

**ODA Support to the IDP and CDC/CRDB related works**  
**Concept Paper**  
**(August 2015)**

**I. Role of ODA in Cambodia's changing context**

Over the past decade, Cambodia has enjoyed peace, political stability, security, and social order along with macroeconomic stability and high economic growth of around 7% and poverty reduction by more than 1% point per annum. The GDP per capita increased from USD 738 in 2008 to USD 1,123 in 2014. This makes the country meet the threshold to graduate from a Low-Income Country to a Lower-Middle Income Country status in 2016. To move Cambodia to a higher level of economic and social development, the Royal Government has formulated a number of policy initiatives that are outlined in the Rectangular Strategy – Phase III and the NSDP. These policy priorities were further elaborated with the production and adoption of Cambodia's first Industrial Development Policy (IDP) in March 2015.

The IDP is a policy framework 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, while recognizing the important roles for a wide range of national and external actors, including Cambodia's development partners. This will help Cambodia to reach its ambitious goal to become an upper-middle income country by 2030 and a high-income country by 2050, and avoiding falling into the middle income trap. Therefore, the Royal Government of Cambodia (RGC) has acknowledged a need to re-emphasise and adapt the IDP-related role of ODA to respond to IDP priorities and the changing global, regional and country context. In this regard, ODA continues to play an important role as a catalyst, in leveraging other sources of development finance, both private and public, to further promote inclusive growth and sustainable economic development of Cambodia.

The defined catalytic role of ODA is consistent with the RGC's view, as set out in the Rectangular Strategy – Phase III (RS III), that private sector is considered 'engine of growth'. ODA therefore has an important role in creating an enabling environment for mobilising private investment as well as for directly financing goods and services that can promote the industrial sector. This is also aligned with the approach at the global level that identifies the private sector as a principal driver of inclusive and sustainable industrialisation to achieve economic growth, poverty eradication and the ultimate goals of sustainable development. The conditions for successful collaboration with the private sector to ensure sustainable and equitable development have been discussed, for example, by the Global Partnership for Effective Development Cooperation (GPEDC), the Financing for Development Conference (FfD), and in the Post-2015 Sustainable Development Goals (SDGs).

This paper aims to elaborate: (i) the role of ODA in supporting the IDP and the private sector; (ii) the additional work/tasks assigned to CRDB related to IDP implementation; and (iii) CRDB's institutional and capacity review to ensure successful support to IDP implementation.

**II. Role of ODA in supporting Industrial Development/IDP in Cambodia**

In Cambodia, the IDP role of ODA is to create an enabling environment for supporting private investment, to serve as a catalyst for mobilising other forms of development finance as well as to provide a direct source of funding for IDP-related public goods and services. The Policy itself, which aims to elevate Cambodia's economy to a higher level in the regional and global value chain, proposes four strategies and four sets of policy measures, or action plans, that are linked to objectives and targets to be achieved by 2025 (see Annex 1 for an overview). Four key concrete measures, to be achieved by the end of 2018, are also proposed.

ODA can actively provide comprehensive support for Cambodia’s industrial development in terms of infrastructure development, institution building, and human resource development, mainly skilled labour development. This aims to increase Cambodia’s economic competitiveness and enhance the enabling environment to promote trade and investment. Four specific potential areas for ODA support have been identified, which include (i) support to public infrastructure and logistics development; (ii) direct partnerships with the private sector; (iii) support for strategic investments in trade facilitation and the promotion of economic competitiveness; and (iv) support to Government’s efforts to enhance the enabling environment and promote investment. Details are further elaborated in the table below.

**Potential role of ODA in promoting the IDP**

<p><b>Support to public infrastructure &amp; logistics development</b></p> <ul style="list-style-type: none"> <li>• Transport infrastructure &amp; logistics</li> <li>• Power generation and distribution</li> <li>• Water and irrigation services</li> <li>• Economic corridor development and promotion of Special Economic Zones</li> <li>• Opportunities to use ODA infrastructure loans to attract private-sector financing (i.e. connectivity, transport corridors, logistics)</li> </ul>	<p><b>Direct partnerships with the private sector</b></p> <ul style="list-style-type: none"> <li>• Direct support to the micro-finance sector</li> <li>• Promoting corporate social responsibility<sup>1</sup> initiatives</li> <li>• Partnering on private sector philanthropy initiatives (using ODA as venture) (i.e. Bill &amp; Melinda Gates Foundation)</li> <li>• Supporting the private sector to be effective development actors</li> </ul>
<p><b>Strategic investments in trade facilitation and the promotion of economic competitiveness</b></p> <ul style="list-style-type: none"> <li>• Capacity development on trade facilitation, diversifying production and accessing markets</li> <li>• Facilitating business and commercial ties between Cambodia and its partners</li> <li>• Investing in human capital, mainly skilled labour through vocational education, that promotes improved opportunity, livelihoods and productivity</li> <li>• Ensuring that ODA aligns with Government actions to promote urban-rural linkages and climate change adaptation to ensure balanced, equitable and sustainable development</li> </ul> <p>• Support and/or access to knowledge and technology transfer (including South-South) on innovative technologies (e.g. digital technologies)</p>	<p><b>Support to Government efforts to enhance the enabling environment &amp; promote investment</b></p> <ul style="list-style-type: none"> <li>• Supporting established policy dialogue between the Government and private sector to understand and identify opportunities for engagement</li> <li>• Support to the development and regulation of the financial sector, including for micro &amp; SMEs</li> <li>• Labour law &amp; relations and improvements to the working environment</li> <li>• Policy advice on legal matters such as financial sector regulation, contract law, registration and regulation of businesses, taxation &amp; investment codes</li> <li>• Continued support to government reforms and institution building that provide quality public services and environmental protection (e.g. EIA capacities)</li> </ul>

Note. IDP (para 7.3) identifies trade facilitation, investment environment, infrastructure, logistics & digital connectivity, utilities (electricity, clean water), human resource development and skills, technology and innovation, environmental impact management. These issues are included and elaborated in the table above.

**III. Additional work of CRDB/CDC in supporting the IDP**

CDC has been given significant responsibilities related to IDP leadership, management and monitoring. Section 7.3 (page 30) of the IDP provides an overview of the roles assigned to CRDB and the associated reforms that may be required in order to serve as CDC’s public investment “operation arm”. Therefore, possible additional work assigned to CRDB in IDP implementation is elaborated in this section.

<sup>1</sup> Corporate Social Responsibility (CSR) is a voluntary code of ethics (code of conduct) which a company may formulate and adopt that prescribes how their normal business activities will be conducted such that they demonstrate ethical values and respect for workers, communities and the environment. Therefore, CSR can encompass a wide variety of tactics that businesses are practicing, which may include initiatives to promote environmental protection, donate to charities, or implement ethical labour practices.

CRDB will include IDP-related activities in its work plan to be consistent with the DCPS framework for partnership and results-based management. This plan is for managing/promoting public investment; improving and strengthening the project approval process; facilitating implementation of public investment; mobilising investment from development partners; and strengthening project facilitation or public investment programs for promoting the IDP.

### **1. Review of ODA & NGO Database Systems to link to the IDP– sector re-classifications**

The sector classifications will need to be reviewed including the creation of new subsectors to ensure that all external support is recorded to reflect to what extent ODA and NGOs resources are used to support the 4 strategies and 4 policy/plans featured in the IDP.

The IDP will also be added as a “thematic marker” in the ODA Database so any donor support that is relevant to the IDP but does not fall into any of the categories can also be recorded and made available for further analysis. It will be possible to generate reports (sectors and subsectors, with or without thematic markers) and post them to the “pre-defined reports” so that all users can quickly access data on support that is relevant to IDP implementation. It will be possible to view data on a sector/donor and donor/sector basis.

The changes to sector classifications in the ODA & NGO Databases will make monitoring of external cooperation much easier in terms of analyzing resource mobilisation and project impact. It will therefore be a significant advantage if the monitoring of the IDP (from an external resource perspective) can be configured around results that are linked to the ODA/NGO Database sectors.

### **2. Integrated Resource Mapping study**

CRDB will conduct an Integrated Resource Mapping study to evaluate resource availability and use (including cross-country comparison). This will examine trends in all sources of development finance in order to identify opportunities for enhanced resource mobilisation and coordination (especially in key areas such as climate change, gender mainstreaming and the IDP).

### **3. Need assessment and mapping exercise for IDP-concerned ministries**

Before mobilising resources to support IDP implementation, CRDB/CDC will produce an investment plan. In this regard, relevant IDP ministries/agencies will be requested to prepare their need assessments and (using the ODA Database) a mapping of on-going externally-funded activities related to the IDP. CRDB will then combine on-going aid-funded investments and un-filled needs into an investment plan with a view to identifying possible partners and incrementally aligning external resources with the priority projects included in the plan. CRDB will reconcile needs with available resources to prepare a prioritized costing for further resource mobilisation. Information will be shared with MEF to support BSP prioritization and the Budget exercise.

The steps to follow to inform resource mobilisation are:

- (i) Concerned ministries/agencies are requested to develop their action plans to support IDP’s actions and, when necessary, propose additional project proposals for achieving their plans; and
- (ii) Review donor programmes according to key sector/themes (as per the ODA Database section above that outlines the IDP sectors) to prepare a mapping of on-going externally-funded activities that support, directly and indirectly, IDP implementation.
- (iii) Based on the needs/actions identified by the ministries/agencies, CRDB will identify gaps between (i) and (ii) and the unfunded projects.

- (iv) Prepare an IDP investment plan organised by IDP theme/result (4 strategies, 4 policy/plans) and share information with MEF to support BSP prioritization and the Budget exercise.

#### **4. Resource mobilisation efforts with DPs**

Based on the needs/priority actions identified and the gaps confirmed during the needs assessment exercise with line ministries, CRDB/CDC will lead resource mobilisation efforts based on the investment plan, which will be shared across Government and with development partners. Funding of the IDP will be a priority agenda item in all bilateral consultations while CRDB/CDC will also review and identify alternative non-traditional funding sources, i.e. climate change funds. CRDB/CDC will inform a wider Government effort to pursue a pro-active approach to identifying/engaging partners and mobilising resources beyond ODA.

It is known that some DPs have already allocated their direct support and resources for the course of private sector development and, more precisely, industrial development. Therefore, CRDB/CDC welcomes DPs efforts to elaborate their good practices for the direct IDP support. (See Annex 2 for the template to be filled in by DPs and submitted to CRDB for record)

#### **5. Coordination mechanisms**

Bilateral consultations with development partners are to be intensified and also used as a platform for promoting partnerships and development partners' engagement and alignment in supporting IDP implementation, focusing on outcomes and outputs associated with the 4 strategies (page 15) and the 4 policy measures (pages 17-26). Associated issues that are relevant to the successful implementation of the IDP (utilities, technology transfer, labour market functioning, middle-income trap issues related to productivity, finance, environmental management) but nowhere discussed yet will be included in the bilateral consultations to raise awareness and mobilise support. RGC is of the view that bilateral talks allow for more efficient and focused discussion and negotiations, with less coordination issues and a clearer focus on specific and practical measures that can be taken to support IDP implementation. More importantly, bilateral consultations provide more flexibility and ability to act and have quicker concrete points of agreements and follow-ups. To date, a number of DPs have expressed their interest in supporting different areas of the IDP through recent bilateral consultations between RGC and DPs. These bilateral consultations will seek to build on and coordinate existing good practices, to be identified as mentioned above. Where applicable, Technical Working Groups (TWGs) are used as a venue to discuss and promote support for the IDP.

### **IV. Institutional Review**

The IDP's final section (part 7.3) includes a requirement for CRDB to "Redesign *the institutional structure and its management* including: governance and management system; human and financial resource management; workplace environment; professional ethics and incentives; and work plans, clear division of functions, rights and responsibilities of responsible officials". Combined with the additional tasks identified above (in Section III), this will require CRDB management to reflect on current working arrangements, the assignment of new tasks, the scope for consolidating some current tasks, and staffing needs. Staffing needs must be considered in terms of overall numbers as well as, crucially, the skill-sets that are required (the current staff may not have the required competencies, e.g. in preparing investment plans, resource mobilisation, appraisal, monitoring).

As an initial step, CRDB has considered restructuring itself by establishing additional departments that are responsible for sector work/portfolios. The initial stage is to start with those sectors that support IDP implementation. The second issue is related to the capacity for policy work (IDP and beyond). To fully carry out its mandated tasks in resource mobilisation, planning, monitoring and partnership management, CRDB will be required to invest in and strengthen its policy analysis capacities. This will

require a detailed functional analysis of the work of current Departments as well as an assessment of current capacities and workloads.

## **V. Reporting and monitoring arrangements**

The IDP identifies policy objectives based on challenges/opportunities, proposed actions and desired results. The suggested approach set out in this paper is to clarify resource needs and financing gaps and then link targeted resource mobilisation efforts. The ODA Database can categorise projects according to the new sector/sub-sector reclassification and will be able to record external resource mobilisation in order to support monitoring.

It should also be noted that IDP work within ministries and across Government will be closely integrated with their routine work. CRDB resource mobilisation tasks will be linked to resource needs identified in the Investment Plan (as mentioned above).

CDC has been mandated to prepare and coordinate in the effective manner the monitoring and evaluation arrangement, which includes the followings: (i) a quarterly and annual reporting system, in particular a quarterly report to the plenary meeting of the Council of Ministers on progress and challenges of IDP implementation; (ii) a Trouble Shooting Mechanism; and (iii) an evaluation of the progress and achievements on the implementation of the 4 IDP key action plans to be achieved by 2018 and a comprehension mid-term evaluation to be done in 2020. As part of CDC works, CRDB will contribute to the evaluation by reviewing the ODA-funded activities related to the 4 IDP action plans as well as assessing the overall effectiveness and efficiency of ODA support to IDP in Cambodia.

## Industrial Development Policy (May 2015) – Overview of Structure and Approach

<b>Vision:</b> modernization of Cambodia's industrial structure to a skilled driven industry by 2025			
(a) link with global value chain (b) regional production network integration, (c) production linkages (d) industrial competitiveness and productivity. Move towards technology/knowledge based industry.			
Three phases: (1) promote industrial potential & diversify labour intensive industry (manufacturing & agro-industry); (2) industrial restructuring & diversification; (3) specialization (sciences & technology).			
<b>IDP Objectives &amp; Targets</b>	<b>Current status</b>	<b>Proposed Policies &amp; Actions</b>	<b>Focus of Government &amp; Policies</b>
<p><b>Objectives (14)</b></p> <p>Address structural challenges and to invest in key industrial infrastructure</p> <p><b>Targets (14)</b></p> <p>1. Transforming and strengthening the industrial structure. <i>(Industrial sector to 30% GDP (2025) from 24.1% (2013). Manufacturing to 20% from 15.5%).</i></p> <p>2. Increase/diversify export products. <i>(Non-textile manufacture exports 15% of total by 2025 (1% - 2013). Processed agric. exports to 12% from 7.9%).</i></p> <p>3. Strengthen SME development &amp; management, improve corporate governance. <i>(By 2025, register 80% (small) &amp; 95% (medium) enterprises. 50-70% have accurate accounts balance sheets).</i></p>	<p><b>Overview of present situation (4)</b></p> <p>Narrow industrial base</p> <p>Missing middle and informal industrial structure</p> <p>Weak and urban-centred entrepreneurship</p> <p>Low Value-Added and weak use of technology</p> <p><b>Challenges (8)</b></p> <p>Leadership, coordination and decision-making</p> <p>Technical knowledge and skills base</p> <p>Linking infrastructure and coordination</p> <p>Financial markets &amp; access</p> <p>Labor market and industrial relations</p>	<p><b>Four Strategies for Industrial Development (15)</b></p> <ol style="list-style-type: none"> <li>Mobilizing FDI &amp; domestic private investment (export mkt devt &amp; promotion of technology &amp; transfer)</li> <li>Developing &amp; modernizing SMEs (manufac base ↑, modernize/register enterprises, tech devt/transfer, dom/ext industrial linkages esp agro-industry)</li> <li>Legal environment (competitiveness, investment climate, trade facilitation, market information, fees)</li> <li>Supporting policies (HRD, skills, industrial relations, land m'ment, urbanization &amp; land use, infrastructure, transport/logistics, digital connectivity, elec &amp; water, public/social services, &amp; financial services).</li> </ol> <p><b>Policy measures &amp; Action plans (19)</b></p> <p><b>Investment Promotion (19)</b></p> <ol style="list-style-type: none"> <li>Investment climate</li> <li>SEZs and preparation of Industrial Zones</li> </ol> <p><b>Expanding &amp; Modernizing SMEs (22)</b></p> <ol style="list-style-type: none"> <li>Institutional arrangements and incentives</li> <li>Registration and Account Ledgers</li> <li>Promoting Agro-Industrial Development</li> </ol> <p><b>Improve Regulatory Environment (23)</b></p> <ol style="list-style-type: none"> <li>Trade Facilitation and Export Promotion Measures</li> <li>Industrial Standards and Property Rights</li> <li>Facilitation for Payment of Tax and Excise</li> <li>Labour Market Development &amp; Industrial Relation</li> </ol> <p><b>Coordination of Supporting Policies (26)</b></p> <ol style="list-style-type: none"> <li>Skills and Human Resource Development</li> <li>Promoting Sciences, technology and innovation</li> <li>Industrial infrastructure</li> <li>Financing measures</li> </ol> <p><b>Four extra measures by end-2018 (30)</b></p> <ol style="list-style-type: none"> <li>Electricity coverage ↑, cost ↓</li> <li>Master plan for transport &amp; logistic system development (poles &amp; corridors)</li> <li>Labour market management &amp; skills</li> <li>Sihanoukville multi-purpose SEZ.</li> </ol>	<p><b>Scope and Priority Sectors</b></p> <p>A focus is placed on priority industries, links with the global value chain &amp; regional production networks.</p> <p><b>Scope (16)</b></p> <ol style="list-style-type: none"> <li>Manufacturing &amp; agro-processing industries (FDI and domestic investment)</li> <li>Integrating into regional &amp; global production networks</li> <li>Development of industrial zones</li> <li>Establishment of SEZs</li> <li>Support to social enterprises</li> <li>Knowledge &amp; modern tech-based industries</li> </ol> <p><b>Priority Sectors (RGC facilitating role) (17)</b></p> <ol style="list-style-type: none"> <li>New industries or manufacturing ventures with the capability of breaking into new markets, with high value-added products</li> <li>SMEs (esp drugs &amp; medical equipment, construction materials, packaging equipment for export, furniture manufacturing and industrial equipment)</li> <li>Agro-industrial production for export and domestic markets</li> <li>Supporting industries for the agriculture, tourism and textile sectors</li> <li>Industries serving regional production (ICT, energy, heavy industries, cultural/historical/handicraft, and green technology).</li> </ol>

Grey number in brackets refers to page number in IDP document (May 2015 version)