

Unclassified

DCD/WKP(2017)1/REV1

Organisation de Coopération et de Développement Économiques  
Organisation for Economic Co-operation and Development

21-Jun-2017

English text only

DEVELOPMENT CO-OPERATION DIRECTORATE

**DEVELOPMENT CO-OPERATION TO PROMOTE INVESTMENT AND PRIVATE SECTOR  
DEVELOPMENT IN CAMBODIA**

*This document contains factual corrections and editorial adjustments to the earlier version [DCD/WKP(2017)1].*

*It is an output for the DAC's PWB 5.1.3.9.3 on Private Sector Development.*

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**JT03416559**

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## **DEVELOPMENT CO-OPERATION TO PROMOTE INVESTMENT AND PRIVATE SECTOR DEVELOPMENT IN CAMBODIA**

### **Background**

1. At the DAC discussion on Development Co-operation for PSD held on 20 May 2016, the Committee suggested future work on the topic to include, *inter alia*, granular analysis of PSD support (see summary record [DCD/DAC/M(2016)5/FINAL])<sup>1</sup>. In an attempt to address this, the Secretariat undertook a case study on how development co-operation for PSD is specifically carried out in a developing country by participating in the Investment Committee's Investment Policy Review (IPR) of Cambodia. The activity also responds to the 2015 Ministerial Council Meeting's Recommendation on promoting the Policy Framework for Investment as a tool for development co-operation programmes and policy dialogue with partner countries to foster investment.

2. This report thus tries to capture quantitatively and qualitatively what DAC Members and other development partners are doing to help the Cambodian government promote PSD and investment, as well as to draw out lesson from opportunities and challenges. The report, which will constitute a section in the publication of the IPR of Cambodia, is based on a fact finding mission that took place 24-28 October 2016 by the DAC Secretariat, jointly with the Investment Committee Secretariat. Extensive comments on the earlier drafts by interlocutors in Cambodia have been incorporated.

3. Based on this report, questions for the DAC are:

- a) whether the paper adequately captures and analyses the types of development co-operation relevant for PSD and investment, as well as lessons learned, and if not, what is missing;
- b) whether there are specific topics that could be examined in greater depth to generate guidance on development co-operation for PSD, e.g. the role of aid agencies in responsible business conduct or SME development, how to bring in emerging development partners to dialogue on PSD in the field, etc.; and
- c) any other feedback on future DAC work in the area of enhancing the role of the private sector for development.

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<sup>1</sup> The presented paper has subsequently been published as a Working Paper, *Development Co-operation for Private Sector Development: Analytical Framework and Measuring Official Development Finance*. <http://dx.doi.org/10.1787/ded2028f-en> or <http://bit.ly/2peuiRJ>

## Summary

4. Recognising the importance of the private sector for the economy of Cambodia, development partners have been increasingly supporting areas related to promoting and improving investment. They note that the strategies and institutional framework of the Cambodian government, guiding development co-operation for investment are well designed. At the same time, their view is that relevant Technical Working Groups for private sector development need to be reactivated and used beyond solely information sharing as well as involve other relevant stakeholders such as China, although these may be reluctant to do so. Development partners also call for the establishment of concrete action plans by the government in areas related to the Industrial Development Policy.

5. As many development partners, investors, and civil society organisations are concerned with issues around corruption, land grabbing, and human rights abuses, there have been projects and actions to address them, although with mixed results to date. Development partners also try to help build the capacity of the government in areas relevant to investment, both at central level and in provinces. In addition, they carry out numerous skills development and vocational training projects, including in rural areas, among disadvantaged groups, and to foster mid-level managers. At the same time, as investors are hesitant to hire workers without basic education, they understand that human resources development is a long term endeavour which requires support for basic and secondary education as well.

6. While some development partners try to address the general investment climate, such as public financial management, others engage the private sector directly—mainly micro-finance institutions and companies in productive sectors—in order to promote investment for development. By examining the impact of investment-related development co-operation through evaluations, development partners have learned lessons and adjusted their approaches. In particular, some now try to build in mechanisms to ensure the sustainability of their projects. As the government is committed to a private sector-led growth, development partners are building on this aspiration through better assistance in carrying out various reforms to make Cambodia an attractive destination for investment.

## I. Overview of Development Co-operation for Investment

7. In the last decade, development partners have been increasingly supporting the Cambodian government and the private sector to promote investment through Official Development Finance (ODF)<sup>2</sup>. This report outlines its main features and some insights on the opportunities and challenges in their development co-operation. The first part describes the trend and landscape of ODF for the country in general, followed by development co-operation carried out particularly to promote investment. Some examples of projects will then be illustrated.

### *a. General Development Co-operation Landscape*

8. Suspended in 1982 due to the civil war, development co-operation in Cambodia resumed in 1993-1994 after the Paris Peace Agreements. In the early years, the multilateral development partners—especially the World Bank, the Asian Development Bank (ADB) and the International Monetary Fund (IMF)—mainly supported macro-economic reforms through structural adjustment, socio-economic development and public investment programmes (e.g. social and economic infrastructure, health, education, etc.). On the other hand, the bilateral development partners and United Nation (UN) agencies concentrated mostly on healthcare and rural development. Japan also provided significant amounts to social and economic infrastructure.

9. Cambodia is still classified as a Least Developed Country in the Development Assistance Committee (DAC) list of Official Development Assistance (ODA) recipient countries. However, with

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<sup>2</sup> ODF includes concessional ODA and non-concessional official development finance. However, ODF to Cambodia is mostly ODA.

an average annual Gross Domestic Product growth rate of almost 8% during 2000-2015, the World Bank has recently classified the country as a Lower Middle Income Country. Accordingly, the development co-operation landscape has evolved in the last decade, with new development partners, such as China and Korea, emerging as large providers of financial and technical assistance. In reverse, others, such as the United Kingdom and Denmark, have phased out their assistance.

10. In 2005-2014, China was by far the largest development partner in Cambodia, cumulatively disbursing about USD 2 billion of ODA<sup>3</sup>. Among those that report to the DAC, the largest providers of ODF were Japan (USD 1.2 billion), ADB (USD 1 billion), the United States of America (USA) (USD 824 million), World Bank Group<sup>4</sup> (USD 705 million), Australia (USD 624 million), Korea (USD 552 million), Germany<sup>5</sup> (USD 463 million), France<sup>6</sup> (USD 407 million) and the European Union (EU) (USD 395 million). Looking at the sectors, public governance (USD 1.4 billion), health (USD 873 million) and transport (USD 1.9 billion) received the largest amounts by all development partners during the decade.

*b. Official Development Finance for Investment*

11. Given the importance of private sector development (PSD) for the Cambodian economy, development partners have been increasingly providing financial and technical assistance to areas related to promoting investment, which include the investment climate, productive capacity, and physical infrastructure (see Working Paper for definition)<sup>7</sup>. Specifically, development co-operation for the investment climate relates to helping the public sector improve the general framework conditions that could reduce costs, risk and uncertainty for market participants (e.g. macro-economic stability, business regulations, financial framework, trade policy, labour market, etc.). Activities for productive capacity, on the other hand, concern enhancing competitiveness of economic sectors and companies by increasing their financial and technical resources in relevant areas through both public and private sectors (e.g. agricultural and industrial policy, value chain development, financial services, business intermediary services, etc.). Supporting physical infrastructure (i.e. water and sanitation, transport, energy and communications)—necessary for investors—contributes to both the investment climate and productive capacity. Particularly in Cambodia, the high cost of electricity is currently a major disincentive for investment (see Chapter on investing in Cambodia's infrastructure).

12. By using the above categories, data reported to the DAC for the 2005 to 2014<sup>8</sup> period and separately to the Cambodian government show that ODF by bilateral and multilateral development partners to investment-related areas has been increasing considerably in the last decade, both in absolute amounts and as proportions of ODF to Cambodia. As shown in Figure 1, investment-related ODF tripled from USD 300 million in 2005 to USD 900 million in 2014. Furthermore, the share of ODF for investment within development partners' portfolios in Cambodia also increased from 42% to 66% in the same period, indicating their growing focus on economic development and private sector-led growth. In contrast, ODF volumes to the health sector, disaster prevention, and post-conflict peacebuilding have proportionally declined.

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<sup>3</sup> Source: CRDB/CDC.

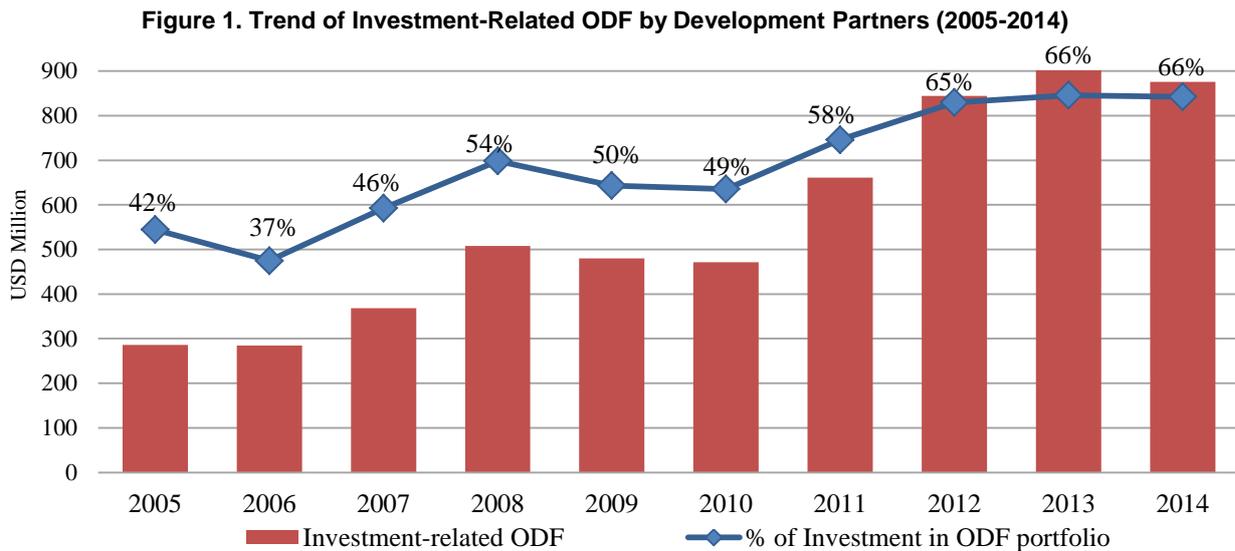
<sup>4</sup> Includes the International Finance Corporation

<sup>5</sup> Includes amounts by GIZ, BMZ, KfW, DEG, Federal Ministries, Foreign Office, and so on. The amount of ODA reported to the Cambodian government may not be the same as that reported to the DAC.

<sup>6</sup> Includes amounts by AFD, Ministry of Economy, Ministry of Education, Proparco, etc. The amount of ODA reported to the Cambodian government may not be the same as that reported to the DAC.

<sup>7</sup> *Development Co-operation for Private Sector Development: Analytical Framework and Measuring Official Development Finance*, <http://dx.doi.org/10.1787/ded2028f-en> or <http://bit.ly/2peuiRJ>.

<sup>8</sup> The DAC has changed the way of calculating ODA, particularly for concessional loans, starting 2015.

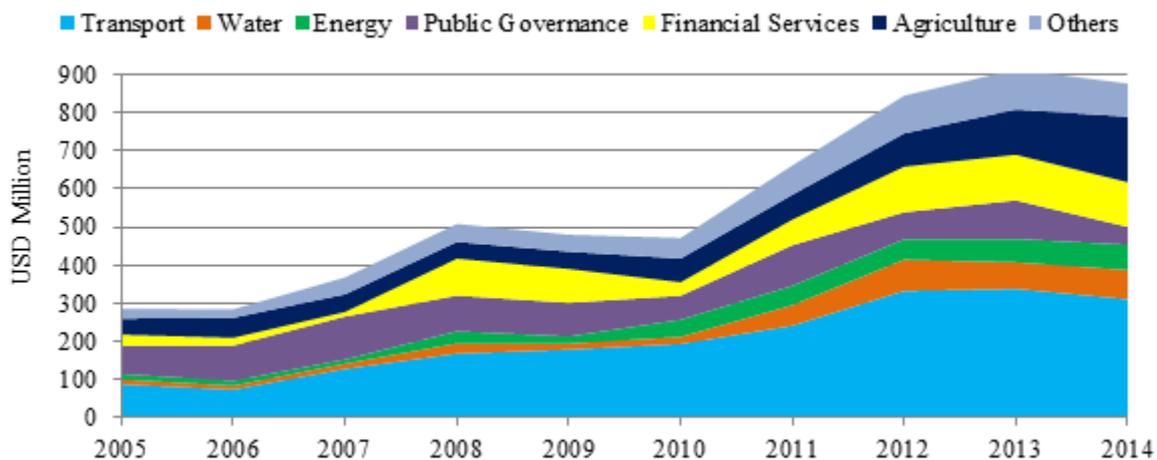


Source: OECD Creditor Reporting System. ODA Cambodia database. IFC website.

Note: Cumulative disbursements in constant prices (2014). World Bank includes IDA and IFC. Estimated disbursements for ADB, IFC and China.

13. During this period, the sector that received the largest amount was transport, which alone consisted of more than a third (see Figure 2). Other areas with significant amounts were public governance (which includes support for public financial management (PFM), decentralisation, anti-corruption, etc.), agriculture, and financial services. Water and energy received smaller volumes compared to transport, but increased significantly since 2010.

**Figure 2. Trend of Investment -Related ODF by Development Partners (2005-2014)**



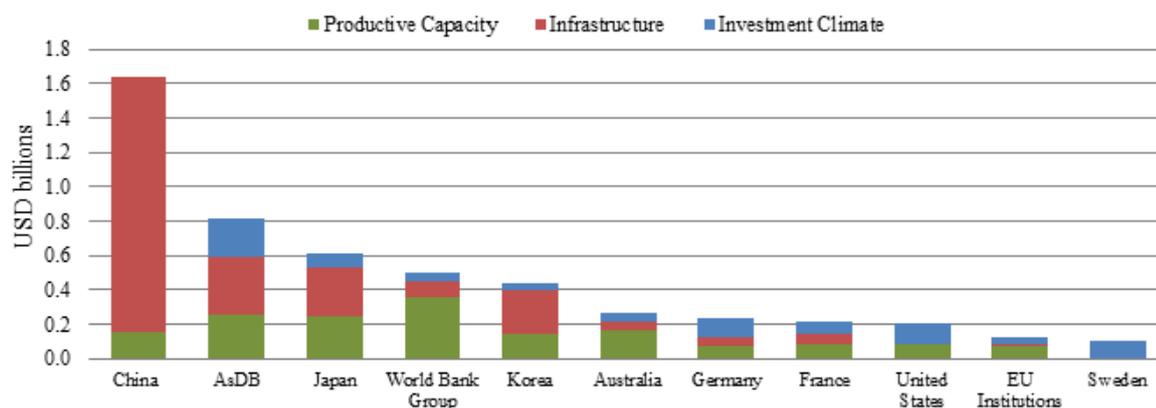
Source and Note: see Figure 1.

14. The total volume of ODF relevant to investment by all development partners in 2005-2014 amounted to USD 5.2 billion. The largest development partners were China (USD 1.6 billion), Japan (USD 0.6 billion), the World Bank Group (USD 0.5 billion), Korea (USD 0.4 billion) and the ADB (0.4 billion<sup>9</sup>) (see Figure 3). Other important development partners were Australia, Germany, France, the USA, the European Union and Sweden.

<sup>9</sup> Estimates.

15. In terms of specific areas and sectors, Sweden, ADB, Australia, the USA and Japan provided large amounts to activities related to policies and institutions relevant to the investment climate. For productive capacity, the International Finance Corporation (IFC) was by far the main development partner supporting the financial sector—predominantly for microfinance institutions—followed by Germany, Spain, France and Norway. In addition, China, Australia, ADB, Japan, and the USA were top development partners for agriculture. Finally, the largest financiers for infrastructure were China, Japan, Korea, ADB and the World Bank Group. The following section gives some examples of relevant projects.

**Figure 3. Largest Development Partners of Investment-Related ODF (2005-2014)**



Source and Note: see Figure 1.

*c. Examples of Investment-Related Development Co-operation*

16. In the area of the investment climate, European development partners have been providing technical co-operation for PFM in order to strengthen macro-economic stability and trade policy. In particular, EU and Sweden are supporting the priority areas of Cambodia's PFM reform: revenue mobilisation, economic statistics, external audit, budget transparency, external oversight through the Parliament and anti-corruption. To a large extent, implementation takes place through institutional co-operation between Swedish government agencies and their Cambodian counterparts, such as the National Audit Authority, the General Department of Taxation, the National Institute of Statistics, the Parliamentary Institute of Cambodia and Transparency International Cambodia. The EU and Sweden also collaborate with Switzerland on improving public governance and service delivery at the provincial level by strengthening the capacity of district and municipal administrations.

17. Regarding support for the productive capacity, Australia is trying to help increase the productivity and incomes of small-scale farmers in milled rice and other crops through improvements in irrigation infrastructure and market linkages. Similarly, Switzerland supports homestead farmers, particularly women, by introducing modern agricultural techniques and promoting market opportunities for processed products. Japan, on the other hand, has funded the development of an industrial site within the Sihanoukville Port Special Economic Zone (SEZ), aiming to increase direct investment and generate employment.

18. Development partners also support the area of responsible business conduct (RBC), particularly in the garment industry, which is the largest contributor to growth in Cambodia (see Chapter 1 on foreign investment trends). Examples include a programme by Sweden—implemented by International Labour Organisation (ILO) and a Swedish trade union, IF Metall—in improving industrial relations by building capacities of the government, trade unions and factory owners, as well as in ameliorating working conditions in factories. By sharing common interests, Sweden and ILO are particularly active in this area, partly to support H&M's efforts as an ethical and cost effective investor in Cambodia.

19. In addition, the Better Factories programme—financed by Agence Française de Développement (AFD), Germany, Netherlands, and the USA, and implemented by the ILO—monitors factories as well as trains managers and workers. It provides guidance and advice on factory improvements that help enterprises preserve profits while respecting workers' rights. Australia and others also fund Better Work Cambodia, in collaboration with ILO and IFC, which brings together all levels of the garment industry to improve working conditions and to respect labour rights while boosting the competitiveness of businesses (see Chapter on promoting and enabling RBC).

20. At a regional level, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) is promoting social and labour standards in the textile and garment sector among Asian countries, including those beyond Cambodia, such as Bangladesh, Pakistan, and Myanmar. Given China's significant role as an investor, GIZ invites Chinese representatives to take part in the implementation of the regional working platforms. At a more global level, Sweden is supporting the Global Deal, which is a multi-stakeholder platform to promote decent work and social dialogue, in collaboration with OECD and ILO. As Cambodia has signed up to the Global Deal initiative, concrete activities are currently being planned. Possibly as a result of these support, workers in the garment industry are relatively well protected compared to other sectors, with an organised trade union and a minimum wage system.

21. Most of the above projects are included in the list in Annex 1. Other projects are also described in the next section. As a note, development co-operation for infrastructure is essentially not covered in this Chapter as it is addressed in the Infrastructure Chapter.

## **II. Opportunities and Challenges in Development Co-operation to Promote Investment**

22. This section highlights main opportunities and challenges for development co-operation in areas related to investment, based mainly on views expressed by development partners, representatives of the private sector and civil society organisations (CSOs), and government officials in Cambodia. Information is also supplemented with research and desk-reviews.

### *a. Institutional Arrangements to Facilitate Development Co-operation for Investment*

23. Attracted by low cost labour, preferential access to the USA and EU markets, as well as geographical proximity to ASEAN markets and source countries of foreign direct investment (FDI) (i.e. Hong Kong, Indonesia, Malaysia, Singapore and Chinese Taipei), Cambodia is in a prime location for investment, particularly in the garment sector (see Chapter on trends in foreign investment). In 2012-2015, FDI to Cambodia averaged USD 1.7 billion per year.

24. Many development partners praise Cambodia's peace and stability over the last two decades—crucial for investors—as well as maintaining an open investment regime, which allows complete foreign corporate ownership in most industries. The dollarised economy also makes it attractive for foreign investors. Furthermore, some development partners note recent progress in public administration—domestic resource mobilisation, reinforcing PFM, and enhancing transparency—which is important for macro-economic stability and attracting more investors.

25. In particular, many development partners give credit to the government's effort to collect taxes from the formal sector, although the implementation of policy change was sudden and excludes the informal sector and personal income. Several development partners are also increasingly participating in basket funds, which reflects some degree of confidence in the government's PFM. Others also noted the effort of the Cambodian people in learning and speaking English, particularly in cities, to benefit from tourism and FDI.

26. Development partners also positively view the Cambodian government's strategy and institutional framework for investment-related development co-operation, which allow good collaboration in some areas. Specifically, increasing investment is a strategic priority in the

Rectangular Strategy Phase III 2013, which is mainstreamed in operational policy documents, such as the National Strategic Development Plan (NSDP) 2014–2018 and the Industrial Development Policy (IDP) 2015. In particular, the four priority sectors for the Cambodian government—water, energy, other infrastructure, and human resources—are key areas for increasing private investment in the country.

27. These strategies provide general guidance in the types of activities for development partners, such as: investment promotion; industrial and SME development; human resources development (HRD); and banking and financial sector development. In addition, the Development Co-operation and Partnership Strategy (2014–2018) identifies four broad priorities which could be supported by development partners to enhance investment, namely: improving the enabling environment for investment; promoting economic competitiveness; developing infrastructure, including through Private-Public Partnerships; and forming direct partnerships with the private sector, either to support public service delivery or to strengthen the business environment. At the same time, the Cambodian government's dependence on inputs by development partners in developing these strategies, particularly the IDP, may have resulted in a long wish list.

28. Beyond strategies, the institutional arrangement for investment-related development co-operation builds on a three-level mechanism composed of the Cambodia Development Forum, the Government-Donor Co-ordination Committee and the Technical Working Groups (TWGs) (See Box 1). This mechanism is co-ordinated by the Cambodian Rehabilitation and Development Board (CRDB) — an arm of the Council for the Development of Cambodia (CDC) — in charge of liaising with development partners and NGOs.

29. As part of its role, the CRDB maintains an ODA Database to promote transparency in development co-operation. It captures project-level data and extensive information on aid effectiveness indicators in line with those agreed in the DAC. Most importantly, project data have a thematic marker on PSD which facilitates the identification of relevant projects. The Database also includes project-level statistics related to Chinese development co-operation, although they may be estimates that are not reported by the Chinese government.

30. In this environment, development partners co-ordinate to carry out division of labour among themselves regularly as well as informally on an *ad hoc* basis. This includes co-ordination to avoid the duplication of training programmes for high level officials or designing similar projects in the same provinces, such as in the case of USA and Switzerland on rural development. CSOs are also well organised, speaking in one voice and keeping to various deadlines.

31. Development partners also carry out joint programming and monitoring in areas related to investment, such as infrastructure, HRD, agriculture and rural development. This is particularly the case among the Europeans as the European Development Co-operation Strategy 2014–2018 identifies “Private Sector Development and Employment Generation” as a core priority (EU et al. 2014) for joint programming. In Cambodia, it involves supporting: policies and related services to reduce the cost of doing business; the banking and financial sector; and skills and HRD. In this regard, AFD is taking a lead role in the support to infrastructure, while the European Commission, Germany, Sweden, and Switzerland collaborate on employment and skills development (see below).

32. Despite acknowledging the commendable institutional set-up and efforts to promote investment, however, development partners note the limited capacity of the Cambodian government to carry out co-ordination with numerous actors and to go through the steep learning curve required for PSD. In particular, several TWGs for PSD are currently inactive or ineffective. This may be partly due to the multi-dimensional nature of PSD, which makes operational activities too diverse to co-ordinate adequately. Some development partners also noted the government's lack of human resource capacity to fulfil the secretariat functions as well as its aid dependence for the financing and maintenance of TWGs. In addition, reforms are largely contingent on the personal efforts of Ministers.

33. In fact, many of the TWGs have turned into venues for information-sharing rather than platforms for effective division of roles among development partners and collective monitoring. Moreover, China, which is currently the largest development partner in Cambodia, does not actively participate in relevant TWGs, such as on infrastructure and agriculture, partially due to the thin presence of their development co-operation actors on the ground. Nevertheless, the Cambodian government sometimes chooses to partner with the Chinese government, especially when DAC members try to place conditions on their development co-operation, such as maintenance budget and social safeguards.

34. Several development partners also mentioned that concrete action plans by the government in relevant areas—aside from those for education, irrigation, and trade—would be helpful in further directing development co-operation for investment, particularly to support the implementation of the NSDP and the IDP. In particular, while there is an energy sector plan, a more detailed strategy for renewable energy would be essential for Cambodia to realise green growth (see Chapter on the investment policy framework for green growth). At the same time, development partners observe that there is lack of capability by sector ministries in preparing concrete action plans. To address these concerns, CDC is currently working with the line ministries in developing sectoral action plans to enable the implementation of the IDP.

*b. Anti-Corruption, Human Rights, and the Judiciary*

35. Despite some positive conditions for investment, many development partners and private sector representatives mention corruption, land grabbing, and human rights abuses as major obstacles (see Chapter on promoting and enabling RBC). Regarding corruption, Cambodia ranked 156th out of 176 countries in Transparency International’s corruption perception index in 2016, which is the worst among ASEAN countries. More specifically, Cambodia’s score was 21, which falls between the lowest score of 10 by Somalia and highest score of 90 by Denmark and New Zealand. Development partners note that in Cambodia, for example, small companies have to often pay “facilitation fees” in order to do business, while more sophisticated medium sized companies can operate more freely, although they also face some small corruption. As for large companies, they need political or wealthy individuals as patrons in order to function as enterprises.

36. Several development partners also refer to the critical Global Witness Report, which recommends development partners, *inter alia*, to ensure that their resources are managed transparently and spent for the development of Cambodia’s citizens. Development partners also note that their companies are at a disadvantage vis-à-vis companies of other countries that do not have strict enforcement of due diligence or against bribery of officials. At the same time, they observe the creative use of intermediaries to conduct businesses by their enlisted companies to get around anti-corruption rules of their home country, the USA, the UK, and World Bank.

37. In fact, Cambodia has had an anti-corruption law since 2010, but the politicisation of the organisations that are supposed to fight corruption and the lack of independence by the judicial system make enforcement ineffective. Therefore, some development partners had earlier tried to build the capacity of the judicial system. Examples include support by JICA towards the legislative-drafting process on civil affairs and by the USA Treasury on drafting a code of conduct and internal audit manual to help Cambodia’s General Directorate of Tax in preventing corruption. While there is currently minimal development co-operation in anti-corruption—except for the area of PFM—possibly due to the ineffectiveness of interventions, development partners observe some efforts by the Cambodian government, such as setting up an on-line system for customs and banning corruption in passing university entrance exams.

38. There are also concerns regarding rights of trade unions and arbitration structures. Therefore, some development partners try to help promote and regulate investment through the enforcement of commercial or labour dispute settlement mechanisms (see Chapter on the regulatory

framework for investment). An example is a project by Sweden and others to support the Arbitration Council Foundation of Cambodia, which is an independent collective labour arbitration body.

39. Finally, examples of human rights abuses include alleged land grabbing and violence by sugar cane and rubber companies. These incidents have attracted the attention of projects financed by development partners that supposedly involved forced eviction without compensation. For instance, NGOs reacted negatively to a World Bank road maintenance project near a lake that did not give compensation in resettling local dwellers who were not land owners. As a result, the World Bank suspended new lending to the government in 2011. However, as there were improvements in the situation, lending was recently resumed for four projects, totalling USD 160 million.

c. *Support to Human Resource Development for Investment*

40. Despite the potential for investment in Cambodia, as explained above, the quality of the labour force discourages foreign investors to do business. Therefore, development partners have been active in HRD, mainly to help improve the skills of Cambodian workers that could suit the interest of investors, which in turn could enhance employment opportunities and reduce poverty. A narrow definition of HRD covers technical and vocational training in agricultural, manufacturing and service sectors through, for instance, enhancing vocational qualification standards that match the demand of the labour market or targeting skills development of specific groups, such as the youth, women or poor people in both urban and rural areas.

41. Examples of development co-operation for HRD include support by Sweden for business development and upgrading of management skills (e.g. drafting of business plan, financial management, networking etc.) among the youth, which is implemented through a twinning arrangement between the Swedish Public Employment Service and Cambodia's National Employment Agency. Sweden is also supporting a multimedia initiative, Klahan9, implemented by United Nations Development Programme (UNDP) and British Broadcasting Corporation Media Action, which packages and spreads information to the youth on career paths, job application, migration, sexual harassment at work, and so on. One of the recommendations from the UNDP evaluation on the project suggests focusing on influencing the formulation of the government's labour market policies instead of only assisting their implementation.

42. In addition, Switzerland carries out vocational training to boost tourism, hospitality services, and manufacturing in rural areas. It also supports the Ministry of Labour in setting up a technical vocational education and training system as well as a regulatory framework for better inclusion of the poor. AFD is also providing training for tourism in two schools in Phnom Penh while GIZ is assisting tour operators as part of an ASEAN regional integration programme.

43. At the same time, some development partners see that vocational training alone is not sufficient, as investors are reluctant to hire workers without basic education and discipline, such as keeping time or showing up regularly for work. Furthermore, if workers do not have basic education, it is more difficult for them to learn from various types of training programmes. Educating the workforce is becoming particularly challenging as many youngsters are dropping out of secondary schools to work in construction, entertainment, or domestic labour in neighbouring countries such as Thailand where salaries are relatively higher.

44. In particular, there is a dearth of qualified human resources to become mid-level managers in factories or companies, due to the government's lack of priority accorded to education over several decades, in addition to the fact that a large proportion of intellectuals were killed or left the country during the Pol Pot regime. In fact, these managers are currently mainly expatriates, which can limit knowledge transfer and spillover effects to the local Cambodian economy. Some development partners, such as AFD, is therefore trying to address this by financing a training centre to increase the number of middle managers in the textile industry. Other development partners are supporting primary and secondary education to tackle the long term needs of HRD, including by helping improve

the quality of teachers. More recently, several development partners expressed hope for some changes, as they applauded the education ministry's efforts to clean up the school exam process—often cited as one of the clearest government reforms in recent years.

*d. Focus on Impact and Sustainability*

45. In order to directly influence the private sector's contribution to development, several development partners are engaging companies more closely. These mainly involve support to financial intermediaries, particularly micro-finance institutions, as well as businesses in productive sectors such as agriculture, manufacturing, and tourism. For instance, AFD and Proparco support the Cambodia Microfinance Association in order to help certify micro-finance institutions (currently 10) and promote transparency and protection of clients, thereby helping the sector from overheating. Norfund has also invested in AMRET, a microfinance institution focusing on the poorest segments of the population, through small scale loans to borrowers in rural areas and medium scale loans to SMEs.

46. Another example is Australia's technical assistance for feasibility studies carried out by a team of engineers and investment managers who analyse tariffs and cash flow to offer efficient 'last mile' grant financing for infrastructure asset investments in remote and/or low income areas that are unprofitable on solely economic terms. Australia also co-finances the provision of electricity and drinking water with private operators, including through private equity and social impact funds.

47. A different type of support is Korea International Cooperation Agency (KOICA)'s project in enhancing the technical capacity of the Cambodia Securities Exchange (CSX), which is 51% owned by the Cambodian Government and 49% owned by the Korea Exchange. The assistance is built on KOICA's experience in the security exchange of Vietnam between 1996 and 2002. The objective is to attract more companies to enlist from two in 2012 to double digits in a few more years. Activities include training government officials and staff of the CSX and Securities and Exchange Commission of Cambodia in market regulation and operation as well as inviting them to Korea for capacity building. KOICA officials, who do not see the need for a sophisticated system, focuses on helping Cambodia get on the right track in knowledge accumulation and capacity building for the development of the Cambodian capital market.

48. While supporting the private sector can have a positive impact on promoting investment, the development community emphasises the need to avoid market distortion or use ODF to primarily promote national companies. In fact, some development partners advocate for more support towards policy and institutional reforms to improve the investment climate. On the other hand, proponents of working directly with the private sector claim that it takes too long to wait for the investment climate to become suitable. They state that direct support to businesses, in turn, can have a demonstration effect and help improve the climate by identifying areas that need to be reformed. In addition, direct support to businesses—in essence, a targeted fiscal stimulus programme—can help accelerate service provision in areas that are under-served by public utilities.

49. To improve impact, development partners also learn lessons through evaluations upon project completion and *ex-post* evaluations after three to five years. For example, lessons from United States Agency for International Development (USAID)'s Feed the Future HARVEST project—which addressed nutrition and income generation through improved agricultural productivity and increased market linkages—showed that there was more scope for market development. In particular, the evaluation found that: more support could have been provided for producer groups; long-term relationships with wholesalers could have been fostered; and outputs could have been concentrated on products with higher commercial values, such as vegetables. USAID also acknowledged that it was not necessarily effective to target the poorest of the poor to support profit making as they often did not have their own land. USAID now plans to launch an estimated USD 17 million market linkages programme in the horticulture sector for six years that will build on these findings.

50. JICA's evaluation of its project on enhancing investment-related services of CDC showed that, for instance, improving the investment climate was more important for attracting investors than boosting investment promotion services and that listening to the view of investors heightened the motivation of CDC in providing better services. JICA also learned from its support to the SEZ that investors demand appropriate infrastructure—particularly regular supply of electricity—as well as facilities nearby for their expatriate managers and their families, such as schools and hospitals. They also acknowledged the importance of adequate capacity by the government counterpart to liaise with businesses. Although some note that *ex-post* evaluations carried out after 3-5 years of project completion frequently show diminished impact, development partners are continuously trying to improve their co-operation for better and enhanced investment.

51. Aside from evaluations, many development partners jointly monitor their investment-related projects, which can highlight main achievements against collective objectives. In the first joint monitoring report of the European development co-operation strategy, European partners mentioned that their support to the Cambodian government's capacity building and vocational programmes has contributed to: automating and streamlining the procedures of border agencies; creating a national trade repository on trade and non-tariff measures; increasing the volume of microfinance services; and facilitating the implementation of the government's Technical Education and Training Strategic Plan 2014-2018 and the National Employment Policy 2015-2025 (EU et al. 2016).

52. At the same time, some development partners raised concerns with sustainability of investment-related projects. This is particularly important for infrastructure, which requires resources for maintenance of hardware and enforcement of appropriate regulations towards, e.g. prohibition of over-loaded vehicles. The challenge also relates to capacity building provided in public sector reforms or vocational training, as the staff might leave for the private sector that pays better, once they have received the training. In this context, some development partners are trying to build in mechanisms to ensure the sustainability of their projects. For instance, GIZ's ASEAN Integration Project requires counterpart contributions in their support as well as training of trainers in a way that would replicate what they have learned even after the project is completed. KOICA also encourages officials to share knowledge to subordinates through seminars and requires the establishment of a counterpart fund to be used for equipment repairs.

## **Conclusion**

53. As the strategies and institutional framework of the Cambodian government to enhance investment are well established, development partners could further assist the government in developing concrete action plans and in enhancing co-ordination, including by encouraging China's participation. Building on recent progress, they could also further address issues around corruption, human rights abuses, and RBC. The development partners' continuous effort to learn from evaluations and to ensure sustainability of investment relevant projects could improve impact and thereby help advance the government's effort towards private sector-led growth.

## ANNEX 1. Examples of Investment Relevant Projects in Cambodia by DAC members

AREA	NAME OF THE PROJECT	DONOR	PERIOD	OBJECTIVE
<b>Investment Climate</b>	Support to Public Financial Management	European Commission	2016-2019	Strengthening economic and public financial management while establishing good governance systems
	Administration Agreement between the EC and IDA concerning the Multi-donor Trust Fund for the for Trade Related Assistance	European Commission	2008-2016	Increasing Cambodia's efficiency in formulating and implementing effective trade policies
	Project for Securities Market Development in Cambodia	Korea	2015-2017	Strengthening institutional capacities and relevant human resources needed to set up the Cambodia Securities Exchange.
	Support to Decentralisation and administrative reform	Germany, Switzerland, Sweden	2016-2018	Improving social service delivery, accountability, civic engagement in local decision-making processes.
	Project on Enhancing the -Related Services of Council for the Development of Cambodia	Japan	2010-2013	Enhancing CDC's capacity of improving investment promotion services
	Arbitration Council Foundation Cambodia	Sweden	2014-on-going	Promoting an effective labour market governance environment for private sector and social development through a well-functioning and neutral conflict resolution body
	Support for Cambodia Water Resource Management Sector Development	Australia	2012-2013	Supporting the government to shape and implement an institutional reform agenda for water resource management
<b>Physical Infrastructure</b>	Krang Ponley Water Resources Development Project	Korea	2006-2012	Securing water supply for improving agricultural, industrial and domestic condition; reducing flood damage; and supply hydroelectric power in the project area.
	The Project for Construction of Neak Loeung Bridge	Japan	2010-2015	Improving the road network to enhance the economic development at both regional and national levels
	Southern Coastal Corridor Cambodia	Australia	2013-2019	Rehabilitation of 15 km of the NR33 at the border with Viet Nam
<b>Productive Capacity</b>	Sihanoukville Port Special Economic Zone Development Project	Japan	2008-2011	Increasing direct investments into the region and to generate employment and rising productivity by developing an SEZ.
	Cambodia Horticulture Advancing Income and Nutrition Project (CHAIN)	Switzerland	2014-2017	CHAIN promotes the production of fruit and vegetables among poor farmers and facilitates market linkages
	Support to the Initiative for ASEAN Integration	Germany	2015-2017	Reduce the barriers to trade and investment in services sectors, with a focus on tourism and health
	Helping Address Rural Vulnerabilities and Ecosystem Stability (HARVEST)	USA	2010-2016	Reducing poverty and malnutrition by diversifying and increasing food production and marketing in rural areas
	Projet de réhabilitation du périmètre irrigué de Stung Chinit	France	2001-2008	Increasing agricultural productivity through better water control and other limiting factors in the concerning areas
	Improving industrial relations in Cambodia's garment industry	Sweden	2014-on-going	Improving industrial relations and rights at work in the garment sector in Cambodia

## TECHNICAL NOTE

- Official Development Finance (ODF) consists of Official Development Assistance (ODA), which is concessional and developmental Other Official Flows (OOF), which are non-concessional. It excludes export credit OOF, as their main objective is not developmental.
- Absolute amounts of ODF in this report are generally on a disbursement basis and not in commitments. The reason is that commitments are recorded in total in the particular year they are signed, i.e. once a commitment has been reported, it will not be repeated again in subsequent years, although it may be disbursed over several years. Furthermore, since disbursement lengths vary across different projects, aggregates of committed amounts would be an accumulation of projects with different number of years of implementation. As such, disbursements are more comparable with annual expenditure figures, for example, national budgets, annual infrastructure spending, gross national income (GNI), and so on.
- Data covered are generally those by the 50 major bilateral and multilateral development partners<sup>10</sup> that report to the DAC at the activity level in the Credit Reporting System (CRS). Development partners' ODF to improve local investment are categorised into three areas: investment climate, productive capacity and infrastructure. The respective CRS purpose codes for each category can be found in Annex 2 OECD working paper: *Development Co-operation for Private Sector Development: Analytical Framework and Measuring Official Development Finance*<sup>11</sup>
- As IFC does not report fully to the DAC's CRS, estimates were obtained for ODF to Cambodia in 2005-2014 through its own database. There were 17 projects in Cambodia, of which all was considered as investment-related, amounting to approximately USD 290 million.
- As for ADB, since project level data are not available in the CRS for 2005-2009, total ODF for Cambodia was obtained from Tables DAC 2a (ODA) and DAC 2b (OOF)<sup>12</sup> which provide aggregate amounts, totalling approximately USD 1 billion for 2005-2014. As for total investment related ODF for 2005-2014, the amount of investment related ODF for 2010-2014 from the CRS data was first aggregated, and then its proportion within total ODF for Cambodia for the same period was applied to the total ODF for Cambodia for 2005-2009 (which did not have CRS data). These two amounts were added to obtain an estimate of investment related ODF for 2005-2014, which was about USD 812 million.
- China does not report to the DAC, but their ODA data are available on the website of the Cambodia Rehabilitation and Development Board (CRDB/CDC)<sup>13</sup>. In the period 2005-2014, China had 51 development projects in Cambodia, which amounted to USD 2 billion of ODA. Among these projects, 37 were investment-related, totalling USD 1.7 billion.

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<sup>10</sup> For the list of development partners reporting to the DAC, "Creditor Reporting System: Aid activities", OECD International Development Statistics (database)

<sup>11</sup> Available at: <http://bit.ly/2peuiRJ>

<sup>12</sup> The OECD database can be found here: <https://stats.oecd.org/>

<sup>13</sup> Available at : <http://odacambodia.com/>

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