

## **Cambodia Consultative Group Meeting, Phnom Penh, 2-3 March 2006**

### **Statement on Private Sector Development by the Delegation of the European Commission on behalf of the Donor Community**

**Your Excellency Samdech Hun Sen, Prime Minister, Your Excellency Keat Chhon, Senior Minister of Economy and Finance, Excellencies, Ladies and Gentlemen,**

Economic development is key to eradicating poverty, and private sector development is essential to foster economic growth. Donors therefore fully support the Royal Government of Cambodia's efforts to promote private sector development, and urge the Government to give its full attention to the implementation of the necessary reforms, while stressing the need to make them pro-poor.

A prerequisite for private sector development is a predictable and stable **legal and institutional framework** that guarantees a secure environment for investments. Only transparent and accountable regulations, and their unbiased enforcement, will enable the public sector effectively to play its proper supervisory role in the private sector, with the rule of law removing the corruption that still impedes Cambodia's development. We congratulate the Government on the passing of the amended Law on Investment and the implementing Sub Decrees. These will provide a clear and transparent process for investors. Additional laws the Government is preparing in order to implement its WTO accession commitments will provide further clarity and support.

For example, the establishment of legislation and institutions for commercial arbitration and the establishment of a commercial court are of great interest to both domestic and international businesses. Investors want to settle disputes as quickly and efficiently as possible. They need predictable rules, with knowledgeable bodies delivering appropriate verdicts. The full benefits of Cambodia's membership of the WTO will only materialise as the legislative agenda is passed and, critically, implemented.

Actual **Foreign Direct Investment** in Cambodia, rather than the value of approved FDI projects, has grown by an annual average of 19% over the last ten years. But Cambodia should be able to take better advantage of its human and natural resources, not to mention its location in a very dynamic region. Road infrastructure improvements have reduced transit times within Cambodia and cross-border agreements with neighbouring countries have been ratified. Through better road, air and, in the future, rail links, Cambodia will be more regionally integrated in the next five years. Capitalising fully on this regional integration will be both a challenge and an opportunity.

Domestic and foreign investment in Cambodia is highly concentrated - in garments, tourism and construction. Further **economic diversification** and especially, the development of a vibrant rural economy, are crucial for economic development and poverty reduction. We therefore welcome, at the recent launch of the 'Poverty Assessment 2006', the Prime Minister listed rural development as a Government priority.

The Government is implementing a trade facilitation programme to improve import and export processes at Cambodia's ports. Already, official and unofficial costs have been reduced and procedures streamlined. The next phase of operations will increase automation. This will immediately benefit the garment industry, but ultimately the benefits must realise the potential of the provinces by applying reforms throughout the value chain. Establishing clear **responsibilities** between the various government agencies, and full implementation of the **risk management** strategy are essential for the trade facilitation programme to succeed. Donors also recognise that these actions will require better coordination of their Trade Related Technical Assistance.

**Smuggling** also needs to be firmly addressed, as it impedes the growth of legitimate businesses and hampers particularly the development of the agricultural sector, which often cannot compete with smuggled products. In addition, the Royal Government can ill afford the loss of resources this practice entails.

The official launch in February of the **Small and Medium sized Enterprise Development Framework** was also an important step for private sector development. SMEs account for almost 99% of Cambodia's enterprises, most of them small and in the informal sector.

**More favourable conditions for SMEs** are needed at all levels, including improvement of company registration and licensing procedures, implementation of the law on commercial enterprises and elimination of illegal fees. Despite progress, poor governance and corruption remain constraints to growth. Unnecessarily excessive bureaucratic interference in business transactions is by nature biased against smaller companies, with limited resources. Poor governance stifles the creation of new businesses, inhibits the growth of young micro-enterprises, and discourages entry to the formal economy. Through its legal and regulatory reforms, the Government must ensure greater transparency for small entrepreneurs and an enabling environment for their growth, employment, and training.

As the SME Development Framework rightly points out, action must also be taken to improve access to medium- and longer-term financing, as well as business information for micro- and small enterprises. A sound financial system will enable the private sector to generate additional income and employment. Secure land titles are also of great importance, as they will provide SMEs with much-needed collateral and we very much support the implementation of a legal framework for land registration. Further developing the legal basis for financial tools to enable banks to increase financing to SMEs, such as through finance leasing, will also be important and we hope to see progress under the SME Development Framework.

To conclude, the bottom line is that, in today's competitive business environment, investors constantly re-evaluate their investment decisions. Other countries in the region are continuously working to improve their investment environment and Cambodia cannot afford to lag behind. We look forward to working with the Royal Government of Cambodia in its continued efforts to enable private sector development.