

## **Preliminary Assessment Summary**

### **Prakas on Procedures and Formalities for Establishment of Factory and Handicraft**

**Ministry** : **MIME**  
**Ref no** : **000015**  
**Date finished** : **10 May 2013**

The regulation requires that the setting-up of factories-handicrafts in Cambodia request for approval from MIME (ministry of industry, mines and energy) or register at municipal/provincial department of industry, mines and energy before starting its operation (except for factories and handicraft which are under the ministry of health and ministry of agriculture, forestry and fishery).

The ministry will provide guideline for registering handicraft, give permission to factory to legally and quickly setting up the factories, provide exemption for small size handicraft from the registration as well as to collect only data avoiding setting up and producing that is not abide by the law especially for protecting public health and environment.

Proposed regulation (Prakas/1<sup>st</sup> Option) was compared with another option(2<sup>nd</sup> Option), which requires business owners to notify MIME/DPMIME when establishing factories/handicrafts (no need to apply for a license) and their production line shall comply with technical guidelines set by MIME. Further notification to MIME/DPMIME is required when finishing installation of the production line. MIME/DPMIME will inspect the factory based on the guidelines. The factory can begin operation before inspection if there is no inspection within one week.

After the assessing each option by examining the compliant cost and benefit and consultation, regulation (Prakas) was chosen. The cost, which incurred by the Prakas and the other option (Notification) are considered as insignificance comparing to the business revenues and the government budget allocation to MIME. However, the benefit of Prakas is much larger comparing to the other option. Noticeably, after the consultation with some key implementers of this Prakas, a few points are required updating; for instance, the list of product.

## Preliminary-Assessment

**Prakas : Procedures and Formalities for Establishment of  
Factory and Handicraft.**

**Ministry of Industry, Mining and Energy**

**Reference no : 000015**

**Date started : 03 December 2012**

**Date finished : 10 May 2013**

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### **A brief description of the proposal**

This Prakas requires all factories and handicrafts in Cambodia to apply for permission from the Ministry of Industry, Mines and Energy (MIME) or municipal/provincial department of industry, mines and energy (DPMIME) before starting its operation. The owner of the factories and handicrafts is required to provide report to the ministry to apply for license for operation. This PRAKAS requires legal entity or natural person fulfill the requirement of ministry of industry, mines and energy as following :

- Set up the factories and handicraft in conformity to the law on the Administration of factories and handicraft
- Define the capital of the factories-handicrafts and production scale
- Indicate the production line of the factories-handicrafts
- Follow the technical requirement to ensure a quality product of the factories-handicraft avoiding producing fake product or damaging to the environment.
- Arrange the disposal of exceed or chemical waste by using appropriate technique.

This Prakas aims to facilitate establishment of factories and handicrafts as well as to efficiently manage the impacts of factories and handicrafts.

The regulation is called the first option within the whole process of the preliminary assessment.

**Is this proposal regulatory in nature? Yes**



- Law  
 Royal Decree  
 Sub-Decree  
 Prakas

- Decision  
 Circular  
 Other (describe

Does this proposal impact on business?      Yes

## 1. Problem – Why are we making this regulation?

| Common themes            |     | Evidence  |
|--------------------------|-----|---|
| Public health and safety | Yes | <p>Factories-handicrafts can potentially involve hazards which may endanger human health and safety both for workers in the factories-handicrafts and the surrounding residents.</p> <p>The production processes, wastes and even the product produced by the above factories-handicrafts can have impacts to the health and safety of the workers, nearby residents and consumers.</p> <p>Factory-handicraft owners are not motivated to control these factors to the extent that they are “externalities” that affect third parties, such as nearby residents. Even for a factory’s own workers, the owner may not be motivated to control a hazard if the costs are borne by the workers and it does not immediately affect their productivity, as in the case of long-term health effects which only become apparent at a later time.</p> <p>Also a lack of knowledge (about techniques for reducing hazards/risks) among factory owners/managers means they may not adequately address the hazards.</p> <p><u>Evidence</u></p> <p>Selected factory/handicrafts worker injury and fatality statistics, 2009:</p> <ul style="list-style-type: none"> <li>▪ 2,771 injuries and 14 fatalities in garment manufacturing;</li> <li>▪ 27 injuries in beer production;</li> <li>▪ 9 injuries in food production;</li> <li>▪ 6 injuries in cable production;</li> <li>▪ 5 injuries in roof tile production;</li> <li>▪ 216 injuries and 2 fatalities in shoe production;</li> <li>▪ 4 injuries in paper production;</li> <li>▪ 12 injuries in weaving.</li> </ul> <p>(Source: The Overview of Occupational Safety and Health in Cambodia, Department of Occupational Health and Safety Ministry of Labour and</p> |

|   |     |   |
|---|-----|---|
|   |     | Vocational Training, Cambodia, 2011<br><br><a href="http://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---safework/documents/policy/wcms_187746.pdf">http://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---safework/documents/policy/wcms_187746.pdf</a>  |
| Environmental protection & conservation       | Yes | Emissions of smoke, smell, solid and liquid waste from factories-handicrafts have the potential to cause damage to the environment.<br><br>As in the case of public health and safety noted above, environmental damage is a common economic externality of factory-handicraft operation.<br><br><u>Evidence</u><br><br><ul style="list-style-type: none"> <li>• In August 2009, a plant (name withheld) was shut down because of a toxic release into a local river, killing more than 63 tons of fish. Initial water testing revealed elevated level of ammonia and lower oxygen level.</li> <li>• 2009 Report, water polluters: <ul style="list-style-type: none"> <li>- From food processing industry: 60%</li> <li>- From textile industry: 25%</li> </ul> </li> </ul><br>[Information taken from PA on chemical registration] |
| Social, gender equity & cultural conservation | No  |   |
| Promote competition                           | No  |   |
| Collection of information                     | Yes | Lack of Information on factories-handicrafts is difficult for MIME to control and classify them according to risk and appropriately manage the hazards they pose to public health and safety, and the environment.  |
| Comply with WTO and international agreements  | No  |   |

**If there is any other problem, describe and provide evidence**

None



### **State how the regulation will improve the situation**

- Reduce the risk on public health & safety and environment from the production process which did not follow the technical requirements.
- Improve administrative process so that the setting up of the factories-handicraft can be made faster.
- Provide clear guideline to national level and sub- national level officials about the registration of handicrafts and issuing license.
- Provide exemptions to small size handicrafts from registration.
- Motivate the owners of the factories-handicrafts who comply with the law.

## **2. Objective – What do we want to achieve?**

With the overall purpose of minimizing the harmful impacts, as far as reasonably practicable, of factories and handicrafts on public health and safety, the environment and factory workers, the objective is to:

- Facilitate the quick establishment of factories and handicrafts
- Efficiently manage the impacts of factories and handicrafts

## **3. Options**

### **3A List any (existing) regulations that are related or similar?**

1. Law on the Administration of factory and handicraft.
2. Prakas on procedure and formality for investment.
3. Prakas on Procedure for implementing regulations on factory and handicraft's operation

State why these regulations are inadequate?

1. Law on the Administration of factories and handicrafts states only the principle for regulating factories and handicraft, which considered as too general to apply in reality.
2. Prakas on Procedure and formality for investment mainly concentrates on the investment firms or projects, which required the certification from CDC. The firms need to meet a certain criteria before being certified as the investment firm. Those are large firms in general and only those firms are under this Prakas. Small and Medium Industries and Handicraft, including some other large firms which are not being certified as the investment firms, are not under this Prakas.
3. This Prakas is mainly focus on operation and follow-up requirements for the factory after they got the license from the Ministry; for example, reports and the kind of orders from the ministry to the factory and handicrafts.

## Alternatives

### 3B Feasible alternatives (for impact analysis)

Other means to achieve the objective include :

**Option 2 :** Owners are required to notify MIME/DPMIME using a specific form when establishing factories/handicrafts (no need to apply for a license) and their production line shall comply with technical guidelines set by MIME. Within one week, if MIME has no objection on the form, the business can start building the factory and installing the production line based on the technical guideline. Further notification to MIME/DPMIME is required when finishing installation of the production line. MIME/DPMIME will inspect the factory based on the guidelines. The factory can begin operation if there is no inspection within one week. The factory needs regularly report, depending on size, to MIME/DPMIME.

## 4. Preliminary estimate of compliance costs and competition impacts

### 4-1 Identification of tasks and cost-categories

### 4-2 Scope of the options

Cost categories (4.1) and scope (4.2) are included in the attached spreadsheet, which also includes the estimate of the total cost of options.

### 4.3 Estimate the level of compliance cost increases

| Business          | Level           | Justification (see spreadsheet for details)  |
|-------------------|-----------------|--|
| Option 1          | Non-significant | Total compliant cost is estimated to be around 137 million Riel per year, which means one enterprise needs to spend only 240 thousands riel (around 60 USD) per annum. This amount can be considered as very small if we compare to it to the minimum wage of each worker in Cambodia, 80 USD per month.   |
| Option 2          | Uncertain       | Even though the estimation of total compliant cost of this option turn out to be smaller than that of option 1, it's still uncertain to say whether the cost is significant or not as the cost can vary from case to case, for example, it would be very costly for the factory and handicraft in case the project or the production line does not conform to the technical guideline while the construction and installation are finished and ready to start operation. |
| <b>Government</b> |                 |  |
| Option 1          | Non-significant | Estimated to be about 321 million riel per year, which is less than 0.5% of Ministry's budget.   |
| Option 2          | Non-Significant | Estimated to be about 296 million riel/year, which is less than option 1.  |



#### 4.4 Estimate the level of benefits

| Options  | Level of benefit | Reasons  |
|----------|------------------|--|
| Option 1 | Significant      | <p>Consumers:</p> <ul style="list-style-type: none"> <li>- The risk and hazards of the products can be minimized as they are required to be checked and regularly monitored before entering the market.</li> </ul> <p>Factories:</p> <ul style="list-style-type: none"> <li>- Safety Working Environment for the employees</li> <li>- Assurance the factory's project conformity to the technical requirement</li> <li>- License can be used as the collateral to request for credit from financial institutions.</li> <li>- License is crucial to expand domestically and internationally.</li> <li>- Improve the competitiveness of the factory in terms of product safety and quality</li> <li>- Raise consumer confidence in domestic products</li> </ul> <p>Environment:</p> <ul style="list-style-type: none"> <li>- Enhancing the environmental regulations compliance (Emissions of smoke, smell, solid and liquid waste from factories-handicrafts are managed)</li> </ul> <p>Government:</p> <ul style="list-style-type: none"> <li>- Data of factory and handicraft are more accurately collected, which is useful for several purposes.</li> <li>- Clearly segregate the responsibilities and duties between MIME and DPMIME.</li> </ul> |
| Option 2 | Non-Significant  | <p>By streamlining the procedures and formalities :</p> <ul style="list-style-type: none"> <li>- Shorten the delay time of setting up factory and handicraft</li> <li>- Improve cost effectiveness of the products produced by factory-handicraft.</li> <li>- Investors are likely to be more attracted.</li> </ul>  |

#### 4.5 Is there any competition impact? NO

No significant competition impact for all options.

#### 4.6 Is there any gender impact? NO

No significant gender impact for all options.

## 5. Initial consultation

| <i>Group</i> | <i>Firms</i>      | <i>Method</i> | <i>Summary</i>  |
|--------------|-------------------|---------------|---|
| Governments  | Officials in MIME | Interviews    | Interviews have been done with MIME officials, who are the core implementers of this Prakas 607. The interviews focused on the effectiveness and efficiency of the Prakas during these few years implementation. All of them suggested that the Prakas should be updated on a few points. |

No consultation had been undertaken with the private sector and civil society; however, based on the data from statistic department of MIME some products such as Meat ball, chili sauce, Noodle, and some other products in food and beverages sectors have been rapidly grown and widely used domestically, which may pose a high risk to the Human's health.

## 6. Conclusion

### 6-1: Summary of incremental costs and benefits

| <i>Option</i>          | <i>Costs to the industry</i> | <i>Costs to the public sector</i> | <i>Benefits</i> |
|------------------------|------------------------------|-----------------------------------|-----------------|
| Option 1: Prakas 607   | Non-significant              | Non-significant                   | Significant     |
| Option 2: Notification | Uncertain                    | Non-significant                   | Non-significant |

### 6-2 Is a RIS required?NO

The RIS for this proposal will not be prepared because the assessment of this preliminary assessment is that the impact of the PRAKAS on business cost is not likely to be significant.

### 6-3 Selected option

Based on the assessment and analysis above, option 1, Prakas was chosen as it provides large benefit to the all the stockholders. However, this Prakas should be updated on a few points aiming for enlarge the benefit to the society.



| <b>Criterion</b>   |     | <b>Reason</b>  |
|--|-----|--|
| Is this the least cost option to industry and community? | No  | The PRAKAS cost more than the other option.  |
| Does this option offer the greatest benefit?             | Yes | Prakas provides much larger benefit.   |
| Is this the least risk option to public?                 | Yes | The selected option is likely to be least risky as it enables the government to directly monitor factory and handicraft. |

If any of the answers to the above is *NO* why was the option selected? (*tick one box*)

Combination of criteria was favorable, even though one or two were negative.  
Justify and go to step 7

Although, the cost of option 2 is lower (which is not certain) but the net benefit of option 1 is likely to be higher than option 2, and also the Prakas has the force of law that facilitate enforcement.

## 7. Implementation

### 7.1 What measures were adopted to enhance transparency and good governance during the implementation stage?

Promotion of the Prakas by raising the awareness through seminars and post in the Website.




### 7.2 Should this regulation be reviewed post implementation? If so when and how should it be reviewed?

This Prakas should be reviewed soon to prevent the bad impact of the high risk industry.

### ANY OTHER COMMENTS

Though the prakas is likely to result in net benefits, it can be improved by more consultation with private sector and civil society.

The list of products required applies for a permit from the Ministry should be updated. Regarding this points, some more other products, particularly on food and beverage sector should be included in the Prakas as it also pose a high risk to the consumer's health.

| <b>PROCESS</b>              | <b>Name</b>     | <b>Position</b>       | <b>Signature</b>  | <b>Date</b> |
|-----------------------------|-----------------|-----------------------|---|-------------|
| Prepared by (line ministry) | EAR Sothy       | Vice-chief, JAs, MIME |  | 13.05.13    |
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