

## Signing Japanese ODA Loan Agreement with the Royal Government of Cambodia --Supporting Development of Special Economic Zone to Promote Foreign Direct Investment--

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1. Japan Bank for International Cooperation (JBIC; Governor: Koji Tanami) will sign on March 31 at Phnom Penh an ODA loan agreement totaling up to 3,651 million yen with the Royal Government of Cambodia to finance the Sihanoukville Port Special Economic Zone Development Project.
2. In this project, a 70 hectare-sized Special Economic Zone (SEZ) will be developed adjacent to the Sihanoukville Port, the only international deep sea port in Cambodia, the development of which was financed by Japanese ODA loans. The proceeds of the loan will be applied to the development of industrial land, roads, water supply and sewerage treatment facilities and consulting services that include construction supervision and assistance for investment promoting activities. JBIC provided a Japanese ODA loan (318 million yen) in FY2005 for engineering services required for the detailed design of this project.
3. After acceding to WTO in October 2004, Cambodia has been actively developing the legal framework for investment promotion. Investment has increased by approximately 19 times over the past five years (from US\$238 million in 2002 to US\$4,415 million in 2006 on approval basis). Despite this progress, the volume of investment still remains small, as it is only one 10th of that in the neighboring Vietnam. Further, the high percentage of the younger generation in its population also indicates the necessity of the employment creation by increasing direct investment inflows that will boost private-sector activities. It is for these reasons that the Royal Government of Cambodia, following the successful practices in the neighboring Asian countries, is planning to develop SEZs to promote foreign investments, that will help diversify Cambodian industry that has been centered on apparel manufacturing, and to further invite foreign investors to Cambodia as an investment destination. In addition, the signing of the Japan-Cambodia Investment Agreement<sup>[1]</sup> in June 2007 has directed an increasing attention by Japanese firms to invest in Cambodia and they are requesting for the urgent improvement of investment climate in Cambodia.
4. Considering the above-mentioned circumstances, JBIC has provided Japanese ODA loan assistance for the development of infrastructure, including this SEZ development project and the power transmission and distribution construction project that aimed at reducing high electric utility rate, as it is an obstacle to investment.<sup>[2]</sup> JBIC also supports the development of the legal and institutional framework for improving the investment climate.<sup>[3]</sup> Specifically, one-stop service, which enables one window to handle all the procedures including investment permission, will be introduced to all the SEZs and the electronic customs clearance system will be adopted, which will lead to the increased transparency and efficiency of customs clearance and trading procedures.
5. JBIC will continue to provide multifaceted support for improving the investment climate and invigorating economic activity in Cambodia through a combination of assistance to infrastructure development and policy and institutional improvement. With these efforts, JBIC is seeking to reduce poverty by creating employment opportunities through private sector development.

(Click here for details.)

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[1] Its official name is the Agreement between Japan and the Kingdom of Cambodia for the Liberalization, Promotion and Protection of Investment.  
(<http://www.mofa.go.jp/region/asia-paci/cambodia/agree0706.pdf>)

[2] JBIC provided a Japanese ODA loan to finance the Greater Mekong Power Network Development Project (Cambodia Growth Corridor) (2,632 million yen) in March 2007.

[3] JBIC provided a Japanese ODA loan to finance the Poverty Reduction and Growth Operation (PRGO) (1 billion yen) in October 2007.

## Reference

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### 1. Loan Amount and Terms

Project Name	Amount (Mil. Yen)	Interest Rate (% per annum)	Repayment Period/ Grace Period(Years)	Procurement
Sihanoukville Port Special Economic Zone Development Project	3,651	0.01%	40/10	General Untied

### 2. Project Executing Agency

Council for the Development of Cambodia

Address: Government Palace, Sisowath Quay, Wat Phnom, Phnom Penh, Cambodia

Tel: 855-23-981-154 Fax: 855-23-428-426

Port Authority of Sihanoukville

Address: Sihanoukville City, Cambodia

Tel: 855-34-933-917 Fax: 855-34-933-693

### 3. Political and Economic Conditions

After years of civil conflict, the 1991 Paris Peace Accords paved the way for the establishment of the Royal Government of Cambodia in 1993. Although there was a factional fighting in 1997, the political situation has remained relatively stable since the new administration was formed under Prime Minister Hun Sen in 1998. Cambodia has been swiftly taking steps for making the transition from a planned to market economy and for integrating its economy into the international economic system by formally joining the Association of Southeast Asian Nations (ASEAN) in April 1999 and the World Trade Organization (WTO) in October 2004. The country has thus firmly returned to the international community.

On the economic front, the Cambodian economy has recorded robust growth rate between 6% and 10% in the past few years. However, its per capita GDP of US\$512 is in the lowest group among ASEAN member countries, and the proportion of people living below the poverty line remains at 35% in 2005. Additionally, as the younger generation makes up a large percentage of the population, more than 250,000 workers are expected to enter the labor market each year until 2010. Therefore, generating employment opportunities through private-sector development is one of the urgent challenges for poverty reduction and social stability.