Private Sector Development

Statement by Shyam P. Bajpai, ADB
on Behalf of Development Partners

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On behalf of Cambodia's development partners, I am very pleased to make this statement on private sector development.

I would like to place this subject in context. In order to significantly reduce poverty by 2015, and to make an impact on non-income MDGs, Cambodia must achieve a sustainable growth rate of at least 7 percent.

Growth requires investment, increases in productivity, and better service delivery. With limited revenues, government does not have the finances to make these investments now, or in the proximate future. External assistance is unlikely to increase significantly. In any case, there is no recent example of a country having grown only, or even largely, through external assistance. Thus the only source of sizeable investment is the private sector, both domestic and foreign.

Cambodia's private sector consists largely of small, localized, informal enterprises predominantly in agriculture and agro-industry. By one estimate, the informal sector provides 80 percent of GDP and 95 per cent of employment. The small formal sector is dominated by garments and services, especially tourism, with a high degree of foreign ownership and management. Value-addition and productivity across all sectors is low. High transaction costs and limited benefits do not provide an incentive for firms to grow and enter the formal sector. These characteristics do not provide the basis for significant growth. The key issues for private sector development therefore are formalization, diversification and productivity increase.

The importance of private sector development is well recognized and clearly enunciated in the Rectangular Strategy. But declaring that the private sector is the engine of growth is only a beginning. Investors today have a wide range of options. They are practical people who look at what they face on the ground, not what they hear at investment promotion conferences. If they do not like what they see, they will go elsewhere. It is essential to ensure that what they hear is what they get.

We believe that in Cambodia the following are key to a positive investment climate:

1. Stability in the political, economic and policy regimes.
2. Open and fair competition in a market system with free access to information.
3. A legal and regulatory regime that is predictable, transparent, and consistently and fairly applied to all.
4. Lowest possible transaction costs of doing business, especially the elimination of corruption.
5. Adequate availability of finance, physical infrastructure and skilled labor.

Only under these conditions will Cambodia get the long-term, broad-based and diversified private investment that is essential for sustainable growth.

Development partners welcome the recent progress made in reform. Important recent achievements include entry to the WTO, the reduction of cost and time associated with simplification of company registration and import and export procedures, and the creation of the high-powered Steering Committee for Private Sector Development focusing on reform in three key areas: trade facilitation, small- and medium-sized enterprise (SME) development and public-private partnership. A program loan for promoting SME development through policy reform has been negotiated with the ADB. A major challenge will be to ensure that key reform measures are actually implemented on a sustained basis.

It is essential to build on this momentum, and to make more rapid progress. There are number of critical measures that can be taken in 2005 that will have an early impact. More importantly, they will build investor confidence that Cambodia is moving effectively from intentions to implementation in private sector development:

1. In trade facilitation, establish a single entry point, or Single Window, that will allow parties involved in trade to fulfill all import or export regulatory and documentary requirements with the submission of a single form.
2. In SME, the SME subcommittee to submit and the Council of Ministers to approve an SME development framework (including a single definition of SMEs to be used by all Government agencies) in coordination and consultation with other line ministries and private sector representatives.
3. In public-private partnership, the revised Private Participation in Infrastructure (PPI) process articulated in the draft Law on Concessions will be adopted by the Council of Ministers and the draft law will be submitted to the National Assembly during 2005.
4. Pass the Law on Commercial Arbitration and establish at least one recognized arbitration center, with appropriately trained staff and a roster of trained and respected arbitrators.

As Cambodia's development partners, we are committed to supporting the government's efforts in this direction. This commitment should be as concrete as the steps we ask the government to take. We will:

1. Work towards better coordinating our assistance under a common framework and in full collaboration with the government and the private sector.
2. Provide full technical support to the PSD Steering Committee and its sub-committees.
3. Based on visible achievements in reform, promote Cambodia as an investment destination.
4. Where feasible, consider direct support to PSD through products such as equity participation, direct non-sovereign loans, and political risk guarantees.

Cambodia is indeed at a crossroad. Against the 7 percent growth needed to reduce poverty, current projections show that growth in 2005 is likely to be nearer 2 percent and will thereafter gradually return to 6 percent by 2009 only if an extensive reform agenda is undertaken. There is therefore no choice but to move rapidly on reform. The private sector is indeed the engine that will power us on the right road to prosperity. Let us today agree to press hard on the accelerator for that engine.