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Stock Exchange Could Lift Business Standards

By SIMON MARKS THE CAMBODIA DAILY 24 JUNE 2010

If Cambodia goes through with its plan to open a stock market this year, the presence of a domestic bourse could heighten competition in the private sector and push businesses into improving their accounting and auditing standards.

Apart from banks and financial institutions, businesses in Cambodia generally function without employing proper accounting and auditing standards--one of the reasons banks here shy away from lending to such firms and one of the big hurdles such firms will face if they want to list on a future stock market, experts say.

According to a report released by the International Finance Corporation last year, only 14 percent of Cambodian firms have audited financial statements, and only 10 percent of firms use the banking sector to finance investments.

Companies turn away from formalizing themselves because of the cost of registering their businesses and becoming more visible to authorities, who often demand bribes, according to the report.

"The stock market will require a level of disclosure and accountability," said Marc Lavoie, a managing partner at private equity firm Cambodia Capital "It is not just about raising money, but also your profile."

But this traditional and widespread lack of transparency in the local business community could change if indeed the stock market manages to successfully get up and running.

"All of a sudden your competitor has got cheaper access to capital and has made changes to his business to make it more attractive to other clients," Mr. Lavoie said To compete "you'll need to look at your corporate structure. You need to look at your books."

Another positive result from raising corporate standards, Mr. Lavoie said, is the likelihood that Cambodia's banking sector might be more amenable to lending to businesses.

One of the greatest deterrents to doing business in Cambodia, according to members of the business community, is a lack of access to credit.

Cambodia's famously conservative banks say that lending is not always easy with many businesses lacking in their ability to design credible business plans and failing to show their credit history.

"People make investment decisions on their comfort levels on the transparency of the company," said Julia Brickell, resident representative of the International Finance Corporation in Cambodia, adding that the introduction of a stock market is "one of the ways" to encourage companies to improve their standards.

In Pyo-lee, director of the Korea Exchange, which holds a 45 percent stake in the Cambodia Stock Exchange in a joint venture with the government, said that as things stand only a few banks and telecom companies have currently met the standards necessary to become a listed company.

Mr. In added that as more foreign companies with professional corporate standards list on the CSX, domestic companies, which have largely ignored standards in transparency, would have to change their ways in order to grow and compete.

"The company has to have a certain level to meet our requirements. Not everyone can be listed on the market," Mr. In said.

"A couple of [Cambodian] companies are pretty much ready," he said, declining to say which ones.

Dieter Billmeier, vice president of Canadia Bank, said that most of Cambodia's largest domestic companies do not properly audit themselves at the moment

Currently only the banks are obliged to independently audit themselves under regulations passed by the National Bank of Cambodia

For the stock market, however, "they will have to follow quite extensive rules and regulations to even consider being listed," Mr. Billmeier said.

He said that banks in particular would be interested in listing as it would give them an opportunity to place more money into investment rather than saving at the central bank, where they make very little money on low interest rates.

The Cambodian stock exchange "will change the mentality of businessmen," said Douglas Clayton, CEO and managing partner of the private equity fund Leopard Capital.

"As one company lists, and they have access to cheaper capital than their competitor, the competitor is going to realize that if he doesn't list he may lose the competition," Mr. Clayton said.

"It's an incentive for companies to become tax compliant, transparent and carry out good corporate governance. Secondly, every business here seems to be constrained by cash. There are more opportunities than they have cash," he said.