

INTERNATIONAL FINANCE CORPORATION (IFC) IN CAMBODIA

Although Cambodia has progressed greatly after decades of war and isolation, which only ended in 1998, Cambodia's emerging private sector still faces many challenges. 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, IFC has been helping Cambodia to address these problems and compete more effectively in the global economy.



IFC investment targets commercially viable projects that create jobs, transfer knowledge on best international practice and reduce poverty. IFC's advisory services, which are provided through the multi-donor Mekong Private Sector Development Facility (IFC MPDF), target poverty reduction through interrelated programs which 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. IFC MPDF's donors are the Asian Development Bank, Australia, Canada, the European Union, Finland, IFC, Ireland, Japan, New Zealand, the Netherlands, Norway, Sweden, Switzerland and the United Kingdom.

IFC Investments

To help Cambodia develop much needed infrastructure and also contribute to the success of tourism (which is an important creator of jobs with great potential to expand), IFC has provided two loans totaling US\$27.5 million to Société Concessionnaire de l'Aéroport. This is financing expansion and improvements to international airports in Phnom Penh and Siem Reap, and bringing the domestic airport in Sihanoukville up to international standards. IFC has also provided financing of US\$1.8 million to Amansara Resorts, a boutique hotel in Siem Reap, near Angkor Wat, that has become a leader in the revival of traditional music and arts in Cambodia.

Through both financing and advisory services, IFC and IFC MPDF play an important role in developing Cambodia's commercial finance sector. Both investment and advisory services work towards making more financing available to small and medium-sized enterprises (SMEs), which comprise 95% of businesses in Cambodia and find it difficult to access the financing they need to upgrade and expand.

With financing from IFC and others, ACLEDA Bank, which began as an NGO microfinance provider in 1993, has become Cambodia's second largest and one of its most successful banks. IFC holds \$1.6 million in equity in ACLEDA and an IFC representative sits on ACLEDA's Board. IFC also loaned ACLEDA \$6 million in 2004 and \$5 million in 2006 to support lending to SMEs and licensed microfinance institutions. In 2007, IFC provided ACLEDA with trade financing that will help more Cambodian SMEs enter the global market.

Advisory services from IFC MPDF helped improve ACLEDA's operations and structure, and also trained credit officers in assessing the businesses of borrowers. IFC MPDF also helped to 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. Currently IFC MPDF is advising ACLEDA on the introduction of electronic banking services.

IFC's equity investment of US\$450,000 in Hagar Soya, combined with technical assistance from IFC MPDF, helped Hagar, an NGO targeting abused and abandoned women, to build Cambodia's only 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 Advisory Services (IFC MPDF) achievements in Cambodia

At the end of 2007, IFC MPDF will celebrate ten years of promoting small and medium enterprise development in Cambodia, Vietnam and Lao PDR. These countries share a common history of colonization, war, and isolation, and all are still making the transition from central planning to free enterprise.

IFC MPDF has broken new ground in Cambodia and the Mekong Region in a number of important ways. In 1998, IFC MPDF was the first donor-funded project to target small and medium enterprises. It was also the first to investigate the challenges SMEs face, and share the results widely with government, the private sector and donors. This research and advocacy program continues today as IFC MPDF's Business Enabling Environment Program, carrying out its own research as well as collaborating on key private sector development studies with the World Bank, the Asian Development Bank and others.

IFC MPDF developed and marketed the region's first locally tailored, hands-on training for small business owners and managers under the *Business Edge* brand and has developed the capacity of local trainers and training companies. In the last three years, *Business Edge* has been successfully replicated by IFC in China and the Middle East.

In 2004, IFC MPDF pioneered web portals in Siem Reap that allowed SME accommodation providers to start marketing themselves over the Internet. Based on the success of its first site, web portals were established in Phnom Penh, Vietnam and Lao PDR, and these earned the industry some US\$350,000 in the start-up phase. The results proved so promising that the team set up a new company to replicate the model worldwide, in March 2006. The new, independent company, Worldhotel-link (WHL - www.worldhotel-link.com) now operates 14 sites across the Mekong region and in 67 destinations in 36 countries worldwide. WHL partnerships include Lonely Planet, National Geographic and airlines such as Virgin Blue.

IFC MPDF has contributed to finance sector development in Cambodia by providing crucial training for all levels of banking staff, and also raising more than \$21 million dollars in SME financing from IFC and other international lenders. Ongoing advisory services have helped ACLEDA Bank and other commercial micro-lenders to grow and attract international financing. The Facility also helped launch and continues to advise the Cambodian Microfinance Association. Thanks to support from IFC MPDF and other donors, Cambodia's MFIs are now considered the most successful part of the finance industry and recognized worldwide for meeting high standards.



IFC MPDF pioneered working with grassroots business initiatives (GBIs) in Cambodia that provide training and employment for disadvantaged people. Between 1999 and 2005, IFC MPDF helped a number of NGOs and socially conscious enterprises to develop the operational systems and business skills needed to become commercially successful. These GBIs include Hagar Design, a maker of high fashion silk handbags and home accessories; Hagar Soya, Cambodia's only UHT soya milk factory; Hagar Catering which profitably caters for staff in a number of hotels and garment factories, and operates a successful restaurant; Digital Divide Data, which provides data entry work for more than 200 employees in several Mekong cities, and CraftNetwork, which is helping established craft producers successfully market the products of hundreds of disadvantaged artisans across Cambodia.

Today IFC MPDF is still the largest private enterprise promotion program in the region, and in January 2008 it will launch its third five-year phase with a budget of \$50 million dollars.

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 program provides advisory services 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.ifc.org/mpdf. Unique BEE publications include *Cambodia and WTO: A Guide for Business*, which helps SMEs understand the impact and opportunities of WTO accession. Publications now in press include one on the challenges facing women entrepreneurs in Cambodia and one on export procedures. The program also helps the business community to advocate on their own behalf through the Government-Private Sector Forum.

Government-Private Sector Forum: Because private enterprise has a short recent history in Cambodia, IFC supports the Government-Private Sector Forum, a structured and on-going dialogue between the Royal Government of Cambodia and the country's business community.

Through the G-PSF, representatives from government and private enterprise meet regularly to raise issues, hear each other's views, and gain practical insights with regard to reforming existing and proposed policies, laws and regulations. This on-going dialogue helps improve the business environment so that it attracts the foreign and domestic investment needed to help the economy grow.

The G-PSF was launched in 1999, and it has developed into twice-yearly high profile, nationally-broadcast meetings between several hundred government and private sector leaders, representing eight sectoral working groups. Under the umbrella of the G-PSF, these sectoral working groups meet year-round at two levels to identify and resolve issues. At the first level, private sector representatives of associations and companies meet on their own to identify and agree on issues to raise with the government. At the second level, corresponding government/private sector Working Groups meet about once a month to resolve issues. In the Forums, the private sector and government Co-Chairs of the Working Groups report on their progress and ask the Prime Minister and cabinet for help in resolving any issues they could not settle.

Since 2002, with funding from AusAID, IFC has operated a Coordinating Bureau which facilitates meetings of the working groups, tracks progress on the reforms they are resolving, disseminates key documents in print and through a website (www.cambodia-gpsf.org) and conducts selected research to aid working groups in advocating reforms. Among significant reforms attributed to the G-PSF are: the review of scanning procedures for containers going through Sihanoukville Port; reduction of high cost and other problems related to the Sihanoukville toll road; simplification of cumbersome licensing requirements; and postponement of an accommodation tax until the tourism industry is better established.

Regarding economic impact, an analysis of nine of more than 1,000 issues raised by the Forum, found that their value to the private sector was worth nearly \$70 million and that the total impact of Forum-led reforms is likely worth far more. The evaluation also found that both government and private sector participants devote considerable resources to the Forum. The pro bono contribution business owners and managers provide through their participation in the working groups, is worth an estimated \$350,000 a year.

Provincial Business Environment Scorecard (PBES): Improving the business environment at the provincial level is critically important in Cambodia. The majority of people live in rural areas where poverty levels

are the highest. In many communities, the population exceeds the land available for farming, and opportunities for employment are few. Although agribusiness has considerable potential in Cambodia, business environment problems are widely recognized as slowing growth.

IFC MPDF launched the Provincial Business Environment Scorecard project because, as worldwide experience shows, unless regulatory reforms are implemented effectively at the local level, they have little impact. The PBES project targets reform in two parts. The first

is an annual survey of hundreds of businesses across Cambodia to assess key indicators of business friendliness, tally the results and rank provinces against each other. The second part of the project provides advisory services to provincial governments to support administrative reforms related to business registration, licensing, permits, and inspections. The PBES is the largest and most comprehensive research study of its kind conducted in Cambodia. In 2006, the survey assessed business environment challenges in Cambodia's ten most economically-active provinces and in 2008, all 24 provinces will be assessed and ranked against each other.



Alternative Dispute Resolution: Settling business disputes is not easy in Cambodia and this slows economic development. Court systems are overloaded, judges are not trained to hear commercial cases and bribery can influence decisions. As a result of long delays and other problems, the cost of pursuing a case in court is often more than the value of the disputed amount. With little faith in the court system, entrepreneurs are reluctant to enter into business relationships with people they do not know well, which limits their growth. IFC MPDF is investigating the feasibility of providing support for a National Arbitration Center as an alternative to the court system. Through this project IFC MPDF is leveraging World Bank Group experience in establishing alternative dispute resolution.

Access to Finance Program

The ATF 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.

Over the past six years, IFC MPDF has played a major role in developing the microfinance industry in Cambodia. Based on a needs assessment conducted in 2005, IFC MPDF has helped MFIs to: develop a shared vision of sustainable microfinance; launch the Cambodian Microfinance Association (CMA) develop a business plan; build capacity; and assess the feasibility for local commercial banks to secure wholesale funding they can on-lend to MFIs.

IFC MPDF is currently expanding its support for CMA's advocacy work and helping improve the regulatory environment for MFIs so that they can introduce new products such as microinsurance and savings. IFC MPDF may also help member institutions to build an internal system for exchanging information on borrowers' credit history. Other important MFI assistance includes:

Mekong Bank Advisory Project: This new initiative in all three IFC MPDF countries is helping commercial finance institutions provide more and better services to entrepreneurs, as well as individual consumers. Over the next six years, the program will provide advisory services worth more than US\$12 million to selected banks and other non-bank financial institutions such as insurance and leasing companies. This will help IFC partner banks better serve the private sector, and as a result, tens of thousands more entrepre-

neers are expected to get the financing and financial services they need to expand, create more jobs and contribute to economic growth.

Although approaches will vary depending on the needs of each partner, IFC MPDF's support is likely to include helping financial institutions to develop an SME marketing strategy, improve risk and portfolio management and introduce new products/services, including mobile banking.

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. IFC MPDF 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 2006, garment exports were worth US\$2.5 billion, and at least 1.7 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 four-day "Supervisory Skills" training course in 2005 for 650 supervisors in seven factories. An assessment of outcome/impact carried out 12 months after the training found significant improvements in supervisory practices, better communication, fewer disputes, lower levels of absenteeism, higher levels of productivity and a reduction in rejections.

Based on the success of the initial pilot, a number of prominent retailers are joining Gap Inc and IFC MPDF in encouraging their partner factories to participate in the training. These include Sears Corp., Levi Strauss & Co., Wal-Mart, Adidas and others. *Better Factories Cambodia*, the International Labor Organization's (ILO) labor monitoring and remediation program, is also promoting the industry-wide scale up, and after further development of BFC's training capacity, it will take over delivery of the program. Over 18 months, the supervisory skills training is expected to develop the capacity of some 3,000 supervisors, who oversee nearly 100,000 Cambodian workers. A special version of the course for factory owners and senior managers is expected to reach some 300 participants.

Cambodia Buyers' Forum: IFC MPDF, in partnership with ILO, is contributing to sustainability of the garment industry by establishing a mechanism that coordinates the efforts of international buyers to develop the industry. The Forum brings 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, IFC MPDF is facilitating the development of an industry-wide training strategy that will coordinate stakeholders' current training initiatives and lay the groundwork for new ones.

Tourism Program

IFC MPDF's Tourism Program aims to improve the sustainability of the rapidly emerging tourism sector. The program targets tourism in Cambodia, Lao PDR and Vietnam because of its importance to the economies in the Mekong region. Tourism generates around one million jobs in the region and has strong potential to grow. Sustainability is a crucial issue as rapid, unmanaged growth damages the natural, historic, and cultural assets on which tourism depends and also adversely affects the lives of local people, especially the most vulnerable. To address key business environment constraints, IFC MPDF is working with the Tourism Working Group of the Government-Private Sector Forum. At the destination level, IFC MPDF is addressing issues including short length of stay and limited benefits to local communities and assessing how sector development could achieve greater impact within the destination.

'Stay Another Day': IFC MPDF is running an innovative sustainable tourism project that links local tourism businesses to over 40 socially responsible organizations with products and services for tourists. The goals are to encourage tourists to stay longer, contribute more to local incomes, especially the least advantaged, and promote sustainable or 'destination friendly' tourism. Through this work in Cambodia and across the Mekong, IFC MPDF aims to show that sustainable tourism initiatives benefit both the destination and make good business sense. After positive initial feedback, the Tourism team is looking at options to partner with international NGOs and/or businesses to scale up and replicate around the world.



Agribusiness Program

IFC MPDF has been improving supply chains and sustainable practices in Vietnam and Lao PDR, and 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 their economic importance and prospects to create jobs in impoverished rural areas.

In Vietnam, IFC MPDF has developed a supply chain linking hundreds of subsistence farmers with a company manufacturing bamboo flooring for IKEA to help farmers and processors increase yields and their incomes in an eco-friendly way. Following a study conducted in partnership with Oxfam Hong Kong on the prospects for bamboo manufacturing in Cambodia, Vietnam and Lao PDR, work on improving bamboo



supply chains will scale up in all three countries. This fast growing, more environmentally-friendly alternative to wood, is becoming increasingly popular with furniture manufacturers around the world. It also has strong potential to increase incomes of the poorer, rural people who grow, harvest and pre-process bamboo.

In August 2007, the European Union designated IFC MPDF as the implementing agency for a new Euro10 million agribusiness project, which aligns with IFC's overall investment and advisory strategy in Cambodia and focuses in particular on staple foods, tree crops and other fruits and vegetables.