravated by the limited influence of the poor people who need microfinance services. Poor people are usually incapable to inform formal financial institutions about creditworthiness or their demand for loan and savings services. As such, the poor have relatively more difficulty to access microfinance services than the better off people (Ibid.).

In Cambodia, microfinance is one of the sectors that contribute to social and economic development. Microfinance has been introduced since the early 1990s by national and international non-governmental organizations (NGOs). At the initial stage of their activities, those NGOs were expected to involve social rehabilitation, healthcare, and other sectors of humanitarian assistance for poor people in rural areas. Simultaneously, microfinance operations performed by NGOs were neither regulated nor supervised by the National Bank of Cambodia (NBC)[1]. At the end of 2006, 16 licensed and newly established MFIs have been transformed from non-governmental organizations, and other 23 NGOs have been registered with the NBC (NBC 2006). The transformed and licensed MFIs are strengthening their management and expanding their activities more openly into remote areas where poor people are able to access financial services.

One of the Cambodian microfinance institutions, Association of Cambodian Local Economic Development Agencies (ACLEDA), was transformed into a specialized bank on October 7, 2000, and it became a commercial bank on December 1, 2003. On January 19, 1993 ACLEDA started as a national NGO for micro and small enterprise promotion. The main objectives of ACLEDA NGO were to establish an integrated small enterprise and informal sector

[1] NBC is the central bank of Cambodia

program to support economic development and to contribute to poverty reduction through the sustainable provision of financial services, targeting disadvantage groups such as demobilized soldiers, the handicapped, returned refugees, internally displaced persons, widows, and other war–affected people to start or expand their business, thereby generating income and employment. At last, in order to sustain institutions and to increase its outreach and impact of development through sustainable financial provision, ACLEDA completely transformed from an NGO into a commercial bank.

1.2 Objective of the Study and Research Questions

This study aims to investigate and analyze the implications of transformation of ACLEDA from a microfinance NGO into a commercial bank, and seek to understand whether ACLEDA has expanded or narrowed the position of its NGO's mission to achieve social development. The study also identifies the strategy of transformation process affecting the NGO's objective in promoting the social mission. The analysis focuses on the changes in the outreach of its services, its targeted clients, household welfare of the poor clients, and on whether the transformed ACLEDA is closer to or farther from its original poor clients. Especially, the study examines advantages and disadvantages of ACLEDA's transformation affecting its poor clients, which focus on features and indicators of demand and supply sides rather than on averages of loan outstanding balance. Moreover, the study investigates and determines whether ACLEDA is upgrading or retaining its original target market following the transformation.

In the process of transformation from a microfinance NGO into a commercial bank, there are some critical issues concerning the transforming procedures expressing concern over changes of target market from poor clients to less poor or rich clients or from micro business loans to small and medium business loans. This comes to people's concerns because some poor are unable to access microfinance services as a result of transformation by some NGOs, and other poor clients are dropped out from transformed institutions due to high condition of collateral requirement.

This study also aims to reflect whether ACLEDA drifts from its original mission after the transformation process. With this regard, the study is to find out how transformation impacts the position of microfinance NGO's mission towards poverty reduction, and to understand the useful experience of a transforming microfinance NGO into a commercial bank by maintaining the adherence to achieve the mission of poverty alleviation.

This study is to find out answers to the following questions:

1) What are the advantages and disadvantages of the transformation of ACLEDA from a microfinance NGO into a commercial bank affecting its poor clients?

2) How does the transformation of ACLEDA impact its social mission towards helping the poor clients?

3) Does the transformation of ACLEDA expand or narrow its position as a microfinance NGO to improve the living conditions of its poor clients?

Sub-questions are:

a) Is ACLEDA able to commercialize without drifting from its original social mission?

b) If there is a mission drift, how does it happen? What are the challenges?

c) If there is no mission drift, what are the strategies that have enabled ACLEDA to become a commercial bank without drifting from its social mission?

1.3 Significance of the Study

As the mission of microfinance NGOs is to help the poor to alleviate their own poverty, the trend to transform microfinance NGOs into commercial banks has become more evident to expand the supply of credit and savings to meet the large unmet demand for such microfinance services. This study seeks to inform about the dynamics and implications of transforming MFI NGO into a commercial bank. The experience of earlier transformation has shown that there is a tendency to drift away from the original mission of helping the poor in the process of transformation. Consequently, the study contributes to understanding of how the transformation process affects the ability of MFI NGO in achieving their poverty alleviation mission. And also, this study contributes to understanding the challenges that lead to mission drift or strategies that enable transformed MFIs to strengthen their original mission of poverty reduction. Such understanding is significant for both microfinance operators and public policy makers to make decision in transforming institutions by maintaining the original mission.

Since the microfinance effort is developed towards poverty reduction on a greater range, it is essential that a conscious effort to be made to identify and understand the implications of transformation towards commercialization by retaining the poverty reduction mission. The recommendations of the study identify the role of donors, policy makers and regulators have in promoting adherence to poverty oriented. The recommendation also focuses on outreach of a transformed MFI to more marginalized poor, less accessible poor clients, incentive for improvement and efficiency in serving the needs of the poor and expanding the impact of poverty reduction, following the transformation.

Another significant point is to develop and assess the impact of implementation on fulfillment of social performance of MFIs. The study contributes to providing a framework, methodology, a set of indicators that may be used to observe fulfillment of its social mission. In this regard, the study not only contributes to policymaking in microfinance but also informs the practitioners to achieve transformation of microfinance NGOs into commercial MFIs without drifting from their original social mission to alleviate poverty.

Assessing the fulfillment of the social mission is important for practitioners, donors and governments. For practitioners, it is significant to understand the target market whether it is reached, how the practitioners are satisfied with the quality of services, and whether the quality of services and products enable positive impact on poverty reduction. This understanding can help practitioners to design financial services better suited to the needs of different groups of clients. For donors and governments, in order to ensure the most effective use of limited resources for fighting poverty, assessing and supervising adherence of MFIs to achieve their social mission should be used to support making decision on resource allocation.

1.4 Methodology

The study draws on the data collected from both primary and secondary sources. The primary data are collected through surveys and interviews by using semi-structured questionnaires. The mixed data collection method such as interviews, group discussions, reviews of documents and archival data were used. The interviews were conducted with relevant stakeholders such as the borrowers, the bank officers, the owners of ACLEDA, the chief of Rural Development Bank (RDB), the chief of Cambodian Microfinance Association (CMA), local authorities, as well as government officials of the National Bank of Cambodia (NBC).

The fieldwork was carried out from July 15 to August 15, 2007 in Phnom Penh and Sihanouk Ville[2] of Cambodia. The interviews and surveys were conducted with 30 households of borrowers, a chief executive officer (CEO), a branch manager, a head of visiting officer, and 5 loan officers of ACLEDA Bank. The study also conducted 5 group discussions among villagers, each group contained 6 to 8 members included ACLEDA's clients and non-clients.

The research field focuses on the ACLEDA Bank Sihanouk Ville branch, which is located in the Southwest of the country. Sihanouk Ville consists of 3 districts (Mittapheap, Prey Nub, and Stueng Hav), 22 communes and 85 villages. Office of ACLEDA Bank located in Mittapheap district is chosen to represent the area of the study. The reasons to choose this branch office are its long operation period, favorable social-economic conditions and high population density. For social-economic conditions, the infrastructure is still weak and most of the local people have multiple economic activities. The majority of them are fishermen, farmers, labor workers, petty traders and food sellers. The population density in Sihanouk Ville is 179 per km^2 while the national average density is 64 (est. 2004). High density of population leads to the high demand of microfinance services.

This study analyzes and discusses the findings on the impact of ACLEDA Bank Sihanouk Ville operation on its poor clients. It also shows whether the transformation of ACLEDA Bank Sihanouk Ville results in a mission drift or still maintains its original mission. Mission drift here is measured based on the indicators of number of clients, bank's policies and output, client perceptions, and geographical coverage expansion.

For secondary data, the study reviewed documents of international publications concerning microfinance transformation and commercialization, and documents of the National

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[2] Sihanouk Ville is one of the four municipalities of Cambodia.

Bank of Cambodia and other documents of microfinance operators such as the Rural Development Bank (RDB), the Cambodian Microfinance Association (CMA), and the Cambodian Entrepreneur Building (CEB). The study also reviewed documents from government agencies and other institutions such as Ministry of Planning, Economic Institute of Cambodia (EIC), and Cambodia Development Resource Institution (CDRI).

The data from ACLEDA Bank include the bank's policy, loan procedure, and the bank's output (focusing on loan and savings products). The data from the clients include recognition of accessibility to ACLEDA Bank's services and of impact on their household welfare in terms of economic and social indicators before and after becoming the clients. The analysis focuses specifically on the advantages and disadvantages of transformation affecting its poor clients.

1.5 Research Limitations

The study does not provide an extensive analysis of the Cambodian microfinance industry as a whole, but it focuses mainly on the case of ACLEDA Bank. The bank, which was transformed from the microfinance NGO, is one of the commercial banks in Cambodia providing microfinance services. Currently, it has the largest networks throughout Cambodia. As such, the study analyzes microfinance transformation towards commercialization solely based on the case of ACLEDA Bank in Sihanouk Ville branch.

Since the period of the study was limited, the fieldwork was done with a small sample from one branch of ACLEDA Bank in Sihanouk Ville. One of the four sub-branches was selected for study sample. Only 30 households of clients were selected for serving survey and interviews, and other 5 group discussions of clients and non-clients were conducted.

1.6 Definition of Key Terms

The study defines the following key terms for the basic conceptual framework:

- "Transformation" refers to "*the process by which a non profit or an unregulated microfinance NGO becomes a regulated financial institution*" (CGAP 2006: 46).

- "Social mission" refers to social objective of helping the poor out of poverty, or achieving social goals including poverty reduction, improvement in health and education levels as long as better finance.

- "Mission drift" refers to drifting away from the original mission of poverty alleviation and serving the poor by changing the target market from poor to less poor or rich clients for the purpose of higher profit, which leads to abandonment of the poor to access services (Ibid: 47).

- The "poor" refers to those who were the target group served by ACLEDA NGO, and those who are micro borrowers, taking loans from ACLEDA without collaterals.

1.7 Structure of the Thesis

This thesis is divided into six chapters. Chapter 1 provides background of the study, research objectives and research questions, significant of the study, methodology, research limitation, definition of key terms, and structure of the thesis. Chapter 2 presents the literature review of commercialization of microfinance, transformation process of microfinance, paradigm of microfinance, mission drift in microfinance context, and impact of microfinance on poor households' conditions. Chapter 3 presents the overview of Cambodian banking system and microfinance by explaining the brief overview of the country, financial structure in Cambodia, government's policy on microfinance, the role of national bank of Cambodia in microfinance, and the role of rural development bank in microfinance operation. Chapter 4 presents the study on the case of ACLEDA Bank's transformation, explaining the background of ACLEDA, the beginning of ACLEDA as an NGO, the process of ACLEDA's transformation, the case study on ACLEDA Bank Sihanouk Ville branch. Chapter 5 explains the result and empirical analysis and discussion in terms of review of empirical finding, analysis and discussion on the impact of the transformation, advantages and disadvantages of the transformation. Chapter 6 gives a conclusion.

Chapter 2

Literature Review

Commercialization of microfinance is attractive among microfinance practitioners, experts and researchers. These days, microfinance becomes commercialized due to a better effort to achieve financial self-sustainability and higher degree of competition among microfinance operators. In order to understand commercialization of microfinance and the historical perspectives of microfinance revolution and related topics prior to this study, literature reviews are conducted over the existing documents concerning commercialization of microfinance, paradigm of microfinance, transformation process of microfinance, mission drift in the microfinance context, and the impact of microfinance on the poor household welfare. After having reviewed these documents, the study demonstrates the advantages and disadvantages of the institutional transformation of NGOs towards commercialization.

2.1 Commercialization of Microfinance Concept

As microfinance is recognized as a common term for development and poverty reduction, the combined term "commercialization" makes microfinance more complicated and comprehensive. Understanding the terminology and the concept of commercialization of microfinance is the essence of this study. There are two important concepts relating to "commercialization of microfinance".

First, "commercialization of microfinance" is generally conceptualized by microfinance experts as "*the application of market-based principles to microfinance*" or "*the expansion of profit-driven microfinance operations*" (Poyo and Young 1999: 30, Charitonenco et al. 2004: 4).

Christen (2001) explains that commercial approach to microfinance is characterized by profitability, competition, and regulation. In this connection, he also argues that if MFIs are profitable due to commercialization, the other institutions will be attracted to commercialize their microfinance system. This would lead to product improvement and strategy development for a competition in an environment with many microfinance operators. In order to gain access to commercial funds, microfinance institutions may transform themselves into regulated institutions enabling to mobilize public deposits. Thus, regulation is important for many operators to enter the formal financial system (Christen 2001: 17).

Second, Christen and Drake (2002) conceptualize commercialization of microfinance as "*the movement of microfinance out of the heavily donor-dependent arena of subsidized operations into one in which microfinance institutions 'manage on a business basis' as part of the regulated financial system*" (Christen and Drake 2002: 4). This concept is more precise than the first one, because it captures three points characterizing microfinance commercialization. They are the independence of MFIs, business basic principle, and formal financial system integration. When MFIs become regulated institutions, they can promote public savings mobilization. The basic principle of business enables MFIs to increase competition which results in the improvement of product design, delivery systems, and increased outreach.

Christen and Drake (2002) also point out two types of institutions that are presently leading the commercialization of microfinance. First, there are microfinance NGOs that transform themselves into licensed non-bank financial intermediaries or banks. Second, there are large retail banks including state-owned banks. Among the two, microfinance NGOs seem to pioneer lending technologies for reaching poorer population more than other type of financial institutions does (Christen and Drake 2002: 5).

Although the rationale for commercialization is simple as mentioned above, there are two significant controversial views of the commercialization of microfinance. These constitute poverty lending and financial-self sustainability approaches. In supporting the poverty lending approach, Zeller (2000) argues that government and donors seek to achieve a number of objectives when supporting MFIs through subsidy, most remarkably financial sustainability, outreach to the poor and especially women, and welfare impact (Zeller 2000: 4). Morduch (2006) contends that subsidies can play an important role in making microfinance available to the poor if the institutions deploy subsidy appropriately such as charging low interest rate, providing skills, educational and healthcare services (Morduch 2006: 16). He suggests that if subsidies are deployed in the name of improved social impact, donors should make priority to measure the degree to which they generate important net impact for customers (Ibid.).

Robinson (2001) admits that the poverty lending approach, as exemplified by the Grameen Bank, has successfully reached poor people with credit service subsidized by donors and government. However, the bottom line is that "*as a global solution to meeting microfinance demand, governments and donors cannot finance the hundreds of millions of people who constitute present unmet demand for microcredit services*" (Robinson 2001: 23). In this regard, it may be understood that commercialization of microfinance is a method to expand provision of financial services to meet all demands of people at all levels for sustainability.

2.2 Paradigms of Microfinance

Microfinance services are provided by various types of organizations. Those organizations are NGOs, regulated financial institutions including non-bank financial institutions, commercial banks, and state-owned banks. Eventually, most microfinance NGOs, which are under the trend of microfinance revolution since 1990s, have transformed into regulated microfinance institutions and scaled up products and services (Robinson 2001: 71–75). Many scholars including Robinson (2001) consider that paradigm of microfinance has shifted from old paradigm of subsidized credit delivery to new paradigm of financial-self sustainability (Ibid.). The shift of these paradigms is featured in table 2.1 bellow.

Table 2.1 The Feature of the Old and New Paradigm of Microfinance

Features	Old: Subsidized Credit	New: Financial Self-Sustainability
1. Chief aims	Boost agricultural production, Reduce poverty	Reduce market imperfections and transaction cost for income expansion and poverty reduction
2. Role of financial markets	Help the poor Stimulate production	Intermediate efficiently
3. View of users	Beneficiaries: borrowers	Clients: borrowers and depositors
4. Subsidies	Heavily subsidy dependents	Increasing independent of subsidy
5. Source of funds	Vertical: governments and donors	Horizontal: primarily voluntary deposits
6. Associated information systems	Dense: fragmented and vertical-assessing whether targets were met	Less dense and mainly horizontal-management information
7. Sustainability	Largely ignored	Major concern
8. Outreach	Short term focus	Long term concern
9. Evaluation	Credit impact on beneficiaries-mainly primary data	Performance of financial institution-mostly secondary information

Source: Adapted from Vogel and Adams, 1997; Yaron, Benjamin, and Piprek 1997; Charitonenko and Campion 2003: 2

In the old paradigm of subsidized microcredit delivery, Robinson (2001) mentions that the implementation of supply-led finance does not take into account social and political realities of life in rural areas of developing countries or financial dynamics of their rural markets (Ibid: 72). As such, large-scale subsidized programs have led to often massive problems. For example, subsidized credit services do not reach poor people, repayment rate is normally low, and loan loss rate is high. Moreover, corruption occurs and loans often reach better off rather than poorer villagers because loans are subsidized and limited (Ibid.).

The old paradigm of microfinance is generally linked to the borrower training programs. Many kinds of training relevant to health, family planning, skills development and others may be significant tools in alleviating poverty. Generally, the issue is not the value of training, but the linkage of credit and training together. However, there are a few exceptions for some microfinance institutions. For example, the Bangladesh Rural Advancement Committee (BRAC) is providing both social and financial services which have shown themselves to be limited at financial management although it is generally regarded as successful institution (Ibid: 72–73). When microfinance institutions lack a focus on financial viability, they may be unable to manage loan delinquency, and normally they may not achieve financial self-sufficiency (Ibid.).

In contrast to the old paradigm, the new paradigm operates as an independent self-financial institution model. The model, defined by Robinson (2001), is the commercial microfinance institutions that can attain wide outreach and sustainability (Ibid: 47). In this model, microfinance institutions may provide both large scale savings services and profitable credit that operate outside the subsidized credit model and in self-sufficient commercial institutions. Under the new paradigm, Robinson (2001) argues that the commercial microfinance providers may attain wide outreach sustainably by having access to commercial fund market and through savings mobilization (Ibid: 73–76).

The new paradigm emphasizes the idea that commercial institutions can expand their services to provide sustainable financial intermediation for the economically active poor.

Microfinance commercialization of the new paradigm is a contribution to governments and donors for poverty reduction through employment generation program for the poor (Ibid: 73). With this regards, when credit subsidies are replaced by commercial microfinance, savings service is very important for microfinance institutions to help governments and donors to meet the demand for credit services of low income people (Ibid.). The savings services can help reduce the provided subsidies and the loan loss rate. In developing countries, there is a huge demand at a local level for institutional savings services that provide a combination of security, convenience, liquidity and returned interests (Ibid). In addition to Robinson, Rutherford (1999) recognizes that savings can be made available for poverty alleviation program when the poor use both savings and loans to obtain money they often need for any purposes such as emergency needs, social and religious ceremonies, and other investment opportunities (Rutherfold 1999: 8).

In addition, microfinance scholars and practitioners are divided into two fields. They are: 1) Poverty reduction approach and 2) Financial self sustainability approach (Woller & Woodworth 2001). Each side has different views on how microfinance services should be delivered (microfinance NGOs vs. commercial banks). The differences between bank and NGOs are that banks can take savings from the public and provide other services such as money transfer and bill payment that is hard for NGOs to provide. To put it simply, on the one hand, banks have access to diverse funding sources for fund expansion. On the other hand, NGOs can not access commercial funds, and they provide both financial (only credit and in some cases can provide savings) and non-financial services such as vocational trainings, education, and healthcare services. The two approaches are viewed as follows.

1) Poverty Reduction Approach

The camp of poverty reduction approach (also known as NGOs group, old paradigm or the welfarist approach) declares that the ultimate goals of microfinance should be poverty alleviation and empowerment (Woller et al. 2000). Many MFIs mainly focus on instantly improving the well being of participants. Woller et al. (2000) recognize that their objective tends to be self-employment for the poorer among the economically active poor, especially women whose control of reasonable increases in income and savings are assumed to empower them for improving living conditions (Ibid.). In this approach, there is a group of feminist empowerment authors who point out women's economic, social and political empowerment. These authors view microfinance as a vital means in responding to the immediate practical needs of poor informal sector women workers. It is also seen as the only part of a strategy for wider social and political empowerment of women which is essential to sustain the increases of incomes (Mayoux 1998). In general, Mayoux (1998) argues that those who follow the poverty reduction approach are only interested in discussion over the role of organization which targeted poverty rather than sustainability (Ibid.). Most NGOs follow the view of this approach. As their overall goal is poverty alleviation, integrated services are often needed by putting together in the approach. Funds and subsidies of donors and governments may be required because the availability of funds is the most serious constraint in providing financial services for the poor (Ibid.).

2) Financial Self Sustainability Approach

The camp of financial self sustainability approach (also refers to commercialization approach, the new paradigm or the institutionalist approach), takes the view that the overall goal of microfinance is a sustainable provision of financial services for low-income people, but not for the poorest of the poor (Gulli 1998). Otero & Rhyne (1994) argues that financial self-sufficiency is achieved when the program is completely financed from the savings of clients and capital raised at commercial rates generated from other formal financial institutions (Otero & Rhyne 1994). MFIs can be sufficiently self-financed whenever fees and interest incomes cover the real costs of funds, loan loss reserves, operational costs, inflation, and appropriate profits (Ibid). The final goal of self sustainability approach is to build institutions with the profits and self supporting in competition with other private sector banking institutions, and to raise capitals from international market rather than relying on fund of development agencies (Mayoux 1998). Those who, generally, deliver microfinance services as regulated institutions such as commercial banks, fall in this approach. Christen (2001) argues that there is no sufficient amount of subsidy warranted to preserve the long term access of a large number of poor clients to basic needs of financial services without achieving financial sustainability (Christen 2001). Hence, transforming microfinance NGOs into commercial banks plays a key role in achieving financial self-sustainability.

The tradeoffs between the two mentioned paradigms are intensely debated among microfinance practitioners and scholars. In this regard, a third paradigm has emerged as the "middle ground" between the old and the new paradigm. The purpose of this middle ground paradigm is to promote balancing the goals of poverty reduction and financial self sustainability. Many scholars including Christen (2001) and Woller et al. (2000) note that poverty reduction outreach and financial sustainability can be achieved if financial institutions develop services and products such as delivery method, interest rate setting, diversification and qualification of product and service, and procedure simplification to meet the needs of all clients at an affordable rate (Christen 2001; Woller et al. 2000).

2.3 The Transformation of Microfinance NGOs

Transformation of microfinance institutions is one element of expansive movements towards commercialization and integration of microfinance into the formal financial sector. Campion and White (1999: 3) state that "*the transformation phase of microfinance industry's evolution has been essential to the progress because it has allowed MFIs to reach full scale in terms of business operations and outreach, and to demonstrate financial viability and profitability.*" In addition, such a transformation process has already attracted attention from the commercial world to advocate for the change of donors' policies in preparation for a growing microfinance industry based on market principle (Campion and White 1999: 3).

Under the trend of transformation, some people express fears that transformed NGOs will move away from serving the poor. However, after studying transformation process of some MFIs in Asia, Fernando (2004) concludes that transformation has not only integrated the microfinance industry into the broader financial system, but also has a positive effect on both the breadth and depth of outreach[3] in most cases. Practically, all transformed MFIs in Asia now serve a larger number of poor households than they did formerly (Fernando 2004: 29–30).

During the 1990s, the number of microfinance institutions increased, reaching scale by transforming and bridging the gap in the provision of services to micro-entrepreneurs and opening access to financial services to which the poor were limited or denied access for the long term (Robinson 2001: 54). Formal MFIs provide financial services especially loans at lower interest rate than private moneylenders and relatively higher than commercial banks. Competition among transformed MFIs and banks has brought challenges to reach large retail services to lower income sectors and micro-enterprises (Campion and White 1999: 3).

[3] Outreach refers to provision of services to a target market; Breadth- number of clients served; Depth: extent to which the poor are served (Fernando 2004)

The institutional transformation of microfinance NGOs into regulated MFIs is recognized as one of the most effective strategies for achieving a significant scale. The transformation offers a broader range of services, accessing commercial sources of funds and improving operational efficiency through developed systems, controls and transparency that would lead to regulators and other banking expertise and financial sustainability (Ibid: 3). Many studies have identified some various factors as a result of the transformation of microfinance NGOs into regulated microfinance institutions. White and Campion (2002) agree that benefits of transformation include access to commercial capital and the ability to mobilize savings, improve customer services, and expand outreach (White and Campion 2002: 23). In general, transformation starts with obtaining license from the central bank and the introduction of ownership through stock insurance, which is accompanied by reformed structure specific to the formal financial system (Ibid.).

With regard to the transformation process, the majority of evidence in Asia suggests that after the transformation of MFI NGOs into commercial institutions, the institutions expand the outreach of total number, diversify products and services, and deepen the outreach of reaching areas and people who were previously excluded from any financial services (Clark 2004: 3). Clark (2004) argues that analysis of pre-transformation and post-transformation performance of MFIs in the region indicated the depth of poverty outreach that is likely to increase (Ibid: 3). ADB (2001) highlights some studies on microfinance institutions in some Asian countries, indicating transformation towards commercial approach is necessary for microfinance development if MFIs could expand and provide diverse products and services for reaching the majority of un-served clients on a sustainable basis (Charitonenko et al. 2004: 4).

2.4 Mission Drift

Under the trend of commercialization, many critics believe that institutions transforming into regulated entities consequently experience demands for higher financial returns. They will move towards offering larger loans to higher income clients by shifting services away from the poor which leads to mission drift. Mission drift is defined as "*the de-emphasis of social mission in pursuit of higher financial return*" (Woller 2002: 15).

Many points to the larger average loan balance of transformed NGOs are considered as the indicator of mission drift. However, although larger loan balance likely indicates a change in traditional clientele from poor to lesser poor, the fundamental growths that are relevant to the disbursement of larger loans are disregarded (Woller 2002). Woller (2002) states that having the average loan balance as an indicator of mission drift in the initial microfinance objective is inconclusive, unreliable and dangerous (Ibid.).

After studying transformation of microfinance in Latin America, Christen (2001) has found substantial differences in loan size between regulated and non-regulated MFIs, because regulated MFIs are associated with increasing commercialization. He suggests that a big difference in loan size may be caused by factors such as choice of strategy, maturity of portfolio, or group of clients (Christen 2001). He disregards average loan balance as indicator of mission drift, yet agrees that average loan balance can be used as a "proxy" measurement for poverty level. He concludes that there is no mission drift of commercialization in Latin America. However, he recognizes the possibility that MFIs tend to cut down the number of poorer clients when they transformed themselves into a commercial regulated financial institution (Ibid.).

Concerning average loan balance of microfinance, Rhyne (2001) recognizes that in general transformed MFIs provide larger loans than unregulated MFIs. She demonstrates that the loans are getting larger when transformed institutions continue to serve their best growing customers (Rhyne 2001). When loan sizes increase rapidly, it may prove a challenge for the formalized MFIs to maintain the essential lasting commitment to the original target clientele (Ibid.).

Charitonenko et al. (2004) demonstrate that commercialization in Indonesia and the Philippines have not suffered from "mission drift". They recognize that the experiences of several transformed MFIs have shown the commercialization level and depths of outreach have increased in tandem (Charitonenko et al. 2004: 37). They illustrate that commercial MFIs serve more poor clients than before, based on the expansion of microcredit and microsavings services (Ibid.).

After studying transformation of NGOs into regulated microfinance institutions, Campion and White (1999) state that average loan size may increase after the transformation. They argue that larger average loan size might not imply mission drift since the increases of loan size can be due to entrance into new market including the targeting of small business or growth of active clients' loan size requirements (Campion and White 1999: 24).

According to Schreiner (2002), mission drift is measured based on the dimensions of outreach which is a framework related to social welfare theory (Schreiner 2002). He suggests the framework for measuring the social benefits of microfinance in terms of six dimensions: i) Worth of outreach to clients; ii) Cost of outreach to clients; iii) Depth, iv) Breadth, v) Length, and vi) Scope of outreach (Ibid.). He mentioned that worth of outreach to clients is defined as their willingness to pay, while the cost of outreach to clients is the sum of price and transaction cost. Depth of outreach or poverty outreach refers to a tendency to move up the market and serve better-off clients due to transformation. Breadth of outreach refers to a tendency of a larger number of clients handled by field officers to reduce operation cost. Length of outreach is the timeframe of the supply of microfinance. And scope of outreach refers to a tendency of narrow range of services and cut down some services, especially the services that are not producing any financial profit (Ibid.).

In sum, the transformation of MFIs looks to expand outreach despite mission drift. Using the indicator of outreach to measure mission drift is likely to be more accurate than using the indicator of average loan balance.

2.5 The Impact of Microfinance on the Poor Household Welfare

Many studies have been conducted on the impact of microfinance on the poor based on economic and social indicators. Measuring direct impact focuses on how microfinance services affect the lives of poor households. According to many impact assessments, the main impact of microfinance on poor households is changes of income, assets, educational status, health care and women's empowerment (CGAP 2006: 29). Littlefield et al. (2003) suggest that micro credit has a positive impact on borrowers. Many assessments have focused on how microcredit affected individual persons or households. Others have examined the impact on clients' microenterprise and community. Many studies suggest that microfinance has a positive impact on poverty reduction (CGAP 2006: 29–30).

According to the study on impact of microfinance on poor households in Indonesia, borrowers increased their incomes by 12.9% compared to an increase of 3% of control group incomes (Ibid: 30). Another study on borrowers of the BRI indicated that the average incomes of clients increased by 112%, and 90% of households lifted out of poverty (Ibid: 30).

A study on clients of Society for Helping Awakening Rural Poor through Education (SHARE) in India pointed out that three-fourths of clients who participated in the program for over two years saw substantial improvement in their economic well-being based on sources of income, ownership of productive assets, housing condition and household dependency ratio. The study indicated that half of the clients moved out of poverty (Ibid: 30).

A study on Freedom from Hunger's clients in Ghana demonstrated that clients increased their monthly income by USD 39 compared to USD 18 for non clients. Furthermore, clients drastically diversify their income sources. Eighty percent of clients had secondary sources of income compared with fifty percent for non clients (Ibid 30).

Other studies on impact of microfinance exist with evidence on children's education and nutrition, health care, and women empowerment. Many of the existing evidences are basically conclusive and positive. In the following section, the study discusses the results of impact surveys of microfinance on household improvement in some countries conducted by consultative group to assist the poor (CGAP).

Promoting Children's Education

Increasing income allows poor people to invest in their children's education. According to studies on the impact of microfinance on children's schooling, nearly all girls in Grameen Bank client households receive schooling compared with 60% of girls in non-client households (Littlefield et al. 2003: 3). In Uganda, Foundation for Credit and Community Assistance (Foccas) clients spent one-third more than non-clients for their children's education (Ibid.). Another study of MFI- called "Save the Children" on different microfinance program reported that in Honduras clients showed that participating in the credit and savings program increased their earnings and the availability of resources, allowing them to send many of their children to school and decrease the rates of student drop-out. Various studies showed that the children in microfinance are more likely to go to school longer (Ibid.).

Improving Health Services for Women and Children

An access to financial services enables clients to seek health services when needed rather than to wait until the illness has become serious. Studies have shown that financial services have a strong positive impact on women and children's health, particularly in the programs that included training on health issue. In Uganda, 95 % of Foccas clients benefited from a microcredit program that combined financial services with the practice training to improve the health and nutrition for their children compared with 72% for non-clients. In addition, 32% had tried an AIDS prevention technique, double percentage for non-clients (Ibid.).

Empowerment of Women

An access to financial services and the increase of income enhance poor women's confidence, which enables them to better confront systematic gender inequities. Studies showed that empowerment took different forms. According to the study in Indonesia, females of Bank Rakyat Indonesia (BRI) were more seemingly than non clients to make joint decision with their husbands concerning allocation of household money, children's education, use of contraceptives and family planning (Litterfield et al. 2003).

A study in Nepal indicated that 68% of Women's Empowerment Program members were able to make decisions on buying and selling property, sending their daughters to school, organizing their children's marriage, and family planning. Another study in India on Self-Employed Women's Association (SEWA) demonstrated that clients organized in a union have lobbies for higher wages, the right of women in the informal sector, and resolving neighborhood issues. The other studies in Bangladesh, Bolivia, Nepal, the Philippines, and Russia indicated that clients of microfinance programs have successfully run local government office (Ibid.).

In short, the poor who access microfinance services from the microfinance programs or NGOs can improve their lives both in terms of social and economic conditions better than those who do not access financial services.

In sum, based on the above literature review, commercialization of microfinance can be seen as having a significant role in improving microfinance institutions to contribute to poverty reduction and to provide sustainable financial services by expanding the breadth and depth of outreach in some countries in Latin America and Asia. This study is to look into microfinance commercialization process in Cambodia in order to improve the effectiveness of microfinance in poverty reduction. It seeks to test whether commercialization has brought about positive impact to help the poor free themselves out of poverty. In addition, the study aims to serve as an additional contribution to the debate in mission drift of microfinance commercialization and the tradeoff between the old and new microfinance paradigm.

Chapter 3

Banking System and Microfinance in Cambodia

3.1 Overview of the Country

Cambodia has a total population of 14.2 million (est. 2006) with a total land area of 181,035 km^2. Eighty five percent of the population lives in rural areas. According to the report of World Bank office in Phnom Penh, in 2004 people living under the poverty line[4] accounted for approximately 36% of the total population, of whom 90% lived in rural areas (WB 2007). Average life expectancy is approximately 57 years old; infant mortality rate is 68 per thousand, and annual population growth is 2% (WB 2007).

Despite high economic growth in the last decade, Cambodia still remains one of the poorest countries in Southeast Asia, with per capita income GDP of USD 480 in 2006 (WB 2007). In particular, Cambodia's financial sector is still underdeveloped. Access to microfinance as well as other formal financial sources is considered very limited, especially in rural areas where, in many cases, there is a lack of infrastructure and security. The limited access is attributed to high operation costs and difficulty in verifying collaterals. Consequently, the majority of the rural population is unable to have access to formal financial services.

3.2. Financial Structure in Cambodia

Contemporary financial structure in Cambodia is incomplete and can be considered to be newly born due to political instability in the past and lack of infrastructure as well as technology.

[4] The national poverty line is set at average per capita per day USD 0.54 in 1999 by Cambodia Socio-Economic Survey (CSES) of National Institute of Statistics, Ministry of Planning and Cambodia Poverty Assessment.

Cambodia's financial sector is at rudimentary stage with limited financial intermediation and low public confidence. According to ADB (2001), Cambodia is one of the countries having low rate of banking intermediation in the world based on bank loans and deposits accounted for about 8% and 12 % of gross domestic product (GDP) respectively (ADB 2001: 4).

According to NBC (2006), the Cambodian banking system was completely destroyed during the Pol Pot regime, 1975–1979. The national currency was abolished and financial services were not available during that period. After the collapse of the Pol Pot regime in 1979, Cambodia introduced a mono-banking system when the National Bank of Cambodia (NBC), the state-owned central bank, was established in 1979. NBC has operated through its provincial branches by providing small loans to thousands of farmers based on mutual guarantees (NBC 2006: 4).

In 1989, with the privatization of the banking sectors, structural reforms were initiated through a government decree to establish a two-tier banking system by separating the function of commercial banks from the NBC. The law on banking and finance allows the formation of private commercial banks as limited liability companies (ADB 2001: 4).

After the Paris Peace Accord in 1991, microfinance was operated by NGOs in the provision of micro and small financial assistance, taking over in part of some areas as non-licensed credit providers. Those NGOs, supported by donors, were mainly introducing credit services to their development program for providing funds for rural people. Yet the sources of capital of micro and small businesses in rural areas were still mainly under informal lenders, relatives and friends.

As of December 2006, there are 15 commercial banks: 12 are locally incorporated banks and 3 are branches of foreign banks. There are also 5 specialized banks, 16 licensed microfinance institutions (MFIs), and 23 registered credit operators (NBC 2006) (See appendix 2).

3.2.1 Commercial Banks

At the end of 1999, the Royal Government of Cambodia (RGC) promulgated the Law on banking and financial institutions. Upon this law, the NBC launched a banking system restructuring program by requiring all banks to apply for re-licensing. Consequently, 16 commercial banks were consecutively eliminated from the banking system because those commercial banks failed to meet the new banking guideline including the capital requirement (NBC 2006: 5). By the year 2006, the commercial banks and MFIs were integrated into the banking system, developing their networks to provide financial services throughout the country.

The commercial banks' activities mainly focus on big transactions in commercial nature, real estates and international business. Consequently, poor people living in rural areas lack access to financial services such as loans and savings provided by commercial banks. Moreover, the commercial banks have neither resources nor possibility to expand their limited range of rural services due to high costs and low profitability. The main sectors benefiting from the loans provided by commercial banks are services, manufacturing, wholesaling, retailing and real estate. As such, it is only MFIs that are operating in rural areas.

As of 2006, the Association of Cambodian Local Economic Agencies (ACLEDA) is one of the 15 commercial banks that has the largest network in both urban and rural areas throughout the country, while the others have a limited number of branches in Phnom Penh and other major provinces (NBC 2006). ACLEDA still keeps providing both urban and rural financial services although it became a commercial bank in 2003.

Table 3.1 Total Loans Outstanding and Deposit of Banks in Cambodia

(In million of Riel)

Year	2002	2003	2004	2005
Total Loans Outstanding	1,093,631	1,433,647	1,813,693	2,383,300
Total Deposit	2,241,457	2,622,849	3,327,788	3,908,452

Source: NBC 2006 Note (USD1= KHR 4,081)

3.2.2 Microfinance Institutions (MFIs)

In 2000, in order to strengthen its governance, NBC launched the revision by issuing regulations to manage the transformation of NGOs into registered and licensed MFIs, based on the scope of their operations. After obtaining license and registration certificate, those MFIs have been regulated and supervised by NBC. Some NGOs, since 2002, have been licensed while others have been registered. By the end of 2006, there were 16 licensed MFIs and 23 registered MFIs providing rural microfinance services. The majority of those institutions were transformed from NGOs while others were transformed from local private enterprises (NBC 2006: 9).

All the transformed MFIs from NGOs have continued their lending policy in the form of solidarity groups for which collaterals are not required. However, individual lending requires collateral if there is no trustable guarantor. For local private MFIs, the majority of loans have been lent to individual clients with required collaterals.

The sources of funds of MFIs for lending come from mostly grants and loans of external donors, local borrowing, and a small proportion of domestic savings. In 2005, the proportion of savings accounted for about 46% of total loans (NBC 2006: 11). The small proportion of domestic savings shows the weakness in savings mobilization strategy and the lack of trust from clients. Also, most of the poor people have their own traditional savings activities in the form of putting money in a piggy bank or in the pillow case, by which there is a high risk of loss.

In 2006, microfinance services increased expansively. Microfinance institutions accumulated a total loan outstanding of KHR 356.5 billion provided to 461,122 clients, excluding loans of ACLEDA provided to the microfinance sector. Although ACLEDA has been transformed into a commercial bank, its main operations still involve the microfinance sector and lending to MFIs and NGOs. During the period between 1999 and 2006, the number of borrowers of all MFIs increased from 291,453 accounting for KHR 73 billion to 464,122 accounting for KHR 356.5 billion, respectively. Simultaneously, the number of depositors increased from 103,872 accounting for KHR 4.44 billion to 117,000 accounting for KHR 12.24 billion, respectively (see table 3.2). Therefore, the savings services have gradually increased in operation of all MFIs from year to year.

Comparing the microfinance outputs of all MFIs in 2005 and 2006, the total loan outstanding, the number of borrowers, and total savings increased by 75%, 25% and 30% respectively. The number of depositors decreased by 18% (see table 3.2). The decrease in number of depositors was due to the change in the approach of some microfinance institutions from providing solidarity group loans to individual loans. Another reason is that most of depositors change from savings with MFIs to savings with banks.

Table 3.2 Total Loans Outstanding and Deposits of MFIs (1999–2005)

(In million of Riel)

Year	Borrowers	Total Loans	Depositors	Total Deposits
1999	291,453	73,729.54	103,872	4,444.91
2000	370,631	113,439.04	165,995	5,357.85
2001	409,963	140,163.17	158,627	4,832.17
2002	328,295	201,483.46	107,150	27,859.68
2003	265,044	129,756.09	78,628	9,819.92
2004	322,056	164,488.01	122,984	8,074.72
2005	371,054	203,034.35	142,843	9,441.47
2006	464,122	356,500	117,000	12,240

Note: 2003, 2004 and 2005, excluding ACLEDA's (USD1= KHR 4,081)
Source: NBC 2007

3.2.3 NGOs Operating Microfinance

Rural financial services had been supplied by 90 NGOs before the NBC established regulations to manage the microfinance activities in the late 1999. Many local NGOs were established by international NGOs in order to form institutions for operating microfinance on permanent basis. Those local NGOs were supported by international donors providing management guidance and financial support for institutional building and credit for revolving funds (NBC 2006: 7).

In microfinance operations, most NGOs provide loans to group members of the same activity or type of business in rural areas. Besides credit, those NGOs also provide savings services in the form of compulsory savings. The members control group savings and use these savings to lend amongst themselves. The savings are likely at high risk because management and skill of most NGOs' staff are limited. Many NGOs face problems in either operation or savings and credit policies that are not clear to target clients in using savings or credit. As NGOs have freedom to promote group savings and credit schemes, NBC requires an urgent appropriate regulation to supervise those NGOs. However, the smaller local NGOs located in remote areas are difficult to supervise because their financial activities are likely to be too small to warrant the costs of supervision (NBC 2006: 8).

Basically, the credit operations of NGOs are integrated with other social development programs such as health, education, vocational training and community development. Most of credit programs of those NGOs are supported with grants, depending on international public and private organizations. The funding of the NGOs is periodically limited, and the credit methods operated through NGOs are based on solidarity group or through village bank system or direct delivery. After receiving loans for several cycles, many groups split up since members become dissatisfied with the poor quality of services and lose interest. As a result, rural credit and savings schemes are not viable due to the lack of savings and poor services, excessive reliance on external funding in the form of grant or project financing, lack of professional management, lack of an appropriate legal structure and lack of external supervision (Ibid: 9).

As of December 2000, all NGOs operating microfinance services had total loans outstanding of USD 29 million and total savings of USD 1.5 million, while the total number of borrowers was 147,000 in 20 provinces and municipalities. This number of borrowers represented 18% of the total Cambodian population. Women borrowers represented 80% of the total borrowers (Ibid: 8).

Table 3.3 NGOs Microfinance Services in Cambodia (1996–2000)

Year	1996	1997	1998	1999	2000
Borrowers	82,000	171,087	291,453	334,145	370,651
Loan Value	4.1	12.5	13	23	29
Savers	N/A	N/A	103,872	134,350	147,441
Save Value	N/A	0.3	0.7	1.7	1.5

Source: NBC 2006

(Value in USD million)

3.2.4 Private Money Lenders

In 1996, based on the socio-economic survey in Cambodia, as can be seen in the data, about 704,000 rural households took loans with a total value of USD 120 million during 1994–1995. Approximately 54,000 (8%) of them took loans from traders, 114,000 (16%) from money lenders, 344,000 (49%) from relatives, and 114,000 (16%) from friends and neighbors. The other remaining loans 7,000 (1%) took from banks and 71,000 (10%) from NGOs (NBC 2006: 8–9). Totally, 89% of borrowers took loans from informal sources and the other 11% from formal and semi-formal sources.

While the number of loans from MFIs and NGOs has increased noticeably, loans from money lenders, relatives and friends are still important sources for rural credit. Generally, most of the loans are used for agricultural productions and investment in business. Some of the loans are used in consumptions, health care, education, and other social activities.

Generally speaking, the interest rates of loans from informal sources are relatively higher than formal and semi formal sources such as commercial banks, regulated microfinance institutions and other NGOs. Normally, loans from relatives and friends are free interest, while the loans from traders and money lenders are charged interest around 15% to 20% per month. Even with high interest rate, borrowers are likely to take loans from informal financial services because of the simple procedure of the services, the flexible repayment and lack of choices to access formal loans.

3.2.5 Interest Rates

An interest rate is an important issue for MFIs to charge their clients. Most of MFIs and other NGOs are criticized by their clients due to high interest rates. The interest rate charged by formal microfinance sector is higher than that charged by commercial banks but lower than that charged by private lenders. The interest rate is therefore a main issue for consideration.

The mission of NBC is how to lower the interest rate in order to help the poor. Based on past experience and study of financial experts, NBC recognizes that the way to lower the interest rate is not to limit the ceiling. The cap limitation would hinder investors in their lending, and they might not invest in financial sector or even withdraw their capital. This could provide the poor less occasions to access credit services from MFIs. The best way to reduce interest rate is to create a favorable environment in which the MFI operators feel more confident in investment without any concerns and encourage the operators to expand their operational areas. As a result, competition among MFIs would increase, and then the interest rate would be lowered (NBC 2006: 10).

Generally, the factors determining the lending interest rate include financing cost, inflation, operation cost, cost of counterparty risk and appropriate profit margins. By managing these factors properly, the operators can sustain their institutions. The major problem is to reduce the cost of capital, to have macroeconomic stability, and to reduce the cost of operation by developing infrastructure in remote areas.

The other factor influencing the interest rate of MFIs is the method of calculation. Practically, there are many ways which can be used for calculation of the interest rate, which result in different annual effective interest rates. Until 2000, many NGOs operating microfinance applied different methods of interest rate calculations. Majority of NGOs calculated interest on flat rate basis rather than on declining balance. Moreover, most of the borrowers did not obtain an amortization schedule for their loan repayments (Ibid: 10).

Due to the irregularity of interest rate calculation method which affected the poor borrowers, the NBC issued a regulation to implement a calculation method to ensure effective interest rate. This policy provides better benefits to borrowers because the borrowers have to pay interest less than that in previous time with the same loan size.

Table 3.4 Monthly Lending Interest Rate of MFIs of Cambodia

Year	1998	1999	2000	2001	2002	2003	2004	2005
Loan in KHR	3–5%	3–5%	3–5%	3–5%	3–5%	3–5%	3–5%	2–5%
Loan in USD	3–5%	3–5%	3–5%	3–5%	3–5%	3–5%	3–5%	2–5%

Source: NBC 2006 Note: KHR= Khmer Riel, USD= US Dollar

3.3 Government Policy on Microfinance

Microfinance was introduced in Cambodia after the Paris Peace Accord in 1991. At the first stage, microfinance operations performed by NGOs were neither regulated nor supervised. In order to develop the microfinance sector, the Royal Government of Cambodia (RGC) tried to set up regulations and supervision to ensure the sustainability of microfinance services and operations which would reduce the risk and improve the management.

In 1995, the government established the Credit Committee for Rural Development (CCRD) that was supported by the United Nation Development Program (UNDP) and Agence Française de Dévelopment (AFD). The role of CCRD was to formulate a strategy framework and national policy to improve the effectiveness of rural credit and to support the strength of institution and to promote private sector (RDB 2006).

In 1997, the NBC set up the supervision office of decentralized banking system bureau supported by AFD. The office was later separated into specialized bank and MFIs supervision office (in charge of coordination, supervision and regulation sector), and the project of support microfinance sector (Ibid.).

In 1998, the RGC approved a two-tier banking system for supervising microfinance under the law on banking and finance institutions. And in 2000, the Prakas (ministry regulation) on microfinance regulation was issued and implemented by the NBC. MFIs with a portfolio over KHR 100 million is required to register with NBC, and the MFIs with a portfolio over KHR 1,000 million is required to be licensed as a limited liability or as a cooperative (Clark 2006).

Table 3.5 Microfinance Institution Registration and Licensing

Compulsory Registration	*Loan Portfolio: equal or greater than KHR 100 million (USD 25,000) and/or* *Savings from the public: KHR 1 million (USD 250) or more than 100 depositors*
Compulsory Licensing	*Loan Portfolio: equal to greater than KHR 1,000 million (USD 250,000) or 1,000 borrowers, and/or* *Savings from the public: KHR 100 million (USD 25,000) or 100 depositors*

Source: Prakas No. 7-00-06 of 11 January 2000, amended by Prakas 7.02-49 of 25 February 2002 (Clark 2006: 148)

Due to interest and involvement in microfinance, the RGC is committed to supporting the expansion of rural microfinance services such as credit and savings. The RGC enables private license MFIs and commercial banks to increase competition in microfinance which leads to interest rate reduction, resulting in more efficient and sustainable microfinance services.

In order to contribute to ensuring efficient and sustainable effort in alleviating poverty, the RGC always supports the development of microfinance through the introduction of its policies and creation of a favorable environment for growth in the sector, especially the development of the institutions. NBC issued the Prakas (ministry regulation) on financial sectors to encourage investment in provincial and rural development.

The head of RGC with the involvement of all ministries and stakeholders has launched the national poverty reduction strategy of Cambodia since March 2003. The aim of the strategy is to make people realize what poverty reduction means and what they can do to free themselves from poverty. In connection with this strategy, good governance is significant when applied for formal microfinance institutions because good governance results in potential shift in pricing and transparency. Accordingly, microfinance NGOs are encouraged to commercialize in order to improve governance and ownership (Dy and Dash 2006: 21–22).

In 1998 Prime Minister Hun Sen stated that the RGC supports the expansion of rural credit and savings by cooperating with the licensed microfinance institutions and commercial banks. In addition, the Prime Minister also indicated that improving Rural Development Bank (RDB) was a key role in providing refinancing for microfinance operators to deliver long term loans to rural people with sustainability. The RGC would create laws and regulations on finance and banking through the NBC to strengthen MFIs. Moreover, the RGC would supervise and assess the credit activities of microfinance operators and encourage them to become regulated MFIs (Ibid.).

The institutionalization is considered to be necessary because local credit sources are more important than external sources of fund. Accordingly, in 1998, the RGC established Rural Development Bank (RDB) under the supervision from the sponsoring partner such as Asian Development Bank (ADB) and the active participations of Ministry of Economy and Finance with the main principle to develop rural agro-economic activities.

In order to develop microfinance sector effectively, the RGC has tried to issue a number of policies through several authorities. Setting up a legal framework for sensible supervision and regulations on microfinance and the role of CCRD is significant for development microfinance. In this regard, loans from ADB to RGC including subsidy loans to RDB for refinancing licensed MFIs are supervised by NBC. In addition, the RGC has established a Project Coordination Committee (PCC) in 2001, whose members are from the Ministry of Economy and Finance, Ministry of Rural Development, Ministry of Agriculture, Forestry and Fisheries, NBC, RDB and licensed MFIs in order to coordinate for project activities (Ibid: 23).

Under the authorization from the RGC to act as a wholesale bank, RDB is a source of funds for providing credit to rural financial sectors. RDB provides loans for only MFIs under the NBC's supervision through the new microfinance legislation. The legislation adopted in 2000 requires all the credit operators to register with the NBC. The legislation provides an occasion to selected microfinance NGOs to gain license as mature MFIs with a minimum capital. Nonetheless, the RGC has no policy to limit the ceiling of interest rate, and frees all credit operators to set the interest rate. The policy of NBC has supported all MFIs for preserving reliability of financial system, promoting public trust, protecting savings, preventing fraud, and encouraging top management practices in the financial system. Therefore, in order to ensure a favorable microfinance environment, the RGC together with NBC has set up policies that support all credit operators to register and to gain a license. In addition, the RGC frequently provides various financial safety arrangements in order to promote economic growth and financial stability (Ibid: 25–26).

Besides creating favorable and incentive policies for MFIs, the RGC pays attention on developing rural infrastructure. The RGC has built roads, bridges and other infrastructures in the rural and remote areas. Improving infrastructure allows microfinance operators to deliver services with low costs of operation which results in interest rate reduction. The RGC also enhances irrigation system to support the farmer-borrowers in order to increase their productivity and ability to manage their loan repayments. Moreover, the RGC also provides vocational training in sewing, small repairing and small business for the poor to access financial services effectively (NBC 2006: 12–13).

3.4 Roles of National Bank of Cambodia in Microfinance

In order to implement the law on banking and financial institutions and to improve financial services in rural areas, NBC requires NGO microfinance operators to be licensed as MFIs. The requirements of the regulation are not to restrict the operators' activities but to promote their activities. Becoming regulated or licensed MFIs is necessary for the MFIs to mobilize savings publicly, and to access local and international commercial sources of funds.

In January 2000, the law on banking and financial institutions was amended. NBC issued the Prakas for the first time on the classification of MFIs into three categories based on the level of their operations, and created criteria for NGOs to apply for license and registration. The three categories are specialized banks, licensed microfinance institutions, and registered microfinance operators. The requirements of these categories differ substantially with respect to minimum capital and reserved requirement, license fees, reporting data and intervals (Clark 2006: 146–147).

The amended law provides a legal framework for organizations and operators of all types of banking sectors including microfinance institutions. The regulation of MFIs is very similar to that of commercial banks, except the capital requirements of MFIs are considerably lower than that of commercial banks. The medium sized MFIs are required to register at NBC, supervised by lighter regulation, and required to submit report to NBC. And the other smallest MFIs can operate freely with no requirement to be regulated and supervised because of high operating cost, small capital and activities (NBC 2006: 14–15).

The major problem of NGOs to apply for license or registration is ownership. Most of the NGOs, at the beginning, have difficulties of identifying shareholders because funds supporting the NGOs are granted by international donors. Eventually, staff association has been established as the owners of those funds. By doing so, those NGOs can transform themselves into licensed or registered MFIs (Ibid.).

In 2006**,** NBC in collaboration with the United Nation of Development Program (UNDP) organized the National Summit on "Microfinance in Cambodia" which was held on 11 to 13 January. During the summit, Prime Minister Hun Sen declared officially the year 2006 as the "Year of Microfinance in Cambodia". The aim of the summit was to recognize the achievement in the microfinance sector for its role in contribution to poverty reduction and the importance of microfinance institutions in economic development.

After organizing the national summit, the NBC also organized three successive regional conferences in three provinces such as Battambang, Kampot, and Kampong Cham. The conferences were attended by around 2,000 representatives of provincial departments, local authorities, banks and microfinance institutions, microfinance clients and other stakeholders. NBC organized these regional conferences in order to disseminate to the public and local authorities the role of NBC in MFI supervision, the progress of MFIs, and the role of microfinance in poverty reduction. Additionally, the conferences also aimed to attract local and international NGOs to participate in microfinance development through providing finance and technical assistance (NBC 2006: 16–17).

3.5 Roles of Rural Development Bank

The Rural Development Bank (RDB) was established in 1998 by the Royal Government of Cambodia (RGC). The RDB is a key mechanism to support and strengthen financial services in rural areas as well as to develop, promote and finance small and medium enterprises (SMEs). The RGC believes and recognizes that microfinance and micro business development in rural areas plays a fundamental role for social economic development of Cambodia (RDB 2006).

RDB is a public and autonomous financial institution acting as the wholesale bank and executive agency of donors and other loan programs and projects. RDB provides financing and refinancing to licensed commercial banks, specialized banks and microfinance institutions which deliver credit and savings services to rural poor, micro, small and medium enterprises (Ibid.).

RDB plays a key role in promoting rural, agricultural and economic development in order to contribute to poverty reduction, and to raise the living standards of the poor people by providing wholesale lending services to microfinance operators. With such fund from RDB, the operators could expand their scope of micro financial services in rural areas. In addition, RDB is trying to provide sustainable access to credit for farmers, traders, and entrepreneurs in order to support agricultural and rural development, especially for selected commercial sectors such as rural water supply projects, family rubber plantations, rice and maize cultivations, and for small and medium enterprise development based on free market system (RDB 2006).

Although Cambodia has free market economy, RDB plays a leading role in negotiating with its partners such as MFIs and credit operators so that the interest rate charged on the end-borrowers is lowered step by step. The RDB's president stated that owing to the contribution of the effort of RDB, the interest rate was reduced from 5% to 2.5% per month.[5] In addition, as a strong commitment, RDB and its partners (MFIs and credit operators) have extended their operation to rural remote areas which are economically potential areas for agriculture and agro industry (Ibid.).

To sum up, microfinance in Cambodia has developed remarkably since the outset of its operation in the early 1990s. It has played a positive role in improving living conditions of the poor through increasing access to financial services in rural areas. This access to microfinance has later stimulated rural economic activities. Simultaneously, the products and services of all MFIs are developed and upgraded from year to year through expanding the scope and outreach of operation in rural areas and through competing among other MFIs.

The RGC, NBC and RDB play very crucial roles in building financial infrastructure, setting up regulations and supervision, and creating a favorable environment that allows competitive and various financial service providers to flourish and to deliver sustainable microfinance services throughout the country. The policies of RGC which are implemented by

[5] Interviewed with H.E Son Koun Thor on August 3, 2007 at RDB head office

NBC and RDB strongly support all microfinance NGOs and other informal credit operators to transform themselves into formal microfinance institutions or commercial banks in order to efficiently and effectively provide sustainable microfinance services.

Since most of microfinance institutions in Cambodia are under the early trend of commercialization following the policies of RGC and NBC, it is therefore important to examine the impact of the transformation of microfinance from NGOs into commercial banks on the poor clients. The study focuses mainly on ACLEDA Bank in general and on ACLEDA Bank Sihanouk Ville branch in particular. The next chapter identifies the background and transformation process of ACLEDA Bank.

Chapter 4

The Case Study of ACLEDA Bank

4.1 Background of ACLEDA

4.1.1 The beginning of ACLEDA as an NGO

The Association of Cambodian Local Economic Development Agencies (ACLEDA) was founded on January 19, 1993. ACLEDA evolved from the Local Economic Development Agencies (LEDA) project[6] as a national independent non-governmental organization (NGO), supported by the International Labor Organization (ILO) and the United Nation Development Program (UNDP). LEDA project had a revolving fund of USD 613,000 as part of the budget of Small Enterprise and Informal Sector Promotion (SEISP) (Hakemulder 1997: 7). The SEISP project, ACLEDA's parent project, was generally drawn on small business development, vocational training and employment generation for demobilized soldiers. The spirit of SEISP was a local economic development which would enable poor Cambodians to take advantages of economic chances through an integrated package of business development, training and credit (Clark 2006: 25). The LEDA project aimed at helping the poor to liberate themselves from poverty through providing micro-credit for micro and small entrepreneurs with sustainable financial services, and promoting economic activities which ranged from self-employed entrepreneurs to businesses.

The objectives of ACLEDA NGO were then "*to establish an integrated small enterprise and informal sector program to support economic development and to contribute to poverty*

[6] The UNDP Funded project, and ILO- executed Employment Generation Program, providing business training, vocational training, financial services to micro and small business entrepreneurs, and informal promotion

reduction through a sustainable provision of financial services" (ACLEDA 1996). ACLEDA NGO gave priority to women as heads of households, resettled refugees, demobilized soldiers, and the handicapped by providing them with the knowledge and resources they needed to improve their lives. ACLEDA NGO had a positive influence on the lives of thousands of people who mostly needed such assistance. Eighty percent of the clients were women (Ibid.).

Besides the UNDP and ILO, ACLEDA was supported by the government of Netherlands, the European Union (EU), the Cambodian Resettlement and Rehabilitation Program (CARERE), United Nation Population Fund (UNFPA) and the Shell Company of Cambodia limited. ACLEDA NGO worked collaboratively with Partnership for Development in Cambodia (PADEK), United Nation Industrial Development Organization (UNIDO), Ministry of Industry, Mines and Energy, Ministry of Rural Development, Asian Institute of Technology (AIT), World Bank, Credit Committee for Rural Development (CCRD), and the Ministry of Women's Affair (MoWA) (ACLEDA 1996).

ACLEDA NGO's program was implemented by its Cambodian members. The organizational structure of ACLEDA was composed of a general assembly, a board of directors, an executive committee, technical staff for consultancy and training, provincial and district offices. The branch offices had a branch manager, an administrator and professional staff for providing financial and management services for small and micro enterprises. There was a central Revolving Fund Management Committee (RFMC) to approve loans over USD 4,000, and to deliver advice to the board on financial services. ACLEDA NGO had a Local Credit Committee (LCC) at the branch level offices to approve loans and to give advice to RFMC. And each office had an advisory committee including representatives from other organizations that advised on policy issues (See appendix 3).

ACLEDA NGO's program strategically aimed at promoting local economic development by providing business training and financial services for micro and small entrepreneurs in rural areas. The program consisted of small enterprise and informal sector component. The program for small enterprises was a cooperation of international projects and ACLEDA staff. The objective of the program was to support starting or expanding small businesses which required loan of more than USD 200 and which were likely to provide full time employment for business owner or to provide work for one or more other people. The program processes was: First, a selection procedure focused on the application's business ideas, whether they required skills and resources, and whether they belonged to the target group. The main point of this procedure was to interview clients for comprehending their business ideas. The procedure did not require written tests or assessments of entrepreneurial potential. Second, a six-day basic business skill training program, which involved the development of a simple business plan, included an informal market assessment. The training program was simple, concrete, and participative. Third, applications for loans based on the business plans. Loans were approved by the LCC (for loans up to USD 1,000) or by the RFMC at the national level in Phnom Penh. Fourth, collateral was required for loans or credits in US Dollar (USD). The program required a 20% equity contribution. Collaterals included the capital goods purchased with the loans. Moreover, there was a requirement for guarantors. The maximum loan size was USD 2000, and the maximum of loan term was 2 years. Fifth, the follow up business advisory services required credit officers to follow up the loans by using checklist (Hakemulder 1997: 12).

The program of informal sector focused on solidarity group lending, aiming exclusively at women in micro enterprises. The informal sector component was defined as small economic activities that required a loan of up to USD 50 and would generally provide part-time employment for one person only (Hakemulder 1997: 12−13).

The main steps in the program were explained by Hakemulder (1997) as following:

"- *Selection of a neighborhood or village where there was a high concentration of target group members and potential for micro enterprises;*

- Group and individual meeting with key persons in the village and potential clients to clarify the program and ensure that participants belonged to the target group;

- Formation of group of 5 to 10 members who guaranteed repayment of each other's loans portfolio;

- Application for credit was approved by the local informal sector credit committee;

- Credit provision, loans in Khmer currency (KHR), charged interest of 5% per month based on flat rat basis.[7] *The loans had a standard of maturity of three months. The united liability of group members was the only guarantee;*

- Follow-up to provide basic business advice for clients and to address problems which might jeopardize loan repayment" (Hakemulder 1997: 13).

In addition, in order to provide credit successfully, the principle of providing loans required clients to be highly responsible for the business ideas. The principle also required the clients to assess the market by themselves. Moreover, it also required the clients to have responsibility for producing business plans.

Although the group and individual clients were trained with the minimum number of short-term training sessions, the sessions were based on interaction between trainees and trainers' team which enabled the clients to understand the loan usage procedures. Loan repayments were done at the ACLEDA offices where possible. Group clients were given important tasks in loan administration. The groups were formed by the clients, not by the ACLEDA staff. Such measures

[7] A method for calculating interest as a percentage of the initial loan amount rather than as the amount outstanding during the term of the loan, while a declining balance method for calculating interest rate as a percentage of the amount outstanding over the loan term (Ledgerwood 1999: 266-267).

provided effectiveness in terms of learning, the appropriate decisions made by the clients, and time use of ACLEDA staff (Ibid: 14).

Regarding the output of ACLEDA between the start of the program in January 1993 to December 1995, 4,224 clients received small business training for the small business components. Among those trainees, 3,232 accounting for 76% implemented their business plan; only 3,118 of them received loans from ACLEDA. The other 41% were the start-up for the other expansion, 37% of them were in production; 21% in services; 16% in trade; and 26% in agriculture. In the meantime, the business failure rate was 3% while the loan recovery rate was 96% (See table 4.1) (Hakemulder 1997: 21).

Concerning the solidarity group clients, ACLEDA NGO provided training and loans for 5,837 clients; 9,352 loans were disbursed. This number of loans was less than the predicted figure of 12,000 over the first two years. This target was a guess made without any knowledge of the needs of the micro enterprises or the methodology that would be used. Yet, at the time of project formulation, the target was recognized that the figure was probably an over-estimation. On the other hand, the recovery rate for micro loans was 99%, which was more than expected in the project (See table 4.1).

ACLEDA NGO conducted two in-depth impact assessment of the project over the micro lending or informal sector operation which was assisted in the first 18 months. The assessments found that an average income increase 45% among informal sector component clients. The first study found that 67% had increased their income while the second impact assessment found that 84% increased their income. The improvements were also found in ownership of assets, school attendance, medical care and housing (Hakemulder 1997: 23).

Table 4.1 Output and Impact of ACLEDA's Program (1993–1995)

	Small Business Enterprises	Informal sector (Solidarity Group)
Number of clients received training only	1,106	N/A
Number of clients received training and credit	3,118	5,837
Percentage of those who received credit	71%	99%
Business success rate	97%	N/A
Loan recovery rate	96%	99%
Increase in income (average)	65%	45%
Job created per business (average)	1.8	N/A

Source: Roel Hakemulder, ILO 1997: 21

4.1.2 The Process of ACLEDA's Transformation

ACLEDA started to transform in January 1998 and fulfilled transformation into a specialized bank on October 7, 2000. The transformation was supported by its donors such as UNDP, USAID, and MPDF/IFC. In the process of transformation, ACLEDA NGO transferred its assets and on-lent liabilities (loans from donors) to the new ACLEDA Bank in exchange for the shareholders and loans to the bank. The paid up capital after transformation was USD 4 million, in which 51% owned by ACLEDA NGO founders and ACLEDA staff association (ASA, Inc.)[8], and the other 49% owned by four foreign shareholders: The International Financial Corporation (IFC, part of World Bank), Deutsch Investitions-und Entwicklungsgesellschaft (DEG, Germany), The Netherlands Development Finance Company (FMO), and Triodos-Doeun Foundation

[8] ASA Inc. was created in February 1999 under Cambodia's commercial law. It was designed for allowing employees to share in the ownership of the bank (Clark 2006: 175)

(Netherlands). On December 1, 2003, ACLEDA Specialized bank was upgraded into a commercial bank, and the bank increased its total paid up capital from USD 4 million to USD 13 million, represented by 13 million ordinary shares. Each share had an issue price of USD 1, whereas in 2002, each share had an issue price of USD 10. Eventually, on November 30, 2006, ACLEDA Bank raised its paid up capital from USD 13 million to USD 30 million (ACLEDA 2007).

Table 4.2 The Ownership Structure of ACLEDA Bank

Share Holders	As of December 2002 (%)	As of December 2006 (%)
NGO Founders	45.60	37.70
ASA Inc.	5.40	13.30
DEG	12.25	12.25
FMO	12.25	12.25
IFC	12.25	12.25
Triodos Doen	12.25	12.25*
Total	100	100

Sources: ACLEDA Webpage , Note: * included Triodos Fair Share Fund 4.30% of total shares

As a commercial bank, the vision of ACLEDA is "*to be Cambodia's leading commercial bank providing superior financial services to all segments of the community.*" And its 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*" (ACLEDA 2006: 1). Through the bank's mission and its NGO's objective, ACLEDA Bank's mission still maintain the objective of ACLEDA NGO which was to raise the standards of living of the poor by providing sustainable financial services.

Table 4.3 ACLEDA's Achievement (1993–2007)

Year	Offices	Staff	Clients	LOP (USD)	ALS (USD)
1993	5	28	1,475	216,556	147
1994	6	67	2,334	351,099	150
1995	11	100	6,539	1,157,093	177
1996	20	199	19,409	2,560,542	132
1997	27	291	44,533	5,898,486	132
1998	27	330	55,215	10,071,382	182
1999	27	326	56,412	13,719,210	243
2000	28	463	60,860	16,667,328	274
2001	66	662	81,453	20,980,016	258
2002	75	864	82,976	27,547,752	332
2003	97	1,284	98,905	40,572,670	516
2004	119	2,108	122,173	65,981,229	715
2005	139	2,484	140,920	99,994,808	947
2006	156	3,028	159,930	158,463,942	1,242
May 2007	164	3,805	168,944	193,912,356	1,415

Note: LOP: Loan Outstanding Portfolio ALS: Average of Loan Size
Source: ACLEDA Bank Headquarters 2007

At the end of 2006, ACLEDA Bank had total assets USD 223,202,000, whereas at the end of 1999 it had USD 22,294,714. In the late 1999, ACLEDA NGO served a total 56,412 clients accounting for outstanding portfolio of USD 13,719,210, with the average loan size of USD 243. By May 2007, its total active clients reached to 168,944 with outstanding portfolio of USD 193,912,356, and average loan size USD 1,415 (See table 4.3). The increase in number of active clients and amount of outstanding portfolio indicates that ACLEDA Bank has expanded its outreach remarkably. Simultaneously, the number of offices increased from 27 with 326 staff to 164 with 3,805 staff from December 1999 to May 2007. The bank offices are now located in all provinces and cities throughout Cambodia.

Besides the increase in loan products, the savings products have also increased noticeably. The number of depositors increased from 19,070 accounting for about USD 6 million to 141,368 accounting for about USD 123.1 million in 2002 and 2006 respectively (See table 4.4). The increase in amount of the deposit helps ACLEDA Bank reduce the cost of fund from the donors, and to lower the lending interest rate to the borrowers.

Table 4.4 ACLEDA Bank's Deposit Outputs

Year	2002	2003	2004	2005	2006
Depositors	19,070	35,054	57,091	92,413	141,368
Amounts (USD million)	6	13.2	31.59	62	123.1

Source: ACLEDA Bank reports (2002–2006)

4.1.3 The Motivation of ACLEDA's Transformation

The speedy development of ACLEDA from highly subsidized to self-financed microfinance NGO led ACLEDA to another turning point. In 1997, a series of studies conducted by ILO/UNDP and evaluated by UNDP/CALMEADOW[9] indicated that ACLEDA had potential to transform into a licensed microfinance institution. The motivations of ACLEDA's transformation were the limited donors' capital available for expansion to meet the huge demand for credit and other financial services. As such, ACLEDA decided to transform for the purposes of complying with the law on banking and finance, having access to commercial fund, and increasing the product range included savings and fund transfer (In 2004: 3).

The first reason for ACLEDA's transformation was to become a regular financial institution. As an NGO, ACLEDA was under the Ministry of Interior and registered as a non profit organization. In order to provide financial services legally, ACLEDA applied for a license from the National Bank of Cambodia (NBC). In January 2000, the law on MFIs and specialized banks of Cambodia was promulgated. In the meantime, ACLEDA NGO qualified to obtain the license to be a specialized bank on October 7, 2000. After obtaining the license, although the government had no previous policy to fix the interest rate or to interfere in MFIs or specialized banks, the government intervened in the method of interest rate calculation. Since the flat rate was a big burden for the borrowers, and the pricing was not transparent, the government required the bank to calculate the interest rate based on a declining balance method instead of the flat rate method (Clark 2006: 148). Thus, after the transformation, ACLEDA Bank has changed its interest rate calculation from a flat rate method to a declining balance method.

Another reason for the transformation was the access to commercial sources of funding. In 1999, there were a few commercial lenders in Cambodia providing loans for only national

[9] A Canadian-based non profit organization

enterprises, not for NGOs. As business grew, limited amount of funding, and fastened with concerns about reliability, ACLEDA NGO was pushed to seek independence from its donors. At that time, ACLEDA NGO sought to acquire loans from the Rural Development Bank (RDB) which was a wholesale lender to the MFI sector. The RDB was permitted to lend up to 20% of its capital to one institution, but the amount lent would not meet the needs of ACLEDA NGO. Moreover, the absence of a strong commercial banking sector limited the availability of local sources of commercial borrowing. As a result, the transformation would provide a legal standing for ACLEDA Bank to increase its borrowing capacity not only from local commercial funds, but also from international commercial funds. This way, ACLEDA Bank tended to borrow funds from foreign rather than from domestic sources.

The other reason for the transformation was the ability to provide more financial services such as savings or deposits, fund transfer, and other financial services for all levels of clients. ACLEDA planned to access local fund sources by promoting savings mobilization, and considered deposits as a source of funding for the institution. Savings products would provide Cambodian micro and small entrepreneurs with an important way to manage their finance and build assets if they are properly designed. For regulatory reason, an NGO was not allowed to provide savings services, but it was encouraged to promote voluntary savings which were tied to many group credit products[10]. In 1999, the NBC estimated microfinance institutions held USD 1.6 million in required savings from 134, 350 clients accounting for an average USD 12 (Clark 2006: 143). ACLEDA had experience with voluntary savings in 1997, based on the demand from about half of their active borrowers. The product was later discontinued because of the considerable concern about the legality of accepting savings without a license. Therefore, it was

[10] Bun Mony, chief of Cambodian Microfinance Association (August 2007)

needed that ACLEDA was transformed to provide savings services legally, and to expand to more financial services to meet the needs of all levels of clients.

4.1.4 The changes in the transformation of ACLEDA

In the process of transformation from an NGO into a commercial bank as a market leader in the microfinance service sector, ACLEDA has changed its performance to a new tendency. ACLEDA was trying to upgrade its strategy to serve its clients in a convenient way in order to continue to grow in the environment with a lot of competitions. According to the presentation of In Channy, President and Chief Executive Officer (CEO) of ACLEDA Bank in 2004, the changes are shown as follows:

Management System: The bank’s structure is much more complicated than the structure of a microfinance NGO. The product ranges are more complex, and the management of assets and liabilities becomes a significant resource of funding diversification. The management structure requires a more formal change, as opposed to its former status as an NGO with professional staff and specific responsibility. In order to meet commercial banking standard, ACLEDA has updated their management and financial information systems, formed a new board of share holder representatives, adopted institutional banking operations, reduced costs, and increased equity (In 2004: 5).

Culture: The attitude of ACLEDA NGO’s staff was criticized by its clients. For that reason, in order to transform from an NGO into a commercial bank, ACLEDA required a completely different attitude, which must be adopted by the entire organization. The change of culture made ACLEDA more popular, and was welcomed by the clients (Ibid.).

Information Technology (IT) and Management Information System (MIS): To become a more sophisticated organization, it is important to have IT and MIS system, and the produced information must be available on time whenever it is needed. Besides the costs, this also demands a more disciplined approach to managerial responsibility, in particular the use of management reports (Ibid.).

Board of Directors: It requires a new board with a broader range of skills and experiences to govern a more complex business and to facilitate an expanded shareholder base, including international shareholders. Moreover, the board was composed of a balanced combination of social mission and profitability, including new members with diverse skill and expertise. Since the transformation, ACLEDA Bank has four board committees such as assets and liabilities, audit and risk, compliance and ethics, and credit committee (Ibid.).

Internal Control: It requires more precision in internal control for more diversification in product and service range as well as customer base. In addition, checks and balances have to be introduced in key functions to reduce the risk of serious mistakes. Moreover, the internal audit task must be strengthened to ensure that control procedures are being implemented (Ibid.).

External Relations: As an NGO, ACLEDA attracted little outside interest, except for its instant relationship with its customers and the donors. Becoming a commercial bank, ACLEDA has to deal with the public at large, members of the financial community, regulators and even the media, whose interests are not always matched (Ibid.).

Products and services: According to the needs of the clients, various products and services of ACLEDA Bank have been developed to meet the needs of clients, whereas ACLEDA NGO had only credit and voluntary savings. Customers could take any choices of financial services they preferred. For instance, clients may obtain micro business loans of up to USD 500 in three different currencies such as Khmer Riel (KHR), Thai Baht (THB), and United States Dollars (USD). Small and medium business loans[11] are also provided in three different currencies. After the transformation, ACLEDA Bank added various products designed to expand outreach and improve sustainability and service quality. The services included loans, deposits, money transfers, and cash management services such as payroll, overdraft, and other financial services are offered to the customers (Ibid.).

Customer oriented policy: ACLEDA bank is relying on two policies to attract customers and to maintain them. The two policies are "customer service policy, and customer relationship policy". The policies are implemented for both external and internal use whereby they are applied to all bank employees of all levels (Ibid.).

Well trained staff to service customers: ACLEDA Bank is equipped with professional staff so that they can provide financial services appropriately. In 2003, ACLEDA delivered 494 training programs for 99% of its staff by training both newly hired personnel and existing staff in operational risk, asset management, liability management, internal control and audit, and information technology. On average, each staff member attended to five updated courses. ACLEDA Bank had the net spending USD 90,000**,** USD 197, 597, and USD 243,835 for staff training in 2002, 2003, and 2004 respectively. Well trained and capable employees contributed an increase productivity level. Each ACLEDA loan officer is in charge of an average of 300 borrowers (Ibid: 6).

Office network building close to customers: ACLEDA Bank increased more offices close to customers within one-hour and a half of radius length. The offices are located not only in

[11] Micro loans for the loan size less than USD 500 (group loan) and less than USD 1,500 (individual loan); Small loans for the loan size over USD 1, 500 up to USD10,000; Medium loans for the loan size over USD 10,000 up to 5 per cent of Bank's working capital

urban areas but also rural remote areas throughout the country. This is one of the most convenient means for the customers to access ACLEDA Bank's financial services.

Simplification of related documents: the loan processing documents were simplified after the transformation. When clients visited an office or a branch for the first time, they could know clearly what kind of documents they should prepare to apply for loans. Otherwise, it will make clients to spend a long time to access loan services (Ibid.).

In summary, under the process of transformation, ACLEDA has changed and upgraded its ownership structure, management system, policies, products and services in order to meet the financial needs of the entrepreneurs of all enterprises including micro, small, medium entrepreneurs and the public at large.

4.2 The Case Study on ACLEDA Bank Sihanouk Ville Branch

4.2.1 Background of the Study Area

Sihanouk Ville municipality, also called Krong Preah Sihanouk or Kampong Som, is located in the Southwest of Cambodia, and it is 235 km away from Phnom Penh. Its population is 187,688 (est. 2004), and its area is 868 km^2. Sihanouk Ville consists of 3 districts, 22 communes and 85 villages. Those three districts are Mittapheap, Prey Nob, and Stueng Hav (Appendix 4).

The people in Sihanouk Ville earn their living mainly as fishermen, businessmen, laborers, motor-taxi drivers, public civil servants, and food sellers. A number of them have migrated from other provinces to reside in Sihanouk Ville. The majority of them are from Kampot , Takeo, Prey

Veng, Kampong Speu, and Svay Rieng. They have migrated because the economic condition in Sihanouk Ville is relatively better than that in those provinces.[12]

4.2.2 Background of ACLEDA Bank Sihanouk Ville Branch

ACLEDA Sihanouk Ville Branch was established in 1995 through the financial support of the Shell Company Limited of Cambodia for the first running year, and after finishing the funding support, UNDP took over for both its operational costs and revolving fund. It started to operate on April 1, 1995 with only one office in Mittapheap district and four staff. Prey Nob and Stueng Hav district offices started on June 1, 1997 and on June 1, 2001 respectively. The other 2 district offices of Sre Ambil and Smach Meanchey were set up in 2003 and 2004 respectively. For administrative offices, the last two district offices are situated in Koh Kong province which is next to Sihanouk Ville municipality. In 2005, Smach Meanchey sub branch office was promoted to the Koh Kong branch office by being separated from the Sihanouk Ville branch. It used to be affiliated with the Sihanouk Ville branch.

In 1995, the first year of operation, ALCEDA Sihanouk Ville provided only small and medium loans, and it started to provide micro loans in the second year of the operation. As such, the average of loan size in the first year of the operation was bigger than that in the following years of the operation. The average of loan size in the first year was USD 1,092 in 1995, while it was USD 106 in 1997 (See table 4.5).

[12] Based on the data from surveys and interviews during the fieldwork, August 2007

Table 4.5 ACLEDA Sihanouk Ville's Output

Year	Office	Staff	Clients	LOP(USD)	ALS(USD)
1995	1	7	82	89,559	1,092
1996	1	11	555	230,137	415
1997	2	18	2,389	253,749	106
1998	2	19	3,734	537,148	144
1999	2	19	3,819	842,647	221
2000	**2**	**25**	**5,231**	**1,097, 297**	**210**
2001	3	35	4,937	1,500,137	304
2002	3	41	4,602	1,673,543	364
2003	4	63	4,845	1,936,262	400
2004	5	97	6,943	3,469,984	500
2005	4	86	6,404	3,711,044	579
2006	4	91	6,973	5,056,013	725
Aug. 2007	**4**	**106**	**6,773**	**6,502, 898**	**960**

Note: LOP: Loan Outstanding Portfolio ALS: Average of Loan Size
Source: ACLEDA Sihanouk Ville 2007

4.2.3 Performance on Delivery of Microfinance Services to the Poor of ACLEDA Bank Sihanouk Ville Branch

4.2.3.1 Products and Services

After the transformation, ACLEDA Bank has provided various kinds of financial services, which are different from ACLEDA NGO providing only credit and voluntary savings. Those services are loans, savings or deposits, ATM, local and international money transfer, money exchange and other financial services. Most of the poor clients use only loan services for increasing income, consumption, house improvement and other basic needs.

ACLEDA Bank Sihanouk Ville branch is trying to promote savings mobilization for low income people, to make them trust in the bank because most of them are using loan services rather than using savings services. They normally save their money in the form of buying gold and animals, and savings in piggy bank as a traditional way. Moreover, all the clients could use ATM services by requiring only USD 10 to open a deposit account, while the other commercial banks require at least USD 50.

The savings services have been increasing remarkably from year to year after the transformation. During the period between 2000 and 2007, the number of depositors has increased from 180 accounting for about USD 52,947 to 5,767 accounting for about USD 6,747,072 respectively (Table 4.6). Most of the depositors are middle income and high income clients, and only small proportion of them is low income or poor people. The poor clients are reluctant to use the savings services because they seemingly lack trust in the bank. However, they recognize that savings services are important to manage their money safely, and saving money in the bank is relatively safer than saving money by their own ways.

As is the case with ACLEDA Bank as a whole, ACLEDA Bank in Sihanouk Ville has three kinds of loan products. Those loan products are micro loans, small loans and medium loans. The bank categorizes clients as micro, small or medium based on the loan size. Micro clients are those who take loans of less than USD 1,500. Small clients are those who take loans of over USD 1,500 up to USD 10,000, while medium clients are those who take loans over USD 10,000 up to

5% of the bank's working capital. This study focuses specifically on micro clients rather than small and medium clients because the poor clients are micro clients.

Table 4.6 ACLEDA Bank Sihanouk Ville's Savings Output

Year	Depositors	Amount (US$)
2000	180	52,947.67
2001	315	100,213.08
2002	550	173,723.93
2003	1,201	291,264.73
2004	2,051	888,274.18
2005	3,930	2,454,080.19
2006	4,176	3,569,786.19
Aug. 2007	5,767	6,747,072.16

Source: ACLEDA Sihanouk Ville 2007

4.2.3.2 Micro Loans

Micro loans are for low income clients or poor clients in the community or for the poor people living in the remote areas. ACLEDA Bank Sihanouk Ville has provided micro loans for clients in two ways: group loans and individual loans. According to monthly reports, the bank considered group loans as micro-loan one (Micro 1), and individual loans as micro-loan two (Micro 2).

Group Loan (Micro 1)

Group loan system is a way of lending micro credits to non-collateralized clients. Each group member can take loan size from USD 12.5 up to USD 500. All group members are allowed to take different loan size, yet they have the same repayment schedule. The borrowers must form a group of 2 to 10 members in order to guarantee each other. All members in the group have the duty to pay for the other member's portfolio if any one in the group could not pay for their debt. The group must be formed only by the people who live in the same village or location and from different households.

When ACLEDA was an NGO, the group loan borrowers had to form a group of 5 to 10 members. After becoming specialized bank, ACLEDA changed the group lending system from 5 to 10 members to 3 to 10 members per group in order to make it easier for the borrowers to form a group. Eventually, as a commercial bank, ACLEDA requires clients to form a group of 2 to 10 members, which is easier than a group of 3 or 5 to 10 members because group with fewer people is easier to monitor.

The methodology of ACLEDA Bank Sihanouk Ville to provide micro loans through a solidarity groups:

- Group members: The borrowers must form a group of 2 to 10 members
- Currency: lending in Khmer Riel (KHR), Thai Baht (THB), or US Dollar (USD)
- Loan size: up to USD 500 or other currency in equivalence
- Interest rate: 3–3.25% per month on declining balance basis
- Loan term: 6 months for loan up to USD 100, and 12 months for loan up to USD 500
- Guarantee: members of the group must guarantee each other

Individual Loans (Micro 2)

Individual loans are for the clients who take loan size over USD 500 and below USD 1,500. The procedure of individual loan provision differs from that of group loan provision. The individual loan requires collateral such as land title and other assets. The individual loans are generally for clients having income higher than the income of group clients. According to the bank's staff, most of them are former group clients. After borrowing loans for many cycles in a group and increasing in household income, most of them are thought to have upgraded themselves from micro-loans to individual loans.

Most of micro clients of the bank in Sihanouk Ville branch want to take loans individually because they can take loans bigger than that allowed for group lending, and individual loan terms are longer than group loan terms. Moreover, individual loans require monthly repayment, while the group loans require biweekly repayment.

4.2.3.3 Repayment Methods

There are three kinds of repayment methods for clients to repay their loans. Those are: First, repay installment of principle and interest monthly, weekly or biweekly. Second, repay only interest monthly, weekly or biweekly and repay principle at the maturity of the contract. Third, repay interest monthly, weekly or biweekly and principle based on the contract. For group clients in ACLEDA Bank Sihanouk Ville, they pay an installment of the principle and interest biweekly, while the individual clients repay an installment of principle and interest monthly. All the repayments have done at ACLEDA Bank's offices.

4.2.3.4 Collaterals

Collateral is required when the clients borrow loan individually. They must have their own collaterals such as land titles and other assets. However, most of the poor people in Sihanouk Ville are landless people, and they borrow micro loans through solidarity groups. Although the bank doesn't require collaterals for the group loans, each member in the group should have their own assets such as animals, motorcycles, machines and other durable goods for their own guarantee to join a solidarity group. Otherwise, it would be difficult for them to participate in the group. Hence, the possession of the assets constitutes a self imposition for collateral requirement for joining solidarity group.

Most of the bank's group borrowers have their own houses on the sea or on the land belonging to other people or to the state, and they have no ownership certificates of their own assets. As such, they cannot access loans from the bank individually although they are willing to. They can access loans only through solidarity groups.

4.2.3.5 Purpose of Loans

ACLEDA Bank's policy is to provide loans for business, income generation, and increase in productivity. ACLEDA Bank serves poor people with entrepreneurial ideas, and it does not provide loans for the poorest of the poor because the poorest are not likely to pay back their debts. Most of the micro clients in Sihanouk Ville are small traders, food sellers, fishermen, laborers, motor taxi drivers, and other civil servants.

However, the group clients in ACLEDA Bank Sihanouk Ville take loans for other purposes besides the business or productivity. They take loans for consumption, housing improvement, supporting their children to school, and other emergency cases. For those clients who have good repayment performance, they can use loans in whatever way they wish because loan officers do not follow up those clients' activities.

4.2.3.6 Loan Term and Loan Size

The loan term of micro loans depend on the loan size, and the group loan term is different from the individual loan term. The term of group loans is up to 6 months, and the term of individual loans is up to 12 months. The maximum of loan term is 6 months for the loan size up to USD 100, and the maximum loan term is 12 months for loan size up to USD 500. The term of small loans is 1 to 2 years, and that of medium loans is 2 to 4 years (ACLEDA SNV 2007). All the clients can choose the period of loan terms as they prefer.

4.2.3.7 Interest Rate

The interest rate varies according to the loan size. ACLEDA Bank charges a monthly interest rate of 3% to 3.25% for group loans in Khmer Riel, and 1.5% to 2.5% monthly for loans in US Dollar on declining balance method. The interest rate is charged up to the loan size as following:

- Interest 3.25 % per month for the loan size less than USD 500[13]
- Interest 3 % per month for the loan size over USD 500 and up to USD 1,500
- Interest 2 % per month for the loan size over USD 1500 and up to USD 10,000
- Interest 1.5 % to 2 % per month for loan size over USD 10,000 and up to USD 70,000
- Interest 1.2% to 1.5% per month for loan size over USD 70,000 and up to 5% of the bank's working capital (ACLEDA SNV 2007).

[13] For loan less than USD500, loans are provided in Khmer Riel (KHR)

This study focuses on the interest rate of micro loans rather than small and medium loans because the poor are able to access only micro loans which they borrow through solidarity group. The interest rate of the group loans is relatively higher than that of the individual, small and medium loans because of high cost of operation and high risk of repayment. However, the current interest rate of micro loans is cheaper than the interest rates during the time when ACLEDA was an NGO, and also quite cheaper than the interest rate of private money lenders.

Overall, although ACLEDA NGO was transformed into a commercial bank, the bank still maintains its strategy to provide micro loans for poor clients. Simultaneously, in order to meet the market needs, ACLEDA Bank has reformed some policies concerning loan procedures, price of products and services, diversification and qualification of products and services, management improvement and professional staff. Moreover, the changes during the transformation indicate that the bank is trying to upgrade its strategy to serve clients in convenient ways in order to continue to grow in an environment with a lot of competitions and to expand its outreach.

The next chapter analyzes and discusses the empirical findings through interviews, surveys and observations in the field of ACLEDA Bank's operation at the Sihanouk Ville branch for proving advantages, disadvantages and the impact of the bank's transformation on its poor clients.

Chapter 5

Analysis and Discussion on the Impact of Transformation

5.1 Review of Empirical Findings

5.1.1 The Condition of Existing Clients of ACLEDA Bank Sihanouk Ville Branch

The total number of existing active clients of ACLEDA Bank Sihanouk Ville is larger than the number belonging to ACLEDA NGO prior to its transformation. The bank's clients have increased from 3,819 in December 1999 to 6,773 in August 2007 (See table 4.5). Those existing active clients in August 2007 include medium, small, and micro clients. Among them, 44 % are micro clients who borrow through group lending.[14]

Among 30 respondents who used micro group loans, 17 of them have been clients before the transformation period, and the others have become clients after the transformation. Those respondents have an average household daily income of USD 4.61, and an average loan size of USD 315 (See table 5.1).

Most of the micro clients are landless people, and they reside on someone else's land or on public land. Consequently, they do not own land although they can build houses on the land. Most of the landless people are, in principle, able to take loans from the bank through group lending. The clients who own land may use the land title as collateral for taking loans individually.

Collateral is not required if clients take loans through a group. However, in order to join a group, each group member must own assets such as fishing boats, animals, machines, motorcycles, carts, televisions, etc. as a guarantee within the group.

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[14] ACLEDA SNV's annual reports (1997-2007)

Table 5.1 The Characteristics of Respondents

Average age (years)	38.9
Female (persons)	27
Male (persons)	3
Average household size (persons)	5.8
Number of clients before transformation	17
Number of clients after transformation	13
Average daily household income	USD 4.61
Average loan size (per group member)	USD 315

Source: Calculating from questionnaires of the survey and interviews 2007

With regard to asset holdings, 83.3% of respondents have their own houses residing on the land belonging to others, 10 % of them live in rental houses, and the other 6.6% are dependents (See table 5.2). Dependents and those who live in rental houses are able to use group lending if they have been ACLEDA's clients since it was an NGO, and they have proven themselves to be good repayment performance clients.

Table 5.2 Asset Holdings of Respondents

Description	Respondents	Percentage of Respondents (%)
Personal house	25	83.3
Rental house	3	10
Dependent	2	6.6
Total	30	100

Source: Calculating from questionnaires of survey and interviews 2007

5.1.2 Access to Microfinance Services

In Sihanouk Ville, besides ACLEDA Bank, there are many sources of loan services from informal and formal institutions. The informal sources of loans lenders are private money lenders, relatives or friends, pawnbrokers, local traders, landlords and other wholesalers. The sources of loans from semi-formal and formal institutions are microfinance institutions (MFIs) such as AMRET, and other commercial banks such as CANADIA Bank, ANZ Royal, UCB, SBC, CCB, CMB, and FTB. However, those commercial banks provide only medium and large-sized loans, which the poor clients are not able to access. According to the survey, 46.6% of respondents take loans from private lenders, 36.6% from friends and relatives, and the other 3.3% from pawnbrokers (See table 5.3).

Table 5.3 Access to Loans beside ACLEDA Bank

Source of loan	Respondents	Percentage of Respondents (%)
Private lenders	14	46.6
Relatives or friends	11	36.6
Pawnshop	1	3.3
Not borrow from others	4	13.3
Total	30	100

Source: Calculating from questionnaires of the survey and interviews 2007

The poor clients of ACLEDA Bank may borrow loans from other sources if they are in emergency such as illness, accident, lack of food, or due repayments to the bank. The reasons why they take loans from other sources to repay to the bank is that they do not want to default.

If they are late to repay their due over one day, the bank will charge them penalty by doubling the interest rate on the amount of due. Moreover, if the defaulting period prolongs, it will be harder for them to re-apply for loans or to join a group for the next loan cycle. Therefore, in order to keep good repayment records with the bank, they decided to take loans from private lenders although the interest rate is relatively higher than that of the bank's penalty (See table 5.4).

Table 5.4 Characteristics of Micro Loan Sources in Mittapheap District

Sources	Monthly interest rate (%)	Length (months)	Repayment
ACLEDA Bank	3 – 3.25	4 – 6	Biweekly
Private lenders	10 – 15	Flexible	Weekly/ monthly
Relatives or friends	NA	Flexible	Flexible

Source: Data from questionnaires of survey and interviews 2007

5.1.3 The Income Sources of Poor Clients of ACLEDA Bank Sihanouk Ville Branch

ACLEDA Bank provides micro loans through group lending to the poor with entrepreneurial ideas for generating and increasing income. Each household of the bank's poor clients have multiple income sources such as small trading, food vending, farming, fishing, selling labor, and motor-taxi servicing. Data from the survey indicate that 36.6% of respondents are small traders, 16.6% are fishermen, 30% are laborers such as construction workers, garment factory workers and daily stone breakers, and the other 16.6% are motor taxi drivers (See table 5.5).

Income source of each household is a vital factor to decide on the capacity of the poor clients to access loans from ACLEDA Bank. All group members must have their own business plan, and confirm their monthly or daily income in order to borrow loans that they are able to repay. If they cannot clarify their income or business plan, their loan application will be rejected.

Table 5.5 Main Income Sources of Respondents

Description	Respondents	Percentage of Respondents (%)
Small Traders	11	36.6
Fishermen	5	16.6
Employees (construction and factory workers; laborers)	9	30
Motor taxi drivers	5	16.6
Total	30	100

Source: Calculating from questionnaires of survey and interviews 2007

5.2 Analysis and Discussion on the Impact of the Transformation

As mentioned in the analytical framework, the study analyzes the data collected from ACLEDA Bank and from its clients. The data from the bank include the bank's policy, loan procedure and outputs (focusing only on loan and savings products). The data from the bank's clients include their perception concerning accessibility to services of the bank and impact on their household welfare in terms of economic and social indicators before and after they become the clients. The analysis focuses specifically on advantages and disadvantages of ACLEDA's transformation affecting its poor clients, and on the impact of transformation towards the clients.

5.2.1 Impact on Accessibility of the Poor Clients

From December 1999 to August 2007, the number of clients of ACLEDA Bank Sihanouk Ville branch has increased from 3,819 to 6,773 (See table 4.5), of which 78% and 44% are group clients respectively. Although the percentage of group clients decreased from 78% to 44%, the total clients have increased by 77% over the period of 8 years. The reasons why the percentage of group clients has decreased are: 1) after the transformation, the bank focuses not only on micro clients but also small and medium clients in order to meet all financial needs of all level of clients; 2) a number of group clients either during pre and post transformation period upgraded themselves to individual clients for borrowing small and medium loans as they qualified for larger loans (ACLEDA SNV 2007).

With regard to the bank's clients, among 30 respondents, 56.6% have been clients since ACLEDA was still an NGO, and the other 43.3% have become clients after the transformation. This data suggest that although ACLEDA has already become a commercial bank, it still serves the poor clients, and the poor clients still continue to gain access to loans from the bank.

There are 30 staff employed as loan officers in ACLEDA Bank Sihanouk Ville. Seventeen of them are in charge of servicing micro lending (See table 5.6). Particularly, in Mittapheap district, 6 of 11 loan officers are in charge of micro lending. This indicates that micro loan services are still the priority of the bank for sustaining and generating profits.

The respondents reply that the bank is still providing loans to the poor the same way as it was as an NGO. Although some of the poor clients in the village dropped out from the bank temporarily, they still agree that they are able to take loans when they need. The reasons why the clients drop out are because they have irregular income, while the repayment due is regular. The bank charges them penalty when they are late to pay due. In addition, they are written of clients due to bankrupt business, and they lack group guarantee due to bad repayment performance in the past.

Table 5.6 Loan Officers of ACLEDA Bank Sihanouk Ville Branch

SihanoukVille Branch	Credit Officers			Total of each sub branch
	Micro loans	Small loans	Medium loans	
Mittapheap	6	2	3*	11
Prey Nob	4	1	1	6
Stueng Hav	2	2	1	5
Sre Ambil	5	3	N/A	8
Total	17	8	5	30

Note: 3* Included one loan recovery officer (LRO)
Source: Interviewing Branch and Sub-branch Manager (09 August 2007)

5.2.2 Impact on Household Living Conditions

The impact of microfinance on the household living conditions of the poor clients is examined based on two sets of indicators: social indicators and economic indicators. Economic indicators include income, level and pattern of expenditure, consumption and other assets. Social indicators include educational status, access to health services, nutritional conditions, and other social activities.

According to the surveys and interviews, after becoming clients of ACLEDA, 56.6% of respondents increase in income, 6.6% decrease, while other 30% remain unchanged, and the rest 6.6% is unknown (See table 5.7). As such, the majority of clients recognized that microfinance services positively contribute to income generation as they borrow money for productive activities rather than consumption. For clients whose income decreases tend to use loans for consumption rather than for production or income generating activities.

Table 5.7 The Impact on Household Living Conditions

Percentage (%) of Household Change in			
Income	Food Supply	Access to Education	Access to Health Care
56.6+	13.3+	66.6+	33.3+
6.6–	20–	16.6–	23.3–
30*	66.6*	16.6*	43.3*
6.6**	N/A	N/A	N/A

Source: Calculating from questionnaires of survey and interviews 2007
Note: + Increase – Decrease * No change ** Unknown

Regarding nutritional conditions among respondents, 13.3% increased in food supply, 20% decreased, and the remaining 66.6% did not change (See table 5.7). The reason why the households decrease in food supply is because they skipped meals for saving money to repay their dues, otherwise they would not be able to pay their debt. This reason is because they take loans above their capacity of repayment.

For educational status among respondents, 66.6% of them can financially support their children's education, and the remaining 33.3% of them are unable to send their children to school. According to the respondents, 66.6% of them can send more of their children to school, 16.6% have decreased their support for children's education, and the remaining 16.6% did not change in access to education (See table 5.7). Therefore, the percentage of clients who can pay for their children's education is higher than that of those who cannot.

The clients in Mittapheap district seemingly lack access to health services. Among respondents, 33.3% of them show that their expenses on health services have increased, while 23.3% of them show that their expenses have decreased, and the other 43.3% did not change their access to health services (See table 5.7). Accordingly, the percentage of poor clients who are able to increase their access to health services is relatively higher than the percentage of those who decrease in access to health services.

Regarding the positive impact on each household in general, 56.6% of the respondents think they have increased incomes and employments, 13.3% improved their house conditions, 13.3% increased durable materials, and the remaining 16.6% improved their consumptions (See table 5.8).

Table 5.8 The Impact of Accessing ACLEDA's Loans

Description	Respondents	Percentage of respondents (%)
Increase of income and employment	17	56.6
Housing improvement	4	13.3
Increase of durable materials	4	13.3
Consumption improvement	5	16.6
Total	30	100

Source: Calculating from questionnaires of survey and interviews 2007

5.2.3 Advantages and Disadvantages of the Transformation

The transformation of ACLEDA provides critical discussions on which the study has been conducted based on investigation and observation of many indicators. These indicators include the policies and the outputs of the bank, and social-economic conditions of its poor clients. Although the transformation of ACLEDA almost achieved its vision and mission, it has resulted in advantages and disadvantages according to price of products and services, quality of products and services, loan methodology, accessibility to the bank's services, the bank's output, and the bank's policies and strategies.

5.2.3.1 Advantages

The advantages of the transformation of ACLEDA may be accredited based on benefit and favor of the poor clients to access the bank's services. These advantages include price of products and services, quality of products and services, loan methodology, accessibility to the bank's services, and other indicators of the bank's outputs such as repayment rate and loan portfolio at risk.

Price of Products and Services

The interest rate has dropped down from 4–5% per month on flat rate basis before the transformation, to 3–3.25% per month on declining balance after the transformation (See table 5.9). The interest rate charged 5% per month on flat rate basis is equivalent to approximately a 120% annual effective interest rate for one year loans with monthly installments, if all payments are made on time. And, the nominal interest rate 3.25% per month on declining balance is equivalent to 39% annual effective interest rate. The reduction of interest rate clearly indicates that the policy on limiting the price of products and services shifted from ACLEDA NGO to ACLEDA Bank. Such policy shift has benefited the poor because they don't have to pay excessive expenditure in interest rate, thus they are able to generate more income effectively.

Quality of Products and Services

The bank has increased and diversified its financial products and services for market needs in both rural and urban areas, while ACLEDA NGO operated only in semi-urban areas. The products and services are micro, small and medium loans, savings or deposits, money exchange, ATM, local and international cash transfer, with other financial services. For example, in order to open a savings or deposit account with the bank, only USD 10 is required while other commercial banks require at least USD 50.

Table 5.9 Positive Changes of the Transformation

Description	ACLEDA NGO	ACLEDA Bank
Interest Rate	4–5%/month (flat rate)	3–3.25%/month (declining balance)
Products and Services	Poor (narrow range)	Good (broad range)
Loan Processing	5–7 days	1–3 days
Group member requirement	5–10 members/group	2–10 members/group
Loan Procedure	Complicated	Simplified
Repayment Rate	95.9% (2000)	99.6% (2006)
PAR (Portfolio at Risk)	10.3% (2000)	0.86% (2006)

Source: Data from questionnaires of the survey and interviews, and ACLEDA SNV's report 2007

In general, the poor clients of the bank tend to use loans rather than savings services. They traditionally save in the form of piggy banks, raising animals, and buying gold and other assets.

Most of the clients who use savings services with the bank are middle and high income individuals and institutions.

Loan Providing Methodology

So far, loan processing has been upgraded to meet the clients' needs. When ACLEDA was an NGO, the group clients spent from 5 to 7 days waiting for the loans to be processed. After it became a commercial bank, the group clients wait only for 1 to 3 days for loan processing (See table 5.9). Shorter loan processing time makes life a lot easier for the poor clients.

One of the merits of the transformation over the poor clients is a change in the number of members of group loans required for accessing micro loans. Before transformation, ACLEDA required at least 5 to 10 members to form a group. After the transformation, the bank requires only 2 to 10 members per group. This change has made it easier for the group borrowers to monitor each other. The respondents also replied that smaller groups were easier than bigger groups because it was easy for the group leader to collect the installments from each member.

Another merit is the simplification of loan application procedure. As the NGO, the clients were required to take photos and interview for several times when they applied for loans. However, after the transformation, the bank no longer requires photo taking but it requires only a single interview with the clients. In addition, the application form of the bank is not as complicated as when it was the NGO because the loan processing procedures were reformed. As mentioned above, we can see that, the reform of group lending procedure has brought several merits to the poor. At the same time, it is also easier for the bank to increase its outreach.

Accessibility to the Bank's Services

As a bank, ACLEDA has expanded its branch offices throughout the country. Before the transformation, the offices were mainly concentrated in sub-urban areas and now they can be found in provincial town and cities even in geographical remote areas. Between 2000 and 2007, the total number of offices of ACLEDA Bank has increased from 48 (in 10 provinces and 3 municipalities) to 164 (in 20 provinces and 4 municipalities) respectively. Specifically, in Sihanouk Ville where the research was conducted, the offices increased from 2 in 2000 to 4 in 2007. The increasing branch offices indicate that the accessibility to the bank's services is easier than that to the NGO's services.

The Bank's Output

According to the bank's annual reports, before the transformation, the repayment rate was 95.5% in 2000 and after transformation it rose to 99.5% in 2006. From 2000 to 2006, the percentage of portfolio at risk (PAR) was reduced from 10.3% to 0.86% (See table 5.9). The lower repayment rate and higher risk (PAR) of ACLEDA NGO are because borrowers sometime perceived the loans as a charity. Thus, they tended to use loans for consumption rather than income generating purposes. However, as a commercial bank, ACLEDA operates as a business oriented institution.

5.2.3.2 Disadvantages

The transformation of ACLEDA also has negatively affected its poor clients. After the transformation, the bank has changed policies and strategies of operations for reducing effective costs of operation, achieving financial and institutional self sustainability, and increasing profit. As such, the bank terminated some programs concerning non-profitable services such as vocational training, gender empowerment, and client follow-ups to provide basic business advices and addressing problems which might endanger repayment. In addition, ACLEDA bank abolished policy to subsidize for any risk or calamity and to invest in impact assessment on the clients. Another demerit is that the bank formed a group of loan recovery officers (LROs) to collect all written off debts from clients in the time ACLEDA was an NGO. Moreover, the bank strategy is to maximize income by imposing a high target plan on loan officers to disburse loans to maximize the profit. It sometimes seems to trigger excessive disbursement without proper assessment of repayment capacity of the clients.

Vocational Training Program Cancellation

One of the demerits of the transformation was the cancellation of the vocational training program for the poor. This program trained the clients of solidarity groups on micro business plan, micro business management, loan usage procedures, and credit application. The program provided a one-day training on micro business for solidarity group members, and a six-day training on business skill for individual loan borrowers. The ACLEDA NGO selected target groups with entrepreneurial ideas by interviewing them to provide loans (Hakemulder 1997: 12). The business skills training program played a key role in building up capacity of the poor to use loans effectively, and it strongly benefited low level, poor clients. Thus, the termination of the vocational training program made it difficult for the poor to access loans from the bank. Worse, they sometimes received loans which they had no prospect of repayment because of lacking business skills or capacity to run their businesses.

Women Empowerment Program Cancellation

After the transformation, the bank amended its policy to provide micro loans without women empowerment program. The bank's policies differed from its NGO's policies because NGO's program included the women empowerment program as priority. The program contributed to helping women in rural areas who faced vulnerability, domestic violence, and lack of participation in social activities. The program assisted women in poor households to build capacity and provided an opportunity to access micro loans for income generation. When women could support themselves and expand their economic role in the family with loans, they would stop depending on their husbands, and would enjoy more rights and freedoms. Importantly, the program required that each group should be led by a woman and only one man was allowed to be a group member. As such, when ACLEDA was an NGO, 80% of borrowers were women (ACLEDA NGO's report 1997). The program also contributed to improving poor households and gender equality by creating more economic activities for women. Hence, the removal of this program from ACLEDA bank's policies can be seen as one indication that the bank focuses more on financial rather than social objectives. For example, the woman empowerment program implemented by Grameen Bank and BRAC in Bangladesh, which is recognized by Consultative Group to Assist the Poor (CGAP), plays a key role for women in improving living condition, accessing health care, sending their children to school, and mitigating vulnerability (Littlefield et al. 2003: 6).

Following up Program Cancellation

Another demerit is that ACLEDA bank cancelled the client follow up program. The program required all credit officers to follow up regularly the clients of their own responsibility by providing business advice and addressing the problems which might endanger repayments. Following up clients' business process played an important role in managing repayment risk and offering social protections. If the clients used loans on illegal business such as illegal logging, illegal fishing, drug trafficking, and human trafficking, the credit officers would advise them on possible consequences. However, the bank requires loan officers to follow up clients only if they are defaulting, and it does not require the loan officers to follow up business process regularly. All the respondents said they could use loans in whatever way they wished, but the important thing was that they must pay due on time. Therefore, the transformation of ACLEDA has led to an emphasis on financial rather than social objectives.

No Subsidy

After the transformation, the bank lacked any subsidy for unprofitable services which contrasts with its NGO supported by donors such as ILO and UNDP. ACLEDA NGO focused on the very poor in rural areas such as farmers, widows, the handicapped, displaced persons and demobilized soldiers. It provided not only financial services but also non-financial services. Under the operation of ACLEDA NGO, the loan would be written-off by Revolving Fund Management Committee (RFMC) in the following cases. First, businesses continued to be unprofitable despite rescheduling, and the clients did not have other sources of income to cover the loans. Second, other group members could not pay for their dues for poor economic conditions. Third, the clients suffered a major disaster and were not expected or could not be expected to pay back the remaining outstanding balance. Fourth, one of group members died and had no close relative to continue earning income (ACLEDA NGO's policy 1997: 26). On the other hand, the bank does not spend any cost on impact survey and assessment in order to know whether the clients become better off or not after having access to the bank's services. Yet impact survey and assessment was done when ACLEDA was an NGO. As such, it is difficult to argue that the bank is sustainable or successful without impact survey or assessment on its clients.

Setting up Loan Recovery Officers

Another demerit after the transformation is that the bank sets up a group of loan recovery officers (LROs) to collect back the written off loans carried over the NGO time. The loan recovery officers are trained to solve the problem of major default in debt and to collect all the amount of written off balance. This has been quite a burden for the poor clients who were subsidized by the donors. For example, ACLEDA bank in Mittapheap district of Sihanouk Ville has one loan recovery officer who is responsible for the written off loan collection.

High Target Plan for Loan Officers

The other demerit of the transformation is high target plan imposed on loan officers to disburse a big amount of loans to maximize interest earnings for the bank without proper market assessment. This strategy has triggered excessive disbursement well beyond the repayment capacity of the clients. Some of the respondents decreased asset holdings due to loan usage over their capacity. They took loans to buy materials or other assets such as motorcycles, fishing boats, and machines. When the repayment due was coming, and they could not afford to repay, they decided to sell their assets such as motorcycles or machines to repay. Hence, the high target plan imposed on loan officers without proper assessment of clients' repayment capacity makes the poor to take higher risks to run their business or to repay their loans.

In sum, ACLEDA Bank's transformation has created an imbalance between financial and social objectives. However, it has brought more advantages than disadvantages. The bank provides financial services rather than non-financial services such as business training and capacity building, whereas the NGO provided both financial and non-financial services simultaneously. Regarding the termination of the business training program, the bank's operators thought that most of the clients had enough skill or capacity to use financial services. The majority of the clients know how to use loans effectively even though ACLEDA no longer provides business training.

Although the bank canceled women empowerment program, the majority of current clients are women who have borrowed loans prior to the transformation. The gender empowerment program, on the other hand, is promoted by government agencies such as the Ministry of Women's Affair (WoA) and other NGOs, so it is not so important for the bank to continue with the program. Regarding the clients follow up program, although the bank does not require loan officers to follow up clients regularly, the bank needs a clearer business plan when clients apply for loans. Through the business plan, the bank can provide loans appropriate with their repayment capacity, and also can assess the type of business.

With regard to the subsidy program, the bank has no policy to provide subsidized credit, which is contrary to its institutional sustainability and its outreach expansion. The reason is that subsidized loan program has widely experienced high default rate, and limited capital to provide loans to the poor in rural areas. Robinson (2001) explained that large scale subsidized programs depressed development of sustainable financial intermediation at the local level. In addition, credit subsidies often depress savings because the profits are too low to cover the operating costs and effective savings mobilization (Robinson 2001: 147). For example, the Rural Development Bank (RDB), state-owned bank of Cambodia, also has no policy to provide subsidized credit to the rural poor, while the government has the policy to provide subsidy only through infrastructures such as roads, bridges, schools, and healthcare centers.[15] Therefore, ACLEDA

[15] Interviewing H.E Son Koun Thor, COE of RDB, August 2007

Bank will not be able to sustain itself if it continues to provide subsidized credit the same as when it was an NGO.

As explained before, the bank sets up loan recovery officers (LROs) to collect the written off loans carried over the NGO time. This seemingly has negative impact on the written off poor clients. However, this strategy aims to restore the market with written off loans to enable the poor to regain access to loans from the bank if they need them on future occasions. The bank could not provide loans to those who were indebted since ACLEDA was an NGO, because they will use loans ineffectively. As such, the written off clients must clear the debt if they want to re-access loans from the bank again. And, if they don’t want to re-access loans from the bank, they can pay the debt as long as they are able to pay. Therefore, although the poor clients receive the burden to pay written off debt, they get opportunities to re-access loan from the bank anytime. In addition, the bank can expand its outreach through market recovery by clearing the written off balance and major defaulted debts in the fields of its operation. On the other hand, to avoid imposing a high target plan on loan officers, the bank must study and assess the market properly in order to provide loans effectively and to sustain the institution. Moreover, the bank should study and assess impact on the clients, whether they are better off or not after accessing its services.

Chapter 6

Conclusion

The transformation of ACLEDA Bank has resulted in an imbalance between financial and social objective, but it seems to have brought more advantages than disadvantages towards its poor clients. The bank policies are oriented to more financial objectives than to social objectives, while the NGO tried to balance financial and social objectives. The evidence from the findings which is limited to the small survey data conducted in Sihanouk Ville branch of the bank suggests that the transformation has generally resulted in not only the development of the bank but also the benefit of the poor clients in access to its services. Moreover, the bank still maintains the objective of its NGO to raise the living standard of the poor clients through providing sustainable financial services.

Through the transformation, the bank does not produce mission drift, but it expands its original mission. The bank remains to target the poor because the majority of the clients are micro group clients. The bank still maintains the policy in providing loans for non-collateralized clients who are the poor and the former clients of ACLEDA NGO. The transformation has expanded the ACLEDA NGO's position to improve living condition of its clients through lowering the cost of its products and services, diversifying and qualifying the products and services, and increasing its breadth and depth of outreach. The findings indicate that household condition of the poor is improved after they become the bank's clients. The majority of the clients tend to perceive that the economic activities are better than the social activities. Most of the clients can manage their loan repayments to the bank well, but a small number of them failed to support their children's schooling, spend on medical care and food consumption. This can be argued that the transformation led to the mismatch between the bank and its poor clients. However, many of the poor clients seem to have benefit from their access to the bank's services. Therefore, the study suggests that the poor can improve their household welfare as they have accessed the bank's microfinance services.

The findings demonstrate that ACLEDA can expand its breadth, depth and scope of outreach after the transformation. And also, the bank can sustain itself by using local sources of fund through promoting savings mobilization. The products and services of the bank are cheaper than those of the NGO. These cheaper products and services bring more benefit to the poor. In addition, the accessibility of clients to the bank's services is easier than that of the NGO's. However, the bank does not provide non-financial services such as vocational training, women empowerment and impact assessment for the clients that help the poor to use microfinance services effectively. It is difficult to argue that ACLEDA NGO transformed itself into a commercial bank successfully without impact assessment on its poor clients properly after the transformation.

The transformation of the bank is the model that has changed from donor-funded subsidy to self independent financial institution or that is apparently the change from old paradigm to new paradigm of microfinance. Although the bank has no subsidy for the poor, it still maintains its NGO's objectives by retaining its original market for serving the poor. The poor are still able to access the bank's services. However, the poorest lack access to the bank's services due to the cancellation of the capacity building program. Thus, the transformation of ACLEDA increases serving the entrepreneurial poor and wealthier clients rather than the poorest of the poor.

This thesis proves the positive impact of the transformation since the bank has reformed and amended its policies concerning loan procedures, price of products and services, diversification and qualification of products and services, management improvement and professional staff in order to meet the market needs not only for the poor but also wealthier clients. In order to sustain the institution and to maintain its original mission for long run, the bank should conduct the impact assessment on its poor clients whether they become better off or not after accessing its services. As a result, this thesis supports the transformation of ACLEDA from microfinance NGO into a commercial bank and suggests that it is significant for the bank to balance financial and social objectives.

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Appendix 1

Questions for interviewing ACLEDA Bank's key persons

Previous status of the bank

1/. Who are the founders of ACLEDA NGO?

2/. How much fund did ACLEDA receive from donors at the beginning as in stage of NGO?

3/. How did it operate when it was an NGO?

4/. What was the NGO's mission?

Transformation process

5/. How did the donors support the transformation process from ACLEDA NGO into a commercial bank?

6/. What role do the donor agencies play in the ACLEDA bank nowadays?

7/. How about ownership structure regarding shares, equities, shareholders after the transformation process?

8/. Did ACLEDA encounter any difficulties during the transformation process in terms of governmental regulations?

9/. How have ACLEDA's services and activities changed after the transformation?

10/. Have you got any complaints from clients on ACLEDA's transformation? If so, what are positive and negative points you received following the transformation into a commercial bank?

11/. Being a commercial bank, ACLEDA focuses on microfinance in Cambodia. Currently, do you believe other institutions (MFI NGOs) will follow ACLEDA's transformation process at anytime in the near future?

Existing status of ACLEDA bank

12/. Do ACLEDA Bank's staff receive training before joining teamwork? What types of training do they receive?

13/. Are shareholders, equities, and shares different between prior and after transformation?

14/. In terms of customer services, are there any differences between the ACLEDA Bank and other commercial banks?

15/. Are ACLEDA Bank's clients still the same as ACLEDA NGO's clients before the transformation process? Among micro, small and medium loans, which one are the majority of new clients?

16/. An ACLEDA NGO founder is now one of the main shareholders, what are main duties and responsibilities?

17/. According to the ACLEDA Bank's mission, your institution provides financial services to micro, small and medium entrepreneurs. Therefore, is entrepreneurship a requirement to become a potential client? If so, how could the poor clients who are not entrepreneur get access to ACLEDA Bank's services?

18/. How do you identify someone as entrepreneurs? What are the necessary features of an entrepreneur?

19/. As a bank operator, what are current difficulties you are facing, and what are other difficulties that ACLEDA Bank will challenge in the future?

20/. Are there any changes between ACLEDA NGO's mission and ACLEDA Bank's? If so, what are they?

Others:

- Asking for documents concerning the operation of ACLEDA Bank.

Notes:

I will not raise questions whose answers can be found in documents, except for clarification.

Questions for Interviewing at the field

Interview code: …………………

Date of interview: ………………

1. Personal information: Age……………….. Sex………………

Occupation…………………. Family members………………………

2. Have you ever borrowed a loan or used other financial services from ACLEDA?

A. Yes □

B. No □ (go to the questions for non-Acleda's clients)

ACLEDA's Clients

3. How did you get information from ACLEDA?

A. Neighbors B. Bank officer C. Village chief D. Others

4. How long have you received loan or other financial services from ACLEDA?

A. Before year 2000

B. After year 2000

C. Drop out after year 2000 (go to question 30)

5. Number of loans taken…................. 6. Amount of last loan……………………..

7. Last loan term……..................months

8. Repayment method

A.………weekly B.……... monthly C……….annually

9. How do you specifically use the money from your last loan?

A. Trade E. Housing

B. Crop agriculture F. Manufacturing

C. Animal raising G. Education

D. Consumption H. Others………………

10. How does ACLEDA loan help your family?

A. Increase income generation

B. Improve housing

C. Send their children to schools

D. Access other social services (healthcare, social activities etc.)

E. Others……………………………………

11. Which services did you receive from ACLEDA before 2000, the year of transformation into the bank?

Financial Services	**Non-financial services** (Social Services)
A. Loan	F. Vocational training
B. Savings	G. Gender training
C. Money transfer	H. Healthcare training
D. Pension	I. Leadership skill training
E. Insurance	J. Others…………………..

12. Which services do you receive from ACLEDA after 2000?

Financial Services	**Non-financial services** (Social Services)
A. Loan	F. Vocational training
B. Savings	G. Gender training
C. Money transfer	H. Healthcare training
D. Pension	I. Leadership skill training
E. Insurance	J. Others…………………..

13. How do you think about access to ACLEDA's services?

A. It satisfied me B. It dissatisfied me C. No comment

14. If it satisfied you, why? ....

……………………………………………………………………………………………

If it dissatisfied you, why? ………………………………………………………...

…………………………………………………………………………………………...

15. Besides ACLEDA, are you receiving other financial services from the following programs or organizations?

A. Self-help group	D. Formal cooperative
B. Other NGOs	E. Commercial bank
C. Private money lenders	F. Others

Household Information

16. How much income does your household earns daily or monthly?

A……..…………../day B……………….……. /month

17. How do you think about your household income during borrowing loan compare to before borrowing?

A. Increase B. No change C. Decrease D. Not know

18. How is your current condition of the place you are living now?

A. Own house B. Rent house C. Dependent

19. During the period of borrowing loan from ACLEDA, did you make any changes to your housing?

A. Build a new house C. Bought land for new house

B. Move to rent house D. No change

Business Information

20. What are your main income sources and other supplemental income generation?

A. Trade D. Raising animals

B. Agriculture E. Others………………

C. Manufacturing

21. What kind of business did you start when you firstly access ACLEDA's loan services?

A. Trade D. Raising animals

B. Agriculture E. Others……………….

C. Manufacturing

22. Over the last loan period, how was your total business income?

A. Increase B. No change C. Decrease D. Not know

23 During the period of receiving loan from ACLEDA, do you buy any assets for your business?

A. Means of transportation

B. Major tools (machine, animal, equipment etc.)

C. No any purchase

D. Others

Basic needs

24. How do you think about your financial ability to provide a sufficient amount of food for your family after becoming ACLEDA's clients?

A. Increase B. No change C. Decrease

25. During the period of receiving loans from ACLEDA, are you able to financially support your children's education?

A. Yes B. No

26. How do you describe your financial ability to pay for healthcare of your family after becoming ACLEDA's clients?

A. Increase B. No change C. Decrease

Condition to access ACLEDA's services

27. How do you think about the conditions of receiving loan when ACLEDA became a commercial bank?

A. Easier B. No change C. More difficult

28. Could you access loans without collateral after ACLEDA became a commercial bank?

A. No B. Yes C. Others……………………………

29. How would you describe ACLEDA's services after becoming the bank?

A. Better B. No change C. Poorer D. Others……….

30. Do you have any requests to ACLEDA Bank? Or do you have any questions or comments to me?

For Drop out Clients

31. When did you leave ACLEDA Bank?

A. Before year 2000 B. After year 2000 C. Year………..

32. Why did you stop borrowing loan from ACLEDA?

A. Problem with ACLEDA's policies

B. Problem with group or group lending rules

C. Business reasons

D. Personal reasons

E. Other reasons

33. Do you receive loans from other institutions after leaving ACLEDA?

A. Self-help group D. Cooperative

B. Other NGOs E. Commercial bank

C. Private money lenders F. Others

34. Do you have any comments or questions?

For non-ACLEDA clients

35. Do you know ACLEDA Bank?

    A. Yes B. No

36. How do you know it?

    A. Neighbors

    B. Bank officers

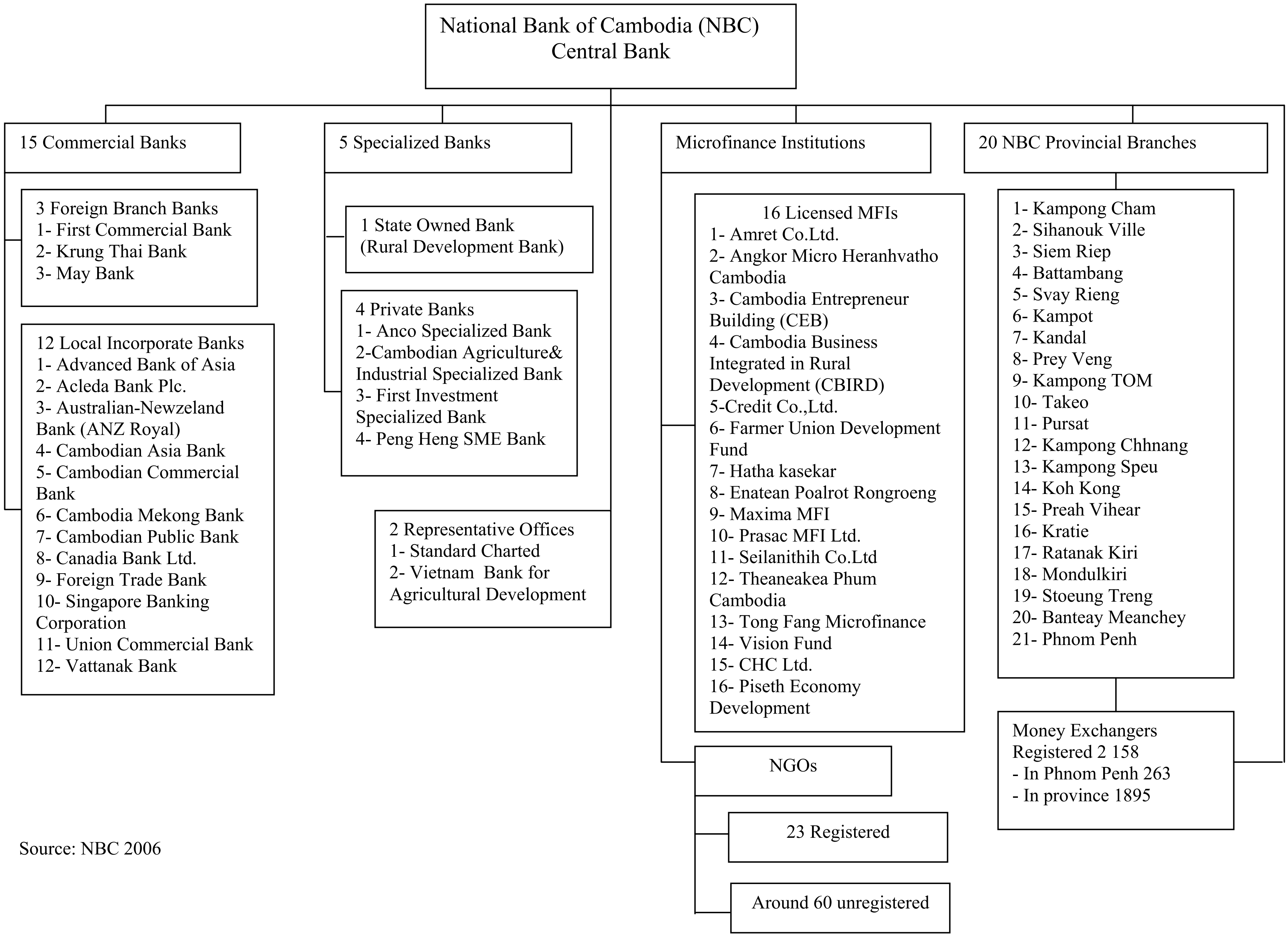
    C. Others

37. Why don't you use ACLEDA Bank's services?

38. How do you think about ACLEDA Bank in your community?

Appendix 2

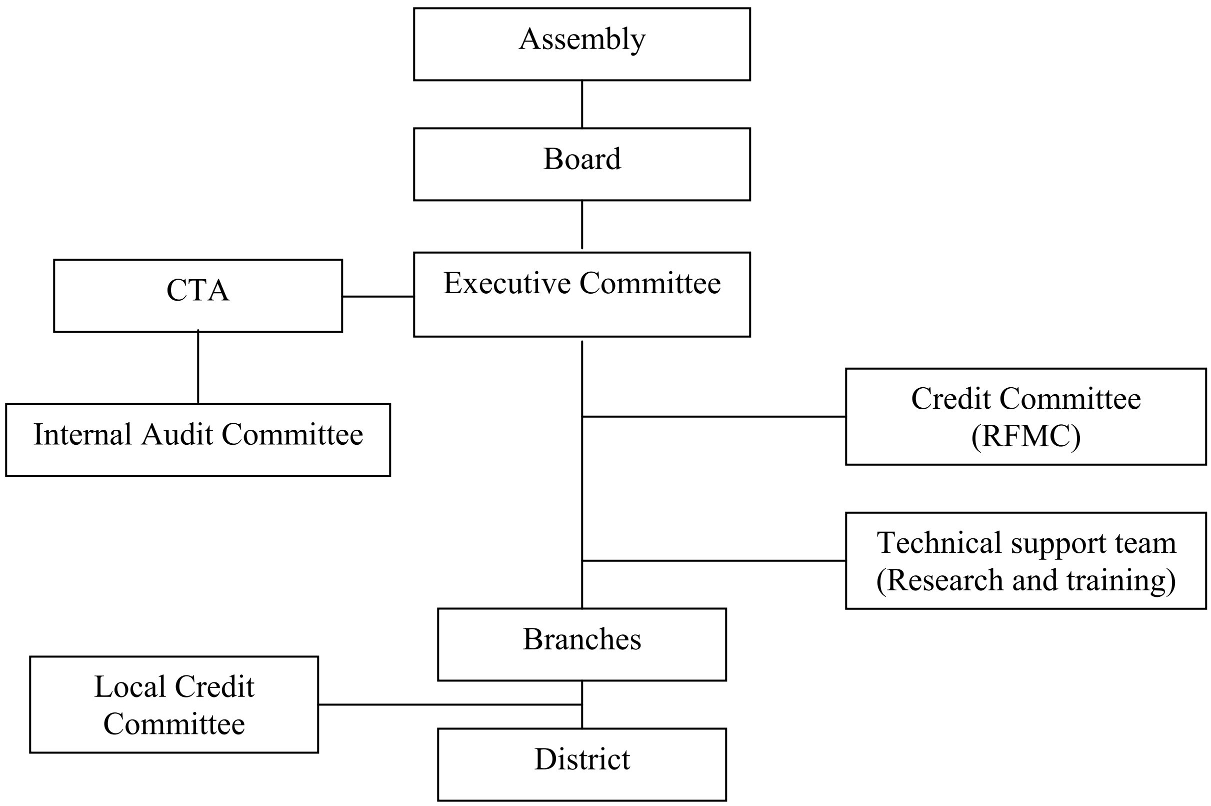
Cambodian Banking and Finance System (2006)



Source: NBC 2006

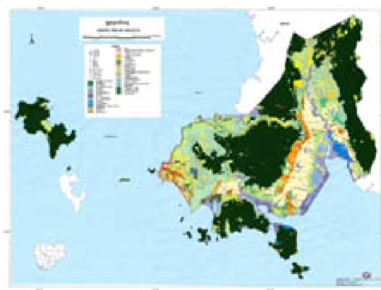
Appendix 3

ACLEDA NGO Organizational Chart

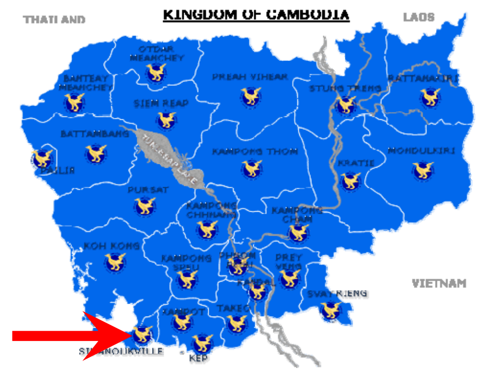


Appendix 4

KRONG PREAH SIHANOUK RESOURCES



Map of Sihanouk Ville



ACLEDA Bank Sihanouk Ville

I. ADMINISTRATION

- SAY HAK Sihanoukville Governor FUN
- CHHUN SIRUN Sihanoukville First Deputy Governor CPP
- PRAK SIHARA Sihanoukville Second Deputy Governor FUN
- SBOANG SARATH Sihanoukville Third Deputy Governor CPP

II. HUMAN RESOURCES

1. Population

(i) Size and Distribution

Krong Preah Sihanouk, also called Kampong Som or Sihanouk Ville is a port-town with a population 187,688 (in 2004), comprising 92,718 males and 94,970 females. The percentage of female population is 50.6. Krong Preah Sihanouk is entirely urban. It consists of 3 districts, 22 communes and 85 villages. The population of this province constitutes 1.4 percent of Cambodia's population.

Density of population in the province is 179 per km^2 which is higher than the national density of 64. The population density levels in districts.

2. Households

(i) Total Number of Households and Average Household Size

The total number of normal or regular households (i.e. excluding institutional, homeless, boat and transient population) in the province is 27,351 comprising a population of 149,921 which gives an average household size of 5.5.

(ii) Male and Female headed Households

The percentages of female-headed and male-headed households are 22.5 and 77.5 respectively. About 59.2 percent of the female-headed households are aged 40 and above. In the case of male-headed households the corresponding percentage is only about 42.7.

3. Age, Sex And Marital Status Distribution

(i) Age

The age-sex distribution of the population may be seen in the age pyramid. Children (age 0-14) form 43.1 percent of the total population in the province. The proportion of female children (41.6 percent) is less than that of male children (44.6 percent). The economically productive age group (15-64) forms 54.6 percent and the elderly (aged 65 and over) form 2.3 percent. People aged 18 years and above (voting age group) constitute 49.8 percent.

(ii) Sex ratio

The sex ratio of Krong Preah Sihanouk is 97.7. It is marginally higher than the urban sex ratio of 95.7 at the national level.

(iii) Dependency ratio

The Age dependency ratio which works out to 83.1 percent reflects the high dependency that the productive population bears.

(iv) Marital Status of population aged 15+

Marital Status by Sex, Krong Preah Sihanouk

Sex	**Marital Status (in percentage)**				
	Never Married	**Married**	**Widowed**	**Divorced**	**Separated**
Both sexes	30.5	61.8	5.4	2.1	0.2

Males	34.8	63.4	1.0	0.7	0.1
Females	26.5	60.2	9.5	3.4	0.4

The proportions of single (never married) and married categories among males are higher than the corresponding proportions among females. Proportion of women in each of the categories widowed, divorced and separated is higher than that of men.

4. Literacy and Education

The number and percentage of literate population aged 7 and above, by sex are given in Table 2. The male literacy rate is considerably higher than that of females.

Literate population and Literacy Rates, Krong Preah Sihanouk

Sex	**Population aged 7 +**	**Literate population**	**Percentage Literate**
Both Sexes	124,572	79,912	64.1
Males	60,998	44,532	73.0
Females	63,574	35,380	55.7

The educational level of literate population as a whole has revealed that about 56.0 percent of them had not completed the primary level. Those who have achieved the primary and lower secondary levels constitute 27.0 percent and 11.9 percent respectively. A small percentage (1.0) of literate population has acquired literacy without passing any grade/class. Those with secondary level qualification form 3.6 percent. Only 0.5 percent had completed beyond secondary level of education. Among females 64.3 percent have not completed primary level whereas among males the corresponding percentage is 49.4.

5. Economically Active Population

The number of economically active persons in the province is 61,460 of which 26,125 or 42.5 percent are females. While the crude activity rate is higher for males the unemployment rate is higher for females.

Crude Activity Rates and Unemployment Rates, Krong Preah Sihanouk

Sex	Crude Activity Rate	Unemployment Rate
Both Sexes	49.2	8.3
Males	57.8	6.5
Females	41.0	10.8

Distribution of employed persons by sector shows that 50.8 percent of them are in the primary sector. The secondary and tertiary sectors account for 11.3 percent and 37.9 percent respectively. In the primary sector the proportion of women (45.0 percent) is lower than that of men.

6. Migration

The number of migrants i.e. those who had their previous residence o utside the place of enumeration, is 81,249 which is 52.2 percent of the total population. Among these migrants, males constitute 49.7 percent. Most of the migrants have moved from other provinces.

Distribution of Migrants by Previous Residence, Krong Preah Sihanouk

Previous Residence	Percentage of migrants		
	Both Sexes	Males	Females
Within Krong Preah Sihanouk	27.5	26.7	28.3
From another province	68.7	69.4	68.0
From outside Cambodia	3.8	3.9	3.7

A sizeable proportion of migrants had changed their residence because of the reason "family moved". The proportion of female migrants is higher under this reason. The percentage of migrants moving "in search of employment" is higher among males.

Reason for Migration, Krong Preah Sihanouk

Reason for migration	Both Sexes	Males	Females
Total	100	100	100
Transfer of work place	8.8	14.1	3.5
In search of employment	31.3	40.9	21.9
Education	2.9	3.5	2.3
Marriage	4.1	3.8	4.4

Family moved	46.2	32.0	60.3
Natural Calamities/insecurity	1.8	1.6	1.9
Repatriation/Return after displacement	1.2	1.1	1.2
Other Reasons	3.7	3.0	4.5

7. Household Amenities

Main Source of Drinking Water

The percentage distribution of households according to main source of drinking water is given in Table 6. Piped water, water from tube/pipe well and water bought may be considered comparatively safer. Viewed from this angle, only 27.8 percent of the households in Krong Preah Sihanouk have access to safe drinking water.

Distribution of Households by Main Source of Drinking Water,
Krong Preah Sihanouk

Main Source of Drinking Water	Households
Total	100
Piped water	8.1
Tube/pipe well	3.2
Dug well	65.8
Spring, river stream, lake/pond, rain.	5.1
Bought	16.5
Other	1.3

Main Source of Light

Majority of households in Krong Preah Sihanouk use kerosene lamps for lighting. The percentage of households using electricity from general electric power and/or generator is 41.5.

Distribution of Households by Main Source of Light,
Krong Preah Sihanouk

Total	City Power	Generator	Both City Power and Generator	Kero sene	Battery	Other Sources
100	37.3	2.4	1.8	57.3	0.5	0.7

Toilet Facility

Toilet facility within premises is available only to 25.2 percent of households in Krong Preah Sihanouk.

Fuel for Cooking

Most of the households use firewood as main fuel for cooking. Charcoal occupies the second position.

Distribution of Households by Main Type of Fuel for Cooking, Krong Preah Sihanouk

Total	Firewood	Charcoal	Kerosene	Liquefied Petroleum Gas (LPG)	Others
100	68.7	27.3	1.7	2.1	0.2

Final Population Totals, Krong Preah Sihanouk Province, 1998

Code	Province	Total Number of Households	Population			Sex Ratio	Average Household Size (*)
			Both Sexes	Males	Females		
18	**Krong Preah Sihanouk**						
	- Total	**28,015**	**155,690**	**76,940**	**78,750**	**97.7**	**5.5**
	- Urban	**28,015**	**155,690**	**76,940**	**78,750**	**97.7**	**5.5**
	- Rural	**-**		**-**	**-**	**-**	**-**

01	**Mittakpheap (U)**	**12,014**	**67,440**	**33,576**	**33,864**	**99.1**	**5.5**
01	Sangkat Muoy	2,611	14,127	7,218	6,909	104.5	5.1
02	Sangkat Pir	1,970	11,740	5,741	5,999	95.7	5.9
03	Sangkat Bei	3,143	17,152	8,691	8,461	102.7	5.4
04	Sangkat Buon	4,124	23,704	11,568	12,136	95.3	5.6
05	Kaoh Rung	166	717	358	359	99.7	4.4
02	**Prey Nob (U)**	**13,593**	**75,142**	**36,686**	**38,456**	**95.4**	**5.5**
01	Andoung Thma	839	4,578	2,212	2,366	93.5	5.4
02	Boeng Ta Prum	1,122	6,174	2,927	3,247	90.1	5.5
03	Bet Trang	539	2,824	1,353	1,471	92.0	5.2
04	Cheung Kou	1,429	8,188	4,178	4,010	104.2	5.6
05	Ou Chrov	982	5,325	2,615	2,710	96.5	5.4
06	Ou Oknha Heng	1,159	6,462	3,155	3,307	95.4	5.5
07	Prey Nob	1,054	5,797	2,798	2,999	93.3	5.5
08	Ream	1,454	7,932	3,941	3,991	98.7	5.3
09	Sameakki	458	2,362	1,151	1,211	95.0	5.1
10	Samrong	1,051	5,610	2,778	2,832	98.1	5.3
11	Tuek L'ak	588	3,213	1,556	1,657	93.9	5.4
12	Tuek Thla	735	4,096	2,048	2,048	100.0	5.6
13	Tuol Toetueng	588	3,231	1,514	1,717	88.2	5.5
14	Veal Renh	1,595	9,350	4,460	4,890	91.2	5.8
03	**Stueng Hav (U)**	**2,408**	**13,108**	**6,678**	**6,430**	**103.9**	**5.5**
01	Kampenh	332	1,703	865	838	103.2	5.1
02	Ou Treh	705	3,617	1,884	1,733	108.7	5.1
03	Tumnob Rolok	1,371	7,788	3,929	3,859	101.8	5.7

(*) Based on Normal or Regular Households

Sources:
www.moc.gov.kh/national_data_resource/Provincial%20Resources/**Sihanouk**%20**Ville**/Index.htm - 2k -