



**Kingdom of Cambodia
Nation Religion King**



Royal Government of Cambodia

**National Strategy
On
The Development of the Informal Economy
2023-2028**

**Prepared by Committee on Economic and Financial Policy
September 2023**

PREFACE

In the last two decades, before the COVID-19 crisis, Cambodia was one of the fastest-growing economies in the region and the world, with an average annual growth rate of more than 7%. This achievement was attained through subsequent introduction and implementation of policies, strategies, plans, and reform programs in a proactive and responsible manner to enhance competitiveness and promote economic diversification. At the same time, Cambodia has also achieved remarkable successes in reducing poverty and social inequality, as well as reducing maternal, infant, and child mortality rates and improving the life expectancy of the people, through tremendous focus on enhancing the development of education and vocational training, public health and nutrition, and social protection systems. In addition, Cambodia's enhanced prestige on the international and regional stage is also a source of pride. This is reflected through the country's contributions in leading regional and global affairs, including the successful hosting of **the 40th and 41st ASEAN Summits and Related Summits** in 2022, as well as the 32nd Southeast Asian Games and the 12th ASEAN Para Games in 2023 after 64 years of waiting.

Being said that, in the context of the slowdown in global economic growth due to the COVID-19 crisis and other global challenges, Cambodia needs to accelerate the implementation of structural reforms more vigorously and seek new potentials to revitalize and stimulate economic growth back towards growth potentials and especially promote sustainable, inclusive and resilient socio-economic development. In this regard, promoting the development of the informal economy has considerable potentials for contributing to the development of our nation. As a matter of fact, most of Cambodia's employed population are in the informal economy and are not yet able to contribute fully to the socio-economic development of Cambodia, because of limited labor productivity and economic efficiency. Also, lessons from the COVID-19 crisis clearly highlight the need to take into consideration the introduction of measures and support programs in a more comprehensive manner for the employed population in the informal economy, who are vulnerable and at risks of being severely affected in the time of crisis.

Seeing these potentials and challenges, the Royal Government of Cambodia has identified the development of the informal economy as one of the top priorities in contributing to the improvement of the livelihoods of the citizens and Cambodia's economic recovery, by enhancing the protection and strengthening the capacity, productivity and resilience of the informal economy, as well as accelerating its participation into the formal economy to ensure resilience, predictability, and prosperity for businesses, trade, investment, occupations and jobs in Cambodia.

In a context full of high uncertainties arising from changes in global trade and economic architecture both now and in the future, the success in promoting the development of the informal economy will be a catalyst in transforming Cambodia into an upper middle-income country by 2030 and a high-income country by 2050. In this spirit, the Royal Government has decided to introduce the "**National Strategy on the Development of the Informal Economy 2023-2028**" with a vision to develop the informal economy to grow and have enough capacity to transition into the formal economy and become an essential driving force in improving people's livelihoods and contributing fully to sustainable, inclusive, strong and resilient development.

To realize this vision, as well as to ensure effectiveness that fits Cambodia's context, this National Strategy puts forth five strategic priorities, including: (1) to define, modify, and set up mechanisms to facilitate access to the system; (2) to reduce compliance

burden; (3) to provide protection and support to those who have entered the system; (4) to build capacities and provide support to those who have entered the system; and (5) to expand and strengthen outreach, raise awareness and promote participation.

On behalf of the Royal Government of Cambodia, I would like to express my appreciation for the efforts of **His Excellency Akka Pundit Sopheacha AUN PORNMONIROTH**, Deputy Prime Minister, Minister of Economy and Finance, and Chairman of the Committee on Economic and Financial Policy, in leading, guiding and coordinating with all ministries-institutions, all stakeholders, and especially the Inter-Ministerial Working Group to develop this critical National Strategy. At the same time, I encourage all ministries-institutions, the private sector, associations, national and international organizations, as well as all development partners to provide close and constructive cooperation in implementing this National Strategy in a proactive and responsible manner.

Finally, I firmly believe that the “**National Strategy on the Development of the Informal Economy 2023-2028**” will be a testament to the dedication and relentless efforts of the Royal Government of Cambodia to enhance support, strengthen capacity, and improve the productivity of the informal economy, as well as accelerate its participation into the formal economy to better serve the interests of the people and the nation as a whole.

Phnom Penh, 29 September 2023

Prime Minister

(Signature and Stamp)

Samdech Moha Borvor Thipadei HUN MANET

ABBREVIATIONS

CamDX	Cambodia Data Exchange
CEFP	Committee on Economic and Financial Policy
GDP	Gross Domestic Product
GDT	General Department of Taxation of MEF
ILO	International Labour Organization
MLVT	Ministry of Labour and Vocational Training
MEF	Ministry of Economy and Finance
MISTI	Ministry of Industry, Science, Technology and Innovation
MSEs	Micro and Small Enterprises
MSMEs	Micro, Small and Medium Enterprises
NSSF	National Social Security Fund of MLVT
TVET	Technical and Vocational Education and Training

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SECTION 1. INTRODUCTION

1.1. Regional and Global Trends

The Informal Economy has contributed significantly to the creation of businesses, occupations, and jobs. It is the primary source of income for the population in many countries worldwide, especially developing countries. According to a 2022 World Bank report, the informal economy accounts for around 20% of the Gross Domestic Product (GDP) and around 16% of the total employment in developed countries and, on average, nearly 32% of GDP and 70% of the total employment in emerging and developing economies.

Some studies have shown that the informal economy will gradually shrink as a country develops, as businesses and workers automatically transition into the formal economy. The 2022 World Bank report estimates that, from 1990 to 2018, the share of the informal economy in the economy, on average, decreased by around 7% among emerging and developing economies (from 38.9% of GDP in 1990 to nearly 32% of GDP in 2018).

The informal economy, nevertheless, remains accounting for a large share of the economy, as the transition is slower than expected. At the same time, many crises, especially the COVID-19 crisis, have also shown that a large informal economy can hinder socio-economic development and negatively impact efforts in reducing social inequality and human resource development. In fact, during the COVID-19 crisis, businesses and workers in the informal economy in many countries, including Cambodia, were severely affected, while the effectiveness of intervention measures was limited due to the difficulty in identifying and verifying the identities of businesses and workers in the informal economy.

Based on these practical experiences, the promotion of the development of the informal economy has now become a significant policy agenda in contributing to recovering and boosting economic growth towards attaining sustainable, inclusive, and resilient development. Furthermore, in the context of current and future development, the development of the informal economy will contribute to addressing the impacts left behind by COVID-19, especially for developing countries, and narrowing the development gaps such as the digital gap that emerges from digital transformation and has been creating new opportunities for further accelerating the momentum of development.

According to international best practices, for the effective development of the informal economy, each country must pay attention to not only the transition into the formal economy, but also the prevention of activities in the formal economy from falling into the informal economy, by supporting the creation of businesses, occupations and jobs, ensuring their stability, high productivity, and decent income, as well as providing necessary rights and social protection in accordance with the level of development of each country. In this sense, the development of the informal economy must be in a form of short-term, medium-term and long-term strategies, consisting of interconnected and complementary components, including facilitating the access to the system, providing benefits or incentives for the transition into the system, raising awareness, nurturing and so on.

1.2. Overall Concept of the National Strategy

Cambodia's economy had been growing at an average annual rate of 7% for over two decades prior to the COVID-19 crisis. This high growth has helped significantly

reduce the poverty rate, improve the people's livelihoods, and make Cambodia stand on an equal footing with its regional and global neighbors. Moreover, during the COVID-19 crisis, Cambodia was one of the leading countries in the region and the world in terms of managing the disease, re-opening the country in all areas, and being able to recover and stimulate economic growth quickly. In fact, due to the COVID-19 crisis, Cambodia's economy experienced negative growth for the first time in more than two decades with a growth rate of -3.1% in 2020, but Cambodia's economy recovered quickly and achieved a growth rate of 3% in 2021 and 5.2% in 2022.

That being said, Cambodia needs to intensify its implementation of structural reforms and seeks new potentials to revitalize and stimulate economic growth, so that it can recover and move back to growth potential that is sustainable, inclusive and resilient to crisis. In this sense, the development of the informal economy is a key catalyse in contributing to the development of the national economy, as Cambodia still has a huge potential in seizing opportunities and taking full advantages of the workforce and business activities in the informal economy.

In addition, Cambodia's own experience during the COVID-19 pandemic has also shown that the informal economy could be subject to significant risks during crises, as the Royal Government found it difficulty to identify and provide support for the informal economy. In this spirit, Cambodia needs to double its focus on the development of the informal economy to strengthen the capacity, resilience, and competitiveness of the private sector and the population in the informal economy and maximize the potential of the informal economy to realize the vision of transforming Cambodia into an upper middle-income country by 2030 and a high-income country by 2050.

In this spirit, the Royal Government has introduced a series of sharp reform measures that have directly and indirectly supported the informal economy, such as the launch of the online business registration, tax incentives, expansion of social assistance programs, provision of skills training, and so on. To complement these measures in a full, comprehensive and cohesive manner, the Royal Government has decided to formulate and introduce the "**National Strategy on the Development of the Informal Economy 2023-2028**" to provide protection and improve the living standards of people doing businesses and working in the informal economy, as well as strengthen their capacities so that they can transition into the formal economy to get access to government supports and can participate fully in the development process of the national economy.

SECTION 2. OVERAL FRAMEWORK OF THE NATIONAL STRATEGY

2.1. Vision

COVID-19 and other emerging challenges are constantly putting pressures on the well-being and livelihoods of Cambodian people, especially those doing businesses and working in the informal economy. To address these challenges and respond to the actual challenges and context in Cambodia, as well as to seize new and untapped potentials that may emerge from the informal economy, the Royal Government has decided to introduce the "**National Strategy on the Development of the Informal Economy 2023-2028**" with a vision to **develop the informal economy to grow and have enough capacity to transition into the formal economy and become an essential driving force in improving people's livelihoods and contributing fully to sustainable, inclusive, strong and resilient development.**

2.2. Goal and objectives

In line with the above vision, this National Strategy aims to **enhance protection for and strengthen capability, productivity, and resilience of the informal economy, as well as promote and accelerate the transition into the formal economy to ensure resilience, predictability, and progress of businesses, trade, investment, occupations and jobs in Cambodia.**

To develop the informal economy in line with the above vision and goal, this National Strategy sets out four main objectives as follows:

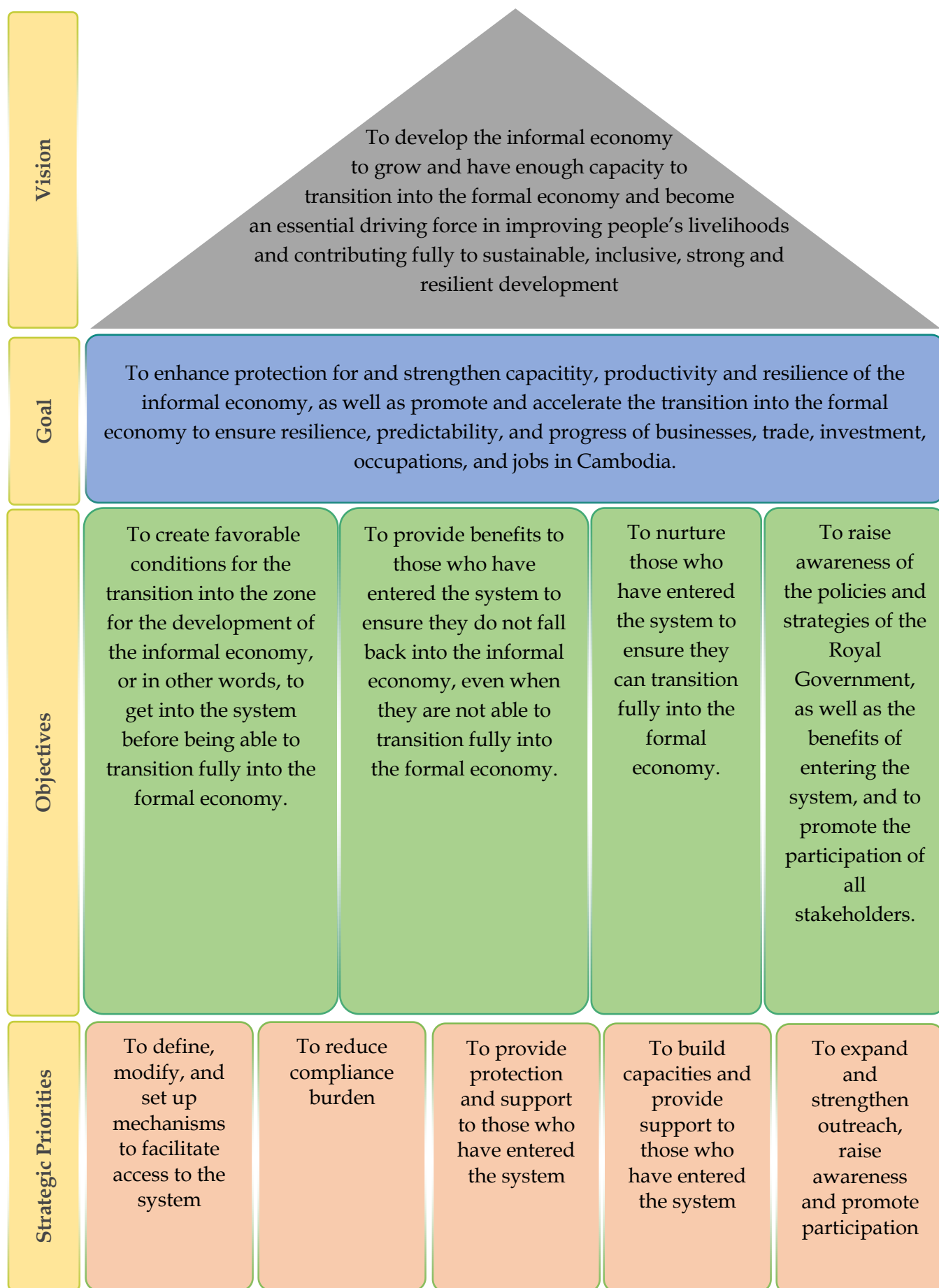
- (1) To create favorable conditions for the transition into the zone for the development of the informal economy, or in other words, to get into the system before being able to transition fully into the formal economy.
- (2) To provide benefits to those who have entered the system to ensure they do not fall back into the informal economy, even when they are not able to transition fully into the formal economy.
- (3) To nurture those who have entered the system to ensure they can transition fully into the formal economy.
- (4) To raise awareness of the policies and strategies of the Royal Government, as well as the benefits of entering the system, and to promote the participation of all stakeholders.

2.3. Approaches

To achieve the above vision, goal, and objectives, the formulation and implementation of this National Strategy must comply with the following key interconnected approaches as follows:

- (1) **To define the scope and priority**, in particular, the identification of the priority sectors and types of businesses, occupations, and jobs to respond to limited resources of the Royal Government and the large size of the informal economy in Cambodia (Annex 1 of this National Strategy).
- (2) To be flexible and adaptative, **by focusing on people in the short term** through the provision of social protection and strengthening of capacity and productivity to attract participations into existing systems (such as the Health Equity Fund, skills training, and so and) before full transition into the formal economy.
- (3) **To promote the transition from the informal economy to the formal economy in the medium and long terms** to gradually reduce the size of the informal economy, increase contribution-based protection, and raise revenues and contribution to national economic growth.
- (4) **To clearly define the informal economy** to facilitate the management and promotion of the development of the informal economy (Annex 2 of this National Strategy).

Figure 1: The Overall Framework of the “National Strategy on the Development of the Informal Economy 2023 - 2028”



SECTION 3. CURRENT SITUATION OF THE INFORMAL ECONOMY IN CAMBODIA

The informal economy plays an essential role in both developing and developed countries. Doing Businesses and working in the informal economy is a vital source of income for the population, as starting businesses, occupations and jobs in the informal economy requires low costs. That being said, the informal economy is large and complex and involves many stakeholders, making it difficult for the Royal Government to identify, manage, and provide protection, in order to promote the living standards of the population and the participation in the development process of the national economy.

With the importance of the informal economy, each country must focus on promoting the development of the informal economy through the formulation and implementation of comprehensive strategies, with an in-depth understanding of key stakeholders and priorities, in order to be able to set forth a sharp, accurate and effective action plan.

3.1. Characteristics of the Employed Population in the Informal Economy in Cambodia

In Cambodia, the number of people working in the informal economy is huge and is in numerous sectors, such as transportation, services, wholesale, retail, handicrafts, agriculture, and so on. According to reports of various studies and direct consultations with target groups in the informal economy, as well as representatives from national and international organizations and development partners, most of the employed population in the informal economy in Cambodia are workers, employees, or self-employed individuals who have the following characteristics:

- Having low and irregular incomes that can only be used for daily lives, despite long working hours;
- Doing family businesses or having temporary employment (occasional or seasonal);
- Doing multiple businesses, occupations, or jobs at the same time to support and maintain a stable household living standard and easily changing from one business, occupation and job to another, causing many enterprises, especially those in the service sector that require low skills, to experience high turnovers;
- Having high demands for healthcare as their businesses, occupations, or jobs are exposed to high health and safety risks, but financial problems in their daily lives combined with a lack of awareness and knowledge make people doing businesses and working in the informal economy less concerned about the future, particularly, concerning the response to possible and unforeseen illness, injury, or disability; and
- Having low skills, but financial problems in their daily lives and the issue of residing far away can make it challenging for them to access vocational training.

Overall, those working in the informal economy in Cambodia have low capacities in terms of income, awareness, knowledge, and skills. Hence, **the development of the informal economy in Cambodia cannot just focus on promoting transition into the formal economy and promoting compliance, but must also take into account the needs to enhance protection and support and strengthen the capacities and capabilities of the people doing businesses and working in the informal economy.**

3.2. Employed Populations and Enterprises in the Informal Economy

3.2.1. Employed Population

The total employed population in Cambodia is close to 7.9 million (according to the Cambodia Labour Force Survey 2019). The employed population in the formal sector is nearly 1.7 million or 21.5% of the total employed population, while the other 6.2 million works in the informal sector.

The employed population can be categorized into four main groups, including: employees, employers, own-account workers ⁽¹⁾, and contributing family workers. Employees and own-account workers are the largest groups, respectively, accounting for 47.8% and 36.9% of the total employed population in 2019. In this sense, **the consideration of the informal economy should focus on two target groups: (1) employees and (2) own-account workers.**

- **Employees** mostly work in manufacturing, construction, agriculture, tourism, and wholesale-retail and can be divided into two groups: (1). those employed by unregistered enterprises and (2) those employed by registered enterprises.
- **Own-account workers** mostly work in retail, repair, agriculture, transportation, tourism, and other services and can also be divided into two groups: (1) people doing businesses or occupations with specific locations and (2). people doing businesses or occupations without specific locations such as mobile street vendors, motor-taxi drivers, tuk-tuk drivers, delivery drivers, and other businesses not involving sales.

3.2.2. Economic Units or Enterprises

The informal economy covers both the workforce and enterprises. The informal economy is large in size in countries with many micro and small enterprises, which have limited capacities to participate in the formal economy. In this sense, the development of micro, small and medium enterprises (MSMEs) must take into account the need to support informal enterprises in participating in the formal economy, so that they can access various supports such as skills training, access to finance, and so on.

The number of economic units (mostly private enterprises) in Cambodia was around 500,000 in 2011 and has increased to more than 750,000 in 2022. Registered economic units have increased from 3.4% of the total economic units in 2011 to 12.4% of the total economic units in 2022.

Between 2011 and 2022, all types of economic units showed a trend of transitioning into the system (Table 1 below). Almost 100% of the economic units with ten or more persons engaged (including both employees and employers) had entered the system in 2022, while the economic units with five to nine persons engaged, that had entered the system, increased from 14% in 2011 to 83.7% in 2022.

It is noteworthy that, in 2022, the total number of the economic units with five or more persons engaged was just around 50,000 or just 7% of the total economic units. On the other hand, economic units with four or fewer persons engaged dominated more than 92% of the total economic units, among which economic units that had entered the system, increased slightly from 1.9% in 2011 to 6.5% in 2022.

⁽¹⁾ According to Cambodia Labor Force Survey, an own-account worker is a person who was working on their own-account with one or more partners at a "self-employment job," without any employees engaged on a continuous basis; but, possibly, with one or more contributing family workers or employees engaged on an occasional basis.

Table 1. Sizes of Economic Units/Enterprises that have entered the System

Economic Units/Enterprises based on the Number of Persons Engaged	Percentages (of the Number of Each Type)	
	2011	2022
1-4	1.9%	6.5%
5-9	14%	83.7%
10-99	33.5%	97.3%
More than 100	78.8%	100%

Source: *Economic Census 2011 and 2022*

Table 2 below shows that most of economic units are in four sectors including: manufacturing, wholesale and retail and repair, accommodation and food services, and other services. Most of economic units in wholesale and retail and repair, accommodation and food services, and other services are micro enterprises with two persons engaged on average, but accommodation and food services also have many small and medium enterprises, especially registered enterprises with 10 persons engaged on average. On the other hand, economic units in manufacturing, on average, have up to 20 persons engaged. Table 2 shows that this sector has many unregistered handicrafts, while registered economic units are large factories with 121 persons engaged on average.

Table 2: Registered and Unregistered Enterprises by Sectors

Sectors	Economic Units/Enterprises		Average Number of Persons Engaged	
	Total	Registered (%)	Whole Sector	Registered (%)
Wholesale Retail and Repair	499,731	7.5%	1.9	5.4
Accommodation and Food Services	96,315	12.2%	2.8	10.5
Manufacturing	54,871	15.6%	20.3	121.2
Other Services	53,391	14.2%	2.2	5.6

Source: *Economic Census 2022*

In short, similar to informal employment, the share of unregistered economic units has declined but at a slow pace. This is due to the limited transition of MSEs in wholesale and retail and repair, accommodation and food services, other services, and handicrafts.

SECTION 4. CHALLENGES AND INTERVENTIONS

4.1. Challenges

The informal economy involves many stakeholders in both public and private sectors, with each stakeholder facing different challenges. Promoting the development of the informal economy requires the understanding of challenges in order to identify appropriate solutions. According to the reports of various studies and consultations of

associations, national and international organizations, development partners, and relevant ministries-institutions, the development of the informal economy faces challenges as follows:

4.1.1. Unclear Definitions and Insufficient Data

The informal economy is large in size and requires a clear definition to distinguish between informal and formal economies. Currently, Cambodia does not have a clear definition, making it difficult to define the scope, ensure consistency among ministries-institutions, and introduce effective and accurate intervention measures. At the same time, Cambodia also faces insufficient data, making it difficult to have a comprehensive understanding of the informal economy. In fact, there are many studies on the informal economy, but these studies are unrelated in nature and use different definitions due to the large scope and multifaceted nature of the informal economy.

4.1.2. Lack of Awareness and Outreach

Most of the people doing businesses and working in the informal economy are not aware or do not fully understand the supports and protections of the Royal Government, as well as the obligations and benefits of participation in the formal economy. Many employers have stated that they wish to fulfil their compliance obligations properly, but they do not know where to start and what procedures to complete. Many employees are also not aware of their rights to receive protections from the Royal Government. In this regard, the private sector, as well as national and international organizations, often call for comprehensive and targeted campaigns to raise awareness of registration procedures at both national and sub-national levels, benefits of registration, and the provision of support and other incentives.

4.1.3. Complicated and Costly Compliance

Complicated, time-consuming and costly procedures make it difficult to fulfill compliance obligations, especially for MSMEs with limited capacities. The private sector often raises the issue of overlapping and unclear implementation of laws and regulations, as there are many inspections of various ministries-institutions at both national and sub-national levels without any prior notification or announcement. These problems cause unpredictability and concerns, undermining confidence in participating in the formal economy. At the same time, unregistered enterprises are able to operate normally, creating unfair competition for registered enterprises.

4.1.4. Limited Capacity of the Employed Population in the Informal Economy

As stated in Section 3 above, the people doing business and working in the informal economy encounter livelihood issues and cannot bear the cost of compliance. In addition, they are also vulnerable to crises such as COVID-19, which has caused many people to lose income and fall into poverty.

4.1.5. Lack of Mechanisms to Manage and Support the Informal Economy

People doing business and working in the informal economy have a high demand for healthcare, but the provision of healthcare through the Health Equity Fund and the National Social Security Fund (NSSF) is still limited in terms of coverage and usage. At the same time, a large portion of people doing business and working in the informal economy are not yet under the management or recognition mechanisms of any ministries-institutions. As a matter of fact, people doing business and working in the informal economy without a specific location cannot apply for permits from any One Window

Service Offices of sub-national administrations or any ministries-institutions. In the meantime, self-employed individuals also cannot become NSSF members due to the lack of regulations, especially relevant sub-decrees and prakas, as well as supporting mechanisms, even though the Law on Social Security stipulates that self-employed individuals can participate in healthcare and pension schemes on a voluntary basis.

4.1.6. Limited Quality of Public Services and Supports Rendered by the Royal Government

Public services and other supports rendered by the Royal Government (such as healthcare services, training, tax incentives, etc.) are the main attractions, which can promote participations in the formal economy, as well as enhance the capacity and productivity of the private sector. That being said, the private sector often highlights the lack of supports for business expansion, access to finance, access to markets, and skilled workers, as well as difficulties in accessing public services and other existing supports due to poor service quality and stringent requirements that the private sector cannot fulfill.

4.2. Interventions of the Royal Government

The Royal Government has introduced and implemented many reform programs that can be used as a basis for the formulation of the National Strategy on the Development of the Informal Economy. Key reform programs that have positive impacts on the informal economy both directly and indirectly are as follows:

4.2.1. Online Business Registration

Business registration in Cambodia faces a number of challenges, such as the requirements to complete multiple procedures at different ministries-institutions, which are time consuming and costly. To facilitate and encourage business registration, the Royal Government has launched the first phase of the Cambodia Data Exchange (CamDX for short) on 15 June 2020 to allow enterprises to register their businesses with the Ministry of Commerce, General Department of Taxation (GDT) of the Ministry of Economy and Finance (MEF), and Ministry of Labor and Vocational Training, at the same time and fully online with easier and faster procedures, less information and document requirements, and lower fees. As of August 2023, there were over 28,000 enterprises registered through the CamDX with a total registered capital of over 8 billion USD.

The Royal Government launched the second phase on 1 September 2021 and the third phase on 22 June 2023, by incorporating applications for licenses and/or permits of relevant ministries-institutions in many key sectors such as tourism, manufacturing, agriculture, post and telecommunications, finance, and so on. The Royal Government is preparing subsequent phases to continue strengthening the integration among relevant ministries-institutions and facilitating the registration process of businesses and employees as much as possible.

4.2.2. Tax Incentives

To improve the business environment in Cambodia, particularly, to ease the burden of enterprises, the Royal Government has introduced a series of tax incentives for MSMEs, such as the decision to abolish the estimate tax regime for micro enterprises, exemption of documentary stamp tax on legal registrations, and 50% reduction in patent tax for the first year of business registration of SMEs and large enterprises. In addition, the Royal Government has also arranged for voluntary registration, as well as tax incentives for SMEs, particularly, income tax exemption for 3-5 years for some priority sectors, such as agricultural or agro-industrial products, food production and processing,

manufacturing of local consumption goods, waste processing, and tourism products, and so on.

4.2.3. Social Protection Benefits

The Royal Government of Cambodia has introduced numerous social assistance programs to contribute to improving and stabilizing the livelihoods of poor and vulnerable households under challenging situations in various forms (such as social assistance measures during the outbreak of COVID-19), as well as develop rural infrastructures and provide support to people in the rural areas and farmers. At the same time, the Royal Government has launched the healthcare, occupational-risk, and pension schemes for persons defined by the provisions of the Labour Law, by assigning NSSF as a social security operator. In addition, the Royal Government also provide free healthcare through the Health Equity Fund to priority groups such as informal workers, entertainment workers, cyclo drivers, national athletes, commune-village council members, and families of the deceased veterans.

4.2.4. Skills Training

Developing the workforce to become skilled workers and to be able to use advanced technology through technical and vocational education and training is a crucial factor, contributing significantly to the national socio-economic development. In this spirit, the Royal Government has organized many skills training courses, such as skill-bridging training, training for poverty reduction through national funds, entrepreneurship training for workers, apprenticeship training in various enterprises, vocational training and scholarship programs for youths in poor families, and CI technical and vocational training for workers affected by COVID-19.

4.2.5. Joint Inspection Mechanisms

To reduce burdens and disturbances for factories and enterprises, the Ministry of Labor and Vocational Training has launched the self-declaration system of labor inspection through the automatic system via <https://sicms.mlvt.gov.kh> in January 2022. The owners of factories-enterprises are obligated to self-declare the labor inspection through the automatic system twice a year which is done in every six months. Labor inspections are carried out jointly with other relevant ministries-institutions, as the Royal Government has established three inter-ministerial inspection groups through joint prakas in manufacturing, tourism industry, and agriculture. Each inter-ministerial inspection group is obliged to conduct the joint inspection at the same time and only once per year.

SECTION 5. STRATEGIC PRIORITIES

To tackle challenges and achieve the above vision, goal and objectives, as well as to ensure the effectiveness in line with Cambodia's context, this National Strategy is formulated based on the results of the study of national and international best practices and direct consultations with the target groups in the informal economy, as well as associations, national and international organizations, and development partners.

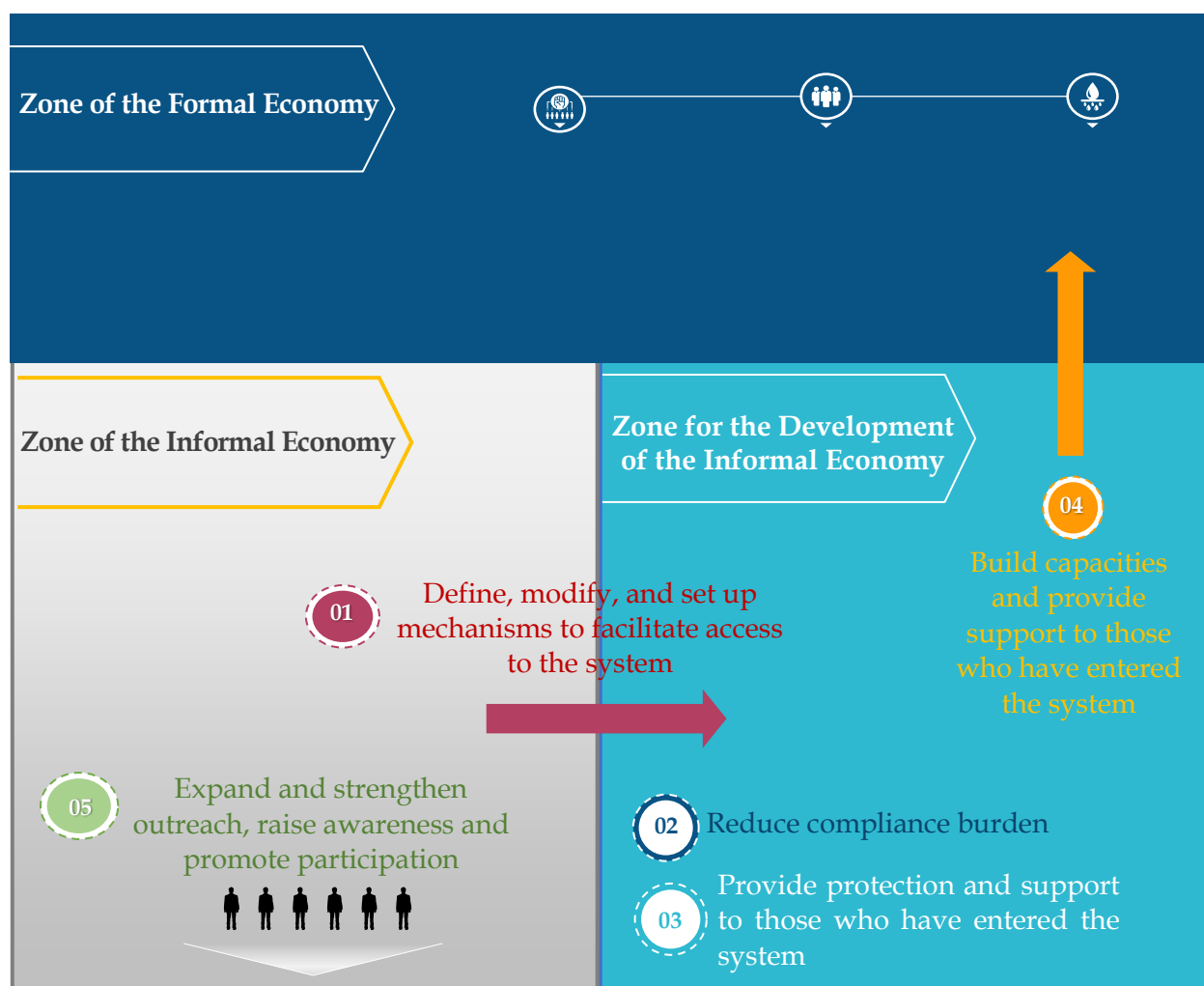
This National Strategy has identified five strategic priorities as follows:

- (1)** Define, modify, and set up mechanisms to facilitate access to the system.
- (2)** Reduce compliance burden.
- (3)** Provide protection and support to those who have entered the system.

- (4) Build capacities and provide support to those who have entered the system to grow and be able to participate fully in the formal economy.
- (5) Expand and strengthen outreach and raise awareness of the policies and strategies of the Royal Government, as well as the benefits of entering the system, and promote participations of all stakeholders.

This National Strategy will introduce a set of sharp reform measures for each strategic priority, which can be categorized into three components: (1) Short-term measures to be accomplished in 2023-2024 (low-hanging fruits), (2) Medium-term measures to be completed in 2025-2026, and (3) Long-term measures to be completed in 2027-2028.

Figure 2: Outline of the Strategic Priorities



5.1. Define, Modify, and Set Up Mechanisms to Facilitate Access to the System

Promoting participation in the system requires identifying clear definition and defining scope of managing mechanisms within the Royal Government as a whole to clearly distinguish between formal and informal economy. In this spirit, the Royal Government divide the economy into three main zones: **Zone of the Informal Economy**, **Zone for the Development of the Informal Economy**, and **Zone of the Formal Economy** (detailed in Annex of this National Strategy). As people doing business and working in the informal economy have low capacities and cannot afford the costs of entering the formal economy, it is necessary for Cambodia to create the Zone for the Development of

the Informal Economy to create an enabling environment for the informal economy to enter a transitional zone (the system) to access the benefits and care, without paying any service fees, before being able to participate fully in the formal economy.

In line with the above arrangement, to enter the system in Cambodia involves several ministries-institutions. In this regard, the Royal Government will strengthen management and integration mechanism among all relevant ministries-institutions to ensure full consistency, by promoting the use of CamDX, streamlining procedures, and cutting time and costs as much as possible, to pave the way for a smooth and convenient transition for all stakeholders.

5.2. Reduce Compliance Burden

In addition to smooth and convenient transition, the Royal Government will also focus on “**Sustainable Transition**”, by ensuring that enterprises, employees, and self-employed individuals, who have entered or have been in the system, can continue to fulfill compliance and do not return to the informal economy. The Royal Government will minimize the compliance burden as much as possible and avoid frequent formulation of regulations that creates difficulties, especially for MSMEs with limited capacities in terms of resources and knowledge in understanding and complying with various procedures. The Royal Government will also ensure predictability, particularly, concerning penalties that may discourage transition into the system.

In fact, the Royal Government will waive service fees and all penalties for past non-compliance within a specific period, to pave the way for enterprises and employees in the informal economy to transition and start businesses in the system without any concern.

5.3. Provide Protection and Support to Those Who Have Entered the System

To ensure sustainable transition, the Royal Government will expand and strengthen the coverage of the Health Equity Fund, as well as promote occupational safety to provide healthcare to priority groups in the informal economy. This provision of social protection aims to ensure the provision of healthcare to priority groups, so that they can afford to live in the system with a decent living standard and without risks of falling back into poverty or livelihood risks, without any care.

The expansion and strengthening will be accomplished quickly without generating additional costs, as some priority groups have been identified as poor and vulnerable households by the Ministry of Planning and have already been covered by existing social assistance programs. Nevertheless, to avoid overlaps among different programs and ensure that the expansion of the coverage of the Health Equity Fund can reach priority groups and other target groups effectively, the expansion and strengthening must be carried out step by step, with clear identification and verification mechanisms—using reference letters issued by the competent ministries-institutions or local authority for priority groups that cannot apply for references from competent ministries-institutions—as well as regular monitoring of the access to the benefits of these programs.

5.4. Build Capacities and Provide Support to Those Who Have Entered the System

To achieve the vision of sustainable, inclusive, strong and resilient economic development, Cambodia must ensure “**Efficient Transition**”, by improving the quality and access to public services and supports of the Royal Government to nurture those who have entered the system to grow and be able to transition fully into the formal economy. In this regard, the Royal Government will focus on building capacity and productivity

and provide support to activities in the system, especially the launch of vocational and technical trainings for youths from poor and vulnerable households across the nation, as identified by the Ministry of Planning, as well as other target groups in the informal economy. In addition, the Royal Government will also promote access to finance from public and private banks, as well as improve financial inclusion and financial literacy to provide greater access to official financial services for MSMEs and self-employed individuals, while avoiding unaccounted use, which may increase the risk of excessive debts. These benefits will be the main attraction for the transition into the formal economy while raising opportunity costs of activities in the informal economy.

5.5. Expand and Strengthen Outreach, Raise Awareness, and Promote Participation

As mentioned in Section 4 above, lack of awareness and outreach is a key challenge in promoting the development of the informal economy. In this sense, the Royal Government will be more active in attracting enterprises, employees, and self-employed individuals in the priority groups or sectors in the informal economy to enter the system, by expanding and strengthening the effectiveness of outreach and raising awareness and understanding of the policies and strategies of the Royal Government, as well as the benefits of entering the system. At the same time, the Royal Government will promote the participation of the private sector, development partners, and other associations or organizations, that have gathered and worked directly with people doing businesses and working in the informal economy, and push the establishment of the federation of the informal economy to promote dialogues and participations in policy formulation.

SECTION 6. RISK MANAGEMENT

The development of the informal economy is a sophisticated task, requiring a great deal of attention to all relevant aspects. Shortcomings in any aspect can affect the efficiency and hinder or obstruct the implementation of **the National Strategy on the Development of the Informal Economy 2023-2028**. In this spirit, Cambodia must be proactive, analyze the risks, and identify any threats that may affect the implementation of this National Strategy, in order to set out necessary preventive measures. At present, there are three major risks as follows:

- **Fiscal risks:** With the sheer size of the informal economy, the provision of protection and support, coupled with reductions in costs, fees and taxes to encourage participations in the system, can cause risks to the fiscal space, in terms of both expenditures and revenues, while the Royal Government has high demands for resources in the current regional and global contexts. In this regard, the Royal Government will be firm in the implementation, avoid the increasing expansion of the provision of protection, and focus instead on economic development under the principle of **“Do not teach the citizens to be dependent on the government”**.
- **Ability to take advantages of the protection and support of the Royal Government** is based on financial resources, capacities or knowledge, information, networks, or favorable locations of the citizens. The introduction of intervention measures to develop the informal economy may not reach the most remote and vulnerable population. Hence, the Royal Government will ensure transparency and equity, particularly, through active participations of all stakeholders at all levels to ensure maximum coverage of supports.

- **The emergence of new types of jobs and businesses in the informal economy:** Every event affecting economic structure, either positive or negative, always creates new economic activities or expand the existing ones. The COVID-19 crisis has spurred a dramatic increase in new activities, especially the emergence of types of jobs and businesses without specific locations, which can be categorized as activities in the informal economy, as existing legal frameworks and mechanisms focus on managing types of jobs and businesses with specific locations. In the context that the global economy has been evolving rapidly due to digitalization, digital transformation, and changes in the global economic architecture, many new types of jobs and businesses may emerge beyond expectations and predictions. This requires regular monitoring of national, regional, and global economic development to better prepare for supporting and absorbing new types of jobs and businesses into the system.

SECTION 7. INSTITUTIONAL ARRANGEMENT AND MONITORING AND EVALUATION MECHANISMS

The implementation of **the National Strategy on the Development of the Informal Economy 2023-2028** is one of the main priorities of the Royal Government, which will contribute to setting a common direction and trajectory for sustainable, inclusive, and resilience socio-economic development in Cambodia, by promoting participations and maximizing Cambodia's economic potentials. Effective implementation requires strong commitment and attention of the Royal Government with mechanisms for implementation, regular, thorough and clear monitoring and evaluation, as well as revision or update as necessary to keep this National Strategy as a **"living document"** in accordance with the development of the informal economy.

The implementation of the National Strategy, as well as risk management, requires active and responsible participations from relevant ministries-institutions at all levels. Ministries-institutions responsible for implementing the National Strategy have the following roles and responsibilities:

- Prepared a detailed action plan and a budget plan for implementing all measures set out in this National Strategy;
- Provide progress reports of the implementation and challenges to the executive institution (as identified below) with clear rationales for measures with slow progress;
- Provide cooperation to the executive institution, by providing adequate and comprehensive data for monitoring and evaluating the implementation of the National Strategy;
- Assign management officials and focal points to ensure effective implementation and coordination with the executive institution;
- Participate in revising or formulating strategies or policies in subsequent phases.

At the same time, the Ministry of Industry, Science, Technology and Innovation (MISTI) is the executive body of the Royal Government, in promoting the efficient and effective implementation of the National Strategy and has the following roles and responsibilities:

- Develop a monitoring and evaluation framework for the implementation of the National Strategy, by identifying measurable key performance indicators, as well as key actions and clear mechanisms for promoting and accelerating the implementation of measures with slow progress and taking actions on measures with no progress;
- Prepare short-term, mid-term and end-term evaluation reports for **the Prime Minister of the Kingdom of Cambodia** on the progress of the implementation of the National Strategy;
- Take the lead in revising or formulating strategies or policies in the next phases, as necessary, by submitting these documents to the CEFP;
- Coordinate with stakeholders in both the public and private sectors, as well as national and international institutions, to monitor the development of the informal economy and compile inputs for revising and updating the Strategy as necessary.

SECTION 8. CONCLUSION

The COVID-19 crisis, as well as other global challenges, have put tremendous pressures on livelihoods of the people, particularly, those doing businesses and working in the informal economy. As a response, countries in the region and the world have paid more and more attention to the development of the informal economy, by identifying the development of the informal economy as an essential catalyst for contributing to the realization of sustainable, inclusive, and resilient development.

In accordance with regional and global trends, recommendations of international institutions, and especially Cambodian leaders' vision of turning crises into opportunity, the formulation and launch of the **“National Strategy on the Development of the Informal Economy 2023-2028”** is the right decision, as this document is a significant guide, illuminating and paving the way for the development of the informal economy. The development of the informal economy will also be a catalyst for promoting and encouraging cooperation among ministries-institutions of the Royal Government, the private sector, national and international organizations, and associations, which have been directly and indirectly striving to promote the informal economy separately and independently based on their respective competencies. In addition, the implementation of this National Strategy will also be an important asset for Cambodia in orienting socio-economic development, by providing inputs and essential and new experiences for the formulation of other strategies or other policies in the future, aiming towards achieving true sustainable, inclusive, resilient development, in line with the principle of **“No Cambodian citizen will be left behind”** in terms of development and participations in the development process.



ANNEX 1. DEFINING SCOPE AND PRIORITIES

To ensure effective implementation in line with the Approach of this National Strategy, in the first step of the implementation, the Royal Government identifies priority sectors and types of businesses, occupations, and jobs as shown in the following Table, with close monitoring of the development of the informal economy and regular reviews of the necessity to expand or narrow this scope.

Table 3: Priority Sectors and Types of Businesses, Occupations and Jobs

Stakeholders	Priority
Enterprises	Wholesales, retails, and repairs
	Accommodation and food services
	Handicrafts
	Agricultural communities
Occupations and Jobs	Construction workers
	Beverage, entertainment, and massage service providers
	Beauticians, salon workers and hairdressers
	Motor-taxi drivers, tuk tuk drivers, delivery drivers, and taxi drivers
	Market vendors
	Art performers
	Athletes
	Journalists
	Mobile street vendors
	Service providers at weddings
Agricultural workers	

Notes:

- In line with the Objective and Strategic Priorities of this National Strategy, types of businesses, occupations and jobs identified in Table 3 above will receive various benefits subject to properly defined criteria and evaluation.
- Table 3 is considered as a **“Living List”** that can be updated to expand or narrow the scope, but the update must have proper criteria and evaluation, in particular, by taking into account the budget aspect.

ANNEX 2. DEFINITION

To promote the effective development of the informal economy, this National Strategy will divide the economy into three zones as follows:

First. Zone of the Informal Economy: Informal economy refers to all business activities, occupations, and jobs that (1) are not illicit and (2) do not comply with administrative procedures, leading to difficulties in identification.

Second. Zone for the Development of the Informal Economy: People doing businesses and working in the informal economy have limited capacities and can not fully comply with administrative procedures to enter the formal economy. Hence, it is necessary to create this zone, which requires compliance with some basic administrative procedures without paying any fees to make it easy for identification. Those in this zone will have access to care and benefits, so that they are able to transition into the formal economy.

Third. Zone of the Formal Economy: Activities in this zone (1) are not illicit and (2) fully comply with administrative procedures and hence are easy to identify. The full administrative procedures are shown in the table below:

Stakeholders	Administrative Procedures
Small, medium, and large enterprises	Ministry of Commerce, GDT, MLVT, and other competent ministries-institutions
Micro enterprises	One Window Service Mechanism at Sub-National Administration, GDT, and Department of Labour and Vocational Training
Workers - employees	Department/Ministry of Labour and Vocational Training and NSSF
Self-employed individuals	One Window Service Mechanism at Sub-National Administration and NSSF

Notes:

- According to the Labour Law, **workers-employees** are persons of all gender and nationality who have signed an employment contract in return for remuneration, under the direction and management of another person, either a natural person or public or private legal entity.
- According to the Labour Law, **enterprises** are constituted by employers who are natural persons or legal entities with one or more workers, regardless of whether they are permanent workers. The division of enterprises into micro, small, medium, or large enterprises shall be in accordance with the criteria set out in the Announcement No. 36 of the Office of the Council of Ministers, dated 21 January 2021, on the Result of the 2nd SMEs Promotion Policy Committee Meeting.
- According to the Law on Social Security, **the self-employed** refers to persons who perform their own jobs or occupations, uninvolved with wages or salaries provided by employers or state by employment contracts, and do not employ workers for their own job or occupational activities.

**ANNEX 3. ACTION PLAN OF THE NATIONAL STRATEGY ON THE DEVELOPMENT
OF THE INFORMAL ECONOMY 2023-2028**

No.	Key Measures	Ministries-Institutions	Timeframe
I. Define, Modify, and Set up Mechanisms to Facilitate Access to the System			
1	Monitor the development of the informal economy and review the necessity to expand or narrow priority sectors and types of businesses, occupations, and jobs identified in Annex 1 of this National Strategy	- MISTI	2023-2024
2	Formulate a sub-decree to determine principles, contribution rates, criteria and procedures for the registration of the self-employed at the NSSF for healthcare scheme	- MLVT - NSSF	2023-2024
3	Verify the information of enterprises and establishments already registered on CamDX to strengthen compliance with NSSF	- NSSF - MEF	2023-2024
4	Integrate the registration system of NSSF for enterprises, establishment, workers, employees, and the self-employed into the integrated system of MLVT on CamDX, complying with “The Once-Only Principle”	- MLVT - NSSF - MEF	2025-2026
5	Establish National Business Registry Database	- Ministry of Commerce - MEF - Ministry of Planning - MLVT - Relevant Minsitries-Institutions	2025-2026
6	Develop a single portal and hook to CamDX for business permits in priority sectors at the sub-national administration, tax registration, and registration at the Department of Labour and Vocational Training, including NSSF, by streamlining procedures and cutting time and costs	- Ministry of Interior - Ministry of Commerce - GDT of MEF - MLVT - NSSF - MISTI - MEF - Sub-National Administration - Relevant Minsitries-Institutions	2025-2026

7	Develop technical forms and procedures for the delivery of services to have a common standard of practices at the sub-national administrations through the One Window Service Mechanisms	- Ministry of Interior - Relevant Minsitries-Institutions	2027-2028
8	Regularly compile data on the informal economy, by verifying with relevant ministries-institutions to ensure the accuracy of the data, to improve understandings and to be able to revise or introduce new action plans	- Ministry of Planning - MLVT - Relevant Minsitries-Institutions	Every three years
II. Reduce Compliance Burden			
1	Provide exemption from all penalties in 2023-2028 for past non-compliance to pave the way for enterprises in the informal economy to transition and start new businesses in the formal economy without concerns	- Ministry of Commerce - MLVT - MISTI - Sub-National Administration - MEF - Relevant Minsitries-Institutions	2023-2024
2	Provide tax incentives to micro enterprises for voluntary registration in 2023-2028, by waiving fees for tax registration and update of information	- GDT of MEF	2023-2028
3	Provide tax incentives for small enterprises for voluntary registration in 2023-2028, by waiving penalties and debts for past non-compliance before registration, fees for tax registration and update of information, and income tax, prepayment on income tax and minimum tax for two years after registration	- GDT of MEF	2023-2028
4	Provide tax incentives for medium enterprises for voluntary registration in 2024-2025, by waiving penalties and debts for past non-compliance before registration and income tax, prepayment on income tax, and minimum tax for two years after registration	- GDT of MEF	2024-2025
5	Provide tax incentives for SMEs for voluntary registration in 2024 or 2025, by waiving the patent tax for two years after registration	- GDT of MEF	Two years period

6	Reduce fees for registration for the opening of enterprises, registration of payroll, and registration of enterprise/establishment ledger for enterprises with less than eight workers	- MLVT	2023-2024
7	Strengthen the self-inspection mechanism and implement an inter-ministerial inspection group at the national level to ensure the joint inspection is implemented simultaneously and once a year	- MLVT - Relevant Ministries-institutions	2023-2024
8	Organize joint inspections simultaneously and only once a year at the sub-national level for all enterprises that have or have not registered or requested other licenses or permits	- Sub-National Administration - Ministry of Interior	2023-2024
9	Develop regulations, frameworks, and mechanisms to provide a legal status, with benefits such as exemption from administrative fees for five years, to Micro and Small Enterprises	- MISTI - MEF - Ministry of Commerce - GDT of MEF - Sub-National Administration - Relevant Ministries-institutions	2023-2024
III. Provide Protection and Support to Those Who Have Entered the System			
1	Expand and strengthen the coverage of the Health Equity Fund to vulnerable households and other target groups in the informal economies	- National Social Protection Council - MLVT - NSSF - Ministry of Health	2023-2024
2	Strengthen the mechanism to provide maternity supports to female workers-employees both in formal and informal economies, commune/sangkat council members, village chiefs, vice chiefs and village assistants	- MLVT	2023-2024

3	Expand the coverage of healthcare benefits to the dependents of NSSF members	<ul style="list-style-type: none"> - National Social Protection Council - NSSF - Ministry of Health 	2023-2024
4	Continue to push for the formulation of regulations and working conditions in accordance with the context of MSMEs and development in the employment sphere, particularly, the types of works that can be carried out remotely or via IT platform	<ul style="list-style-type: none"> - MLVT 	2025-2026
5	Develop an information technology system and QR Code on Health Equity Cards and NSSF Cards, that can be scanned to access information of identification and medical history through the development and the implementation of Electronic Medical Records (EMR) System	<ul style="list-style-type: none"> - National Social Protection Council - Ministry of Health - Ministry of Planning - NSSF 	2025-2026
6	Ensure consistency, harmonization, and interoperability between data management systems of the Health Equity Fund of, NSSF and public and private health facilities	<ul style="list-style-type: none"> - National Social Protection Council - Ministry of Health - Ministry of Planning - NSSF 	2025-2026
7	Develop an evaluation framework for the capacities of public and private health facilities to improve service delivery in the social healthcare system	<ul style="list-style-type: none"> - National Social Protection Council - Ministry of Health - NSSF 	2025-2026
8	Conduct a feasibility study on the implementation of the pension scheme for those in the informal economy who are neither poor nor vulnerable – including vendors, people involved in self-employed activities, and so on – under existing mechanisms, in order to provide old-age protection mechanisms to all citizens	<ul style="list-style-type: none"> - MLVT 	2025-2026
9	Conduct a study on the development of registration mechanisms and frameworks to provide legal status to street vendors with various benefits at the sub-national level, by starting with the development of a pilot project	<ul style="list-style-type: none"> - Ministry of Interior - Sub-National Administration - Relevant Ministries-institutions 	2024-2028

IV. Build Capacities and Provide Support to Those Who Have Entered the System			
1	Launch and promote the implementation of C1 technical and vocational training programs at TVET Institutes for youths from poor and vulnerable households across the country at public	- National Social Protection Council - MLVT - Relevant Ministries-institutions	2023-2024
2	Design incentive schemes for enterprises registered into the formal economy, through the provision of training to workers-employees, using the Skill Development Fund and Entrepreneurship Development Fund	- MEF	2023-2024
3	Create small-loan projects in the SMEs Bank and Agricultural and Rural Development Bank for MSMEs that have registered into the formal economy have access to finance	- SME Bank - Agriculture and Rural Development Bank	2023-2024
4	Promote access to technical and vocational training, through the preparation and implementation of the recognition of previous learning and of current competency	- MLVT	2023-2024
5	Promote financial literacy through public dissemination and general education	- National Bank of Cambodia	2023-2024
6	Encourage self-employed individuals and SMEs to open saving accounts and use official financial services	- National Bank of Cambodia	2025-2026
7	Develop an easy-to-access, cost-efficient, and effective payment system to improve access to financial services	- National Bank of Cambodia	2025-2026
8	Promote the use of financial services among women	- National Bank of Cambodia	2025-2026
9	Expand certificate-based skill training programs and skill bridging programs to provide opportunities for students who have dropped out and workers who are working to continue studying in the TVET system	- MLVT	2025-2026
10	Develop and implement human resource training programs for skilled workers to work across the region	- MLVT	2027-2028
11	Expand and strengthen the scope of the National Employment Agency	- MLVT	2027-2028
V. Expand and Strengthen Outreach, Raise Awareness and Promote Participation			
1	Develop a website to explain and disseminate policies and strategies of the Royal Government, as well as the benefits of entering the formal economy	- MISTI	2023-2024

2	Expand and strengthen the capacities and effectiveness of broad and targeted dissemination at both national and sub-national levels about registration procedures, costs, benefits of registration, compliance obligations, as well as other supports and incentives	- Ministry of Interior - Ministry of Commerce - GDT of MEF - MLVT	2023-2024
3	Encourage the participation of national and international associations, development partners, and especially the private sector, in promoting people doing businesses and working in the informal economy to transition into the formal economy	- MISTI - NSSF - MEF - Sub-national administration - Relevant ministries-institutions	2023-2024
4	Attract the participation of those in the formal economy, especially large enterprises, in supporting and contributing to the implementation of this National Strategy	- All relevant ministries-institutions	2023-2024
5	Encourage the establishment of an autonomous coordination mechanism to represent the informal economy and promote the establishment of the federation of the informal economy to promote dialogues and participations of people doing businesses and working in the informal economy in policy formulation	- MISTI	2023-2024
6	Improve the capacities of NSSF officials to strengthen the quality and effectiveness in leading and delivering services and the mechanism to provide information to the public	- MLVT - NSSF	2023-2024
7	Promote access to information regarding starting a business, in particular, by expanding the scope of business.gov.kh	- Techno Start-Up Centre - Relevant ministries-institutions	2025-2026
8	Research, evaluate, and disseminate the impacts of the transformation of informal business activities on job creation, income, and productivity	- MLVT	2025-2026

