

---

# The Potential of Receivables-Based Financing for Cambodian Companies

By Charles K. Whitehead

Myron C. Taylor Alumni Professor of Business Law, Cornell University Law School  
Visiting Professor, CamEd Business School

Many successful companies in emerging markets, such as Cambodia, are capped at the credit rating of the country in which they are located. The ceiling reflects the assessment of the international credit rating agencies (such as Standard & Poor's and Moody's) of the country's sovereign risk, not the company's standalone risk. No matter how strong the company is, its credit rating cannot exceed the country's sovereign rating. As of May 16, 2024, Moody's rated Cambodia B2; obligations rated B2 are considered speculative and a high credit risk.

*Country Credit Ceiling.* For this article's purposes, Cambodia's country credit rating has two important implications: First, international lenders vary the rate they charge on loans based on a borrower's riskiness, which for a Cambodian company can never be higher than Cambodia's B2 rating. The greater the risk, the greater the interest rate. Second, international lenders manage their risk exposures at both country and borrower levels. A low country credit rating will restrict the country's access to global capital, since international lenders will cap their exposure to the country. Thus, Cambodia's credit ceiling limits the availability of credit for Cambodian companies.

*Structured Finance Solution.* Through a structured finance solution, can Cambodian companies bypass Cambodia's credit ceiling and, thereby, lower their cost of borrowing? One option is receivables-based financing, a form of securitization that may offer a solution for Cambodian companies that regularly export products to customers in countries that are not subject to the same credit ceiling as Cambodia. In general, in a securitization, pools of similar financial assets (such as export receivables) are pooled and transformed into securities sold to investors. Future cash flows from the receivables are used to pay amounts

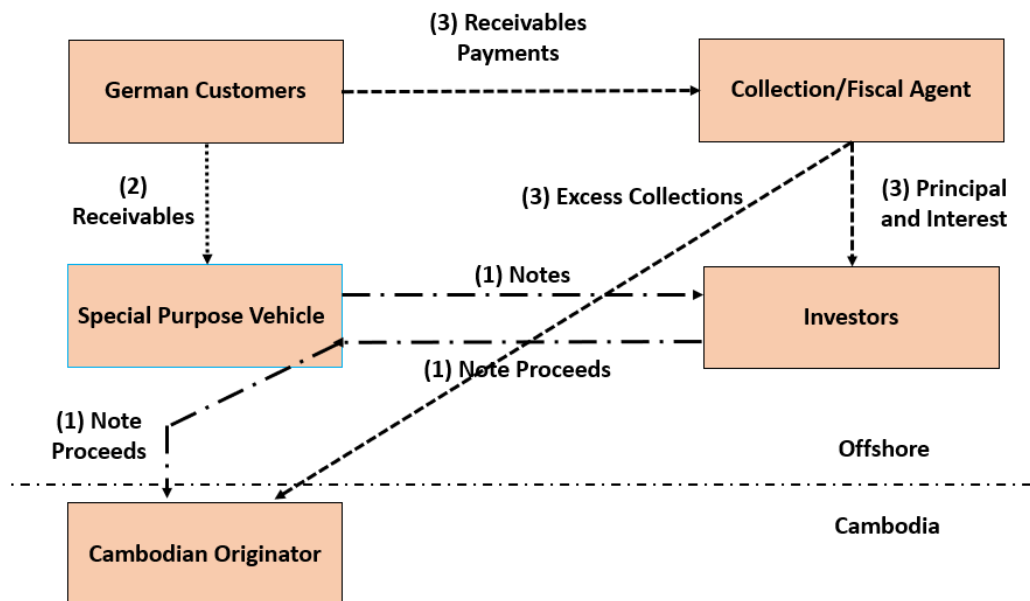
owed under the securities. This process provides liquidity to the Cambodian originator, and helps mitigate credit risk and potentially lower the originator's borrowing costs. The result is better access to capital for operations and growth.

In effect, receivables-based financing may permit a Cambodian company to raise funds against the credit quality of its receivables—reflecting the ability of the customers to pay the receivables, rather than the credit rating of Cambodia or the Cambodian company. Pooling receivables from a diverse group of customers can further lower an investor's credit risk exposure and, in turn, reduce the cost of invested capital. The effective cost of capital is often lower than if the Cambodian company were to borrow directly.

*Receivables-Based Financing.* How does it work? To illustrate, we will use the hypothetical example of a Cambodian textile manufacturer ("Originator") that regularly exports clothes to one or more European retailers in Germany ("Customers"). (For simplicity, we will assume that there is just one Originator in this example. In fact, a single Originator may not have a sufficient amount of receivables to make a receivables-based financing structure attractive. In that case, it may be possible to pool receivables across multiple Originators to create a sufficient size.) In the ordinary course, the Originator issues invoices to its Customers, against the delivery of the exported goods, which each Customer is obligated to pay ("Receivables") within a standard time period. The Receivables in this example are denominated in euros, a stable foreign currency, reducing exchange rate risk.

The Originator will have set up a "bankruptcy-remote" special purpose vehicle ("SPV") in a jurisdiction outside Cambodia that has an investment grade sovereign credit rating. Bankruptcy remoteness is achieved by law and by the SPV's organizational documents. It means that the SPV's assets belong only to the SPV; the Originator's creditors cannot claim them, and vice versa. The SPV's sole purpose is to purchase Receivables from the

## Example of a Receivables-Based Financing



Originator and issue notes (“Notes”) to raise funds to pay for the Receivables. The SPV will not have any other creditors and will operate as a separate entity from the Originator.

In this example, perhaps to fund ongoing operations, the Cambodian Originator wishes to borrow money at a lower rate than if it were to borrow directly. Please refer to the graph above. The numbers below correspond to the numbers in the graph.

- (1) To raise funds, the SPV issues Notes to Investors. The SPV will use the Notes’ proceeds to purchase the Receivables. Payments that the SPV (or a Collection Agent, on its behalf) receives on the Receivables will be used first to repay amounts owed to the Investors (as well as any fees, e.g., to the Collection/Fiscal Agent). The SPV will also agree with the Originator to pay the Originator any excess money it receives on the Receivables after the Notes and other fees have been paid in full.
- (2) Immediately upon creation, the Originator will sell the euro-denominated Receivables to the SPV at a discount (“Discount”) to the face value of the Receivables (“Purchase Price”). The SPV will pay the Originator for the Receivables in euros, rather than waiting for the Receivables to be paid in the ordinary

course, providing the Originator with quicker access to funds. The amount of the Discount will depend on factors such as the Customers’ credit quality and their historical delinquency rate; riskier Customers and higher delinquencies will result in a higher Discount.

- (3) The Originator will direct its Customers to make payments on the Receivables to the SPV (or the Collection Agent, on its behalf), not the Originator. The Collection Agent may also act as the Fiscal Agent on the Notes. The Fiscal Agent will use the payments it receives on the Receivables to pay the principal and interest on the Notes and, if there is any remaining excess, to pay that amount to the Originator.

*Lowered Cost of Borrowing.* Note that the SPV’s credit risk will be based on the quality of the Receivables it owns—which reflect the higher credit rating of the German Customers who are obligated to make payments under the Receivables. Since the Receivables are located outside Cambodia, and have been sold to the SPV outside Cambodia, they will not be subject to the lower credit rating of the Cambodian Originator or Cambodia’s sovereign risk rating. As noted before, the Purchase Price the SPV pays the Originator will include a Discount against the risk that one or more of the German Customers will

---

be delinquent in paying their Receivables. However, if there are lower-than-expected delinquencies, any excess payment on the Receivables will be transferred to the Originator after the Notes and fees are paid in full. In effect, the Discount acts as a “cushion” against the Receivable not being sufficient to pay amounts owed on the Notes.

So, suppose a Cambodian Originator (or a group of Originators) has exported textiles to a group of German Customers and, in turn, is entitled to receive €50 million in payments. In a receivables-based financing, the Originator will sell the €50 million in Receivables to the SPV, for example, for a price of €40 million, a 20% Discount. To pay that €40 million, the SPV will have issued €40 million in Notes to the Investors. The Fiscal Agent will pay the principal and interest on the Notes from payments it receives under the Receivables. The SPV’s credit rating will be based on the credit quality of the German Customers and is further improved by the Receivables having a face value that is €10 million greater than the amounts owed on the Notes. That means that, even if 20% of the Receivables later defaults, there will still be sufficient funds for the SPV to pay the full principal and interest of the Notes. After the Notes and all fees are paid, any remaining funds will be transferred by the Fiscal Agent to the Originator.

In this example, the SPV’s credit quality will be significantly higher than the Originator’s, since the Receivables—and not the creditworthiness of the Originator—will be the basis for an investment in the Notes. The boost in credit quality means that the cost of borrowing—the interest rate—will be lower than if loans were made directly to the Originator. The net effect is to bypass the Cambodian country ceiling to which the Originator is otherwise subject and thereby potentially lower its total cost of borrowing.

*Necessary Legal Framework.* A key to successfully implementing receivables-based financing in Cambodia is a Cambodian bankruptcy framework that clearly separates the assets of the Obligor from those of the SPV. Once the Receivables are transferred to the SPV, they can no longer be subject to any claims by the Obligor’s creditors (in bankruptcy or otherwise). That includes clear rules on the avoidance of preferential transfers to ensure that the sale of the Receivables cannot be unwound in bankruptcy proceedings. Cambodia must

also ensure that the Receivables and their transfer to the SPV are enforceable. Standardizing documentation may enhance legal certainty and efficiency, further encouraging receivables-based transactions. In addition, Cambodia must have clear laws that define how security interests in the Receivables are created, perfected, and enforced. Laws that support the priority of claims on the Receivables must also be in place.