



Cambodia's 'Aw, Shucks' Banker

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In Channy's not-always-humble ACLEDA dominates the countryside.



Many entrepreneurs develop a head for numbers in their teens. For In Channy, a 14-year-old city kid evacuated at gunpoint in April 1975 to labor in Cambodia's infamous Killing Fields, the only numbers that mattered were the 320 cows assigned to him. Losing a cow meant trouble. And under the Khmer Rouge regime, you didn't want any trouble.

Fortunately for Cambodia's stirring financial- services sector, Channy kept his nose clean. In 1981 he fled to a refugee camp in Thailand, where he became a teacher and won a scholarship to study business at a U.S. college. It would be another decade before he returned home. Today the former cowherd is president and CEO of ACLEDA Bank, Cambodia's largest bank, which he cofounded in 1993 as a nonprofit microfinance lender making \$10 loans to demobilized soldiers.

Last year ACLEDA (Association of Cambodian Local Economic Development Agencies) reported net profit of \$24.3 million, a sharp rebound from recession-hit 2009, and is on track for another bumper year: First-half net was \$21.7 million, 130% higher than the year earlier. Foreign banks are starting to wake up to Cambodia's potential. Malaysia's CIMB and Maybank have opened branches and are said to be seeking acquisitions. ANZ Bank has a head start with its joint

venture with Royal Group, while the Pung family-owned Canadia Bank, the second-largest lender, is courting strategic investors for a 30% stake.

But none has the reach or reputation of ACLEDA, with 234 branches across Cambodia that are often the tallest buildings in town. Most banks stick to the capital, Phnom Penh, and take a pass on the small entrepreneurs who are the backbone of the economy in rural areas where most people live and work. Of Cambodia's 1.1 million depositors 700,000 entrust their money to ACLEDA. "When people think of banks, they come to us," says Channy, now 50.

Dependent on aid, tourism and garment exports, Cambodia remains one of Asia's poorest countries. During 2000-07 its economy grew at over 9%, sparking interest from frontier funds seeking the next tiger economy. Corruption, red tape and a paucity of investable companies kept many on the sidelines; then the global crisis erupted.

But the tide has begun to turn, says Scott Lewis, chief investment officer at Leopard Capital, which runs a \$34 million Cambodia fund and holds an indirect stake in ACLEDA. Vietnam's largest asset manager, part of VinaCapital Group, said earlier this year it wanted to invest \$100 million in Cambodian assets, though no acquisitions have been announced.

More funds may flow when Cambodia's stock market gets going. It opened its doors on July 11, but no companies have listed shares. Besides sanctions-hit Myanmar, Cambodia is the laggard in Southeast Asia; even tiny, Communist-run Laos has a stock exchange. Three state-owned Cambodian companies are preparing IPOs, possibly by year-end.

Could ACLEDA follow suit? It has the credentials: solid profits, audited results and credit ratings from Moody's and Standard & Poor's. Bank staffers would benefit because they own 19% of the bank's shares via an employees' trust fund in which Leopard has invested. Other shareholders include several European nonprofits, the IFC and Jardine Matheson, which acquired a 12.5% stake in late 2009.

But Channy is leery of rushing an IPO. "Are we ready? Yes, we're ready. Do we want to do that? Not yet," he says, leaning forward in a carved wooden chair in his modest fourth-floor office. Instead, he wants to build out the business by tapping shareholders for extra capital. His ambitions don't end in Cambodia. ACLEDA opened its doors in Laos in 2008 and is eyeing opportunities in Vietnam, China and Myanmar, where microfinance is still in its infancy.

Not that ACLEDA considers itself a microfinance lender, having long outgrown its NGO roots. Last year it became the first bank in Cambodia to offer mobile-phone services, which 35,000 customers now use to check balances, pay suppliers and transfer funds. Branches remit funds in four currencies (Cambodia is heavily dollarized). Multinationals rely on ACLEDA to make payroll in remote towns.

ACLEDA's average loan is over \$3,000, in a country with per capita income below \$1,000, reflecting growth in small and medium borrowers. "We grow with our customers. Our micro customers stay with us," says Channy.

So does his staff: Fourteen of the 28 original employees are still with ACLEDA, part of a 7,000-plus workforce. In many Cambodian companies workers follow orders and keep the boss happy. But that's not Channy's way. He believes in teamwork and participation, and encourages employees to speak up. It can be awkward and time-consuming for managers, he admits. "But when they accept [new ways], it's sustained. We can grow fast," he says.

Humility and honesty are also embedded in the bank's culture. Anyone caught for corruption is fired, and loan officers aren't even allowed to accept fruit from customers. "They've taken the best elements of Cambodian Buddhist culture and made it into corporate culture," says Lewis. While Channy credits his colleagues for making the policy stick, Lewis isn't fooled by his modesty. "He's an 'aw-shucks' guy who drives the business," he says.

The soft-spoken banker is the polar opposite of Kith Meng, the flamboyant CEO of rival ANZ Royal Bank (*Read more about Kith Meng, ["Bringing Commerce to Cambodia"](#)*). But Channy can be steely, too, facing down corrupt officials and meddling politicians. In 2005 ACLEDA agreed to pay \$1.3 million for a plot of land in the capital for its headquarters. The landlord went to the tax department and declared a purchase price of only \$130,000, but Channy objected. He says the owner alleged that the tax department was on his side and threatened to cancel the sale if ACLEDA didn't go along with the ruse. So Channy wrote to the Ministry of Finance and Ministry of Land Development, explaining his stance. ACLEDA got its land, and the taxman got his cut. "I told the landlord: 'Now the price is known to everyone, to the minister,'" laughs Channy. He sits on several government committees and has advised the UN on microfinance. Brett Sciaroni, chairman of the American Chamber of Commerce in Cambodia, says, "His quiet confidence and his leadership of the institution he represents gives him considerable clout, which, consistent with his manner, he uses sparingly."

Not bad for a cowherd who never finished high school. The Khmer Rouge didn't believe in education or banking, so they closed the schools, abolished money and dynamited the central bank for good measure. After the regime's fall in 1979 Cambodia had to start from scratch under Vietnamese rule, which meant a centrally planned economy.

As one of only three Cambodians with banking expertise, Chea Sok--today ACLEDA's chairman--joined the reconstituted central bank. He had spent the previous four years planting rice and playing dumb, terrified that if found out he would be killed along with other intellectuals that the regime despised. At night he dreaded falling asleep in case he spoke French in his dreams.

In 1992 Channy returned to Phnom Penh to work as a loan officer for a UN-funded microfinance project. The following year the 28 employees turned the project into a nonprofit that was transformed in 2000 into a commercial bank. At the time Cambodia had plenty of banks, not all of them reputable (the Rich Nation Bank, anyone?). New minimum capital rules drove away the shadiest operators.

The global financial crisis dented Cambodia's economy and checked ACLEDA's growth. Net profit more than halved in 2009 to \$9 million, yielding a paltry 9% return on equity (ROE) to shareholders. Still, Channy reckoned that Cambodia's recession would be short and that the bank

should position itself for a recovery. So he asked ACLEDA's board to support more staff recruits and training, sharp slowdown or not.

It was a bold play that met with resistance, says John Brinsden, a retired Standard Chartered executive who sits on the board. "We had a robust discussion and met in the middle," he recalls. That was probably what Channy expected, and it gave him enough juice to make 2010 a record year and hike ROE to 20%. "We're now getting the benefits of scale because we did build up the team," says Brinsden.

A trip into the countryside reveals why Channy is confident of continued growth. Kien Svay lies 20 km from the capital, on the busy highway to Ho Chi Minh City. There's plenty of poverty, but signs of progress, too. Last year Tung Savoeung borrowed \$1,000 from ACLEDA to buy fertilizer and seeds, and to install irrigation pipes in her vegetable fields. Fragrant basil plants bask in the hot breeze. Under her stilted house Tung's grandchild sways in a bamboo basket.

Tung pays 2.7% monthly interest on her loan, her second in five years. Her monthly turnover is \$500 to \$750, but she isn't worried by the debt and is saving for her children's education. Besides, the loan sharks in town charge 6%, so she's sticking to ACLEDA. "I've got no difficulty to repay this loan. My living conditions are much better than before," she says. And so is Channy's bottom line.