PART II

G. INTERNATIONAL FINANCE CORPORATION (IFC)

AND

MEKONG PRIVATE SECTOR DEVELOPMENT FACILITY (MPDF)
INTERNATIONAL FINANCE CORPORATION IN CAMBODIA

After years of war and isolation, Cambodia faced a number of challenges in developing its private sector. These include lack of infrastructure, low levels of literacy, high levels of poverty, a fast-growing, largely rural population with few job opportunities and cumbersome laws, regulations and unofficial fees that hinder business and discourage investment.

Since 1998, both investments and technical assistance from the International Finance Corporation have been contributing to solving these problems and helping Cambodia compete in the global economy. IFC invests directly in Cambodia’s private sector, while technical assistance is provided through the Mekong Private Sector Development Facility, a multi-donor initiative of IFC’s. IFC-MPDF’s 13 donors are the Asian Development Bank, Australia, Canada, Finland, IFC, Ireland, Japan, New Zealand, the Netherlands, Norway, Sweden, Switzerland and the United Kingdom.

IFC Investments

IFC invests in commercially viable projects that create jobs and transfer knowledge on international best practice. Because of the growing size and significant potential of Cambodia’s tourism sector, IFC has loaned US$10 million to Société Concessionnaire de l’Aéroport for expansion of the international airports in Phnom Penh and Siem Reap (it is expected that this loan will be extended to include a third airport at Sihanoukville). IFC also provided financing of US$1.8 million to Amansara Resorts, a boutique hotel in Siem Reap that is a leader in encouraging the arts in Cambodia.

With financing from IFC and others, ACLEDA Bank, which began as an NGO microfinance provider in 1993, has become Cambodia’s fourth largest bank. IFC holds $US1.6 million in equity in ACLEDA and an IFC representative sits on ACLEDA’s Board. The first loan of $US6 million in 2004 was to increase lending to small and medium enterprises. The second loan in 2006 for $US5 million is supporting further expansion of SME lending, and on-lending to traders/integrators in the agribusiness sector and to licensed microfinance institutions.

IFC provides a mortgage guarantee facility to Canadia Bank worth $US 5 million which is enabling the bank to offer Cambodia’s first homeowner mortgages. IFC-MPDF has helped both ACLEDA and Canadia to improve their operations and train credit officers.

IFC’s equity investment of US$450,000 in Hagar Soya, combined with technical assistance from IFC-MPDF, helped Hagar NGO build a UHT soya milk factory. The factory, which employs former residents of Hagar’s women’s shelter, produces an affordable beverage which is nutritious and has a long shelf life without refrigeration – important factors in a country with limited cold storage and high levels of malnutrition.

IFC Technical Assistance

Government-Private Sector Forum

Funded by IFC and the Government of Australia through AusAID, the Government-Private Sector Forum
(G-PSF) improves the business environment, builds trust, and encourages private investment. This is a demand driven process with the private sector identifying issues and recommending solutions. By fostering capacity and a strong relationship between the government and private sector, the G-PSF is considered a key pillar in improving the investment climate in Cambodia. This achievement has been acknowledged a number of times by the Prime Minister, Cabinet and the private sector and was illustrated through the introduction of an additional Working Group during the 10th G-PSF on June 21st 2006.

The Forum meetings, which are the principle mechanism for direct government/private sector discussion, are held twice per year and chaired by the Prime Minister. They are formal Cabinet meetings and decisions made in the Forums are binding. To ensure wide public exposure, the Forum itself is telecast live on television and radio.

The Forum is the umbrella mechanism under which sit eight Working Groups: 1. Agriculture & Agro Industry; 2. Services, including Banking & Finance; 3. Law, Tax, & Good Governance; 4. Tourism; 5. Energy & Infrastructure; 6. Manufacturing & SMEs; and 7. Export Processing & Trade Facilitation, and 8. Labour. Although substantive progress can be made in the Forum, the Working Groups are the ‘work horses’ of the Forum. Each is Co Chaired by a Minister and a member of the private sector, and they conduct high level technical discussions. Throughout the Forum process the IFC acts as Secretariat and honest broker in its role of facilitator and coordinator.

Private sector representatives meet before the main Working Groups to review and comment on proposed legislation and to identify issues for discussion in the formal Working Group meetings. These Private Sector Working Groups are supported by the secretariats of respective business associations and the Cambodian Chamber of Commerce. Where business associations are weak, the Working Groups provide a clear platform for associations to carry out their critical task of advocacy on behalf of members.

Since the Forum began, it has considered over one thousand issues and made corresponding recommendations. Several hundred issues have been resolved with hundreds more in progress. Over time, private sector participation has grown substantially, as has transparency, capacity to advocate on behalf of the private sector, trust among participants, and influence with donors. Specific achievements include high-level consultation on a number of business-related laws and regulations, trade facilitation reform, finance sector reform, and negotiations on issues relating to concessions involving land and infrastructure. The government has continued to encourage and institutionalize the Forum process. It has restructured its own focus on private sector development to incorporate the government co-chairs into a top level Private Sector Development Steering Committee. The level of communication and focus on private sector development is considered to have improved significantly since IFC became involved in 2002, and is considered a testament to what technical assistance can achieve.

**IFC-Mekong Private Sector Development Facility**

IFC’s technical assistance is provided through IFC-MPDF, a multi-donor facility established by IFC to reduce poverty through sustainable private sector development. The Facility works in Cambodia, Vietnam and Lao PDR through six interrelated programs that seek to improve the business environment; develop the financial sector; improve managerial capacity; and increase sustainable business practices in three sectors that are central to economic growth and poverty reduction – tourism, agribusiness, and garments.

**Business Enabling Environment Program**

The BEE Program undertakes a number of initiatives to improve the policy, regulatory and institutional environment in which business operates. The Facility provides direct technical assistance to government to
develop and implement key business regulations. It also conducts research and gathers information on business issues in Cambodia and “good practice” worldwide. This is disseminated widely through seminars, Private Sector Discussion Papers, quarterly Business Issues Bulletins, and the mass media, including www.mpdf.org. The program also helps the business community to advocate on their own behalf for reforms.

**Cambodia and WTO: A Guide for Business:** This reference book, developed in collaboration with the Ministry of Commerce, discusses how WTO accession will impact Cambodian businesses. It examines some of the challenges and opportunities for businesses in general and SMEs in particular, and considers how WTO might impact Cambodia’s leading sectors. This is one of the few publications worldwide to provide comprehensive guidance on WTO accession in a specific developing country and in the national language. Through the guide itself, seminars and easy-to-understand summaries in newspapers and on television, IFC-MPDF continues to educate entrepreneurs about WTO accession and advocate for reforms to ensure that Cambodia benefits from WTO.

**The Provincial Business Environment Scorecard Project:** In 2006, IFC-MPDF launched its 3-year scorecard project in collaboration with the Asia Foundation and AusAID. The scorecard compares the business climate in 10 economically-active provinces and municipalities, helping local entrepreneurs to advocate for reform. IFC-MPDF will also provide technical assistance to local government in provinces which commit to reform.

**New initiatives:** To help the government implement its new Commercial Arbitration Law, IFC-MPDF is investigating options for an alternative dispute resolution program. The Facility is also developing a publication entitled *Voices of Cambodian Women Entrepreneurs*, part of an IFC global series that highlights women entrepreneurs and the particular challenges they face.

**Financial Markets Development Program**

The FMD Program works with the financial sector to strengthen financial institutions, deepen financial intermediation and increase access to finance. Research shows that the development of the financial sector reduces income inequality by disproportionately boosting incomes of the poor.

**ACLEDA Bank:** IFC and IFC-MPDF have contributed to helping this microfinance provider make the transition from an NGO to a commercial bank. Technical assistance from IFC-MPDF helped improve ACLEDA’s operations and structure, and also trained credit officers in assessing the businesses of borrowers. The Facility also helped bring IFC in as an ACLEDA investor, which in turn attracted other international finance institutions. In 2005, ACLEDA won IFC’s worldwide Client Leadership Award and in 2006, a CGAP Financial Transparency Award.

**Institutional training – the Cambodia Institute of Banking:** IFC-MPDF has supported both commercial banks and microfinance institutions in Cambodia to establish the Cambodia Institute of Banking (CIB), the country’s only dedicated provider of bank training. An institution like CIB was badly needed because the banking industry only re-emerged in the early 1990s and was hampered by shortages of qualified staff. Through ongoing technical assistance, IFC-MPDF helps CIB assess needs, develop curriculum and trainers, and improve CIB’s management.

**The Cambodia Microfinance Association:** IFC-MPDF has been providing technical assistance to Cambodia’s commercial MFI’s for a number of years. This has included helping them to improve their operations, attract international financing, develop the capacity of staff through Cambodia Institute of Banking courses, and formally establish the Cambodia Microfinance Association. Through the help of IFC-MPDF and other donors, Cambodia’s commercial MFI’s are now regarded as among the best managed worldwide.
Index-based weather insurance: This is a new initiative in Cambodia to insure farmers and other stakeholders against floods and droughts. Cambodia ranks sixth worldwide in terms of risk from floods and droughts, and vulnerable Cambodian farmers have few resources to cope when these occur. Based on successful implementation in other countries, including neighboring Thailand, IFC-MPDF is now finalizing a feasibility study conducted in Cambodia. If this proves positive, IFC-MPDF will partner with commercial insurers and the microfinance industry to pilot this new type of insurance in some of Cambodia’s provinces.

Business Edge Management Training Program

Based on feedback from business owners, who rated development of managerial skills as their second highest need after financing, IFC-MPDF’s Business Edge Program has developed a suite of affordable, locally-tailored management training resources to improve individual and company performance. These include workbooks for self-study, 1-2 day workshops, a rigorous competency-based ‘Train the Trainer’ certification process, and Business Edge TV, a weekly business information program in Cambodia. In all these formats, BE covers the key aspects of management – human resources, finance, marketing, production/operations, quality assurance and personal productivity. To ensure sustainability, Business Edge collaborates closely with local partners. Workbooks are printed and sold by local publishers, seminars are delivered by local training companies and local advertisers pay the production costs of BE TV.

In the Mekong region, over 220,000 Business Edge self-study workbooks have been sold, and nearly 8,000 learners have taken part in Business Edge workshops since 2003. Business Edge resources have also been translated and localized for thousands of learners in China, North Africa and the Middle East.

To ensure that Business Edge workshops are delivered as effectively as possible, Business Edge requires trainers to take a rigorous training of trainers (TOT) program. This covers principles of adult learning, techniques that maximize application back on the job, and training in specific course content. Following the TOT program, Business Edge master trainers observe trainers in action and only certify those that meet required standards.

Business Edge TV: IFC-MPDF’s half hour Khmer-language television series airs every Thursday at 9.30 pm on the CTN network. Each week this fast-paced, magazine-style program explores a different challenge faced by Cambodian entrepreneurs – how to secure financing, begin exporting, market effectively, develop human resources, cut through government red tape, etc.

IFC-MPDF launched Business Edge TV because research shows that Cambodians are more likely to get information from television than from any other medium, and television reaches a nationwide audience. Since its launch in September 2003, Business Edge TV has gained a large audience. According to ratings in May 2006, the program is watched by 22% of viewers in its time slot. Viewers’ groups have formed spontaneously to watch and discuss each week’s show, and university lecturers use the shows in their courses. Government agencies also buy copies to train their staff to understand private sector issues. The show has proven so popular, that Business Edge now offers all programs on VCD.

Garment Program

To help Cambodia’s garment industry survive and grow in the face of increasing global competition, IFC-MPDF is improving productivity through building industry-wide partnerships, developing management skills and sustaining and enhancing corporate social responsibility. The Facility targets the garment industry because it is Cambodia’s largest and only significant industry. It is also of enormous importance to the poorer
rural women who work in the industry and support extended families with their earnings. In 2005, industry exports were worth $2.17 billion and at least 1.5 million people benefited directly or indirectly from the industry.

Training in human management skills: According to a December 2004 World Bank study, Cambodia’s good labor record is a major factor motivating at least half of overseas buyers to continue sourcing garments from Cambodia, despite lower prices elsewhere. But maintaining these labor standards and improving productivity in other ways is crucial. Recognizing the links between good labor practices, productivity, and competitiveness, IFC-MPDF and Gap Inc. initiated a 4-day Supervisory Skills Training pilot in 2005 for 650 supervisors in 7 factories. An assessment of outcome/impact carried out 12 months after the training began found significant improvements in supervisory practices, better communication, fewer disputes, lower levels of absenteeism, higher levels of productivity and a reduction in in-line rejections. In December 2005, both GAP and the factories expressed high satisfaction with the program and unanimously agreed that the training should be offered more widely.

Cambodia Buyers’ Forum: IFC-MPDF is contributing to sustainability of the garment industry by establishing a mechanism for international buyers to coordinate efforts to develop the industry. Together with the International Labor Organization (ILO) IFC-MPDF is bringing together buyers, manufacturers, unions and government to regularly discuss how to sustain the industry in the face of global competition. In addition to resolving problems, advocating for the industry, and offering industry-wide training, the Forum is expected to attract new buyers to Cambodia.

Better Factories Cambodia (BFC): Credit for Cambodia’s comparatively good labor standards goes to ILO’s labor monitoring and reporting initiative known as Better Factories Cambodia. IFC-MPDF and ILO are working jointly to turn the project into an independent, self-sustaining institution after ILO funding ends in 2008. If proven successful, this independent institution should become a model for advancing corporate social responsibility in other critical labor intensive sectors, both inside and outside Cambodia.

Industry-wide training strategy: Drawing on its extensive experience with managerial training and its growing role in the garment sector, IFC-MPDF is facilitating the development of an industry-wide training strategy that will coordinate stakeholders’ current training and capacity development initiatives and lay the ground work for new ones.

CraftNetwork-Cambodia: This joint initiative of IFC-MPDF and IFC’s Grassroot Business Initiative is addressing supply chain problems in the handicrafts industry that limit growth and profitability. In Cambodia, handicrafts are a crucial source of income for people with disabilities and other disadvantages. CraftNetwork’s services include export promotion, order fulfillment support and advice to improve enterprise operations. CraftNetwork’s success in generating nearly US$120,000 in sales (one-third above the initial target), demonstrates that buyers will indeed source from Cambodia, that producers need the services that CNC provides, and that producers are willing to pay for these. CraftNetwork’s management is now being taken over by Traidcraft, a UK-based organization focused on poverty reduction through trade. Traidcraft will manage CNC on behalf of IFC-GBI and if outcomes continue to be positive, CNC will spin off as an independent, entirely self-supporting organization in mid-2008.

Tourism Program

IFC-MPDF’s Tourism Program aims to improve the sustainability of the rapidly emerging tourism sector in Cambodia, Lao PDR and Vietnam. The program targets tourism because of its great importance to the economies in the Mekong region, and strong potential to grow. Sustainability is a crucial issue because rapid and unmanaged growth can damage the natural, historic, and cultural assets on which tourism
depends and also adversely affect the lives of local people, especially the most vulnerable. At the business environment level, IFC-MPDF is working with the Tourism Working Group of the Government-Private Sector Forum to address key constraints facing the sector. At the destination level, IFC-MPDF is addressing common issues including short length of stay and limited net benefits to local communities. Other technical assistance initiatives include partnerships and some targeted capacity building with hotel and travel associations and other national actors.

**Worldhotel-link**: IFC-MPDF began its tourism work in Cambodia in 2003 when it set up a web portal in Siem Reap. This enabled smaller hotels and guesthouses to market themselves over the internet for the first time and also created jobs in the locally-based booking office. Initially the hotel and guest house association, which IFC-MPDF had helped to establish, operated the site. This helped attract a sizable membership to the new association and gave it some income. Based on the success of its first site, IFC-MPDF established another site in Phnom Penh and more in Vietnam and Lao PDR. Across the Mekong region IFC-MPDF’s portals have earned the industry some $350,000 in the start-up phase. The results of promoting the small and medium enterprise part of the tourism industry have proven so promising that the staff have set up a new company to replicate the model worldwide. In March of 2006, the new company, Worldhotel-link (WHL - www.worldhotel-link.com) officially spun off from IFC-MPDF and now operates in 33 destinations in 22 countries worldwide. It is also forging partnerships with Lonely Planet and airlines such as Virgin Blue. Once the company is profitable, WHL is obligated to repay all of IFC-MPDF’s investment, plus 5%.

**Stay another day in Siem Reap**: IFC-MPDF is running a one-year sustainable tourism project that links local accommodation providers and tour operators with 11 NGOs and socially-concerned businesses that have products and services for tourists. The goals are to encourage tourists to stay longer, contribute more to local incomes, especially incomes of poorer people, and promote sustainable or ‘destination friendly’ tourism. Worldhotel-link is partnering with IFC-MPDF in this initiative. WHL provides a positive rating on its website for accommodation providers and tour operators that demonstrate commitment to sustainable or ‘destination friendly’ tourism. Through this work in Cambodia and similar initiatives in Lao PDR and Vietnam, IFC-MPDF hopes to demonstrate that sustainable tourism not only improves the profits of participating enterprises, but should be supported throughout the tourism industry.

**Agribusiness Program**

IFC-MPDF’s Agribusiness Program has been improving supply chains and sustainable practices in Vietnam and Lao PDR, and the Facility is currently assessing a project in Cambodia to improve the value chains of agro-processors in promising sub-sectors. IFC-MPDF targets the agricultural sector and agribusiness in particular, because of its economic importance and prospects to create jobs in impoverished rural areas.

In Vietnam, in partnership with the Asian Development Bank and others, IFC-MPDF has developed a supply chain linking hundreds of subsistence farmers with a company manufacturing bamboo flooring for IKEA. This is helping farmers increase yields in an eco-friendly way. In partnership with Oxfam-Hong Kong, IFC-MPDF is currently completing a study to determine the prospects for bamboo manufacturing in Vietnam, Cambodia and Lao PDR. Likely this will lead to scaling up work on improving bamboo supply chains in all three countries in order to increase incomes of the poorer, rural people who grow, harvest and pre-process bamboo. This fast growing more environmentally-friendly alternative to wood is becoming increasingly popular with furniture manufacturers around the world.