



May 2024

Brief

Five Priorities for a Green and Inclusive Economic Transformation in Cambodia



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Citation:

PAGE 2024, Five priorities for a green and inclusive economic transformation in Cambodia

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Key Messages

- Cambodia aims to become an upper-middle income country by 2030 and a high-income country by 2050, with an emphasis on inclusiveness and environmental sustainability. To achieve these goals, the country's key drivers of economic growth need to become greener in a competitive and inclusive manner.
- Decarbonization, and particularly a clean energy transition as well as circularity, will play a critical role in ensuring that key economic sectors grow in line with the target of achieving carbon neutrality by 2050. Greening the garment industry, as a high-impact sector, will be crucial in terms of sustaining growth, increasing employment and inclusiveness, as well as achieving carbon and pollution reductions.
- To support the achievement of Cambodia's goals in an inclusive manner, green investments need to be targeted towards vulnerable communities and small businesses, ensuring equal access to green funds.
- Policies to limit job losses and enhance green skills in targeted sectors will require policy coherence and institutional arrangements across multiple ministries, multistakeholder partnerships, and an inclusive dialogue mechanism.
- An integrated analysis of the social, economic, and environmental dimensions of growth is needed to examine the trade-offs and complementarities between different sector objectives and to identify sustainable pathways that fulfil the objectives of the country's Pentagonal Strategy I (Growth, Employment, Equity, Efficiency, and Sustainability).

1. Introduction to Cambodia's partnership with PAGE

Cambodia's economy has grown at an exceptional rate over the past two decades, and the Royal Government of Cambodia (RGC) is now looking to sustain economic growth in a green and socially inclusive manner, with a focus on transforming high-impact sectors such as garment manufacturing, tourism, agriculture, and finance. Cambodia was one of the first countries in Southeast Asia to adopt a green growth strategy back in 2013, and the Royal Government has several important policies and support programmes in place that can support the transition to an inclusive green economy.

Cambodia officially joined the Partnership for Action on Green Economy (PAGE) in 2022 under the leadership of the National Council for Sustainable Development (NCSD), chaired by the Ministry of Environment (MoE) and with the participation of other government ministries including the Ministry of Economy and Finance (MEF), the Ministry of Mines and Energy (MME), the Ministry of Industry, Science, Technology, and Innovation (MISTI), the Ministry of Labour and Vocational Training (MoLVT), and the Council for Development of Cambodia/Cambodia Investment Board (CDC). The private sector, research institutions and academia are also key partners.

PAGE is a joint global programme between the UN Environment Programme (UNEP), the International Labour Organization (ILO), the United Nations Development Programme (UNDP), the United Nations Industrial Development Organization (UNIDO), and the United Nations Institute for Training and Research (UNITAR). The partnership responds to the needs of countries to accelerate transformative economic change that fosters green growth, reduces poverty and inequalities, increases jobs and social equity, and strengthens livelihoods and environmental protection in line with the 2030 Agenda.

This brief highlights the key drivers of Cambodia's economic growth, its carbon footprint, and its targets for inclusiveness and environmental sustainability. It puts forward five priorities which can help promote Cambodia's transition towards an environmentally sustainable and socially inclusive economy, while meeting the country's ambitious economic growth targets.

2. Insights into Cambodia's current growth model

Cambodia has a track record of strong macroeconomic performance

Cambodia's economy has been growing rapidly, with an average annual Gross Domestic Product (GDP) growth rate of around 7% from 2010 to 2019.¹ The country has successfully transitioned from low-income to lower-middle-income status in 2015,² and economic growth has contributed to the creation of jobs for millions of people, particularly in the garment and footwear sectors, agriculture, and tourism. The poverty rate has dropped from 53.2% in 2004 to 17.8% in 2020.³ While in 2020 Cambodia's economy experienced a decline of -3.1% due to the Covid-19 pandemic, it has since rebounded, returning to 3% growth in 2021 and 5.2% in 2022. It is projected to further expand to 5.6% in 2023.⁴

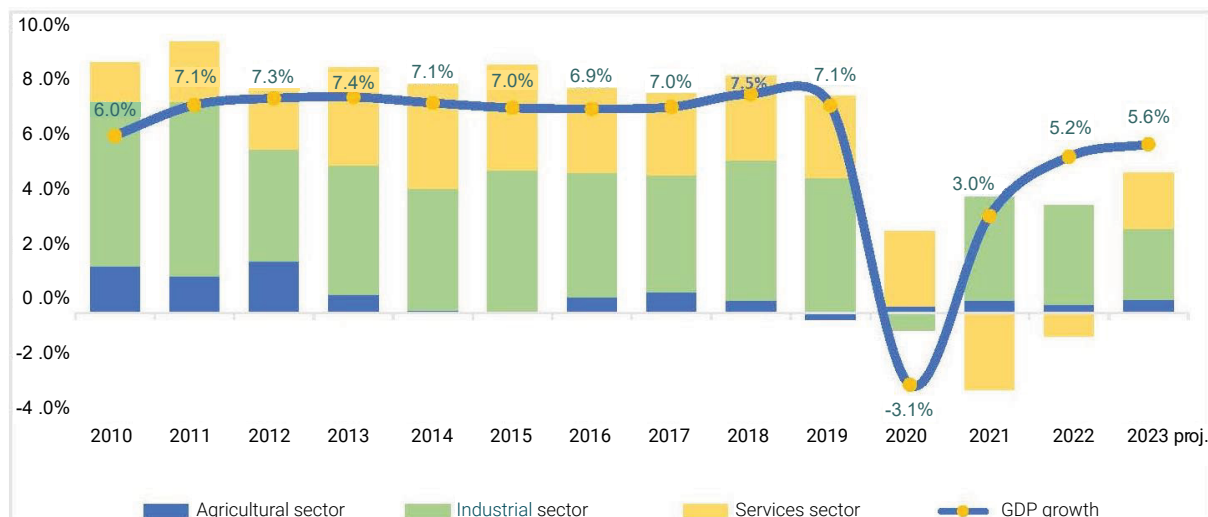
1 Asia Development Bank (ADB). (2023). Cambodia Factsheet

2 <https://www.worldbank.org/en/country/cambodia/overview>, accessed on 17.05.2024

3 Ministry of Planning. (2023). Cambodia's Voluntary National Review (VNR) 2023

4 Ministry of Economy and Finance. (2023). Policy Framework on the Development of Government Securities 2023–28

Figure 1: Cambodia's economic growth, 2010 to 2023⁵



Cambodia's economic rebound in 2022 was largely underpinned by three key sectors. Firstly, the industrial sector grew by 8.3%, thanks to the strong performance of the garment and other manufacturing sub-sectors. For the year the total value of manufacturing goods increased by 82.4%, manufacturing goods for export by 64.3%, and manufacturing products for the domestic market by 88.5%. Secondly, the service sector grew by 4.6%, driven by the recovery of the restaurant and hotel sub-sector, and positive trends in other supporting sub-sectors (transport and communication, and whole-sale and retails). Finally, the agricultural sector experienced a slight growth of approximately 0.7%, with this lower number attributed to supply chain disruptions and increased production costs compared to 2021.⁶

In terms of trade, exports in 2023 increased by 1.8% compared to 2022.⁷ Primary export destinations were the United States (39.3% share), Viet Nam (13.1%), China (6.5%), Japan (5.2%) and Canada (3.8%), with imports primarily coming from China (44.6%), Viet Nam (14.9%), Thailand (12.0%), Indonesia (4.1%) and Singapore (3.6%).⁸

The Royal Government's top priority is achieving high-income status by 2050

According to Cambodia Vision 2050, the country aims to achieve upper-middle income status by 2030 and high-income status by 2050. Cambodia is also preparing to graduate from Least Developed Country (LDC) status by 2029. To achieve these targets, the RGC has introduced the Pentagonal Strategy-Phase I 2023-2028 for Growth, Employment, Equity, Efficiency, and Sustainability. The strategy promotes socio-economic development through five Strategic Pentagons: (1) human capital development; (2) economic diversification and competitiveness enhancement; (3) development of the private sector and employment; (4) resilient, sustainable, and inclusive development; and (5) development of the digital economy and society.

Pentagons 2 (economic diversification and competitiveness enhancement) and 4 (resilient, sustainable and inclusive development), in particular, can be crucial in driving the country's

⁵ <https://mef.gov.kh/macroeconomic-indicator>, accessed on 21.02.2024

⁶ 2022 Annual PFM Progress Report, PFMR

⁷ National Bank of Cambodia (NBC). (2023). Annual Report 2022

⁸ General Department of Customs and Excise: 2023-12-TBSC-EN.pdf

economic growth towards a greener and more resilient path. The emphasis on economic diversification, resilience, and sustainability as a vehicle for socio-economic development has been carried over from the country's previous Rectangular Strategy 4 2019-2023. The RGC envisions a transformation and modernization of the country's industrial structure by 2025 through a shift from labour-intensive to skill-based industries which are integrated into the global value chain.⁹ The CDC has identified six priority sectors for driving economic and investment growth, including agri-food, automotive, electronics, textile and apparel, bikes and parts, and furniture and plywood.¹⁰

Meanwhile, Cambodia has embraced the 2030 Agenda and has adopted the Cambodian Sustainable Development Goals Framework 2016-2030 (which includes an extra goal focusing on demining). The Voluntary National Review 2023 points out that progress towards CSDG 8 on "Sustained, Inclusive and Sustainable Economic Growth, Full and Productive Employment and Decent Work for All" is particularly strong, with 63% of its indicators on track. However, the review also identifies a number of challenges that can affect Cambodia's growth and development outlook including: (i) increasing regional and global tensions and the global economic slowdown, including as this relates to Cambodia's trading partners; (ii) longer-than-expected tightening of monetary policy, particularly in the United States, and the continued appreciation of the US dollar that could hurt investment and trade flows; (iii) rising prices or high levels of energy and commodity prices in the international market; (iv) the continued disruption of global and regional supply chains; (v) the fragmentation of the global economy affecting global cooperation and trade; and (vi) climate change and natural disasters.¹¹

The country has achieved relative decoupling, but its growth model remains carbon- and resource-intensive

Cambodia's economic growth has elevated the living standards of large parts of the population but has also resulted in greater environmental challenges, such as growing waste volumes, reduced forest coverage, increased air and water pollution, and related health risks.¹² While per capita emissions remain relatively low (4.3 tons of carbon dioxide equivalent - tCO₂e, in 2022),¹³ economic growth has been highly carbon intensive, with the amount of tCO₂e produced per USD million of GDP being 10 times higher than the OECD average.¹⁴ Of the country's total greenhouse gas emissions (GHG), 43.4% are from the land-use change and forestry sector, with deforestation and forest degradation contributing almost all of these. Agriculture is the second highest emitter (28.1%), followed by the energy sector (19.2%) and industrial processes (8.6%).¹⁵ In the period from 1990 to 2022, GHG emissions from domestic production increased by 121%, and the country's carbon footprint by 172%.¹⁶ That said, over the same time period GDP grew by 332%, indicating a relative decoupling of GDP growth from

9 Council for Development of Cambodia. (2015). Cambodia Industrial Development Policy, 2015-2025.

10 Council for the Development of Cambodia, 2024. Accessed on 27 March 2024. Retrieved from: <https://cdc.gov.kh/>

11 Cambodia's Voluntary National Review (VNR) 2023 <https://hlpf.un.org/sites/default/files/vnrs/2023/VNR%202023%20Cambodia%20Report.pdf>

12 UN Cambodia. (2023). The Common Country Analysis report

13 World Bank. Per capita greenhouse gas emissions (ourworldindata.org)

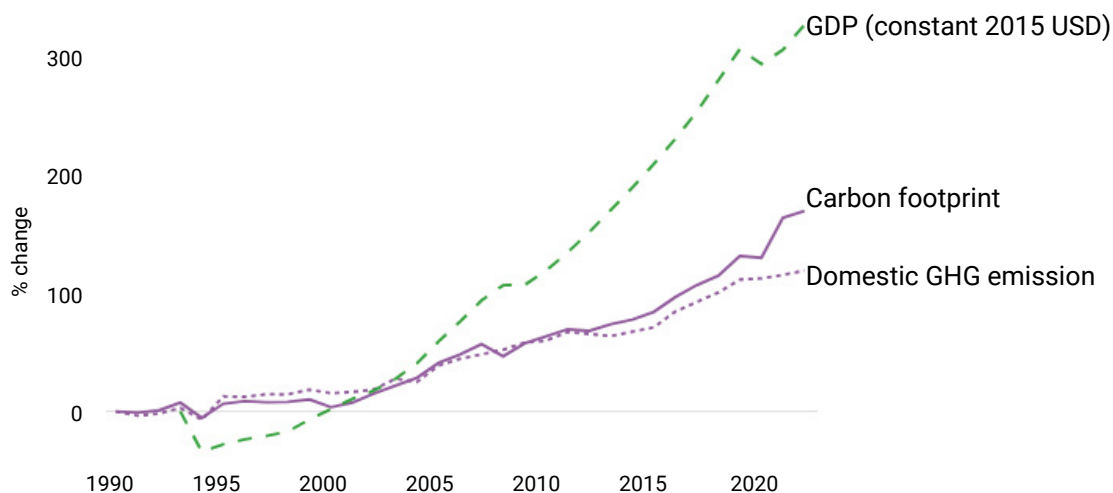
14 World Bank (2023). Cambodia Country Climate and Development Report (C-CCDR)

15 Climate Watch. https://www.climatewatchdata.org/countries/KHM?end_year=2020&start_year=1990

16 The carbon footprint of a country includes domestic and foreign GHG emissions that occurred along inter-/national supply chains of goods and services consumed domestically. Both total GHG emissions and the country's carbon footprint are measured in terms of their Global Warming Potential (GWP) over a 100-year time horizon.

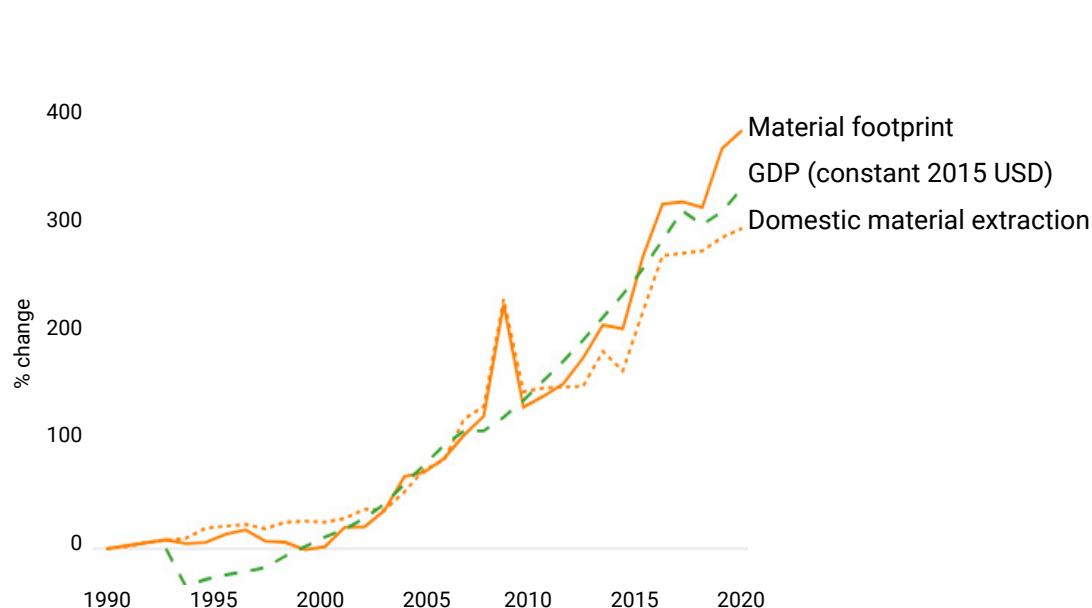
GHG emissions.¹⁷In terms of the use of raw materials (including biomass, fossil fuels and metals/minerals), domestic extraction increased by 295% from 1990 to 2022, which is slightly lower than GDP growth over the same period.

Figure 2: Relative decoupling of GDP growth from GHG emissions, 1990 to 2022¹⁸



However, Cambodia's material footprint¹⁹ (including consumption of goods produced abroad) increased faster than GDP growth, by 386 %.

Figure 3: Growth in raw material use compared to GDP, 1990 to 2022²⁰



Overall, this indicates a relative decoupling of economic growth from GHG emissions and a modest decoupling from domestic natural resource use, trends which can be further leveraged to achieve the goal of absolute decoupling.

17 SCP Hotspot Analysis. Cambodia. Countries at a glance – SCP Hotspots Analysis (scp-hat.org)

18 SCP Hotspot Analysis. Cambodia. Countries at a glance – SCP Hotspots Analysis (scp-hat.org)

19 The material footprint of a country includes domestic and foreign material extracted for use along inter-/national supply chains of goods and services consumed domestically. It equals domestic extraction plus imports minus exports.

20 SCP Hotspot Analysis. Cambodia. Countries at a glance – SCP Hotspots Analysis (scp-hat.org)

3. An inclusive green economic transformation as a pathway towards Cambodia Vision 2050

The global net-zero transition provides new trade opportunities

Cambodia's major trade and investment partners are transitioning to a net-zero economy, which presents new opportunities for the manufacturing and export of low-carbon goods and services.²¹ The combined value of global trade in green goods hit a record USD 1.9 trillion in 2022, an increase of more than USD 100 billion compared to 2021 which defied the general downward trend at that time. This growth is expected to continue, with the global market for electric cars, solar and wind energy, green hydrogen and a dozen other green technologies projected to reach USD 2.1 trillion by 2030 – four times their value today.²²

Cambodia has already started benefiting from these net-zero trends. For instance, the export of solar panels, modules, and accessories has grown from zero a decade ago to almost USD 1.2 billion in 2022, accounting for 5% of the country's total exports. The electric vehicle (EV) sector provides another emerging business opportunity, as the Cambodian government plans to incentivize companies to invest in installing 200 EV charging stations across the country in 2023.²³ The National Policy on the Development of Electric Vehicles 2024-2030 is being finalized and will be implemented soon.²⁴ Meanwhile, supporting existing companies to achieve emission reduction goals could become increasingly crucial for maintaining competitiveness in the manufacturing industry, with many international brands that source garments from Cambodia, such as H&M and Adidas, having committed to achieving net-zero emissions across their value chains.

The general shift towards stricter environmental, social and governance requirements for entering export markets will become a key determinant for Cambodia's industrial competitiveness, particularly in the context of LDC graduation and the associated loss of specific preferential tariffs.²⁵ To successfully participate in the global value chains for low-carbon goods, the Government will also need to revisit its import tariffs on environmental goods. For example, renewable energy products currently face on average a 10% import tariff in Cambodia, which is five times higher than the global average, and tariffs on critical intermediate inputs for solar PV installations like batteries, cables, fuses, breakers, and surge protection devices are even higher (up to 35%).²⁶ Doing so, and harnessing the increasing global demand for green goods, can support the country's economic diversification and competitiveness in line with the Pentagonal Strategy-Phase I and Vision 2050.

21 World Bank Group. (2023). Cambodia Country Climate and Development Report (C-CCDR)

22 <https://unctad.org/news/global-trade-slows-green-goods-grow>

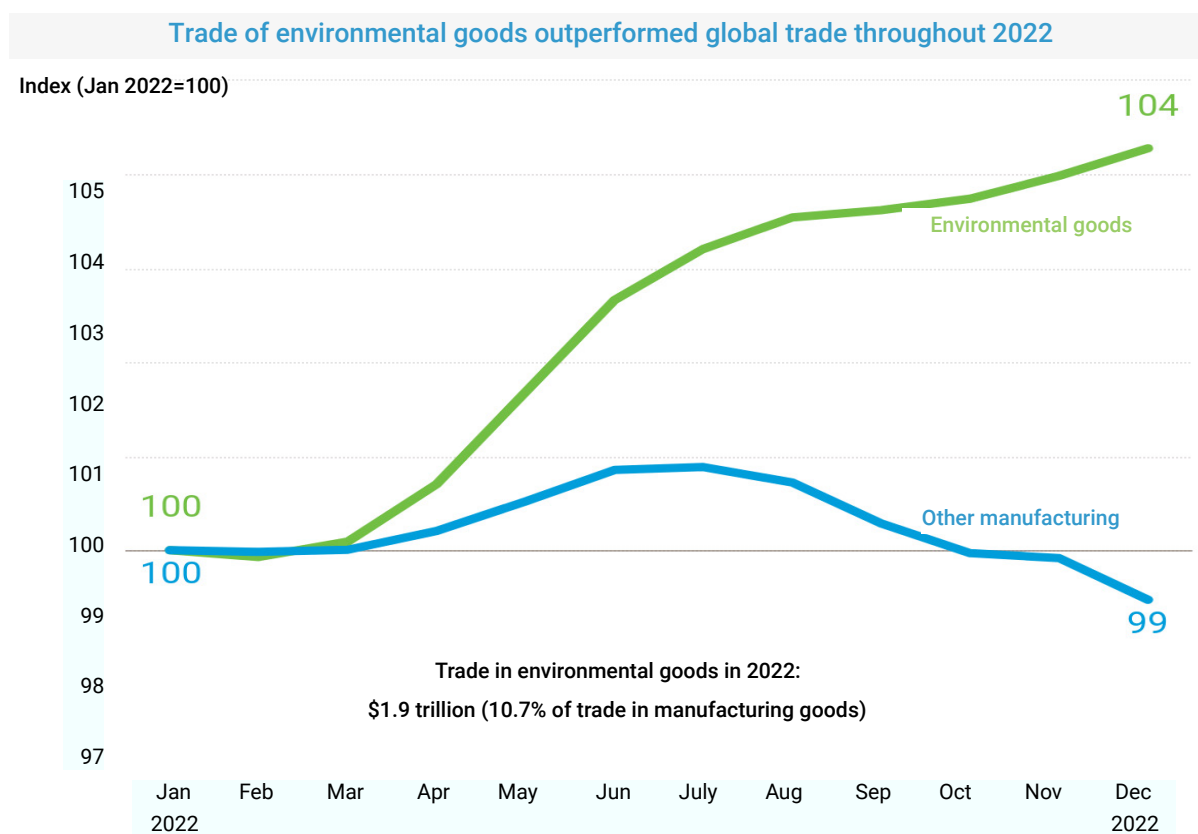
23 World Bank Group. (2023). Cambodia Country Climate and Development Report (C-CCDR)

24 <https://www.khmertimeskh.com/501480053/cambodia-giving-final-touches-to-ev-policy/>

25 UNDP (2022). Graduation from LDC status: Trade preference and development financing implications for Asia-Pacific countries

26 World Bank Group. (2023). Cambodia Country Climate and Development Report

Figure 4: Global trade is going green²⁷



Cambodia has set itself ambitious targets

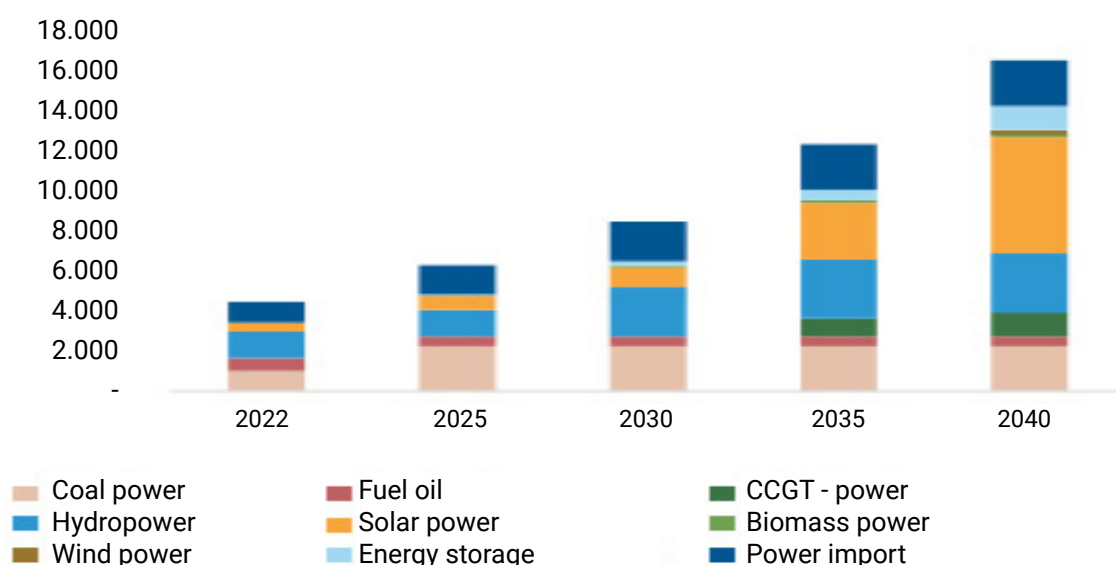
The RGC has recognized the opportunities that a green economy represents and is striving to achieve carbon neutrality by 2050. The country submitted an ambitious Long-Term Strategy for Carbon Neutrality (LTS4CN) to the Secretariat of the United Nations Framework Convention on Climate Change (UNFCCC) in 2021 – in doing so becoming the 1st country in the Association of Southeast Asian Nations (ASEAN) to submit a strategy with a clear 2050 target.

To help achieve this, the RGC is implementing the Power Development Plan (PDP) 2022-2030 which outlines a comprehensive strategy to meet future energy demand, expand generation capacity, and improve transmission and distribution systems. While hydropower is the primary contributor to the renewable energy mix, the Plan aims to triple the solar share of electricity generation from 4% in 2022 to 12% in 2030 and 19% in 2040.²⁸ To further enhance energy efficiency, Cambodia has introduced the National Energy Efficiency Policy (NEEP) 2022-2030. The NEEP aims to achieve significant energy savings across various sectors, targeting 20% in the industrial sector, 17% in the residential sector, 25% in the commercial sector, and 17% in the electricity supply from rural electricity enterprises (REEs) by 2030.

27 UNCTAD. (2023). Global Trade Update: https://unctad.org/system/files/official-document/ditcinf2023d1_en.pdf

28 Ministry of Mines and Energy. (2022). Power Development Masterplan 2022-2040

Figure 5: PDP planned installed capacity (MW)²⁹



In parallel, the RGC has adopted several plans which aim to support a green and low-carbon economic transformation. For example, The Circular Economy (CE) Strategy and Action Plan aim to minimize waste production, maximize resource value, and create new economic opportunities. The Cambodia Roadmap for Sustainable Consumption and Production (2022-2035) outlines specific actions and targets for various sectors, aiming to reduce environmental impact and promote economic growth. The Resource Efficiency and Cleaner Production Strategy and Action Plan for Industry and SME Sector (2021-2030) promotes resource efficiency and cleaner production through capacity building, technical assistance, technology promotion, and monitoring. The Ministry of Environment has also released the Circular Strategy on Environment (2023-2028), focusing on controlling pollution, promoting tree planting, sustainable management of protected areas, and strengthening compliance and coordination. While multiple strategies and policies have been put in place, there remains a need for greater coherence across sectors and a focus on moving towards implementation.

4. Five priorities to achieve an inclusive green economic transformation

Unlocking private and public finance will be key to accelerate the transition

Cambodia estimates that NDC implementation will require an estimated USD 7.8 billion by 2030 (USD 5.8 million for mitigation and USD 2 million for adaptation), with further investments of up to USD 2.5 billion annually needed to achieve the 2050 net-zero target.³⁰ Meeting the financial needs of a green economic transformation will require a combination of multiple sources, including private finance (e.g. domestic and foreign investments) as well as internal and external public finance (e.g. Official Development Assistance – ODA, concessional loans from bilateral partners and international finance institutions, and government securities and tax revenues).

²⁹ World Bank Group. (2023). Cambodia Country Climate and Development Report (C-CCDR)

³⁰ <https://www.undp.org/cambodia/blog/financing-forest-sector-climate-solutions-through-carbon-markets-case-cambodia>

The bulk of funds will need to come from the private sector. To transform its economy, Cambodia will need to shift private investment flows towards green and socially inclusive business models. The country remains an attractive destination for foreign direct investment (FDI), with inflows increasing from USD 145 million to USD 3.6 billion between 2000 and 2022.³¹ Green investment opportunities can be further unlocked in priority sectors, such as renewable energy, energy efficiency, climate-smart agriculture, climate-resilient infrastructure, and natural capital management.³² In particular, renewable energies provide an important opportunity to attract FDI, with an average of 41.6% of foreign investment in environmental goods and services in Asia going towards solar electric power projects and 20.5% towards wind electric power in 2021.³³

In addition to FDI, redirecting domestic private investments will be key for achieving a green economic transformation. From 2015 to 2019, domestic investments accounted for more than 45% of the country's total investment capital, and about 23% of its GDP.³⁴ The new Law on Investment, adopted in 2021, aims to stimulate further private investment by providing financial incentives for priority sectors and investment activities in environmental management and protection, biodiversity conservation, circular economy, green energy, and technology contributing to climate change adaptation and mitigation.³⁵ The Law offers different basic incentives but the most commonly used ones include an income tax exemption on green investments for between three to nine years from the time when income is first earned and, subsequently, a sliding scale of tax breaks on income tax. In June 2023, the RGC adopted Sub-Decree 139 to implement the Law; however, for it to become fully effective clear criteria will still need to be defined as to which investments can qualify for benefitting from the above "green" categories. Meanwhile, Cambodia's banking sector has been an early mover in promoting sustainable finance since 2016. The Association of Banks in Cambodia (ABC) has encouraged its members to voluntarily adopt the Cambodian Sustainable Finance Principles including through the provision of implementation guidelines. Commercial banks can play a critical role in providing finance for green businesses (around 90% of financial assets are within the banking system);³⁶ however at present, the capacity of most banks to evaluate applications for green or sustainable loans remains limited.

The National Bank of Cambodia (NBC) has similarly emphasized the importance of sustainable finance and has joined various regional and international institutions. It has incorporated Environment Social and Governance principles (ESG) into the guideline on international reserves investment and has invested in green bonds issued by the Bank for International Settlements (BIS).³⁷ The Bank is also working with the Economic Research Institute for ASEAN and East Asia to study and develop a strategy for green digital finance.³⁸ Looking forwards, NBC has started working on a Sustainable Finance Roadmap³⁹ with the aim of

31 World Bank Group. (2023). Cambodia Country Climate and Development Report; World Bank Group. (2022). Foreign direct investment, net inflows (BoP, current US\$) - Cambodia. World Bank data, accessed on 27 March 2024

32 Cambodia - Asian Development Outlook April 2023 (adb.org)

33 ADB. (2023). Asian Economic Integration Report <https://www.adb.org/sites/default/files/publication/859946/asian-economic-integration-report-2023-highlights.pdf>

34 UNCDF. (2021). CSDG Financing in Cambodia

35 https://cdc.gov.kh/wp-content/uploads/2022/04/LOI_English-Updated-13Dec21.pdf

36 Impacts of Banking Sector – The Association of Banks In Cambodia (abc.org.kh)

37 The National Bank of Cambodia. (2023). Annual Supervision report 2022

38 ធនាគារជាតិនៃកម្ពុជា ចុះ MoU ជាមួយវិទ្យាស្ថានស្រាវជ្រាវសេដ្ឋកិច្ចសម្រាប់អាស៊ាន និងអាស៊ីបូព៌ា លើកិច្ចសហប្រតិបត្តិការ ក្នុងការអភិវឌ្ឍយុទ្ធសាស្ត្រ សម្រាប់បរិរុញឱ្យមានដំឡើងប្រព័ន្ធនៃកម្ពុជា (freshnewsasia.com)

39 <https://www.unescap.org/news/national-bank-cambodia-and-escap-co-develop-sustainable-finance-roadmap>

creating a more resilient and stable financial system that supports long-term economic and environmental sustainability. In doing so, the Bank will need to carefully balance its primary mandate of maintaining monetary and financial stability with a more proactive role in promoting sustainability objectives.⁴⁰

Furthermore, following the release of the ASEAN Sustainable Finance Taxonomy in 2021 (Version 2 in 2023), NBC is engaging in the development of a national taxonomy for Cambodia to help strengthen the regulatory framework and define assets qualifying as green investment.⁴¹ The taxonomy should promote the greening of Cambodia's capital market, including a still very young stock exchange market. The property firm Golden Tree's issued the country's first green bond of USD 1.5m in January 2023, followed by the Cambodian telecoms operator Cellcard which issued its own USD 20m sustainability bond in November 2023.⁴² In addition to developing clear regulatory guidance, to further develop the green and sustainable bonds market in Cambodia, it will be important to build awareness, deliver government tax incentives that provide preferential treatment for environmental, social, and governance financial products, and expand the green project pipeline.⁴³

Public funds can play a catalytic role

Before the pandemic, the RGC had significantly increased its tax revenue from 16.5% of GDP in 2010 to 24.8% of GDP in 2019, resulting in government savings of over USD 3 billion in 2019.⁴⁴ However, by 2021, the RGC had nearly depleted these savings, having spent over USD 2 billion on measures to mitigate the impact of the pandemic.⁴⁵

The pandemic has also impacted the country's level of public debt. Before 2022, Cambodia had only international borrowing, with public debt mainly in the form of concessional loans from bilateral partners and international financial institutions. By the end of 2022, public debt had increased to USD 9.9 billion, or 33.7% of GDP⁴⁶, still below the national ceiling of 40%. Cambodia's generally low risk of public debt distress suggests that debt financing remains a viable and sustainable option for financing essential development programmes, provided additional debts are not accumulated substantially and rapidly.⁴⁷ However, in 2023 the fiscal deficit is expected to widen to 3.6% of GDP, up from 1% of GDP in 2022, and needs to be managed carefully.⁴⁸

A constrained fiscal space reinforces the need for targeted spending on development priorities, particularly in a context where external forms of development finance like ODA are declining. However, a World Bank study found that in terms of national budget execution, there were weak linkages between the financial requirements planned in the National Strategic Development Plan (NSDP) 2019-2023 and overall government spending. This indicates that

40 https://wedocs.unep.org/bitstream/handle/20.500.11822/16803/Role_Central_Banks_Green_Finance.pdf?sequence=1&mp%3BisAllowed=

41 https://www.nbc.gov.kh/download_files/news_and_events/press_eng/502ENG_PressReleaseNBC_IFC.pdf

42 <https://www.khmertimeskh.com/501394141/cambodia-rings-sustainable-bond/>

43 ADB Green Bond Market Survey: <https://www.adb.org/sites/default/files/publication/827631/green-bond-market-survey-cambodia.pdf>

44 UN Cambodia. (2023). The Common Country Analysis report

45 Ibid

46 World Bank. (2024). Cambodia Public Finance Review: From Spending More to Spending Better. © Washington, DC: World Bank

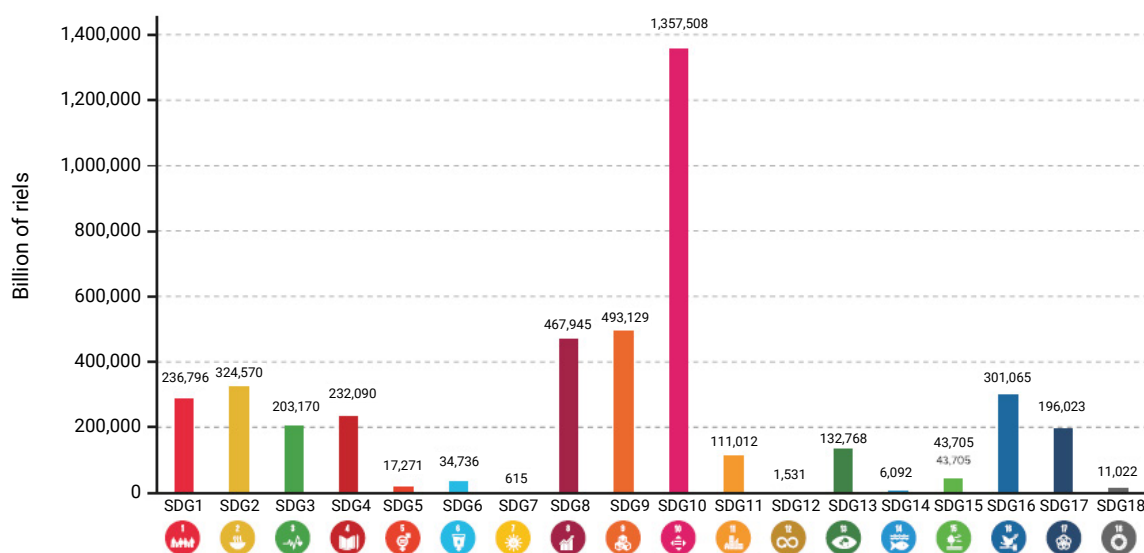
47 CDRI. (2023). PAGE Cambodia Scoping Study

48 IMF. (2024). Cambodia 2023 Article Iv Consultation—Press Release; and Staff Report

the country’s planning and budgeting needs further improvements, with spending linked to outcomes outlined in the Budget Strategic Plan (BSP) and Programme Budgeting (PB) that have been introduced to all ministries under the Public Financial Management Reform Programme (PFMRP).⁴⁹

As a step towards linking spending with development priorities, MEF piloted a CSDG budget tagging system which demonstrated how the public budget in 2022 (programmes) was aligned to CSDG targets. The tool provides evidence of a sustainable development-oriented budget to broaden resource mobilization, including through thematic bonds, and reinforces transparency and accountability to the public. A planning and budgeting approach that is geared towards the CSDGs can have a transformative impact across sectors, both by directly supporting green and inclusive economic opportunities, and providing important signalling effects to private sector investments.

Figure 6: Budget amounts linked to each CSDG (for 2022)⁵⁰



Budget tagging further provides the basis for a performance-based approach whereby the economic, social and environmental consequences of fiscal decision-making are systematically assessed to inform the future allocations of funds. The 4th phase of the PFMRP (2023-2027) aims to achieve performance accountability and could provide an important entry point for performance-based budgeting that prioritizes expenditures with the greatest potential to spur green and inclusive economic growth.

In addition to optimizing public expenditures, the RGC is also exploring options to diversify its financing sources. One way the Government is doing this is through the issuance of government securities in the domestic securities market. In September 2022, RGC issued its first sovereign bond of 100 billion riels (approximately USD 24.3 million), followed by the formulation of a preliminary Policy Framework on the Development of Government Securities (PFDGS) in 2023. Between September 2022 and August 2023, the Government has issued

49 World Bank. (2024). Cambodia Public Finance Review: From Spending More to Spending Better. <http://hdl.handle.net/10986/41034>

50 UNDP. (2023). Cambodia SDG budget tagging 2022

bonds for a total value of KHR 248,100 million (USD 60.1 million) with a weighted-average annual yield rate of 3.48%.⁵¹

The introduction of government securities raises capital and strengthens the country's fiscal space while also establishing a national financing framework for sustainable and inclusive socio-economic development.⁵² This can pave the way for the RGC to introduce additional innovative debt financing tools, such as SDGs bonds and other thematic bonds (e.g. green and blue bonds, and social impact bonds), which can further increase the financing available for public investments that contribute to the attainment of the CSDGs.⁵³

More evidence is needed on the trade-offs between different growth pathways

Economic foresight and modelling can help the RGC in assessing different policy options and growth pathways for achieving the CSDGs, Vision 2050 and related goals. Taking into account the social, economic, and environmental dimensions of growth, they can also serve as a connector across the five priority areas of the Pentagonal Strategy (Growth, Employment, Equity, Efficiency, and Sustainability).

These analytical tools are not new to Cambodia. For example, economic modelling that MEF and MoE conducted with support from UNDP showed that Cambodia's GDP could be 10% lower than anticipated by 2050 if urgent adaptation actions are not taken. Modelling tools were also used in the development of Cambodia's Long-Term Strategy for Carbon Neutrality, while the latest World Bank Climate and Development Report for Cambodia uses a combination of four different macroeconomic and environmental models to substantiate its findings.⁵⁴

However, integrated modelling tools are yet to be mainstreamed into planning and policy development processes, and there remains a need to build related capacities at MEF (as the lead) and other sectoral Ministries. At the moment, MEF is using an Excel-based tool for macro-economic planning that does not fully account for the social and environmental dimensions of sustainable development. Bringing together different Ministries in assessment/modelling processes can help to identify trade-offs and complementarities between different sector-specific objectives and programmes and contribute to greater policy coherence going forward.

The circular economy provides new opportunities to green Cambodia's manufacturing sector

The manufacturing sector is key to Cambodia's growth aspirations as it offers mass employment opportunities.⁵⁵ The sector continues to play a vital role in driving Cambodia's economic growth and employment, with the Garment, Footwear and Travel Goods (GFT) sector in particular accounting for 37.5% of total employment⁵⁶ and contributing almost

51 <https://www.unescap.org/events/2023/capacity-building-training-sovereign-thematic-bond-issuance-ministry-economy->

52 Ministry of Economy and Finance. (2023). Policy Framework on the Development of Government Securities 2023 – 2028

53 UN Cambodia. (2023). The Common Country Analysis report

54 World Bank Group. (2023). Cambodia Country Climate and Development Report, including CGE-BOX, MINDSET, Integrated Economic-Environmental Model (IEEM) and Ecosystem Services Modeling (ESM)

55 CDRI. (2023). Cambodia Outlook Brief

56 Ministry of Planning. (2023). Economic census of Cambodia 2022

50% of Cambodia's real GDP growth in 2021. At the same time, the industry carries a high environmental footprint, including the massive consumption of resources such as water and energy, and the generation of pollution and waste. According to MoE, in 2016, 60% of the country's industrial waste was generated by the textile, footwear, and accessories sectors and this situation has remained largely unchanged since then. In 2021, it was estimated that the garment industry alone produced between 130,000 and 160,000 tons of textile waste per year, putting additional pressure on the country's landfills and leading to illegal incineration.

These consequences variously result from a lack of infrastructure for managing textile waste, limited awareness and knowledge among manufacturers, and insufficient government support and incentives.⁵⁷ Compounding these issues is an absence of clear policy measures towards the deployment of green technologies and practices, which undermines investor confidence and active private sector participation.⁵⁸ Consumers also lack awareness about the benefits of green products, making it difficult for green SMEs to compete with larger companies.⁵⁹

Currently, most projects in the garment sector focus on increasing energy efficiency. In addition, there is a pressing need to promote circularity as a means of shifting the sector towards more sustainable practices. A circular garment sector can support the promotion of green jobs and green skills that reduce fabric waste, promote resource efficiency and the use of sustainable packaging materials, creating a more inclusive and environmentally friendly industry. The Circular Fashion Partnership Cambodia launched in 2023 provides a step in this direction.⁶⁰

Achieving meaningful changes toward a more circular, efficient and productive industry will require a strong government-led programme of interventions that includes technology support both in the factory and for the service provider, the promotion of environmental management practices, and services to strengthen bankability for access to finance. In addition to targeted technical support measures for businesses, the RGC can lead the circular transition by providing the right mix of financial incentives to spur new business models and design innovation, and penalties to curb the worst practices in waste generation and environmental impact. Meanwhile, at the regional level, policies such as design for recycling and industrial standards of recycled products will need to be harmonized, and the management of the transboundary movement of recyclable waste and cores for remanufacturing will need to be improved.⁶¹

To seize the job potential of a green and circular economy, skills development needs to be a priority

Cambodia's growth over the past two decades has been remarkable, resulting in significant improvements in the lives of its people. With 8.2 million jobs currently available in the country, Cambodia continues to see an influx of 160,000 new workers entering the labour force each year. The labour force participation rate among Cambodians aged 15 and older

57 <https://www.eurocham-cambodia.org/uploads/1ea14-final-white-book-2024.pdf>

58 World Bank Group. (2023). Cambodia Country Climate and Development Report

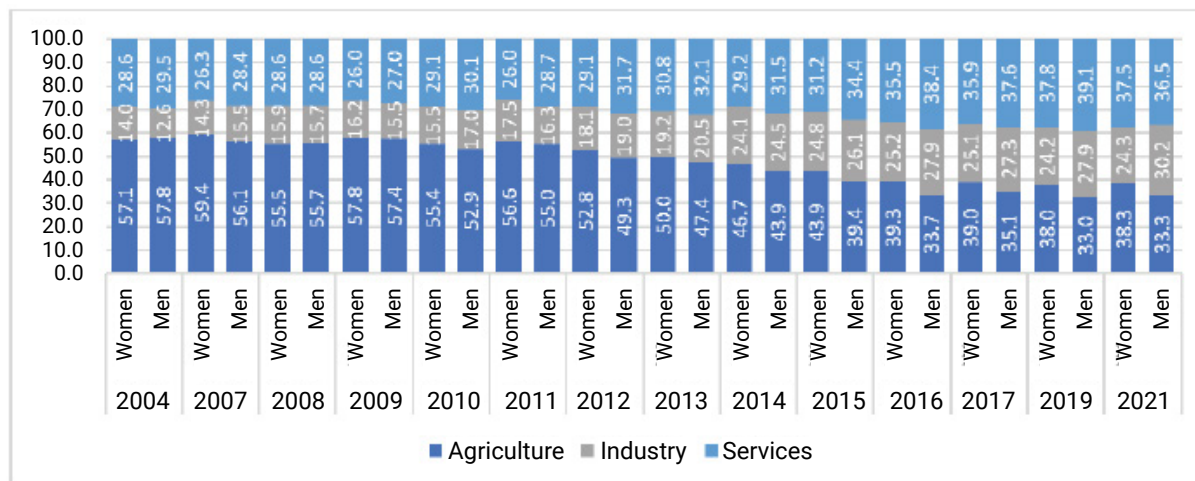
59 CDRI. (2023). PAGE Cambodia Scoping Study

60 <https://globalfashionagenda.org/circular-fashion-partnership/>

61 Asian Development Bank Institute. (2022). Prospects for Transitioning from a Linear to Circular Economy in Developing Asia

stands at an impressive 80%, surpassing the expected rate for a country at Cambodia’s level of development and ranking among the highest globally. This can be attributed, in part, to the high participation of women in the labour force, with rates ranging from 73% to 80% compared to regional and global averages of 61% and 50%, respectively. This is likely due to the prominence of industries traditionally associated with women, such as garments and tourism, within Cambodia’s economy.⁶²

Figure 7: Share of employed population (15-64 years) by main economic sector and sex⁶³



While the labour force is expected to continue growing until 2044, thanks mainly to Cambodia’s youthful population in an ageing region, it is worth noting that a significant majority of jobs (94%) fall into the low-skilled category, with managers and professionals accounting for less than 5% of the total workforce.⁶⁴

The RGC has adopted several plans that aim to address this trend. The National Employment Policy 2015-2025 was developed to improve the livelihoods and dignity of Cambodians by providing them with equal opportunities of decent and productive employment. The Cambodian Industrial Development Plan (2015-2025) aims to transform the country’s industrial structure from one that relies heavily on labour to one that is skills-driven by 2025, while recognizing the lack of skilled labour as being a key obstacle to this transformation. The Cambodian Skills Development Roadmap (2023-2035) further envisions producing or transforming a Cambodian labour force into one with high capacity and productivity.

However, none of these plans make a clear reference to the development of green skills, which is key to harnessing the job potential of a green transition. Under the country’s Long-Term Strategy for Carbon Neutrality, it is projected that Cambodia will create approximately 449,000 new job opportunities in green sectors by 2050. Although the country’s occupational profile has shown signs of becoming more knowledge-intensive, the creation and uptake of green jobs necessitates the development of specific skill sets.⁶⁵ Employment in agriculture is projected to fall from 31% in 2022 to 25% in 2030 and 14.5% in 2050, and in manufacturing from 17% in 2022 to 15% in 2030 and 8% in 2050. On the other hand, employment in trade

62 World Bank Group. (2019). Cambodia’s future jobs: linking to the economy of tomorrow

63 UN Cambodia. (2023). The Common Country Analysis report, based on National Institute of Statistics, Cambodia Socio-Economic Survey from 2004-2021

64 World Bank Group. (2019). Cambodia’s future jobs: linking to the economy of tomorrow

65 <https://greencap-cambodia.eu/wp-content/uploads/2020/10/Survey-on-green-jobs.pdf>

and business services is expected to increase from 19% in 2022 to 20.5% in 2030 and 25% in 2050, and from 8% in 2022 to 10% in 2030 and 15% in 2050, respectively.⁶⁶ The need for green skills, in relation to the number of jobs created by each economic sector, will therefore be a key consideration in raising the likelihood of labour absorption.

Some progress in this area has been made. The Cambodia Garment Training Institute (CGTI) has introduced a pilot training programme focused on energy and environmental sustainability in the garment industry. The Institute of Technology of Cambodia (ITC) has launched the Cambodia Energy Manager and Auditor Training Programme (CEMAT), which aims to support Cambodia's energy sector development and the goals outlined in the National Energy Efficiency Policy (NEEP). The Skills Development Fund (SDF), which is a government-led programme, allows private firms and development providers to submit training proposals related to green jobs and skills in order to receive funding for implementation. However, the SDF has yet to present a clear strategy or target for green jobs and skills development, and the available grant opportunities have not been fully utilized.

Despite these efforts, there remains a lack of consolidated technical and vocational education and training (TVET) programmes that focus on the development of practical green skills needed to support the transition to a green economy, green finance, renewable energy, green technology, and circularity. To take full advantage of the job potential of a green economy, the RGC would need to systematically collect data on green jobs, including skills needs, and promote the development of educational programmes and training courses to meet the needs of the current and future green jobs market. Special attention needs to be given to addressing informality within the labour market and youth unemployment. In addition to skills development for workers, green economy concept and approaches need to be integrated into higher education curricula to shape the mindsets and build the capacities of the next generation of economic policy-makers and business leaders. Ultimately, policies for limiting job losses and promoting skills development in targeted sectors will require policy coherence and institutional arrangements across multiple ministries, multistakeholder partnerships, and a dialogue mechanism. While there are various decarbonization and energy transition projects funded by different donors that can support the goal of green skills development, these require greater coordination in order to achieve synergistic benefits.

Leaving no one behind in a green economic transformation

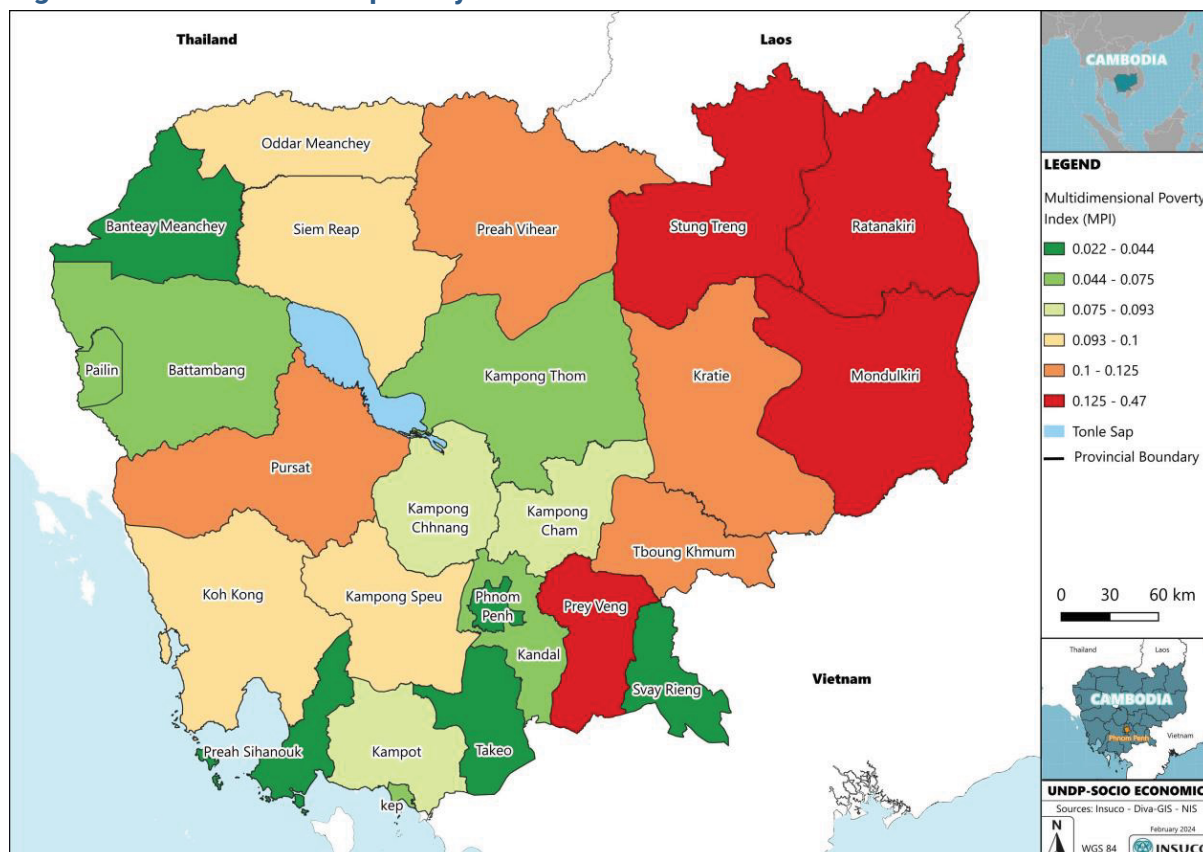
While the transition towards a green economy will generate new employment opportunities, it will also lead to the phase-out of jobs and occupations associated with carbon-intensive activities. Moreover, these impacts are not shared evenly across geographies or sectors, with the concentrations of people and communities advantaged and disadvantaged by the green transition linked to the carbon intensity of existing industrial activities in their proximity.⁶⁷ This imbalance calls for specific just transition measures that support those likely to be affected in finding other viable and decent employment (for example, through up- and reskilling as detailed in the previous section) and providing social protection.

66 CDRI. (2019). Ngov, Penghuy, and Cheng Savuth. (Forthcoming). Structural Transformation and Economic Growth

67 Sharpe, Samantha A., and Cristina M. Martinez-Fernandez. (2021). "The Implications of Green Employment: Making a Just Transition in ASEAN". *Sustainability* 13 (13): 7389.

In Cambodia, population groups that are at a particular risk of being left behind in a green economic transformation include people with little education and on low income, such as minimum-wage workers and migrants. 88.3% of Cambodians are informal workers without social protection, out of which 75% are women.⁶⁸ Often people are affected by multiple vulnerabilities beyond structural socio-economic factors, including their LGBTQI+ identity, dis/ability status, ethnicity and age.

Figure 8: Multidimensional poverty index⁶⁹



Particular attention therefore needs to be given to the gender and inclusion dimensions of a green economic transformation. Many green jobs are likely to be created in traditionally male-dominated sectors, and ensuring that no one is left behind will require targeted policies, social protection measures, and active efforts to address social inequalities and discrimination. For example, many current recycling jobs play a critical role in recovering materials which through their reuse can reduce pressure on natural resources and contribute to solid waste reduction. However, workers in this industry face precarious labour conditions, including low earnings, a lack of social protection, and health risks. When improving the capacity of the recycling sector to streamline the collection and recycling process, it is important to ensure that these jobs also meet decent work standards for all. Providing training on essential skills such as grading, sorting, cleaning, and transporting recycled materials would enhance the efficiency of small recycling businesses, many of which are owned by women.⁷⁰

68 UN Cambodia. (2023). The Common Country Analysis report

69 INSUCO and UNDP. (2024). Leaving No One Behind Analysis in Cambodia – Draft Report.

70 <https://asiafoundation.org/2024/02/15/recycling-in-cambodia-building-the-capacity-of-plastic-bottle-collectors/>

Beyond individual support measures for vulnerable groups, a leaving no one behind perspective needs to be systematically applied in green economy policy design, implementation and evaluation. A green economic transformation will not automatically be just and inclusive, and although the Long-Term Carbon Neutrality Strategy recognizes the need to address gender and inclusion issues, there is no mechanism in place to coordinate efforts to reduce vulnerability. Access to financing for vulnerable communities, such as smallholder farmers and the informal sector, to deal with transition impacts also remains limited. Adopting a more comprehensive approach will therefore help Cambodia to build a more sustainable and inclusive workforce – one that embraces the principles of circularity and supports green job creation.

5. Joining forces for a green and inclusive economic transformation

Through the combined expertise of five UN agencies, PAGE will support the RGC in reframing economic policies around sustainability and social inclusion; aligning sectoral and thematic policies and strategies with key economic transformation priorities; catalysing public and private finance; and building capacity for policy implementation.

Under its macro-economic support scheme, PAGE will work with the Government to use an integrated planning and modelling approach, combined with sustainable budgeting practices. The aim is to optimize the utilization of existing resources within a limited fiscal space, attract new sources of finance, and explore new sources of green and inclusive growth in alignment with the country's vision of becoming an upper-middle-income country by 2030 and a high-income country by 2050.

Initially, PAGE's sectoral support will focus on the garment industry which employs over 750,000 workers, most of which are women, contributes more than a third of the country's GDP and constitutes its largest export. This will involve promoting circular, resource- and energy-efficient practices, enhancing competitiveness, attracting green investments, and improving market access. Emphasis will also be placed on the creation of green jobs and the development of green skills, with the ultimate goal being to establish a fashion industry that is environmentally-friendly and inclusive. Future work can then focus on other industries and sectors that can be similarly decarbonized in a competitive and inclusive manner.

In addition, PAGE will deliver targeted trainings in partnership with national education and training institutions, and undertake outreach activities to disseminate the results of its analytical work in order to contribute to an informed discussion about green economic opportunities for Cambodia.

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The PAGE project in Cambodia is coordinated by UNITAR.
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Germany, Finland, Norway, Korea, Sweden and Switzerland.

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