

## **Cambodia Outlook Conference 2008**

February 28, 2008

Phnom Penh, Cambodia

### ***Public-Private Partnerships as Drivers of Quality Development, Growth and Prosperity An Enabling Environment for Economic Diversification***

#### ***“A Private Sector Enabling Environment”***

Bretton G. Sciaroni<sup>1</sup>

Good Afternoon Ladies and Gentlemen,

When one looks at the title of this session, you can see it is comprised of a number of elements, which, when taken altogether, makes an imposing topic which hardly can be covered in the short time allotted to us this afternoon. Even the topic “public-private partnerships” has a number of components.

I will limit myself to one observation, and one proposal today for the sake of time. First, an observation: at the recent World Economic Forum in Switzerland, there was much talk about the sub-prime crisis and its impact in the US, and theories were floated about the “decoupling” of various economies from the US economy. I have pursued this matter with various visitors such as investment fund experts who now are visiting Cambodia in increasing numbers, and have heard that there would not be any impact here from a possible US recession, that we were so distant from the scene of economic dislocations that we need not worry.

I will only observe that one meaning of globalization is the interconnectedness of world economies, and countries are not immune from woes in other nations, especially one of the world’s largest economies. One only needs to consider that well over 80% of Cambodia’s exports are garments, and the majority of these exports are shipped to the United States. An economic downturn in that market can have an immediate effect in a seemingly remote location such as Cambodia.

For many years now, both the business community and the Royal Government of Cambodia have been talking about the need for broadening the base of the economy. While we are glad that the garment industry is here, employing hundreds of thousands of Cambodians in its factories and support industries and services, contributing millions of dollars in revenue to the Royal Government, and putting millions of dollars into the

---

<sup>1</sup> Bretton G. Sciaroni is Senior Partner of Sciaroni & Associates. He also serves as Chairman of the International Business Club, Chairman of the American Cambodian Business Council, and Co-Chairman of the Working Group on Law, Tax and Good Governance. The views expressed here are his alone.

economy, we are far too reliant on this sector. Diversification is necessary for economic stability and growth.

Thus, we need to attract and encourage the development of different sectors of the economy. How can this be done? What public-private partnerships can be encouraged to help growth and broadening the base of the economy?

There are many positive aspects about investing in Cambodia. Economic growth and political stability have been hallmarks of Cambodia in recent years. The investment environment includes the ability to form 100% foreign owned companies, no restrictions on the transfer of funds, and tax benefits for investment companies.

Today I am going to focus on one major selling point for Cambodia concerning public-private partnerships. When visitors from the private sector and business community alike come to Cambodia, I inform them of a great partnership established for nearly a decade between business and government, which is known as the Government-Private Sector Forum. Initiated in 1999 by the Prime Minister, it has routinely been improving dialogue and understanding between the private sector and the Royal Government, solving problems and providing a forum for new initiatives.

In many countries, the Forum and associated working groups would not be necessary as there are other mechanisms available for public-private dialogue. In other democratic societies, there are multiple sources of access to information about laws and policies, with newspapers, magazines, specialized publications as well as congressional reports, hearings, and governmental publications, and other open sources of information. And for the citizenry in such societies, there are multiple sources of access to the policy-making and legislative process. There are means by which citizens can influence both the legislative and executive branches of government. And there many organizations which citizens can join that have full time lobbying operations in their capitals to disseminate the views of the private sector and influence laws and policies as they are being formulated.

For Cambodia, we do not yet have many means to influence laws and policies. But, because of the initiative of the Prime Minister, Samdech Akkak Moha Sena Padei Techo Hun Sen, we do have one credible and successful means by which we can influence the actions of the Royal Government. The Government-Private Sector Forum and its Working Groups provides the critical means for business to have input into the legislative and policy process.

For those of you who are not familiar with this mechanism, the Forum was established in 1999. Initially started as a meeting between the Council of Ministers and various business associations, the meetings have occurred since that time on a biannual basis. Within a year seven Private Sector Working Groups were formed, mostly on a sectoral basis. (The original seven later was expanded to eight.) Today, the PSWG include Banking and Finance, Tourism, Manufacturing and SMEs, Agriculture, Export Processing, Energy & Infrastructure, Industrial Relations, and Law, Tax and Good

Governance. The working groups met on a regular basis between the fora, and evolved into the principal mechanism for solving problems and providing dialogue between government officials and the business community.

For potential investors, it is an important institution because it is another and very visible means by which the Royal Government indicates its positive attitude toward investment. It is one thing to tell potential investors that officials are open to investment and problem-solving for business, but this mechanism demonstrates in an authoritative and incontrovertible way their commitment.

The success that the Forum has enjoyed cannot be doubted. For those with doubts, I refer to an IFC review of the Forum, published last year. The IFC, which has provided a coordinating office since 2002, did a review and analysis of the Forum for the previous five years.<sup>2</sup> While the report discussed its organizational effectiveness and importance to the reform process, it also cited various criteria by which the Forum's economic impact can be judged. These include:

- The annual valuation of the private sector's *pro bono* input into the Forum is US\$350,000, which compares favorably with the donor funding, which was US\$160,000.
- Over the five years of the Forum, the measurable economic impact in terms of private sector savings was US\$69.2 million.
- The return on investment for each dollar invested in the Forum by the IFC and donors was at least US\$105.

In addition, the IFC produced a very impressive matrix of issues discussed at the working groups and Forum and the track record is very positive.

However, with this impressive record of success as a background, the Forum is at a crossroads. With the economy surging in recent years, it has occurred to both the public and private sector that the role played by the IFC, the coordinating body for the business community, should pass to the private sector. In no advanced economy does the public sector provide the basis for private sector interaction with the government.

Remarkably, this concept was endorsed and even proposed by a World Bank representative at the workshop organized to release the results of the IFC study. Rarely do international institutions call for the termination of a program, even successful ones. But the public sector representative took the lead at the IFC Workshop "Government-Private Sector Evaluation" (July 19, 2007).

As a business community representative at the same workshop, I endorsed the idea, for this is a role that the private sector typically plays in economies world-wide. But at the workshop, the proposal drew objections from both members of the business

---

<sup>2</sup> IFC, "Impact Assessment of the Cambodian Government-Private Sector Forum," (Results Summary, July 2007). Presumably this IFC review only covers the years that the IFC was involved in the process as the private sector coordinator, and does not cover the Forum since its inception in 1999.

community and the representative of Royal Government. Their objections were based on capacity. It was recognized that the capacity does not exist in the business community today to assume the role heretofore played by the IFC.

Nevertheless, at the next Forum on September 4, 2007, the Prime Minister endorsed the transition from the IFC and said that it should be transferred to the Cambodia Chamber of Commerce (CCC).<sup>3</sup> In fact, I had made the same suggestion at the IFC workshop the previous July. In theory, the CCC is supposed to represent all business in Cambodia and therefore should play the role of the coordinating body. And there is no doubt that ultimately the private sector side of the Forum should be located at the Chamber. However, the caveat must be added that the Chamber of Commerce does not now play any role in the Forum. Furthermore, it lacks the capacity and the interest in being involved in the Forum and working group process.

The shortcomings of the CCC as currently constituted have been documented. In 2006 AusAid commissioned a study of the Chamber and concluded that it had little capacity.<sup>4</sup> The Chamber scored low in terms of its legal mandate – gathering information related to business development, improving efficiency of businesses operating in various sectors of the economy, representing the business community and facilitating coordination with the government, and improving accountability. The report summarized a number of its deficiencies:

“... the chamber’s most significant weakness is its inefficient management structure. The organizations structure currently lacks clarity and its proposed new one suggests an ambitious development agenda for which it is not clear from where capabilities come. The respective duties of the Executive Board and the secretariat are not sufficiently defined, occasionally creating unsettling overlaps. This is coupled with a lack of strategic planning capability. Further challenges for the capital’s chamber include low appeal to SMEs, insufficient staff capacity, unclear role definition and poor systems (no member database, and weak, if any, financial systems.) Financial transparency is low and whilst PPCC does manage to cover its costs and make a surplus each year, this is with income dominated by sizable donations to newly elected office-holders. This source of income also acts as a disincentive to increase revenue from new or improved services.”

The report contains a number of other observations in a similar vein, and it is easy to see why there is little enthusiasm in the Chamber for taking on the role of the coordinating role played by the IFC in supporting the private sector’s involvement in the Forum.

We understand that the IFC is already starting to work with the Chamber to improve its functioning and ability to take the Forum Coordinating Bureaus as a new responsibility, as it should. Nevertheless, the Chamber does not seem to provide an immediate solution to the survival of the Forum and its long-term sustainability. So what

---

<sup>3</sup> IFC, “Prime Minister’s Opening & Concluding Remarks at the 12<sup>th</sup> G-PSF September 2007.”

<sup>4</sup> “Cambodia’s Provincial Chambers of Commerce Needs Assessment and Technical Assistance Program Recommendations,” (Aus/Aid; March 2006)

is the solution of the problem posed by the World Bank, the private sector, and Royal Government?

What is needed is a road map to how the transition should be done so that the business community can take over the role of the coordinating body that is played by the IFC today. So I would like to suggest a path by which the objective can be achieved. That path would be to strengthen the stakeholders with the greatest stake in the Forum – the Private Sector Working Groups (PSWGs), with an eye toward transitioning into the CCC at some point in the future.

The first phase would occur over the next three years. In this period, an assessment would be made of the eight Private Sector Working Groups. This assessment would take into consideration the possible sources of support for the groups. This support would include financial, administrative (including staffing), and substantive support. The possible sources of support would include business associations, individual businesses, and other possible sources of support. For example, today, the PSWG that I co-chair receives limited support from the International Business Club. This support must be upgraded in the future, and other sources of support should be brought into play as well.

This initial assessment would be no small matter, because it would involve determining what the potential sources of support are and their current capabilities as well. After this assessment is made, then technical assistance should be rendered so that the support mechanisms for each PSWG could be strengthened. This could include seminars in staffing, fund-raising, administration, communications, and other aspects of providing those elements necessary for building sustainable support systems for the eight PSWGs. It would mean working with the PSWGs and their possible supporting individuals, businesses, and organizations.

The objective would be that at the end of three years each PSWG would be self-sustaining. The skills and requirements would be spread through the business community so that each can operate and sustain itself.

The following two years would be dedicated to working to meld the support systems of each PSWG into a coordinating body. Each would contribute staff, financial support etc. to a central office, which would operate closely with and actually within the IFC coordinating office. Thus, common staff and funding could be used to support all 8 PSWGs. The administration and financial controls would be put into place so that one entity can assist all of the working groups. At the end of the two years, this central office would take over for the IFC in coordinating the activities of the private sector's commitment to the Forum. The central office would be overseen by the Executive Co-Chairs of the PSWGs.

Finally, at that point in the future at which the Chamber is transparent, accountable, and interested in assuming a leadership role in the Forum, the central office could come under the aegis of the Chamber. At this juncture, there is no indication that

reform at the Chamber is on its agenda, and so we must necessarily focus on the survival and sustainability of the PSWGs and the Forum.

We already have the most critical element of the success and sustainability of the PSWGs and the Forum – we have numerous people in the business community willing to devote their valuable time to working with their governmental counterparts to solve problems and improve the economy. But what is lacking is capacity. We do not know how to make the PSWGs and support for the Forum sustainable in the long run. It is here that we need assistance.

That naturally leads to the question regarding how the five year program outlined above can occur. How the transition can be achieved? As of this time, the IFC has agreed to fund the coordinating role for another five years, but it would seem that this is the sunset period for its role in the coordinating body and that this should be seen as a period of transition. So while the IFC is dedicated to maintaining the mechanism, we will need other technical support to design and support the creation of the mechanism that will replace the IFC. The technical support should come from those who have expertise in providing support for business activities such as this one, and also in business associations. Clearly, the working groups and the IFC and the other donors involved in the transition will all have to work together to ensure the orderly transition and the take-over of the coordinating body by the private sector.

It should be noted that, according to the IFC, they are already in the process of handing the Coordinating Bureau over to the private sector. It is unclear to me how they can maintain the same level of service to the PSWGs and also provide for the transition with the same budget as before, when no transition was occurring, but this is a moving target.

So what will be the future of the Forum? Aside from its current mission, which is providing a mechanism for exchange of information with the government and problem-solving, there should be new missions to be undertaken by the private sector working groups. These include:

- Establishment of a Focal Point in Each Province: There should be a single person or office to receive problems encountered in business and forward to the Phnom Penh-based Forum for resolution. Because the biannual forum is nationally televised, everyone in Cambodia should be familiar with it. However, only businesses in Phnom Penh can easily access the Forum and working group process. So focal points should be established to forward issues to the national level.
- Regional Fora: The Forum could be held in regional centers so as to further extend its reach and familiarize businesses in the provinces with the dialogue.
- Private Sector Initiatives: In the future, the PSWGs should be more proactive in making proposals to improve the business climate. In the past, the agenda has been dominated by problem-solving. In the future, with adequate staffing and

resources, the business community should be taking the initiative to introduce new policy initiatives or proposals to improve the economy.

- Public Sector Advisory Role: In the future, the PSWGs should take a more active role in providing input into major public policy initiatives. A recent example was the submission to the Financial Sector Blueprint 2006-2015. In a public consultation in August 2006, the co-sponsors of this document (the National Bank of Cambodia, the Ministry of Economy and Finance, and the ADB) called for stakeholder participation. In response, the PSWGs submitted a lengthy paper with comments and recommendations. More of these kinds of initiatives should be undertaken in the future.

In conclusion, the Forum is a mechanism that works. Its success has been demonstrated in the analysis that has already been conducted by the IFC. In fact, there are two virtues of the Forum. The first is that it improves the economy. So private sector development is aided by this process. In addition, it assists good governance. It shows the government working in partnership with the business community for the benefit of the entire country in an open and transparent manner.

But we are at a crossroads, and decisions need to be made now to determine its future. It must be made independent of public funding, and sustainable by the private sector. But in order to make this transition, we need help. A five-year program is needed, which time should see us through the end of IFC involvement.

The ongoing success of the Forum remains a selling point in order to bring new business to Cambodia. It demonstrates the openness of the economic and political system to business and the accessibility of government officials who are willing to solve problems encountered by businessmen. If we are serious about broadening the base of the economy, this is an institution worthy of saving, of maintaining, and of expansion in the future.

Thank you for your attention.