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REPORT

Cambodia

**From Vision to Reality:
Priorities for Growth
and Better Jobs**

June 2026



COUNTRY **GROWTH&JOBS** REPORT

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The Country Growth and Jobs Report (CGJR / CEM3.0) is a core ASA that helps client countries design and implement a strategy to accelerate economic growth and creation of new and better jobs.

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Abbreviations and Acronyms

ADB	Asian Development Bank
ADR	Alternative Dispute Resolution
ASEAN	Association of Southeast Asian Nations
BAU	Business-as-Usual
BTI	Bertelsmann Transformation Index
CDRI	Cambodia Development Resource Institute
CEPII	Centre d'Études Prospectives et d'Informations Internationales
CGE	Computable General Equilibrium
CGJR	Country Growth and Jobs Report
CMT	Cut-Make-Trim
COVID-19	Coronavirus Disease 2019
CPI	Consumer Price Index
EU	European Union
ESCAP	United Nations Economic and Social Commission for Asia and the Pacific
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GFC	Global Financial Crisis
GNI	Gross National Income
GVC	Global Value Chain
HDI	Human Development Index
HIC	High-Income Country
ICT	Information and Communication Technology
ILO	International Labour Organization
IMF	International Monetary Fund
IQR	Interquartile Range
LDC	Least Developed Country
LIC	Low-Income Country
LMIC	Lower-Middle-Income Country
MBJ	More and Better Jobs
MIC	Middle-Income Country
MLVT	Ministry of Labour and Vocational Training
MoEYS	Ministry of Education, Youth and Sport
NPL	Non-Performing Loan
NTM	Non-Tariff Measure
OBRS	Online Business Registration System
OECD	Organisation for Economic Co-operation and Development
PTA	Preferential Trade Agreement
SCD	Systematic Country Diagnostic
SDG	Sustainable Development Goals
SDF	Skills Development Fund

SME	Small and Medium Enterprise
SSC	Sector Skills Council
STEM	Science, Technology, Engineering, and Mathematics
SPS	Sanitary and Phytosanitary
TBT	Technical Barriers to Trade
TFP	Total Factor Productivity
TVET	Technical and Vocational Education and Training
UIS	UNESCO Institute for Statistics
UMIC	Upper-Middle-Income Country
UNCTAD	United Nations Conference on Trade and Development
UNICEF	United Nations Children’s Fund
VAT	Value-Added Tax
WBES	World Bank Enterprise Surveys



Key Messages

Cambodia has transformed once; Vision 2050 sets the next ambition. Over the last quarter century, Cambodia sustained gross domestic product (GDP) growth of 7 percent per year, the sixth fastest globally, quadrupling incomes, more than halving poverty, and reaching lower-middle-income status. The Royal Government of Cambodia has now set a bold new national goal: high-income (HIC) status by 2050, which would require a further fivefold increase in per capita income. Achieving HIC status at this pace would place Cambodia among a rare group of nations and demands upgrading every system that powered the first transformation, at a pace and depth never attempted before.

A new productivity-led growth model is needed to achieve this vision. Cambodia's first transformation was powered by labor reallocation and capital accumulation, engines that delivered jobs at scale but not quality, and are now exhausted. Without deep reform, Cambodia could reach just half the HIC threshold by 2050. The challenge is not simply to sustain fast growth but to upgrade the entire growth model: from one built on cheap labor and basic manufacturing to one driven by productive firms, capable workers, and a state with the fiscal capacity to finance and sustain the transformation. Cambodia cannot become a HIC with the fiscal capacity of a LIC, and closing that gap is as foundational as any reform in the business environment or skills system.

The entry point: productive firms and competitive trade. Cambodia's business environment powered the first transformation, but it was built for basic assembly and must now be upgraded. Firms are held back from growing, investing, and moving up the value chain by high input costs, pervasive informal payments, and regulatory barriers, while widespread informality drags on productivity, places unfair competitive pressure on formal firms, and keeps much of the economy outside the tax net. Trade is the critical transmission channel through which firm productivity translates into growth and jobs, yet Cambodia's trade model remains concentrated in low-value assembly, with shallow linkages and rising external risks. The reform agenda is clear: ease firm entry and exit, lower input costs led by energy, curb informal payments, strengthen competition, and deepen trade integration through more strategic use of trade agreements and lower trade costs. Delivered together, these reforms let firms grow and upgrade, and turn trade into the channel through which rising productivity becomes growth and better jobs. A more competitive business environment with deeper trade integration is the entry point Vision 2050 demands.

The foundation: a skilled and adaptable workforce. Cambodia's first transformation brought millions into the workforce, but most jobs remain low-skill and low-wage, with firms and workers caught in a trap where neither has the incentive to invest in skills. Too few young people complete secondary school, too few can read at age ten, and the poorest rarely finish high school. The reform agenda is to raise foundational learning, expand secondary and tertiary completion, and strengthen technical training and upskilling for the existing workforce, while firms upgrade in ways that reward higher skills. This is where the largest gains lie: skills reforms are the single biggest source of the growth dividend and the surest route to jobs that are better paid and more productive. Breaking the low-skill equilibrium is the foundation on which Vision 2050 rests.

The Enabler: Fiscal Capacity to Finance the Transformation. Cambodia has kept public finances prudent, but its tax revenues fall well below what high-income economies collect, and as access to concessional financing fades with rising income, stronger domestic revenue becomes the only sustainable way to fund the transformation. The reform agenda is to broaden the tax base rather than raise rates, drawing more revenue from income, value-added, and property taxes, strengthening tax administration and compliance, and using Cambodia's low public debt as room to invest. Done well, this raises revenue while making the tax system fairer, and it finances the larger investments in skills, health, infrastructure, and social protection on which the firms and workforce agendas depend. Fiscal capacity is the enabler without which Vision 2050 cannot be financed or sustained.

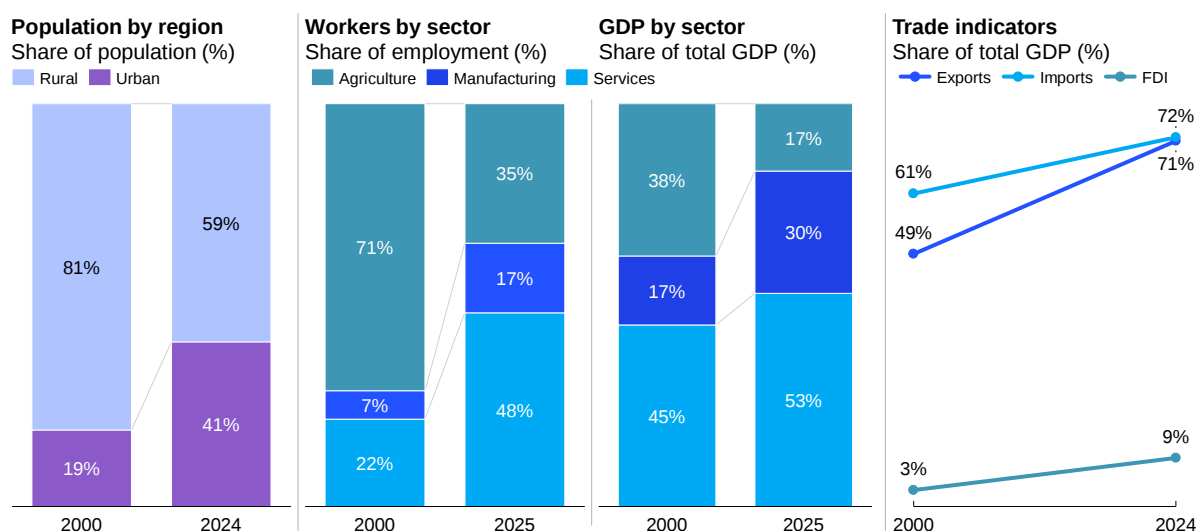
The choice is Cambodia's: ambitious reform can deliver Vision 2050. Modeling shows that only ambitious reform puts Cambodia on a trajectory to achieve Vision 2050, generating millions of better jobs and the growth needed to reach HIC status. Moderate reforms deliver progress but not enough. The gains are back-loaded, meaning all reforms must begin now, in parallel, at the depth Vision 2050 demands, since partial reforms risk locking Cambodia into a lower-growth trap. Yet the harder test is implementation: realizing this agenda will depend on sustained commitment, coordination across government, and cooperation from those the reforms affect, anchored in external commitments and in Cambodia's own long-term strategy. Cambodia's first transformation showed that bold ambition, matched by bold reform, delivers, and the choice to do it again is Cambodia's.

Overview

Cambodia Has Transformed Once, Vision 2050 Sets the Next Ambition

Cambodia's first transformation was one of the most remarkable development stories of the past generation. Over the last quarter century, Cambodia sustained gross domestic product (GDP) growth of 7 percent per year, the sixth fastest in the world, quadrupling incomes, more than halving poverty, and graduating to lower-middle-income country (LMIC) status. The rural population share declined from 81 percent in 2000 to 59 percent in 2024, agriculture's share of employment fell from 71 percent to 35 percent, and manufacturing and services expanded rapidly, with exports rising from 49 percent of GDP to 71 percent over the same period (Figure O.1). The national poverty rate fell by about half in the decade to 2019/20, Cambodia's Human Development Index (HDI) score rose by 38 percent between 2000 and 2023, and broad-based gains in life expectancy, education, and access to basic services reached households across the country.

Figure O.1: The first transformation led to profound structural shifts



Source: World Development Indicators (WDI, World Bank); and Long-Term Growth Model (LTGM) for Cambodia (World Bank).

Building on this foundation, the Royal Government of Cambodia has set a bold new national goal: to reach high-income country (HIC) status by 2050, inclusively, sustainably, and resiliently. This would require a further fivefold increase in per capita income, bringing gross national income (GNI) per capita from US\$2,550 today to above US\$13,935, and first graduating to upper-middle-income country (UMIC) status by around 2035. Framed around the centenary of Cambodia's independence, Vision 2050 is a commitment to prosperity, the elimination of poverty, a strong middle class, and substantially higher standards of health, education, and public services for all Cambodians.

Achieving HIC status within 25 years would place Cambodia among a rare group of nations and would demand frontier-level performance. Of the 142 middle-income countries (MICs) in the 1990s, only 24 percent reached HIC status, most benefiting from exceptional conditions such

as European Union (EU) integration or natural resource wealth (WorldBank 2024a). The Republic of Korea is among the few that made the leap without such advantages, and Vision 2050 demands precisely the same: not incremental improvement, but upgrading every system that powered the first transformation, at a pace and depth Cambodia has never attempted before.

Cambodia's Vision 2050 will not be delivered by the current growth model or business-as-usual policies. The Country Economic Memorandum (World Bank 2021) and the Systematic Country Diagnostic (SCD) Update (World Bank 2024b) identified structural vulnerabilities embedded in the growth model, including limited diversification, reliance on a narrow set of export products and markets, shallow domestic linkages, and limited productivity gains, vulnerabilities that the sharp COVID-19 contraction exposed with particular force. Six years after the pandemic shock, growth remains below its historical average, consistent with an economy exhausting earlier sources of rapid expansion.

Cambodia's next transformation will also unfold in a fundamentally more demanding structural context than the first. Least developed country (LDC) graduation in 2029 will reduce preferential trade access and accelerate the transition away from concessional financing, increasing reliance on domestic revenue mobilization and private investment. Demographic dividends will gradually diminish, placing greater pressure on productivity growth. Climate change, automation, digitalization, and geo-economic fragmentation are reshaping global value chains (GVCs) and labor markets, creating opportunities for leapfrogging but also threatening labor-intensive production models. The United States and the EU together account for around two-thirds of Cambodia's goods exports, a concentration risk that is rising, not falling.

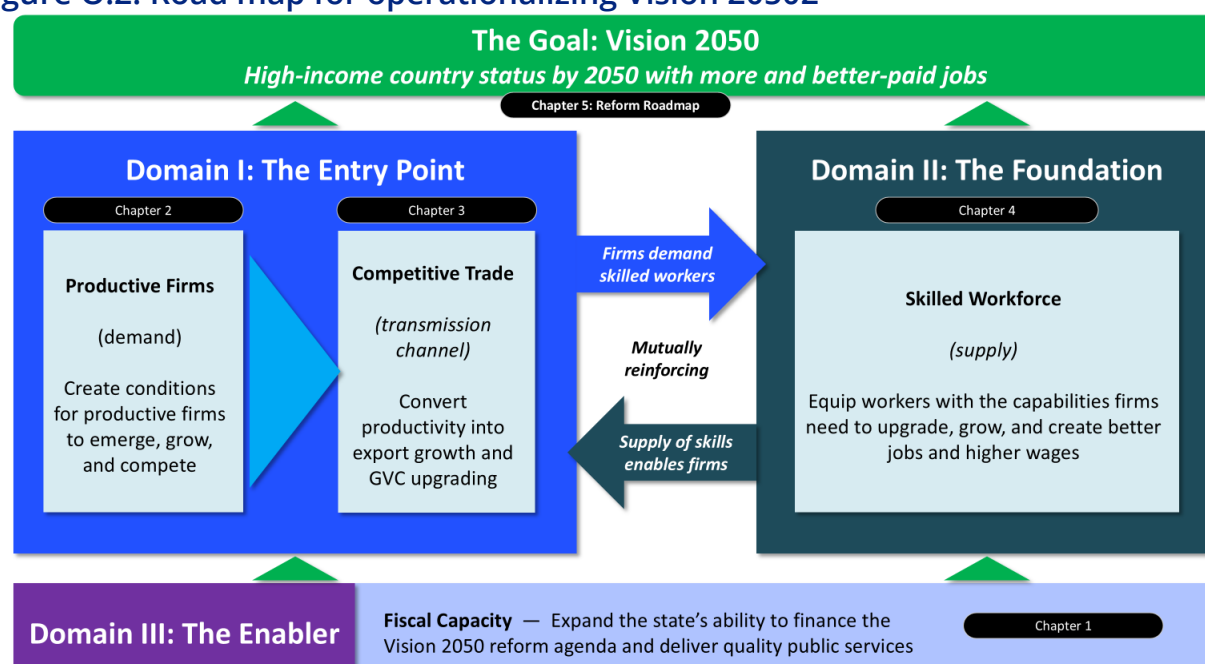
Taken together, these pressures make the case for reform across three mutually reinforcing domains and for starting immediately. Previous World Bank analysis points consistently to the same priorities. The 2017 SCD identified economic competitiveness and diversification, and the building of human assets, as core pathways to sustained, inclusive growth. Both rested on a cross-cutting need to strengthen public financial management. The 2024 SCD Update found these constraints still binding, with human capital becoming a more pressing constraint. Benchmarking underscores the scale of the challenge. Cambodia trails UMIC peers by around 10 percent in competitiveness and 22 percent in human capital, and lags HIC peers by 23 and 37 percent, respectively. The human capital gap alone costs Cambodian workers about 95 percent of their potential future earnings relative to best-in-class performers at similar income levels (World Bank 2026a). These are the constraints most central to growth and jobs, and they are mutually reinforcing: Vision 2050 requires rapid, sustained progress on all three, and no domain can wait for another to move first.

This Country Growth and Jobs Report identifies a focused set of reforms within these three domains to support Cambodia's pursuit of Vision 2050. Part of a new generation of jobs-focused diagnostics, it sets out where Cambodia's constraints bind and which reforms matter most for productivity and job quality. It is an independent World Bank assessment and is deliberately selective, concentrating on high-impact reforms rather than offering a comprehensive blueprint. To preserve focus and depth, the report did not go into detail on several other important areas,

including broader governance and institutional reform, a more sustainable growth pattern, agriculture and agro-industrial transformation, infrastructure, urbanization, and health system strengthening. Some are covered in other recent World Bank reports, such as sustainability in the Country Climate and Development Report (World Bank 2023b). Others, such as urbanization and the exchange-rate regime, could be the focus of future research. The strategy, the choices it involves, and their implementation rest with the Royal Government, through the Vision 2050 process and the next Pentagonal Strategy, which necessarily spans a broader agenda than any single diagnostic. The report is offered as a high-value input to that longer journey, not its endpoint.

Figure O.2 presents the integrated framework that organizes the report, showing how the three domains reinforce one another. They reflect the World Bank Group's jobs agenda, whose logic is one of demand and supply working together. A dynamic, private-sector-led economy generates demand for more and better-paid jobs, a skilled workforce supplies the capabilities those jobs require, and a capable, well-financed state enables both (World Bank 2026b). Domain I, The Entry Point, covers productive firms and competitive trade, analyzed in Chapters 2 and 3. Chapter 2 examines the business environment and firm-level constraints; Chapter 3 treats trade as the channel that converts firm productivity into export growth and deeper GVC integration. Domain II, The Foundation, covers the skilled, adaptable workforce analyzed in Chapter 4. Firms demand skilled workers, whose supply in turn enables firm upgrading, a virtuous cycle that must be deliberately activated. Domain III, The Enabler, provides the fiscal capacity that makes the other two possible. Chapter 1 diagnoses Cambodia's macroeconomic trajectory and fiscal constraints; Chapter 5 sets out the integrated reform road map, with modeled impact on growth and jobs. Together, these three domains form the core of the second transformation Cambodia needs.

Figure O.2: Road map for operationalizing Vision 2050²



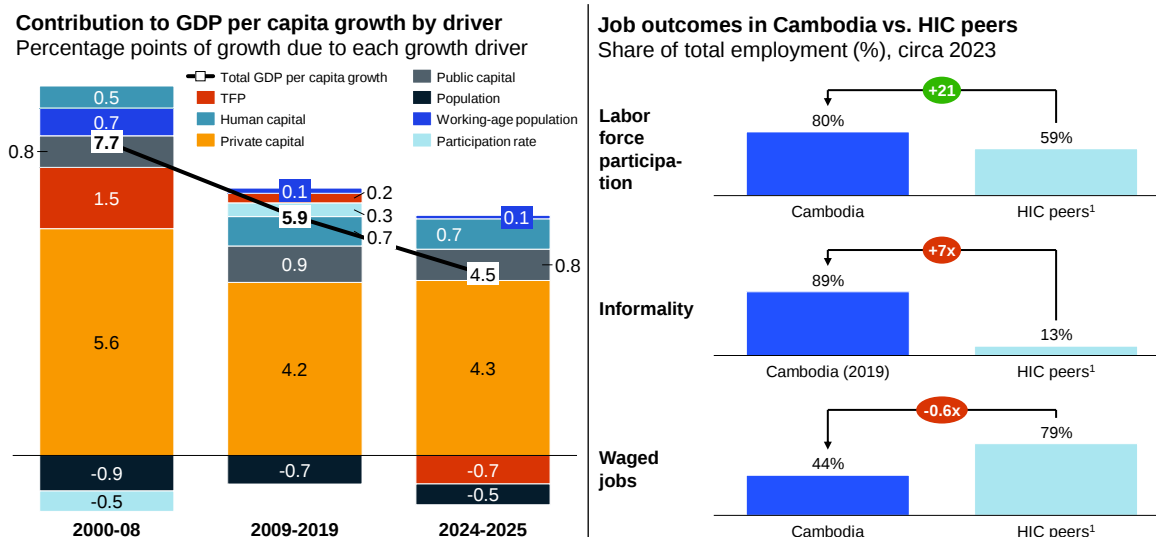
Source: World Bank.

A New Productivity-Led Growth and Jobs Model Is Needed

Cambodia's historical growth model is reaching its limits and cannot deliver Vision 2050.

Cambodia's first transformation was powered by labor reallocation and capital accumulation, engines increasingly exhausted. The slowdown predates COVID-19: per capita GDP growth declined from 7.7 percent in 2000–2008 to 5.9 percent in 2009–2019, and further to around 4.5 percent in 2024–2025 (Figure O.3). In a baseline scenario, growth declines to 3.3 percent by the 2040s and GNI per capita reaches only around US\$6,200 by 2050, less than halfway to the HIC threshold, leaving Cambodia short of Vision 2050 by approximately 25 years. Growth decomposition reveals the core problem: before 2008, strong total factor productivity (TFP) growth complemented capital accumulation to power broad-based expansion; after the Global Financial Crisis (GFC), TFP collapsed, leaving private capital as almost the sole driver, much of it flowing into real estate and generating diminishing returns. Human capital contributed only modestly, public investment is constrained by a small fiscal footprint, and demographic tailwinds have faded; structural transformation has slowed, with agriculture still employing 35 percent of workers, around four times the HIC share.

Figure O.3: Cambodia's growth and jobs model is reaching its natural limits



Source: Scenario modeling using LTGM-PC and LTGM-HC ILOSTAT (International Labour Organization [ILO]); and WDI (World Bank). Note: (1) HIC peers: Malaysia, Costa Rica, Bulgaria, Chile, Romania, Poland, and Hungary.

Moreover, while the growth model has delivered jobs at scale, it has not delivered high-quality jobs. Labor force participation stands at 80 percent (among the highest in the world), yet this masks a stark quality gap. Informality remains at 89 percent (nearly seven times the HIC peer rate), and wage employment stands at just 44 percent, around half the HIC rate. Formal job creation has been narrow and concentrated in manufacturing and construction, while most service sectors saw little change. Cambodia's historical growth model was extensive, built on adding inputs rather than using them efficiently, producing low labor productivity across all sectors.

The challenge is therefore not simply to sustain fast growth; it is to upgrade the entire model. Reaching HIC status by 2050 requires sustaining average GDP per capita growth of around 7 percent (roughly 3.5 percentage points above the baseline), powered by a decisive shift from capital accumulation to productivity-led growth. TFP is the central lever, capable of delivering over three-quarters of the incremental growth needed. Human capital reforms contribute meaningfully, but their effects take time to materialize, underscoring the need for education reforms to begin now. The three drivers are mutually reinforcing: stronger firms adopt better technologies; a more skilled workforce amplifies productivity gains; and better institutions improve investment efficiency.

Reigniting structural transformation, by moving firms, workers, and resources into higher-productivity, tradable activities, is equally core. Cambodia's workforce must shift significantly to converge toward HIC peers. Manufacturing can play a pivotal role given its tradability, scale economies, and productivity spillovers; a services-led pathway is also feasible and may be more desirable given global shifts and the risks of premature deindustrialization.

Building human capital as the foundation and strengthening fiscal capacity as the enabler are essential to productivity-led growth. Cambodia needs to lift human capital by over a third to match HIC peers, particularly in education and workforce skills. Vision 2050 also requires a larger and more effective state, one that can finance adequate education, health, social protection, and infrastructure. On the fiscal side, government expenditure at 18 percent of GDP is about half that of HIC peers, and tax revenues at 12 percent of GDP are a third lower. The primary pathway to closing this gap is stronger revenue mobilization, complemented by prudent borrowing. Cambodia's low public debt of 27 percent of GDP, less than half that of HIC peers, provides room to front-load critical investments. However, higher spending is insufficient; stronger governance and spending efficiency are equally essential.

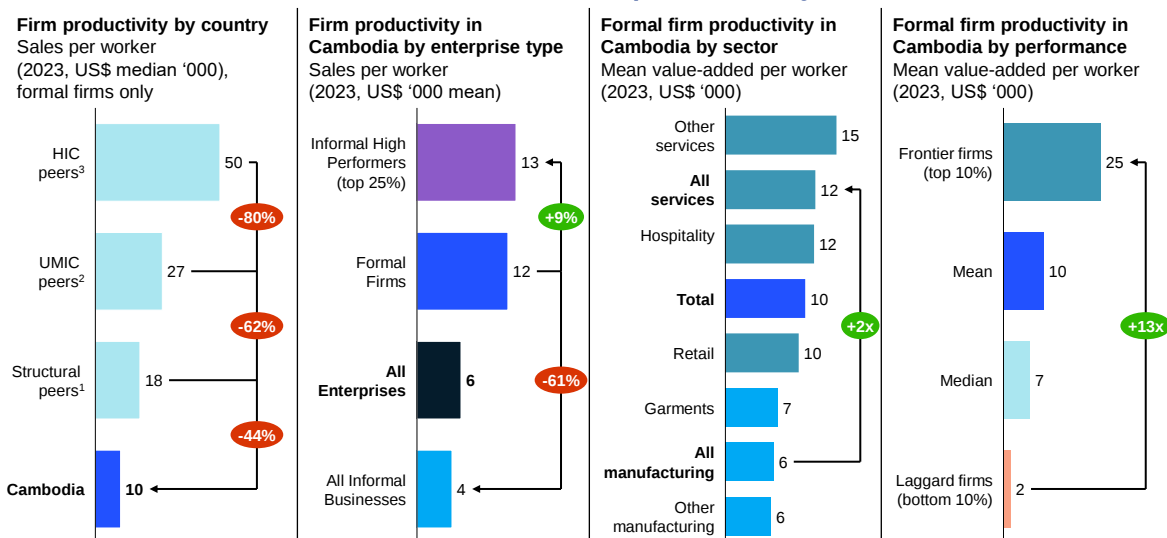
Delivering Vision 2050, therefore, requires an integrated strategy across three mutually reinforcing domains. As the entry point, productive firms must compete globally through a more enabling business environment and deeper trade integration. As the foundation, a skilled and adaptable workforce with the capabilities firms need to upgrade. As the enabler, a capable state with the fiscal resources is needed to finance the reform agenda. Only deep, ambitious implementation of all three domains, together and at pace, places Vision 2050 within reach.

The Entry Point: Productive Firms Able to Compete Globally

Cambodia's business environment powered the first transformation, but it was built for basic assembly and needs to be upgraded for the next one. Cambodian firms are not catching up: the average formal firm's labor productivity lags current structural peers by 44 percent and HIC peers by 80 percent (Figure O.4). Moreover, labor productivity varies significantly across firm types and sectors, consistent with deep resource misallocation, with capital and labor trapped in low-productivity activities. Cambodia's enterprise landscape is dominated by informal businesses, which account for 90 percent of enterprises, though informal high performers slightly outperform formal firms, helping explain why informal competition is a top concern among formal firms.

Pervasive informality is a structural drag on aggregate productivity: informal businesses are, on average, 61 percent less productive than formal firms, pulling down the economy's weighted-average productivity level by over half (World Bank 2025a). High-performing informal firms that avoid taxes and regulations also create unfair competitive pressure on formal firms, and by remaining outside the tax net, they narrow the revenue base that Cambodia needs to finance its Vision 2050 ambitions. Within formal firms, services are almost twice as productive as manufacturing firms, reflecting the fact that Cambodia's once-leading garment sector has stagnated beyond basic assembly. Frontier formal firms, which should be driving upgrading and innovation, are 13 times more productive than laggard firms domestically, yet frontier firms in structural peer countries are around six times more productive than Cambodia's. Formal firm entry is low, and exit is almost non-existent, and established firms are investing less over time, not more, with limited productivity improvements to show for it.

Figure O.4: Cambodia needs to increase firm productivity and address variation

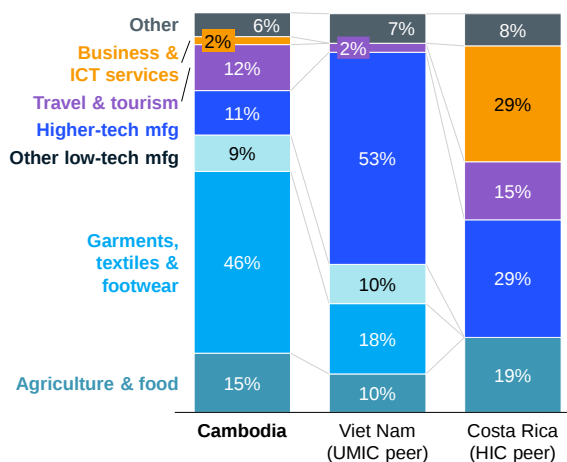


Source: B-READY Report (World Bank 2025b); Cambodia World Bank Enterprise Survey (WBES), 2023, and Cambodia Business Survey (2024), World Bank.

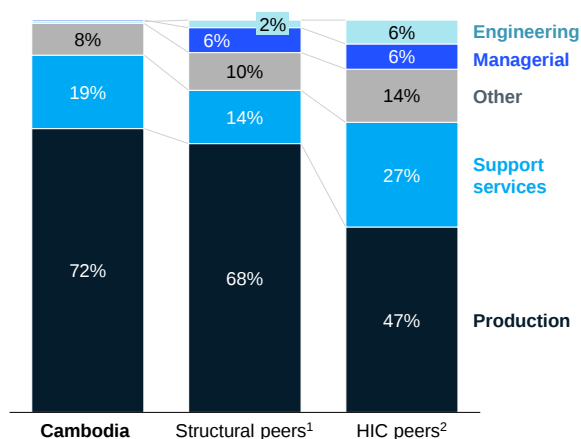
Cambodia's trade model tells the same story and must also transform to support Vision 2050. Trade was central to Cambodia's transformation, with export-linked jobs rising to nearly half of total employment. Yet the current model, centered on assembly-based manufacturing, a narrow export basket, and reliance on a small number of large GVC firms, generates limited domestic value and exposes the economy to rising external risks. Garments alone account for 46 percent of goods exports, and 72 percent of export jobs are in low-value production tasks, compared to just 47 percent in HIC peers. The development path is clear from peers that have moved faster: Viet Nam (a structural peer) has already shifted toward higher-technology manufacturing, offering a template for Cambodia's next decade; Costa Rica (a HIC peer) has diversified further into advanced business and information and communication technology (ICT) services, pointing toward where Cambodia needs to be by 2050 (Figure O.5). Services account for only about half the share of total exports seen in HIC peers, and LDC graduation in 2029 will further reduce preferential access.

Figure O.5: Cambodia needs to rapidly diversify and upgrade its trade

Composition of Cambodia's exports vs. selected peers
Share of total exports (%), circa 2023



Composition of jobs in exports by activity
Share of total export jobs (%), 2018



Source: WDI (World Bank); and World Bank staff calculation using WDI and UNCTAD. Notes: (1) Structural peers: Philippines, Viet Nam, Bangladesh, Guatemala, and Nicaragua; (2) UMIC peers: Philippines, Viet Nam, Jordan, El Salvador, Guatemala, Georgia, and Paraguay; (3) HIC peers: Bulgaria, Chile, Costa Rica, Hungary, Malaysia, Poland, and Romania.

Delivering this upgrade requires transforming the business environment that underlies both domestic productivity and international competitiveness. Cambodia ranks in the bottom third of countries globally, with particularly poor performance on firm entry and exit, dispute resolution, market competition, trade, and utilities. Firm registration costs and time burdens are among the highest in the region, commercial courts for insolvency and dispute resolution are barely operational, and electricity prices are around double those in Viet Nam. Informal payments are reported by 45 percent of formal firms (more than twice the structural peer rate). On the trade side, agreements are shallow and underutilized, with only 27 percent of exports going to preferential trade agreement partners, logistics costs are among the highest in the region; and investment policy has prioritized scale over spillovers. Together, these constraints have steered investment toward low-value activities, kept firms small, informal, and unproductive, and left Cambodia's trade model reliant on assembly rather than upgrading.

As the entry point of Cambodia's second transformation are competitive, high-productivity firms, deeply integrated into GVCs, generating better jobs and higher domestic value. Entry and exit would be fluid and low cost, investment in technology and skills by established firms would be supported by reliable inputs and a predictable regulatory environment, and competition would be free and fair, with Cambodia's business environment converging rapidly toward HIC standards by 2050. The export basket would diversify away from garments toward advanced manufacturing, agribusiness, digital and business services, and green exports, with a wider base of internationally competitive firms, stronger domestic supplier linkages, and a much larger share of domestic value added. Together, these shifts would transform trade from a source of low-value assembly into a powerful engine of productivity-led growth and better jobs. Seven priorities spanning the business environment and trade can help deliver this:

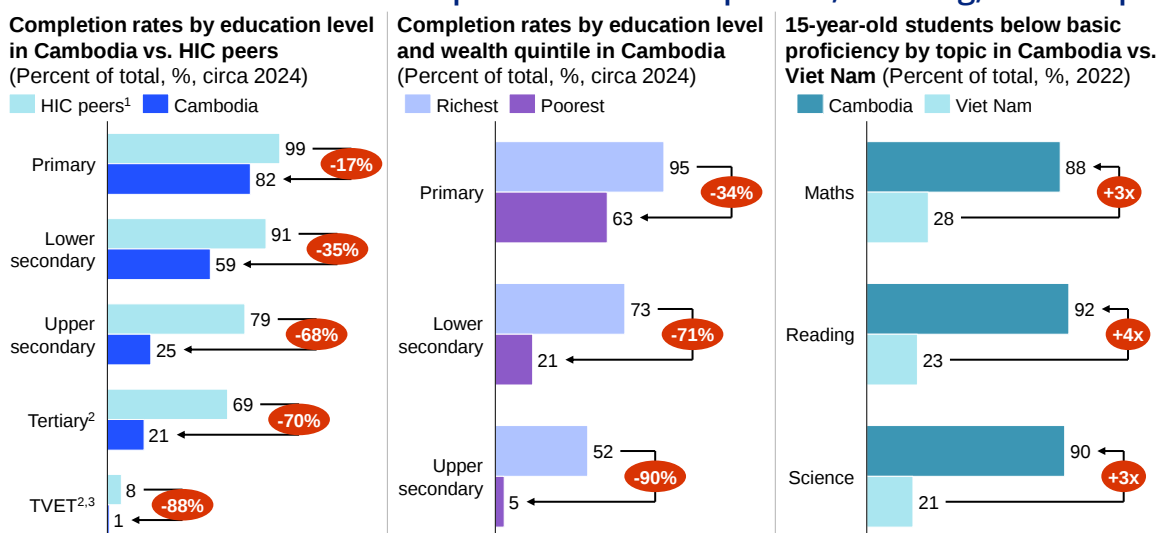
- **Business environment:** Lower firm registration costs and barriers; strengthen insolvency and restructuring institutions; reduce key input costs; and reduce bureaucratic costs and risks by reforming tax administration and tackling informal payments.

- **Trade environment:** Leverage trade agreements more strategically and reduce trade costs and frictions; expand services and digital trade; and strengthen domestic linkages to GVCs through supplier development and high-spillover investment attraction.

The Foundation: A Skilled and Adaptable Workforce

Cambodia's first transformation brought millions into the workforce and drove poverty reduction, but most of those jobs are low skill and low wage. The second transformation requires upgrading them. High-skilled occupations account for just 8 percent of employment (around a quarter of that in HIC peers), reflecting a self-reinforcing equilibrium in which low education and skills, low-quality jobs, and limited firm demand for upgrading mutually reinforce each other. For the existing workforce, the challenge is immediate: nearly half of Cambodian workers are under age 35 and will remain in the labor force for decades, yet only 17 percent have completed secondary education (less than a quarter of the HIC peer rate), and on-the-job training reaches only a fraction, with roughly 90,000 workers trained through employer-led mechanisms over the past seven years. For the future workforce, most who will be active in 2050 are currently in school or have yet to enter the labor market, making the schooling pipeline critical. That pipeline faces three interconnected challenges (Figure O.6). First, too few students progress: The gap to HIC peers widens at every level, with primary completion already 17 percent below HIC peers, growing to 68 percent lower at upper-secondary, 70 percent at tertiary, and 88 percent for technical and vocational education and training (TVET). Second, inequality widens sharply: The poorest students are 34 percent less likely to complete primary than the richest, rising to 90 percent by upper-secondary. Third, quality is severely lacking: Around 71 percent of 10-year-olds cannot read a simple text, and 15-year-olds perform below basic proficiency in core subjects at three to four times the rate of students in Viet Nam.

Figure O.6: Cambodia needs to improve school completion, learning, and inequality



Source: UNESCO Institute for Statistics (UIS); United Nations Children's Fund (UNICEF 2024); and Programme for International Student Assessment Note: (1) HIC peers: Malaysia, Costa Rica, Bulgaria, Chile, Romania, Poland, and Hungary; (2) Gross Enrollment Rate instead of completion rate; (3) Structural peers used instead of HIC peers for this panel, due to data availability; structural peers comprise: Bangladesh, Philippines, Viet Nam, Guatemala, Nicaragua, and Thailand.

Delivering this transformation requires strengthening investment, coordination, and accountability, areas where Cambodia's skills ecosystem has not kept pace. Public spending on education, training, and skills at 2 percent of GDP (far below the 4–6 percent best-practice benchmark) limits resources across the entire system. For the existing workforce, retraining is unaffordable for most: foregone income, limited enterprise financing, and no income support create a dual disincentive where workers cannot afford to retrain and firms underinvest due to concerns about mobility and uncertain returns. Where coordinated employer-led models exist, they work: Cambodia's Skills Development Fund (SDF) shows that over 75 percent of trainees move into linked jobs and nearly 90 percent of firms report productivity gains, but reach remains a fraction of what is needed. For the future workforce, although public schooling is nominally free, households finance around 50 percent of spending in public schools, prohibitive for the poorest. Rising opportunity costs drive dropout, double shifts compress learning hours, and rural infrastructure gaps discourage continuation.

The goal is a capability-driven workforce that complements dynamic firms, where skills and firm upgrading reinforce each other in a virtuous cycle. Around 1.8 million additional workers would need to move into high-skilled occupations by 2050. Workers would enter the labor market with strong foundational, technical, and socio-emotional skills; firms would adopt new technologies and compete in higher-value activities; and workers would upgrade skills throughout their careers. This shift will not occur automatically; deliberate, sustained policy action is needed to activate the transition. Achieving this goal requires reforms across two priority areas:

- **Upskill the existing workforce at scale** by strengthening the quality and relevance of TVET through deeper industry engagement, including stronger teachers and cross-cutting skills; scaling demand-driven, employer-led training, and building coherent lifelong learning pathways with funding tied to job outcomes.
- **Prepare the future workforce** by strengthening teacher quality through structured pedagogy, teacher training, and in-school coaching; scaling remedial tutoring and Targeted Instruction programs to improve foundational learning; increasing equitable access to early childhood education (ECE) to improve school readiness; and expanding high-quality tertiary education and TVET aligned with labor market demand and to build advanced skills and innovation capacity.

The choice is Cambodia's: ambitious reform can deliver Vision 2050

Only deep and ambitious reform will get Cambodia close to Vision 2050. Two scenarios were modeled to help illustrate the potential impact of reform, both pursuing the same reform priorities outlined in the preceding sections, but differing fundamentally in depth, speed, and comprehensiveness. Under the moderate scenario, aggregate average GDP growth rises to 5.1 percent, generating 3.3 million more and better jobs (MBJs) by 2050, equivalent to about a third of baseline employment. Progress, but not enough: Cambodia does not reach HIC status. The ambitious scenario lifts aggregate GDP growth to 5.7 percent and generates 6.2 million MBJs, equivalent to well over half of baseline employment, getting Cambodia substantially closer to the Vision 2050 trajectory, though fully closing the gap to the aggregate 7.7 percent GDP growth needed will require sustaining and widening reforms beyond those modeled here. Virtually all MBJ gains reflect better jobs, not more jobs, with wages and productivity rising roughly two and a half

times higher under the ambitious scenario than the moderate one, driving the income convergence needed to reach the HIC threshold. The dividend builds steadily and accelerates in the final decade, meaning all reforms must begin now, in parallel, at the depth and pace Vision 2050 demands. Partial reforms risk locking Cambodia into a lower-growth trap from which escape becomes progressively harder.

Realizing Vision 2050 will depend less on identifying the right reforms than on carrying them through. International experience consistently shows that, for countries at Cambodia's stage, the binding constraint is implementation rather than knowledge of what to do (World Bank 2017b). This agenda will test the machinery of government: it cuts across many ministries, depends on institutions that are still maturing, and asks today's leaders to accept near-term costs and resistance from interests that stand to lose, for gains that accrue over a generation. Success will therefore turn on sustaining commitment as circumstances change, coordinating across government, and earning the cooperation of those the reforms affect. The countries that made this transition, Korea and Poland among them, did so not because reform was easy but because they anchored it, through external commitments and their own long-term strategies, and held the course across political and economic cycles. Cambodia can do the same, embedding this agenda in the next phase of its Pentagonal Strategy and building the coalitions of firms, workers, and officials who stand to gain. The reforms are within reach; the task now is to organize for delivery, and this report aims to support those working to do so.

Cambodia has upgraded before, and Vision 2050 demands exactly that again, at a greater scale and speed. The first transformation showed that bold ambition, matched by bold reform, delivers. The business environment that powered basic assembly must now be upgraded to support complex, high-value competition. The workforce that drove poverty reduction must now be upgraded to power a high-income economy. The state that maintained stability must now finance a far more sophisticated economy. These are not separate tasks; they are mutually reinforcing parts of a single integrated strategy, and they must advance together. Cambodia has transformed before, against the odds and within a generation. The choice is Cambodia's.



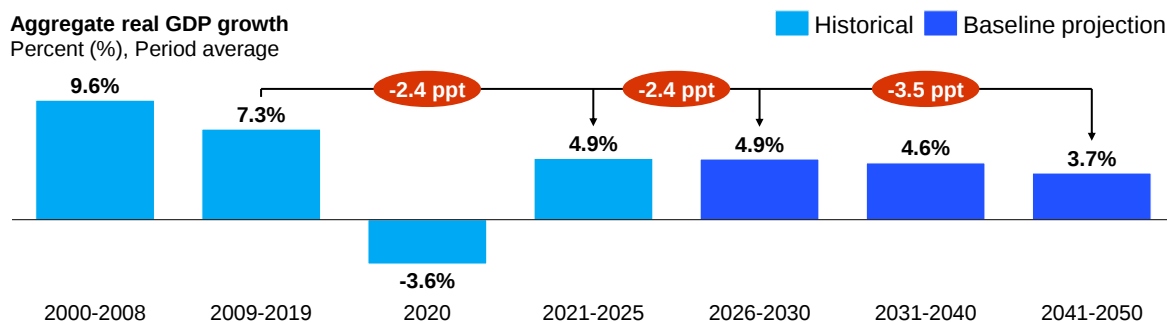
Chapter 1: Macroeconomic Features of Growth and Jobs

This chapter examines Cambodia's macroeconomic performance, focusing on growth, job creation, and fiscal dynamics, and contrasts recent trends with the country's ambition to reach high-income status by 2050. It shows that achieving Vision 2050 will require a fundamental shift in Cambodia's growth model. Under a baseline scenario, aggregate GDP growth is projected to average just 4.3 percent per year through 2050, far short of the roughly 7.7 percent growth required to reach high-income status. Closing this gap requires a shift to productivity-led growth supported by renewed structural transformation, accelerating the movement of workers out of low-productivity agriculture into higher-value manufacturing and tradable services, and creating better-quality jobs so that faster growth translates into durable welfare gains. Critically, Cambodia cannot achieve a high-income status with the fiscal capacity of a low-income country (LIC). Government revenues, at just over 12 percent of GDP, are well below those of high-income economies, and closing this gap is as foundational as any reform in the business environment or skills system. Cambodia's low public debt provides room for investment, but lasting gains will depend on stronger revenue mobilization, better spending allocation, and improvements in institutional effectiveness. Together, these shifts define the macroeconomic and fiscal foundation on which the firm, trade, and skills transformations analyzed in subsequent chapters must be built.

1.1. Resetting Growth for Vision 2050

After two remarkable decades, Cambodia's economic growth performance has moderated, especially since the COVID-19 pandemic. After decades of aggregate GDP growth averaging above 7 percent per year, Cambodia's economy contracted by 3.6 percent in 2020, due to the COVID-19 pandemic (Figure 1.1). This was the first economic contraction in 25 years and one of the worst in East Asia (World Bank 2024b). While growth recovered to an average of 4.9 percent between 2021 and 2025, this remains 2.4 percentage points, or about one-third, below the immediate pre-pandemic (2009–2019) average of 7.3 percent. Moreover, the post-COVID recovery has since stalled, with growth easing from 6.0 percent in 2024 to 5.3 percent in 2025, driven by a property market downturn, the Cambodian-Thai border conflict, and rising trade restrictions (World Bank 2026c). Growth is projected to decline further to 3.9 percent in 2026 before slowly recovering, and downside risks remain substantial (World Bank 2026c). On the domestic front, mounting labor market pressures arising from the border conflict, which has disrupted labor markets and remittances, and rising non-performing loans in the real estate sector could further undermine economic activity. In addition, the possibility of a renewed border conflict poses further risks. Externally, a prolonged Middle East conflict could keep energy prices elevated, raising food, transport, and logistics costs and eroding household purchasing power; heightened global trade-policy uncertainty, particularly around United States tariffs in Cambodia's largest export market, could weigh on export demand; and a slower-than-expected recovery in China, an important source of FDI and tourism, would add further pressure.

Figure 1.1: Cambodia's remarkable growth performance has moderated



Source: World Economic Outlook (WEO) Database (IMF, October 2025); World Bank (2026c); and LTGM-PC and LTGM-HC, World Bank.

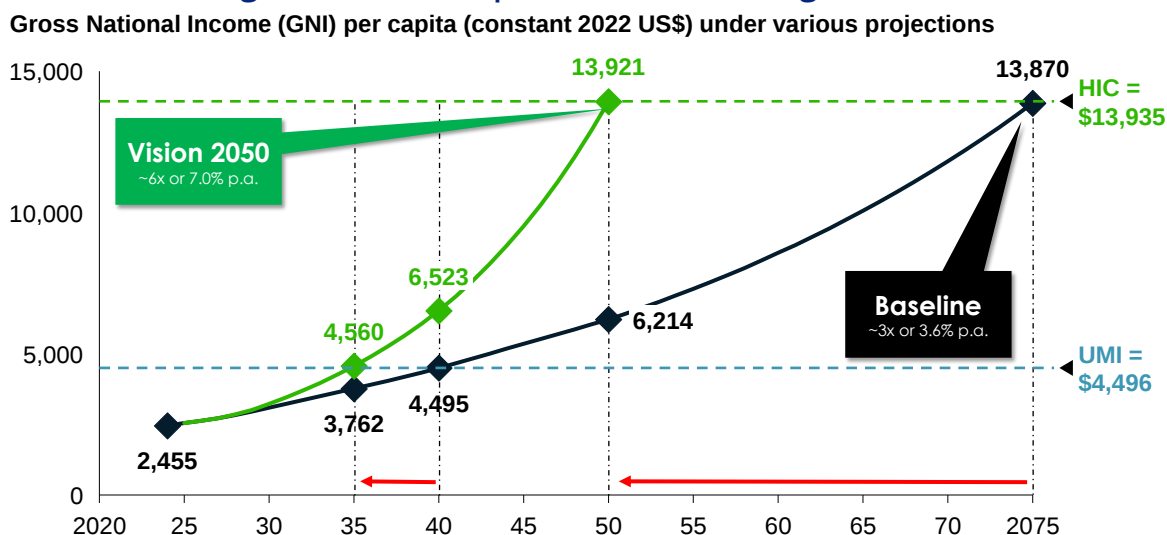
These external pressures are compounded by a structural feature of Cambodia's macroeconomic framework that limits its capacity to absorb shocks. The riel has operated as a de facto crawl-like peg to the USD at around KHR 4,000 since 1998, with the National Bank of Cambodia (NBC) maintaining tight control rather than allowing market forces to determine the rate (IMF 2024). This arrangement has delivered price stability (as demonstrated through Cambodia's low 3.1 percent average inflation between 2020 and 2024 compared to 6.6 percent among structural peers, see Annex Chapter 1 Table A1.1) and reduced macro uncertainty but at a meaningful cost. Monetarily, the NBC cannot deploy rate adjustments or countercyclical policy in response to shocks, instead needing to hold large reserves, currently covering around 7.5 months of imports (World Bank 2025a), well above the IMF's standard adequacy threshold of three months (IMF 2024). Competitively, the peg removes a key adjustment mechanism when external costs spike. Following the United States' reciprocal tariff of 49 percent in 2025, Cambodia had no capacity to partially offset the shock through depreciation, and the burden fell disproportionately on workers in price-sensitive export sectors (World Bank 2025f). When LDC graduation in 2029 removes preferential access for roughly a third of Cambodia's exports, the combination of a rigid exchange rate and rising competitive pressure from peers such as Viet Nam, which has used exchange rate flexibility to retain competitiveness, will compound the adjustment challenge.

Under a baseline growth scenario, growth moderates further over the coming decades, and Cambodia falls far short of reaching its high-income target by 2050. In a long-term baseline growth scenario (Figure 1.1 and Table 1.1), potential aggregate GDP growth never returns to its pre-pandemic peak but gradually slows to an average of 4.6 percent during the 2030s and to 3.7 percent during the 2040s (falling to 3.3 percent per year by 2050, and averaging 4.3 percent across 2026–2050). Under this scenario, GNI per capita grows at 3.6 percent, on average, and would reach around US\$6,200 by 2050, less than halfway to the US\$13,935 high-income threshold. The combination of recent growth dynamics and these long-term projections raises the real possibility that Cambodia's growth, while remaining robust by global standards, may be permanently shifting down a gear, making the achievement of Vision 2050 significantly harder. Avoiding this outcome requires bold policy action and renewed reform; business as usual will not be enough.

Business as usual will not be enough; reaching Vision 2050 requires accelerating growth far above the baseline path. Achieving HIC status by 2050 would require Cambodia to sustain roughly 7.7 percent aggregate GDP growth and 7.0 percent in per capita terms on average over the next 25 years (at the 95th percentile of MICs), about 80 percent faster than the average rates

projected in the baseline scenario (Figure 1.2). Hence, Cambodia's stretch goal entails bringing forward its graduation to UMIC status by approximately 5 years (to around 2035) and its graduation to HIC status by approximately 25 years (to around 2050). Very few countries have been able to make this much progress in so little time. Doing so would require matching the world-leading performance of countries such as Korea and Poland, which took an average of about 25 years to reach HIC status from Cambodia's current level of development. Chapter 5 returns to this baseline trajectory to model reform scenarios and assess the extent to which priority reforms can close the distance to Vision 2050.

Figure 1.2: Achieving Vision 2050 requires sustained 7% growth



Source: Scenario modeling using LTGM-PC and LTGM-HC for Cambodia, World Bank.

Table 1.1: Possible long-term growth pathways

Key outcome/input(average, 2026–2050)	Baseline scenario	Vision scenario
Aggregate GDP growth	4.3%	7.7%
GDP per capita growth	3.6%	7.0%
Productivity - TFP growth	0.6%	2.4%
Human Capital Index growth	0.9%	1.4%
Investment (percentage of GDP)	30.7%	34.4%

1.2. Shifting to Productivity-Led Growth

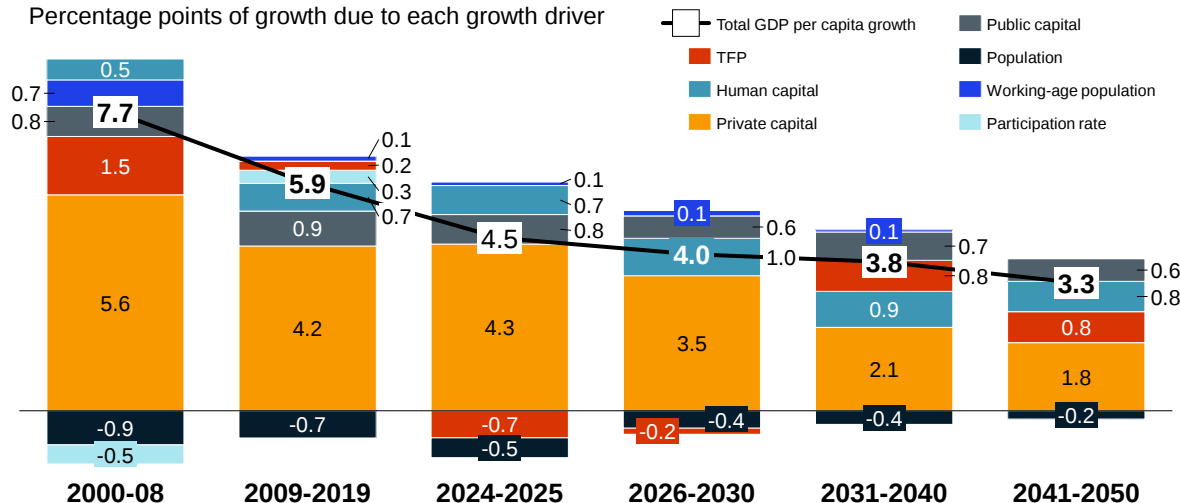
Cambodia's growth moderation reflects the natural limits of a model increasingly reliant on capital and labor accumulation. The slowdown began before COVID-19, with per capita GDP growth declining from 7.7 percent in 2000–2008 to 5.9 percent in 2009–2019, and further to around 4.5 percent in 2024–2025 (Figure 1.3). Growth decomposition points to a structural shift around the GFC, when Cambodia moved from broad-based growth toward a predominantly capital-driven

model. While strong productivity gains complemented investment before 2008, TFP growth weakened sharply thereafter, even as investment rose from around 25 percent of GDP in the 2000s to a peak of 35 percent in 2022. Much of this investment was concentrated in real estate construction, a relatively low-productivity sector, leading to diminishing returns and contributing to slower growth. High public investment has also been undermined by weaknesses in efficiency and governance. At the same time, demographic tailwinds have faded: rising labor force participation partly offset a slowing working-age population in the 2010s, but participation rates are now high by regional standards, leaving limited scope for further gains.

Figure 1.3: Growth is slowing as the economic model approaches its natural limits

Contribution of each driver to GDP per capita growth in baseline growth scenario for Cambodia

Percentage points of growth due to each growth driver



Source: Scenario modeling using LTGM-PC and LTGM-HC for Cambodia, World Bank.

Reforms to raise productivity, supported by improvements in human capital and public sector effectiveness, are essential to achieving Vision 2050. Modeling the scale of change needed to close the gap between the baseline projection and Vision 2050 yields a clear message: factor accumulation alone cannot deliver high-income status. Sustained acceleration in TFP is indispensable, while further increases in investment yield only limited returns given the high capital intensity. Improvements in education yield significant growth dividends, but they build over time, and the largest effects only become visible as better-educated cohorts enter the labor force in the 2040s. Only a comprehensive transformation, featuring productivity gains comparable to those achieved by Korea during its rapid development, can place Cambodia on a credible path to high-income status, with TFP accounting for over three-quarters of the additional growth required. The central conclusion is clear: achieving Vision 2050 requires a decisive shift toward productivity-led, reform-driven growth.

Raising productivity at the scale required to avoid the middle-income trap will depend on faster diffusion of technology and stronger local innovation over time. International evidence suggests that LMICs such as Cambodia initially raise productivity by adopting existing technologies and business practices, while economies transitioning toward UMIC status must increasingly shift toward innovation and frontier upgrading. Thereafter, once the easier gains from cheap labor and capital accumulation fade and the shift to innovation-led growth proves difficult, fast-growing economies tend to stall. This is the middle-income trap. Unlike many economies that escaped it,

Cambodia does not benefit from exceptional external anchors (for example, EU integration) or natural resource windfalls, making productivity-enhancing reforms particularly critical. Strengthening firm capabilities, technology adoption, and innovation is therefore central to sustaining productivity-led growth and is explored in greater depth in Chapter 2.

1.3. Reigniting Structural Transformation

Cambodia's growth moderation reflects both a stalling of structural transformation and weakening within-sector productivity growth. Between 2000 and 2019, aggregate expansion was driven largely by labor reallocation from low-productivity agriculture to higher-productivity manufacturing and services (Figure 1.4, Panel A). This structural shift accounted for around two-thirds of aggregate productivity gains, implying that GDP in 2019 would have been roughly 30 percent lower in its absence. Productivity improvements within sectors provided much of the remainder, so the first transformation rested on both reallocation across sectors and gains within them. However, most of these gains were realized early, with agriculture's share of employment declining rapidly between 2000 and 2014 before the pace of reallocation slowed markedly. By 2025, agriculture still employs 35 percent of workers, high relative to structural peers (31 percent), UMICs (19 percent), and HICs (8 percent). At the same time, within-sector TFP growth weakened across all sectors after the GFC, with manufacturing and services experiencing near stagnation as earlier gains were offset by subsequent declines. Together, slowing labor reallocation and weak within-sector productivity have reduced aggregate TFP growth and left Cambodia with value added per worker far below structural, UMIC, and HIC comparators (Figure 1.4, Panel B).

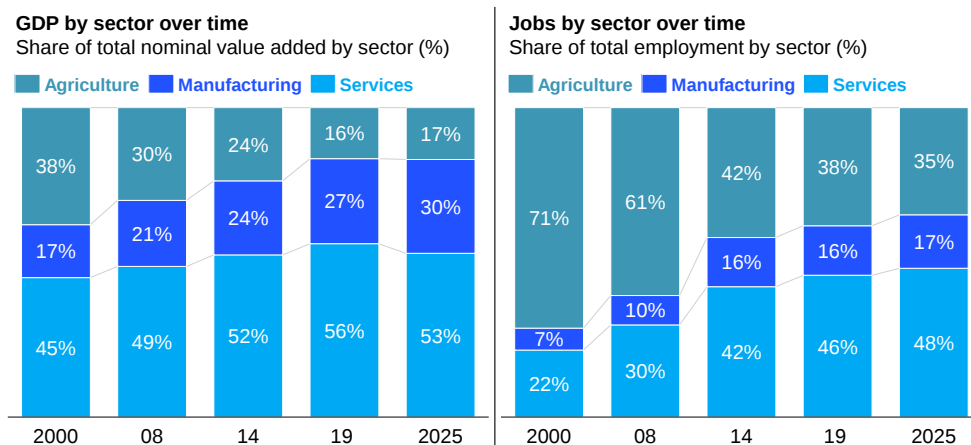
Stalling urbanization reinforces this picture: Cambodia's urban share remains among the lowest in Southeast Asia and, after rapid progress through 2019, has effectively flatlined, depriving the economy of the agglomeration effects that historically accelerate productivity convergence. Cambodia's urbanization rate stood at 41 percent in 2024, well below the averages for structural peers (48 percent), aspirational UMIC peers (66 percent), and HIC peers (72 percent). After rising by nearly 19 percentage points between 2010 and 2019, the urban population share has barely moved since. The spatial concentration of firms, workers, and infrastructure accompanying sustained urbanization generates effects that have historically accelerated productivity growth, yet Cambodia has not fully activated them. Policies that actively support rural-urban migration and urban densification represent an important complement to the structural reforms discussed in subsequent chapters, and urban development is identified as a priority area for future analytical work beyond the scope of this report.

Under the baseline scenario, these sectoral dynamics persist and structural transformation continues to slow. Agricultural employment declines only marginally, from 35 percent in 2025 to around 30 percent by 2050, while manufacturing and services both gain some ground. As a result, structural change contributes minimally to aggregate productivity growth, with aggregate TFP averaging just 0.9 percent per year, well below the pace required for convergence to HIC income levels. Continued misallocation of labor and capital across sectors further dampens productivity gains, reinforcing a growth path characterized by weak sectoral upgrading and declining momentum.

Reigniting structural transformation, particularly by accelerating the reallocation of labor from manufacturing, is central to achieving Vision 2050. Modeling shows that manufacturing can play a pivotal role in returning aggregate growth to the roughly 7.7 percent that Vision 2050 requires, given its tradability, scale economies, and strong productivity spillovers through learning, technology diffusion, and upstream input linkages. Under simulations that reduce the distortions hindering labor and capital reallocation and raise manufacturing and services TFP, agricultural employment falls toward 16 percent by 2050 while manufacturing employment rises toward around 30 percent. This mirrors the experience of successful East Asian economies and turns structural change into a sustained source of productivity growth. Under this pathway, aggregate TFP growth rises to around 2.2 percent per year, sufficient to meet the Vision 2050 target, with manufacturing productivity converging toward high-income levels and significant catch-up in agriculture and services. Achieving this outcome requires manufacturing to move into higher-value-added activities beyond basic assembly, a theme explored further in Chapters 2 and 3.

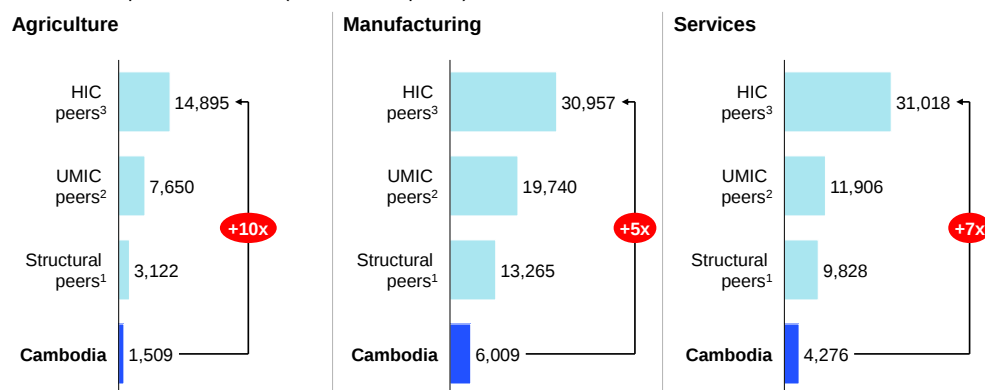
Figure 1.4: Structural transformation has stalled, resulting in low labor productivity

Panel A



Panel B

Labor productivity in Cambodia vs. Peers by sector
Value added per worker, 2023 (USD in 2015 prices)



Source: Scenario modeling using LTGM for Cambodia, World Bank. Note: (1) Structural peers: Bangladesh, Philippines, Viet Nam, Guatemala, Nicaragua, and Thailand; (2) UMIC peers: Philippines, Viet Nam, Jordan, El Salvador, Guatemala, Georgia, and Paraguay; (3) HIC peers: Malaysia, Costa Rica, Bulgaria, Chile, Romania, Poland, and Hungary; (4) Sectors based on ISIC Rev.3, Agriculture corresponds to sections A–B (agriculture and fishing); Manufacturing corresponds to sections C–D, including mining, quarrying, and oil; and Services correspond to sections E–Q, including electricity, gas and water, as well as construction.

1.4. Creating Better Jobs for the Future

Cambodia's growth model has delivered high employment, but predominantly in insecure and informal jobs; achieving Vision 2050 requires a decisive shift toward higher-quality jobs.

Cambodia exhibits a stark contrast between employment quantity and job quality (Figure 1.5). Labor force participation is very high, around 80 percent overall and 74 percent for women, and unemployment is exceptionally low at 0.2 percent, outperforming structural, UMIC, and HIC peers. However, this strong headline performance masks pervasive job quality challenges. Informality remains extremely high, at 89 percent in 2019, well above structural peers (75 percent) and far higher than HIC peers (13 percent), despite some improvement since 2012. Self-employment, predominantly in low-productivity microbusinesses, is also widespread, accounting for 56 percent of total employment in 2023, compared with 46 percent among structural peers and just 21 percent in HIC peers.

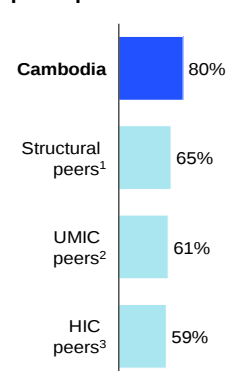
Informality remains high, in part because economic growth has not consistently translated into the creation of formal wage jobs. Cambodia has a much lower share of wage employment than its peers: only about 44 percent of workers are in wage jobs, compared with 54 percent in structural peers, 65 percent in UMIC peers, and over 79 percent in HIC peers (Figure 1.5). The link between economic growth and wage job creation has been weak, with wage job growth lagging even during periods of robust economic expansion. Most formal job creation between 2012 and 2019 occurred in manufacturing (dominated by garments) and construction, while most service subsectors saw little change in formal employment. Without greater diversification within manufacturing and the emergence of more job-rich services, Cambodia risks sustaining a labor market dominated by informality and self-employment, even under strong growth.

Figure 1.5: Cambodia needs to shift to higher-quality jobs

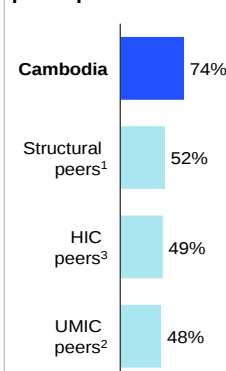
Employment outcomes in Cambodia vs. Peers

Share of total employment (%), circa 2023

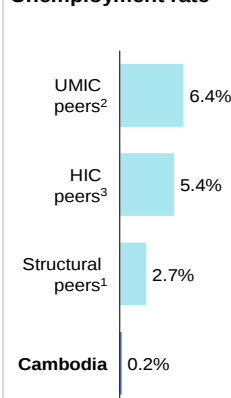
Labor force participation



Female labor force participation



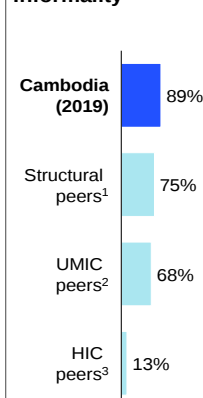
Unemployment rate



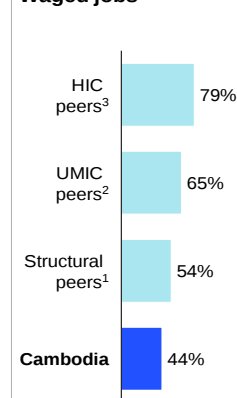
Job quality in Cambodia vs. Peers

Share of total employment (%), circa 2023

Informality



Waged jobs



Source: ILOSTAT and WDI (World Bank). Note: (1) Structural peers: Bangladesh, Philippines, Viet Nam, Guatemala, Nicaragua, and Thailand; UMIC peers: Philippines, Viet Nam, Jordan, El Salvador, Guatemala, Georgia, and Paraguay; (3) HIC peers: Malaysia, Costa Rica, Bulgaria, Chile, Romania, Poland, and Hungary.

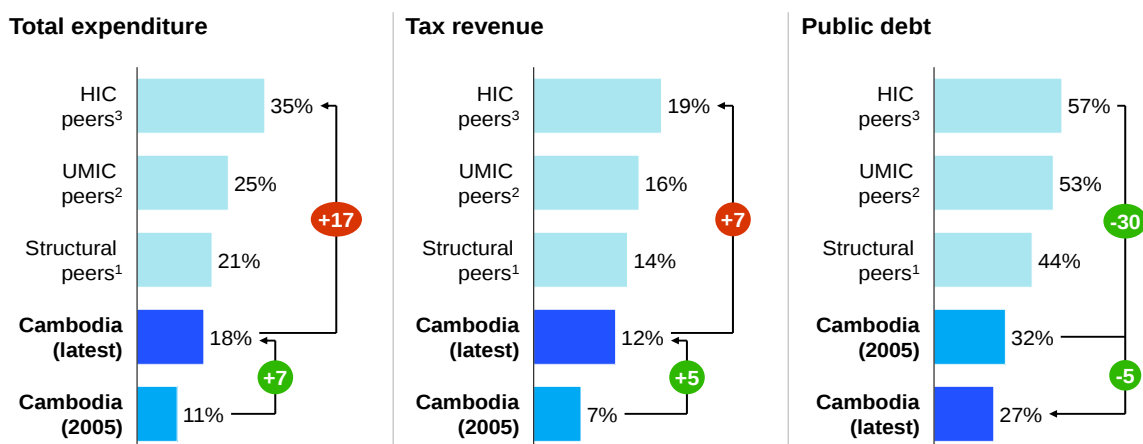
1.5. Financing the Transition

Cambodia cannot become a HIC with the fiscal capacity of a low-income country (LIC), and closing that gap is as fundamental to Vision 2050 as any reform in the business environment

or skills system. Cambodia enters the Vision 2050 period with a relatively small fiscal footprint, reflecting a long-term trajectory of fiscal prudence alongside a gradual expansion of fiscal space. Despite steady progress over two decades, general government expenditure at 18 percent of GDP and tax revenue at just over 12 percent of GDP are both well below UMIC and HIC benchmarks (Figure 1.6). This reflects both structural features of the economy, including high informality and a narrow tax base, and policy choices that emphasized fiscal prudence at the cost of underinvestment in human capital and social protection.

Figure 1.6: Expanding fiscal space can help enable Vision 2050

General Government Fiscal Parameters vs. Peers (Share of GDP, %)
FY 2024 or latest available



Source: Cambodia General Department of Taxation, IMF WEO (October 2025), and Organisation for Economic Co-operation and Development and based on the FSA tool. Note: (1) Structural peers: Bangladesh, Philippines, Viet Nam, Guatemala, Nicaragua, and Thailand; (2) UMIC peers: Philippines, Viet Nam, Jordan, El Salvador, Guatemala, Georgia, and Paraguay; (3) HIC peers: Malaysia, Costa Rica, Bulgaria, Chile, Romania, Poland, and Hungary.

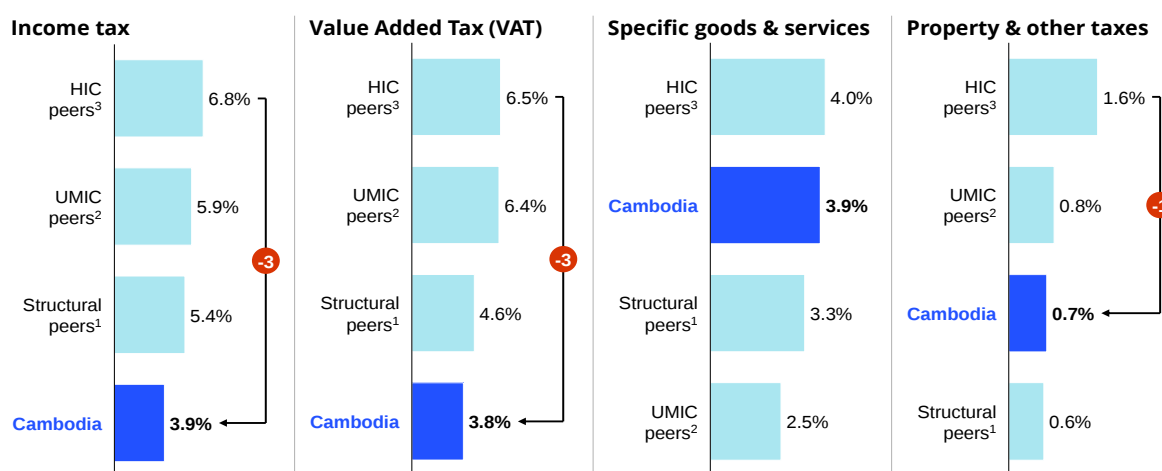
The scale of fiscal expansion required is substantial but achievable within Cambodia's debt limits. As economies transition to UMIC and HIC status, public spending and revenue rise to support higher-quality services and broader social protection. Closing the gap with aspirational peers would require expanding public spending by roughly 7–17 percentage points of GDP and tax revenues by 4–7 percentage points (Figure 1.7). Over time, tax revenues could gradually rise toward 20 percent of GDP, consistent with regional peers and sufficient to support higher investment in development priorities. Public debt currently stands at 27 percent of GDP, well below prudential thresholds and around 30 percentage points below structural peers, leaving substantial space to finance the transition.

Revenue mobilization is the binding constraint, and how revenues are raised matters as much as how much is raised. Declining access to concessional financing as Cambodia's income rises makes domestic revenue mobilization increasingly unavoidable. The priority is to close the revenue gap through broad-based instruments: income tax and value-added tax (VAT), each lag UMIC and HIC peers by around 3 percentage points of GDP and are the most promising sources of additional revenue, while property taxes offer a further 1 percentage point of potential (Figure 1.7). By contrast, revenues from specific goods and services taxes already exceed peer averages and should shrink as a share of the revenue base. The approach should prioritize broad-based, low-distortion instruments over narrow product taxes to limit the drag on private investment and firm competitiveness. How revenues are raised also shapes equity. Cambodia's tax system is only mildly

progressive today, and tax burdens fall slightly on poorer households (CEQ 2026). Progressive instruments can change this. Personal income tax and recurrent property taxation can raise revenue while making the system fairer. Their benefits in reducing poverty and inequality grow further once the spending they finance is taken into account. Base broadening, improved compliance, and stronger tax administration offer more traction than rate increases.

Figure 1.7: Cambodia needs to increase revenue in key areas

Tax revenue in Cambodia vs. Peers by type (% of GDP, 2025 or latest available)



Sources: Cambodia General Department of Taxation, IMF WEO (April 2025), and OECD Tax Database. Note: *Excludes social security contributions.

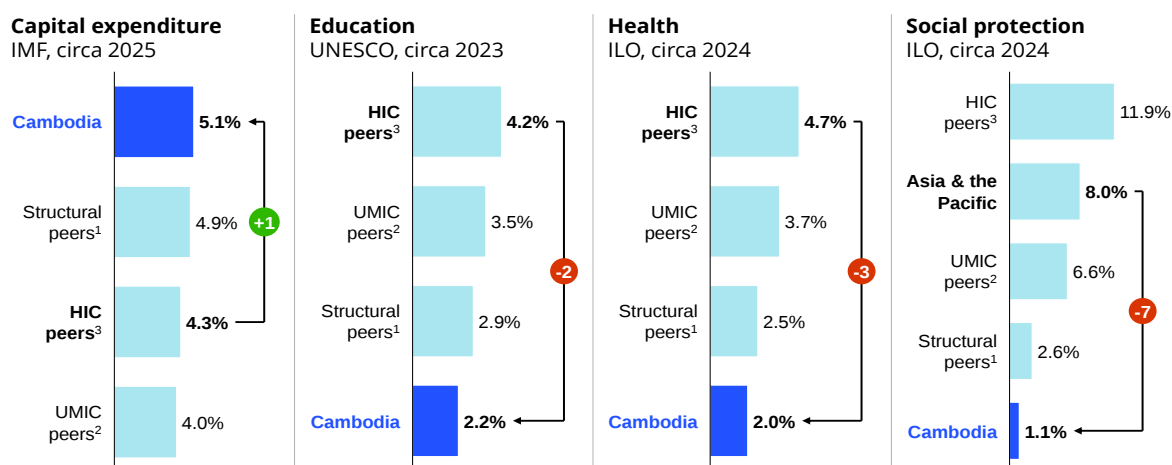
Taxation is not the only lever: public-private partnerships, blended finance, and private service delivery can complement revenue mobilization and should be explored more systematically. Revenue increases will also have distributional consequences that policy must manage carefully. Higher compliance burdens will fall disproportionately on small and informal firms in the near term, and household welfare effects must be monitored, particularly for lower-income groups. The path to higher revenues runs primarily through broadening the tax base rather than raising rates. Bringing high-performing informal firms into the formal tax net is one of the most promising avenues, but it becomes credible only if accompanied by a simultaneous reduction in compliance costs, administrative unpredictability, and informal payments that make the formal status unattractive. Sequencing revenue reforms to protect the poorest while broadening the base is essential to ensuring the fiscal transition is sustainable and equitable.

Sustaining high infrastructure spending while significantly expanding investment in social protection and human capital will both be necessary. While Cambodia's capital expenditure (CAPEX) of 5.1 percent of GDP is slightly above structural and HIC peer averages, this is appropriate given a large infrastructure financing gap and subpar regional connectivity, telecommunications, and urban services relative to structural peers (World Bank 2024b). Continued infrastructure investment at these levels – or even higher in the short term, is therefore essential to support the structural transformation and improvements in firm productivity discussed in Chapters 2 and 3. However, the more pressing fiscal gaps lie in social protection, health, and education, where underinvestment is mutually reinforcing and compounds over time. The near absence of a functioning safety net leaves most Cambodian workers exposed to shocks without income support, while the lack of adequate health insurance coverage means that illness frequently

translates into catastrophic out-of-pocket spending, pushing households into poverty and discouraging the very investment in human capital that productivity growth requires (World Bank 2024b). These vulnerabilities are compounded by spending gaps that fall below even structural peer averages in education, health, and social protection, with the distance to HIC benchmarks wider still: education lags HIC peers by around 2 percentage points of GDP, health by around 3 percentage points, and social protection by nearly 7 percentage points (Figure 1.8), directly contributing to Cambodia's weak skills and human capital outcomes, explored in depth in Chapter 4. As fiscal space expands, the priority is, therefore, to substantially increase spending across all three areas, not to trade off social investment for infrastructure. More spending will only deliver results if the quality of spending improves quantity, through better strategic allocation, stronger project prioritization, and more effective coordination across levels of government.

Figure 1.8: Cambodia needs to increase spending in key development areas

Level of spending in Cambodia vs. Peers by type (% of GDP)



Sources: IMF WEO (April 2025), Article IV and own estimations; and World Bank for peers. Notes: (1) Structural peers: Bangladesh, Philippines, and Viet Nam, Guatemala, Myanmar, Nicaragua, and Thailand; (2) UMIC peers: Philippines, Viet Nam, Jordan, El Salvador, Guatemala, Georgia, and Paraguay; (3) HIC peers: Malaysia, Costa Rica, Bulgaria, Chile, Romania, Poland, and Hungary.

Closing the fiscal gap involves a genuine sequencing challenge that runs through the entire reform agenda. The fiscal resources needed to finance better public services require a stronger revenue base to sustain them, while the reforms that would broaden that revenue base, by growing the economy, formalizing firms, and raising productivity, themselves require public investment that the current fiscal position cannot yet fully support. Also, the business environment and skills reforms that would drive this growth require a state with the fiscal capacity to fund the enabling infrastructure, education, and social protection they depend on. There is no clean sequence: fiscal expansion and structural reform must advance in parallel, each reinforcing the other. Cambodia's bold ambitions and its current revenue capacity are on a collision course, and the reforms presented in Chapters 2 and 3 will raise the return to public investment but cannot substitute for it. Strengthening revenue administration, broadening the tax base, and improving spending efficiency are therefore not second-order reforms: they are the fiscal foundation without which Vision 2050 remains a vision, not a trajectory.



Chapter 2: Microeconomic Features of Growth and Jobs

This chapter analyzes Cambodia's growth and jobs performance through a firm-level lens and finds that a weak business environment is constraining productivity, investment, and employment growth. Cambodia's enterprise landscape is dominated by informal businesses that are, on average, significantly less productive than formal firms, though a subset of high-performing informal firms outcompete formal peers by avoiding taxes and compliance costs, creating both competitive distortions and a narrower revenue base. Formal firms, especially frontier firms, exhibit lower productivity relative to peers, declining investment, and limited growth over their life cycles. Large variation in labor productivity across firms, combined with near-zero firm exit rates and declining investment, is consistent with deep resource misallocation, though in the absence of longitudinal firm-level panel data these patterns are indicative rather than conclusive. This is the entry point of Cambodia's second transformation: without productive firms able to compete globally, neither trade integration nor skills investment can deliver their full potential. Accelerating this transition requires reforms across five priorities organized under two complementary themes: enhancing allocative Efficiency by Easing Firm Entry and Exit; and enabling established firms to grow and become more productive by reducing input costs, bureaucratic burdens, and barriers to competition and investment.

2.1. Firm Productivity and the Business Environment

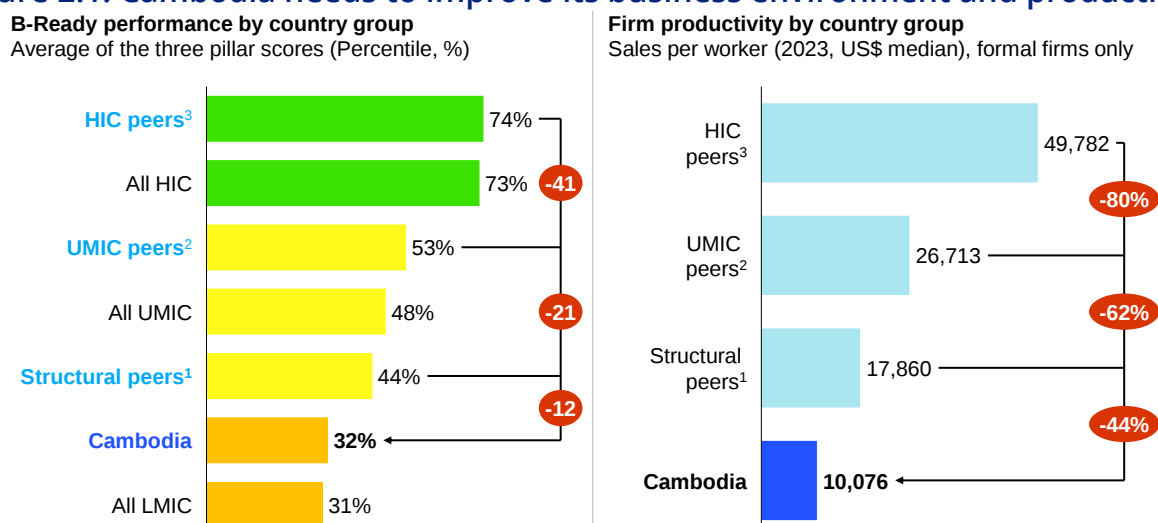
The productivity of Cambodia's firms is being hamstrung by a disabling business environment. Globally, there is a strong relationship between conducive business environments and firm productivity. Cambodia underperforms on both dimensions: Its firm productivity is among the lowest compared to peers, and its business environment is among the most challenging.

Stronger business environments are linked to higher firm productivity and income. A recent World Bank Group flagship review finds that the quality of a country's business and regulatory environment is among the most critical determinants of whether private investment materializes and firms can grow, and that where regulation is unpredictable, overlapping, or unevenly enforced, uncertainty becomes not merely a drag on growth but a deal breaker for the long-term capital commitments that drive it (World Bank 2026b). The implication for Cambodia is direct: Closing the gap with HIC peers on the business environment is not a second-order reform priority; it is a precondition for the private investment that Vision 2050 demands.

Cambodia needs to significantly improve its business environment to enable higher levels of firm productivity. Cambodia's overall B-READY score of 54 places it in the bottom 32nd percentile of countries (Figure 2.1), behind its structural peers (44th percentile). The gap to Cambodia's aspirational UMIC (53rd percentile) and HIC (74th percentile) peers is even wider. The productivity of the typical formal Cambodian firm is 44 percent lower than that of firms in

structural peers, 62 percent lower than that of firms in UMIC peers, and 80 percent lower than that of firms in HIC peers.

Figure 2.1: Cambodia needs to improve its business environment and productivity



Source: B-READY Report (World Bank 2025b) and WBESS. Notes: (1) Structural peers: Bangladesh, the Philippines, and Viet Nam; (2) Aspirational UMIC peers: El Salvador, Georgia, Jordan, Paraguay, the Philippines, and Viet Nam; and (3) Aspirational HIC peers: Bulgaria, Costa Rica, Hungary, Malaysia, Poland, and Romania.

Cambodia's disabling business environment is driven by the challenges of opening and closing a business, as well as growth-constraining issues around dispute resolution, market competition, trade, and utilities. A matrix of performance across B-READY's pillars and topics helps pinpoint the most urgent reform priorities (Figure 2.2). The worst-performing pillar is the provision of public services to firms (bottom 29th percentile), due to challenges related to transparency and digitalization of government services. At the topic level, Cambodia's poor performance is driven by challenges in closing or restructuring a business (business insolvency, bottom 10th percentile), reflecting gaps in the insolvency law and the limited effectiveness of courts. Cambodia also performs poorly on opening a business (business entry, 20th percentile), reflecting high fees and long delays in registering a business, despite recent improvements. Together, these issues reduce allocative efficiency, the process by which national productivity improves through the reallocation of resources to higher-performing firms.

In addition, Cambodia struggles on a range of issues that constrain the growth and efficiency of established firms: (a) dispute resolution (12th percentile), reflecting court inefficiencies and the lack of specialized commercial courts; (b) market competition (21st percentile), led by issues around public procurement; (c) international trade (25th percentile), led by limited coordination of border management and long timelines to comply with export regulations; and (d) utility services (30th percentile), especially electricity (10th percentile), led by limited digital services, reliability issues, and long timelines to obtain a connection. Even in better-performing areas such as financial services and taxation, there are critical issues affecting firms, discussed in detail below.

Figure 2.2: Overview of key challenges in Cambodia's business environment

Percentile		Topic 1. Business Entry	Topic 2. Business Location	Topic 3. Utility Services	Topic 4. Labor	Topic 5. Financial Services	Topic 6. International Trade	Topic 7. Taxation	Topic 8. Dispute Resolution	Topic 9. Market Competition	Topic 10. Business Insolvency
Average of three pillars	32%	20%	31%	30%	81%	96%	25%	89%	12%	21%	10%
Pillar 1 Regulatory Framework	31%	42%	21%	27%	63%	77%	51%	68%	16%	22%	27%
Pillar 2 Public Services	29%	30%	36%	23%	57%	87%	15%	78%	4%	29%	1%
Pillar 3 Operational Efficiency	35%	6%	40%	60%	78%	92%	31%	89%	40%	25%	1%

Source: B-READY Report (World Bank 2025b); and World Bank.

Cambodia's disabling business environment is mirrored in the perceptions of its firms, which report that the biggest obstacles to doing business are competition from informal firms, tax and other bureaucratic burdens, transport, electricity, and trade. Despite improvements over time, Cambodia's formally registered firms report higher obstacles than their counterparts in structural peer countries (Hayati, Noura, and Maw, forthcoming a). Cambodian firms most commonly cite informal sector competition as the 'biggest obstacle', followed by tax rates, tax administration, and transport (Figure 2.3). This ranking reflects the views of small service firms that dominate the economy; among manufacturing, frontier, and large firms, concerns are consistently greater for tax rates and tax administration, electricity, and trade regulations. Concerns about corruption and courts feature in the top five obstacles, suggesting they are pervasive but perhaps accepted as a normal aspect of doing business. Surveys by local chambers of commerce find similar priorities, including regulatory uncertainty, electricity costs, and unfair competition from informal firms. These firm perception measures should be interpreted with caution, as self-reported assessments are subject to survivorship bias and limited awareness of unfamiliar barriers; they are best read alongside the B-READY indicators and empirical productivity analysis presented in this chapter.

Figure 2.3: Top obstacles to doing business in Cambodia according to formal firms

Top 'biggest' obstacles. Share of formal Cambodian firms choosing this topic as the biggest obstacle (%)

All firms		Manufacturing firms		Frontier firms ¹		Large firms	
Informal sector	42%	Tax rates	49%	Tax rates	44%	Tax rates	73%
Tax rates	32%	Informal sector	30%	Informal sector	27%	Tax administration	16%
Tax administration	9%	Tax administration	11%	Tax administration	16%	Informal sector	9%
Transport	6%	Electricity	5%	Trade regulations	8%	Electricity	2%
Crime	4%	Crime	2%	Transport	4%	Transport	1%
Electricity	3%	Transport	2%	Electricity	2%	Regulatory environment	0%
Trade regulations	2%	Regulatory environment	0%	Crime	0%	Crime	0%

Source: Cambodia WBES, 2023. Note: (1) Frontier firms are defined as the top 10 percent of firms based on labor productivity levels.

2.2. Patterns of Firm Productivity in Cambodia

Cambodia's productivity challenge is structural: the growth model that powered two decades of expansion relied on cheap labor and capital accumulation but failed to transition toward firm upgrading, technology adoption, and higher-value activity, and the evidence from Cambodia's enterprise landscape shows why. Informality is pervasive, keeping the majority of businesses locked into low-productivity survival activities, though a subset of high-performing informal firms outcompete formal peers by avoiding compliance costs, a dynamic explored further below. Among formal firms, productivity varies widely across sectors and firm types, with frontier firms underperforming peers in comparable economies by a wide margin. The factors most strongly associated with higher productivity are international linkages, management quality, skills, and technology, precisely those that Cambodia's business environment has done least to support. In analyzing informality, this section focuses on the productivity-formalization link: how the dominance of low-productivity informal activity constrains aggregate growth, and how reducing barriers to formalization can unlock access to finance, technology, and government programs that raise firm performance; the tax compliance and social security dimensions are touched on in the context of fiscal capacity in Chapter 1. The evidence is consistent with resource misallocation, with capital and labor not flowing to their most productive uses, though in the absence of longitudinal firm-level panel data these patterns are indicative rather than conclusive.

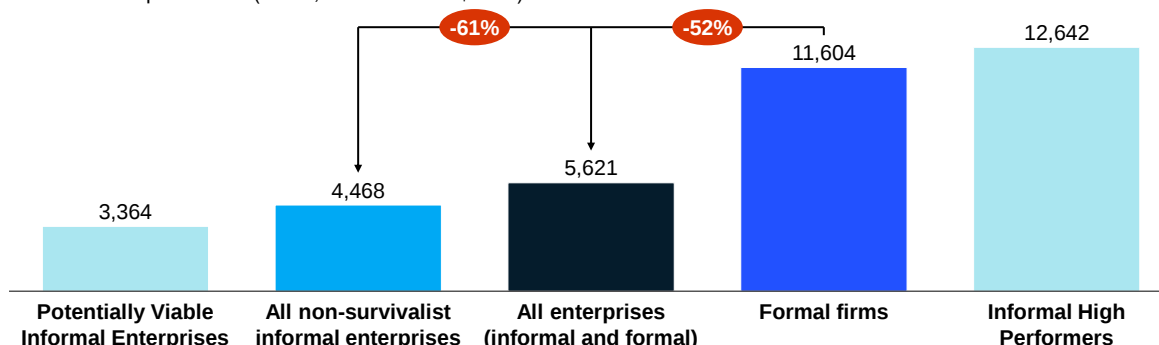
Cambodia's enterprise landscape is overwhelmingly dominated by informal businesses that have significantly lower productivity than formal firms. Informal businesses accounted for 90 percent of enterprises in Cambodia in 2022 and contributed an estimated 88 percent of employment and 40 percent of GDP (World Bank 2025a), far above aspirational HIC peers (34 percent and 25 percent, respectively). These informal businesses are diverse and better thought of as three distinct groups: (a) Survivalist Enterprises (41 percent of total), necessity-driven micro-enterprises with sales per worker around or below the poverty line; (b) Potentially Viable Enterprises (44 percent); and (c) High Performers (15 percent). Overall, informal businesses are, on average, 61 percent less productive than formal firms (Figure 2.4, Panel A), even excluding Survivalist Enterprises. The productivity of informal High Performers, however, exceeds that of formal firms. This subset is most likely competing against formal firms and gaining an advantage by remaining unregistered, helping explain why formal firms view the informal sector as one of the biggest obstacles to doing business, and by remaining outside the tax net, narrowing the revenue base Cambodia needs to finance its Vision 2050 ambitions.

Moreover, formal firms themselves have low productivity compared to their overseas peers, with service firms outperforming manufacturing firms. While Cambodia's formal firms have lower productivity than their overseas counterparts, there is significant variation across sectors (Figure 2.4, Panel B). Service firms are on average almost two times more productive than manufacturing firms, a difference that is statistically significant (Hayati, Noura, and Maw, forthcoming b). The relatively low productivity of garment firms, once the engine of growth and industrialization, suggests this sector has stagnated and is struggling to upgrade beyond Cut-Make-Trim assembly. This is reinforced by FDI project data, which shows that most manufacturing investment over the past decade was concentrated in low- and medium-low technology, with only 8 percent involving high technology (World Bank 2025c).

Figure 2.4: Labor productivity varies significantly across enterprises in Cambodia

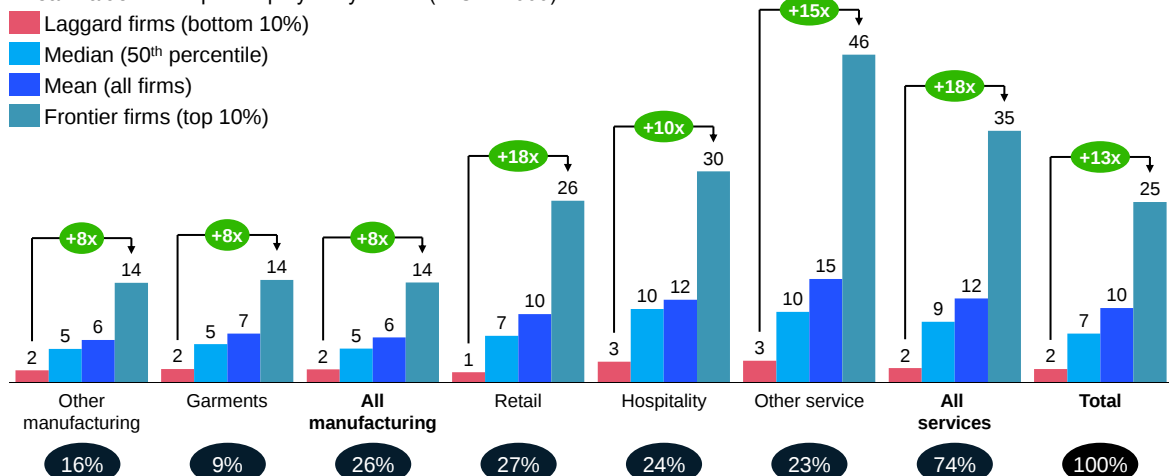
Panel A

Average labor productivity among non-survivalist Cambodian enterprises by type
Annual sales per worker (mean, in nominal US\$ '000)



Panel B

Labor productivity among formal firms in Cambodia by sector by performance tier
Mean value-added per employee by sector (in USD '000)

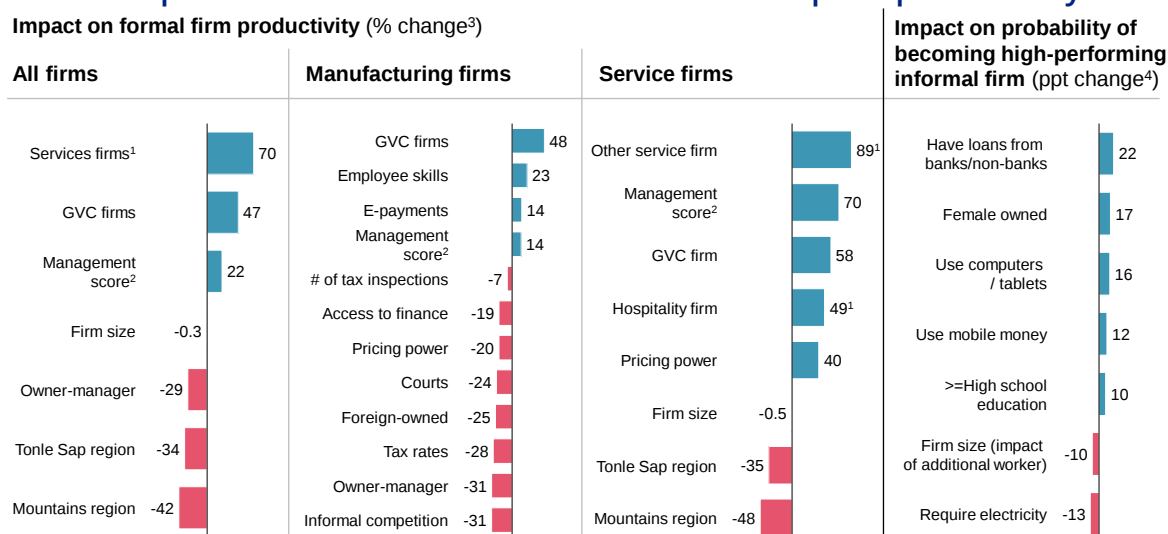


Source: Cambodia WBES, 2023, and Cambodia Informal Business Survey (2024), World Bank. Note: Definitions based on sales per worker per month: (i) Survivalist Enterprises have less than or equal to US\$30; (ii) Potentially Viable Enterprises are bottom 75th percentile of those with >US\$30; and (iii) High Performers are top 25th percentile of those with >US\$30. This analysis excludes informal enterprises with ≤US\$30 in sales per month. Due to lack of data on costs for informal businesses, 'sales per worker' is used as a proxy for productivity (which would typically be value added (sales minus costs) per worker). (1) Based on reweighted sample of survey to ensure results are nationally representative.

Cambodia's frontier firms underperform peers in comparable economies by a wide margin, and their relative decline is a warning sign for aggregate productivity. There is significant within-sector variation in Cambodia (Figure 2.4, Panel B), with frontier firms (top 10 percent by productivity) 13 times more productive than laggards (bottom 10 percent), on average. Cambodia's frontier firms are predominantly in services, internationally oriented, and more likely to leverage technologies. However, the gap between frontier and laggard firms has narrowed over time due to falling productivity among frontier firms (World Bank 2025d). On average, frontier firms in structural peer countries are six times more productive than those in Cambodia (US\$154,000 versus US\$25,000 annually), and in peer economies the frontier-to-laggard gap exceeds 100 times, meaning the best firms pull dramatically further ahead of the rest and drive national productivity upward. While some of this dispersion may reflect technology gaps, economies of scale, or firm life cycle rather than distortions alone, the pattern is consistent with an environment in which the most capable firms are constrained from separating themselves from the pack.

Empirical evidence indicates that enterprise productivity in Cambodia is positively correlated with sector, international linkages, management quality, skills, technology, and finance. Regression analysis on formal firm data shows that sectoral differences have the strongest positive correlation with productivity (Figure 2.5, left panel). Service firms are associated with 70 percent higher productivity compared to manufacturing firms, even after controlling for other factors. Firms integrated into GVCs are associated with 47 percent higher productivity relative to non-GVC firms. Better management is associated with 22 percent higher productivity, particularly in services, and firms led by independent chief executive officers (CEOs) outperform owner-managed firms. Among manufacturing firms, higher technology adoption and a more skilled workforce are also associated with higher productivity. Similar patterns emerge among informal businesses (Figure 2.5, right panel), with access to finance, use of technology, and higher owner education associated with a higher probability of becoming a High Performer.

Figure 2.5: Empirical evidence on correlations with enterprise productivity



Source: Cambodia WBES, 2023; Cambodia Informal Business Survey (World Bank, 2024); Hayati, Noura, and Maw (Forthcoming b); and World Bank (2025a). Note: (1) Based on a different model with sector dummies; (2) Based on a different model with management scores that is restricted to a subset of larger firms; and (3) Only variables that are statistically significant are included. The figures are illustrative and show the relative importance of each variable in explaining labor productivity. Continuous variables are scaled using interquartile ranges (IQR); dummy variables are not scaled, as they already reflect a full 0–1 change; (4) Estimates are marginal effects from a probit regression, with only variables that are statistically significant shown.

The evidence also points to negative productivity correlations with rural regions, bureaucratic burdens, electricity, and size. Formal firms in the Mountainous and Tonle Sap regions are associated with lower productivity than firms near Phnom Penh, even after controlling for other variables (Figure 2.5, left panel), indicating region-specific barriers such as weaker infrastructure and more limited access to markets and public services (Hayati, Noura, and Maw, forthcoming a). A small negative correlation also exists with firm size, while no relationship is found with age. Among formal manufacturing firms, foreign ownership is correlated with 25 percent lower productivity, reflecting the concentration of FDI in low-value, low-technology activities. Manufacturing firms also exhibit negative correlations with bureaucratic factors to taxes and courts, as well as competition-related factors such as pricing power and obstacles related to informal businesses. Among informal firms, those that need electricity are less likely to be High Performers, indicating persistent challenges with electricity services.

2.3. End-State Vision for Cambodia's Business Environment

Reaching high-income status by 2050 will require accelerated reforms to rapidly bring Cambodia's business environment to HIC standards. HIC standards of income and firm productivity typically go hand in hand with strong business environments. However, economies do not need to be rich to develop a good business environment (World Bank 2024d). There are already middle-income economies near the top, including Georgia (96th percentile) and Colombia (75th percentile), demonstrating that reform ambition, not income level, is the binding constraint. Cambodia should aspire to rapid convergence to HIC business environment standards as a core enabler of Vision 2050.

A world-class business environment would enable Cambodia's private firms to raise productivity, compete more effectively, and support higher wages and living standards. Enabling the emergence of high-productivity firms by 2050 will require a business environment that encourages formalization through low-cost, streamlined registration and value-added services that help firms establish and scale across the country. It should also promote investment in technology, innovation, management, and workforce skills by ensuring a level playing field, reducing market distortions, and minimizing regulatory uncertainty and bribery. At the same time, the business environment should facilitate the timely restructuring or exit of underperforming firms through efficient, low-cost insolvency and restructuring mechanisms, freeing up resources for more productive uses across the economy.

Clear, prioritized, and transparent goals can help focus reforms and support the achievement of Cambodia's long-term business environment vision. Cambodia should set goals for its business environment that aligns with its broader vision and macroeconomic objectives (discussed in the Overview and Chapter 1). This suggests rapidly closing the gap with structural peers over the next five years, converging with aspirational UMIC peers by around 2035, and reaching HIC peers by 2050. Early reforms should focus on 'low-hanging fruit': drawing on all available evidence, including objective indicators of business environment performance and binding constraints, subjective obstacles reported by firms, and the issues with the largest empirically demonstrated impacts on productivity. The remainder of this chapter outlines five reform priorities under two complementary themes.

Theme 1: Enhance Allocative Efficiency by Easing Firm Entry and Exit

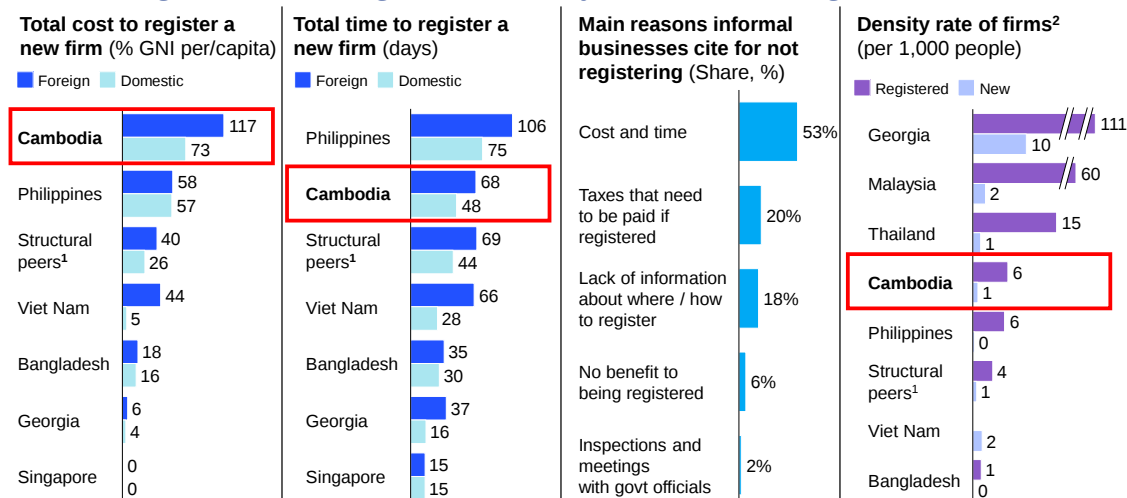
2.4. Priority A – Firm Registration Costs and Barriers

Expanding the economic footprint of formal firms, including by formalizing high-performing informal businesses, will be an important part of Cambodia's HIC pathway. As Cambodia's economy develops and advances toward its goal of becoming a HIC, the pace of formalization should accelerate, and the economic contribution of formal firms should gradually converge to the rates more typically seen in wealthier economies. Formalization, however, is ultimately a bargain: firms register when the benefits of doing so, including access to finance, public procurement, and growth-enabling services, clearly outweigh the costs of compliance. Where registration is costly and slow, public services are unreliable, and informal competitors face little enforcement, that

bargain tips against formalization. Shifting it requires both reducing the costs of entry and strengthening the operational value that the formal status delivers.

Addressing some of the barriers to registration could help encourage more informal businesses to register. The first barrier is a lack of awareness, with an overwhelming majority (81 percent) of informal businesses saying they have not heard of the Ministry of Commerce's Business Registration Department (World Bank 2025a). Of the minority that are aware, the main barriers reported are various costs (Figure 2.6), including (a) the direct upfront financial and time cost of registering (53 percent); and (b) the subsequent tax compliance costs once registered (20 percent). Other barriers include a lack of information on how and where to register (18 percent). In addition, both the benefits of registering and the penalties of not registering appear limited, reducing the incentive to do so. Firms perceive few benefits from registering; most charge the same or higher prices as registered firms, and only 2 percent say they had to make an informal payment to avoid registration, indicating a limited risk of inspections and penalties.

Figure 2.6: High costs for registration may be contributing to low business entry



Source: B-READY (World Bank 2024d); Cambodia Informal Business Survey (World Bank, 2024); and World Bank Entrepreneurship Database. Notes: (1) Structural peers include: Philippines, Viet Nam, and Bangladesh; and (2) Per 1,000 working-age people, 2019 or latest available. Data for limited liability companies (LLCs).

The decision to formalize involves real trade-offs that policy must take seriously, particularly as Cambodia moves to strengthen revenue collection. Available data suggest that high-performing informal firms are not simply failing to formalize out of ignorance: many are making a rational calculation that the costs of compliance outweigh the perceived benefits of formal status (World Bank 2025a). Importantly, this is not primarily a story about high tax rates. Cambodia's statutory tax rates are competitive by global standards and broadly aligned with regional peers. The core deterrent to formalization lies in the compliance process rather than the tax burden itself, as discussed under Theme 2, E. For an informal High Performer, formalization means entering a system where the official tax obligation is manageable, but the process costs are not. This tension will sharpen if Cambodia strengthens enforcement without simultaneously reforming tax administration. Effective formalization policy, therefore, requires a credible two-sided commitment: broadening the tax base while substantially reducing compliance burdens, unpredictability, and informal costs that currently make the formal status unattractive. The

formalization calculus also responds to two further channels: access to formal finance, since banks are significantly more willing to lend to registered firms, and access to government programs, including procurement opportunities, SDF training, and business support services.

There is scope to lower the high direct financial and time costs of registration. Official fees to register a new business in Cambodia range from US\$343 to US\$985, representing 14 to 41 percent of GNI per capita in 2023 (World Bank 2025a). This does not include the cost of an agent, which most businesses use, or the cost of additional sectoral licenses and approvals. According to comparable international statistics (Figure 2.7), the average cost to register a new domestic firm in Cambodia is 73 percent of GNI, almost double the maximum official rate, and the average time is 48 days, six times the official process. These costs are higher than costs in most structural peers. Costs to register a new foreign firm are even higher, likely deterring FDI. The long effective timelines reflect a process characterized by fragmentation across agencies (World Bank 2025c), with multiple registration points, duplication of information requests, and numerous investment screening processes. The impacts are reflected in Cambodia's relatively low density of new and established registered firms (Figure 2.7), which lag top-performing neighbors and peers.

Box 2.1: Business environment reform - lessons from Georgia and Estonia

A country's income level alone does not determine the quality of its business environment. Georgia, a UMIC, consistently outperforms the average HIC on regulatory quality and operational efficiency, demonstrating that reform ambition rather than income is the binding constraint. For over two decades, Georgia has reformed its regulations and invested in digitalization to increase transparency, predictability, and administrative efficiency. It achieved sustained growth above 5 percent per year and graduated to upper-middle-income status in 2015. Cambodia could follow a similar trajectory: B-READY data show that Cambodia's current performance is not fixed by its income level, and sustained reform with measurable objectives and institutional mechanisms to deliver results can close the gap faster than income convergence alone would suggest.

At a more specific level, Estonia's e-Business Register illustrates what a fully realized digital registration system looks like. Entrepreneurs can register a company entirely online in as little as 15 minutes, with the system integrated across tax, social security, and banking services. Estonian law explicitly allows all entrepreneurs to update company information directly without mandatory use of third-party intermediaries, eliminating a key source of cost and delay. Cambodia already has a foundation to build on: the CamDX interoperability platform and the Online Business Registration System can be extended to enable seamless data sharing across all agencies involved in business start-up and potentially direct links to commercial banks for account opening, strengthening the business registry as the authoritative source of reliable business information.

The common thread is that reform requires committed leadership, a clear strategy with measurable objectives, and the institutional mechanisms to sustain progress over time.

Sources: Boyce et al. (2025), *Punching Above Their Weight: Insights from Rwanda and Georgia's B-READY Performance*, World Bank; Estonia e-Business Register (ariregister.rik.ee).

2.5. Priority B – Firm restructuring

Cambodia also needs to ease firm exit by better facilitating restructuring and closure. In a well-functioning economy, unviable firms are either restructured or exit the market, allowing capital, labor, and other resources to flow to more productive businesses. Where firms are viable but financially distressed, timely restructuring mechanisms can preserve productive capacity while still freeing up resources from those that are not. Facilitating the orderly closure and restructuring of unproductive firms promotes innovation, improves market efficiency, and creates space for new entrants. This process reinforces competition by freeing up space for younger, more innovative firms to grow and challenge incumbents, thereby maintaining pressure on established firms to innovate and increase efficiency. Cambodia's poor performance on business insolvency in B-

READY, combined with the near absence of formal insolvency proceedings and low firm exit rates, highlights the importance of this priority reform area.

Easing firm exits in Cambodia will require operationalizing commercial courts and addressing key gaps in the insolvency framework. Over the past 15 years, only a small number of high-profile insolvency cases have been handled by regular courts, all resulting in low creditor recovery rates (World Bank 2025c). Cambodia also performs weakly on legal and procedural standards related to insolvency (23rd percentile, B-READY). Effective insolvency mechanisms and collateral enforcement are critical for managing financially distressed firms and NPLs. In their absence, banks' balance sheets can deteriorate, as the rising NPL ratio in Cambodia already suggests, increasing risks to financial stability, possibly to a point where these can impact the real economy. Without frameworks that enable viable firms to restructure and unviable firms to exit, 'zombie firms' may persist, distorting markets, tying up resources, and limiting access to finance for more productive businesses. While Cambodia's 2007 Insolvency Law provides a basic legal foundation, important gaps remain. The law lacks features common to modern insolvency regimes, including simplified and small and medium enterprise (SME)-friendly procedures, preventive insolvency mechanisms, and streamlined approval of out-of-court restructuring plans. Although regulations governing insolvency administrators were issued in 2022, implementation has been slow, reflecting limited awareness and capacity among legal professionals and among firms themselves.

These challenges around business exits may be contributing to Cambodia's very low firm exit rate. Available data shows that the exit rate of limited liability companies in Cambodia was just 0.2 percent in 2019, significantly lower than in neighboring Malaysia (4.4 percent) and Thailand (3 percent). Moreover, the density of closed registered firms in Cambodia is even lower, indicating that very few firms have ever closed relative to the size of the economy. In addition to the regulatory and administrative barriers to formal exit that discourage firms from officially closing, the low exit rate may also indicate low market competition that allows unproductive or non-viable firms to persist. Finally, firms may be reluctant to exit or liquidate due to the broad discretionary power of tax officials in determining firm obligations and debts (discussed further under Priority E below). This creates uncertainty that is likely to prolong restructuring and liquidation processes, reflecting gaps in the tax framework and its application. Beyond firm exit, the absence of operational insolvency mechanisms has broader financial system consequences: efficient frameworks that enable orderly restructuring reduce lender risk and unlock credit for productive firms to invest and expand, a channel that remains largely closed in Cambodia given the near absence of functioning commercial courts (World Bank 2026b).

Theme 2: Enable Established Firms to Grow and Become More Productive

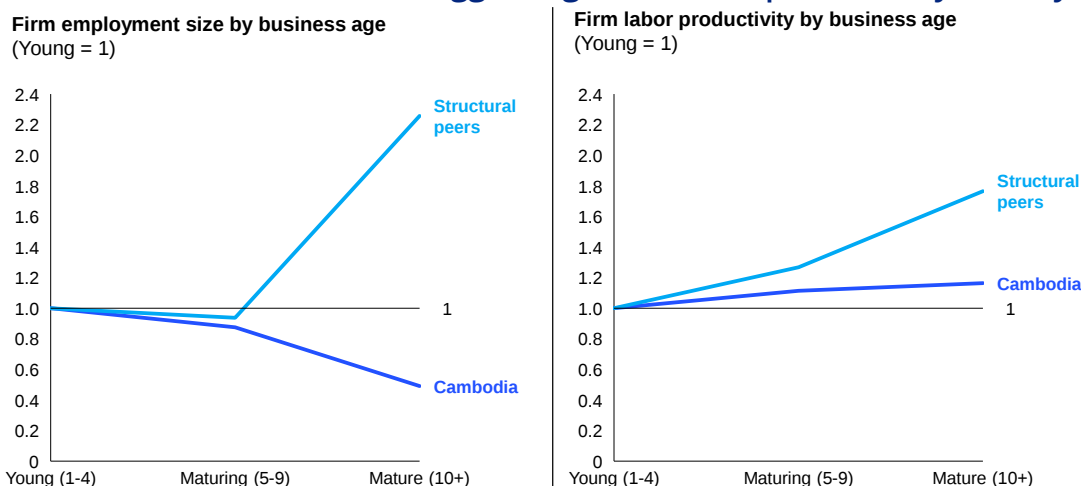
2.6. Priority C – Market Competition and Firm Investment

Cambodia's disabling business environment is creating distortions that hinder firms' efficient access to capital and labor, thus growing and becoming more productive. Established firms in Cambodia have a stagnant relationship between age and size (Figure 2.7), signaling barriers to growth, in contrast to peers. Firms also show a near-flat productivity-age profile, suggesting that firms do not become more productive over time despite more experience

and the benefits of learning-by-doing. There is also no evidence that higher-productivity firms in Cambodia are expanding employment more than less-productive firms (World Bank 2025e).

Limited firm growth and negligible productivity gains over the firm life cycle point to significant resource misallocation, driven by distortions that restrict access to productive inputs and undermine competitive pressures. Several factors may explain Cambodia's resource allocation problem, including a lack of competition, limited access to finance and skills, and high costs for key inputs and services.

Figure 2.7: Cambodian firms struggle to grow and lift productivity as they age



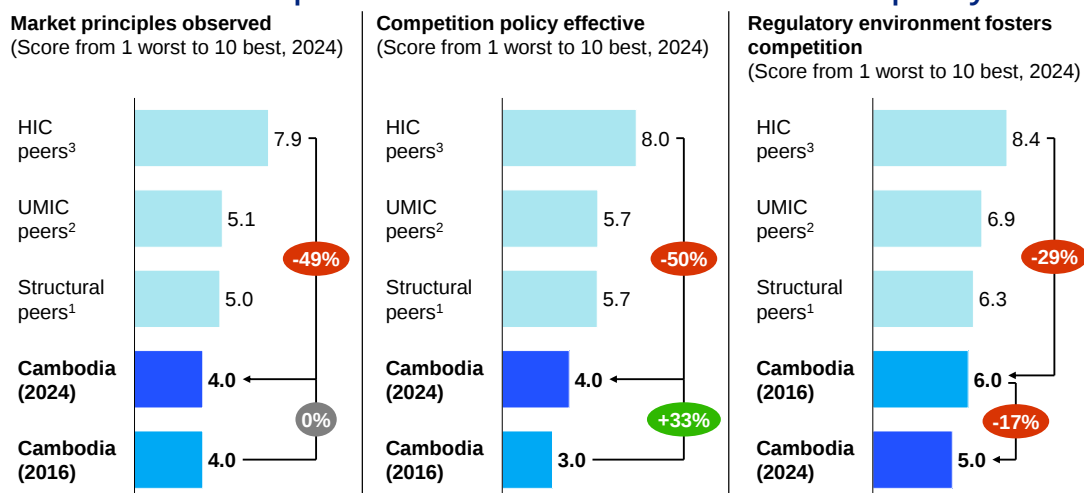
Source: WBES. Note: Structural peers include Bangladesh, the Philippines, and Viet Nam.

A competitive landscape that is both fragmented and concentrated, at once points to the state's continued presence across key sectors as a central explanation. Evidence shows that markets are crowded and intensely competitive, with firms reporting limited pricing power; yet 72 percent of firms also report a dominant competitor holding more than 50 percent of their market (Hayati, Noura, and Maw, forthcoming a). State and state-linked firms help explain this coexistence. Following extensive privatization, Cambodia has only 15 fully state-owned enterprises, but the state remains present across a wider set of sectors through partial ownership of 18 additional firms, counting stakes of at least 10 percent under the World Bank's Business of the State approach (World Bank 2023a). These firms cluster in electricity, water, ports and logistics, telecommunications, and finance, though available data do not show their size or their share of employment and output. Even a limited state presence can shape outcomes where access to licenses, infrastructure, or public contracts influences competitive conditions. This helps explain why markets can look competitive in aggregate while specific segments are dominated by a few firms, and why firms report concerns about fairness, particularly in procurement.

Ensuring free and fair competition will require strengthening Cambodia's nascent enforcement institutions, which are currently undercut by a large informal sector and weak procurement practices. Unregistered firms are widely seen as competing unfairly with formal ones, and firms rate competitive fairness and quality poorly relative to peer countries (Figure 2.8). These views track real weaknesses in how competition policy is applied and enforced: Cambodia adopted a Competition Law in 2021 and established the Cambodia Competition Commission in 2022, but enforcement and advocacy capacity remain limited. Weak public procurement reinforces

the problem, with particularly poor performance on bidding processes, transparency, and digitalization (B-READY 2025). In network sectors such as electricity and logistics, where the state's presence reflects natural monopoly characteristics, the priority is not competitive entry but regulated access and cost-reflective pricing, since input costs in these sectors directly shape firms' productivity.

Figure 2.8: Market competition in Cambodia is viewed as low quality and unfair



Source: The Bertelsmann Stiftung's Transformation Index (BTI). Notes: (1) Structural peers: Bangladesh, Philippines, and Viet Nam; (2) UMIC peers: Philippines, Viet Nam, El Salvador, Georgia, and Paraguay; (3) HIC peers: Costa Rica, Bulgaria, Romania, and Hungary.

Cambodia needs to incentivize greater investment by firms in fixed assets and technological adoption, and over time, in innovation, especially among frontier firms. The proportion of Cambodian firms investing in fixed assets fell sharply from 45 percent in 2016 to just 9 percent in 2023. This decline was broad-based but most pronounced among services and especially frontier firms, leveling down the standards in the economy. Similar trends are evident for rates of product and process innovation, which also fell sharply and are now very low compared to peers. While Cambodia's firms have rates of website adoption (45 percent) and international quality certification (8 percent) comparable to structural peers, significantly more adoption is needed to match HIC peers (71 percent and 24 percent, respectively).

Cambodia needs to strengthen financial inclusion, access, and intermediation to support higher private sector investment. While headline B-READY indicators suggest strong performance in financial services (Figure 2.2), firm-level data paint a weaker picture. Nearly half of informal businesses remain unbanked (World Bank 2025a), indicating persistent inclusion gaps. Use of formal financial instruments is also limited: only 5 percent of informal businesses and 14 percent of formal firms report having a bank loan, well below levels in structural peer countries (33 percent). As a result, formal firms finance a smaller share of working capital through credit (5 percent versus 14 percent among peers) and exhibit lower leverage ratios. Most enterprises also report no demand for borrowing, with 85 percent of formal and 63 percent of informal enterprises stating they "do not need a loan." This may reflect elevated uncertainty, limited investment opportunities, or strong cash flows; it may also point to capability constraints where firms lack the productivity, skills, or managerial capacity to identify bankable investment projects. Borrowing

costs remain elevated relative to regional peers (CAPRED, 2025), and informal firms face additional barriers, including complex application procedures and limited loan guarantees.

Cambodia also needs to improve enterprise access to, and investment in, skills. Owners of informal businesses have relatively limited skills, with only 36 percent having completed high school or higher, rising to 55 percent among High Performers (World Bank 2025a). Formal Cambodian firms also have fewer skilled workers than their overseas peers (Hayati et al., forthcoming a): only 69 percent of full-time employees have finished high school, well behind Viet Nam (90 percent) and the Philippines (87 percent), and only 33 percent are classified as high-skilled, below the peer average (44 percent). Cambodia's firms are neither demanding higher skills nor investing in them. This likely reflects that existing firms are largely engaged in low-value activities that do not require high levels of skill and are not trying to move out of them. Cambodia ranks in the bottom 9th percentile on on-the-job training, in B-READY, with just 10 percent of firms investing in formal training programs. Cambodia's firms are stuck in a low-skill, low-value, low-productivity equilibrium. Skills are explored further in Chapter 4.

Technology adoption in Cambodia broadly aligns with structural peers at a similar stage of development. The binding constraint is the enabling conditions that make adoption worthwhile. The April 2026 East Asia and Pacific Economic Update on industrial policy in the digital age sets out a three-pillar framework: providing foundational public goods, removing policy failures that impede competition and trade, and targeting specific market failures. Cambodia is squarely in the first two pillars; the priority is strengthening foundational infrastructure, basic human capital, and institutions, and removing regulatory and trade barriers, before targeted sectoral interventions become viable. Consistent with this, Chapter 3 addresses the attraction of high-spillover FDI in technology-intensive sectors as the primary channel through which technology transfer and firm upgrading will occur as these enabling conditions deepen.

2.7. Priority D – Input Costs

Cambodia needs to support the global competitiveness of its firms by reducing the cost of key inputs such as electricity, transport, and trade. Despite improvements over time, many business costs in Cambodia, including electricity, transport and logistics, and trade, remain high relative to regional peers. Cambodia's poor B-READY scores in utility services and international trade, combined with firms' self-reported concerns and empirical evidence of negative productivity associations with electricity access, consistently point to input costs as a priority reform area.

Despite significant tariff reductions over the past decade, electricity costs in Cambodia remain among the highest in the region. Industrial and commercial electricity prices fell substantially following major reforms in 2019 and have remained broadly stable since (Electricity Authority of Cambodia, 2025). Despite these improvements, prices remain well above regional averages, in part because neighboring countries such as Viet Nam and Thailand heavily subsidize power for industrial users. High electricity costs weigh on the competitiveness of energy-intensive sectors, including the garment industry. Persistently high costs reflect a combination of inflexible legacy power contracts that oblige the state utility to pay for minimum generation volumes regardless of demand, limited competition in procurement, a reliance on cross-border imports to fill seasonal supply gaps, and compensation tariffs that discourage firms from adopting cheaper

on-site renewable energy. Reforms should focus on three areas: introducing more competitive and transparent procurement for new power generation; enabling firms to contract directly for their own power supply, an approach used successfully in Viet Nam to lower industrial energy costs; and removing the fees currently charged to firms that install rooftop solar panels, which have sharply slowed uptake of one of the cheapest available energy sources.

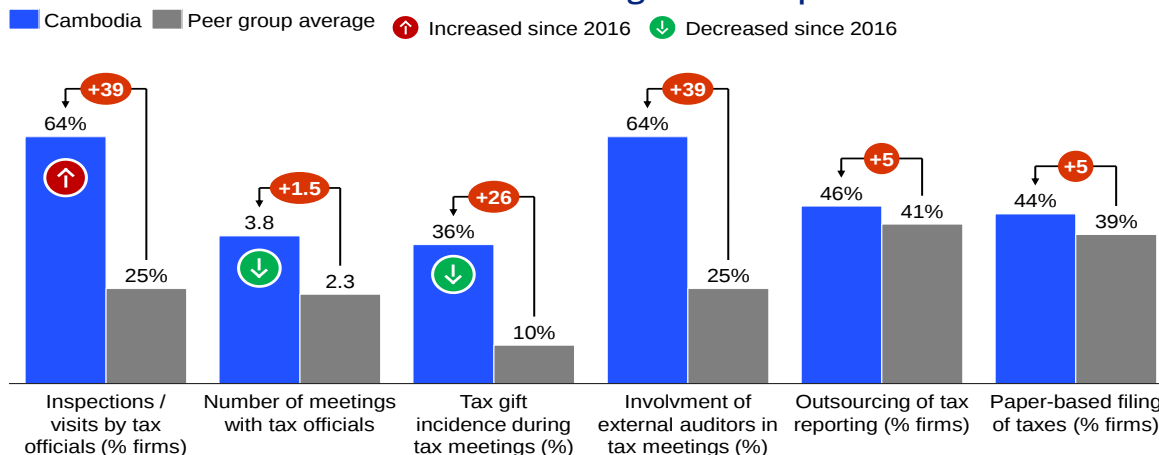
Similarly, transport logistics and trade costs in Cambodia remain among the highest in the region, despite improvements. While cumulative logistics costs have fallen by around 20 percent since 2015, they remain nearly double those in Thailand, driven by high inventory costs, transport and warehousing expenses, and limited inventory management capacity (World Bank 2024b). Cambodia's relative performance on the Logistics Performance Index deteriorated from 83rd in 2014 to 115th in 2023, with particularly poor scores in infrastructure, customs, and international shipments. Progress has been constrained by complex governance arrangements and weak interagency cooperation. Although logistics policy is led by the Ministry of Public Works and Transport through the National Logistics Council, key institutions such as the Ministry of Economy and Finance and Customs remain only partially engaged. As a result, border clearance times remain long and have worsened over time (World Bank 2026b). Cambodian firms take, on average 20 days to clear exports and 22 days to clear imports (compared to peer averages of 12 and 17 days, respectively), much of it occurring after customs. Trade-related issues are explored in more detail in Chapter 3.

2.8. Priority E – Bureaucratic Costs and Risks

Cambodia needs to reduce the indirect financial and time costs and uncertainties that firms face during the tax compliance process. The widespread concerns among firms in Cambodia about taxes and their association with manufacturing productivity are not driven by Cambodia's formal statutory tax rates, which are competitive by global standards and aligned with regional peers (World Bank 2025f). Rather, they reflect the additional burdens that arise during the tax administration process, characterized by frequent meetings and inspections, high rates of informal payments, frequent audits, and substantial fines. Compared to their peers (Figure 2.9), Cambodian formal firms report a higher (a) likelihood of being visited or inspected by tax officials; (b) number of meetings with tax officials; and (c) likelihood of an expectation of, or request for, an informal payment or gift to officials in these tax meetings. Tax law also grants the tax authority more latitude to reexamine transactions and enforce stricter penalties, including fines for mistakes, adding to taxpayers' total tax liability.

Cambodia also needs to strengthen the legal predictability and timeliness around commercial disputes. Uncertainty stems from regulatory gaps as well as service and implementation issues (B-READY, 2025). Regulatory gaps include a lack of procedural guidelines on time standards and limits for litigation processes. Service issues include a lack of specialized commercial courts, limited digitization of court processes, and a lack of Alternative Dispute Resolution (ADR) mechanisms.

Figure 2.9: Cambodia needs to reduce the high tax compliance burden of firms



Source: WBESs. Notes: (1) Structural peers: Bangladesh, Philippines, and Viet Nam.

Finally, Cambodia needs to take stronger action to reduce the high degree of informal payments, which add to the cost and risk of investment and doing business. Countries with higher rates of corruption typically have lower firm productivity. Compared to their structural peers (Hayati, Noura, and Maw, forthcoming c), Cambodian formal firms report (i) a far higher likelihood of making an informal payment to a government official to get things done (45 percent versus 21 percent); and (b) a far bigger average payment (1.6 percent of sales versus 0.3 percent). The gap to Cambodia's aspirational HIC peers is even wider. The consequences extend beyond direct costs: informal payments function as an unpredictable tax on business, one that distorts competition, rewards connections over productivity, and signals to investors that rules will not be applied consistently (World Bank 2026b). The effect extends to innovation: Evidence across European regions shows that weak government quality, especially high corruption, holds back knowledge creation and reduces the effectiveness of innovation policy (Rodríguez-Pose and Di Cataldo 2015). Given the evidence that informal payments are most prevalent in tax settings, this should be the highest priority area for action.



Chapter 3: The Trade Transformation Needed

This chapter assesses how Cambodia's trade model must evolve to support Vision 2050. Trade is the critical transmission channel through which firm-level productivity gains convert into export growth and better jobs, but that channel is currently underperforming. The trade model remains centered on assembly-based manufacturing, a narrow export basket, and weak domestic linkages, generating limited domestic value added and exposing the economy to rising external risks. Trade has delivered jobs, but largely in low-value production tasks with limited potential for upgrading. At the same time, the global trade environment is becoming more demanding, services-intensive, standards-driven, and climate-constrained, while LDC graduation in 2029 will reduce Cambodia's preferential market access. Achieving Vision 2050 will require a more diversified, resilient, and higher-productivity trade profile that moves up value chains, expands tradable services, and generates better jobs. Accelerating this transformation requires reforms across four priority areas: leveraging trade agreements more strategically, reducing trade costs and frictions, expanding services and digital trade, and strengthening domestic linkages to GVCs.

3.1. Cambodia's Trade Model Must Diversify and Upgrade

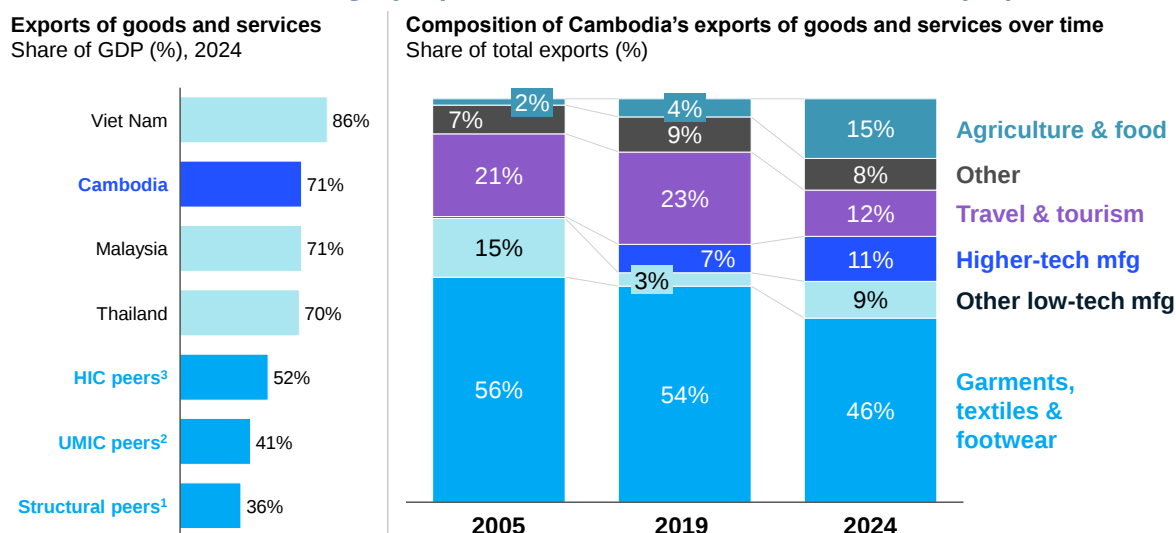
Cambodia's trade integration must be judged not by scale alone, but by whether it supports resilient, productivity-led growth consistent with Vision 2050. This section examines three dimensions: the structure of specialization, the depth and upgrading of participation in GVCs, and the extent to which trade has strengthened resilience, firm dynamism, and job quality.

High openness has delivered export scale, but diversification remains limited and concentrated in low-productivity segments. Exports of goods and services rose from around 40 percent of GDP in the early 2000s to about 71 percent by 2024, comparable to Malaysia and Thailand and higher than most structural and UMIC peers (Figure 3.1). Imports and FDI expanded in parallel, underscoring strong integration into global production networks. Yet diversification has progressed only gradually. Garments, textiles, and footwear still account for roughly 46 percent of exports, while higher-technology manufacturing remains modest at around 11 percent. Agriculture and food products have gained slightly, and services exports remain dominated by tourism and travel. The slow and uneven recovery of tourism since COVID-19 underscores the risks of relying on a narrow and shock-sensitive export base.

Participation in GVCs has deepened, primarily through greater reliance on imported inputs rather than movement into higher-value-added tasks. Around 38 percent of exports depend on imported intermediate inputs, placing Cambodia among the highest in the Association of Southeast Asian Nations (ASEAN) in backward participation (Figure 3.2). However, increased integration over the decade has largely occurred through greater reliance on imported inputs rather than expansion into component production, design, logistics, or services. Forward participation remains in the single digits by regional standards, reflecting continued specialization in final assembly rather than exports for downstream production. In contrast, several ASEAN peers

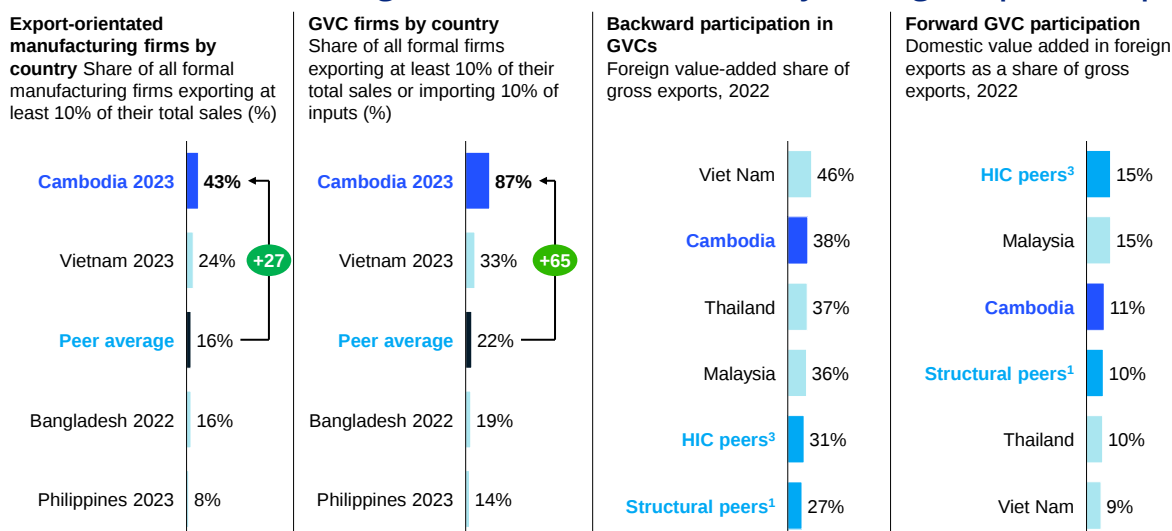
have increased domestic value added by upgrading into higher-value segments of production, limiting productivity spillovers from Cambodia's trade integration.

Figure 3.1: Cambodia is highly open to trade, but remains narrowly specialized



Source: WDI (World Bank); and World Bank staff calculation using WDI and UNCTAD. Notes: (1) Structural peers: Philippines, Viet Nam, Bangladesh, Guatemala, and Nicaragua; (2) UMIC peers: Philippines, Viet Nam, Jordan, El Salvador, Guatemala, Georgia, and Paraguay; (3) HIC peers: Bulgaria, Chile, Costa Rica, Hungary, Malaysia, Poland, and Romania.

Figure 3.2: Cambodia is integrated into GVCs, but mainly through imported inputs



Source: World Bank staff calculation using WBESs; and using Taglioni Borin, Mancini and Taglioni (2025) based on OECD ICIO data. GVC participation measures ensure that trade flows cross at least two country borders and are computed as a share of total exports. Notes: (1) Structural peers: Philippines, Viet Nam, Bangladesh, Guatemala, and Nicaragua; (2) UMIC peers: Philippines, Viet Nam, Jordan, El Salvador, Guatemala, Georgia, and Paraguay; (3) HIC peers: Bulgaria, Chile, Costa Rica, Hungary, Malaysia, Poland, and Romania.

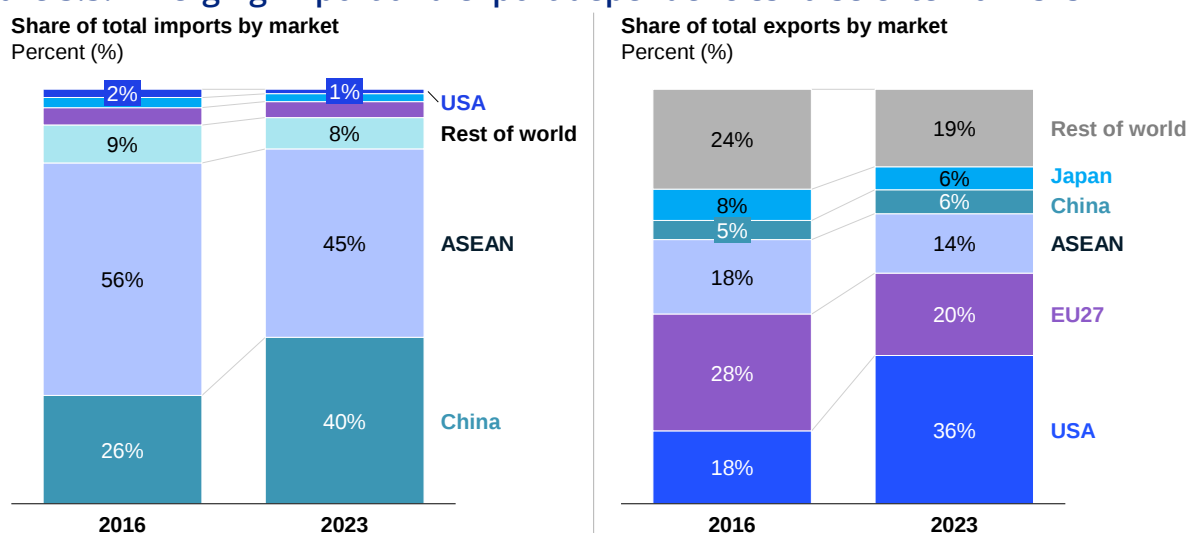
Export growth is increasingly concentrated in a small number of firms, heightening structural vulnerability. While many firms import, export expansion has been driven by a narrowing group of highly integrated firms, with exporters that do not import remaining small and marginal. By the early 2020s, the single largest GVC firm accounted for over one-third of total exports, one of the highest concentrations in comparator economies. This dependence concentrates export earnings, employment, and foreign exchange in a narrow segment of the

economy, increasing exposure to firm-specific shocks, relocation decisions, or shifts in global production networks.

Concentration in export markets and input sources further increases external exposure.

The United States and the EU together account for roughly two-thirds of goods exports, with the United States' share rising sharply in recent years, while China has become the dominant source of imports (Figure 3.3). The divergence between export markets and import sources increases vulnerability to geopolitical tensions, supply chain disruptions, and policy shocks affecting either side of trade. Export growth has also been more volatile than in several ASEAN peers, reflecting the limited capacity of firms to diversify markets or sources.

Figure 3.3: Diverging import and export dependencies raise external risks

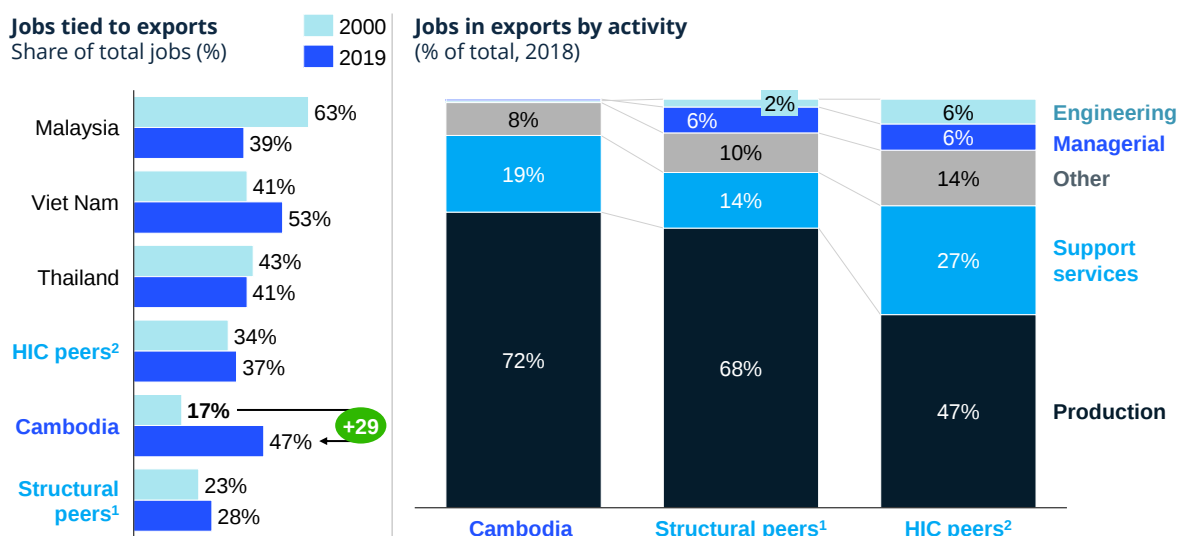


Source: World Bank staff calculations based on BACI International Trade Database at the HS-6 digit Product-Level using the HS2007 Nomenclature.

Trade has generated employment at scale, but upgrading in job quality remains limited. Jobs linked to exports rose from about 17 percent of total employment in 2000 to nearly 47 percent by 2019 (Figure 3.4). However, around 72 percent of export jobs remain concentrated in production roles, compared with less than half in HIC peers, while managerial and engineering roles account for under 10 percent. Although exporters are more productive than non-exporters, the productivity premium is smaller than in comparator economies. Shallow domestic sourcing and weak linkages between foreign-invested exporters and local firms constrain skills transfer and wage growth.

Taken together, Cambodia's trade model has delivered openness and scale but only partial diversification, shallow upgrading, and modest productivity spillovers. As global trade becomes more services-intensive, vulnerable to climate change, and subject to increasing policy fragmentation, these structural features will increasingly shape Cambodia's ability to sustain convergence.

Figure 3.4: Nearly half the jobs are tied to exports, mostly in production activities



Source: OECD Trade in Employment data (2023 release), and World Bank Activities in Exports data produced for Maliszewska and Winkler (2024); World Bank staff calculations based on Job Activities in Exports Database for 2018. For a description of the dataset, see Kruse et al. (2024). Notes: (1) Structural peers: Philippines, Viet Nam, and Bangladesh; (2) HIC peers: Bulgaria, Chile, Costa Rica, Hungary, Malaysia, Poland, and Romania.

3.2. The Trade Transformation Required for Vision 2050

Cambodia's transition to high-income status requires a structural transformation of its trade model. The current pattern of trade participation remains concentrated across products, markets, and firms, with limited domestic value added and supplier linkages. While this model has delivered rapid export growth and employment, it is vulnerable to external shocks, tightening standards, and shifting global conditions.

This transformation must navigate a more demanding global trade environment in which the basis of competitiveness is shifting rapidly. The services gap remains critical: domestic services account for just 19 percent of total exports, roughly 17 percentage points below HIC peers. Policy uncertainty is rising, with around 37 percent of exports affected by cumulative restrictive measures in Cambodia's two largest markets. Climate- and standards-related requirements are becoming integral to market access, with carbon intensity in several key export sectors significantly exceeding that of competitors. LDC graduation in 2029 will erode preferential tariff margins for around one-third of current exports, making regulatory alignment and upgrading unavoidable.

The desired 2050 end-state is a diversified, resilient, and capability-driven export economy with deeper value capture within GVCs. The export basket would reflect a broader mix of advanced manufacturing, agribusiness, digital services, and green exports, with a larger share of domestic value added and non-production functions, and export-related employment shifted toward engineering, managerial, and support service roles.

International experience suggests that successful upgrading occurs within value chains rather than outside them. East Asian economies followed sequenced upgrading, from assembly to process improvement, then to design, standards compliance, branding, and higher-order functions, supported by sustained investment in skills, infrastructure, and institutional capacity.

Foreign investment was used as a capability-building instrument rather than solely a source of low-wage employment. What countries do within exports, particularly the shift toward knowledge-intensive and non-production functions, matters more for long-run income growth than the specific products they export (Baldwin 2016; Kruse et al. 2025).

Cambodia's upgrading path will likely combine diversification across sectors with functional deepening within them. Diversification is likely to occur first into activities adjacent to existing capabilities, including higher-technology manufacturing, green niches, agro-processing, and related services, that build on established production platforms while increasing complexity. As incomes rise, upgrading will increasingly depend on expanding into higher-value functions within core sectors: engineering, design, marketing, compliance, and digital solutions.

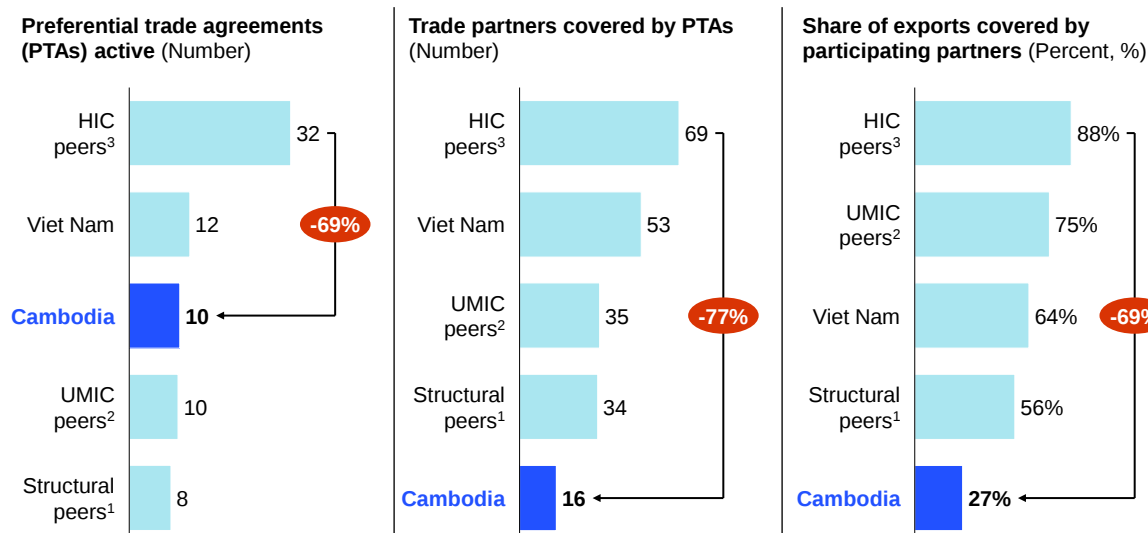
Delivering this transformation will require strengthening the capabilities and institutions that support firm-level upgrading. Investment in technical, managerial, and digital skills will be essential to support non-production functions; digital and logistics infrastructure must enable reliable participation in standards-intensive value chains; and investment policy should prioritize spillovers and technology diffusion rather than scale alone. Without coordinated progress across these enablers, diversification risks stalling in low-complexity segments.

3.3. Priority A - Leverage Trade Agreements More Strategically

Trade agreements can anchor diversification and upgrading if used strategically. While unilateral preferences have supported export growth, durable upgrading increasingly depends on reciprocal commitments that shape domestic regulation, services integration, and investment conditions within GVCs. Cambodia benefits from 23 unilateral trade preference schemes granted by major markets, which have supported labor-intensive exports but do not embed reciprocal regulatory commitments. In parallel, Cambodia maintains 10 preferential trade agreements (PTAs) covering 16 partners, yet only 27 percent of exports are directed to those PTA partners (Figure 3.5). In contrast, Viet Nam and aspirational peers have significantly more agreements, covering more partners and exports, whereas Cambodia's PTA partner coverage remains limited relative to countries pursuing deeper integration.

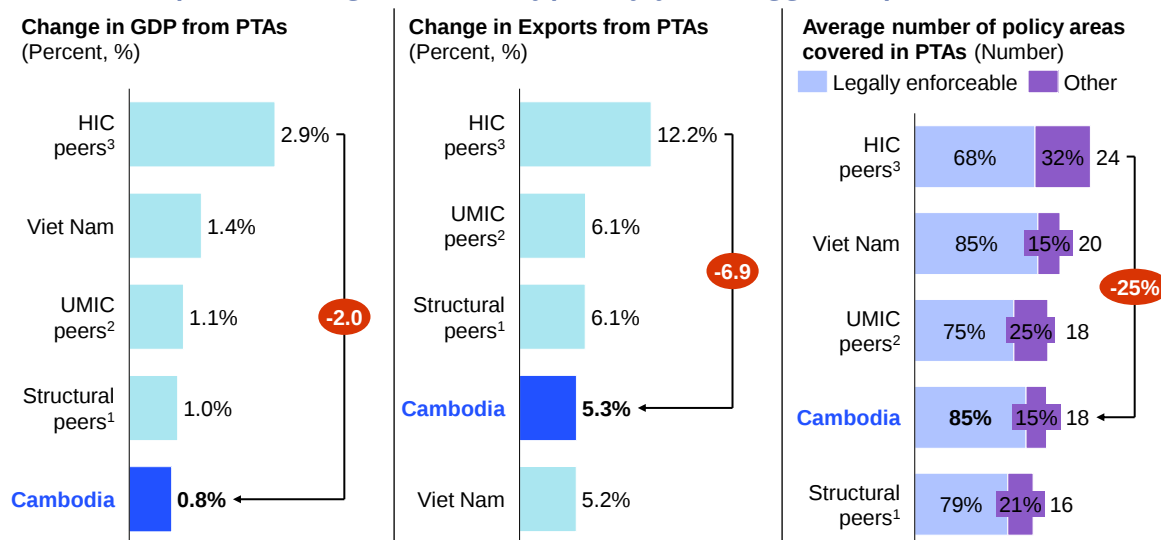
The depth and effective implementation of existing agreements will determine their impact on upgrading. Cambodia's PTAs have expanded beyond tariff reductions to include services, investment, and selected regulatory disciplines, particularly through ASEAN and the Regional Comprehensive Economic Partnership. However, their policy coverage remains narrower than that of peers: Cambodia's agreements cover, on average, 18 of 52 possible policy areas, compared with 20 in Viet Nam and 23 among high-income peers (Figure 3.6). Correspondingly, estimated gains have been modest, with existing agreements associated with export increases of around 5 percent and GDP gains of about 1 percent, well below the roughly 12 percent export gains and 3 percent GDP gains observed among economies with deeper agreements.

Figure 3.5: Cambodia lags peers in depth and coverage of trade agreements



Source: TCD 2.0 using World Bank Deep Trade Agreements Database. Calculation based on Trade Agreements database 2.0 - Horizontal Depth for year 2022. Trade calculation based on BACI dataset from the CEPII. Notes: (1) Structural peers: Philippines, Viet Nam, Bangladesh, and Guatemala. (2) UMIC peers: Philippines, Viet Nam, El Salvador, Guatemala, Georgia, and Paraguay; (3) HIC peers: Bulgaria, Chile, Costa Rica, Hungary, Malaysia, Poland, and Romania.

Figure 3.6: Deeper trade agreements typically yield bigger impacts



Source: TCD 2.0 using World Bank Deep Trade Agreements Database. Calculation based on Trade Agreements database 2.0 - Horizontal Depth for year 2022. Trade calculation based on BACI dataset from the CEPII. Notes: (1) Structural peers: Philippines, Viet Nam, Bangladesh, and Guatemala. (2) UMIC peers: Philippines, Viet Nam, El Salvador, Guatemala, Georgia, and Paraguay; (3) HIC peers: Bulgaria, Chile, Costa Rica, Hungary, Malaysia, Poland, and Romania.

Future gains will depend less on expanding the number of agreements and more on strengthening the depth and implementation of existing ones. Strengthening implementation requires simplifying rules of origin, digitizing customs procedures, upgrading testing and standards infrastructure, and improving interagency coordination so firms can fully utilize negotiated commitments. Agreements should also be used more strategically to support upgrading, with provisions on services, investment, digital trade, and regulatory cooperation leveraged to attract higher-quality foreign investment, strengthen domestic supplier linkages, and expand green and digitally delivered exports. Aligning investment promotion, supplier development, and standards

reform with PTA commitments would help translate formal market access into durable participation in higher-value segments of regional value chains and GVCs.

Deepening and effectively implementing agreements can unlock export growth while reinforcing upgrading and the green transition. Erosion of LDC-based preferences would lead to export contraction if not offset by deeper integration and upgrading, underscoring the urgency of this agenda. Simulations suggest that stronger implementation and regulatory alignment under existing agreements could raise aggregate exports by around 5 percent relative to baseline projections, with gains concentrated in apparel, electrical equipment, machinery, and selected agri-food products. Much of this expansion would stem from reducing non-tariff measures (NTMs), particularly standards, certification requirements, and compliance-related costs, rather than from further tariff cuts. Lower trade costs on imported intermediates would also reinforce participation in regional value chains. At the same time, agreements increasingly link market access to environmental and sustainability standards, making regulatory alignment central to maintaining competitiveness.

3.4. Priority B - Reduce Trade Costs and Frictions

Reducing trade costs is essential if Cambodia is to move beyond labor-cost competition.

Despite strong integration into global markets, logistics performance lags structural and HIC peers and has deteriorated over time. Cambodia's ranking in the Logistics Performance Index fell from 83 in 2014 to 115 in 2023 (Figure 3.7), placing it well below regional and aspirational comparators. Weaknesses are particularly pronounced in customs efficiency and infrastructure quality, while stronger performance in tracking and timeliness does not offset upstream bottlenecks. Geographic concentration further amplifies these constraints: a large share of exports moves through the Phnom Penh–Sihanoukville corridor and a limited number of special economic zones and border crossings, increasing exposure to congestion and flooding.

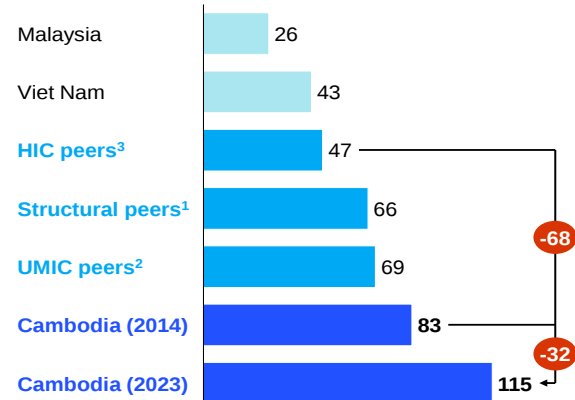
Regulatory and procedural barriers further raise trade costs and reduce flexibility within value chains. Since 2013, Cambodia has introduced 160 new trade-related measures (Figure 3.8), concentrated in technical barriers to trade (TBT), export-related controls, and sanitary and phytosanitary (SPS) measures. While many serve legitimate objectives, their cumulative expansion has significantly increased the regulatory footprint affecting trade. By 2023, technical measures covered 87 percent of export value and non-technical measures 92 percent, substantially higher shares than in most peers. Licensing, certification, quantity controls, and product-specific requirements now apply across a wide range of goods, raising compliance costs and weakening export competitiveness.

Effective NTM reform requires stronger regulatory governance and coordination. Trade-related measures are issued by multiple ministries whose mandates are not primarily trade-focused, limiting coordination and policy coherence. Agriculture, health, and finance authorities account for much of the SPS, TBT, licensing, and export measures, while the Ministry of Commerce issues only a relatively small share of NTMs. This fragmentation increases the risk of overlapping requirements and inconsistent rule interpretation. Stronger interagency coordination, clearer central oversight, and systematic review of existing measures would reduce unnecessary compliance costs while preserving legitimate public policy objectives.

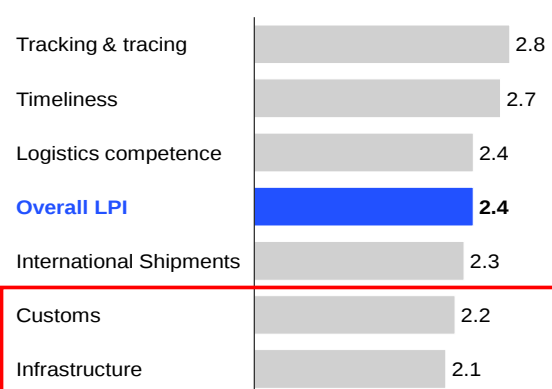
Figure 3.7: Cambodia's logistic performance is weak and has deteriorated

Logistic Performance Index (LPI), Cambodia and peers

Rank by country, 2023



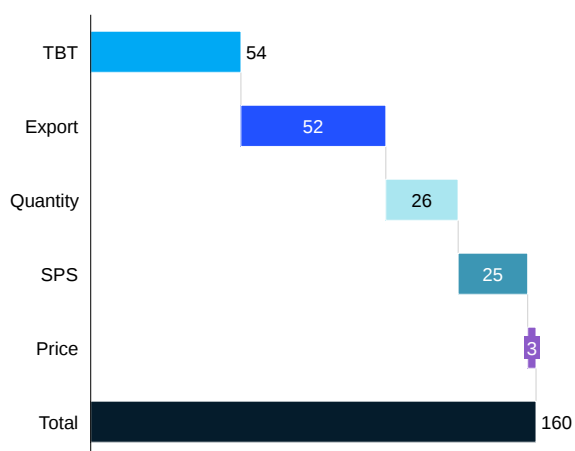
Cambodia score by metric (1=low, 5=high), 2023



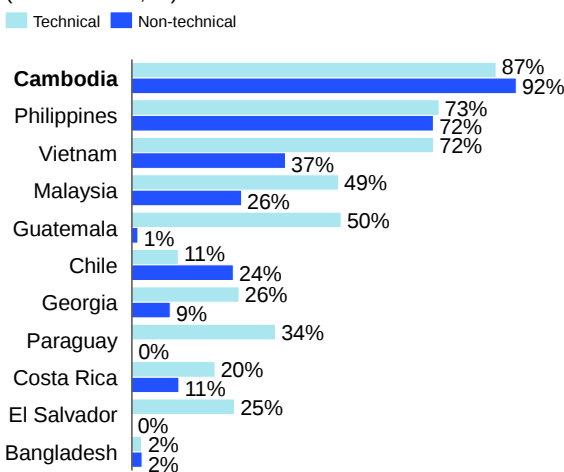
Source: World Bank staff calculations based on World Bank Logistics Performance Index. Notes: (1) Structural peers: Philippines, Viet Nam, Bangladesh, and Guatemala; (2) UMIC peers: Philippines, Viet Nam, El Salvador, Guatemala, Georgia and Paraguay; (3) HIC peers: Bulgaria, Chile, Costa Rica, Hungary, Malaysia, Poland, and Romania.

Figure 3.8: Cambodia has progressively added more barriers to trade over time

New measures imposed by Cambodia since 2013 by type of measure (Number)



Exports affected by export-related measures in 2023 (Share of total, %)



Source: World Bank staff calculations based on UNCTAD NTMTRAINS data and trade data from BACI. The data for Cambodia was collected in 2015, 2018, and 2024. Note: Pre-shipment: Pre-shipment inspections. Quantity: Non-automatic import licensing, quotas, bans, and other quantity controls, excluding SPS and TBT measures. Price: Price-control measures, including additional taxes and charges. Export: Export-related measures. The graph presents the share of exports affected by at least technical or non-technical export-related NTMs.

Targeted reductions in non-tariff trade costs offer one of the highest-return reform margins for export growth. Agri-food sectors show particularly large potential trade cost reductions, underscoring the importance of streamlining SPS procedures, upgrading testing and certification infrastructure, and expanding risk-based inspections. Because Cambodia relies heavily on imported intermediates, lowering trade costs on inputs would also strengthen participation in regional value chains and reduce supply-chain vulnerability.

Trade cost reform should also advance Cambodia's green transition and diversification agenda. Many environmental goods continue to face tariffs near or above the national average and are subject to extensive NTMs, with more than 400 measures affecting them. Inefficient or

poorly coordinated implementation raises costs for firms adopting clean technologies or integrating into green value chains. Streamlining tariffs and procedures for climate-critical goods, recognizing international standards, and improving licensing transparency would reduce input costs and attract green investment.

3.5. Priority C - Expand Services and Digital Trade

Deepening the integration of services into exports is essential for Cambodia to capture more value from trade and sustain upgrading. Cambodia currently lags its peers in embedding domestic services into exports. Domestic services account for just 3.6 percent of value added in agricultural exports and 2.6 percent in manufacturing exports, well below Viet Nam (8.0 and 6.2 percent, respectively) and far behind aspirational comparators where services account for 15–20 percent or more of export value added. This low level of servicification limits domestic value capture, weakens productivity spillovers, and constrains the creation of higher-skilled employment in engineering, design, logistics, finance, and digital support functions.

Stronger backbone services and greater competition are central to raising domestic value capture. Many exporters rely on imported service inputs or operate within thin domestic service ecosystems. Constraints in transport, logistics, professional services, ICT, and financial services raise costs and limit firms' ability to move into higher-value functions such as product design, marketing, compliance management, and after-sales services. Regulatory restrictions, licensing requirements, and limited competition in certain service sectors further inhibit entry and innovation. Strengthening competition policy in services, improving regulatory transparency, and facilitating greater domestic and foreign investment in high-productivity service sectors would expand the range and quality of services available to exporters.

Trusted digital regulatory foundations are critical for expanding the modern services trade. Digital services, including IT outsourcing, online business services, fintech, digital marketing, and digitally delivered professional services, offer opportunities to diversify beyond goods-based exports. However, key horizontal enablers remain underdeveloped. Comprehensive data protection legislation is not yet fully operational; rules governing cross-border data transfers are limited; and cybersecurity and cybercrime frameworks remain incomplete. Online consumer protection provisions are partial, and legal recognition of electronic documentation and paperless trade processes remains constrained. The absence of enforceable and coherent digital trust frameworks limits investor confidence and Cambodia's participation in cross-border digital markets.

Expanding services and digital trade will require coordinated regulatory and investment reform. Priorities include liberalizing key services sectors that support goods exports; strengthening regulatory coherence and competition in logistics, ICT, and professional services; operationalizing data protection and cybersecurity frameworks; enabling secure cross-border data flows; and modernizing legal frameworks to recognize electronic transactions and documentation. Investments in digital infrastructure and skills, particularly in technical and science, technology, engineering, and mathematics (STEM) fields (see Chapter 4), are essential complements to regulatory reform.

3.6. Priority D – Strengthen Domestic Linkages to GVCs

Stronger domestic linkages are essential if export growth is to translate into broad-based productivity gains. Cambodia's export sectors generate most value within exporting firms, with limited spillovers to domestic suppliers. Indirect domestic value added from supplying industries accounts for only about 9 percent of total exports, well below more integrated peers, while 57 percent is created directly within export sectors.

Investment policy should prioritize foreign investment with high linkage potential. Export growth is driven largely by foreign-owned manufacturers, many of which source inputs abroad and operate separately from domestic firms. These firms account for roughly 16 percent of manufacturing establishments (one of the highest shares among comparators) and exhibit high export participation, while domestic firms remain predominantly inward-oriented. This divide limits knowledge diffusion and supplier upgrading. Cambodia should therefore target investors whose business models include local sourcing, supplier development, and technology transfer, particularly in electronics, higher-value agro-processing, and green manufacturing. Incentives, especially in special economic zones, should avoid disadvantaging domestic firms. Requiring major investors to outline local linkage strategies and embedding supplier development objectives in investment promotion would strengthen domestic integration.

Stronger absorptive capacity among domestic firms is critical to capturing spillovers. Many local firms lack the capabilities and compliance with standards needed to integrate into GVCs. Domestic firms are far less likely than foreign firms to hold internationally recognized quality certifications or use licensed foreign technologies, constraining their ability to meet global requirements. Small firm size, technology gaps, and high informality further limit upgrading and access to finance. Policies should therefore focus on strengthening managerial and operational capabilities, supporting the adoption of standards, improving access to finance, and facilitating gradual integration into regional value chains as stepping stones toward more demanding global markets.

Workforce upgrading must accompany firm capability strengthening. Cambodia's export model remains concentrated in production tasks, particularly in apparel and assembly-based manufacturing. While foreign firms generate large-scale employment, demand remains skewed toward low- and semi-skilled labor rather than engineering, technical, and managerial roles. Expanding and improving technical and vocational training, strengthening STEM education, and investing in firm-level managerial training are essential to support functional upgrading. Workforce development will enable domestic firms to move into higher-value activities, such as logistics coordination, quality assurance, and technical services, raising domestic value capture within existing exports.

Scaling supplier linkages requires a coordinated national framework. Linkage development depends on alignment across trade, investment, and industrial policy. Addressing information gaps between foreign investors and local suppliers, strengthening contract enforcement, and implementing structured public-private supplier development programs can reduce coordination

failures. Demand-led supplier upgrading, where foreign firms help define standards and upgrade pathways, should be embedded within a clear institutional framework focused on expanding domestic value addition.

Box 3.1: Building domestic linkages to GVCs - lessons from Costa Rica

Costa Rica's experience offers one of the most instructive examples of how a structured approach to supplier development can transform weak backward linkages into a genuine source of domestic value added. When high-technology multinationals began operating in its export processing zones, local SMEs lacked the technological sophistication, standards compliance, and financial resources to become competitive suppliers. Rather than leaving linkage development to market forces, the government launched the Supplier Development Project for High-Technology Multinational Companies in 1999, with the explicit objective of building SME capacity to first supply multinationals domestically and later compete as exporters.

The program was selective and strategic, targeting SMEs with higher absorptive capacity in three priority sectors. Its three core components worked in tandem: a Procurement Pilot Programme set a concrete target of 45 successful SME-multinational linkages over three years; an Integrated Information System managed supply and demand data; and Costa Rica Provee, a dedicated National Supplier Development Office, matched investor procurement requirements with local suppliers. As supplier capabilities improved, procurement requirements were progressively relaxed. A parallel High-Technology Multinational Companies Committee provided systematic aftercare for existing investors, recognizing that reinvestments represent a large share of FDI.

For Cambodia, the central lesson is to anchor supplier development programs in investor demand from the outset. Selectivity matters: Concentrating support on SMEs with higher absorptive capacity consistently delivers better outcomes than broad-based outreach. Program design should not treat aftercare for existing investors and flexibility over time as add-ons but as core features.

Sources: Monge-Gonzalez and Rodriguez-Alvarez (2013); Tuomi (2012);



Chapter 4: The Workforce and Skills Transformation Needed

This chapter assesses how Cambodia's workforce and skills ecosystem must transform to support Vision 2050. Cambodia's transition to high-income status depends on a workforce capable of supporting productivity-driven growth, yet the system produces insufficient human capital: Too few students progress through secondary and tertiary education, and those who do acquire weaker skills than overseas peers. This risks entrenching a low-education, low-skill, low-wage, low-productivity equilibrium in which firms have little incentive to upgrade, and workers have little incentive to invest in skills, each reinforcing the other. Breaking this equilibrium is the flip side of the business environment reforms in Chapter 2: Firms must demand higher skills, and a growing supply of skilled workers must in turn enable firm upgrading, a virtuous cycle that must be deliberately activated. Achieving this will require approximately 1.8 million additional workers to move into high-skilled occupations by 2050, raising the high-skilled employment share from around 8 percent today toward roughly one-third of total employment. Accelerating this transformation requires reforms across three priority areas: upskilling the existing workforce, preparing the future workforce, and equipping workers to navigate global structural change.

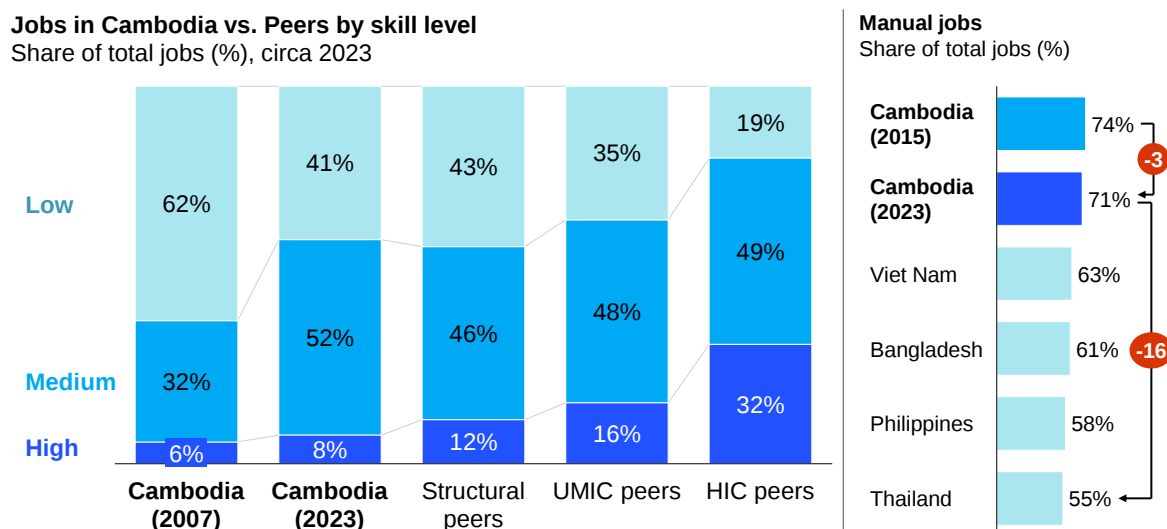
4.1. The State of Cambodia's Workforce and Skills Ecosystem

Cambodia's growth model is constrained by a low-skill, low-productivity equilibrium in which weak workforce skills constrain firm upgrading, and limited firm demand for skills constrains workforce investment; this chapter focuses on the supply-side reforms needed to break that cycle. Employment rates are high, but productivity growth remains subdued, with much of the workforce concentrated in low-productivity sectors (Chapter 1). This equilibrium reflects both demand- and supply-side forces. On the demand side, firms face constraints that limit movement into higher-value-added activities (Chapter 2) and deeper participation in GVCs (Chapter 3). On the supply side, the skills system has not generated the breadth and depth of capabilities required to support sustained upgrading. In practice, this reflects a dual challenge: Far fewer young people progress through secondary and tertiary education than in peer economies, and those who do often finish with insufficient skills for the education level.

This equilibrium is reflected in Cambodia's occupational structure, where high-skilled jobs remain scarce and manual work prevalent. Low-skilled jobs, agricultural and elementary occupations, still account for 41 percent of the workforce, and manual jobs remain significantly more prevalent than in comparator economies (Figure 4.1). Medium-skilled employment has expanded to more than half of total jobs, broadly in line with peer groups. However, high-skilled occupations, managers, professionals, technicians, and clerks, account for just 8 percent of employment, a quarter of the share in HIC economies (32 percent). Skilled employment is also concentrated in urban areas, while rural jobs remain largely informal and low-skilled. The returns to education reinforce this picture. A decade ago, returns were strikingly low at the primary and lower-secondary level, accruing only to those with secondary education or above (Cunningham and Hollweg 2019). By 2023, returns had risen across most levels, though they remain below the

global average of around 10 percent for each additional year of education. Returns to university education, however, fell about 9 percentage points for younger graduates ages 25–34, from 46 to 37 percent relative to below-primary education over 2014–2023, signaling still-subdued demand for high-skilled labor.

Figure 4.1: Cambodia needs to accelerate the shift toward high-skilled jobs



Source: ILOSTAT, peers circa 2023. Note: (1) Structural peers: Bangladesh, Philippines, Viet Nam, Guatemala, Nicaragua, and Thailand; (2) UMIC peers: Philippines, Viet Nam, Jordan, El Salvador, Guatemala, Georgia, and Paraguay; (3) HIC peers: Malaysia, Costa Rica, Bulgaria, Chile, Romania, Poland, and Hungary.

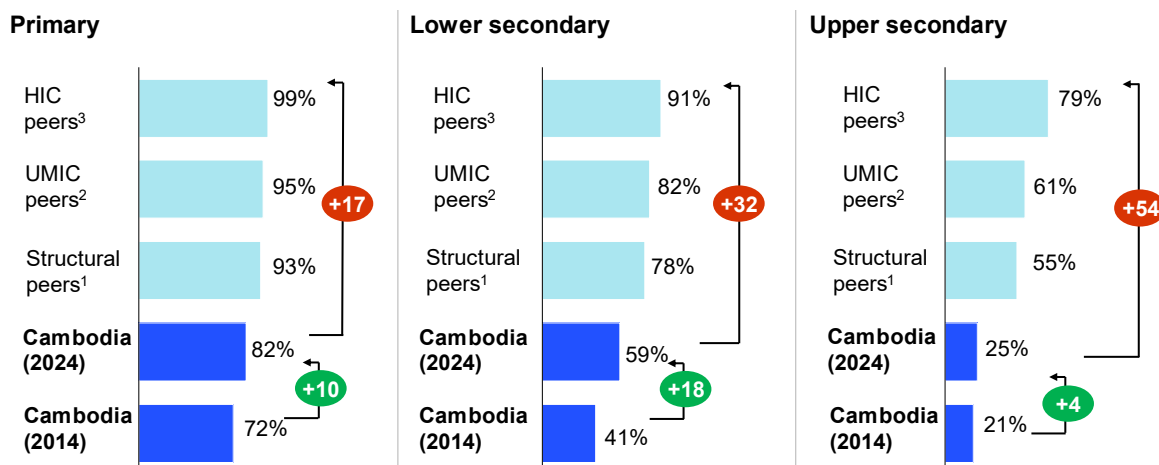
Low and unequal secondary completion rates constrain the supply of students prepared to enter higher-skilled occupations. Cambodia has made progress in expanding access to education, with early childhood enrollment rising and primary net enrollment approaching universal levels. Yet progression drops sharply at higher levels: Only 59 percent of students complete lower-secondary and just 25 percent complete upper-secondary, more than 50 percentage points below HIC peers (Figure 4.2, Panel A). In 2019–2020, only 17 percent of Cambodia's overall workforce and 20 percent of 15- to 24-year-olds had completed secondary education or entered higher education, leaving most young people ill-prepared for higher-skilled occupations and perpetuating a low-skilled labor force (World Bank 2024b). These shortfalls are compounded by stark inequalities, with wealth-based gaps at the secondary level approaching 50 percentage points (Figure 4.2, Panel B).

The inequalities in completion reflect structural barriers that contribute to dropout and low progression to secondary school, particularly among poor and rural students. First, girls are more likely to leave school to support household responsibilities, and boys face stronger economic pressure, with 38 percent of lower-secondary-age students citing lack of funds or the need to work (46 percent among poor students). Second, disparities in school quality, including uneven teacher deployment and limited instructional support, result in weak learning foundations and weaken incentives for students from poor households in rural areas to remain in school (World Bank 2024b). Third, limited school infrastructure drives low secondary school enrollment in rural areas, where long travel distances discourage continuation beyond primary education (World Bank 2024e).

Figure 4.2: Cambodia needs to lift secondary enrollment and reduce inequalities

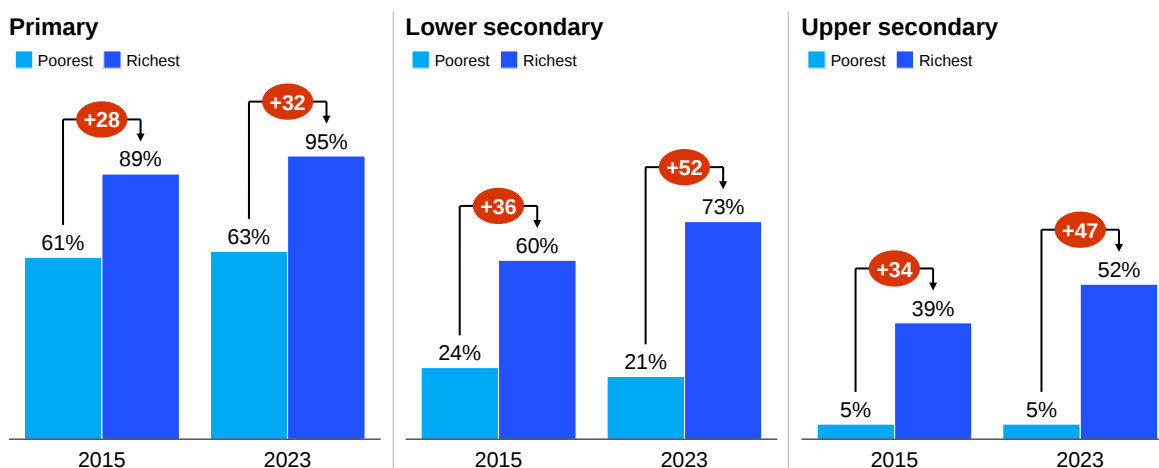
Panel A

Completion rates by level of schooling in Cambodia vs. Peers



Panel B

Completion Rates by Education Level and Wealth Quintile in Cambodia, 2015 and 2023

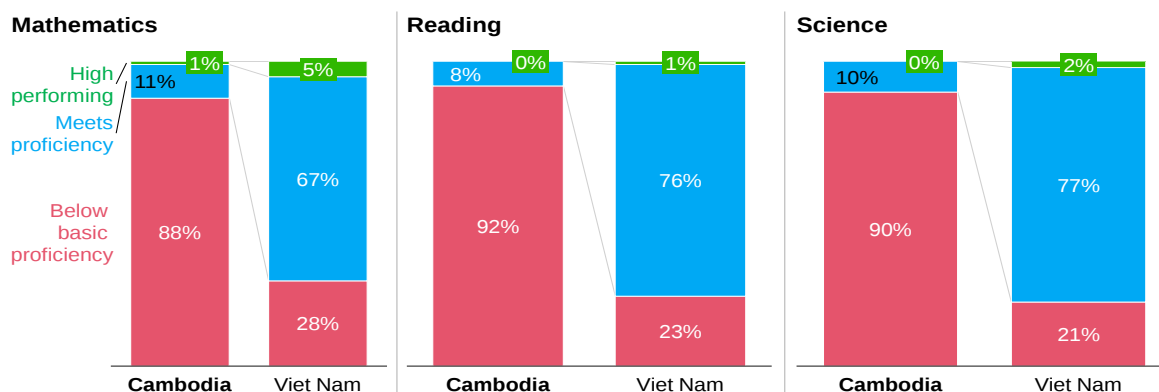


Source: UIS database, MoEYS and UNICEF Cambodia (2024). Note: (1) Structural peers: Bangladesh, Philippines, Viet Nam, Guatemala, Nicaragua, and Thailand; (2) UMIC peers: Philippines, Viet Nam, Jordan, El Salvador, Guatemala, Georgia, and Paraguay; (3) HIC peers: Malaysia, Costa Rica, Bulgaria, Chile, Romania, Poland, and Hungary.

Weak learning outcomes further limit the development of advanced skills among those who do remain in school. The share of 10-year-olds unable to read and understand a simple text was 71 percent in 2024 (LP database, April 2026 [Figure 4.3]). Early deficits remain pronounced: half of Grade 1 students cannot recognize a single letter (MoEYS 2019), and one in four Grade 3 students cannot write a word (UNICEF Cambodia 2019). Persistent weaknesses in foundational skills limit the progressive development of advanced capabilities and constrain Cambodia's ability to move into higher-productivity activities.

Figure 4.3: Cambodia needs to improve learning outcomes

15-year-old students' performance in mathematics, reading and science in PISA 2022, Cambodia vs. Viet Nam

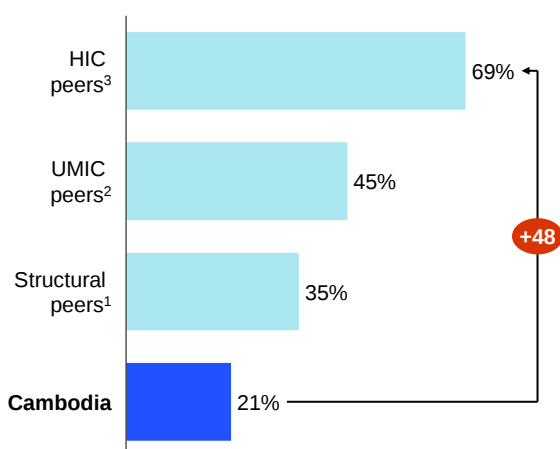


Source: OECD 2023.

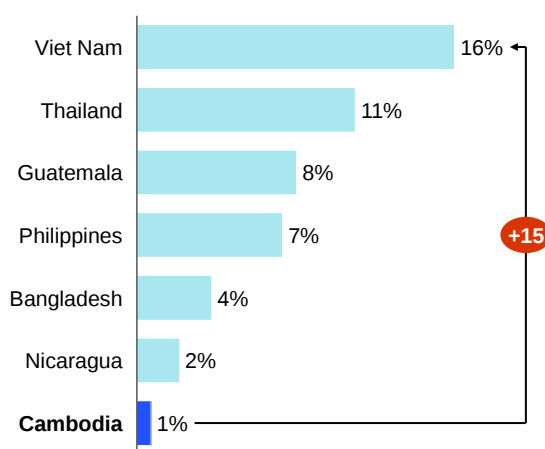
Participation in tertiary education and technical training remains too limited to support a rapid expansion of high-skilled employment. Tertiary enrollment stands at 21 percent, well below structural and aspirational peers (Figure 4.4), while TVET participation is even more limited, with fewer than 1 percent of adults ages 15 and above enrolled in formal programs (CDRI 2025). Although the number of tertiary education institutions has expanded rapidly, enrollment remains constrained by low secondary completion and persistent disparities across geography, income, and gender. Fields of study are concentrated in business and management programs, with relatively fewer students in STEM and technical disciplines critical for industrial diversification (Bhatta et al. 2024). TVET also faces a structural challenge: Coverage remains low and employer engagement uneven, while many firms operate in labor-intensive segments that generate limited demand for advanced vocational skills.

Figure 4.4: Cambodia needs to raise enrollment in tertiary and TVET education

Tertiary enrollment in Cambodia vs. Peers
Gross rate (%), (circa 2024)



TVET enrollment in Cambodia vs. Structural Peers. Gross rate (%), (circa 2024)



Source: UIS n.d. Note: (1) Structural peers: Bangladesh, Philippines, Viet Nam, Guatemala, Nicaragua, and Thailand; (2) UMIC peers: Philippines, Viet Nam, Jordan, El Salvador, Guatemala, and Georgia; (3) HIC peers: Malaysia, Bulgaria, Chile, Romania, Poland, and Hungary.

Opportunities for on-the-job learning and reskilling remain limited, leaving much of the existing workforce trapped in low-productivity activities. A large share of workers is employed

in informal agriculture and low-skilled services, yet opportunities for structured on-the-job learning remain scarce. The formal TVET system is small relative to the size of the workforce, and non-formal training is fragmented and uneven in quality. Firm-based training is concentrated among larger enterprises, while small and informal firms, where most Cambodians work, have limited capacity and incentives to invest in upgrading skills. Mechanisms for recognition of prior learning and flexible certification pathways remain underdeveloped, constraining mobility into higher-skilled occupations.

Taken together, these constraints illustrate Cambodia's dual skills challenge: Too few young people progress through the education system, and many who do often complete school without acquiring the skills expected for their education level. Participation in upper-secondary and tertiary education remains well below structural peers and regional comparators, while foundational learning deficits persist despite recent progress. Closing these gaps will require simultaneous progress in expanding participation and raising the quality of learning across the system.

Box 4.1: Is skills mismatch a binding constraint in Cambodia's labor market?

The organizing diagnosis of this chapter is that Cambodia's economic opportunities and workforce capabilities currently intersect at a low equilibrium where firms operate in segments that demand few advanced skills, and workers face limited incentives to acquire them.

At the aggregate level, skills mismatches do not appear to be the primary binding constraint on firm operations. Indicatively, the share of firms rating an inadequately educated workforce a *major or very severe* obstacle fell sharply between 2016 and 2023, with a more modest decline in those calling it at least a *moderate* obstacle. Low and stable unemployment is also consistent with limited skills mismatches, though in a context of widespread informality, it could reflect limited capacity to remain unemployed more than the absence of mismatch.

There are, however, signs of mismatch that aggregate measures may miss. The Ministry of Labour and Vocational Training (MLVT) Employer Skill Need Survey (2024) continues to report hard-to-fill vacancies, with more than a quarter of firms reporting recruitment difficulty and the figure running well above this average in garments (42 percent) and among the higher-value-added segments Cambodia aims to grow into, such as in ICT (36 percent). The survey also finds that higher-skilled roles are disproportionately filled from abroad, as foreign workers make up just 2.1 percent of the workforce but hold close to 30 percent of managerial positions. And while 60 percent of firms provided some training in the past six months, around 45 percent of firms reporting skill gaps say their workers had been trained but did not improve, pointing to weaknesses in the quality of training.

As Cambodia seeks to move out of the low-skill equilibrium and move up the value chain, and as demographic shifts and artificial intelligence (AI) reshape the tasks and skills employers demand, the priority is to prepare the workforce for both better economic opportunities and the risks brought about by megatrends. That starts with equipping the upcoming and existing workforce with strong foundational and adaptability skills, but it also requires building the labor market information systems that give workers timely and credible signals about what employers need as well as the tools to adapt to these needs.

Source: Cambodia WBES (2016, 2023); MLVT 2024.

4.2. The Skills Transformation Required for Vision 2050

Cambodia's transition to high-income status requires a decisive break from its current equilibrium and the deliberate creation of a virtuous cycle of skills and productivity upgrading. Today, the labor market remains characterized by a low-education, low-skill, low-wage, and low-productivity pattern, with employment concentrated in agriculture and informal work and only a small share employed in high-skilled, salaried occupations. While this model has generated employment at scale and supported poverty reduction, it cannot sustain the productivity growth and structural resilience required for convergence. Cambodia cannot rely indefinitely on low wages

and routine production to sustain progress. Reaching high-income status by 2050 will require actively disrupting this equilibrium and building a workforce capable of supporting a more advanced, technology-intensive, and green economy.

This transformation must also navigate a global environment that is rapidly compressing the window for skills upgrading. Three forces stand out. First, aging across East Asia is intensifying labor shortages in higher-income economies. Cambodia's old-age dependency ratio is projected to remain at 18 percent by 2050, well below Thailand (50 percent), China (52 percent), and Korea (76 percent), creating growing demand for Cambodian labor abroad, but only if workers can move beyond low-skilled roles. Currently 87 percent of Cambodian emigrants are low-skilled, substantially higher than Viet Nam (62 percent) or the Philippines (51 percent) (United Nations Population Prospects 2024; World Bank 2023f). Second, automation is raising the global skill threshold for manufacturing and services: Around 21 percent of Cambodian jobs are in routine physical roles concentrated in garments, food processing, and agriculture, where technological substitution could erode Cambodia's cost advantage within the Vision 2050 horizon (Jarotschkin et al., forthcoming). Third, the green transition is reshaping competitiveness: Without adaptation, labor productivity could decline by 8–20 percent by mid-century, while around 56 percent of Cambodian workers are in occupations with potential to adopt greener practices (World Bank 2023b, 2025g).

Box 4.2: Automation and AI in Cambodia: robots, generative AI, and the implications for future jobs

Two technological forces will reshape Cambodia's labor market over the Vision 2050 horizon, and they work through different channels. Industrial robots threaten routine, physical work. About 21 percent of jobs are mainly routine and physical, concentrated in textiles and garments, food processing, and agriculture. As wages rise toward the cost of robots, simulations place wage-robot cost parity roughly 15–30 years out, with textiles at the earlier end. Displacement would fall hardest on the most vulnerable: Workers in predominantly routine and physical jobs are 78 percent low-educated and disproportionately female and young.

Generative AI acts on cognitive tasks. In Cambodia, around 75 percent of jobs are unaffected and fewer than 1 percent face automation risk today, while about 8 percent could be augmented. This low exposure mainly reflects Cambodia's thin base of non-routine cognitive jobs (13 percent of employment versus 38 percent in advanced economies) rather than insulation from change. Notably, the gains skew toward urban and better-educated workers, while clerical roles, often a stepping stone upward, are among the most exposed. These figures are a snapshot of today's tasks: A further 16 percent of jobs sit in an uncertain middle, where AI could end up either replacing tasks or assisting workers as the technology and its applications (such as AI agents) develop, so the rapid and uncertain pace of AI progress warrants caution and ongoing monitoring. Amid this uncertainty, the one robust conclusion across the international evidence is that strong foundational and adaptability skills are the safest no-regret investment, equipping workers to benefit where AI augments and to adjust where it displaces (World Bank 2019c; OECD 2025). As Cambodia prepares its forward-looking policies, special attention is also warranted regarding groups that experience differential obstacles relevant to job-switching and access to (higher) education. This includes women who tend to experience additional barriers, compared to men, revolving around unpaid care burden and related norms more broadly.

Source: Jarotschkin et al., forthcoming; World Bank 2019c; OECD 2025.

The desired 2050 end-state is a predominantly formal, high-skilled, productivity-driven workforce aligned with high-income structures. Achieving this outcome will require three mutually reinforcing transformations. First, structural transformation, examined in Chapter 1, must continue to reallocate labor toward higher-productivity sectors, with roughly 2 million workers expected to transition out of agriculture over the next 25 years. Second, labor market transformation must expand formal wage employment and increase the share of medium- and

high-skilled occupations. Third, education and human capital systems must equip both new and existing workers with stronger cognitive, technical, and socio-emotional skills.

Expanding the supply of high-skilled workers will be central to this transformation. Around 1.8 million additional workers would need to move into high-skilled occupations by 2050 for Cambodia's employment structure to resemble that of high-income economies.

Achieving this shift requires addressing Cambodia's dual skills challenge: expanding participation while raising learning quality across both future cohorts and the existing workforce. Today, far fewer young people complete secondary and tertiary education than in peer economies, and many who do lack the foundational and higher-order skills required in modern labor markets. For new entrants, high-quality secondary education as a minimum, complemented by expanded and better-aligned tertiary and TVET pathways, will be essential. At the same time, many workers in agriculture and informal activities start from low education levels and have limited opportunities to upgrade. Expanding structured pathways for on-the-job learning and lifelong upskilling will be critical to support mobility into higher-productivity employment and prevent widening skills gaps.

While all priority areas for reforms must advance together, they differ in when they must begin and when their dividends materialize. Strengthening foundational learning and secondary completion is the longest-arc reform: it must begin now precisely because its returns accrue only as better-prepared cohorts reach the labor force in the 2040s. Upskilling the existing workforce must run in parallel since nearly half of Cambodians in the working age are under 35 and will remain economically active for decades, making them central to the 2050 transformation. Tertiary and TVET realignment must also begin now, even though its full gains arrive only as foundational improvements take hold; TVET, in particular, matters for the existing workforce as much as for new entrants. Accompanying social investments should follow a phased path, front-loading the instruments most directly linked to employment and productivity. The unifying logic is that the reforms whose dividends are slowest to arrive are precisely the ones it is most urgent to begin today.

4.3. Priority A – Upskilling the Existing Workforce

Accelerating current workforce upgrading is essential to close Cambodia's widening skills gap by 2050. While millions of workers will remain active in the labor force over the coming decades, opportunities for structured on-the-job training remain extremely limited. Cambodia has trained roughly 91,000 workers through employer-led mechanisms over the past seven years (SDF 2026), but achieving high-income convergence will require upgrading millions. Nearly half of Cambodian workers are younger than 35 and will remain in the labor force for several decades, making the urgency of this agenda particularly acute.

This scale gap reflects structural weaknesses in Cambodia's current skills architecture. The vocational training system, anchored in the MLVT, is not yet structured as a coherent lifelong learning framework for most existing workers. Public TVET institutions primarily serve youth cohorts through diploma and certificate programs designed for labor market entry. Pathways for existing workers are dispersed across multiple mechanisms, including the SDF, Sector Skills Councils (SSCs), enterprise-based programs, private providers, and nongovernmental organization

(NGO) initiatives, without a clear system linking training provision, certification pathways, financing mechanisms, and verified employment outcomes.

Breaking the low-skill equilibrium for the existing workforce requires addressing structural coordination failures in training markets. Active workers face significant switching costs: Time spent in training implies foregone income, and many operate in informal or small enterprises with limited ability to finance upgrading. Firms may underinvest in training due to concerns about worker mobility and uncertain returns, particularly in low-margin sectors. Evidence from Cambodia's SDF shows that coordinated employer-led models can overcome these barriers: More than 75 percent of trainees move into jobs linked to their training, and nearly 90 percent of participating enterprises report productivity or business improvements (SDF, forthcoming).

Turning workforce upskilling into a national growth engine requires institutionalizing employer-led training, scaling outcome-based financing, and building credible lifelong learning pathways. Training quality and relevance should be anchored more firmly to employer demand by deepening industry engagement across the system, through sector skills bodies, teacher training in industry, increased work-based learning such as internships, and enterprise partnerships, with clear tools to operationalize and monitor the partnerships: employers defining priority occupations and validating curricula, and tracer studies to monitor graduate outcomes and the relevance of their training. The SDF should be scaled as the central co-financing platform for employer-led training, progressively expanding coverage to small and informal firms while strengthening outcome-linked disbursement tied to verified job placement, wage gains, and productivity improvements. Over time, introducing predictable employer contributions, while protecting access for micro and small enterprises, could deepen firm ownership and financial sustainability. Flexible and modular credentialing pathways aligned with the national qualifications framework, including recognition of prior learning, would enable workers to upgrade skills incrementally without leaving the labor market. Strengthening the labor market information system to include short-term occupational outlooks and real-time vacancy data would further guide training decisions and policy calibration.

4.4. Priority B – Preparing the Future Workforce

The education system will shape the majority of Cambodia's 2050 workforce and is central to the productivity acceleration required for high-income convergence. Most individuals who will be active in the labor force in 2050 are either currently in school or have yet to enter the labor market. The largest growth dividends from improved schooling will materialize only when better-educated cohorts enter the labor force in the 2040s, creating urgency: Reforms must begin now if their full effects are to be realized in time. Meeting this challenge requires a two-part transformation: (a) strengthening foundational learning and expanding equitable access, completion, and learning quality across the school system and (b) expanding high-quality tertiary education and TVET to build advanced skills and innovation capacity.

Transformation 1: Expanding Access and Strengthening Foundational Learning

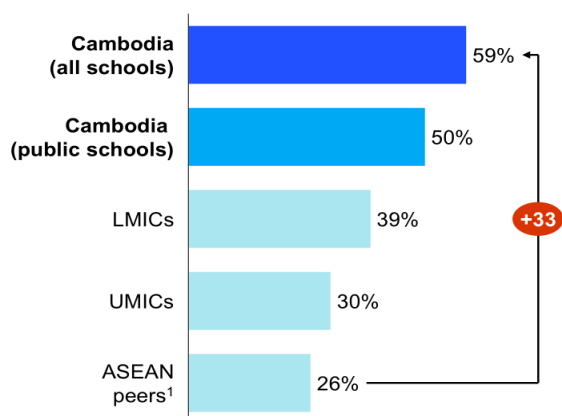
The first transformation must address persistent weaknesses in both participation and teaching effectiveness. Despite expanded access in recent decades, many students do not progress through secondary education or master foundational skills. These challenges reflect four

interrelated constraints: (a) chronic underinvestment and structural conditions that limit effective learning time; (b) instructional practices that do not consistently support mastery of foundational skills; (c) uneven teacher expertise and school leadership capacity; and (d) inequitable access and dropout among disadvantaged students.

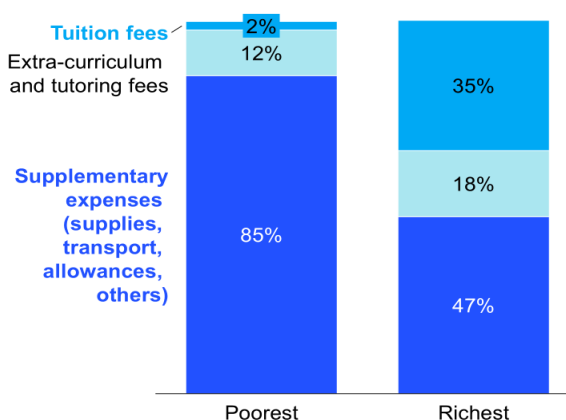
Strengthening system capacity and financing is the first priority. Public expenditure on education, at just 2.2 percent of GDP in 2023 (UIS, n.d.), remains well below structural peers (2.9 percent) and the recommended international benchmarks of 4–6 percent of GDP, limiting the system's ability to expand quality and reduce financial barriers to access. This underinvestment is particularly concerning given that learning gaps emerge early in primary school, yet Cambodia allocated just 5.3 percent of public education expenditure to ECE in 2022, well below the recommended minimum of 10 percent, while public spending per primary student is only about US\$165 annually, far less than regional and structural peers. In Cambodia, households finance 59 percent of total education spending (Figure 4.5, left), far above the averages for LMICs (39 percent), UMICs (30 percent), and ASEAN peers (26 percent). Even more striking, Cambodian households finance about 50 percent of the resources for students attending public schools, and poor households still spend heavily relative to their means, primarily on basic school supplies, but also extra-curricular activities and tutoring (Figure 4.5, right). Many schools also operate double shifts that compress learning hours, and infrastructure gaps remain widespread (World Bank 2025h). Raising investment toward international benchmarks, while improving efficiency and strengthening accountability for school-level resource use will therefore be essential. Additional investment should prioritize financing targeted instructional reforms and teacher support systems needed to improve foundational learning outcomes, while also expanding equitable access to quality pre-primary education, particularly for rural and disadvantaged children.

Figure 4.5: Cambodia needs to reduce out-of-pocket spending on education

Household spending on education in Cambodia vs. Peers. Share of total (%), 2023 or latest available



Household spending on schooling in Cambodia by type and income group. Share of total (%), 2023



Source: World Bank staff estimates, using household expenditure survey data. Note: (1) ASEAN peers: Indonesia, Lao PDR, Malaysia, Philippines, Thailand, Viet Nam.

Improving instructional quality and alignment is the second priority. Structured pedagogy in early grades, using sequenced Khmer-language lesson plans, student workbooks, and teacher guides can equip teachers with practical tools for more consistent and effective instruction, particularly in rural and low-performing schools. High-impact remedial tutoring, including Targeted

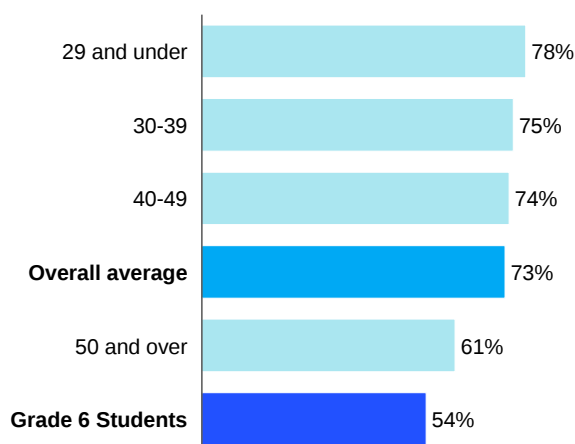
Instruction, should be scaled to provide targeted support for primary students who fall behind in reading and mathematics, providing frequent small-group or one-on-one support during the school day. At the secondary level, Targeted Instruction interventions can extend this approach by aligning teaching with students' actual learning levels, providing targeted instruction for students lagging in foundational literacy, numeracy, and science skills. International evidence shows that regular learning assessments, instruction aligned to those levels, and sustained coaching generate reliable gains in foundational skills (Kaffenberger et al. 2026). Cambodian classroom observations indicate limited use of learner-centered practices and weak capacity to diagnose and address student errors (Tandon and Fukao 2015; World Bank 2025i). Protecting effective instructional time, by reducing teacher absenteeism and school closures, will also be critical for sustained improvements in literacy, numeracy, and problem-solving, particularly in disadvantaged schools (World Bank 2025i). Classroom environments should also address persistent gender gaps, as boys increasingly lag girls in enrollment and learning outcomes, requiring gender-responsive teaching practices and targeted support (Chea et al. 2023).

Upgrading teacher expertise and strengthening instructional leadership is the third priority. Assessment data reveal persistent gaps in teacher subject-matter mastery. While primary teachers outperform Grade 6 students on Grade 6-level mathematics content, they perform worse than Grade 9 students on Grade 9-level items (Figure 4.6). Newer cohorts show improvement: Teachers ages 29 and younger score 48 percent on Grade 9 content compared with 23 percent among those ages 50 and older, but a large stock of incumbent teachers still requires structured upgrading. Continuous professional development should therefore emphasize learner-centered instructional practices, subject-matter refreshers, classroom coaching, and promotion pathways tied to demonstrated instructional competence. Strengthening school leadership through merit-based selection, training, and instructional supervision will help ensure reforms translate into improved student outcomes.

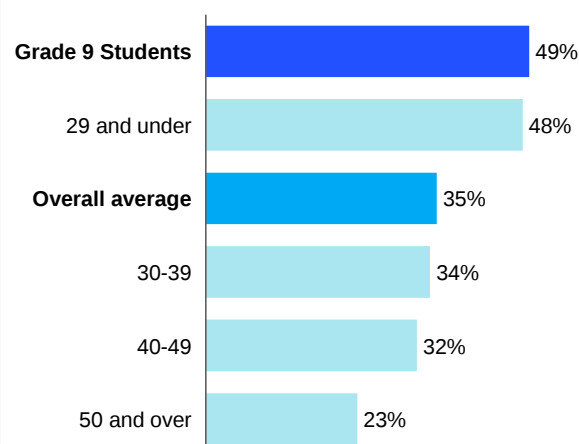
Expanding equitable access and completion is the fourth priority and depends heavily on improvements in system financing, instructional quality, and teacher capacity. Secondary completion and participation gaps remain well below peer benchmarks, particularly among poorer and rural households. Reducing these disparities will require targeted demand- and supply-side measures, including strengthening financial support mechanisms for disadvantaged students, improving access to secondary schooling in underserved regions, and expanding quality pre-primary education. However, expanding access alone will not be sufficient if students continue to experience weak learning conditions and poor instructional quality. Increased investment in schools, stronger foundational learning programs, effective remedial support, and better-trained teachers is essential to ensure that students not only enroll and remain in school but also acquire the foundational and higher-order skills needed for future productivity and labor market participation.

Figure 4.6: Primary teachers lack mastery of secondary-level mathematics, especially older cohorts

Primary teacher correct answers on Grade 6 math test by age cohort. (Percent correct, %)



Primary teacher correct answers on Grade 9 math test by age cohort. (Percent correct, %)



Source: Teacher School Survey 2024 (World Bank 2025i).

Transformation 2: Expanding High-Quality Tertiary, TVET, and Innovation Capacity

While foundational reforms are essential, achieving high-income convergence also requires investing in higher-order skills and capabilities through TVET and tertiary education. The challenge is not simply expanding access, but expanding it equitably while realigning funding, governance, and institutional incentives toward structural transformation and productivity growth.

Expanding equitable access to tertiary education and TVET is the first priority. Enrollment remains concentrated among urban and higher-income households (World Bank 2023c). Raising participation toward UMIC and HIC benchmarks will require needs-based financial aid, targeted scholarships, particularly in STEM and priority sectors, and expanded institutional access beyond major urban centers.

Reforming tertiary education financing and governance is the second priority. Modest public investment constrains institutional capacity to expand quality programs in high-cost scientific and technical fields (Bhatta et al. 2024). Gradually increasing public funding, while linking allocations to accreditation standards, STEM enrollment, graduate employment outcomes, and industry partnerships can strengthen accountability and relevance.

Strengthening institutional quality and deepening industry alignment across TVET and tertiary education is the third priority. Cambodia's post-secondary system remains poorly aligned with employer demand. Deepening industry engagement, expanding work-based and dual-track programs, and embedding outcome-based funding tied to verified placement and wage gains can strengthen alignment between training and labor market needs. Addressing instructor capacity, where many TVET trainers have limited industry experience, through certified industry attachments and promotion reforms will be equally important. Stronger quality assurance systems will be essential to ensure enrollment growth translates into genuine competency formation rather than credential inflation.

Realigning program incentives toward STEM and priority sectors is the fourth priority. The concentration of enrollment in business and management constrains the pipeline of engineers,

technicians, and applied scientists needed for higher-value-added manufacturing, green industries, and knowledge-intensive services (Bhatta et al. 2024). Differential funding, targeted STEM scholarships, faculty development, and investment in laboratories and technical infrastructure can help rebalance graduate output.

Building a structured university-industry-innovation ecosystem is the fifth priority. Competitive research grants aligned with national priorities, industry co-financing of applied research, internship programs, and innovation hubs can strengthen linkages between universities and firms and build capacity for technology adoption and knowledge diffusion.

4.5. Priority C - Equipping the Workforce to Navigate Global Trends

Equipping Cambodia's workforce to navigate global structural shifts requires policy responses that extend beyond education and training systems alone. Three priorities stand out: leveraging migration and labor mobility to convert demographic advantages into skills and income gains; preparing workers for the green transition as production systems decarbonize; and strengthening social protection so workers can adapt to shocks and occupational transitions.

Leveraging migration and labor mobility can transform Cambodia's demographic advantage into skills accumulation and higher incomes. As labor shortages intensify across aging East Asian economies, managed migration offers an opportunity to upgrade today's predominantly low-skilled migration pathways into channels that support skills acquisition and higher returns (World Bank 2025j). Structured mobility pathways with economies such as Japan and Korea, where demand for mid-skilled workers in care, manufacturing, and hospitality is rising, can allow Cambodian workers to access higher-productivity labor markets. These pathways should combine language training, occupational certification, and ethical recruitment standards to protect worker welfare while enabling access to skilled employment abroad. Over time, stronger migration systems can generate longer-term benefits through diaspora investment and knowledge transfer upon return (Abarcar and Theoharides 2024; World Bank 2023f).

Preparing the workforce for the green transition can sustain export competitiveness while capturing emerging low-carbon opportunities. This will require aligning TVET and tertiary curricula with skill requirements in renewable energy, energy efficiency, and sustainable production (World Bank 2025g), expanding employer-led training in sectors undergoing decarbonization, and strengthening labor market information systems to track demand for green jobs. Expanding access to green employment, particularly for women through stronger STEM pathways and improved career guidance, can also broaden participation in higher-quality work.

Strengthening social protection systems can support workers through economic transitions while protecting human capital during shocks. Cambodia's social protection system has expanded rapidly but remains incomplete: Unemployment insurance is not yet operational and coverage among informal workers is limited. The next phase of reform should prioritize strengthening benefit adequacy, improving coverage and targeting, and ensuring sustainable financing. Given that many workers remain in agriculture and informal microenterprises, "cash-plus" economic inclusion programs, combining income support with coaching, skills, financial inclusion, and market access, offer promising approaches for raising productivity and resilience (Arévalo-Sánchez et al. 2024; Stepanovic et al. 2025). Over time, developing social insurance

instruments adapted to informal workers, including contributory schemes with digital enrollment and portable benefits, can strengthen income security and help workers navigate structural change.

Box 4.3: Industry and employer engagement in skills development in Korea and Singapore

Singapore's SkillsFuture, often cited as a global benchmark, evolved from a modest employer-financed fund established in October 1979 under the Skills Development Levy Act, following a tripartite National Wages Council recommendation. The levy was explicitly framed as an instrument of economic restructuring: a tax on employers over-reliant on cheap labor as Singapore shifted toward higher-skilled, higher-value industries. Early programs focused on foundational literacy and numeracy for workers. More sophisticated features were layered on progressively over three decades, the National Skills Recognition System (1999), the Workforce Development Agency (2003), the Workforce Skills Qualifications system (2005), before SkillsFuture itself emerged in 2015. For Cambodia, the relevant lessons are in Singapore's early design choices: tripartite governance, employer co-financing, and a focus on foundational skills, and recognizing that the architecture Cambodia aspires to took decades to mature.

Similarly, Korea's strong industry partnerships were a key to its success in TVET. Operationalizing Sector Skills Councils, expanding dual-track and work-based programs, and linking funding to employment outcomes maps directly onto the institutional logic that underpinned Korea's success in TVET. Facing shortages in medium-skilled jobs, Korea introduced Meister Vocational High Schools in the late 2000s, a network of employer-driven institutions offering apprenticeship-based training in high-demand technical fields. The model is distinctive in two respects. First, industry partners co-design curricula, supply practitioner instructors, and commit to employment pathways for graduates. Second, the schools maintain a credible bridge to higher education, reducing the social stigma that undermines enrollment in similar programs elsewhere.

Sources: National Library Board Singapore. (n.d.); Ho, T. (2026); IMF (1995); World Bank (2025).

Box 4.4: Viet Nam's sustained investment in foundational learning

Viet Nam's strong education performance relative to its income level is closely linked to sustained investment in foundational learning. Since the early 1990s, the government has prioritized universal primary education, with targeted support for poor, remote, and ethnic minority children through free textbooks, school supplies, and targeted financing. Reforms strengthened teacher quality through large-scale training, structured curriculum reforms, and aligned assessment systems designed to improve classroom instruction. Public education spending also increased substantially, with early investments concentrated in schools and primary teachers before secondary education expansion. Today, Viet Nam invests more than double per primary student (Grades 1–3) compared to the regional average.

ECE became a central part of Viet Nam's reform agenda in the mid-2000s. The 2005 Education Act and 2009 amendments integrated ECE into the formal system, made preschool compulsory for five-year-olds, and set national targets for universal access, supported by curriculum reform, expanded provision, and improved teacher training. Reforms through 2010–2016 added subsidies for disadvantaged areas, targeted support for ethnic minority children, and higher teacher qualifications, alongside expanded infrastructure and quality improvements, especially in remote regions. The World Bank-supported *School Readiness Promotion Project (2013–2017)* further expanded access and quality through teacher deployment, salary support, and subsidies for disadvantaged children, helping all provinces achieve universal preschool coverage for five-year-olds and reducing gaps for ethnic minority students.

Viet Nam's experience shows that improving education outcomes requires sustained, system-wide investment in foundational learning. Reforms reduced early learning gaps, strengthened school readiness, and improved children's acquisition of core literacy and numeracy skills, creating a stronger foundation for later learning and completion. In Cambodia, foundational skills remain very weak, while public spending on primary education is low, about US\$100 per pupil, or 3.8 percent of per capita GDP, insufficient for adequate infrastructure, materials, and teaching quality. Expanding access alone is not enough. Priority should be an integrated foundational learning system that ensures school readiness, strong early-grade learning, and targeted support for disadvantaged schools through better-trained teachers, structured instruction, and more equitable financing.

Sources: Baum (2020); Dinh and Robinson (2023); EDCOM 2 (2025); World Bank (n.d.).

Box 4.5: How Singapore improved learning outcomes through structured pedagogy and instructional coherence

Effective structured pedagogy combines sequenced learning materials, practical teacher guidance, aligned assessment, and continuous professional support to strengthen classroom instruction and improve learning outcomes. Singapore's strong education performance is closely linked to a deliberate shift toward this approach beginning in the early 1980s, as part of a broader effort to strengthen foundational literacy and numeracy. The Ministry of Education developed standardized textbooks, teachers' guides with

detailed lesson structures, examples, and pacing guidance, syllabi, and assessment frameworks that clearly specified what to teach, in what sequence, and how to assess learning. This coherent instructional system underpinned Singapore's world-renowned mathematics curriculum and its rise from a mid-performing system to a global leader, with international rankings improving from 16 in 1984 to 1 in TIMSS by 1995. Continuous teacher training, collaboration, and instructional support reinforced consistent implementation across schools.

Singapore's experience shows that structured pedagogy can improve instructional quality at scale when embedded within a coherent system. For Cambodia, structured lesson plans or teachers' guides can help address uneven teacher preparation by clarifying lesson content and pedagogy, strengthening curriculum implementation in classrooms. Evidence shows that well-designed teachers' guides improve instructional quality, increase student engagement, and are among the most cost-effective tools for improving learning, especially when combined with teacher training and coaching. Singapore further demonstrates that the strongest gains occur when structured pedagogy is sustained over time and supported by consistent training and system-wide alignment, while still allowing space for teacher-led adaptation and engagement.

Sources: [Akyeampong et al. \(2023\)](#); [Ding \(2021\)](#); [Marshall Cavendish \(2013\)](#); [Snilstveit et al. \(2015\)](#).



Chapter 5: Reform Road Map

This chapter consolidates the reform priorities from Chapters 2 through 4 into an integrated roadmap, estimates their macroeconomic impact on GDP and jobs, and considers what implementation will require. Two scenarios are modeled against a business-as-usual baseline: a moderate scenario reflecting incremental progress, and an ambitious scenario calibrated to the depth and pace needed to reach high-income status by 2050. Under the moderate scenario, GDP rises 22 percent above baseline by 2050 and the reform dividend reaches 3.3 million more and better jobs, real progress but not enough to reach HIC status. The ambitious scenario, with GDP 39 percent above baseline and 6.2 million more and better jobs, gets Cambodia substantially closer, though reaching high-income status will require sustaining and widening reforms beyond those modeled here. Across both scenarios, skills reforms deliver the largest share of gains, business environment and trade reforms drive the productivity and competitiveness on which better jobs depend, and fiscal capacity reforms provide the means to finance the agenda. Realizing any of this depends on implementation, and the chapter closes by setting out how Cambodia can build the coordination, capability, and commitment that delivery requires. The choice between these trajectories is Cambodia's, but partial reform risks locking the country into a lower-growth trap from which escape becomes progressively harder.

5.1 Policy Recommendations

Achieving Vision 2050 requires a coherent strategy that links policy actions to outcomes and ultimately to Cambodia's overarching development ambition. The reform road map presented in this chapter is organized around three mutually reinforcing domains. (a) Boosting firm productivity and trade competitiveness is the entry point; the focus is upgrading the business environment and deepening trade integration to create the conditions for high-performing firms to emerge, grow, and compete internationally. (b) Building a highly skilled and adaptable workforce is the foundation; the focus is equipping Cambodia's workers with the capabilities that firms need to upgrade and that a high-income economy demands. (c) Strengthening fiscal capacity focuses on expanding the ability of the state to finance, govern, and implement the reform agenda. These three domains are mutually reinforcing: Firms cannot grow without skilled workers and capable institutions; workforce upgrading depends on firms that demand higher skills and a state that can deliver quality education; and stronger institutions are only as valuable as the reforms they are asked to implement. Together, they constitute an integrated strategy for the second transformation Cambodia needs, upgrading every system that powered the first, at a pace and depth never attempted before.

The report concentrates on 10 reform priorities, selected from the diagnostics as those most critical to Vision 2050. These draw on the analysis in Chapters 2 through 4, the most binding constraints for productivity and job creation. They were chosen for their expected impact on growth and better-paid jobs, and for being actionable within the Vision 2050 period. They are presented in Table 5.1, organized under three domains. Domain I (Firms & Trade) covers two sub-domains: boosting firm productivity and innovation, and facilitating trade upgrading and GVC deepening. Domain II (Workforce Skills) covers building a highly skilled workforce. Domain III (Fiscal Capacity) covers the fiscal reforms needed to finance the agenda and invest in public services.

Where a reform was relevant to more than one domain, it was placed in the most actionable location. For example, increasing public education spending sits under Domain III, since the primary lever is fiscal. Each priority also indicates an expected implementation horizon: immediate (within two years), short term - medium-term (by 2035), long term (by 2050). This prioritized set was then modeled under both the moderate and ambitious scenarios. The magnitudes of the policy shocks are set out in Table A5.2 in Annex Chapter 5. These 10 priorities are a focused agenda, not a comprehensive catalogue. Within the areas the report examines, they are the reforms judged most important for Vision 2050. Other important areas were not examined in the depth needed to support specific reform recommendations. These include agriculture and agro-industrial transformation, urban development, infrastructure, the energy transition, and health system strengthening. The report touches some of them only lightly or in passing, and each could yield further priorities. To sustain the Vision 2050 trajectory, Cambodia must identify and implement additional reforms as needs evolve.

The priorities are also organized across three reform pillars that define the enabling conditions for productivity-led growth. Pillar I, foundational investments in human and physical capital, covers public investments in education, skills, infrastructure, and social protection that neither firms nor households can provide at the required scale. Pillar II, business enablers, is the central pillar, covering regulatory reforms, trade policy, competition policy, financial sector development, and macroeconomic management. Pillar III, public sector governance and fiscal capacity, covers the institutional reforms and revenue mobilization needed to finance and sustain the reform agenda over the full Vision 2050 horizon.

Cambodia's path to high-income status runs through the business environment, since fixing it is the entry point from which investments in skills can deliver their full potential. Cambodia's growth over the past two decades was underpinned by low labor costs and preferential trade access rather than productivity, a model now exhausted. Pillar II, business enablers, is the central challenge: weak regulations, costly inputs, shallow financial markets, high informal payments, and persistent trade frictions have kept firms small, informal, and low-productivity, and left Cambodia reliant on assembly rather than upgrading. Pillars I and III are the essential complements: foundational investments in human capital cannot generate returns without firms capable of absorbing them, and stronger institutions and fiscal capacity make it possible to implement the reform agenda and fund the public goods that unlock private initiative.

The reform agenda has a clear sequencing logic. Domestic regulatory reforms, such as easing firm registration and tax administration, sit at the front of the queue: They begin immediately and deliver early signals that the business environment is changing, even where fuller implementation, as with tax administration, continues through 2030. Skills and education reforms must run in parallel, not wait for business environment reforms to be completed first. Trade integration reforms are a medium-term challenge, reflecting negotiation complexity and the time firms need to develop capabilities for higher-value GVC participation. Fiscal reforms, building a sustainable tax base, and robust debt management must begin now but will take the full Vision 2050 period to complete. Cambodia does not need to do everything at once, but it needs to start on all fronts now, at pace, and in the right order.

Delivering the reform agenda will require a sustained increase in public financing; in education alone, spending must rise by at least 1.3 percent of GDP. As established in Chapter

1, Cambodia's spending on education, health, and social protection falls well below both UMIC and HIC benchmarks, and closing these gaps is not peripheral to the reform agenda: it is its precondition. Priority 10 models increases across all three areas, with spending converging toward UMIC peer averages under the moderate scenario and toward HIC and Asia-Pacific averages under the ambitious scenario (Annex Chapter 5, Table A5.2). To illustrate what this means in practice, public education spending needs to rise from the current 2.2 percent of GDP to 3.5 percent under the moderate scenario and 4.2 percent under the ambitious scenario, increases of 1.3 and 2.0 percentage points, respectively. The paragraphs below provide indicative cost estimates for Priorities 7 and 8, which together represent the core of what that additional education investment would finance.

The most immediate education investment, Priority 7 on upskilling the existing workforce, is also the most affordable, at approximately 0.2 percent of GDP annually. Reaching the moderate scenario target of 50,000 workers trained annually through the SDF would cost approximately US\$36 million per year (0.07 percent of GDP), including 42,500 upskilling trainees under the SDF's core co-financing window. A complementary instrument, the Industry-Linkage Development Plan, which supports demand-driven TVET training in electronics and automotive sectors, would require approximately US\$40 million per year to reach a further 50,000 trainees (0.08 percent of GDP). Taken together, these investments represent a modest and high-return fiscal commitment, well within Cambodia's capacity to finance as revenues rise.

The larger and longer-horizon commitment, Priority 8 on preparing the future workforce, requires approximately 0.4 percent of GDP in annual recurrent spending plus a one-time infrastructure investment of around 0.4 percent of GDP. Implementing the proposed package of foundational learning through primary and secondary education would entail an estimated US\$59.9 million in annual recurrent cost, complemented by early childhood interventions requiring US\$125 million in annual recurrent cost and a one-time investment of US\$194 million for pre-primary classrooms. The recurrent envelope for foundational learning covers structured pedagogy across all public primary schools (US\$14.6 million); high-dosage remedial tutoring and Targeted Instruction for the bottom 40 percent of primary learners, around 880,000 students (US\$24.5 million); Targeted Instruction for 225,000 lower-secondary students (US\$11.3 million); and teacher training and coaching for 31,500 teachers (US\$9.5 million). Universal one-year, high-quality pre-primary education for five-year-olds accounts for the remaining US\$125 million in annual recurrent cost. This translates to roughly 0.1 percent of GDP for general education interventions and 0.2 percent of GDP for universal pre-primary, while the one-time investment would finance the construction and furnishing of approximately 9,400 new pre-primary classrooms. These are not marginal add-ons to the fiscal envelope; they are the investments that move Cambodia from its current 2.2 percent of GDP in public education spending toward the scenario targets, and the evidence consistently shows they carry among the highest long-run returns of any public expenditure available to a lower-middle-income economy.

The most important lens for prioritizing reforms is their impact on growth and jobs. So far, the discussion has focused on the nature of constraints, which reforms to pursue, and in what order to implement them, all essential inputs to setting priorities. But the final and perhaps most consequential question is: Which reforms move the needle most on growth and jobs, and over what time horizon? Quantifying this is the focus of Section 5.2.

Table 5.1: Reform Matrix

Sub-outcome	Policy Recommendations	Reform Pillar	Implementation Timing (moderate scenario)
I. The Entry Point: Boost Firms' Productivity and Innovation			
1. Ease business entry	Lower registration and other fees to reduce direct costs of formal firm entry: Reduce fees for business registration, licenses, permits, and other administrative procedures for firms to lower financial barriers to formalization. Fees should reflect the cost of service delivery. Expand and digitalize government-to-business services: To reduce compliance costs and improve transparency, streamline and digitalize licenses and other prior approvals using a risk-based approach, building on the Online Business Registration System (OBRS); implement a once-only principle across agencies, and establish a legal framework for data sharing and interoperability. Narrow the space for high-performing firms to operate informally: Lower VAT registration thresholds to bring high-performing informal firms within the tax net, improve cross-ministry data sharing to better identify non-compliant firms, and gradually strengthen enforcement against persistent non-compliance to raise the cost of remaining informal.	Pillar II (Regulations)	Immediately (within two years)
2. Facilitate firm restructuring	Establish an out-of-court restructuring framework: Provide clear guidelines for negotiation, dispute management, and fair treatment of debtors for financial institutions. Amend the Insolvency Law to introduce modern practices: Update the 2007 law to introduce modern insolvency practices, including SME-friendly procedures and cross-border provisions, with clear guidelines, and train judges, insolvency administrators, and legal professionals on the revised provisions. Introduce a specialized commercial court and modernize dispute resolution: Establish a dedicated commercial court, introduce ADR mechanisms, and digitalize court processes to improve predictability and timeliness.	Pillar II (Regulations)	Short-term (gradually by 2030)
3. Foster firm investment	Strengthen financial inclusion and intermediation to support private investment: Simplify onboarding and loan processes, close the urban-rural access gap, strengthen credit infrastructure (including credit reporting and alternative data), promote movable collateral lending, and enhance credit guarantee mechanisms for SMEs, complemented by stronger financial consumer protection.	Pillar II (Financial sector)	Short-term (gradually by 2030)
4. Reduce the burden of tax administration	Reduce tax compliance burdens on firms: Expand digital filing and payment, streamline inspection and audit processes, reduce the frequency of tax official meetings, reform tax law to limit excessive penalties and reexamination of transactions, and issue guidance on binding rulings to give firms advance certainty on how tax rules will be applied and reduce disputes arising from interpretation gaps. Reduce informal payments in tax settings: Set up reporting mechanisms such as hotlines for firms to report solicitation, increase penalties for officials caught doing so, and strengthen institutions for firm dialogue to improve transparency and accountability.	Pillar II (Regulations) Pillar III (Public governance)	Short-term (gradually by 2030)
I. The Entry Point: Facilitate Trade Upgrading & GVC Deepening			

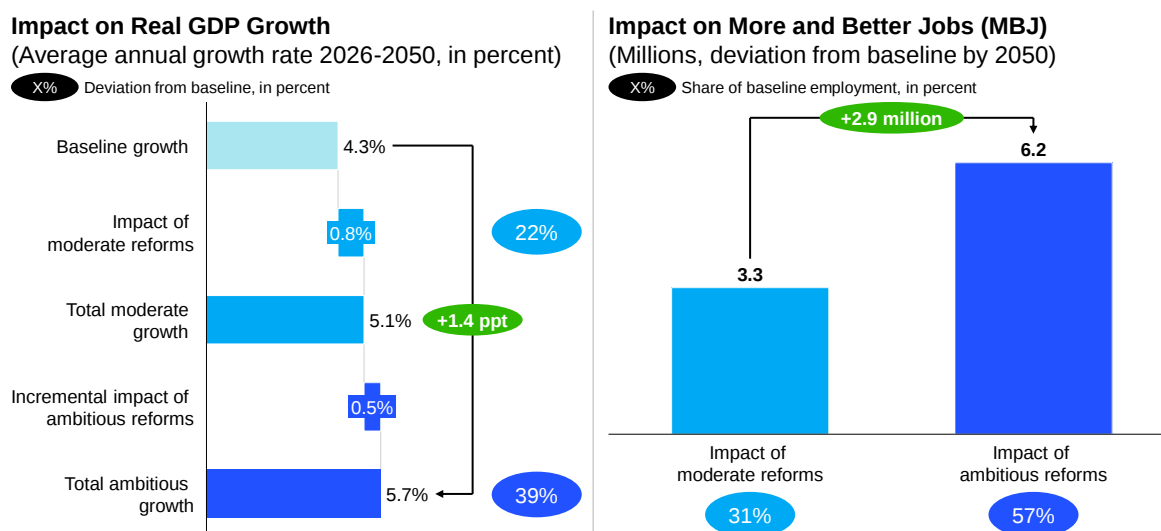
Sub-outcome	Policy Recommendations	Reform Pillar	Implementation Timing (moderate scenario)
5. Leverage trade agreements more strategically and reduce trade costs and frictions	Deepen and expand trade agreements: Pursue new PTAs (for example, Japan, EU) to secure favorable market access ahead of LDC preference graduation, fast-track implementation of existing agreements by advancing the domestic quality infrastructure agenda through the 2025 ASEAN Framework on Mutual Recognition Arrangements, and complete 2021 ASEAN Investment Facilitation Framework commitments to deepen regional integration. Build trade capacity and monitor performance: Establish interministerial coordination led by MoC-MEF to formulate, negotiate, and enforce trade-related policies, and track PTA implementation and trade impacts, proactively resolving bottlenecks with partners through existing mechanisms. Navigate post-graduation rules of origin: Launch an exporter support program to educate firms and input suppliers on changes in origin requirements following LDC graduation, ensuring exporters can maintain market access under more stringent rules. Streamline non-tariff measures: Regularly review NTMs across agencies for fit-for-purpose and compliance burden, prioritizing transparency and regulatory impact assessments (RIAs). Rationalize Sub-Decree 370's product list, streamline licensing, and implement green lanes for environmental goods. Facilitate access to key export markets: Monitor requirements in priority markets (for example, EU CSDDD), align to international standards for GVC integration, and invest strategically in conformity assessment and accreditation. Enhance trade facilitation and logistics: Elevate the National Logistics Council's role in customs and logistics, strengthen inter-agency coordination, promote AEO-type programs, and continue digitization efforts.	Pillar II (Trade)	Medium term (gradually by 2035)
6. Strengthen domestic linkages to GVCs	Integrate trade, investment, and local-linkage promotion: Coordinate investment attraction, domestic supplier development, and export promotion as one connected process rather than across separate agencies. Incentivize investor-supplier linkages: Review and reorient fiscal incentives toward priority sectors, require incoming investors to outline local linkage plans, pre-screen high-potential SMEs, and evaluate sector-specific cluster and SEZ models. Connect investors and local suppliers: Run regular Meet-the-Buyer forums, stage supplier upgrading toward international standards, launch a bilingual supplier directory integrating decent-work, gender, and green criteria, and task the Council for the Development of Cambodia with establishing a digital MNE-supplier database to systematize matchmaking between foreign investors and domestic firms across priority sectors. Develop a supplier development program: Go beyond matchmaking to provide firm-level diagnostics, coaching, and targeted skills upgrading, tied to measurable linkage and compliance outcomes.	Pillar II (Trade)	Medium term (gradually by 2035)
II. The Foundation: Workforce Skills – Build a Highly Skilled Workforce			
7. Upskill the existing workforce	Strengthen TVET quality and relevance by deepening industry engagement: Make TVET more relevant by putting industry at the center of system design, including through advisory bodies, financial incentives, capacity building for institution-firm engagement, and employer validation of priority sectors and curricula, and more effective by reforming teacher development and management, strengthening cross-cutting skills (including digital and green), and using technology to support teachers. Scale up Demand-Driven Training through the Skills Development Fund (SDF): Sharpen the SDF as a competitive co-financing scheme for employer-led training, with stronger sector focus, SME windows, and performance-based metrics.	Pillar I (Human capital)	Medium term (gradually by 2035)

Sub-outcome	Policy Recommendations	Reform Pillar	Implementation Timing (moderate scenario)
8. Prepare the future workforce	Strengthen teaching quality and capacity: Upskill the teacher workforce through targeted training on learner-centered instruction and ongoing in-school coaching, and adopt structured pedagogy combining scripted lesson plans, teaching materials, and ongoing coaching in priority schools. Expand access and strengthen student learning outcomes: Increase equitable access to ECE prioritizing rural, disadvantaged, and low-income children, scale high-dosage remedial tutoring targeting the bottom 40% of Grades 1–6 students falling behind in reading and math, and implement Targeted Instruction to target 10–20% of secondary students falling behind in foundational literacy, numeracy, and science skills.	Pillar I (Human capital)	Short-term (gradually by 2030)
III. The Enabler: Fiscal Capacity			
9. Expand fiscal capacity	Reform VAT to strengthen consumption taxation: Gradually raise the statutory rate, rationalize exemptions, and strengthen efficiency through expanded e-invoicing and real-time reporting. Reform PIT to broaden the taxable base: Strengthen employer reporting and expand coverage to self-employed workers through simplified presumptive tax regimes. Reform CIT to rationalize incentives and safeguard the tax base: Strengthen risk-based audit capacity to counter profit shifting and enhance transparency through public tax expenditure reporting.	Pillar III (Public governance)	Short-term (gradually by 2030)
10. Modernize and invest in public services	Strengthen public investment management (PIM) and scale up infrastructure spending: Improve transparency and standardization across the public investment cycle through open tender processes, a single asset register, and a national gateway for major infrastructure proposals; prioritize high-impact infrastructure investments with stronger procurement planning and better central-subnational coordination. Increase investment in human capital and social protection: Expand social protection by scaling up productive safety nets and integrating fragmented schemes into a coherent national system with unified beneficiary registries and digital payment tools; and increase education and health spending while strengthening learning assessments and facility-level reporting to guide evidence-based resource allocation.	Pillar I (Physical & human capital) Pillar III (Public investment mgmt)	Short-term (gradually by 2030)

5.2 Impact on Growth and Jobs

This section estimates the macroeconomic impact of Cambodia's reform agenda by modeling how different levels of reform ambition translate into growth and jobs outcomes over time, assessed against the baseline trajectory established in Chapter 1, average aggregate GDP growth of 4.3 percent annually through 2050, which leaves Cambodia well short of the high-income threshold without reform. Two scenarios are modeled: A moderate reform scenario that reflects a plausible continuation of Cambodia's recent reform trajectory, that is, meaningful progress but incremental; and an ambitious reform scenario. Both scenarios model the same set of reform priorities but differ in their extent and depth: The ambitious scenario assumes deeper, more aggressive implementation of the same reform intentions. For example, for reform priority 1 (lower firm registration costs), business registration costs are assumed to fall by 20 percent within two years under the moderate scenario and by 50 percent by 2030 under the ambitious scenario. Similarly, for reform priority 10 (invest in public services), spending on social protection, education, and health converges with UMIC peers by 2050 under the moderate scenario and with HIC peers under the ambitious scenario. It should be noted that the sum of the impacts of individual reform priorities do not add up to the total impact of all policies combined, due to non-linearities and complementarities in the model: Reforms interact, and their combined effect exceeds what any single reform delivers in isolation. These estimates are illustrative. They rest on assumptions drawn from the empirical literature and are intended to show what the reform agenda could make possible rather than to predict precise outcomes; the magnitudes should be read as indicative of direction and scale, not as forecasts. This section presents a summary of the results; the full assumptions behind the scenarios, modeling, and results are in Annex Chapter 5.

Figure 5.1: Ambitious reforms needed to converge toward Vision 2050



Source: World Bank staff calculations based on World Bank country-specific MANAGE, a dynamic Computable General Equilibrium using the recent Cambodia SAM for the base year 2018 (Beyene et al. 2024).

The modeling is unambiguous: Moderate reforms move Cambodia forward, but only sustained and deepening ambition gets Cambodia closer to the growth and jobs transformation the country needs to reach high-income status by 2050. As established in Chapter 1, sustaining the average 4.3 percent aggregate GDP growth projected under the baseline would leave Cambodia well short of high-income status by 2050; closing that gap requires accelerating growth to 7.7 percent, a difference of 3.4 percentage points. The scale of ambition matters enormously. The moderate reforms scenario lifts GDP 22 percent above the baseline by 2050, adding 0.8 percentage points to annual aggregate GDP growth to reach 5.1 percent (Figure 5.1), closing roughly a quarter of the growth gap. The ambitious reforms scenario lifts GDP 39 percent above the baseline by 2050, adding 1.4 percentage points to annual aggregate GDP growth to reach 5.7 percent, closing roughly two-fifths of the growth gap and getting Cambodia substantially closer to the Vision 2050 trajectory. The contrast is equally stark on jobs. The moderate scenario generates 3.3 million more and better jobs (MBJs) by 2050, equivalent to 31 percent of baseline employment in 2050. The ambitious reforms scenario generates an additional 2.9 million MBJs on top of that, bringing the total to 6.2 million, equivalent to 57 percent of baseline employment. Because Cambodia is already at or near full employment, virtually all these gains reflect better jobs, higher wages and more productive work, rather than simply more people in work. These results also underscore that sustaining and widening reforms beyond the priorities identified in this report will be essential to fully close the distance to Vision 2050.

Table 5.2: Growth and job impact of policy reforms by reform domain

Moderate Reform Scenario				
Indicator	Reform Domain	Short Run (2030)	Medium Run (2040)	Long Run (2050)
GDP <i>% deviation from baseline</i>	I. Firms & Trade	1.7%	3.9%	4.6%
	II. Workforce Skills	2.6%	8.0%	11.3%
	III. Fiscal Capacity	1.0%	3.1%	6.5%
	Total (all reforms)	5.2%	15.1%	22.4%
Wages <i>% deviation from baseline</i>	I. Firms & Trade	3.2%	0.9%	1.0%
	II. Workforce Skills	6.6%	11.4%	13.8%
	III. Fiscal Capacity	0.7%	4.7%	8.6%
	Total (all reforms)	10.6%	16.9%	23.3%
Productivity <i>% deviation from baseline</i>	I. Firms & Trade	3.2%	0.9%	1.0%
	II. Workforce Skills	5.9%	10.1%	12.6%
	III. Fiscal Capacity	0.7%	4.7%	8.6%
	Total (all reforms)	9.9%	15.7%	22.1%
More & Better Jobs (MBJ)¹ <i>absolute deviation from baseline</i>	I. Firms & Trade	325,657	497,011	578,870
	II. Workforce Skills	629,021	1,244,096	1,708,580
	III. Fiscal Capacity	72,169	511,046	1,060,875
	Total (all reforms)	1,026,847	2,252,153	3,348,326

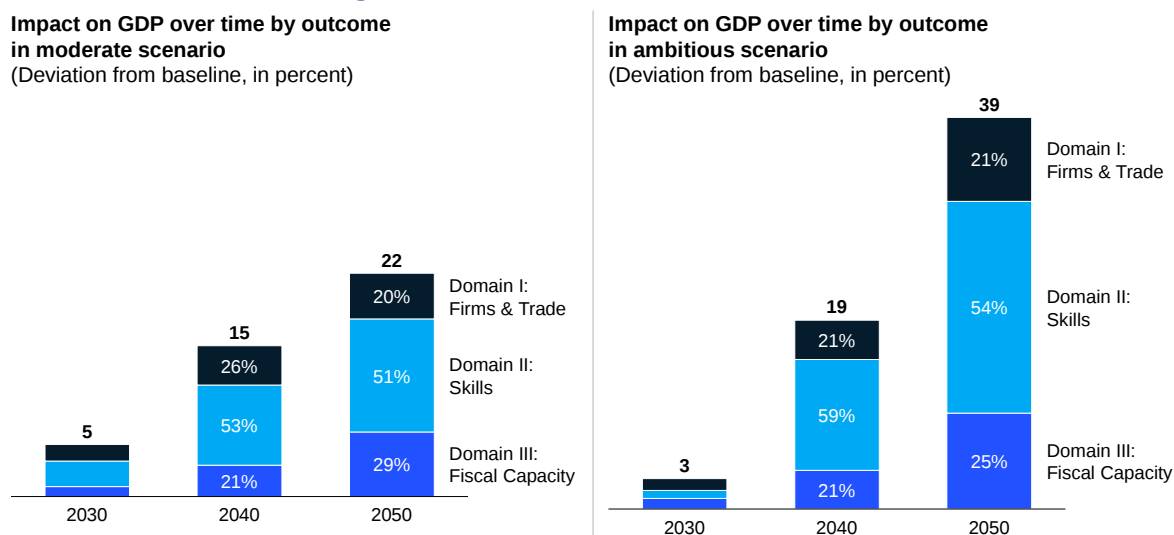
Ambitious Reform Scenario				
Indicator	Reform Domain	Short Run (2030)	Medium Run (2040)	Long Run (2050)
GDP <i>% deviation from baseline</i>	I. Firms & Trade	1.2%	3.9%	8.4%
	II. Workforce Skills	0.8%	11.1%	21.2%
	III. Fiscal Capacity	1.1%	3.9%	9.6%
	Total (all reforms)	3.1%	18.9%	39.2%
Wages <i>% deviation from baseline</i>	I. Firms & Trade	5.1%	11.6%	17.6%
	II. Workforce Skills	2.4%	21.6%	26.9%
	III. Fiscal Capacity	0.8%	6.1%	14.1%
	Total (all reforms)	8.3%	39.4%	58.6%
Productivity <i>% deviation from baseline</i>	I. Firms & Trade	5.1%	11.6%	17.6%
	II. Workforce Skills	2.2%	19.4%	24.3%
	III. Fiscal Capacity	0.8%	6.1%	14.1%
	Total (all reforms)	8.1%	37.1%	56.0%
More & Better Jobs (MBJ)¹ <i>absolute deviation from baseline</i>	I. Firms & Trade	141,848	693,993	1,119,498
	II. Workforce Skills	225,354	2,358,709	3,335,186
	III. Fiscal Capacity	78,251	671,190	1,751,127
	Total (all reforms)	445,453	3,723,892	6,205,810

All results show % deviation from no-reform baseline (GDP, wages, productivity) or absolute deviation. Source: World Bank CGE-MANAGE model, Cambodia 2018 SAM (Beyene et al. 2024).

The growth dividend from reform is driven primarily by productivity gains, with services as the dominant engine on the supply side. From a factor input perspective, the step-up in growth under the ambitious scenario is overwhelmingly a TFP story; productivity growth accounts for the lion's share of the difference between the two scenarios, with capital accumulation contributing meaningfully but playing a secondary role. On the supply side, services drive the bulk of the expansion under both scenarios, with industry contributing more significantly under the ambitious scenario as reforms unlock higher-value manufacturing activity. Agriculture's contribution remains modest under both, consistent with the structural transformation already underway. These sectoral patterns reflect the distinct channels through which each reform domain operates: business environment reforms benefit labor-intensive services most directly; trade reforms drive gains in tradeable sectors; skills reforms show the largest effects in manufacturing and services; and fiscal reforms support higher-value activity across the economy broadly. On the demand side, the growth dividend is broadly distributed across exports, investment, and consumption, though under the ambitious scenario the growth impulse becomes markedly more export- and investment-led, reflecting the deeper trade integration and public investment expansion that deeper reforms unlock.

Skills reforms deliver the largest share of Cambodia's growth dividend, but reforms across all three domains contribute meaningfully, and their interactions are what make them so much more powerful together. Under both scenarios, Domain II (Skills) is the largest contributor to GDP growth above baseline by 2050, driven primarily by upskilling the existing workforce and investments in human capital (Figure 5.2). Its direct contribution at 2050 accounts for roughly half of the total growth dividend under both scenarios, roughly two and a half times the direct contribution of Domain I (Firms & Trade) and roughly double that of Domain III (Fiscal Capacity). Within Skills, improving the productivity of the existing workforce is the single most powerful individual lever in the entire reform agenda, reflecting how much Cambodia stands to gain from raising the quality of work, not just its quantity. Within Domain I, firm investment upgrading and Cambodia's broader trade integration agenda, spanning strategic use of trade agreements, reduction of trade costs and frictions, and logistics improvement, are the largest individual drivers, while reducing tax administration burdens on firms also contributes meaningfully by freeing up firm resources and lowering the cost of doing business. These results should not be read as suggesting that Skills reforms alone are sufficient. The business and trade environment remains the essential entry point: fixing the regulatory, competitive, and trade policy constraints that have kept firms small and low-productivity is the precondition from which returns to skills investment can be fully realized. Similarly, without the fiscal capacity to finance them, skills reforms cannot deliver their full impact. All three domains are mutually reinforcing, and it is their combination that drives the full growth dividend. Notably, measures to expand tax revenues show small negative GDP effects, more than offset by the longer-run gains from stronger fiscal capacity, which enables larger investments in infrastructure and human capital.

Figure 5.2: Workforce skills reforms have the largest impact on growth and jobs, with the dividends building over time



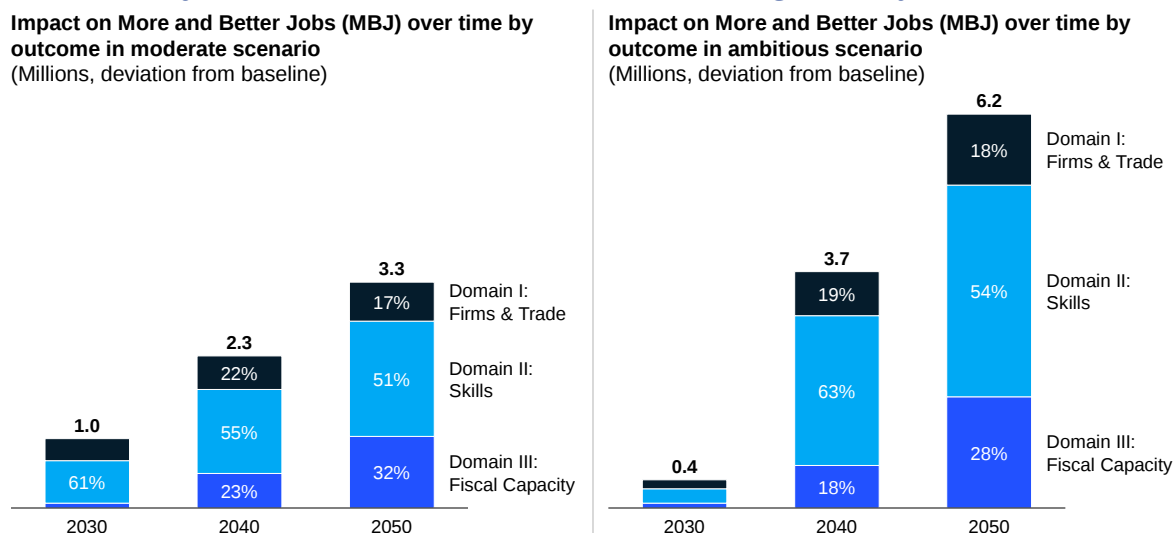
Source: World Bank staff calculations based on World Bank country-specific MANAGE, a dynamic Computable General Equilibrium using the recent Cambodia SAM for the base year 2018 (Beyene et al. 2024).

The growth dividend from reform builds steadily and accelerates in the final decade, which means the reforms that take the longest to bear fruit must start now, not later. Even under the ambitious scenario, the cumulative impact by 2030 is modest, reflecting the early stages of implementation and the time it takes for structural changes to compound through the economy (Figure 5.2). By 2040, momentum is clearly established across all three domains, with nearly half

the total dividend already realized. The bulk of the dividend, particularly from Skills reforms, crystallizes in the last decade of the Vision 2050 horizon, as investments in human capital reach their full productive potential. This trajectory carries a direct and important implication for sequencing: business environment reforms can deliver early wins by easing firm entry, reducing input costs, and cutting bureaucratic burdens relatively quickly, but skills and education reforms operate on much longer time horizons, and their full payoff by 2050 depends entirely on starting now. Cambodia cannot afford to treat these longer-horizon reforms as second-order priorities to be addressed once the easier reforms are done. They must proceed in parallel, from the outset.

The jobs dividend from reform mirrors the growth story in its gradual build-up profile, though the contrast between the two scenarios is even starker, with the ambitious scenario generating nearly double the MBJs of the moderate one by 2050. Even under the ambitious scenario, the cumulative MBJ impact in 2030 is modest, reflecting the time it takes for structural changes in the labor market to materialize (Figure 5.3). By 2040, the ambitious scenario has pulled clearly ahead, generating 3.7 million MBJs against 2.3 million under the moderate scenario. By 2050, the full dividend crystallizes at 6.2 million. To put that figure in perspective, it represents roughly 250,000 MBJ per year over the horizon, comfortably within Cambodia's recent experience: between 2012 and 2019, rising real labor incomes were equivalent to around 640,000 to 780,000 MBJ per year on the same methodology (World Bank staff calculations based on Cambodia Labor Force Surveys). The modeled ambition is therefore large but well grounded in the country's track record, if anything more conservative, since the historical figure is a gross total while the modeled increment is measured above a baseline that already carries substantial growth. That benchmark should be read with some caution, as 2012 to 2019 was an exceptional period of wage growth, among the fastest in the world, so part of it reflects catch-up that may not be repeated.

Figure 5.3: The jobs dividend from reform also builds gradually over time



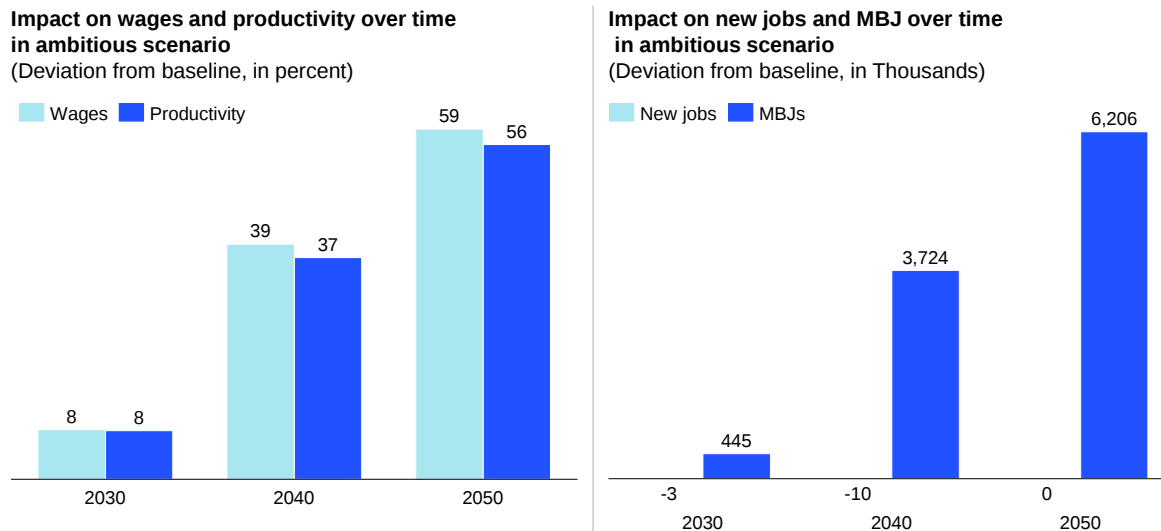
Source: World Bank staff calculations based on World Bank country-specific MANAGE, a dynamic Computable General Equilibrium using the recent Cambodia SAM for the base year 2018 (Beyene et al. 2024).

The dividend is broad-based, but its composition reveals where the gains originate. Across both scenarios, Skills reforms are the largest single contributor to MBJ gains, though Fiscal Capacity reforms also account for a meaningful share through the stronger public investment and service delivery they finance (Figure 5.3). Firms & Trade reforms contribute more modestly to MBJs directly,

though their role in driving the productivity and wage gains that underpin better jobs remains essential. This underscores that ambitious trade and business environment reforms are not just about growth; they are essential to ensuring that the jobs Cambodia creates are better paid and more productive.

The jobs dividend from reform is overwhelmingly a story about better work, not more work; wages and productivity rise substantially across both scenarios, while net new job creation remains effectively zero. This is not a failure of the reform agenda; it reflects Cambodia's starting point. With the economy already at or near full employment, the binding constraint is not the quantity of jobs but their quality, and that is precisely what the reform agenda addresses (Figure 5.4, left panel). Under both scenarios, wages and labor productivity rise in tandem and closely track each other throughout the horizon, confirming that the MBJ gains are grounded in genuine productivity improvement rather than redistribution. The difference between the two scenarios is substantial: under the ambitious scenario, wages and productivity by 2050 are roughly two and a half times higher above baseline than under the moderate scenario, reflecting the compounding effect of deeper skills investment, greater formalization, and higher-value sectoral activity. Net new job creation is effectively zero even under the ambitious scenario (Figure 5.4, right panel), a structural feature of an economy already close to full employment, not a shortcoming of the reform agenda. The MBJ metric correctly captures what matters most for Cambodian workers: not whether there are more jobs, but whether the jobs that exist pay progressively better and demand progressively higher skills.

Figure 5.4: The jobs dividend is overwhelmingly a story about better work



Source: World Bank staff calculations based on World Bank country-specific MANAGE, a dynamic Computable General Equilibrium using the recent Cambodia SAM for the base year 2018 (Beyene et al. 2024).

The modeling presented in this section makes Cambodia's development choice concrete: the path to Vision 2050 exists, but it requires the full reform agenda implemented at the depth and pace of the ambitious scenario, not a more modest version of it. To state this plainly: even full implementation of the ambitious scenario delivers average aggregate GDP growth of 5.7 percent, closing roughly two-fifths of the gap to Vision 2050 but leaving Cambodia 2.0 percentage points short of the 7.7 percent required to reach high-income status by 2050. Closing

the remaining gap will require the government to go further, sustaining reform ambition beyond the priorities identified in this report, mobilizing private investment at a scale not yet seen, and maintaining political commitment over a generation. The cumulative evidence points in one direction: moderate ambition falls short of the HIC threshold, and the gap is not marginal. The Vision 2050 scenario is demanding but not unprecedented: the growth rates it requires have been achieved by countries such as Korea, Poland, and Malaysia, each of which committed to deep reform across firms, trade, skills, and institutions over a generation. What the modeling cannot provide, but what the evidence makes urgently clear, is the political commitment to pursue these reforms together at the depth the ambitious scenario demands, sustained over the full Vision 2050 horizon.

5.3 From Priorities to Implementation

The harder challenge is not identifying the right reforms but carrying them through. The preceding sections set out what Cambodia should reform and what the reforms could deliver, yet the experience of comparable countries shows that the binding constraint on development is more often implementation than knowledge of what to do. This section considers what delivery will require, drawing on international evidence and on Cambodia's own institutional realities. The aim is not to temper ambition but to ground it.

International evidence points to governance and implementation, not policy design, as what decides whether reforms succeed. The World Bank's *World Development Report 2017* asked why sensible policies so often go unadopted or fail to deliver, and concluded that what matters is less the form of a policy than whether institutions can sustain three functions: credible commitment, so that reforms hold as circumstances change; coordination, so that actors pull in the same direction; and cooperation, so that those affected comply rather than resist (World Bank 2017b). It also stressed the political economy of reform: Because reforms create winners and losers, vested interests can block even well-designed policies, so durable reform depends on building a coalition of those who stand to gain. For Cambodia, the priorities in this chapter will deliver their modeled gains only if that commitment, coordination, and cooperation are deliberately built rather than assumed.

Poland's rise to high-income status shows how sustained commitment and institution-building can turn ambition into lasting convergence. Poland, one of the aspirational high-income peers used throughout this report, reached high-income status not through any single reform but through three decades of cumulative institutional change, combining early market liberalization, heavy investment in education, and the steady building of institutions such as a meritocratic public administration and effective competition (World Bank 2024a; Piatkowski 2018). The prospect of EU accession served as an external anchor that locked difficult reforms in place across more than 20 successive governments. Cambodia cannot draw on EU accession, as Chapter 1 notes, but the lesson transfers: Durable convergence rests on building strong institutions and sustaining reform through the cycles that would otherwise stall it.

In Cambodia, implementation falters less on the design of policies than on coordination across government and the capability to deliver. Reform has advanced unevenly: Simpler measures with strong backing and quick results, such as the Online Business Registration System, have moved faster than institution-intensive reforms like insolvency that depend on judicial and

creditor systems. Trade and investment reform is split across seven ministries, which weakens coherence, particularly on NTMs, and workforce development remains divided across ministries and providers that do not yet function as a single system. Underlying these patterns are persistent weaknesses in the transparency and predictability of how laws are applied and in the delivery capacity of public administration. These are not reasons to hold back, but they show where implementation effort should concentrate.

Closing these gaps means building state capability alongside the reforms and sequencing them realistically. International experience shows that governments struggle when they attempt ambitious agendas faster than administrative systems can absorb, a pattern often called the capability trap. Cambodia has begun to guard against it through leadership development programs and problem-driven, iterative reform, and it can build on that by sequencing deliberately: measures within a single ministry, such as simplifying registration or digital tax filing, can move quickly and build momentum, while reforms that cut across ministries, such as trade facilitation and the financing of social investment, need more time and coordinating capacity. Engaging the firms, workers, and public servants who stand to gain helps assemble the coalitions that carry reform through resistance.

Such ambitious reforms also need anchors that hold it in place against reversal. Difficult agendas have been sustained elsewhere by binding external commitments: Poland anchored its reforms in EU accession, while Korea used World Trade Organization accession to lock in liberalization across successive governments. Cambodia cannot replicate either path, but the trade agenda in Chapter 3 offers its most direct equivalent: Deep trade agreements strengthen domestic institutions and make reforms hard to reverse (World Bank 2020c). The recently concluded reciprocal agreement with the United States and a future agreement with the EU, Cambodia's two largest export markets, would pull the country toward the standards that high-income markets now demand while reducing the trade risks that intensify with LDC graduation. Closer alignment with OECD standards offers a further anchor, as Thailand and Indonesia are showing through their 2024 accession talks (OECD 2024b). Domestically, the next phase of the Pentagonal Strategy is the natural place to embed the agenda, giving concrete form to commitment, coordination, and cooperation by assigning clear ownership, coordinating the reforms that span ministries, and setting measurable targets and accountability for delivery.

Annex Chapter 1: Standardized Tables

Table A1.1: Standardized macro table

	Cambodia								Comparators		Source
	2000-2019	2020-2024	2017	2019	2021	2022	2023	2024	Structural Avg 2020-2024	Aspirational Avg 2020-2024	
Real/Income											
Real GDP growth, market prices	8.3	3.1	8.1	7.9	3.1	5.1	5	6	5	3.8	MPO
Investment, % change	13.2	-3.7	8.2	14.7	4.7	5.4	-26.7	-0.2	5.2	4.3	MPO
Public									4.8	6.8	MPO, calculated
Private									5.7	4.8	MPO, calculated
Consumption, % change	7	1.4	6.8	3.8	-1.2	4.6	2.8	1.9	4.4	3.6	MPO, calculated
Public	10.9	10.6	8.3	8.8	12.3	-1.2	35.1	-2.5	4.8	2.8	MPO
Private	6.9	0.6	6.7	3.4	-2.4	5.2	-0.2	2.5	4.4	3.9	MPO
Net exports, % change	13	-6.3	3.3	0.4	-17.6	2.4	-147.7	116.2	-21.5	-32.9	MPO, calculated
Exports	14.1	7.3	6.9	12.3	6.1	21.3	6.9	14.4	7.4	6.5	MPO
Imports	13.5	1.5	6.3	10.5	1.9	18.6	-12.4	7.5	7.3	6.6	MPO
Investment, % of GDP	25.1	32.5	31.4	36.1	37.4	37.5	26.2	24.6	25.5	22.9	MPO, calculated
Public									5.5	3.8	MPO, calculated
Private									20.1	18.6	WDI
Consumption, % of GDP	81.1	70.1	77.2	72	70.7	70.4	69	66.3	37.7	65.1	MPO, calculated
Public	4.9	6.8	5.4	5.3	6.5	6.1	7.9	7.3	10.9	17.2	MPO, calculated
Private	76.2	63.3	71.8	66.7	64.2	64.3	61.1	59.1	70.3	56.8	MPO, calculated
Net Exports, % of GDP	-7.9	-3.5	-10.1	-9.7	-9.3	-9	4.1	8.4	-6.9	1.4	MPO, calculated
Exports	44.5	61	57.2	58.5	54.8	63.3	64.4	69.5	42.1	45.3	MPO, calculated
Imports	52.4	64.5	67.3	68.2	64.1	72.3	60.3	61.2	50.3	43.8	MPO, calculated
Potential GDP growth	8.1	6.5	7.8	8.1	7.2	6.7	6.4	3.7	4.4	3.3	MPO
Distance to frontier, GDPpc as % of USA's GDPpc	6.2	8.9	8.5	9.3	8.7	8.9	9		13.3	41.8	Convergence Tool
Real GDP growth (LCU)	8.3	3.1	8.1	7.9	3.1	5.1	5	6	5	4	MPO
TFP, contribution (ppt)	0.6	-4.9	0.4	0.1	-2.2	-1.4			0.7	-0.3	MPO, calculated
Capital accumulation, contribution (ppt)	6.6	5.3	6.8	7.1	6	5.6	5.2	2.6	3.8	3.4	MPO, calculated

Labor, contribution (ppt)	1.1	0.2	0.8	0.8	-0.8	0.9			0.7	0.7	MPO, calculated
Demographics and Jobs											
Age dependency ratio (% of working-age population)	64.4	57	57.8	57.7	57.2	56.8	56.4		56.2	46.5	WDI
Employment to working-age population ratio	83.3	83.6	84.3	85.4	82.6	83.4	83.5	83.5	67	60.4	ILO
Male	88	88.7	88.8	90.1	87.7	88.7	88.7	88.7	81.7	69.4	ILO
Female	78.9	78.8	80.1	81	77.8	78.4	78.5	78.5	52.7	50.7	ILO
Labor force participation rate	83.8	83.9	84.4	85.5	82.9	83.6	83.7	83.8	68.8	65.1	ILO
Male	88.6	88.9	88.9	90.2	88	88.9	88.9	88.9	83.9	74.5	ILO
Female	79.5	79	80.2	81.2	78.1	78.6	78.7	78.8	54.2	54.9	ILO
Unemployment rate	0.7	0.3	0.1	0.1	0.4	0.2	0.2	0.3	2.8	7.3	ILO
Male	0.7	0.2	0.1	0.1	0.4	0.2	0.2	0.2	2.6	7.1	ILO
Female	0.7	0.3	0.2	0.2	0.4	0.3	0.3	0.3	3.3	7.7	ILO
Structural Transformation											
Real GDP growth, factor prices, % change	8.2	3.7	8	7.8	3	5.1	5	8.8	5	4	MPO
Agriculture	3.6	1.1	1.7	-0.4	1.5	0.6	1.6	1	2.8	1.6	MPO
Manufacturing	12.5	6.3	13.1	13	8.4	8.2	7.6	9.5	6.4	3.4	MPO
Services	8.5	2	7	6.6	-1.8	3.6	3.4	11.3	5.4	4.7	MPO
Agriculture, % of GDP	25.4	16.9	17.9	15.4	16.9	16.5	17.1		17.5	4.6	WDI
Manufacturing, % of GDP	28.7	39.8	34.3	39	40.3	40.9	40.5		29.4	26.2	WDI
Services, % of GDP	39.7	37	41.4	39.1	36.5	36.4	36.2		49.8	58.2	WDI
Sectoral composition of employment											
Agriculture	54.5	36.7	38.2	39.9	37.1	36.7	36		41.3	12.2	WDI
Manufacturing	17.4	26.2	25.5	24.5	26.4	26.5	26.9		19.4	26.8	WDI
Services	28.1	37.1	36.3	35.7	36.5	36.9	37.1		39.4	61	WDI
Employment Structure											
Share of waged employment in total working age population	29.1	36.3	37.4	37	35.8	36.2	36.4		28.1	46.1	ILO
Average years of schooling, share of HIC average	38.2		44.3	46.3					53.2	92.4	PWT
External											
Current account balance, % of GDP	-5.9	-10.6	-5.6	-5.9	-29.1	-18.8	1.3	-1.1	-1.7	-5.5	MPO
FDI, % of GDP	7.2	9.5	9.5	10	9.5	8.9	9.4		3.1	6.2	WDI
Exchange rate, LCU/US\$	4,029.1	4,107.5	4,062.0	4,070.0	4100	4,150.0	4,110.0	4100			MPO
REER	93.9	91.4	103.1	105.1	100.4	93.9	79.2	85.3			MPO
Reserves, months of imports	4.8	7.7	7.4	8.1	7	5.8	7.8		4.6	4.7	WDI
Memo items											
Credit to private sector, % of GDP	30.6	122.1	65.5	84.3	121.8	132.8	130.1		51.4	59.5	WDI
Interest rate, annual average	2	1.5	1.5	1.5	1.5	1.5	1.5	1.5	5.6	6	MPO
Inflation, Consumer Price Index (CPI)	3.4	3.1	2.9	1.9	2.8	5.5	2.1	2.2	6.6	5	MPO

Fiscal deficit, % of GDP	-1.4	-4	-0.6	1.1	-5.1	-3.2	-5.3	-3	-1.5	-3.2	MPO
Public debt, % of GDP	27.6	27.2	22.9	20.8	26.5	27	28.8	27	40.4	40.8	MPO
-of which external, % of GDP									18.1	17.1	MPO

Source: World Bank Country Growth and Jobs Report Dashboard, 2026.

Table A1.2: Standardized employment table

Sector	Annualized growth							Composition (averages)		
	Cambodia					Comparators (2020-2022 average)		Cambodia	Structural	Aspirational
	2000 - 2019	2020 - 2022	2020	2021	2022	Structural	Aspirational			
Total Employment	2.5	0.1	1	-1.8	2.2	1.5	1.8			
Agriculture	-0.7	-0.2	-6.5	-1.2	0.8	-0.5	-2.7	36.7	33.3	8.8
Mining	3.3	-9.7	346.6	-21.2	3.5	-3	-4.5	0.3	0.4	0.8
Manufacturing	6.7	2.7	5.5	2.6	2.8	2.3	2.3	16.6	14.8	15.6
Utilities	10.2	-4.9	109	-10.9	1.5	0.5	-1	0.5	0.5	2
Construction	13.3	3.9	-5.4	6.2	1.7	1.6	4	9.1	6.4	8.6
Wholesale & Retail Trade	6.8	3.4	-2.7	3.7	3.2	1.9	1.3	15.6	17.3	14.4
Transport & ICT	6.9	-3.9	8.9	-12.3	5.3	3.7	3	4.5	5.5	9.1
Hospitality	7.3	-7.2	24.9	-16.8	3.4	5	4.7	3.3	4.7	4.8
Finance	15.9	-2.4	4.7	-9.4	5.2	2.9	0.4	1.3	1	2
Business Services	8.7	-0.3	52.6	-4	3.4	5.3	2.9	4.5	2.6	7.4
Public Administration	3.1	-1.5	2.5	-3.4	0.4	-0.9	0.8	3.2	2.5	7.1
Education	3.5	-10.5	-8.9	-20.3	0.5	-2	0.8	1.5	3.4	7.3
Health	3.7	-8.4	-12.9	-17.7	1.8	4.2	3.3	0.5	1.5	6.4
Other Services	5.7	-7.3	18.3	-18.4	5.3	5.1	3.5	2.5	6.1	5.7

Source: World Bank Country Growth and Jobs Report Dashboard, 2026.

Annex Chapter 5: Modeling Assumptions

A5.1: Methodology

To conduct the policy simulations in Chapter 5, two primary modeling tools were employed: the MFMod and a Trade CGE model.

The MFMod is a semi-structural macroeconomic model with a focus on the supply side of the economy, offering long-term growth projections and incorporating elements of endogenous growth theory. It combines economic theory with empirical estimation to produce conditional forecasts and simulate policy impacts.

Technically, the MFMod embeds a neoclassical growth model into a fully estimated dynamic system with nominal rigidities, fiscal feedbacks, and open-economy channels. In the short run, the MFMod behaves like a Keynesian model, as the nominal rigidities in prices and wages generate business cycle dynamics, fiscal multipliers may exceed one, and demand shocks return real effects. In the long run, however, the MFMod behaves as a Solow growth model, with output converging to a balanced growth path that is pinned down by TFP, capital accumulation, and supply of labor. All gaps close and inflation will settle at target. The MFMod transitions between these two models through error-correction mechanisms: estimated equations that pull every variable back toward its theory-consistent equilibrium. Importantly, the MFMod extends its production function to include quality-adjusted labor, which in turn enables long-run analysis with respect to capital deepening, human capital, TFP, competition, structural transformation, and demographic transitions.

Simply speaking, the MFMod's equations allow for structural interpretations, as each parameter can be traced back to either theory or data. In the case of this Country Growth and Jobs Report (CGJR), MFMod condenses the detailed policy reform matrices (with assumptions, calculations, and macroeconomic links to growth and jobs) presented by each chapter team into a condensed list of scenarios with key indicators and underlying assumptions on magnitude of impacts.

The Cambodia CGJR applies a bi-scenario model in the MFMod, enabling the team to evaluate the impacts of the government's reform priorities on growth and jobs over a longer time horizon (immediate – 2050). Using macro-structural and general equilibrium modeling, the model simulates a business-as-usual baseline against two reform scenarios. The Moderate Reform Scenario assumes a probable continuation of Cambodia's recent reform trajectory: meaningful progress, but incremental. The Ambitious Reform Scenario, a model that applies aggressive reforms needed for Cambodia to achieve Vision 2050 ambitions of high-income status. The two scenarios are not mutually exclusive. In fact, the Ambitious Scenario often applies the same types of reforms but at a deeper and more aggressive level of implementation.

The MFMod-SA model also leverages outputs from the CGE model used in Chapter 3 to model impacts of reforms on Cambodian growth and jobs. The pessimistic scenario models only the tariff increases associated with LDC graduation (LDCMFN). The ambitious scenario models tariff reductions under Free Trade Agreements (FTAs) and assumes NTM trade cost reductions within these Preferential Trade Agreements (PTAs) – FTAs+NTM. This ambitious scenario proceeds on the assumption that Cambodia's PTAs generate non-tariff-related trade effects in line with the provisional depth of each agreement. We should note that attributing effects to specific provisions remains methodologically complex, and the academic literature on this topic is still evolving. We therefore opted for a top-down approach that, at least for Cambodia's trade with PTA partners, captures outcome areas 1 and 2 to the extent that these are addressed within the PTAs. LDCMFN+FTAs is a “business-as-usual”/conservative scenario that only takes into account tariff reductions

within FTAs. Regarding timing, the PTA-NTM trade cost reductions assume a phase-in period of 10 years from each agreement's entry-into-force date. Tariff liberalization follows the schedule set out in each agreement, with most effects front-loaded. The precise timing of these changes depends on the year in which each PTA entered into force. Finally, tariff increases resulting from LDC graduation, accounting for the applicable transition period, are modeled as taking effect in 2033.

The modeling has clear strengths and limitations, and its results are best read in that light. Its central strength is structural: The MFMod combines economic theory with empirical estimation, so its long-run results are anchored by the fundamental drivers of growth, TFP, capital accumulation, and the quantity and quality of labor, while the trade CGE captures economy-wide effects across sectors. Its main limitation is that the magnitude of each reform's impact rests on assumptions and elasticities drawn from the empirical literature, much of it based on other countries and, in some areas, on a small or still-evolving evidence base, as already noted for the attribution of trade effects to specific agreement provisions. The estimates are conditional simulations, not forecasts, and are best read as indicative of the direction and approximate scale of what reform could achieve. They illustrate what Cambodia's reform agenda could make possible; the magnitudes would shift under different assumptions, but the central finding, that deep and sustained reform is needed and would deliver large gains, holds across plausible variations.

Table A5.1: Projection table-baseline

	Baseline		
	ST 2026–27	MT 2028–35	LT 2036–50
GDP Growth & Structure			
Real GDP (compound avg. annual growth rate, %)	4.9	4.5	3.6
Potential GDP (compound avg. annual growth rate, %)	1.8	5.0	3.7
TFP contribution (pp)	0.0	0.8	0.8
Structural Employment contribution (pp)	1.2	0.9	0.5
Physical Capital contribution (pp)	1.8	6.6	4.9
Demand Composition (share of real GDP, %)			
Private Consumption	52.6	67.8	69.2
Government Consumption	5.7	5.8	5.8
Total Investment	30.6	31.4	30.0
Net Trade	11.1	7.5	3.8
Sectoral Composition of Real GDP (share, %)			
Agriculture	16.7	16.0	14.2
Industry	30.5	31.3	32.3
Services	52.9	52.7	53.5
Labor Markets, end of period			
Working-Age Population (in thousands)	11,724	12,586	13,563
Labor Force Participation Rate (%)	79.4	79.4	79.4
Male	85.1	85.1	85.1
Female	73.9	73.9	73.9
Employment (in thousands)	9,340	10,014	10,791
Labor Productivity (Index: 1 = 2025)	1.065	1.367	2.157
Unemployment Rate (%)	0.2	0.3	0.3
Sectoral Composition of Employment, end of period (share, %)			
Agriculture	34.4	32.4	29.0
Industry	17.4	18.5	19.1
Services	48.2	49.1	51.9

Note: Period averages: ST = Short Term (2026–2027), MT = Medium Term (2028–2035), LT = Long Term (2036–2050); pp = percentage points. MBJ= More and as deviation from the no-reform baseline. GDP growth and contributions are compound average annualized rates. Labor market variables are end-of-period values.

Table A5.2: MFMod-SA summary of modeled policies
(see Table A5.6 for more details on modeling assumptions)

Reform Lever	Moderate Reform Scenario	Ambitious Reform Scenario
I. Firms & Trade		
Boost Firms' Productivity and Innovation		
1. Ease business entry	Reduce business registration and compliance costs by 20%; bring top 25% of informal firms (by sales per worker) into the formal tax net, expanding registered firms from ~77,000 to ~177,000.	Reduce business registration and compliance costs by 50%; extend formalization to top 50% of informal firms, expanding registered firms from ~77,000 to ~277,000.
2. Facilitate firm restructuring	Establish out-of-court restructuring framework with clear guidelines for negotiation and debt recovery.	Modernize the full insolvency and restructuring regime with SME-friendly procedures and cross-border provisions, converging toward OECD average recovery rates.
3. Foster firm investment	Implement financial sector reform package (simplified KYC, expanded agent banking, strengthened credit infrastructure, credit guarantees) to converge financial access toward LMIC averages.	Deepen financial sector reforms to achieve financial inclusion levels consistent with UMIC norms.
4. Reduce the burden of tax administration	Reduce share of formal firms visited by tax officials from 64% to 25% (structural peer average); reduce share of firms giving gifts in tax meetings from 35% to 18% (structural peer average).	Reduce share of formal firms visited by tax officials from 64% to 16% (HIC average); reduce share of firms giving gifts in tax meetings from 35% to 3% (HIC average).
Facilitate Trade Upgrading & GVC Deepening		
5. Leverage trade agreements more strategically and reduce trade costs and frictions	Implement existing PTAs; advance new agreements (Japan, EU); rationalize NTMs; establish interministerial trade coordination (MoC-MEF).	Achieve deep trade integration with full PTA implementation, NTM harmonization, and trade facilitation upgrades.
6. Strengthen domestic linkages to GVCs	Activate targeted investment promotion agency with specialized departments for investment attraction, supplier linkages, and export promotion; FDI inflows premium phased in 2030–2034.	Sustain and deepen investment promotion and GVC linkage programs through 2050, building on the moderate scenario premium.
II. Workforce Skills		
Build a Highly Skilled Workforce		
7. Upskill the existing workforce	Deepen industry engagement to set and validate occupational standards and curricula in priority sectors; link TVET trainer promotion to certified industry experience (~6–30% of trainers); integrate cross-cutting skills into TVET curricula. Scale up demand-driven training (SDF): Scale the SDF to 50,000 employer-led trainees per year.	Achieve full coverage of employer-validated standards with deep industry co-governance; fully institutionalize TVET trainer industry-experience requirements; scale up demand-driven training (SDF): scale the SDF to ~20% of the workforce in active training annually (~2 million trainees).
8. Prepare the future workforce	Structured pedagogy rolled out across the entire public primary system with effective coverage of 770,000 primary students (35%); remedial tutoring including Targeted Instruction for 40% of primary students; Targeted Instruction for 10% of low-performing secondary students; ECE expanded to full coverage of all five-year-old children.	Effective implementation of structured pedagogy to 1,998,000 primary students (90%); Targeted Instruction for 80% of low-performing secondary students; ECE for all pre-primary students.

Reform Lever	Moderate Reform Scenario	Ambitious Reform Scenario
III. Fiscal Capacity		
Strengthen Institutions and Invest in Public Services		
9. Expand fiscal capacity	VAT: 3.8% → 5.5% of GDP by 2050. PIT: 0.8% → 1.5% of GDP by 2050. CIT: 3.1% → 4.0% of GDP by 2050.	VAT: 3.8% → 6.5% of GDP by 2050. PIT: 0.8% → 2.5% of GDP by 2050. CIT: 3.1% → 4.0% of GDP by 2050.
10. Modernize and invest in public services	CAPEX: 5.1% → 6.5% of GDP by 2050; investment efficiency: ~67% → ~88% by 2030. Education: 2.2% → 3.5% of GDP. Health: 2.0% → 3.7% of GDP. Social protection: 1.1% → 6.6% of GDP (UMIC peer average).	CAPEX: 5.1% → 8.5% of GDP by 2050; investment efficiency: ~67% → ~88% by 2030. Education: 2.2% → 4.2% of GDP (HIC peer average). Health: 2.0% → 4.7% of GDP (HIC peer average). Social protection: 1.1% → 8.0% of GDP (Asia-Pacific average).

Table A5.3: Macroeconomic changes under different trade cost scenarios (in %)

Year	(a) LDCMFN				(b) LDCMFN+FTAs				(c) FTAs+NTM			
	GDP	Wages	Imports	Exports	GDP	Wages	Imports	Exports	GDP	Wages	Imports	Exports
2017	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2018	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.09	0.06	0.10	0.12
2019	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.18	0.13	0.20	0.26
2020	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.19	0.13	0.19	0.27
2021	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.21	0.16	0.22	0.31
2022	0.00	0.00	0.00	0.00	0.06	0.00	0.24	0.23	0.34	1.06	0.81	1.01
2023	0.00	0.00	0.00	0.00	0.07	0.00	0.26	0.25	0.42	1.40	1.05	1.31
2024	0.00	0.00	0.00	0.00	0.08	0.00	0.26	0.25	0.48	1.78	1.25	1.54
2025	0.00	0.00	0.00	0.00	0.09	0.00	0.28	0.27	0.56	2.19	1.46	1.81
2026	0.00	0.00	0.00	0.00	0.10	0.00	0.29	0.28	0.64	2.62	1.70	2.10
2027	0.00	0.00	0.00	0.00	0.11	0.00	0.31	0.30	0.72	3.08	1.95	2.40
2028	0.00	0.00	0.00	0.00	0.12	0.00	0.32	0.31	0.80	3.57	2.22	2.69
2029	0.00	0.00	0.00	0.00	0.13	0.00	0.33	0.32	0.89	4.09	2.50	3.01
2030	0.00	0.00	0.00	0.00	0.13	0.00	0.34	0.33	0.99	4.64	2.80	3.33
2031	0.00	0.00	0.00	0.00	0.14	0.00	0.35	0.35	1.09	5.24	3.10	3.67
2032	0.00	0.00	0.00	0.00	0.15	0.00	0.36	0.36	1.20	5.86	3.41	3.99
2033	0.11	-3.20	-2.15	-0.50	0.27	-3.20	-1.78	-0.13	1.28	6.10	3.51	4.11
2034	0.06	-3.35	-2.20	-0.55	0.23	-3.35	-1.81	-0.17	1.36	6.39	3.61	4.22
2035	0.01	-3.49	-2.24	-0.61	0.19	-3.49	-1.85	-0.22	1.45	6.70	3.72	4.34
2036									1.54	7.05	3.83	4.45
2037									1.65	7.43	3.95	4.57
2038									1.76	7.83	4.07	4.69
2039									1.88	8.26	4.20	4.82
2040									2.00	8.71	4.34	4.96
2041									2.14	9.19	4.48	5.10
2042									2.28	9.69	4.62	5.24
2043									2.42	10.19	4.76	5.39
2044									2.57	10.71	4.91	5.54
2045									2.72	11.24	5.05	5.70

Note: The table shows the macroeconomic impacts of three scenarios: (a) an increase in tariffs from the current LDC preferential rate to the MFN rate for Cambodian exports to the EU, Canada, UK (LDCMFN); (b) LDCMFN + tariff liberalizations in two FTAs (China and Korea) (LDCMFN+FTAs); and (c) tariff liberalizations in two FTAs (China and Korea) and continuous PTA-induced NTM trade cost reductions (FTAs+NTM). Results are percentage changes against the baseline. We use the ENVISAGE CGE model as documented in van der Mensbrugghe (2024).

Table A5.4 Individual reform lever results by domain and scenario

Moderate Reform Scenario												
GDP, wages, productivity = % deviation from no-reform baseline. MBJ = absolute deviation from baseline (More and Better Jobs). Source: World Bank CGE-MANAGE model, Cambodia 2018 SAM.												
Reform Domain / Lever	GDP (% dev. from baseline)			Wages (% dev. from baseline)			Productivity (% dev. from baseline)			More & Better Jobs (absolute dev. from baseline)		
	2030	2040	2050	2030	2040	2050	2030	2040	2050	2030	2040	2050
I. Firms & Trade › Boost Firms' Productivity and Innovation												
1. Ease business entry	+0.6%	+1.2%	+1.4%	+1.1%	+1.4%	+1.4%	+1.1%	+1.4%	+1.4%	+107,333	+149,924	+174,737
2. Facilitate firm restructuring	0.0%	+0.1%	+0.1%	+0.1%	+0.1%	+0.1%	+0.1%	+0.1%	+0.1%	+6,156	+14,613	+18,402
3. Foster firm investment	+0.5%	+1.1%	+1.2%	+1.0%	+1.2%	+1.2%	+1.0%	+1.2%	+1.2%	+97,189	+129,809	+147,746
4. Reduce the burden of tax administration	+0.3%	+1.0%	+1.3%	+0.7%	+1.3%	+1.3%	+0.7%	+1.3%	+1.3%	+72,083	+139,834	+165,494
I. Firms & Trade › Facilitate Trade Upgrading & GVC Deepening												
5. Leverage trade agreements more strategically and reduce trade costs and frictions	+0.1%	+0.2%	+0.2%	0.0%	-3.5%	-3.5%	0.0%	-3.5%	-3.5%	+12,596	+20,806	+23,536
6. Strengthen domestic linkages to GVCs	+0.2%	+0.3%	+0.4%	+0.3%	+0.4%	+0.4%	+0.3%	+0.4%	+0.4%	+30,298	+42,025	+48,954
I. Domain total	+1.7%	+3.9%	+4.6%	+3.2%	+0.9%	+1.0%	+3.2%	+0.9%	+1.0%	+325,657	+497,011	+578,870
II. Workforce Skills › Build a Highly Skilled Workforce												
7. Upskill the existing workforce	+2.4%	+7.0%	+8.6%	+6.5%	+9.7%	+10.1%	+5.8%	+8.5%	+8.8%	+620,394	+1,062,391	+1,247,039

8. Prepare the future workforce	0.0%	+0.7%	+2.4%	+0.1%	+1.5%	+3.5%	+0.1%	+1.5%	+3.5%	+7,668	+166,107	+427,411
II. Domain total	+2.6%	+8.0%	+11.3%	+6.6%	+11.4%	+13.8%	+5.9%	+10.1%	+12.6%	+629,021	+1,244,096	+1,708,580

III. Fiscal Capacity › Expand Capacity to Invest in Public Services												
9. Expand fiscal capacity												
i. VAT (revenue expansion)	0.0%	-0.4%	-0.4%	0.0%	0.0%	-0.1%	0.0%	0.0%	-0.1%	-61	-4,410	-11,607
ii. PIT (revenue expansion)	0.0%	-0.1%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-6	-860	-2,287
iii. CIT (revenue expansion)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-24	-1,398	-3,228
10. Modernize and invest in public services												
i. PIM	+0.1%	+0.3%	+0.3%	+0.2%	+0.3%	+0.3%	+0.2%	+0.3%	+0.3%	+21,719	+36,125	+42,489
ii. CAPEX	+0.2%	+1.1%	+2.2%	+0.1%	+1.6%	+2.7%	+0.1%	+1.6%	+2.7%	+14,156	+171,044	+339,595
iii. Education & health expenditure	+0.1%	+1.4%	+4.0%	+0.3%	+2.7%	+5.5%	+0.3%	+2.7%	+5.5%	+31,250	+297,617	+685,060
iv. Social protection spending	+0.7%	+0.9%	+0.5%	+0.1%	+0.1%	+0.1%	+0.1%	+0.1%	+0.1%	+5,135	+12,929	+10,853
III. Domain total	+1.0%	+3.1%	+6.5%	+0.7%	+4.7%	+8.6%	+0.7%	+4.7%	+8.6%	+72,169	+511,046	+1,060,875

TOTAL: All reform levers	+5.2%	+15.1%	+22.4%	+10.6%	+16.9%	+23.3%	+9.9%	+15.7%	+22.1%	+1,026,847	+2,252,153	+3,348,326
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Ambitious Reform Scenario

GDP, wages, productivity = % deviation from no-reform baseline. MBJ = absolute deviation from baseline (More and Better Jobs). Source: World Bank CGE-MANAGE model, Cambodia 2018 SAM.

Reform Domain / Lever	GDP (% dev. from baseline)			Wages (% dev. from baseline)			Productivity (% dev. from baseline)			More & Better Jobs (absolute dev. from baseline)		
	2030	2040	2050	2030	2040	2050	2030	2040	2050	2030	2040	2050
I. Firms & Trade › Boost Firms' Productivity and Innovation												
1. Ease business entry	0.0%	+0.6%	+1.3%	0.0%	+1.1%	+1.4%	0.0%	+1.1%	+1.5%	+3,514	+117,136	+179,518
2. Facilitate firm restructuring	0.0%	+0.2%	+0.5%	0.0%	+0.4%	+0.6%	0.0%	+0.4%	+0.6%	+1,147	+45,621	+71,624
3. Foster firm investment	0.0%	+0.8%	+2.1%	+0.1%	+1.8%	+2.3%	+0.1%	+1.8%	+2.3%	+6,840	+197,114	+285,004
4. Reduce the burden of tax administration	0.0%	+0.6%	+1.4%	0.0%	+1.2%	+1.6%	0.0%	+1.2%	+1.6%	+4,123	+133,315	+197,459
I. Firms & Trade › Facilitate Trade Upgrading & GVC Deepening												
5. Leverage trade agreements more strategically and reduce trade costs and frictions	+1.0%	+1.4%	+2.7%	+4.6%	+6.7%	+11.2%	+4.6%	+6.7%	+11.2%	+95,926	+158,782	+336,938
6. Strengthen domestic linkages to GVCs	+0.2%	+0.3%	+0.4%	+0.3%	+0.4%	+0.4%	+0.3%	+0.4%	+0.4%	+30,298	+42,025	+48,954
I. Domain total	+1.2%	+3.9%	+8.4%	+5.1%	+11.6%	+17.6%	+5.1%	+11.6%	+17.6%	+141,848	+693,993	+1,119,498

II. Workforce Skills › Build a Highly Skilled Workforce												
7. Upskill the existing workforce	+0.6%	+10.1%	+17.9%	+2.3%	+19.8%	+22.2%	+2.1%	+17.5%	+19.6%	+216,726	+2,155,623	+2,749,425
8. Prepare the future workforce	0.0%	+0.8%	+3.0%	+0.1%	+1.7%	+4.5%	+0.1%	+1.7%	+4.5%	+7,668	+187,488	+551,631
II. Domain total	+0.8%	+11.1%	+21.2%	+2.4%	+21.6%	+26.9%	+2.2%	+19.4%	+24.3%	+225,354	+2,358,709	+3,335,186

III. Fiscal Capacity › Expand Capacity to Invest in Public Services

9. Expand fiscal capacity

i. VAT (revenue expansion)	0.0%	-0.7%	-0.7%	0.0%	-0.1%	-0.2%	0.0%	-0.1%	-0.2%	-101	-7,219	-18,958
ii. PIT (revenue expansion)	0.0%	-0.5%	-0.5%	0.0%	0.0%	-0.1%	0.0%	0.0%	-0.1%	-23	-3,342	-8,988
iii. CIT (revenue expansion)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-24	-1,398	-3,228

10. Modernize and invest in public services

i. PIM	+0.1%	+0.3%	+0.3%	+0.2%	+0.3%	+0.3%	+0.2%	+0.3%	+0.3%	+21,719	+36,125	+42,489
ii. CAPEX	0.0%	+1.4%	+3.6%	0.0%	+1.5%	+5.3%	0.0%	+1.5%	+5.3%	+2,114	+168,998	+655,621
iii. Education & health expenditure	+0.1%	+2.2%	+6.2%	+0.5%	+4.2%	+8.6%	+0.5%	+4.2%	+8.6%	+48,177	+461,979	+1,070,784
iv. Social protection spending	+0.8%	+1.1%	+0.6%	+0.1%	+0.1%	+0.1%	+0.1%	+0.1%	+0.1%	+6,389	+16,047	+13,407
III. Domain total	+1.1%	+3.9%	+9.6%	+0.8%	+6.1%	+14.1%	+0.8%	+6.1%	+14.1%	+78,251	+671,190	+1,751,127

TOTAL: All Domains	+3.1%	+18.9%	+39.2%	+8.3%	+39.4%	+58.6%	+8.1%	+37.1%	+56.0%	+445,453	+3,723,892	+6,205,810
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Table A5.5: Standardized projection table

	Baseline			Moderate Reform Scenario			Ambitious Reform Scenario		
	ST 2026– 27	MT 2028–35	LT 2036–50	ST 2026–27	MT 2028–35	LT 2036–50	ST 2026–27	MT 2028–35	LT 2036–50
GDP Growth & Structure									
Real GDP (compound avg. annual growth rate, %)	4.9	4.5	3.6	5.8	5.8	4.2	5.3	5.8	5.4
Potential GDP (compound avg. annual growth rate, %)	1.8	5.0	3.7	3.4	6.2	4.3	2.4	7.4	5.2
TFP contribution (pp)	0.0	0.8	0.8	1.5	1.8	1.2	0.6	3.0	1.8
Structural Employment contribution (pp)	1.2	0.9	0.5	1.1	0.9	0.5	1.2	0.8	0.5
Physical Capital contribution (pp)	1.8	6.6	4.9	2.0	7.0	5.3	1.9	6.8	5.9
Demand Composition (share of real GDP, %)									
Private Consumption	52.6	67.8	69.2	54.7	69.4	66.5	54.9	71.7	64.4
Government Consumption	5.7	5.8	5.8	5.7	5.7	5.9	5.6	5.7	6.2
Total Investment	30.6	31.4	30.0	30.7	31.6	29.1	30.6	31.4	29.9
Net Trade	11.1	7.5	3.8	9.0	5.8	7.2	8.8	-8.9	-0.5
Sectoral Composition of Real GDP (share, %)									
Agriculture	16.7	16.0	14.2	16.5	15.2	12.6	16.6	15.6	11.9
Industry	30.5	31.3	32.3	31.0	31.4	30.8	31.2	32.3	30.2
Services	52.9	52.7	53.5	52.4	53.4	56.6	52.2	52.1	57.9
Labor Markets, end of period									
Working-Age Population (in thousands)	11,724	12,586	13,563	11,724	12,586	13,563	11,724	12,586	13,563
Labor Force Participation Rate (%)	79.4	79.4	79.4	79.8	79.8	79.8	79.8	79.8	79.8
Male	85.1	85.1	85.1	85.1	85.1	85.1	85.1	85.1	85.1
Female	73.9	73.9	73.9	73.9	73.9	73.9	73.9	73.9	73.9
Employment (in thousands)	9,340	10,014	10,791	9,330	10,010	10,791	9,338	9,998	10,791

Labor Productivity (Index: 1 = 2025)	1.065	1.367	2.157	1.125	1.595	2.742	1.082	1.651	3.253
Unemployment Rate (%)	0.2	0.3	0.3	0.3	0.3	0.3	0.2	0.4	0.3
Sectoral Composition of Employment, end of period (share, %)									
Agriculture	34.4	32.4	29.0	34.3	31.8	27.9	34.4	32.1	27.4
Industry	17.4	18.5	19.1	17.8	18.6	18.1	17.9	19.3	17.7
Services	48.2	49.1	51.9	47.8	49.5	54.1	47.7	48.7	55.0
Impact on Wages and Jobs									
Wages (% deviation from baseline)	–	–	–	5.9	14.3	24.9	6.3	28.5	64.6
NJ (in thousands) - deviation from baseline	–	–	–	-10	-4	0	-2	-16	0
NJ (% deviation from baseline employment)	–	–	–	-0.1%	0.0%	0.0%	-0.0%	-0.2%	0.0%
MBJ (in thousands) - deviation from baseline	–	–	–	1,027	2,252	3,348	445	3,724	6,206
MBJ (% deviation from baseline employment)	–	–	–	11.0%	22.5%	31.0%	4.8%	37.2%	57.5%

Note: Period averages: ST = Short Term (2026–2027), MT = Medium Term (2028–2035), LT = Long Term (2036–2050). NJ = New Jobs; MBJ = More and Better Jobs. Both expressed as deviation from the no-reform baseline in absolute (in thousands) and as percentage of baseline employment. Wages expressed as percentage deviation from baseline. GDP growth and contributions are compound average annualized rates. Labor market variables are end-of-period values.

A5.2: Detailed policy and reform quantification assumptions

For each chapter, teams completed detailed policy matrices for the policy reform MMod-SA exercise. They outlined their suggested policy reform details, the assumptions, and calculated impacts in the moderate and ambitious scenarios, and the macroeconomic channels through which the impacts would occur.

Table A5.6: Detailed policy and reform quantification assumptions

Reform Lever	Magnitude & Rationale for Policy Reform Scenarios	Macroeconomic Channels Impacting Growth & Jobs	Core Model Assumption & Supporting Evidence from Literature
I. Firms & Trade - Boost Firms' Productivity and Innovation			
1. Ease business entry			
Lower registration and other fees to reduce the direct costs of formal firm entry. Reduce fees for business registration, licenses, permits, and other administrative procedures to lower financial barriers to formalization. Fees should reflect the cost of service delivery. Lower firm registration fees (and other business fees for licenses, permits, and so on) to reduce the direct financial cost of entry.	Moderate: Reduce business registration, licensing, and permit fees so that total entry and compliance costs fall by 20%, broadly consistent with the lower end of fee reductions observed in comparable reform episodes in peer economies. [Immediate impact within 2 years]	Reduction in the cost of business entry increases TFP through greater market contestability, increased incentives to innovate and invest, and higher aggregate productivity.	Assumption: 2% TFP increase for treated firms Barseghyan (2008). A 1% increase in entry costs is associated with a ~0.14% decline in TFP; implies a 20% cost reduction yields ~2.8% TFP gain. Barseghyan and DiCecio (2009). Federal Reserve Bank of St. Louis Working Paper 2009-005C. Hsieh and Klenow (2009). Equalizing marginal products of capital China and India." <i>Quarterly Journal of Economics</i>, 124(4), 1403–1448. Equalizing marginal products of capital and labor across firms would raise manufacturing TFP by 30–50% in China and 40–60% in India; regulatory distortions (including entry costs) are a primary driver of misallocation.
Expand and digitalize government-to-business services to reduce compliance costs and improve transparency. Streamline authorizations for business activities using a risk-based approach and digitalize them, building on the OBRS. Implement a once-only principle across agencies and establish a legal framework for data sharing and interoperability. Leverage and strengthen existing digital public infrastructure to ensure data sharing and interoperability across government agencies. Leverage data to strengthen risk-based approaches to regulatory enforcement (for example, border control, tax administration).	Ambitious: Reduce entry and compliance costs by 50%, converging toward best-practice levels among Cambodia's structural peers, where costs average below 20% of GNI per capita compared with Cambodia's current 73%. [Short-term impact - gradually by 2030]	Lower corruption reduces risk premia and increases transparency and incentives to invest.	Nguimkeu (2015). A 50% cut in registration costs doubles the formal enterprise share and raises aggregate income by 15%; implies >2% firm-level productivity gain for a 20% cost reduction. World Bank (2019b). Cross-country analysis confirms a negative relationship between cost rates and TFP; countries in the lowest decile of entry costs have 32–45% higher TFP than those in the highest decile.
Narrow the space for high-performing firms to operate informally.	Moderate: Lower VAT registration threshold and strengthen enforcement to	Formalization of high-performing informal firms raises	Assumption: 1.7 % increase in TFP (firms in industry, and those who are affected). Reducing the informal competitive fringe raises the labor productivity of affected formal firms by

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Lower VAT registration thresholds to bring high-performing informal firms within the tax net, improve cross-ministry data sharing to better identify non-compliant firms, and gradually strengthen enforcement against persistent non-compliance. Reduce revenue thresholds for VAT registration: Cambodia's current threshold is KHR 250,000,000 (approximately US\$62,500 per year). Fewer than 1% of non-survivalist informal businesses have sales above this level. Setting the threshold at US\$20,000 would bring in roughly 2% of informal firms; at US\$10,000, approximately 15%, though this must be accompanied by lower registration fees to be sustainable. Improve non-compliance identification capacity through better data sharing among ministries, including real-time dashboards to map and monitor informal clusters. Strengthen enforcement: Gradually implement escalating inspections and penalties for persistent non-compliance by larger, higher-productivity informal businesses, initially focusing on education and support.	bring the top 25% of informal firms by sales per worker into the formal tax net, consistent with near-term administrative capacity. Government target: ~130% expansion in registered firms, from ~77,000 to ~177,000. [Short-term impact gradually by 2030] Ambitious: Extend formalization to the top 50% of informal firms as administrative capacity, data systems, and incentive structures mature. Government target: ~260% expansion in registered firms, from ~77,000 to ~277,000. [Long-term impact - gradually by 2050]	productivity in formal markets by reducing unfair competition and enabling greater investment in fixed assets, technology, and innovation.	approximately 33%, based on the gap between formal firms that do and do not face informal competition (Amin et al. 2019). Aggregate TFP gain weighted by the share of formal firms affected. Amin, M., Ohnsorge, F.L., & Okou, C. (2019). <i>Casting a Shadow: Productivity of Formal Firms and Informality</i>; World Bank <i>Policy Research Working Paper</i> No. 8945. The labor productivity of formal firms that compete against informal firms is approximately 75% of the average labor productivity of formal firms that do not face informal competition. Informality erodes formal firms' market share and the resources available to invest in productivity-enhancing activities, by burdening them with regulatory compliance costs not borne by informal competitors. Reducing the informal competitive fringe through targeted formalization and enforcement is estimated to raise formal sector productivity toward the non-exposed baseline, implying a ~33% productivity gain for affected firms (100%/75%).
2. Facilitate firm restructuring			
Establish an out-of-court restructuring framework for financial institutions. Provide clear guidelines for negotiation, dispute management, and fair treatment of debtors for financial institutions.	Moderate: Establish an out-of-court restructuring framework with clear guidelines for negotiation and debt recovery. Scale calibrated to outcomes observed following Brazil's 2005 bankruptcy reform and convergence toward structural peer averages for formal dispute resolution. [Short-term impact gradually by 2030]	Increased credit and better terms: banks' improved ability to price risk when loans or investments fail, and more effective debt recovery, expand access to finance. Increased entrepreneurship: reduced risk of losing private assets in insolvency lowers barriers for innovation-	Assumption - Moderate: Improved court-based debt recovery generates a 0.7 pp reduction in risk premia and a 1.2% increase in TFP. Model inputs: credit recovery rate +17 pp (Brazil 2005 reform benchmark); aggregate credit +5 pp; firm-level debt +7.8 pp; share of firms using formal dispute resolution: 21% → 38% (structural peer average, WBES 2023).
Amend the Insolvency Law to introduce modern practices. Update the 2007 law to introduce modern insolvency practices, including SME-friendly procedures and cross-border provisions, with clear guidelines, and train judges, insolvency administrators, and legal professionals on the revised provisions.			Assumption - Ambitious: Improved court-based debt recovery generates a 2.3 pp reduction in risk premia, converging toward OECD-level recovery norms. Model inputs: credit recovery rate +55.6 pp (baseline 14.6 cents on the dollar → OECD average ~70 cents, per Cambodia Economic Update, December 2024); share of firms using formal dispute resolution: 21% → 60% (HIC average).
Introduce a specialized commercial court and modernize dispute resolution.			Araújo et al. (2012). Brazil's 2005 bankruptcy reform providesJournal of Corporate Finance, 18(4), 994–1004.

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Establish a dedicated commercial court, introduce ADR mechanisms, and digitalize court processes to improve predictability and introduce procedural timeframe standards for litigation.	Ambitious: Modernize the full insolvency and restructuring regime with SME-friendly procedures and cross-border provisions. Scale calibrated to convergence toward OECD average recovery rates and HIC norms for formal dispute resolution. [Long-term impact, gradually by 2050]	and growth-oriented entrepreneurs. Employment preservation: reorganization of viable firms under debt distress protects jobs.	Brazil's 2005 bankruptcy reform provides the benchmark for the moderate scenario calibration: credit recovery rates increased 17 percentage points within four years, aggregate credit rose ~5 pp, and firm-level debt increased ~7.8 pp. This is the primary empirical anchor for the moderate scenario assumptions. Menezes and Gropper (2024). Comprehensive literature review documenting the channels through which insolvency reforms affect credit access, entrepreneurship, and employment preservation across developing economies. Confirms the three macro channels modeled: increased credit and better terms, reduced barriers to entrepreneurship, and employment preservation through firm reorganization. Neira (2019). Cross-country evidence showing that when recovery rates fall from 80 cents on the dollar (US level) to 45 cents on the dollar, TFP drops by 30.7% and labor productivity drops by 47.8%. Cambodia's current rate of 14.6 cents on the dollar (Cambodia Economic Update, December 2024) is well below even the "45 cents" comparator, anchoring the ambitious scenario's convergence toward OECD average recovery rates (~70 cents) as a high-return reform opportunity. Note: The literature base is relatively small and largely focused on OECD countries; calibration should be treated as indicative.
3. Foster firm investment			
Strengthen financial inclusion and intermediation to support private investment. Simplify onboarding and access to financial services: Introduce proportionate, risk-based KYC; streamline account opening and loan application processes; promote digital onboarding. Address the urban-rural access gap: Facilitate and incentivize expansion of agent banking and mobile money networks; promote shared infrastructure and partnerships; expand digital delivery channels. Strengthen credit infrastructure: Expand credit reporting coverage; enable use of alternative data (for	Moderate: Implement a financial sector reform package, including simplified KYC, expanded agent banking, strengthened credit infrastructure, and credit guarantee schemes to converge financial access toward LMIC averages. [Short-term impact - gradually by 2030]	Increased credit to the real economy: improved onboarding, credit infrastructure, and risk-sharing mechanisms expand access to finance for households and micro, small, and medium enterprises (MSMEs), supporting higher	Assumption: Elasticity of TFP to account ownership: 0.02 Allen et al. (2016). Access to financial services leads Journal of Financial Intermediation, 27, 1–30. Access to financial services leads to increased firm productivity through improved capital allocation; positive and significant effect documented across developing country samples. Bruhn and Love (2014). Expanded bank branch access increased income percapita by 7% and employment by 1.4% in treated areas; consistent with a positive TFP elasticity to financial access.

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example, payments, utilities); strengthen secured transactions frameworks and movable collateral registries. Promote inclusive lending practices: Encourage cash-flow-based lending; expand asset-based financing (for leasing, factoring). Enhance credit guarantee and risk-sharing mechanisms: Improve targeting and governance; crowd in private lending; ensure fiscal sustainability and monitoring. Strengthen financial consumer protection and market conduct: Enhance supervision; enforce responsible lending and disclosure; strengthen grievance redress and financial capability.	Model inputs - Moderate: Account ownership +15 pp; digital payments +15 pp; urban-rural gap in account ownership -7 pp; firms with bank loan +5 pp; loans requiring collateral -10 pp (Findex/WBES baseline). Ambitious: Deepen financial sector reforms to achieve financial inclusion levels consistent with UMIC norms, closing remaining access gaps across firm size and geography. [Long-term impact - gradually by 2050] Model inputs - Ambitious: Account ownership +60 pp; digital payments +60 pp; urban-rural gap in account ownership -22 pp; firms with bank loan +30 pp; loans requiring collateral -45 pp.	investment, firm entry, and capital deepening. More efficient capital allocation: Better credit information, alternative data, and cash-flow-based lending improve risk pricing and reduce collateral dependence, enabling more productive firms to access finance. SME growth and formalization: Expanded access to finance and digital financial services supports firm scaling, integration into formal markets, and participation in value chains.	Nguyen et al. (2019). Access to a bank loan improved firm-level TFP by 8.6–9.0%; access to an overdraft facility raised TFP by 12.3–15.7%. Demirgüç-Kunt and Klapper (2013). Comprehensive cross-country review confirms positive relationship between financial inclusion and firm productivity; aggregate effect modest per percentage point of ownership gain. World Bank (2023e). A 30 pp increase in account ownership (2011–2021) was accompanied by significant improvements in MSME productivity and economic activity; supports positive but moderate per-pp elasticity. World Bank (2025k). Confirms long-run positive productivity effects of financial inclusion; cautions that aggregate macro elasticity is modest and context-dependent.
4. Reduce the burden of tax administration			
Reduce formal tax compliance burdens on firms. Streamline inspection and audit processes, reduce the frequency of tax official visits, and reform tax law to limit excessive penalties and re-examination of transactions. Introduce clearer taxpayer rights and safeguards in the tax law, including explicit protections during audits, assessments, and dispute processes, to reduce legal uncertainty.	Moderate: Reduce the frequency of tax official visits and inspections through process digitalization, risk-based audit selection, and clearer taxpayer rights. Primary assumption: Share of formal firms visited by tax officials declines from 64% (WBES 2023) to 25%,	Reducing tax administration burdens increases firm productivity and entry rates by lowering compliance costs and uncertainty, and improving resource allocation.	Assumption: Elasticity of TFP to share of firms visited by tax officials: 0.0003 World Bank (2004). Time firms spend on inspections and regulation-related activities lowers average productivity by 5.8–10.7%; provides the level estimate from which the marginal elasticity is derived. WBES, various years. Significant negative correlation between inspection intensity and firm investment and productivity; higher-TFP firms attract more inspections (reverse causality caveat).

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Establish clear timelines for dispute resolution and ensure the Tax Dispute Resolution Committee operates independently from the tax administration. Establish a formal audit quality assurance program to periodically review audits and evaluate their effectiveness in tackling non-compliance. Use KPIs to monitor dispute resolution outcomes on a regular basis. Invest in digitalizing audit and dispute management systems to reduce turnaround times, limit discretion, and enhance transparency and predictability for taxpayers. Conduct a compliance cost survey to systematically measure and track administrative burdens across sectors and firm sizes, using results to guide process simplification. Rationalize and set limits on the number of inspections and visits, and shift them online where possible. Streamline the use of tax agents that are incentivized through commissions to aggressively pursue audits.	converging to structural peer average. [Short-term impact - gradually by 2030] Ambitious: Further reduce inspection burdens as digital audit systems and taxpayer rights frameworks mature. Primary assumption: Share of formal firms visited declines to 16%, converging toward HIC average. [Long-term impact - gradually by 2050]		World Bank (2025I). Tax inspection burden documented as a significant constraint on firm performance; consistent with a small but positive productivity gain from reduced inspection frequency. Escribano and Guasch (2005). Investment climate variables including regulatory harassment explain 30–50% of TFP variance across firms in Africa, Latin America, and South Asia. Dollar et al. (2005). Regulatory burden (including inspections) negatively in Developing Economies." Economic Development and Cultural Change, 54(1), 1–31. Regulatory burden (including inspections) negatively affects firm performance across developing economies; magnitude consistent with a very small aggregate elasticity from marginal inspection rate reductions. Bellon et al. (2022). E-invoicing increased reported sales, purchases, Evidence from VAT e-Invoicing in Peru." IMF Working Paper WP/22/8. E-invoicing increased reported sales, purchases, and VAT liabilities by over 5%, with suggestive productivity gains of 4–5% per worker for treated firms. Hayati et al. (forthcoming-d). Each additional tax official visit is associated with approximately a 2% decline in labor productivity for Cambodia manufacturing firms. Okunogbe and Pouliquen (2022). E-filing reduced time spent on taxes by 4.7 hours per month and tax office visits by 1.4 per month in Tajikistan. Braunerhjelm and Eklund (2014). A 10% reduction in tax administrative burden is associated with a 3% increase in annual business entry rates across 118 countries.
Reduce informal payments in tax settings. Prioritize anti-corruption action in tax administration and customs, where informal payments are most prevalent, to lower the cost and risk of investment and doing business. Set up reporting mechanisms (for example, hotlines) and encourage firms to report solicitation of informal payments. Increase penalties for public officials caught soliciting informal payments.	Moderate: Prioritize anti-corruption enforcement in tax administration and customs, implement reporting mechanisms, and strengthen firm-state dialogue. Assumed reduction: Share of firms expected to give gifts in tax	Reducing informal payments lowers the effective cost and risk of doing business, improving the investment climate and encouraging formal firm entry and growth. Lower bribery	Assumptions: Boost TFP by 1% and reduce risk premia by 50 basis points. De Rosa et al. (2010). Firms that pay bribes areWorld Bank Policy Research Working Paper 5348. Firms that pay bribes are on average about 5% less productive, rising to 8% in more corrupt environments; based on BEEPS survey across 28 countries in Eastern Europe and Central Asia. Amin and Ulku (2019). A 1% increase in corruption (bribes as a share of sales) is associated with a 0.32% decline

Reform Lever	Magnitude & Rationale for Policy Reform Scenarios	Macroeconomic Channels Impacting Growth & Jobs	Core Model Assumption & Supporting Evidence from Literature
Strengthen institutions for constructive firm-state dialogue to improve transparency, accountability, and participation.	meetings falls from 35% (WBES, 2023) to 18%, converging toward structural peer average. [Short-term impact - gradually by 2030] Ambitious: Sustain and deepen anti-corruption reforms to achieve HIC norms. Assumed reduction: Share of firms expected to give gifts in tax meetings falls from 35% to 3%, converging toward HIC average. [Long-term impact - gradually by 2050]	reduces the distortion of resource allocation away from productive activities, raises aggregate firm productivity, and supports a more level playing field between compliant and non-compliant firms.	in firm productivity, rising to 0.9% in high-regulation environments; based on 111 countries. Gaviria (2002). Firms in Latin America reporting corruption as an obstacle experience roughly 30% lower sales growth. Fisman and Svensson (2007). In Uganda, a 1 pp increase in bribery rates reduces firm growth by more than 3 pp, an effect larger than that of taxation. Faruq et al. (2013). A 1 standard deviation (SD) in Africa." Review Faruq et al. (2013). A 1 standard deviation (SD) reduction in corruption output-oriented efficiency by 19.9% across African countries. Ali (2018). Each additional inspection raises the likelihood of a bribe request by 1 pp, indicating that frequent, discretionary tax interactions create systematic opportunities for informal payments. IMF (2016). 50–150 basis point spread differential attributable corruption
I. Firms & Trade - Facilitate Trade Upgrading & GVC Deepening			
5. Leverage trade agreements more strategically and reduce trade costs and frictions			
Deepen and expand trade agreements. Pursue new PTAs (for example, Japan, EU) to secure favorable market access ahead of LDC preference graduation; fast-track implementation of existing agreements by advancing the domestic quality infrastructure agenda through the 2025 ASEAN Framework on Mutual Recognition Arrangements; and complete 2021 ASEAN Investment Facilitation Framework commitments to deepen regional integration.	Moderate: Implement existing PTAs and advance new agreements (Japan, EU) to secure market access ahead of LDC preference graduation. Assumed trade cost reduction: Moderate tariff liberalization combined with partial NTM convergence toward ASEAN norms, phasing in by 2035. Full scenario details in Annex 2, Table 1 (moderate scenario). [Medium-term impact - gradually by 2035] Ambitious: Achieve deep trade integration including	Deeper trade integration lowers effective trade costs for firms, expanding market access and enabling more efficient specialization across GVCs. Non-tariff barriers and regulatory divergence impose costs beyond tariffs; convergence of regulatory profiles and improved facilitation at the border generate additional productivity and trade gains	Assumption: Moderate: Trade cost reductions and market access improvements from PTA implementation and NTM rationalization, modeled via CGE-MANAGE. Ambitious: Deeper trade cost reductions and broader market access improvements from more ambitious PTA implementation and NTM harmonization, modeled via CGE-MANAGE. The following literature informs the trade cost and PTA elasticity assumptions. Fontagné et al. (2022). Product-level trade elasticities used to of International Economics, 137, 103593. Product-level trade elasticities used to calibrate tariff reduction impacts on trade flows in the CGE model. Bergstrand et al. (2015). Border effect and distance elasticity and Distance Elasticities in the Gravity Equation." European Economic Review, 78, 307–327. Border effect and distance elasticity estimates used to calibrate the trade facilitation component of PTA scenarios.

Reform Lever	Magnitude & Rationale for Policy Reform Scenarios	Macroeconomic Channels Impacting Growth & Jobs	Core Model Assumption & Supporting Evidence from Literature
	full PTA implementation with NTM harmonization and trade facilitation upgrades. Assumed trade cost reduction: tariff elimination plus NTM iceberg cost reductions consistent with deep agreement benchmarks, phasing in to 2050. Full scenario details in Annex 2, Table 1 (ambitious scenario). [Long-term impact, gradually by 2050]	beyond what tariff reductions alone would predict.	Breinlich et al. (2022). Machine learning approach to estimating Research: Evaluating the Impact of Trade Agreements." World Bank Policy Research Working Paper. Machine learning approach to estimating heterogeneous trade agreement effects; informs scenario differentiation between shallow and deep PTA assumptions. Fontagné et al. (2021). General equilibrium estimates of deep the Economic Impact of Deep Trade Agreements." World Bank Policy Research Working Paper. General equilibrium estimates of deep trade agreement impacts on GDP, trade, and wages; provides benchmarks for the ambitious scenario. Egger et al. (2011). Estimates of PTA trade effects Preferential Trade Agreements." American Economic Journal: Economic Policy, 3(3), 113–143. Estimates of PTA trade effects accounting for endogeneity of agreement formation; provides a lower-bound benchmark for trade cost reduction assumptions.
Build trade capacity and monitor performance. Establish interministerial coordination led by MoC-MEF to formulate, negotiate, and enforce trade-related policies; and track PTA implementation and trade impacts, proactively resolving bottlenecks with partners through existing mechanisms.	Moderate: Establish interministerial trade coordination (MoC-MEF) and systematic PTA monitoring. Quantitative impacts captured in the Reform 5 aggregate trade scenario; this sub-lever supports implementation quality and sustainability. [Medium-term impact - gradually by 2035]		
Navigate post-graduation rules of origin. Launch an exporter support program to educate firms and input suppliers on changes in origin requirements following LDC graduation, ensuring exporters can maintain market access under more stringent rules.	Ambitious: Deepen institutional trade capacity to support ambitious PTA implementation and proactive bottleneck resolution. Captured in Reform 5 ambitious scenario aggregate. [Long-term impact - gradually by 2050]		
Streamline NTMs. Regularly review NTMs across agencies for fit-for-purpose application and compliance burden, prioritizing transparency and RIAs. Rationalize Sub-Decree 370's	Moderate: Rationalize NTMs through regular cross-agency review and RIAs; streamline Sub-Decree 370		

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product list, streamline licensing requirements, and implement green lanes for environmental goods. Facilitate access to key export markets. Monitor requirements in priority markets (for example, EU CSDDD), align with international standards for GVC integration, and invest strategically in conformity assessment and accreditation. Enhance trade facilitation and logistics. Elevate the National Logistics Council's role in customs and logistics, strengthen inter-agency coordination, promote AEO-type programs, and continue digitalization efforts.	and implement green lanes. Quantitative impacts captured in the Reform 5 aggregate trade scenario; this sub-lever specifically addresses the NTM component of the trade cost reduction assumption. [Medium-term impact, gradually by 2035] Ambitious: Achieve full NTM rationalization and regulatory convergence with key trading partners, supporting the ambitious trade cost reduction assumption in Annex 2. [Long-term impact - gradually by 2050]		
6. Strengthen domestic linkages to GVCs			
Integrate trade, investment, and local linkage promotion. Operate through specialized departments covering the full investment-linkage cycle: investment attraction, domestic industry strengthening, and export promotion. Incentivize investor-supplier linkages. Review and reorient fiscal incentives toward priority sectors, require incoming investors to outline local linkage plans, pre-screen high-potential SMEs, and evaluate sector-specific cluster and SEZ models. Connect investors and local suppliers. Run regular Meet-the-Buyer forums, stage supplier upgrading toward international standards, launch a bilingual supplier directory integrating decent-work, gender, and green criteria, and task the Council for the Development of Cambodia with establishing a digital	Moderate: Activate a targeted investment promotion agency with specialized departments covering investment attraction, supplier linkages, and export promotion. Magnitude calibrated to evidence that targeted promotion generates a 23% premium in FDI inflows versus non-targeted, phasing in from 2030 over five years. [Medium-term impact - gradually by 2035]	FDI generates productivity spillovers through GVC linkages, competition effects, and labor turnover, raising output and productivity in domestic supplier firms. Effective investment promotion amplifies these gains by attracting higher-quality, better-targeted FDI with stronger linkage potential.	Assumption: FDI inflows targeted by investment promotion are assumed to be 23% higher than non-targeted inflows (Crescenzi et al. 2021), phased in over 2030–2034. Doubling FDI is assumed to increase labor productivity by 5% (Mercer-Blackman et al. 2021). Crescenzi et al. (2021). Effective targeting by a regional investment promotion work?" Journal of International Economics, 132, 103497. Effective targeting by a regional investment agency is associated with a 23% premium in FDI inflows and up to a 24% increase in FDI-related jobs. Mercer-Blackman et al. (2021). Doubling FDI flows is associated Presence of GVCs." World Bank Policy Research Working Paper 9645. Doubling FDI flows is associated with an 8% increase in labor productivity; for sectors with low GVC participation, the effect rises to 13%.

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MNE-supplier database to systematize matchmaking between foreign investors and domestic firms. Develop a Supplier Development Program. Go beyond matchmaking to provide firm-level diagnostics, coaching, and targeted skills upgrading, tied to measurable linkage and compliance outcomes.	Ambitious: Sustain and deepen investment promotion and GVC linkage programs through 2050, building on the moderate scenario premium and compounding productivity gains from higher-quality FDI. [Long-term impact - gradually by 2050]		Javorcik. (2004). A 10% increase in foreign presence in downstream sectors raises output of domestic supplier firms by 0.38%. Havránek and Iršová (2011). A meta-analysis of FDI spillover studies finds that a 10 pp increase in foreign presence is associated with roughly a 9% increase in productivity of domestic firms in supplier sectors. Amendolagine et al. Greater GVC participation is positively associated with higher levels of local sourcing by foreign investors, strengthening backward linkage effects.
II. Workforce Skills - Build a Highly Skilled Workforce			
7. Upskill the existing workforce			
Strengthen TVET Quality and Relevance by Deepening Industry Engagement and Improving Curriculum Alignment with Emerging Needs. Raise the quality and labor-market relevance of TVET by putting industry at the center of system design, through three complementary elements: (i) Employer-validated training priorities and standards: Anchor curricula, occupational standards, teaching methods, equipment, and assessment to employer-validated standards in priority sectors (manufacturing, construction, automotive, electrical, electronics, tourism), through Sector Skills Councils and other industry mechanisms, and require TVET programs to align with them. (ii) Industry-experienced trainers: Make trainer promotion contingent on regular, certified practical experience in industry, building on pilots in China, Viet Nam, and Cambodia's own Recognition of Industry Skills (RIS) program. (iii) Curricula for emerging skills: Systematically update curricula to keep pace with emerging skill demands, including digital and green skills for the net-zero transition.	Moderate: Expand employer-validated standards and curricula alignment in priority sectors, with all new and updated programs in covered sectors adopting validated standards within 5–10 years; raise the share of active TVET trainers with documented industry experience from ~6% to 30%; and integrate cross-cutting skills modules into priority-sector curricula. Share of firms citing skills gap as a constraint falls from 28% to 16% (MLVT Employer Skill Need Survey 2024); Ambitious: Achieve full coverage of employer-validated standards across major sectors with deep employer co-governance; institutionalize industry-experience requirements so	Productivity and diversification: Employer-led competency standards tighten the link between training content and job tasks, reducing skills mismatch and onboarding costs, supporting structural transformation and export diversification. Firm-level productivity and aggregate growth: Demand-driven, well-governed training schemes raise productivity and earnings, particularly in manufacturing and modern services. Cross-cutting skills content raises	Rationale for the 12% productivity gain assumption: Raising worker skills lifts firm productivity. CGJR's own firm-level regression (Figure 2.5) finds that, among manufacturing firms, stronger employee skills are associated with about 23 percentage points higher productivity. CGJR's own firm-level regression (Figure 2.5) finds that, among manufacturing firms, stronger employee skills are associated with about 23% higher productivity. Because this is a cross-sectional association rather than a causal estimate, and reform uptake is partial, we apply a conservative 12% productivity gain to treated firms, with the aggregate TFP gain diluted by the share of affected firms, keeping the macro footprint modest and defensible. Trainer-industry linkage operates through this same channel and is captured within the aggregate assumption rather than via a separate elasticity. World Bank (2024f). Technical skills mismatches reduce productivity through lower output quality, slower technology adoption, and reduced process innovation; resolving major skills constraints yields significant firm-level productivity gains. Crépon and Premand (2019). Dual apprenticeship program in Côte d'Ivoire program in Côte d'Ivoire increased apprentice earnings and firm marginal profits; firm-level productivity effects consistent with a 10%+ gain for treated firms.

Reform Lever	Magnitude & Rationale for Policy Reform Scenarios	Macroeconomic Channels Impacting Growth & Jobs	Core Model Assumption & Supporting Evidence from Literature
	most trainers go through enterprise practice; and broaden cross-cutting skills across the TVET system.	technical content and labor productivity in tradable sectors (garments, construction, transport, solar value chains).	Middleton et al. (1993). Employer-provided skills training increased worker and Training in Developing Countries. World Bank/Oxford University Press. Employer-provided skills training increased worker productivity by 6–7%; provides a lower bound for the productivity gain for severely constrained firms. World Bank (2018). TVET graduates in East Africa command wage premiums of up to 250% over uneducated workers, indicating large underlying productivity differentials that skills reform can unlock. Melitz (2003). Exporting firms are 30–50% more productive than non-exporters in developing economies; a significant share of this premium reflects human capital intensity, making exporters disproportionately affected by skills constraints. ILO/World Bank (2023). Skills for Trade and Economic Diversification (STED): Sectoral Skills Assessment Methodology. Geneva. Industry-validated competency standards (SSC-equivalent) are the most effective mechanism for translating training into firm-level productivity gains in export sectors. Bernard and Jensen (1995). Documents the large and persistent productivity premium of exporting firms; anchors the upper end of the 10–20% productivity differential used to calibrate the skills constraint relief assumption. Clerides et al. (1998). Provides causal evidence on the Micro-Dynamic Evidence from Colombia, Mexico, and Morocco." Quarterly Journal of Economics, 113(3), 903–947. Provides causal evidence on the relationship between exporting and productivity; supports the assumption that relieving skills constraints disproportionately benefits exporters.
Scale up Demand-Driven Training through the Skills Development Fund (SDF). Sharpen the SDF as a competitive co-financing scheme for employer-led training, with stronger sector focus, SME	Moderate: Scale the SDF to 50,000 employer-led trainees per year with stronger sector focus, SME windows, and performance-	Scaling employer-led training raises workforce productivity and earnings by strengthening the	Supporting evidence for scale assumption: Current SDF outcomes - 93% employment three months post-training; average monthly earnings US\$423 (~2× garment sector minimum wage); SDF covers 49% of training costs on average. Stylized quantification: 50,000 trainees/year at US\$223

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windows, and performance-based metrics (employment and earnings outcomes).	based metrics, approximately 3× the 2023 enrollment level and consistent with near-term fiscal and administrative capacity. [Immediate impact - within 2 years] Ambitious: Scale the SDF to reach ~20% of the workforce in active training annually, consistent with Singapore's SkillsFuture model and HIC-level continuous learning norms. Stylized quantification: 2 million trainees at a US\$223 monthly wage premium over minimum wage implies ~US\$5.35 billion in additional annual wage income. [Long-term impact - gradually by 2050]	match between worker skills and firm needs, supporting firm-level output growth and wage convergence toward middle-income norms.	monthly wage premium over minimum wage implies ~US\$134 million in additional annual wage income.
8. Prepare the future workforce			
Strengthen teaching quality and capacity. Upskill the teacher workforce through targeted training on learner-centered instruction and ongoing in-school coaching; adopt structured pedagogy combining scripted lesson plans, teaching materials, and ongoing coaching in priority schools; and implement Targeted Instruction approaches to better match instruction to student learning levels rather than age or grade. Implement structured pedagogy at scale across all 7,300 public primary schools through a phased pilot-to-scale approach: Develop Khmer-language scripted lesson plans, student workbooks, and teacher guides aligned to national curriculum standards; provide teacher training	Moderate: Roll out structured pedagogy (scripted lesson plans, teacher coaching, formative assessment) across the entire public primary system, with intensified focus on Grades 1–3 in rural primary schools, where foundational gaps are the largest. Assumed effective coverage (reflecting variation in teacher capacity, student readiness, and	Improved teaching quality raises learning outcomes, expanding the pipeline of skilled workers and supporting long-term productivity growth. Greater equality of educational opportunity narrows human capital gaps across income groups, supporting more	Assumption: Each 0.18 Learning-Adjusted Years of Schooling (LAYS) gain per beneficiary implies a long-run individual wage effect of approximately 3.5%, providing the link from pedagogical scale to aggregate productivity gains. Angrist et al. (2020). The most cost-effective programs deliver Most Efficiently? A Comparison of 150 Interventions Using the New Learning-Adjusted Years of Schooling Metric." World Bank Policy Research Working Paper 9450. The most cost-effective programs deliver up to 3 LAYS per US\$100; structured pedagogy yields approximately 0.13 SD per US\$7.80 invested, anchoring the 0.18 LAYS per beneficiary assumption as conservative. Marinelli et al. (2023). A structured teacher professional development: Experimental Evidence from Colombia."

Reform Lever	Magnitude & Rationale for Policy Reform Scenarios	Macroeconomic Channels Impacting Growth & Jobs	Core Model Assumption & Supporting Evidence from Literature
and ongoing in-class coaching (building on development partners' interventions); embed formative assessment tools. Complement this with Targeted Instruction approaches to better align instruction with students' actual learning levels rather than age or grade. Estimated additional design cost of ~US\$1.5 million (curriculum, scripted lessons, workbooks, teacher guides, assessment tools for upper primary grades) and annual implementation cost: ~US\$2,000 per school per year × 7,300 schools ≈US\$14.6 million annually after initial design cost. Drawing on SEA-PLM data, Cambodia's "volume of effective teaching" is currently about 71%. Providing monthly coaching to 31,500 teachers (half the workforce) could raise this toward an 80% target, close to Viet Nam's 85%, and lift learning by roughly 0.18 SD. At 10 visits per year and US\$30 per visit, coaching would cost US\$9.45 million annually (31,500 × 10 × US\$30), supposing that mentors are trained from existing subnational staff in the Ministry of Education, Youth and Sport (MoEYS).	implementation fidelity): 770,000 students (35% of 2.2 million primary students). Estimated impact: 0.18 LAYS per beneficiary → 138,000 total LAYS. [Short-term impact - gradually by 2030] Ambitious: Effective implementation of structured pedagogy matures toward universal quality by 2050, consistent with Vision 2050 HIC standards for foundational learning. Assumed effective coverage: 1,998,000 students (90% of primary students). Estimated impact: 0.18 LAYS per beneficiary → 356,400 total LAYS. [Medium-term impact - gradually by 2035]	inclusive long-term growth.	Journal of Public Economics Plus, 4, 100019. A structured teacher professional development program produced a 0.386 SD increase in first-grade literacy, equivalent to approximately 0.32–0.47 LAYS per beneficiary, consistent with and exceeding the 0.18 LAYS assumption. McEwan (2015). Teacher training improves test scores by 0.12 SD on average, with the largest effects in multidimensional programs combining training with instructional support, consistent with the 0.18 LAYS assumption. Nickow, A., Oreopoulos, P., & Quan, V. (2020). The Impressive Effects of Tutoring on PreK-12 Learning: A Systematic Review and Meta-Analysis of the Experimental Evidence." <i>NBER Working Paper 27476</i>. Tutoring programs produce a pooled effect size of 0.37 SD, equivalent to approximately 0.30–0.45 LAYS per beneficiary, supporting the conservative 0.18 LAYS assumption. Piper et al. (2018). The full package of teacher Literacy and Numeracy Improvement." World Development, 106, 324–336. The full package of teacher training, coaching, student textbooks, and structured lesson plans produces effect sizes of 0.38–0.56 SD in mathematics and 0.73–1.29 SD in literacy; structured lesson plans are the highest-return marginal ingredient.
Strengthen foundational learning outcomes and expand access to ECE. (a) Scale high-dosage remedial tutoring, including Targeted Instruction, to support the bottom 40% of Grades 1–6 students (out of 2.2 million which is 880,000 students) falling behind in foundational Khmer literacy and numeracy. (b) Implement Targeted Instruction to target 10–20% of lower-secondary students (around 110,000–225,000 students, assuming full secondary enrollment ≈ 1.13 million) below grade-level proficiency. and (c) ensure universal one-year, high-quality pre-primary education for five-year-olds prioritizing rural, disadvantaged, and low-income children, including the construction and furnishing of approximately 9,400 new pre-primary classrooms.	Moderate: Scale three complementary interventions targeting learning gaps: (i) Remedial tutoring for bottom 40% of primary students - 880,000 students, 0.17 LAYS per beneficiary → 149,600 LAYS; (ii) Targeted Instruction for 10% of low-performing secondary students - 110,000 students, 0.19 LAYS per beneficiary → 20,900 LAYS; (iii) ECE expansion for one-third of pre-primary students	Remedial tutoring and Targeted Instruction approaches raise learning outcomes and grade progression for students falling behind, increasing the share of the workforce reaching secondary-level competencies. ECE expansion increases school readiness, reduces dropout rates, and	Assumption: Same LAYS framework as Reform 8a, Strengthen Teaching Quality and Capacity: 0.17 LAYSper remedial tutoring beneficiary; 0.19 LAYS per Targeted Instruction program beneficiary; 0.30 LAYS per ECE beneficiary. Productivity gains flow through the same wage-to-TFP channel. Nickow et al. (2020). Tutoring programs produce a pooledon PreK-12 Learning: A Systematic Review and Meta-Analysis of the Experimental Evidence." NBER Working Paper 27476. Tutoring produces a pooled effect size of 0.37 SD (approximately 0.30–0.45 LAYS per beneficiary), directly supporting the 0.17–0.19 LAYS assumptions used here.

Reform Lever	Magnitude & Rationale for Policy Reform Scenarios	Macroeconomic Channels Impacting Growth & Jobs	Core Model Assumption & Supporting Evidence from Literature
Remedial tutoring for primary, including Targeted Instruction, should deliver frequent small-group instruction (2–6 students) at least three times per week (~50 hours per semester), aligned to learning levels using diagnostic data, embedded within the school day, and delivered by trained teachers, paraprofessionals, or volunteers and AI-powered tools. Estimated cost: Delivered during school hours, the program is costed at a unit cost of US\$27.80 per pupil which, applied to the 880,000 target students, yields a total annual cost of approximately US\$24.5 million (880,000 × US\$27.80 ≈ US\$24.5 million). Targeted Instruction in secondary grades should initially target 10–20% of students (~110,000–225,000), using interactive and explicit teaching methods, structured lesson plans, and ongoing formative assessment. Drawing on unit costs observed in Cambodia's Targeted Instruction pilot program, the program is costed at US\$50 per pupil (inclusive of US\$5 in fixed costs), which, applied to the upper-bound target of 225,000 students, yields a total cost of approximately US\$11.3 million (225,000 × US\$50 ≈ US\$11.3 million). Universal, compulsory one-year, high-quality pre-primary education will expand access for all five-year-olds (US\$125 million annually), supported by targeted one-time investments in classroom construction and system setup =US\$194 million. Key actions include scaling up pre-service teacher training, extending provision toward full-day schedules, and progressively lowering the pupil–teacher ratio to 15:1 over the long term.	- 380,000 students, 0.30 LAYS per beneficiary → 114,000 LAYS. [Short-term impact gradually by 2030] Ambitious: Expand all three interventions toward near-universal coverage: (i) Remedial tutoring - 880,000 primary students → 149,600 LAYS; (ii) Targeted Instruction for 80% of low-performing secondary students - 904,000 students → 171,760 LAYS; (iii)ECE for all 1.1 million pre-primary students across three grade levels → 330,000 LAYS. [Medium-term impact - gradually by 2035 / Long-term for ECE - gradually by 2050]	supports female labor force participation. Improved completion rates across the education system expand the skilled workforce pipeline.	
III. Fiscal Capacity > Expand Capacity to Invest in Public Services			
9. Expand fiscal capacity			
Reform VAT to strengthen consumption taxation. Gradually raise the statutory rate, rationalize exemptions, and strengthen efficiency through expanded e-invoicing	Moderate: VAT collection is calibrated to reach 5.5% of GDP by 2050 (vs. 3.8% in	Establishing VAT as the main pillar of consumption taxation	Assumption. Each 1-percentage-point increase in the VAT rate is estimated to yield approximately +0.3% of GDP in additional revenue.

Reform Lever	Magnitude & Rationale for Policy Reform Scenarios	Macroeconomic Channels Impacting Growth & Jobs	Core Model Assumption & Supporting Evidence from Literature
and real-time reporting. VAT should be established as the main pillar of consumption taxation through three actions: (i) gradually raise the VAT rate toward regional peer levels, in line with Cambodia's medium-term revenue objectives; (ii) rationalize exemptions and zero-rated items by phasing out non-core exemptions, applying transparent eligibility criteria, and limiting ad-hoc treatments; and (iii) enhance administration by improving refund processing, expanding e-invoicing, and introducing real-time reporting to raise collection efficiency.	2025 and a 4.9% historical maximum), below the 6.5% of GDP collected in high-income peers and the 7% collected in the OECD. Ambitious: VAT collection is calibrated to reach 6.5% of GDP by 2050, in line with high-income peers and slightly below the OECD. In the short run, increases in the statutory rate can have one-off effects on inflation. Each 1-percentage-point increase in the VAT rate is estimated to yield approximately +0.3% of GDP in additional revenue. Long-term impact (gradually by 2050).	enhances revenue efficiency, an essential condition for fiscal consolidation and for addressing development needs, while reducing the distortions and volatility inherent in a tax structure more heavily reliant on specific consumption levies.	Supporting evidence: IMF (2024), “Cambodia: 2024 Article IV Consultation”; World Bank (2023), “Cambodia Public Finance Review”; World Bank (2025), “Cambodia Economic Update”; OECD (2024), “Consumption Tax Trends 2024.”
Reform PIT to broaden the taxable base. Strengthen employer reporting and expand coverage to self-employed workers through simplified presumptive tax regimes. A comprehensive PIT system is needed: strengthen the PAYE system by enhancing employer reporting, tightening compliance monitoring, and improving coordination across tax and labor authorities to expand coverage among formal wage earners; and introduce simplified presumptive regimes for self-employed workers and hard-to-tax groups to improve compliance and reduce administrative burdens.	Moderate: PIT collection is calibrated to reach 1.5% of GDP by 2050 (vs. 0.8% in 2025), below high-income peers (3.0% of GDP). Ambitious: PIT collection is calibrated to reach 2.5% of GDP by 2050, slightly below high-income peers (3.0% of GDP). In the short run, broadening the base of payers can affect aggregate disposable income. Long-term impact (gradually by 2050).	A stronger PIT system and greater formalization enhance tax buoyancy, improving the equity of the overall tax burden while reducing reliance on corporate income taxation, which can otherwise discourage investment.	Supporting evidence: IMF (2024), “Cambodia: 2024 Article IV Consultation”; World Bank (2023), “Cambodia Public Finance Review”; World Bank (2025), “Cambodia Economic Update”; OECD (2024), “Consumption Tax Trends 2024.”
Reform CIT to rationalize incentives and safeguard the tax base.	Moderate and Ambitious: CIT collection is calibrated to hold at 4% of GDP by 2050	A more efficient and predictable CIT system reduces revenue	Supporting evidence: IMF (2024), “Cambodia: 2024 Article IV Consultation”; World Bank (2023), “Cambodia Public Finance

Reform Lever	Magnitude & Rationale for Policy Reform Scenarios	Macroeconomic Channels Impacting Growth & Jobs	Core Model Assumption & Supporting Evidence from Literature
Strengthen risk-based audit capacity to counter profit shifting and enhance transparency through public tax expenditure reporting. Current CIT collection should be sustained while easing the bureaucratic burden on firms to foster investment: (i) conduct a comprehensive review of the CIT incentive framework, phasing out non-essential or outdated incentives and aligning remaining provisions with Cambodia's investment and employment objectives; (ii) strengthen risk-based audit capacity, including detection of profit shifting and base erosion, to stabilize collections and counter recent declines; and (iii) enhance transparency, including a public tax expenditure report, and improve coordination between investment authorities and the tax administration to ensure consistent application of incentive rules, particularly for small and medium-sized enterprises.	(vs. 3.1% in 2025 and a 3.8% historical maximum), in line with high-income peers (slightly below 4% of GDP). In the short run, easing the bureaucratic burden on firms supports the mobilization of private capital. Long-term impact (gradually by 2050).	volatility, limits base erosion, and supports private investment by providing clearer, more transparent rules. Higher and more stable CIT collections help maintain fiscal space without undermining the business climate.	Review"; World Bank (2025), "Cambodia Economic Update"; OECD (2024), "Consumption Tax Trends 2024."
10. Modernize and invest in public services			
Strengthen public investment management and scale up infrastructure spending. Improve transparency and standardization across the public investment cycle through open tender processes, a single asset register, and a national gateway for major infrastructure proposals; prioritize high-impact infrastructure investments with stronger procurement planning and better central-subnational coordination. Prioritize high-impact infrastructure investments. Improve implementation capacity by strengthening procurement planning, contract management, and mechanisms for monitoring and resolving execution bottlenecks.	Moderate: Scale up public capital expenditure and improve investment management through open tender processes, a centralized asset register, and stronger procurement planning. Assumed path: CAPEX rises from 5.1% to 6.5% of GDP by 2050 (LTGM-consistent moderate path); investment efficiency improves from ~67% toward ~88% by 2030, converging to UMIC norms. [Medium-term impact - gradually by 2035] Ambitious: Accelerate CAPEX scaling and investment management reforms to support an	Higher-quality and more efficiently deployed public infrastructure raises long-term factor productivity and supports sustained growth.	Assumption: Allocative efficiency gains from improved PIM generate a 0.3% increase in TFP. Investment efficiency improvements (from ~67% toward ~88%) increase the effective return to public capital by 10%. IMF (2015). Establishes the analytical framework for investment efficiency measurement, documenting that LICs and LMICs typically operate at 40–60% efficiency relative to best practice; a shift from ~67% to ~88% efficiency (as modeled) is consistent with UMIC convergence benchmarks. IMF (2019). Cross-country Public Investment Management Assessment (PIMA) evidence Infrastructure Governance. Washington, DC: IMF. Cross-country PIMA evidence on the institutional drivers of investment efficiency, confirming that open tender processes, centralized asset registries, and standardized project appraisal are the highest-return reforms for closing the efficiency gap. IMF (2020). Quantifies the aggregate productivity and growth gains from improved investment efficiency; a 10 pp improvement in efficiency is associated with approximately 0.3% increase in aggregate TFP, directly anchoring the model assumption above.

Reform Lever	Magnitude & Rationale for Policy Reform Scenarios	Macroeconomic Channels Impacting Growth & Jobs	Core Model Assumption & Supporting Evidence from Literature
	ambitious growth path. Assumed path: CAPEX rises from 5.1% to 8.5% of GDP by 2050; investment efficiency converges to ~88% by 2030, maximizing the return on a substantially larger capital envelope. [Long-term impact - gradually by 2050]		World Bank (2021b). Documents how procurement integrity, contract management, and transparency improvements raise effective investment efficiency; supports the return-to-capital improvement assumption embedded in the LTGM-consistent CAPEX path.
Increase investment in human capital and social protection. Increase education and health spending while strengthening learning assessments and facility-level reporting to guide evidence-based resource allocation; and expand social protection by scaling up productive safety nets and integrating fragmented schemes into a coherent national system with unified beneficiary registries and digital payment tools. Increase spending on education and health from increased fiscal capacity. Prioritize data and monitoring systems (learning assessments, health surveillance, facility-level reporting) to guide evidence-based decision-making and corrective action. Scale up core social assistance programs (Family Package, NSAF) building on the COVID-19 Cash Transfer and aligning with the NSPPF 2024–35. Scale up productive safety nets combining temporary consumption support with productive asset transfers, skills and business training, coaching, savings, and market linkages for IDpoor and near-poor households.	Moderate: Education: Increase spending from 2.2% of GDP to UMIC peer average (3.5% of GDP). Health: Increase spending from 2.0% of GDP to UMIC peer average (3.7% of GDP). Social protection: Increase spending from 1.1% of GDP to UMIC peer average (6.6% of GDP). [Long-term impact, gradually by 2050] Ambitious: Education: Increase spending from 2.2% of GDP to HIC peer average (4.2% of GDP). Health: Increase spending from 2.0% of GDP to HIC peer average (4.7% of GDP). Social protection: Increase spending from 1.1% of GDP to Asia-Pacific country average (8.0% of GDP). [Long-term impact, gradually by 2050]	More and better education and health services improve human capital and labor productivity, supporting long-term growth. More effective sector spending improves outcomes without proportional increases in recurrent expenditure. Greater social protection reduces poverty and inequality, strengthens human capital investment by households, and builds resilience to shocks.	Assumption: Spending increases modeled as an exogenous fiscal path. Productivity and welfare gains are captured through the LAYS channel (Reform 8), the labor productivity channel (Reform 7), and reduced poverty/inequality effects on household human capital investment. IMF (2024). Cambodia: 2024 Article IV Consultation. Press Release and Staff Report. Washington, DC: IMF. Confirms Cambodia's low baseline spending levels in education (2.2% of GDP), health (2.0%), and social protection (1.1%), and the fiscal space available for spending increases given low public debt (~26% of GDP). Provides the macroeconomic stability anchors against which spending-growth elasticities are calibrated. World Bank (2023d). Documents the composition and efficiency of Cambodia's current public expenditure and estimates the growth and human capital returns to increased education, health, and social protection spending. Supports the modeling approach of treating spending increases as an exogenous fiscal path, with productivity and welfare gains flowing through the LAYS channel (Reform 8), the labor productivity channel (Reform 7), and reduced poverty/inequality effects on household human capital investment.

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