

(as of 26 June 2005)

Summary

Rationale

The private sector plays an increasingly important role in development as global economic reforms move towards greater trade liberalization and privatization. Private sector development, however, is generally constrained by a number of factors more pronounced in transitional economies. These include inefficient deployment of resources, lack of sufficiently competitive markets, weak financial intermediation systems, and poor governance. Key constraints also include the lack of enabling conditions for private sector enterprise development activities, specifically inadequate infrastructure and information on technologies and markets. In transitional economies such as in most GMS countries, these constraints are exacerbated by the fact that indigenous private sectors are in the nascent stage and lack the capacity to cope with the challenges of market-based economic forces.

Small- and medium-sized enterprises (SMEs) comprise the bulk of private production units in the GMS. Enhancing private sector competitiveness in the GMS must thus necessarily focus on SMEs. Enabling these enterprises to realize their economic potential is expected to increase business activity, investment and trade, and generate employment, which in turn will result in increased incomes and consumption and ultimately, sustained growth. In addition to infrastructure and an enabling policy environment, SME development requires more direct forms of support such as: (i) business development services including business planning, networking, and matching with other business opportunities; (ii) short- and long-term financing; and (iii) support in creating and strengthening of producers and trade associations.

Equally important is the need to involve the private sector in the planning and implementation of policies, programs and projects that affect them. A major initiative in this regard was the establishment of the the GMS Business Forum (GMS-BF) in October 2000. The GMS BF is an independent, non-profit organization that consists of representatives of national chambers of commerce and industry from the six GMS economies. The role of the GMS BF is to provide private sector-related products and services to facilitate the implementation of the GMS Economic Cooperation Program and more generally, to support subregional development through the activities and resources of the private sector. The Forum also serves as the mechanism for public-private sector dialogue where the views and suggestions of the private sector are brought to the attention of and discussed with the GMS governments.

Flagship Objectives

The flagship program on enhancing private sector participation and competitiveness aims to: (i) strengthen the microeconomic foundations of competitiveness in the GMS by providing support to small and medium enterprises (SMEs), (ii) strengthen the indigenous private sectors in the GMS countries, especially in transition economies, (iii) develop a network of private institutions in the GMS to promote business, trade and investment opportunities in the region, (iv) strengthen and

Flagship Initiative

**ENHANCING PRIVATE SECTOR PARTICIPATION
AND COMPETITIVENESS**

expand mechanisms for private sector participation in the GMS, and (v) encourage private sector participation in subregional infrastructure projects.

Components

The Program has the following key components:

- i) Assistance in managerial, entrepreneurship, skills training, business development, production and marketing, and finance for SMEs
- ii) Capacity building assistance to the GMS Business Forum
- iii) Implementation of a comprehensive workplan to guide the GMS Business Forum
- iv) Establishment of a GMS Business Support Center
- v) Establishment of a private sector networking mechanism,
- vi) Economic Quadrangle Initiative, and
- vii) Cooperation in civil aviation

Support for private sector SME development will be carried out through a number of approaches, including (i) creating enabling business environments, (ii) reforming financial sectors, and (iii) providing direct financial assistance to SMEs. The Mekong Private Sector Development Facility (MPDF) is the largest SME facility in the Mekong Region and actively supports SMEs by providing company advisory assistance (market development, management improvement, and business planning), business development services (capacity building of private sector associations), and fostering reforms in the business enabling environments (research on specific SME-related issues, dissemination of research findings, and policy dialogue with governments). ADB has supported the MPDF through technical assistance.. ADB has also established a Mekong Equity Fund in 2001 to provide long-term equity support to SMEs.

As its terms of reference reflects, the GMS BF has a dual strategic focus and scope: (i) to contribute in tangible ways to effective implementation of the GMS Economic Cooperation Program by involving the private sector in selected subregional initiatives and by mobilizing the private sector to undertake complementary investments in subregional projects, and (ii) to facilitate the activities broadly supportive of the private sector's role in the subregion's development, including promoting direct and regular channels of communication with the GMS governments on policy issues, public-private sector partnerships, investment and trade facilitation, and infrastructure investment.

The private sector is potentially a huge source of financing for new infrastructure projects and an important provider of technical and managerial expertise in operating, managing and increasing the operational efficiencies of existing infrastructure facilities. Private sector participation in infrastructure development, however, is inhibited by perceptions of risk in investing in the emerging economies of the GMS. Mechanisms to promote public-private sector partnerships are being developed to enhance the commercial viability of GMS infrastructure projects by mitigating risks through the provision of insurance, guarantee and other related financial instruments.

Linkages with Other Flagship Programs

In addition to the above components, the flagship initiative on tourism development specifically encourages private sector participation in the GMS tourism sector. Improved access brought about by better infrastructure and cross-border facilitation measures augur well for developing tourism in the subregion. The private sector is expected to take the lead in promoting tourism, product development, and providing tourism-related infrastructure.

Greatly improved physical connectivity as a result of the combined efforts of the flagship programs on economic corridors has significantly increased trade between the six countries. Business activities along borders have been stimulated by the opening up of border crossings and the implementation of simplified customs inspections. Buoyed by these developments, the establishment of industrial and export processing zones along strategic borders is being explored to promote crossborder investments. Apart from the benefits of expanded markets for inputs and products resulting from physical linkages, the lowering of production costs through efficient utilities services will enhance the competitiveness of GMS enterprises. The flagship programs on the telecommunications and power sectors will benefit the private sector through more efficient and cost-effective services. At the same time, telecommunications and energy infrastructure provide immense potential for private sector investments. In the energy sector, private sector participation will be encouraged in the construction of generation and transmission facilities. In the telecommunications sector, the private sector stands to benefit from construction of backbone facilities that will interconnect the national networks, as well as from harmonized policy frameworks. The flagship programs on the economic corridors will involve an active interface between the public and private sectors to maximize the benefits of infrastructure development in the GMS.

Sequencing Priorities

Assistance to SMEs and institutional strengthening and capacity building for the GMS Business Forum will continue to be important priorities of this flagship initiative in the next three-to-five years. Assistance to SMEs is fundamentally linked to the objectives of pro-poor growth, promoting competitiveness, and accelerating the process of regional integration in the GMS. The GMS BF, given its unique role as the mechanism for public-private sector dialogue under the GMS framework should be strengthened to promote private sector participation in the development process, and to serve as the hub of networking activities among enterprises in the subregion. In view of the increasing demand for infrastructure facilities, emphasis will be given to establishing appropriate modalities and improving the overall environment for public-private sector partnership in infrastructure development.

Project Financing

With the exception of the Mekong Project Development Facility and the Mekong Equity Fund, which has a specific fund size and structure, the rest of the projects and activities under this flagship program still require detailed cost estimates. Co-financing of projects with other development partners, including the private sector, under this flagship program will be actively pursued.