

July 2022



Solar Power: A Beacon of Hope for Cambodia

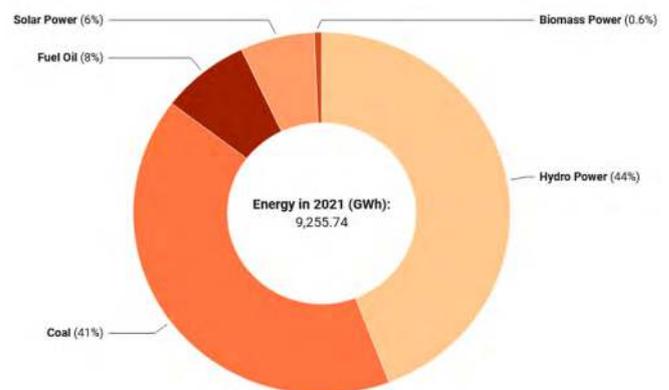
Introduction

When I first visited Cambodia almost 15 years ago on a Humanitarian trip with a Christian NGO, the first thing I noticed upon touching down was how hot it was! When we went out to the rural countryside, we discovered that so many towns, villages and households did not have any form of electrical power at all. It immediately occurred to me that solar power could easily be generated and would be an easy solution to the lack of electricity in this country.

Today, based on energy research, it is without a doubt that Cambodia has great potential for solar power, given its high average of sun hours and solar irradiation per day. This equates to almost six peak sunlight hours a day, and an average solar irradiation of 5.0 kWh per square meter per day during the dry season. (Paul Millar, SEA Globe, October 31, 2019. Access [here](#)). As the world responds to the energy crisis created by global climate changes and oil shortages, the potential for the domestic use and commercialisation of solar power in Cambodia as a form of renewable energy has become even more acute and in demand.

Current Status of Renewable Energy in Cambodia

As of 2021, over 51% of the country’s domestic energy production come from renewable sources. The majority was sourced from hydropower (44.17%), while solar and biomass accounted for around 7%.



Cambodia’s Domestic Energy Supply

Source: [Electricity Authority of Cambodia](#)

The increased adoption of renewable energy in Cambodia is one of Southeast Asia’s success stories, particularly amongst the countries in ASEAN. Thanks to hydropower, Cambodia is in an exclusive club of countries that have a majority share of their energy consumption made up of renewable energy sources. Yet despite this success, many challenges remain.

The Challenges

1. Demand Outstrips Supply

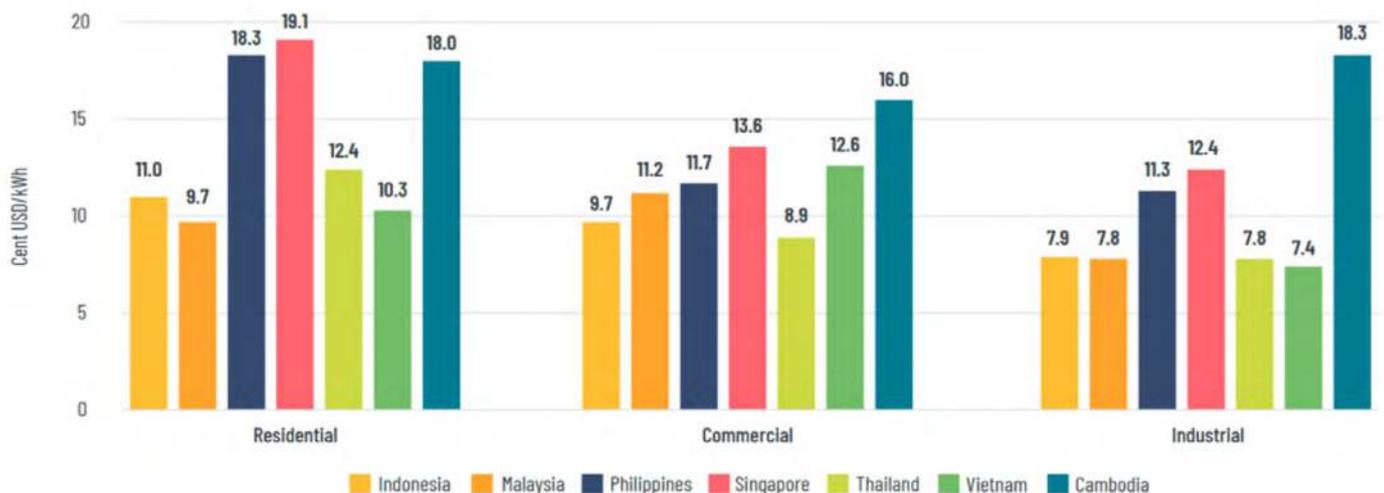
Over the past 15 years, Cambodia has seen rapid population and economic growth and this had led to a tenfold increase in electricity demand. Despite its efforts to increase renewable energy supply the hard truth is it simply cannot meet the demands of the economy and people of the land. This has in fact been recently confirmed by the Ministry of Mines and Energy in its recent Power Development Plan of 2021.

2. Aging Network & System

It is no secret that the country’s electricity network lacks stability and often suffers from power cuts. This can be testified by domestic users and especially by the many hundreds of factories and industrial users. According to the Asian Development Bank (ADB), there has been a substantial lack of investment into the electricity infrastructure of the country, and this was clearly evident in the wide spread power cuts and outages in 2019 that cause a deficit of not less than 400 MW daily, lasting from two to five hours every day and this persisted for the entire hot season that year.

3. Uncompetitive Energy Prices

The cost of electricity is probably the biggest most critical factor. Cambodia suffers from high and often very volatile power costs. Electricity prices in 2020 reached their highest levels in the last 15 years. Overall, compared to its Southeast Asian neighbours, the county’s electricity tariffs are significantly higher and this creates a huge deterrent when companies are deciding where to set up their factories.



Power Tariffs in Major Southeast Asian Economies 2019

Source: *Climate Investment Funds citing ESDM, EIA*



Industry & Regulatory Overview

There is a lack of regulations specific to renewable energy in Cambodia. This means that in general, with the notable exception of solar power, renewable energy producers are dealt with in the same way as those that produce non-renewable power.

The regulatory framework for the energy sector in Cambodia is found in the Electricity Law of 2001, and this sets up two government entities – the Ministry of Mines and Energy (MME) and the Electricity Authority of Cambodia (EAC). The MME has a broad role of setting and administering government policies, strategies and planning in the power sector. The EAC is the essentially the utility board focused on the provision of electricity to the entire country. More importantly, the EAC is responsible for issuing licenses for the supply of electricity and setting tariff rates.

In addition, the Ministry of Environment is responsible for regulating environmental issues, including any environmental impact arising from all types of energy projects. In relation to investment, economic and financial incentives, the Council for the Development of Cambodia plays a key role in granting investment incentives to all types of energy projects, and in particular in recent times for projects related to “green energy”.

Moving with the Times

Despite the above challenges, there is now a light at the end of the tunnel. In recent times, the government has moved in tandem with global trends to construct and commission new large-scale solar power projects, functioning as power plants, in an effort to diversify Cambodia’s energy portfolio and to include more renewables. In conjunction with these initiatives, the government enacted the Solar Regulations 2018 and updated the applicable electricity tariffs, resulting in many companies exploring the possibilities of rooftop solar power for industrial use.

More significantly, the government relaxed restrictions on consumer use of grid-connected solar systems, through the 2020 Tariff and the 2021 Tariff. Previously, the Solar Regulations limited grid-connected rooftop solar to big and bulk consumers only. Under the 2021 Tariff, certain categories of medium consumers (i.e., industry, agriculture & trade) were also allowed to use grid-connected solar systems and produce solar energy for their own consumption.

This has resulted in a huge boost to the industrial sector, in particular the garment industry (which is the third largest industry in Cambodia) and to companies operating in special economic zones. This is because many factories have vast empty roof space that is not fully utilised, and no land acquisition or lease is required to install the solar systems.

Residential users however are still not permitted to be connected to the grid while using solar power.

More Incentives to Come

A. New Investment Law

Cambodia enacted a new Law on Investment (LOI) in October 2021, and it focuses on renewable energy as one of the sectors to be incentivised. It provides additional tax incentives for green energy producers by registering as Qualified Investment Projects (QIPs). The Law offers different options of basic incentives, but the most commonly used ones are:

- income tax exemption from three (3) to nine (9) years from the time of first earning income.
- subsequently a sliding scale of tax breaks on income tax, starting at 25% of the tax due for the first two (2) years, 50% for the next two (2) years, and 75% percent for the final two (2) years.

In addition, there are a host of other incentives: including exemptions for Prepayment Tax, Minimum Tax, Export Tax, and a deduction of one hundred and fifty (150) percent from the tax base to activities such as research and development, human resource development and the construction of facilities for employees such as accommodation, canteens, and nurseries.

Whilst some of the practicalities of the new LOI are to be clarified in further Sub-Decrees, these tax incentives are quite forward thinking and should provide quite an attractive environment for renewable energy producers in Cambodia.

B. New Draft Environmental Code

The Environmental Code of Cambodia is presently being reviewed by the government. It has gone through many changes but once promulgated, it should provide much needed clarity and certainty for green energy producers. Potentially, these include the following:

- Access to companies and consumers using solar energy to connect to the national grid;
- Development of a net metering system.
- Up to 20% reduction in profit taxes for any company generating at least 20% of its own renewable energy.
- Implementation of a one-year pilot for a feed-in-tariff system with a fixed rate for solar energy fed into the grid; and

However, when that will be is unknown and the momentum for the legislation seems to have stalled somewhat.



A New Dawn

In light of Cambodia's improving framework for solar energy, it is no surprise to see more international and regional players eyeing Cambodia as the next solar destination, either to invest in existing projects or to set up their own projects. In addition, it is predicted that the adoption of the new Investment Law incentives and clarity from the Environmental Code and its implementation regulations will be a strong catalyst for further investment into renewable energy in this Kingdom of Wonders.

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