



# Concept Paper

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**PUBLIC**

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## Proposed Programmatic Approach and Policy- Based Loan for Subprogram 1 Kingdom of Cambodia: Trade and Competitiveness Program

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**Asian Development Bank**

## CURRENCY EQUIVALENTS

(as of 22 August 2022)

Currency unit – riel/s (KR)

KR1.00 = \$0.00024

\$1.00 = KR4,099

## ABBREVIATIONS

ADB	–	Asian Development Bank
COVID-19	–	coronavirus disease
FDI	–	foreign direct investment
FINTECH	–	financial technology
LDC	–	least developed country
MLETR	–	Model Law on Electronic Transferable Records
MSME	–	micro, small, and medium-sized enterprise
R&D	–	research and development
SEZ	–	special economic zone
WMSME	–	women-owned micro, small, and medium-sized enterprise

## NOTE

In this report, "\$" refers to United States dollars.

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## PROGRAM AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number:</b> 55255-001	
<b>Project Name</b>	Trade and Competitiveness Program, Subprogram 1	<b>Department/Division</b>	SERD/SEPF
<b>Country</b>	Cambodia	<b>Executing Agency</b>	Ministry of Economy and Finance
<b>Borrower</b>	Kingdom of Cambodia		
<b>Country Economic Indicators</b>	<a href="https://www.adb.org/Documents/LinkedDocs/?id=55255-001-CEI">https://www.adb.org/Documents/LinkedDocs/?id=55255-001-CEI</a>		
<b>Portfolio at a Glance</b>	<a href="https://www.adb.org/Documents/LinkedDocs/?id=55255-001-PortAtaGlance">https://www.adb.org/Documents/LinkedDocs/?id=55255-001-PortAtaGlance</a>		
<b>2. Sector</b>		<b>Subsector(s)</b>	
✓ <b>Industry and trade</b>	Industry and trade sector development	<b>ADB Financing (\$ million)</b>	
			50.000
		<b>Total</b>	<b>50.000</b>
<b>3. Operational Priorities</b>		<b>Climate Change Information</b>	
✓ OP1: Addressing remaining poverty and reducing inequalities		GHG reductions (tons per annum)	0
✓ OP2: Accelerating progress in gender equality		Climate Change impact on the Project	Low
✓ OP3: Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability			
✓ OP6: Strengthening governance and institutional capacity		<b>ADB Financing</b>	
✓ OP7: Fostering regional cooperation and integration		Adaptation (\$ million)	7.220
		Mitigation (\$ million)	3.330
		<b>Cofinancing</b>	
		Adaptation (\$ million)	0.000
		Mitigation (\$ million)	0.000
<b>Sustainable Development Goals</b>		<b>Gender Equity and Mainstreaming</b>	
SDG 1.4, 1.5, 1.a		Effective gender mainstreaming (EGM)	✓
SDG 5.b, 5.c			
SDG 8.2		<b>Poverty Targeting</b>	
SDG 9.2, 9.3		General Intervention on Poverty	✓
SDG 10.1, 10.2			
SDG 13.a			
<b>4. Risk Categorization:</b>	Low		
<b>5. Safeguard Categorization</b>	<b>Environment: C</b>	<b>Involuntary Resettlement: C</b>	<b>Indigenous Peoples: C</b>
<b>6. Financing</b>			
<b>Modality and Sources</b>		<b>Amount (\$ million)</b>	
<b>ADB</b>		<b>50.000</b>	
Sovereign Programmatic Approach Policy-Based Lending (Concessional Loan): Ordinary capital resources		50.000	
<b>Cofinancing</b>		<b>0.000</b>	
None		0.000	
<b>Counterpart</b>		<b>0.000</b>	
None		0.000	
<b>Total</b>		<b>50.000</b>	
<b>Currency of ADB Financing:</b> US Dollar			

## I. THE PROPOSAL

1. To enhance the country's international competitiveness and diversify its economy, the Government of Cambodia is undertaking reforms to improve the environment for investment and trade, help firms become more productive, and exploit new sources of growth. The reforms will help the country recover economically from the coronavirus disease (COVID-19) pandemic, achieve a higher income status, and improve the livelihoods of its citizens. The proposed Trade and Competitiveness Program will support these reforms.

2. The program is aligned with the government's Rectangular Strategy (Phase IV) and the Asian Development Bank (ADB) country partnership strategy for Cambodia.<sup>1</sup> ADB included the program in its 2022–2024 lending pipeline for Cambodia, agreed upon between the government and ADB during the 2021 country programming mission. The program supports three reform areas: (i) enhancing the enabling environment for investment and business; (ii) growing micro, small, and medium-sized enterprises (MSMEs); and (iii) improving trade policy and enhancing trade facilitation. It contributes to the following operational priorities (OP) of ADB's Strategy 2030:<sup>2</sup> OP 1 (addressing remaining poverty and reducing inequalities); OP 2 (accelerating progress in gender equality); OP 3 (tackling climate change, building climate and disaster resilience and enhancing environmental sustainability); OP 6 (strengthening governance and institutional capacity); and OP 7 (fostering regional cooperation and integration). A programmatic approach was selected as this provides flexibility to address the complexity of multiyear reforms spanning various government ministries, without losing sight of the program's overall outcome. Program preparation is supported by transaction technical assistance from ADB's Technical Assistance Special Fund (Appendix 2).

## II. PROGRAM AND RATIONALE

### A. Background and Development Constraints

3. Cambodia aspires to be an upper middle-income country by 2030. Since the turn of the century, Cambodia's economy has rapidly expanded, with an average annual growth rate of 7.7% during 2000–2019.<sup>3</sup> Gross national income per capita rose to \$1,530 in 2019 from \$300 in 2000, elevating Cambodia to lower middle-income country status.<sup>4</sup> The poverty rate declined to 17.8% in 2019 from 33.4% in 2009.<sup>5</sup> Yet many Cambodians live on the margins of poverty and, despite advances in health, education, and other human development indicators, remain vulnerable to economic upheaval and gender-related disparity. Fiscal policy was expansionary in 2020 and 2021 to support public health, social interventions, and businesses impacted by COVID-19. Although the economy contracted by 3.1% in 2020, growth rebounded to 3.0% in 2021 and the economy is forecast to grow by 5.3% in 2022 (footnote 3). The macroeconomic framework that guides the medium-term fiscal strategy is satisfactory, and government debt remains sustainable.

4. **Cambodia's economic competitiveness is eroding.** Cambodia's growth model, based on attracting foreign direct investment (FDI) with low-cost labor, has delivered high growth rates but is now showing limitations. Cambodia ranked 106th out of 141 countries in the 2019 *Global Competitiveness Index*, coming in 127th for business dynamism and 131st for public sector

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<sup>1</sup> Government of Cambodia. 2018. [Rectangular Strategy for Growth, Employment, Equity and Efficiency: Building the Foundation Toward Realizing the Cambodia Vision 2050, Phase IV](#). Phnom Penh; and ADB. 2019. [Country Partnership Strategy: Cambodia, 2019–2023](#). Manila.

<sup>2</sup> ADB. 2018. [Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and Pacific](#). Manila.

<sup>3</sup> ADB. 2022. [Asian Development Outlook 2022: Mobilizing Taxes for Development](#). Manila.

<sup>4</sup> ADB. 2021. [Basic 2021 Statistics](#). Manila.

<sup>5</sup> Government of Cambodia. 2021. [Poverty in Cambodia: Redefining the Poverty Line](#). Phnom Penh.

performance.<sup>6</sup> FDI flows and economic growth remain concentrated in a few sectors (garment, footwear and textile manufacturing, tourism, and construction), leaving the economy vulnerable to shocks. Manufacturing is also focused on low-skilled, labor-intensive activities, where value addition is limited and technology spillovers from FDI elusive. Rising wages and weak productivity growth have eroded external competitiveness.<sup>7</sup> In addition, the costs of doing business and the administrative burden of regulations remain high.

5. **Structural weaknesses exposed by the coronavirus disease pandemic.** Although the pandemic affected all economic sectors, its negative impact has been the hardest on the mainstays of the economy (garment, footwear and textile manufacturing, tourism, and construction), which have struggled with COVID-19–related shutdowns and are relatively less amenable to digital transformation. MSMEs—the bulk of firms in Cambodia—were ill equipped to deal with exogenous shocks and suffered more from the crisis than large firms.<sup>8</sup>

6. **Uncertain global trading environment dampens recovery prospects.** As a least developed country (LDC), Cambodia benefited from generalized system of preferences (GSP) schemes. However, circumstances are changing. The partial withdrawal of European Union (EU) trade preferences and the abeyance of United States GSP have undermined export prospects. Upon LDC graduation projected indicatively by 2027, Cambodia will lose access to LDC-specific schemes. In anticipation, the government has secured regional and bilateral trade deals, but regional preferences are not fully utilized. Regional markets account for a small part of Cambodian exports, and Cambodian businesses are insufficiently integrated into regional value chains.<sup>9</sup> In parallel, several Association of Southeast Asian Nations (ASEAN) members have negotiated free-trade agreements with the EU, increasing competition for investors seeking easy access to European markets. More needs to be done to facilitate the growth and migration of business to higher-value-added segments, and to adapt to the changing trade landscape.

7. **Development constraints.** Three interlinked constraints contribute to the broader challenges highlighted above: (i) the enabling environment for investment and business is suboptimal; (ii) MSMEs are uncompetitive domestically and internationally; and (iii) barriers continue to inhibit cross-border trade. Taken together, the constraints reduce the productivity and competitiveness of Cambodia’s economy, and if unaddressed, post-pandemic Cambodia will face a “new normal” of only moderate growth rates.

8. **Weak enabling environment for investment and business.** Poor institutional coordination, policy uncertainty, and a lack of predictability in contract enforcement have impeded FDI.<sup>10</sup> The government has yet to establish an overarching legal framework to provide assurances on investment protections and incentives, including those relating to special economic zones (SEZs), and insufficient guidance at the local level creates inconsistencies.<sup>11</sup> Cambodia also lacks an efficient and fair framework to facilitate the resolution of domestic commercial disputes. Burdensome procedures and institutional fragmentation create uncertainty and inhibit the establishment and growth of Cambodian firms. In 2017, it took on average 99 days and nine separate procedures to register a business, with up to 75 additional operating licenses required

<sup>6</sup> World Economic Forum. 2019. [The Global Competitiveness Report 2019](#). Geneva.

<sup>7</sup> Asian Productivity Organization (APO). 2019. [APO Productivity Databook](#). Tokyo.

<sup>8</sup> UNDP. 2020. [COVID-19 Economic and Social Impact Assessment in Cambodia](#). Phnom Penh.

<sup>9</sup> ADBI. 2020. [Connecting Cambodia’s SMEs to Regional Value Chains: The “Bridging Gap” and “Missing Link.”](#) Tokyo.

<sup>10</sup> Organisation for Economic Co-operation and Development (OECD). 2018. [Investment Policy Reviews: Cambodia 2018](#). Paris.

<sup>11</sup> ADB. 2015. [Cambodia’s Special Economic Zones](#). Manila.

for MSMEs, none of which could be fully completed online.<sup>12</sup> One study found 58% of women-owned micro, small and medium enterprises (WMSMEs) to be unregistered, while half of those that registered faced difficulties in formalizing their business.<sup>13</sup> Investment in research and development (R&D) is low, and cooperation between academia and the private sector on innovation is lacking (footnote 6).

**9. Micro, small, and medium-sized enterprises uncompetitive domestically and internationally.** The government lacks a comprehensive policy framework to address MSME informality and tackle the challenges faced by MSMEs (footnote 13). Existing tax and customs incentives for MSMEs have a limited impact. MSMEs lack access to reasonably priced finance as collateral requirements are onerous, and MSMEs lack a documented history of past commercial and financial transactions.<sup>14</sup> Although there are no significant gender differences in SME access to finance, there is greater sensitivity of WMSMEs to major enabling factors such as collateral, and the financing gap is estimated at \$4.2 billion for WMSMEs and \$3.5 billion for men-owned MSMEs.<sup>15</sup> Digital transformation offers improved connections to local and global markets, and better market intelligence, innovation, and access to finance, particularly for WMSMEs.<sup>16</sup> Although some standalone online business-to-consumer platforms exist, Cambodia lacks a business-to-business-to-consumer e-marketplace able to facilitate cross-border and cross-provincial trade. Support is also needed to foster inclusive business,<sup>17</sup> which focus on sectors and issues that are particularly relevant to women's lives, and provide opportunities for women entrepreneurs, as most MSMEs, especially microenterprises, are owned by women.<sup>18</sup> Moreover, Cambodia has yet to adopt experimental policy initiatives such as fintech (financial technology) innovation hubs and regulatory sandboxes, or the United Nations Commission on International Trade Law (UNCITRAL) Model Law on Electronic Transferable Records (MLETR).<sup>19</sup>

**10. Barriers continue to inhibit cross-border trade.** Despite having one of the most open economies in Southeast Asia, impediments to cross-border trade persist. The creation in 2017 of the Cambodia National Single Window (CNSW) boosted digital trade facilitation, yet the transition remains incomplete, and many procedures remain manual. The United Nations scored Cambodia 78.5% for trade facilitation in 2021, highlighting deficiencies in paperless trade (66.7%) and cross-border paperless trade (55.6%).<sup>20</sup> Completing the transition to digital trade facilitation demands better interministerial coordination and cooperation, and a framework to strengthen the governance and functionality of automated customs systems. In addition, customs statistics are not accurate and timely enough to meet policymakers' needs. Cambodia still does not possess an authorized economic operator program<sup>21</sup> to streamline procedures for compliant operators. To support the implementation of new trade agreements, trade-related legislation, together with appropriate guidelines, is needed. Finally, Cambodia's trade remedy framework remains incomplete, leaving businesses vulnerable to unfair trade practices.

<sup>12</sup> OECD/Economic Research Institute for ASEAN and East Asia. 2018. [SME Policy Index: ASEAN 2018: Boosting Competitiveness and Inclusive Growth](#). Paris.

<sup>13</sup> International Finance Corporation. 2019. [Exploring the Opportunities for Women-owned SMEs in Cambodia](#). Washington, D.C.

<sup>14</sup> ADB. 2017. [Distributed Ledger Technologies for Developing Asia](#). Manila.

<sup>15</sup> International Finance Corporation. 2019. [Exploring the Opportunities for Women-Owned SMEs in Cambodia](#). Washington, D.C.

<sup>16</sup> OECD. 2019. [Southeast Asia Going Digital: Connecting SMEs](#). Paris.

<sup>17</sup> Inclusive Businesses are those that establish commercially viable business lines that consciously provide innovative solutions to the problems faced by marginalized and low-income groups.

<sup>18</sup> ADB. 2015. [Promoting Women's Economic Empowerment in Cambodia](#). Manila.

<sup>19</sup> MLETR aims to enable the legal use of electronic transferable records in place of paper-based documents that are traditionally considered necessary for international trade and international finance.

<sup>20</sup> UNESCAP. 2021. [Digital and Sustainable Trade Facilitation in Asia and the Pacific 2021](#). Bangkok.

<sup>21</sup> A scheme whereby compliant traders enjoy benefits such as fewer physical and document-related customs controls.

## B. Policy Reform, ADB's Value Addition, and Sustainability

11. **Government reform priorities.** The Rectangular Strategy Phase IV (footnote 1) outlines four “priority areas:” (i) human resource development; (ii) economic diversification; (iii) private sector expansion and employment; and (iv) inclusive and sustainable development. Policy priorities are further elaborated in the National Strategic Development Plan 2019–2023.<sup>22</sup>

12. **Supporting the government's structural reforms.** To enable the government to realize its development goals, the program will focus on: (i) enhancing the enabling environment for investment and business; (ii) growing MSMEs; and (iii) improving trade policy and enhancing trade facilitation.

13. **Reform Area 1: Enhancing the enabling environment for investment and business.** This reform area will improve the business climate for both domestic and foreign firms. Under subprogram 1, a new Investment Law will be enacted to codify legal protections for investors, including those in SEZs, and outline targeted, time-bound incentives for priority sectors. Regulations will also be issued to improve and accelerate the review and approval of private investments at the local level, by ensuring consistent one-stop-services to investors. The online business and tax registration portal will be upgraded to enable the timely issuance of specialized digital business licenses. To promote industrial upgrading and foster collaboration on R&D, the government will approve a National Science, Technology and Innovation Roadmap.

14. Under subprogram 2, the government will implement the Investment Law by standardizing investor aftercare. The government will expand the online business and tax registration portal, enabling more ministries to issue digital licenses. To strengthen contract enforcement, the government will train commercial judges and prepare legislation detailing procedures for specialized commercial courts to ensure speedier adjudication of cases. The government will formulate a law on technology transfer to promote collaboration and technology diffusion between businesses and with academia. Under subprogram 3, the government will unify and rationalize the legal framework for SEZs, providing more certainty to investors and promoting better links to the domestic economy. Commercial courts will become operational to facilitate resolution of commercial disputes. The government will also implement the Technology Transfer Law.

15. **Reform Area 2: Growing micro, small, and medium-sized businesses.** This reform area will promote MSME development and diversification, improve MSME access to finance, and create new markets for MSMEs. To encourage enterprises to formalize, the government will update its legal definition of SMEs in subprogram 1, enabling more enterprises to benefit from the simplified taxpayer self-assessment regime. To provide economic opportunities for marginalized groups, the government will establish an institutional and policy framework for inclusive business and will accredit a first batch of inclusive businesses. The government will also launch a business-to-business-to-consumer e-commerce marketplace, providing better trading links for MSMEs, particularly those in rural areas.

16. Under subprogram 2, the government will launch a new SME Development Policy, and revise tax- and customs-related incentives for MSMEs. In conjunction, the government will operationalize a capacity-building facility to accelerate the uptake of inclusive business and will establish MSME digital support hubs. The government will enhance access to finance with regulations to promote lending activities based on moveable collateral. The government will also adopt a national fintech development policy and will establish a fintech R&D hub to nurture innovative digital financial products. Under subprogram 3, the government will submit a draft

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<sup>22</sup> Government of Cambodia. 2019. [National Strategic Development Plan, 2019–2023](#). Phnom Penh.

MSME law to the National Assembly to support implementation of the SME Development Policy. The government will also align the domestic regulatory regime to UNCITRAL's MLETR to facilitate trade finance for MSMEs. Finally, the government will launch a regulatory sandbox for nonbanking fintech to further promote innovative digital financial products.

17. **Reform Area 3: Improving trade policy and enhancing trade facilitation.** This reform area will strengthen cooperation on trade facilitation and improve implementation of regional trade agreements. Under subprogram 1, coordination and structured dialogue on trade facilitation will be improved with the establishment of the National Committee on Trade Facilitation, and the approval of the National Roadmap on Trade Facilitation. The government will ratify the Regional Comprehensive Economic Partnership agreement, the Cambodia–People's Republic of China Free Trade Agreement, and the Cambodia–Republic of Korea Free Trade Agreement. In conjunction, the General Department of Customs and Excises Information and Communication Technology Strategy will be adopted to support the digitalization of customs services.

18. Under subprogram 2, the government will ensure timely, accurate trade data for policymaking by enhancing the customs statistics management system. To enhance the private sector's use of trade agreements, the government will formulate a draft law on rules of origin. The time and cost of complying with customs procedures will decline with the establishment of the authorized economic operator program, and e-payment of customs duties will be facilitated by onboarding commercial banks into the CNSW. The government will issue guiding regulations for the 2017 Trade Remedy Law, defining the roles and responsibilities of the National Committee of Trade Remedies (NCTR). Under subprogram 3, the government will strengthen the customs statistics management system to ensure consistency of trade data. The government will implement the law on rules of origin and establish a mechanism to monitor the issuance and utilization of preferential certificates of origin and self-certification by approved exporters. To accelerate the release of trade goods, the government will establish a pre-arrival processing mechanism, enabling electronic submission of cargo declaration data. Finally, the NCTR will become fully operational.

19. **ADB's policy engagement and value addition.** ADB provided technical assistance to support implementation of the reforms under subprogram 1, which enhanced the policy framework for SME development and for inclusive business, and supported the development of the National Science, Technology and Innovation Roadmap (Appendix 1).

20. **Sustainability.** The proposed program will emphasize: (i) regular knowledge inputs and policy dialogue; (ii) deepening partnerships with stakeholders; (iii) providing technical assistance; (iv) building on the achievements and lessons learned from past ADB programs; and (v) ensuring complementarity and synergy between ADB programs, including nonsovereign operations.

### **C. Expected Outcome of the Reform**

21. The program's impact will be new sources of growth exploited to maintain sustainable inclusive development exploited and the lives and livelihoods of citizens improved (footnote 1). The outcomes will be a competitive and investment-friendly business environment established, businesses upgraded, and trade barriers eased. The effect of the reforms will be demonstrated by the performance targets in the preliminary policy design and monitoring framework (Appendix 1).

### **D. Development Financing Needs and Budget Support**

22. It is proposed that the programmatic approach be supported through policy-based

loans for three subprograms of \$50 million each. For subprogram 1, the government projects its financing needs to be \$1.65 billion in 2022, to be met through domestic (\$0.49 billion) and foreign (\$1.16 billion) sources. Because of COVID-19 recovery measures, the budget deficit expanded to 4% of GDP in 2021, and public external debt rose to 35.2% of GDP (footnote 3).

## E. Implementation Arrangements

23. The Ministry of Economy and Finance will be the executing agency. The Ministry of Economy and Finance along with the ministries of commerce; industry, science, technology and innovation; justice; and women's affairs will be the implementing agencies. The implementation period will be from February 2020 to August 2022 for subprogram 1, from September 2022 to August 2024 for subprogram 2, and from September 2024 to August 2026 for subprogram 3.

## III. DUE DILIGENCE REQUIRED

24. ADB will complete a public financial management assessment and a program economic assessment. The program is expected to be classified category C for all safeguard areas. Subprogram 1 is proposed as *effective gender mainstreaming*.

## IV. PROCESSING PLAN

### A. Risk Categorization

25. The proposed program is considered *low risk* as it has the following features: (i) a loan not exceeding \$50 million; (ii) sufficient executing agency capacity in administering externally financed projects; and (iii) safeguard categorization other than A.

### B. Resource Requirements

26. About 30 person-months of ADB international and 12 person-months of national staff inputs are required to process the proposed program, which will be aided by transaction technical assistance of \$245,000 from ADB's Technical Assistance Special Fund (Appendix 2).

### C. Processing Schedule

27. The milestones and their expected completion dates are summarized in the table.

**Proposed Processing Schedule**

<b>Milestones</b>	<b>Expected Completion Date</b>
Concept approval	July 2022
Loan fact-finding	July-August 2022
Staff review meeting	September 2022
Loan negotiations	September 2022
Board consideration	November 2022
Loan signing	November 2022
Loan effectiveness	December 2022

Source: Asian Development Bank.

## V. KEY ISSUES

28. Given the width and depth of the government reforms, interministerial coordination and consultations with nongovernment stakeholders will be challenging. ADB is providing technical assistance to relevant line ministries to improve coordination and facilitate consultations.

## PRELIMINARY POLICY DESIGN AND MONITORING FRAMEWORK

<p><b>Country's Overarching Development Objective:</b> New sources of growth to maintain sustainable economic development exploited and the lives and livelihoods of citizens improved (Rectangular Strategy for Growth, Economy, Equity and Efficiency – Phase IV)<sup>a</sup></p>			
<p><b>Outcome</b> A: Competitive and investment-friendly business environment established, businesses upgraded, and trade barriers eased.</p>		<p><b>Risks and Critical Assumptions</b> R: Global trade volatility and macroeconomic instability delay the implementation of reforms and negatively affect business performance.</p>	
<p><b>Indicative Policy Actions: Subprogram 1 February 2020 – August 2022</b></p>	<p><b>Indicative Policy Actions: Subprogram 2 September 2022 – August 2024</b></p>	<p><b>Indicative Policy Actions: Subprogram 3 September 2024 – August 2026</b></p>	<p><b>Outcome Indicators</b></p>
<p><b>Reform Area 1: Enhancing the enabling environment for investment and business</b></p>			
<p>1.1. The government will submit a new Investment Law to the National Assembly, providing: (i) greater protection for investors' rights; and (ii) a legal framework for transparent, predictable, and non-discriminatory fiscal and non-fiscal incentives for priority sectors that are targeted and timebound; and the government will issue a sub-decree to implement the law, establishing 25 Capital-Provincial Investment Sub-Committees that will improve and accelerate the review and approval of local-level private investments<sup>b</sup> and provide consistent one-stop-services to investors. <b>(MEF and Council for the Development of Cambodia)</b></p> <p>1.2. The government will launch phase 2 of the OBR, onboarding four ministries<sup>c</sup> and enabling them to issue specialized digital business licenses, certificates and permits through the single online portal. <b>(MEF)</b></p>	<p>2.1 The government will implement the Investment Law by issuing a sub-decree that specifies the investment application processes and requirements for enterprises, and standardizes government investor aftercare services for investment projects. <b>(MEF and Council for the Development of Cambodia)</b></p> <p>2.2 The government will expand the scope of online issuance of specialized business licenses, permits, and certificates by onboarding five more agencies to the Oric. <b>(MEF)</b></p>	<p>3.1 The government will submit to the National Assembly a draft Law on Special Economic Zones to increase foreign investment and promote backward and forward linkages between SEZ investors and domestic companies. <b>(MEF and Council for the Development of Cambodia)</b></p>	<p>By August 2027:</p> <p>a. At least 55 digital business licenses, certificates and permits issued through the OBR (2020 baseline: 0) (Source: MEF)</p> <p>b. The number of SMEs formally registered through the OBR increased to at least 50,000 (2021 baseline: 6,712)<sup>d</sup> (Source: MEF)</p> <p>c. XX<sup>e</sup> dispute cases successfully resolved through the Commercial Courts (2021 baseline: 0) (Source: MOJ)</p>

Indicative Policy Actions: Subprogram 1 February 2020 – August 2022	Indicative Policy Actions: Subprogram 2 September 2022 – August 2024	Indicative Policy Actions: Subprogram 3 September 2024 – August 2026	Outcome Indicators
<p>1.3. The government will adopt the National Science, Technology &amp; Innovation Roadmap 2030, to improve R&amp;D, facilitate collaboration and networking, and enhance the enabling environment, with a target for women in STEM. <b>(MISTI)</b></p>	<p>2.3 The government will: (i) submit to the National Assembly a draft Law on Commercial Court Procedures, which will strengthen enforcement of contracts and resolution of domestic commercial disputes; and (ii) develop and deliver specialized knowledge resources and training courses for Commercial Court judges. <b>(MOJ)</b></p> <p>2.4 The government will submit to the National Assembly a Technology Transfer Law to promote technology diffusion from universities to the private sector, between sectors, and from foreign to local firms. <b>(MISTI)</b></p>	<p>3.2 The government will fully operationalize the Commercial Court, to resolve commercial disputes. <b>(MOJ)</b></p> <p>3.3 The government will issue regulations on implementation of the Technology Transfer Law. <b>(MISTI)</b></p>	
<b>Reform Area 2: Growing micro, small, and medium-sized businesses</b>			
<p>1.4. The government will issue new formal definitions of SMEs in the agricultural, industrial, services, and commerce sectors to encourage formalization by enabling more SMEs to apply simpler accounting procedures under the taxpayer self-assessment regime. <b>(MISTI, MEF)</b></p> <p>1.5. The government will: (i) establish an institutional structure and governance arrangements<sup>h</sup> for the promotion of Inclusive Business in Cambodia; and (ii) launch an</p>	<p>2.5 The government will: (i) formulate, adopt, and begin implementation of, a comprehensive SME Development Policy<sup>g</sup> to enhance the competitiveness of MSMEs and provide greater economic opportunities for women and marginalized groups; and (ii) rationalize tax- and customs-related incentive mechanisms for MSMEs. <b>(MISTI, MEF)</b></p> <p>2.6 The government will operationalize a capacity building platform to develop and apply Inclusive Business coaching tools. <b>(MISTI, MEF)</b></p>	<p>3.4 The government will submit to the National Assembly a draft MSME law, which will support implementation of the SME Development Policy and consolidate relevant support measures undertaken by the government. <b>(MISTI)</b></p>	<p>By August 2027:</p> <p>d. At least 40 companies are accredited for Inclusive Business lines (2021 baseline: 18) (Source: MISTI)</p> <p>e. Fintech services used by at least 10% of the population, expanding MSME customer reach (2015 baseline: 3.8%) (Source: Government of Cambodia)</p>

<b>Indicative Policy Actions: Subprogram 1 February 2020 – August 2022</b>	<b>Indicative Policy Actions: Subprogram 2 September 2022 – August 2024</b>	<b>Indicative Policy Actions: Subprogram 3 September 2024 – August 2026</b>	<b>Outcome Indicators</b>
<p>Inclusive Business accreditation mechanism, to make economic growth more inclusive for women, young entrepreneurs, and low-income groups. <b>(MISTI)</b></p> <p>1.6. The government will operationalize the CambodiaTrade.com e-commerce marketplace, which will provide opportunities for formally registered MSMEs, particularly those operating in the provinces and those owned by women, to participate in the digital economy, to engage in domestic and cross-border e-commerce, and to integrate into value chains. <b>(MOC)</b></p>	<p>2.7 The government will establish an online digital support hubs for MSMEs, to provide training and business support services relating to the digital transformation of their businesses. <b>(MEF)</b></p> <p>2.8 The government will promulgate a sub-decree to enhance the implementation of the secured transactions law to promote lending activities based on moveable collateral. <b>(MOC, MEF)</b></p> <p>2.9 The government will: (i) adopt a fintech development policy, to enhance the use of technology to deliver financial services and products; and (ii) establish a fintech R&amp;D, learning, and innovation hub to build skills and promote entrepreneurship in financial products and fintech,</p>	<p>3.5 The government will align the domestic regulatory regime to UNCITRAL’s Model Law on Electronic Transferable Records, to facilitate trade finance and supply chain finance, particularly for MSMEs. <b>(MOC, MPTC)</b></p> <p>3.6 The government will implement a Regulatory Sandbox for non-banking fintech, to promote innovative digital financial products and digital business models, with an emphasis on those that promote financial inclusion and decrease cost for customers, especially</p>	<p>f. At least XX registered traders [of which at least 35% are women-owned MSMEs,] use CambodiaTrade.com e-commerce marketplace (2021 baseline: 0) (Source: MOC)</p>

Indicative Policy Actions: Subprogram 1 February 2020 – August 2022	Indicative Policy Actions: Subprogram 2 September 2022 – August 2024	Indicative Policy Actions: Subprogram 3 September 2024 – August 2026	Outcome Indicators
	especially among women and youth. <b>(MEF)</b>	marginalized groups including women. <b>(MEF)</b>	
<b>Reform Area 3: Improving trade policy and enhancing trade facilitation</b>			
<p>1.7. The government will establish the NCTF,<sup>i</sup> in line with the WTO TFA obligations, and will approve a National Roadmap on Trade Facilitation 2022–2025, to better coordinate trade facilitation reforms. <b>(MEF, MOC)</b></p> <p>1.8. The government will submit to the National Assembly for ratification the RCEP agreement, the bilateral CCFTA and CKFTA, to enhance Cambodia’s regional trade and integration. <b>(MOC)</b></p> <p>1.9. The Ministry of Finance will approve, and begin implementation of, the GDCE Information and Communication Technology Strategy 2020–2024, which provides a framework for improved governance and functionality of automated customs systems. <b>(MEF)</b></p>	<p>2.10 The government will upgrade the CSDMS to ensure timely, consistent, and accurate trade data, including the production of disaggregated statistics and data exchange and dissemination, to improve policymaking. <b>(MEF)</b></p> <p>2.11 The government will submit to the National Assembly a draft law on rules of origin (including provisions for self-certification by Approved Exporters)<sup>j</sup> applicable to RCEP, CCFTA, CKFTA and other trade agreements. <b>(MOC)</b></p> <p>2.12 The government will: (i) introduce a WCO SAFE compliant AEO program,<sup>l</sup> thereby reducing the time and costs of border formalities for compliant operators; and (ii) onboard major commercial banks into the CNSW, to facilitate e-payment of</p>	<p>3.7 The government will further enhance the CSDMS by: (i) introducing features to ensure the consistency of data; and (ii) establishing a trade data statistical dashboard to enhance the dissemination of key data to the public and other government agencies. <b>(MEF)</b></p> <p>3.8 The government will: (i) implement the law on rules of origin; and (ii) establish and operationalize a mechanism to track and monitor the issuance, utilization, and recognition of Preferential Certificates of Origin and self-certification and/or declaration of origin by Approved Exporters for applicable FTAs. <b>(MOC, MEF)</b></p> <p>3.9 The government will implement Pre-Arrival Processing, with the electronic submission of goods and/or cargo declaration data to the relevant authorities covering air, land, and sea transport.</p>	<p>By August 2027:</p> <p>g. Total external merchandise trade increased by 12% per year (on average) (2020 baseline: \$37.4 billion) (Source: GDCE)</p> <p>h. At least two TFA Measures moved from Category C to Category A (2020 baseline: 6 TFA Measures notified under Category C) (Source: WTO)<sup>k</sup></p> <p>i. Preferential Certificates of Origin under FTAs covering at least \$10 billion issued (2020 baseline: \$2.8 billion) (Source: GDCE)</p> <p>j. XX investigations conducted under the Law on Trade Remedies</p>

Indicative Policy Actions: Subprogram 1 February 2020 – August 2022	Indicative Policy Actions: Subprogram 2 September 2022 – August 2024	Indicative Policy Actions: Subprogram 3 September 2024 – August 2026	Outcome Indicators
	customs duties, taxes and other fees. <b>(MEF)</b>  2.13 The government will address unfair trade by promulgating one or more sub-decrees to guide implementation of the Trade Remedy Law, including investigation procedures for anti-dumping, and outlining the organization and functioning of the NCTR <b>(MOC)</b>	<b>(MEF)</b>  3.10 The government will fully operationalize the NCTR, with a focus on anti-dumping investigations. <b>(MOC)</b>	(2020 baseline: 0) (Source: NCTR)

**Budget Support**  
 Asian Development Bank  
 Subprogram 1: \$50 million (policy-based loan)  
 Subprogram 2: \$50 million (policy-based loan, indicative)  
 Subprogram 3: \$50 million (policy-based loan, indicative)

AEO = Authorized Economic Operator; CCFTA = Cambodia-People’s Republic of China Free Trade Agreement; CKFTA = Cambodia-Republic of Korea Free Trade Agreement; CNSW = Cambodia National Single Window; CSDMS = Customs Statistics Database Management System; fintech = financial technology; GDCE = General Department of Customs and Excises; MEF = Ministry of Economy and Finance; MISTI = Ministry of Industry, Science, Technology and Innovation; MOC = Ministry of Commerce; MOJ = Ministry of Justice; MPTC = Ministry of Post and Telecommunications; MSME = micro, small, and medium-sized enterprise; NCTR = National Committee of Trade Remedies, OBR = Online Business Registration; R = risk; RCEP = Regional Cooperative Economic Partnership; R&D = research and development; SAFE = Framework of Standards to Secure and Facilitate Global Trade; SEZ = special economic zone; SME = small and medium-sized enterprise; TFA = Trade Facilitation Agreement; UNCITRAL = United Nations Commission on International Trade Law; WCO = World Customs Organization; WTO = World Trade Organization.

- <sup>a</sup> Government of Cambodia. 2018. [The Rectangular Strategy for Growth, Employment, Equity and Efficiency: Building the Foundation Towards Realizing the Cambodia Vision 2050, Phase IV](#). Phnom Penh.
- <sup>b</sup> Capital-Provincial Investment Sub-Committees have been established to delegate decision-making power to the sub-national level for investment projects valued at \$5 million and below. Investment projects above the \$5 million threshold continue to pass through the Council for the Development of Cambodia’s Investment Board.
- <sup>c</sup> The four participants in phase 2 of the OBR are the Ministry of Tourism, the Ministry of Post and Telecommunications, the Ministry of Industry Science Technology and Innovation (MISTI), and the Non-Bank Financial Services Authority.
- <sup>d</sup> The indicator only measures the number of SME registered through the OBR. Micro enterprises are not yet required to register through the OBR and may still register manually through their local authorities.
- <sup>e</sup> The government has established a working group to define the key parameters of the Law on Commercial Court Procedures, including the type of cases to be considered "commercial" and thus fall under the remit of the new Commercial Courts. The target will be determined once the working group has established the mandate for the Commercial Courts.
- <sup>f</sup> The target is that, by 2030, at least 40% of STEM graduates are women.
- <sup>g</sup> SME Development Policy covers micro, small, and medium-sized enterprises.

- <sup>h</sup> The institutional structure will include a dedicated secretariat in MISTI and consists of an Inclusive Business Board and an Inclusive Business accreditation committee, with private and public sector participants (including the Cambodia Women's Entrepreneurs Association).
- <sup>i</sup> The NCTF, established to assist the government to facilitate and monitor implementation of regulations under the WTO TFAs, is responsible for, among others, consulting and coordinating on the preparation of regulations and procedures pertaining to trade facilitation, disseminating information and improving transparency on trade facilitation issues, and reporting on implementation of international agreements on trade facilitation. Chaired by the MEF with its secretariat within the GDCE, it consists of representatives from nine government agencies and private sector associations. ADB has been formally invited to participate in NCTF meetings.
- <sup>j</sup> The Approved Exporter regime is a trade facilitation initiative under RCEP and other FTAs. Approved Exporters are businesses that are formally licensed by the competent authorities to enjoy simplified export procedures. Approved Exporter status allows the exporters who have demonstrated their capacity to comply with the origin requirements to self-certify the preferential origin by including a specific declaration on the invoice or on another commercial document identifying the exported products.
- <sup>k</sup> The 6 category C measures are: (i) notification; (ii) pre-arrival processing; (iii) authorized operators; (iv) border agency cooperation; (v) single window; and (vi) transit.
- <sup>l</sup> Cambodia currently has a compliance program called "Best Trader Incentive Mechanism (BTIM)", came into effect in 2014 with 43 companies certified to date. Establishment of WCO SAFE compliant AEOs will adopt an international standard set by WCO and provide a secure, transparent, and predictable trading environment through a solid customs-business Partnership. The WCO SAFE Framework of Standards can be accessed [here](#).

Source: Asian Development Bank.

## TECHNICAL ASSISTANCE FACILITY UTILIZATION UPDATE

1. The technical assistance (TA) facility for the Southeast Asia Public Management, Financial Sector, and Trade Policy Facility was approved on 28 June 2019 for \$3,000,000, financed on a grant basis by the Asian Development Bank (ADB) Technical Assistance Special Fund (TASF). On 29 June 2020, an increase in TA amount for \$2,000,000 from the TASF was approved to finance a minor change in scope and implementation arrangements. On 10 December 2020, an increase in TA amount for \$2,500,000 from the Asia-Pacific Climate Finance Fund was approved to support the post-program partnership framework of the Disaster Resilience Improvement Program (DRIP) for the Philippines. On 23 June 2021, an increase in TA amount for \$2,545,000 from the TASF was approved to finance a minor change in scope and implementation arrangements. The total amount of the TA facility is \$10,045,000 of which \$245,000 had been allocated for the Trade and Competitiveness Program, Subprogram 1. As of 8 July 2022, based on the records in the Integrated Disbursement System, contract awards totaled \$8,294,133, of which \$3,748,895 had been disbursed. The total uncommitted amount was \$1,750,867.

2. The TA facility aims to deliver the following outputs specifically for the ensuing Trade and Competitiveness Program (subprogram 1). The TA facility will engage international specialists to assess the competitiveness of the private sector and the existing framework for trade and trade facilitation in Cambodia. The TA facility will also mobilize a team of international and national private sector development specialists to work with MISTI on the policy framework for MSME development in Cambodia, with a view to promoting economic diversity, entrepreneurship, and greater exploitation of the opportunities presented by the fourth Industrial Revolution. ADB support will also be mobilized to finalize the National Science, Technology, and Innovation Policy 2020-2030, and to elaborate a comprehensive monitoring and evaluation framework for the policy. The TA facility will also support MISTI to enhance the policy framework for industrial upgrading, technology transfer and innovation in Cambodia, to further strengthen the enabling environment for business and MSME development. The TA facility will also recruit experts to strengthen the enabling environment for Inclusive Business and impact investment business models in Cambodia.

3. **Resources under the assistance facility.** The updated consultants' input allocation from the TA facility is presented in Table A2.2. It is confirmed that (i) the TA facility has adequate resources and (ii) the existing terms of reference for consultants are sufficient to undertake the activities required to deliver the outputs for the ensuing Trade and Competitiveness Program (subprogram 1).

**Table A2: Updated Input Allocation for Consultants from the Technical Assistance Facility**  
(person-months)

Item	No.	Projects															
		P1 C	P2 LR	P3 C	P4 C	P5 LR	P6 C	P7 LR	P8 LR	P9 C	P10 C	P11 C	P12 C	P13 C	P14 CR	P15 C	P16 C
<b>International experts</b>																	
Finance sector specialists	72	14	9	14	21	6				8							
Public finance specialists	49			3			20	7	10		4	3					2
Economists	50	2	2	3	4	1	6	3	4	2	4	3	4	4	2	3	3
Tax specialists	22						8	4	6			4					
Gender specialists	44	4	2	3	4	1	4	2	4	3	2	1	4	4	2	2	2
Trade policy specialists	29												8	8	3	7	3
Competition policy specialist	28												12		6	7	3
Disaster risk financing specialists	40									40							
Legal experts	8									3						1	
<b>Total</b>	<b>342</b>	<b>20</b>	<b>13</b>	<b>23</b>	<b>29</b>	<b>8</b>	<b>38</b>	<b>16</b>	<b>24</b>	<b>56</b>	<b>12</b>	<b>13</b>	<b>28</b>	<b>16</b>	<b>13</b>	<b>20</b>	<b>13</b>
<b>National experts</b>																	
Finance sector specialists	151	26	18	38	42	14				13							
Public finance specialists	47						20	8	6		6	4					3
Economists	56	2	2	5	4	1	4	2	4	2	6	3	6	7	2	3	3
Legal experts	52	2	2	5	8	2	4	1	4	6	3	2	6	3	2	2	
Tax specialists	39						20	10			3	6					
Gender specialists	52	2	2	5	8	2	4	1	4	2	3	2	6	3	2	3	3
Local government finance specialists	34						20	14	14								
Disaster risk financing specialists	4									4							
<b>Total</b>	<b>435</b>	<b>32</b>	<b>24</b>	<b>53</b>	<b>62</b>	<b>19</b>	<b>72</b>	<b>36</b>	<b>32</b>	<b>27</b>	<b>21</b>	<b>17</b>	<b>18</b>	<b>13</b>	<b>6</b>	<b>8</b>	<b>9</b>

C = complex, CR = complex risk, LR = low risk, P= project, Project 1 = Indonesia: Promoting Innovative Financial Inclusion Program (subprograms 1–2); Project 2 = Cambodia: Inclusive Finance Sector Development Program, (subprograms 2–3); Project 3: Philippines: Support to Capital Market Generated Infrastructure Financing (subprograms 1–2); Project 4 = Philippines: Inclusive Finance Development Program (subprograms 2–3); Project 5= Timor-Leste: Financial Sector Program; Project 6 = Philippines: Local Governance Reform Program (Subprograms 1–2); Project 7 = Lao People's Democratic Republic: Strengthening Public Finance Management (subprograms 1–2); Project 8 = Cambodia: Second Decentralized Public Service and Financial Management Sector Development Program (subprograms 1–2); Project 9 = Philippines: Disaster Resilience Improvement Program; Project 10 = Indonesia: State-owned Enterprise Reform Program; Project 11 = Indonesia: Domestic Resource Mobilization Program; Project 12 = Indonesia: Competitiveness, Industrial Modernization, and Trade Acceleration Program (subprograms 1–2); Project 13= Indonesia: Boosting Productivity through Human Capital Program (subprograms 1–2); Project 14 = Philippines: Facilitating Youth School to Work Transition Program (subprograms 2–3); Project 15 = Cambodia: Trade and Competitiveness Program (subprogram 1); Project 16 = Support for Post COVID-19 Business and Employment Recovery Program.

### LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/LinkedDocs/?id=55255-001-ConceptPaper>

1. Initial Poverty and Social Analysis
2. Sector Assessment (Summary): Industry and Trade