

AID-FOR-TRADE CASE STORY

JAPAN

The Development Study on the Institutional Strengthening of Investment Promotion

Region: Asia

Country: Cambodia

Type: Development Study

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ISSUES ADDRESSED

Promotion of Foreign Direct Investment (FDI) is one of the most important agenda in Cambodia's national development policy, as an urgent issue to be addressed from the point of view to improve the existing capital shortage gap as well as to introduce advanced foreign technologies to production and management capacity of its domestic private sector. Moreover, it is expected that FDI will be able to contribute to poverty reduction at the end through economic growth by facilitating private sector development as well as export promotion.

In Cambodia, the Council for the Development of Cambodia (CDC) carries the responsibility for providing governmental services as the window for FDI; however, it's observed that CDC lacks skills in many respects and those should be strengthened. It was particularly required to rectify its weaknesses in investment/investor data collection and dissemination, and to enhance investment promotion urgently so as to attract fresh investment from developed countries and accelerate trade.

OBJECTIVES PURSUED

Under the circumstances, the Royal Government of Cambodia requested Japan to carry out a development study "The Development study on the Institutional Strengthening of Investment Promotion" for the following objectives;

- i) To formulate a Master Plan (M/P) for the institutional strengthening of investment promotion function of CDC, consisting of various concrete measures such as the organizational restructuring, enhancement of FDI data collection and dissemination, and improvement of investment promotion services; and
- ii) To transfer relevant knowledge and skills for investment promotion to CDC's staff through the process of the formulation of the Master Plan and implementation of the pilot projects.

PROBLEMS ENCOUNTERED

CDC is supposed to have two functions, which are investment promotion and investment approval, as Investment Promotion Agency (IPA). However, it was difficult for CDC to recognize equally the importance of both functions because the staff of CDC is not enough and the skill level of them is not sufficient. Out of two functions, CDC was mainly engaging in managing Investment Approval processes such as Qualified Investment Project (QIP) application procedures. On the other hand, they didn't only allocate sufficient human resources but also not have any mandated department in their organization. As a result, they could provide insufficient data and information in terms of the variety and quality of investment information for promotion.

The issues relevant to the current investment promotion services provided by CDC have been evaluated through a comparison with services provided by other IPAs as well as the demand of potential investors. The issues concerning the current investment climate in Cambodia, including investment promotion policies, have also been summarized.

FACTORS FOR SUCCESS / FAILURE

In order to review the current situation and identify the issues concerning the investment promotion services provided by CDC as well as the organizational and management structure, four studies were conducted as a basic study in the initial stage (1st phase), specifically: i) an awareness survey and interview of Cambodian Investment Board (CIB) staff; ii) a benchmark survey of IPAs in neighboring countries (Vietnam and Thailand); iii) an FDI needs survey on potential investors and iv) a survey of priority industries in Cambodia.

After the 1st phase, the Pilot Projects as 2nd phase were implemented in order to: (i) verify the viability of possible solutions for tackling the primary issues; (ii) improve the capacity of CIB staff through the implementation of the pilot projects; and (iii) reflect the results of the projects and lessons in the Master Plan and Action Plan with the collaboration of the Working Group which is formulated comprised of deputy directors/chiefs of bureau of the eight departments of CDC.

Under the Pilot Projects, the Study Team conducted a diagnostic survey of CDC by analyzing data and information, and interviewing managers and staff of CDC. In addition, the Study Team conducted an analysis of CDC based on the Policy Framework for Investment (PFI) of OECD which is developed to help governments overcome by OECD.

RESULTS ACHIEVED

Based on the PFI assessment and other surveys, 16 Action Plans were prepared, including action plans on information services, PR activities, consultation / aftercare services, policy advocacy, and organization.

Cambodia Investment Guidebook was published and Application Manuals for Qualified Investment Project (QIP) was prepared.

Project seminars held in Japan attracted investors – inquiries became tripled and actual investments were realized.

LESSONS LEARNED

It's very important to have robust debate among a counterpart and JICA study team about priority based on diagnosis outcome of its national development policy and to form a project which is expected synergy with other development projects. This kind of approach can make a counterpart keep recognizing ownership of the project and being motivated through whole process of the project.

In this particular development study, the PFI as a tool was introduced to assess the activities for investment promotion in Cambodia. The PFI represents the most comprehensive multilaterally-backed approach for improving investment conditions. It addresses some 82 questions to governments in 10 policy areas to help them design and implement good policy practices for attracting and maximizing the benefits of investment. The PFI is based on the common values of rule of law, transparency, non-discrimination, protection of

property rights in tandem with other human rights, public and corporate sector integrity, and international co-operation. In addition to the executing the PFI with taking its economic circumstances and institutional capabilities into account is an important element to realize the most effect.

CONCLUSION (applicability to other programmes)

Foreign direct investment promotion and increase of export are normally prioritized as important agenda of national development policy in most of developing countries. This kind of program approach is considered useful and effective, which would be applicable to other region or programs. Private sector is the most important player in the area of investment therefore Investment Promotion Agency should gather the need of investors and provide appropriate service continuously. The success of attracting FDI contributes to the expansion of the production capacity in Cambodia and increase of its export.