



CORPORATE GOVERNANCE CASE STUDIES | CAMBODIA

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2121 Pennsylvania Avenue, N.W.
Washington, D.C. 20433
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BUSINESS	Provides financial services, including credit, inter-branch transfer and deposit products to rural and urban clients including farmers, small businesses and households
LOCATION	Cambodia
SECTOR	Microfinance
2017 PROFIT	US\$ 27.35 million (8% annual growth) (Source: 2017 Annual Report)
TYPE	Private
# EMPLOYEES	4,000 (Source: 2017 Annual Report)
# TOTAL FLEET	156 branches (Source: 2017 Annual Report)
IFC ASSESSMENT DATE	March 2014

Amret Co. is a leading microfinance institution in Cambodia serving micro, small and medium enterprises and low-to-middle-income populations with a focus on rural areas, agriculture and district and provincial cities. Amret was launched in 1991, and obtained a license to operate as a deposit-taking MFI in 2009. Today, it provides a wide range of loan and deposit services to Cambodia women, farmers, small businesses, and households across 25 provinces and 197 operating districts.

As one of the top three MFIs in Cambodia, with a nationwide presence across 197 districts, Amret provides financial products, including solidarity credits, individual credits, SME loans, savings accounts and term deposits, to more than 400,000 clients through 156 branches, with more than US\$ 350 million in outstanding deposits and more than US\$ 668 million in outstanding loans by 2017.

Its goal is to provide a wide-range of tailored financial solutions for low income people, including micro, small and medium enterprises, in order to improve the living standards of the population and contribute to the economic and social development of Cambodia. Amret is a subsidiary of Advans SA, a global network of microfinance institutions across 9 countries. Advans supports Amret in refining its governance practices and improving its organizational efficiency. Since 2013, Amret has pioneered loan products in the AgriFin and Fintech space. It rolled out mobile financial services and was awarded grant funding from the UN Capital Development Fund to expand women's financial inclusion through digital finance. Over the years, Amret has adapted its strategy to minimize risk through concentrating its lending activities on areas less affected by over-indebtedness, which has in turn helped maintain a good loan portfolio quality and improved profitability.

WHY CHANGE?

Amret was committed to the principles of good governance as demonstrated by the strong risk and control frameworks that were embedded in the organization prior to IFC's assessment. The Board was engaged in the stewardship of the company which contributed to a strong management structure across the organization. In addition, the company was in compliance with applicable regulations for MFIs in Cambodia. Although Directors were engaged in setting strategy, there was not a formal authority matrix or formally documented board

charters with terms of reference to guide the decision-making process. The composition of the Board required some diversification and recruitment of independent members with strong commercial banking acumen and a deep knowledge of the local market. Additionally, Amret was looking to improve the way it handled related party transactions and establish clear policies to protect minority shareholders and eliminate conflicts of interest.

WHAT DID THEY CHANGE?

In March 2014, IFC evaluated Amret's governance capabilities. Even prior to IFC's involvement, Amret's board and executive leadership demonstrated their strong commitment and adherence to good governance beyond compliance with local regulations. The IFC evaluation aimed at helping Amret further enhance the board's effectiveness, optimize management controls, improve disclosure policies and practices, and develop provisions on shareholder's rights.

Management advanced on its already impressionable CG improvement program by reinforcing governance practices and raising the bar to align with international standards. Authorities were better clarified between the Board and Management. Prior to IFC's assessment, Amret established an Audit Committee, chaired by an independent director who was nominated by minority shareholders, which met 4 times annually to review internal and external audit functions and ensure compliance with local laws. Additionally, more independent directors with commercial banking, risk management, and local market experience were recruited to improve the Board's composition and effectiveness of the committees. The company also went above and beyond to strengthen its internal control and risk management systems with the establishment of a Risk Oversight Committee which oversees four management committees that assess credit, operational, strategy, and asset & liability risks.

Furthermore, the Board codified its CG policies, developed remuneration and evaluation procedures, and made an effort to eliminate conflicts of interest with respect to related party transactions and procurement practices with technical vendors. With a strong CG foundation, Amret was a benchmark for other financial institutions in Cambodia and perceived as more transparent and investor-friendly. This culminated in receiving A- ratings from international rating agencies including MicroFinanza and MicroRate.

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Mr. Claude Falgon, Chairman of the Board

“From the beginning, the Directors had a deep sense of the importance of good governance and for the Board to function well. As the Board became more focused on stewardship and strategic decision-making, they recognized the need to diversify its composition and bring in experienced independent directors capable of defending the interests of the company in order to create value for shareholders, and not just protect their interests.”

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SUMMARY OF KEY CHANGES

	KEY CHALLENGES	KEY CHANGES
Commitment to Corporate Governance	<p>Undertake a Corporate Governance Improvement Program to address recent governance concerns, incorporating at least the high priority recommendations in this report.</p> <p>Develop a formal Corporate Governance Manual for the company, including board charters.</p>	<p>Launched a Corporate Governance improvement program to resolve governance concerns with respect to Conflicts of Interest and Related Party Transactions.</p> <p>Developed formally documented board charters and established a CG manual in line with best international practices.</p>
Board Effectiveness	<p>Composition: Recommend board seat appointments by IFC and FMO along with at least 2 independents to achieve minority/independent board majority vs. controlling shareholders.</p> <p>Expertise/Independence: Add/replace an independent member with someone that possesses commercial banking experience and ideally is a Cambodian national.</p> <p>Structures: Nomination & Remuneration: Formalize development of the Nomination and Remuneration Committee, chaired by an independent member to help with management succession and development issues and also create space between the CEO and Chairman.</p> <p>Committees: Appoint an independent director with commercial banking experience to chair the Risk Oversight Committee.</p> <p>Succession Planning: Develop a Succession Plan for the Chairman of the Board to ensure ongoing sustainability of the Bank over the long-term.</p> <p>Structure: Ensure proper dedication of time by the board to discuss more</p>	<p>Composition: Revised the Board Composition to ensure one-third of the seven directors were independents with diverse, local expertise in modern, commercial banking, risk, and accounting.</p> <p>Appointed additional independent directors with local banking experience for a total of 3 out of 7 independent directors on the Board with relevant commercial banking acumen and a better understand of the local environment.</p> <p>Structures: Established a Governance and HR Committee, chaired by an independent member.</p> <p>Committees: Risk: Revised the risk management structure to comprise a Risk Oversight Committee and four management subcommittees responsible for credit, operational, strategy, and asset & liability management.</p> <p>Succession Planning: Under the oversight of the Nomination and Remuneration Committee, ensure that proper succession is available and ready for the Board and Committees' Chairs, as well as key management executives.</p>

SUMMARY OF KEY CHANGES

	KEY CHALLENGES	KEY CHANGES
Board Effectiveness	<p>forward-looking strategic issues versus spending too much time on financials and internal management issues.</p> <p>Roles: Should better clarify authorities between the board and management.</p> <p>Evaluation: Develop an annual Board Evaluation process to help identify areas for continuous improvement.</p>	<p>Structure: The Board and Committees established formal working procedures and met as needed to play a more proactive role with regard to stewardship and strategic planning. Recruited Chief Risk Officer with international experience to establish a strong Risk Division staffed with trained risk managers.</p> <p>Roles: Developed formal board charters and policies that clarified the roles and expectations of the Board and its Committees. Delineated the authority of the Board versus management.</p> <p>Evaluation: Conducted self-evaluation of its CG practices on a regular basis and developed action plans when needed.</p>
Management Control	<p>HR Function: Strengthen HR function to slow down turnover at the management level and better retain qualified talent.</p>	<p>HR Function: Developed and implemented management evaluation and remuneration policies overseen by the HR Committee.</p>
Disclosure and Transparency	<p>Public Disclosures and RPTs: Improve disclosure of significant related party transactions, particularly with Horus.</p> <p>Financial Reporting: Should ensure all International Accounting Standards are included in financial reports.</p>	<p>Public Disclosures and RPTs: Improved the way the company handles and discloses Related Party Transactions and developed a policy to formally disclose reports that were transparently shared with shareholders.</p> <p>Financial Reporting: Audit Committee tasked with selecting the external auditors and given authority to monitor and oversee their work.</p>
Shareholder and Stakeholder Relations	<p>Shareholder Protection: Revise the company Articles by: a) Revising the board composition language that is currently based on graduated shareholder percentage; and b) Removing the specific mention of Horus as a technical assistance provider.</p> <p>Conflicts of Interest: Develop a formal Related Party Transaction policy requiring proper disclosure, arms-length test, recusal by conflicted parties, and approval by a majority of non-conflicted directors.</p>	<p>Shareholder Protection: Revised parts of the Company's Articles to help the board manage the relationship between shareholders, and removed content that favored the controlling shareholder. Edited the language of the board composition that was based on graduated shareholder percentage.</p> <p>Conflicts of Interest: Put in place a stronger, formal process for managing Related Party Transactions and Conflicts of Interest and ensured associated policies were understood and adopted across the institution.</p>

AMRET REPORTED THE FOLLOWING IMPACTS FOUR YEARS AFTER EMBARKING ON THE CHANGES:

Access to Capital

With respect to raising capital over the last 3-4 years, changes in corporate governance have contributed significantly to helping Amret raise approximately US\$ 200 million in debt.

Profitability

In the long term, better risk management resulting from the establishment of functional internal control systems has resulted in the lowest portfolio at risk value (PAR₃₀ stood at 0.40%) among all MFIs in Cambodia (the average PAR is 1.4%). Amret has maintained good but reasonable levels of profitability thanks to an improvement in governance and organizational efficiency. This enables the company to reinvest profits in developing institutional strength while offering satisfactory returns on equity to its shareholders.

Reputation

Amret has established a strong reputation in the market because of its public commitment to governance and transparency. This translated into greater overall investor confidence. The result has been the development of an extraordinarily solid company that has been awarded good ratings by international rating agencies such as: "Alpha-" by US-based MicroRate, in 2014, and "A-" by Italy based MicroFinanza for two consecutive years in 2015 and 2016, with stable outlooks.

Organizational Efficiency

By enhancing its CG, Amret has established sound internal controls and risk management capabilities which positively impacted organizational effectiveness. The diversification of the Board and establishment of functional Committees has improved communications with management and empowered them to more effectively monitor and mitigate operational and strategic issues before they become problematic.

Sustainability

The A- credit rating awarded to Amret reflects the company's capacity to manage and contain risk events should they arise. These internal control mechanisms, coupled with stable fundamentals and intelligent client protection systems, have created a perception that Amret has high long term sustainability and creditworthiness.

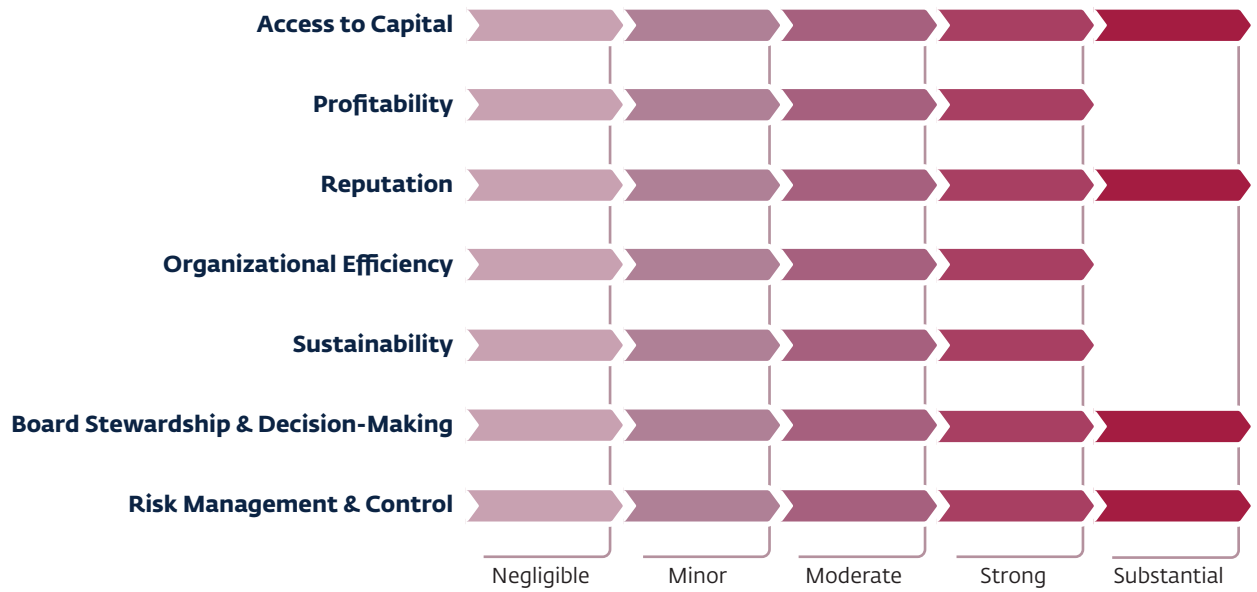
Board Stewardship & Decision-Making

The Board's composition was restructured by replacing 4 directors with a majority of qualified, independent practitioners with experience in the local and regional financial sectors. This diversification, combined with the establishment of functional committees, enabled Directors to have deeper, more productive strategic discussions while designating authority to directors and management where appropriate.

Risk Management & Control

Amret's risk management and internal control capabilities were vastly improved with a focus on safeguarding capital and optimizing the risk/return ratio. The development of an enterprise wide risk management system enabled the company to scale appropriately within its risk tolerance while maintaining compliance with local regulatory policies.

IMPACT SCORECARD



Value of financing facilitated:

CG enhancements have played a major part in the securitization of roughly **US\$ 100-200 million** since IFC's CG assessment

About IFC Corporate Governance Group

The Group brings together staff from investment and advisory operations into a single, global team. This unified team advises on all aspects of corporate governance and offers targeted client services in areas such as increasing board effectiveness, improving the control environment, and family businesses governance. The Group also helps support corporate governance improvements and reform efforts in emerging markets and developing countries, while leveraging and integrating knowledge tools, expertise, and networks at the global and regional levels.

Contact Us:

Chris Razook

Corporate Governance Lead
+852-2509-8512
crazook@ifc.org

Leyal Savas

Program Manager
+84-8-3823-5266
lsavas@ifc.org

ifc.org/corporategovernance