



Cambodian banks aim to ride agriculture boom

By Frederik Richter

PHNOM PENH, June 28 (Reuters) - Cambodian banks are hoping that a surge in agricultural investment will bring in the customers they need to take out loans and put to work the cash flooding into the frontier market's overcrowded banking system.

Cambodia, which is due to open a stock exchange this year, is attracting investment to rural areas as it seeks to move from exporting primary crops to milling rice and packaging seafood to sell abroad.

Foreign donors have vastly expanded rural road networks and firms from Vietnam, Thailand, Malaysia and beyond are scrambling to buy land and expand rubber and rice plantations.

But while the streets of Phnom Penh are cluttered with bank branches and cash machines, banks have ignored rural areas.

"We have an operation about 100 km away from Phnom Penh. Every month we physically carry about \$50,000 because there is no bank," said T. Mohan, chief executive of Virtus Group, which advises foreign investors in Cambodia.

"We're trying to encourage our bank to set up an operation there in the near future. In six to twelve months from now (our clients in the area) will be looking at millions of dollars in transactions for payrolls, expenses, development costs."

Four senior members of Cambodia's murderous Khmer Rouge regime went on trial this week in a reminder of the bloody past that left the country in tatters in the 1970s.

But the economy has grown strongly over the past decade and Cambodia's banks need to find new ways of lending as their deposits surged 26 percent last year.

"You're seeing a general deepening of the financial sector. There's more people coming into the formal financial sector instead of keeping their money under the mattress," said Stephen Higgins, chief executive of ANZ Royal Bank, partly owned by Australia and New Zealand Banking Group Ltd .

Cambodian banks' loan business has so far been largely limited to lending to property owners, but bankers say they are eager to also finance machinery, warehouses, issue letters of credit and offer the first consumer loans to the country's tiny but growing class of white-collar employees.

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"A family that earned \$200-400 a few years ago, as employees, can now earn close to \$1,000, and maybe even up to \$2,000," said Dieter Billmeier, vice president at Canadia Bank, speaking at the bank's headquarters, Phnom Penh's first high-rise tower.

He said Cambodian banks could expand their loan books by up to 10 percent on consumer loans alone over the next two years. Canadia Bank plans to lend about \$100 million to the agriculture and food processing sectors over the next 18 months, he said.

TOO MUCH CASH

Lenders in general, however, are struggling to use their cash and bankers say the country's 29 banks are more than the market can sustain. In comparison, there are only 10 banks catering to the much larger Malaysian market.

"Many of the banks here aren't profitable. There's not enough business volume," said Billmeier.

The top four, Public Bank of Cambodia, Canadia Bank, ANZ Royal and ACLEDA Bank, control about 75 percent of the loan market and deposits.

Even so, Chinese state-owned banks such as Bank of China are looking to expand in Cambodia and bankers say Malaysian lenders such as Maybank and CIMB that already operate there are looking to buy into local banks.

Billmeier said Canadia Bank was looking for an international investor interested in buying up to 30 percent of the bank from its owners, the local Pung merchant family. He said regional banks in Hong Kong, Malaysia or Singapore would be a good fit.

"The business climate has improved a lot in Cambodia without getting any attention," said Douglas Clayton, managing partner at Leopard Capital.

The firm's \$34 million equity fund holds a stake in ACLEDA, which started out as a provider of micro-finance and is still today the only bank present in many rural areas.

"The legal environment takes a long time to improve but we hope for one law every year," said Clayton.

In recent months, new legislation has made it easier for banks to seize assets from customers who default on loans, which should allow such loans to expand. A credit bureau providing information on loan applicants is expected to open this year. (Reporting by Frederik Richter)