

Outlook Conference
Presentation outline for Governance and Private Sector Development Challenges
by Eng Netra drafted @ Feb 22

1. This presentation will provide a brief outline of key features of Cambodian governance system followed by a discussion of its implication on private sector development and finally some tactics to address some of these challenges.
2. Cambodia has enjoyed impressive economic growth over the past fifteen years. Peace arising from the ending of the war and subsequent achievement of stability allowed rapid expansion of economic activity in all sectors has assisted the government to achieve this growth.
3. This success has been achieved despite the challenging situation with respect to human rights, rule of law and overall governance quality.
4. Quality of Cambodian governance is easy to criticize but very complex and difficult to reform. Some of the major challenges are:
5. CDRI poverty studies show that the poor are still far from the reach and impact of policy and often are excluded from accessing basic public service delivery. The poor also experience unequal treatment and adversely impacted by corruption activities of government officials. The studies further indicated that elite capture and patronage network (*kse* and *knornng*) influence and exert their power in whatever way they want, limiting the poor from having access to natural resources and decision making.
6. Other CDRI studies on accountability of sub-national governance indicated that Cambodian governance system has limited success to effectively manage public budget with clear rational and linkage to planning, and seems to fail in recruiting and rewarding qualified public officials according to meritocratic principles. The studies also illuminate the weakness of the formal/technical system and the comparative strengths of the informal/patronage network of Cambodian governance at all levels. Moreover, informal/patronage system has been strengthened and institutionalized over the past decades.
7. There are also lots of problems in revenue mobilization, in which revenue collection through rules-based procedures such as formal taxation or excise duty represents a small amount of the total budget. However, currently a large proportion of funds presently flow through patronage and informal channels not the rules-based sector in order to sustain loyalties and networks.
8. Another unique development observation of post-conflict Cambodia is the promotion of *saboraschon* activities, in sponsoring public works and development projects. This kind of development has contributed significantly to infrastructure, in terms of roads, temples, schools, and irrigated water. In *saboraschon* development, the poor take what they are given, and are expected to be grateful, precluding bottom-up mechanisms of accountability that can ensure that money is well-spent.
9. Overall, what is the impact on private sector development? Data from the World Bank's Doing Business 2008 ranked Cambodia 145 out of 178 countries for its ease of doing business. The report also shows that in comparison with the previous year, Cambodia improves slightly in regards to starting a business, dealing with license, and surprisingly employing workers, but badly from the perspective of foreign investors, on policy uncertainty, corruption, property rights, courts and crime.

10. The major problems for investors are associated with property rights and enforcement of contracts. Largely because the court system is subordinate to networks of loyalty and patronage, and therefore disputes with powerful figures within those networks can have unpredictable costs and consequences.
11. Cambodia can offer a secure foundation for certain types of business activity in Cambodia, provided that businesses have the appropriate connections with government. In the field of foreign direct investment, the recent influx of investment from China by companies that have forged strong relations with Cambodian firms or the Cambodian government shows that the investment climate in Cambodia is not anti-business per se.
12. Overcoming these problems and achieving the poverty reduction goals remain a great challenge for Cambodia. However some recent reform initiatives (namely decentralisation and public finance management) open up some hopes which worth examine and build on. Possible specific tactics are:
13. *The government continues to focus on ensuring stability* and that would mean that any reforms and attempted changes will be slow and incremental and maybe ad hoc.
14. *Enhancing the Decentralisation reform* in which indirectly elected councils at district and provincial will be established with adequate power and resources with a wide range of functions including natural resource management, agriculture, service delivery, land use, and economic development. Over time these councils will be the central gravity for changes and may demand for government's response to local articulated needs.
15. *Build on the success of Public Financial Reform* process of implementation by the Ministry of Economics and Finance, which aims to rationalize budgets rendering public finances both more transparent and more effective. Revenue mobilization and public financial management are areas of state capacity that need critical strengthening in order to weaken neo-patrimonial governance while also represent important revenue source for the government to be responsive to its citizens in delivering public services.
16. *Enhancing the Cambodian Government-Private Sector Forum, and its eight Sectoral Working Groups*, which has proven to be an effective forum for direct and frank communication between the most senior levels of government and the people who actually do business in Cambodia. These are serious commitment and useful platforms that will create stronger accountability and responsiveness from the government to addressing private sector's challenges.
17. *Growth and rising of new business leaders and elites* who represent some interest, over time through their close relationship with the government, will demand for certain types of reforms from the government.