

# Cambodia 2008 and Beyond: Public-Private Partnership

*Eng Netra summarises the main issues discussed at the fourth session of the Outlook Conference and highlights the frameworks for government-private sector partnership already in place and the need for independent mechanisms to promote coordination and cooperation between business and government.\**

The discussion started with an overview of government policy and initiatives to enable private sector development presented by Cham Prasith, senior minister and minister of Commerce. Bretton G. Sciaroni, from the International Business Club of Cambodia, discussed the important and successful mechanisms for bringing government and the private sector together to exchange views and work out ways forward, and provided suggestions for future mechanisms. The third presentation, by Eng Netra from CDRI, outlined some major governance challenges, their implications for private sector development and measures to address some of them. Finally, Tim Duffy, the director of Oxiana company, gave an example of how the private sector works and contributes to and influences the community and development in Cambodia. Following are highlights of the four presentations.

## **Public-Private Partnership in Cambodia's Future**

*Cham Prasidh, senior minister and minister of Commerce*

The Cambodian government is very receptive to private sector development. There are a number of mechanisms in place to facilitate it. First, twice a year the prime minister meets with foreign and local investors in the Government-Private Sector Forum and addresses issues of interest to the private sector. This mechanism has been institutionalised since 2000. In addition to the Government-Private Sector Forums, there are eight government-private sector working groups that meet monthly to tackle urgent issues. Major issues from these working groups are submitted to the prime minister during the forums.

Second, the government has set up a Private Sector Development Steering Committee, and three subcommittees on: investment climate and private participation in infrastructure; trade development and trade-related investment; and small and medium enterprises.

Third, Cambodia has adopted a liberal trade regime designed to encourage FDI and support foreign companies

in setting up businesses. This regime allows local trading companies, either joint venture or 100 percent foreign companies, to import and export. There is no price control of goods by the government. There is no discrimination or differentiation between state-owned enterprises and private companies. The government does not allow foreign ownership of land, but it is possible to obtain a lease of up to 99 years.

Fourth, the government has adopted a sector-wide approach for trade in order to coordinate the efforts and resources of government, local actors and development partners on a single and shared strategy to develop Cambodia's trade. Three pillars of the approach are: reforms and related issues, product development and services, and capacity building. Each of the pillars has a design team with diversified membership from government, development partners and civil society. These pillars will look into how to assist our products and their markets; otherwise people just produce what they have always produced, and there is no market for it.

Finally, there are some ongoing challenges. These include regional integration of markets and reduction of production costs. For example, how can Cambodia compete, and how can we diversify when production costs, especially for infrastructure (e.g. electricity) are so high? Electricity is critical for education as well as for the private sector. The government has approved a number of electricity projects throughout the country to address the problem. There are initiatives to create special economic processing zones for diversification and job creation and to obtain electricity from neighbouring countries.

## **A Private Sector Enabling Environment**

*Bretton G. Sciaroni, senior partner of Sciaroni & Associates and chairperson of the International Business Club*

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

One major selling point for Cambodia is the partnership established for nearly a decade between business and government, the Government-Private Sector Forum. This forum is seen as means to influence laws and policies and to seek action from the government.

For potential investors, it is an important institution because it is a very visible indication of the government's positive attitude toward investment. The success of the forum, according to an International Finance Corporation (IFC) review published last year, indicates its effectiveness and importance to the reform process. Among the various criteria by which the forum's economic impact can be judged, the annual value of the private sector's pro bono

\* Ms Eng Netra is CDRI research manager for Democratic Governance and Public Sector Reform.

input into the forum is US\$350,000, which compares favourably with donor funding, which is US\$160,000.

However, with this impressive record as a background, the forum is at a crossroads. What is needed is a road map as to how the transition should be done so that the business community can take over the coordinating role that is played by the IFC today. So I would like to suggest a path by which that objective can be achieved. That would be to strengthen those with the greatest stake in the forum—the Private Sector Working Groups (PSWGs) and the Cambodian Chamber of Commerce—to take over the coordinating role at some point in the future.

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 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 them to the Phnom Penh-based forum for resolution. Because the biannual forum is nationally televised, everyone in Cambodia should be familiar with it.
- *Regional forums:* The forum could be held in regional centres to extend its reach and familiarise businesses in the provinces with the dialogue.
- *Private sector initiatives:* The PSWGs should be more proactive in making proposals to improve the business climate. In the future, with adequate staffing and resources, the business community should be taking the initiative to introduce policy initiatives or proposals to improve the economy.
- *Public sector advisory role:* The PSWGs should be more active in providing input to major public policy. A recent example was the submission to the Financial Sector Blueprint 2006–2015.

### **Governance and Private Sector Development Challenges**

#### ***Eng Netra, research manager, CDRI***

Cambodia has enjoyed impressive economic growth over the past 15 years. Peace and the subsequent stability allowed rapid expansion of economic activity in all sectors. This success has been achieved despite a challenging situation with respect to human rights, rule of law and overall governance quality. Cambodian governance is easy to criticise but very complex and difficult to reform. Some of the major challenges follow.

CDRI poverty studies show that the poor are still far from the reach of policy and are often excluded from basic public services. The poor also experience unequal treatment and are adversely impacted by corruption of government officials. The studies further indicate that elite capture and patronage networks exert influence and

power as they wish, limiting access of the poor to natural resources and decision making. Other CDRI studies on accountability of sub-national government indicate that the Cambodian governance system has limited success in managing public funds rationally and with clear linkage to planning, and seems to fail in recruiting and rewarding qualified public officials according to merit.

While the World Bank's "Doing Business 2008" ranked Cambodia 145 out of 178 countries for ease of doing business, it noted that Cambodia had improved slightly in relation to starting a business, licensing and employing workers, but did not rank well on policy certainty, corruption, property rights, courts and crime. However, in plenary discussion at the 2008 Cambodia Outlook Conference, the role and influence of such comparative global indexes of factors contributing to a positive business environment, and related surveys on governance and corruption, were seen as being of questionable value by both Cambodian government and private sector representatives. They questioned whether such surveys actually give any real or useful picture of opportunities for private sector development and entrepreneurialism, and raised serious questions about their methodologies and legitimacy.

Overcoming constraints to private sector development in achieving poverty reduction goals remain challenging. However, some recent reform initiatives (decentralisation and public finance management) are positive and worth building on. Some specific measures are:

- *The government continues to focus on ensuring stability.* This would mean that any reforms and attempted changes would be incremental and maybe ad hoc.
- *Enhancing the decentralisation reform* by establishing indirectly elected district and provincial councils with adequate power and resources and a wide range of functions including natural resource management, assistance to agriculture, service delivery, land use planning and management and assistance to economic development.
- *Building on the success of public financial reform* by the Ministry of Economics and Finance, which aims to rationalise budgets, rendering public finances both more transparent and more effective. Important aspects will include revenue mobilisation at all levels of government into the state budget, and the strengthening of public financial management so that government can respond to citizens' demand for public services.
- *Enhancing the Government-Private Sector Forum, and its eight Private Sector Working Groups,* which have proven effective for direct and frank communication between the most senior levels of government and people who do business in Cambodia. These are serious and useful platforms that can create

stronger accountability and responsiveness from the government to private sector challenges.

- *Rising new business leaders and elites*, over time through their close relationship with the government, may demand certain types of reform.

### **Quality Minerals Exploration and Mining Development** **Tim Duffy, general manager, Finance Asia, Oxiana Limited**

*Oxiana overview:* Oxiana is a successful growing company with operating mines, new projects under development and a portfolio of exploration projects. Oxiana owns and operates the Sepon gold and copper mines in Laos and the Golden Grove base and precious metals operation in Western Australia as well as being involved in exploration and project development in Cambodia, China, Indonesia and Thailand.

*Vision:* Our vision is to grow a major mining company. We aim to achieve this through growth in our base and precious metals business as well as through progressive diversification. Our focus is on Asia, Pacific and Australia as well as other domains. Our assets are high margin, long-life, with plenty of upside and our company has a strong pipeline of development projects.

*The global economy and opportunities for mineral resource development:* Oxiana's focus on

Asia means that it is well placed in the world's fastest growing region. However, Asia's growth has not flowed through to the mining sector. Asia consumes 51 percent of the world's copper but produces only 15 percent. The countries of the Pacific Rim are also blessed with high mineral resource potential. Having mining operations located in Asia means that we can deliver our product more quickly and with reduced transportation cost into these dynamic markets.

*The benefits of mining to developing economies:* Well-calibrated mining legislation can lead to stable long-term GDP growth, as demonstrated by the example of Ghana. Since Ghana introduced its mineral code in the 1980s, erratic growth patterns and historical periods of deep recession have all but been eliminated.

*The Laos example:* In Laos, Oxiana has been able to develop a world-class mining operation on time and within budget in what was one of the remotest areas of the country. The Sepon operation is now one of the largest mining projects in mainland south-east Asia. Our approach to project development aims to ensure that the benefits flow to all stakeholders.

*Cambodia:* Oxiana is exploring in eastern Cambodia, primarily for gold related to intrusive (granites) systems as well as copper and other metals. Our head office is in Phnom Penh, and we currently employ 60-plus

people (including contractors). During exploration, environmental impact is low, but international standards need to be followed and operations closely monitored.

*Conclusion:* Oxiana is ready for a period of extended worldwide economic expansion driven by Asia. We are looking for resource development opportunities with a view to delivering sustainable economic benefits for nations.

### **Summary of Key Contents of the Session**

The main highlights of this session were:

Frameworks for government-private sector dialogue, partnership and joint planning are already in place, including the Government-Private Sector Forum, which is perceived very positively by business.

However, mechanisms to promote coordination and cooperation between business and government cannot continue to be led by donors, but need to be independent. One option proposed is to strengthen the Cambodian Chamber of Commerce—although currently the CCC lacks the capacity to take up such a leadership role.

Another option proposed was to strengthen the eight private sector working groups, with the longer term goal of merging them into a single independent bureau.

Decentralisation to the provincial level to promote government-business cooperation and establishment of regional forums are also important to stronger regional businesses environments.

Challenges to private sector development were addressed from two different perspectives. The first focussed on practical measures such as regional integration of markets and reduction of production costs. Secondly, there remain governance challenges that impact on the private sector and its capacity to do business.

Governance challenges for private sector development include difficulties with property rights and enforcement of contracts. However, there are also positive developments. These include decentralisation and devolution of planning, public sector financial reform and the private sector-government partnership arrangements. A key emerging trend is the growth and rise of new business leaders and elites who are likely to ask for certain types of reform and may contribute to good governance.

One emerging opportunity that is under-explored is mining. Asia is driving demand for minerals, and there are opportunities to establish mines and deliver mineral products to Asian countries. If projects are undertaken responsibly and with social and environmental accountability, there is significant potential for Cambodia to benefit in terms of infrastructure development, capacity building and poverty reduction. This is still in the exploratory phase.