Economic Challenges in Cambodia

Cambodia’s economy has shown remarkable growth, successfully recovering from the 2007 financial crisis. GDP grew at 7.2 percent in 2012. Historically, Cambodia’s economy has depended on agriculture. In recent years the manufacturing sector has been of growing importance, especially in export-oriented garments and shoes. A fast developing tourism sector adds to Cambodia’s economic diversification.

While overall poverty in Cambodia has fallen, the pace of development between urban and rural areas varies greatly and 50 percent of Cambodians are living on less than $2 a day. Cambodia is experiencing an increasingly unequal distribution of wealth geographically as well as within the social structure where elites have been able to benefit disproportionately from an uneven playing field.

Micro, small, and medium enterprises (MSMEs), which comprise the majority of the nation’s firms, generate most of the nation’s economic output and employment. Yet, MSMEs, mostly located in rural areas, face a myriad of constraints that hinder their competitiveness and capacity to develop. MSMEs lack access to market information, face unclear and burdensome regulations, lack technological capacity for production, and most importantly, they have limited access to financing for business expansion. Many MSMEs have tenuous relationships with local authorities, which makes untangling these issues even more complicated. According to the World Bank’s Ease of Doing Business Index, Cambodia ranks 133 out of 185 of the hardest countries to do business in. Legal obstacles, red tape, informal fees and financial barriers constrain business growth in a number of sectors. For women and minorities, discriminatory laws and socio-economic norms distort the business climate even further and represent additional challenges to starting, owning, and successfully operating businesses.

APPROACH

In Cambodia, The Asia Foundation considers MSME development as a critical step to achieve sustainable and more balanced economic growth. For almost 10 years, The Asia Foundation has been working with MSMEs in Cambodia to help create a more productive, enabling environment for local business. Through different program activities such as subnational dialogues between public and private actors, surveys, and research on impediments to growth, the Foundation is actively helping Cambodians unlock constraints to private sector growth at the provincial level.

Our ultimate aim is to improve the business environment for Cambodia’s provincial MSMEs so they can flourish and compete in domestic and foreign markets. Our approach is to empower local entrepreneurs with the tools, information, and resources they need to enhance their business skills and to work with government, local authorities, and civil society. With extensive experience in developing the private sector at the provincial level, the Foundation has fostered effective collaboration between the public and private sector – a key for success factors in improving the business environment in Cambodia.
Our research tools, such as Economic Governance Indices, Business Climate Barometers, and Regulatory Impact Assessments, have provided a clear window into the performance of individual local regulatory environments and the costs associated with their policies and practices. Through support to map existing laws, regulations, and markets, and then training community-based organizations, The Asia Foundation’s contributions have led to improved livelihoods for ordinary Cambodians and better natural resource management, particularly for rice production and in the fishing value chain.

The Foundation has taken locally identified priorities to seek national level reform. We have assisted Cambodia’s Parliament in its efforts to build its legislative mandate to foster growth of the national economy through educational workshops on local constraints for business growth and have entered policy alternatives that take advantage of local context and global best practices.

**ACTIVITIES**

The Asia Foundation’s Economic Development programming in Cambodia focuses on fostering better local business environments across the country by:

- Deepening understanding of the drivers behind the constraints and impediments faced by the private sector at the national and subnational level.
- Enriching the engagement and capabilities of communities, MSMEs, civil society, and public authorities in effective economic governance.
- Spearheading instruments for more informed and consultative policy processes.
- Promoting policies for better competition in agriculture and trade.
- Facilitating dialogues at the grass-roots level among community-based organizations, especially farmers and fishermen.
- Organizing cross-provincial meetings for MSMEs.
- Promoting partnerships between the public and private sector.
- Reforming national economic policy by strengthening the capacity of policymakers.

**ACHIEVEMENTS**

- Simplified business licensing processes
- Reduction in local taxes and informal fees
- Local governments more aware of their commitments to abide by government regulations
- Simplification of administrative paperwork

**EXPERIENCE**

The Asia Foundation has a decades-long history of supporting economic growth across Asia and Cambodia through both public and private channels. Through its Economic Development programs, the Foundation has assisted MSMEs in accessing legal information, financing, business services, skills and networks they need to enhance competitiveness and profitability, thereby helping to create jobs and reduce poverty.

“I now ask for a receipt whenever I have to pay a fee, because I know that it is my right.”

– MSME from Kampot