

Capital Market Development in Cambodia

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- Banking Sector
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■ Capital Market Development in Cambodia guided by:

- Financial Sector Blueprint 2001-2010 (FSB2001-2010) approved on August 24th, 2001
- Financial Sector Development Strategy 2006-2015 (Approved by the Royal Government of Cambodia on February 9th, 2007)

Develop 4 I's for Capital Market

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Overview of Financial Market

Present financial system in Cambodia

Players in Financial Sector:

- Dominance of banking system:
 - The central bank, that is the National Bank of Cambodia with its 18 provincial branches,
 - 15 commercial banks, 4 specialized bank,
 - A decentralized banking system, consisting of MFIs and a number of NGOs operating in the rural finance.
- 4 Insurance Co.,
- No inter-bank/money market
- No equity & securities market, no securities company
- Active foreign exchange markets due to high degree of dollarisation (90% of banks transactions in US\$, large volume of USD cash in circulation).

Banking Sector

- Banks are very liquid (loans to deposits ratio $\approx 65\%$), but despite large resources they are still reluctant to take lending risks
- Banks resources are mainly short-term: in fact almost all deposits and loans are short-term, less than 1 year, and in USD.
- Credit information sharing system among banks in place.

■ **But a series of reforms are under ways to promote intermediation :**

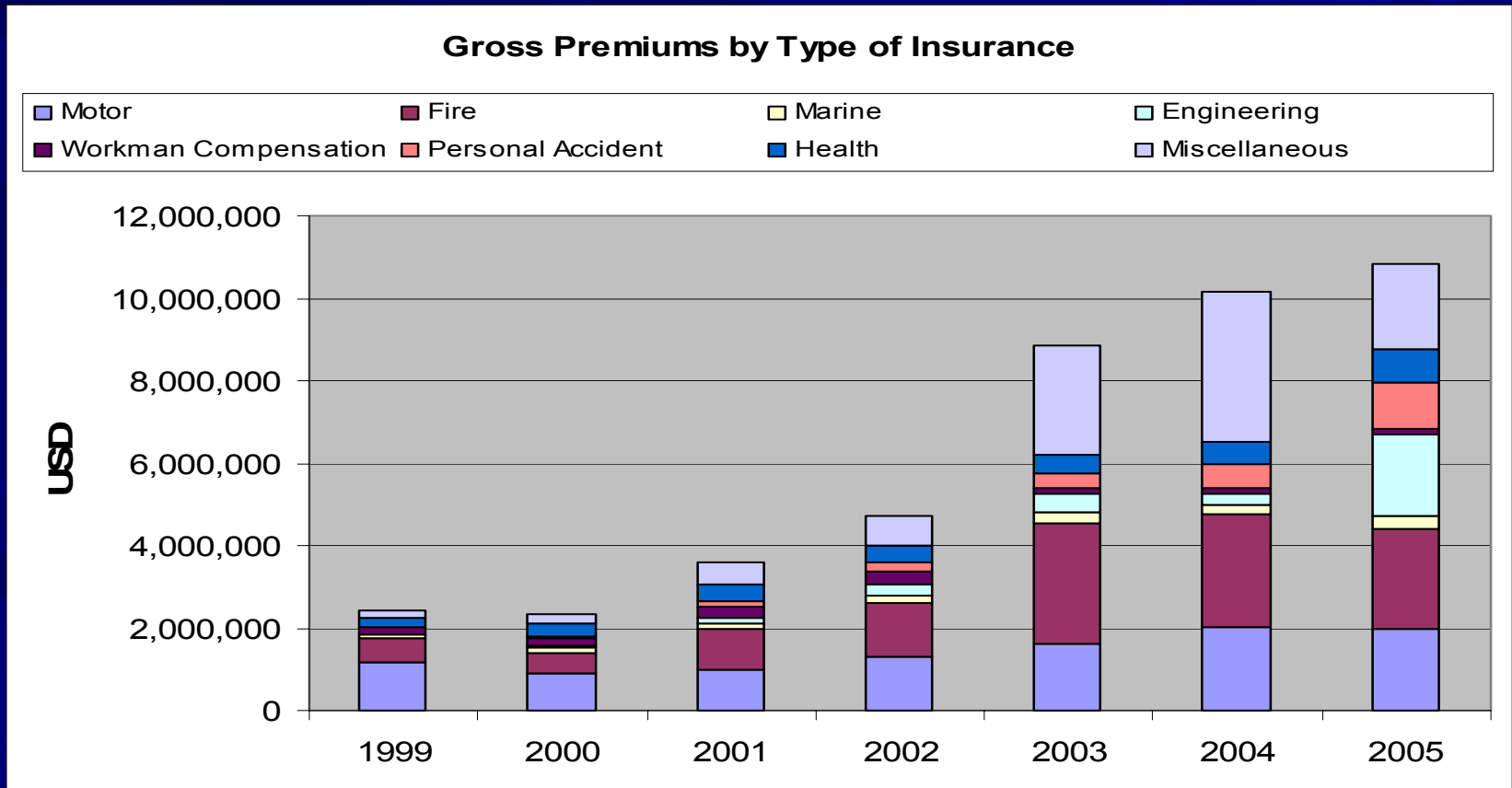
- Legal basis & basic regulatory framework for banking system established.
- Continuing development of bank supervision capacity.
- Enhancing Payment system, Riel and USD clearing houses established.
- Compulsory implementation of standard accounting principles by companies
- Banks are potential investors in securities markets once they are established

Insurance Sector

-Growth Premium in 1999 is 2,445,000 USD, in 2005 is 10,848,000 USD.
Growth rate 4.4 time.

Note: Figures include premiums by Indochine Insurance, which was closed down in Oct 2004 due to incompliance with the Insurance Law.

[Source] MEF



Fixed Income Securities and Equity

T-bill, recap. bond and CD are only fixed income securities in Cambodia so far. No equity market yet.

| | T-Bill | Recapitalization Bond | Certificate of Deposits (CD) |
|--------------------|---|--|------------------------------|
| Issuer | MEF (through NBC) | MEF | Banks |
| Investor | Banks (mostly, state owned banks) | Recapitalized institutions (FTB, Caminco, CambodiaRe.) | Banks |
| Outstanding volume | None (end of June 2006) Used to issue 49.9 Billions in 2005 | KHR 42.95 billion (Used to be 90.9 Billions) | |
| Currency | Riel | Riel | |
| Maturity | 91 days | 2 or 3 years | |
| Coupon rate | Around 6% p.a. | 3% p.a. | |
| Issuing method | Discount auction | (earmarked only for recapitalization purpose) | |
| Transferability | No | No | Yes |

Financial Sector Blueprint 2001-2010

■ Phase 1: 2001-2004

- Develop legal framework (Securities Law, company law, bankruptcy law, secured transaction law, civil code, commercial court law, accounting law, accounting standard, Listing rules, and etc.)
- Feasibility for the creation of Stock Exchange
- Capacity building

■ Phase 2: 2005-2007

- Creation of Securities and Exchange Regulator
- Creation of Stock Exchange, depository and clearance and settlement facility.
- Promote the issuance of government securities
- Continuing capacity building for market participants

■ Phase 3: 2008-2010

- Revise prudential regulation to be consistent with IOSCO
- Promote non-government securities market including the issuance and trading.
- Continuing capacity building for market participants

Financial Sector Development Strategy 2006-2015 (capital market)

- Immediate Priorities (2006-2009)
- Intermediate and Medium term priorities (2009-2012)
- Long Term Goals (2012-2015)

Financial Sector Development Strategy 2006-2015 (capital market) Cont..

■ Immediate Priorities (2006-2009)

- Enact Bankruptcy Law
- Develop progressive company framework with graduated requirement from small to listed company.
- Investor education and human resource development
- Put in place interbank market
- Enact law on non-government securities (Enforcement framework for fraud and central electronic securities depository)
- Continuing improvement of accounting/auditing capacity.

Financial Sector Development Strategy 2006-2015 (capital market) Cont..

■ Intermediate and Medium term priorities (2009-2012)

- Implement progressive, graduated framework for companies
- Securities depository for all public company
- Implementation of financial enforcement and regulation
- Continuing development of financial regulation
- Preparation for Securities Exchange: IPOs, Securities intermediaries, consideration of investor compensation scheme.

Financial Sector Development Strategy 2006-2015 (capital market) Cont..

- Long Term Goals (2012-2015)- Development of:
 - Investment funds
 - Pensions/Provident fund scheme
 - Securitization framework/Institution
 - Derivatives

Hurdles or challenges to Develop Capital Market

- Political Issues
- Economic Issues
- Low governance standards
- Introduce new instruments
- Develop best practices in market place
- Establish real-time market infrastructure
- Education for market participants
- Pyramid Scheme (Progressively Develop)
- Share Registry
- Data transfer

Develop 4i's for Capital Market

Develop 4 I's toward Capital Market Existence in Cambodia

- Among 4 I's, Only Infrastructure under control of the government.
- The other 3I's are beyond the control of Gov't.
- The way to drag the 3I's to the hand of Gov't is to put more effort on education.

Infrastructure: The Prospective Regulatory Framework

Draft laws on the issuance and trading of non-government securities and on gov't securities.

| | Regulator | Regulated Institutions | Stipulated Securities Services | Stipulated Products | |
|----------------------------------|-------------------------|--|--------------------------------|---|----------------------------------|
| | | | | Gov't sec. | Non-gov't sec. |
| Gov't Securities Law (Effective) | MEF/SEC (secondary Mkt) | Syndicate/ Securities Firms | Gov't Securities Business | T-bills, T.bond ..e ct | |
| Non-gov't Securities Law (draft) | SEC | Securities firms/banks with securities license | non-gov't securities business | | Equity, Debt, Derivative, others |
| Banking Law (effective) | NBC | Banks | Universal banking | securities in general (with respect securities license) | |

Infrastructure: Prospective Regulator and Service Providers

Service providers: Securities firms and bank (Draft law on the issuance and trading of non-government securities)

| | | Primary market | | Secondary market | |
|------------------------------|------------------|------------------|-----------------------|------------------|----------------------|
| | | Gov't securities | Non-gov't securities | Gov't securities | Non-gov't securities |
| Regulator | | MEF | SEC | SEC/(MEF) | SEC |
| Securities Service Providers | Banks | Yes | Yes, but with license | SEC/ (MEF) | SEC |
| | Securities firms | Yes | Yes | Yes | Yes |

Infrastructure: Roadmap for Single Regulator

- The would-be setup: Single regulator for securities service, at first. Probably a consolidated single regulator for all financial services, later on.
- Current laws and draft laws and its sub-decree: Banking service, Securities Service and Insurance service are under the supervision of different regulators:
 - Securities service (gov't securities and non-gov't securities) provided by banks and securities firm will be supervised regulated by SEC.
 - Banking service is regulated by NBC
 - Insurance service is regulated by MEF
 - The final set-up, securities service and banking service and insurance service will probably be regulated and supervised by a consolidated regulator (~FSA)

Develop Investor base: Institutional Investors

- Individual investors (Most sleeping money in hand)
- Banks (Universal banking)
- Insurance companies
- Investment fund
- Social security funds:
 - In Cambodia, MEF and Ministry of Labor plan to launch social insurances including pension and to establish National Social Security Fund (NSSF: Law on social security, 2002)
 - MEF and Ministry of Labor are suggested to pay much attention onto the design of pension systems and the investment instruments of NSSF. It will require a full range of examinations on policy design, actuary, fund management, management information system (MIS), etc.

Potential issuers of gov't securities and Corporate Securities

- Immediately after the draft law on the issuance and trading of non-gov't securities is adopted. The criteria approval for corporate bond will be drafted for issuance of corp. bond. SOEs and Authority could issues gov't securities.
- In Cambodia, there are a lot of public and private entities that are involved in infrastructure and public utilities businesses, that are in the need of huge investments and mid- and long-term financings so they need to mobilize fund.

| Possible Potential Issuers | Category |
|---|-------------------|
| <ul style="list-style-type: none"> ■ Sihanoukville Port Authority (SPA) ■ Apsara Authority | Authority and SOE |
| <ul style="list-style-type: none"> ■ Electricite du Cambodge (EDC) | SOE |
| <ul style="list-style-type: none"> ■ Banks (and NBFIs) | Banks |
| <ul style="list-style-type: none"> ■ Conglomerates (especially, public utilities or energy businesses) | Local Company |
| <ul style="list-style-type: none"> ■ Concessionaires (telephone, airport, etc.) | FDI |

Developing in Securities Intermediaries

- Current: MEF and NBC play the role of intermediaries for T-bills.
- There is no securities intermediaries in Cambodia.
- Future: Banks, insurance company, pension fund etc. would be securities intermediaries (more oriented training for them)

Way forward

Way forward to develop the Capital Market in Cam.

- Remove obstacles to capital market development (Pyramid Scheme and Share registry)
- Cash and Debt Management has been improved (PFM Reform Program)
- Interbank market will be developed (Law on negotiable instrument and payment transaction was adopted in 2005)
- Design a training master plan for 3i's.
- Launch education campaign for 3i's
- Continue to develop necessary regulations and policy for bond market
- Capacity building for market participants and securities regulators

Q & A

Thank You