



Partnership Ready Cambodia: The construction sector

Current situation

The construction industry has experienced strong growth since Cambodia opened up to foreign investment in the 1990s. Along with garments, rice and tourism, the construction sector is one of the four pillars of the country's economy. In 2017, it accounted for 9% of GDP. Domestic investment in the sector has been increasing at a rate of 12% over the last four years. Since the year 2000, Cambodia's Ministry of Land Management, Urban Planning and Construction (MLMUPC) has approved 43,136 construction projects on a total land area of 114 million square metres. The estimated investment capital of these construction projects is more than US\$43 billion. Most of the investment comes from foreign countries, mainly China, South Korea, and Japan. However, there is growing interest from European and American companies too.

The Cambodia Industrial Development Policy 2015-2025 recognises the construction sector as an important driver for economic growth. It prioritises the manufacturing of construction materials. The government's strong commitment to promoting tourism also results in the construction of new roads, airports, hotels and restaurants. Construction activities are spreading beyond the major urban centres such as Phnom Penh, Kandal and Siem Reap towards the coastal provinces of Sihanoukville and Koh Kong. Construction investment in the provinces bordering Thailand and Vietnam is also on the rise.

Cambodia is rehabilitating and upgrading its infrastructure with the help of international donors. The Japanese Government, the World Bank, the Asian Development Bank (ADB), and the Chinese Government are active in road, bridge, railway and airport construction. Large scale projects are often offered as Build-Operate-Transfer concessions.





List of large ongoing or planned infrastructure projects in Cambodia

Project description	Amount in US\$ millions	Major source of funding
Phnom Penh New International Airport	1,500	China Development Bank
Siem Reap New International Airport	1,000	China
Koh Kong International Airport	500	China
Expressway from Phnom Penh to Preah Sihanouk (190 km)	1,900	China
New National Stadium & Sport Complex, Phnom Penh	170	China Aid (grant)
Water Supply and Sanitation Improvement Project	55	World Bank
Second Road Asset Management (incl. road improvement)	110	World Bank
Rural Roads Improvement Project III	120	ADB
Provincial Water Supply and Sanitation Project	109	ADB
Road Network Improvement Project	70	ADB
75 project proposals identified under the National Logistics Masterplan for Cambodia	1,900	n.d.

At the moment, only basic construction materials with low-added value are produced in the country while modern products with higher added-value are imported. Cement, clay bricks, cement blocks, timber, sand, gravel and fabricated metal products are sourced in Cambodia. Recently, a glass processing company and a concrete roof tile manufacturer started operations there. Most other semi and high-end construction materials are imported from Thailand, Singapore, Malaysia or China. This leads to higher construction costs compared with neighbouring countries.

Most construction workers are currently unskilled and learn while working on site. Some public vocational training centres aim to provide education for construction workers, but they face difficulties because of their limited budget. Renowned vocational training centres are often initiated and run by NGOs such as Don Bosco Technical School. They provide training for specific fields (e.g. brick work, welding, roofing, etc.) that run for between one and two years and use classroom lectures and practical sessions conducted in their own workshops. In contrast to higher education, which is largely commercialised, vocational training is provided almost solely by NGOs and the government. Very few companies in the sector have started in-house training programmes to improve the labour skills of their own workers. Comin Khmère, a well-known provider of integrated mechanical and electrical engineering solutions for buildings, runs its own vocational training courses for technicians.

Most new residential building developments target foreign investors and the middle and upper class. To address the need for affordable housing, the Cambodian Government approved a new National Housing Policy in 2014. Under this policy, the government is creating the framework conditions that are necessary to foster the construction of affordable housing, in urban areas in particular. It is estimated that 800,000 low-cost urban homes need to be built by 2030 to meet demand. The first registered affordable housing project from WorldBridge Group will add about 2,300 two-storey units priced between US\$ 25,000 and US\$ 30,000. It targets families with a monthly income below US\$ 500. Another project developed by Bun Ches Group consists of 5,340 units that start at US\$ 23,000 per unit.

Rental cost depending on the building type and location in Cambodia 2018

Building type	Location	Rental cost per month (US\$/m ²)
Office	Prime areas	15 – 25
	Secondary areas	8 – 13
Ready-built factory	Prime areas	1.20 – 1.50
	Secondary areas	1.00 – 1.20
Warehouse	Industrial zone	1.00
	Others	1.00 – 1.50
Apartment	High-end	22
	Mid-tier	13
	Mass market	7

Players, laws and regulations

There are two ministries involved in regulating the construction market. The Ministry of Public Works and Transport (MPWT) regulates and administers public works and transport infrastructure. MLMUPC governs land use, urban planning and construction projects.

The construction sector in Cambodia is rather underregulated. Laws and regulations are new and are often not effectively enforced. Cambodia still has no National Building Code. The ministry (MLMUPC) is drafting a code that will define construction standards, building quality, security and safety issues. However, it seems very unlikely that it will be adopted in the near future. Therefore, planners use building codes from other countries to ensure the quality and safety of construction. The 'National Standard Book on Fire Safety Systems – Building Design Code' entered into force in August 2019. It applies to the construction of new buildings, extensions and the refurbishment of existing buildings.

→ CONSTRUCTION PERMITS AND BUSINESS LICENCES

The most important regulation in the sector is Sub-Decree (Anukret) No. 86 on Construction Permits (1997). New constructions, reconstructions, major renovations, extensions, and floor additions of existing buildings need a construction permit. Small dwellings in rural areas or places far from highways are not subject to Sub-Decree No. 86. No construction permit can be issued if the project is not compliant with the master plan, land use plan, or general land use rules. In practice, land use planning is still limited. Only Phnom Penh and Battambang have a land use master plan in place, and enforcement is weak. Investors who wish to develop a land or building project can get information on land use rules and other relevant bye-laws from the local authority, i.e. Sangkat or commune office.

Building projects of less than 3,000 square metres in total floor area require a construction permit from the provincial and municipal administration while larger developments are approved by the MLMUPC. Project developers must submit a standard application





form along with supporting documents such as design plans to the responsible agency. The process may take 30 days, although according to current practice, around 4 to 6 months is more likely. Besides the construction permit, larger projects require the approval of the Environmental Impact Assessment (EIA) by the Ministry of Environment. According to Sub-Decree No. 72 on the EIA Process, this is the case for construction projects with buildings higher than 12 metres or larger than 8,000 square metres, for hotels with over 60 rooms and for restaurants with over 5,000 seats. An accredited consultant needs to prepare the EIA report in accordance with national guidelines.

Municipal and provincial administrations may inspect sites during the construction period. They notify the contractor of any irregularities, which must be remedied within a set period. In case of non-compliance, the authority can order work to be suspended immediately. Compliance control and site inspection are not very effective in practice because the local administration has limited resources and capacities.

Proclamation (Prakas) No. 75 on Management of Blueprint Design and Construction Companies and Enterprises (1999) regulates the business licenses of companies involved in construction. Companies carrying out architectural design or construction activities need a business license from MLMUPC. Natural persons and groups of constructors apply to the authorities at provincial or municipal level. Similarly, Real Estate Developers (REDs) need a business license according to Proclamation (Prakas) No. 1222 on Real Estate Development Business Management (2009). A RED license is required for developments of at least four units. It is issued by the Ministry of Economy and Finance (MEF). Without a RED license, developers may not advertise sales or start pre-sales activities. The same regulation also lays down rules on developers' deposit and account processes in order to protect buyers if the project fails.

→ TAXES, REGULATIONS AND INCENTIVES FOR INVESTMENTS

All immovable property, which includes land, houses, buildings and other improvements built on the land, is subject to 0.1% annual tax determined by the market price. 10% value-added tax applies to the sale of new buildings (not land). For transfers, a 4% tax rate applies to registration of the immovable property; this includes transfer of ownership for buildings, condominiums and other improvements. A 10% withholding tax applies to rental income. This tax is calculated based on the lease agreement between the lessor and lessee.

Cambodia opened the real estate market for foreign investment in 2010. Foreigners may own residential or commercial properties that are not on the ground floor. Land ownership is reserved for natural and legal Cambodians although foreigners can lease land long-term (up to 50 years with an optional renewal of another 50 years). In addition, foreigners can have a 49% share in a Cambodian company that owns land. Sub-Decree No. 126 on the Management and Use of Co Owned Buildings (2009) regulates the strata title conversion of co-owned buildings. Strata titling can occur once structural construction work is complete and can take up to 6 months. These titles allow foreign ownership of up to 70% of the co-owned building (units must not be on the ground floor).

The construction boom is being driven by low labour costs, increasing demand for infrastructure and attractive financial and regulatory incentives for Foreign Direct Investment. Companies can apply for Qualified Investment Project (QIP) status provided that the investment meets the following minimum requirements:

Minimum requirements of real estate development that may qualify for QIP

Project type	Minimum requirement
Trade Exhibition, Conference Centre	US\$ 8 Mio
Retail or market	Floors are 10,000 square metres
Hotel	3-Star
Resort	100 rooms
Natural Tourism Site	1,000 hectares
Resort complex (includes tourism facilities)	50 hectares



Business opportunities

Cambodia's construction sector offers a variety of business opportunities for German and other European companies. There is broad scope for international involvement due to limited domestic expertise. The government's strong push to develop the tourism sector and weak existing infrastructure provide many opportunities for growth.

Infrastructure development creates increasing demand for construction equipment including earthmoving, tunnelling, building and road construction machines. At the moment, this market is dominated by Chinese suppliers, and there are only a few non-Asian suppliers. This is because local investors who start construction operations have limited capital. They buy cheaper equipment from China to start. After a few years of profitable operations, they prefer to buy high-quality products from Europe because the equipment is more durable.

There are also business opportunities for smart and efficient cooling and ventilation, electrical and lighting systems, automated shading devices, alarm and security systems. The introduction of new building software solutions such as Building Information

Modelling (BIM) represents another opportunity for European businesses. The use of pre-cast concrete building elements offers great potential for speeding up the construction process, making it more efficient and cheaper. Building material machinery and engineering services are needed to set up such production facilities. German expertise in modular building methods could also address the shortage of affordable housing. Prefabricated houses can be produced quickly and to scale without compromising on quality. Global trends indicate that Asian developing countries will dominate global demand for prefabricated housing.

Producing building materials locally can be cheaper because of low labour costs and savings in transportation. When introducing new modern building materials on the market, building professionals and construction workers need to be trained to ensure proper application and high quality finishes. A booming, modern construction sector needs more professional design and engineering service providers. The local community of service providers has grown over the last decade. However, the quality of services is limited because engineers and architects lack the required qualifications. Many large-scale projects are still designed and executed from offices abroad. Multinational design and engineering companies rarely have operations in Cambodia. Some offer services from their offices in neighbouring countries.





Construction-related government tenders are published by the MEF on the public procurement web portal. Here, tender documents are only available in the Khmer language. Tenders for construction projects financed by donor organisations such as ADB or the World Bank are published on the respective donor's procurement website. DailyBids is a commercial web service for tenders and project information from NGOs and from public and private entities. Some organisations publish their tender documents in English. CambodiaTenders is another tender and consultancy service that specialises in public procurement. Here, general bidding information is available in English. The 'Cambodia Construction' app can be downloaded on Google Play and in the App Store. It provides the latest news and information on construction projects, companies, materials pricing, laws, construction regulations and standards, and on architects.

The Cambodia Constructors Association (CCA) is an umbrella organisation for companies in the sector. It has about 150 members. CCA organises the Cambodia Construction Industry Expo, the country's largest sector specific trade fair. A private sector association called Cambodia Society of Architects organises the Cambodia Architect & Décor trade fair every year. The Board of Architects and the Board of Engineers are state-run institutions that aim to safeguard professionalism and intellectual property rights in the sector.

Sector-specific know-how from Germany

The INROS LACKNER SE founded a consultant firm in Phnom Penh in 2002. The firm is one example of successful German engagement in the Cambodian construction sector. It provides services ranging from feasibility studies through all design phases to construction supervision. Their comparative advantage lies in their ability to combine local expertise and international engineering know-how. The company specialises in civil and structural engineering design. They also offer architecture design services together with their regional office in Vietnam. More German and other European companies could follow this example.



Practical information and sources:

SECTOR STAKEHOLDERS

- Council for Sector-specific know-how from Germany (CDC)
www.cdc-crdb.gov.kh
www.cambodiainvestment.gov.kh
- Ministry of Public Works and Transport (MPWT)
www.mpwt.gov.kh
- Ministry of Land Management, Urban Planning and Construction (MLMUPC)
www.mlmupc.gov.kh
- Department of Customs (for import issues)
www.customs.gov.kh/import/
- EuroCham
www.eurocham-cambodia.org
- Cambodian Valuers and Estate Agents Association
www.cvea.org.kh/en
- Board of Engineers
www.bec.gov.kh
- Board of Architects
www.facebook.com/Board-of-Architects-Cambodia-BAC-663791617003463/
- Cambodia Society of Architect
www.csacambodia.org

TRADE FAIRS

- Cambodia Construction Industry Expo
www.cambodiaconstructionexpo.com
- Cambodia Architect & Décor Expo
www.cambodiaarchitectdecor.com
- CamBuild
www.cambuildexpo.com

TENDER INFORMATION

- Public Procurement Portal
www.gdpp.gov.kh
- DailyBids
www.dailybids.com.kh
- CambodiaTenders
www.cambodiatenders.com
- Asian Development Bank (ADB)
www.adb.org/projects/tenders
- World Bank Group
www.worldbank.org/en
- UN Global Market Place
www.ungm.org/Public/Notice



YOUR PARTNER FOR DEVELOPMENT COOPERATION

Economic growth creates jobs, improves people's incomes, and promotes innovation. That is why the United Nations 2030 Agenda provides for the active involvement of the private sector in the implementation of the Sustainable Development Goals (SDGs). The Global Business Network (GBN) Programme encourages local and German companies to get involved in sustainable economic development in selected countries in Africa and Asia. Via Business & Cooperation Desks the GBN-Coordination provide information, advice and guidance for businesses on existing support, financing and cooperation instruments of German development cooperation. The GBN-Coordination work closely with the German Chamber of Commerce Abroad (AHK) regional offices. The GBN is funded by the German Federal Ministry for Economic Cooperation and Development (BMZ) and implemented by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH.

www.bmz.de/gbn



NEW MARKETS – NEW OPPORTUNITIES: CAMBODIA

In order to support the sustainable engagement of German companies in emerging and developing countries, Germany Trade & Invest (GTAI), Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH and the German Chambers of Commerce Abroad (AHKs) as well as other partners combined their expertise in the publication series "New Markets – New Opportunities".

The booklet shows companies the economic potential of future markets as well as the funding and consulting opportunities offered by the German development cooperation. "New Markets – New Opportunities: A Guide for German Companies" is supported by the Federal Ministry for Economic Cooperation and Development (BMZ). All issues are published on the websites of GTAI and GIZ. You can find selected issues, for example on Cambodia also at

www.bmz.de/ez-scouts.



Published by:



In Cooperation with:



Published by

Deutsche Gesellschaft für
Internationale Zusammenarbeit (GIZ) GmbH

Registered offices
Bonn and Eschborn, Germany

Dag-Hammarskjöld-Weg 1–5
65760 Eschborn, Germany
T +49 6196 79-0
F +49 6196 79-11 15
info@giz.de
www.giz.de

Project

Global Business Network (GBN) Programme

Author

Dr. Susanne Bodach
T +855 12 856174
susanne@ecothinking.de

Layout

www.w4gestaltung.de

Photo credits

© GIZ / Susanne Bodach

As at

Eschborn, November 2019

URL-links

Responsibility for the content of external websites linked in this publication always lies with their respective publishers. GIZ expressly dissociates itself from such content.

GIZ is responsible for the content of this publication.

On behalf of

German Federal Ministry for Economic
Cooperation and Development (BMZ)

Division

Division 110
Cooperation with the private sector, sustainable
economic policy
Berlin



Federal Ministry
for Economic Cooperation
and Development