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Catching Cambodia on the cusp of development

0 Published: 14 Feb 2010

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Financial Times | February 14 2010

By Elaine Moore

Douglas Clayton, founder of frontier market fund manager Leopard Capital, has a habit of relocating to the country he believes is on the cusp of development. Right now, his home is Cambodia.

"It's fun to be in countries that are changing rapidly," he says. "Cambodia is where Thailand was 30 years ago, and where Vietnam was 15 years ago. There is a lot going on." Leopard Capital manages funds in what it calls "overlooked, transitional economies"

It boasts contrarian investor Marc Faber, author of the Gloom, Boom and Doom newsletter, as a non-executive director and seeks to invest in start-ups as well as existing businesses in South East Asia. In April 2008 it launched the Leopard Cambodia Fund, which closed in January 2010 with more than £34m (€39m \$53m) to invest in a variety of multi-sector Cambodia projects. Mr Clayton says a second Cambodian fund is planned for later in 2010.

Investors tend to have some knowledge of Asian developing economies and tolerance for the idiosyncrasies that investment in these countries involves. Cambodia's economy is, at around \$8bn (£5bn, €6bn), smaller than some multi-national companies, and with per capita gross domestic product of less than \$800, it is still one of the poorest

countries in the world.

Another obstacle to investment is the lack of transparency and endemic corruption in the country. The 2008 Transparency International survey ranked Cambodia 166 out of 180 countries.

"The legal system in Cambodia is a work in progress but it gets better every year," says Mr Clayton. "Cambodia is no worse than any other south-east Asian developing country and most importantly, the government wants to attract foreign investment."

In fact, Mr Clayton rates Cambodia alongside Hong Kong and Singapore as one of the most open countries to do business in. Corporate income tax is 9 per cent and there are no laws against 100 per cent foreign ownership of companies, although land can only be fully owned by Cambodians.

After it was ravaged by the Khmer Rouge in the 1970s Cambodia has experienced 30 years of remarkable growth and has attracted a steady stream of investors lured by the country's political stability under long-serving Prime Minister Hun Sen, and the potential for its undeveloped natural resources.

The capital city may still lack a coherent public transportation system or large shopping centre, but its transformation from ghost town to thriving city is used to illustrate Cambodia as a post-war success story. Between 2000 and 2007 the country's economy grew by 8.5 per cent a year, second only to China.

When the Cambodia fund was launched by Leopard Asia in April 2008, the founders planned to raise \$100m, with a projected investment return of 30 per cent. But as the global recession took hold across Asia, interest in frontier funds such as the Leopard Cambodia Fund, which require investors to tie in their money for relatively long periods of time, dwindled, and the group decided to close the first fund and invest the money.

So far the largest investment made has been \$5m to CamGSM, which operates Cambodia's largest mobile phone network. As with many developing countries, landline coverage in Cambodia is fairly sparse, but mobile phones are widely owned. The fund has also invested \$2m into Kingdom Breweries, a Cambodian beer brewery, which aims to produce high quality beer in a microbrewery in Phnom Penh; over \$1m in Greenside Holdings to construct a rural power distribution system; and \$1.5m for 24 per cent of a property project in downtown Siem Reap, near the tourist attraction of Angkor Wat.

The fund will also invest up to \$4m into Cambodia Plantations to lease approximately 3,000 hectares of land to grow rice. The first harvest is expected in 2011. Agriculture remains one of the dominant industries in Cambodia and a number of countries such as Malaysia and Korea have taken advantage of the cheap price of land to lease thousands of hectares to grow rice.

The second Cambodian fund is expected to continue investment in agriculture, as well as potentially including investment in Laos. Before this is launched the group will focus on two new Sri Lanka funds.

The private equity Leopard Sri Lanka fund aims to raise \$100m, while the Leopard Sri Lanka Value fund will seek to raise \$30m to invest in listed equity. Although Sri Lanka is a more sophisticated and larger economy than Cambodia, it has lacked investors while in the grip of a brutal civil war. Leopard Capital plans to invest in industries that were already well developed but came to a halt during the war, such as tourism, retail and agriculture.

"We are the first wave of money coming into the economy," says Mr Clayton. "Once the world realises that this country is safe again this economy is going to take off."

Source: [Financial Times](#)

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