BANKING & FINANCE
- CAMBODIA -

Issue 1 NOV - JAN 2017 WWW.BANKINGFINANCECAMBODIA.COM

'SAFE HANDS' - INTERVIEW WITH H.E. CHEA SEREY

INSIDE.

LEONIE LETHRIDGE, THE VOICE OF EXPERIENCE.

ARNAUD DARC AND EUROCHAM.

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EDITORIAL

It is with great pleasure that I welcome you to our first edition of Banking & Finance Cambodia Magazine.

The banking sector in Cambodia is particularly vibrant and exciting just now and I hope that our quarterly publication helps keep you informed and also stimulates dialogue.

I am honoured that the cover story for our inaugural issue features Her Excellency Chea Serey, Director General of the National Bank of Cambodia.

It is heartening to see someone so passionate about making changes for the better being at the helm of the national bank here.

We also feature a wide range of other interviews and articles, covering subjects from microfinance to corporate social responsibility, and I hope that we have achieved our target of relevancy and interest.

If you have any ideas for stories you think we should cover, please do not hesitate to contact me at the email address on the masthead.

Iain Donnelly,
Managing Editor

Over the last five years, Cambodia's thriving economy has led to many local and international financial institutions, both banks and microfinance to establish their presence.

With nearly 40 banks and over 60 microfinance institutions together with the stock exchange, we believe that there is a need to let the private and public sector understand more about the financial establishments here and what they can offer.

As the publisher of Cambodia's only banking and finance publication, we would like to serve both the business community and readers with updated information of existing, new products and financial services available.

Besides financial services, we hope that the Banking & Finance Cambodia magazine (BFC) can also enhance exposure of other organizations such as Insurance, Property Development, Legal Matters, Investments Insights, Technology and more.

With a host of interviews in this issue from key personnel in the banking, microfinance industry, CSX and the National Bank of Cambodia, future issues will reflect more related interviews and articles supporting Cambodia's continued growth and economic status.

Eric Lim,
Publisher

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TRADING PLACES

by Iain Donnelly

As an economy develops, one sign of its growth is the development of a stock exchange. A stock exchange has two main purposes; the primary role is to serve as a market where corporations, governments and other bodies can seek to raise capital by selling stock, while the secondary role is to allow trading of those stocks between investors.

In 2006, the Cambodian Ministry of Economy and Finance (MEF) signed a Memorandum of Understanding with the Korean Exchange (KRX) to develop a securities market here and to launch a stock exchange. The Exchange (CSX) was incorporated in February of 2010 with the MEF owning 55% of registered capital and the KRX the remaining 45%.

The first company to list was the Phnom Penh Water Supply Authority in April 2012, but since then growth has been slow, with only four companies currently listed and one recently receiving approval to list. Commentators have put forward many reasons as to why growth of the bourse has been so slow and whether Cambodia was ready for this step. But with moves to list qualifying SMEs coming closer, some people think that it can still be a success.

I caught up with His Excellency, Dr. Hean Sahib, Deputy Secretary General of the Ministry of Economy and Finance and Chairman of the Board of Directors of Cambodia Securities Exchange to ask him how well the bourse can do and his thoughts on how to encourage its growth, as well as some views on wider aspects of the Kingdom's economy.

Dr. Hean Sahib, Chairman of the Board of Directors of Cambodia Securities Exchange

Q&A

It is now over 4 years since the CSX launched the first trading, yet we still only have 4 companies listed. Why has there been such reluctance, particularly from the big companies, to list on the bourse?

Cambodia has adopted a market economy where private companies have the right to choose whether to enter the stock market or not. We do not have a policy or regulations where we can 'force' a company to list. Just now we have only 4 companies listed. I think there is a need to promote awareness and better understanding among investors and companies on the benefits of listing on the market or investing in it and this may take more time. In the meantime companies also need more time to be well prepared and ready to go public in terms of accounting records, transparency, good governance, and so on. It is also necessary that the CSX and SECC should review measures which can encourage more companies to go public. Another reason for low take-up is the low price of stock which can make companies reluctant to list.

We have seen some good ideas and incentives coming from the SECC and CSX to try and attract companies. But do you think some form of retrospective tax amnesty would be a catalyst for more companies to list?

Yes, the tax incentives were a good idea and a retrospective tax amnesty could be the vital catalyst that would bring in more companies. The government is seriously considering this at the moment as a possible new incentive. In the meantime the government is continuing to take into serious account the many associated challenges which include government expenditure on civil servants' salary increases and also infrastructure development.

There are plans for a second bourse, concentrating more on SMEs and offering those companies an alternative funding source to banks. This has certainly proven successful in some other countries. With the SME sector here being so vibrant, do you think this second bourse could be the factor that kick-starts stock trading in the Kingdom?

SMEs can sometimes share similar tax related issues that affect big companies. But the young entrepreneurs of SMEs seem more open to outsiders and have the long term vision for the potential growth offered by the stock market. The issuance and listing requirements for SME are relatively simple and will hopefully encourage them to list. For instance, they are only required to have one year (latest) of audited financial statements, and are not required to have positive profit, but only a positive operating cash flow together with a gross margin of 10% or higher. In order to further promote SMEs in the securities market, the SECC is trying to find a way to make it easier for them. And CSX would also warmly welcome this second bourse.

In the next two years we expect that more companies including SMEs will know more about the securities market in the Kingdom. I also think that our regulations will be more favourable and supportive to enable companies to go public. We expect to see two to four more listed companies within two years while Cambodia's economy continues to grow at an average rate of 7% per annum.

One indicator of a healthy exchange is the level of investment from ordinary people. This should average out at about 40% in general. Do you think one of the issues that the CSX has faced is a lack of understanding by ordinary people of how the market works? And how do you combat a challenge like that and change perceptions?

The low levels of stock related knowledge and awareness is an issue but not an immediate issue. It can take a long time to educate local investors and members of the public as evidenced by how markets have developed in more advanced countries in the region. The main issue just now is more the low returns offered by the stock market compared to alternative investments such as real estate, banks, MFI fixed deposits, or the informal way of lending (called "tontine"). The real solution would be to bring high potential growth companies into the market. When the market provides a competitive return on investment, people will be attracted to invest again (as they did in 2012) to take their chance and thus will naturally try to educate themselves to improve their stock investment knowledge. Liquidity would thus keep going up and would also attract the potential and hesitating companies to consider listing. This will be the point when various factors will contribute to the Cambodian stock market growing.

How do you see the CSX developing over the next 2 years? And where would you like to see the bourse by then? How many more companies do you think will list by then?

I was struck by the enthusiasm and ethical practices of the staff at the CSX and the SECC. How crucial do you feel it is to have a strong ethical foundation?

Ethics from professionals and participants involved in the securities market are a foundation of trust for investors. Since we started the bourse here, CSX as the operators in the secondary market have not permitted its staff to trade in the secondary market. It only allows them to purchase at the IPO stage under some restrictions.

> **"The Cambodian banking sector keeps growing at a far higher rate (over 20%) than the GDP growth rate..."**

In your time as the Chairman of the CSX, have you seen progress in the way Cambodian companies bring in good levels of corporate governance? Do you think there are still a lot of improvements to be made?

Compared to general companies, the required corporate governance for listed companies is high and is comparable to the regional standard. For instance, it requires a good board of directors consisting of independent directors and assisted by an audit committee, a risk management committee and a nomination committee. The positives of these measures for Cambodian companies are still relatively negligible, but will increase gradually as more companies choose to list. In terms of care for public shareholders, the area for improvement should be in promoting public investor relationships among all stakeholders.

Looking at the wider subject of the Cambodian economy; with the banking sector still expanding, especially with regards to MFIs, how long do you see this as being sustainable? Is there a need for consolidation across the sector?

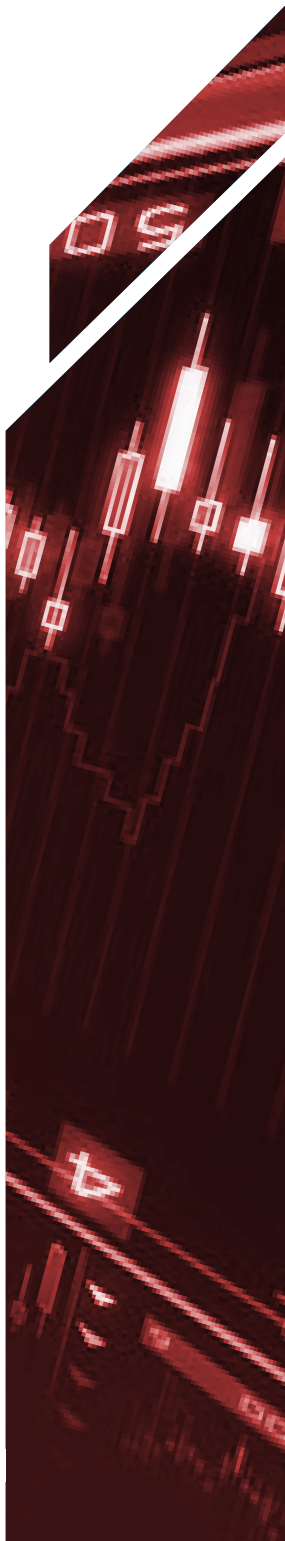
The Cambodian banking sector keeps growing at a far higher rate (over 20%) than the GDP growth rate, so I think it's moving closely toward a matured stage where consolidation will be the natural tendency.

A bonds market has long been discussed for Cambodia; with the first scheduled government bond due to be issued in 2018, how successful do you think it will be? And what difference would a successful bonds market make to the economy?

A corporate bond market is scheduled to come first, with necessary regulations tentatively to be ready by the end of this year. A bond market is important for financial market development. It complements not only the bank lending in terms of providing a longer term source of funds with competitive interest, but also the stock market in term of capital structure optimisation. Without collateral requirements and with long-term credit possibilities, various companies would be interested in bond issuance to diversify away from bank borrowing. Also, bond market would attract from the supply side banks and MFIs to issue bonds to better manage their sources of funds and maturity matching, and from the demand side insurance companies, pension funds, social security fund and other local and international investment institutions to diversify their portfolios.

The new FAST system has been in place for several months now. How well do you think Cambodians will take to the concept of cashless transactions?

The FAST system allows fast, secure and cheaper transfer of Khmer riels between many participating banks and MFIs. This facility will help promote various electronic transactions such as bill payments and online purchases, and therefore cultivate the cashless culture among Cambodian people, particularly those from the rural areas, who use a lot of Khmer riels. It will however take time before we can see how successful it is. BEC



CLIMBING THE LADDER

by Brendan Gallagher

Cambodia is a growing economy; that has become very apparent. Everywhere we look in the city there are signs of building, progress and new opportunities. It is not only locally that this growth has been recognised, with the World Bank recently upgrading Cambodia's economic status from low-income to lower-middle income. The question is, what does this mean for Cambodia and how will it affect a number of core pillars of the economy here.

> **"I'm optimistic about how Cambodia will cope with any changes resulting from this new status." – Leonie Lethridge, CEO, ANZ Royal."**

AID

The first thing to consider is how this will affect the Overseas Direct Assistance (ODA) being provided to Cambodia. Cambodia has been the recipient of massive payments from various countries around the world to assist with the development of the country. This has been a core part of the economy since the elections in 1993 and Cambodia still remains one of the highest recipients of ODA per capita in the world. In this calendar year alone there are 643 approved and funded NGO projects in Cambodia spread between 288 different organisations. This includes 210 foreign NGOs and 78 local NGOs.

Cambodia has the second highest amount of NGO's in the world per capita behind Rwanda and yet it is very easy to see that there are countries around the world that potentially need it a lot more than Cambodia. Long structured on a symptomatic approach, rather than any root cause resolution, the NGO sector is an area that will significantly be affected by the change in economic status. It is much harder to convince donors and Aid agencies that they require the large budgets and staff in a lower-middle income economy. This is potentially not a bad thing, as the amount of NGO's here has long been excessive compared to the country's situation and has often been criticised as promoting a culture of dependence.

"I'm optimistic about how Cambodia will cope with any changes resulting from this new status." – Leonie Lethridge, CEO, ANZ Royal.

To break down the Cambodian economy slightly, according to Council for the Development of Cambodia, ODA makes up about 8 percent of the entire economy. It is clear that this assistance is a crucial source of finance for the Cambodian economy. Separate from this, Foreign Direct Investment (FDI), which is a logical next step in economic development for a country like Cambodia makes up 10 percent of the economy. Once again, this is a large and vital piece of the economy here and the government can ill afford reductions in either.

TIMELINE

In the short term, ODA to the government should go relatively unchanged due to a number of factors. The first factor is that ODA levels are decided by the UN, not the World Bank and the next review of Cambodia's status with the UN is in 2018. It is unlikely that Cambodia's status will change during this review; it is more likely to occur in 2022. Further to this, there is a 3 year transitional period as Aid is withdrawn so it will really be 2025 at the earliest before this becomes an issue. Therefore, this is a very important time for the Cambodian government to seek Foreign Direct Investment (FDI) to smartly build the country while also seeking out new trade opportunities internationally.

The biggest change for any country when their economic status is changed is the access to more lending. Cambodian banks generally have a very low capitalisation, with Maybank and ABA leading the way on this, but all Cambodian banks will now have access to increased capitalisation. This allows increased lending to local corporations, business and average consumers. In fiscal year 2015, Cambodia was approved over 21 million dollars, while over 200 million has been committed for fiscal year 2016.

The limitation on this is still the very low amount of Cambodian's that actually use the banking sector. Micro Finance Institutions (MFIs) make up the majority of lending in Cambodia and it is of no surprise to know that most banks here also have separate MFIs set up to do their lending. Again, all of these institutions will now be able to increase lending to consumers and as a knock on effect, we may start to see an increase in Cambodian's "transitioning" from using MFIs to the more traditional banking models.

TRADE AGREEMENTS

Another large talking point is that Cambodia has been given preferential free trade agreements and duty free agreements with various countries. The logic behind this is that it gives struggling economies more opportunities to develop. Cambodia's garment and agriculture industries have been huge beneficiaries of this. In the case of the garment industry, it has allowed it to grow into a $4.97 Billion industry, based on 2013 estimates. This makes up over 16% of GDP and actually accounts for 1.2% of the entire Global garment industry, based on 2008 numbers. Free trade agreements with the US make up $2.03 billion and Europe follows with $1.76 billion so these will no doubt be affected by any change in trade agreements. To offset this, Cambodia will need to seek out new trade partners in untapped markets to expand their potential buyers. Any change in free trade agreements will also be a gradual process so it will really be a test for the Cambodian government as to which countries they can sign new trade agreements with and how well they can renegotiate existing trade agreements. The news that the Cambodian Government have already approached their counterparts in the UK to discuss possible new deals should Brexit happen shows that the Ministries responsible are looking to the long term future of the economy.

> **"Every country should try and be less dependent on aid so it's really a matter of timing and whether the country is ready to take the next step. - Cynthia Liaw, CEO Maybank Cambodia."**

A significant factor that seems to override any reduction in ODA is China's involvement. Recent reduction in US aid of about $60 million was immediately replaced with a $600 million investment from China. China remains the biggest contributor to the Cambodian economy and the trade agreements signed between Vietnam, Philippines, USA and Australia will only serve to increase China's interest in Cambodia.

Overall, all of the changes represent an opportunity for Cambodia to continue to improve and grow and it will really depend on how the government handles it. Removal of ODA and, in theory, removing the culture of dependence should be the next logical progression of an economy and society that continues to grow and adapt. They must embrace this change and not simply allow their country to be sold off to the highest bidder. While it is accepted that any changes will take up to 10 years to come into effect, long term macroeconomic planning is crucial and the planning needs to start soon. To move away from dependency on aid, a largely agrarian economy, and the low skill sets of most workers in the garment industry will need careful planning and identification and implementation of vocational training for the next chapter in Cambodia's economic story.

Cambodia often has a habit of pleasantly surprising us all, and they have every opportunity to do the same with this.

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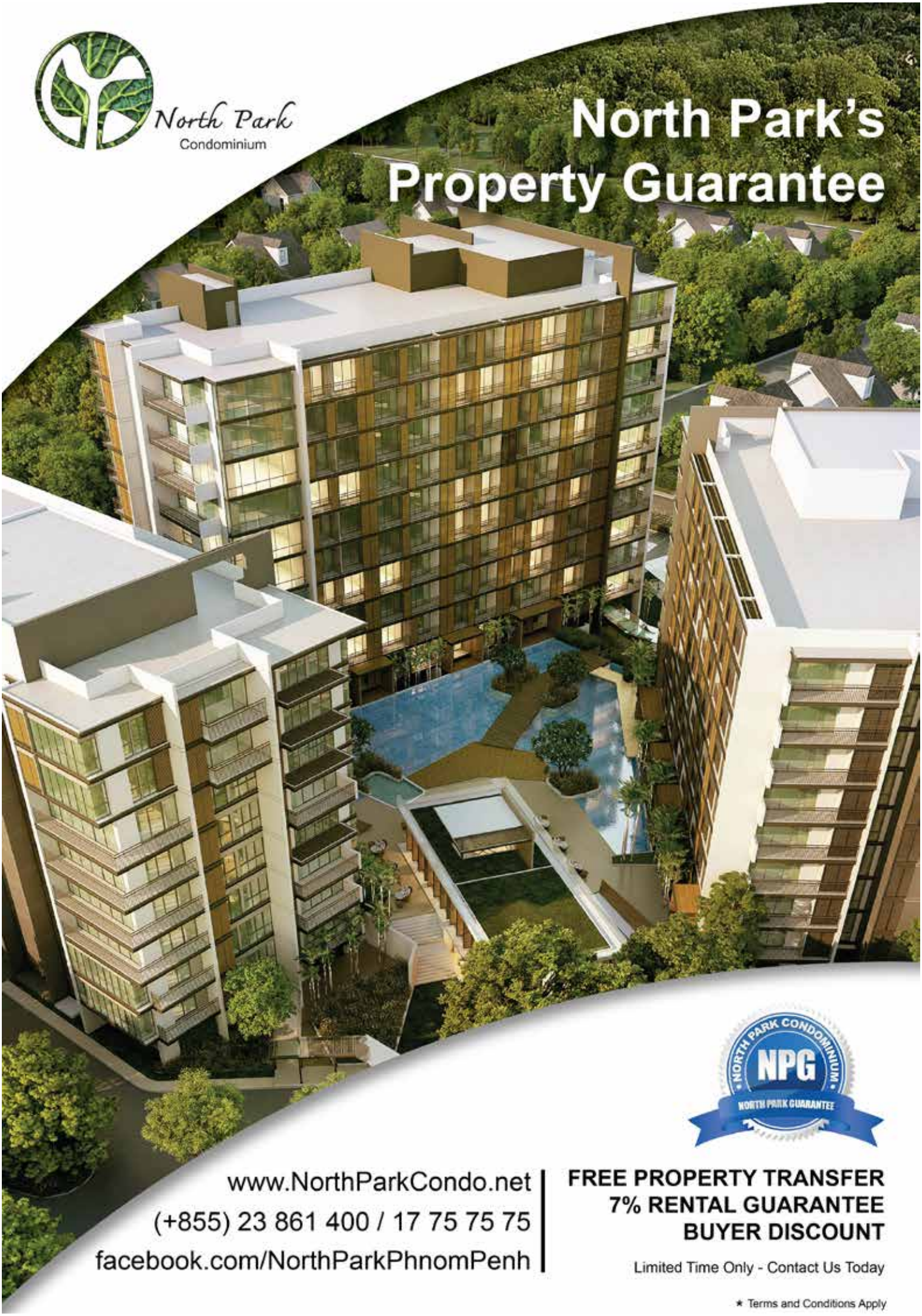

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Dr Leonie Lethbridge, CEO ANZ ROYAL

THE VOICE OF EXPERIENCE

by Iain Donnelly

Over the last 14 years Dr Leonie Lethbridge has held key management roles for ANZ in Australia, Indonesia, and China. Since April of this year she has been CEO of ANZ Royal, one of the four biggest banks in Cambodia and a joint venture between ANZ and Cambodia's Royal Group. With a PhD in Business Studies that focussed on entrepreneurship – a hugely vibrant sector in Cambodia – as well as her wealth of banking experience across the region, Leonie has lots to offer the banking sector in the Kingdom. I caught up with Leonie in a gap in her busy schedule to get some insights into Cambodia's growing financial sector.

Q&A

Some observers have commented that the World Bank's recent revision of Cambodia's economic status could adversely affect economic growth. What are your thoughts?

First of all I think it is a very good thing. I had been coming to Cambodia for about ten years prior to moving here and the transition I have seen in the country in that time is quite remarkable. So it is important that the development and progress is labeled and identified and that policy implications flow from that. There will be a transition due to this decision but there are going to be transitions within the ASEAN region anyway. And, over time, this will lead to a change in the trade privileges and favourable agreements that Cambodia currently enjoys. But I think that the point is that it will provide additional impetus to Cambodia around the need to be competitive, and that competitiveness is crucial and is something we are already witnessing in the Cambodian economy with factors such as increased automation and mechanisation. I'm optimistic about how Cambodia will cope with any changes resulting from this new status.

With the banking sector still expanding, especially with regards to MFIs, how long do you see this as being sustainable? Is there a need for consolidation across the sector?

The NBC have done a very good thing in increasing the capital requirements. It's important that that capital is directly related to risk otherwise there is an incentive for banks to continue to lend and just get higher returns on a smaller capital base. If you can correlate the relationship between lending, which is inherently risky at some level, and the amount of capital that needs to be held against that, then that provides the right motivation and impetus for the correct amount of credit to be extended, and that it's a safe amount of credit. So I think as those raised capital requirements come into effect then there will be some consolidation across the banking system. There will also be an increase in specialisation as banks look for different ways to get a return on that capital. So really that's the two changes we are going to see; a degree of consolidation and also more specialisation. Is the system too large? One of the things that I think is important for both Cambodian financial institutions and for the economy here is to be very mindful about deposit raising and liquidity. Historically, MFIs have generally not been able to take deposits and that's important in terms of making sure that lending can not only be appropriately capitalised but also properly funded. So the system will also become more focussed on managing liquidity and managing liquidity risk. Interestingly, the coming changes have already had an effect in that the pace of extending credit has slowed down and I think that's a good thing.

A bonds market has long been discussed for Cambodia; with the first scheduled government bond due to be issued in 2018, how successful do you think it will be? And what difference would a successful bonds market make to the economy?

Firstly I think a bonds market is a very important addition to the financial sector. It's important for several reasons. One of those is that a bonds market demands and should anticipate an increased level of financial disclosure and transparency, particularly in the corporate sector. Secondly it would allow some

price discoverability, for instance, when the sovereign issues a bond that allows people to think about how to price bonds, how to price the risk, so it should open up another source of liquidity for the country. Can it be a success? Absolutely. Another important consideration is which currency is it issued in. It would be helpful to have a portfolio of Riel denominated bonds because that would allow the local population to participate in the raising and would also generate additional liquidity for the Riel as well. It could then potentially be used for projects such as affordable housing which then leads onto broader social benefits. When Cambodia puts its mind to something it can do it very well and I think that if they put their mind to this opportunity then it could be significantly beneficial.

The new FAST system has been in place for several months now. How well do you think Cambodians will take to the concept of cashless transactions in general?

It will take a bit of time, but investing in systems like FAST is very important in that it creates liquidity for the Riel and it also ticks that 'financial inclusion' box. Some people make the assumption that financial inclusion equates to access to credit but financial inclusion has to be underpinned by financial literacy, and that means the ability to save and to store value, and also the ability to transact within the system. I think FAST is an essential tool for transacting which in turn allows people to store value, albeit in an electronic form. FAST is an important development that will allow broader access into the economy and will also aid in the development of the E-commerce we were just talking about.

E-commerce is estimated to pass the $2,000billion mark globally by the end of 2016 yet it is still very much in its infancy in Cambodia. How important to a developing retail sector do you see it being? Why is it proving so difficult to implement in Cambodia?

I previously lived and worked in Shanghai, and the Chinese E-commerce market is an astronomically large market. The Chinese digital market last year was sitting at $600billion and growing at 60% per annum, so it's a serious global economy in its own right, and its global reach is extremely profound. But an interesting thing about it, which particularly relates to Cambodia, is that for E-commerce to be a success there has to be a certain level of trust in the system and there has to be a solid logistical system. Some of the market giants in China have worked extremely hard to establish brand integrity and to gain their customers' trust. And that highlights what still needs to be done here in Cambodia. There still needs to be established that level of brand integrity and also confidence in the execution of logistics.

> **"When you think about the progress of Cambodia, in many ways it is quite remarkable."**

Linked to that last question; FAST promotes the use of the riel over the dollar. Can you see a time in the near future where Cambodia will drop the dollar? What advantages and disadvantages will this bring?

That's an interesting question. I think we will see a progressive take up of the Riel. The NBC are doing some interesting work just now promoting the economic and social benefits of the Riel. This includes highlighting the interest the central bank can earn on Riel denominated currency and the ability to pay public sector employees for instance. That appeal to national sentiment is a very important mechanism for

increasing the take up of the Riel. It will be very gradual and we have to remember that a countering factor is that international trade will always be conducted in currencies other than Riel, whether that currency is the dollar or the CNY etc. So as Cambodia continues to become more connected into the global economy and into the ASEAN economy there will be a hard currency play that will continue and indeed proportionally increase. But for domestic purposes I do see a day coming where the Riel will be the dominant currency for everyday usage.

You have a vast amount of experience within the region's banking industry. How different do you find Cambodia to previous postings? How does the banking sector here compare to the countries you have been based in?

Banking systems partly reflect the national economy so the banking system in China comes from a legacy of a significant level of state-owned enterprises including the banks, and much of the banks' purpose was about facilitating that state-owned system. So that system is significantly different from somewhere like Singapore where it's more been about global trade and investment flows. The shape and maturity of the banking system varies as a function of the national economy. Is Cambodia catching up? It's certainly maturing, put it that way, but there isn't a common benchmark that you are aiming for. You want to aim for something that is fit for purpose for your own economy. So is it becoming more mature and better able to service the economy? Definitely, in many, many ways it is. For instance, the introduction of branchless banking in rural communities, that's a brilliant contribution to the system here. And the bonds market when it happens will also be a hugely important step forward. When you think about the progress of Cambodia, in many ways it is quite remarkable. The banking system will mature and fill out and hopefully be complemented by non-banking institutions. The growth of the insurance sector is very encouraging, and the moves by many MFIs to offer microfinance is a real game changer.

The business and financial sectors here still tend to lean towards a patriarchy. But we have Chea Seray as director general of NBC and yourself as CEO of ANZ here. Can you see that patriarchal structure beginning to change? And do you think having two hugely experienced women in such prominent positions helps inspire young Khmer women who have chosen banking as a career?

The gender gap is very much a global game and not only confined to Cambodia, so if you look at leadership roles around the world there are still disparities. The World Economic Forum has done some interesting work on identifying women's economic participation as a source of global growth at GDP level. So I do think that will continue to change and the gap will continue to narrow. And in aging economies, which Cambodia certainly isn't, increased economic participation by women is a crucial antidote to declining growth because of a decreasing number of overall economic participants. Women's involvement and women in leadership will change and continue to grow. And it's interesting to see here, within the growing sector of young, educated entrepreneurs, that many of them are female. The Cambodia Women Entrepreneurs Association is doing some fantastic work in promotion and empowerment within that area.

Your PhD focused on entrepreneurship, something that seems strong here amongst the younger generation. How crucial do you see this entrepreneurial spirit as being to Cambodia's economic development?

The entrepreneurial spirit here is essential; in fact it is hard to overstate the importance of it. The world is changing extremely quickly with automation and digitisation happening very swiftly. It's really important that Cambodian entrepreneurs think of themselves as being part of an economic powerhouse in ASEAN, and that they grab these opportunities with both hands, fully embrace global best practice when it comes to management of the enterprises they are running but also the opportunity for innovation and creativity which a younger demographic should bring. I feel there is absolutely nothing that can replace the power of the human spirit in terms of generating growth and opportunity. Cambodia really needs to embrace this idea and now is the time to do so. Many people think that innovation comes from somewhere else but Cambodia needs to recognise the innovations that it itself has pioneered. Identify it, label it, leverage it, and be proud of it. There is a strong innovative and entrepreneurial class here and that needs to be recognised and celebrated. BFC

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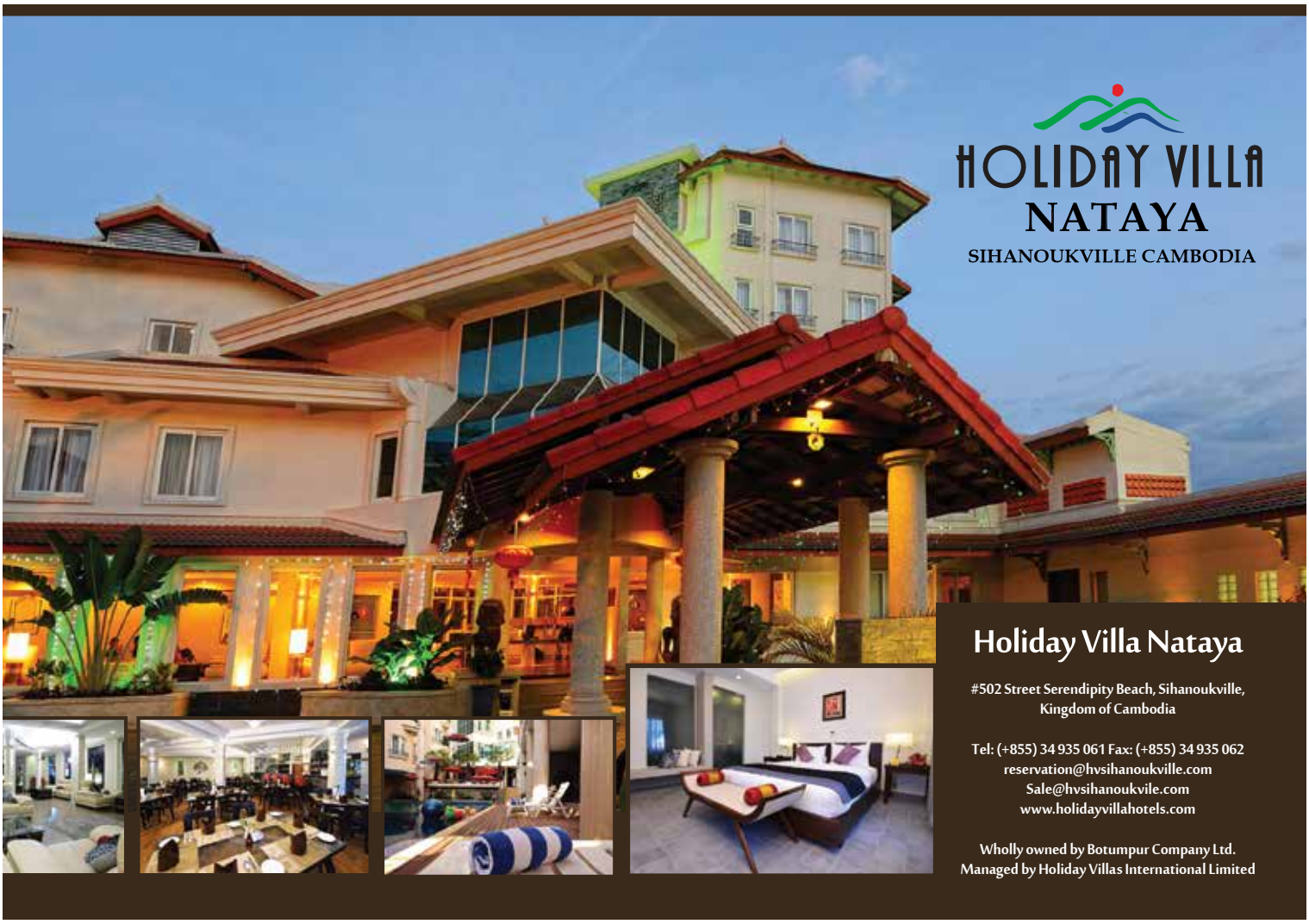
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ARRIVE IN STYLE

PENNIES FROM HEAVEN

by Iain Donnelly

A new term, at least for Cambodia, has been cropping up in business articles over the last two or three years. Angel Investors are individuals, usually affluent, who provide capital to a business start-up or entrepreneur with an innovative idea, usually in return for some equity in the company or idea. An increasing number of these 'angels' organize themselves into networks or groups in order to offer pooled resources, both financial and expertise. The advantage of such networks is primarily that it offers the business owner or entrepreneur a wide range of knowledge, experience, and business acumen on which to draw, thus increasing both the potential of the business and its likelihood of success.

The term itself has its origins in the unlikely world of Broadway Theatre, where the term 'Angel' in relation to investments was first used for wealthy musical lovers who would fund a show that was in danger of closing – or indeed to fund a show that was having difficulty sourcing finance by the traditional route. The term was resurrected in 1978 by William Wetzel, founder of the Centre for Venture Research, who undertook a study on how American entrepreneurs raised seed capital and used the term to describe those investors who supported them.

The idea has even crossed into the world of entertainment, with a Japanese TV show, 'Tigers of Money', being franchised around the world as Dragons Den – Shark Tank in the USA – and seeing successful businesspeople choosing whether to invest in ideas pitched to them. While the programmes have, of course, had their share of ludicrous moments, there have been some very successful products launched as a result. From 'Shark Tank', a product called 'Scrub Daddy' – an ergonomic super sponge that gets firm in cold water and soft in warm water – attracted $200,000 of investment in return for 20% of equity in the company. Since that point, the company has gone from $100,000 in pre-pitch sales to more than $50 million. But the investors on the show do not always get their decisions right. On the UK version, the panel turned down the idea of a sit-on suitcase with wheels for children. Within five years of being rejected the company had an annual turnover of $9.25 million, and an incredible 20% of British three to six year olds owned one.

For new entrepreneurs looking to start a business, accessing funding can be an at times insurmountable hurdle. While, where possible, accessing a small amount of capital from family and/or friends can help achieve an initial launch, it is hard for these enterprising businesspeople to access traditional funding routes as they are usually seen as too high-risk. The angel investor route not only opens up access to capital but also to amalgamated experience across a wide range of business sectors, and it can be this experience that can often be most crucial to how successful a new business can be. The other advantage that angel investors bring to the market is access to potential markets where the investors have either previously done business or where they are currently operating.

RIPE FOR THE PICKING

With over 50% of the Cambodian population under the age of 25, and the emergence of a young educated middle-class with a strong entrepreneurial spirit, the Kingdom is a ripe hunting ground for angel investors with savvy looking for the next bright idea or business plan. And while many global angel investors are primarily looking for a good return on their investments, the groups currently involved in Cambodia also have philanthropic motives.

At the forefront of the new influx of potential investors to the Kingdom is a new initiative, the Mekong Angel Investment Network, established by the ADB (Asian Development Bank) in partnership with Lotus Fund of Vietnam, and with additional support from the Australian government. The initiative is not only aimed at Cambodia but also at Laos, Vietnam and Myanmar, four countries within the ASEAN community that are experiencing good economic growth and where conditions are ripe for young entrepreneurs to set up and establish successful businesses. Within Cambodia itself, there are long term plans to launch a secondary bourse, one that will only list SMEs, something that raises more options for expansion and growth funding in the future.

The projects angel investors tend to look at are often associated with higher risk for a number of reasons, which will present further hurdles in accessing traditional funding routes. This is another factor where networks with multiple experience types comes in useful; the investors' network can access risk far better than an individual usually can. And with the investment being private sector based, the process can be much faster, meaning funds get to their destination quicker, allowing the entrepreneurs to put their ideas into action faster.

For the Mekong Angel Investment Network, it's not just about an investment of capital, but an investment of knowledge and expertise too. Potential investors offer a pooled collection of varying types and degrees of knowledge gathered over many years. When a new entrepreneur is developing an idea or new business, they usually lack this detailed expertise the angel investors can bring to the table. Sourcing funding from traditional sources do not offer this extra layer of assistance, something that can mean the difference between failure and success.

> **"Do not be afraid to share the idea because there is no reward for keeping an idea a secret and there is no intellectual property to be had - Mr. James Dien Bui, Managing Director of Lotus Fund."**

THE LOTUS POSITION

To get some further insights, I spoke to James Dien Bui, Managing Director of Lotus Fund. Lotus invests incubation services and impact capital into high potential businesses to generate lasting social impact and transformative growth. Lotus' team has over 100 years of combined investment and programme management experience.

Cambodia is an attractive proposition for the following reasons: First, the regulatory environment with respect to foreign investment has been friendly, and evidence of working models, e.g. microfinance, has taken off well especially in Phnom Penh. Second, the market is reasonably small to test new ideas to better understand regional Southeast Asia. Generally, enterprises will have an ASEAN outlook in addition to a domestic outlook, therefore an interesting angle for angel investors. Finally, through anecdotal experience, valuations of startups in Cambodia have been realistic, compared to say Vietnam. In general, startups in Vietnam tend to be 5x and sometimes 10x the value of the same idea and enterprise in Cambodia.

Whereas in the West, angel investing is predominantly about profit and success, in Asia we see strong elements of social responsibility. How important is this?

For Lotus, social responsibility is only the beginning of the investment value proposition. As an impact investing fund, we look to target social returns alongside the financial returns. The social return is defined at the beginning of the investment and then measured and tracked over time. For example, a clean water commune system may cost USD 100,000 investment with potentially a 15% IRR over 4 years. At the same time, the social return is the number of rural and poor households connected to the water system as well as a secondary output of customer service which entails affordability and quality of water maintained over time. These "social outputs" for the investment is the social return of the investment.

How crucial do you see the expertise that angel investors bring to the table as being?

It is very important as most markets in Southeast Asia are fragmented. And for the most part, entrepreneurs need more mentorship and coaching more so than capital investment. Of course, both are needed, but as a fund manager, we've seen the main critical barrier as being the transfer of experience and knowledge to local entrepreneurs so that local entrepreneurs can execute their business(es).

Will ongoing ASEAN integration make it easier for local entrepreneurs?

I would like to think so in the long-run. However, integration entails more policies and defining of trade agreements at the policy level. In theory this should be helpful, though at a practical level I am not sure how this gets distilled down to local entrepreneurs as real incentives for them to leverage.

What advice would you give to a young Cambodian thinking of turning an idea into a real business?

The young Cambodian should talk to as many experienced people as possible to really vet the idea. Along the way, collaborate and build the idea into an actual team. Do not be afraid to share the idea because there is no reward for keeping an idea a secret and there is no intellectual property to be had. If anything, the real IP is in the execution of the idea into a business.

ANGELS CLOSE TO HOME

And as well as the angel investors coming from abroad, there is now a group of local investors offering their funding and their expertise to the local entrepreneurial scene. Still in the early stages of development and lacking both a name and defined parameters for joining, the addition of local talent to the growing angel pool will be welcomed by many. Reports say that they expect each member to likely contribute around $10,000 per year which will be pooled with members sharing both the potential rewards and the potential risk.

Despite the infancy of the new group they have already made their first investment in BookMeBus, an online platform for buying bus tickets within the Kingdom. The investment was made in the form of a convertible note loan, a debt financing mechanism that includes agreement to turn investment into equity at a later stage.

STAIRWAY TO HEAVEN

The growth of angel investors here can only be a good thing for the growing entrepreneurial sector. With the emphasis on social responsibility coming at a time when the economy is beginning to see a gradual move away from aid dependency, the growth of social enterprises as well as profit driven businesses can be of great benefit to the Cambodian economy. Subsistence level businesses have a solid microfinance sector to seek funding from, while corporate level business has always had the traditional route of commercial banks. But people with “ideas” have always struggled to take that idea and transform it into a viable business. The combination of capital and ‘savvy’ that angel investors bring to the table changes that significantly, and hopefully we will see more of these investor groups in the coming months and years, especially ones with a strong philanthropic ethos similar to Lotus.

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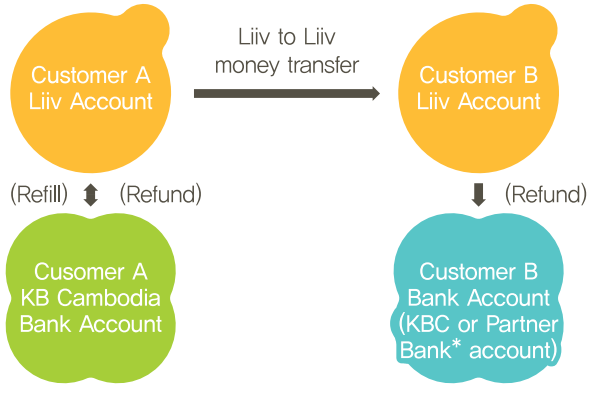
Liiv Money refill/transfer/redund flowchart



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UNDER THE MICROSCOPE

by Iain Donnelly

Currently representing 77 microfinance institutions, seven of whom are deposit-taking, the Cambodian Microfinance Association is an NGO and professional association which aims to ensure the sustainability of the sector and to help create local and international networks, introduce new technologies and to resolve any conflict between members.

Formally established in 2004 by seven founding MFI members, the CMA have gone from strength to strength and are now recognised internationally as the voice of the vital and constantly growing microfinance sector in Cambodia. In March of this year, Oknha Hout Ieng Tong, CEO of Hattha Kaksekar Limited, was elected Chairman of the Board of Directors of the CMA for 2016-2017. His Excellency took time out his busy schedule to meet with Banking & Finance Cambodia to discuss the current state of the microfinance market and the Cambodian economy.

Oknha Hout Ieng Tong, CEO of Hattha Kaksekar Limited and Chairman of the Board of Directors of the CMA

Q&A

Your Excellency, can you first tell us what you see the role of the CMA as being?

We created the association because we wanted to see all the credit operators in the microfinance sector in Cambodia provide credit from a basis of sound business practices and friendly competition. We believe that if the operators have that basis of soundness and friendly competition, then the sector will grow smoothly. In order to help achieve this, the CMA provides a good range of training and knowledge to all the credit operators and how to provide the best business practices in microfinance in Cambodia. We also encourage our members to implement customer protection principles. Our members include microfinance lenders, institutions licensed to take deposits, leasing companies and NGOs. There are about 100 MFIs who are not members; these institutions, though registered with the National Bank of Cambodia, are not licensed. All licensed MFIs are members of the CMA.

Recently the World Bank announced that they were raising Cambodia's economic status one level. Some commentators have said that this may have long term effects on the economy here. Have you had any thoughts on whether this could affect the MFI sector?

Currently I cannot see this having any effect on our sector. Like the commentators it is impossible to say just now what long term effects this may have, but certainly it is not something we are worrying about just now.

The banking sector in Cambodia has grown substantially over the last few years. Given the amount of both banks and MFIs currently operating, and taking the Prakas of March 2016 into consideration which raises the capital requirement for all financial institutions, how sustainable do you see the market being at its current level?

I think the Prakas from the National Bank of Cambodia to raise the capital requirement is a very good thing for the sector and it will help the sector to both stabilise and strengthen. It will give more confidence in the ability of banks and MFIs to manage their business and their client portfolios. If you look at the number of banks and MFIs currently in the market, I think they are now at the maximum that the market can sustain. So, with these numbers at their maximum, and with the new Prakas due to take effect, then I think we are now at the point where banks and MFIs have to consider and plan for consolidation. I definitely think that some consolidation is coming, but I think it will happen later rather than sooner as for now all affected institutions are trying their best to meet the new capital requirements. The larger institutions will not struggle with the new requirements, but some of the smaller MFIs and even some of the medium-sized ones may struggle and will have to consider some form of consolidation. But in the long term any consolidation will only further strengthen the sector as a whole.

> "Yes, we see it as crucial that the MFIs address improving financial literacy as much as possible."

Editor's note; Since this interview Hattha Kaksekar Limited has had its full shareholding acquired by Thailand's Bank of Ayudhya, also known as Krungsri Bank, for an undisclosed sum.

As someone with many years' experience in the Cambodian MFI sector, what do you see as the positives of microfinance?

I think there are a lot of positives to microfinance in Cambodia. MFIs have contributed a lot to the macro-economy here. Currently the microfinance sector as a whole is financing more than 2.4 million families across Cambodia. And if you look at the figures for those customers who have problems with their loans, it is only around 0.5% of those 2.4 million families who have any problems or who default. I'm personally very happy that our sector is helping bridge the gap to the Cambodian people, that our services help a lot of Cambodians to better their lives. We see the real benefits that our loans have; our customers use their loans to improve their house or to build a new one, to buy agricultural machinery that will improve their output and earnings, and to give their children access to better levels of education.

Editor's note; New figures release since this interview, and confirmed by Oknha Hout Ieng Tong show that the NPL rate for the MFI sector has slightly increased from 0.7% in December 2015 to around 1.3% in June 2016. For HKL there has also been a slight increase from 0.08% in December 2015 to 0.3% in June 2016

One of the biggest challenges facing the MFI sector, given that so much of your customer base lives in rural areas, is accessibility to banking services. Over the last two years, the MFIs have greatly expanded the branchless banking services they offer to these customers, services such as appointing agents in villages, having staff visit customers in remote areas, and also of course the development of mobile phone technology. How important do you see these developments as being? Both for your customers and for the MFIs?

I see these developments as being very important and very beneficial to both. By offering things like mobile banking or branchless banking, we are saving the customers a lot of both time and money. These developments and technologies allow the customer to access the whole range of banking services; payment of bills, transferring funds, loan payments etc. without having to miss time working. Without these developments the customer would have to travel to their nearest branch, which may be some distance away, and this could put them off the idea of accessing such services. So I see our sector using these as vital to expanding our customer base and to increasing financial inclusion.

Now we have just spoken about the many ways that the MFIs are helping to improve financial inclusion. But with increased financial inclusion there is also a need for better financial literacy. What is the MFI sector doing to help with this?

Yes, we see it as crucial that the MFIs address improving financial literacy as much as possible. One of our main principles within the sector is the customer protection principle. This means we have a responsibility to protect our customers from over-indebtedness. To do so we need to teach our customers to manage their funds, both incoming and outgoing. What is the business they are managing? How can they maximise profits from that business? Can they afford to pay their bills? Of course we cannot hold classes or offer certificates, the logistics of

> **“One barrier just now is that the Riel is not accepted in many countries.”**

that would be impossible. But when they open an account or apply for a loan, we explain to them very clearly what it means; we teach them to be responsible with their money. The fact that we are doing this is reflected in the very low ratio of non-performing loans in the sector. There are a very small amount of customers who do not take this idea of financial literacy on board, who may take out a loan they cannot afford to pay, or who take out multiple loans with different MFIs, but they are very few, and the CEOs of all the MFIs are constantly looking at ways to stop this.

April saw the soft launch of the FAST system - which allows instant riel-denominated fund transfers between banking institutions – with two commercial banks and three MFIs involved in the initial trials. What are your thoughts on this system? Will it bring benefits to the sector? And do you see it being rolled out across more of the commercial banks and MFIs? And is the fact that the system operates with only Riel the first step to Cambodia stopping use of the Dollar?

I think the FAST system is a very good development for the banking sector in Cambodia. It will allow any banks or MFIs signed up to the scheme to carry out instant inter-bank transfers. It will save businesses and customers the difficulty of having to use multiple accounts and will also make payment of suppliers easier for small businesses. It is the first small step towards a cashless society. Just now everyone has to carry cash, and although a truly cashless system may be some way off for Cambodia, this is a step in that direction. As to returning to a Riel-only currency, I think it will happen one day, but it will take time. One barrier just now is that the Riel is not accepted in many countries. If it were accepted by more countries then any sort of transition would be much easier. But for now our own currency really only has value within Cambodia. This is another benefit of the FAST system; it will encourage more people to use the Riel.

Another recent development from the MFI sector, and one that appears to have been a huge success over the last two years, is the introduction of credit life insurance. How important is this to the sector? And how important is it to the customers themselves?

I think it is a crucial development that we will continue to see grow and grow. Just now only a few of the MFIs offer this, with policies paying out in the event of the death of the policy holder or in the case of an accident that may prevent them working. The policy pay-outs may seem small but the premiums average around only $6 per year so they have to reflect that fact. We have to consider the spending power of our customers and keep these premiums affordable. So in some cases, with larger loans, 100% of the loan will not be paid off by the policy but it is still making a big difference to any customers who need to claim. But the sector has seen a huge take-up of these policies since they were introduced. The policies are underwritten from various sources; my MFI uses a company from France but this can vary from MFI to MFI. It is another part of the progress, like the accessibility we discussed earlier, which is strengthening the MFI sector and also improving the lives of ordinary Cambodians.

BANKING TECHNOLOGY IN CAMBODIA

by Claran Doyle.

Hardly a day goes by without some news story from some corner of the globe about electronic fraud or scams. While most people are now wise to email/phishing scams, the level of sophistication involved in some of these schemes is often as sophisticated as the systems protecting accounts.

Given the relative infancy of electronic systems here in Cambodia, the percentage of cybercrime is far less than in Western countries. Other than a few scattered 'skimming' incidents perpetrated by foreigners coming here for that express purpose, financial cybercrime has not yet become a major problem here.

But that does not mean that the industry has become complacent. At a forum held in May of this year on the subject of cybercrime, members of local business chambers and representatives of the banks were warned that within the ASEAN community, only Laos ranked lower for cyber-security ability.

An attempt by three Bulgarians in November 2015 to infect an ATM with malware was only beaten by ANZ's own high levels of security. And Ou Phanarith, director of ICT Security at the Ministry of Posts and Telecommunications, has called for banks to send their students and employees abroad to learn about cyber-security until there are sufficient levels of ICT certified courses in Cambodia itself.

There may be a small glimmer of light coming to the Kingdom via a Singaporean IT consultancy Lantium, which plans to give Cambodia's underdeveloped cyber security systems an overhaul, and what seems very important to this new venture is the education of businesses on how cyber security threats can affect their businesses.

WHAT IS THE TECHNOLOGY LIKE IN CAMBODIA?

Although ATM's and internet banking may seem like small fish compared to weaponised computer viruses, the fight for security is an ever growing need, especially in a country like Cambodia where the economy has been growing at around 7% YOY for the last few years. As more and more people move away from private lenders and loan sharks, the banking system must grow securely and develop its technology to support this growing economy.

Even though the banking technology is improving rapidly within the Kingdom, the awareness among the

general public regarding things such as mobile banking appears to be low despite the popularity of smartphones and other connected devices. This is something the banks are looking to actively challenge as part of their push for financial literacy.

For years people worldwide have fallen foul to the obvious security threats like phishing or man-in-the-middle attacks, but with the development of more advanced security technology these do not seem to affect most users on new mobile apps that are being produced. And with the NBC developing many apps in-house with the help of the Department of ICT Security at Ministry of Posts and Telecommunications (MPTC), there is an awareness that any potential security issues need to be prevented rather than 'cured'.

One hurdle to overcome as far as the security of mobile apps is concerned is the common use of 'jail-broken' phones in Cambodia, where a modified operating system may affect the integrity of any apps used on that phone.

But it is not only internet based activity that we need to worry about, human error or simple lack of understanding when it comes to ATMs can have your details swiped in the simplest of ways. When was the last time you really checked to see if there was a foreign swiping object attached the ATM, a simple way to steal your details from your magnetic strip?

"Another method of reducing fraudulent withdrawals could be to require biometric information before a withdrawal could be made."

The banks are fighting back obviously, with the likes of Maybank here in the country securing both internet and mobile banking with the same 128-bit encryption from end-to-end, and purchases with your debit card by using a onetime password, OTP, before a transaction can fully go through.

Or the likes of ABA who have developed a Mobile application that will allow users to have access to their funds 24/7, via their E-Cash service, where you can send money to any ABA ATM and withdraw it without a card. The good thing about this app is that none of your information is stored on your mobile or SIM card, so even if your phone is lost or stolen you are safe and secure.

THE FAST PAYMENT SERVICE

All of this talk of cybersecurity and fraudulent behavior is not stopping Cambodian commercial banks, MFIs, and the National Bank of Cambodia from moving forward, launching "Fast Payment", an alternative form of payment in Riel which means that participating financial institutions facilitates interbank fund transfers and payment transactions based on the customer's needs.

This is all in line with the de-dollarisation that is likely on the cards for Cambodia long term, something that will need continued promotion of the use of the Riel, coupled with further economic development through the modernisation of the payment systems in Cambodia.

But they are very conscious of potential risks and are making a concerted effort to work together and prevent anything untoward happening on a large scale.

BUT ARE THE BANKS ABLE TO STOP FRAUDULENT WITHDRAWALS?

The sad fact of the matter is, no matter what the security tech wizards have up their sleeves to combat fraud, there will always be new and better ways of stealing cash. More advanced systems worldwide have already seen fraudulent tactics such as finger overlays on biometric scanners to catch your fingerprint, or eye retina scanners that can photograph your eyes. While it sounds like something out of a science-fiction film, the fact remains that as soon as companies devise a new method of security, there are people looking for ways to beat that system.

BUT GIVEN CAMBODIA HAS A WAY TO GO BEFORE ENTERING THAT REALM OF SCI-FI SECURITY, WHAT COULD BE DONE AND WHAT IS BEING DONE HERE TO INCREASE BANKING SECURITY?

There are a couple of strategies that could help reduce fraudulent withdrawals, with one of them being the use of a two-step authentication process. So for instance when a withdrawal is made a phone call goes to the account holder requesting them to confirm the transaction, much like PPCB do here in for internet purchases in Cambodia. However this would only likely be practical for larger transactions.

Another method of reducing fraudulent withdrawals could be to require biometric information before a withdrawal could be made. These biometric pieces of information are the unique things about each of us, including fingerprints, hand geometry, earlobe geometry, retina and iris patterns, voice waves, DNA, and signatures.

It may sound very futuristic, but some of this type of technology is being used worldwide now, where ATMs are starting to use biometric measures to help authenticate that a person is exactly who they say they are.

It can be used solely, or in conjunction with another form of identification, like PIN, debit card, or mobile device. The most common form of biometric used seems to be palm or fingerprint biometrics, with face and iris being a bit more advanced and rarer.

While some countries seem to have a problem with the use of biometrics to identify their customers due to legal issues, others have jumped onboard, with the powerhouse of Japan having over 80,000 biometric ATMs, and India, China and Brazil having similar initiatives. But it's especially in emerging areas such as Eastern Europe, Latin America, Asia and the Middle East that this idea shows promise, and that also means that something like this could come to Cambodia.

While businesses may start to use more and more electronic services for banking, consumer adoption is quite low due to lack of awareness and fear of using technology for tasks related to finance.

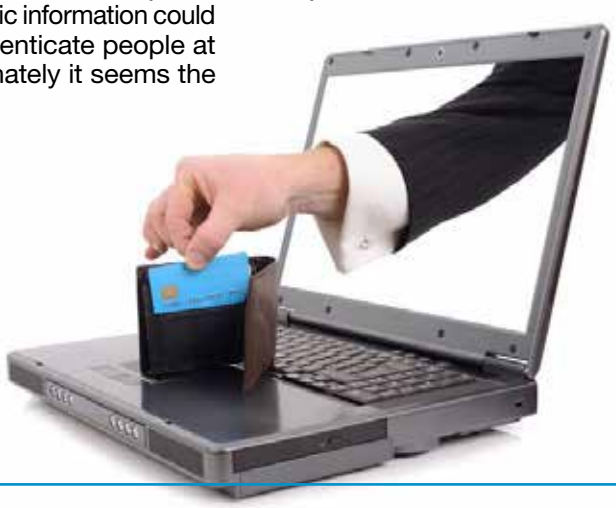
But innovations are happening, and areas that we will see the growth of this will be regarding micropayments and transfers, as this is the most popular method of transferring money. For instance, instead of transferring money between bank accounts, it is more common here for people to send money via services such as Wing, Smart Luy and True Money. Could these sorts of services be given the biometric overhaul for Cambodia?

Biometrics could very well be the future here, as Cambodians are already used to providing a fingerprint in order to identify themselves rather than a handwritten signature. It is also possible with the new ID card system here that biometric information could be used to authenticate people at ATM's. Unfortunately it seems the initial problem could be about getting past the lack of trust associated with internet security, something we have already seen be a barrier to the growth of online shopping in Cambodia. With both banks and microfinance institutions keen to push the campaigns for financial inclusion and financial literacy in Cambodia, awareness of internet and banking security will have to be included in any strategies.

How quickly the banks and lenders can educate the people on the benefits of this form of security will be the determining factor to the banking revolution that already seems to be happening here as we see banking and finance expand quicker than perhaps any other sector of the Cambodian economy.

While Cambodia has been relatively lucky in terms of electronic fraud, with only a few cases of skimming reported in the last few years, the threat remains very real. And the banking community, and indeed the business community at large, have taken the threats seriously, working together with the Information and Communications Technology Department of the Ministry of Posts and Telecommunications of Cambodia to address the wider issues of electronic fraud across the business sector. As Cambodia embraces technology more, so the need for vigilance and better anti-fraud systems increases, and it is reassuring to see the government and the banking sector proactively address these issues.

In our next issue we are going to take a more technical look at what Cambodia's Government and cyber security experts are doing to protect the growing electronic banking systems here and talk to some of the experts working on the frontline of the 'cyber-war'. BFC



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eMONEY ADOPTED BY CAMBODIANS NATIONWIDE

Among more than 50 New Product & Service Categories presented worldwide, eMoney won a Silver Award at the 2016 Stevie Awards (Annual global business awards). A partnership between Metfone and MB Bank, eMoney was launched in March 2015 as the first mobile money service developed by a Cambodian Telco.

Although Cambodia is ranked as one of the world's 15 largest microfinance markets, with a total population of approximately 15.8 million, Cambodia's banking penetration rate was the lowest among developing countries in Southeast Asia, with only 4% of the population having a bank account (in 2013).

Even today, the majority of Cambodian people still rely on keeping their money at home rather than in a bank account. One of the problems that eMoney addressed was enabling Cambodians to send money to their families in rural areas – just under 80% of the population live in rural areas - without either party requiring a bank account.

From Money Transfer to developing other financial and banking services, eMoney has introduced a new trend; a bank account in your hands, and a mobile phone as a credit card! And many other operations are available even with a 2G phone.
The simplicity of use it offers, bringing the services to all segments of customers, together with how quickly it had an impact were the two main criteria the Judges recognised when giving this award.

With representation in 22 regions of Cambodia and with over 2000 staff and 1000 partners spread all over the nation, eMoney network channels have increased rapidly, allowing even communities in rural areas to use the service.

- 4,500 agents joined the network after one year, covering 25/25 provinces and 1,600 communes of Cambodia, representing faster growth than its main competitor (4,000 agents after 6 years).

- 1,523,034 transactions per month have been handled, corresponding to a total of 13,128,141 million transactions to date (In the nine months since we started).

- Over 300,000 active customers used eMoney, better growth than the market's biggest provider (600,000 after 5 years).

eMONEY SERVICES:

Transfer money: easily and safely in USD or Riel.

Cash in/out: more secure option than any safe at home.

Phone top-up: no need to buy a scratch card anymore.

Bill Payment: for telecommunications, electricity bills, water bills etc.

eMoney Inquiry: to check your eMoney account.

DEVELOPING SERVICES AND PARTNERSHIPS:

More than 100 outlets where you can pay using eMoney

More than 20 companies are using eMoney for paying their staff (issuing eMoney Payroll)

All transactions can be quickly conducted anytime, anywhere, just with your mobile phone.

And as of recently, eMoney subscribers can apply for visa card.

eMONEY ON THE SPOT – WITH MR LEE, HEAD OF eMONEY.

Why should people choose eMoney over other similar products?

"We feel we offer better level of support than our competitors. In addition to the 4500 agents covering every province of Cambodia, we have staff in those provinces while our competitors have their offices based in Phnom Penh only. Our growth rate in one year has outperformed that of our biggest competitor's results over 6 years. Our strategy is to pursue rapid expansion of our network of agents, offering our customers better coverage and service.

The partnership between Metfone and MB Bank means our customers have the foundation of a solid financial institution coupled with the Kingdom's largest mobile provider. And our price structure – up to 50% less than other providers – means that our service is also accessible to low income customers.

We also see our service as being a strong socio-economic driver as it has provided new business opportunities to each member of our expanding agent network."

How safe are eMoney transactions?

"The transactions are extremely safe with double validations process. However, if our customer realises that he/she sent money to the wrong number (of course before the receiver withdraws the money), he/she can call our hotline numbers 868 or 0236 868 868, our team will process to block the transaction and the money will be returned to the original sender.

What are the advantages of mobile money over bank transactions?

"A large part of the Cambodian population, especially in rural areas, have no access to financial services. While this situation is developing and improving, still many people have no way of transferring money to relatives, friends, loved ones, or business associates. We believe that eMoney helps to fill that gap and that allows customers to send money, pay utility bills, or order goods from merchants for their small businesses.

With swift transaction times – less than a minute – customers find our service easy to use, accessible, and convenient. And the low transaction fees make our service more attractive than any of our competitors or banks."

What are your plans for growth?

"We are very excited about some of our plans for 2017. We will continue to expand our network to make it even more accessible as well as offering more business opportunities for our agents. But we will also be looking to introduce new features in the next 12 months which includes the ability to build savings via an eMoney wallet, the offering of loans to eMoney users, and a home delivery service." BFC

SAFE HANDS STEERING THE ECONOMY

by Iain Donnelly

H.E. Chea Serey Director-General of the National Bank of Cambodia

Since taking over as director-general of the National Bank of Cambodia in November, 2013, Her Excellency Chea Serey has been a very busy woman. As well as ensuring the economy stays stable and inflation manageable, she has pushed new initiatives such as financial inclusion and literacy, and the promotion of the Riel. She also chairs the board of the Credit Bureau of Cambodia, is President of the Cambodian Economic Association, and is chairwoman and founder of the Raksa Koma Foundation, which seeks to empower underprivileged Cambodian children. I met up with her at the end of a long working day to find out what her visions for Cambodia are.

> **"As far as the NBC is concerned, our main focus remains financial stability and ensuring that we supervise Cambodian banks prudently."**

Q&A

The World Bank recently revised Cambodia's economic status, moving it up one rung. In the long term this will likely affect both aid allocation and also some favourable trade agreements currently in place. What are your thoughts on the revision, and what long term plans or policies do the NBC see as necessary to counter any of those potential negatives?

I think the fact that the World Bank changed our status up one place to a lower-middle income is a great testament to what the government has achieved in a very short space of time. We have to acknowledge that Cambodia's economic history is fairly young, and that really since around 1969/70, we have not been able to develop economically. We have had a period of recent history where the monetary system was completely abolished and we have had to rebuild everything from scratch. Up until 1998 there were still pockets of fighting here which meant that it was difficult to travel in some areas and of course meant that investors were not flocking to invest in the country. So it is only really in the last 18 years or so that we have managed to come from being a war-torn country to being the 7th fastest growing economy in the world. This is a hugely significant achievement.

Having said that I think that the fact that Cambodia is a beneficiary of grants and cheap concessional loans from our developed partners will eventually change due to this revised status, but I think the government realise this, which is why there are plans to introduce a bonds market here. And there have been changes and improvements made to the tax collection system which means a significant rise in the amount of tax revenue. So I think these developments and others will offset any negative that results from our revised economic status. Any adjustments to these factors will not take effect for some time, which allows time for the government to look at alternative strategies.

As far as the NBC is concerned, our main focus remains financial stability and ensuring that we supervise Cambodian banks prudently. Something that I have said many times before is that if you think of the economy as a whole as being a human body, then the financial system is the heart of that body. Just as the heart pumps blood to feed the organs, so must the financial system channel funds in order to feed the economy. It can't beat too fast but nor can it beat too slowly. So maintaining the health of the financial system is perhaps our main focus. Monetary policy is another thing we look at and at the moment we have managed to maintain a very reasonable inflation rate compared to our neighbouring countries as well as a fairly stable exchange rate for the past 15/16 years or so. One challenge we are facing

is the dollarised economy. This is something we are actively tackling but in a very prudent manner. We don't want to label our policies as "de-dollarisation" because that infers that we are taking the dollar out of the Cambodian economy and we are not doing that. It's more about encouraging use of the Riel.

We are looking at developing 'universal apps' where every bank will be able to use the same application to interface with its customers for payment services but that would also be limited to the Riel. We have just announced, as part of our 'Love Riel' campaign, that people can exchange old or damaged banknotes for new ones at any of the NBC's branches under the "Loving Riel Banknotes" name. The Government initiatives to allow tax collection, payment of utility bills, and payroll of public employees using the Riel have been very helpful to our efforts in promoting the use of local currency. We also have an announcement coming up shortly regarding inter-bank markets so keep an eye open for that.

This change in status is very beneficial in my opinion as we are already seeing heightened rates of inward investment as a result. Investors are seeing how fast the country can move and how well it can adapt and the fact that we have a very young population is also attractive to them. The NBC has just issued a survey on FDI (foreign direct investment) along with the National Institute of Statistics. We actually believe that there is more FDI than is revealed in the survey so the results are rather conservative.

Is there a need for consolidation in the banking sector? And will the Prakas of March this year on new capital requirements act as a catalyst for this?

I think there are different levels of development in every country. Nearly every country goes through a phase of having many banks or financial institutions. Then there normally comes a period of consolidation. As a regulator, we can't force anyone into consolidation but we can enable the environment for it to happen. At the end of the day, it is natural for the bigger fish to eat the smaller ones so I do think we will see some consolidation across the sector. We have seen good levels of competition recently, particularly in the microfinance sector where we have seen interest rates coming down. The UNCDF (United Nations Capital Development Fund) recently estimated that about 50% or more of our population have access to finances, and our own data shows about the same figures too. This is a huge growth from the 3 or 4% figures from when I first joined the NBC. But, for me, it's not the number of banks that are important; it is what they are doing at local level.

A bonds market has long been discussed for Cambodia, with the first scheduled government bond due to be issued in 2018. How successful do you think it will be? And will the bonds be denominated in Riel?

I can't speak for the Ministry of Economy and Finance as to what denomination the bonds will be in as that will be a decision for the treasury. I think financial instruments in Cambodia are quite limited and it's a stumbling block for the inter-bank market and for alternative investment for the banks. When you have a lot of liquidity sitting, in another country that could be invested in bonds, but in Cambodia there are only loans just now so obviously you are going to see swift credit growth because that is the only instrument available. The central bank does issue NCDs (Negotiable Certificate of Deposits) but the rate we could offer is relatively low and has very short tenures. We have modified the structure of that instrument so we have seen an increase in the number of banks holding our NCDs and we are about to announce, hopefully in the next week, a new instrument that will further promote the inter-bank market, especially in the local currency. So I am looking forward to this bond market.

The new FAST system has been in place for several months now and has been a success so far. How well do you think Cambodians will take to the concept of cashless transactions?

The NBC bears the costs of the system development so we expect the banks to 'free-ride' on us with this system and then to pass the benefits on to their users. It's only been a few months since we launched it so it is perhaps too early to fully assess its success but we are seeing encouraging figures; from July to August there was around a 200% increase in use. But eventually we will be able to fine tune that system by allowing the users to access mobile applications in order to transact.

We have already issued a Prakas that by 2017 all banks must join the FAST system. At the moment we have what we call the 'founding members', those institutions that joined us on a voluntary basis and who have supported us since the very early stage of development. As far as ATM/POS shared switch is concerned, we will roll out the system in early 2017, and eventually make it compulsory by 2018. I believe this will lead to a change in the financial landscape as far as means of payment is concerned.

I think overall that the system can move very fast, Cambodia has been able to leapfrog so many things as far as both technology and banking evolution are concerned. With such a young population I think it is relatively easy for people to embrace the new technologies that are coming out. A large percentage of the population has a smartphone and also access to the internet. So I think as new options for cashless transactions come onto the market then they will take to it very fast. But we are also aware that such technologies do come with security risks so you have to take measures to limit and mitigate risk. As the regulators, we need to look at any payment systems offered to the market and ensure the providers are offering adequate security measures.

> "I think the fact that the World Bank has changed our status up one place to a lower middle income is a great testament to what the government has achieved in a very short space of time."

Something you are very vocal about support for is the need for both financial inclusion and financial literacy. How do we achieve this?

Inclusion and literacy have to go hand in hand. You want people to be included but you want them to truly understand what they are included in. Financial literacy and financial capability development are the means by which we achieve greater financial inclusion. We believe that when people are educated and when they understand what financial services are for, what those services can help them with, and then the inclusion part will follow naturally. We launched our 'Let's Talk Money' campaign in March of 2015 which has helped build the financial capability of ordinary Cambodians,

particularly those in rural areas. We have made sure that the stories we have created for the campaign are ones that people can relate to. We've worked with many organisations to come up with this campaign and we are very proud that it has been successful and made an impact.

We have heard a lot of concerns about people taking out multiple loans and increasing their debt level, but preliminary data from the Credit Bureau of Cambodia's (CBC's) shows that 80% of borrowers have a relationship with only one bank or financial institution. Currently, a number of studies are being conducted on the level of over-indebtedness in Cambodia and a number of recommendations will be made depending on the result. So we will have to wait for the details of those studies before making any observations about the over-indebtedness level.

Through our campaign videos we try and teach people how to be careful in terms of taking out more loans without understanding the payments they will be due to make, and we ask them to consult with their service provider to discuss any problems. Most of the big MFIs are now certified by the SMART Campaign, which means they adhere to international standards of client care and consumer protection.

We're also producing cartoon books that are aimed at children as we believe it is essential to start early as far as the financial literacy aspect is concerned. So the cartoons are funny and amusing, but at the same time educational, then at the end of the book there will be some questions to see if they have understood the message. We are also engaging with the Ministry of Education as we want to see the idea of financial literacy embedded into the general education system. But we don't want to see it as a standalone subject as we believe it can be incorporated into subjects such as maths or social science.

I see the use of technology, and especially the smartphones we have already discussed, as an ideal channel to getting our message out to everyone, especially those in rural areas. That's why we spend a lot of money and effort on putting these messages out on social media or in multimedia format. But we also have to bear in mind that some areas have poor or no internet access so we have to create things that will fill those gaps. This is another reason we want it embedded in the education system; if we can't reach the parents we can reach the children, and they in turn can pass the message on to the older generation, or indeed help with things like interest calculations or reading a contract thoroughly. We don't want money and finances to be a taboo subject.

Gender disparity is still a global issue, especially at leadership level. In Cambodia we are lucky enough to have two determined and intelligent women in leadership roles in banking, yourself and Leonie Lethridge at ANZ. Do you see yourself as a role model for young educated Khmer women to strive for success?

I don't know if I see myself as a role model, I think there are a lot more successful women in Cambodia who are doing great jobs but are probably less exposed to the media than I am. We also have two deputy-governors who are women, within our management team around 70% are women, and out of five people at director-general level, three are women, so overall women are very well represented in the NBC. We have just recruited 60 new staff – out of a thousand applications – and I think 70% of them are women too.

As a member of the Alliance for Financial Inclusion (AFI), which consists of 93 central bank members, the National Bank of Cambodia is taking gender and women financial inclusion very seriously. Being on the high level Committee for Gender and Financial Inclusion myself, I am proud to announce that AFI members have endorsed the Denarau Action Plan which calls on all concerned parties **to** push forward with bridging the gender gap in financial inclusion. Women are a crucial part of the world's economy; if you look at global consumer spending, around 70-80% of that comes from women. So if you financially empower women then you encourage them to spend more which helps further strengthen the economy.

But it brings me back to financial inclusion here which still suffers some gender disparity. Women are borrowing at microfinance level here for subsistence businesses – around 83% of MFI customers are female – but the moment they move beyond subsistence level business, there seems to be more hesitancy from banks in approving lending to women. So while pushing for higher overall levels of financial inclusion, I especially hope to tackle the disparity we have discussed.

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EUROCHAM

by Iain Donnelly

Chambers of Commerce date back to the 16th Century when the first one was founded in Marseilles in France. In many ways they were the natural progression from the Medieval Guilds, but where Guilds were made up of members practicing the same trade or profession in a town or city, Chambers of Commerce are business networks formed by businesses in a town, city, or even country, whose goal is to represent the interests of their members and to advocate on their behalf to local, regional, or national authorities. In recent years there has been a massive growth of these institutions across Asia and the Far East, both representing individual nations and, as is the case with Eurocham, providing a unified voice for an area that is both a geographical and a political construct.

A Chamber of Commerce (CoC) has no direct role in writing or passing laws or regulations, but it can act in an advisory role, a lobbying role, and in an advocacy role. These roles can be particularly helpful to its constituent members in a country like Cambodia where many aspects of trade and business are still developing.

Eurocham in Cambodia was inaugurated in June 2011, with three principal founding members: the French, British, and German Chambers. Its stated objectives were to promote the interests of European businesses operating in the Kingdom and to help businesses planning to operate here make a smooth transition to setting up here. And, of course, to build extensive networks of support among its members and other CoCS (such as AmCham). Since its inception, Eurocham Cambodia has been active in working with the government in areas such as taxation as well as producing this year's groundbreaking White Book, a planned annual publication which "...constructively engages the Royal Government on legal, regulatory and administrative issues most important to advancing the ease of doing business in Cambodia and attracting more foreign and European investment to the Kingdom."

Eurocham Cambodia has around 250 members across the full range of industry sectors. The board of directors is made up of thirteen members, with two members nominated by each of the founding Chambers — usually the president and vice-president of the respective Chambers — and the other seven elected by members. I met up with the current President of Eurocham, Arnaud Darc, CEO and co-founder of hospitality group Thalias (owner of Topaz and Malis restaurants, Arunreas Hotel, and Khéma gourmet shop), renowned gastronome, restaurateur, and possible descendant of Joan of Arc, to discuss his role as President, and what benefits Eurocham can bring.

Q&A

Could you describe your role as President of Eurocham to me?

I see Eurocham operating in a similar way to any large corporation, so my role as President is to look at what our agenda should be and what our objectives for the coming year are. The board of directors meets every semester and the executive committee meets at least every month. I had previously been President of the French Chamber of Commerce but I stood down when the previous President of Eurocham stepped down as I wanted to take up leadership of Eurocham. I was involved in the setting up of Eurocham and I think it is a fantastic organisation that represents European companies here, but is also a voice for the private sector. It's well organised and well-funded and is a great help to European business interests.

I want Eurocham to move beyond the funds we receive from the European Union and to be sustainable. After the good work done by the two previous boards, I wanted to look at the direction in which Eurocham is going and ensure that the members are receiving tangible benefits from the work we are doing. Last year we launched a survey of our members to find out both exactly who we are representing and what they feel the Chamber could do for them and this has helped shape some of our ideas for the future.

One of my own objectives is for Eurocham, within three years, to be able to self-finance itself and not depend on external funding. Of course, we can still apply for grants etc., but I want that to be an 'extra' source of funding rather than our primary source.

Returning to how I see my role. I stated my objectives to the members very clearly and asked them to elect me to the board, which they did, and then I asked the board members to elect me as President, which they also did, so I want the Chamber to grow and to be sustainable. I also want to focus on members and ensure they are getting a real return on their investment, which is represented by their annual membership fee. By the time we get to our next general assembly next June I want to propose a new fee structure to members which will give them a clearer idea of what to expect for those fees. I also hope to be re-elected as I do not think all of my plans for Eurocham can be achieved in a single term.

Arnaud Darc, President of Eurocham

And what do you see Eurocham's role as being within the business and financial communities?

Our primary role is to promote the interests of European businesses operating in the Kingdom and help new companies enter the market. We also have full time staff working for us and we are actively engaging with the government at a ministerial level on a range of issues.

In June of this year we launched our 2016 'White Book' which is an annual publication. It is intended to engage the government in a dialogue on a range of issues including legal, administrative and regulatory processes that can help facilitate foreign investment and make it easier for companies to do business here. Everyone I have spoken to within the government has been very happy with the White Book, and every Ministry has requested more copies than were originally sent and there really is a true sense of cooperation on addressing these issues. We have already had very productive meetings with the Ministry of Economy and Finance and the Tax Department. This level of dialogue is something we have never had before so it bodes very well for the future.

With next year's White Book, we plan on sharing it with the other Chambers of Commerce prior to publication to get their endorsements so that when it is published it represents the united views of all the associations.

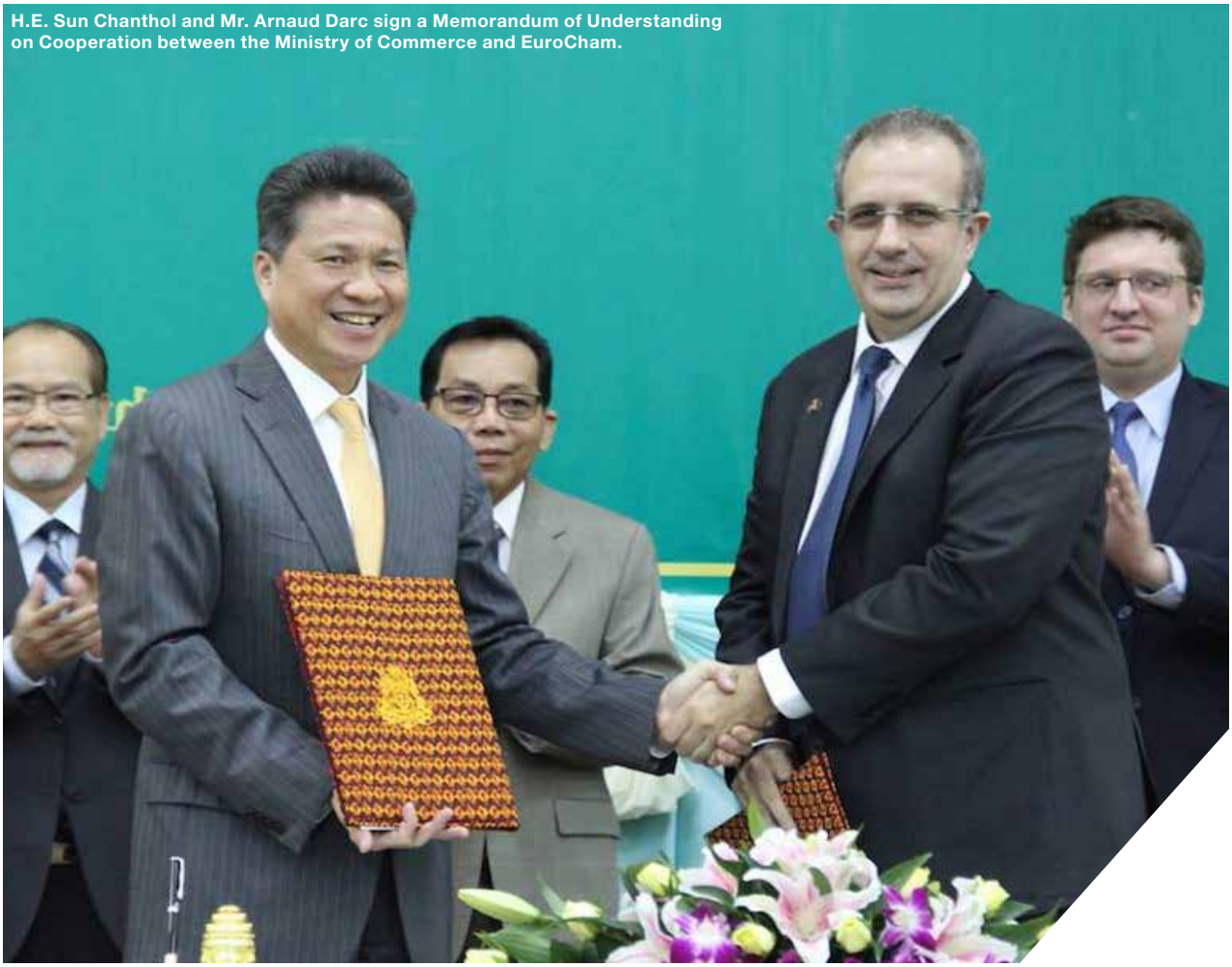
The big advantage of Eurocham is that it is much more than an elected committee; it's a staffed business association that is working full time on behalf of its members. The board gives directions and makes decisions, then the staff act to implement those decisions.

> "The big advantage of Eurocham is that it is much more than an elected committee; it's a staffed business association which is working full time on behalf of its members."

Do you only receive financial funding from the EU? Or do they offer other forms of support?

We only receive financial support. We receive around $2.7 million from the EU and we have to raise an additional 20% on top of that. There are two 'targets' for that funding: businesses from the EU who have no trading or diplomatic support in Cambodia. So businesses from somewhere like Italy, which has no embassy here, have Eurocham to support them. And we also help companies who perhaps have very little presence in the Cambodian market such as those producing luxury goods. Eurocham can often be the initial point of contact for European companies looking to do business here. We have eight working groups as part of Eurocham which cover several sectors, so we can offer honest and accurate advice to companies looking to come into the local market and then offer them on the ground support.

We are also involved in promoting Cambodia across the region here through networking and things like trade fairs. We want to show these regional companies that Cambodia is a good place to do business and see if we can open doors for them as well as networking with our fellow Chambers in other countries. I'd like to see some sort of regional federation formed that brings together the voices of the various Chambers of Commerce. Lastly we also promote Cambodia at trade fairs and similar across Europe.



H.E. Sun Chanthol and Mr. Arnaud Darc sign a Memorandum of Understanding on Cooperation between the Ministry of Commerce and EuroCham.

If Brexit does go ahead, how do you see that affecting British companies doing business here? And would it have any effect on Britcham being part of Eurocham?

First of all, a large percentage of the funding we receive from the EU originates in the UK. I'm very saddened that the UK has chosen to leave the EU. But I think, if you look at Cambodia, that we all have to talk with one voice, a strong voice. Before we had Eurocham, I was involved in the French Chamber of Justice. Then it was far more difficult to open doors, whether they were business or political, than it is now. So in theory I would like us to continue speaking with that one strong voice that we have now. We are better if we stay together and work together. But even before Brexit Britcham here retained some of their independence. We had asked them if they wanted to fully integrate as the other European chambers have but they decided to stay 'one foot in, one foot out.' At the end of the day we have more common interests than we do differences so it makes sense to speak as one. No matter what Brexit brings we will find a way to keep Britcham linked to Eurocham and continuing to work with us.

As far as Brexit's effect on trade agreements with the EU for British companies, as far as I am aware Cambodia has already approached the UK and said that they would like so to see the conditions of any of those EU deals extended to a post-Brexit UK. It's important for Cambodia to do this as UK companies are big customers, especially for the garment industry.

Many Westerners comment that it can often be difficult to set up business in Cambodia, not so much because of the cultural differences, but because of the differences in business culture and the ways of doing business. What are your thoughts on this?

If a foreigner comes to Cambodia with a Western mindset that comprises culture, tradition, legal frameworks, and the ways of doing business that they are used to, and they then expect things to be similar here and do not have the readiness to change and adapt, then of course they are going to struggle. The legal framework for doing business here is completely different and still lacks some of the legal tools for investors that you may find in your home country.

Arnaud Darc with Jean-Claude Poimboeuf, the French ambassador to Cambodia

I think the cultural clash is becoming less and less relevant as the idea of living in a 'global village' as far as doing business is concerned is more true these days. The whole planet is connected and the Cambodia of today is totally different from how it was ten or fifteen years ago. Things like audits and good corporate governance are far more common than they were.

The younger Khmers are now looking to the international business community here for guidance on how to do business. The country is catching up quickly for sure.

What challenges face European companies or individuals seeking to do business in Cambodia?

We looked at this question in our Business Confidence Survey which we undertook with Eurocham members in the second half of 2016. One of the major challenges is in the human resources field. 53% of our respondents felt this was a significant challenge and it really reflects on the skills gap which exists in Cambodia. Closing that skills gap has to be a major priority for the government to allow Cambodia to be competitive in an increasingly tech-orientated market. There also has to be some shift in focus to the importance of vocational training, where the skills that are actually needed by employers are being provided by training organisations. Paradoxically, many European companies find that the low labour cost here is a major advantage but those tend to be businesses that either provide their own training or who do not need high or medium skilled workers.

The second most challenging factor our respondents identified was non-transparent practices in business and the culture of unofficial fees. And third was the challenge of navigating the often complicated bureaucratic procedures here, which includes the struggle to be competitive against non-compliant businesses (for example in the area of taxation). BFC

The Eurocham survey can be accessed at http://www.eurocham-cambodia.org/uploads/3cae5-businesssurvey2015final.pdf

and their White Book at http://eurocham-cambodia.org/uploads/e3c65-white-book-2016-(english).pdf

PROFILE

THE PERSON BEHIND THE JOB

In a regular series we will take a look at the person behind the job title and shatter the myths of bankers and businesspeople being grey and staid. For our first profile I had the great pleasure of meeting Cynthia Liaw, perhaps one of the most colourful figures – literally and metaphorically – in Cambodian banking today.

Name: Cynthia Liaw.

Position: CEO, Maybank Cambodia.

Nationality: Singaporean.

How long have you been in Cambodia: 19 months so far.

Previous Experience: Head of Virtual Banking and Payments, Maybank Singapore, Head of Cards Business, Maybank Singapore, General Manager (for both consumer and micropayments) with Network for Electronic Transfers (Singapore), Vice-President of MasterCard Singapore.

What has been your best impression of Cambodia so far: The warmth of the people, from customers and staff, and all the people I have met in my time here.

Favourite spot for dining out: My favourite is a small Asian restaurant called Mok Mony (63c, Street 294) owned by a Malaysian-Canadian guy. It's mainly Khmer dishes with some other Asian cuisine, much of it with a twist of fusion to it.

Most fun activity since coming to Cambodia: Quad biking. Every country I have gone to I like to go quad biking; in Australia it was in the sand dunes and here in Cambodia we went quad biking outside Siem Reap and it was great fun riding through the villages and giving out noodles packs to all the kids.

Favourite place you have visited in Cambodia: Most of my travelling around Cambodia has been work related. I've enjoyed all my visits but for me it's not so much about the place but the company you are with and the people you meet. I was making a customer visit to a rubber plantation in Ratanakiri and rather than staying in a hotel, I chose to stay in the house there as part of their family which was great fun. I do love travelling around the provinces but I tend to remember the people and experiences more than the names of the places. So I have fond memories of sleeping in a hammock or of having a delicious lunch of crabs next to a waterfall but I couldn't point the place out to you on a map.

How would you like to be remembered for your time in Cambodia: There's a quote I saw that partly answers this question. "Work for a cause, not for applause. Live life to express, not to impress. Don't strive to make your presence noticed, just make your absence felt." But I don't think I would like my absence felt when I leave Cambodia, at least not from a professional perspective, as it would mean I had not done a good job in sharing responsibility and succession planning.

I would like to leave with the bank stronger than before. The industry here is really developing. We've won several awards in my time here, including one for innovation from Visa for launching the personalised bank cards, and I would like to see us maintain those high standards.

One of our key performance indicators here at Maybank in Cambodia is to have something new every month that we can share with our customers and the community. If I am going to spend the bank's money and use its resources and the hard work of our staff, I don't want to be looking at bringing in things that are already in the market for decades; I want to be introducing the latest systems, processes, products and services to the market that will help Cambodia leapfrog to the present. I want to see us cooperate with other banks and with the regulatory authorities to help build /develop the best banking sector that we can have.

So yes, I do hope they miss me as a person but not as their boss, because I will have trained them well and given them the responsibility and confidence to work on their own. BFC

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Phnom Penh	«»	Siem Reap
08:45AM		07:45AM
09:45AM		08:45AM
12:30PM		12:30PM
10:30PM		10:30PM
11:00PM		11:00PM
11:30PM		11:30PM
Phnom Penh	**«»**	**Sihanoukville**
08:00AM		07:30AM
09:30AM		09:30AM
12:30PM		12:30PM
Phnom Penh	**«»**	**Kampot**
08:00AM		08:30AM
02:45PM		02:45PM
Phnom Penh	**«»**	**Ho Chi Minh**
08:00AM		08:30AM
12:30PM		12:30PM
Phnom Penh	**«»**	**Bangkok**
06:30AM		06:30AM

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Brett Sciaroni, Founder of Sciaroni & Associates

CALL THE FIRST WITNESS

by Iain Donnelly

There are few, if any, foreigners who have lived and worked in Cambodia as long as Brett Sciaroni has. He has been witness to some major changes in the country in his time here, and there are very good reasons that Forbes Magazine have called him the "The Most Powerful American In Cambodia."

One of the first foreign lawyers to set up business in Cambodia, Sciaroni has served as Legal Adviser to the Royal Government of Cambodia since 1995, a title that carries the rank of Minister. It's doubtful that any other expatriate in the Kingdom has the wealth of experience or knowledge of Cambodia that he brings to the table. Brett also serves as the Chairman of AmCham (which he founded), Chairman of the International Business Chamber of Cambodia, and Co-Chairman of the Working Group on Law, Tax and Governance. With his legal firm, Sciaroni & Associates, providing legal and investment advice across Cambodia, Myanmar, and Laos, there is no-one else more qualified to give an overview on the benefits and hurdles that those wishing to do business in the region will face. I caught up with Brett at the end of another hectic working week to ask his thoughts on how Cambodia is progressing.

Q&A

Brett, you've been here 23 years now so the changes you have witnessed have been monumental. Can you pick the three most important over that period?

In my view, there are three critical events in the modern era that have been preconditions to the changes we have witnessed. The first was the 1991 Paris Peace Accord. It laid the foundation for the modern era by endorsing a national election that would bring the warring factions together. Although the Khmer Rouge later left the peace process to return to the jungle and continue to fight for the rest of the decade, the other three factions committed to see the process through. And the participation of the Cambodian Peoples Party (State of Cambodia) was not a forgone conclusion at the beginning of the negotiations. With the collapse of the Soviet Union, a primary donor country to the State of Cambodia, Prime Minister Hun Sen realized that it was necessary to open up Cambodia and normalise relations with other countries. But he had to persuade others in the party that this was necessary and desirable.

The second change which was critical was creating the legal and regulatory framework for a modern economy. Again, the Prime Minister was critical in moving Cambodia from a planned economy to a free market economy. As Cambodia was a small and poor country, it needed to have an attractive investment environment so that foreign direct investment would be made here. As early as 1994, the passage of an investment law was an indication of the direction the economy was moving toward. Legal and economic reforms have continued to this day.

The third event which was an absolute precondition to creating economic growth and prosperity was ending the war. As mentioned previously, after the 1993 election, the Khmer Rouge went back to war for much of the 1990s. And although some investment did come in that decade, you could not attract serious investment so long as the war continued. Ending the war was critical and it was accomplished by the end of the decade. And that has led to the strong growth of GDP in the years since the various elements of the Khmer Rouge either rallied to the government or were defeated.

We have recently seen the World Bank raise Cambodia's economic status to 'lower-middle income'. How important do you see this as being to the development of the economy?

The upgrade in our status by the World Bank is a testament to the success of the Cambodian economy. Hopefully we can continue on this path and become a well-developed economy; although we need more diversification of the economy if that is going to happen.

In the long term this will likely mean a drop in aids and grants and potentially a loss of some preferential trade agreements. How easy – or difficult – will it be for Cambodia to replace such losses with FDI and with self-financing infrastructure projects through a bonds market?

There are consequences to economic development, and that means that over time, we will have to restructure the way we do business here. But that is a good thing. It will demonstrate that we are progressing as a country. But it will present challenges as grants diminish and the preferential trade agreements fall away over time

If you were speaking to a potential major investor, what would you say to 'sell' Cambodia to them?

There are many attractive points for potential investors. First, we have a free market economy. It was a remarkable transformation from the planned economy according to socialist principles to a free market. While it still needs a great deal of work, given that this is still an underdeveloped economy, the legal and regulatory reforms provided a springboard for economic development. Another attractive aspect is that the government officials are accessible. They are not only accessible through the formal system of public-private dialogue established by the Prime Minister known as the Government-Private Sector Forum (GPSF), but the officials are individually accessible on a personal basis.

And if they asked you the biggest hurdles they would face?

First, potential investors need to look at the particular sector of the economy in which they are interested. And while some research can be done via the internet, the reality is

that they need to visit Cambodia and do a firsthand inspection, talking to current investors etc. The internet can only tell one so much. But a lot of information can be garnered by a visit. The other hurdles are things such as operating costs. For example, the price of electricity remains high. That does not prevent manufacturers from coming to Cambodia, but it is a serious concern. And there is the ever present issue of corruption. Despite efforts by the Royal Government to clamp down on corruption, it remains a serious issue. It is not an insurmountable problem, but it remains a problem nevertheless.

How important is your work on the Working Group on Law, Tax and Governance to ensuring that Cambodia can compete in an increasingly competitive region?

The Working Group on Law, Tax and Governance is only one of 10 working groups under the GPSF, and represents an important dialogue mechanism. It is one of the few working groups that is cross-cutting, as most are sector-based (banking & finance, tourism, agriculture, etc.) In general, the GPSF has been very effective in resolving problems in the economy. It is an important consultative mechanism so that the officials of the Royal Government can understand the perspective of the business community and perhaps see the

sometimes unintended consequences of its actions, whether in terms of laws, regulations, or policy. Likewise, the business community can learn more about the objectives and intentions of the government. In this regard, the Working Group on Law, Tax and Governance, and its related Tax Working Group, frequently meet with government officials to discuss issues of importance for businessmen.

Generally speaking, Cambodia still has a relatively low skill-set in its workforce. While many agree that education is a necessary building block for a developing economy, how crucial do you see the development of vocational skills as being for the Kingdom?

It is generally recognized that there is a serious mismatch between the skills required by the private sector and the kinds of graduates coming out of school. Too many graduates have soft science skills rather than the STEM skill sets that many businesses require. (STEM = Science Technology Engineering Mathematics.) In addition, we do need more vocational training. The kind of businesses Cambodia is looking to attract, such as light manufacturing, are required to diversify the economy. But they need to be able to hire local staff with the skills they need. To begin to address this issue, the International Business Chamber of Cambodia signed an MOU with the Minister of Education, Youth and Sports which commits the private sector and the Royal Government to have ongoing consultations and dialogue. The initial Education Summit will be held in October 2016 with the endorsement of many business chambers.

As ASEAN integration moves forward, what benefits will this bring to Cambodia?

ASEAN integration should benefit Cambodia. With freer flow of goods in the region, Cambodia is well positioned to take advantage of it as we already have a free economy and as other economies open up more as required by the standards set by ASEAN, Cambodia should be the beneficiary. However, if the Trans Pacific Partnership moves forward, this will pose a threat as it will be an even bigger trading bloc with some of Cambodia's regional competitors well positioned to take advantage. This is particularly the case with Vietnam. So it would be well advised for Cambodia to start preparations for application to TPP. And a very good first step in this direction would be to conclude a Bilateral Investment Treaty with the US.

"There are many attractive points for potential investors. First, we have a free market economy. It was a remarkable transformation from the planned economy according to socialist principles to a free market."

Regardless of the possible result, will the 2018 election cause any disruption to trade here? Or put potential investors off?

I have been here for all five national elections, and there has been an economic slowdown before each of them. I would expect no different in 2018. The only difference is the length of time during which the slowdown occurs. For example, despite turbulence associated with the previous national election, I currently see no signs of a slowdown, either among the national companies or international companies who are looking to invest in Cambodia. So perhaps the reform agenda that the Prime Minister put in place after the last election has had a good result. BFC

Fabrizio Aceti, Consultant Chef at Do Forni

THE ITALIAN JOB

At the end of a long week crunching numbers and dealing with reports, more reports and even more reports, there is nothing better than to relax with friends over some good food and fine wine. And there is nowhere better to do this than in the fantastic choice of dining experiences at Sofitel on Sothearos Boulevard.

Since Sofitel first opened its doors in Phnom Penh back in 2010, it has been a byword for sophistication and elegance among the city's glitterati and visiting dignitaries. With a wide range of fine dining choices at hand, one of the most consistently popular has been their Italian restaurant, Do Forni.

September of this year saw the menu at Do Forni rejigged and revitalised to bring some fresh new dishes to the menu. Under the guidance of Singapore-based Consultant Chef, Fabrizio Aceti, the new menu is exciting, adventurous, and, as my old Italian grandmother would have said, "deliziosissima!."

Having had the pleasure of sampling the new menu, I can only echo what my grandmother would have said. Unfortunately my eloquence at describing the gastronomic wonders I experienced fall far short of my friend, Darren Gall, so I will merely present some dishes for your titillation that will hopefully tempt you to go and try for yourself.

Among the standout dishes on the menu is one of Chef's signature dishes, Vitello Tonnato (low temperature cooked veal loin with tuna sauce and celery), which very possibly may be the finest veal dish to ever grace a plate in Phnom Penh. For the seafood lovers, surely the very idea of the Garganelli alla marinara (Homemade pasta with clams, mussels, crab meat and tiger prawns) will have you phoning in your table reservation immediately. And for those of you who are, like me, unashamedly carnivorous, Do Forni offers the Controfiletto Di Manzo Wagyu (A Wagyu Beef Ribeye served with your choice of sauce and two side dishes), a true slice of meat lover's paradise. If after travelling through the cornucopia of Italian ambrosia there is still a slightly unfulfilled corner of your appetite, then turn to the Dolci page of your menu, a choice of traditional Italian desserts from different parts of Italy. If you do succumb to that temptation, may I be so bold as to suggest the Mimosa Cake? Made to resemble the Mimosa flower which men in Italy give to their lovers on "Festa della donna", the woman's day, this is a little piece of Italian heaven; a sweet treat filled with a delicious cream and flavoured with Italian lemon.

But back to the man behind this stunning new menu. Fabrizio has 25 years' experience as a chef, experience which spans eight countries across Europe and Asia. With a true passion for the food he creates, Fabrizio loves to work with healthy food as well as thinking outside the box when coming up with new ideas. I managed to corner Fabrizio in a rare quiet moment at Do Forni to grill him (apologies for the pun) on his background and his love of food.

Q&A

Fabrizio, you are the brains behind the company 'Superchef'. Can you tell me something about it?

Superchefglobal is a company I started where I do food & beverage consulting. I help clients to open a venue or a hotel for example. I also work as a head-hunter for Super Chefs and FB managers, as well as finding the most talented assets in the F&B industry. I'm basically looking for the best of the best.

You've been based in Asia for a number of years now, but can you tell me about your work previous to that?

Before Asia, I was working in several European countries such as the United Kingdom, Switzerland, Italy, and France. I think my proudest experience there was working with the famous Monégasque Chef Alain Ducasse ***(Editor's note; Alain Ducasse is a Monégasque - Moncaco - chef. He operates a number of restaurants including Alain Ducasse at The Dorchester which holds three stars in the Michelin Guide.)*** I really enjoyed working in different European restaurants; every single kitchen is different from the previous one, that's what I loved about it.

I read that you have also launched an app.

Yes, it's called QQChef and is a mobile app platform where you can search for individuals in all Food & Beverage positions, from dishwasher

"Some of the products I use are locally sourced, such as tomatoes, herbs, and other vegetables, and other ingredients are imported from the European Union and Australia. But the most important ingredients are all from Italy"

to head chef. You can contact them directly with an internal chat without needing to look for their mail/phone or contact information somewhere else. You can also share any information you want, make posts, share pictures etc. I hope it can be the Facebook of the F&B industry.

Another important part of the app allows you to look for special equipment related to the industry, from cook books to specific light bulbs, any kind of materials you need for your kitchen.–

I'm quite happy, the results are great and we have had a lot of downloads already and received good feedback from our clients. The application still needs some work I think, as well as maybe more marketing to communicate its uses.

If you could hold a fantasy dinner party and invite anyone, living or dead, who would they be?

I'd choose Robert De Niro, Marilyn Monroe, Nelson Mandela, my grandma and Rodger Federer.

Interesting choices. And what would appear on your menu for that evening?

For the starter, Vitello Tonnato, then Spaghetti Chitarra (Homemade Pasta with Smoked Pancetta, Tomato, Basil, and Pecorino Cheese) and for main course, Venetian Cod.

How are you feeling about the new menu at Do Forni at Sofitel?

I am quite confident that the new menu will be a success. I have put all my knowledge and passion into the dishes! I think it differs from many of the existing Italian restaurants in Phnom Penh and hope people see that. I like to think that Do Forni focuses more on product quality rather than quantity.

I'm trying to teach some tips and techniques to the kitchen staff here because I will not always be here in Phnom Penh. What I really want is for the Do Forni kitchen team to empower themselves, and to be able to prepare the dishes as if they created them. I think the new Do Forni menu will also be more affordable and accessible. The prices are definitely competitive and not as high as people think – that is why I think more and more locals will come to Do Forni to celebrate with family or friends. I want people to know this is not a restaurant reserved only for wealthy people or expats, Do Forni is open to everyone.

I know from talking to other Chefs that a big problem here for some cuisines is the sourcing of ingredients. How do you solve this issue?

Some of the products I use are locally sourced, such as tomatoes, herbs, and other vegetables, and other ingredients are imported from the European Union and Australia.

But the most important ingredients are all from Italy, such as Olive oil, Cheeses, and Taggiasca Olives. I could not have created or cooked my dishes without these.

It's good to source locally but the main ingredients should be from the country where the cuisine originates. Italian cuisine without Italian olive oil is not Italian cuisine.

RHB Indochina Bank has gone from strength to strength since our inception 8 years ago; consistently recording above industry growth for Assets, Loans and Deposits, and in the process substantially strengthening our Balance Sheet to serve our customers better.

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RHB Indochina Bank through various social activities like community services, sports and donations demonstrates its engagement and commitment towards the community of Cambodia. In 2015, the Bank for the second consecutive year organised the RHB Junior Football Cup for underprivileged children. We also generously donated 100 bicycles to students in Siem Reap, made a cash donation to the Cambodian Red Cross at both national and provincial level as well as sponsoring sporting equipment to participants for football and mountain bike tournaments. The Bank will continue to pursue such meaningful activities for the benefits of the Cambodian community.

Our recent grand opening of 2 branches on the 12 August 2016 at Boeung Keng Kang and Mao Tse Tung mark our continued progress in Cambodia. On the same day, we also launched a Deposit Campaign - "Moha Samnang Lucky Draw" - which is open to new and existing account holders. The campaign lasts from 12 August 2016 until 28 February 2017. For a deposit of USD100 into a Current Account or Savings Account, the RHB Bank Customers get a chance to win attractive prizes which include a brand new Mazda2 car, 6 units of Kawasaki Z125 motorcycles, 12 units of Cannondale Bicycles, 12 units of iPhone and 12 Samsung Smarts Phones each and the latest 12 units of Samsung TV. Going forward, RHB Indochina Bank will continue to reward and deliver superior value to our customers and stakeholders.

RHB

BUILDING FOR THE FUTURE

by Iain Donnelly

Kim Heang, CEO of Khmer Real Estate and President of the CVEA.

In the last year or so there have been several stories on the condition of the Cambodian real estate market. The views of commentators have varied; from those who say there are no problems to those who say that we are heading for an imminent bubble. The truth may lie somewhere between those two points though the recent Ministry of Economy and Finance report acknowledges that the sector is making the necessary adjustments and that the market will maintain a decent level of health.

Many of these concerns are still lingering, although more recent developments and consultations with real estate developers suggest that the real estate market may be making a gradual adjustment - a kind of 'soft-landing'. The risks of the market suddenly busting appears to be diminishing.
(Cambodia Macroeconomic Monitor, Mid-Year Assessment. Ministry of Economy and Finance)

There have definitely been big changes in the industry over the last few years, with rising standards of quality, professionalism, and customer service from real estate agents and from appraisers. Much of the driving force for these changes has come from the Cambodia Valuers and Estate Agents Association.

In September of 2015, in the wake of the resignation of disgraced tycoon, Sok Bun, Kim Heang, CEO of Khmer Real Estate was elected as President of the CVEA. I met up with Heang to get more of an idea of the role of the CVEA and his thoughts on the market here.

> **"The CVEA seeks to bring together everyone working in the real estate sector, so that we can speak with one voice, share ideas, seek ways to solve problems,..."**

Q&A

Can you tell me what the role of the CVEA is?

Before I tell you what their role is, I'd like to explain who we are. CVEA is the association which brings together real estate agents and property appraisers. According to the Ministry of Economy and Finance's (MEF) database, there are 134 companies registered to work in his sector. And at the moment, around 100 of those are members of the CVEA. The CVEA was originally founded by the MEF in 2008 and remained part of the Ministry until 2015. But since then we have operated as an NGO and are strictly a non-profit making organisation.

As to our role, the CVEA seeks to bring together everyone working in the real estate sector, so that we can speak with one voice, share ideas, seek ways to solve problems, and also provide training to raise standards across the sector. We have training sessions and workshops every few months and these are free of charge to members of the association. Something else we look to do is to ensure uniformity across our members when it comes to fees or charges. We don't want members over-competing with one charging a lower commission on sales than another, so we brought in a standard commission fee of 3%; we want instead to focus on the quality of the service provided. And the same with the valuation sector, we have 38 companies licensed to carry out property valuation. Ten years ago the only people that really needed valuations carried out were the banks, but now there are a very wide range of customers, from private individuals through to companies.

So for that area we have brought in a minimum fee of $150. Companies can choose to charge more but we do not want them to charge less. A few years ago there were many instances of false appraisals, where the client would pay some money under the desk to have the report reflect the value they wanted it to. But those days are gone, thanks mainly to bringing all the companies together under CVEA as a regulatory body. There are too many unlicensed and unregistered operators in the real estate market.

If you have a problem what support can you seek?

None. But if you have a problem with one of our members then you can bring it to our attention and we will try and help to resolve the problem. We want the standards raised right across the sector, we want people to see the CVEA name and know they have found a company that they can trust.

How do you see the market just now and in the near future?

Cambodia is a land of opportunity and people can still make money in real estate but you have to be realistic. If someone says to me that it is easy to sell condos in today's market then I do not believe them, but equally if someone says to me that it is impossible to sell in today's market then I do not think they are professional. Condos can still sell but what we have to look at and recognise is who we are selling to and who wants to buy.

The international market – as in buyers coming from overseas – can still have unlimited potential depending what is on offer. But for Cambodian buyers, I see there being three groups of potential buyers; high-end buyers, the middle class, and low income buyers. Now here I am primarily talking about Phnom Penh, so the high-end market is around 10% of the total market, the middle class is about 20%, and the low income segment is 70%. So if you are developing for the high-end market – and looking for Cambodian buyers – then it is not a good segment to target. Why is this? Because that affluent group of Cambodians now have large property portfolios; they have houses, they have land, and they have condos. So why would they buy more? And the middle class – now I define middle class as someone that own two or three properties – may want to buy more but cannot afford to buy just now.

The biggest group of potential buyers out there are those in the low income bracket – I define these as people with salaries around $500 per month – and they want to buy. A 1 bedroom condo at around $35,000, or a 2 bed condo at $65,000, with the mortgages now available on the market, those condos are affordable by that 70% group! It's a huge market but so many people are still looking at those high-end and middle class buyers instead, it doesn't make sense.

Now I also hear many people saying that Cambodian buyers do not want condos, they want boreys; they want small pieces of land. You have to realise that 37 years ago we were a nation of 5 million people, but now we have a population of 15 million – and 11 million of those are under 37 years old - so around 70% of our people are the 'new generation.' My father's generation would say no to condos, my own generation says both yes and no, but the younger generation are the ones who will say a resounding yes. If you look at Thailand 20 years ago, 90% of condo buyers were foreign. Now it is the other way about and 90% of condo buyers there are Thai.

The population of the city could hit 3 million by the end of 2016, and the city itself is growing by more than 250,000 people every year. So there is a big market among many of these people migrating to the city for condos. Boreys can still make money but they have to be priced for the buyers. A couple earning $1500 between them cannot afford a house at $200,000 but they can at $45,000 or $65,000.

Another major factor that can affect trends and prices is traffic. As the city grows the infrastructure is not growing at the same pace. I lived near the airport ten years ago when I was a university lecturer. At that time I could travel more than 10km in ten minutes. Now that same journey can take you an hour or more. So in the future you may see many of the middle class having a condo in central Phnom Penh for during the week and a house or borey outside the city for their family.

So, to summarise, the market and developers need to focus on affordability and what future trends will be. Developers just now have made their own problems. Last month the MEF published a report on economic progress for the first half of 2016 which shows some part of the sector are slowing down. (Editor's note – extract below) But the developers are still happy. Why? Because they have made too much money in the past! When you look at the price they pay for land, the construction costs, and then the price they sell for, there are huge profits in the high-end buildings, so when these condos have been selling well they have been banking a lot of money. So now that there is a slow-down, they are usually happy to wait till the market picks up again.

Since the beginning of this year, demand for real estate has also been cooling down somewhat. According to a recent survey, in the first half of 2016, sales of condominiums dropped by 30-50 percent while that of 'boreys' declined by 20-30 percent. On the supply side of the market, real estate developers are also adjusting to the excess supply situation by either postponing some of the planned real estate construction projects or by out-right cancelling some of those projects. Interviews with real estate developers suggest that from now on and until 2018, they would rather focus on completing the ongoing projects, especially those targeted at low-to-mid-dle-income buyers, rather than begin new projects. (Cambodia Macroeconomic Monitor, Mid-Year Assessment. Ministry of Economy and Finance)

So you think the real estate market can remain healthy with just a little change in focus and an awareness of affordability of developments?

Not everyone can survive. Some people will disappear from the market, at every level. Those single operator agents who are not registered or working together with the CVEA, they will not last. Or those developers who do not have a lot of experience but have seen others making money and try and copy them, they will not last. Experience is everything in this market, especially as it matures.

Those developers that can fund their projects themselves and have experience will continue to do well. But if you lack experience or are borrowing money from the bank to fund that development, then those people will not do well. My conclusion is, it's not anyone that can do well in our market from now on, it will be those with savvy and with good financing and knowledge of the market.

Something else that I think is a good idea and which I have discussed with the Ministry is that for anyone developing a project, the land on which they are building should never be the collateral for a bank loan. They have to own the land outright to build on it. And there should also be a change in how pre-sales for a condo project works. A few years ago it was fine to do this as there was a high level of demand, but now there is less demand and more supply. Your project should be at least 30% complete before you are allowed to sell units. These two proposals would ensure that developers do not 'run away' from projects, because they own the land the condos are on, and they have already invested 30% of the construction costs. For borey project presale is okay as borey project takes 6 months to complete, but condo projects take an average of 3 years.

Do you think the government has to invest more in infrastructure to support the real estate market and to improve the city generally?

To have a system where infrastructure development happens at a good pace, you need strong laws. Here we see very little investment in infrastructure from the government. A problem I see is that too many politicians in Cambodia are involved in businesses. There should be separation between politics and business. The cost of infrastructure projects like roads or bridges is not that high yet we still don't see enough of it happening. The government should be investing far more in the infrastructure of the country. And if the infrastructure was better then property and land prices would remain healthy and a good investment. We should also encourage foreign investment even

if that means things like toll roads, but there has to be laws that protect those investments and investors.

We've mainly discussed Phnom Penh, but what about outside the capital? Many people are saying Sihanoukville will be the next property hotspot. Would you agree?

There are still hurdles to cross before Sihanoukville becomes a 'hotspot'. Those hurdles all involve transport. If there was a direct high-speed rail link, a new highway that meant journey time from Phnom Penh was only 2 hours, and there were 3 daily flights from Phnom Penh to Sihanoukville, then the city would expand quickly. Without those being developed then it could take as long as 10 years before we can call Sihanoukville a hotspot. There will be attractions for Chinese buyers who can arrive in charter flights from China, but for other buyers, both foreign and local, the current levels of infrastructure are not enough to make it an attractive investment.

> **"The population of the city could hit 3 million by the end of 2016, and the city itself is growing by more than 250,000 people every year. So there is a big market among many of these people migrating to the city for condos."**

TAKING RESPONSIBILITY

It is common knowledge that Cambodia has one of the fastest growing economies in the world, ranked 7th by the most recent World Economic Forum (WEF) figures. This has been reflected in the World Bank's decision to move Cambodia to lower-middle income status, a decision discussed elsewhere in this magazine. Growth in 2015 eased slightly to 7% and is forecast to be at the same rate for 2016. The World Bank report of April 2016 noted that the tourism and agricultural sectors showed signs of "economic moderation and weakness" and that it was the continuing expansion of the country's financial sector that was the main driver behind economic growth.

"Continuing rapid expansion of the financial sector has accommodated economic growth. Domestic credit growth accelerated further to 27% in 2015, spurred on by rising domestic demand for consumption and construction, while growth of private sector bank deposits eased to 16.6% in 2015. Recent increases in capital requirements are expected to help strengthen financial stability."

While these improvements, and the accompanying reductions in poverty in both urban and rural households, are highly encouraging, there have been calls from some leading economists such as Joseph Stiglitz and Christine Lagarde that in a changing world we perhaps need to look beyond mere GDP growth as a measure of progress. Though GDP does give a good baseline for measuring global economic growth, the voices calling for change suggest that we now need to look at other factors such as well-being and quality of life. One suggestion for a more comprehensive indicator would be the Human Development Index (HDI), which combines monetary and non-monetary indicators of human development; life expectancy at birth, a composite of school enrolment and adult literacy, and also GDP. But outside of purely economic contributions, just how can the banking and financial sector address and improve these areas? One way is in their Corporate Social Responsibility policies and programmes.

> "For me Corporate Social Responsibility is not just about going out there and helping the poor, it is also about having that sense of responsibility in everything you do in your daily life and in how we operate as a bank. - Cynthia Liaw, CEO Maybank Cambodia."

> **Corporate Social Responsibility is very important to Maybank as one of our mission statements is to 'humanise financial services. - Cynthia Liaw, CEO Maybank Cambodia.**

WHAT IS CORPORATE SOCIAL RESPONSIBILITY?

Corporate social responsibility (CSR) can refer to a wide ranging number of practices that benefit the society in which the corporation or business operates. These can vary greatly depending on the business and indeed on the needs of the community in which they operate.

The Commission of the European Communities in 2001 defined CSR as;

"A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis."

While the World Business Council for Sustainable Development defined it as;

"The commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life."

CSR can range from 'basic' philanthropy, where the company donates a portion of their profits or income to local or national charities. In some cases, these donations can also take the form of expertise – giving time to help train small business owners or offer advice to social enterprises.

Another approach is in the environmental area. A business usually has a large carbon footprint and anything they can do to reduce that footprint – such as sponsoring tree-planting programmes – offers benefits to the company and to the community/country in which they are based.

Many corporations now run volunteering programmes which encourage staff at all levels to donate some of their time (from working hours) to local and national charities. This type of CSR allows companies to target specific causes or organisations that they feel will most benefit from their assistance.

Of relevance to Cambodia is the idea of adopting ethical labour practices as part of your CSR policies. By treating your own staff fairly and ethically in the same way as the staff in the company's 'home country' then you are demonstrating long term responsibility to not only achieving growth, but in promoting well-being of your staff.

In a recent article for Business News Daily, Liz Maw, CEO of non-profit organization Net Impact said;

"Sustainability isn't just important for people and the planet, but also is vital for business success. Communities are grappling with problems that are global in scope and structurally multifaceted — Ebola, persistent poverty, climate change. The business case for engaging in corporate social responsibility is clear and unmistakable."

PROFIT VS PEOPLE

Though we have to recognise that a bank or financial institution will primarily feel that their main responsibility is to their shareholders, there also has to be responsibility to the population of that nation, particularly in a developing country. The National Bank of Cambodia has been introducing initiatives and Prakas which not only stimulate growth of the banking sector but also are of wide ranging benefit to the Cambodian people. The promotion of financial inclusion and literacy, the programmes to encourage use of the Riel, and the new inter-banking systems being trialled and coming in the near future, are all initiatives that not only help the financial system mature, but also, and perhaps more importantly, promote and improve the well-being of ordinary Cambodians.

It also has to be noted that having strong CSR policies does not have to be at the expense of profit, far from it. In developed nations consumers are increasingly aware of what companies are ethical and socially responsible and will often make spending decisions based on these factors. With the Cambodian population weighed heavily towards a younger and increasingly educated demographic, how long will it be till those same factors that are so important to consumers in the West become equally as important to this new wave of young Cambodians with rising disposable incomes? Having a solid CSR policy as part of your corporate identity is attractive to customers, business partners and employees so can be hugely positive when it comes to generating profits and reducing staff turnover, factors that will keep any shareholder happy.

Cynthia Liaw, CEO of Maybank, recieves the award for best corporate social responsibility in the Cambodian banking sector.

POSITIVE SIGNS

There are already well-established CSR programmes running throughout the Kingdom and several of the banks operating here are at the forefront. But arguably the leader in CSR within Cambodia is telecommunications company, Smart Axiata, who received the award from Global Banking & Finance Review for Best Corporate Social Responsibility in Cambodia 2015. Among the programmes funded by Smart Axiata is a collaboration with UNESCO and the Ministry of Education to counter illiteracy that saw 92,000 Cambodians learn to read and write in 2015. They are also involved in mobile library schemes, clean-up activities, and tree planting, thus covering most of the CSR bases.

But the banking sector are not far behind in their efforts and we will likely see more developments over the next year as CSR becomes a more widely-accepted concept and businesses generally realise that it is an investment in their own future as well as that of the country.

Of special note is September's announcement from The Association of Banks in Cambodia (ABC) that they would be developing sustainable finance principles that would eventually include both social and environmental safeguards as well as lending standards into all business decisions. This benefits both the banks and their customers as these principles will lower investment risk for the banks while at the same time addressing environmental concerns and giving support to local communities.

In October, 2015, ANZ Royal launched their MoneyMinded programme in Cambodia, a highly successful financial literacy initiative for adults which the bank runs in 21 out of the 34 markets it currently operates in. This has already been delivered to around 500 'students' at no cost. And ANZ Royal plan to expand this in 2017 to MoneyMinded Business Basics, an educational programme aimed at giving micro-entrepreneurs and start-ups the necessary financial and business skills to grow their business.

And beyond their financial literacy programmes, ANZ employees contributed more than 45,000 hours of volunteer work between 2005 and 2015. They also run an annual Business Plan Contest to encourage Cambodian youth to consider an entrepreneurial path and have partnerships with several charities including Passerelles Numeriques Cambodia (PNC), and Pour un Sourire d'Enfant (PSE).

While Smart Axiata was winning the Best Corporate Social Responsibility in Cambodia 2015 award from Global Banking & Finance Review, Maybank were winning the equivalent award for the banking sector. Maybank see CSR as being at the very core of their overall corporate strategy and ties in with their mission statement of "humanising financial services' across the region. Maybank has supported various initiatives as part of their CSR policy in Cambodia, including a partnership with the People Improvement Organisation (PIO) to sponsor underprivileged students in education. Maybank employees also donate many hours of volunteer work as part of their programme.

But it is not only the foreign owned banks pushing a strong sense of social responsibility, Cambodian banks have just as large a role to play. Cambodia's largest bank, Acleda, has perhaps the most comprehensive policies on this within the Kingdom. From prohibiting any business relationships with companies which may **"…be morally repugnant or jeopardise human rights."** – such as casinos, companies trading in radioactive materials, weapons manufacturers etc. – to employing three full time environmental officers to coordinate the bank's environmental performance, Acleda are ticking all the CSR boxes. Their proactive initiatives include actively decreasing use of paper, water, power, and business-related travel. The bank also has a wide-ranging

ethical staffing policy which includes health and recreation provision, as well as community provision which has seen Acleda extend access to financial services to every village and commune in Cambodia.

MOVING FORWARD

There is no doubt that CSR in Cambodia is in a relatively healthy state. Most businesses are now realising that it makes long-term financial sense to invest in the communities that provide their customer base. With a lot of interesting, and challenging, potential transitions ahead for the Cambodian economy, the concept of CSR has to be at the core of every major company and corporation operating here. But as with anything that is positive and brings benefits to local communities, there is room for improvement and for more input from the banks and financial institutions operating here.

> **"The intent is to develop and design environmental and social standards which are appropriate for Cambodia, designed by Cambodian banks with the assistance of international partners. - Mr. Charles Vann, ABC Acting Chairman."**

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ភ្នំពេញ Phnom Penh	សុក្រ Friday	15: 00
	សៅរ៍ Saturday	7: 00
	អាទិត្យ Sunday	7: 00
តាកែវ Takeo	សុក្រ Friday	16: 30
	សៅរ៍ Saturday	8: 30
	អាទិត្យ Sunday	8: 30
កំពត Kampot	សុក្រ Friday	19: 40
	សៅរ៍ Saturday	11: 40
	អាទិត្យ Sunday	11: 40
ព្រះសីហនុ Sihaknouk Ville (គោលដៅ Arrival)	សុក្រ Friday	22: 00
	សៅរ៍ Saturday	14: 00
	អាទិត្យ Sunday	14: 00

ព្រះសីហនុ ~ ភ្នំពេញ / Sihanouk Ville ~ Phnom Penh

ចំណត / Station	ថ្ងៃ / Day	ម៉ោងចេញដំណើរ Dep. Time
ព្រះសីហនុ Sihaknouk Ville	សៅរ៍ Saturday	7: 00
	អាទិត្យ Sunday	7: 00
		16: 00
កំពត Kampot	សៅរ៍ Saturday	8: 40
	អាទិត្យ Sunday	8: 40
		17: 40
តាកែវ Takeo	សៅរ៍ Saturday	11: 50
	អាទិត្យ Sunday	11: 50
		20: 00
ភ្នំពេញ Phnom Penh (គោលដៅ Arrival)	សៅរ៍ Saturday	14: 00
	អាទិត្យ Sunday	14: 00
		23: 00

ភ្នំពេញ Phnom Penh — តាកែវ Takeo — កំពត Kampot — ព្រះសីហនុ Sihanouk Ville

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SUSTAINING THE GROWTH

by Iain Donnelly

The decision by Cambodia's central bank in March to raise the minimum capital requirement of all banking associations operating across the Kingdom came as no surprise to most analysts and observers. But the level of the rises, especially for those institutions in the microfinance sector, has led many to again suggest that consolidation in the sector will increase. It has been a point made by many for several years, while the banking sector has shown healthy growth; many have asked whether the sheer number of institutions is sustainable.

MFIs which take deposits are now required to increase their minimum capital to $30 million from a previous figure of $2.5 million, while those which do not accept deposits have seen that figure rise to $1.5 million from $62,500. The new Prakas have given all affected institutions 2 years to meet the new requirements and it may be a safe bet that not all institutions will be able to comply, leading to possible flurry of consolidations within that period, though the Prakas has not stated consequences for non-compliance.

The Microfinance Sector in Cambodia has long been expanding and many see it as an essential bridge between impoverished communities and financial services that can improve their lives. MFIs are now viewed as an essential and effective tool in reducing global poverty and if you look at the customer demographics of the Cambodian microfinance sector, it invariably tends to be rural villages, farmers, and small entrepreneurs.

First introduced to Cambodia when the country rejoined the international community in the early 1990s, microfinance was included in many of the projects set up by donor agencies and NGOs. Over twenty years later, there is still a pressing need for microfinance as well over half the population still have no access to formal financial services.

As of December 2015, the NBC had 49 microfinance institutions registered, 7 as micro-deposit taking institutions and 42 as credit operators. Year on year growth from 2014 saw the MFI sector – both loans and deposits – grow by about 45%. At the end of 2015 the microfinance sector has about $2.95 billion in loans on their books compared to $2.03 billion at the end of 2014. Deposit figures in the same period had risen from $900 million to $1.32n billion.

Traditionally the Portfolio at Risk ratio has been fairly conservative in Cambodia, with unsurprising rises during the global financial crisis of 2008/2009. The NPL rate for the MFI sector has slightly increased from 0.7% in December 2015 to around 1.3% in June 2016. This has mainly been due to climactic conditions affecting farmers and thus their ability to meet loan payments. In total, the Cambodian MFI sector (with the exception of Acleda) wrote off $3.9 million in loans in 2015, more than double 2014's figure of $1.4 million.

"Interestingly, the coming changes have already had an effect in that the pace of extending credit has slowed down and I think that's a good thing."
- Leonie Lethridge, CEO, ANZ Royal.

OUTREACH

One of the concerns of the microfinance community has always been accessibility. With a large percentage of their target customer base living in rural areas - approximately 80% according to the Cambodia Microfinance Association – who have little or no opportunity to access traditional static banking sites, the obvious solution was to develop and integrated banking system which would include branchless and mobile banking. And this has been the talking point of the sector over this last year with all the major MFIs bringing in some form of branchless banking. Amret introduced a mobile collection service, where staff visits a customer's home or business premises to conduct transactions. They report that they now have over 34,000 customers making use of this service with confirmations of transactions being sent as an SMS message to the customer's mobile phone. AMK have extended their reach by taking on nearly 2,500 agents stationed in villages to be the conduit to banking services. Since its inception, over 100,000 customers have utilised their service.

But of course, extending their coverage in this way is not, for now, a cost effective strategy. Amret say they lost $400,000 in the first year of their branchless service and expect to lose around $300,000 in 2016. It shows a commitment to extending their reach and being fully inclusive that they are fully supporting a strategy that will take some 5 years to reach a break-even point.

As well as geographical inclusion, another positive factor of the MFI sector in Cambodia is gender inclusion. Around 81% of MFI customers are women, and given that the Cambodian familial structure tends to be matriarchal, especially in villages and in rural areas, this has proven a substantial benefit to the empowerment of women.

But even more so than the ongoing development of branchless banking, perhaps the most significant development within the sector has been the massive growth of credit life insurance. Although a centuries old concept, this is an innovation for the Cambodian market. It's primary aim is to ensure that the debt of a borrower is written off in the event of death or disability, though most policies also offer some level of financial support if the borrower is left unable to work.

To illustrate just how rapidly this service has grown, AMK, one of the larger MFIs, started offering micro insurance 2 years ago. From 9,000 clients when it started, this has already grown to 330,000 in that 2 year period, with around half that number taking out credit life insurance. The policy, costing only $6.25 per year, will pay out $5 per day for 60 days if the borrower is incapacitated, and in the event of death the loan payments are paid in full and an additional $500 is provided to the family, thus avoiding the usual debts racked up by funeral costs in those circumstances.

The policies from AMK and others are proving so popular that it is likely that we will see it extended across most of the sector over the coming year.

ALL THAT GLITTERS IS NOT GOLD.

But of course, as with any system that grows rapidly, especially in a developing country like Cambodia, there will always be some issues. One of the primary issues facing the sector, and one that the Cambodia Microfinance Association is working diligently to solve, is that of multiple loans. With no centralised system of checking credit ratings – for now – there have been many instances where a customer has approached several MFIs to take out loans. In some of the cases these actions are deliberate and the customer has no intention of paying back any of the loans. In most, the situation arises out of economic necessity. The customer takes out an initial loan, struggles to repay it, and so takes out a second loan to cover the payments of the first. The CMA are seeking to close these 'loopholes' by improving the methods of initial credit assessment of new customers, strengthening the credit-reporting system, and bringing in better checks on issued land titles.

A second issue is the interest rates charged by small numbers of MFIs. While it is accepted that rates in the sector are generally higher than the mainstream banks because of increased risk, there is the occasional example of those rates being higher than expected. Even the Prime Minister, Hun Sen, when celebrating the 10 year anniversary of 2006 being the "Year of Microfinance for Cambodia", took a minute away from praising the sector for its work in promoting financial inclusion to single out a small number of unnamed institutions who "…take advantage of the people." This is something being actively discouraged by the CMA who have proven effective and efficient in both promoting and regulating the sector.

> "…with these numbers at their maximum, and with the new Prakas due to take effect, then I think we are now at the point where banks and MFIs have to consider and plan for consolidation. – Oknha Hout Ieng Tong, Chairman, Cambodian Microfinance Association."

The CMA also acknowledges one of the intrinsic problems of the microfinance sector in the Kingdom. On the global stage there have been critiques of microfinance, but the criticisms are often factors that can vary greatly from country to country. The CMA fully recognise that it is impossible to give a fully accurate overview of the socio-economic impacts in Cambodia, positive or negative, due to the very high costs of carrying out proper assessments.

One final factor the sector recognises as an issue is the lack of product diversification. Credit is the primary raison d'être for the existence of microfinance and this is reflected in the fact that only a small number of MFIs have a licence to collect deposits. This may well be another thing that will threaten long term sustainability of so many institutions.

LOOKING FORWARD

Looking to what the future may hold for the sector, the key word will most likely be consolidation. When you consider that overall there are 36 commercial banks, 11 specialised banks, 8 representatives of foreign banks, and 77 microfinance institutions, then at some point this number of financial institutions will become simply unsustainable. Market potential is finite and can also be restricted by other economic factors. What forms this consolidation will take remains to be seen. Whether we see MFIs taken over by larger commercial banks, or several MFIs merging to form a stronger institution are probably both fairly safe assumptions. On a developmental note, there has been some suggestions that just as we are seeing many NGOs transform to a more ethical social enterprise model, then so at some point could we see the development of credit unions; member-owned, not-for-profit financial cooperatives that provide savings, credit and other financial services to their members. Whether this happens remains to be seen, though for them to operate at the level of efficiency of other countries is probably many years in the future. BFC

"...a pro of any mergers (that may happen) is that you get stronger organisations and a stronger banking industry. - Cynthia Liaw, CEO Maybank Cambodia."

View from the Fullerton Bay Hotel

EXECUTIVE BREAK SINGAPORE

With an increasing number of direct flights from the Kingdom's capital, it's never been easier to hop on a plane at the end of a stressful working week. In each issue we will highlight a destination that allows you a weekend of relaxation or outright hedonism to chase away those workplace blues.

With several airlines offering flights, and a flight time of just two hours, Singapore is high on the list for a weekend break. We look at some options you may not have considered before but really should in the future.

HOTELS

Sister hotel to the elegantly historical Fullerton Hotel, the Fullerton Bay Hotel is built entirely on the water and offers stunning views over Marina Bay. With an architectural and interior style that combines the best elements of the colonial era with contemporary chic, this hotel is the ideal choice for the discerning executive. With the Fullerton itself only 500 metres away, guest have a choice of nine restaurants over the two sites as well as the expansive spa facilities at the Fullerton. But the big selling point for me is that view over the bay which offers one of the best vistas in the city. With room rates starting at around $500, this is ideal for that special weekend away.

If you like your hotels a little smaller, and with a touch of the quirky about it, then you really can't go wrong with the Amoy Boutique Hotel. Situated in a converted temple in a street full of character, and with an MRT station directly opposite, the Amoy has been gaining a stellar reputation in recent times. With each of the 37 rooms uniquely decorated in Chinese style (Amoy is named after and inspired by the Zhengzhou people who came from China to settle in Singapore) this is a little piece of historical beauty in a city that has veered towards the modern. Room rates can vary from $150 to $300 and offer a pleasing alternative to the big chain hotels.

If you have family, the best destination in Singapore has to be Sentosa. With attractions such as the Universal Studios Park, Madame Tussauds, Adventure Cove Waterpark, and many others (including a couple of great golf courses for mum or dad), the island offers many choices for a fun packed weekend. And where better to stay on Sentosa than the Sofitel Singapore Sentosa Resort & Spa. Close to all the attractions and with plenty to do within the resort itself, the Soiftel is the perfect choice for a family holiday away. Depending on season and choice of room – they offer family rooms or villas – nightly rates range from around $500 to $1500.

Amoy Boutique Hotel

DINING

Singapore is very much a melting pot of many cultures and nationalities, and nowhere is that reflected more than in the dining options available throughout the city. And with two street food stalls recently receiving a Michelin Star – the first time this has happened anywhere – good food doesn't need to empty your wallet.

Street food vendors in Singapore are commonly known as 'hawkers' and perhaps the best location to sample hawkers' wares is the Maxwell Food Centre. Popular with both locals and tourists, the best stalls can sometimes have lengthy queues which reflect their popularity but the wait is usually worth it. Try the old favourite of Tian Tian Hainanese Chicken Rice, or maybe decide to be a little more adventurous and sample the Cantonese-style fish head noodle soup. My own personal favourite when visiting the Maxwell are the fried guotie (dumplings) from the Special Shanghai Tim-Sum stall, quite possibly the best dumplings I have ever tasted.

Chef Paul Longworth, Rhubarb Le Restaurant.

> **"Singapore is very much a melting pot of many cultures and nationalities, and nowhere is that reflected more than in the dining options available throughout the city."**

Around 10% of Singapore's population identify as ethnic Indian, and this is the main reason that you can find some of the best Indian food in Asia here (outside of India of course). While Little India is definitely the place to go for some amazing Indian street food, if you want something a little more sophisticated then The Curry Culture on Orchard Road should be at the top of your list. Featuring an extensive wine and cocktails list which complements the food perfectly, the real star of the show here are the menu choices. Try their Macchli Amritsari (Fish cubes in a spicy crunchy batter) and you will be a regular for life, or go for the Keema Mattar, one of the tastiest lamb curries I have sampled.

It can be hard to choose a good fine dining option when visiting Singapore, but one that stands out is Rhubarb Le Restaurant. Opened by a team of three from the renowned Salut Group, including Chef Paul Longworth, this French restaurant has been gaining stellar reviews and was awarded a Michelin Star in the 2016 guide. Firm believers in the principal of quality over quantity, the venue is small and intimate, offering only seven tables for diners in their Duxton Hill location, and the menu follows that same principal, with a limited choice of dishes but each one close to perfection. This is one restaurant where it is advisable to book well in advance if you are planning a weekend jaunt to Singapore.

Maxwell Food Centre

Sofitel Singapore Sentosa Resort & Spa.

ENTERTAINMENT

The city offers a myriad of things to do, both in the day and at night-time. Though pricey, there is the best choice of shopping in the region, and of course there is the wealth of attractions on Sentosa we mentioned earlier. You can choose from art galleries, photography exhibitions, alternative cinema, public art, and film festivals (there seems to be a film festival of some type on every time I visit). No matter what your tastes, you are guaranteed to find something that will interest you.

For those who are young, or young at heart, and who want to dance into the wee small hours, then Zouk is probably the place you want to visit. Consistently ranking in the top ten of clubs worldwide, Zouk features five distinct areas, as well as one of the best sound and light systems in Asia. You can relax and talk in The Wine Bar or dance to your heart's content in the main Zouk room with its Gaudi inspired décor. There's a very good reason that many international DJs have Zouk as a date on world or Asian tours.

“The city offers a myriad of things to do, both in the day and at night-time. Though pricey, there is the best choice of shopping in the region,”

The Olde Cuban Cigar and Whisky Bar

If you prefer a more sedate pace for your evening, then perhaps The Olde Cuban is the place for you, as long as you have a fondness for the finest Cuban cigars and good whiskies. The selection of cigars is incredible – especially in a city that is so restrictive on tobacco products – and includes Cohibas, Bolivars, and Montecristos. And the complementary (NOT complimentary!) range of malt whiskies and wines are the perfect antidote to the bustling city outside.

At the other end of the scale from Zouk are the more cultured brands of music. With a number of venues such as the Esplanade Concert Hall or the Victoria Concert Hall, you will find regular concerts from the Singapore Symphony Orchestra. With a programme that ranges from Bach to Beethoven, as well as some more unusual offerings such as the SSO Babies' Proms. Outside of orchestral music, the venues mentioned, and many others, offer a whole range of theatre, from musicals to comedies, and other options for the cultured traveller or local. Time Out Singapore is the ideal starting point for planning your activities on that well deserved weekend break. BFC

Zouk Nightclub Complex

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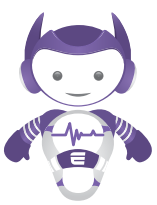

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