



A Localization Roadmap for Cambodia's LDC Graduation

Panel Discussion on Local-Led Development

March 21, 2025

Content



- Potential impacts of LDC graduation
- Unlocking Finance for Development in Cambodia



Potential impacts of LDC graduation

MODELING IMPACT: FROM COVID-19 TO LDC GRADUATION



Policy Brief 01

COVID-19 ECONOMIC AND SOCIAL IMPACT ASSESSMENT

CGE & GTAP Simulation Exercise
October 2020

Policy Brief 02

2021 COVID-19 ECONOMIC AND SOCIAL IMPACT ASSESSMENT IN CAMBODIA An Integrated Modelling Approach

September 2021



The cover photo was taken before the COVID-19 community outbreak by ILO Better Factor

Acknowledgement

This policy brief was developed in close collaboration with the Ministry of Economy and Finance with support from the Australian government. It was prepared by Dr. Basit Raza (UNDP Senior Economic Consultant), Dr. Inés González de Alba (UNDP Lead Economist), Dr. Chansriyuth Ouch (UNDP Economist) and Dr. Kangsheng Puoh (UN Resident Coordinator). It also benefited from contributions by Ms. Jessica Johanna Tjandra, Mr. Halderson Han, Ms. Sotheara Sreang, and UNDP Communications Team. The policy brief was reviewed by Mr. Aseem Chatterjee, Incoming UNDP Resident Representative in Cambodia, the Ministry of Planning and other UN agencies and development partners.

Layout and design by Mr. Phanna Som.

Executive Summary

The policy brief on the 2021 socio-economic impact of COVID-19 in Cambodia was developed in partnership with the Ministry of Economy and Finance (MEF), with support from the Australian government. The brief is based on an integrated modelling framework used for assessment. It consists of a computable general equilibrium (CGE) model using actual economic reaction of the economy to external shocks by employment and poverty modules accounting matrix (SAM) to capture transactions and estimate the impacts of economic growth, poverty, and employment scenarios, namely, the baseline and two



Policy Brief

November 2022



EXECUTIVE SUMMARY

The policy brief was developed in partnership with the Ministry of Economy and Finance (MEF) to review Cambodia's 2022 to 2025 socio-economic outlook with a focus on economic growth, poverty and employment, namely in view of rising fuel, food and fertilizer prices and the global economic slowdown.

The assessment employs a Dynamic Computable General Equilibrium (DCGE) model. To capture the implications of the changes, four sets of simulations were carried out, namely: i) a **business-as-usual (BAU) scenario**, building on the assumption that there are no demand or price shocks, and that the economy is poised to attain post-

ECONOMIC AND SOCIAL IMPACT ASSESSMENT OF COVID-19 AND WAR IN UKRAINE ON CAMBODIA: Dynamic CGE Simulation Exercise

pandemic, pre-Ukraine war gross domestic product (GDP) growth rates, similar to those estimated by the MEF macroeconomic framework at the beginning of 2022 (ranging from 5.4 percent in 2022 to 7.3 percent in 2025); ii) a **commodity price shock scenario** (Simulation 1), which includes price increases of food, oil and fertilizer; iii) a **commodity price shock and demand shock scenario** (Simulation 2), which extends the commodity price increases by incorporating demand shocks on three fronts: Cambodian exports, tourist arrivals and construction sector investments; and iv) a **commodity price shock and demand shock with government intervention scenario** (Simulation 3), which assesses the impacts of the government's proposed interventions for 2022 and 2023 detailed in Table 3.

The simulation outcomes suggest the following:

- In Simulation 1, the overall GDP growth rate is expected to decelerate to 4.1 percent in 2022 compared to the BAU growth rate of 5.4 percent (i.e., without the war in Ukraine),

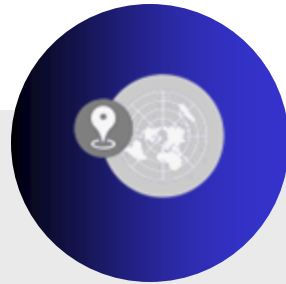
Policy Brief
Cambodia's Graduation from Least Developed Country (LDC) Status: Preparedness and Potential Economic and Social Impacts

LDC Graduation: Potential Loss of Trade Preferences



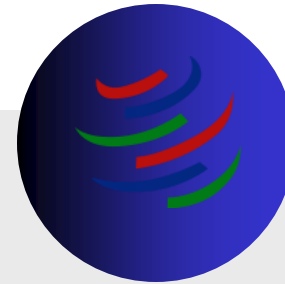
Tariffs

Lose access to LDC-specific duty-free quota-free schemes



Rule of Origin

Stringent rule of origin. Generally, the minimum local value added would be 60%, as opposed to 30% as an LDC



WTO

Withdrawal of LDC-specific special and differential treatment under WTO agreements



Cooperation

Development cooperation; ODA; contribution and participation in International Organizations

LDC Graduation: Potential impacts

Estimations from Global Trade Analysis Project (GTAP) and Computable General Equilibrium (CGE) simulations



Export

Export loss \$772 millions b/w 2027 to 2030



GDP

Slow down GDP growth rate between 0.5% to 1.5%



Employment

Moderate job loss (Higher incidence on women)
- 165,000 could become unemployed



Poverty

Small impact on poverty rate, but new poor are on the rise – up to 432,000 people could slip into poverty



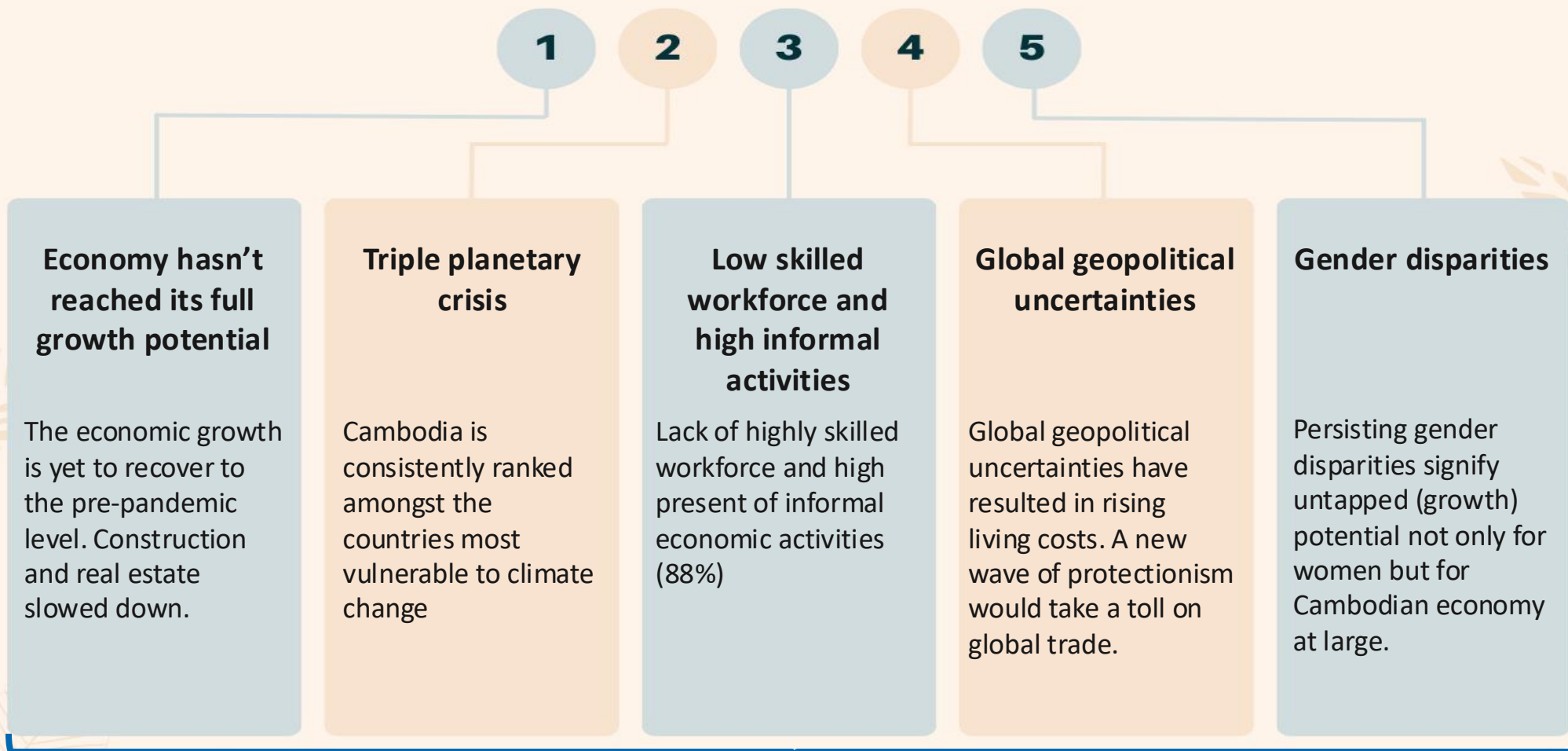
CSDGs

LDC graduation may undermine the country's progress to achieve the CSDGs, and poses development financing gap

Recommendations

-  1. Enhancing competitiveness
-  2. Sustainable transition pathway(s)
-  3. Export diversification
-  4. Maximizing existing and post-graduation trade preferences
-  5. Increasing investment in climate resilience and green development of the economy
-  6. Proactively assessing the impacts and consulting stakeholders
-  7. Comprehensive sector measure
-  8. Employment aspect: Advocate for lower RoO thresholds
-  9. Expanding social protection

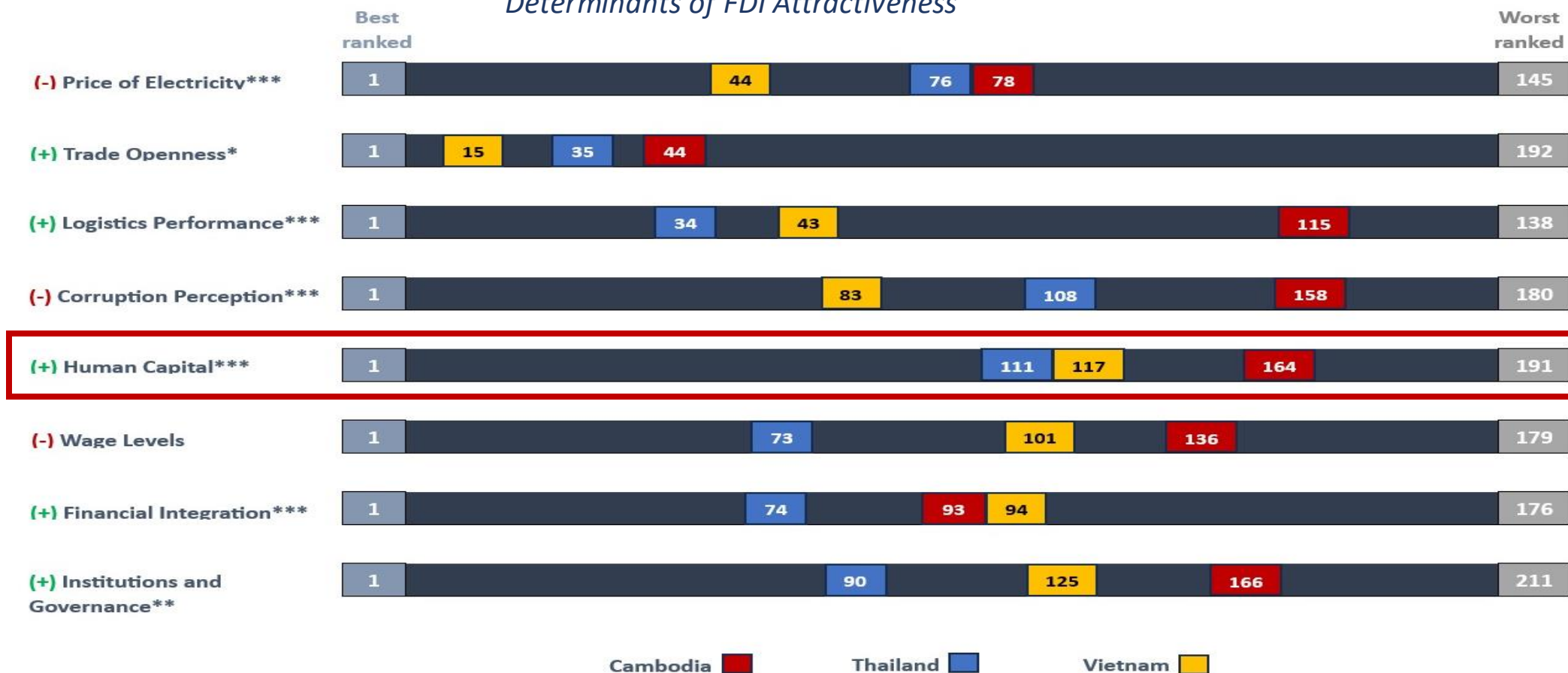
A potentially more turbulent future for Cambodia



In the context of LDC graduation, Cambodia will progressively lose trade preferences and other international measures

Human Capital and FDI attraction

Determinants of FDI Attractiveness



Source: Various studies compiled by author.

Figure above shows determinants that have either a positive green + or negative red - effect on the flows of FDI, with relevant global ranking of Cambodia and its neighbours. The Y axis further denotes the significance level (α), with * = 0.10, ** = 0.05 and *** is 0.01.

Some considerations

Labor Policies

Focuses on protecting workers' rights and promoting reskilling opportunities.

Education Quality

Focuses on updating curricula and expanding higher education to meet market demands.

To improve human capital in Cambodia, a multi-pronged approach is essential. These are key strategies, backed by various studies.

Digital Skills

Encourages early digital skills training and ICT infrastructure development.

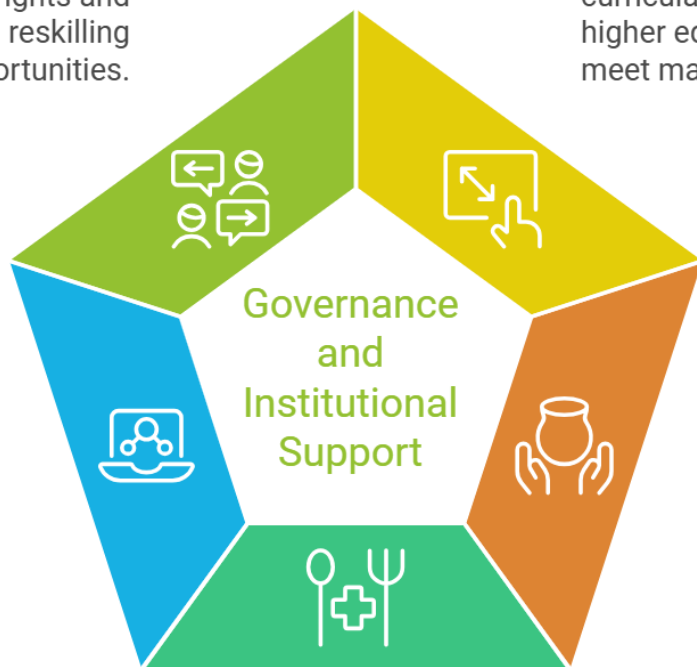
Vocational Training

Emphasizes investments in TVET to align skills with industry needs.

Health and Nutrition

Aims to improve health systems and nutrition for better childhood development.

Governance
and
Institutional
Support





Unlocking Finance for Development in Cambodia

From Funding to Financing: National Financing Policy Framework (NFPF)

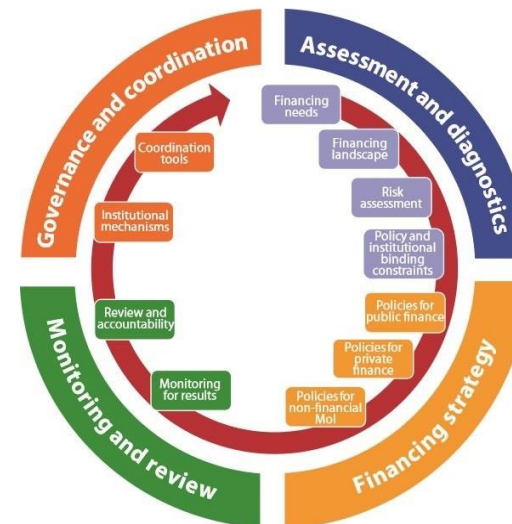


A catalyst for national development

- ❖ The Pentagonal Strategy I: Towards Vision 2050
- ❖ National Strategic Development Plan 2024 – 2028
- ❖ The Strategic Framework and Programs for Economic Recovery in the Context of Living with COVID-19 in a New Normal 2021-2023
- ❖ Cambodia Sustainable Development Goals (CSDGs)
- ❖ Other Planning & Strategic Documents
 - National Strategic Plan on Green Growth 2013 – 30; the Cambodia Industrial Development Policy 2015 – 25; the Digital Economy and Society Framework 2021-35;
 - Nationally Determined Contribution (NDC) as part of the Paris Climate Agreement;
 - Cambodia's Long-Term Strategy for Carbon neutrality by 2050, as well as graduation of Least Developed Country (LDC) status.

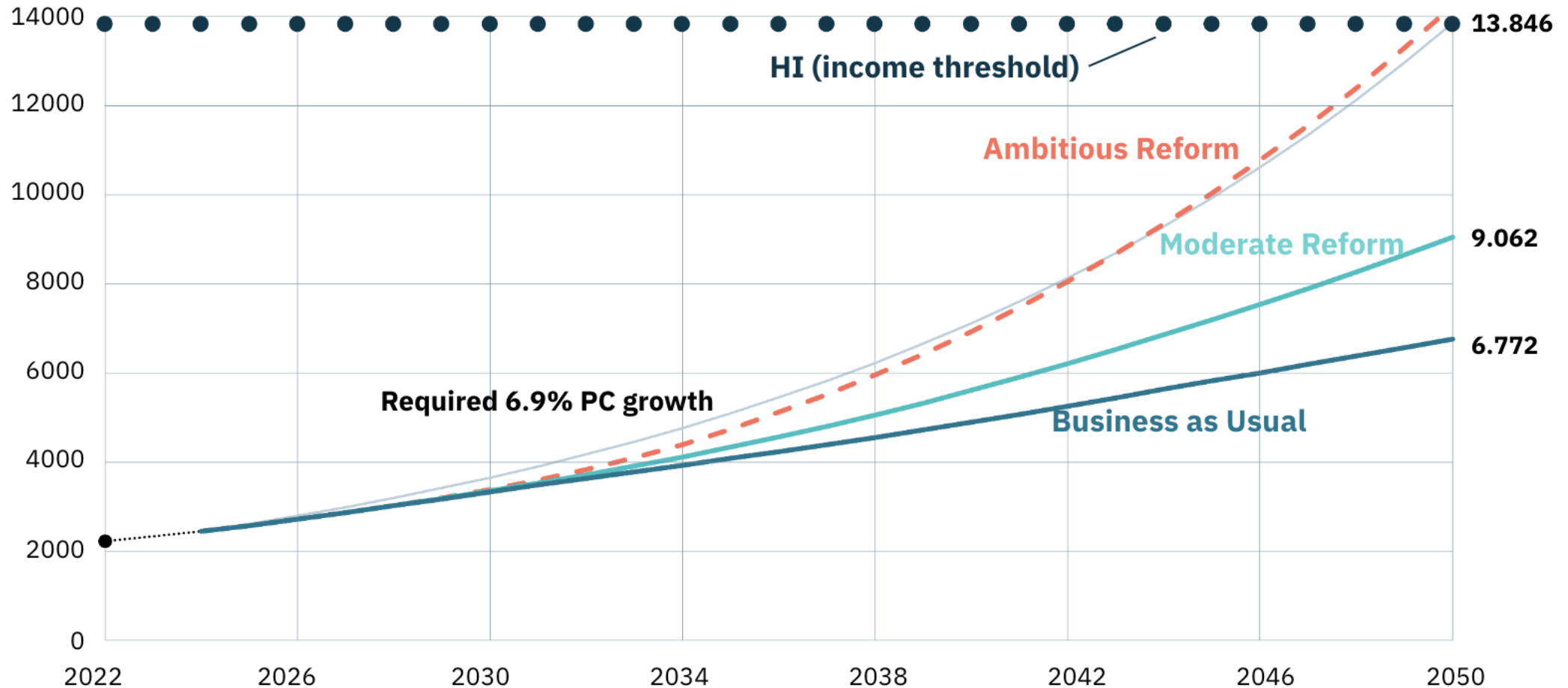
- **National plans:** lays out *what* needs to be financed
- **The NFPF:** guidance on *how* this will be financed.

INFF -> NFPF building blocks



The size of the challenge, as shown by WB and CDRI

GNI PC (constant 2022 US\$)

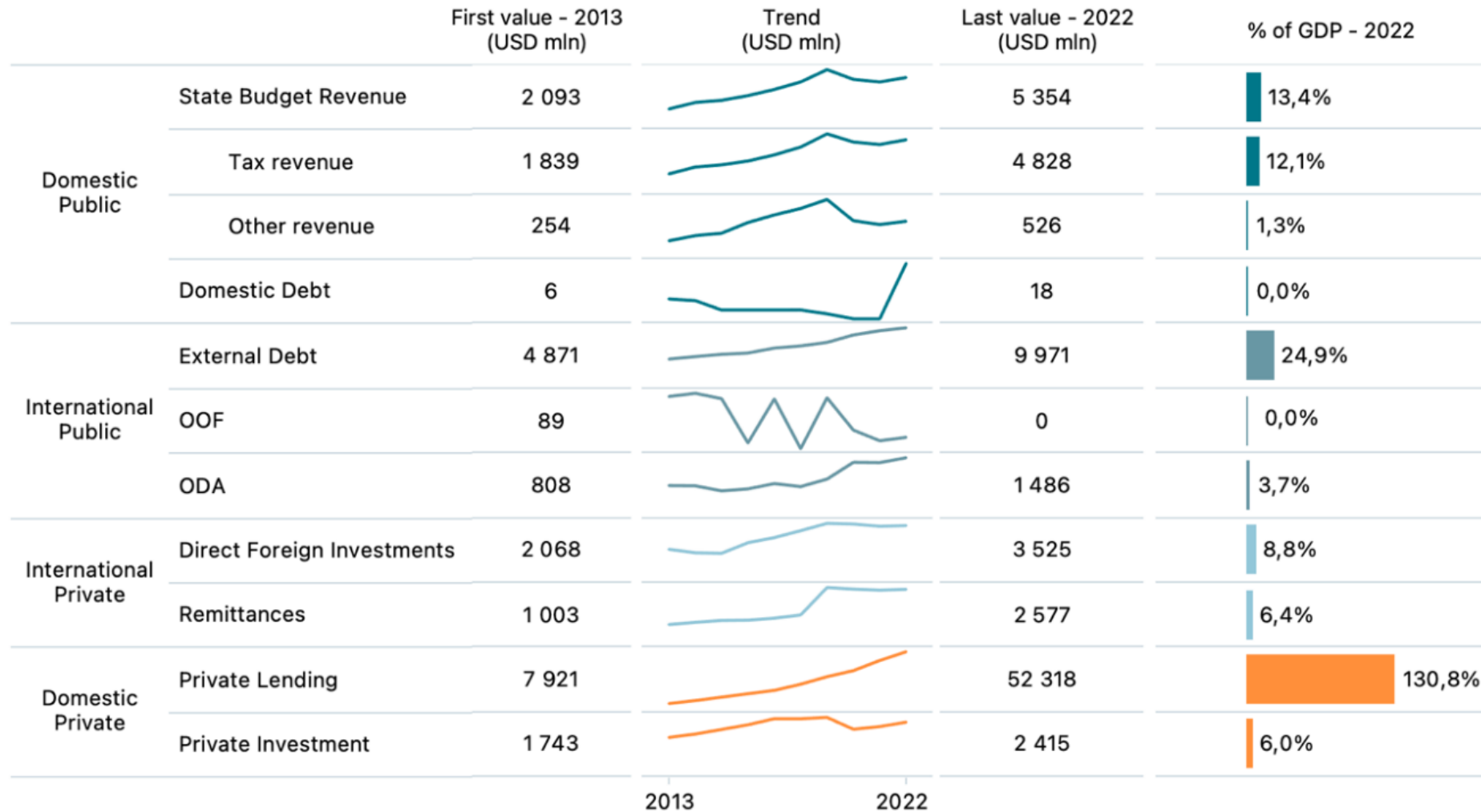


An integrated management of several financing sources is proposed









The situation and recent evolution of the assessed development finance variables



The guiding principles of the NFPF

<p>A strong private sector response</p> 	<ul style="list-style-type: none"> • Private sector expansion should double the expected growth rate by 2030 and quadruple it by 2050 • Removing major PSD Obstacles by 2030 (infrastructure, human capital, regulatory) is priority • Effective implementation of various disconnected policies with equal goals is needed • Attracting SDG, impact-oriented capital and investments will add value
<p>Lean, efficient and enabling state</p> 	<ul style="list-style-type: none"> • Improving quality of public finance is essential to manage future needs for quantity • Efficiency and results orientation of PF require major policy changes in government management • Use public finance to leverage additional private finance (Blended Financing) • Use public finance to leverage additional private investments (PPPDs, Infrastructure)
<p>Focus on human capital development</p> 	<ul style="list-style-type: none"> • Targeted planning of human capital development to match PSD opportunity areas (regions, sectors) • Targeted inclusion policies also needed to leave no one behind during the PSD expansion • Modernization of the social protection system is urgent and should target key priorities • Labour market development and protection mechanisms also priority
<p>Ensure sustainable and resilient growth</p> 	<ul style="list-style-type: none"> • New policies are needed to align the finance sector with green growth priorities • Government policy can create and extend new markets (Greentech, agriculture, water and energy) • Structural sector transformations will generate PSD opportunities and new jobs • Focus on green investments/finance priorities set by the Pentagonal Strategy

The overall perspective proposed by the NFPF

Public Finance

- Long term, strategic planning of PE
- Improve coherence and results orientation
- Prioritize Efficiency and Effectiveness
- Manage climate and environment finance

Public-Private Space

- Expand the private sector role in the economy
- An Integrated Financing Policy for Infrastructure
- Use blended finance to leverage private finance
- Develop PPPDs to leverage international impact investment

Private Sector Development

- Remove main obstacles for PSD over a decade
- Maximize investment possibilities of sectors prioritized by the PS
- Explore new, SDG-oriented investment sectors
- Align the expansion of private sector finance with national priorities (SDGs)
- Ensure inclusion of the PSD expansion

