



Land titlings improve land security, access to credit, promote investment and create jobs

The poor's access to productive assets is one of the pillars of the new Country Assistance Strategy (CAS) for Cambodia. In this issue, the World Bank newsletter had the opportunity to interview Mr. Wael Zakout, former task team leader of the Land Management and Administration Project.

Q - You worked as the task team leader of the Land Management and Administration Project. Tell us about it.

A - The Land Management and Administration Project is a project financed by several donors, including the World

Bank, GTZ, Finland and recently CIDA. Its scope is to foster improving security of people's right to land. As many know, there are numerous land disputes in the country. Powerful people grab land from the poor and disadvantaged. This happens because people do not have land titles to protect their rights when powerful people try to grab their land. Also, lack of land titles discourages investment, which Cambodia is in dire need of in order to promote economic growth.

Q - How do the people benefit from this project?

A - The project will benefit the people in three ways. First, it will improve their tenure security and therefore, this increased feeling of security will encourage investing in it. Second, land titles could be used to access credit so that they can develop small businesses or invest in agricultural land. Lastly, land titling will promote investment which will generate job opportunities for the people of Cambodia.

Q - What has the project achieved in these

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Villagers are looking at the list of land titling on public display in Takeo province

Seizing the global opportunity demands domestic reform to complement WTO entry

For Cambodia to grow its economy and reduce poverty, the Government needs to act immediately and decisively on corruption, strengthen the rule of law and build institutions that create fertile business climate, according to new World Bank Report. Report notes serious Government reform now underway.

PHNOM PENH, August 12, 2004— Over 200 people from government, private sector, civil society, and the donor community gathered in Phnom Penh today to discuss how Cambodia can seize the global opportunity offered by WTO accession to promote growth and reduce poverty by improving its investment

climate and growing a strong private sector. Participants agreed that, with the research done and reform program developed, now is the time for the Government to act decisively and implement reforms to decrease corruption, strengthen the rule of law, and build the institutions that will attract

businesses and allow them to flourish in the global economy.

The workshop focused on a new study by the World Bank Group, Cambodia: Seizing the Global Opportunity (Investment Climate Assessment and Reform Strategy) and the Government's *continued on page 2*

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reform strategy for private sector development. With recent breakthroughs in global trade negotiations creating hope for better global market opportunities for developing countries, Cambodia has the opportunity to benefit from increased market access. But this access is only one side of the equation, according to the new report. To benefit from this opportunity, the Cambodian Government needs to move aggressively in implementing the reform program they have adopted as part of the report's recommendations.

H.E. Keat Chhon, Sr. Minister of Economy and Finance, commenting on behalf of the Government to the earlier draft, "The government agrees that we must do more to improve investment climate by tacking the high cost of business, bureaucratic red tape, and corruption. With respect to unofficial costs, we need to work on both fronts to reduce the cost of business and to increase tax revenue. This is a cross-sectoral area, requiring cross-Ministerial dialogue. For this reason, the Prime Minister issued a decision of the Government in March 2004 to take immediate action to reduce transaction costs, streamline procedures, reduce the time for export/import operations, and increase budget revenue. We believe this study – and the work done by our team to respond to these findings through developing a comprehensive reform agenda – will be a key input into helping to create the kind of strong private sector-led growth that will enable Cambodians to have a better, more productive, healthier life."

The study identifies a number of critical constraints facing local and foreign businesses operating in Cambodia, including:



Private Sector representative chair one of the sessions at the Seizing the Global Opportunity workshop in Phnom Penh on August 12, 2004

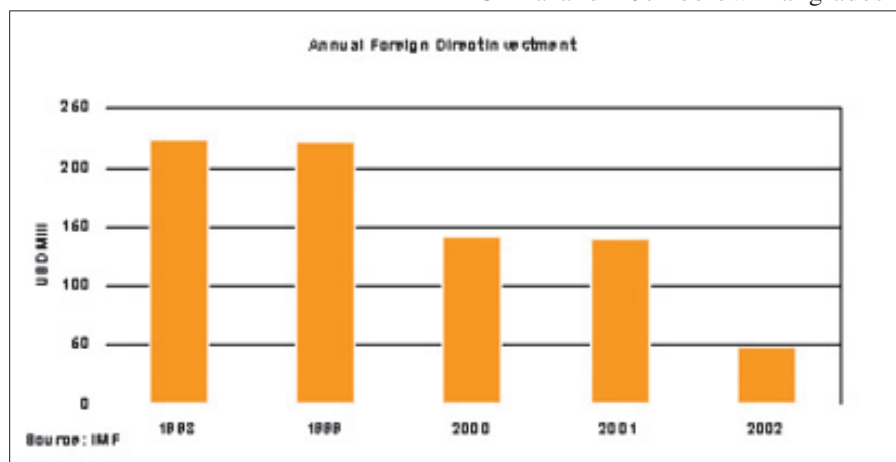
- ◆ unofficial payments reported by the private sector that, as a share of their revenue, are over twice as high as the share paid by firms in Bangladesh, and by far the highest among a set of countries benchmarked in the report.
 - ◆ costs to incorporate a business over five times GDP per capita and among the highest in the world relative to income levels;
 - ◆ a minimum capital requirement over seventeen times GDP per capita, whereas many countries including Thailand, Nepal, Uganda and Vietnam have no minimal capital requirement;
 - ◆ a process of clearing an import shipment that can require the completion of 45 separate documents;
 - ◆ a lack of institutions to absorb risk, causing rural Cambodian firms to hold among the world's highest inventory stocks as a share of sales.
- As a consequence of these impediments, labor productivity of Cambodian firms surveyed is 62% below China and 10% below Bangladesh.

Today's report notes that, as a consequence of these perceptions, foreign direct investment has fallen consistently since 1999.

The report was developed jointly by the World Bank, International Finance Corporation, the Mekong Project Development Facility, and the Public-Private Infrastructure Advisory Facility working with reformers in the Government. Based on a survey of 800 urban, rural and informal firms, the study was designed to achieve three related objectives: to enable the private sector to lead growth, to help diversify the economy, and to increase the role of the private sector in delivery of public services such as infrastructure.

The study notes that the Cambodian Government, which was given the opportunity to review the draft findings, used the report as a springboard to develop a 12-point Action Plan to overhaul trade facilitation practices, reduce business registration processes and encourage the private sector to invest in a code of ethics. The Prime Minister appointed a Special Inter-ministerial Task Force for Improving the Investment Climate and Trade Facilitation which is now working toward developing and implementing an integrated program of reform to undertake measures focusing on trade facilitation, reducing the burden of inspections and documentation, reducing the cost of registration, and encouraging ethics.

H.E. Cham Prasidh, Senior Minister, Minister of Commerce said at today's launch, "This study has helped to expose the problems, constraints, and challenges of businesses operating in Cambodia.



Now that we know the symptoms – and the disease – we know what is needed is the political will to take the necessary actions and implement the reform program to help businesses survive, increase competitiveness, and prosper in this new global environment.”

H.E. Sok Siphana, one of the lead architects of the overall effort with the World Bank Group, made a linkage with Cambodia’s WTO Accession. “The Government and Parliament are about to ratify the WTO Accession Protocol, which gives Cambodia an overall framework for pro-poor trade and international legitimacy for our reforms. This sets the stage for Government to take concrete measures to implement the investment climate reform and hopefully send the right signal to the business community. We worked for one and a half years to produce this report – not only to recognize the symptoms but to go for the cure.”

Mr. Magdi M. Amin, who led the World Bank team, said, “By removing impediments like corruption and the lack of transparency in public-private partnerships, the impact of the private sector on growth and service delivery can be much greater. We called attention to these issues in Cambodia to help catalyze reform. We are pleased that the Government reaction was not to deny that the problems exist, but rather to immediately kick start a reform effort to address the problems. We hope this commitment remains strong through implementation. We also find it noteworthy that the private sector will play a role in ensuring that the reforms are monitored transparently.”

The report does find that Cambodia’s private sector growth over the past decade has been remarkable in light of the destruction wrought by years of conflict and that private investment can create jobs at wage levels that can reduce poverty. In the period 1997-2001, industrial employment grew by an average of over 43 percent per year, compared with less than 2 percent growth of both agricultural and service employment. This growth was driven by the export performance of the garment sector, which has grown from \$28 million in 1995 to over \$1.35 billion in 2002.

The report defines private sector development in Cambodia as a three-fold challenge:

- ◆ The Productivity Challenge: address the productivity gap with countries where key competitors in international markets are located;

- ◆ The Diversification Challenge: broaden the base of economic opportunity and jobs in new sectors such as agroindustry by raising their productivity levels, and addressing the constraint caused by fragmented markets which limit competition and productivity gains;

- ◆ The Service Delivery Challenge: improve access to efficient and affordable water, electricity, transport, and telecommunication services – all of which can have major impacts on Cambodian living standards and on the investment climate.

Developing small and medium sized enterprises (SMEs) is an important part of the task ahead said H.E. Suy Sem, Ministry of Industry, Mine and Energy. He noted in his speech, “This assessment has rightly identified areas where reforms are needed to help Cambodian businesses compete regionally and globally. To do this, we need to support SME development further, establish legal and administrative reforms, and remove the constraints such as licensing regulations and access to financing through such measures as leasing and credit bureaus.”

Mr. Shyam Bajpai, Country Director for the Asian Development Bank, said, “We believe that SME development in Cambodia will have a powerful anti-poverty impact. Poverty is highest in the rural areas, which is where the majority of SMES are located, including small rice mills, food processors and handicraft and textile producers. Strengthening and expanding these will directly generate employment opportunities and income.”

The report proposes a number of recommendations, with a particular focus on improving trade facilitation practices, integrating markets through institutions such as private value chains, and injecting

competition and transparency in private participation in infrastructure – recognizing that the most important reforms are questions of political will, and as such are facilitated as much by frank, factual discussion as by technical recommendations.

Mr. Ken Loo, Secretary General, Garment Manufacturers’ Association of Cambodia, commented, “The report accurately portrays the problems that we are facing every day. If implemented, the reforms would have a good impact on keeping the industry growing in Cambodia. However, we have seen and participated in many discussions in the past ... this time we look forward to seeing results.”

Ms. Nisha Agrawal, World Bank Country Manager for Cambodia, noted, “The agenda presented in the report represents the growth agenda, the poverty reduction agenda, and the good governance agenda for Cambodia. This was brought to life for me when I visited Poipet and found that the border checkpoints and other constraints highlighted in this report are the same as those faced by the poor day laborers who go from Cambodia to Thailand to earn \$1/day and whose earnings are diminished by these inspections.”

Mr. Robert Hageman, Resident Representative from the International Monetary Fund (IMF) concluded, “the coincidence of the formation of a new government, the publication of the government’s rectangular strategy, and the dissemination of this comprehensive and constructive report is very opportune. Armed with the report’s bold reform proposals and a government-owned strategy, the time is propitious for demonstrating the political will needed to seize the global opportunity.”



The World Bank delegation attended the Seizing the Global Opportunity workshop

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past five years?

A - Getting land titling to eligible land owners is not as simple as many people think. There are a few necessary steps. First of all, the government must establish the necessary legal and regulatory frameworks to such a reform. The Royal Government of Cambodia has done so by promulgating the land law and enacting the subsequent sub-decrees pertaining to land registration. Secondly, the institutional capacity to undertake mapping, registration so-on and so-forth, must be built.



Mr. Sar Sovann, Project Director, talks to villagers during land titling public display in Takeo province

This too has been achieved by the government. Finally, it is essential to then decentralise these procedures to a regional and local level. This step has also been completed by the government. Local teams are mapping and registering land titles. Currently, these teams are issuing about 10,000 such titles a month. It is expected that they will soon be delivering twice as much.

Q - We often hear about land grabbing. Most of the rich and powerful own a lot of land in Cambodia. Since you were working on land issues, how would you like to react?

A - Land grabbing is a serious problem in Cambodia. It happens because the laws are unclear and the legal system is very weak. Often, in such cases, the powerful people

take advantage of the system and exploit the lack of rights of the poor defenseless communities. The project is dealing with this through four activities. The first is through supporting the Cadastral Commissions, an administrative mechanism to resolve land disputes out of court. Second, the project is also supporting the provision of legal assistance to the poor and disadvantaged groups when they are involved in a dispute with powerful people. Third, the project is supporting the development of a state land management sub-decree to protect state land from grabbers. Finally, the project will develop instructions to implement article 18 of the land law which calls for recovering land grabbed illegally. We need, however, to be realistic. This problem will not be solved overnight and it will take some time to get these legal mechanisms in place and fully implemented. In the meantime we will continue to see cases of land grabs. The important part is that there is a clear mechanism to deal with the issues and protect the rights of the poor when land grabbing happens. The latest developments are encouraging.

Q - What would you recommend on land issues in Cambodia?

A - Land grab happens because there is a

weak governance environment, a weak legal system, and there is no protection of rights. Article 18 of the land law addresses this specific issue. Currently though, there are no instructions on how to execute this article. I feel it is now time for the government to start implementing article 18. It will not be an easy task and will not be the end of land grabs. But, the government needs to start addressing this issue diligently.

Q - How does your own past influence your task team leadership of the land management project in Cambodia?

A - I'm a Palestinian. I grew up in a refugee camp in Gaza after my family lost all of our land due to the war. My own life experience has contributed to a deep understanding and appreciation of the relationship between people, land and power. It also helps me appreciate the human side of land ownership and how people value their land. I know that these problems are simply not technical ones, but a reflection of the political situation and a sheer imbalance between the political elites and the defenseless poor. I have also learned that in life, one should never give up, for everything is possible.



Villagers attended land titling public display in Bati district, Takeo province

We Welcome Your Opinions and Comments

We welcome your opinions, comments and questions. Please send them to: Bou Saroeun, Communications Specialist, at 113 Norodom Blvd., Phnom Penh, email: sbou@worldbank.org. We very much appreciate your valuable assistance.