



Royal Government of Cambodia

**Cambodia Industrial Development Policy
2015 – 2025**

បណ្តាញទីផ្សារ

*“Market Orientation and Enabling Environment for
Industrial Development”*

បណ្តាញទីផ្សារ

Approved by Council of Ministers
at Its Plenary Meeting on 06 March 2015

Table of Contents

<i>Executive Summary</i>	I
1) Introduction	1
1.1) The necessity of the Industrial Development Policy.....	1
1.2) Main context of the Cambodian Economy.....	3
2) Status of the industrial sector in Cambodia	4
2.1) Overview of the Industrial Structure.....	4
2.2) Key challenges of Industrial Development in Cambodia.....	8
3) Vision	13
4) Objectives and Targets	13
5) Strategic Framework	15
5.1) Key Strategies for Industrial Development.....	15
5.2) Scope and Priority Sectors	16
5.3) Approach of Implementation	18
6) Policy measures and action plans	19
6.1) Investment Promotion	19
6.2) Expansion and Modernization of SMEs.....	22
6.3) Improvement of Regulatory Environment	23
6.4) Coordination of Supporting Policies	26
7) Mechanism for Policy Leadership, Coordination and Implementation	31
7.1) Strengthening the Role of the Council for the Development of Cambodia	32
7.2) Revising Functions and Strengthen the Capacity of CIB.....	33
7.3) Streamlining Functions of CRDB	34
7.4) Strengthening the Consultation Mechanism with the Private Sector	35
7.5) Establishing Monitoring and Evaluation of Policy Implementation.....	35
8) Management of Major Risks	35
9) Conclusion	37

Executive Summary

1. Driven by its long-term vision toward 2030, particularly as expressed in the “*Rectangular Strategy – Phase III*”, the Royal Government of Cambodia (RGC) has prepared and adopted this “*Industrial Development Policy*” as a guide to promote the country's industrial development that will help maintain sustainable and inclusive high economic growth through economic diversification, strengthening competitiveness and promoting productivity.

2. The launching of this policy connotes the necessity and the urgency to embark on a “new growth strategy” that responds to the structural transformation of domestic economy and the changing regional and global economic architecture. The adoption of this policy is motivated by the following considerations: First, the favorable geopolitical spillovers in terms of linking Cambodian economy and its industry to the region especially within the ASEAN Economic Community and regional economic liberalization frameworks; Second, the potential role of industrial sector in promoting growth and creating new jobs in the context of an open economy, a demographic dividend and major structural changes that are conducive for industrial growth; Third, the critical role of industrial sector as a policy tool to enhance the performance of core economic sectors, like agriculture and services, that will further contribute to boosting economic growth; and Fourth, the importance of the industrial sector as a focus for initiating both structural reforms and governance reforms of key national economic institutions with the aim at boosting economic productivity in long term and avoiding falling into the “middle income trap”.

3. Cambodia’s industrial sector remains weak and narrow based as reflected by its simple structure of manufacturing and low level of sophistication that mainly concentrates on garments and food processing, while most manufacturing activities are still family-based and do not have the capacity to compete in the international market. Key features of Cambodian industries consist of a lack of diversity in industrial base; an informal and missing middle structure; a weak entrepreneurship, an urban-centered industry, a low value addition and low level of technology application. Micro-enterprises which make up over 97% provide only a mere 30% of job creation and generate only a 12% of the total turnover. Large enterprises which make up only of 0.6% create, on the other hand, some 63% of jobs and generate some 76% turnover. Moreover, the number of informal enterprises is extremely excessive. Entrepreneurship remains weak and urban-centered, with over 42% of enterprises were just established since 2008. More than 63% of large manufacturing enterprises are in the form of foreign direct investment and export-oriented. 68% of large manufacturing enterprises are located in Phnom Penh and 13% in Kandal province.

4. The development of Cambodia’s industrial sector is confronted with five key obstacles: First, the lack of leadership, coordination and effective decision-making especially on all important issues especially related to the inadequate supply of electricity, infrastructure and logistics,

human resource and skills as well as other supporting infrastructures; Second, the scarcity of basic technical knowledge and skills that is crucial to transform an unskilled labor-force into a skilled labor force capable of absorbing new and high value technical and technological skills; Third, inadequate preparation of the necessary industrial infrastructure, especially as related to insufficient coordination in physical infrastructure investment such as supply of electricity, clean water, telecommunication network, sewage and public service provision; Fourth, limited financial market development that hinders the financing of industrial projects and lack of financing mechanism for public and private sector projects; and Fifth, issues related to the labor market and industrial relations that is key to labor market stability with adequate supply of labor, increase in productivity and better livelihood for the workers.

5. The RGC's vision is to transform and modernize Cambodia's industrial structure from a labor-intensive industry to a skill-driven industry by 2025, through connecting to regional and global value chain; integrating into regional production networks and developing interconnected production clusters along with efforts to strengthen competitiveness and enhance productivity of domestic industries; and moving toward developing a technology-driven and knowledge-based modern industry. The realization of this vision will contribute to national economic development, sustainable and inclusive high economic growth, employment creation, increased valued added to the economy and increased income for the Cambodian people.

6. To realize the vision of IDP, the RGC has set three targets: First, to increase the GDP share of industrial sector to 30% by 2025 (24.1% of GDP in 2013) with the manufacturing sector growing from 15.5% in 2013 to 20% in 2025; Second, to diversify the export of goods by increasing the export of non-textile to reach 15% of all exports by 2025 while still promoting the export of processed agricultural products to reach 12% of all exports by 2025; and Third, to encourage the formal registration of 80% of small enterprises and 95% of medium enterprises and to ensure that 50% of small enterprises and 70% medium enterprises to have proper accounts and balance sheets.

7. In order to realize the said vision and the targets set above, the RGC has embraced four strategies: First, mobilizing and attracting foreign investments as well as private domestic investments by focusing on large industries, expanding markets and enhancing more technology transfer; Second, developing and modernizing small and medium enterprises (SMEs) (expanding and strengthening the manufacturing base, modernizing the registration of enterprises, ensuring technology transfer and industrial linkages); Third, revisiting the regulatory environment so as to strengthen the country competitiveness (investment climate and trade facilitation, market information dissemination and informal fees reduction); and Fourth, coordinating supporting policies (development of human resource, technical training, improvement of industrial relations, development of support infrastructure such as transportation/logistics and information and

communication system (ICT), supply of electricity and clean water, and public, social and financial services .

8. The strategic approach of the IDP is to promote the development of the manufacturing sector and agro-processing industry through integration into regional and global production chain; positioning the development of industrial zones so as to ensure critical mass, economic linkages and competitiveness; development of economic corridors, streamlining the operational procedures for Special Economic Zones (SEZs) and developing new industrial parks and industrial clusters. The scope and key priorities include: First, new industries or manufacturing that can break into markets, providing high value-added, innovative and highly competitive; Second, promoting SMEs across all sectors; Third, increasing agricultural production to serve both export and domestic markets; Fourth, encouraging various support industries for the agricultural, tourism and garment sectors in as much as for industries that form part of the global production value chain; and Fifth, support industries that support regional production chain and those which are strategic for nurturing future industries.

9. With this strategic approach, the Royal Government has instituted comprehensive and interconnected policy measures and action plans with well-defined responsible institutions to lead the implementation process (see in details Annex D). These policy measures and action plans altogether encompass the following: First, actively promote FDI focusing on improving the investment climate, development of SEZs and preparation of industrial zones; Second, strengthen and modernize SMEs focusing on their formalization and the provisions of incentives, encourage proper bookkeeping and accounting practices, and promoting the agro-industrial sector; Third, improving regulatory environment focusing on trade facilitation measures and export promotion, strengthening industrial standards and industrial property rights, facilitation of payment of tax obligations, establishment of a labor market and industrial relations; and Fourth, coordinating supporting policy focusing on skills and human resource development, science, technology and innovation promotion, industrial infrastructure build up and financing measures.

10. In addition to the above policy measures and action plans, the Royal Government has adopted four key concrete measures to be accomplished by 2018 which form its core strategy to implement the IDP, particularly enhancing Cambodia's competitiveness and attractiveness. These measures include: First, reducing the price of electricity for targeted industrial zones as well as expanding transmission coverage and improving supply reliability; Second, preparing and implementing a master plan to develop a multimodal transport and logistic system; Third, developing and strengthening a mechanism to manage the labor market and skills development; and Fourth, developing and transforming Sihanoukville Province into a multi-purpose Special Economic Zone.

11. In term of implementation, the RGC will take up multiple roles as strategist, facilitator, supporter and initiator with high integrity and responsibility to arrange and develop mechanisms

to lead, coordinate and implement the IDP through a comprehensive reform of the Council for Development of Cambodia (CDC) whereby the institution is fully mandated and is provided with essential functions to make policy decisions, to prepare and implement plans as well as to address emerging challenges. The reform encompasses the following:

First, strengthening the role of policy leadership of CDC by way of providing guidance and approval in as much as monitoring the achievements in the implementation of industrial development plan in coordination with the “Committee for Economic and Financial Policy”, the “Private Sector Development Steering Committee” and other relevant specialized institutions including the establishment of an “Advisory Council for Industrial Development of Cambodia”;

Second, revising the functions and strengthening the capacity of the **Cambodia Investment Board (CIB)** with additional mandate to promote industrial development;

Third, streamlining the functions of the Cambodia Rehabilitation and Development Board (CRDB) to support industrial development in the framework of development cooperation and public investment planning; and

Fourth, strengthening and streamlining the **Government and Private Sector Forum** mechanism to publicize information and encourage private sector participation in the industrial development process.

12. Lastly, in order to ensure steady progress and effectiveness of its IDP, the Royal Government has developed a monitoring and evaluation mechanism by tasking the CDC to prepare and coordinate the following: *First*, a quarterly and annual reporting system, and in particular a report to the meeting of the Council of Ministers every three months on the progress and challenges and needed measures for immediate implementation; *Second*, an industrial disputes resolution mechanism; and *Third*, an evaluation of the progress and achievements on the implementation of the IDP's four key concrete measures to be realized by 2018 as well as a comprehensive and broad based mid-term evaluation by 2020 as a basis for review and readjustment for the next phase implementation.



Industrial Development Policy 2015-2025

“Market Orientation and Enabling Environment for Industrial Development”

1) Introduction

1.1) The necessity of the Industrial Development Policy

The long-term Vision for Cambodia for 2030 and the *Rectangular Strategy, Phase III* have pointed out to the structural transformation of Cambodian economy in reaching a middle-income country status and have considered the industrial sector as a key driver of its economic growth. To this end, the Royal Government has prepared and adopted this *Industrial Development Policy* as a guide for driving the development of the industrial sector in the country, which can contribute toward maintaining a sustainable and inclusive high economic growth. Moreover, the policy will become the “New Economic Growth Strategy” which stresses importantly on economic diversification, competitiveness strengthening, and productivity enhancement in line with the structural transformation of the domestic economy and the evolving global and regional economic architecture inasmuch as the utilization of national resources to its fullest potential.

The rapid transformation of global and regional architecture combined with the geopolitical landscape have visibly highlighted the opportunity for Cambodia's industrial development. As a matter of fact, in the framework of regional economic liberalization and integration, in particular with the establishment of the ASEAN Economic Community (AEC) and the Regional Comprehensive Economic Partnership (RCEP), Cambodia will secure its physical and institutional connectivity, along with its full economic integration, which will contribute toward opening new market opportunities, attracting investment, and securing technology transfer to Cambodia. In this regards, Cambodia's trade and industrial sector will benefit from the global flow of investments especially from China, Korea, and Japan inasmuch as from the European community and the United States, which are seeking commercial and investment opportunities in new emerging markets like Cambodia.

Overall, the rate of structural industrial transformation in Cambodia will be defined by three important prerequisite factors: *Change in Regional Cost Structure* along with labor costs; the *Trend in Regional Industrial Connectivity* whereby Cambodia is favorably situated geographically between two potential industrial regions, Bangkok and Ho Chi Minh City as well as in close proximity to large Asian economies that include China, Japan and Korea; and the *Trend to ensure reliability of the Supply Chain* to mitigate risks arising from geopolitical factors, natural disasters, labor unrests and other unexpected events.

Cambodia is blessed with favorable environment emanating from its open economy, a dynamic change of its economic structure, demographic dividends and other potentials, which are

conducive preconditions for industrial development and modernization. In this context, the launch of the IDP will act as an crucial game changer to promote and maintain a sustainable economic growth, create jobs and raise the living standard of Cambodian people to its full potentials, through utilizing better trained and educated young labor force; harnessing the vast potential arising from extensive investments in socio-economic infrastructure, in particular in the transport and energy sectors; exploiting opportunities driven by rapid urbanization and growing middle-class with high disposable income; developing and modernizing the agriculture sector and other supporting service sectors; as well as taking the *advantage of backwardness*. Moreover, the wage hike has put a pressure on the existing manufacturing industry such as the garment sector to explore all possible ways to increase productivity in order to maintain competitiveness in the global value chain. This factor in itself compels Cambodia to quickly diversify its industry so as to reduce gradually the pressure and to ensure quality and sustainable job creation.

Industrial development is an effective policy tool for connecting the main economic sectors, which act as a *leverage* for promoting growth and job creation in the agriculture, tourism and service sectors. The industrial sector will contribute to the absorption of the excess of the labor surplus in the agriculture sector and shift them toward higher productivity and income sector. Income earned from the industry will be spent on food and other purchases, which in turn will spur growth in the industry and service sectors. Furthermore, it acts as a powerful stimulus to creating jobs, raising income and improving productivity through investment and utilization of new technology, not to mention creating additional jobs in the other supporting sectors throughout the value chains from production and supply of raw materials, transport and logistics services, finance and vocational training.

As for the long-term goal, industrial development would require comprehensive reforms in infrastructure and in institutions, investment in both human resource and physical infrastructure, promotion of technological development and innovation to create the foundation for harnessing the new growth potentials and promoting competitiveness, both being the prerequisites for development and the unavoidable steps to escape falling into the *middle-income trap*. Similarly, the demographic dividends and geopolitics have a combined effect of creating a rare opportunity for Cambodia to move on to a higher level of development, in particular, by building a solid industrial base which can transform the country into a middle income country in the near future. In response to fiercer regional competition, Cambodia will soon take measures to capture this *golden opportunity* by way of implementing proactive and flexible policies. Failing to follow through on the above, Cambodia will risk losing such a rare opportunity for diversifying its economy, and improving its productivity and competitiveness, both, which are the pillars of a strong and prosperous economy.

In conclusion, the preparation and launch of the IDP reflect the urgent necessity for creating a “new economic growth strategy” to respond to the change of domestic economic structure and

the fast and constantly evolving regional and global economic situation. Through this policy, the Royal Government will be able to mobilize resources and its national labor force to promote growth and develop its national economic base with the objective to promote higher living standard for its people, to enhance national prestige and to create prosperity amidst global competition and in the spirit national ownership and pride.

1.2) Main context of the Cambodian Economy

The Royal Government considers the industrial sector as a growth strategy priority aimed at promoting economic diversification, effectuating profound structural change and improving competitiveness. It will enable the broadening of the existing economic structure, which depends mainly on manufacturing sector supported by a modern agriculture sector and a high value added service sector, in particular a developed financial sector, logistics and modern technology. This structural transformation will ensure the sustainability and robustness of national economy with strengthened role of financial intermediaries, modernized logistic system and distribution channel, advancement in new techniques and technologies, as well as improvement in governance and capacity of public institutions in managing economic development.

Since 1993, the industrial sector has played important role in the Cambodian economy. Its share of GDP increased from a mere 12.6% to 26.2 % in 2006. The sector suffered a short decline and remained steady at 22% due to the change in international trade regime and the global economic crisis. In 2013, the sector's share of GDP rebounded to around 24%. The average annual growth rate spread over the past 15 years (1998-2013) was estimated at 12.4% compared to 4.7% and 8.5% for the agriculture and the service sector, respectively. In that light the industrial sector is the best performer in term of achieving the highest growth.

The industrial sector is the main provider of jobs. In 1993, about 72% of the total labor force was in the agriculture sector as compared only to about 5% in the industrial sector. According to the 2008 population census, jobs in the industrial sector accounted to nearly 600,000 or an equivalent of 8.6% of the total jobs. However, according to the 2012 Socio-Economic Survey, the number jumped to some 1.4 million jobs or an equivalent of 18.6% of the total jobs. It should be noted however that these jobs are seasonally adjusted. Based on the labor force survey for the dry season of the year 2012, there were some 1.8 million jobs or an equivalent of 25.2% of the total jobs.

Cambodia's current economic growth does not rely much on investment, which signifies that there is still room for more investment. An analysis on the contribution of expenditure to GDP indicates that the source of growth of over 70% of GDP depends on private consumption, 21% in investment, 12% in public expenditure of the government and other organizations, leaving export covering the rest. By the standard of developing countries, the contribution rate of investment should be between 30% and 40% or possibly higher in order to boost the economy to jump to the next level of development. As it stands, Cambodia's economic growth relies heavily on the

garment, tourism, construction and rice sectors, implying there is a need to invest more to prop up new economic growth.

In addition, the growth in some major sectors still rely primarily on external environment as the country's economic policies are totally market driven. In general, core sectors of the economy are determined by international trade activities. For example, the garment sector grew in response to the quota system of the US and the EU trade preferences; the rice export growth has witnessed a sharp increase thanks to the EU trading scheme. Furthermore, the tourism sector growth, which depends on our cultural heritage and nature, is linked to the growth of income. These opportunities have emboldened Cambodia to create the necessary economic base for modernizing its industrial sector, and to capture other emerging opportunities to propel its industrial development to a higher level.

All in all, the industrial sector will play a crucial role once again in the growth strategy as a driving force for supporting medium to long-term growth, a potential sector for job creation specifically for youth and a new reinforcement for the economy to absorb additional investment besides agriculture and tourism. In order to successfully implement the IDP, the Royal Government will redouble its efforts to develop its human resources, supporting infrastructure and the technology use and transfer inasmuch as to promote knowledge-based economic development and other needed institutional structural reforms.

2) Status of the industrial sector in Cambodia

2.1) Overview of the Industrial Structure

The Cambodian industry remains weak as reflected by its simple structure, narrow base and low level of sophistication, while mostly concentrated in garment and food processing industries. Most production activities are family-based with lack of entrepreneurship and inadequate use of technology, thus limiting their ability to compete in international markets. Its key characteristics can be summarized as follows: a narrow industrial base, missing middle and informal industrial structure, weak and urban-centered entrepreneurship, low value addition and low level of technology application.

A. Narrow Industrial Base

Based on GDP, the industrial sector consists of three important activities, namely: garment production, construction and food and beverage processing. Other sectors have yet to make significant inroad while wood and paper processing and publishing has even seen a decline. The garment sector plays an important role in the industrial sector with its share jumping from a mere 8.2% in 1993 to 51.8% in 2004, the year of its highest growth. Subsequently, it witnessed a slight decline down to 42.4% in 2013. The construction sector, which represents 30% share of the industrial sector in 1993 has dramatically declined to its lowest level of 20.2% in 1998, but has

since rebounded back to 30.1% in 2013. Food processing continuously declined from 32.7% in 1993 to around 10% during the last 5 years.

Overall, most of Cambodia's enterprises are in retail and food establishments. Of some 510,000 enterprises, only 70,000 or 14% are in manufacturing, in which 45% are in food and beverage processing while the remaining 35% are garment and textile enterprises. It should be noted that 80% of large industrial enterprises are in garment, textile and footwear. The manufacturing structure is still underdeveloped because garment and textile production and food processing are industries with low value added and less sophisticated. The production of construction materials, electronics, engines and machineries, chemical products, motorbike and car assemblies, plastic products and other consumption materials are still at their early stage, and their productions are used very minimally as import substitution.

From the view of labor allocation in the industrial sector, about 50% of the workers are employed in the garment sector, 25% in the construction sector, close to 10% in the food/beverage processing and 13% in other manufacturing segments (Socio –Economic Survey 2007-2012). The structure of labor allocation is similar to that of the valued added structure.

From the view of export structure, over the 2000-2008 period, export of textile and footwear, and export of woods/wooden products accounted for 75.6% and 22% of total export, respectively. However, between 2009 and 2013, export of woods and wooden products had increased tremendously by around 30% per annum, whereas export of textile and footwear declined to just around 58%. Three major products, including agricultural products, rubber and means of transport have also largely contributed to the export performance. In fact, export of agricultural products, particularly rice, has increased to 4.36% of the total export in 2013. Moreover, there is an improvement in export of light manufactured items, including bicycles, electrical wires, electronic motors, circuits, television parts, toys, furniture, spring and screws and bolts, etc.

Overall, the manufacturing sector remains concentrated and narrow based, as reflected in the ratio of the number of industrial enterprises over the total number of enterprises, the value added contribution to GDP and the goods for export. Cambodia's manufacturing sector includes garment and footwear and food/beverage production. The construction sector has witnessed a remarkable growth. Therefore, in the medium term growth, it is crucially important to focus on expanding the production base and diversifying export products.

B. Missing middle and informal industrial structure

In the industrial sector, 97.3% of enterprises are in the form microenterprises, followed by 2.2% and 0.6% for SMEs and large enterprises, respectively. Among these enterprises, 91.7% of them are in manufacturing.

Regarding the labor force allocation, large enterprises, microenterprises and SMEs absorbed 63.3%, 29.3% and 7.4%, respectively. However, large enterprises generated turnover up to 76%, whereas the turnover of microenterprises and SMEs is both at just 12%.

Table 1: Cambodian Manufacturing Enterprises Classified by Size

	Micro (1-10 People)	Small (11-50 People)	Medium (51-100 People)	Large (100 People+)
Number of Enterprise	69,851	5,861	530	609
- <i>Share</i>	97.3%	1.9%	0.2%	0.6%
Number of Workforce	162,335	28,706	11,949	350,260
- <i>Share</i>	29.3%	5.2%	2.2%	63.3%
Total Turnover (Million USD)	396	300	94.4	2,500
- <i>Share</i>	12.0%	9.1%	2.9%	76.0%

Source: Enterprise Survey (2011)

The aforementioned industrial structure is fragile due to its excessive reliance on large enterprises. The collapse of one or two large factories may directly impact the labor market situation and the national economic growth. Moreover, such an industrial structure can easily lead to the loss in competitiveness as there is no backup from SMEs when erosion of trade preferences occurs or whenever there is a change in cost structure.

In term of official registration, 98.64% of microenterprises were not officially registered. The rate of non-registration dropped however according to the sizes of enterprises. Among small enterprises, 62.83% of them were not registered, followed by 28.57% for medium enterprises and only 7.04% for large enterprises. Moreover, a small number of enterprises had proper book keeping, of which microenterprises represent a mere 0.02%, followed by 3.89% for small enterprises, 24.11% for medium enterprises and 66.19% for large enterprises. The absence of proper book keeping hinders these enterprises from access to finance necessary for business expansion or new technology acquisition. Furthermore, the Royal Government would not be able to provide support to these enterprises unless they are officially registered and they maintain accurate accounting records as the basis for evaluation.

C. Weak entrepreneurship and urban-centered establishment

Weak entrepreneurship is reflected by the structure of ownership and the fact that they are still in their early stage. Almost half of the total enterprises (42%) that are currently operating in Cambodia were just established since 2008, and even with the counting going back to 2003, the number of newly established enterprises have reached 68.39%. Similar situation applies in each industrial sub-sector.

Of the total number of enterprises surveyed, 63% of large enterprises and 37.14% of medium enterprises were in the form of foreign direct investment, whereas the majority of micro and small enterprises were Cambodian-owned, accounting for 99% and 94%, respectively. Based on data from the Investment Climate Assessment of Cambodia (2003 and 2007), of 164 exporting firms, 93% of them started their exports in the first year of their operation, reflecting the objective of their investment is international trade. This fact reflects as well a separate industrial structure between production for export and production to support domestic markets. Moreover, there is a clear correlation between an increase in export and an increase in import. This factor explains the limited number of Cambodian entrepreneurs despite the fact that the garment sector was developed for nearly 20 years, and such sector being highly competitive with simple value added in regional and international production chain.

Moreover, Cambodia manufacturing enterprises are geographically concentrated. According to the 2011 Enterprise Survey, 68% of large manufacturing enterprises were located in Phnom Penh and the other 13% are in Kandal Province. For their part, the provinces of Kompong Cham, Kompong Speu, Sihanoukville and Svay Rieng are now host to a number of large enterprises approximately 12% of them are large manufacturing enterprises. Such concentration decreased in accordance with the sizes of enterprises, in particular for microenterprises, which are scattered all over the places and in every province depending on the population density. SMEs are located in Phnom Penh, Kandal and Kompong Cham provinces primarily due to access to transport infrastructure, electricity network and public services serving for the production and exportation. As enterprises are scattered geographically they will not benefit from the clustering effect, nor from the mutual support and complementariness. In this respect, there is a need to focus on creating industrial cluster areas in some provinces away from the capital. In addition, it is essentially important that public services be decentralized closer to the production base so as to provide facilitation and support to these investment operations.

D. *Low value addition and low level of technology application*

The Cambodian industry is labor-based focusing on certain labor intensive and unsophisticated production chain. For instance, in the garment and textile industry, about 60% of factories are operating in Cut, Make and Trim (CMT), whereas only one fourth of them are engaged in downstream production like embroidery, washing, packaging and eventually exporting finished products. Cambodia is still unable to weave fiber or extrude yarn because such production lines require adequate and reliable electricity supply at low price; as a result, such inputs have to be imported from other Asian countries. This situation also applies to the packaging industry which has recently witnessed some investment. In other sub-sectors, the production chain is quite similar in that it consists of cutting, making, labeling and assembling. In the assembly plants, there are only low skilled and low value added jobs such as assembling of key component parts and screwing.

The majority of domestic enterprises focuses only on food processing and semi-finished products with generally low level of technology usage. For instance, in the rice processing sector, prior to the launch of the *Policy Document on the Promotion of Paddy Rice Production and Export of Milled Rice 2010*, Cambodia had only a small number of international standard rice mills. Likewise, other manufacturing sectors are still utilizing obsolete technology with low productivity, thereby limiting its competitiveness. For example, the production of bricks, tiles or pots employs poor technology and hence is unable to produce a variety of products. In sum, low productivity is the main cause explaining why the majority of manufacturing sector serves only domestic consumption with low value-added products.

2.2) Key challenges of Industrial Development in Cambodia

A. Leadership, Coordination and Effective Decision Making

Industrial development requires intensive coordination in every aspect and level, be it at the policy, institutional, regulatory and managerial level, and in term of infrastructure development, financial services, technical and technological capacity as well as private sector participation. These elements are inextricably intertwined and their coordination needs to be well communicated so as to provide effective support to concrete industrial activities. Moreover, ensuring good coordination will contribute to improving the investment climate, gaining more confidence from investors and promoting reputation of the country as a major investment destination in the region.

Cambodia has yet to have clear policies, strategies and directions for its industrial development. The development of this sector was driven by general market conditions across different sectors and geographical locations throughout the country, which explains the current situation where development seems to be sporadic or highly concentrated in some sectors or areas and the lack of coherence in exploiting investment potentials vis-à-vis the provision of support infrastructure, public services, labor supply and so on. In this regard, the Royal Government should develop areas where industrial investment potentials exist, by way of providing adequate public infrastructure investment and other essential public services supportive of industrial activities and responsive to the improvement of workers wellbeing. All these facilitation actions would go a long way toward creating favorable conditions for the development and growth of the industrial sector.

As to the regulatory framework, similar coherent coordination efforts need to place with regards to the issues of investment incentives, taxation system, trade regime, transport and other relevant regulatory aspects. Up to now, coordination among other regulators remains problematic, and sometimes conflicting in terms of their respective objectives. For example, the tax system puts excessive emphasis on tax collection while the trade system focuses on market openness; the competition framework for its part still remains incomplete while the transport policy is lacking in scope comprehensiveness, just to cite a few examples. Such a lack of coordination creates

unnecessary difficulties for the IDP and undermines the government efforts to mobilize resources to achieve its industrial development goals.

Sound investment decision-making requires access to clear and transparent information, and hence the need for coordination. The provision of poor information generates wastes and a miss of opportunities for investment. In this situation, it is necessary to establish a clear mechanism to facilitate access to investment information that could reduce searching cost as well as to encourage broader participation, which will ensure smooth functioning of a more competitive and sustainable industrial development. Wider dissemination of industrial development information also helps to promote more creativity in institutional management, strategic policies design, and regulatory framework improvement.

While a sound investment and business climate is important and necessary, the government's various roles in orienting, leading, coordinating and supporting the private sector is even more crucial. Industrial development necessitates both an effective leadership and coordination whereby the lead institution plays an active professional role in ensuring close cooperation between relevant institutions in order to successfully implement the various initiatives and policy measures. In fact, such leadership and coordination must be applied across the board whether in government institutions, private sector entities and local communities, which can stimulate their active and effective involvement in the carrying out of their respective responsibilities. Thus, the necessity on the one hand to strengthen government institutions with clear delineated responsibilities and on the other hand to establish specific manufacturer associations as a mechanism for ensuring collective benefits through information exchange, advocacy and cooperation as well as disseminating information to a wider national and international business audience to solicit their support in the industrial development process.

Moreover, as for priority industries, Cambodia does not have lead institutions to drive and coordinate relevant institutions particularly in initiating intervention, monitoring progress and providing trouble-shooting solution to address operational concerns. Past experiences have shown that the majority of institutions have shirked their responsibilities, which further exacerbate the issues. As such, coordinating institutions should be able to provide adequate support in the form of technical assistance, training and investment for some specific activities deemed important, when there is a finding that the responsible institutions have failed in their duties. There is a need to have in place a monitoring mechanism to exert additional pressure on the responsible institutions to take measures and solve these problems.

B. Technical Knowledge and Skills Base

It is indispensable to create a critical mass and skill mix of workers, technicians, engineers and scientists to advance the manufacturing sector development agenda. The limited pool of trained skill workers, technicians and engineers will prohibit the country from absorbing and utilizing modern sciences and technology for industrial development while resorting to hiring costly

expertise from overseas. Cambodia needs to develop a proper human resource capacity to support its investment policy, the lack of which would seriously undermine the competitiveness of its industrial sector.

Overall, skills training remains inadequate to service the industrial sector, which suffers from low productivity as a result. As the majority of the Cambodian workforce are in the agricultural and service sectors, a shift to move it to the industrial sector would entail a major change in the labor market, which has a direct impact on worker recruitment procedures, provision of training, nurturing working habit and discipline as well as expectation about the sector. Training workers with low level of basic education is time-consuming and demands a high degree of patience and tolerance. Thus the need to strengthen the formal recruitment process coupled with proper training for workers. The aim is to help workers avoid falling in to the informal channel where they are trapped, indebted and at the mercy of unscrupulous unions. In sum, the system regulating the recruitment process should be reviewed and improved.

With the high rate of student drop-out still prevalent, the Cambodian industry is stuck in a labor intensive and low productivity industry mode. To build a sound technical base, workers should have completed at least grade 9 for them to possess the basic foundation to learn technical skills, which is a prerequisite for moving to learning technology. In term of productivity, a very low level of education in the workforce will lead to loss in productivity in the long term as workers are not able to acquire new skills and have no choice but to accept low paying jobs. In this regard, the government policy must be designed in such a way as to open up opportunities for workers to continue learning and acquiring new skills.

The values of technology/science are yet to be mainstreamed in Cambodia's current social environment. Youth should be motivated and encouraged to like and learn sciences and technology. Establishing science centers that enable them to learn and interact with science can stimulate their curiosity and inspire them to use science to solve daily life problems as well as to search for new ideas to satisfy their future needs.

Little attention has been paid to the development of metrology and standards, which in fact provide the technological backbone to instill consumer trust and confidence in manufacturing production, be they at the large factories, enterprises or handicraft level. Moreover, the use of proper metrology and standards add enormous value to the production process by way cost reduction, better confidence and trust in the market in terms of quantity, price, quality and safety of products. The promotion of metrology and standards is undoubtedly key to attracting investors to develop the industrial sector.

C. Linking Key Infrastructures and Coordination

Despite an enormous effort in building physical infrastructure for the last two decades, it is still inadequate, especially for the purpose of driving the country to the next stage of development.

The recent attempt to export of one million tons of rice has highlighted the need for infrastructure improvement to ensure reliable and timely supply chains. The major national road networks are congested, leading to transportation delay and even adding more pressure on the existing road structure. As such, the need for better supporting infrastructure and a highly effective logistic system is accentuated with the drive for industrial development and the expansion of export, in particular in targeted industrial areas and export gateways.

The key challenge for industrial development is the lack of stable electricity supply at a competitive price. Despite the Royal Government's effort thus far to promote investment in the electricity sector, the country still suffer from inadequate electricity supply. Electricity demand is estimated to increase potentially from 142 to 182 megawatts on average per annum until 2025. In 2012, the electricity supply capacity was at 825 megawatts, and provided all projects are completed as planned, the supply will reach around 1,866 megawatts by 2015 and 2,500 megawatts by 2020. Attracting more investment in the electricity sector is crucial to ensure a reliable electricity supply. Inasmuch as the supply issue is an urgent priority for the manufacturing sector, ensuring a lower and competitive price is as important in light of the country's relatively current high price vis-à-vis to its neighboring countries.

Other important issue related to physical infrastructure such as clean water supply and sewage system must be reconsidered in a new dimension. Demand of clean water is estimated to increase potentially from 10,000 m³/day to 14,000 m³/day annually, and by 2020 such a demand can reach around 140,000 m³/day. Moreover, the sewage discharge may possibly require a capacity of around 120,000 m³/day. It should be noted that certain SEZs still do not have adequate clean water supply and sewage system. In light of this, the provision of such necessary infrastructure must be taken into consideration and be well planned in advance, especially for the targeted industrial zones.

Proper planning of location for manufacturing facilities is essentially crucial. According to some estimates, the areas needed annually for new factories could increase from 240 ha to 250 ha. By 2020, the demand may increase from 3,400 ha to 4,500 ha. Presently, out of the approved 22 SEZs, which encompass around 9,000 ha, only some 280 ha are under operation. As such it is utterly important to link the provision of adequate physical infrastructure, such as transportation and other public utilities to the new planned economic zones.

Of equal importance is the need to develop social infrastructure to support production so as to ensure a stable labor supply. Generally, such social infrastructure, including development of housing, school, hospital and other public transport services have not been at all taken into account in the factory facilities planning package. This situation is the source of inconvenience for the movement of workers, many of whom have resorted to individual solutions entailing lack of safety and high risks, which in turn affects their productivity. Workers' accommodations are temporary in nature and far from public services, such as education, health and other social

services, leaving workers to seek out low quality and high cost private services. This issue requires long-term solutions, which can reduce cost of living of workers, ensure security and better quality of life, but foremost enable them to save more disposable income.

D. Financial Market Situation (Financing)

The banking sector development, including the microfinance sector, has been vigorous for the last decade in supporting sustainable growth, though it has yet to be responsive to the needs of investment capital. Financial deepening is still limited when compared to other countries. Strengthening of the banking system is thus key to fostering financial operations in the economy. Financing for investment projects is far from enough, especially for large development projects.

Unless there is a flexible financing mechanism in place, investment projects would be hard to materialize. Past experiences in the implementation of the ***Policy on Promotion of Paddy Rice Production and Export of Milled Rice*** has shown that agricultural development fund has played a key role in transforming the whole industry. While in the past it was hard for rice millers to secure loans, the advent of the fund enable them to obtain reasonable size loans at good terms. A financing mechanism for specific activities should be developed to drive industrial activities along with the strengthening of domestic saving mechanism such as insurance and pension plan to ensure sufficient source of credit with low interest rate. As such, the ability to integrate private savings into one system will offer various financing options for industrial projects.

Securities market is also an avenue for mobilizing capital and acts as another financing mechanism for long-term and sustainable business project development. In the context of industrial development, it could be seen a complementary financing options to foster the sector. For example, if SEZs are qualified for listing in the stock market, the additional capital raised from the securities market can be utilized to speed up the development and expansion of infrastructure or to strengthen professional management so as to attract more investment. Clearly, securities market can serve as a mechanism to mobilize financing for long-term investment.

Another option is to review the possibility of government bond issuance, especially when Cambodia is no longer able to obtain concessional financing along with the strengthening of revenue collection and domestic savings. Last is the use of public investment mechanism, which is another viable option to leverage private investment in concrete priority sectors, particularly in the form of public-private sector partnership or under a trilateral partnership framework of government, development partners and private sector.

E. Labor Market and Industrial Relations

Industrial relations is still a major challenge for industrial development not only in Cambodia but also in almost all countries going through a transition from agriculture/rural to industry/urban setting. A proper management of such transition can lay the foundation for attracting investments

in the future, especially to ensure better working conditions, high productivity and reasonable wage for the workforce. The process would require careful and systematic solutions based on the applicable regulatory framework so as to strengthen social investment needed to reduce wage-rise pressure in order to maintain competitiveness of the economy.

This factor is even more important when Cambodia joins the ASEAN Economic Community where a carefully managed labor mobility can ensure the investment competitiveness of the country. An adequate development and effective implementation of the regulatory framework is thus necessary. Such a regulatory system combined with a proper labor market management such as workers orientation prior to starting their jobs, awareness of rights and obligations of employers/employees, reasonable demand for working conditions, are crucial and should be widely implemented to ensure stability and effectiveness of the labor market.

3) Vision

The Royal Government envisages a transformation and modernization of Cambodia's industrial structure from a labor-intensive industry to a skill-based industry by 2025, linking with global value chain, integrating into regional production networks and developing clusters, while strengthening competitiveness and improving productivity of domestic industries, and marching toward developing a modern technology and knowledge based industry. The realization of this vision will contribute broadly to the national economic development through the support and promotion of sustainable and inclusive high economic growth, job creation for Cambodian workers, an increase in value-added for the economy, and reasonable increase of income for Cambodian people.

In line with the vision, the Royal Government will pay close attention to driving structural change in three important phases: In the first phase, continuing to promote its industrial potentials and diversifying its labor intensive industry such as manufacturing and agro-industry; In the second phase, initiating a comprehensive industrial restructuring through diversification of production; and last, undertaking further change by way of specialization based on sciences and technology development and innovation. Throughout each phase, the Royal Government will focus on developing new industrial bases by attracting both domestic and foreign investments with support from relevant public institutions, expansion of the production base and promotion of export through the modernization and productivity enhancement of industrial enterprises. Such a rationalization and specialization process will be effectuated by way of implementing a policy and regulatory framework that is proactive and based on best practices.

4) Objectives and Targets

This IDP is aimed to provide a vision and policy and implementation frameworks including needed institutional arrangement to promote industrial development in Cambodia. The core objective of this policy is to address structural challenges and to invest in key industrial infrastructure, both hard and soft, to be in line with the potentials, competitive advantage and development of the Cambodian industry. The IDP is aimed as well at defining various interconnected measures at the macro and sectorial level and at specific interventions in response to actual needs. The policy spans the period from 2015 to 2025 and must be updated every 5 years.

To realize the vision and achieve above stated objectives, the Royal Government has set three targets, namely: transforming and strengthening the industrial structure in the national economy; increasing and diversifying export products; and strengthening and promoting of SMEs. These targets are reflected through structural transformation and important performance indicators as follows:

1. Transforming and strengthening the industrial structure in the national economy *by increasing the GDP share of industrial sector to 30% in 2025 from 24.1% of GDP in 2013 with the manufacturing sector growing from 15.5% in 2013 to 20% in 2025 (see table 2).*

Table 2: Distribution of GDP by Sectors

Sector	1962	1998	2008	2013	2015	2020	2025
Agriculture	49%	44.5%	32.8%	31.6%	29.0%	25%	23%
Industry	19%	16.7%	22.4%	24.1%	26.2%	28%	30%
- Manufacturing	-	12.7%	15.3%	15.5%	16.0%	18%	20%
Service	32%	34.8%	38.8%	38.5%	39.4%	40%	40%
Taxes on products less subsidies	0%	4%	6%	5.8%	5.4%	7%	7%

2. Increasing and diversifying export products *by increasing the export of manufacturing products (non-textile products) to 15% of all exports by 2025, increasing export of processed agricultural products to 12% of all exports by 2025 as well as exporting new products (See Table 3).*

Table 3: Share of export products

Sector	1998	2008	2013	2015	2020	2025
Export of processed agricultural products	10%	10%	7.9%	8%	10%	12%
Manufacturing						
- Garment and Footwear	80%	70%	77%	60%	55%	50%
- Non-garment and footwear	0.1%	0.5%	1%	5%	10%	15%

3. Strengthening of the management mechanism and development of SMEs by promoting their official registration including large enterprises and promoting good corporate governance with proper accounts and balance sheets. ***By 2025 target, to officially register 80% to 95% of SMEs, out of which 50% to 70% of them to have accurate accounts and balance sheets.*** In fact, this target is simplistic but important as proper bookkeeping is one of the governance mechanisms to check the business status and operation of enterprises, provide accountability to shareholders, serve as an assurance instrument to secure financing and as an assessment basis to for the Royal Government to provide support and incentives, such as training and technical assistance, etc. (See Table 4).

Table 4: Percentage of officially registered enterprises with proper balance sheet

Size/Type of enterprises	Officially Registered			Having Balance Sheet		
	2010	2020	2025	2010	2020	2025
Small enterprises	37%	70%	80%	4%	30%	50%
Medium enterprises	72%	80%	95%	24%	50%	70%
Large enterprises	93%	100%	100%	66%	100%	100%

5) Strategic Framework

5.1) Key Strategies for Industrial Development

The key strategies of the Royal Government to achieve the aforementioned vision, objectives and targets focus mainly on the preparation and implementation of a concrete policy framework embedded with a set of interconnected and complementary coordinating mechanism to ensure efficient implementation of the IDP. This policy framework contains four pillars:

First, attracting FDI and mobilizing domestic private investment for industrial development, export market development and expansion, and promotion of technology development and transfer;

Second, developing and modernizing SMEs by way of expanding and strengthening the manufacturing base, modernizing and officially registering enterprises, promoting technology development and transfer and strengthening industrial linkages between domestic and foreign enterprises specifically in the agro-industrial sector;

Third, improving the legal environment to enhance competitiveness by way of improving the investment climate and promoting trade facilitation, providing market information and reducing business transactional fees; and

Fourth, coordinating supporting policies such as human resource development, skills training and industrial relations improvement, implementation of land management, urbanization and land use plan in line with the ***Land Policy*** and the ***National Policy on Land Management*** together with infrastructure development, including transport/logistics system and digital connectivity, electricity and clean water supply and other supporting services such as public services, social services and financial services.

The above framework has four strategic pillars. The first two pillars are complementary whereby one is aimed at mobilizing investment capital to support the establishment of new large leading industries capable of entering into regional and international market by way of global value chain linkage, and the other is to strengthen and improve existing domestic industrial base by focusing on SMEs to be developed into supporting industries and industrial clusters for major productions and value chain which can be linked with and engaged in production activities with those industries described in the first pillar. The latter two pillars play a supporting role and contribute to the realization of the objectives of the former: that is to create favorable environment and facilitation of business and industrial activities in Cambodia vis-à-vis the regulatory and legal framework, the human resource and skills development, the socio-economic infrastructure and the supply of industrial inputs for such as raw materials, electricity supply, and other public utilities, and so on.

5.2) Scope and Priority Sectors

The scope and priority sectors of the IDP focus mainly on the types of priority industries and the importance of linking them with the global value chain and the regional production networks, the proper selection of sites that are strategically important for investment, a sound legal framework and an incentives policy and mechanism that will be prepared in more details in the actual implementation plan.

A. Scope

The scope of the IDP implementation is as follows:

First, promoting the development of manufacturing and agro-processing industries by way of encouraging FDI and domestic investment as well as strengthening the capacity of both domestic and foreign SMEs so as to boost their production of goods both for export and for import substitution;

Second, integrating into the regional and global production networks in order to take advantage of the economy of scale by way of attracting substantial FDI within the ASEAN Economic Community framework, developing the Greater Mekong sub-region economic corridors and linking the main economic poles in the country, such as Phnom Penh city, Sihanoukville and Koh Kong provinces and those along the border areas, to neighboring industrial centers from Bangkok and Ho Chi Minh city.

Third, reorienting the development of industrial zones to ensure provisions of adequate clustering, economic linkages and efficient transport and logistic services, electricity supply and other supporting infrastructure. The Royal Government has identified Phnom Penh and other areas along the Thai and Vietnamese borders as potential zones for manufacturing and for linking to the regional production chain. Other industrial corridors are also promoted such as the Sihanoukville-Phnom Penh for manufacturing development zones for export; the Kompong Cham province-North-West industrial corridor for agricultural processing zones; and Siem Reap for handicraft production to support the tourism sector.

Fourth, encouraging the establishment of SEZs inasmuch as promoting the development of economic corridors and industrial parks, industrial clusters, especially for ensuring cross-border production connectivity with the region, industrial information technology clusters, agro-industrial clusters, manufactured/handicraft clusters to support domestic souvenir industry for tourism and foreign markets, etc.

Fifth, focusing on providing support to social enterprises that promote child nourishment¹, development of knowledge, promotion of national identity,² development of cultural heritage, assistance to orphans, disabled persons and elderly people, and sports equipment for young athletes.

Sixth, supporting knowledge/modern technology based industries and those that are of domestic origin, which can serve as the foundation to reinforce national ownership and create an overall platform for domestic technology development.

B. Priority Sectors

Even though the private sector is the one who decides on their own investment priorities, the Royal Government still has a role of a facilitator to provide overall coordination and guidance based on the country's competitive advantage, and to encourage the maximum use of available resources to its fullest potentials. The Royal Government takes into concrete consideration the limitation of its authority and other associated risks. In this respect, it has set the following priority industrial sectors:

¹ For instance, production of baby food at reasonable price and accessible for consumption for commercial and baby welfare or food processing for child that contains adequate nutrition, sold at cheaper price, with longer shelf life and wider area distribution to contribute to promoting child nutrition, in particular in rural areas.

² For instance, designing computer software programs or phone software programs and other software in national language.

First, new industries or manufacturing ventures with the capability of breaking into new markets, with high value-added products, creative and highly competitive that focuses not only on consumer products but also production equipment such as machinery assembly, mechanic/electronic/electric equipment assembly, means of transport assembly and natural resource processing;

Second, SMEs in all sectors especially those involved in drugs and medical equipment production, construction materials, packaging equipment for export, furniture manufacturing and industrial equipment, etc.;

Third, agro-industrial production for export and domestic markets;

Fourth, various types of supporting industries for the agriculture, tourism and textile sectors as well as for industries serving regional production chains linked with either global markets or global value chains in the form of forward linkages and for industries linked with the provision of raw materials supply network in the form of backward linkages, especially for the garment sector, for production of spare parts and assembling of other semi-finished products;

Fifth, industries serving regional production lines and those of future strategic importance such as in information technology and telecommunication (ICT), energy, heavy industries, cultural/historical/traditional handicraft, and green technology.

5.3) Approach of Implementation

The Royal Government plays a proactive and catalyst role as strategist, manager and facilitator of the development process while the private sector acts as a driver of economic growth. In the IDP framework, the Royal Government ensures a favorable regulatory framework and provides appropriate support and incentives for priority sectors as well as invests in the necessary infrastructure that serves industrial activities. Moreover, the Royal Government may directly invest in the development of strategic industries, especially through its state-owned enterprises (SOEs) or in partnership with the private sector inasmuch as through the possibility of securing markets for these industries by way of public procurement projects, providing financial support in the form of concessional lending for the production process, leasing or purchasing of machinery, provisions of advisory services and acquisition of fixed assets.

In term of concrete implementation, the Royal Government will provide guidance on major structural changes in order to support industrial development, especially in the areas related to skills training and technical education, financial sector development, technology and innovation and raw materials supply and so on and so forth. Skills and technical training is important for enhancing production capacity that is not provided by the marketplace whereby currently private investment in education is still limited. As such, the Royal Government will provide incentives

and prepare mechanism to promote investment in specialized education and advanced vocational training with the joint involvement from government institutions, industrial enterprises and the workers. Moreover, due to the fact that technology and innovation play a vital role in strengthening competitiveness, the Royal Government will develop specific mechanisms and programs to address this sector, focusing especially on promoting cooperation or providing linkages between universities and research institutes and technology centers to study, analyze and advise on product development, production chain, and new technology usage. Likewise, the supply of high quality, reliable and reasonable priced raw materials or inputs is essential for the industrial production. The Royal Government will devise concrete plans and strategies to reduce input costs through needs evaluation, provision of technical assistance to build the suppliers' capacity, reduction of import cost through streamlining of customs procedures, and reduction of excise tax rates.

In this context, all technical and financial support and other incentives provided under this policy framework must be carried out based on concrete achievements supportive of the policy objectives and their actual outcomes such as meeting export targets or actual number of new industrial factories created which are linked to the improvement of work conditions, skills and vocational training and technology transfer. Additionally, the Royal Government pays close attention to environmental protection in order to avoid environmental pollution caused by industrial and chemical wastes. The Royal Government encourages inclusive industrialization to serve its socio-economic development cause, in particular the caring for the workers' well-being.

6) Policy measures and action plans

To implement the above strategic framework, the Royal Government has put forth the following key policy measures:

6.1) *Investment Promotion*

A. *Investment climate*

- Review and amend the Law on Investment and other relevant regulations to respond to the concrete needs for developing the industrial sector by way of making the business climate conducive to attracting investment, enabling technology transfer, creating jobs and enhance skills training and increasing value-added;
- Review and revise criteria of selecting “potential and quality investment projects” that generate value addition and positive externality for the development and attraction of new industries into Cambodia;
- Further strengthen favorable environment for investment and doing business by improving the regulatory framework, rationalizing the provision of incentives for investment projects, strengthening the good governance and the effectiveness of relevant public institutions, especially the One-Window Service mechanism at the

Council for Development of Cambodia (CDC) to become an effective and practical mechanism;

- Consider providing additional incentives for investment projects focusing on skills training, research and development and innovation;
- Strengthen the institutional capacity and consolidate the investment management and promotion functions with the industrial development promotion function under the mandate of the CDC by way of preparing short and medium term action plans, institutional reform and modernization, and capacity building of officials to effectively carry out the IDP vision and objectives;
- Reinforce the monitoring and evaluation mechanism for the implementation of investment projects so as to ensure compliance with their terms and conditions and applicable laws of Cambodia;
- Improve investment after care services based on international best practices to ensure the effectiveness of investment facilitating and addressing investors' concerns throughout each phase of their investment project implementation;
- Further strengthen the effectiveness of Government-Private Sector Forum, encouraging the participation of private sector in industrial development, particularly ensuring the common interest of the sector, fair competition and improved investment climate;
- Prepare and implement concrete strategies and measures to promote and attract investment with focus on target countries and specific priority industries;
- Review the mechanism to disseminate investment information with the aim of facilitating the ease of access to information, especially content improvement based on users' feedback.

B. Development of Special Economic Zones (SEZs) and Preparation of Industrial Zones

- Review the incentives framework for foreign and domestic firms and SMEs located in SEZs;
- Take measures to promote more active participation from the private sector to develop physical infrastructure in government approved SEZs so as to ensure their attractiveness for investors seeking opportunities to establish their production bases;
- Promote the establishment of large industrial parks and clusters by enacting the Law on Special Economic Zone aimed at supporting in a comprehensive way the development of these zones to meet international standards: including infrastructure management system; adequate supply of electricity and clean water; provisions of raw materials and other inputs; trade and transport facilitation; provisions of incentives and other supporting measures to promote investments in SEZs;

- Continue developing industrial zones in provinces, aimed at promoting hubs for SMEs while enhancing their competitiveness by way of supplying as a matter of priority electricity connection, clean water, transportation and logistics links as well as other incentives and facilitation from the government;
- Promote the development of industrial corridors, especially the Sihanoukville-Koh Kong Southern Coastal Economic Corridors, and other corridors linking main national roads to domestic economic poles and to neighboring countries in ASEAN and Greater Mekong Sub-region economic corridor frameworks;
- Encourage competition among SEZs by way of establishing key performance indicators for measuring these SEZs to be used as evaluation criteria for providing incentives and promoting best practices;
- Prepare urban/city development plan to transform into industrial centers focusing on Sihanoukville, Koh Kong, Bavet and Poipet by way of creating an institutional coordinating mechanism to promote based on long-term development planning a comprehensive development of industrial centers, including determining land areas based on concrete land use plan, managing environmental resources to ensure sustainability of the eco system, developing residential housing and infrastructure including electricity, road, port, clean water supply system, flood prevention system, waste and drainage system as well as social services and health care, education and vocational training;
- Develop Phnom Penh surrounding areas to become an industrial hub with clear land use plan by separating industrial zones and residential zones or urban areas with the long-term plan of transforming Phnom Penh into an administrative, industrial, scientific and innovative center;
- Conduct a study to develop industrial parks for SMEs in order to promote linkages between foreign enterprises and domestic enterprises, through their participation in regional production and value chain in the context of regional integration;
- Maintain the momentum in developing physical infrastructure for industrial development purpose such as clean water, electricity, transportation and telecommunication, especially in SEZs, developing industrial clusters and transforming urban areas into national industrial centers in line with the urbanization, land use and management plan;
- Set a clear standards and guiding principles on environmental protection and production safety for investment projects located in SEZs and other industrial zones;
- Continue strengthening and streamlining the administrative capacity and institutional framework for managing the operations of SEZs by way of increasing the effectiveness of the One-Window Service mechanism in order to promote the development of specialized SEZs. The focus of the latter would be on some priority sectors such as

agro-processing for export (the development of specialized SEZ needs to be based on specific geographic location, the type of business ventures, adequate infrastructure and enticing incentives);

- Review the feasibility of promoting the development of large high standard SEZs through Public Private Partnership.

6.2) Expansion and Modernization of SMEs

A. Institutional arrangements and incentives

- Encourage the preparation of medium-term plan to nurture the growth of SMEs by way of identifying enterprises with good export potentials, developing new products, linking to multinational corporations (MNCs), connecting them to the value chain and regional production networks, and preparing concrete action framework to develop them;
- Strengthen the SME development framework and mechanism, focusing on the preparation of registration, monitoring and tracking the progress of this sector. The objective is to encourage Cambodian enterprises to register in the formal tax regime, thus allowing the Royal Government to have accurate information about the sector so that it can initiate proper supporting policies to enable better access to credit information and other business advises to grow their business and investment;
- Enable technology transfer through field visits and acquiring capacity building from other countries around the world;
- Establish a research and development fund (R&D) with appropriate professional management and budget allocation by the Royal Government according to the need of industry and the affordability of the national budget;
- Enhance human resources development to ensure strong and dynamic industrial development through the provision of specialized skills training to address skills shortage in priority sectors by way of increasing training scholarships for engineers and technicians;
- Review the viability of providing support to SMEs for investment in machinery parts or production equipment as well as other incentives taking into consideration the local processing of raw materials; promoting quality of products and modernizing their production chain to link up to multinational companies;
- Build the capacity of high education institutions to absorb scientific knowledge, and promote market-driven technological innovation;
- Create awards for technology innovation in various priority sectors;
- Promote the formation of sub-sectoral associations where they can share knowledge and information, protect the interests of their members, and act as advocate with the Royal Government to secure technical and financial support for their members;

- Build the entrepreneurial capacity of local enterprises to enable them to deal better with large enterprises and foreign investment in SEZs.

B. Registration and Accounting Practices

- Amend the Law on Corporate Accounts, Audit and Accounting Profession to introduce a simplified accounting standards for SMEs;
- Strengthen the single-window mechanism for registering SMEs by way of using their registration and account ledgers as the basis for evaluating and determining criteria for providing incentives and receiving support from the Royal Government;
- Encourage small, medium and large enterprises to have proper accounts and to register as real regime tax payers;
- Strengthen the corporate governance so as to enlarge and deepen the pool of the private sector, which appreciates the culture of social accountability and can enhance their ability to obtain financing by providing them training on general management, production system management and technology management for SMEs;
- Publicize broadly to the public on the benefits of the new simplified accounting system for SMEs;
- Provide training in accounting to SMEs.

C. Promotion of Agro-Industrial Development

- Explore possibilities of establishing agro-processing zones such as furniture manufacturing, rubber processing, seafood processing, food processing for domestic use and export through public-private partnership;
- Provide incentives to companies to locate in these areas;
- Create a development and promotion fund for export led product development using agro-processing technology;
- Develop a coordination mechanism for processed agricultural product exports by way of addressing logistic issues, abolishing informal fees and improving trade facilitation;
- Conduct a study to identify priority products with potentials to be processed for export and prepare a comprehensive action plan based on value chain in order to enable the Royal Government to provide concrete support to these sectors.

6.3) *Improvement of Regulatory Environment*

A. Trade Facilitation and Export Promotion Measures

- Accelerate the finalization of the implementation of trade facilitation reform plan and the utilization of the National Single Window Service at all international border checkpoints and ensuring its integration with the ASEAN Single Window Service in order to support the international logistic network;

- Establish trade information center that consists of internet based information on trade measures, tariff and formal fees imposed by the Royal Government;
- Improve customs clearance procedures for tax-exempt goods by way of strengthening cooperation among relevant institutions, streamlining documentation, facilitating procedures and eliminating informal payments;
- Reduce and abolish repetitive and non-transparent procedures;
- Prepare a logistic system master plan to serve as an efficient, reliable and highly competitive platform for trade facilitation;
- Increase regional and sub-regional efforts in the context of ASEAN and GMS, to implement the Cross-Border Transport Agreement (CBTA) and the Single Window Mechanism, in order to improve the efficiency of international logistic system in the region; Other supporting measures include developing institutional frameworks to be integrated into the logistic system, cooperation and broader coordination with relevant authorities in charge of transport facilitation and movement of people and goods;
- Strengthen the capacity of the General Department of Trade Promotion of the Ministry of Commerce to become an export promotion agency, equipped with highly specialized skills in market research, identification of export products and business networks. The EPD can provide trade consultation services, i.e. information on overseas markets, coordination of export promotion activities, including market studies or exhibitions;
- Explore the possibility of establishing a policy-based financing institution tasked to provide credit to exporters who can export products in priority industries, and export insurance services to reduce export-related risks;
- Strengthen trade facilitation by improving procedures, strengthening the implementation of the CBTA, reducing transactional cost of trade and strengthening institutional coordination;
- Consider the possibility of establishing a system to reward domestic firms with outstanding export performance and new products development. This reward is provided to firms achieving predetermined export target through a transparent evaluation system based on specific industrial development objectives;
- Promote the formation of sub-sectoral associations where they can share knowledge and strengthen government relations.

B. Industrial Standards and Property Rights

- Continue strengthening institutional framework and the capacity in managing metrology and standards, which are the foundation of industrial activities. Additional efforts are dedicated to develop the appropriate regulatory framework and to get international recognition of key national institutions such as the National Metrology Centre and the Institute of Standards of Cambodia;

- Improve the effectiveness of the process of registering industrial property rights by way of implementing collaborative procedures to recognize registration agents of partner countries and to facilitate to the registration of IP agents through automation;
- Strengthen the use of standardization and the compliance evaluation by linking to public procurement, incentives and other subsidies;
- Raise awareness of the importance of standards, metrology and industrial property rights in order to broaden and attract the interest of entrepreneurs;
- Support and improve the capacity and competency in metrology and standards assurance with regards to quantity, quality, safety, service, environment and management;
- Take practical actions to strengthen the implementation of standards, metrology and industrial property rights as a tool for promoting competitiveness;
- Support and improve the capacity and competency of the National Productivity Centre of Cambodia with the purpose of increasing the productivity and enhancing the quality of SMEs;
- Strengthen the capacity of the Institute of Standards of Cambodia in doing research and developing national standards for products, services, production technics in compliance with regional and international standards;
- Strengthen the capacity of the National Metrology Centre in doing research and in preparing procedures for inspection, verification, calibration, and testing.

C. Facilitation for Payment of Tax and Excise

- Review the tax and customs system by transforming it into a tool not only for revenue collection but also for promoting industrial development;
- Rationalize revenue collection mechanism and improve taxpayer services to promote tax culture among enterprises and taxpayers;
- Increase provision of services to taxpayers in order facilitate access to information on tax payments and tax exemptions;
- Expedite the tax refunds or the use of tax credit in accordance with the existing tax regulations;
- Review and improve the implementation procedures so as to avoid contradictions between tax collections and tax exemption procedures.

D. Labor Market Development and Industrial Relations

- Continue strengthening the tripartite labor relation mechanism among the government, employers and employees through the Labor Advisory Committee in order to promote mutual understanding, while developing an effective mechanism for setting minimum

wages consistent with labor productivity, socio-economic conditions and status of industrial development in Cambodia;

- Initiate a research on the relationship between employees and employers in order to identify good practices in addressing systemic resolutions of industrial disputes, which could enhance labor productivity, i.e. professional training on addressing workers' issues in line with the existing labor law and regulations;
- Prepare Law on Union and Law on Labor Court;
- Strengthen the working conditions auditing mechanism by extending the Better Factory Cambodia program or by exploring the possibility to form a joint task force to conduct regular audit so as to reduce the number of audits and promote audit effectiveness. This task force must report to the Royal Government regularly;
- Strengthen the management mechanism for the recruitment of workers, the provision on labor market information and workers' training on their legal rights, especially related to reducing informal fees for getting jobs;
- Promote the welfare of workers by encouraging the formulation of a workers housing policy, which stipulates housing ownership for workers, thus enabling them to start a family and remove their needs to move frequently. Such policy could have the effect of reducing short-term labor shortage;
- Review the Labor Law and Law on Social Security to assess their strengths and weaknesses in order to emphasize the role of employers and unions in the process of labor market development while considering the balance between the need of development and well-being of workers;
- Strengthen mechanisms to manage skilled workers, especially to be better prepared for ASEAN integration;
- Prepare national policy on jobs and employment.

6.4) *Coordination of Supporting Policies*

A. Skills and Human Resource Development

- Offer a second opportunity for students to finish secondary education by establishing an testing based equivalent education system, which allows students to receive general education certificate, albeit from the non-formal education sector;
- Strengthen the quality of education at primary and secondary levels by focusing on strengthening basic knowledge for children and youth in mathematics, sciences, literature and technology;
- Promote general education for at least 9 years by reducing dropout rate to the maximum level at the primary education level and promoting enrolment at the secondary level;

- Improve curriculum by integrating soft skills, including social communication skills in problem solving, respect of working discipline, and other essential skills needed to build the base of industrial development;
- Strengthen the understanding regarding selection of professions and the relevant technical skills inasmuch as reinforcing the continuing education program for skills development in correlation with existing vocational training;
- Increase as much as possible in multiple fold technical skills training in electrical, electronics, mechanics, chemistry, standards and metrology (inspection, verification, calibration, testing and skills in using metrological tools) at both technical secondary education and higher education;
- Give priority to the establishment of many technical secondary schools (both in formal education and non-formal education system) with focus on important thematic such as electricity, electronics, information and communication technology, computer science, machinery, motorcycle and automobile assembly and maintenance, agro-processing and handicraft;
- Develop technical and scientific training plan in support of the industrial sector with concrete long-term investment plan;
- Promote and implement incentives based apprenticeship schemes in order to encourage firms to join the program;
- Strengthen technical training in response to private sector demand, including soft skills through cooperation with targeted foreign investors with the aim of establishing skills training centers with Japan, Korea, Singapore, etc.;
- Promote trilateral training “government-training institutions-companies/factories” in order to equip them with skills and productivity training by way of integrating them into the existing education and vocational training programs through public-industry association cooperation;
- Expand on-site technical and vocational training by focusing on factory workers so that they could receive proper training in skills and know-how development in the future;
- Strengthen education at university with curriculum related to agriculture sciences and other important sciences and engineering by upgrading laboratory equipment in order to enhance education quality for research and development.

B. Sciences, technology and innovation promotion

- Expedite the preparation of regulatory framework and measures for the development of sciences, technology and innovation;
- Promote and encourage the transfer of new technology in manufacturing, including for handicraft;

- Strengthen the management of Cambodian Innovation and Invention Center to promote invention and training on industrial property rights;
- Strengthen and build capacity based on the demand for research and development of industrial technology;
- Collaborate to promote and encourage study and research on sciences, technology and innovation;
- Study the feasibility of creating scientific and technological parks linked to industrial parks and SEZs to provide industrial experiment and research;
- Create a contest for technology experts, business initiators and talented engineers in order to select talented industrialists and promote innovation among engineers and young entrepreneurs;
- Study the feasibility of investing in a government research institute by focusing on sciences and technology linked to each priority sectors by selecting qualified scientists and engineers and equipped with appropriate laboratory equipment;
- Promote the study on sciences, technology, engineering and mathematics (STEM) from primary education to post-secondary education level with special focus on students coupled with curriculum reform through standardization of programs from primary education level and up;
- Assess the natural resource potentials of the country so as to encourage investment in heavy industries.

C. Establishment and development of industrial infrastructure

- Create a coordinating mechanism for investing in transport infrastructure (road, rail, air and port) by linking to targeted industrial areas;
- Monitor and direct energy supply to major production zones by ensuring the most sufficient and stable electricity supply, which allow factories to plan their production effectively;
- Implement and timely complete the planned construction of electricity plants to reduce shortage of electricity supplies by 2020 including improvement of capacity and quality of transmission;
- Review the forecast of long-term electricity demand and energy development plan in line with the new vision for economic and industrial development. Energy supply options are also to be reviewed in order to ensure adequate energy supply capacity to major strategic industrial zones;
- Increase investment in physical infrastructure and improve transport mode and services in order to facilitate and support business operations;

- Expand the coverage of water supply throughout the capital, in urban areas, industrial zones and SEZs by strengthening the capacity of public and private water supply units in compliance with technical standards and the National Drinking Water Quality Standards;
- Continue expanding and maintaining major road networks that service transport of goods such as widening the national roads to improve connection to Thailand and Vietnam, the Phnom Penh–Siem Reap corridor and the Phnom Penh–Sihanoukville corridor while conducting a long-term feasibility study for transforming important national roads into highways in order to reinforce the logistical capacity between Cambodia and Thailand and Vietnam;
- Improve and maintain infrastructure to support SEZs, including road networks which are crucial for developing industries in Svay Rieng, Koh Kong, and Sihanoukville where international border checkpoints and international ports are located;
- Continue developing Cambodia railway system, after launching the operation of Phnom Penh – Sihanoukville railway, in order to transform railway system as an important mode of transportation that will contribute to the effectiveness and cost reduction;
- Develop waterway transport networks which have potential to reduce logistics cost especially for transporting agricultural products through the development of peripheral ports along the Mekong River for ease of loading and unloading. The upgrading of new ports in Phnom Penh and Sihanoukville will also help facilitate larger volume of shipping;
- Resolve traffic congestions on the outskirts of Phnom Penh, which is the cause of the ongoing rise in logistics cost, by way of constructing ring roads or bypasses to ensure smooth traffic flow;
- Review the feasibility of public-private partnership for the development of infrastructure, which can help reduce the pressure on public investment.

D. Financing measures

- Continue implementing the Financial Sector Development Strategy 2011 – 2020 as the framework for financial sector development in Cambodia;
- Prepare appropriate finance mechanism for industrial development by way of providing financing to SMEs in priority industries;
- Improve the effectiveness and governance of public financial system through the allocation and development of public investment programs catered for industrial development;
- Strengthen the securities market to mobilize financial resources and its effective use taking into consideration the prospect of establishing in a medium-term to long-term

Treasury bonds to finance development projects that support the anchoring of the industrial base;

- Strengthen domestic savings mechanism, including the development and reform of pension fund and insurance sector as stated in the Financial Sector Development Strategy;
- Elevate priorities on public investment programs for project activities and programs that promote industrial development, industrial clusters or industrial corridor.

Four key concrete measures to promote the implementation of the “Industrial Development Policy”

In addition to the aforementioned policy measures and action plans, the Royal Government will implement four key concrete measures to be achieved by the end of 2018. These measures are of great significance as they enable the Royal Government to monitor the efforts and progress of the implementation of the IDP. They serve also as an indispensable basis and preconditions for determining the success in ensuring that the vision, objectives and goals of the policy are realized:

- 1).** Prepare and implement a plan to reduce electricity tariffs for industrial and commercial purposes including strengthening reliability and expanding coverage of electricity supply:
 - Reduce price of electricity directly purchased from sub-stations to **USD 12.6** cents/kWh;
 - Reduce the purchase price from the Electricité du Cambodge (EDC) in Phnom Penh, Kandal and Kampong Speu electricity system to **USD 16.5** cents/kWh;
 - Reduce the purchase price from sub-transmission lines of sub-stations (including those of EDC and private providers) to the same unit price of **USD 16.40** cents/kWh;
 - Set a different electricity pricing for daytime and night time industrial usage;
 - Expand the coverage of electricity supply to all the targeted industrial zones;
 - Ensure reliability and confidence in the electricity supply by reducing the rate of electricity cut-off to no more than 12 times or 24 hours per annum.

The Royal Government introduced the electricity tariffs reduction and price differentiation schedule for the industrial and commercial purposes toward 2020 as in **the appendix E**.

- 2).** Develop and implement a master plan for transport and logistic system development with the aim of creating an integrated and highly effective multimodal transport and logistics system, focusing on connecting the major economic poles and the three economic corridors - *Phnom Penh–Sihanoukville, Phnom Penh–Bavet and Phnom Penh–Poipet --*

to become key national economic corridors through the construction of internationally standards highways and the setup of an effective logistics system.

3). Further strengthen labor market mechanisms and skills training development to ensure stability of the labor supply, increase productivity and improve living standard of workers by promoting skills training programs, strengthen the mechanism for setting minimum wage and enhancing harmony in industrial relations based on the principles of positive union and the kindness of employers towards their employees. This can be done through existing mechanisms, including the *Labor Advisory Committee* and the *Cambodia Productivity Committee*.

4). Develop and transform Sihanouk Province into a model multi-purposed Special Economic Zone, following the concept of Special Administrative Region. Under this concept, a master plan, legal and regulatory framework and other administrative arrangements will be developed and designed to provide full authority and jurisdiction for mobilization of resources, talents, investments and businesses to develop the province to become an economic pole and industrial, trade and tourist hub in line with sustainable and environmentally sound development concepts, and to be recognized as the **ASEAN Green Industry and Metropolitan City** in the future.

7) Mechanism for Policy Leadership, Coordination and Implementation

The implementation of the IDP requires strong and resolute leadership, a highly effective coordination mechanism, and active participation from relevant stakeholders to achieve the collective vision and goals of the industrial development. In this regard, the Royal Government is highly committed to taking up the multiple roles as strategist, coordinator, supporter and initiator with integrity and high responsibility in its campaign to promote the country's economic structural transformation and the historical industrial development by developing a coordination mechanism of various relevant institutions endowed with a highly capable and adequately resourced professional team with a full mandate to effectively and efficiently implement projects, programs and various initiatives under the IDP framework.

In this respect, the Royal Government will initiate a set of comprehensive institutional reform measures by providing full mandate and delegating the necessary functions to the *Council for Development of Cambodia (CDC)* in terms of policy decision-making, designing and implementing plans, and addressing challenges in the industrial sector with the aim at transforming this institution into an effective mechanism to lead, coordinate and enhance the implementation of the IDP. Overall, the Royal Government will revise the governance structure of the CDC as illustrated in Appendix A:

First, strengthening political leadership of the CDC in setting directions, endorsing and monitoring the progress of IDP implementation in close coordination with the “Committee for Economic and Financial Policy” and the “Steering Committee for Private Sector Development” and other relevant institutions of the Royal Government;

Second, revising the functions and strengthening the capacity of the **Cambodia Investment Board (CIB)** by equipping additional functions of coordination and promotion of the industrial development, as well as preparation and implementation of the sector development plan in collaboration with the Ministry of Industry and Handicraft;

Third, streamlining the functions of the **Cambodia Rehabilitation and Development Board (CRDB)** to support the industrial development in the framework of their development cooperation management and public investment plan for industry;

Fourth, strengthening the **Government and Private Sector Forum** mechanism to disseminate and encourage participation from the private sector; and

Fifth, developing a monitoring and evaluation mechanism.

7.1) Strengthening the Role of the Council for the Development of Cambodia

Strengthening the role of the **CDC** in policy decision-making to function as a governing board to steer the general development of the industrial sector and investment in Cambodia with a full mandate to lead and coordinate the IDP implementation through the following actions:

- Review and revise the functioning and organization of the CDC as well as its composition in the framework of the amended Law on Investment inasmuch as updating and integrating as the functions of the CRDB, the CIB and the Cambodian Special Economic Zone Board (CSEZB);
- Make full use of the Economic and Financial Policy Committee, the Private Sector Development Steering Committee and the respective Sectoral Sub-Committee as a policy dialogue mechanism to advice on structural reform initiatives to support industrial development. These mechanisms serve as policy arms of the CDC in addressing policy challenges which have political and institutional implications requiring high level coordination. These mechanisms are mandated to propose and take action to revise and update policies to make IDP remains relevant as a living and effective document in achieving the vision of transforming Cambodian industry into a skill based industry by 2025;
- Strengthen the General Secretariat of the CDC both in terms of professional capabilities and financial resources to support its daily activities as well as the decisions of CDC;

- Establish a Advisory Board for Cambodia Industrial Development (ABCID) composed of high profile figures from the Royal Government, research institutions, national and international private sector entities with profound knowledge and experiences in international businesses. The Board shall be chaired by the Deputy Prime Minister in charge of economy, and vice chaired by the Minister of Industry and Handicraft. Membership shall be composed of ministers and heads of relevant ministries/institutions together with the respective Secretaries General of the CDC, the CRDB, and CIB acting as vice chair when necessary. The advisory board is tasked to provide recommendations on strategies and priorities as well as to propose concrete implementation measures to CRDB and CIB which are the direct implementing agencies mandated for preparing and implementing action plans in accordance with their respective duties.

7.2) Revising Functions and Strengthen the Capacity of Cambodia Investment Board (CIB)

The Royal Government will revise the functions of CIB and strengthen its capacity to act an operational arm of the CDC to lead, coordinate and implement industrial and investment development plan, trade facilitation and investment climate improvement measures:

- Revise the functions of CIB by integrating its investment management functions, special economic zone management with the development of manufacturing industry and SMEs;
- Redesign the management structure and implement the Institutional Development Plan of CIB, including among others: governance and management system; human and financial resource management; workplace environment; professional ethics and incentives; work plans, clear division of functions, rights and responsibilities of responsible officials;
- Strengthen the strategic plan for investment management and industrial sector development; improve and strengthen the approval mechanism and coordination of investment project implementation; promote and attract new investments; and coordinate public investment projects or programs for the promotion of industrial development;
- Explore the possibility to create special operating agencies in the CIB tasked to implement action plans or promote the development of manufacturing sector and SMEs vis-à-vis foreign direct investment in order to coordinate access to finance, skills training, technical and technology development and SEZs development (Appendix “B”);
- Promote the effectiveness of trade facilitation and investment/business environment through the strengthening of the Single Window Service Mechanism and the use of the sectoral policy implementation mechanism to support industrial development by way of improving the legal and regulatory framework as well as other procedures that

contribute to the following: trade facilitation and investment climate, mobilization and allocation of resources for the industrial sector; infrastructure connectivity and logistics system development; human resource development and skills orientation; development of technological standards and innovation; environmental management; and provision of raw material inputs, including public utilities, agricultural inputs, minerals and land;

- Assess and prepare strategic plans to link private and public investment programs aimed at serving industrial development, including: investment in infrastructure connectivity; new product R&D programs; skills and technical training; and new industry and strategy development;
- Provide the functions of coordination and policy dissemination and cooperation framework to relevant partners, governmental and sub-national administration institutions, to ensure full cooperation in the smooth and effective investment project implementation along with meeting target expectations and active participation from all level stakeholders.

7.3) Streamlining Functions of Cambodian Rehabilitation and Development Board (CRDB)

The Royal Government will streamline the functions of CRDB and strengthen its capacity to act as the operation arm of the CDC to lead, facilitate and implement the industrial development policy vis-à-vis public investment by closely collaborating with the CIB to:

- Revise the functions of CRDB to support the development of manufacturing industry and SMEs;
- Strengthen dialogue coordination with development partners under the Cambodia Development Corporation Forum framework and with joint sectoral working groups: to mobilize technical resource, investment and financing to promote trade facilitation and enhance investment environment; to ensure transport, logistics infrastructure and digital connectivity; to develop human resource and skills; to develop technology and innovation; to manage industrial related environmental impacts; and to provide public utilities like electricity, clean water and other industrial inputs;
- Strengthen the preparation of strategic plan for managing public investment aiming at promoting industrial development; improving and strengthening the approval process and facilitating the implementation of public investment projects; promoting and attracting investment from development partners; and strengthening project facilitation or public investment programs for promoting industrial development;
- Redesign the institutional structure and its management including among others: governance and management system; human and financial resource management; workplace environment; professional ethics and incentives; work plans, clear division of functions, rights and responsibilities of responsible officials.

7.4) Strengthening the Consultation Mechanism with the Private Sector

The Royal Government will continue strengthening its consultation mechanism with the private sector through the ***Government and Private Sector Forum*** by using it as a mechanism to promote and guide the implementation of the IDP. The role of the CIB is to coordinate the forum dialogue process, which requires clear action plans and adequate technical support capacity, including having a professional secretariat mandated to propose agenda for consultation, conduct research and analysis to support the dialogue, and to coordinate the networking of business and professional institutions.

As an objective, the Royal Government will promote the “Government–Private Sector Forum” to become an effective mechanism for consolidating inputs, ideas and wisdom in order to improve policies and their implementation so as to allow the Royal Government to adopt timely measures that ensure benefits for all relevant stakeholders, fair competition and favorable investment climate. In this context, the Royal Government will seek more comprehensive consultation with targeted high potential investors especially those from China, Japan, Korea, Thailand and Vietnam inasmuch as investors from other important partner countries and local investors.

7.5) Establishing Monitoring and Evaluation of Policy Implementation

In order to ensure steady progress, effectiveness and consistency in policy implementation, the Royal Government has mandated the CDC to prepare and coordinate in an effective manner the monitoring and evaluation arrangement, which includes the following:

- A quarterly and annual reporting system, in particular a report to the plenary session of Council of Ministers(COM) every three months on progresses and challenges as measured against the set objectives and indicators, and proposed remedial actions for decision by COM to address implementation challenges;
- A Trouble Shooting Mechanism;
- An evaluation of the progress and achievements on the implementation of the four IDP key action plans to be achieved by 2018 and a comprehensive mid-term evaluation to be done in 2020, as a basis for adjusting and redirecting the next phase implementation.

8) Management of Major Risks

In addition to the above efforts of the Royal Government, the success of IDP implementation will be subjected to changing regional and global landscapes as well as to changing domestic conditions, which have direct or indirect implications on diversification, competitiveness and productivity of Cambodian industry. These changes can affect the country's macro-economic parameters, its trade, and investment regime inasmuch as interruptions or disturbances arising from political instability and geo-political crisis. In this sense, the Royal Government foresees a number of major risks that need to be attended to and to be resolved:

1) *Risks Related to Regional and Global Environment Changes*

Even if the current regional and global environment is conducive for integration of value chain and production, Cambodia may still face a number of risks in the future especially due to global financial crisis, changes in trade regime caused by protectionism, reverse flow of FDI, energy security issue, and interruptions of production chain and supply of raw materials caused by regional instability and conflicts.

2) *Risks Related to Management of Macro-Economic Issues*

The rise in labor cost is an avoidable phenomenon in national economic development that is usually reflected in an increase in inflation and in labor productivity. As such, the Royal Government will strive to manage the inflation rate low and within control. Moreover, the Royal Government will tackle the need to increase labor productivity by way of investment in education sector reform, providing technical and skill training, and strengthening mechanism to improve industrial relations which is important for wage increases without negative implications on economic growth and competitiveness in Cambodia. On the opposite end, a budget deficit that grows due to economic or financial crisis, or as a result of slow progress in public finance management reform will decrease fiscal space and the capacity of the State for invest in the much needed public investment that supports industrial development.

3) *Risks Related to Political Instability*

Political stability is the most essential prerequisite for developing Cambodia's industrial sector. Political instability on the other hand will hamper the development of the sector. Moreover, the pressure to introduce populist policies is a direct risk to the development of the sector as national resources will be diverted to support other priorities that do not serve the long term development objective of the country.

4) *Risks Related to Governance, Institutions and Coordination:*

The implementation of the IDP has to do with both government interventions and government incentives and may be related to the implementation of large projects characterized as natural monopoly that requires a clear governance and management system inasmuch as technical capacity, commitment and strong political will. As such, this policy may generate important risks, which is the exploitation or taking advantage from the gaps or shortcomings of the governance and management system, and the legal and regulatory framework.

Mindful of these major risks, the Royal Government is fully committed to drive the implementation of the adopted policy, strategies and measures to achieve its intended objectives. Based on regular monitoring and evaluation of the implementation process, the Royal Government will exercise maximum efforts to manage and address risks and challenges effectively and efficiently through proactive and prudent approach.

9) Conclusion

The Cambodian economy is at a crucial transformation stage after sustaining high growth over the last decade. The country is moving toward becoming a middle-income country, which requires comprehensive structural reforms aimed at strengthening economic diversification and competitiveness to ensure sustainable economic growth with equitable redistribution of wealth. This requires consideration for a new development approach vis-à-vis expanding development opportunities and investment in new growth sectors by way of improving the necessary socio-economic infrastructure, supply of energy, expansion of transport infrastructure and development of logistics, promotion of technical and sciences education, and institutional strengthening.

In this regard, the Royal Government has decided to adopt the IDP in order to provide a policy framework and a specific mechanism for driving economic growth and creating jobs with focus on the manufacturing sector, agro-industrial sector and SMEs. In pursuance of this policy, Cambodia will succeed in its economic structural transformation by moving from an agricultural based economy toward a manufacturing and agro-industry based economy, and subsequently in the final phase toward diversification in other sectors especially those that use technology and innovation.

