



# Cambodia Outlook Brief\*

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## Private Sector Participation in Economic Development: Cambodian and Regional Perspectives<sup>1</sup>

“Today, there is hardly a country in the world, regardless of its political system, that can achieve progress without the foundation of an active business community.”

*Mr Anangga W. Roosdiono*

*Chairman, ASEAN Business Advisory Committee, Indonesia*

### The Private Sector as Growth Driver

The private sector has been the driving force behind Cambodia's transition. The liberalisation of the country's economy in the early 1990s unleashed a flurry of investment in land, construction and later garments.

Skeletal institutional and regulatory frameworks laid down in the 1990s provided a framework for private investment, but their limited capacity for enforcement left markets prone to rent seeking. Consequently, although growth was high, it was uneven, unstable and inequitable.

The government response has been to spend the past decade building the requisite institutional capacity for private investment to operate in a secure, transparent and regulated fashion. Foreign direct investment has soared as targeted institution building has provided the assurances necessary for small and large scale investment.

The experience of recent years has profoundly demonstrated that government must work in harmony with the private sector if it is to engender sustainable growth. Frameworks must promote public-private

participation so that policy action represents economic imperatives and, vice-versa, that the private sector is mobilised to fulfil a vision of diversified, sustainable, inclusive growth and regional integration.

### Regional Networks and the Private Sector

The cooperation afforded by a strong ASEAN promises opportunities for business across the region. At the same time, the destiny of the fast growing ASEAN region is intertwined with the productivity of its businesses. It is therefore crucial that countries in the region work together to create an institutional and regulatory environment that enables the private sector to flourish.

The ASEAN region has gone through fundamental changes over the past decades. A once hostile political landscape now embraces the private sector. Nations have spent billions of dollars upgrading infrastructure and developing the institutions and policies within which business has thrived. The future will see the rise of regionalism – states working together to enhance their private sector profiles through participation in a single market ASEAN Economic Community.

ASEAN facilitates the deepening and widening of production and distribution networks, enhancing efficiency, spurring innovation and expanding markets for private sector actors. But at present, lack of coordination between member states, cumbersome bureaucratic processes and tangled regulations limit ASEAN's impact.

<sup>1</sup> This is a summary of the 2012 Cambodia Outlook Conference presentations by Mr Anangga W. Roosdiono, Chairman, ASEAN Business Advisory Council, Indonesia; Ms Sandra D'Amico, Managing Director, HR Inc. Cambodia, and Secretary General, Cambodian Federation of Employers and Business Associations (CAMFEBA); Dr Wayne McCullum, Director of Conservation, Song Saa Private Island.

To remove constraints to interconnectivity there has been a focus on developing regional infrastructure, streamlining associated bureaucracies and enacting institutional and regulatory frameworks aimed at promoting opportunities for intra-regional private sector activity. Free trade agreements (FTAs) have acted as catalysts, reducing the physical and institutional barriers between markets, thus opening businesses to new sources of demand.

Several countries in the region, notably Malaysia, Singapore and Thailand, now boast companies that have been able to take advantage of the economic growth and integration occurring in ASEAN to become multinationals. With sound policy and commitment, other states across the region will hopefully follow suit.

If the Cambodian private sector is to join the ASEAN business elite, it must develop a better understanding of the competitive and comparative strengths of its economy and play to them.

Research is of fundamental importance in overcoming information deficiencies that limit the scope for private sector-enhancing policy. Cambodia's network of academic and research institutions must be mobilised to assess the constraints facing Cambodian businesses in accessing intra-regional economic networks. The research must be policy focused and utilise a subsector-based analytical framework.

Just as important are mechanisms to feed these research findings into policy. If institutional transaction costs can be eliminated and policy represents reality, a well prepared private sector poised to seize the opportunities afforded by regional interconnectivity will be the end result.

Cambodia is pioneering innovative frameworks for public-private sector cooperation in infrastructure development projects that can be used as best-practice approaches across the region. The railway rehabilitation project is a striking manifestation of Cambodia's region-focused policy agenda: not only is it providing the infrastructure to better link Cambodian businesses to regional markets, it is also a successful example of a public-private partnership that can be replicated across the region.

The frameworks underpinning public-private partnerships in Cambodia need to be scaled-up to enable greater regional cooperation. For example, a region-wide transparent institutional framework to facilitate public-private participation in large-scale infrastructure projects would be able to draw on larger networks and thus research a larger pool of companies. This would represent better value for governments and also provide incentives for the private sector to increase efficiency.

The ASEAN Business Advisory Council, meeting for the first time this April, will provide a valuable forum for the needs of private sector development in a regional context. This important initiative should be seized upon by business and government alike. It represents an important opportunity to promote regional cooperation and coordination in ASEAN's growing business networks.

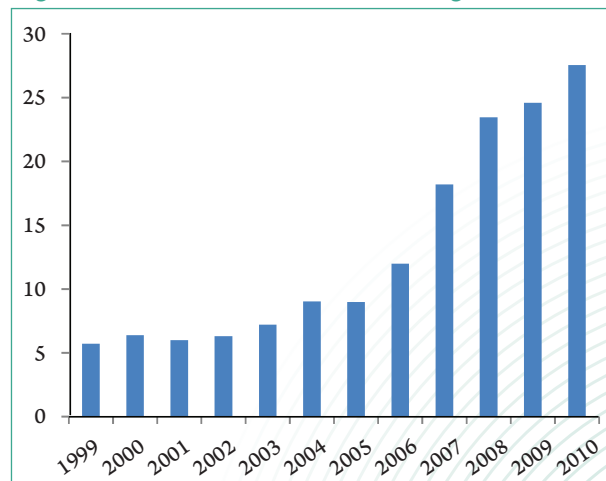
The private sector is also a highly effective tool to promote inclusive development across the region. Working towards universal equality of opportunity is a challenge that business and governments must tackle together. The state is limited in the employment it can provide and ultimately it is up to small, medium and big business to provide individuals with livelihood opportunities that collectively drive the economy forward.

To support business in this endeavour, the ASEAN Framework for Equitable Economic Development was promulgated in 2011. It entails practical programmes that mobilise the private sector to help bridge development gaps, and encourage wider participation in ASEAN's integration.

Critical to equitable development is the expansion of economic opportunities for low-income households in ASEAN member countries. Providing access to formal financial institutions is particularly important in harnessing latent entrepreneurialism.

Cambodia has been highly successful in increasing formal credit across society, greatly benefiting small and medium enterprises (SMEs) in particular (Figure 1). However, SMEs still face a number of problems that limit their market participation, not least of which is high transport costs. Participation in regional initiatives regarding cross-border trade can significantly reduce costs for SMEs, thus increasing their competitiveness

**Figure 1: Formal Credit as a Percentage of GDP**



Source: World Development Indicators (2012)

across the region and their capacity to create job opportunities.

### Redressing the Skills-Needs Labour Market Mismatch

A constraint to increasing productivity in the private sector and enabling it to foment inclusive, diversified growth, is an under- and inappropriately skilled workforce.

Equipping Cambodians with the right skills will help diversify the economy away from its narrow economic base and provide employment opportunities in industries such as agro-processing, non-garment manufacturing and a range of services. It will also provide employment opportunities across sectors where potential poverty impacts are significant.

An appropriately skilled workforce would also increase the ability of industry and government to respond rapidly to future crises by re-skilling or up-skilling. A dynamic, flexible workforce will be able to quickly adapt to changing economic environments.

To deliver an appropriately skilled workforce, policy needs to be pragmatic and representative of economic realities. Inefficient information transfers result in sub-optimal labour market efficiency, and are at the root of the current skills-needs mismatch. Specifically, the lack of institutional mechanisms to coordinate between policy-makers and business leaders constrains labour market efficiency.

There is also a general lack of understanding about labour market systems within Cambodia’s workforce, a lack of information for youth, parents and job seekers, and weak or non-existent linkages among key institutions responsible for instilling the skills necessary to drive the workforce forward.

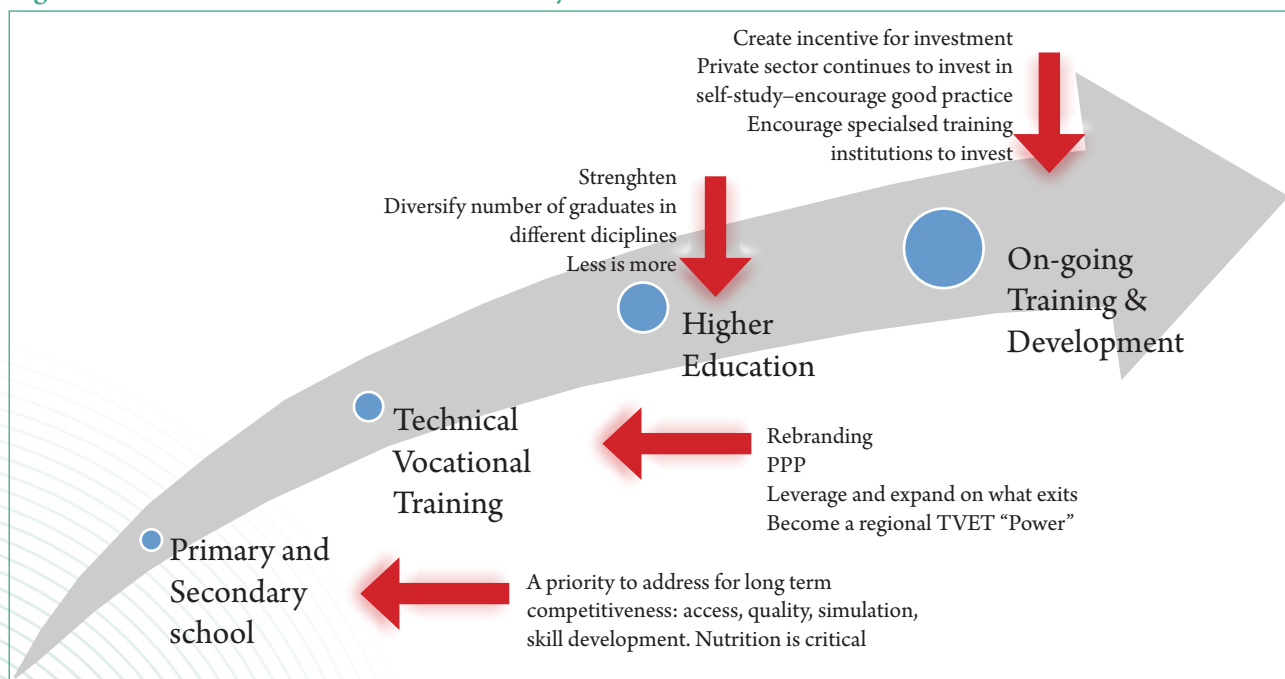
Policies should focus on eliminating these information asymmetries. For example, mechanisms to provide more internship opportunities and practical work experience, such as study tours, would enable young people to familiarise themselves with skills that would enhance their employability.

Managing expectations and perceptions of family members who make decisions around education and investment in education is also important. This will prevent potentially scarce family resources being wasted on pursuits that will pay limited dividends in terms of future earnings.

A crucial arena of public-private sector cooperation should involve Technical and Vocational Education and Training (TVET). TVET provides the workforce with the skills necessary to drive and diversify Cambodia’s economy; it is a bridge for young people to enter employment by gaining skills that employers need. It is thus important that private sector needs are represented in TVET curricula, and frameworks that facilitate this kind of cooperation are developed.

Public-private partnerships in TVET could provide Cambodia with a great competitive advantage in the region. The country’s strategic placement at the heart

Figure 2: A Model for Cambodia’s Education System



Source: Ms D’Amico’s Cambodia Outlook Conference presentation, 16t February 2012

of ASEAN could yield world class ASEAN technical training facilities if regional knowledge networks are effectively harnessed.

Currently there are major constraints that limit the effectiveness of TVET. These include funding issues, lack of teaching facilities, a limited pool of qualified teachers/trainers and a lack of coordination in providing private sector guest teachers/trainers. The overriding constraint is simply a lack of capacity to implement TVET in a form and at a scale that can truly impact on the skills deficit in the Cambodian labour market.

There is also a perception among the population that TVETs are not prestigious and are for blue-collar workers. This perception must be rectified through marketing (newspapers, TV, radio) and appropriate regulation and accreditation.

The reforms needed to rectify the current situation are as complex as they are urgent, and at present the government lacks the capacity to tackle them. Therefore, it is crucial to harness the latent power of the private sector to this end. Possible measures could include a public-private partnership for an Action on Youth and Employment in Cambodia Roundtable to address the skills shortages in key sectors and look at innovative ways to move forward.

Although relatively few in number, practical training programmes that are relevant and provide young people with skills to access the job market do exist. It is crucial to mainstream and scale-up good TVET programmes; procedures need to be put into place to make this a reality.

TVET, however, is not a panacea to Cambodia's skills shortage. As Figure 2 illustrates, government, educational institutions and the private sector must strive to improve all aspects of the education system, from primary through to TVET and higher education, and finally monitoring employee performance and re-skilling as required. This kind of holistic framework should be the medium to long-term ambition of the government.

## Environmentally Sustainable Business

There are inherent tradeoffs between economic growth and the environment. However, detrimental environmental impacts can be significantly mitigated if appropriate frameworks are implemented.

Information borne through research will provide the foundations for environmentally sustainable business frameworks. Economic Land and Forest Concessions provide a valuable source of foreign investment for Cambodia. Commodities yielded by these concessions, particularly rubber, provide significant export revenue for the country. At the same time, plantations frequently cause deforestation and environmental degradation. They need to be properly managed and monitored to ensure that negative environmental consequences are minimised wherever possible.

The tourism sector is emerging as a growth driver that need not bring with it the destruction of natural habitats. Eco-tourism businesses have an economic interest in preserving the natural environment – it is their selling point. New eco-tourism ventures are emerging around the country, especially in areas of special scientific interest such as the Cardamom mountain range in Koh Kong province and the wildernesses of Mondulkiri and Ratanakiri. Improved transport links have greatly hastened the emergence of these tourist areas.

The private sector has also been active in developing tropical Islands south of Sihanoukville in a socially responsible manner that places great emphasis on protecting the natural environment.

Such environmentally responsible business models should be promoted and incentivised by government, and informed by research from academic and research institutions. Private sector participation and engagement is crucial in precipitating a culture that values the environment as well as growth.

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