Raising Capital through Equity Investments in MFIs: Lessons from ACLEDA, Cambodia

Input paper for the UNCDF/SUM and UNDP Africa

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Young and Promising Microfinance Institutions

by

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This paper has been prepared as an input paper to the "Global Microfinance Meeting on Young and Promising MFIs" that was held from May 30 to June 1, 2001, at the United Nations in New York. The paper reflects the situation as of June 2001. The meeting was sponsored by the United Nations Capital Development Fund (UNCDF), Special Unit for Microfinance (SUM), and the United Nations Development Programme (UNDP) Africa. The meeting brought together 60 representatives of UNDP MicroStart Programmes, UNDP Country Offices from around the world, technical service providers, experts in the microfinance field, and UNCDF's Special Unit for Microfinance. UNDP's MicroStart Programmes provide technical assistance to start-up and young, promising institutions by contracting the services of experienced microfinance service providers, many of whom are from the South. The purpose of the meeting was to improve the understanding of donors, technical service providers, and practitioners working with young institutions on issues crucial to the support of institutional development and growth of young microfinance institutions.

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Abbreviations

ACLEDA	Association of Cambodian Economic Development Agencies
ALCO	Asset and Liability Committee
ADB	African Development Bank
DEG	Deutsche Entwicklungsgesellschaft
EBRD	European Bank for Reconstruction and Development
ESOP	Employee Stock Ownership Plan
FMO	Financierings Maatschappy voor Ontwikkelingslanden
KfW	Kreditanstalt für Wiederaufbau
IFC	International Finance Corporation
ILO	International Labour Organisation
IMI	Internationale Micro Investitionen
MFI	Microfinance Institution
MSE	Micro and Small Enterprises
UNDP	United Nations Development Programme
USAID	United States Agency for International Development

Introduction

This paper presents issues that have to do with equity investment in microfinance institutions (MFIs). The paper focuses on microfinance projects, nongovernmental organizations (NGOs), and companies that are geared for growth and need to attract capital from investors. The paper does not consider cooperative microfinance institutions (village banks or credit unions) that are owned by their members, who provide equity capital themselves to finance the expansion of their own organization.

We can distinguish different types of equity providers. The influence and prevalence of these different investors depend on the development stage of the microfinance industry and the development stage of the MFI. In Part 1 a general description is given of development stages of a microfinance industry in a country. In Part 2, three different types of investors that provide equity to MFIs are distinguished: donors (grants), and public and private investors (share capital). In Part 3 the fundamentals of the investment analysis that public and private investors apply are explained. This investment analysis is a prerequisite to making an equity investment in an MFI. In Part 4 a case study describes the development of an MFI—ACLEDA, or the Association of Cambodian Local Economic Development Agencies—that has been successful in attracting equity from investors. The study concentrates on the efforts this MFI had to make for it to meet the requirements of equity providers.

Part 1: Stages in the Development of the Microfinance Industry

We can distinguish three major categories of investors that can provide equity: donors, public investors, and private investors. These investors, as equity providers, share an objective: to improve sustainability and outreach of microfinance institutions. However, these investors differ in terms of their timing in providing capital and their investment requirements.

To understand these differences it is useful to first reflect on the archetypical way many microfinance sectors have developed in low-income countries. By comparing the manner in which the development of the microfinance industry occurred in different countries we can distinguish four broad stages (see Figure 1): start-up phase, expansion phase, consolidation phase, and integration phase.

In the *start-up phase*, microfinance activities are introduced through donor-funded projects. The start-up activities are often experimental in nature because the sector is in the early phase of development. At this stage microfinance operations need to build experience in business strategy, management, and product development. Some microfinance activities aim at delivery of sustainable microfinance services and concentrate on finding the right areas, staff, systems, and products. Some projects could be experimenting with different type of products and governance structures to determine the best features. There may be projects or organizations that use the so-called integrated approach, whereby the delivery of financial services is a function of other development activities like advisory services to farmers or entrepreneurs, or linked with vocational

training for vulnerable groups. Other microfinance activities start as projects that aim at bringing direct relief to the population; in these cases it is often not clear to the population whether the cash disbursements are loans or grants. Donors subsidize most of these projects and organizations.

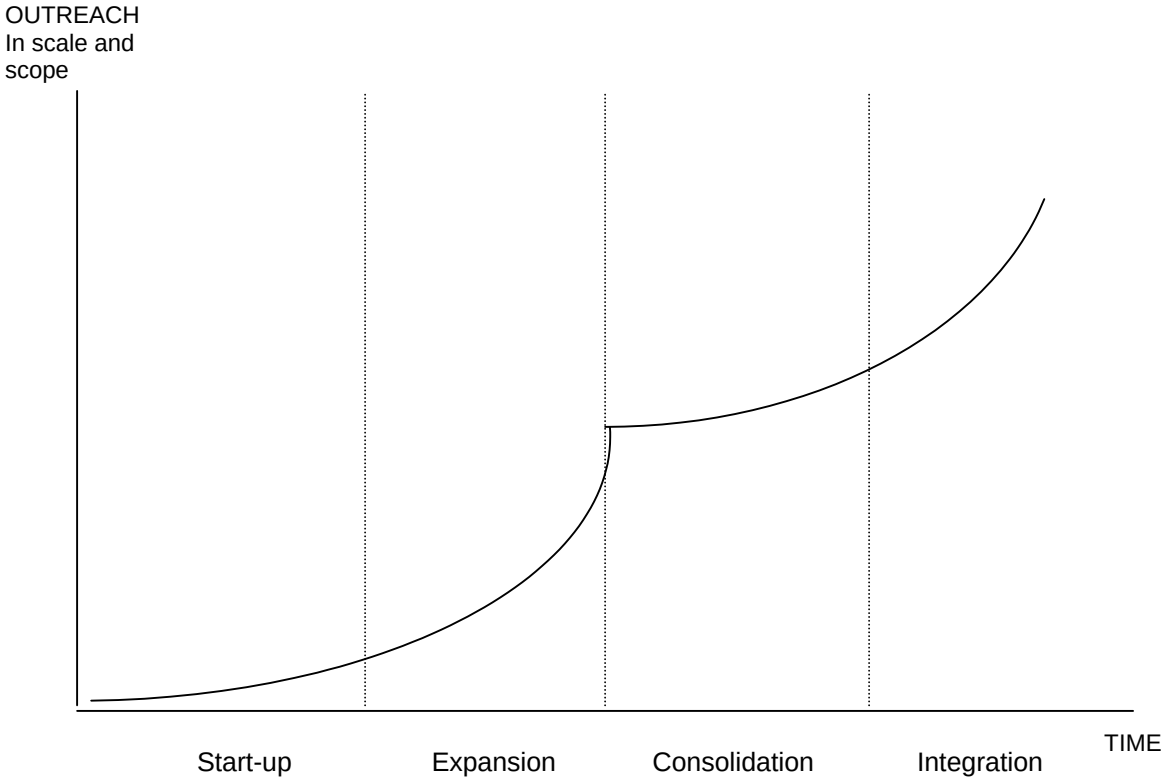

Figure 1.

In environments where microfinance is, initially, legally not allowed successful pilots often convince local authorities to condone their activities due to the perceived benefits for the livelihoods of poor households, employment generation and economic development. In this phase clients and the public at large become aware that micro and small business entrepreneurs can be creditworthy. Some pilot projects fail, often due to low repayment, while others gradually discover techniques that are applicable to the local context and functioning. It is envisaged that, at the end of this stage, those projects that have applied sound microfinance principles will have demonstrated potential to become sustainable organizations, and are positioned to expand their outreach considerably. In most cases these projects are independent institutions or are determined to transform into such institutions. Management of such potential market leaders focuses on specializing in microfinance, with a strong commitment to build an organization that applies sound microfinance principles[1], combined with a vision to expand considerably. These leaders are poised to shape the still nascent microfinance industry of the country.

[1] Sound microfinance principles means, among others, that you have a clear business strategy, good governance, delivery of products that the customers prefer, professional staff, good administrative and internal control systems, low default rates, interest rates that cover administrative costs, provisioning, inflation, cost of capital and sufficient additional capitalization.

In the *expansion phase* successful MFIs mostly concentrate on expanding the scale of their existing operations. The success of their business model allows them to replicate their activities and to capture a large share of the potential market. Other microfinance operators often copy their approach. At this stage, the emphasis lies on the expansion of existing activities and on resource mobilization to finance it.

These leading MFIs are vital to the development of the microfinance industry because they define generally accepted industry norms. It is at this stage that donors often start to focus their investment on the winners to further strengthen the capacity of these leaders, their sustainability and outreach. Other entities may choose to focus on the niches in the market, while some unsustainable programs will be discontinued, as it becomes generally perceived that these projects are undermining a healthy development of the microfinance industry. It is often at this stage that equity providers, like nonprofit organizations or public investors, become interested in the leading entities. At the end of this stage, one or more industry leaders are prepared to transform into regulated formal financial institutions.

Expansion, at this stage, often means copying what the organization already knows. Branches are set up in other provinces, thereby reaching many more clients. In this phase projects will take time to further upgrade overall management, management information systems, and internal auditing procedures, and will refine credit policies, financial management, staff regulations, and human resource management. In this phase the transaction costs for the customers are likely to decrease because more successful local institutions will start competing with other microfinance operators to continue increasing their market share.

In general, markets shape the regulations. Once the microfinance industry shows signs of becoming an important player in the financial market, regulators and policy-makers can be encouraged to formulate an appropriate legal framework and regulations and building regulatory capacity. When required, specific regulations are formulated to shape a conducive environment for a healthy growth of the microfinance industry in scale and scope. These regulations take into consideration the unique characteristics of microfinance as compared with conventional banking. Such regulations specify prudential requirements necessary to protect depositors and to safeguard the integrity of the financial system while allowing fair competition.

The expansion leads to economies of scale and higher efficiencies. As a result successful MFIs are increasingly able to finance their operations through income generated from interest and fees. At this stage MFIs still receive subsidies in the form of grants and soft loans to finance their expansion. The increased scale of operations requires further institutional strengthening particularly in the areas of management systems and procedures. At the end of this phase MFIs have captured a large part of the market with their existing products.

In the *consolidation phase* successful MFIs start to focus on their overall sustainability. The emphasis in the consolidation stage is on strengthening the institution as a whole. This stage is characterized by organizational formalization. Management oversight,

organizational policies, procedures and systems are managed in a more formal manner. The microfinance sector also formalizes by gradually establishing generally accepted industry norms. Subsidies of donors are diminishing in order to avoid continuous subsidization of the market and market prices. As a consequence, MFIs are required to further increase their productivity, to further expand in scale and scope and to adjust their pricing policies to ensure profitability. At this stage, the penetration rate of the existing target markets has become much higher. Increased competition requires that products are made more flexible and demand oriented. In addition, some MFIs start venturing in markets for microfinance that have been neglected so far. One important market is the small business sector that has no or limited access to the formal banking sector[2].

It is important that a special regulatory framework that is conducive to the development of the microfinance sector and allows for effective prudential regulation by the central bank is in place at the end of the consolidation phase. Such a framework is needed so that the sector can enter into the integration phase. Such regulations are normally developed during this phase when a critical mass of MFIs is willing and able to integrate into the formal financial system.

In the *integration phase*, a fully-fledged legal framework should be in place that encourages microfinance institutions to formalize and expand their activities, both in scale and scope. Potential public and private investors, lenders, and depositors will require an established legal and regulatory framework, appropriate for MFIs, and direct supervision (and regulation) of MFIs by the central bank. Hence, leading MFIs have become an integral part of the formal financial sector, regulated by the central bank and offer an expanding range of demand oriented products for the lower segments in the market. This integration is required for the sector to be able to further finance their growth by attracting capital from commercial sources (deposits from the public, loans and equity). Instead of drawing on public development funds and subsidies, these MFIs contribute to public funds by paying the taxes applicable to the financial sector.

The integration phase is characterized by transformation of MFIs into regulated financial institutions, the disappearance of subsidies for the sector, the up-scaling of MFIs and the downscaling of commercial banks, which are now able to operate on a level playing field because the microfinance sector is now unsubsidized (see Figure 2). Provided there is a conducive and competitive environment, licensed MFIs continue efforts to downscale their services, especially with respect to offering savings services to the very poor.

Formal financial institutions become increasingly engaged in microfinance by establishing separate banking units or other modalities to provide financial services to poor and low-income people. Unregulated microfinance operators are moving towards formalization and commercialization in order to be able to finance their growth by attracting capital from the private capital markets and deposit taking from the public.

[2] Supporting access to microfinance for small businesses often translates into job creation for poor people that prefer to be wage employed rather than to be self-employed.

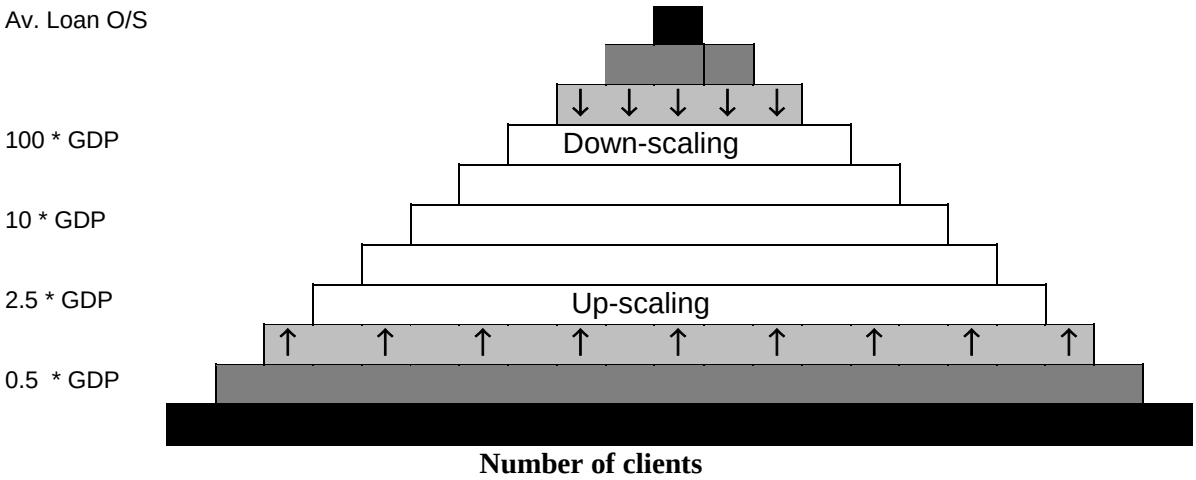

Figure 2.

There is a general consensus among key players in the field that the trend towards integrating microfinance as part of the formal financial system will continue and eventually prove dominant. In many developing countries the regulated financial system is still exclusive as it is focused mostly on the higher segments of the market. Development of a microfinance sector that eventually becomes an integrated part of the financial system allows for an inclusive financial sector that serves a broad range of financial services to all segments in the market. The number of years it will take to develop the microfinance sector depends largely on the joint commitment of decision makers to create an inclusive financial sector and on the manner in which they effectively identify and address the constraints that hamper the development of the microfinance sector.

Part 2. Different Types of Equity Investors and their Focus

There are many different donors with different objectives, policies, procedures, and strategies. Most donors that provide funds to microfinance activities do so in the expectation that these activities will lead to improving the living circumstances of poor people, who previously had no access to financial services. Experience shows that access of these target groups to microfinance services helps them to improve the management of their liquidity, and makes them better prepared to take advantage of investment opportunities or to manage adverse circumstances. For instance, access to credit helps micro and small business entrepreneurs to start or expand a business, thereby generating income and employment. Access to savings services helps people to be prepared for (unexpected or planned) major future expenses.

2.1 Donors as Investors Providing Equity to MFIs

Donors that invest equity in microfinance institutions or projects that are expected to transform into local financial institutions often expect a high social return on their investment. Their focus is on the lowest segments of the market (for instance, the poor who, in the case of credit, still have the capacity to repay the loan out of the proceeds of the investment or other sources of additional income). Their focus is also on "sustainability," defined as the condition in which the local organization will be able to continue its operations without any future need for subsidies from a donor. The social return translates into income and employment generation for poor and low-income entrepreneurs as a result of their investment in commercial activities, financed by the MFI.

Donors, as equity providers, are essential in the early stages of the development of a microfinance industry in low-income countries. The characteristics of the early stage make the investment a very risky one, and explain why most investors other than donors shy away from investing in microfinance during this stage. The investment is risky because the organization has little experience in the market or knowledge of the demand for financial products. Also, the human resource base and required systems for this industry have to be established from scratch. The legal environment is often not suited for microfinance, with the result that activities take place in an ambiguous legal context, which is merely condoned by policy-makers and regulators. The project often does not have the suitable legal form, ownership and governance structure for financial services normally required by regulators. At this stage the public at large does not yet fully understand the requirements and implicit consequences of the provision of sustainable microfinance services.

During the expansion stage some donors continue to support the upcoming leaders until the point where they can attract sufficient capital from savings or from public and private investors to continue financing their own growth on a sustainable basis. Donors will normally require that the project show commitment to those activities that ensure future sustainability and the ability to attract capital on market terms without further donor subsidies. This donor effort is consistent with a broader definition of poverty alleviation, because of the impact such an institution can have on local economic development. Once sustainability is reached, no additional (grant) investments are required, while the increasing social returns of the initial investment continue over time.

Donors can provide equity in several ways. Common ways are to provide an MFI with grants to be used for revolving funds. Another, indirect, way is to finance the full operational costs of the MFI for a branch or series of branches, whereby the MFI can maintain its interest income, which translates into equity (positive retained earnings). Third, a donor can invest equity as a shareholder to the project or MFI. In this respect one can also think of a convertible loan provided by the donor that can be converted into equity after the project or MFI (NGO) transforms into a private or public institution.

A problem could arise using the first two ways once (or even before) the project or MFI transforms into an organizational form accepted by regulators. This problem is the uncertainty related to the ownership of this equity. It is advisable to anticipate this problem before such equity investment is made. The case study described in Part 4 shows one solution, which was designed to clarify ownership and to ensure that the capital investments continued to be used for their initial purpose—to provide access to financial services to the lower segments of the market.

2.2 Public Investors

In the group of public investors, we can distinguish the following: multilateral organizations like the International Finance Corporation (IFC), the African Development Bank (ADB), and the European Bank for Reconstruction and Development (EBRD); bilateral development banks like Deutsche Entwicklungsgesellschaft (DEG) and Financierings Maatschappy voor Ontwikkelingslanden (FMO); and foundations or funds like the Dutch foundation, Stichting Triodos Doen, and Internationale Micro Investitionen (IMI). These investors often have mixed social and profitability objectives.

Public investors typically start considering investments once the microfinance entity presents realistic plans to become profitable, and shows clear signs of becoming sustainable from an organizational, managerial, and technical viewpoint. These investors play an essential role in the process of further strengthening the MFI and its expansion in scale and scope. The longer-term goal of these investors is that the MFI fully integrate into the commercial financial market and become able to attract equity from private sources.

Some public investors are government owned. This aspect makes them different from other equity providers and could, albeit in different degrees, strongly influence the process of negotiating their equity input. These investors put a strong emphasis on the risk side of the purchase, especially when it concerns a possible negative impact on their own reputation and potential liabilities they might incur. Experience shows that such a strong emphasis on these latter issues often results in serious delays in the purchase process. In addition, some of these investors can be hamstrung by their internal regulations, which can conflict with the reality of the context in which the MFI operates. The other side of the coin is that the reputation and influence of these investors will strengthen the reputation of the MFI, and could be of vital importance to further shape a more conducive environment for the microfinance industry.

The founding or parent NGO is different from other investors. The parent NGO comes into existence once an NGO transforms into a private financial institution. The mechanics of such a transformation work as follows. The NGO creates a company that will become the financial institution. Subsequently the NGO transfers all assets to this company in return for debt and equity. The NGO changes its statutes to reflect the transformation and becomes a shareholder of and lender to the financial institution. The nature and focus of the parent NGO depends on some critical choices the designers of such transformations make. Will the parent NGO continue microfinance or other

activities, or will it function solely as a shareholder and lender to the financial institution? Will the parent NGO charge market rates or subsidized rates on the loans it has with the financial institution? Will the debt be senior or subordinate to other liabilities of financial institutions? Will the NGO require that all or part of the debt be used for on-lending to micro and small businesses or will there not be such restriction?

The case study of ACLEDA in Part 4 explains why, in this case, the parent NGO decided to specialize in financial services and to issue subordinated debt to the newly created ACLEDA Bank.

2.3 Private Companies and Individuals as Investors

Private investors often come at a later stage of development, especially when the level of risk the investment carries has decreased. The risk is reduced because the organization now functions in a maturing and profit-making microfinance industry operating in a firmly established legal context, or exhibits exceptional prospects. The main motive of private investors is to maximize the (long-term) return on investment.

At present, the interest of private investors to invest equity in the microfinance industry is limited. An important reason for this is that relatively few MFIs have adopted a strategy to maximize shareholder return. In addition, most private investors do not adopt a longer-term investment perspective. Under such circumstances, marketability of shares (read: exit strategy) is of vital importance. Hardly any profitable MFI yet exists whose shares are traded on a liquid market.

One particular type of private investor is the employee, who becomes an investor as part of an employee stock ownership plan (ESOP). Through an ESOP, employees can become shareholder of the financial institution. There are different ways to organize an ESOP structure so that a number of critical issues are addressed. Will the employees form their own organization as shareholders? Will they be allowed to create an internal market? Will they have representatives on the Board of Directors? Will they be allowed to choose between cash or shares if a bonus is received?

Part 3. Requirements of Public and Private Equity Providers

This section will focus on requirements of public and private investors that play an important role in their decision whether to invest an equity stake in the financial institution. Investors will carefully scrutinize the profitability prospects of the institution and will study all types of risks that could negatively influence these prospects. On that basis the investor will make a risk/return assessment that will be the foundation of the investment decision. The ability of an institution to reduce the risk and increase the return will, to a large extent, determine its success rate in attracting equity capital from these investors. The major requirements of public and private investors are outlined below.

Development phase of the microfinance industry. Public and private investors will see if attractive investments can be made in the microfinance industry only when this industry starts showing signs of maturing and a few market leaders emerge that are on their way to providing sustainable, unsubsidized microfinance services. In the early stages of the development of the microfinance industry, public and private investors will often consider the risk of an equity investment too high, because at the development stage no reliable projections can be made on future earnings.

Leadership status. Investors will initially focus on the leaders of the microfinance industry in an attempt to pick the winners. It is often those leading entities that are likely to fit best with the requirements the investors have. Moreover, these leaders have shown that they have developed a vision in the early stages of development and the commitment to pursue this vision.

A clear vision and commitment to become a profitable microfinance institution. The investor wants to be assured that the management has a clear and coherent vision of what the institution and market will look like some years from now. The investor will assess how far this vision is understood and supported by the staff members of the institution on all levels. It is important that the vision is explained in a way that public and private investors understand, so that they can have sufficient trust that management fully understands the nature of the private sector. Investors will be concerned that the organizational culture and mind-set of the institution may be geared to mobilizing grants from donors instead of mobilizing capital from the financial markets. Investors also may be concerned that the organization has internalized a project mentality instead of an institutional approach. The investor wants to be sure that the management realizes its opportunities by building on the potential of its specialization in microfinance, and that the management is convinced that such opportunities can be materialized commercially.

A realistic business plan. The investor wants a realistic business plan that includes, at a minimum, the following elements: the corporate objective and strategy, the (proposed) shareholder structure, the governance structure, description of the products, the market situation (demand, supply, pricing, and type and quality of financial products), the legal environment, the macroeconomic environment, the political environment, the key ratios' sensitivity analyses, perceived major risks, and five-year financial projections, with the assumptions on a separate sheet as well as the key indicators and adjustments for cross subsidies.

The investor wants to be assured that the management is fully aware of the possible risks involved in implementing the business strategy. The management should be able to demonstrate their plans to avoid, mitigate, or offset those risks. The investor will require that the assumptions of the financial projections be realistic and conservative.

Profitability and growth. As noted, most of the equity investors in microfinance institutions have a longer-term investment horizon. This means that they will require a higher average return on equity than the effective interest rates on less-risky long-term loans. Effective interest rates on long-term loans in US$ normally vary from LIBOR plus

2 to LIBOR plus 7, depending on the risk profile of the country, the sector, and the lender. The difference between these interest rates is the risk premium for the shareholders. Again, profitability is what fuels the growth and development of the institution. Without profitability, the institution will not be able to develop new products or adapt existing ones; it would not be able to expand into other areas or in existing areas; it would make it difficult to attract additional capital. Moreover, an increase in the equity base, through positive retained earnings, allows the institution to increase its liabilities by a factor of 4 to 7, depending on the prudential requirements as set by the central bank. Leverage and economies of scale could further increase their return on equity.

The investors will scrutinize the likelihood and impact of potential risks that could negatively influence the profitability of the MFI. How accurate are the financial projections? What would happen if demand were less than projected, if competition drove down the prices? How would an increase in inflation affect profitability? What would be the impact of an increase in cost of capital? Investors would require the MFI to provide sensitivity scenarios to demonstrate the impact of adverse circumstances.

The return on investment is of course also related to the initial price paid for the shares. The market price is often difficult to determine because at this stage there are very few countries in which the microfinance industry is fully integrated into the financial market. In a pioneering industry there is an unknown industry risk. In addition, in most cases the shares are yet not freely marketable, which further increases the complexity of calculating the right price. One method is to have independent reputable parties make a price assessment. Aside from the fact that this could be a costly affair in comparison with the total paid-up capital, it also does not guarantee that the investors would agree with such price setting. Another method used is to take the book value of the shares and to include a premium in case the risks are valued low and the projected profitability is high.

An appropriate ownership structure. With respect to the ownership structure, public and private investors will focus on three main issues: reputation, liability, and protection. The investors want to know the background and reputation of other owners of the MFI institution. Investors prefer that the ownership structure consist of reputable shareholders who have an interest in the long-term added value of the institution. Shady or potentially unreliable co-owners could result in a reputation risk for public investors. The investors want to know the liabilities related to ownership of the MFI. They want to know what obligations they incur as an owner. Especially in case of a minority stake, the investors want to know what regulations can be agreed upon to protect their position as a minority shareholder. Investors want to know their rights as a shareholder, especially the right and authority of representation on the Board of Directors.

An appropriate governance structure. Corporate governance is the system by which institutions are directed and controlled. Corporate governance relates to issues like responsibility and influence, accountability, and supervision, where integrity and transparency play an important role. The governance structure provides a system of checks and balances through independent supervision, on the one hand, and

accountability of the implemented policy, on the other hand. At the core of the governance structure lies the corporate objectives (the mission) of the institution. Governance should ensure that the institution is optimally fulfilling its corporate objectives.

The investor will require that the institution has a proper governance structure in line with sound banking principles. The institution will have a Board of Directors comprised of experienced directors able to fulfill their responsibility to safeguard the interests of the institution's stakeholders.

Good corporate governance requires procedures that specify authority, responsibilities, and tasks to ensure transparency and accountability of the management of the corporation. The investor will therefore require that a management structure be in place at the central level with departments, units, and staff, and that their functions and responsibilities be clearly defined. Crucial committees like the Asset and Liability Committee (ALCO), internal audit committee, credit committee, and compliance committee should be in place or envisaged. Also the authority, responsibilities, and tasks of the branches as well as the functional relationship between the head office and the branches will have to be well defined. A reputable accountancy firm should conduct an external audit at least once a year.

The investor will require that appropriate policies and procedures be in place to ensure proper governance and application of sound banking principles, such as code of conduct policy, operational policy, financial management policy, loan loss reserve policy, dividend policy, product policies, and environmental policy.

Proper management information systems. Systems should be in place to record, process, monitor, and control the cash flows. The accounting system should adhere to international accepted accounting standards. The filing systems should be effective and up to date. Reporting should be timely and accurate, providing all data required by the different levels in the organization in order to manage and operate according to sound banking principles.

A conducive environment. Potential investors will review the environment as part of the investment analysis. One of the most important aspects is the business environment. Is there a sufficient demand for the present and projected products of the institution? The investor will not review the market in terms of need but in terms of effective demand. Demand is expressed by actual and potential customers who are willing to pay the price for the products that the institution will charge to generate the profits required to finance its projected growth.

The investor will also review the size, strength, practices, and development of the competition. If, for instance, the competition is heavily subsidized and has no plans to become sustainable, such competition could at a certain stage become a threat to developing unsubsidized, privately financed institutions. Another environmental factor of vital importance is the legal and regulatory framework. Is the legal environment

conducive to the development of the microfinance industry? Do the banking laws and regulations take into account the unique characteristics of microfinance as compared with commercial banking, which targets the higher segments in the market? Can investors freely expatriate their capital and dividends on investments? What will be the liabilities of shareholders and Directors of a Board, according to the law? Which tax regulations are of importance? What restrictions does the banking license impose on the institution and in what way could this influence its operations.

As mentioned, experience shows that public investors in particular put high emphasis on these issues because of their institutional nature. They are also better positioned than private investors to exert their influence on governments and central banks to adapt regulations that are more conducive to the development of the microfinance industry.

Investors will review the macroeconomic environment. Three major issues are economic growth, inflation, and currency stability. If the country is in a recession, if high levels of persistent inflation are prevalent, or if the currency is constantly being devalued, the investment becomes less attractive.

An exit strategy. Investors often require an exit strategy or sufficient comfort that such an exit strategy will appear in time. Obviously the investors want to avoid having their investment being permanently locked into the institution. Several tactics exist to increase the marketability of the shareholdings. The MFI should attempt to:

- Achieve high rates of return, which attracts additional investors;
- Establish an ESOP, whereby the staff could buy the shareholdings;
- List the institution on the stock market;
- Require that the founding NGO write a call on the shareholdings. In that case the investors can sell their shares to the NGO at an agreed price and date; and
- Require high dividend yields to offset the risk of nonmarketability. The idea is that the additional dividend could be perceived as a repayment of the initial paid-up capital.

Both option 4 and 5 hamper the growth of the asset base of the institution, which is often contradictory to the motives of public investors, who realize the benefits of this growth both from a social and business point of view.

Part 4. Meeting the Requirements to Attract Equity: A Case Study

Part 4 describes how, in the case of ACLEDA, a microfinance NGO met the requirements of public and private equity providers.

4.1 Background to the Evolution of ACLEDA

In 1991 the Paris peace accord was signed between the warring parties in Cambodia, which led to the establishment of a new government, and the influx of hundreds of thousands of returnees who had lived for years in the refugee camps in Thailand. In 1992

the United Nations Development Programme approved an integrated UNDP/ILO Project "Small Enterprise and Informal Sector Promotion." The main objective of UNDP's investment was to support socially disadvantaged groups like demobilized soldiers, handicapped persons, returned refugees, internally displaced persons, widows, and other war-affected people to start or expand a business, thereby generating income and employment.

The project's strategy was to promote local economic development by providing business training, vocational training, and financial services to (potential) micro and small business entrepreneurs. The return on investment was measured by UNDP in terms of training days provided to vulnerable households per category, number of start-up businesses supported through vocational training and loans, the cumulative number and amount of loans disbursed, and the number of jobs created.

In 1993 the project supported the national project staff's interest in establishing an indigenous NGO, ACLEDA. Gradually the project concentrated its resources more and more on the strengthening of the capacity of ACLEDA, and it shifted its responsibilities to ACLEDA in a phased manner. From the beginning of 1995, the project subcontracted ACLEDA as an autonomous institution to implement most expected project outputs. In the process the project had gradually transformed itself from a role as project management with national project staff into a role as technical adviser to ACLEDA management. At the end of the project in December 1995, the accomplishments of the project exceeded the expected return on investment (expected outputs).

4.2 Transition of ACLEDA to a Microfinance NGO

In 1995, ACLEDA stood at a crossroads. It could continue as a Micro and Small Enterprise Development NGO that would be mainly dependent on subcontracts and grants from donors, or it could restructure itself into a fully self-financing MFI specialized in providing financial services to the lowersegments of the market. In 1995, none of the microfinance projects in Cambodia were close to reaching levels of sustainability. Most of the microfinance projects were designed as part of a more comprehensive integrated project approach. At this stage no legal and regulatory framework appropriate for microfinance was yet in place. However, the government and the central bank condoned the operation of microfinance projects.

Committed to the sustainability of their organization and realizing the high unmet demand for its financial services, the management of ACLEDA planned to restructure itself into a microfinance NGO. For this purpose a UNDP/ILO follow-up project was formulated to assist ACLEDA in its efforts to become fully self-financing.

The UNDP decided to invest in this follow-up project based on its policy, as stipulated in the UNDP's Country Cooperation Framework, to enhance national capacity to alleviate poverty in Cambodia in a sustainable manner. The return on investment was measured by UNDP in terms of successful restructuring from an MSE Development NGO into a microfinance NGO, with the potential to reach financial sustainability and increased outreach.

The UNDP provided grant funding for technical assistance and capacity building of ACLEDA in its restructuring process to become a sustainable microfinance NGO. UNDP also provided grant funding for the operational costs of ACLEDA for the years 1996 and 1997. The UNDP required ACLEDA to mobilize resources from additional donors to finance its planned expansion of branches and loan portfolio. If operational financial sustainability was not met at the end of 1997, it would have to get additional funding for its operations after 1997. These requirements were not preconditions for UNDP's investment but were envisaged as outputs of the UNDP/ILO follow-up project.

To meet those requirements ACLEDA undertook, among others, the following activities:

Requirement 1. Restructuring from a development NGO into a microfinance NGO

- A major reorganization took place to prepare the organization for its future. Staff specialized in nonfinancial services were retrained to become credit officers or were let go. Accountants and cashiers were recruited and trained. Management was trained to make business plans and financial projections. The structure at head office was adapted to better supervise the branches and to develop and manage the internal control systems.

- The policy of discriminatory targeting of clients or areas was abolished. Clients and areas served were selected on the basis of sound banking principles. The result was a broader and more diversified client base; activities took place only in areas where the client base was sufficient to sustain operations.

- A phasing-out occurred of activities or joint ventures with other development projects or development organizations that were not directly related to the strategy of delivering microfinance in a sustainable manner.

- Considerable effort was made to develop software systems and improve the internal control systems.

- Credit policy and procedures were refined in line with sound microfinance principles.

Requirement 2. Increase financial sustainability

- Interest rates on loans were raised from a highly subsidized rate to a cost plus recovery rate. This measure was taken after lengthy internal debates and finally accepted as unavoidable. Most interestingly, most clients understood and accepted the increase, saying that they wanted ACLEDA to ensure continued access to credit. ACLEDA, in turn, promised that, in return for higher rates, the delivery of financial services would become speedier, less cumbersome, and more reliable.

- Financial products were redesigned to meet market demand. Credit line procedures were rationalized and procedures were simplified to meet the requirements of clients. The mandatory savings product was abolished due to the expensive design of the savings scheme and its incompatibility with the newly adopted client-focused approach. The (mandatory) village bank product was dismantled because clients began to demand access to group guarantee loans that ACLEDA provided in other areas. Clients said they preferred that ACLEDA offer the group guarantee product in their areas, because they viewed this product as less cumbersome and more reliable. Business training, often required to teach prospective clients how to make a business plan, was shortened considerably based on recommendations from clients themselves.

- The performance criteria for branches were drastically changed from project-led criteria to institutional criteria. Branches were compared on the basis of returns on assets, portfolio quality, administrative efficiency, client/staff ratio, and other productivity ratios. High performance targets were set and a range of measures adopted to increase productivity. Required standards of performance were raised in a gradated manner. Promotion and renewal of staff contracts became dependent on meeting these performance standards.

Requirement 3. Increased outreach and additional funding from other donors

A major expansion took place in the number of branches over the project period. ACLEDA offered to set up ACLEDA branches in areas where potential donors had projects, and where the client base was sufficient to sustain operations. Donors contributed to the establishment costs and (part of) the operational costs of branches for the start-up years. ACLEDA, in turn, guaranteed sustainable access to financial services to poor and low-income clients in that area and ensured that those branches would be independent of additional donor subsidy after the termination of the agreement with these donors.

In this way donors contributed in a highly cost-efficient manner to poverty alleviation and had a guaranteed exit strategy, while ACLEDA rapidly expanded in scale. This formula of branch expansion worked well because some donors, notably KfW (soft loan), SIDA, and the Government of the Netherlands (grant capital), contributed considerable funding for on-lending to micro and small business entrepreneurs. These donors became convinced that ACLEDA had sufficient absorptive capacity. The branch expansion had led to a long waiting list of selected clients, who could not be served because of lack of loan capital. This situation ensured that the capital provided by these donors immediately reached the target groups upon disbursement to ACLEDA. Donor responsiveness was bolstered by the fact that ACLEDA had been audited by a well-known international auditing firm since 1993, and operated in accord with generally accepted accounting practices. It was also important to these donors that ACLEDA continued to receive technical assistance from international experts, financed by the UNDP.

4.3 ACLEDA Becomes a Commercial Microfinance Bank

The rapid development from a highly subsidized to a self-financing microfinance NGO led ACLEDA to another crossroads. In 1997 a series of studies concluded that ACLEDA showed the potential to transform into a licensed financial institution. As a licensed financial institution, ACLEDA would be in a position to finance its future growth by raising equity, by having access to commercial bank loans, and by offering savings products for the public. ACLEDA considered this transformation as the only option available to ensure continued growth and sustainability.

A project financed by the UNDP, the U.S. Agency for International Development, and the IFC began in the beginning of 1998 to provide technical assistance to ACLEDA. The goals were to assist in the transformation of its governance structure, to establish an ownership structure, and to further upgrade its policies, corporate strategy, managerial and technical capacity, organizational structure, MIS systems, and profitability. The project financed a full-time team leader, several short-term specialists, and fellowships for ACLEDA staff.

Given the absence of suitable outside investors in Cambodia, the management of ACLEDA decided to identify reputable foreign investors for the future ACLEDA Bank. In addition, ACLEDA felt that the involvement of foreign investors would strengthen their institutional reputation, thereby increasing their potential to raise additional capital, and decreasing the political risk that was present because of the lack of a legal framework appropriate for microfinance institutions.

From June 1998 until August 1998, ACLEDA prepared a fully fledged business plan. In October 1998, four foreign investors were identified as potential shareholders of the ACLEDA Bank (IFC, DEG, FMO, and Triodos Doen). Based on a positive assessment of the business plan, these investors conducted an institutional appraisal of ACLEDA from February 1999 until March 1999. The main requirements of these investors are featured in Part 3. The investors examined the development of miocrofinance in Cambodia, the leadership role that ACLEDA had taken, and the characteristics of ACLEDA itself:

Development phase of the microfinance industry in Cambodia:

From 1990 until 1997 the microfinance industry developed rapidly. A few organizations started applying sound microfinance practices and were expanding rapidly. Some unsustainable credit programmes were dismantled. Donors supporting those programmes became aware that the costs to continue these programmes were very high when comparing dollar spent with dollar lent. In addition these donors realized that they provided subsidized competition to indigenous MFIs that focused on providing unsubsidized microfinance services. These programmes often had bad loan portfolio quality and could potentially damage the reputation of the microfinance industry and, therefore, sustainable alleviation of poverty.

The central bank followed closely the development of the leaders in microfinance and was open to dialogue on establishing a regulatory framework for licensed microfinance institutions. The main motive for the central bank was that such institutions could play an important role in broadening and deepening the still-underdeveloped financial market in Cambodia. Moreover, the central bank decided that, by setting standards for microfinance, government, donors, and practitioners would be encouraged to adopt sound banking principles and abandon practices that damage the integrity of the financial system.

The investors were satisfied that the development of the microfinance industry had reached a phase whereby integration into the formal financial sector would be possible. The leaders in microfinance were clearly on track and had adopted sound microfinance principles.

Leadership status:

In 1998 ACLEDA was perceived as a leader in the microfinance industry. Other institutions and projects adopted strategies and policies practiced by ACLEDA. In 1997 ACLEDA has a market share of close to 65 percent. Some ten operators served 90 percent of the market. In 1998 more than 100 institutions and projects had initiated microfinance activities in Cambodia.

A clear vision and commitment to be(come) a profitable MFI:

ACLEDA continued its expansion and efforts to increase productivity. The road from a subsidized integrated poverty alleviation approach to an unsubsidized microfinance bank proved to be one full of challenges. It involved a change from a grant mentality to a business mentality, from a project mentality to an institutional mentality. During the transformation from welfare NGO to self-financing NGO, it became clear that previous partners had started to hesitate about ACLEDA's preoccupation with the most vulnerable in the society that needed welfare. On the other hand, future partners, like commercial banks, could not yet believe that banking with poor and low-income entrepreneurs could be profitable.

ACLEDA realized that it had landed in between these two concerns, and realized that to continue its mission to provide sustainable access to microfinance services to poor and low-income entrepreneurs would require integration into the commercial financial sector—and, to gain its support, evidence that lending to the poor and low-income entrepreneurs was good business. It was estimated that less than 20 percent of the target entrepreneurs had access to microfinance. The funding required to expand and serve this entire group could be obtained only from commercial sources. Transformation into a licensed commercial bank would position ACLEDA to attract capital from investors, lenders, and, most importantly, savings deposits.

This vision was shared among practically all staff members of ACLEDA. The proof for investors was that these staff members would accept a major reorganization in ownership

and governance as an immediate consequence, as well as increased profitability and productivity.

A realistic business plan:

In October 1998 ACLEDA submitted a fully fledged business plan to the four foreign investors as potential shareholders of the ACLEDA Bank. This business plan included ACLEDA's objectives, its policies, the proposed ownership and governance structures, internal control systems, a market analysis, an analysis of the macro and regulatory environment, expansion strategy, investment strategy, a sensitivity analysis, and five-year financial projections. Based on a positive assessment of the business plan, these investors conducted an institutional appraisal of ACLEDA.

Preparation of the business plan involved all branch management staff, who conducted market analysis and prepared financial projections. This process was combined with intensive training on ways to increase productivity and profitability. The executive management perceived the final business plan to be realistic, because it was supported throughout the organization and the branches were committed to deliver as promised. The annexed table presents an overview of ACLEDA's achievements, its business plan (projected data for 2001), and financial statements.

Profitability and growth:

The investors were satisfied with the business strategy and the financial projections as presented by ACLEDA, which showed a minimum of 15 percent return on equity in 2001 and a higher return thereafter. At the time of the appraisals, ACLEDA had already passed its break-even point, calculated on an unsubsidized basis. It was clear to the investors that the projected growth would lead to further economies of scale, thereby increasing return on capital. Moreover, as a licensed bank, ACLEDA could commence with savings products that would lead to a decrease in cost of capital. This decrease was not yet included in the financial projections. The business plan also featured the overall architecture of the future ownership and governance structure of the ACLEDA Bank. This was acceptable to the foreign investors.

The remuneration policy and staff regulations were further revised to provide additional encouragement to staff to adhere to performance targets. Several branch managers and staff who showed excellent performance in the past as NGO leaders proved unable to meet the performance targets needed to reach the new objectives and had to be replaced or removed.

Intensive efforts were made to develop new products, to be launched after the licensing process was completed (savings services, transfer services). Existing products were continuously refined to improve their quality with a focus of bringing down the noninterest transaction costs of the clients.

An appropriate ownership structure:

In February 1999 the General Assembly Meeting—ACLEDA's Supreme Body in which all ACLEDA staff are represented—voted on the proposed governance and ownership structure of ACLEDA Bank, on the new structure and policy of ACLEDA NGO, and on the establishment and governance structure of the ACLEDA Staff Association. The General Assembly voted almost unanimously in favor of the proposed structures and thereby abolished itself. The General Assembly also voted almost unanimously that the Board of ACLEDA, which at that time comprised all ACLEDA's branch managers, would be entirely replaced by external directors. These directors were selected by the shareholders of the ACLEDA Bank. This decision paved the way for the foreign investors to continue negotiations. The decision created a consensus between ACLEDA and the foreign investors on the overall architecture of the future ownership and governance structure of the ACLEDA Bank

In 2000, ACLEDA established a public company called the ACLEDA Bank. The ACLEDA Bank purchased all assets from ACLEDA and took over the entire business. ACLEDA Bank paid ACLEDA back in equity and loans. After the transformation the original ACLEDA changed its name to ACLEDA NGO. ACLEDA NGO amended its former statutes and stipulated that it was discontinuing the provision of financial services to micro and small business entrepreneurs and would act as shareholder of and lender to the ACLEDA Bank.

The objective of the ACLEDA Bank is to operate as a commercial bank specialized in providing lending and other banking products to the lower segments of the market. The Bank's total initial registered capital was US$4,000,000. Each share has one vote, and each share shall participate equally in all dividends and other distributions of the Bank.

ACLEDA NGO is a not-for-profit organization and registered as an NGO at the Ministry of Interior. ACLEDA NGO aims to alleviate poverty and develop entrepreneurship in Cambodia through financial services. ACLEDA NGO serves as a lender to ACLEDA Bank and a stockholder of ACLEDA Bank. The loans from ACLEDA NGO to the ACLEDA Bank are at market rate in order not to subsidize the Bank, which is a privately owned institution. The loans to the ACLEDA Bank can only be used by the Bank for on-lending to micro and small entrepreneurs. The interest received by the ACLEDA NGO on these loans will be on-lent again to the ACLEDA Bank, at its request, for on-lending to micro and small business entrepreneurs. Loans provided to the ACLEDA Bank are a mix of subordinate and senior loans. ACLEDA NGO has 46.23 percent ownership in the Bank.

The second Cambodian shareholder is the ACLEDA Staff Association, Inc (ASA). ASA is a limited liability company formed and registered in the Kingdom of Cambodia. ASA functions as a mutual investment fund for the staff members of ACLEDA. ASA provides the staff with a vehicle to buy ACLEDA Bank shares. ASA has 4.77 percent ownership. The ACLEDA NGO and ASA have an agreement that ASA can buy an additional 14.23

percent in shares from the ACLEDA NGO. Together the ACLEDA NGO and ASA own 51 percent of the ACLEDA bank. A mechanism for an internal market was created to allow for internal auctions among the staff members, which increased the marketability of the shares.

The four foreign shareholders are Deutsche Investitions- und Entwicklungsgesellschaft mbH, a limited liability company established under the laws of the Federal Republic of Germany (12.25 percent ownership); International Finance Corporation, an international organization established under the Articles of Agreement signed between its member countries (12.25 percent ownership); Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V., a limited liability company established under the laws of The Netherlands (12.25 percent ownership); and Stichting Triodos Doen, an institution organized and existing under the laws of The Netherlands (12.25 percent ownership).

Referring to the questions of the parent NGO's status that arose earlier, it was decided that the ACLEDA NGO would not be allowed to enter into development activities other than as shareholder and lender to the ACLEDA Bank. ACLEDA NGO functions as a trust fund composed of grant capital donated by donors in the past for the purpose of providing access to microfinance to poor and low-income entrepreneurs. Their funds will continue to be used for that purpose in order to remain consistent with the original intention of all donors that contributed funding to ACLEDA in the past. It was also perceived that the ACLEDA NGO would be a more reliable shareholder of and lender to the ACLEDA Bank as a single-purpose organization. If ACLEDA NGO were allowed to use proceeds of the ACLEDA Bank for charity or subsidies, this would conflict with its mandate to optimize long-term shareholder value of the ACLEDA Bank

The ACLEDA NGO charges market rates to the ACLEDA Bank in order not to subsidize a privately owned commercial bank. This practice is not (yet) followed by the competition, which, therefore, can operate with lower-cost capital. ACLEDA NGO management is convinced that, in the future, the microfinance industry will become fully unsubsidized. ACLEDA NGO refrains from using previous grants from donors as subsidized loans, because this could be interpreted as unfair competition. ACLEDA NGO sees this policy as appropriate to set an example for other MFIs in Cambodia.

ACLEDA NGO decided to on-lend its own equity as subordinate loans to the ACLEDA Bank. The reason is that this would strengthen the financial structure of the Bank, which in turn would facilitate the Bank's ability to borrow from commercial sources. This financial arrangement would offset the weakness of the ACLEDA Bank in that it cannot provide risk-free collateral. Most assets (85 percent) are used for on-lending. These loan assets are often not acceptable to commercial lenders because it would be hard to seize these assets. Second, the central bank allows subordinate loans to be brought into the calculation of the capital adequacy ratio. A high capital adequacy ratio is comforting for the central bank, which helped in the process of obtaining a banking license.

An appropriate governance structure:

The Board of the ACLEDA Bank is composed of nine non-Executive Directors, elected by the shareholders. The ACLEDA NGO selected three Board members. ASA selects two Board members, while DEG, FMO, IFC, and Triodos Bank each selected one Board member.

The structure of the head office was revised in accord with more conventional structures required for banking institutions. Several Board committees were established (audit, credit, ALCO, compliance). The branches were structured to perform as semiautonomous profit centers and the functional relationships between head office and branches were revised accordingly.

The management information systems and integrated multibranch software were upgraded to meet requirements of timely and accurate information in line with the reporting requirements of the central bank, management, and branches. The foreign investors required independent assessments of the software and financial administration. Independent experts of reputable firms evaluated both.

Conducive environment:

The major stumbling block was to improve the legal environment so that it allowed the establishment and functioning of the ACLEDA Bank. Heretofore, the legal environment had not been conducive to transforming an NGO into a commercial bank. In addition, the legalization of ACLEDA NGO and ASA as investors of the ACLEDA Bank was an unprecedented event in Cambodia. In addition, at the time, many laws were considered outdated and new laws were under preparation and still needed to be ratified.

In June 1998 ACLEDA submitted to the central bank of Cambodia a proposal for regulatory and supervisory standards for formal microfinance institutions, which included, among other things, suggestions for regulations on ownership and governance structures, minimal prudential requirements, reporting requirements, and fee structures. The proposal outlined the difference between commercial banks that focus on the high end of the market versus banks that focus on the lower segments in the market. The central bank reacted positively to the proposal and was willing to develop prudential regulations to fit the characteristics of MFIs. A regulatory framework for microfinance institutions and commercial banks specialized in microfinance was approved and adopted at the end of 1999.

Negotiations with the Ministry of Interior led to approval of the transformation of ACLEDA into ACLEDA NGO, especially because of the support of the central bank. The Ministry of Commerce approved the establishment of ASA in April 2000.

An exit strategy:

Another important issue for the foreign investors was to ensure an exit strategy after a period of time. The option of the ACLEDA NGO writing a long-term put was dropped, because it was realized that this would counter the philosophy behind the transformation of full integration into the commercial financial sector. Instead, it was agreed that if ASA wanted to buy more shares, the foreign shareholders would be approached first. In addition it was agreed that if after five years the liquidity of the shares was still low, compensation would be given in terms of a higher payout ratio.

Acceptance of the terms on the investment of the foreign investors:

The negotiations between ACLEDA and the foreign investors started in March 1999. The negotiation took place mainly between ACLEDA and IFC. Other investors had indicated that the involvement of IFC was a prerequisite for their investment decision. As a consequence, IFC played the role of lead investor, representing the other foreign investors. This arrangement facilitated negotiations, especially because the investment officers of IFC were located in neighboring Vietnam.

The hardest issues for negotiation were the following:

- The foreign investors preferred to maximize the number of management decisions for which a super majority or unanimous vote is required by the Board and/or the shareholders, in order to protect their minority rights. ACLEDA management wanted to minimize the management decisions for which such a vote is required because it anticipated that this could stifle the ability of management to make fast decisions in a continuously dynamic environment.
- To ensure maximum protection the foreign investors required approval of all documentation related to the transformation, including documentation on the ACLEDA NGO, on ASA, and on their relation with the ACLEDA Bank, on anticipated technical assistance provided to ACLEDA, and so forth. This led to a complicated legalistic process that involved more than 20 different legal documents, many of which were interlinked. The changing and often unclear legal environment in Cambodia complicated this process even more as it made corrections of drafts necessary during the process. In addition, the Ministries of Interior and Commerce, which required simplified documentation, found it difficult to respond to the level of sophistication and complexity required by the foreign investors. These complications required long-term, intensive work by ACLEDA management supported by three expatriate experts and the foreign investors from March 1999 till September 2000. It is estimated that the costs for the legal work on the transformation exceeded US$ 500,000.
- The foreign investors wanted to optimize a longer-term exit strategy. A compromise was found, as explained above.
- The foreign investors required that the regulatory framework be in place before the investment would be made in the ACLEDA Bank. ACLEDA management preferred to continue transformation even before such regulation was in place,

because of its excellent contacts with the central bank and the continued support given by the central bank for its transformation. This issue solved itself because the regulation was in place before the internal legal documentation on transformation was finalized.

The overall architecture of the transformation, the transfer of assets and liabilities from ACLEDA NGO to the ACLEDA Bank, ACLEDA Bank's projected profitability, the planned business strategies, the projected asset and liabilities structures, and the product policies and procedures were not much of an issue during negotiation; the foreign investors agreed with ACLEDA's proposals and projections. At the time of negotiations macroeconomic conditions were improving. The Riel had stabilized and the inflation seemed under control.

ACLEDA became a specialized commercial bank in October 2000!

Annex: ACLEDA Financial Data

Balance sheets (US$)	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**
Total Cash	468,883	445,206	407,856	301,031	917,072	1,274,872	1,722,299
Net portfolio	218,902	331,397	1,170,314	3,067,419	5,575,542	9,831,936	13,316,388
Net fixed assets	155,320	155,838	190,338	483,428	722,272	647,179	523,040
Other assets	5,232	40,228	187,474	364,123	273,919	397,833	383,141
Total assets	848,337	972,669	1,955,982	4,216,001	7,488,805	12,151,820	15,944,868
Shareholder capital							
ACLEDA grant equity	612,562	619,748	1,080,052	1,780,492	2,399,072	5,253,967	5,054,400
Cumulative past earnings	-	64,923	129,049	445,733	1,027,473	2,478,768	3,720,050
Retained earnings this year	64,923	64,126	316,684	633,550	1,451,295	1,041,714	2,437,812
Liabilities	170,852	223,872	430,197	1,356,226	2,610,965	3,377,371	4,732,607
ACLEDA Capital converted into loans							
Total equity and liabilities	848,337	972,669	1,955,982	4,216,001	7,488,805	12,151,820	15,944,868
Income and expense accounts (US$)	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**
Total financial income	14,806	55,096	117,077	450,178	2,107,582	3,916,257	5,652,905
Loan loss provision expense	(15,165)	(29,561)	(33,619)	(34,659)	(280,762)	(480,137)	(679,512)
(Notional) finance costs	(22,211)	(29,103)	(55,926)	(176,309)	(339,425)	(439,058)	(615,239)
Financial result	(22,570)	(3,568)	27,532	239,210	1,487,394	2,997,062	4,358,154
Currency translation	-	-	-	(7,676)	(322,015)	144,974	(42,932)
Financial margin	(22,570)	(3,568)	27,532	231,534	1,165,379	3,142,036	4,315,222
Operating expenses	313,469	436,856	604,894	1,024,486	1,357,381	2,740,512	3,386,980
Net income before tax	(336,039)	(440,424)	(577,362)	(792,952)	(192,002)	401,524	928,242
Net income after tax	(336,039)	(440,424)	(577,362)	(792,952)	(192,002)	401,524	928,242
Ratio's	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**
No. of branches	5	6	11	20	27	27	30
No. of professional staff	28	67	100	199	228	261	284
No active borrowers	1,475	2,344	6,539	19,409	44,533	62,215	56,412
Average loan O/S in US$	147	150	177	132	132	190	243
Av portfolio O/S per staff	3,867	4,236	7,541	9,341	18,550	30,390	45,722
Av. no clients per staff	53	35	65	98	195	238	199
Admin.costs/ av. port. O/S	286.4%	158.8%	80.6%	48.4%	32.1%	34.6%	26.1%
Net portfolio/assets	25.8%	34.1%	59.8%	72.8%	74.5%	80.9%	83.5%
Portfolio yield	13.7%	19.4%	15.5%	24.2%	49.8%	49.4%	43.5%
Loan loss prov. exp./av.portfolio O/S	14.0%	10.4%	4.5%	1.9%	6.6%	1.8%	5.2%
Equity/(debt+equity)	79.9%	77.0%	78.0%	67.8%	65.1%	72.2%	70.3%
Adjusted ROA	-39.6%	-45.3%	-29.5%	-18.8%	-2.6%	3.3%	5.8%
Adjusted ROE	-49.6%	-58.8%	-37.8%	-27.7%	-3.9%	4.6%	8.3%