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Integration into Formal Economy: A Systematic Review on the Challenges and Opportunities for Informal SMEs in Cambodia

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ABSTRACT

The informal economy accounts for a substantial share of economic activity across developing nations, where Small and Medium Enterprises (SMEs) serve as primary engines for job creation and income generation. Yet informality frequently confines these enterprises to persistent cycles of low productivity and economic vulnerability. Drawing on 12 studies published between 2000 and 2025, our systematic literature review examines the multifaceted barriers and pathways associated with transitioning informal SMEs into the formal economy, with particular attention to Cambodia. We synthesize theoretical frameworks on informal economy dynamics and SME development, analyze Cambodia's informal sector characteristics, identify formalization obstacles, and examine integration possibilities. Our literature search spanned multiple databases—JSTOR, Google Scholar, and repositories from the ILO, UNDP, World Bank, and ADB. We selected peer-reviewed articles and reports addressing informal economy and SME formalization in Cambodia and Southeast Asia more broadly. Our findings reveal that despite substantial barriers—financial constraints and regulatory complexities—targeted policy interventions can unlock considerable integration potential.

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ABSTRAK

Ekonomi informal menyumbang porsi substansial dari aktivitas ekonomi di negara-negara berkembang, di mana Usaha Kecil dan Menengah (UKM) berfungsi sebagai mesin utama penciptaan lapangan kerja dan pembangkitan pendapatan. Namun, informalitas sering Peneliti mengurung perusahaan-perusahaan tersebut dalam siklus produktivitas rendah dan kerentanan ekonomi yang persisten. Berdasarkan 12 studi yang diterbitkan antara tahun 2000 hingga 2025, tinjauan literatur sistematis kami mengkaji hambatan dan jalur multifaset yang terkait dengan transisi UKM informal ke dalam ekonomi formal, dengan perhatian khusus pada Kamboja. Peneliti mensintesis kerangka teoretis tentang dinamika ekonomi informal dan pengembangan UKM, menganalisis karakteristik sektor informal Kamboja, mengidentifikasi hambatan formalisasi, dan menelaah kemungkinan integrasi. Pencarian literatur kami mencakup berbagai basis data—JSTOR, Google Scholar, dan repositori dari ILO, UNDP, World Bank, dan ADB. Kami memilih artikel dan laporan yang telah melalui tinjauan sejawat yang membahas ekonomi informal dan formalisasi UKM di Kamboja dan Asia Tenggara secara lebih luas. Temuan kami mengungkapkan bahwa meskipun terdapat hambatan substansial—kendala finansial dan kompleksitas regulasi—intervensi kebijakan yang tertarget dapat membuka potensi integrasi yang cukup besar.

KATA KUNCI

Ekonomi Informal; UKM; Formalisasi; Kamboja; Pembangunan Ekonomi.

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1. Introduction

The informal economy, a pervasive and complex phenomenon, accounts for a substantial portion of economic activity in many developing nations. The International Labour Organization (ILO) defines it as encompassing a wide range of economic activities, enterprises, jobs, and workers that are not regulated or protected by the state (International Labour Organization, 2018). Small and Medium Enterprises (SMEs) operating within the informal sphere play a crucial role in job creation and income generation, particularly for low-skilled workers. However, their informality often traps them in cycles of low productivity, limited growth, and vulnerability. The United Nations Development Programme (UNDP) reports that the transition of informal SMEs into the formal economy—a process known as formalization—is increasingly recognized as a critical pathway toward sustainable economic development, improved governance, and inclusive growth (United Nations Development Programme, 2023). Formalization enables businesses to gain access to finance, legal protection, and new markets, while also broadening the tax base and strengthening the rule of law.

Cambodia presents a compelling and unique case study for understanding formalization dynamics. The country's large informal sector is not merely a feature of its developing economy but is deeply rooted in its tragic history. The Khmer Rouge regime (1975-1979) systematically dismantled the country's economic and social fabric through the destruction of private capital, deindustrialization, and genocide, which eliminated a significant portion of the educated and skilled population (Chhair & Ung, 2013). The period of state terror had a devastating long-term impact on human capital, creating a legacy of low education levels and a scarcity of skilled labor that persists to the present day (Grasse, 2024). The subsequent period of socialist isolation further weakened formal institutions. Consequently, when Cambodia transitioned to a market economy in the early 1990s, the informal economy emerged not merely as a marginal sector but as a primary survival mechanism and the foundation of the country's economic reconstruction. Such historical path dependency distinguishes Cambodia from many other developing nations and necessitates a context-specific analysis of formalization.

Despite extensive literature on the informal economy, a significant research gap persists. While many studies have examined formalization challenges in developing countries, systematic reviews focusing specifically on Cambodia's unique post-conflict context remain scarce. Much existing research applies generic frameworks that do not fully account for the deep-seated historical and institutional factors shaping Cambodia's informal sector. Furthermore, few studies have attempted to integrate multiple theoretical perspectives to provide holistic understanding of the interplay among economic, regulatory, institutional, and socio-cultural factors in post-conflict settings. Our review addresses these gaps by synthesizing the literature on SME formalization through the specific lens of Cambodia's historical and institutional trajectory.

The paper aims to make a distinct theoretical contribution by providing an integrated historical-institutional perspective on SME formalization. By connecting the long-term consequences of state terror and institutional collapse to the current structure of the informal economy, our review advances understanding of path dependency in post-conflict economic development. It moves beyond simple descriptions of barriers and opportunities to offer multi-layered analysis that synthesizes insights from formalization theory, SME development theory, and institutional theory. In doing so, it provides a more nuanced framework for analyzing formalization in countries that have experienced profound historical trauma—a contribution with relevance extending beyond the Cambodian case.

2. Methodology

This literature review employed a systematic approach to identify, analyze, and synthesize relevant research on the formalization of informal SMEs in Cambodia. The methodology was designed to ensure comprehensive coverage of the topic while maintaining academic rigor and objectivity.

2.1 Literature Search Strategy

A comprehensive literature search was conducted using multiple databases and sources to ensure broad coverage of relevant materials. The primary databases searched included academic repositories such as JSTOR, Google Scholar, and institutional databases from major development organizations. Additionally, grey literature sources were consulted, including reports from international organizations such as the International Labour Organization (ILO), United Nations Development Programme (UNDP), World Bank, and Asian Development Bank (ADB). The search strategy employed a combination of keywords and Boolean operators to maximize the retrieval of relevant literature. The primary search terms included: "informal economy," "SME formalization," "Cambodia," "small and medium enterprises," "economic development," "business registration," and "ASEAN integration." These terms were combined using Boolean operators (AND, OR) to create comprehensive search strings that captured the multidimensional nature of the research topic.

2.2 Inclusion and Exclusion Criteria

The literature selection process was guided by specific inclusion and exclusion criteria to ensure relevance and quality. Inclusion criteria encompassed: (1) peer-reviewed academic articles published in English between 2000 and 2025; (2) reports and publications from reputable international organizations and government agencies; (3) studies specifically focusing on Cambodia or broader Southeast Asian contexts with relevance to Cambodia; (4) research addressing informal economy, SME development, or formalization processes; and (5) materials providing empirical evidence, theoretical frameworks, or policy analysis relevant to the research objectives. Exclusion criteria included: (1) studies published before 2000 to ensure contemporary relevance; (2) non-English publications due to language constraints; (3) opinion pieces or editorial content without empirical backing; (4) studies focusing exclusively on other countries without regional applicability; and (5) materials lacking sufficient methodological rigor or peer review.

2.3 Data Extraction and Analysis

A systematic data extraction process was employed to capture key information from selected sources. For each included study, the following information was extracted: author(s), publication year, research methodology, key findings, theoretical framework employed, policy recommendations, and limitations. This information was organized in a structured matrix to facilitate comparative analysis and synthesis.The analysis followed a thematic approach, organizing findings into key categories that emerged from the literature. These categories included theoretical foundations, contextual factors specific to Cambodia, barriers to formalization, opportunities for integration, and policy implications. Within each category, patterns, contradictions, and gaps in the literature were identified and analyzed.

2.4 Quality Assessment

The quality of included studies was assessed using established criteria for literature reviews. Academic articles were evaluated based on methodological rigor, sample size and representativeness, data collection methods, and analytical approach. Reports from international organizations were assessed based on data sources, analytical framework, and institutional credibility. This quality assessment informed the weight given to different sources in the synthesis and helped identify areas where evidence was particularly strong or weak.

2.5 Limitations

Several limitations should be acknowledged in this methodology. First, the focus on English-language publications may have excluded relevant research published in Khmer or other languages. Second, the rapidly evolving nature of Cambodia's policy environment means that some recent developments may not yet be reflected in the published literature. Third, the limited availability of longitudinal studies on formalization outcomes in Cambodia constrains the ability to assess long-term impacts. Finally, the predominance of descriptive rather than experimental studies in this field limits the strength of causal inferences that can be drawn.

3. Theoretical Framework

The study of the informal economy and the process of formalization draws upon several key theoretical frameworks that provide a lens through which to understand the complex dynamics at play. This section reviews three major theoretical pillars that are particularly relevant to the Cambodian context: formalization theory, SME development theory, and institutional theory.

3.1 Formalization Theory

The theoretical discourse on formalization has evolved significantly over the past few decades. Early theories often viewed the informal sector as a residual component of the economy, a waiting room for workers who could not find employment in the formal sector. However, this perspective has been largely replaced by a more nuanced understanding that recognizes the informal economy as a dynamic and heterogeneous sector with its own logic and rationale. A seminal contribution to this field is the work of De Soto (2000), who argues that the lack of clearly defined and enforceable property rights is a primary barrier to economic development. According to De Soto, informal businesses operate in a state of legal ambiguity, which prevents them from accessing formal credit, enforcing contracts, and investing in long-term growth. Formalization, in this view, is a process of extending property rights to the poor, which unlocks their entrepreneurial potential and enables them to participate more fully in the market economy (De Soto, 2000).

3.2 SME Development Theory

The literature on SME development provides another crucial theoretical lens for understanding the challenges and opportunities of formalization. SMEs are widely recognized as engines of economic growth, job creation, and innovation. However, their ability to contribute to economic development is often constrained by a range of factors, including limited access to finance, technology, and markets. SME development theory seeks to identify these constraints and to design interventions that can help SMEs overcome them. A key strand of this literature focuses on the concept of the “missing middle,” which refers to the relative scarcity of medium-sized enterprises in many developing countries. This gap is often attributed to the difficulties that small, informal firms face in growing and scaling up their operations.

3.3 Institutional Theory

Institutional theory provides a broad framework for understanding how formal and informal institutions shape economic behavior and outcomes. Institutions are the “rules of the game” that govern social and economic interactions. Formal institutions include laws, regulations, and government agencies, while informal institutions include social norms, cultural values, and networks of trust. In the context of the informal economy, both formal and informal institutions play a crucial role. The decision to operate informally is often a rational response to a weak or corrupt formal institutional environment, where the costs of formality are high and the benefits are low.

4. Results

4.1 Overview of reviewed studies

This systematic review synthesizes findings from 12 key academic publications, institutional reports, and policy documents to provide a comprehensive overview of the challenges and opportunities for informal SME formalization in Cambodia. The section begins by presenting a summary of the included studies, followed by a thematic analysis of key findings on the barriers to and drivers of formalization. A summary of the 12 studies included in this systematic review is presented in Table 1. The selection encompasses a range of theoretical papers, empirical studies, policy reports, and economic histories, providing a multifaceted evidence base for understanding the complexities of Cambodia's informal economy.

Table 1. Summary of Included Studies in the Systematic Review

Author(s) & Year	Type of Publication	Focus Area	Key Contribution to Review
Beck (2007)	Academic Paper	SME financing constraints in developing countries	Provides evidence on financial barriers as a primary obstacle to SME growth and formalization.
Chhair & Ung (2013)	Working Paper (Brookings)	Economic history of Cambodia's industrialization	Details the historical destruction of capital and institutions, setting the stage for informality.
De Soto (2000)	Book (Theoretical)	Role of property rights in economic development	Offers a theoretical framework for understanding formalization as a function of legal protection.
Grasse (2024)	Academic Paper (APSR)	Long-term economic impact of the Khmer Rouge	Empirically links historical trauma to persistent human capital deficits and poverty.
ILO (2018, 2019)	Institutional Reports	Statistical overview of the informal economy	Provides key statistics on the size and gendered dimensions of Cambodia's informal workforce.
Khmer Times (2025a, b)	News Media	Current events in Cambodian business	Reports on the contribution of SMEs and the uptake of new digital registration systems.
RGC (2023)	Government Policy Document	National strategy for informal economy	Outlines the official government approach, objectives, and planned interventions.
Tanaka (2023)	Academic Paper (ADB)	Empirical analysis of formal registration impact	Quantifies the significant economic benefits (*e.g.*, increased sales) of

			formalization in Cambodia.
Thangavelu *et al*. (2017)	Academic Paper	SME participation in ASEAN integration	Highlights regional integration as a key driver and opportunity for SME formalization.
UNDP (2023)	Institutional Report	Integrated vision for formalization paths	Provides a holistic analysis of challenges and opportunities, emphasizing an integrated approach.
World Bank (2014)	Institutional Report	Barriers to formal entrepreneurship	Identifies regulatory and administrative burdens as major deterrents to formalization.
World Economics (n.d.)	Data Provider	Estimation of informal economy size	Supplies the headline figure for the informal economy's contribution to Cambodia's GDP.

4.2 Cambodia's Informal Economy Context

Understanding the specific context of Cambodia's informal economy is crucial for developing effective formalization strategies. This section provides an overview of the size and characteristics of the informal sector, its historical development, and the current policy framework designed to promote formalization. The informal economy is a dominant feature of Cambodia's economic landscape. According to the ILO (2019), an estimated 88.3% of the total workforce is engaged in informal employment, with a particularly high rate of 87.6% among women. This high level of informality is also reflected in the sector's contribution to the national economy. The informal economy is estimated to account for 49.1% of Cambodia's GDP, representing a significant portion of economic activity that operates outside the formal regulatory framework (World Economics, n.d.). The vast majority of businesses in Cambodia are SMEs, with an estimated 753,670 enterprises contributing 63% of national income (Khmer Times, 2025a).

Cambodia's large informal economy is a legacy of its recent history. The country's economic and social fabric was devastated by decades of conflict, which destroyed physical infrastructure, weakened institutions, and displaced a large portion of the population. In the aftermath of the conflict, the informal economy emerged as a vital source of livelihood for many Cambodians, providing a safety net in the absence of a functioning formal economy. The transition to a market-oriented economy in 1989 further fueled the growth of the informal sector, as new economic opportunities emerged while the formal institutions to support them remained weak.

The Royal Government of Cambodia has recognized the importance of addressing the challenges of the informal economy and has implemented a number of policies and programs to promote formalization. The cornerstone of these efforts is the "National Strategy for Informal Economy Development 2023-2028," launched in 2023. The strategy aims to create a more conducive environment for informal businesses to formalize by simplifying registration procedures, providing access to finance and markets, and strengthening social protection for informal workers (Royal Government of Cambodia, 2023). In line with this strategy, the government launched a new digital platform for business registration in December 2024, designed to make it easier and faster for informal businesses to register. As of February 2025, the platform has received over 11,000 applications, indicating strong demand for formalization among informal businesses (Khmer Times, 2025b).

4.3 Challenges to Formalization

The transition from the informal to the formal economy is a complex process fraught with challenges. In the Cambodian context, these challenges are particularly acute given the country's unique historical, economic, and institutional context. This section examines the multifaceted barriers that hinder the formalization of informal SMEs in Cambodia, drawing on existing literature and empirical evidence. Access to finance is one of the most significant and widely cited barriers to formalization for informal SMEs in Cambodia. The lack of access to formal credit prevents these businesses from investing in new equipment, expanding operations, and improving productivity. According to a study by Beck (2007), financing constraints are a major obstacle for SMEs in developing countries, particularly for informal firms that lack the legal status and collateral required by formal financial institutions (Beck, 2007; UNDP, 2023). In Cambodia, many informal SMEs are unable to meet the high collateral requirements of commercial banks and often lack the financial records and business plans necessary to apply for loans (Beck, 2007).

Complex and burdensome regulatory and administrative procedures are another major deterrent to formalization. The process of registering a business in Cambodia can be time-consuming, costly, and confusing, particularly for entrepreneurs with low levels of education and literacy. A study by the World Bank (2014) found that the costs of registration, including official fees and informal payments, can be prohibitively high for many informal businesses. In addition to the initial registration process, formal businesses are required to comply with a range of ongoing regulatory requirements, including tax laws, labor regulations, and environmental standards. The complexity of these regulations, combined with the lack of transparency and predictability in their enforcement, creates a significant compliance burden for SMEs and discourages many informal businesses from formalizing (World Bank, 2014). The UNDP (2023) report emphasizes that even with reforms, the perception of bureaucratic hurdles remains a strong psychological barrier for many informal entrepreneurs.

The legacy of the Khmer Rouge regime, which targeted the educated and skilled population, has created a long-term deficit in human capital (Grasse, 2024; Chhair & Ung, 2013). Many informal SME owners lack the financial literacy, managerial skills, and technical knowledge needed to navigate the formal economy, grow their businesses, and comply with regulatory requirements.

Rooted in historical instability and experiences with corruption, there is often a pervasive lack of trust in formal government institutions. Many informal entrepreneurs prefer to rely on informal networks and social arrangements, viewing the formal system as predatory rather than supportive. This aligns with institutional theory, which posits that informal norms will prevail where formal institutions are perceived as weak or corrupt (De Soto, 2000).

4.4 Opportunities for Integration

Despite numerous challenges, the integration of informal SMEs into the formal economy presents significant opportunities for both the businesses themselves and the broader Cambodian economy. This section explores the potential benefits of formalization, including the economic advantages for firms, the role of government initiatives, the opportunities presented by regional integration, and the transformative potential of digital technologies.

The most direct and compelling opportunity for informal SMEs is the potential for significant economic gains upon formalization. Formal registration can unlock access to a range of services and markets typically unavailable to informal businesses. A recent study by Tanaka (2023) on informal firms in Cambodia provides strong empirical evidence for this, finding that formal registration leads to a remarkable 161% increase in sales and a significant rise in value added. These gains are driven by several factors. Formalized businesses are better able to access formal credit from banks and other financial institutions, allowing them to invest in growth-enhancing activities. They can also participate in formal procurement processes, both with the government and with larger private sector firms, opening up new and more lucrative markets. Furthermore, formal status provides businesses with legal protection of their property and contracts, reducing the risks associated with informal transactions and encouraging long-term investment.

The Royal Government of Cambodia (RGC) has increasingly recognized the importance of facilitating the formalization process and has launched several initiatives to support informal SMEs. The "National Strategy for Informal Economy Development 2023-2028" provides a comprehensive framework for these efforts, focusing on simplifying procedures, reducing costs, and providing incentives for formalization (RGC, 2023). A key component of this strategy is the introduction of a new digital platform for business registration, which aims to streamline the process and make it more accessible to informal entrepreneurs. The early success of this platform, with over 11,000 applications in its first few months, suggests strong appetite for formalization among informal businesses when the process is made more straightforward (Khmer Times, 2025b).

Cambodia's growing integration into the ASEAN Economic Community (AEC) presents another significant opportunity for informal SMEs. The AEC aims to create a single market and production base in Southeast Asia, opening up new opportunities for Cambodian businesses to participate in regional and global value chains. However, to take advantage of these opportunities, SMEs will need to meet the quality standards, certification requirements, and other demands of international markets, which often necessitate formalization. As Thangavelu *et al*. (2017) argue, participation in regional integration can be a powerful driver of SME development and formalization. This creates a market-based incentive for firms to formalize in order to access larger and more lucrative export markets.

The rapid pace of digital transformation in Cambodia offers a powerful set of tools for overcoming many traditional barriers to formalization. The proliferation of mobile phones and internet access has enabled the development of a vibrant digital economy, with a growing number of e-commerce platforms, digital payment systems, and online marketing channels. These technologies can help informal SMEs reach a wider customer base, reduce transaction costs, and improve access to information and markets. Moreover, digital tools can also facilitate the formalization process itself. The government's new online business registration platform is a prime example of how technology can be used to simplify administrative procedures and make them more accessible. Furthermore, technology can simplify the formalization process itself, as demonstrated by the government's online registration portal (UNDP, 2023).

5. Discussion

The findings of this systematic review provide a nuanced and deeply contextualized understanding of the challenges and opportunities surrounding SME formalization in Cambodia. The results indicate that while Cambodia shares many formalization barriers with other developing nations, its unique historical trajectory has created a distinct set of path dependencies that shape the nature of its informal economy. This section synthesizes these findings, analyzes their theoretical implications, evaluates current policy effectiveness, and discusses the overall strength of the evidence base. A clear pattern emerging from the literature is that the challenges to formalization in Cambodia are not merely economic or administrative but are deeply rooted in a legacy of historical trauma and institutional weakness. The systematic destruction of human and physical capital during the Khmer Rouge era, as detailed by Chhair & Ung (2013) and Grasse

(2024), created a vacuum that the informal economy naturally filled. Unlike in many other developing countries where the informal sector grew in parallel with the formal one, in Cambodia it emerged from the ashes of a completely dismantled state. This leads to a critical distinction: informality in Cambodia is not simply a strategy for avoiding taxes or regulations but a foundational element of its post-conflict economic recovery, built on survival and mistrust of centralized authority. This historical context explains the apparent contradiction between the government's recent push for formalization (RGC, 2023) and the persistent reluctance of many SMEs to engage with the state. While the economic benefits of formalization are empirically demonstrable (Tanaka, 2023), the decision to formalize is not a simple cost-benefit calculation for entrepreneurs. It is a decision fraught with perceived risks related to corruption, regulatory unpredictability (World Bank, 2014), and a deep-seated lack of trust in formal institutions. The opportunities presented by digitalization and regional integration (Thangavelu *et al*., 2017; UNDP, 2023) are powerful, but their potential is moderated by these underlying structural and psychological barriers.

The Cambodian case offers important contributions and refinements to existing theories of economic development and formalization. It adds a critical dimension to De Soto's (2000) theory of property rights. While De Soto emphasizes the lack of *legal* frameworks, the Cambodian context shows that the existence of laws is insufficient when there is a profound lack of *trust* in the institutions meant to enforce them. The legacy of state-sponsored violence and corruption means that for many, formal registration is perceived not as gaining protection but as making oneself visible and vulnerable to a potentially predatory state. Thus, institutional trust becomes a crucial mediating variable between legal reform and economic behavior. Second, the findings enrich SME development theory by highlighting the primacy of human capital in post-conflict settings. While the theory often focuses on access to finance and markets, the work of Grasse (2024) suggests that the decimation of a nation's skilled and educated populace creates a long-term structural barrier to SME growth that is exceptionally difficult to overcome. This implies that in post-conflict economies, policies focused on education, vocational training, and building financial literacy may be as important as, or even more important than, direct financial support for SMEs. The review supports a more dynamic view of institutional theory. It demonstrates how informal institutions (social networks, trust-based relationships) arise as a rational and resilient response to the collapse of formal ones. These informal systems are not inherently inefficient; they are highly adapted to an environment of uncertainty. The challenge for policymakers, therefore, is not simply to replace informal institutions with formal ones but to build formal systems that are trustworthy and effective enough to be voluntarily adopted.

Cambodia's "National Strategy for Informal Economy Development 2023-2028" and its associated digital registration platform are commendable steps that align with best practices for reducing administrative barriers (RGC, 2023). The initial high uptake is a positive sign, as noted by the Khmer Times (2025b). However, the evidence synthesized in this review suggests that these supply-side interventions, while necessary, are insufficient on their own. The evidence base is strong regarding the existence of financial and regulatory barriers. However, it is weaker on the long-term effectiveness of recent policy interventions. There is a risk that simplifying registration (a "one-stop shop") without addressing the underlying drivers of informality—such as low skills, lack of trust, and the high perceived cost of ongoing compliance—will result in a wave of newly registered but non-compliant or inactive firms. This phenomenon, known as "formalization in name only," would not yield the desired benefits of increased productivity and tax revenue. Therefore, policy implications grounded in the review's findings point toward a more holistic, trust-building approach:

1) Build Trust Through Incremental and Tangible Benefits: Rather than a one-time registration push, policies should focus on creating a "ladder of formality." This

could involve offering tangible benefits at each step, such as access to specific training programs, social protection schemes (*e.g.*, health insurance), or small, collateral-free loans upon completion of simplified registration and tax-filing modules.

2) Invest Heavily in Human Capital: Addressing the skills gap is paramount. Policy should integrate business formalization support with vocational training, financial literacy programs, and digital skills development. This would equip entrepreneurs not only to register their business but to successfully manage and grow it within the formal economy.
3) Strengthen the Rule of Law and Combat Corruption: The most challenging but critical implication is the need for genuine institutional reform. Efforts to simplify bureaucracy must be paired with transparent and consistent enforcement of laws and a visible crackdown on the informal payments and corruption that deter formalization (World Bank, 2014). Without this, even the most streamlined digital system will be viewed with suspicion.

6. Conclusion

This review has provided a comprehensive overview of the challenges and opportunities associated with the integration of informal SMEs into the formal economy in Cambodia. The review has shown that while the informal sector plays a vital role in the Cambodian economy, it also traps a large portion of the workforce in a cycle of low productivity and vulnerability. The formalization of informal SMEs is therefore a critical priority for promoting sustainable and inclusive growth in Cambodia. The review has identified a number of key challenges to formalization, including limited access to finance, complex regulatory procedures, weak institutional frameworks, and a lack of business skills. At the same time, the review has also highlighted a number of significant opportunities, including the potential for substantial economic gains from formalization, growing government support, the opportunities presented by regional integration, and the transformative potential of digital technologies.

The findings of this review have important implications for policy and practice. They suggest that a successful formalization strategy must be holistic and multidimensional, addressing the various constraints that informal SMEs face. This requires a coordinated effort from the government, the private sector, and civil society. The review has also highlighted the need for more research on the formalization process, particularly in the areas of longitudinal studies, the impact of digital transformation, and the post-formalization experiences of SMEs. The integration of informal SMEs into the formal economy is a complex and challenging process, but it is also a process that offers immense potential for unlocking Cambodia's economic potential. By addressing the challenges and seizing the opportunities, Cambodia can create a more dynamic, inclusive, and prosperous economy for all its citizens.

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