CAMBODIA CASE STUDY
INSTITUTIONAL DEVELOPMENT
WORLD RELIEF

INTRODUCTION

This study was prompted by the recent World Relief (WR) experience in Cambodia where the Microenterprise Development (MED) program had a forced split within the organization. WR believes it is essential to adequately understand that experience in order to prevent similar situations from occurring in the future. It needs to be stated that what is written here does not reflect all the views on the experience. The majority of the views expressed here are from the WR, World Relief Cambodia, the former Cambodia Community Building (CCB) Board and the major donors perspective. Those views were gathered through a number of personal interviews and on-going correspondence. It should also be stated that "hind-sight is always better than fore-sight". Without this experience, we wouldn't have been able to identify many of the lessons learned that follow.

WORLD RELIEF'S HISTORICAL EXPERIENCE

World Relief was founded in 1944. It has a rich history of "birthing" Local Non-government Organizations (LNGO) The Christian Service Society (CSS) in Bangladesh, Philippine Relief and Development Services (PHILRADS), Lanka Evangelical Alliance Development Services (LEADS) in Sri Lanka, World Relief Honduras (WRH) and Christian Relief and Development Organization (CREDO) of Burkina Faso are a few of the LNGOs that WR helped to form. Generally speaking, those experiences were quite positive and a working relationship between WR and these LNGOs continues to flourish.

In retrospect, we can note one major difference in the conditions surrounding the "birthing" process of many of the above mentioned organizations and that of CCB. Most of the early experiences were with organizations that had only a minor amount of assets. They were relief and development organizations (some quite large) that served as fund flow-throughs without the ability to accumulate major assets. With the introduction of MED, the very nature of the institutions have shifted and brings into serious question the issues of ownership and governance. The amount of funds involved in the Cambodian situation definitely influenced the attitude and actions experienced.

NGOs in the United States and most of the Western world are a highly regulated industry and with sufficient history where most people understand "the rules of the game". As we attempt to transfer the NGO concept across cultures, we find that the "rules of the game" either change or are not understood because of the different cultural contexts in which we operate. As we look at the Cambodia experience, we will see numerous examples where this occurred.

GOVERNANCE

Each NGO tends to have its method of operation in terms of how they develop LNGOs. Some organizations only operate as an International NGO and never concern themselves with developing a local organization or counterpart. Other NGOs will develop a LNGO or choose to work with an existing one before they ever begin operations in a country. Due in large part to the countries in which WR chooses to operate and the time at which they determine to enter a country, the general mode of operation for WR is to initially become operational in a country and to then determine a plan for developing a LNGO.

World Relief began working in Cambodia in 1990 when very few international NGOs were present and even fewer LNGOs (There were no LNGOs under the communist government and apparently no history of them even prior to 1975). WR began one of the first MED programs in Cambodia in 1992. It became known as Gateway. In 1995, an Advisory Board was formed to assist in the formal institutionalization of the program. In 1996, CCB applied for Cambodian NGO status and in August of the same year, formal approval was granted. Two significant incidences occurred in late 1996, two promoters were killed and robbed when returning from a community bank meeting and there was major flooding in the two project areas. Much effort over the next couple of years was placed on recovering from those two incidences. The Advisory Board met on a regular basis during the ensuing years. There were a number of people on the Advisory Board that resigned (mainly due to their leaving Cambodia) before the official Board of Directors was formed. The CCB Board of Directors was organized in late 1998 and began formal operations with installed officers and bylaws in January 1999, only eight months before the time of the split.

TIMELINE

1990 1992 1994 1996 1998 2000

WR entered Cambodia
Gateway began
Advisory Bd. Formed
Promoters killed and floods
CCB Board organized
Split occurred

The WR assets for the MED program have always remained under the authority of WR. As early as March 1997, an Interim Cooperative Agreement was drawn up between WR and CCB. It indicated a number of conditions that needed to be met before a final agreement could be developed. These included the development of a number of policies and procedures needed to comply with the standards necessary for an external audit and as a sub-grantee of the Gateway II project. A Clarification of Agreement was drawn up in February of 1998 which outlined progress being made regarding the development of policies and procedures. It also began to outline the terms and conditions for asset distribution that would take place once a Board of Directors was in place and a final Cooperative Agreement between CCB and WR signed. It should also be noted that all of these preliminary agreements were actually between CCB staff and WR as no Board was in place. Another area that added to the confusion was that, through the Interim Cooperative Agreement, WR gave CCB authority to hire all local staff under CCB as early as 1997.

There was some questions and possible lack of agreement on the vision and mission for the program. This lack of agreement was between WR and at least some of the CCB staff, between WR and the Board and especially between the Board and CCB staff. One manifestation of this lack of agreement was regarding the program's primary target group. Some felt that it should continue to be the poorest of the economically active while others tended to focus on a higher level clientele that could absorb larger loans and would produce a higher return with the objective of becoming fully sustainable as quickly as possible.

The CCB Board began to officially function in 1999. There was a nine member Board composed of three CCB staff, two representatives from WR and four at-large members. With the exception of the three CCB staff, all Board members were expatriates with one Cambodian/American. Attempts were made to have more Cambodian representation on the Board. A number of persons who served on the Advisory Board (prior to the official Board formation) emigrated from Cambodia and were replaced.

When the Board was officially established, deep rifts within management were already present. The tension probably increased when the program advisor was named as Board Chair. The Board inherited a tense situation. When they acted to correct the situation and the process turned sour, they were the first to be blamed. There was serious confusion and disagreement between WR and the Board as to who had the authority and responsibility to respond to the situation.

Following are some of the lessons learned as they pertain to governance:

1) WR should never enter into or begin negotiating agreements in the absence of an officially established board of directors.
2) The board of directors needs to be in place before an executive director is named. A program director should maintain direction of the program until the board is ready to name or hire the executive director.
3) All staff in positions of leadership need to understand the role and functions of a board of directors such as: a) developing and protecting the vision and mission of the organization; b) board ownership and responsibility in protecting the assets of the organization; c) the role of the board in strategic planning, approval of annual budgets and annual plans; and d) the control the board needs

to exercise through the approval of annual reports, annual external audits and in the review of the executive director's performance, including the power to hire and fire.

4) There needs to be greater clarity between the role of the board and program management.

5) The official board should not include staff representation. The executive director should have voice but no vote on the board.

6) More emphasis should be placed on finding qualified nationals to serve on the board.

7) The board of the LNGO needs to be sufficiently independent from WR and other major donors.

8) There needs to be a clear vision and mission for the organization and that needs to be fully accepted by all major parties.

9) Formal agreements need to be developed between WR and the Board. Only when those are in place should governance be assumed by the Board. Once agreements are in place, WR needs to give full authority and responsibility to the LNGO Board.

OWNERSHIP

Who owns an NGO? There is no stock that can be traded. By definition, there are no profits. NGOs are really a public good (much like government) and in the Western world are governed by a unique set of regulations that are generally understood by those of us familiar with NGOs. For cultures who do not have the same historical understanding and/or experience, some of the critical concepts of what constitutes an NGO are difficult to understand. In recent years, as the Cambodian government has divested itself of some of the state run enterprises and have sold some of the buildings associated with those, part of the proceeds went to the people who were employed in the building. The reasoning being that if it is of the people, the people most directly associated with the enterprise should share in the assets. In addition, Cambodia has no clear laws governing the ownership of NGO's.

In order to create a sense of "ownership", staff were encouraged to think of CCB as theirs, not unlike we are encouraged to think that we are part of WR and we have a stake in the organization. Because of our historical understanding of how NGOs operate, we do not connect a stake in the organization with part ownership of the assets. This was part of the misunderstanding that existed within CCB and to an extent may have actually been fomented within the organization.

The way in which WR allowed certain things to develop probably added to the misconception regarding ownership. A general mixing of assets was allowed to take place even though everything remained in WR's name. Bank accounts approved by the WR Board had CCB's name on them. (All but one of the bank accounts were opened before the CCB Board was in place.) Motorcycles and vehicles were placed in CCB's name. Loan contracts were given in CCB's name. All of this was happening without any formal assigned agreements concerning the management of these assets. Due to this, it was confusing to carryout an audit of CCB without the clarification of ownership.

Some of the lessons learned regarding ownership are obvious:

1) A clear understanding of what ownership means in a LNGO is necessary at all levels within the staff, taking care to understand the possible cross-cultural differences in one's view towards ownership.

2) Formal agreements are necessary before any assets are placed in the name of a LNGO. Authority and responsibility for those assets should remain within WR until agreements are in place. Appropriate responsibility and authority should be given to the LNGO through the formal agreement.

3) All formal agreements regarding assets need to include appropriate protection clauses and formal final disposition of asset clauses to protect the intended purpose of the assets.

4) Staff should be hired by and responsible to WR until formal agreements are in place and a Board of Directors has assumed full responsibility.

MANAGEMENT

Any organization will have growing pains from time to time and especially during a phase of high-paced growth. The tendency is to focus on a few areas of need while slighting or even disregarding other areas. An example of this was the very strong focus on Financial Self-sufficiency (FS). Beginning in 1996, following an external evaluation, the program became obsessed with the need to become FS due to a possible significant decrease in the level of outside funding that would be available. This never occurred, but the focus on FS continued, partly in response to donor's desires to see programs become FS.

The focus on FS blinded the program to some of the Institutional Sustainability weaknesses. The indigenization process was measured more in terms of FS than IS. The focus should have been more on enabling the full staff to assume management roles. The "turnover process" was focused on the technical aspects of the program with little emphasis on institutional development, governance management and staff development.

Management decisions regarding the growth of the organization reflected the focus on FS. Emphasis was placed on growth at the field level while the upper-level management remained much the same (to maintain costs). Program growth, however, was not sufficiently supported by a needed division of labor at the management level in critical areas such as finance, human resources and accounting. For an extended period of time these functions were solely handled at the executive level, leading to an unhealthy concentration of power. The Executive Director was approving the hiring of field level staff and was involved in the cash management. Only in 1999, at the Board's urging, did a true separation of powers begin to emerge within the organization.

WR tended to equate the process of forming an indigenous organization to that of having an all Cambodian staff. An on-going concern in Cambodia has been the availability of qualified national staff to fill key leadership positions. The tendency has been to place persons with insufficient qualifications in positions of authority. In addition, partly due to the FS focus, WR has taken a very short-term view towards staff training and development. We have focussed on "on-the-job training" and have not made long-term investments in the development of human capital. Given the context in which the program operates, investments in the development of human capital will need to be made in order to appropriately fill the top management positions.

There were a number of weaknesses in management that were allowed to continue for too long. Government registrations were not kept up-to-date. Sufficient check and balance systems were not in place for all systems, including administration and hiring. External audits were not instituted until mid-1999. Our view of checks and balances tends to be counter to the patronage system which is quite strong in many cultures. Following the split, it was observed that staff allegiances were very much based on by whom they were hired. There was also a significant amount of nepotism involved in hiring practices and other contractual arrangements such as office rental.

Policies were not always followed in regards to the position of Executive Director and there needs to be other considerations included in the policies. For example, annual performance reviews were not carried out, not all personnel had contracts and there was not a set term of office or a succession policy for the Executive Director.

The Board Chair and Program Advisor positions were held by the same person. This added to the tensions between the Board and management staff and especially came into play during the Executive Director's performance evaluation and the ensuing dispute.

A summary of the lessons learned in regards to management are as follows:

1) IS or institutional development needs to be kept in balance with FS. Neither donors nor headquarters should dictate timetables and recognize that each situation is unique.
2) Recognize the limitations placed on the program due to the availability of human resources and focus on the long-term development of people for core positions.

3) Separate operational functions such as finance, personnel, accounting, legal and program early in the life of the organization.
4) Perform regular external audits.
5) Maintain separately the functions of advisor and board membership.
6) Have clear policies regarding nepotism in place along with systems to enforce the policies.

MANAGING THE CRISIS

The Board commissioned an external audit soon after they were officially organized. The audit report raised some serious concerns about the Executive Director. In September 1999, a sub-committee of the CCB Board of Directors carried out an evaluation of the Executive Director. This was the first evaluation the Director had. Based on the results of the evaluation, the sub-committee recommended and the Board approved to request the resignation of the Executive Director effective immediately. At the advice of legal counsel, a five-month full salary and benefit package was offered. The Executive Director agreed to accept the request to resign and signed a letter indicating the same. A couple of days later, the Executive Director reversed his decision and forcefully took control of three of the field offices with support from the majority of line management and staff from those offices.

Tensions were very high among the staff. Guards were posted at the various offices and entrance was limited. In the early stages of the split, through various forms of intimidation, staff were not free to choose where they preferred to continue to work. In the end, the majority of the staff in the Kompong Thom and Siem Reap offices supported the Executive Director. Kompong Cham staff remained true to the Board with the Central Administration office and the Phnom Penh field office staff split about half and half with eleven Phnom Penh staff defecting to the official Board. As noted previously, staff allegiances were very much based on the influence of patronage and nepotism.

Early in the process, both groups attempted to obtain a government ruling in their favor in respect to the governance and ownership of CCB. No ruling was forthcoming and a basic stalemate ensued. A conflict resolution team of Jane Lopacka, a professionally trained expatriate mediator, and 4 leaders from the Conflict Resolution Committee of the Evangelical Fellowship of Cambodia was asked to mediate the situation. After some five months of negotiations, it was decide that the most that could be hoped for would be an amicable split. More recently, the National Bank, with support from the Prime Minister's Cabinet, has convened both groups to press for agreed upon audits and in hopes of reaching an agreement.

One of the more frustrating situations that has prevailed throughout the reconciliation process is the lack of clarity of responsibility within WR and the former CCB Board. Much of the lack of clarity stems from issues already discussed in this case study in regards to governance, ownership and management. The confusion that was allowed to develop in those areas over the years continued through the crisis. WR still owned and was responsible for the assets. On the other hand they had given de-facto authority to the CCB Board to direct the program. There were opposing views on who had ultimate decision-making authority. Was it the official CCB Board or WR? A couple of CCB Board members were WR staff. Were they speaking on behalf of the Board or WR? Within WR, was the authority with the staff based in Cambodia, the MED technical staff or through the Asia regional line management staff?

Lessons learned:

1) Hiring an organizational development consultant with strong cross-cultural sensitivities to assist on sensitive personnel issues could act to diffuse potentially volatile situations.
2) Performance evaluations of the Executive Director should be completed annually and carried out by board members with no staff functions.
3) Recognize the difficulty of cross-cultural communication and the potential for misunderstandings.
4) In any negotiations, authority to represent all parties concerned must be granted to one individual with a clear understanding of the powers given. That individual should have the freedom to organize a core group to consult with as necessary.
5) Communication between WR headquarters and the field needs to be clear and prompt.
6) Use legal counsel whenever there is any doubt.

7) Laws and legal means of conflict resolution can be very relative in many countries.
8) The issues need to be de-personalized and the focus placed on the sustainability of the institution.
9) Mediators need to understand the whole situation and have the necessary skills to promote trust and confidence among all parties.
10) Maintain open communication regarding all aspects of the process with all primary stakeholders.

CONCLUSION:

World Relief has learned and is continuing to learn from this experience and we trust that by sharing this experience with others, all can learn from it. WR is in the process of "birthing" other LNGOs and have been able and will continue to apply lessons learned from this experience. Currently WR is reorganizing and rebuilding its microfinance program in Cambodia with a long-term objective to become a licensed microfinance institution. We recognize the need to move cautiously yet firmly forward. There are numerous interacting dynamics that need to proceed in concert for the process to be successful.