

## No Contest: Cambodia's Competitiveness Ratings Falls

---



**By Leng Bunthea**

### **Economics Today**

With foreign direct investment (FDI), garment exports, and tourist arrivals in rapid retreat, Cambodia's efforts to improve the business are paramount. But the past year has actually seen the kingdom's competitiveness decline, according to rankings by the World Bank (WB) and International Finance Corporation (IFC), and the World Economic Forum (WEF).

This year has been tough both for businesses and for probusiness policymakers all over the world, but the crisis could also be an opportunity for improving the economy, say experts. Business competitiveness rankings, however, claim that the business climate improved little in Cambodia. Businesses, especially small and medium-sized enterprises (SMEs), could thus be left less able to deal with the effects of the downturn, and investors may be discouraged from beginning new endeavors.

The World Bank and IFC said in a Sept 9 statement that Cambodia's ranking has remained low in their Global Ease of Doing Business 2008/2009 report, while most economies in East Asia and the Pacific strengthened business regulations to help increase opportunities for local firms. Three economies from the region—Singapore, New

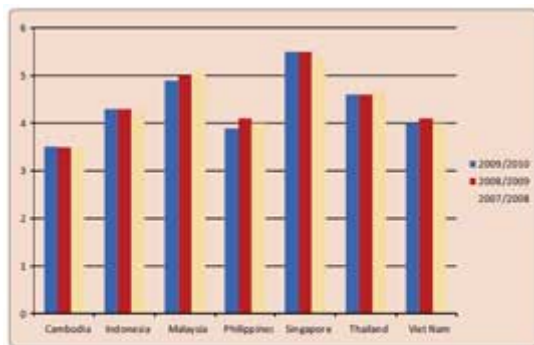
Zealand, and Hong Kong in China—led the world in ease of doing business.

“The Second Investment Climate Assessment, published in 2009 by the World Bank and IFC, identifies priorities to significantly improve the business environment by helping to retain existing investors and attracting new ones,” said Qimiao Fan, Cambodia country manager for the World Bank in Cambodia. “This would position Cambodia well to benefit from a recovery in the global economy, and also help its small firms to develop and create jobs.”

### **Cellar Dweller**

The global economic crisis prompted many countries to accelerate reforms, improving their ranking relative to Cambodia in terms of the ease of doing business. Regional powerhouse Indonesia has been the most active business regulatory reformer in East Asia and Pacific. Cambodia’s efforts to reform have resulted only in a drop of 10 places from last year’s 135th, to 145th of 183 countries. Cambodia climbed 15 places last year.

In a separate report from the World Economic Forum 2009- 2010, Cambodia's competitiveness ranking also slipped by one place to 110 of 133 countries, a reversal of the one place climb to 109 in 2008/2009 (of 134 countries). Cambodia is ranked one of the least competitive countries in Southeast Asia, gaining only a score of 3.5 of 7.



Source: World Economic Forum, Global Competitiveness Report 2009-2010

But, according to Julia Brickell, the IFC resident representative in Cambodia, the government deserves recognition for adopting laws and regulations which have improved the business environment. The Doing Business survey, Cambodia’s Secured Transactions Law made it the

top global performer in the Getting Credit indicator in 2008. This helped Cambodia move up 15 places in the 2008-2009 study.

"However, between June 2008 and May 2009 a record 131 of 183 economies around the globe reformed business regulations to make it easier for conducting business. Because other countries are reforming more quickly, Cambodia's comparative ranking did not improve in the 2010 Doing Business report." Brickell told Economics Today. "Since the Doing Business study ranks economies on a relative basis, rankings may change simply because some countries reform faster than others and does not mean necessarily that the business environments of economies whose rank goes down are getting worse."

Much of the proposed legislation remains at the research or draft stage, wending its way around ministries, and the floors of the National Assembly and the Senate.

"Most of the scheduled regulations and processes, except financial issues, have remained at the same stage over last few years, including establishing new business process and tax issues," said Heng Hieng, chairman of the Phnom Penh Small and Medium Industry Association.

Chheang Vannarith, managing director of Cambodian Institute for Cooperation and Peace (CICP), told Economics Today that the government assists SMEs through reducing red tape and bureaucracy making it easier for SMEs to operate, and by micro-credit financing and training. "The government's policy is considered as effective but at a very limited degree," he said.

The WB-IFC report claims that the government has introduced no pro-business reforms except for tax breaks since last year. Cambodia fell in several categories, the most extreme decrease in the ease of paying taxes, where it moved to 58th from 25th last year as a result of a National Social Security Fund contribution, which requires 0.8 percent of monthly average employee wages, with a cap of CR1 million (approximately US\$250) per month. Dealing with construction permits in Cambodia was rated 147th easiest, down from an already low 145th.

Although all indicators are important for businesses, it is important for Cambodia to identify priority reform areas, advised Brickell.

Some priority areas Cambodia has focused on in the last year, which are not included in the 2010 Doing Business report, include improving enforcement of contracts through effective commercial arbitration; improving access to finance strengthening the availability of credit information for banks and microfinance institutions; and improving licensing and inspection practices, she added.

## **A Long Road**

Lay Navinn, director of the Small Industry and Handcrafts (SIH) Department of the Ministry of Industry, Mines and Energy (MIME), recognized that Cambodia still faces problems with tax, human resources and regulation. But the government is working hard with development partners and line ministries to improve Cambodia's business climate, she said.

"We are still working hard to help our SMEs ... through regulation, reform, capacity building and ... we are making more plans and projects for Cambodian SMEs to increase competitive advantages, but we need more support from our partners and NGOs."

Brickell also saw a lot of rooms for improvement. She hoped the Doing Business survey would contribute to the overall understanding of the investment climate and help the government target reforms to make a difference to investors.

"No single survey can tell the whole story," she said. "But we believe Doing Business contributes to the reform process by identifying priorities for reform and measuring the results of efforts to improve the business environment."

The IFC, with support from the European Commission and other donors, has been assisting in the drive to improve the business climate in Cambodia. The National Arbitration Center is underway to improve commercial dispute resolution and offer a quicker and cheaper alternative to the courts.

Rank	Doing Business 2009	Doing
Ease of Doing Business	139	
Starting a Business	171	
Dealing with Construction Permits	147	
Employing Workers	127	
Registering Property	113	
Getting Credit	84	
Protecting Investors	70	
Paying Taxes	25	
Trading Across Borders	124	
Enforcing Contracts	139	
Closing a Business	183	

“Effective commercial arbitration is crucial in helping businesses enforce contracts in ways that are less costly and time consuming than is the case now,” said Brickell.

The WEF 2010’s report found corruption and inefficient governmental bureaucracy the most problematic factors for investors in Cambodia. Corruption, at 23.9 percent, was the most frequent concern response in 15 areas, followed by 17.4 percent of respondents citing inefficient government bureaucracy. In contrast, government instability or coups, and foreign currency regulations had few investors worried.

Brickell said that government inefficiency also a major concern in the Doing Business report. Companies in Cambodia need 85 days to complete 9 procedures to start a business, and these procedures cost a business 138.4 percent of the country’s per capita income. In Thailand, starting a similar business takes 32 days and involves 7 procedures. The costs to start up a business are also substantially lower in Thailand.

“Reforms to simplify start up procedures for companies in Cambodia—such as removing unnecessary approvals and documentation— could significantly reduce to time and cost for entrepreneurs, and encourage more investment and business activity. Reforms in this area would have a positive impact on the business environment.”

According to Lay Navinn, the government in 2004 established a Sub-Committee on SMEs under presidency of MIME Minister Suy Sem. The sub committee is apparently still striving to help Cambodian SMEs by working with development partners like the Asian Development Bank (ADB) and German Technical Cooperation (GTZ).

The sub-committee always helps to raise SMEs problem twice a year in government-private sector forum for discussion and solutions, she

claimed, in addition to helping reduce bureaucracy and establish a one-stop service.

Certainly, reforms in some areas are underway. In 2009, the sub-committee conducted the Promoting Economic Diversification (PAD) project to help capacity building and technical training in soya sauce, mineral water and ice production SMEs.

The Doing Business report ranked Cambodia 87th of 183 economies in the Getting Credit indicator. Cambodia scores very low in the area of credit information, since there is no credit bureau to provide information to banks and microfinance institutions on the credit history of borrowers.

As reported in Economics Today Issue 47, the National Bank of Cambodia (NBC) is currently working with the IFC to establish such a credit bureau, which would be operated by the private sector and strengthen the availability of credit information. This would improve the environment for lenders by making more information available to them than making loan approval decisions.

Indeed, the limited data sets of the reports may also conceal subtle improvements. A set of regulations affecting 10 stages of a business's life are measured in the WB report: starting a business, dealing with construction permits, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business. However, other areas important to business are not included, such as an economy's proximity to large markets, the quality of its infrastructure services (other than those related to trading across borders), the security of property from theft and looting, the transparency of government procurement, macroeconomic conditions or the underlying strength of institutions. ■