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CSX

CAMBODIA SECURITIES EXCHANGE

# Capital Markets Diagnostics

## Policy Advisory to Cambodia Securities Exchange

July 2021



JOINT SDG FUND



The Joint Sustainable Development Goals (SDG) Fund is an innovative instrument to incentivize the transformative policy shifts and stimulate the strategic investments required to get the world back on track to meet the SDGs. The UN Secretary-General sees the Joint SDG Fund as a key part of the reform of the UN's development work by providing the "muscle" for a new generation of Resident Coordinators (RCs) and UN Country Teams (UNCTs) to really accelerate SDG implementation.

To date it has funded 101 joint programs focused on integrated social protection or SDG finance, it has stimulated over 1,000+ partnerships working together alongside the UN to support the SDGs and it has tested over 200 innovative solutions to accelerate the 2030 Agenda.

The Joint SDG Fund is a multi-partner trust fund. This means contributions it receives are not entity-specific, but aim to support broader UN system-level functions. In this way, it differs from restrictive earmarked funding which can fuel competition and hamper cooperation among UN entities. This type of pooled funding used by multi-partners trust funds, like the Joint SDG Fund is widely considered 'multilateralism-friendly' – and is much more suitable for the integrated support at scale essential for achieving the 2030 Agenda. Flexibility in reallocating funds has also proven critical for rapid responses to the COVID-19 pandemic.



The UN Capital Development Fund makes public and private finance work for the poor in the world's 47 least developed countries (LDCs). UNCDF offers "last mile" finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development. UNCDF's financing models work through three channels: (1) inclusive digital economies, which connects individuals, households, and small businesses with financial ecosystems that catalyze participation in the local economy, and provide tools to climb out of poverty and manage financial lives; (2) local development finance, which capacitates localities through fiscal decentralization, innovative municipal finance, and structured project finance to drive local economic expansion and sustainable development; and (3) investment finance, which provides catalytic non financial structuring, de-risking, and capital deployment to drive SDG impact and domestic resource mobilization

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## Integrated National Financing Frameworks

INFFs provide a framework for financing national sustainable development priorities and the SDGs at the country level.

Mobilising resources, both domestic and global, to support sustainable development remains a key challenge for many developing countries.

In 2015, world leaders met in Addis Ababa, Ethiopia to agree upon a new global framework for financing the 2030 Agenda and the 17 Sustainable Development Goals (SDGs). At the heart of the Addis Ababa Action Agenda are national sustainable development plans and strategies supported by integrated national financing frameworks — or INFFs.

A country's sustainable development strategy lays out what needs to be financed. INFFs spell out how the national strategy will be financed and implemented, relying on the full range of public and private financing sources. INFFs are a planning and delivery tool to help countries strengthen planning processes and overcome obstacles to financing sustainable development and the SDGs at the national level. <https://inff.org>



This report has been developed by UNCDF within the framework of the UN SDG Funded Project "Integrated National Financing Framework (INFF) to Catalyse Blended Finance for Transformative CSDG Achievement"

The project brings together UNDP and UNCDF to support the Royal Government of Cambodia to develop their Integrated National Financing Framework (INFF) that will be used to support the countries CSDG commitments. INFFs provide a framework for financing national sustainable development priorities and the SDGs at the country level.

This report, as the research component of a deep-dive study related to capital markets and debt financing, provides an overview of market appetites for the future issuance of Cambodian sovereign debt. The findings will support the Royal Government of Cambodia (RGC) The work adds to the large body of work undertaken in the sphere of development financing undertaken the the RGC, the IFIs, Development Partners and the external finance sector and rating agencies.

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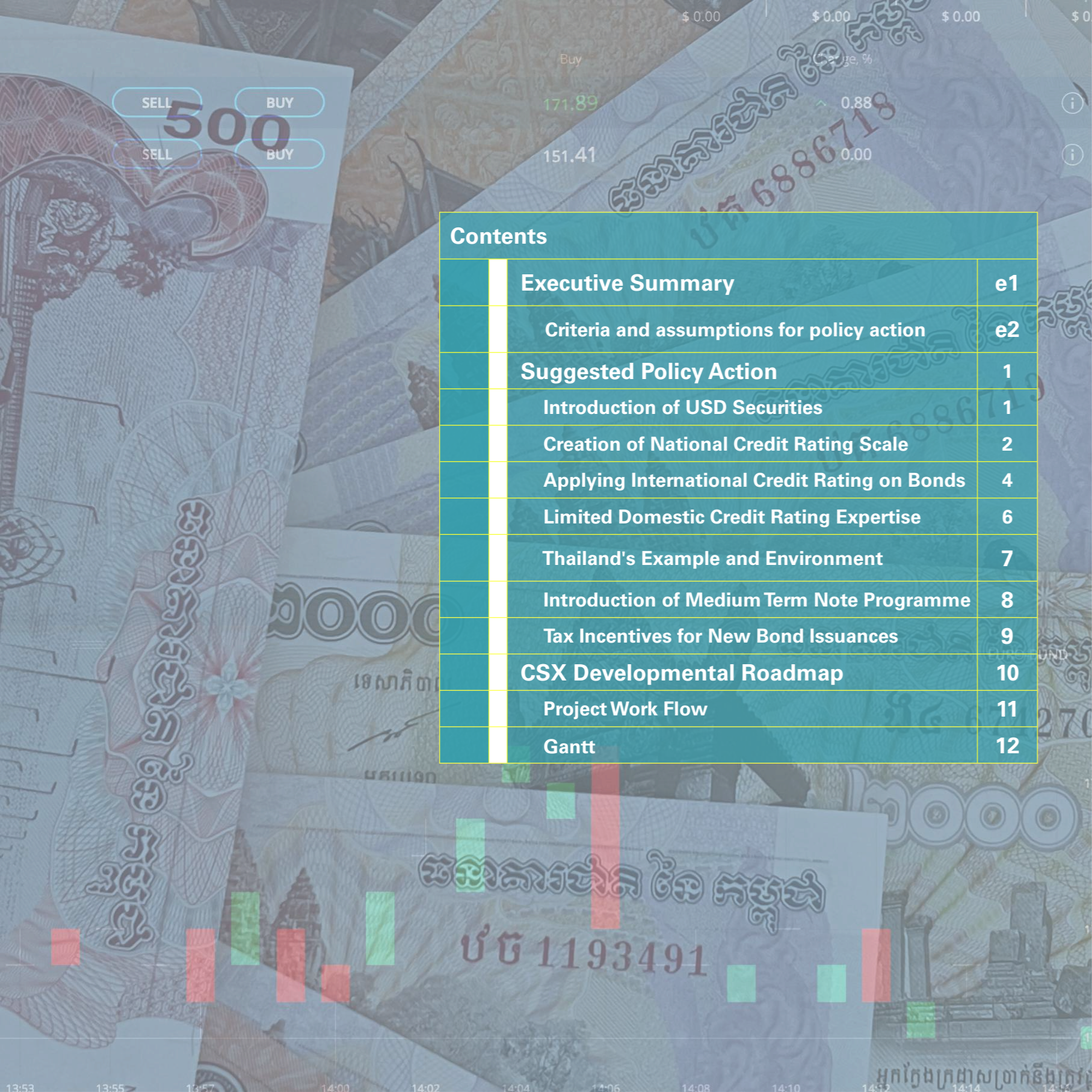
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| Contents                                      |    |
|---|----|
| Executive Summary                             | e1 |
| Criteria and assumptions for policy action    | e2 |
| Suggested Policy Action                       | 1  |
| Introduction of USD Securities                | 1  |
| Creation of National Credit Rating Scale      | 2  |
| Applying International Credit Rating on Bonds | 4  |
| Limited Domestic Credit Rating Expertise      | 6  |
| Thailand's Example and Environment            | 7  |
| Introduction of Medium Term Note Programme    | 8  |
| Tax Incentives for New Bond Issuances         | 9  |
| CSX Developmental Roadmap                     | 10 |
| Project Work Flow                             | 11 |
| Gantt   | 12 |

## Executive Summary

This research report provides policy guidance and a subsequent road map to facilitate the improvement of the financial sector in Cambodia in the context of the performance of the Cambodia Securities Exchange (CSX). The performance of CSX has been the focus of a previous report conducted as a package of deep-dive diagnostic studies that are being implemented under the United Nations Joint Program (UNJP) " "

The four diagnostics that cover the deep-dive related to debt financing options being

- Capital Markets Appetites, Stocktake of Cambodia's Debt Position
- Capital Markets Appetites, Debt Financing Development in Cambodia
- Cambodia Securities Exchange, Rapid Performance Assessment
- Cambodia Securities Exchange, Policy Advisory

This document provides our recommendations on; (1) key deliverable policy actions and (2) a roadmap to accelerate the development of CSX in partnership with Cambodia's Ministry of Economy and Finance (MEF) and the National Bank of Cambodia (NBC).

The report is the second part of a 2-part series with the former report focusing on performance assessment and key bottlenecks of the Cambodia Securities Exchange (CSX) which comprise the following:

1. Limited awareness and understanding of investments
2. A lack of a professional help
3. A lack of liquidity
4. Low stock return
5. High underwriting fees
6. Lagging institution framework compared to most of the peers
7. Cambodia's sovereign credit rating
8. No government bonds
9. A lack of listed USD-denominated securities
10. A lack of Cambodia-focused credit rating agencies
11. A lack of a medium term note (MTN) issuance program
12. Tax incentive ineffectiveness

Our proposed policy actions will focus on resolving #9 to #12. In addition, CSX needs to improve its effort to stimulate domestic trading interests maintaining updated information and a dynamic content website to contribute to mitigating bottlenecks #3, #4, and #5.

We then lay out the roadmap for CSX to improve on its performance in the near term. Our recommended course of action is focused towards the introduction of KHR and USD-denominated bonds to be listed on CSX, the establishment of a domestic credit rating agency to model after Thailand's TRIS Rating, the practice of MTN issuance program, and the amendment of requirements for new bond issuance tax incentives. Last but not least, we believe CSX is in a better position to pull together participants both from the government and the private sides to see how the policy actions can be achieved in an efficient manner.

## Criteria and assumptions for policy action

The major criteria and assumptions for selecting policy actions are the following:

- *Cambodia's stable and competitive macroeconomic condition and institutional framework, both of which is highlighted by its sovereign credit rating of "B2" with a stable outlook (i.e. "B+") by Moody's as well as ABA Bank's and ACELDA Bank's issuer credit rating of "B+" (by S&P) which should be based on an implied sovereign credit rating of "B+," in our view.*
- *CSX's role as the national securities exchange of Cambodia which is important to the development of capital markets and portfolio investments in the country.*
- *We also suggest that the Cambodian dollarised economy has advantages to harness, especially when issuing debt. The dollarised economy and issue of USD debt securities will mitigate currency exchange miss-match and currency speculation, which is commonly witnessed in the region, and especially in economies that have have exposure to USD debt.*
- *The holding of USD in Cambodian households is large, with over 84% of all transactions in the country being made in USD. Although the RGC through the Cambodia Central Bank is promoting monetary polices to reduce the domination of the USD through the removal or small denominated notes (US\$1, 2 and 5), reaching agreement with banks and micro-finance institutions<sup>1</sup> small US\$ notes remain in circulation.*
- *The large holding of USD within households and bank accounts also defines the levels of trust in using domestic currency for larger investments and long-term savings, especially in the case of transactions that include savings and investments.*

## Suggested Policy Actions

### Introduction of US Dollar securities on CSX

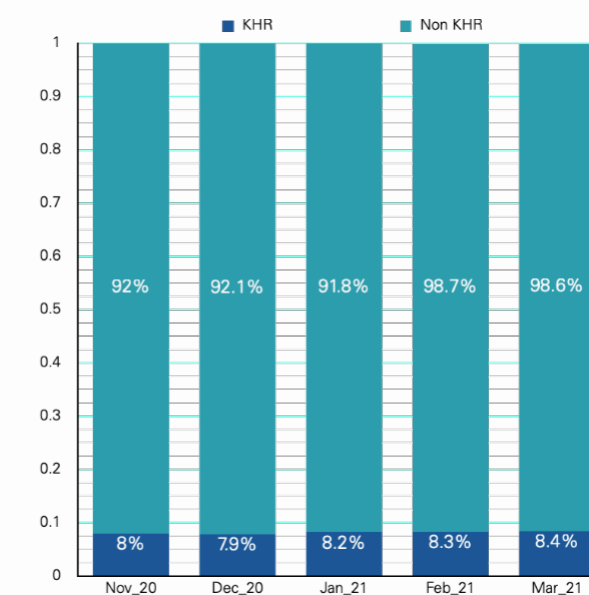
As mentioned in the last report and based upon the assumptions presented, all investors should be able to invest in USD-denominated securities on CSX. The rationale being two fold in that (i) many current issuers, unlisted companies and enterprises have assets and production capacities that produce USD revenues, (ii) investors, including domestic savers, also have USD holdings. We understand the dollarisation of the Cambodia economy has brought in much needed economic growth in the past few years but it has reduced the capacity for the NBC to implement a fully domestic monetary policy in Cambodia.

Today the central bank policy requires that domestic financial institutions have at least 10% of the loan book in KHR and introduced the liquidity providing collateralised operation (LPCO) facility to banks to supply more KHR to the banking system. However, KHR deposits at financial institutions in Cambodia remained at 8.4% of total, according to NBC. We are of the opinion, **following other global examples**, that the existing USD liquidity will enable CSX's trading activities to grow without compromising the importance of KHR.

In addition, we anticipate that the listing of USD bonds on CSX **will draw in foreign as well as domestic investors** in a similar way USD-denominated deposits in Cambodian Banks has attracted deposits from non-Cambodian residents. Bond investment, in particular, is a solution to cash management for corporate treasury.

We suggest that the possibilities for CSX to support non government USD bond listings will offer an **alternative for corporates in Cambodia with USD surplus to invest**.

Exhibit 1 - KHR and USD Deposits held in Cambodian Banks



<sup>1</sup> Luke Hunt, The Diplomat, December 15 2020, <https://thediplomat.com/2020/12/cambodia-reduces-its-dependency-on-the-us-dollar/>

## Creation of a national credit rating scale

As we suggested in the rapid performance assessment report we suggest, as a medium to long-term policy action that the current credit rating requirement loopholes need to be addressed. It is acknowledged that as the **bond market is being developed financial ratios can be used to provide investor information**, however we note that these financial ratios do not substitute a professional rating

### 1. A review of financial ratios in lieu of a credit rating

CSX's **Debt Securities Listing Rules** require that bond issuers either have credit ratings or submit financial ratios (e.g. profitability, leverage, and cashflow ratios) with certification from the issuers' experts or underwriters to the Securities and Exchange Regulator of Cambodia (SERC). This legal facility provides **a suitable foundation to develop the corporate bond market** especially as, (i) there is yet to be a sovereign bond issue and (ii) the global credit rating agencies have yet to engage and establish services in Cambodia.

In our judgement, this requirement for bond issuers to submit financial ratios also highlights some systematic flaws that will need to be addressed in the medium to long term or when there is a rapid uptake of bond issues (sovereign and corporate) on CSX.

First, a credit rating reflects on more rating factors than simply financial ratios and the majority of these factors are qualitative rather than quantitative.

Second, in order to calculate financial ratios in a credit rating process, a rating analyst needs to adjust the ratios to ascertain the ratio calculation method of all the rated entities is the same across different accounting standards and different company's preferences. In addition, a credit rating agency usually adjusts specific financial figures such as debt and equity to reflect off-balance sheet liabilities.

Third, in a credit rating process, financial ratios and figures from financial statements are usually tallied for multiple years. From our experience, we use figures from the current year, past 2 years and 1 or 2 years forward. Then an analyst needs to apply different weights to different years to stress more importance on the future years rather than historical years as a credit rating is supposed to be forward-looking (rather than backward-looking), in our judgment.

Fourth, a credit rating process involves (1) assessing a credit profile on a stand-alone basis and then (2) building a structure around the bonds in terms of credit support such as a stand-by letter of credit, a guarantee or in terms of a structural subordination such as preferred shares or subordinated debt. As a result, a financial ratio analysis is simply not sufficient to replace this process.

Fifth, a professional review of financial ratios of bond issuers should be carefully conducted by experienced credit analysts who should be licensed by SERC. We understand financial ratios submitted to SERC are only used to give additional information to investors in case an issuer does not have a credit rating and the ratios are not intended to replace credit ratings.

In addition, we understand SERC **does not give any opinion or judgment on these ratios**. We are, however, of the opinion that the investing public may not have the necessary knowledge to analyse these financial ratios. As such, we believe SERC's approval of any new bond issue, based on the submission of financial ratios, is not sufficient to replace a credit rating requirement.

**In our view, there should be introduced an accredited credit rating requirement for any bond issues in Cambodia at this juncture when the country needs to develop the sovereign and corporate bond markets and associated credit analysis expertise among investors.**

In the medium to long term, as the market matures, any credit rating requirements as suggested can be lifted with SERC/CSX informing investors that non-rated bonds' credit risk will require additional credit analysis. We note that by not requiring a credit rating, SERC can rely on the market decide whether unrated bonds are investable. In many developed markets, unrated bonds can simply mean those issuers do not need ratings in order to launch new bonds.

## Applying international credit rating on bonds

CSX's requirement for a credit rating on issued securities **does not specify** whether an international or domestic credit rating applies. As previously reported, ABA Bank was the only rated bond issuer on CSX. The bank's issuer credit rating of "B+" by S&P was obtained by comparing ABA Bank's credit fundamentals against its international banking peers. However, ABA Bank's international rating is used for its domestic bonds which require national, not international, ranking. We are of the opinion that an international credit rating is more suitable for international bonds issued on foreign exchanges and sovereigns and a national scale rating is more appropriate for non government bonds listed on CSX.

For domestic bonds, the system of national scale ratings offers more credit differentiation among issuers, especially for a country with a "B2" sovereign credit rating such as Cambodia. For example, **any international bonds rated below "B-" or "B3" are usually not considered as "investable" by many institutional investors** and the use of international ratings in Cambodia will only limit rating scale to 3 notches from "B-" to "B+", thereby limiting how the credit fundamentals can be distinguished in the country.

As a basis, many regional markets such as China, Indonesia, Malaysia, Taiwan, and Thailand have their own national scale ratings. In essence, a national scale rating is obtained by comparing an issuer's or an issue's credit fundamentals against its national peers instead of international peers. Further, the national scale ratings of regional countries can provide proxy measures to ascertain the Cambodian national scale ratings.

Thailand's sovereign credit rating is BBB+/Baa1 by S&P and Moody's, respectively. Hence, Thailand's national scale rating equates "AAA" on its national scale to "A-" or "BBB+" on an international scale (EXHIBIT 2). For example, Thailand's PTT is rated BBB+/Baa1 by S&P and Moody's, respectively, on an international scale while its national scale rating by TRIS Rating and Fitch (Thailand) is AAA/AAA(thai), respectively.

Exhibit 2 - Thailand's National Scale Rating

| TRIS(Tha) Nat Rating | International Rating |
|----------------------|----------------------|
| AAA                  | A-/BBB+              |
| AA+                  | BBB                  |
| AA                   | BBB-                 |
| AA-                  | BBB- / BB+           |
| A+                   | BB+/BB               |
| A                    | BB/BB-               |
| A-                   | BB-/B+               |
| BBB+                 | B+/B                 |
| BBB                  | B/B-                 |
| BBB-                 | B-                   |
| BB(+/-)              | B-/CCC(+/-)          |
| B(+/-) to CCC (+/-)  | CCC(+/-)             |
| D                    | D                    |

Likewise, China's sovereign credit rating is A+/A1 by S&P and Moody's, respectively. EXHIBIT 3 highlights China's national scale versus international scale ratings which show a "AAA" on a Chinese national scale rating equivalent to "AA" or "A-" on an international scale rating.

Exhibit 2 - Thailand's National Scale Rating

| China Nat Rating    | International Rating |
|---------------------|----------------------|
| AAA                 | AA-/A+               |
| AA+                 | A                    |
| AA                  | A-                   |
| AA-                 | BBB+                 |
| A+                  | BBB                  |
| A                   | BBB-                 |
| A-                  | BBB-/BB+             |
| BBB+                | BB+/BB               |
| BBB                 | BB/BB-               |
| BBB-                | BB/B+                |
| BB+                 | B+/B                 |
| BB                  | B/B-                 |
| BB-                 | B-                   |
| B(+/-) to CCC (+/-) | CCC(+/-)             |
| D                   | D                    |

### Estimating the National Scale Rating for Cambodia

Applying the same credit rating comparison methodology as Thailand and China's national scale rating, we believe Cambodia's national scale rating can compare with international scale ratings as per EXHIBIT 3. For example, ACLEDA Bank's issuer credit rating of "B+" by S&P would equate a AAA on a national scale rating. Similarly, Royal Government of Cambodia (RGC)'s KHR-denominated bond rating of AAA by a domestic credit rating agency would equate "B" or "B+" on an international scale, which is correct, in our view (as Cambodia's sovereign credit rating is B2 by Moody's).

The international scale rating ceiling of B/B+ is to account for both Cambodia's sovereign credit rating of "B2" (i.e. "B+") and the highest credit rating of any Cambodian entities of "B+" as in the case of ACLEDA Bank's and ABA Bank's credit rating. We note that the interpolation of Cambodia's national scale into international scale ratings will have to be subject to the fact that default probability of each national scale rating needs to correspond with that of an international scale rating. The calibration work will need to be done first once a team of experienced rating analysts begin working on a domestic credit rating methodology.

Exhibit 2 - Thailand's National Scale Rating

| China Nat Rating | International Rating |
|------------------|----------------------|
| AAA              | AA-/A+               |
| AA+              | A                    |
| AA               | A-                   |
| AA-              | BBB+                 |
| A+               | BBB                  |
| A                | BBB-                 |
| A-               | BBB-/BB+             |
| BBB+             | BB+/BB               |
| BBB              | BB/BB-               |
| BBB-             | BB/B+                |
| BB+ or Below     | B+/B                 |

## Limited domestic credit rating expertise

To attract CRAs to enter into the domestic financial market the RGC's issued legislation in 2017 related to the Accreditation of CRAs. Although the legal base has been established and the law is **not constrictive** the globally renown CRAs remain to open in-country services.

Despite the country's small capital market and GDP which will make rating businesses unprofitable in the first few years, the credit rating requirements, if initiated will lead to revenues a domestic credit rating agency in Cambodia. However **any new agency will need to be subsidised in the first instance by the RGC** to build up its practice. The agency can also create new market opportunities from consulting and research work.

In addition, we are of the opinion that Cambodia will need to develop a workforce of credit analysts to assess and price credit risk of domestic bond issues. This additionality can support new avenues for the education and skills development sectors, providing new opportunities for tech-savvy youth.

Overall, a domestic credit rating agency will help investors understand Cambodian credits better. A credit rating will also enable underwriters to price the bonds faster and more accurate, leading to less reliance of underwriters on their own client network. It can be expected that more underwriters will be inclined to manage CSX bond issuances and sales which can lead to a lower underwriting fee from the current 5-6%. A lower underwriting fee will eventually lead to more bond listing in due course

We suggest **two alternatives** to establish a domestic credit rating agency with a focus on the Cambodia credit market .

First, the Royal Government of Cambodia (RGC) may establish an independent credit rating agency with the help of international and national credit rating agencies such as S&P, Fitch, Moody's, TRIS Rating (Thailand), RAM (Malaysia), PhilRatings (the Philippines), or CRISIL (India).

Similar to a formation of TRIS Rating in Thailand, a joint-venture formation can comprise a majority shareholding by RGC with the remaining shares held by a local company or investor and / or possibly a regional credit rating agency. Technical assistance can be acquired through ODA funded interventions to establish the necessary infrastructure and human capacities.

Second, RGC can provide a contractual mandate to a foreign credit rating agency to develop Cambodia's national scale rating. This action may entice one of the leading credit rating agencies to establish a Cambodian subsidiary with an intention to expand the subsidiary into a full-scale credit rating agency within a given time period.

## Thailand's example and current environment

The first Thai Credit Rating Agency - Thai Rating and Information Services Co Ltd (TRIS) was initially established by the Royal Thai Government by the Ministry of Finance and The Bank of Thailand with technical assistance being provided by the International Financial Institutions (IFIs). The purpose to establish the CRA was to support the **development of the domestic bond market**, being viewed as essential financial sector activity by the Thai authorities. In 2007 the company was privatised and renamed as TRIS Corporation Limited. Standards and Poors established a 5% equity stake in TRIS Corp in 2011, increasing this stake to 49% during 2016.

The incremental development of TRIS provides a potential road map for Cambodia.

### The Credit Bureau Cambodia (CBC)

The Credit Bureau Cambodia (CBC) was established through a NBC working committee and the issue of a Prokor B7-011-145 (May 24 2011) with TA being provided by IFC. This law was repealed in June 26 2020 with the issue of Prokor B7-020-352.

Credit Bureau Cambodia (CBC) is a NDC licensed independent company that provides credit reporting services. However it is supervised by the NBC as defined under article 4 and article 26. As an independent company the CBC is co-owned, 51% by Credit Bureau Holding (Cambodia) Limited (CHCH) and 49% by Equifax Cambodia Holding (ECH) Singapore.

CBCH is a joint venture between the domestic banking and finance institutions consisting of;

- *Association of Banks in Cambodia (ABC)*
- *Cambodia Microfinance Association (CMA)*
- *ACLEDA Bank Plc*
- *Union Commercial Bank Plc*
- *Commercial Bank Plc*

Whereas ECH is an external joint venture comprising of two partners; (i) Credit Bureau Asia Holdings Pte Ltd and (ii) Equifax (United States), a global data, analytics, and technology company that is one of the three largest consumer credit reporting agencies.

Within the legislation (article 9) the purpose of the Credit Reporting Service is provided as follows<sup>2</sup>;

- Evaluate the creditworthiness and indebtedness of consumer or guarantor when requesting for a loan;
- Support the NBC in supervisory role to monitor credit flow in the financial system, to analyze data for producing financial stability reports, and to supervise banks and financial institutions;
- **Evaluate credit risk, and/or review credit.**
- Evaluate risks associated with the transaction of default payments or issuing dishonoured check;
- Allow consumer or guarantor to confirm the accuracy of his or her information in a credit report;
- Evaluate or audit the efficiency and reliability of the CRS and compliance with any applicable laws and regulations;
- Support KYC including consumer identification pertaining to any activities of identity fraud, criminal, and money laundering and financing terrorism and
- Facilitate the consumer accessing financial service in both local and international

The purpose of the of the CRS for which CBC is licensed for includes the **evaluation of credit risk and or review of credit**. In this context CBC should function as a credit reporting agency that provide information relating to the creditworthiness of **an individual in the form of credit reports and credit scores**. This function assist the domestic banks to determine how risky an individual is in terms of borrowing (*Evaluate credit risk, and/or review credit*).

Of note is that a **CRA is responsible for for rating sovereigns and corporations and their debt issuances**. It allows investors to determine how risky a sovereign or a corporation and its debt are before making an investment purchase. This being a different function to the CRS. It may be an opportune moment, as the Royal Government of Cambodia is considering issuing sovereign bonds, for the Ministry of Economy and Finance and the NBC **to establish a CRA as a similar start-up entity to the Credit Guarantee Corporation of Cambodia (CGCC)** and working in partnership with CRAs in Thailand attempt follow a similar development path as TRIS.

### Introduction of medium-term note program

The absence of an Medium Term Note (NTM) program makes it difficult for an issuer to plan their funding strategy. The MTN program enables issuers not to seek new SERC permissions to issue subsequent bonds within the same MTN limit. We advise that CSX holds dialogues with SERC and BOC to devise the MTN framework Although it may be deemed to be premature for the introduction of an MTN programme detailed policy work to develop the frameworks should be undertaken in the short to medium term.

### Tax incentives for new bond issuances

We suggest that **current tax incentives may not be as effective as desired** for corporate bond listing for the following reasons:

A tenor requirement of at least 7 years (for a tax incentive) appears to be too long for a frontier market such as Cambodia. We suggest the tenor be lowered to 3 years to attract more issuers.

A minimum bond size of >20% of total assets (for a tax incentive) was set up to encourage a large sized bond issuances. We note that this requirement can still produce a small bond size when an issuer is a small company in terms of assets. We are of the opinion that the minimum issuance size should also be calculated as a product of a fixed amount (lowest size of issuance) and a fixed percentage of the bond issuer (corporate) total assets.

A formula based approach would have the possibility to **shape the domestic bond markets so that public bonds can only be issued by companies of a certain size** in order to assure an issuer has the resources to enforce compliance with regulators. For example, in the Asian USD bond market out of Singapore or Hong Kong, a bond size of USD200m or below is considered as rare and illiquid.

Finally, there are **competing sets of tax incentive policies** that in particular target the same corporates. Such tax incentives include the SEZ tax holidays and the current tax incentives for corporate bonds. As may be envisioned, such incentives will target larger businesses that under normal conditions not only reside in business parks (SEZs) but are more likely to issue a bond for new product design and development or expansion.

The different tax incentive polices available today (ie bonds and SEZs) today appear to be in competition. For the new corporates and joint ventures that are establishing production and or services in Cambodia there are no tax benefits for these corporates in terms of issuing domestic bonds as better and far easier incentives can be gained through locating within the numerous SEZs in the country. A detailed analysis of this situation is proposed, to examine the greater benefits that can be attained by revisiting the competing tax policies and developing a more harmonised and joined up business tax code.

<sup>2</sup> Source: Unofficial translation of Prokor B7-020-352, June 26 - [https://www.nbc.org.kh/download\\_files/legislation/prakas\\_eng/Prakas\\_on\\_Credit\\_Reporting\\_26-06-2020\\_ENG.pdf](https://www.nbc.org.kh/download_files/legislation/prakas_eng/Prakas_on_Credit_Reporting_26-06-2020_ENG.pdf)



## CSX Development Road Map

### CSX Developmental Roadmap

In addition to the policy recommendations, we also suggest that CSX needs to improve on its promotion strategy related to its trading activities. Priorities that need be considered include:

- An update of website information
- A better communication with major companies and international companies in Cambodia to promote listing on CSX
- Roadshows and a conferences to promote CSX to international investors
- Roadshows and conference calls to introduce CSX and listed companies to investors
- A high-profile discussion with international companies investing in Cambodia and major Cambodian companies on what needs to be done in order for them to consider listing stocks and/or bonds on CSX
- International hires to increase expertise on international capital markets

In terms of SERC's collaboration with NBC, we see the following priorities:

- SERC's understanding of the reasons that NBC limits a number of financial institutions getting listed on CSX and how the approval procedure at NBC can be streamlined.
- A discussion on NBC's current policy to promote the usage of KHR and its non-positive impact on the USD-denominated securities listed on CSX

In terms of SERC's collaboration with MEF, we see the following priorities:

- The need for MEF to communicate frequently and clearly on the timeline that RGC government bonds will be launched, the structure of the bonds, and the expected date those bonds will be listed on CSX.
- Potential assignment of CGC to be a domestic credit guarantor for bonds, especially for bonds issued by smaller corporations and SMEs
- Amendment on requirements to get tax incentives for bond issuers
- The listing of USD-denominated securities on CSX
- More alternatives for Cambodia's sovereign credit ratings besides Moody's (S&P rates ACLEDA Bank's and ABA Bank's issuer credit rating at "B+" and we believe the agency has Cambodia's non-public sovereign credit rating at "B+," we are of the opinion that MEF should see if S&P could publish the "B+" rating. The "B+" rating may put a pressure on Moody's to upgrade Cambodia's "B2" sovereign credit rating. Fitch, TRIS Rating (in Thailand), and a major Chinese credit rating agency (China Chengxin (Asia Pacific) Credit Ratings or Lianhe Ratings Global, both of which are top two credit rating agencies in China) should also be approached to rate Cambodia's sovereign credit rating. All in all, we believe more sovereign credit ratings will promote investments in Cambodia, let alone in CSX-listed securities.)

In light of the governments COVID recovery strategy Cambodia needs to deploy more aggressive policy (similar to the CGCC example) that can unlock the capacities of the domestic financial markets inclusive of CSX. It can be considered that in the post COVID environment the role CSX and SERC and their associated strategic plans need to be updated top harmonise with the RGCs recovery strategies and the needs to diversify the economy.

In conclusion, we believe SERC's requires to manage a sequences set of policy dialogues as listed to establish new strategic policy to boost the CSX and help to expedite the maturing of the domestic financial markets to rapidly catch up with Viet Nam.

- Discussion with S&P, Fitch, TRIS Rating, and a major Chinese credit rating agency on potential Cambodia's sovereign credit ratings
- Discussion with MEF and NBC on the above-mentioned issues
- Discussion with international experts from non-profit organisations such as UNCDF, ADB, or AIIB on the set up of a domestic credit rating agency in Cambodia and the strict requirement on a credit rating for new bond issues once a domestic rating agency is operational.
- Discussion with ADB and/or AIIB on the joint venture set up of a domestic credit rating agency
- Discussion with major rating agencies on a potential joint venture on a domestic rating agency
- Discussion with Cambodia's CGC on the resources that can be used to set up a domestic rating agency

- Discussion with other potential shareholders such as banks and insurance companies to invest in a domestic credit rating agency
- A conference in Cambodia with potential stakeholders (ADB/AIIB, major rating agency, credit guarantee corporation, and other potential shareholders) on the timeline to set up a domestic credit rating agency.

## Project Work Flow

The proposed workflow diagram illustrates the key milestones and delivery of the support package that will potential run into Q2 2022. Presently all inputs are timed top be completed by 2021, however changes to the schedule will be forthcoming during the inception phase of the mission and agreement with the UNJP government partner organisations.

We anticipate that slippage will occur during the policy making process as further research and analysis made be requested and needed. However for the purpose of forward planning a comprehensive set of milestones have been developed.

The proposed work will cover the following technical areas that have been identified as possible barriers to the expansion of the securities market in Cambodia.

Monetary Policy: to re-examine the current monetary polices to take advantage of the dollarised economy and domestic investment, savings and transaction preferences

Taxation: to analyse current taxation processes and that are providing competitive incentives and to run a cost benefit analysis related to proposed solutions.

Bond Market: technical support to (i) introduce sovereign bonds on the CSX and possibly through trans-boundary bond instruments and (ii) to encourage the issuance of corporate bonds on CSX. This technical area also links to the monetary policy.

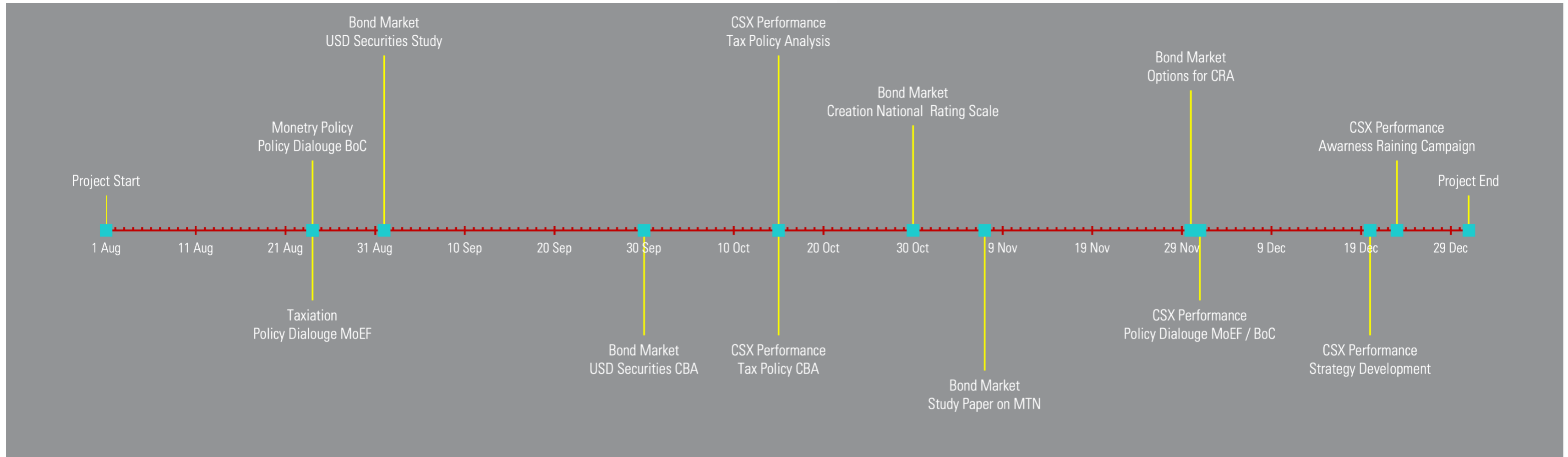
CSX Performance; this technical area covers work that will advance the performance of CSX and provide an updated short to medium term strategy

The following table presents the proposed milestones that will be covered by UNCDF technical assistance under the current UNJP "Integrated National Financing Framework (INFF) to Catalyse Blended Finance for Transformative CSDG Achievement"

Exhibit 5 - Proposed TA Support Milestones

| Date     | Milestone                         | Tech Area       |
|----------|-----------------------------------|-----------------|
| 01/8/21  | Start                             |                 |
| 24/8/21  | Policy Dialogue BoC               | Monetary Policy |
| 01/9/21  | Policy Dialogue MoEF              | Taxation        |
| 30/9/21  | USD Securities Study              | Bond Market     |
| 15/10/21 | USD Securities CBA                | Bond Market     |
| 15/10/21 | Tax Policy Analysis               | CSX Performance |
| 15/10/21 | Tax Policy CBA                    | CSX Performance |
| 30/10/21 | Creation of National Rating Scale | Bond Market     |
| 07/11/21 | Study Paper in MTN                | Bond Market     |
| 30/11/21 | Options for Cambodian CRA         | Bond Market     |
| 01/12/21 | Policy Dialogue MoEF/BoC          | CSX Performance |
| 20/12/21 | CSX Strategy Development          | CSX Performance |
| 22/12/21 | CSX Awareness Raising Campaign    | CSX Performance |
| 31/12/21 | Project End                       |                 |

# CSX Developmental Roadmap - Indicative Gantt



The above gantt is indicative only and sets out the key milestones that can be delivered by the end of 2021. This time line will be subject to amendments and change as a result of the planned set of initial dialogues with MoEF and the BoC.



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