FOR IMMEDIATE RELEASE

Coping with the Global Economic Crisis
Two new studies say improving the business environment at both national and local levels is crucial for promoting economic growth

Phnom Penh, Cambodia – May 25, 2009 – To cope with the global economic crisis, Cambodia urgently needs to improve its business environment at both the national and local levels, say two studies jointly released today by the World Bank, IFC and The Asia Foundation. Making it easier, cheaper and more transparent to start and operate businesses could significantly help Cambodia compete in both the international and domestic markets, according to the World Bank/IFC Second Investment Climate Assessment and the Provincial Business Environment Scorecard (PBES), published by IFC and The Asia Foundation.

Speaking at the launch today, H.E. Cham Prasidh, Senior Minister and Minister of Commerce, praised the two studies for offering a wide range of information about factors which help and hinder the development of Cambodia’s private sector. “As these two publications show, Cambodia has made great economic progress in just a few short years, but we still face important challenges. Private companies, and especially small and medium enterprises, need better access to finance, information on regulations and procedures, export opportunities, reliable dispute resolution and efficient and transparent government services.”

Qimiao Fan, World Bank Country Manager, stressed the importance of addressing chronic business environment problems. “Cambodia’s dynamic private sector has enormous potential to create jobs, improve incomes, and help reduce poverty. But business environment problems are holding entrepreneurs back. When the economy was growing at almost 10 percent per year between 1998 and 2007, business environment problems did not seem as serious as they do now”, said Mr. Fan. “But now with the global economic crisis significantly impacting Cambodia, continued problems in the business environment may force firms to go out of business and investors may choose to postpone investment or move to more business friendly countries.”

Julia Brickell, IFC’s Resident Representative in Cambodia, noted that both the PBES and ICA studies show that reform efforts succeed. “The ICA discusses how government, private sector and donor collaboration has cut processing times for imports almost in half from 6.5 days in 2003 to 3.7 days in 2007. Automating customs procedures is expected to further reduce import/export times and costs in Cambodia.” Ms Brickell also stated that giving provincial authorities comprehensive information on entrepreneurs’ perceptions of the business environment is a strong motivator for reform. “For example, Siem Reap Province, with technical assistance from IFC, reduced the time required to register a business and obtain necessary licenses.”

Veronique Salze-Lozac’h, Regional Director of Economic Programs for The Asia Foundation, also stressed the importance of regularly surveying business owners about their challenges. “Widely-publicizing PBES results helps government officials identify where they should concentrate their efforts to help businesses to thrive. Over the next two months, when PBES results are presented in a number of provinces, entrepreneurs will be able to compare their province with others and engage government on reform,” said Ms Salze-Lozac’h. “When the PBES and the ICA are repeated in a few years, officials and business people will be able to see whether their efforts have been successful.”

The Second ICA survey, which was conducted with 500 entrepreneurs in Phnom Penh, Siem Reap, Sihanoukville, Battambang, and Kampong Cham, shows that corruption was the top concern of entrepreneurs, as it was for the first ICA in 2003. The second highest concern was macro-economic uncertainty. This ranked higher than in 2003 because of deteriorating conditions in the global economy.
Entrepreneurs’ third highest concern was anti-competitive practices, and fourth was economic and regulatory uncertainty.

The Second ICA offers five key lessons for improving the business environment. First, reforms succeed when driven by government leaders, international commitments and private sector demand. Second, reforms should first be tested as pilots, monitored and evaluated, and if successful, then scaled up. Third, reforms require careful planning, deadlines, coordination and evaluation. Fourth, reform of the civil service, which has proven successful in small pilots, should be scaled up. Fifth, through the Government-Private Sector Forum, the private sector can play a major role in identifying needed reforms.

The 2009 PBES, which surveyed business owners in the capitals of all 24 provinces and selected urban areas, shows that Kampong Cham Province has a better business environment than other provinces, as was the case in the 2006 PBES. Also both Sihanoukville and Siem Reap moved up from near the bottom in 2006, to the higher ranks on the 2009 PBES, by making significant advances in four out of the ten areas. “These are the time and cost to start a business, property rights, transparency of regulations, and crime prevention,” said Gavin Tritt, Country Representative-Designate for The Asia Foundation. “Nationwide, indicators showing the most improvement were those for the cost of starting a business, the time spent complying with government regulations and tax administration. The indicators which deteriorated on the 2009 PBES, in comparison with the 2006 PBES, are property rights, informal charges, transparency and dispute resolution.”

Julia Brickell said “Overall, PBES 2009 results show that firms are more likely to expand their businesses if provincial administrators reduce informal charges, prevent crime more effectively, make it easier for entrepreneurs to start businesses, and also make it easier for business owners to pay their taxes.”

About IFC
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In the Mekong Region, IFC advises governments, private companies, and industry sectors on how to improve the investment climate, expand access to finance for businesses, strengthen basic infrastructure, and raise social and environmental standards. In Cambodia, IFC advisory services are delivered in partnership with Australia, Canada, the European Union, Finland, Ireland, Japan, New Zealand, the Netherlands, Norway, Sweden, and Switzerland. For more information, visit www.ifc.org/mekong.

About The Asia Foundation
The Asia Foundation is a non-profit, non-governmental organization committed to the development of a peaceful, prosperous, just, and open Asia-Pacific region. The Foundation supports programs in Asia that help improve governance, law, and civil society; women's empowerment; economic reform and development; and international relations. Drawing on more than 50 years of experience in Asia, the Foundation collaborates with private and public partners to support leadership and institutional development, exchanges, and policy research. With offices throughout Asia, an office in Washington, D.C., and its headquarters in San Francisco, the Foundation addresses these issues on both a country and regional level. In 2008, the Foundation provided more than $87 million in program support and distributed over one million books and educational materials valued at $41 million throughout Asia. www.asiafoundation.org

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