

development. This inter-ministerial task force should be given the authority to determine the overall priorities for the Government and further develop the recommendations to meet these priorities.

457. The Council of Ministers should establish an inter-ministerial coordinating body to formalize the action plan for private sector development and monitor its implementation. This coordinating body should report directly to the Prime Minister and be comprised of high-level officials from the ministries responsible for implementing the private sector action plan. The coordinating body should issue regular updates on the progress of implementation and make adjustments according to the changing market conditions. While implementing the private sector development action plan may need further refined policy actions, its primary aim should always be to create an enabling environment for business and assure an even playing field for all market participants.

VI. PRIORITIES FOR PSD IN CAMBODIA

458. From the many recommendations provided in this PSA it is necessary to determine priority areas for private sector development in Cambodia. To support the business enabling environment and social and physical infrastructure the RGC should concentrate on the following key areas of private sector development and remain engaged in these areas until results are fully achieved. These key areas are:

- A. Support SME development;
- B. Governance reform through improved enforcement of laws;
- C. Continue support for financial sector reforms;
- D. Develop RGC's capacity to provide assistance to the private sector;
- E. Strengthen capacity building; and
- F. Continue infrastructure development.

A. Support SME development

1. Strengthen formalization of business through registration and licensing reform

459. The RGC needs to reform the business registration process by reviewing the legal framework for registration and making necessary changes to encourage more enterprises to formalize. Business registration procedures should be simplified to reduce the cost and time necessary to register. The RGC should also carry out licensing reform by reviewing private sector licensing requirements. The RGC should also carry out reforms to streamline processes and procedures and eliminate unnecessary requirements. The goal of the licensing reform should be to reduce the burden of licensing and inspections on the private sector, while at the same time assuring that necessary regulation and oversight is maintained.

2. Establish legal, policy and institutional framework for SME development

460. The RGC has identified the importance of SME development in Cambodia by requesting ADB to begin preparations for an SME Program Loan, which will commence in 2004. Since no legal, policy or institutional framework has been established for SME development, it is important for the ADB to assist the RGC in these areas. Since the SME sector accounts for such a large share of employment and GDP, support of the sector will have a positive impact on private sector development and poverty reduction by creating sources of employment and wealth creation.

B. Governance reform to improve enforcement of laws

461. The RGC should strengthen its efforts to achieve governance reforms. To improve enforcement of laws, judicial reform and capacity building is necessary, particularly in the area of commercial law. Support should be provided to assist the RGC to establish a commercial court and train judges to assure effective implementation of the commercial code. A specialized court would reduce the time needed to try court cases and improve the effectiveness of decisions. Since many new commercial laws are likely to be enacted in the near term (laws on commercial enterprises, secured transactions, and insolvency) it is necessary to develop the capacity of the judiciary for implementation. ADB's support of judicial reform and capacity building would contribute greatly to the development of the business enabling environment. The donor community should also assist the RGC to implement the Anti-corruption Law, which was approved by the Council of Ministers in June of 2003.

C. Continue support for financial sector reforms

462. Financial sector reform has been a major part of the RGC's efforts to support private sector development and has been at the heart of ADB's assistance to Cambodia in recent years. Continued efforts to reform the financial sector should be a major priority of the RGC and the ADB through the development of a secured transactions system by establishing the legal framework and the secured transactions registry. Efforts should be continued to develop a credit bureau and to support the efforts of the ABC to train bankers in bank management. Continued support to strengthen bank supervision and the supervision of the insurance industry are also keys to the development of the financial sector. Another priority in the financial sector is to assist in the development of interbank markets and develop the legal framework for the issuance of Treasury Bills. In the medium-term capital markets development should be supported to provide an alternative to bank financing.

D. Develop RGC's capacity to provide assistance to the private sector

463. The RGC provides very little assistance to the private sector in the form of market information, trade promotion, matching services or training. The ADB and other donors should assist the RGC to develop appropriate mechanisms for supporting the private sector. These private sector support mechanisms should be determined based on best practices and should take into account the capacity level of the RGC and the financial constraints of providing such services. Where possible, these private sector support mechanisms should utilize public-private partnerships to ensure effective delivery of services at a reasonable cost. The priority of these private sector support mechanisms should focus on strengthening trade promotion and market information activities, such as the establishment of a trade promotion center and the development of a business registry, which could be disseminated on the Internet. By assisting the RGC to provide support services, the donor community would help to stimulate the private sector by expanding market opportunities and trade potential.

E. Continue infrastructure development

464. The low level of development of physical infrastructure, including road transportation, electricity, irrigation and water systems and port facilities is a major barrier to private sector development in Cambodia. The RGC and donor community should continue to support road infrastructure improvement, especially in rural areas. Technical assistance to improve road management in rural areas will improve the sustainability of road rehabilitation. Donors should

continue to support the RGC's Power Sector Strategy by assisting the country to access lower cost sources of electricity, including imports from Thailand and Vietnam, and develop renewable power sources such as hydropower and thermal energy. The RGC should support the participation of the private sector in electricity generation. At the same time EDC needs to improve its management efficiency to reduce power costs to the private sector. Technical assistance for the EAC to strengthen its role as the independent power regulator is also required to assure an electricity supply at reasonable prices. Continued rehabilitation of irrigation systems is needed to promote agriculture sector development. The effectiveness of Water User Groups to manage irrigation systems is vital for assuring the sustainability of irrigation rehabilitation. Finally, port facility improvements are needed to reduce the costs and lead times of importing raw materials and exporting finished products. Infrastructure improvements will require a significant amount of investment from the RGC and donors and will have to be carried out over the next decade or two.

F. Strengthen capacity building

465. The strengthening of the capacity of the Cambodian population cannot be overemphasized in its importance to private sector development. A well educated and trained workforce is the key to private sector competitiveness. As a major priority for private sector development, education and vocational training programs should be supported by the donor community in order to increase the access of the population to quality services. The RGC should be supported in its efforts to raise the education share of the national budget to 21.5% by 2005, according to the target of the Medium-term Financing Policy Framework for Education 2001-2005. Since only 56% of the workforce has completed primary education and 18% has completed secondary school through grade 9, support for primary and secondary education is necessary to increase participation. Efforts to reduce the constraints in education such as the burden on household income, distance and transportation barriers and the opportunity costs of schooling need to be addressed by the RGC and donors. The urban-rural gap in quality of education also needs to be addressed through increased training of rural teachers and administrators and by creating incentives for qualified teachers to work in rural areas.

466. With the diversification of the Cambodian economy from agriculture to industry and services, it is increasingly important that access to vocational training be increased. Although, the private sector and NGOs should continue to be the main providers of vocational training, programs to support students to finance training courses are in great need. In addition, more flexibility in the scheduling of training is needed to allow workers to join courses without leaving their jobs. Programs are also needed to improve the access of training to workers in the SME sector through short courses and specialized training centers. Firm-level training should be encouraged through business associations and chambers of commerce. A good example of firm-level training is the program carried out by the GMAC, which carries out centralized training of garment workers for its members.