4th Meeting of the
OECD-Southeast Asia
Corporate Governance Initiative

ISSUES PAPER

What is the corporate governance landscape in
Cambodia?

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Securities and Exchange Commission of Cambodia
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1. Background

A sound corporate governance framework plays an important role in creating a favourable investment climate and a functioning capital market. The degree to which companies observe internationally recognised principles of corporate governance is a key determinant of investment decisions, the cost of capital, the confidence of investors, competitiveness, and the ability of companies to access financing from a larger pool of investors.

The OECD-Southeast Asia Corporate Governance Initiative aims to support capital market development and the reform of state-owned enterprises through knowledge sharing towards establishing an effective corporate governance framework. The Initiative focuses on Cambodia, Lao PDR, Myanmar and Viet Nam (CLMV), providing a platform for these countries to benefit from international experience, especially that of other Association of Southeast Asian Nations (ASEAN) economies. It supports the narrowing of development gaps between ASEAN member countries to facilitate integration of the ASEAN Economic Community (AEC), which was established on 31 December 2015. Southeast Asia is a region of strategic priority for the OECD. Supporting domestic reform processes and regional integration is a common objective.

The G20/OECD Principles of Corporate Governance and the OECD Guidelines on Corporate Governance of State-owned Enterprises provide policy makers and regulators with a sound benchmark for establishing an effective corporate governance framework. The Principles and the Guidelines were revised in 2015 to take into account recent developments in the corporate sector and capital markets, ensuring continuing high quality and relevance.

A near-term objective for Cambodia is to prepare for deeper integration within ASEAN. This goal implies boosting competitiveness in all sectors through diversification, productivity and efficiency growth, supported by a sound and internationally benchmarked corporate governance framework and practices. A number of initiatives, as elaborated in the following sections, are currently underway to improve corporate governance in Cambodia, though still more progress is desirable. Following an introductory section on ASEAN integration, this Issues Paper provides a snapshot of the current landscape in Cambodia with regards to the legal and regulatory framework governing corporate governance, the reform of state-owned enterprises and capital market development.
2. ASEAN Integration – building an economic community

The establishment of the ASEAN Economic Community (AEC) on 31 December 2015 was a significant milestone in ASEAN’s regional economic integration agenda. Representing 8.8% of the world’s population and a combined GDP of over USD 2.6 trillion, ASEAN member countries have made important steps towards building a region with free movement of goods, services, investment, skilled labour and freer flow of capital, as outlined in the AEC Blueprint. One instrument supporting capital market integration is the ASEAN Corporate Governance Scorecard, which is supported by the Asian Development Bank (ADB) and the ASEAN Capital Market Forum (ACMF) to assess the corporate governance of publicly listed companies in six Southeast Asian countries using a methodology benchmarked against the G20/OECD Principles of Corporate Governance.

Southeast Asia is one of the world’s most economically dynamic regions. The Gross Domestic Product (GDP) of ASEAN countries more than doubled between 2007 and 2016, and GDP growth is projected at 5.1% on average for 2017-2021 (OECD, 2017). In 2015, ASEAN attracted USD 125 billion in Foreign Direct Investment (FDI), accounting for 7% of global FDI inflows, though the vast majority of this FDI was to the most developed ASEAN-6 countries (Figure 1). As for trade, ASEAN countries trade more with countries outside the region than they do with other member states. Intra-ASEAN trade represented only 25.9% of exports and 21.9% of imports in 2015 (Figure 2).

Even considering strong growth, the development gap between CLMV and more developed ASEAN member countries remains sizeable. The need for physical infrastructure, including roads, railways, ports, airports and energy lines is high in CLMV countries, and capital markets in CLMV remain at an early stage of development (see Box 1). In order to reach the targets outlined in the AEC Blueprint, CLMV countries should continue to work towards creating a conducive business environment, including by: i) ensuring effective implementation of commitments in trade facilitation and non-tariff measures, ii) providing mutual recognition of qualifications for professional services, and iii) establishing a transparent and non-discriminatory investment regime.

Figure 1. FDI inflows to ASEAN (USD billions)

Source: ASEANStats, 2016

Figure 2. ASEAN trade by partner, 2015 (as % of total)

Source: ASEANStats, 2016
Box 1. Snapshot of capital markets in Cambodia, Lao PDR, Myanmar and Viet Nam (CLMV)

Shares began trading on the **Cambodia Securities Exchange (CSX)** in 2012. The two shareholders of CSX are the Royal Government of Cambodia (55%) and Korea Exchange (45%). There are currently four listed companies on CSX, with a combined market capitalisation of USD 196 million as of March 2017. Listed companies include the state-owned Phnom Penh Water Supply Authority (PPWSA), Grand Twins International, the state-owned Phnom Penh Autonomous Port (PPAP) and Phnom Penh special economic zone.

The **Lao Securities Exchange (LSX)** has five listed companies and a market capitalisation of USD 1.34 billion, as of March 2017. Electricité du Laos-Generation Public Company is the largest listed company on LSX, accounting for over 80% of market capitalisation. According to a recent strategic plan for capital market development, LSX aims to have 25 listed companies by 2020, and 60 listed companies by 2025. KRX holds a 49% stake in the LSX operating company, while the Bank of the Lao PDR holds 51%. LSX was launched in 2011 with support from both the Stock Exchange of Thailand and Korea Exchange.

In Myanmar, the **Yangon Stock Exchange (YSX)** opened in December 2015, and has four listed companies and a total market capitalisation of USD 532 million, as of March 2017. YSX is a joint venture between the state-owned Myanmar Economic Bank (51%), Daiwa Securities Group (32%) and Japan Exchange Group (17%). First Myanmar Investment – a conglomerate with significant real estate holdings – was the first company to list. Companies being considering for listing are among the over 200 public companies in Myanmar, as defined by Myanmar’s Special Companies Act.

Viet Nam’s two stock exchanges, the **Ho Chi Minh Stock Exchange (HOSE)** and **Hanoi Stock Exchange (HNX)**, have 324 and 380 listed firms, respectively, as of March 2017. HNX has a market capitalisation of USD 6.89 billion and HOSE has a market capitalisation of USD 51.02 billion. HNX also has an alternative market known as the Unlisted Public Company Market (UPCoM) with 480 companies as of March 2017. The State Securities Commission, the State Bank of Viet Nam, HNX and HOSE have increased their staff and other resources to keep pace with rapid market expansion.

Source: Websites of CSX, LSX, YSX, HNX and HOSE

ASEAN countries have made progress towards the integration objectives outlined in the ASEAN Economic Community Blueprint 2025. One achievement has included tariff elimination. The ASEAN-6 (Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand) agreed to eliminate import duties among themselves by 2010, and with CLMV countries by 2018. In practice, the ASEAN-6 have virtually eliminated their intra-regional tariffs, with 99.2% of tariff lines at 0%, as of 2015. For the CLMV, the figure stands at 90.86%, giving an ASEAN average of 95.99%. Regarding trade facilitation, five ASEAN Member States have tested the exchange of trade data and information using the ASEAN Single Window (ASW) platform through their national single windows. The ASW creates a single point of entry where trade-related documents and information can be submitted to speed up customs clearances and reduce transaction times and costs. (ASEAN Secretariat, 2015)
3. Macroeconomic overview – Cambodia

Cambodia has maintained strong economic growth since the 1990s, largely as a result of growth in the manufacturing, construction and tourism sectors. Over recent years, GDP growth has hovered around 7% per year (see Table 1). Cambodia became a member of the World Trade Organisation in 2004 and attained lower-middle income economy status in 2016. With a population of approximately 15 million, approximately 70% of the Cambodian workforce is employed in agriculture. The Cambodia Industrial Development Policy 2015-2025 sets the goal of growing the share of GDP of the manufacturing sector, increasing non-textile exports and encouraging the formal registration of small and medium-sized enterprises.

<table>
<thead>
<tr>
<th>Table 1. Key Economic Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
</tr>
<tr>
<td>GDP growth (% change, at constant prices)</td>
</tr>
<tr>
<td>Consumer price index (annual average)</td>
</tr>
<tr>
<td>Current account balance (% GDP)</td>
</tr>
<tr>
<td>Overall budget balance (% GDP)</td>
</tr>
</tbody>
</table>

Source: IMF, 2016

The period of strong economic growth has coincided with increasing levels of FDI inflows in recent years (see Figure 3). Eight of the top ten foreign investors are from Asia. The People’s Republic of China, the largest foreign investor in the country, has invested over USD 11 billion in Cambodia since 1994. Other regional players, notably Korea, Malaysia and Viet Nam, are also significant investors in Cambodia (see Figure 4).

Figure 3. FDI net inflows (USD millions)


Figure 4. FDI by source (1994-2015)

Source: Cambodian Investment Board, 2016

Rapid credit growth, along with a growing concentration of credit in real estate, poses risks to financial and macroeconomic stability. Over the past three years, private sector credit growth has averaged nearly 30% (year-on-year), doubling the credit-to-GDP ratio to 62% by end-2015, which exceeds the median emerging market level. While credit to the manufacturing and agricultural sectors slowed in 2015, real estate and mortgage lending continue to grow rapidly. External risks include a significant slowdown in China, USD appreciation, structurally-weaker growth in Europe, and a sharper-than-anticipated tightening in global financial conditions. (International Monetary Fund, 2016)
4. Building a corporate governance framework

Since 1989, the Cambodian government has undertaken important steps in its transition to a market economy. In conjunction with Cambodia’s accession to the WTO in 2004, a number of reforms aimed at establishing the legal and regulatory framework for corporate governance have been developed with the objective of improving the business environment (see Table 2). To structure the adoption of these reforms, the government has adopted the National Strategic Development Plan 2014-2018, which affirms its intention to “promote the use of international best practices in accounting and corporate governance”, as well as the Financial Sector Development Strategy for 2016-2025, which sets out specific targets for 2025.

Table 2. Main laws relating to corporate governance in Cambodia

<table>
<thead>
<tr>
<th>Name</th>
<th>Effective</th>
<th>Purpose</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Law on Accounting and Auditing</td>
<td>14 January 2016</td>
<td>Accounting Law</td>
<td>Replaces Law on Corporate Accounts, their Audits, and the Accounting Profession</td>
</tr>
<tr>
<td>Law on Commercial Enterprises</td>
<td>19 June 2005</td>
<td>Companies Law</td>
<td>Passed in conjunction with WTO accession</td>
</tr>
<tr>
<td>Law on the General Stature of Public Enterprises</td>
<td>17 June 1996</td>
<td>SOE Law</td>
<td></td>
</tr>
</tbody>
</table>

Source: OECD research

Regarding the legal framework for corporate governance, the Law on Commercial Enterprises 2005 allows various types of businesses to operate in Cambodia and provides a framework for their establishment. The law specifies that all enterprises in Cambodia are required to prepare and maintain financial and business records. Business organisation can take various forms, including (i) partnership, (ii) subsidiary, (iii) limited liability company, (iv) state-owned enterprise, and (v) sole proprietorship. For limited liability companies, the law states that written notice of the general meeting of shareholders must be given to shareholders, directors, and the auditor at least 20 days before the date of the meeting. Proxy voting at shareholder meetings is allowed. Private limited companies must have one or more directors of the board. Public limited companies must have at least three board directors. Shareholders elect directors through an ordinary resolution of shareholders with the right to vote.

The Law on Accounting and Auditing, which was updated in January 2016, sets out provisions for an annual audit of the financial statements of businesses in Cambodia. Under the law, the National Accounting Council (NAC) oversees the adoption of Cambodian International Financial
Reporting Standards (CIFRS), which are based on International Financial Reporting Standards (IFRS). According to a Ministry of Economy and Finance proclamation (i.e. ‘prakas’) dated 8 January 2009, the adoption of CIFRS is required for enterprises and not-for-profit organisations in Cambodia as of periods beginning on or after 1 January 2012. For commercial banks and financial institutions, the mandatory adoption of CIFRS was set for periods beginning on 1 January 2016, but this was later delayed to 2019 pursuant to a request made by the National Bank of Cambodia and the Department of Financial Industry of the Ministry of Economy and Finance, considering challenges in implementation. English translations of the regulations setting CIFRS can be found on the National Accounting Council website.

The Law on the Issuance and Trading of Non-Government Securities governs the securities market, including securities issued by public limited companies or other legal entities permitted to publicly issue and trade securities. These include: (i) equity securities, including shares, (ii) debt securities, including bonds or debentures, (iii) interests in a managed investment scheme, (iv) derivative instruments and other financial instruments. The law outlines the functions of the Securities and Exchange Commission of Cambodia (SECC) as well as those of clearance and settlement facility operations, securities depositaries and other operators in the securities market. The law also outlines the terms for dispute resolution as well as the penalties that can be issued by the SECC for sanctioning misconduct, including insider trading, market manipulation, false statements, operating without a license, illegal public offer of securities and non-compliance with SECC instructions.

<table>
<thead>
<tr>
<th>Table 3. Other regulations related to corporate governance in Cambodia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name</td>
</tr>
<tr>
<td>------</td>
</tr>
<tr>
<td>Prakas on Corporate Governance for Listed Public Enterprises</td>
</tr>
<tr>
<td>Prakas on Corporate Governance for Listed Enterprises</td>
</tr>
<tr>
<td>Prakas on the Implementation of Financial Reporting Standards</td>
</tr>
</tbody>
</table>

Source: OECD research

To complement these legal reforms, a number of regulations (i.e. prakas) have been passed to provide further details regarding the legal framework for corporate governance (Table 3). The Prakas on Corporate Governance of Listed Companies and the Prakas on Corporate Governance of Listed Public Enterprises set out further requirements for publicly listed companies (PLCs) and listed public enterprises (listed SOEs), respectively, relating to the composition of the board of directors, disclosure of material information and protection of shareholder rights. For example, PLCs must have
at least five and no more than fifteen members of the board and one-fifth of directors must be independent. Listed public enterprises, meanwhile, must have no more than seven board members and at least one independent director and one non-executive director. The board of PLCs and listed public enterprises must form an audit committee composed of at least three board members chaired by an independent director. Public listed enterprises above a certain size (approximately USD 50 million in assets) must also establish a separate risk management committee. Also, the development of a Corporate Governance Code is currently under consideration by the Cambodian authorities.

**Figure 5. Structure of the Securities and Exchange Commission of Cambodia**

As for the institutional framework for the corporate governance of listed firms, the Securities and Exchange Commission of Cambodia (SECC) was established in 2007 (see Figure 5). The board of the SECC is composed of the Minister of Economy and Finance as Chairman as well as eight other members. Five board members are senior government officials from Ministry of Economy and Finance, National Bank of Cambodia, Ministry of Commerce and Ministry of Justice, one is from the Council of Ministers and two are capital market experts. Board members are appointed by way of a sub-decree at the request of the Chairman for a five year renewable term. The daily and administrative activities and operations of the SECC, including the power to issue or terminate licences, are the responsibility of the Director-General.

Even with these reforms, important gaps in the corporate governance framework remain. In practice, financial and non-financial disclosure remains weak. The existence of a large number of regulations, some of which are more than a decade old, has made awareness by market participants difficult. Additionally, a limited amount of legal safeguards are in place to prevent unwarranted external interference in the activities of private businesses. Challenges to business integrity include the limited implementation of certain laws. (Transparency International, 2014)
5. A diminished state-owned enterprise sector

As with neighbouring Viet Nam and Lao PDR, Cambodia’s state-owned enterprise sector has diminished significantly since the introduction of economic liberalisation in the late 1980s. Largely during the 1990s, the Cambodian government shifted the economic system from a planned economy to a market-driven system and launched various waves of privatisation of state-owned enterprises (Box 2). In 1989, there were 187 fully state-owned enterprises in Cambodia. By the end of 2000, 160 had been privatised, of which 139 were leased to the private sector, 12 transformed into joint-ventures, 8 sold and 8 liquidated (UNCTAD, 2003). As of 2007, the remaining 17 fully state-owned enterprises employed 14,251 people, and their total revenue accounted for approximately USD 375 million (Ngov, 2011). As of the end of 2015, there were reportedly 10 fully state-owned enterprises in Cambodia (see Table 4). A comparison with Viet Nam and Lao PDR, which have approximately 130 and 700 fully state-owned enterprises, respectively, as of the end of 2016, suggests that Cambodia has a relatively small state-owned enterprise sector relative to regional peers.

<table>
<thead>
<tr>
<th>Name of firm</th>
<th>Status</th>
<th>Sector</th>
<th>Total revenue in 2013 (in USD million)</th>
<th>Government equity share as of end 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricité du Cambodge</td>
<td>State company</td>
<td>Utilities</td>
<td>668.4</td>
<td>100%</td>
</tr>
<tr>
<td>Sihanoukville Autonomous Port</td>
<td>State company</td>
<td>Transport</td>
<td>36.5</td>
<td>100%</td>
</tr>
<tr>
<td>Telecom Cambodia</td>
<td>State company</td>
<td>Telecom</td>
<td>23.1</td>
<td>100%</td>
</tr>
<tr>
<td>Cambodia Shipping Agency</td>
<td>State company</td>
<td>Logistics</td>
<td>5.3</td>
<td>100%</td>
</tr>
<tr>
<td>Cambodia Postal Services</td>
<td>State company</td>
<td>Logistics</td>
<td>4.7</td>
<td>100%</td>
</tr>
<tr>
<td>Rural Development Bank</td>
<td>State company</td>
<td>Finance</td>
<td>4.4</td>
<td>100%</td>
</tr>
<tr>
<td>Green Trade Company</td>
<td>State company</td>
<td>Logistics</td>
<td>3.8</td>
<td>100%</td>
</tr>
<tr>
<td>Printing House</td>
<td>State company</td>
<td>Logistics</td>
<td>2.9</td>
<td>100%</td>
</tr>
<tr>
<td>Siem Reap Water Supply Authority</td>
<td>State company</td>
<td>Utilities</td>
<td>2.0</td>
<td>100%</td>
</tr>
<tr>
<td>Construction and Public Works Lab</td>
<td>State company</td>
<td>Construction</td>
<td>1.4</td>
<td>100%</td>
</tr>
<tr>
<td>Phnom Penh Water Supply Authority</td>
<td>Joint-venture</td>
<td>Utilities</td>
<td>40.1</td>
<td>85%</td>
</tr>
<tr>
<td>Phnom Penh Autonomous Port</td>
<td>Joint-venture</td>
<td>Transport</td>
<td>11.1</td>
<td>80%</td>
</tr>
<tr>
<td>Kampcheary Insurance</td>
<td>Joint-venture</td>
<td>Finance</td>
<td>3.5</td>
<td>80%</td>
</tr>
<tr>
<td>Cambodia Life Insurance</td>
<td>Joint venture</td>
<td>Finance</td>
<td>0.2</td>
<td>51%</td>
</tr>
<tr>
<td>Cambodia Securities Exchange</td>
<td>Joint-venture</td>
<td>Finance</td>
<td>No data</td>
<td>55%</td>
</tr>
</tbody>
</table>

Source: Ministry of Economy and Finance of Cambodia, General Department of Sub-National Administration Finance, 2015; Cambodia Securities Exchange, 2016.
In accordance with the *Law on General Statute of Public Enterprises*, there are two different types of commercial SOEs in Cambodia. These are: (i) a state company in which all of the capital is owned by the state (e.g. Electricité du Cambodge), (ii) a joint-venture in which a majority of capital is owned by the state and a minority by private investors (e.g. Phnom Penh Water Supply Authority). In Cambodia, private enterprises are allowed to compete with state-owned enterprises under *de jure* equal terms and conditions.

The *Law on General Statute of Public Enterprises* outlines a number of rules governing SOEs. The board of directors of SOEs must meet at least once every three months and has the following duties: (i) decide on the development projects of the enterprise, (ii) periodically evaluate the results achieved and set forth adjusting measures for implementation, (iii) decide on the proposed budget, (iv) adopt the balance and management of various accounts, (v) determine the organisational structure of the enterprise, the statute of the personnel and the salary system, and (vi) adopt the public bidding. The agenda of the board meetings must be notified at least 10 days in advance to all members of the Council, state controllers and the responsible ministry or authority. Among the members of the board of directors, there must be one seat reserved for a representative of the employees selected from and by the employees of the SOE.

Each SOE in Cambodia operates under the supervision of a line ministry or government institution. The financial reports of SOEs are audited by the appropriate line ministry, the Ministry of Economy and Finance as well as the National Audit Authority, which is the supreme audit institution in Cambodia and which carries out scrutiny of budget implementation in conformity with the *Budget Law*. The National Audit Authority was established in 2000 by the *Law on Audit* and is an independent entity reporting directly to the National Assembly with its own budget funded by the national budget.

The audits of the National Audit Authority focus on accounting records, management systems, operational controls and programmes of the relevant institutions. The National Audit Authority conducts its review of the budget process through an *ex post* audit process in which internal audit teams of the line ministries are consulted in order to ensure greater transparency and accountability. Regular reports regarding the effectiveness and efficiency of government funds are submitted to the National Assembly. The use of written exchanges with managerial staff provide for documented information exchange between the National Audit Authority and audited entities. (Hang, 2012; Transparency International, 2014)

Among the most prominent state-owned enterprises in Cambodia today are Electricité du Cambodge, Phnom Penh Water Supply Authority, Telecom Cambodia, Rural Development Bank and Green Trade Company. Phnom Penh Water Supply Authority, the first firm to list on CSX, is responsible for water treatment and supply. Electricité du Cambodge is in charge of producing and distributing electrical power nationwide. Telecom Cambodia provides telecommunications services to all provinces in Cambodia and has also expressed interest in listing on the stock exchange. Rural Development Bank services and refinances loans to licensed financial institutions, commercial banks, specialised banks, micro-finance institutions, development communities, and SMEs that take part in rural development. Green Trade Company manages Cambodia’s national reserve of rice through purchases and sales made at market prices.
Box 2. A brief history of Cambodia’s state-owned enterprises and industrial development

As a result of years of civil war and the pursuit of communist-led policies, the Cambodian economy in the 1970s and 1980s became dominated by agriculture with little or no industry. After the fall of the Khmer Rouge in 1979, the priority of the regime of the People’s Republic of Kampuchea became self-sufficiency in an economy where human capital and physical infrastructure had been destroyed. Between 1979 and 1989, state-owned enterprises were re-established, though they frequently sold products at subsidised prices or offered them as rations for government officials. In 1988, the share of state-owned manufacturing output was around two-thirds of all manufacturing output and the total value of industrial production, including handicrafts, was only USD 20 million.

With the collapse of the Soviet Union and the introduction of neighbouring Viet Nam’s economic policy of Doi Moi in 1986, Cambodia launched a gradual process of economic reform. In the mid-1980s, the government introduced private property and began the privatisation of state-owned companies and de-collectivisation of agriculture. These reforms moved Cambodia’s political and economic development from a command to a laissez faire capitalist economy and from domestic to export-oriented production. In the 1990s, industrial development was given prominence. According to the Economic Census of 2011, produced by the National Institute of Statistics of the Ministry of Planning in 2013, the share of industry in the economy increased from 12.6% in 1993 to around 22.6% in 2011.

Alongside these reforms and the expansion of the economy, the number of private enterprises has increased gradually. In 1999, the number of small and medium enterprises (SMEs) was estimated at 25,000, and this reached 36,000 in 2009. The reduction of the role of state-owned enterprises led the industrial sector to become dominated by micro establishments. In 2011, micro establishments accounted for 92.10% of all establishments, provided 47.90% of jobs and generated 40.08% of total value added while large establishments accounted for only 0.32% of the total, provided 29.64% of jobs and generated 42.32% of total value added. In 2011, the industrial sector was dominated by manufacturing and construction, which accounted for approximately 70% and 20% of the sector, respectively.


The Cambodian government has expressed its commitment to continue to reform the SOE sector. SOEs with sound financial performance are encouraged to list on the stock market or attract private investors. Phnom Penh Water Supply Authority was the first company to list on CSX in 2012 and Cambodia Life Insurance was sold to a private consortium in September 2015, for example. However, efforts to establish separation between ownership and regulation have been limited. A number of economic activities, for example, are either performed within the general government sector or by companies that, while not classified as SOEs, are closely related to the government. There is also currently no clear state ownership policy in Cambodia. The *OECD Guidelines on Corporate Governance of State-Owned Enterprises*, revised in 2015, provide the Cambodian authorities with an internationally-recognised benchmark for evaluating the corporate governance framework pertaining to SOEs and designing reforms.
6. An underdeveloped capital market

The Cambodia Securities Exchange (CSX) began operations in July 2011 and, like the securities exchange of neighbouring Lao PDR, was set up with the support of Korea Exchange. With the establishment of CSX, the Cambodian government is aiming to improve access to longer-term and cheaper capital than the capital provided by banks. The first company to list was Phnom Penh Water Supply Authority (PPWSA), a majority state-owned firm, in 2012. As of March 2017, CSX has four listed companies (see Table 5). The two shareholders of CSX are the Royal Government of Cambodia (55%) and Korea Exchange (45%).

<table>
<thead>
<tr>
<th>Name</th>
<th>Issue name</th>
<th>Sector</th>
<th>IPO</th>
<th>Share price (USD)</th>
<th>Market capitalisation (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phnom Penh Water Supply Authority</td>
<td>PWSA</td>
<td>Utilities</td>
<td>24/02/2012</td>
<td>1.01</td>
<td>87 335 293</td>
</tr>
<tr>
<td>Grand Twins International (Cambodia) Plc</td>
<td>GTI</td>
<td>Manufacturing</td>
<td>16/06/2014</td>
<td>1.10</td>
<td>44 085 231</td>
</tr>
<tr>
<td>Phnom Penh Autonomous Port</td>
<td>PPAP</td>
<td>Transport</td>
<td>08/12/2015</td>
<td>1.27</td>
<td>26 343 130</td>
</tr>
<tr>
<td>Phnom Penh SEZ Plc</td>
<td>PPSP</td>
<td>SEZ</td>
<td>27/05/2016</td>
<td>0.67</td>
<td>38 980 016</td>
</tr>
</tbody>
</table>

Source: CSX, 2017

There are approximately 15 securities firms operating in Cambodia, of which 6 are licensed as underwriters, 1 as dealer, 3 as brokers, and 2 as investment advisors. The SECC has also granted accreditation to securities-related cash settlement agents, securities registrars, securities transfer agents, paying agents, professional accounting firms, and independent auditors and valuation companies providing services in the securities sector. In January 2011, the SECC signed a memorandum of understanding with the Financial Institute of Cambodia to offer financial education and training to the public. (Asian Development Bank, 2012).

Cambodia’s capital market remains small compared with regional peers (see Figure 6). With a market capitalisation of approximately USD 196 million as of March 2017, CSX is among the smallest capital markets in the world. In Lao PDR, the Lao Securities Exchange (LSX), which contains five listed companies and a market capitalisation of USD 1.34 billion as of March 2017, has faced similar challenges in attracting companies to list. Myanmar’s YSX, meanwhile, opened a stock market at the end of 2015 and is growing slowly but steadily with four listed companies and a market capitalisation of USD 532 million. Out of the four countries in CLMV, only Viet Nam can be described as having a vibrant capital market, with a combined market capitalisation of approximately USD 58 billion and over 700 listed companies between the Hanoi Stock Exchange and Ho Chi Minh Stock Exchange.
Since its opening in 2011, CSX has faced challenges in boosting liquidity and attracting new companies to list. The water utility Phnom Penh Water Supply Authority (PPWSA) was the first company to list and faced challenges in preparing for the initial public offering, particularly in relation to information disclosure in English. Challenges to the development of the capital market in Cambodia have included difficulty in demonstrating to firms the business case for listing. The establishment of institutional investors and other intermediaries in the Cambodian securities market has been slow. The small size of the market and low level of liquidity are also important factors deterring investors. (Investment Frontier, 2014)

In September 2015, the authorities announced the creation of a new trading platform aimed at increasing participation of SMEs on CSX. Since this decision, SMEs seeking to raise capital have the option of listing on a ‘Growth Board’ – an addition to the existing ‘Main Board’. The Growth Board reduces barriers to entry for many Cambodian enterprises. The requirements for listing on the Growth Board include: (i) shareholder equity must be no less than KHR 2 billion (USD 500 000) at the date of filing (compared to KHR 30 billion or USD 7.5 million for Main Board), (ii) either the company must have a net profit in the latest financial year prior to the date of the application (compared to minimum profit of KHR 2 billion or USD 500 000 in the last year and aggregate profit of KHR 3 billion or USD 750 000 in the last two years for the Main Board) or the company must have a positive operating cash flow and gross profit margin of at least 10%, (iii) the number of minority shareholders must be at least 100 as of the date of filing application and these must hold at least 10% of the total voting shares (compared to 200 minority shareholders holding 7% of the total voting shares for the Main Board) (iv) audited financial reports for a period of 1 year (compared to 2 years for Main Board). A comparison of the requirements for the Growth Board and Main Board are outlined below.

With the aim of creating a conducive environment for the expansion of the capital market in line with the aim of ASEAN integration, a number of structures will need to be enhanced, such as depositories, a clearing and settlement facility, and a cash settlement system. To facilitate market transactions, capacity to undertake asset valuation for securities market transactions that meet international standards should be developed, in particular to align with ASEAN standards. As the market broadens and gains in sophistication, the SECC will need to enhance its IT systems to improve information disclosures and market monitoring and surveillance.
Table 5. Listing requirements for the Main Board and Growth Board on CSX

<table>
<thead>
<tr>
<th></th>
<th>Main Board</th>
<th>Growth Board (for SMEs)</th>
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<tbody>
<tr>
<td><strong>Shareholders’ equity</strong></td>
<td>≥ KHR 30 billion (appx. USD 7.5 million)</td>
<td>≥ KHR 2 billion (appx. USD 500 000)</td>
</tr>
<tr>
<td><strong>Net profit</strong></td>
<td>≥ KHR 2 billion (appx. USD 500 000) for the latest year; and ≥ KHR 3 billion (USD 750 000) for the latest 2 years</td>
<td>Positive net income for latest year; or Positive operating cash flow and gross profit margin ≥ 10%</td>
</tr>
<tr>
<td><strong>Minority shareholders</strong></td>
<td>≥ 200 shareholders; and ≥ 7% of the total voting shares</td>
<td>≥ 100 shareholders; and ≥ 10% of the total voting shares</td>
</tr>
<tr>
<td><strong>Audited financial reports</strong></td>
<td>2 years</td>
<td>1 year</td>
</tr>
<tr>
<td><strong>Listing Eligibility</strong></td>
<td>KHR 4 million (appx. USD 1 000)</td>
<td>KHR 2 million (appx. USD 500)</td>
</tr>
<tr>
<td><strong>Examination Fee</strong></td>
<td>KHR 10 million (appx. USD 2 500) for firms with market capitalisation of less than KHR 12 trillion (appx. USD 300 million)</td>
<td>KHR 4 million (appx. USD 1 000) or 0.025% of market capitalisation (whichever is larger)</td>
</tr>
<tr>
<td><strong>Listing Fee</strong></td>
<td>KHR 3 million (appx. USD 750) for firms with a market capitalisation of less than KHR 12 trillion (appx. USD 300 million)</td>
<td>KHR 4 million (appx. USD 1 000) or 0.015% of market capitalisation (whichever is larger)</td>
</tr>
</tbody>
</table>

Source: Cambodia Securities Exchange, 2017

According to the Action Plan for Financial Sector Development 2016-2025, the Cambodian authorities aim to continue to develop policies to boost the growth of the capital market. Elements that are addressed in this plan include: (i) continuing to streamline regulations for SME listing, (ii) encouraging the listing of SOEs, (iii) promoting the creation of exchange traded funds, (iv) reviewing the effectiveness of tax and non-tax incentives for listed companies, and (v) promoting the listing of financial institutions. Awareness raising activities with companies and other stakeholders on the benefits of capital market access is also a key component. Finally, to enhance the relationship with regional and foreign investors, CSX has signed memoranda of understanding with the Stock Exchange of Thailand, Hanoi Stock Exchange and the Lao Securities Exchange.

7. Looking ahead

The Cambodian authorities have made important steps towards establishing the legal and regulatory framework for corporate governance. Further efforts, however, are needed with regards to the enforcement and implementation of this framework. As discussed, the Cambodian government might consider placing particular emphasis on improving the disclosure of financial and non-financial information by firms through capacity building seminars and targeted trainings. With a greater emphasis on disclosure compliance, the Cambodian authorities would make progress towards the facilitation of regional integration and move towards their expressed ambition of joining the ASEAN Corporate Governance Scorecard.
Box 3. Selected questions to consider regarding the corporate governance framework in Cambodia

1. The corporate governance framework
   - Is the legal framework for corporate governance up-to-date and well-understood by market participants?
   - Is there an agency or ad hoc entity that coordinates corporate governance policies within government?
   - Which non-profit institutions promote better corporate governance practices?

2. The rights and equitable treatment of shareholders
   - Do shareholders have access to effective legal redress in the case that their rights are violated?
   - Are shareholders given adequate notice of shareholder meetings?
   - Does the legal framework ensure the adequate disclosure of related-party transactions?

3. The role of institutional investors, stock markets and other intermediaries
   - Is it required for analysts, brokers and other intermediaries to disclose conflicts of interest?
   - What penalties can the stock exchange issue related to non-compliance with reporting requirements?
   - Is there a central registry for financial and non-financial corporate information readily available to shareholders?

4. The role of stakeholders
   - Do stakeholders, including employees and creditors, have access to internal redress mechanisms (mediation/arbitration) in case of violation of rights?
   - Does the legal and regulatory framework provide for the protection of whistleblowers?
   - Can employees participate in the company’s profits through profit sharing schemes?

5. Disclosure and Transparency
   - Is corporate information disclosed in a timely and reliable manner in accordance with high quality standards of accounting and financial and non-financial reporting?
   - Which authorities ensure the review, quality and independence of auditors?
   - How and by whom are external auditors appointed? To whom do the internal auditors report?

6. The roles and responsibilities of the board
   - Is continuing training for board directors encouraged?
   - What is the role of independent directors? Are employees or labour unions represented on the board?
   - How is the compensation of directors reviewed and evaluated?

7. The state’s role as an owner
   - Has the government developed a state ownership policy, defining the rationales for state ownership?
   - Does the government allow SOEs full operational autonomy to achieve their defined objectives and refrain from intervening in SOE management?
   - Is there a clear separation between the state’s ownership function and other state functions that may influence the conditions for SOEs, particularly with regard to market regulation?

Source: Adapted from the G20/OECD Principles of Corporate Governance and OECD Guidelines on Corporate Governance of State-owned Enterprises
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