

IV. LONG-TERM VISION FOR PRIVATE SECTOR DEVELOPMENT

A. Overview

270. The private sector in Cambodia has great potential for development in the next 10 years. Continued macroeconomic stability combined with government reforms and capacity building will have a positive impact on private sector growth. However, the RGC needs to make a concerted and organized effort to encourage private sector participants to increase investment to expand operations and innovate new products. The RGC can help to reduce the risks of investment by creating a more predictable business environment through improved governance and by providing support for market development and capacity building. To accomplish this task the RGC needs to establish a long-term vision for private sector development. This vision should encompass several aspects identified in this PSA and should focus on creating an enabling environment for business by improving governance standards and strengthening the judiciary to ensure that laws are impartially and accurately enforced.

271. To enhance the private sector, the RGC needs to assist enterprises through the provision of market information and facilitating the formation of business and agriculture associations. Trade promotion services would assist the private sector, especially SMEs, to find buyers and to better understand consumer preferences. The RGC can also assist through the provision of firm-based training in the areas of management, finance and production. Incubation services would assist start-up enterprises to develop their business models, improve access to financing and develop markets and technology.

272. One of the most important areas for private sector development is access to financing, in particular the provision of long-term investment financing. To expand the reach of the commercial banking sector, the RGC needs to fully implement legal reforms in the areas of secured transactions and bankruptcy in order to provide banks and borrowers with the necessary legal protections to confidently enter into loan agreements. Improving bank access to borrower information should be strengthened through both the establishment of a credit bureau and the improvement of enterprise accounting standards.

273. Strengthening the enabling environment for business will help make Cambodia a more desirable destination for FDI by creating a low-cost base for production combined with a base of supporting industries to act as subcontractors for larger manufacturers. Increasing the base of production will also enlarge the domestic market by generating jobs and providing income for consumption. Developing local industries, particularly in agro-industry and food processing, will help to reduce the country's dependence on imported consumer products. To achieve greater domestic production, significant reduction of smuggled products would improve the competitiveness of local manufacturers.

B. Formalization

1. Registration

274. Improving the enterprise registration system is one of the key ways to reduce the pervasive informality of the private sector. Because the current system of registration is complicated and expensive, there is little incentive for enterprises to formalize. Since registered enterprises must also enter the real regime profit tax system, there is even less of an incentive to register due to the potential increase in taxes and the need to maintain accounts and file

financial statements. Registered enterprises are also more likely to be audited by the tax authorities.

275. The lack of a thorough registration system means that the MoC is unable to maintain a detailed enterprise registry as a database of businesses in the country. The RGC is unable to accurately determine the number of enterprises operating in each sector and the size of each sector. The MoC is also unable to maintain an up-to-date roster of enterprises, which could be used as a directory of businesses for the purpose of matching buyers and suppliers.

276. A simplified and transparent registration system would encourage more enterprises to formalize their operations and provide the RGC with more accurate information about enterprises. Simplified procedures to remove red tape and allow enterprises more flexibility in creating their articles of association would remove the necessity for hiring facilitators to guide managers through the registration process. This would significantly reduce costs and encourage smaller enterprises to register. More automation in the process would remove opportunities for human intervention, which often slows down the process and creates opportunities for rent seeking.

277. By simplifying the registration process, a significant obstacle to business expansion would be removed and businesses would be encouraged to grow. Encouraging enterprises to formalize would give them better access to markets, financing and investment incentives and help enterprises protect themselves from petty graft and corruption. Policymakers would benefit from having more enterprises register since they would have better information on which to base decisions. A public enterprise registry could be used to match large manufacturers with SME subcontractors and suppliers.

2. Licensing and Inspection

278. The PSA identifies licensing procedures as an obstacle to private sector development. Appendix 3 provides a detailed list of licenses. While it is important to regulate businesses through licensing and inspection, the issuance of licenses and permits should be transparent and unnecessary red tape and unofficial fees should be avoided. By clarifying the roles and responsibilities of ministries and local government bodies and removing overlapping authorities and responsibilities, enterprises would spend less time and money to obtain licenses and would be better able to comply with regulations. Inter-ministerial efforts to remove duplication and overlapping responsibilities should simplify licensing requirements and reduce the cost of compliance for the private sector. Improving dissemination of licensing requirements and procedures would remove some of the uncertainty entrepreneurs face in starting up a new business. Clear guidelines for government inspections involving written requirements to improve the transparency of inspections and strengthen the rights of business owners would remove discretionary decision making on the part of government officials and would standardize requirements. Improvement of licensing and inspection procedures would encourage entrepreneurs to invest by reducing uncertainties related to government intervention.

C. Enforcement of Legal Framework

279. Strengthening the rule of law in Cambodia would have a significant impact on private sector development by creating a more predictable business environment. Improved dissemination of laws and regulations would increase transparency and allow enterprises to better understand their legal obligations. Wider distribution of the gazette of Cambodian laws and implementing regulations would facilitate the dissemination of information to the private

sector. Regular publication of laws and regulations on the Internet would also provide an inexpensive and convenient method of disseminating legal information to the public.

280. The judiciary plays an important role in supporting the rule of law in any country. In Cambodia the limited education and training of judges, lack of a code of ethics and the low salary of judges weaken the ability of the judiciary to effectively and impartially enforce the legal framework. A well-educated and trained cadre of judges provided with the necessary financial incentives would increase the independence and competence of the judiciary and provide an objective means of dispute resolution. Enacting a code of ethics for judges would improve the quality of court rulings and would help to combat corruption in the courts.

281. Reducing the need for long and expensive court proceedings to resolve commercial disputes is an effective means for improving law enforcement. Implementation of the Law on Commercial Arbitration would facilitate the impartial and prompt resolution of economic disputes while at the same time safeguarding the legal rights and interests of the parties involved. In the longer term, the establishment of a commercial court would create a specialized chamber allowing for intensive training of a small group of judges in commercial law and enabling capacity building within the judiciary to move more quickly and efficiently. Cambodian judges require intensive, comprehensive training not only to strengthen their basic skills in legal reasoning, drafting, and research but also to address key areas of law, for example, related to contracts or secured transactions.¹⁰⁶

282. The private sector rates corruption as one of the most serious problems with doing business in Cambodia.¹⁰⁷ Reducing corruption by implementing civil service reforms to increase pay and improve service delivery, supporting the role of the National Audit Authority to enforce accountability and passing anti-corruption legislation would have a positive impact on private sector investment. More effective implementation of regulations on public procurement would also ensure that public agencies purchase goods and services at the lowest possible price and give suppliers the opportunity to compete fairly for government contracts.

D. Market Access and Information

1. Trade Promotion and Information

283. Improving market access is one of the keys to developing the private sector. Market access can be widened through improved trade promotion activities by the government and trade associations. In March of 2003 the MoC organized its first trade fair focusing on domestic products, particularly in agriculture. Continuing these efforts would provide important opportunities for promoting local products. Through its provincial departments, the MoC can be of great assistance in providing market information to enterprises throughout the country. The MoC could also assist in providing information about export markets and help to identify opportunities for domestic manufacturers. Market information should be widely disseminated over the Internet through websites developed by MIME and MoC. In addition, a directory of Cambodian companies would assist in matching buyers and suppliers by disseminating information about company products, size and location. By increasing dissemination of market information and helping to match buyers and suppliers, producers would be better able to understand and meet market demand.

¹⁰⁶ Enhancing Governance for Sustainable Development, Asian Development Bank, October 2000.

¹⁰⁷ Ibid.

2. Customs Reform

284. Continued implementation of measures to combat smuggling by the anti-smuggling task force would improve the competitiveness of locally manufactured products. The private sector has identified smuggling as a major constraint to market access and significantly increases the risk of investing in production facilities in Cambodia. If the RGC's anti-smuggling task force is able to strengthen its capacity to catch smugglers not only at the border, but also at the destination where the products are sold, the risks of smuggling would outweigh the benefits. Improved recruitment of customs staff, better pay and the development of a code of conduct for customs officials would also play a large role in controlling smuggling. A strong commitment from the RGC is needed to protect local producers from the non-competitive effects of smuggling and would encourage local producers to invest in manufacturing consumer and other higher value-added products. The reduction of smuggling would allow local producers to compete on a level playing field with imported products.

3. Business Associations

285. In the future business associations should become increasingly important in developing markets by providing market research, information on consumer preferences and assistance in distribution and logistics. The Federation of Cambodian Rice Millers Associations is a good example of the benefit associations can provide to members. The rice miller associations have been able to improve quality through training of millers in seed and milling technology. The Federation has set up a financing arm to extend loans to rice millers. The rice miller associations have been able to instruct millers on market trends and have educated them on requirements for meeting market demand. The Federation is looking into ways to improve processing by creating cooperatives to purchase and share the expensive machinery needed to produce rice of the quality demanded by foreign markets.

286. The Cambodia Chamber of Commerce and the newly established Phnom Penh Small and Medium Industry Association (PSMIA) will potentially play an important role in improving market access by providing information to members on market trends and by carrying out promotional and matching activities. Both organizations need significant capacity building to effectively assist in improving market access.

287. The shortage of business associations at the rural level has significantly hindered the development of rural enterprises due to a lack of market information and promotional activities. To support private sector development in rural areas, existing institutions should be better utilized to support the development of markets and strengthen the distribution of local products. One possibility is to strengthen the role of Commune Councils in private sector development so they carry out functions similar to local business associations. The Commune Councils are elected locally with a five-year mandate and are allocated funds for administration and community development activities. Commune Councils should be utilized as local chambers of commerce to support business activities such as marketing and distribution of local products and improved market access where industry based associations are not present.

4. Export Development

288. Improving access to export markets should be a major goal for the RGC, particularly as it prepares for accession to the WTO. Export diversification is necessary to relieve the country from its current dependence on the garment sector, which accounts for about three-fourths of all exports. To make Cambodia a more competitive export base, the RGC should make serious

efforts to reduce the cost of export processing both in terms of port fees as well as in terms of the official and unofficial fees involved in export processing. The RGC has made efforts to streamline export processing and reduce the administrative cost by implementing improved pre-shipment inspection procedures.¹⁰⁸ Still the costs are high and the lead-time required to process container exports is as much as five to six days.

289. Reducing the cost and time needed to process imports and exports could be achieved by establishing an export processing zone near the Sihanoukville port, which would allow the free movement of imports and exports in the zone. While this is a potential measure to deal with the problem of export processing, it should not replace efforts by the RGC to reduce the cost of export processing at ports and dry docks so that the economy as a whole, especially SMEs, have better access to export markets. Red tape and high administrative costs should not be an additional barrier to export diversification, especially if other tough issues such as meeting foreign quality requirements and finding overseas buyers can be addressed with the help of government promotion and market information services.

290. The current declining trend of FDI in Cambodia is a major concern for developing the country's export base. By improving the enabling environment through streamlined import and export processing procedures, carrying out governance reforms and improving infrastructure such as roads and electricity, the cost of doing business in Cambodia should be reduced. To convince foreign investors to select Cambodia, it will be increasingly important for the RGC to implement the legal framework by issuing the necessary sub-decrees and Prakas, while at the same time assuring enforcement of legislation. Assuring political stability and personal security of investors is also a prerequisite to enhancing FDI. The strengthening of the labor force and supporting industries through vocational and firm-based training would help to develop the human resource base in the country making it a more attractive investment location.

291. The key to increasing access to foreign markets is to enhance export diversification. The RGC together with donors should identify industries with export potential and work on ways to produce high quality products in quantities large enough to make exporting cost effective and feasible. It will be necessary to develop exporters/wholesalers to play a proactive role in generating exportable products and finding overseas distribution networks. Agro-industry, including rice, corn, beans, nuts and various spices such as chilies and pepper, has immediate potential as do fishery products. The key to developing agro-industry is to ensure adequate supplies of quality raw materials by strengthening links between farmers and fishermen and agro-processors and distributors, who are better placed to access foreign markets.

E. Access to Finance

1. Contract Enforcement

292. Improving access to finance is of major importance to the private sector. Although there is excess liquidity in the banking system, it is still difficult for banks to provide enough loans to meet the market demand.¹⁰⁹ To underpin the financial sector the basic legal infrastructure needs

¹⁰⁸ Industry players interviewed for this study stated that the cost of facilitating dry dock pre-shipment inspections has been reduced in recent months due to a negotiated agreement made between the Garment Manufacturers Association of Cambodia, Camcontrol and the Customs and Excise Department.

¹⁰⁹ Commercial bank officers interviewed for this study confirm that liquidity is not the problem in the banking system. Causes for the difficulty in making loans to the private sector are the lack of the legal framework regarding secured transactions and insolvency as well as the limited borrower information available due to weak accounting standards and the need for a credit information bureau. Long-term financing is difficult since most bank funding sources are

to be in place to support commercial activities. Legal and judicial reforms would enforce property rights and contracts and ensure the ability to pledge and seize collateral necessary to secure loans. Efforts by the Ministry of Land Management, Urban Planning and Construction under the Land Law to implement a nationwide land titling system will strengthen land tenure and provide greater opportunities for using land as collateral, especially for SMEs. A comprehensive civil code and commercial contract law will strengthen the lending environment as will the adoption of the Law on Commercial Enterprises, which is currently under review at the National Assembly. The promulgation of insolvency and secured transactions laws is particularly important to alleviate uncertainties about foreclosure on security. A public secured transactions registry would allow movable property to be utilized as collateral opening up borrowing opportunities for smaller borrowers and SMEs. Alleviating uncertainties in financial transactions will substantially reduce the cost of lending and facilitate intermediation by financial institutions.

2. Credit Information

293. Efforts to reduce uncertainties concerning creditworthiness will help to increase private sector access to financing and will reduce borrowing costs. With the passage of the Law on Enterprise Accounting and Audit in 2002, Cambodia has taken steps toward establishing accounting standards and developing a cadre of accountants and auditors to implement and enforce these standards. The RGC has established the National Accounting Council and the Institute of Khmer Certified Public Accountants and Auditors to prepare and implement accounting standards. Building the capacity of these two organizations will help to strengthen the transparency of the corporate sector, improve credit information and reduce the transactions costs of loan appraisal. With improved transparency banks will increase lending based on cash-flow analysis and will reduce their dependency on collateral. In the long-term improved accounting standards will help to improve loan quality and build the confidence of the banking sector.

294. Implementing a credit information exchange¹¹⁰ as a first step and later a credit bureau will allow financial institutions to share borrower information. To implement a credit bureau the RGC will need to pass necessary legislation concerning the privacy of borrower information to determine the rights and obligations of banks and borrowers. With an effective method of sharing credit information, banks will be able to extend lending services to individuals for consumer and mortgage lending.

3. Expansion of Financial Services

295. The growth of the financial sector will expand the reach of financial services to a wider range of customers. The restructuring of the banking sector and the increase in commercial banks' minimum capital to \$13 million has resulted in a healthier banking sector. The asset base of commercial banks is growing and branch networks are expanding. As competition in the market increases banks will diversify their product offerings and eventually provide longer-term lending and reduce loan-deposit interest rate spreads.

296. The universal nature of the Banking Law allows banks to enter nonbank financial activities such as leasing. The RGC should introduce necessary implementing regulations to

short-term and the banks are not confident enough in the borrowers to intermediate between short-term funding and long-term financing.

¹¹⁰ The Association of Bankers in Cambodia is preparing a format for exchanging borrower information among banks as a first step toward implementing a full credit bureau.

allow banks or their subsidiaries to enter the leasing business. In the future, leasing will play an increasingly important role in the financial sector as companies recognize the benefits of leasing over purchasing vehicles and machinery. This would particularly benefit SMEs by allowing them to upgrade machinery more frequently with less required capital.

297. Rural lending will also expand as the legal framework strengthens and MFIs mobilize more funds. Improved supervision of MFIs, better information systems and strengthened accounting and auditing standards would improve the capacity of MFIs, enabling them to better leverage their funds in the market. The agriculture sector, which is in great need of long-term financing for investment in product improvement and diversification, would greatly benefit from improved MFI access to rural savings, which would help meet the demand for micro-credit. With the promotion of financial services outreach and development of the financial infrastructure, savings in rural areas can be better mobilized through community-based institutions, MFIs and commercial banks. This would benefit rural lending and diversify channels for banking and payment services to the lower income classes in rural areas.

298. Implementation of the Sub-decree on Insurance and the development of enforcement mechanisms would create policy-driven demand for insurance. Increased awareness of insurance in the business sector would further diversify insurance products resulting in increasing demand. The development of the insurance industry would help the private sector by mitigating investment and lending risks and by creating a pool of investment capital to be used in the economy. In the long-term as per capita incomes increase, life insurance and other products should help to reduce risk in the society at large and will have a beneficial impact on the economy.

4. Financial Management Efficiency

299. The development of interbank and money markets will help banks to manage liquidity and reduce operating costs. The availability of unsecured overnight borrowing among selected banks followed by the introduction of Treasury Bills, other government securities and repurchase agreements would expand the scope of interbank markets and allow banks to manage liquidity requirements more effectively. Not only would the use of government securities create an instrument for bank liquidity management, but it would also be an effective instrument for monetary policy. In the future, other financial instruments, such as commercial bills, bills of exchange, and promissory notes will emerge with the development of money markets and the adoption of a negotiable instruments law.¹¹¹

300. As the financial sector develops strengthening of supervision will continue and banks will improve loan appraisal and monitoring skills. The establishment of a bankers' training institute will build the professional capabilities in the industry. The Association of Banks in Cambodia will be strengthened through the active participation of members and will play an important role in building capacity in the industry. Capacity building of regulatory institutions will be accomplished through the establishment of self-funded training institutions and through continuous organizational strengthening.¹¹²

¹¹¹ Financial Sector Blueprint 2001-2010, Royal Government of Cambodia and the Asian Development Bank, 2001.

¹¹² Ibid.

F. Sub-sectors

1. Agriculture

301. The agriculture sector will continue to be a major engine of the Cambodian economy for years to come. Agro-industry would have improved potential if more land can be cultivated with higher quality produce. Passage and implementation of the sub-decrees on social and economic land concessions would make more state-owned land available for cultivation both by small farmers as well as by larger agro-industries. Improved irrigation infrastructure to increase cultivation of dry season rice and reduce dependency on rain in the wet season would increase output and provide more opportunities for export. Of particular importance to the rice industry is to improve the quality of milled rice to meet market demand and obtain a higher price for the finished product. Improving linkages between farmers and rice millers would help to improve the quality and strains produced. Strengthening farmer associations would increase rice growers' access to market information and help them to improve their skills and capacity. As a result, consistent supplies of high quality paddy would be available. Combining this supply with improved rice milling technology would result in a larger quantity of export quality rice.

302. Because the returns on rice are limited, crop diversification to include more value-added products with export potential such as nuts, spices, fruits and vegetables would help to increase the returns of agro-industry. Since crop diversification is limited by uncertainty, limited investment capital and a shortage of skills and knowledge, support mechanisms for farmers through donor assistance to form associations and provide skills training are needed to assist in mitigating the risks of diversification and to find markets for new products. Farmer associations could further develop their function by forming cooperatives to achieve economies of scale in purchasing inputs and equipment, setting up storage facilities and reducing dependency on middlemen in the distribution of produce. In the long-term, farmer associations should establish credit unions to provide savings and financing facilities.

303. The development of agro-enterprises will facilitate the commercialization and increased value-added of agriculture. Government and donor support through training and capacity building would increase the number and performance of small, medium and large agro-enterprises capable of effectively processing, packaging and marketing agriculture products. MIME's newly formed Department of Industrial Standards and Camcontrol should cooperate in establishing standards for agro-processing. These efforts would improve the quality of local food products making them more competitive with imports. Improved processing capacity would provide markets for plantation produce such as palm, coconuts and sugar. Quality improvements in processing combined with a consistent supply of produce from organized smallholders and agro-industries would provide increased export potential in the agriculture sector. Incomes in rural areas would rise with diversification into higher-value added products and improved quality of produce. Increased availability of financing to smallholders, agro-industry and agro-enterprises would result as capacity grows and markets, particularly abroad, expand.

304. The fishery sub-sector will continue to represent a large portion of the economy and provide income and subsistence for large numbers of people. In the near term, enacting the Law on Fisheries and the Sub-decree on Community Fisheries would assure access to fishery resources to small fishers. Implementation of the law and sub-decree would also result in decentralizing fishery management to the community level. To ensure the long-term sustainability of fishery resources capacity building at the community level will be extremely important. Department of Fishery (DOF) programs to strengthen the capacity of local authorities

in fishery management should ensure the rights of small fishers and guarantee the supply of fishery resources for future generations. Improved infrastructure facilities to improve fish marketing, price formation and reduce post harvest losses should provide additional growth potential in the future.

305. In line with the Master Plan for Fisheries of the DOF, the private sector should develop fish farming and aquaculture capacity in order to expand production in a sustainable fashion. In addition, private sector efforts to add value through improved processing capacity should be supported through the establishment of a Cambodian association of fish traders, processing and marketing enterprises to support effective interaction between government and industry. Improved access to institutional finance for investment and working capital would also play a role in enhancing processing capabilities. Privatization of the distribution of fishery products, and particularly of the state-owned distribution enterprise, KAMFIMEX, would increase the efficiency of distribution and enhance market competition. The reduction or elimination of export taxes on fishery products would encourage more entrepreneurs to find international markets and would reduce the incentive for informal trade in the industry. Export promotion and marketing efforts by the MoC and DOF should assist in finding new markets for this valuable resource and would generate more revenues in the future.

2. Households

306. In the short-term the household sector would benefit from improvements in road and other infrastructure by expanding potential markets from the local level to provincial capitals and Phnom Penh. Increased information on design and quality demands and pricing would help household enterprises to produce more marketable products. Regional specialization (one village-one product, clustering) would facilitate quality improvement and strengthen marketing and distribution through better information sharing and competition.

307. The high level of informality in the household sector reduces access to incentives, markets, information and finance. In the long-term the household sector should become more formalized through simplified registration procedures devised for small enterprises. While operating permits from relevant ministries currently allow them to carry out business activities, business registration would give them greater legal status and provide increased opportunities for accessing financing, training, export markets and forming associations. A centralized business registry at the MoC would create opportunities for publishing business directories and provide policymakers with much needed information to better assist the private sector.

3. Domestic Formal Enterprises

308. Domestic formal enterprises have the potential to create employment by increasing production and marketing capacity. They also play an important role in developing the production base of the country and reducing Cambodia's dependence on imported finished goods. RGC efforts to reduce the flow of smuggled products would protect domestic producers by assuring competitive access to markets. Improving access to inputs of equipment and raw materials at global prices would also make domestic enterprises more competitive by reducing production cost. To reduce the costs of inputs, the RGC should continue to improve the physical infrastructure, in particular the roads, port and electricity supply. The RGC should also take measures to reduce the formal and informal costs associated with import processing and establish a tariff structure favorable to domestic manufacturers. As the enterprises in this sector develop their quality and production capacity, they will have increased potential as supporting industries to act as sub-contractors to foreign invested firms and exporters.

309. As a result of the strengthening of the legal framework, in particular in the area of secured transactions and insolvency, domestic formal enterprises should have better access to working capital and long-term financing. To improve enterprise financial reporting, the RGC should assist enterprises with implementation of Cambodian Accounting Standards. This would improve financial information and transparency in the corporate sector and improve access to bank financing and, in the long-term, other forms of financing through capital markets.

4. Foreign Invested Enterprises

310. The importance of foreign invested enterprises to the development of the private sector in Cambodia cannot be underestimated. However, many risks lie ahead for FDI as the country prepares to gain accession to the WTO combined with the expiration of the multi-fiber agreement at the end of 2004. The fate of the garment industry in Cambodia is particularly unclear as the country will lose its preferential access to the US and EU markets while at the same time quota restrictions on garments from China and other competing countries will be lifted in those markets. Future market share of Cambodian garment manufacturers will be contingent upon the competitiveness of the business environment and the overall cost structure. Recognizing the importance of exports to the FDI sector, the RGC needs to streamline import and export processing procedures to reduce the cost and administrative time involved. The RGC should also revise labor policies that result in comparatively high minimum wages, overtime and nightshift pay to reduce labor costs, which are too high considering the labor productivity. Labor skills need to be improved as well to improve competitiveness. The RGC should continue efforts to improve the physical infrastructure through road improvements, lower port facility costs and cheaper access to electricity. Leading up to the lifting of preferential trade access to EU and US markets, the RGC should make a concerted effort to assist the garment industry to reduce operating costs by 5% - 10% in the short-term through improved governance. In the long-term the RGC reforms should make Cambodia a leading low-cost production location in the region through additional governance and labor reforms, continued infrastructure improvements and the development of more efficient distribution systems.

311. A positive example set by the garment industry would attract other labor intensive FDI to Cambodia particularly in agro-industry and processing, where the country's natural resource base has significant untapped potential. Securing land tenure through effective implementation of economic concessions would encourage FDI in fruit, rubber, palm and eucalyptus plantations and other crops for agro-industry. Increased plantation investment would lead to opportunities for adding value through agro-processing activities to produce semi-finished and finished products such as dried fruits and preserves, edible oils, additives and paper pulp. Other labor-intensive manufacturing industries such as toy assembly, and plastic molding would also be attracted to Cambodia in the medium to long-term by implementing reforms to improve the business environment.

312. Foreign invested enterprises will naturally continue to evaluate the potential of Cambodia's human resources before deciding to invest in the country. While the RGC is making strides to improve basic education, and education levels, particularly in urban areas, are improving, strengthening the technical and managerial skills of the workforce is the next priority for private sector human resources development. To achieve such improvements, the RGC needs to rely on private sector vocational institutions to identify and provide the skills needed in the marketplace. The RGC should encourage business associations to form training institutions to provide skills and eventually job placement services. Through these institutions, practical curriculum will be developed to deliver the skills needed most by future employers.

5. SME Sector

313. The success of private sector development in Cambodia hinges upon SMEs. Since the majority of enterprises in the country are SMEs, the RGC should develop a specific vision and action plan for SME development. To develop SMEs, the RGC will need to create a legal framework for SME promotion by passing an SME promotion law or sub-decree. Although a law would take more time to pass than a sub-decree, it would have more leverage in establishing the necessary institutional framework within the government to effectively coordinate SME policy among the relevant ministries and to establish government-wide programs and incentives for SME promotion. In the short-term the RGC should develop an SME sector strategy and action plan. The strategy should focus on strengthening the ability of the Government to coordinate SME policy and determine the priority programs for the short-term as well as long-term strategies.

314. The RGC should implement specific programs to support SMEs including streamlining registration and licensing, strengthening support for business promotion and information services and developing firm-level capacity building. The RGC should also enhance SME access to financing by pushing forward reforms in the civil and commercial codes and strengthening accounting standards. The potential for SME financing programs in line with commercial lending principles should be studied on a pilot basis to determine the feasibility of long-term implementation. Measures to promote leasing, in particular the completion of the necessary regulatory framework, should also be taken to assist SMEs improve their access to equipment and machinery.

315. The RGC will also need to address the establishment of an institutional framework for SME policy. Training and capacity building of ministry staff is vital to the establishment and implementation of sound SME policies. At the ministry-wide level, SME policy should be coordinated under a specialized committee in the Supreme National Economic Council (SNEC) and should report directly to the Prime Minister. The SNEC committee in charge of SME policy would require capacity building in order to effectively coordinate inter-ministerial efforts and advise the Prime Minister.

316. Business promotion and capacity building efforts would help SMEs access markets through improved quality and by providing information on foreign and local markets. The RGC should assist SMEs by publishing business directories and newsletters to promote Cambodian SMEs as well as by providing services to match SMEs with larger enterprises. By developing the capacity of SMEs as supporting industries, new market potential and upstream business linkages would be developed. For start-up enterprises, business incubation services to assist firms in developing management skills and technology as well as to find potential markets and financing should also be considered.

317. The RGC should provide support for the newly established PSMIA and other private sector organizations promoting SME development. The associations will play an important role in the dissemination of technical and market information and could someday help to improve distribution and financing through the formation of cooperatives and credit unions.