



“Lessons Learned from Covid-19 and Future Research Agenda in Support of Private Sector Development in Cambodia”

Background

Cambodia is now on the path to economic recovery with projected GDP growth rates of 5.5 percent in 2023 and 6 percent in 2024. However, as a small, export-dependent economy, Cambodia is more susceptible to external environmental conditions and global economic shocks (UNDP 2022). Particularly, the prolonged COVID-19 pandemic, the Russia-Ukraine war, the China-US trade war, widespread economic sanctions and other chronic conflicts around the globe still negatively affect the Cambodian economy. These negative impacts include supply chain disruptions, oil price explosion, rising inflation, higher interest rates and reduced investment inflows. In this regard, the country's economic growth will remain sluggish and uncertain in the following years if regional and global economic instability and uncertainty prevail. Thus, Cambodia needs to build and strengthen its solid economic foundation through local business promotion, private sector development and local production to diversify the country's economy beyond the garment, tourism, construction and agriculture sectors. Towards that end, small and medium enterprises (SMEs) are purportedly the key to the country's economic development as they dominate the business landscape and are important for employment and income generation,

poverty reduction and GDP growth (Chhim and Lay 2021).

With core support from Swedish International Development Cooperation Agency (Sida), CDRI collaborated with the Ministry of Economy and Finance to design and implement original research titled “Strengthening Cambodia's Post-Pandemic Recovery and Competitiveness Pathways” in 2021. The results from this research provide new, in-depth insights into the country's socioeconomic development in relation to the COVID-19 context, as well as ongoing global crises. Its primary objective is to provide evidence-based intervention recommendations for policymakers, practitioners and relevant stakeholders that are responsive to socioeconomic issues.

The research conducted by CDRI was disseminated in a workshop on June 7, 2023 that engaged relevant stakeholders from the government, private sector and business associations to delve into two crucial topics: lessons learned from the Covid-19 pandemic for future research agendas and partnerships in support of private sector development in Cambodia. The insights gained from these discussions are expounded upon in the subsequent sections.

Lessons learned from the Covid-19 pandemic

“Target and engage” has proved to be effective in mitigating the impacts of the pandemic.

A two-method strategy called "Target and Engage" was implemented by the Cambodian government to mitigate the impacts of Covid-19. First, the government engaged with different actors from the private sector, academia and other parties in order to direct policy interventions. The government has adopted evidence-based policy-making to create policies that are grounded in reality. Through this, various policy dialogues were organised to gather information and evidence from various key stakeholders. In the second step, the government focused on supporting the sectors most affected by the pandemic, such as the garment and tourism sectors. Several pivotal policies and measures have been put in place, such as cash transfer programmes for workers in the garment and tourism sectors. For SMEs, tax exemptions, fee reductions, co-financing schemes and other initiatives were implemented.

The potential effects of inflation and current financial instability could have a significant negative impact on Cambodia's financial sector.

Amidst the Covid-19 pandemic and global uncertainties such as inflation and the ongoing Russian invasion of Ukraine, concerns have emerged regarding potential negative impacts on Cambodia's financial sector. Cambodia is a dollarised economy and has few fiscal tools available. Despite the imposition of an interest rate ceiling of 18 percent per annum in April 2017, the cost of borrowing in Cambodia remains high due to the elevated cost of funding financial institutions. This could potentially hinder the healthy development of the financial sector, raising concerns about how businesses can sustain such high bottom-line costs. Additionally, approximately 60 percent of Cambodia's GDP, which relies heavily on exports of garments, bicycles and tourism, is highly vulnerable to inflation. As such, it is imperative to effectively address and manage these external forces in order to maintain the

financial sector's health and the country's competitiveness.

Businesses still face key challenges in navigating the uncertainties and disruptions caused by Covid-19.

The Covid-19 pandemic has caused significant disruptions to businesses, leading to unprecedented levels of uncertainty and economic instability. Businesses, specifically SMEs, still face a number of challenges as they try to navigate these uncertainties and disruptions. Government initiatives have greatly aided SMEs during the pandemic, but they do not cover all businesses. The government policy-making processes place a heavy emphasis primarily on large firms, with little consideration given to SMEs. To compound this issue, many SMEs still operate informally, making it challenging for them to receive help from the government and access financing. The main obstacles preventing them from registration might be difficulties following requirements and non-compliance behaviours in accordance with business regulations. The CDRI survey also found a small percentage of firms invested in innovation in their businesses. It is worth noting that innovation is important for businesses' long-term growth and competitiveness. One of the primary reasons behind this observation is that SMEs are often unable to anticipate future risks and are hesitant to invest in their businesses. Furthermore, many SMEs continue to operate in traditional ways without utilising digital platforms, which can make it difficult for them to compete effectively with other exported goods and services.

Business associations are crucial in creating a favourable business environment in Cambodia.

Business associations play a critical role in private sector development and in creating a conducive business environment. They provide a platform for businesses to connect with each other, share ideas and collaborate on projects. They also represent the interests of their members to government officials, policymakers and other stakeholders. Following the government's

“Target and Engage” approach, business associations have participated in various discussions with government representatives to formulate policies like the Post Covid-19 Recovery Plan, which aimed to help businesses recover from the economic impacts of Covid-19 and other emerging crises.

Future research agenda in support of private sector development

Conducting a timely nationwide business survey provides policy makers and other key stakeholders with insights into pertinent issues affecting businesses.

Business surveys can help identify trends and patterns that would otherwise be difficult to detect, and provide information that businesses can use to make informed decisions about investments and other important matters. More importantly, the data collected from these surveys can be used to inform government policies and programmes that support economic growth and development. Aspects that need to be updated in the nationwide survey include, but are not limited to, business owners’ behaviours in formal business registration, their challenges in accessing finance and investing in innovation, women owners of SMEs and their challenges, skills and intellectual property rights.

Enhance the understanding of Cambodia’s comparative advantages

Understanding about the country’s comparative advantages is essential for policymakers, businesses, and investors to make informed decisions that can lead to economic growth and prosperity. Given its strategic location between productive neighbouring countries such as Thailand and Vietnam, which boast numerous attractive factors and resources for potential investors, it is vital to conduct a comprehensive study on Cambodia’s capabilities from a regional perspective, taking into account its available resources and factors of production. This analysis will enable Cambodia to identify opportunities to enhance its competitive edge and attract more foreign investments.

Improving the quality of education and addressing multidimensional aspects of education are necessary to enhance competitiveness.

The panel discussion on June 7 emphasised the importance of education for the country’s competitiveness. A well-educated workforce can increase productivity and drive economic growth, as educated individuals tend to possess the necessary skills and knowledge to innovate, create and improve products and processes. Given the importance of education in enhancing a country’s competitiveness, Cambodia must undertake significant efforts to improve its educational system, in particular basic education. A strong foundation in basic education is essential for improving the quality of higher education. Failure to do so risks leaving the country behind in a rapidly changing world, where the success of nations is increasingly dependent on a skilled and well-educated workforce. In addition, it is also important to address the interdisciplinary aspects of education, including the development of both hard and soft skills and promoting physical development. This entails not only focusing on formal education, but also emphasising extracurricular activities.

Invest in research that aligns well with partners’ missions will help maximise impact, build partnerships and leverage resources.

It is important to study in detail the missions and programmes of potential partners in order to access funding and maximise the impacts of research. For example, Australia currently has three programmes operating in Cambodia: the Cambodia-Australia Partnership for Rapid Economic Development (CABRED), Partnerships for Infrastructure and Mekong-Australia Partnership. CABRED has a budget of AUD 160 million, the Partnerships for Infrastructure has a budget of AUD 120 million and the Mekong-Australia Partnership is worth approximately AUD 200 million. These programmes focus on trade and investment, agriculture, agricultural services, infrastructure and infrastructure services.

References

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