AEC - WHERE ARE WE NOW

Presented by:
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3rd Meeting of the OECD-Southeast Asia Corporate Governance Initiative

1-2 June 2016
Vientiane, Lao PDR
OUTLINE OF PRESENTATION

- What we expect from AEC?
- AEC - What we have achieved
- AEC - What are the impacts of our achievements
- In what areas is more progress needed?
- What are some of the corporate governance concerns or challenges?
- AEC - Impacts on Lao PDR Economic Development
- Regional Integration Essential For CLMV Development
What we expect from AEC?

- Integrating Lao PDR into the regional and global economy
- Securing market for exports
- Maintaining policy stability
- Strengthening domestic institutions
- Attracting foreign investments
- Enhancing competitive capability
AEC- What we have achieved

Implementation rate

- Implementation of AEC Scorecard
  - There were only 316 measures when AEC Blueprint was first launched in 2007.
  - Over the years, we continue to review the blueprint to ensure ASEAN remain relevant in the midst of uncertainty over the global economic outlook
  - As of 31 Dec 2015, 93.9% or 475 out of 506 measures have been implemented.
1. Tariff Elimination
   - The Original ASEAN-6, had eliminated their import duties for 99.2% of the total tariff lines since 1st January 2010
   - For CLMV (ASEAN-4), 97.5% of tariff lines have been reduced to 0-5% by 2015 but some products granted flexibility until 2018

2. ASEAN Single Window
   - Scale down pilot project concluded
   - Full-fledged pilot project commenced

3. Rules of Origin
   - Regional Value Content 40% (RVC 40%) or
   - Change of Tariff Heading (CTH)

4. Self Certification
   - Certified manufacturer and trader to decide
   - 2 pilot projects in place
AEC- What we have achieved (cont)

1. Harmonization of Standards & Technical Requirements
2. Accreditation & Conformity Assessment
3. Mutual Recognition Arrangement
4. Harmonization of Regulatory Regime

One Standard, One Test, Accepted Everywhere for: Automotive; Cosmetic; Electrical & Electronic Equipment; GMP Inspection of Manufacturers of Medicinal Products; Medical Device; Prepared Foodstuff; Pharmaceuticals; Rubber Based; Traditional Medicine & Health Supplement.
AEC- What we have achieved (cont)

1. National Trade Repository
   - Tariff/MFN Preferential (FTA/CEP) ROO / NTMs Trade & Customs Law/Rule

2. Services
   - 8 packages concluded (WTO Plus)
   - 9th package was signed
   - 10th package being negotiated

3. Financial Integration
   - 6 packages of financial services concluded (WTO Plus)
   - ASEAN Banking Integration Framework
   - ASEAN Exchanges

4. Movement of Natural Person
   - **MRA Concluded:** Architecture, Accountant, Engineer, Dental, Medical, Nursing, Surveyor, Tourism Professional
   - **Operationalized:** Architect / Engineer
AEC- What we have achieved (cont)

1. Investment
   - Liberalization
   - Facilitation
   - Promotion
   - Protection
   - Investment Policy Review

2. Competition
   - 8 AMS have competition law in place
   - Strategy and Tools for regional competition advocacy
AEC- What are the impacts of our achievements

- ASEAN is the third largest economy in Asia (after China and India) and the Seventh largest economy in the world.
- 622 Million People (53% below 30 years old)
AEC- What are the impacts of our achievements *(ASEAN economic performance)*

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2014</th>
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</thead>
<tbody>
<tr>
<td>GDP</td>
<td>US$ 1.325 T</td>
<td>US$ 2.574 T</td>
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<tr>
<td>GDP PER CAPITA</td>
<td>US$ 2,343</td>
<td>US$ 4,135</td>
</tr>
<tr>
<td>TRADE</td>
<td>US$ 1.61 T</td>
<td>US$ 2.53 T</td>
</tr>
<tr>
<td>INVESTMENT</td>
<td>US$ 85 B (5% OF WORLD FDI)</td>
<td>US$ 136 B (11% OF WORLD FDI)</td>
</tr>
</tbody>
</table>
In what areas is more progress needed?

1. Trade facilitation (non-tariff barriers, customs, standards)
2. Integration of SME into regional production networks and global supply chain
3. Enhancement and development of existing and new infrastructure to support sustainable development
4. Narrowing development gaps within and between ASEAN Member States
5. Conclusion of on-going FTA negotiations to serve as a building block to region-wide FTA
What are some of the corporate governance concerns or challenges?

- We have include good governance in our AEC 2025 blueprint
- We would like to hear more from private sectors any specific corporate governance they encountered for us to look into
### AEC- Impacts on Lao PDR Economic Development

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th>2005</th>
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</thead>
<tbody>
<tr>
<td><strong>GDP</strong></td>
<td>US$ 1.75 B</td>
<td>US$ 2.87 B</td>
<td>US$ 11.78 B</td>
</tr>
<tr>
<td><strong>GDP PER CAPITA</strong></td>
<td>US$ 408</td>
<td>US$ 511</td>
<td>US$ 1,730</td>
</tr>
<tr>
<td><strong>TRADE</strong></td>
<td>---</td>
<td>US$ 876 M</td>
<td>US$ 5.39 B*</td>
</tr>
</tbody>
</table>
ASEAN Economic Integration Essential For CLMV Development

Annual Year-on-Year Average (2007-2014)

1. **GDP:** CLM -6.9% and ASEAN -6.5%
2. **GDP per capita:** CLMV 240% and ASEAN6 170%
3. **Trade**
   - Intra-ASEAN: CLMV – 17.1% and ASEAN6 – 7.4%
   - Extra-ASEAN: CLMV – 20.4% and ASEAN6 – 7.6%
4. **Investment**
   - Intra-ASEAN: CLMV – 61% and ASEAN6 – 18.1%
   - Extra-ASEAN: CLMV – 22% and ASEAN6 – 18.2%
The establishment of the AEC provides both opportunities and challenges for Lao PDR, especially her business community. Lao PDR will have a strong opportunity to learn from the experience of others about state management and business regulation and facilitation. On the other hand Lao PDR will face growing competition.

Benefits from ASEAN economic integration is not automatic, and lot of efforts and ownership is required.
Thank You
Session 1 – Taking Stock of ASEAN Integration – Building an Economic Community

Azryta Abdul Aziz
General Manager and Head
Markets & Products, Securities Commission Malaysia

The views expressed in this presentation are my own and do not necessarily represent the opinions of the OECD, Malaysia or Securities Commission Malaysia
### ASEAN is an emerging centre of economic gravity...

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>USD 2.5 trillion</td>
<td>7th largest</td>
</tr>
<tr>
<td>Population</td>
<td>633 million</td>
<td>3rd largest</td>
</tr>
<tr>
<td>FDI Inflows</td>
<td>USD 126 billion</td>
<td>2nd largest</td>
</tr>
<tr>
<td>Exports</td>
<td>USD 1.58 trillion</td>
<td>4th largest</td>
</tr>
<tr>
<td>Private Consumption</td>
<td>USD 1.38 trillion</td>
<td>8th largest</td>
</tr>
<tr>
<td>Fixed Asset Investment</td>
<td>USD 650 billion</td>
<td>4th largest</td>
</tr>
</tbody>
</table>

Sources: World Bank, The Economist; 31 December 2015
The capital market being a critical enabler of growth...

Stock market capitalisation of **USD 2.02 trillion**, accounting for 3% of the world’s total

Launchpad for new PLCs, **74 IPOs** with **USD 7 billion** raised in 2015

Home to over **70%** of total global Sukuk issuances

Total value of local currency bond outstanding - **USD 1.1 trillion**

**with strong upside potential ...**

Size of pension fund and insurance assets accounting for more than **USD 640 billion**

Gross savings rate amounting to **30% of GDP**

*Sources: World Federation of Exchanges, The Asian Bonds Online, Bloomberg; 31 December 2015*
However, there are challenges to economic integration...

Different stages of economic development
- ASEAN-3 constitute approximately 65% of ASEAN’s total stock market capitalisation
- The standard deviation in average incomes among ASEAN countries is more than 7 times of EU states

Divergence in domestic policies
- Variations in terms of capital controls, exchange restrictions, tax regimes and portfolio restrictions on institutional investors.

Variation in SME development and capacity
- Representing at least 90% of business establishments in the region but with differing maturity levels and ability to scale-up to respond to competition
Therefore the future reform priorities for ASEAN...

- Raising productivity by improving infrastructure & education quality
- Supporting SMEs by expanding financial inclusion
- Strengthening financial systems to safeguard stability
- Making institutions effective to realize long term growth potential
Looking back at the ACMF Implementation Plan (2009 – 2015)

Driven by the following strategies:
- Create an enabling framework for regional integration
- Create the market infrastructure and regionally focused products
- Strengthen the implementation process
Some progress measures as at the end of 2015 ...

- Shortened the review process (single prospectus) for multi-jurisdiction (ASEAN) offering of equity securities and plain debt securities from around 6 months to about 3-4 months.

- MoU on Expedited Review Framework on Secondary Listing signed in March 2012 resulted in reduced time to market from 112 to 35 business days.

- Operationalised in August 2014, 13 funds have been authorised as Qualifying CIS (6 each from Malaysia and Singapore and 1 from Thailand); 5 have been recognised and successfully launched in host jurisdictions.

- Intra-ASEAN portfolio investment assets has increased.

2009: USD 34 billion

2015: USD 88 billion
The ACMF strategic priorities to 2025 …

1. Enhancing & facilitating growth and connectivity
2. Promoting and sustaining inclusiveness
3. Strengthening and maintaining orderliness & resilience

Phase 1 (2016-2020)

- Regional market infrastructure and connectivity
- Cohesive regulation and practices
- Promote ASEAN asset classes
- Mobility of professionals
- Greater investor participation
- Stakeholder interaction

ACMF’s Market Development Programme (A-MDP) will form the foundation for Phase 1. A-MDP aims to:

- Cultivate domestic and regional regulatory expertise that will be recognised globally.
- Respond to critical capacity building needs based on regional priorities as well as member countries or groups of countries on a needs basis

Phase 2 (2016-2020)

Scaling up on all key priority areas with the objective of having at least a majority of member countries signing on the various ACMF initiatives
The ASEAN CG initiative is an ongoing regional priority …

**Raise CG standards and practices of ASEAN PLCs**
- Average CG scores of countries have increased between 20-35% since 2012
- Higher number of PLCs have disclosed CG practices beyond the minimum

**Phase 2: 2016-2020**
- Review of the Scorecard and its assessment methodology
- Engagements with top ASEAN PLCs to verify practices; substance over form

**Give greater visibility to well governed ASEAN PLCs**
- ASEAN CG Country Reports; results referred to by entities in their stakeholder engagement
- Participation in events by domestic ranking bodies to create awareness on this initiative
- Inaugural ASEAN CG Event and awards, 14 November, Manila
- Recognition by ACGA-CLSA on this initiative has motivated ASEAN countries in improving CG

**Complement other ACMF initiative and promote ASEAN as an asset class**

**Phase 2: 2016-2020**
- To conclude the research on the impact of CG on the financial performance of PLCs
- To collaborate with ASEAN Exchanges to promote ASEAN PLCs with good CG practices
Taking into consideration local needs and challenges …

01. Inculcate **culture** - greater appreciation on the value proposition of good corporate governance moving away from the compliance mindset.

02. CG must be **implemented early** i.e. at the get-go stage.

03. Greater **activism** by minority shareholders (and stronger protection); governance stewardship by institutional investors.

04. Enhance overall board **effectiveness, quality** of independent directors, strengthening oversight roles.

05. Improve awareness and implementation of **sustainability** (Economic, Environment and Social) factors in business operations.
The new approach in the MCCG 2016 ....

Operates on an “apply or explain an alternative” basis

Contains practices which are followed by their respective intended outcomes

Streams practices into two categories - Core and Core+ (aspirational practices)

Example:

**Core+**

**Practice 6.2**
Board evaluation is facilitated by a professional & independent party at least once every 3 years.

**Intended Outcome**
The board is able to benefit from professional viewpoints in relation to its effectiveness.
Conclusion

1. Good corporate governance practices continue to be a critical foundation for ASEAN integration

2. The convergence of CG standards will help companies with regional footprint and encourage intra-ASEAN portfolio flows

3. For improved effectiveness, national efforts to strengthen CG should be a multi-stakeholder collaboration
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OECD-Southeast Asia Corporate Governance Initiative

1-2 June 2016
Vientiane, Lao PDR

Session 1 – Taking Stock of ASEAN Integration – Building an Economic Community

Cielito F. Habito
Professor of Economics, Ateneo de Manila University, Philippines
## AEC 2015: The Four Pillars

### SINGLE MARKET & PRODUCTION BASE
- Free flow of goods
- Free flow of (professional) services
- Freer flow of skilled labor
- Free flow of investment
- Freer movement of capital

### COMPETITIVE ECONOMIC REGION
- Competition policy
- Consumer protection
- Intellectual property rights
- Infrastructure development
- Taxation
- E-commerce

### EQUITABLE ECONOMIC DEVELOPMENT
- SME development
- Initiative for ASEAN integration (IAI): Assistance to less-developed member states

### INTEGRATION INTO GLOBAL ECONOMY
- Coherent approach toward external economic relations
- Enhanced participation in global value chains
Five Observations

1. It’s more about complementation, less of competition.

2. Benefits of closer integration outweigh the costs.

3. There’s much more to AEC than ASEAN itself.

4. AEC and other agreements have pushed us to do the right things.

5. SMEs must be ‘front and center’ in AEC and other FTAs.
1. More complementation, less of competition
   More trade happening within the same industries (‘intra-industry trade’)
The Changing Shape of Global Trade

Dramatic growth of trade in intermediate goods, with the development of cross-border value chains

Source: Sherry Stephenson (2013)
Trade Patterns Have Changed

Before (1995): Goods with almost 100% domestic content

Now:
1. Goods with lower domestic content

Value chains cross national boundaries: Boeing jets, iPhones/iPads are “Made in the World” (not ‘Made in USA’ or ‘Made in China’)

2. More intra-regional trade within Asia especially South East Asia

Sources: Sherry Stephenson (2013); OECD
Trade in ASEAN/AEC

Features

- Largely *intra-industry* in nature (trade in products within the same industries, e.g. electronics, vehicles, chemicals)

- Trade relationships are increasingly complementary rather than competitive; *trade protection can be self-penalizing*

- Opportunities lie in positioning in regional and global *value chains* (*aka* production networks)
2. Benefits of closer integration outweigh the costs. Economies of scale, lower costs and stronger cohesion
Regional Economic Integration

Upsides
- Economies of scale → Lower unit costs
- Technology sharing → Greater efficiency (e.g., Manila Catering) → Lower costs & prices for all
- Higher productivity → Higher incomes
- Stronger interdependence → Greater regional cohesion, harmony and peace

Downsides
- Vulnerability to supply chain disruptions
- Differential gains/benefits; inequitable growth
3. There’s much more to AEC than ASEAN itself.

Membership in ASEAN opens access to six other large economies.
ASEAN FTAs

• ASEAN Free Trade Area (1992)
• ASEAN – Korea FTA (2007)
• ASEAN – Japan FTA (2008)
• ASEAN – Australia+New Zealand FTA (2009)
• ASEAN – China FTA (2010)
• ASEAN – India FTA (2010)

→ ASEAN membership also means free access to Australia, China, India, Japan, Korea and New Zealand markets

→ ASEAN’s combined market = 600 million
ASEAN+6 combined market = 3.45 billion
New Generation Trade Agreements

- **Regional Comprehensive Economic Partnership (RCEP)** - to combine the ASEAN+6 FTAs; negotiations ongoing

- **Trans Pacific Partnership (TPP)** – 12 members so far, with 4 from ASEAN: Brunei, Malaysia, Singapore & Viet Nam; agreement signed on February 4, 2016
4. AEC has pushed us to do the right things.
Membership entails compliance with certain policy commitments
“Right Things” We Have Been Led to Do

- **Trade & Investment Liberalization →** Builds inherent competitiveness, widens scope for growth, and increased competition makes all consumers better off.

- **Open Skies →** Fosters tourism jobs & earnings (strong inter-industry linkages & multiplier effects).

- **Competition Law →** Curbs monopolistic & oligopolistic behavior, levels the field for SMEs toward more inclusive growth.

- **Strengthened Corporate Governance →** Levels the playing field; improves international competitiveness.
4. MSMEs must be ‘front & center’ in AEC and other FTAs. For inclusive growth, MSMEs must fully participate and reap the benefits.
Inequality has risen in Asia-Pacific
Toward Inclusive Growth
Internationalizing Small Enterprises

- MSMEs now stand a better chance
  - Technology (esp. ICT)
  - Policy environment (competition policy)

- MSME Enablers:
  - Strengthening Business & Financial Management
  - Financial Inclusion
  - Clustering Assistance; Shared Service Facilities
  - Trade Facilitation (Boracay Action Agenda)
Imperatives for Business

- Find strategic positioning in cross-border value chains/production networks (*Moog Inc.*)

- Shift business model to inclusive value chains (*Jollibee*) vs. vertical integration, as a deliberate contribution to inclusive growth

- MSMEs: Team up (e.g. into coops), cluster and unite to gain larger market opportunities

- Pursue the triple bottom line of *People, Planet* and *Profit* to help make *Inclusive Growth & Sustainable Development* a reality
Toward a RICH ASEAN

• **Resilient** – Can withstand external & internal shocks (economic, social, environmental, political)

• **Inclusive** – Narrow the disparities in income and human welfare

• **Competitive** – World-class producers who can stand up to external competition at home or overseas

• **Harmonious** – Social cohesion, peace and security amidst diversity
OECD-Southeast Asia
Corporate Governance Initiative

1-2 June 2016
Vientiane, Lao PDR

Session 2 – G20/OECD Principles of Corporate Governance – Establishing a Corporate Governance Framework

Fianna Jurdant
Senior Policy Analyst, OECD
G20 Leaders endorse G20/OECD Principles of Corporate Governance

November 16th, 2015, Antalya, Turkey
A multiple year project

- First issued in 1999
- Revised in 2004 and 2015
- One of the FSB’s Key Standards for Sound Financial Systems
- Adapted to new economic reality of business and finance
Corporate governance is not an end in itself.
Corporate governance is a means to create an environment of

Trust, transparency and accountability

that promotes

- corporate access to capital
- increased investment
- sustainable growth
- financial stability
The Principles are also about inclusiveness

Millions of households around the globe have their savings in the stock market.

Publicly listed companies provide for more than 200 million jobs.

That these corporations are well run and that they operate in an environment where they can prosper and develop affects our quality of life.
The revised Principles

I. Ensuring the basis of an effective corporate governance framework

II. The rights and equitable treatment of shareholders and key ownership functions

III. Institutional investors, stock markets and other intermediaries

IV. The role of stakeholders in corporate governance

V. Disclosure and transparency

VI. The responsibilities of the board
The OECD Corporate Governance Committee

<table>
<thead>
<tr>
<th>Objective</th>
<th>Role</th>
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<tbody>
<tr>
<td>▶ contribute to economic efficiency,</td>
<td>▶ standard setting, monitoring and implementation</td>
</tr>
<tr>
<td>▶ sustainable growth,</td>
<td>assessment,</td>
</tr>
<tr>
<td>▶ and financial stability,</td>
<td>▶ economic analysis, data gathering and information</td>
</tr>
<tr>
<td>▶ by improving corporate governance policies</td>
<td>sharing,</td>
</tr>
<tr>
<td>and supporting good corporate practices.</td>
<td>▶ country support and reform assistance.</td>
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</tbody>
</table>
The review process

▷ All G20 countries invited on an equal footing
▷ Regional consultations, including in Latin America, Asia and MENA
▷ Experts meetings and online public consultation receiving submissions from a great variety of stakeholders

6 Completed Reviews:

- Related Party Transactions and Minority Shareholder Rights (2012)
- Risk Management and Corporate Governance (2014)
- Supervision and Enforcement in Corporate Governance (2013)
- The Role of Institutional Investors in Promoting Good Corporate Governance (2011)
- Board Member Nomination and Election (2013)
Timeline of the latest review

- March 2014: Expert consultation & Corporate Governance Committee
- October 2014: Corporate Governance Committee
- February 2015: Special Session on the Principles Review
- September 2015: G20 Finance Ministers & Central Bank Governors Meeting
- July 2015: OECD Council Meeting
- April 2015: G20/OECD Corporate Governance Forum
- March 2015: Corporate Governance Committee
The revised G20/OECD Principles of Corporate Governance have a truly global reach.

In addition, the revised Principles are also backed by empirical research and evaluations of country policies.
Thanks!
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Fianna.Jurdant@oecd.org

OECD-Southeast Asia Corporate Governance Initiative

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SESSION 2 – G20/OECD PRINCIPLES OF CORPORATE GOVERNANCE – ESTABLISHING A CORPORATE GOVERNANCE FRAMEWORK

LEE KHA LOON
INDEPENDENT DIRECTOR, VCAP MANAGERS, MALAYSIA
Establishing a CG Framework

- Develop a CG culture
  - Strive for acceptance by corporate leaders
  - Encourage dialogues amongst market intermediaries, independent directors and regulators on benefits of good corporate governance

- Role of the Stock Exchange
  - Establish strong oversight committees over Listing and Enforcement functions
  - Have well developed Listing Rules
  - Play a lead role in CG implementation
Establishing a CG Framework

- **Financial Reporting**
  - Set up an effective reporting framework for financial statements and annual reporting disclosures
  - Monitor the financial reporting by issuers to ensure prompt and accurate reporting for market integrity

- **Shareholder Engagement**
  - Establish a retail investor group to help facilitate investor engagement with issuers
  - Encourage investor participation at AGMs
OECD-Southeast Asia Corporate Governance Initiative

1-2 June 2016
Vientiane, Lao PDR

Session 2 – G20/OECD Principles of Corporate Governance – Establishing a Corporate Governance Framework

Waratchya Srimachand
Securities and Exchange Commission, Thailand
### Key Features of SEA Companies & Capital Mkt

<table>
<thead>
<tr>
<th>Threat / Weaknesses</th>
<th>Opportunities / Strength</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Companies:</strong> Developed from family / sole-owner business</td>
<td></td>
</tr>
<tr>
<td>• Unseparated / unclear roles of management-board-SH → weak check &amp; balance</td>
<td>• Aligned interest between management &amp; shareholders</td>
</tr>
<tr>
<td>• Possible unfair treatment to public SH by major SH</td>
<td>• Potential for high commitment and LT focus</td>
</tr>
<tr>
<td><strong>Cap. Mkt / Regulator</strong></td>
<td></td>
</tr>
<tr>
<td>• Weaker legal infra &amp; enforcement</td>
<td>• Manageable size</td>
</tr>
<tr>
<td>• Use of national language</td>
<td>• Closer connection among constituents</td>
</tr>
</tbody>
</table>

= Key sec. regulatory concern for investors protection

Legal infra = key areas for early building capacity

• Regulators can have strong influence
• Possibilities for preventive / administrative and non-regulatory measures
Issues for Discussion

1. Designing CG development policies to match level of market maturity

2. Handling risk of unfair treatment to public shareholders as the starting point

3. Strengthening board responsibilities and accountability as key focus
1. CG Development in Thailand

**Pre-OECD CG Principles**

- **Start up**
  - Securities Regulator
  - **Obj:** Ensure Investor Protection & fairness
  - **Key Approach:** Regulatory
    - Approval of securities offering
    - Disclosure
    - Enforcement of fraud and false disclosure

**OECD CG Principles**

- **Establishing**
  - Capital Mkt Regulator & developer
  - **Obj:** Building market confidence
  - **Key Approach:** Mix of self-mkt-regulatory
    - Building board oversight responsibility
    - Incentivizing for good CG practices

**G20/OECD CG Principles & Other ESG initiatives**

- **Moving forward**
  - Regulator & influencer
  - **Obj:** Sustainability Development
  - **Key Approach**
    - CG as integral part of business
    - Educating & inspiring board as leader for sustainable value creation
Matching Objectives, Maturity Level & Tools

Objectives

- Preventive / approval/ pre-vetting
- Disclosure/ Monitoring
- Enforcement
- Legal infra. for exercise of SH rights, e.g. voting, remedy

Maturity

Ad-hoc
Dealing with wrong-doer/potential

Tools

Regulatory Discipline
- Preventive / approval/ pre-vetting
- Disclosure/ Monitoring
- Enforcement
- Legal infra. for exercise of SH rights, e.g. voting, remedy

Self Discipline: Board responsibility
- Principles & Best practices
- Education
- Rating & assessment
- Recognition & sanction

Market Discipline
- Roles of institution investors – II Code
- Effective & accessible disclosure
- Efficient exercise of rights: electronics, collective action

Integrated in management system:
setting objectives, means to attain, monitoring = OECD def. of CG
Listed companies create shared value for sustainability

1. Fair treatment to shareholders
2. Accessible, fair and timely disclosure
3. CG as integral part of business
4. Introduce Stewardship Code for II
2. Handling risk of unfair treatment to SH

**Observation**

- Close linkage between Securities Law and Company Law
  - **Company Law**: voting right, duty of directors, shareholders meeting, remuneration/appointment of directors
  - **Capital market rules**: Related-party transaction, major acquisition or disposition of assets, change of control

Need for proper structural design / cooperation among agencies

- Enforcement effectiveness: Difficult but key to success
  - Ability to sanction on breach of fiduciary duty is necessary, only fraud or false disclosure not enough
  - Need administrative/preventive measures & civil sanction to compensate difficulty in criminal prosecution
2. Handling risk of unfair treatment to SH (cont.)

Some of our administrative or civil sanction

**Administrative**

- Pre-vetting disclosure document: annual, on-going, SH meeting doc.
- Review of transactions → ask for clarification, disclosure
- Untrustworthy disqualification of directors
- Look for board accountability, not only CEO

**Civil sanction - drafted**

- Monetary penalty up to 2x profit w/ min. amount
- Disgorgement of profit
- Banning from entering into the market for up to 5 years
- Barring from being director or executive of publicly traded company up to 10 years
- Compensating for investigation cost

Better start small than going without
3. Strengthening board responsibilities and accountability

**CG Principles & Practice**

- **Form or substance**
  - Easier to start with form / structure, but not an end
  - Assessment or ratings are useful motivation
  - Governance (in form) not enough, increasing call for environment & social responsibility
  - For substance, need to align with business incentives. Can jump to building substance? May be.

---

**Creating Value for Sustainability**
3. Strengthening board responsibilities and accountability (cont.)

• Moving from Principles or Code

**Current Status**

- **OECD Principles**
  - Respect SH Rights
  - Equitable treatment
  - Role of Stk holders
  - Disclosure
  - Board responsibilities

- **SET CG Principles**
  - Respect SH Rights
  - Equitable treatment
  - Role of Stk holders
  - Disclosure
  - Board responsibilities

- **IOD CGR**
  - Respect SH Rights
  - Equitable treatment
  - Role of Stk holders
  - Disclosure
  - Board responsibilities

**Main comments**

- More on form rather than substance. OECD Principles are for policy makers.
- Increased expectations on CSR/sustainability issues
- Multiple guidelines, assessments and rewards can be burdensome to listed companies
- Listed co. view CG principles as separate from business
3. Strengthening board responsibilities and accountability (cont.)

Concept for New Code

<table>
<thead>
<tr>
<th>OECD/SET CG Principles</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Respect SH Rights</td>
</tr>
<tr>
<td>2. Equitable treatment</td>
</tr>
<tr>
<td>3. Role of Stk holders</td>
</tr>
<tr>
<td>4. Disclosure</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SET CSR Guidelines</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Respect human rights</td>
</tr>
<tr>
<td>2. Environment preservation</td>
</tr>
<tr>
<td>3. Anti-corruption</td>
</tr>
<tr>
<td>4. Health &amp; safety product</td>
</tr>
</tbody>
</table>

Responsibilities of the board

Business operations

Planning

Vision/ purpose/ strategies

Operating

Structure, human resources, products, production, sales

Monitoring

Evaluate, monitor, disclosure

- Responsible & For sustainability
- Anti-corruption
- Stakeholders Engagement
- Human rights
- Environment
- Transparency and disclosure
- The rights of shareholders
Integrated Governance Code

1. Ethical leader for sustainable value creation
2. Define and direct strategies for sustainability
3. Strengthen Board effectiveness
4. CEO and people management
5. Effective risk management & internal control
6. Nurture innovation and Responsible operation
7. Ensure Disclosure and financial integrity
8. Ensure engagement & communication with shareholders

Integrated Governance Code: Board Responsibilities

Draft
3. Strengthening board responsibilities and accountability (cont.)

Mix of tools & Collaboration: Beyond regulations

- Design assessment & rewards, may need different assessment on different principles
- Increased focus on substance 2-3 years for preparation

- Focus on training
  - Meet major shareholder to create buy-in
  - Invite champion to share experiences

• Reflect more CG in substance
• Apply or explain
• To be conducted in phases
Investment Policy of Lao PDR

Presented by: Thavichanh Thiengthepvongs
Deputy Director General of Investment Promotion Department, Ministry of Planning and Investment
New Economic Mechanism:

• From 1986, Lao PDR shifted from planned economy to a market oriented economy

Privatization of state enterprises

Open for FDI: - FDI Law 1988
- FDI Law (1\text{st} revised) 1994
- FDI Law (2\text{nd} revised) 2004
- FDI Law (3\text{rd} revised) 2009
Key Features of 2009 IPL

• Combined the domestic investment law and foreign direct investment law into one to create a “level playing field” for both domestic and foreign investors
• Shorten procedures to open new businesses
• No terms of investment for promoted activities
• Extended Investment incentives: Corporate income tax exemption up to 10 years, additional 5 years for Education and Health care sectors as top priorities
• Foreigners can have access to local financial sources
• Foreigners can invest in the real estate sector
• Promotion of the development of SEZ and Industrial Park
Investment Incentives

- Exemption from import duties and taxes on raw materials and capital equipments using for production
- Exemption from export duty on export products
- Tax holidays offered up to 10 years
- Additional tax holidays, reduced tax rates for large projects
- Special incentives for healthcare and education service
From Now to Future: NSEDP 2016-2020 and 2030 Vision

- Investment Policy vs NSEDP vs SDGs
- Sustainable – Green Growth
- Investment Policy vs Investment Legislation vs “Quality” Investment
- Requirement Improvement in IPL
What are the topics around the Improvement of IPL

- OSS
- Investment Classification
- Investment Sectoral Classification
- Incentives/Treatments
- Concession Term, Land Issues.
- Institutional Arrangement/Responsibility Division
- Monitoring
Investment Opportunities

- Agriculture
- Manufacturing
- Tourism
- Energy
- Education
- Healthcare
- Services
Competitive Advantages: Agriculture

Agriculture Forestry

- Highest ratio of forest area
- Suitable land for various tree Plantation
- Large stands of tropical hardwoods including teak and rosewood
- Plenty of productive land

The government is now promoting the contract farming instead of granting concession over large area of land for agriculture and tree plantation
Manufacturing Sector

• Lao PDR ready to be Manufacturing Base
• Logistic advantages from EWEC (Linked to the Sea)
• Low utilities and labor cost
• Special Economic Zone (Located along EWEC)
• Export – Import tax exemption

Competitive Advantages: Agriculture
Tourism Sector

1. Eco-Tourism
2. Cultural Tourism
3. Agro-Tourism

Tourism Business is now opened to FDI with Foreign Equity of up to 70%

Several natural tourist sites are welcoming FDI

World #1 for Tourism

- Top of “Places to Go” list in 2008 by New York Times;
- “The best city in the world to visit” by the Wanderlust, a leading British travel magazine;
- Top City Award in 2006-2012 (except in 2009 being in top 10);
- World Best Tourist Destination in 2013 by the European Council on Tourism and Trade.
- Wanderlust Travel Awards in 2015 Laos is top 10 and LBP is No.1
Electricity Generation:

- **Abundant water resources** produced by tributaries of Mekong river
- Estimated electricity generation potential: over **23,000 MW**
- Investment in hydro-electric facilities will be substantial
## Top ten FDI by Countries 1989 to 2015

<table>
<thead>
<tr>
<th>No.</th>
<th>Country</th>
<th>Projects</th>
<th>Value (USD million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>China</td>
<td>834</td>
<td>5,484</td>
</tr>
<tr>
<td>2</td>
<td>Thailand</td>
<td>750</td>
<td>4,491</td>
</tr>
<tr>
<td>3</td>
<td>Vietnam</td>
<td>417</td>
<td>3,574</td>
</tr>
<tr>
<td>4</td>
<td>Malaysia</td>
<td>103</td>
<td>812</td>
</tr>
<tr>
<td>5</td>
<td>Korea, South</td>
<td>291</td>
<td>490</td>
</tr>
<tr>
<td>6</td>
<td>France</td>
<td>244</td>
<td>487</td>
</tr>
<tr>
<td>7</td>
<td>Japan</td>
<td>102</td>
<td>438</td>
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<td>8</td>
<td>Netherland</td>
<td>16</td>
<td>434</td>
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<td>9</td>
<td>Norway</td>
<td>6</td>
<td>346</td>
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<td>10</td>
<td>Britain</td>
<td>54</td>
<td>201</td>
</tr>
</tbody>
</table>
Thank You Very Much for Your Kind Attention!

Ministry of Planning and Investment

www.investlaos.gov.la
www.facebook.com/investlaos.gov.la

Tel:  +856-21-217012
Fax:  +856-21-215491
OECD-Southeast Asia Corporate Governance Initiative

1-2 June 2016
Vientiane, Lao PDR

Session 3 – Unlocking Investment – Developing a Policy Framework for Investment

Aung Naing Oo
Director General, Ministry of Planning and Finance, Myanmar
OECD Greater Mekong Investment Policy Forum

Ministerial request from Myanmar to OECD Secretary General for IPR, May 2012

Review of Myanmar Investment Regime


28-29 March 2012

- 17 agency PFI National Task Force by led MNPED
- OECD workshops with Task Force

2012

- OECD fact-finding mission with technical experts
- Stakeholder workshops in Yangon and Nay Pyi Taw
- Presentation at OECD Investment Committee

2013

Launching of IPR of Myanmar 1st March 2014
Myanmar’s IPR Review

11 areas of Policy Framework for Investment (PFI):

- Investment policy
- Investment promotion and facilitation
- Trade policy
- Competition policy
- Tax policy
- Corporate governance
- Policies for promoting responsible business conduct
- Human resource development
- Infrastructure and financial sector development
- Public governance
- Investment for Green Growth (Environmental Sustainability)
OECD’s Recommendations

**FIL and MCIL** offer weak protection to both domestic and foreign investors. The following guarantees for investor protection need to be added in the new law:

1. Non-discrimination: national treatment, most-favored nation treatment and fair and equitable treatment
2. Protection Against Expropriation
3. Guarantee of Profit/Capital Transfer
4. Access to Alternative Dispute Resolution (ADR) mechanisms

Grievances Mechanism

- To be clarity in the Foreign Investment Law and its implementing rules
- Outdated framework for the protection of Intellectual Property rights
- Room for improving contract enforcement and dispute settlement mechanisms; need to strengthen judicial independence
- Need to ensure that investment contributes to sustainable and inclusive development
OECD’s Recommendations to Actions (Myanmar IPR -2014)

**Investment Law**
- Merging FIL & MCIL
- Amendment Laws of FIL & MCIL (22 Dec 2015)
- New MIL
  - Revising Incentives in New MIL
  - Investment Protection in New MIL
  - Grievance mechanism in New MIL

**Company Law**
- Amending MCA (1914)
- New MCL
  - Electronic companies registry
  - Public education and awareness campaigns to use the new law and registry effectively

**Restrictions on Business Entry**
- Reducing Restrictions
- Squeezing Negative lists (1/2013)
  - Notification No. 49, 50 & 51/2014
  - New Notification No. 26/ 2016 (21-3-2016) was issued in place of Notification No. 49/2014
  - New Notification No. 80/2016 (29-3-2016) was issued in place of Notification No. 50/2014

The investors shall carry out the Environmental Impact Assessment Procedures issued by the Ministry of Natural Resources and Environmental Conservation.
Progress

Myanmar Investment Law

1) Law (Draft) is being scrutinized by Union Attorney General Office again
2) Relevant Ministries’ comments

UAGO

Draft will be sent to Parliament for their considerations for next step

Parliament

Expected to promulgate during 2016

Myanmar Company Law

1) Law (Draft) was scrutinized by Union Attorney General Office – 2 times
2) Inter-ministry’s meeting for considerations

UAGO

Draft will be sent to Parliament for their considerations for next step

Parliament

Expected to promulgate during 2016

Public Consultations

DICA Website

Comments

Relevant Ministries

UAGO

Comments

Relevant Ministries

UAGO

UAGO

Comments

Relevant Ministries

UAGO

Comments

Relevant Ministries

UAGO

Comments

Relevant Ministries

UAGO

Comments

Relevant Ministries

UAGO
OECD’s Assessment and Recommendations for the Corporate Government of Myanmar

**Policy options:**

- Take further steps to introduce basic principles of corporate governance, including for companies owned by public authorities, into Myanmar’s corporate legal framework.

- Consider imposing regular disclosure of financial statements to increase transparency in the governance of SEEs and military enterprises.

- Introduce competition principles into the broader corporate framework to ensure a level-playing-field between private companies and those with public participation, including military enterprises.

- Ensure sound transparency of privatisation processes to reap full economic and financial benefit of the sell-off: communicate to the public the rationale behind each SEE privatisation.

**Actions:**

- Drafting Myanmar Company Law by merging Myanmar Companies Act (1914) and Special Company Act (1950).

- To increase the transparency purpose, the Myanmar first EITI report (2015) disclosed the total revenue of MMK 3,011,283 million from extractive sector and about 85% of total revenue are collected mainly by the State Owned Enterprises (SOEs) during the fiscal year 2013-14.

- Related provisions will be in upcoming Myanmar Company Law.

- Privatization Commission led by Vice President and relevant Ministers was organized on 4th May 2016 according to the Notification No. 10/2016 of President Office.
OECD-Southeast Asia Corporate Governance Initiative

OECD-Myanmar Corporate Governance Advisory Group (Advisory Group)

Objectives

Advisory Group will operate two technical sub-groups
- SOE reform
- Corporate governance to support overall capital market development

The main output of the advisory Group would be the development of an Action Plan for reform and capacity building for the two priority areas.

Work Programme

Key objective is to support efforts in the area of SOE reform and corporate governance, investment and capital market development.

Pre-coordinating meeting was held on 20th October 2015 at DICA Office, Yangon.
Session 3 – Unlocking Investment – Developing a Policy Framework for Investment

Nguyen Dinh Cung
Central Institute for Economic Management (CIEM), Viet Nam
RENEWED MOMENTUM TO IMPROVE THE BUSINESS ENVIRONMENT IN VIETNAM

The views expressed in this presentation are those of the author and do not necessarily represent the opinions of the OECD or its Member countries.
Vietnam GDP growth: the second best performer of the world, but there are two different periods and stories, the second started from 2007.
Macroeconomic instability 2007-2011

GDP growth rate

CPI

-5 0 5 10 15 20
Four engines of the economy, but only one works well

- Private domestic sector
- FDI
- SOEs and
- Agriculture
- Only FDI works well
Comprehensive restructuring program 2012-2020

- Macroeconomic stabilization
- Infrastructure development
- Human resource development
- Institutional reform

Re-allocation of resources in the entire economic and each sector

- Improved resources allocation
  - Higher economic growth;
  - Improved national competitiveness;
  - Higher labor production and total factor productivity (TFP);
  - Improved economic structure;
  - Improved economic development;
  - Continued poverty reduction.

- Improved technical effectiveness

- Financial sector reform
- Public investment reform
- Public administration reform & Public finance management
- State-owned enterprises reform
- Economic sectors/industries restructuring
- Economic regions restructuring

- Reduction of risk, cost; improved security;
- Improved role of the market in input allocation;
- Improved business environment;
- Strengthen effectiveness and efficiency of the State.
Macroeconomic stability has recovered since July 2012

Nguồn: TCTK.
SOEs restructuring

- Divesture of non-core businesses
- Re-start of equitisation process
- More hard budget constraints
- And improving effectiveness of corporate governance
Regulatory reform: The ASEAN6 average is the primary target of business environment improvement for 2014-2015
And catching up with Thailand and Malaysia in 2017 and beyond
Key revisions to the investment law, enterprise law, and corporate income tax law

• Simplification of investment licensing and registration, and business registration;
• Introduction of negative lists for both domestic and foreign investors;
• Increasing foreign ownership share in domestic companies, including the listed ones in stock exchange;
• Abolishment of thousands business licenses and conditions; and simplifying many others;
• Application of good practices of corporate governance;
• Reduction of corporate income tax to 20%; and many other changes;
• And many other changes....
Economic growth has gradually recovered
THANK VERY MUCH FOR YOUR ATTENTION
OECD-Southeast Asia Corporate Governance Initiative

1-2 June 2016
Vientiane, Lao PDR

• Session 3 – Unlocking Investment – Developing a Policy Framework for Investment

• Ramon Bruesseler
  • Executive Director, European Chamber of Commerce and Industry in Lao PDR
ASEAN economies compared by GDP, 2014

(in current m. US $)


Updated 14/05/2016
World Competitiveness Index 2015/2016


Updated 15/05/2016
FDI stock per resident in m current US $, (2014) and rank in global competitiveness index 2015-2016

Approved FDI 1989 – 2015 per sector

- Electricity generation: 29%
- Mining: 23%
- Agriculture: 14%
- Services: 10%
- Manufacturing and Handicraft: 8%
- Hotel and Restaurant: 4%
- Telecommunication: 4%
- Construction: 3%
- Others: 6%
Approved Foreign and Domestic Investment 2000 – Sept. 2013 per sector (1000 USD)

- Lao Private: 17%
- Lao Government: 7%
- Foreign: 76%

Total Investment: 22 bln. USD

Source: Ministry of Planning and Investment.
The most problematic factors for doing business in Laos according to the global competitiveness index 2015-2016

(weighted score)

- Inadequately educated workforce: 23.2
- Access to financing: 14.2
- Inadequate supply of infrastructure: 11.7
- Poor work ethic in labour force: 9.3
- Complexity of tax regulations: 7.4
- Tax rates: 7.1
- Corruption: 5.9
- Inefficient government bureaucracy: 5.3
- Restrictive labour regulations: 4.1
- Insufficient capacity to innovate: 3.3
- Policy instability: 3.1
- Foreign currency regulations: 2.1
- Inflation: 1.3
- Poor public health: 1
- Crime and theft: 0.7
- Government instability / coups: 0.4

Share of wage and salaried workers in total employment 2013
(in per cent)

Pupils and drop-outs
(latest figures)

Source: Ministry of Education and Sports, Lao PDR.
Updated on Oct. 22\textsuperscript{nd}, 2014
Educational composition of working age population (2013)

- No formal education: 17%
- Some primary: 17%
- Completed primary: 30%
- Completed lower secondary: 10%
- Completed upper secondary: 19%
- Completed vocational training: 4%
- University degree: 3%

Ease of Doing Business Index 2016
(Ranking of 189 countries)


Updated 26/02/2016
Ease of Doing Business Index 2016 for Lao PDR – the details
(Ranking of 189 countries; 1=best, 189=worst)

Dealing with construction permits: 42
Registering property: 66
Getting credit: 70
Enforcing contracts: 92
Trading across borders: 108
Paying Taxes: 127
Starting a business: 153
Getting electricity: 158
Protecting minority investors: 178
Resolving Insolvency: 189

Updated 03/11/2015
Ease of Doing Business Index 2016 and GDP p.c. 2014
(1=easiest to do business, 189=most difficult to do business)

Exports as percentage of GDP in 2014 and documents needed to export


Updated May 13th, 2016
Days Needed for New Business Registration


Updated 30/10/2014
What Lao firms identify as major obstacles for their business (% of firms), 2012

- Electricity: 4%
- Access to land: 4%
- Corruption: 4.5%
- Tax administration: 7%
- Transportation: 8%
- Access to finance: 14%
- Tax rates: 15%
- Inadequately educated workforce: 17%


Updated 18/05/2013
SWOT analysis of Lao PDR as a place to do business: Weaknesses

- Small domestic market with limited mass purchasing power
- Low level of vocational academic skills
- Shortage of educated but also uneducated workforce
- Mediocre productivity
- Land locked (land linked?) country with sometimes poor infrastructure beyond the main roads resulting in high transportation cost
- Topography detrimental to traffic and low population density
- Banking system and financial system are still developing
- No easy place to do business
- Several sectors/industries not accessible for foreign investment
- Lack of information and updated, reliable statistics
- Sometimes weak and inconsistent implementation and application of laws and regulations in administration and jurisdiction
- High level of bureaucracy and not always transparent administrative decision making which has the risk of encouraging inconsistent fees
Improving the business enabling environment - fundamental considerations -

- Promoting an enabling administration rather than a controlling one
- Improving tax administration
- Streamlining administrative procedures, cutting red tape
- Promoting the rule of law
- Improving transparency and communication
- Improving education and skills
Improving the business enabling environment
- practical considerations -

- Open more sectors to FDI and WFOE
- Apply lessons learned in SEZ
- Differentiate regulations regarding minimum investment
- Abolish unnecessary company registration at different levels
- Abolish the request to hand in a business plan for company registration
- Abolish time limitations of leaseholds on land for foreign investors
The views expressed in this presentation are those of the author and do not necessarily represent the opinions of the OECD or its Member Countries.
OECD-Southeast Asia Corporate Governance Initiative

1-2 June 2016
Vientiane, Lao PDR

Session 3 – Unlocking Investment – Developing a Policy Framework for Investment

Hélène François
Legal Analyst, Investment Division, OECD
1. Setting the context: the Policy Framework for Investment (PFI)
The PFI is....

A multilaterally-backed instrument to improve the investment climate building on good practices in OECD and non-OECD economies

A comprehensive framework covering numerous policy areas affecting the investment climate

- Governance: non-prescriptive, transparency, stability/predictability, coherence, effectiveness
How the PFI works

Self-assessment by Government
(in cooperation with OECD)

- Non-prescriptive & non-binding
- Flexible
- Comprehensive
The PFI helps to improve the development impact of private investment.

Connecting development partners and user countries for coherent and inclusive partnerships.

Examples: Whole-of-government Task Forces:
- Myanmar: 17
- Tanzania: 21
- Burkina Faso: 17
- Philippines: 18

For foreign investors, but also local business, workers, informal sector.

Through Inclusive partnerships

Policy coherence for development

Capacity for Creating enabling environments

Examples:
- SME development as an investment attraction strategy
- Support responsible business conduct

Emphasis on comprehensive and coherent policy frameworks.
27 countries and a number of regional communities have used the **Policy Framework for Investment (PFI)**.

- Chile
- Regional economic communities and initiatives using the Policy Framework for Investment
  - The Association of Southeast Asian Nations (ASEAN)
  - Southern African Development Community (SADC)
  - New Partnership for Africa’s Development (NEPAD)-OECD African Investment Initiative
  - Middle-East North Africa-OECD Investment Programme
  - Latin America and Caribbean (LAC)-OECD Investment Initiative
  - The Investment Compact for South East Europe
  - The Eurasia Competitiveness Programme

**Global Map**
- Governments undertaking reviews often form multi-agency task forces that can capitalise on and enhance a country's reform momentum.
- Malaysia = 17 agencies; Tanzania = 21 agencies; Burkina Faso = 17 agencies; Philippines = 18 agencies.

**Map Notes**
- Chile's investment promotion agency is using the PFI to review its investment promotion strategy and promote investment policy reforms.
- Nigeria used the PFI in Lagos State for a state-level investment framework evaluation and is now rolling this out to other states.
- The Southern African Development Community (SADC) and the OECD have partnered to develop the SADC Investment Policy Framework using the PFI, offering a peer learning platform for investment reform implementation.
OECD Investment Policy Reviews
Southeast Asia

Reviews are undertaken jointly by the OECD and the government in partnership with the ASEAN Secretariat and based on the Policy Framework for Investment.
2. Some lessons from OECD Investment Policy Reviews in Southeast Asia
Lessons from Investment Policy Reviews (1)

- Investment climate reform is a process, not an outcome
- A sound legal framework needs to be complemented by effective implementation
- Poor inter-ministerial coordination leads to piecemeal reforms and weak implementation
- *Doing Business* matters but is only one part of the story
- Consistency across relevant laws, regulations, and investment treaties is key to create a predictable legal environment and an attractive investment destination
- FDI restrictions can affect both the volume and the quality of FDI inflows
- A good investment climate should be good for all firms (domestic & foreign, large & small)
- Policy recommendations need to take account of capacity constraints
Lessons from Investment Policy Reviews (2)

- Investor protection in international agreements should not substitute for a sound domestic legal framework.
- Decentralisation can improve accountability and responsiveness but often suffers from weak coordination with the central government.
- Reforms that have benefitted from broad consultations are easier to implement.
- Awareness of Responsible Business Conduct (RBC) is not wide-spread; perceived risks are high.
- A comprehensive strategy for how environmental and social risks of investments are addressed is needed.
- Role of civil society could be expanded to increase transparency and accountability.
Lessons from Investment Policy Reviews (3)

• Investment promotion and facilitation measures should take place in the context of, and not substitute for, a good investment climate

• Encouraging reinvestment is less costly and complex than encouraging new investors

• The use of investment incentives is no substitute for policy measures in support of a healthy business environment

• Encouraging business linkages helps maximising the positive impact of FDI on a host economy

• Satisfied clients, guaranteed by good aftercare services, are a country’s best promotion tools
Reforms of investment laws in ASEAN countries: a comparative overview

<table>
<thead>
<tr>
<th>Country</th>
<th>Single investment law covering domestic and foreign investments</th>
<th>Recent amendments of the Investment legislation</th>
<th>Provision on: environmental impact, sustainable economic development, etc.</th>
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</thead>
<tbody>
<tr>
<td>Brunei Darussalam</td>
<td>No – 1 Investment Incentives Law (2001)</td>
<td></td>
<td>No</td>
</tr>
<tr>
<td>Cambodia</td>
<td>Yes</td>
<td>ongoing</td>
<td>No</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Yes</td>
<td>2007</td>
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<td>Lao PDR</td>
<td>Yes</td>
<td>ongoing</td>
<td>Yes</td>
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<tr>
<td>Malaysia</td>
<td>No</td>
<td></td>
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</tr>
<tr>
<td>Myanmar</td>
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<td>2012, 2013, 2015</td>
<td>Yes</td>
</tr>
<tr>
<td>Philippines</td>
<td>2 investment laws</td>
<td>1987, 1991</td>
<td>No</td>
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<tr>
<td>Singapore</td>
<td>No</td>
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<tr>
<td>Thailand</td>
<td>2 investment laws</td>
<td>2000</td>
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<tr>
<td>Viet Nam</td>
<td>Yes</td>
<td>2005, 2014</td>
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</tbody>
</table>
## Protection provisions in investment laws: a comparison

<table>
<thead>
<tr>
<th></th>
<th>Guarantee of non-discrimination at post-establishment stage</th>
<th>Negative list approach</th>
<th>Protection against expropriation</th>
<th>Guarantee of free transfer of funds provided by law</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Brunei Darussalam</strong></td>
<td>No</td>
<td>/</td>
<td>Yes, but not specific to investors</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Cambodia</strong></td>
<td>Yes, except for land</td>
<td>/</td>
<td>Yes, but incomplete</td>
<td>Yes</td>
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<tr>
<td><strong>Indonesia</strong></td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
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<tr>
<td><strong>Lao PDR</strong></td>
<td>Not clear</td>
<td>/</td>
<td>Yes, but inadequate</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Malaysia</strong></td>
<td>No</td>
<td>/</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Myanmar</strong></td>
<td>No</td>
<td>Yes, but inadequate</td>
<td>Yes, but incomplete</td>
<td>Yes</td>
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<tr>
<td><strong>Philippines</strong></td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
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<tr>
<td><strong>Singapore</strong></td>
<td>Yes</td>
<td>/</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Thailand</strong></td>
<td>No</td>
<td>Yes</td>
<td>Yes, but incomplete</td>
<td>Yes</td>
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<tr>
<td><strong>Viet Nam</strong></td>
<td>Yes</td>
<td>Yes but inadequate</td>
<td>Yes</td>
<td>Yes</td>
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## Access to ISDS and adherence to treaties in ASEAN countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Possibility to recourse to investment arbitration provided by law</th>
<th>Adherence to international conventions on arbitration (ICSID &amp; NY Convention)</th>
<th>Adherence to International Investment treaties (including BITs and FTAs)</th>
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<tbody>
<tr>
<td>Brunei Darussalam</td>
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<td>Yes</td>
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<td>Cambodia</td>
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</tr>
<tr>
<td>Lao PDR</td>
<td>Yes but vague</td>
<td>Not a member of ICSID</td>
<td>Yes</td>
</tr>
<tr>
<td>Malaysia</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Myanmar</td>
<td>Yes</td>
<td>Not a member of ICSID Adhered to NY Convention in 2013</td>
<td>Yes</td>
</tr>
<tr>
<td>Philippines</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Singapore</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Thailand</td>
<td>Yes</td>
<td>ICSID Convention signed but not yet ratified</td>
<td>Yes</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>Yes but unclear</td>
<td>Not a member of ICSID</td>
<td>Yes</td>
</tr>
</tbody>
</table>
FDI has grown quickly in recent years but Lao PDR is outperformed by most of its regional peers in relative terms.

Source: UNCTAD
Enhancing the rule of law in law-making process is a pressing priority

- More coherent law-making for an enabling investment policy framework needed:
  - Inclusive law-making process for more buy-in for reform
  - Prompt adoption of by-laws to ensure better implementation of new legislation
  - Need to strengthen the leading role of MoJ in law-making process to ensure consistency of the legal framework

- Important positive step taken with the enactment of the *Law on Laws*:
  - But provisions of the Law on Laws are not yet fully applied
  - Need to further improve accessibility of laws and regulations
Implementing investment legislation remains one of the biggest challenges

• Inconsistent and inadequate implementation is the biggest impediment to the ongoing regulatory reform process:
  – Adoption of implementing decrees often delayed (i.e., IP decrees),
  – Ambiguous legal language leaves room for inconsistent administrative practices;
  – Lack of capacity within government, esp. at provincial level;
Lao PDR compares favourably vis-à-vis ASEAN peers in terms of FDI restrictions, but remains relatively restrictive.
Starting a business is a complex process

- 3 different entry points for investors (3 one-stop shops)
- Multitude of burdensome administrative obstacles to start and operate a business
- Deadlines and fees are not clear and systematic, which leaves room for discretion, unpredictability and inconsistent application of laws
- Lack of coordination between ministries
- Dialogue with private sector can be more regular and systematic
- Lack of transparency in granting tax incentives
THANK YOU!

Helene.Francois@oecd.org
Session 4- What is the landscape for Corporate Governance in Lao PDR

Saysamone Chanthachack
Secretary General, Lao Securities Commission Office
Corporate Governance Development in Lao Capital Market

Mrs. Saysamone CHANTHACHACK
Secretary General, Lao Securities Commission Office
02 June 2016, Vientiane
Contents

① Current Capital Market Development

② CG Practices and Regulatory Framework

③ Next Steps for CG Development
① Current Capital Market Development

Legal Framework
- Law on Securities, No. 21/NA, dated 10/12/2012
- 34 regulations
- Other laws and related regulations

Market participants
- 5 Listed companies with market cap. of 12% of GDP
- 4 Securities firms and 1 Rep. office
- 4 Audit firms (Big 4)
- 1 Custodian bank
② CG Practices and Regulatory Framework

- Regulatory Framework

- Law on Securities, No.21/NA, dated 10/12/2012
  - Regulation on reporting and disclosure for Listed Companies
  - Guideline on Shareholder Meeting

- Law on Enterprise, No. 46/NA, dated 26/12/2013
  - Stipulated about enterprise registration, basic rights of shareholders, shareholders’ meetings, roles and responsibility of the BOD
2 CG Practices and Regulatory Framework

➢ Challenges

✓ Laws and regulations are not sufficient and fully comply with OECD CG Principles
  • Disclosure & Transparency of BOD & Management
  • Structure & Responsibility of the board
  • Related parties transactions

✓ Enforcement

✓ Week of public awareness and companies concerns
③ Next Steps for CG development

- Based on our 8th five-years National Social-Economic Development Plan (2016-2020), the government needs 27 billions USD, equivalent to 223.000 billion kip to inject to the economic sectors to meet at least 7.5% growth.

- From 3 main sources:
  - State Budget (Borrowing + ODA)
  - Private Sector (Domestic + Foreign)
  - Financial market (21% of total amount)
    - Capital Market
Next Steps for CG development

Challenges of the Capital Market

- Low liquidity
- Limited choice of products
- Limited investor base and investors’ confident

Solution: Good CG framework should be in place
③ Next Steps for CG development

- Based on Strategic Plan on Capital Market Development (2016-2025), there are 12 programs and 38 projects
- One of those projects is to strengthen listed companies by Improving CG
③ Next Steps for CG development

➢ LSCO signed MOU with IFC in October 2015

➢ MOU covers 4 main components:

1) Country Assessment and Action Plan \((\text{June 2016})\)
2) Corporate Governance Code (CGC) \((\text{March 2017})\)
3) Roadshow \((\text{Start from March 2017})\)
4) Monitoring and Assessment \((\text{March 2018})\)
③ Next Steps for CG development

- To officially announce of CG code implementation
- To amend related Laws and Regulations
- To consider on jointing ASEAN CG scorecard scheme (6 countries).
Thank you

The views expressed in this presentation are those of the author and do not necessarily represent the opinions of the LSCO, OECD and its member countries.
OECD-Southeast Asia Corporate Governance Initiative

1-2 June 2016
Vientiane, Lao PDR

Session 4 – What is the landscape for Corporate Governance in Lao PDR

Aristotle David
Managing Partner
ZICOlaw (Laos)
ZICO Law (Laos) is a well-established legal services firm located in Vientiane which initially began operations as Vientiane Law Co. Ltd. established in 2009. Our Vientiane office consists of a team of experienced Laotian and foreign lawyers.

As a member firm of ZICO Law, we provide our clients direct access to a powerhouse of 300 lawyers in 8 of the 10 ASEAN countries. In this we are unique in providing cross-border legal-related services within the same regional network.
ASEAN insiders, by origin and passion

We believe in ASEAN.

A unique ASEAN integrated services platform

- Origin 1987 > 3 decades as Trusted Business Advisor
- 700 staff
- 400 legal professional & consultants
- 8 countries
- 15 offices in ASEAN
- zicoholdings.com | zicolaw.com

Multidisciplinary services

Integrated solutions

Corporate Governance in Lao PDR

CORPORATE GOVERNANCE (CG) LEGAL AND REGULATORY FRAMEWORK

Challenge

- No CG Code or Voluntary Guidelines
- Existing legislation are unclear and subject to varying interpretations
- Limited or absence of public discussion of draft legislation by all stakeholders
- Lack of timely public dissemination
- Lack of publicly available accurate English translation of legislation
- Several compliance requirements with different government regulators
- Lack of enforcement of existing legislation
- Capacity and independence of courts on commercial matters (e.g. nullification of shareholder’s resolutions)
Corporate Governance in Lao PDR

CORPORATE GOVERNANCE (CG) LEGAL AND REGULATORY FRAMEWORK

Recommendation

• Assessment and drafting of a GC Code or CG Voluntary Guidelines
• Timely issuance of clear and comprehensive implementing legislation
• Timely posting in Lao Official Gazette
• Public consultation, awareness and dissemination
• Collaboration with foreign chambers on English translations
• Simplification/consolidation of legal compliance requirements with regulators
• Capacity building training of regulators, judiciary and legal profession
Corporate Governance in Lao PDR

RIGHTS AND EQUITABLE TREATMENT OF SHAREHOLDERS

Challenge

• Advance notice of shareholder’s meeting is only 5 working days
• Unclear provision on what sufficiently comprises as “necessary documents” for the advance notice for shareholder’s meeting
• Request for an extraordinary shareholder’s meeting can only be made by shareholders representing at least 20% of total paid shares
• Unclear voting right restriction on what is considered as “beneficial” to the shareholder; the application of this restriction is determined in a shareholder’s meeting
• Proxy voting and the use of different modes of shareholder voting is prohibited
• Unclear definition of what is “substantial damage” to the company which entitles an opposing shareholder for compensation
• Practice of majority shareholding interest nominating and electing directors
• Practice of issuing minute resolutions without any discussion
• Lack of grievance mechanism against other shareholders, directors and management
Corporate Governance in Lao PDR

RIGHTS AND EQUITABLE TREATMENT OF SHAREHOLDERS

Recommendation

• Extend period for advance notice of shareholder’s meetings
• Issue implementing regulations to define “necessary documents”
• Reduce the required shareholding interest to call an extraordinary shareholder’s meeting
• Define “beneficial” and the extent of the applicable degree covered by the restriction
• Amend to allow voting by proxy and other modes
• Provide guidelines on what is considered as “substantial damage” to the company
• Prohibit required nominations of directors among majority shareholders
• Require evidence that minute shareholder’s resolution was passed after discussion and necessary information/documents were provided
• Issue grievance redress mechanism which protects the rights of the complainant
Corporate Governance in Lao PDR

DISCLOSURE AND TRANSPARENCY

Challenges

- No publicly accessible centralized register of company information; request of company registration documents requires consent
- Annual Reports of limited companies are not required to be disclosed to the public
- Register of book for shareholders and directors are not registered and maintained
- No definition of the extent of Related Party Transaction and requirement of disclosure of all material and relevant information on the conflict of interest
- Special shareholder’s resolutions are not registered before registration authorities
- Disclosure of company directorship interests in other enterprises prior to appointment is not required
- Application of IFRS requires prior approval; use of Lao accounting standards
- Company auditors (and Board) are only required for limited companies with registered capital of LAK 50B (USD 6.25M)
- Corporate secretarial services is not generally observed by enterprises
- Non disclosure of enforcement actions against non-compliant enterprises (if any)
Corporate Governance in Lao PDR

DISCLOSURE AND TRANSPARENCY

Recommendation

• Develop a publicly accessible database system of company registration; electronic filing and retrieval system must be simple and not costly
• Raise public awareness of disclosure requirements which must be comprehensive but simple to comply
• Beneficial owners and cross shareholding interests must be required to be disclosed
• Criteria for determining materiality in Related Party Transaction must be defined
• IFRS must be implemented without requirement of prior approval
• Accounting and auditing services must be developed to meet international standards
• Capital limitation for requiring auditors and directors be lowered; auditors must be competent and independent according to international standards
• Corporate Secretary must be required
• Develop and implement a “Whistle Blower” policy
• Publication of enforcement regulations and actions by government regulators
Corporate Governance in Lao PDR

BOARD / DIRECTORS

Challenges

• Unclear provisions of Article 121 (1) of the Enterprise Law on directors’ relationship with the limited company and third parties
• Unclear provisions of Article 127 of the Enterprise Law on internal liabilities of the limited company and its directors, officers and employees
• Unclear provisions of Article 128 of the Enterprise Law on measures against breach of directors
• Lack of guidelines on the application and disclosure requirements due to involvement in a transaction which will benefit directors or change their shareholding in the company of subsidiaries
• Lack of guidelines on Article 130 of the Enterprise Law on Directors’ restriction; approval exceptions may be issued at a shareholder’s meeting, or upon agreement or pursuant to the by-laws
• Directors with cross company directorships or shareholding interest is prone to conflict due to Related Party Transaction
• Practice of nomination/election of Board members by majority shareholders
Corporate Governance in Lao PDR

BOARD / DIRECTORS

Recommendations

- Issue regulations which provide implementing guidelines
- Directors be required to act in a fully informed basis, good faith, due diligence and care, to the best interest of the company and all shareholders
- Define materiality, manage and monitor Related Party Transactions
- Promote objectivity and independence of directors from majority shareholder
- Ensure protection from retribution
- Proportional representation in the nomination/election of Board members
- Conduct mandatory training for directors on CG
ASEAN INSIDERS
by origin and passion

Thank you!
Contents

I. The securities market in Cambodia
II. Government policies regarding the listing of SOEs
III. The reform of SOEs through the IPO process
IV. The challenges of SOEs after the IPO
I. The securities market in Cambodia

1. Background

2001
- Vision and Financial Sector Development Plan for 2001-2010

2006

2007
- January 10th: Law on Government Securities
- September 6th: Official announcement to establish a securities market plan in Cambodia

2008
- July 23rd: Sub-decree on the Conduct and Organization of the Securities and Exchange Commission of Cambodia (SECC)

2009
- April 8th: Sub-decree on Implementation of Law on Issuance and Trading of Non-Government Securities
- April 29th: Inauguration of the Securities and Exchange Commission of Cambodia
I. The securities market in Cambodia

1. Background (cont.)

- July 11th, 2011: Official inauguration of the Cambodia Securities Exchange (CSX)
- Market players obtain licensing, granting approval, and accreditation from SECC.
- April 18th, 2012: First trading of CSX with the equity securities of Phnom Penh Water Supply Authority (PPWSA)
- June 16th, 2014: Second listing: Grand Twins International (GTI)
- December 9th, 2015: Third listing: Phnom Penh Autonomous Port (PPAP)
- May 30th, 2016: Fourth listing: Phnom Penh Special Economic one (PPSEZ)
## I. The securities market in Cambodia

### 2. Listed Companies on the Cambodia Securities Exchange (CSX)

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Industrial Classification</th>
<th>IPO Shares</th>
<th>No. of Listed Share</th>
<th>Market Cap In US Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phnom Penh Water Supply Authority (PPWSA)</td>
<td>Water Utilities</td>
<td>13,045,975</td>
<td>86,973,162</td>
<td>102.19 Mil</td>
</tr>
<tr>
<td>Grand Twins International (Cambodia) Plc (GTI)</td>
<td>Garment Manufacturing</td>
<td>8,000,000</td>
<td>40,000,000</td>
<td>36.00 Mil</td>
</tr>
<tr>
<td>Phnom Penh Autonomous Port (PPAP)</td>
<td>Port Industry</td>
<td>4,136,873</td>
<td>20,684,365</td>
<td>27.92 Mil</td>
</tr>
<tr>
<td>Phnom Penh Special Economic Zone (PPSEZ)</td>
<td>SEZ</td>
<td>4,630,000</td>
<td>11,575,000</td>
<td>8.28 Mil</td>
</tr>
</tbody>
</table>
II. Government policies regarding the listing of SOEs

- **Financial Sector Development Strategy for 2006-2015** states that the development of the securities market in Cambodia is a priority.
- **Rectangular Strategy phase II for 2008-2013** states that the Royal Government will prioritize enhancing the efficient management of SOEs to enable them to reach the standards needed to mobilize financing from the securities market.
- **Law on the Issuance and Trading of Non-Government Securities 2007** facilitates the privatization of commercial enterprises currently owned and managed by the Government of the Kingdom of Cambodia.
II. Government policies regarding the listing of SOEs

• Anukret No. 71/2011 on the Supplement to Anukret No. 41 of 6 August 1997 on the Implementation of Preah Reach Kram on General Statute of Public Enterprises permits SOEs, which include public establishments with economic characteristics, state companies, and joint ventures with majority of state ownership, to go to public.

• The Royal Government, through Ministry of Economy and Finance (MEF), has played an active role in selecting and monitoring SOEs for the IPO process. The MEF set up a working group to facilitate SOEs in the IPO process.
III. The Reform of SOEs through the IPO process

• During the listing process, SOEs are expected to improve their corporate governance standards. Listed SOEs are expected to:
  — Treat shareholders equitably. All shareholders (both public and private shareholders) owning the same class of shares shall be treated equally, through a policy of one vote one share.
  — Have at least 1 independent director and 1 non-executive director, representing private shareholders.
  — Have an audit committee and a risk committee if SOE assets are more than USD 50,000,000.
  — Establish an internal audit unit as an arm of board.
  — Nominate a disclosure official.
  — Nominate a corporate secretary.
IV. The challenges of SOEs after the IPO

- Corporate governance is a new concept in Cambodia
- Management knowledge in corporate governance is limited
- Creating a culture of sound corporate governance
- Restructuring the board
- Resources and change management
- Improving disclosure and transparency
Thank you
Country Focus

Khine Khine Nwe
Joint Secretary General
(UMFCCI)
June 2 2016
## Myanmar: Macroeconomic Overview

<table>
<thead>
<tr>
<th>General Statistics</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Population (2014)</td>
<td>51.4 million</td>
</tr>
<tr>
<td>Area</td>
<td>676,578 sq. km</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Macroeconomic Indicators</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (US$)</td>
<td>$56.8 Billion</td>
</tr>
<tr>
<td>Real GDP Growth (IMF estimate)</td>
<td>8.7%</td>
</tr>
<tr>
<td>GDP Per Capita (USD)</td>
<td>1279</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>GDP Composition by Sector (2015 est)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>36.1%</td>
</tr>
<tr>
<td>Industry</td>
<td>22.3%</td>
</tr>
<tr>
<td>Services</td>
<td>41.6%</td>
</tr>
<tr>
<td>Tax to GDP ratio (2014-15)</td>
<td>9.85%</td>
</tr>
</tbody>
</table>
Reform of State-Owned Enterprises (2011 April – 2016 March)

From SOEs to Private Corporations...

• Since 1990s, Myanmar has been undertaking the process of privatizing or corporatizing state-owned enterprises in various sectors.

• During the period of 2011 and 2015, Myanmar has given priority to private sector development, with technical support from GIZ and ADB, and efforts to continue to corporatize the remaining state-owned enterprises and privatize them are continuing.

  — State-owned Telecommunication Company, MPT: The implementation process into corporatization has started, transformation in progress, but still regard as SOE since Myanmar Corporatization Law has not been approved yet.

Likewise ...

  — The Yangon City Electric Distribution Board (YESB), Myanmar National Airline are in the process of transformation from SOEs to Corporations

Others...

  — MOGE: Start preparation to corporatize.
Reform of State-Owned Enterprises (2011 April – 2016 March)

From SOE Public Company to Private Public Company

• UMEHL : Formed public company in 1996 under 1950 Special Company Act (Ministry of Defense as one of the shareholders)
• It was transformed into Public-Public Company (No shares owned by Ministry of Defense) in March 2016 under 1914 Company Act.
Reform of State-Owned Enterprises
(2016 March onwards)

• Just after the new elected government took the Office in 2016 April, the Office of the President announced a notification 10/2016 on May 4, 2016, regarding the formation of Privatization Commission. (In 1995, that time Military Government formed a Privatization Committee, which function was not well implemented.)

• The commission has 16 members and chaired by the Vice President of the Union Government.
Main Objectives of the Privatization Commission

- To increase private ownership and private businesses in relevant to the market economic system
- To raise the standard of products, know-how/capacity of workforce
- To lessen the burden of budget deficit on the country and the people by transforming from State managed businesses to Private.
- To facilitate Public-Private Partnership, Private-Private Partnership, Joint Ventures
- To check if the factories should be used for different production
- To reach out to the public as broad as possible regarding privatization process through media, broadcasting etc.
Capital Market & Financial Reforms

- Myanmar started building Capital Market in Dec, 2015 with the launch of Yangon Stock Exchange (YSX).
- The first listed public company was First Myanmar Investment (FMI) in March 2016 and was followed by Myanmar Thilawa SEZ Holding Private Limited (MTSH) in May of this year as the second listed company.
- The third one is expected to be announced in July.
UMFCCI and IFC signed an agreement on strengthening Corporate Governance for Myanmar Businesses on 3rd February 2016.

- TOTs to be provided to train local businesses, to develop curriculum on CG.
- To assist with the delivery of public seminars, with the development/publication of CG-related knowledge products.
- Will provide a multi-day TOT for lecturers of the MBA Program in Myanmar, on how to deliver a CG course for students of the MBA Program.
Even considering these developments, Myanmar still needs to develop a strong built-in corporate governance framework and is moving forward towards this goal with assistance from our development partners.
Thank You

Daw Khine Khine Nwe
Joint Secretary General
UMFCCI
OECD-Southeast Asia
Corporate Governance Initiative

01-02 June 2016
Vientiane, Lao

Session 5 – Corporate Governance:
Progress Report in Vietnam

Thuy Huong HOANG
Hanoi Stock Exchange, Viet Nam
CG Approaches

Imposing legislations and regulations on CG developments

Corporate governance (CG) in Vietnam

Raising awareness and understanding of good CG practices
CG Framework in Vietnam

- 2005: Law on Securities
- 2006: CG Regulations
- 2007: Law on Enterprises (LOE 2014)
- 2010: Disclosure Rules Circular 155
- 2012: (New)
- 2014: (New)
- 2015: (New)
Improvements in CG regulations

• **Law on Enterprises (2014)**
  – Management and operation models
  – Reduced quorum and voting requirements
  – Public Disclosure on Related Persons’ Holdings
  – Reduced Large Transaction Threshold

• **Circular No.155/2015/TT-BTC regarding information disclosure on securities market**
  – Tighter deadlines of information disclosure
  – Add-ons in content of information disclosure
Challenge 1

- Lack of relevant guidelines under the LOE 2014 to facilitate its implementation;

To-do list:

- > Issue decrees in order to guide LOE’s articles;
- > Amend CG regulations 2012;
- > Produce CG guidelines/ handbooks on international CG standards and practices.
CG Approaches

Imposing legislations and regulations on CG developments

Corporate governance (CG) in Vietnam

Raising awareness and understanding of good CG practices
Enhancing companies’ commitment to CG practices

Stock Exchanges’ activities:

- Annual Report Award (*HOSE & HNX, since 2007*);
- Disclosure & Transparency Award (*HNX, since 2013*);
- Quarterly CG Weeks (*HNX, since 2015*);
- CIMS tools for information disclosure (*HNX, since 2011*);
- Seminars;
- Guidelines for listed companies.
Challenge 2

• Lack of deep awareness of CG among listed companies;

To-do list:

→ Maintain the Disclosure & Transparency Award;
→ Provide training for listed companies;
→ Impose stricter sanctions for violations against CG regulations.
Challenge 3

- Lack of fully skilled Stock Exchange Staffs and other resources for monitoring compliance with CG regulations;

To-do list:

- > Focus on training skills for Stock Exchange staffs;
- > Call for assistance from universities, research institutions, domestic & international organizations;
- > Involve market members (securities companies, audit firms) in enhancing the application of international CG standards.
Networking to Promote CG in Vietnam

SSC

Stock Exchanges (HNX, HOSE)

Listed companies

Universities; Research institutions

Securities companies; Audit firms; Funds,…

SCIC, VCCI, VSD,…

Shareholders; Investors
Future CG Plan (HNX)

- CG roadmap;
- CG evaluation (& award);
- CG code for HNX listed companies;
- CG index;
- Guide to Sustainability Reporting for listed companies.
The ideas expressed in this presentation are those of the author and do not necessarily represent the opinions of the OECD or its Member countries.
Session 6 – Improving Access to Finance CLMV – Challenges on Capital Market Development

Viengkham VANSILALOM
Director of Management and Administration,
Lao Securities Exchange (LSX)
Contents

I. About LSX
II. Listed Companies’ Performance
III. LSX in the Region
IV. Challenges for LSX
V. LSX Future Plan
I. About LSX

- Established 10/10/2010
- BOL (51%) & KRX (49%)

2010

2011

2012

2013

2014

2015

2016

- EDL-GEN RO/PO (USD 201 million)
  - +1 Listed Co: SVN

- Home Trading System
  - +1 Listed Co: LWPC

- EDL-GEN RO/PO (USD 344 million)
  - Trading Unit: 100 shares
  - Custodian Bank

- First trading day 11/01/2011
- 2 Listed Co: BCEL & EDL-GEN
- 2 Securities Co: LXS & BCEL-KT
- Call Auction/Trading Unit: 1 share
- Trading hour: 08:30 - 11:30

- IFRS introducing
- Continuous Auction
- Daily Price Change Limit ±10%
- +1 Listed Co: PTL
### II. Listed Companies’ Performance

<table>
<thead>
<tr>
<th>Listed Companies’ Performance</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>No of Listed Companies</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Asset (mil.USD)</td>
<td>2,257</td>
<td>2,702</td>
<td>3,027</td>
<td>4,172</td>
<td>4,963</td>
</tr>
<tr>
<td>Shareholders’ Equity (mil.USD)</td>
<td>607</td>
<td>825</td>
<td>906</td>
<td>1,019</td>
<td>1,431</td>
</tr>
<tr>
<td>Net Profit (mil.USD)</td>
<td>89</td>
<td>102</td>
<td>153</td>
<td>135</td>
<td>103</td>
</tr>
<tr>
<td>Dividend Payment (mil.USD)</td>
<td>67</td>
<td>84</td>
<td>86</td>
<td>82</td>
<td>65</td>
</tr>
<tr>
<td>ROE</td>
<td>17.3%</td>
<td>14.2%</td>
<td>17.6%</td>
<td>14.0%</td>
<td>8.4%</td>
</tr>
<tr>
<td>Historical P/E Ratio</td>
<td>6.5</td>
<td>10.0</td>
<td>7.2</td>
<td>10.2</td>
<td>14.7</td>
</tr>
<tr>
<td>Dividend yield</td>
<td>11.6%</td>
<td>8.3%</td>
<td>7.8%</td>
<td>6.0%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Fundraising Value (mil.USD)</td>
<td>155</td>
<td>201</td>
<td>5</td>
<td>30</td>
<td>354</td>
</tr>
<tr>
<td>Market Cap (mil.USD)</td>
<td>580</td>
<td>1,017</td>
<td>1,103</td>
<td>1,371</td>
<td>1,506</td>
</tr>
</tbody>
</table>

Source: Lao Securities Exchange (LSX)
III. LSX in the Region

No of Listed Companies

<table>
<thead>
<tr>
<th>Country</th>
<th>No of Listed Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>2,827 (214)</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>1,842 (90)</td>
</tr>
<tr>
<td>Korea</td>
<td>1,925 (61)</td>
</tr>
<tr>
<td>Taiwan</td>
<td>1,608 (43)</td>
</tr>
<tr>
<td>Singapore</td>
<td>769 (-6)</td>
</tr>
<tr>
<td>Malaysia</td>
<td>902 (-3)</td>
</tr>
<tr>
<td>Indonesia</td>
<td>521 (+15)</td>
</tr>
<tr>
<td>Thailand</td>
<td>639 (+26)</td>
</tr>
<tr>
<td>Philippines</td>
<td>265 (+2)</td>
</tr>
<tr>
<td>Vietnam</td>
<td>684 (+15)</td>
</tr>
<tr>
<td>Lao P.D.R.</td>
<td>5 (+1)</td>
</tr>
<tr>
<td>Cambodia</td>
<td>3 (+1)</td>
</tr>
</tbody>
</table>

Market Cap to GDP (%, 2014)

<table>
<thead>
<tr>
<th>Country</th>
<th>Market Cap to GDP (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>79</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>87</td>
</tr>
<tr>
<td>Korea</td>
<td>156</td>
</tr>
<tr>
<td>Taiwan</td>
<td>208</td>
</tr>
<tr>
<td>Singapore</td>
<td>117</td>
</tr>
<tr>
<td>Malaysia</td>
<td>40</td>
</tr>
<tr>
<td>Indonesia</td>
<td>93</td>
</tr>
<tr>
<td>Thailand</td>
<td>84</td>
</tr>
<tr>
<td>Philippines</td>
<td>32</td>
</tr>
<tr>
<td>Vietnam</td>
<td>13</td>
</tr>
<tr>
<td>Lao P.D.R.</td>
<td>13</td>
</tr>
<tr>
<td>Cambodia</td>
<td>1.1</td>
</tr>
</tbody>
</table>

Market Cap (USD billion)

<table>
<thead>
<tr>
<th>Country</th>
<th>Market Cap (USD billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>8,188</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>3,185</td>
</tr>
<tr>
<td>Korea</td>
<td>1,231</td>
</tr>
<tr>
<td>Taiwan</td>
<td>828</td>
</tr>
<tr>
<td>Singapore</td>
<td>640</td>
</tr>
<tr>
<td>Malaysia</td>
<td>383</td>
</tr>
<tr>
<td>Indonesia</td>
<td>353</td>
</tr>
<tr>
<td>Thailand</td>
<td>349</td>
</tr>
<tr>
<td>Philippines</td>
<td>239</td>
</tr>
<tr>
<td>Vietnam</td>
<td>59</td>
</tr>
<tr>
<td>Lao P.D.R.</td>
<td>1.5</td>
</tr>
<tr>
<td>Cambodia</td>
<td>0.2</td>
</tr>
</tbody>
</table>

Source: World Federation of Exchanges (WFE), as of Dec/2015
IV. Challenges for LSX

Supply
- Lack of listed companies/securities products
- Undersized market cap
- Inconsiderable of free-float
- Low liquidity securities
- Corporate Governance is not well functioning
- Inactive Investor Relation
- SME/Family-owned Businesses cover high proportion
- Unattractive listing benefit

Demand
- Lack of knowledge on capital market investment
- Insufficient public education
- Imbalanced investor base: mostly consists of inactive local retail investors
- Foreigners’ trading cover high proportion
- The contribution of local institutional investors is not developed
- Securities investment restriction for pension/social securities fund
V. LSX Future Plan

**Liquidity Boosting:**

- Increase number of Listed Companies
- *Improve Corporate Governance (CG)*
- Introduce Block Trading System
- Extend Trading Hour
- Custodian Bank
- Open Bond Market
- Open SME Board

<table>
<thead>
<tr>
<th>Year</th>
<th>List of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>5 listed companies</td>
</tr>
<tr>
<td>2020</td>
<td>25-30 listed companies</td>
</tr>
</tbody>
</table>
Thank You
Improving Access to Finance in CLMV
An Institutional Investor Perspective

Pru Bennett
June 2016
Agenda

- Who is BlackRock?
- Regulatory framework
- Corporate governance culture
- Other concerns
The world’s largest investment management firm

- US$4.645 trillion assets under management (AUM) as at December 31, 2015.
- 13,000 employees in more than 30 countries serving clients in more than 100 countries (as of 12/31/15)
- Clients include retail and institutional investors, which are comprised of pension funds, official institutions, endowments, insurance companies, corporations, financial institutions, central banks and sovereign wealth funds
- Product range includes single- and multi-asset portfolios investing in equities, fixed income, alternatives and/or money market instruments
- Our mission is to help our clients build better financial futures. Two-thirds of the assets that BlackRock manages support people in their retirement

Source: Q4 2015 Earnings Release, BlackRock Inc.
Issues for investors

- Number and size of companies creates liquidity issues
- Regulatory environment
- Developing legal framework
- Foreign ownership restrictions
- State Owned Enterprises – quality of management
Regulatory framework

- Strong regulatory frameworks provide a level of comfort for shareholders
- The development of market specific corporate governance codes that are aligned with the development of the particular market
- The development of market specific stewardship codes to ensure local asset owners understand their fiduciary duty to their clients and act as responsible owners
- Protections for minority shareholders
- Regulatory environment which supports responsible ownership – particularly proxy voting
- Independent anti-corruption agencies
- Independent audit oversight bodies
- An effective enforcement regime
Corporate governance culture

- Disclosure of information about the directors
- Disclosure of reports and announcements in English
- Focus on the core business
- Clear disclosure around ownership
- Timely release of materials
- Witnessed aggressive application of accounting standards
Important Notes

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OECD-Southeast Asia Corporate Governance Initiative

1-2 June 2016
Vientiane, Lao PDR

Session 6 – Improving Access to Finance CLMV – Perspectives on Capital Market Development

Shohei Yano
Policy Advisor to Ministry of Planning and Finance, Myanmar

“The views expressed in this presentation are those of the author and do not necessarily represent the opinions of the OECD or its Member countries.”
Recent development path of capital market in Myanmar

2013
- Securities Exchange Law introduced (Aug)

2014
- Securities and Exchange Commission of Myanmar (SECM) formed (Aug)
- Yangon Stock Exchange (YSX) incorporated (Dec)

2015
- Listing criteria announced (Aug)
- Opening of YSX (Dec)

2016
- Securities companies licenses given (Feb-Mar)
- Trading start (Mar)
## Overview of YSX

<table>
<thead>
<tr>
<th>Name</th>
<th>Yangon Stock Exchange Joint-Venture Company Limited (YSX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incorporated</td>
<td>December 2014</td>
</tr>
<tr>
<td>Paid-up capital</td>
<td>32 billion Kyats (USD 27 mil)</td>
</tr>
<tr>
<td>Shareholders</td>
<td></td>
</tr>
<tr>
<td>Myanmar Economic Bank</td>
<td>- 51.00%</td>
</tr>
<tr>
<td>(State-owned bank under MOPF)</td>
<td></td>
</tr>
<tr>
<td>Daiwa Institute of Research</td>
<td>- 30.25%</td>
</tr>
<tr>
<td>Japan Exchange Group</td>
<td>- 18.75%</td>
</tr>
<tr>
<td>BOD</td>
<td>3 from Myanmar (MEB), 2 from Japan</td>
</tr>
</tbody>
</table>

### Trading Hours and Order Times

- **Auction** 9:30-10:00
- **Auction** 12:00-13:00

Securities companies and Investors

At present, five securities companies are given licenses from SECM.

<table>
<thead>
<tr>
<th></th>
<th>KBZ SC</th>
<th>MSEC</th>
<th>AYA Trust</th>
<th>CB</th>
<th>KTZ RH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Branch</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Local/JV</td>
<td>JV</td>
<td>JV</td>
<td>Local</td>
<td>Local</td>
<td>JV</td>
</tr>
<tr>
<td>Partnership</td>
<td>Singapore</td>
<td>Japan</td>
<td>Singapore</td>
<td>N/A</td>
<td>Thailand</td>
</tr>
<tr>
<td>Financial group</td>
<td>Bank Insurance</td>
<td>-</td>
<td>Bank Insurance</td>
<td>Bank Insurance</td>
<td>-</td>
</tr>
</tbody>
</table>

Most investors are individuals and foreign investors are not allowed to open accounts.

<table>
<thead>
<tr>
<th>Individual</th>
<th>Financial institutions</th>
<th>Public companies</th>
<th>Private companies</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual</td>
<td>12,238</td>
<td>0</td>
<td>0</td>
<td>33</td>
</tr>
</tbody>
</table>

As of 31 Mar, 2016
## Corporate Governance in listing criteria

<table>
<thead>
<tr>
<th>Items</th>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors</td>
<td>• Have good character&lt;br&gt;• Not engage in other business related to their business, etc.</td>
</tr>
<tr>
<td></td>
<td>(Ref) Companies Act requires at least three directors in public companies.</td>
</tr>
<tr>
<td>Internal management</td>
<td>• Appointment of compliance officer&lt;br&gt;• Reporting system to authorities (SECM/YSX)&lt;br&gt; • Framework to prevent insider trading</td>
</tr>
<tr>
<td>Disclosure</td>
<td>• Appropriate disclosure of corporate information and financial information</td>
</tr>
<tr>
<td>Accounting</td>
<td>• Myanmar Financial Reporting Standards</td>
</tr>
<tr>
<td>Tax</td>
<td>• Fulfill tax duties</td>
</tr>
</tbody>
</table>

(Reference) YSX, Listing Regulations, https://ysx-mm.com/en/regulations/ysxregulations/
## Listed companies

<table>
<thead>
<tr>
<th>First Myanmar Investment</th>
<th>Myanmar Thilawa SEZ Holdings</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Establishment</strong></td>
<td>July 1992</td>
</tr>
<tr>
<td><strong>Main business</strong></td>
<td>Real estate, Banking, Health</td>
</tr>
<tr>
<td><strong>Listing date</strong></td>
<td>25 March 2016</td>
</tr>
<tr>
<td><strong>Market cap (as of 1 June)</strong></td>
<td>MMK 599 bil (USD 505 mil)</td>
</tr>
<tr>
<td><strong>BOD</strong></td>
<td>9 directors (6 non-executive)</td>
</tr>
<tr>
<td>Audit committee</td>
<td></td>
</tr>
<tr>
<td>Nominating committee</td>
<td></td>
</tr>
<tr>
<td>Remuneration committee</td>
<td></td>
</tr>
<tr>
<td><strong>Share offering</strong></td>
<td>MMK 27.5 bil (USD 23 mil) in 2014</td>
</tr>
</tbody>
</table>

Successfully offered shares before YSX launched.
Challenges for further development

Public company
- Cost and benefit of listing (Corporate finance strategy)
- Power concentration, family-owned
- Disclosure culture

Investor
- Public education
- Investor base (institutional investors and foreign investors)

Securities companies
- Risk management
- Compliance
- Branch expansion

Infrastructure
- Capacity of authorities (monitoring, surveillance)
- Appropriate audit and accounting standards
- Tax
END
OECD-Southeast Asia Corporate Governance Initiative

1-2 June 2016
Vientiane, Lao PDR

Session 6 – Improving Access to Finance in CLMV – Perspectives on Capital Market Development

Dr. Bounsalong SOUTHIDARA
Deputy Managing Director (CFO), EDL-Generation Public Company, Lao PDR
EDL-Generation Public Company

3rd OECD Southeast Asia Corporate Governance Initiative
Session 7: State-Owned Enterprises – Improving governance and efficiency
1-2 June 2016, Vientiane, Lao PDR
EDL-Gen at a Glance

A key entity in power industry in Lao PDR

Our History and Vision

EDL-Generation Public Company (“EDL-Gen”) is the largest electricity producer supplying to domestic power market.

We were established in Dec 2010 by a spin-off of the generation division of Electricite Du Laos (“EDL”) to establish as a public company. Then, EDL-Gen completed its Initial Public Offering (IPO) and was listed on Lao Securities Exchange (LSX) in Jan 2011.

Our vision is to be a premier power generation business that ensures an adequate, timely, reliable and sustainable electric power supply for socioeconomic development of Laos, and strongly contributes to energy security and sustainability of ASEAN region.

Our Major Shareholder - EDL

75% of EDL-Gen is owned by Electricite du Laos (“EDL”) – a premier state-owned public utility who owns and operates the country’s main power generation, transmission and distribution assets in Lao PDR.

Our Core Business

1. Operate hydropower generation assets acquired from EDL and wholesale electricity to EDL.
2. Invest in shares of existing and future IPPs and in joint ventures of power generation projects.
3. Provide operation and maintenance services to other power plants.

Key Financial Stats

USD 1.2 bn Market Cap\(^{(1)}\)
USD 1.5 bn Total Asset\(^{(2)}\)
USD 366 mn Total Debt\(^{(2)}\)
USD 1.1 bn Total Equity\(^{(2)}\)

Our Installed Capacity

Total Equity Attributed Capacity
1,131 MW
Including
10 Wholly-owned – 619 MW
5 IPPs – 512 MW

Source: (1) Lao Securities Exchange, 22 January 2016
(2) EDL-Generation Public Company, Financial Statement 2015
EDL-Gen and Corporate Governance
Improving investor confidence

Investor Confidence – A key factor of our growth and success story

1. For the past 5 years, EDL-Gen capacity has grown almost three times from 387 MW in 2010 to 1,131 in 2015. Our strategic expansion plan targets 2,400 MW in 2020.

2. Our growth has been made possible by investor confidence shown in our previous major fund raising projects for business expansion:
   (1) EDL-Gen is the only listed company on LSX who successfully completed additional shares issuance in 2012 and 2015, both were oversubscribed.

   (2) EDL-Gen is the first company from CLMV to debut THB 6,500 million debentures successfully in Dec 2014 in Thailand using its credit rating of BBB+ by TRIS Rating.

3. These successes due to continued improvement in investor confidence through greater transparency, accountability, better operational efficiency and financial performance.

Investor Confidence – Our action and our achievements


3. ASEAN Best Practice Renewable Energy Project Award: Selabam Hydropower Plant

4. THB 6.5bn Triple Tranche Bond: Asiamoney Country Deal 2014 Award and IFR Asia Award 2015 for “Frontier Markets Issue”
EDL-Gen and Corporate Governance
Improving governance, efficiency and performance

EDL-Gen corporate governance practice: how and why?

1. Despite the absence of formal corporate governance standard in Laos, EDL-Gen has exerted its effort to operate its business by:
   (1) adhering to applicable laws, rules and regulations;
   (2) applying good corporate governance principles.

2. Our belief in good corporate governance as (1) being crucial for building trust and confidence among shareholders, investors and stakeholders; and (2) helping us to operate our business efficiently and improve our performance.

EDL-Gen’s current practice of Corporate Governance (CG)

Our CG practice is related to ASEAN Corporate Governance Scorecard that covers 5 key areas of the OECD Principles:
(1) Rights of shareholders
(2) Equitable treatment of shareholders
(3) Role of stakeholders
(4) Disclosure and transparency
(5) Responsibilities of the board
## EDL-Gen and Corporate Governance

Improving governance, efficiency and performance

### Samples of EDL-Gen’s current CG practice

1. **Rights of shareholders:**
   - Basic right to dividend paid in equitable and timely manner.
   - Right to participate in fundamental corporate decisions such as amendment of company’s article of association, and approval of additional share issuance.
   - Right to effectively participate and vote in shareholder AGM where shareholders are well informed of voting procedures and agenda, and given opportunities to ask questions.
   - The AGM is implemented according to applicable laws and regulations.

2. **Equitable treatment of shareholders**
   - One share for one vote
   - Notice of AGM disclosed and delivered is available in both Lao and English and includes proxy, details of each agenda, dividend, board of directors, external auditor.

3. **Role of stakeholders**
   - Closely working with communities surrounding our power plants to improve social and environmental outcome with a separate CSR report.
   - Safety standards at our plants
   - Employees are under social security program and have regular training and development program
EDL-Gen and Corporate Governance
Improving governance, efficiency and performance

Samples of EDL-Gen’s current CG practice

4. Disclosure and Transparency

- We disclose both required and additional important information in a timely manner including quarterly and annual audited financial statements, annual report, related party transactions, top ten shareholders, notice of AGM, board and AGM resolutions and minutes of meeting, credit rating report and prospectus.

- We disclose our information through LSX and EDL-Gen website to ensure easy and equal access to information. Shareholders can contact our Investors Relation team who respond to their queries.

5. Responsibilities of the Board

- Board members are well qualified and experienced in energy industry with re-election every two years. Chairman is non-executive director and different to CEO.

- Board meeting schedule is planned ahead and the meetings have more than 75% attendance.

- Director Training - some of our directors, all executive directors and senior management team are trained on Director Certification Program at Thai Institute of Directors.

- Fiduciary Duty of the Board: Duty of Care, Duty of Loyalty, Duty of Obedience and Duty of Disclosure
EDL-Gen and Corporate Governance
Improving governance, efficiency and performance

EDL-Gen’s current CG practice: Summary, Lesson and Recommendation

1. Our current practice is only at the initial stage of application, mainly to be in compliance with existing applicable laws, rules and regulations.

2. To better comply with ASEAN CG Standard, a formal adoption of CG standard in Laos is a prerequisite.

3. Professionalism of the board can be enhanced by a formal director training and widespread recognition that CG is necessary for achieving better outcome for all stakeholders.

4. Publicly listed companies are the best target to apply CG standard because:
   (1) They are more likely to see the importance of CG practice to their business;
   (2) They are subject to rules and regulations with some elements of CG standard already built-in;
   (3) They need constant reforms and improvement to respond to market disciplines from regulatory requirements, shareholders, investors, creditors, credit rating agency and other stakeholders.

5. Therefore, policies aiming at encouraging more SOEs or other companies with various extent of state ownership to list on LSX can be one effective way in which good corporate governance can be “married” with state ownership.
EDL-Generation Public Company
Sustainable Choice for You, Sustainable Power for the Nation

Thank You
OECD-Southeast Asia Corporate Governance Initiative

1-2 June 2016
Vientiane, Lao PDR

Session 7 – State-owned Enterprises – Improving Governance and Efficiency

Gambhir Bhatta
Technical Advisor (Governance), Asian Development Bank
Corporate Governance and State-owned Enterprises

How improvements in SOEs can help emerging markets address their development challenges

Will-run state-owned enterprises (SOEs) can offer tremendous potential as a driver of inclusive economic growth and development in emerging markets.

The importance of SOEs to the economies and welfare of emerging markets cannot be overstated. In Africa, SOEs are estimated to represent 15 percent of the gross domestic product (GDP), while in the Middle East and North Africa they make up more than 50 percent of GDP. SOEs also play a significant role in the economies of major emerging markets such as Brazil, China, India, Indonesia and Russia.

Beyond the profit motive

The value of SOEs lies in their potential to provide efficient, reliable and affordable critical products and services in key sectors, such as power generation, water supply, transport, oil and gas, and hospitals. They enable efficient and expansive investments in sectors that are often beyond the private sector’s capacity. Thus, well-run SOEs can contribute to health, welfare, education and infrastructure improvements, poverty reduction and inclusive economic growth.

However, running SOEs well represents a significant challenge, not just for emerging markets, but for OECD countries (Organisation for Economic Co-operation and Development) as well. Faced with making commercially-driven decisions when they are charged with a product and service delivery model that is inherently not economic, SOEs must cope with a built-in tension that creates a domino effect of problems and complexities. For example, raising utility rates may make sense from an economic perspective but doing so could create additional hardships for the poor. Or consider the case of a state-owned company that operates in the red. To continue providing needed services—say clean water or retail banking—the company may require additional financing from the state. But propping up the SOE could constrain an already tight national budget, meaning fewer resources for other key services.

Politics and good governance: a complex mix

Add political meddling to this muddle and striking the optimal balance between social and commercial goals can become a near impossible task. In theory, a SOE may have been created for the benefit of the citizenry, but in reality, is that many SOEs are accountable only to whatever political party is in power. The original notion of providing efficient and affordable services to the nation’s citizens is long lost.

Herein lies the fundamental governance problem. It is not that all SOEs are inherently corrupt. Rather, it is that the political interplay with structure and activities created with the private sector in mind all too often trumps the economic or social national.

The board is usually where these dramas play out. Mixing ownership and regulatory roles can cause conflicts of interest, as can the appointment of government bureaucrats, such as the energy or finance minister who sits on the board of the state-owned utility. This minister may make decisions based on the political desires of his party rather than on the best interests of the SOE or what makes operational sense.

While SOE boards may lack clout in having independent directors, it may be in name only. Where undue political influence is involved, such directors might be given a place at the board table by virtue of their political connections, rather than for their professional skills and industry expertise. If they are reliant on the political powers that he or she has for their position, they may not want to challenge bad decisions. Plus, being in the minority on the board makes it a bit awkward to challenge the majority.

Even if this is not the case, they may lack understanding of the issues associated with governing the SOE in question, since they may not have experience of the particular industry and its dynamics. Leaned on to this are the political nuances implicit in the decision-making process, the combination of all of these factors can make it far more difficult for these independent directors to offer informed, or even dissenting, advice.

Board continuity is another issue. Without any protections to curb such behavior, the SOE may be treated as a political instrument of the ruling party, operating at the whim of the government. The leader of the ruling party may suddenly decide to trim the board, removing independent members and creating an experience void that could get in the way of good decision making. Or, the leader may use the SOE to accommodate otherwise tricky political decisions, such as where to place a minister who has fallen out of favor but still wields considerable influence.

These governance challenges affect performance, resulting in poor quality products or unreliable service delivery and causing enterprises to bleed money. Given the dominant role many SOEs play in some emerging markets, the risk is that poor performance could severely impact a critical industry sector, such as banking or power, thereby impacting the national economy.

Fixing SOEs: Improving governance as part of a holistic approach

At GPC we have worked with SOEs in emerging markets around the world on a variety of governance-related issues, often in preparation for privatization.

Recently, we partnered with our colleagues at the World Bank to develop a corporate governance toolkit for SOEs, offering comprehensive guidance on ways to address the challenges that impede effective governance and efficient operations.

In our experience, we have seen that attending to SOE governance issues can significantly contribute to performance of state-owned companies as part of a more comprehensive and contextually appropriate approach to liberalization and policy reforms.

In recent years, we have made significant improvements in governance, financial performance and governance will be subject to tender scrutiny and the cost of capital will depend on capital ratings. In countries such as South Africa, such market confidence should help instill a measure of financial discipline in combination with governance enhancements through market mechanisms.

Other governance improvements that can make a difference include separating the ownership function from the regulatory function, which helps to shield decision-making from the political exigencies of the moment and given the regulator some autonomy on how the market will operate.

Such actions are not easy and there is no standard template to follow, as in the private sector. Nevertheless, many suggest that the effort would be well worth the trouble—recent research by Dag Detter and Stefan Koeller reveals that better-governed state-owned enterprises around the world would enable central governments to generate an astonishing $3 trillion in annual returns. More than the world’s yearly investment in infrastructure including transportation, power and telecommunications they note in a recent issue of Foreign Affairs magazine.

Just imagine how such funds—and the associated product and service delivery improvements—could impact emerging markets as they strive to accomplish their economic growth and development goals.
A *priori* observations

**Contents**

- *A priori* observations
- ADB’s work on SOE reforms
- Case study of NEA, Nepal
- Holistic approach

- Governance challenges in SOEs
  - economic inefficiency and fiscal drain
  - risks of ad-hoc political intervention
  - unclear objectives (eg, profits vs community service obligations)
  - insufficient transparency and accountability
  - poorly performing boards

**What is now taken as a given:**

- “When SOEs operate commercially, they reduce the costs of doing business, create opportunities for private investment, and improve basic service delivery,”*
ADB’s Investments by Sectors (as of 31 Dec. 2015)

Source: ADB. Annual Report 2015
# ADB’s SOE Work

## Types of SOE Reforms Promoted by ADB’s Sovereign SOE Engagement, 2005-2014

<table>
<thead>
<tr>
<th>SOVEREIGN</th>
<th>SECTOR-BASED</th>
<th>CROSS-SECTOR / THEMATIC-BASED</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Govt as borrower, relending to SOEs for investments</td>
<td>Govt as a borrower, SOE as an EA or IA</td>
</tr>
<tr>
<td>No. projects per modality (% of modality)&lt;sup&gt;a&lt;/sup&gt;</td>
<td>85 (53%)</td>
<td>5 (3%)</td>
</tr>
<tr>
<td>Areas/Focus of SOE Reforms promoted:</td>
<td>Number of projects that promoted SOE reforms&lt;sup&gt;b&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td>Financial restructuring and commercialization</td>
<td>37</td>
<td>0</td>
</tr>
<tr>
<td>Org. and management restructuring and dev.</td>
<td>40</td>
<td>2</td>
</tr>
<tr>
<td>Corporatization reforms (incl. unbundling of services)</td>
<td>25</td>
<td>3</td>
</tr>
<tr>
<td>Private sector participation (PPPs)</td>
<td>20</td>
<td>3</td>
</tr>
<tr>
<td>Privatization</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>With limited measures on SOE governance</td>
<td>9</td>
<td>0</td>
</tr>
<tr>
<td>Amounts per modality (% of total)</td>
<td>$11.6b (52%)</td>
<td>$0.29b (1%)</td>
</tr>
</tbody>
</table>

Notes: (a) 160 sovereign projects and programs approved during 2005-2014 were considered to include forms of SOE engagement; (b) Sum exceeds 100% as projects/programs may promote more than one type of SOE reforms.
Lessons from ADB’s SOE Experiences
(“poor SOE performance is the norm for most countries”)

ADB’s work on SOE reforms has included:

- org. restructuring, incl. corporate governance improvements & staff rationalizations
- corporatization and private sector participation through outsourcing and equitization
- financial restructuring and tariff determination reforms to improve financial viability
- improved public resource management to reduce state subsidies, unbundle general services from public community service obligations, and privatize SOEs

Our general conclusions:

- Gov control means possibility of risks of political interference & noncommercial decision
- Lack of political will generally in place (⇒ org and institutional reforms slow)
- Strong governance (eg, removing elected officials from SOE boards, skills-based director selection), performance incentives, and hard budget constraints needed
- Also, implementing corporate planning and reporting processes in SOEs has made it easier to hold them accountable for performance
- MOF can only do so much
Case study of NEA

Nepal assumed to rank 2\textsuperscript{nd} in terms of water resources, after Brazil.

Hydro-power potential (83,000-200,000 MW); GON has no idea.

Economically viable – approx. 50%.

Developed thus far: about 800MW.

Only 40% of Nepal’s population have access to electricity.

Load shedding normal (8-14 hours).

Annual demand for power: 7.56%.
Established in 1985

**Objectives:** generate, transmit, and distribute adequate, reliable, and affordable power by planning, constructing, operating and maintaining all generation, transmission and distribution facilities, both interconnected and isolated

**Board of Directors** – Minister of Energy as chairperson; members:
- Secretaries of Ministry of Energy and of Finance
- one prominent person each from commerce/industry/financial sector
- one from consumers group
- two with experience in power sector from outside government
- NEA Managing Director as Member Secretary

**Organizational Structure**
- Audit committee under the Board; internal audit department in structure
- NEA subsidiary companies under the Managing Director
- Divisions: generation, transmission, distribution and consumer services, planning and monitoring, engineering, project management, administration, finance

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<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Domestic</td>
<td>5,405.12</td>
<td>6,021.40</td>
<td>6,297.65</td>
<td>6,100.65</td>
<td>7,252.06</td>
<td>7,602.34</td>
<td>8,967.77</td>
<td>11,247.77</td>
<td>12,622.11</td>
<td>13,226.66</td>
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<tr>
<td>Non-Commercial</td>
<td>881.73</td>
<td>940.20</td>
<td>982.08</td>
<td>900.75</td>
<td>983.63</td>
<td>1,020.51</td>
<td>1,091.52</td>
<td>1,355.17</td>
<td>1,486.63</td>
<td>1,542.30</td>
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<tr>
<td>Commercial</td>
<td>1,081.26</td>
<td>1,288.05</td>
<td>1,399.51</td>
<td>1,384.67</td>
<td>1,719.35</td>
<td>1,910.28</td>
<td>2,259.50</td>
<td>2,994.00</td>
<td>3,359.69</td>
<td>3,579.93</td>
</tr>
<tr>
<td>Industrial</td>
<td>4,978.69</td>
<td>5,300.91</td>
<td>5,544.80</td>
<td>5,264.33</td>
<td>6,060.20</td>
<td>6,378.25</td>
<td>7,102.37</td>
<td>8,885.21</td>
<td>9,844.18</td>
<td>10,575.66</td>
</tr>
<tr>
<td>Water Supply &amp; Irrigation</td>
<td>197.96</td>
<td>214.18</td>
<td>204.67</td>
<td>215.62</td>
<td>353.14</td>
<td>250.60</td>
<td>294.82</td>
<td>389.34</td>
<td>418.20</td>
<td>447.68</td>
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<tr>
<td>Street Light</td>
<td>422.35</td>
<td>454.85</td>
<td>467.31</td>
<td>445.96</td>
<td>333.90</td>
<td>433.42</td>
<td>464.22</td>
<td>582.69</td>
<td>601.84</td>
<td>609.65</td>
</tr>
<tr>
<td>Temporary Supply</td>
<td>11.18</td>
<td>17.36</td>
<td>10.51</td>
<td>12.20</td>
<td>13.58</td>
<td>13.98</td>
<td>16.18</td>
<td>24.48</td>
<td>23.07</td>
<td>26.01</td>
</tr>
<tr>
<td>Transport</td>
<td>29.78</td>
<td>31.65</td>
<td>33.70</td>
<td>26.95</td>
<td>27.58</td>
<td>27.78</td>
<td>31.70</td>
<td>39.53</td>
<td>39.32</td>
<td>41.67</td>
</tr>
<tr>
<td>Community Sales</td>
<td>23.94</td>
<td>53.70</td>
<td>64.22</td>
<td>70.10</td>
<td>170.90</td>
<td>189.28</td>
<td>244.97</td>
<td>301.38</td>
<td>334.94</td>
<td>380.62</td>
</tr>
<tr>
<td>Total (Internal Sales)</td>
<td>13,056.43</td>
<td>14,348.33</td>
<td>15,030.83</td>
<td>14,445.64</td>
<td>16,942.50</td>
<td>17,852.95</td>
<td>20,494.43</td>
<td>25,843.23</td>
<td>28,756.31</td>
<td>30,457.82</td>
</tr>
<tr>
<td>Bulk Supply (India)</td>
<td>579.33</td>
<td>428.93</td>
<td>361.14</td>
<td>295.49</td>
<td>604.85</td>
<td>215.42</td>
<td>23.97</td>
<td>32.22</td>
<td>30.90</td>
<td>25.64</td>
</tr>
<tr>
<td>Gross Revenue</td>
<td>13,635.76</td>
<td>14,777.26</td>
<td>15,391.97</td>
<td>14,741.13</td>
<td>17,547.35</td>
<td>18,068.37</td>
<td>20,518.40</td>
<td>25,875.45</td>
<td>28,787.21</td>
<td>30,483.46</td>
</tr>
<tr>
<td>Net Income from Other Services</td>
<td>336.09</td>
<td>689.08</td>
<td>584.18</td>
<td>1,601.66</td>
<td>1,188.27</td>
<td>1,382.94</td>
<td>1,695.42</td>
<td>1,868.37</td>
<td>2,156.90</td>
<td>2,085.41</td>
</tr>
<tr>
<td>Total Revenue</td>
<td>13,971.85</td>
<td>15,466.34</td>
<td>15,976.15</td>
<td>16,342.79</td>
<td>18,735.62</td>
<td>19,451.31</td>
<td>22,213.82</td>
<td>27,743.82</td>
<td>30,944.11</td>
<td>32,568.87</td>
</tr>
</tbody>
</table>
Case study of NEA (contd)

Performance (based on 2015 report)
• Loss: Rs. 7b annually (approx $70m)
• Accumulated losses (FY 2014/15-end): Rs. 26.7b
• Liability to GON: Rs. 49.6b as share capital, and Rs. 94.0b as secured long-term loan

In 2014-2015 (in MW):
1,291.8 peak power demand
585.0 load shedding
706.8 supplied, of which:
   357.7 from NEA
   124.7 from IPP hydro
   224.4 from India
Max of 11 hours load shedding in 2015

Some constraints (NEA self-assessment)
• HR lapses (eg, 25% of posts vacant, including 5 of 9 at Deputy MD level)
• Govt unwilling to revise tariff upwards

Constraints (external assessed)
• Political interference, including frequent government changes
• Organizational lapses (eg, unionism, lack of meritocracy)*
A more holistic consideration – the Lens of New Institutional Economics

<table>
<thead>
<tr>
<th>Concept</th>
<th>Evidence in</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information asymmetry</td>
<td>(a) lack of rigorous M&amp;E protocols in NEA; (b) incomplete information for private sector (both provided and collected); (c) weak information flow from government to the Board</td>
</tr>
<tr>
<td>Transaction costs</td>
<td>(a) search – to NEA, and to private sector</td>
</tr>
<tr>
<td></td>
<td>(b) bargaining – to private sector for dealing with GON and NEA, and with the regulators; to government (intra-party)</td>
</tr>
<tr>
<td></td>
<td>(c) policing &amp; enforcing – to GON to ensure NEA adheres to government priorities (wrong as they may be!)</td>
</tr>
<tr>
<td>Credible commitment</td>
<td>Credible commitment:</td>
</tr>
<tr>
<td>(corollary: credible threat)</td>
<td>(a) vs. moral hazard</td>
</tr>
<tr>
<td></td>
<td>(b) for effective and efficient service delivery</td>
</tr>
<tr>
<td></td>
<td>(c) to private sector</td>
</tr>
<tr>
<td></td>
<td>Contingent liabilities</td>
</tr>
<tr>
<td></td>
<td>Credible threat to NEA for not delivering?</td>
</tr>
<tr>
<td>Political economy</td>
<td>(a) GON’s agenda and NEA’s role; (b) organizational capture; (c) incentive structure; (d) unionization; (e) political commitment over the long haul</td>
</tr>
</tbody>
</table>
Please contact:

ADB’s Governance Team

w: http://www.adb.org/sectors/governance/main

f: https://www.facebook.com/GovernanceTG/

e: governance@adb.org

t: https://twitter.com/adb_governance
OECD-Southeast Asia Corporate Governance Initiative

1-2 June 2016
Vientiane, Lao PDR

Cases in Japan and Implications for Lao PDR

Yoko Ogimoto
Senior Consultant, Nomura Research Institute, Japan
Table of Contents

• Why “Governance”?  
• Case of Fancl  
• Case of Otsuka Kagu  
• Implications for Lao PDR

Please Note: This presentation reflects the presenter’s personal view/opinion only. The presenter’s employer is Nomura Research Institute (NRI), a company that provides consulting and IT integration services to its clients, and listed at the Tokyo Stock Exchange (code: 4307). For more information on NRI, please visit the website at http://www.nri.com/global/
Why “Governance”?  

• Governance matters if a company wants to grow.  
• When a company tries to grow, it needs capital.  
  – Growth of sales requires incremental working capital.  
  – Development of new products / services / sales channels, etc. requires initial investment.  
• Capital market can provide necessary capital in most efficient and effective way, if the company has good governance.  
• Investors through capital market require good governance of a company when they invest in a company, because they are “outsiders”.  
• Good governance is required by investors because it helps a company to be sustainable.  

Good governance is good for the company to be sustainable.
Case of Fancl: Growth supported by capital market

- Fancl is a cosmetic company established in 1980.
- From 1980’s, Fancl raised funds through capital market (i.e. venture capital funds) as well as from banks, and utilized to establish its factories to management system.
- Until middle 2000’s, Fancl realized healthy growth.

Source) NRI utilizing information from the company’s disclosure materials
Case of Fancl (continued): Founder’s struggle to re-grow

• Now, Fancl struggles to meet the market change.
• In 2013, the founder of Fancl re-appointed himself as the CEO and trying to create new growth.
• The founder has experienced difficulties to appoint successful CEO who can grow the company as he could.
  – Such is a typical problem for a family ran business in Japan.

Source) NRI utilizing information from the company’s disclosure materials
Case of Otsuka Kagu:
Founder persisted in his business model.

- Otsuka Kagu is a company that sells imported furniture.
  - Grew rapidly after “membership” was introduced but matured in 2000’s.
  - Founder’s daughter changed the system after becoming CEO in 2009.
- Founder fired her from CEO’s position in 2014, but lost at the BOD meeting and the daughter regain the CEO position in early 2015.

Source) NRI utilizing information from the company’s disclosure materials
Case of Otsuka Kagu (continued): Everyone could be happier now.

• Proxy fight between the founder and the CEO (i.e. founder’s daughter) became apparent to the public in February 2015 through press meetings by each.

• The CEO won the proxy fight.

• Founder stepped down from the company, sold the shares he owned, and established a new privately owned company.

• After all, Otsuka Kagu retained the CEO who is much younger than the founder, making the sustainability of the company stronger.
Implications for Lao PDR

• Governance system required for listed companies works well especially when the company struggles to change its business model.

• If a founder of a company wants to control everything for ever, then the company should not list its shares.
• However, without listing, fund raising capability would be limited.

• Moreover, the sustainability would become questionable especially as the founder gets old and/or the business environment changes.
Implications for Lao PDR (additional)

- Too severe punishments give strong incentive to hide problems and mistakes.
  - For example, in Vietnam, executives of one SOE were arrested and jailed for at least 10 years, mainly because the SOE became practically bankrupt.
    - Criminal law of Vietnam has strict provisions regarding causing loss for the state, which might be one of the legal basis of the court decision.
  - In developed countries, bankrupting a company itself does not cause imprisonment of the executives of the company.
  - Companies should be allowed to be bankrupt and/or to be dissolved depending on the situations, without criminal charges to anyone.
OECD-Southeast Asia
Corporate Governance Initiative
01/02 June 2016
Vientiane, Lao PDR

Session 6 – Improving Access to Finance in CLMV – Perspectives on Capital Market Development

Adam McCarty
Chief Economist | Mekong Economics,
1. Capital Market Landscape in CLMV & Lessons Learned
   - Vietnam
   - Lao PDR
   - Cambodia
   - Myanmar

2. Legal & Regulatory Framework for Corporate Governance in Myanmar
   - YSX Listing Requirements
   - Disclosure & Transparency
   - Enforcement Mechanisms

3. Conclusion
## Capital Market Landscape in CLMV

### Overview

<table>
<thead>
<tr>
<th>Stock Exchange</th>
<th>Launched</th>
<th>Listed Companies</th>
<th>Market Capitalisation (May 2016)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ho Chi Minh Stock Exchange (HOSE)</td>
<td>2000</td>
<td>307</td>
<td>USD 53 billion</td>
</tr>
<tr>
<td>Hanoi Stock Exchange (HNX)</td>
<td>2005</td>
<td>380</td>
<td>USD 7 billion</td>
</tr>
<tr>
<td>Lao Securities Exchange (LSX)</td>
<td>2010</td>
<td>5</td>
<td>USD 1.41 billion</td>
</tr>
<tr>
<td>Cambodia Securities Exchange (CSX)</td>
<td>2011</td>
<td>4</td>
<td>USD 170 million</td>
</tr>
<tr>
<td>Yangon Stock Exchange (YSX)</td>
<td>2015</td>
<td>2</td>
<td></td>
</tr>
</tbody>
</table>
CAPITAL MARKET LANDSCAPE IN CLMV
VIETNAM - HOSE

Early Development Stage
→ Bubble & Crash effect
  • Created by behavioural changes of market players
  • Excitement of uninformed investors
  • High number of companies listing
  • Loose monetary policies
  • Weak management of the market

Lessons Learned
• Educating public about capital markets
  • Investment promotion seminars, investment forums
• Detailed and transparent process for approval of companies to avoid investment bubble
• Comprehensive guidance of foreign investment
• Strict conditions on doing securities business
• Promoting the capital market through international media corporations
• Pressuring companies to embrace CG

• Launched in 2000
• 307 listings
• Market cap USD 53 billion
At present, HOSE is one of the region’s most robust frontier stock exchanges.

Crucial regulations to develop the capital market in Vietnam included regulations on investment and enterprises, bank restructuring and transparency, the lifting of foreign ownership limits, and regulations on the derivative securities market.
Early Development Stage

- Weak corporate governance practices of companies listing
- Weak accounting standards
- Complicated trading procedures
- Uninformed market participants

Lessons Learned

- Clear incentives for companies to list
- Educating companies about advantages of listing
  - e.g. financial benefits, public awareness of company with IPO
- External auditing assessments
- Deepening understanding of market participants about trading procedures and market analysis
  - Training and access to documents explaining procedures in an understandable and practical way

CAPITAL MARKET LANDSCAPE IN CLMV
LAO PDR - LSX

- Launched in 2010
- 5 listings
- Market cap USD 1.41 billion
CAPITAL MARKET LANDSCAPE IN CLMV
CAMBODIA - CSX

Early Development Stage
- Problems with boosting liquidity and attracting new companies to list
- Unawareness of corporate governance issues
- Weak accounting standards
- Uninformed investors
- Weak preparation of first company listing

Lessons Learned
- Precautious assessment of companies by regulating authorities
- Reputation of listed companies influence investors’ and companies’ trust in market
- Companies need:
  a) Investor relations team
  b) Senior management team trained in taking analyst questions and investor calls
- Begin with companies with strong governance and operational expertise

- Launched in 2011
- 4 listings
- Market cap USD 170 million
The establishment of the YSX represents a signal to the world of Myanmar’s effort to integrate itself into the regional as well as global economy.
### Listing Requirements

<table>
<thead>
<tr>
<th>Requirements</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum of 100 shareholders</td>
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<tr>
<td>Minimum paid up capital of kyat 500 million</td>
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<tr>
<td>Profit for 2 years</td>
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<td>MFRS compliant</td>
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<tr>
<td>Appropriate information disclosure</td>
<td></td>
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<tr>
<td>Tax duties</td>
<td></td>
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<tr>
<td>Separation of ownership and management</td>
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</tr>
</tbody>
</table>

→ The listing requirements are continuously revisited and revised
→ More detailed supplemental requirements need to be developed for implementation rules

The listing requirements are sufficient but their enforcement mechanisms are still lacking.
• Lack of formal YSX rules governing continuous disclosure
• Incompetent & corrupt local auditing firms
• Lack of oversight
The effort and willingness to embrace corporate governance needs to come from within the company’s business culture.

— SECM

• Supervision of the capital market
• Administrative power + body of enforcement
• Lack of education of SECM staff
• Unclear responsibilities between SECM, YSX, and MSEC

— Lack of listing rules for implementation purposes

• Lack of supporting documents for preparation phase of listing
• Unstructured process
• Too stringent criteria could deter companies
CONCLUSION

1. It is crucial to develop a landscape of trust and transparency between market participants.
2. The YSX needs to show long-term stability to increase investors’ confidence - a slow development of the YSX is key to assure good practices are in place.
3. An effective supervision system is crucial to continuously promote good corporate governance.
4. There needs to be an improvement in education among investors, regulators, and companies in Myanmar.
5. Developing and communicating a culture, in which corporate governance practices are appreciated and necessary, represents the strongest enforcement mechanism to change people’s business mindset and behaviour.

→ The opening of the YSX represents a significant step towards that goal.
The views expressed in this presentation are those of the author and do not necessarily represent the views of the OECD or its Member countries.