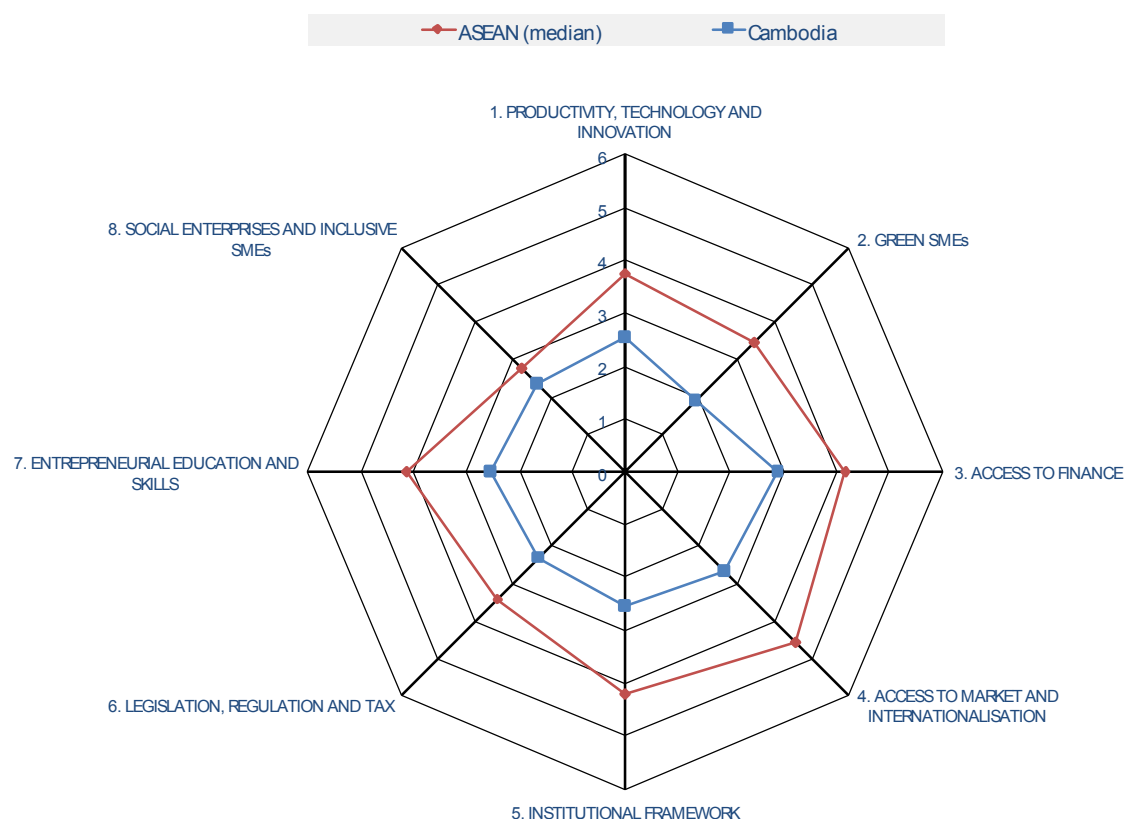


## Chapter 13. Cambodia

*Cambodia's SME policy has principally focused on improving the legal and regulatory environment to support SME development. The country is at a relatively early phase in the development of targeted SME policies, but it has undergone a wave of long-term economic planning over recent years with the aim of accelerating diversification and maintaining robust economic growth. SME policy is a pillar of this. A policy priority is to increase SME integration into GVCs, particularly higher value-added activities.*

**Figure 13.1. 2018 SME policy index scores for Cambodia**

## Overview

### *Economic structure and development priorities*

#### *Economic structure*

Cambodia is a lower middle-income country (it graduated in 2016) located in the Greater Mekong Subregion. It is the third smallest country with the fourth smallest population in ASEAN,<sup>1</sup> with a population of 15.2 million covering 181 035 km<sup>2</sup> (ASEC, 2016<sup>[1]</sup>). Cambodia is less richly endowed with natural resources than its neighbours, but Battambang Province (bordering Thailand) contains limited quantities of precious stones,<sup>2</sup> while the centre of the country contains deposits of manganese, phosphate and salt. Exploration activities have begun for copper, gold, iron ore and fossil fuels. Over 70% of the population currently reside in rural areas (World Bank, 2016a<sup>[2]</sup>),<sup>3</sup> but urbanisation is rapidly increasing. Agriculture was estimated to account for 43.2% of employment and 26.7% of value added in 2016 (ILO, 2016<sup>[3]</sup>; World Bank, 2016a<sup>[2]</sup>). Since around 1994, the garment industry has become an important part of the economy, accounting for around 70% of total merchandise exports and a quarter of total employment (World Bank, 2018<sup>[4]</sup>). Around 90% of workers in the garment industry are women.

In the early 1990s, the government of Cambodia followed the path adopted by many of its peers in Southeast Asia and began actively to seek foreign direct investment (FDI) in the

garment industry. It began to offer favourable investment conditions and tax incentives to foreign-owned garment manufacturers, which were drawn by the country's then quota-free access to US and EU markets, as well as its relatively low wage rates (ODI, 2005<sup>[5]</sup>). Garment producers from China, Hong Kong, Taiwan, Malaysia and Singapore began increasingly to produce for export in Cambodia. The country remains heavily dependent on the garment industry. Graduation into higher value-added activities is hindered by a lack of infrastructure and skills. Basic infrastructure is missing in some regions of Cambodia and only 19.6% of the population aged over 25 has some secondary education (UNDP, 2017<sup>[6]</sup>).

**Table 13.1. Cambodia: Main macroeconomic indicators, 2012-2016**

Indicator	Unit of measurement	Year				
		2012	2013	2014	2015	2016
GDP growth	Percent, y-o-y	7.3	7.4	7.1	7.0	6.9
Inflation	Percent, average	2.9	2.9	3.9	1.2	3.0
Government balance	Percent of GDP	-3.8	-2.1	-1.3	-1.6	-2.9
Current account balance	Percent of GDP	-8.3	-12.6	-9.9	-	-
Export of goods and services	Percent of GDP	58.0	61.5	62.3	61.7	61.3
Imports of goods and services	Percent of GDP	62.8	66.7	66.7	66.1	65.7
Net FDI (inflows)	Percent of GDP	10.3	8.7	10.3	9.4	-
External debt	Percent of GNI	47.2	48.9	50.0	54.6	-
Gross reserves	Percent of external debt	78.5	70.1	77.2	78.4	-
Domestic credit to the private sector	Percent of GDP	38.8	44.7	54.1	63.1	69.7
Unemployment	Percent of active population	0.2	0.3	0.1	0.2	0.3
GDP per capita	PPP (constant 2011 int\$)	2 807.0	2 966.2	3 124.3	3 291.0	3 462.8

Source: World Bank (2017) World Development Indicators; IMF (2017) World Economic Outlook.

Cambodia exhibits relatively sound macroeconomic fundamentals, with low unemployment and a broadly stable and moderate inflation rate. The country has implemented a number of programmes to bring public finances onto a more sustainable track.<sup>4</sup> Over the long term, sustained future growth will depend on the country's ability to broaden its industrial base. Other downside risks to growth over the medium term include rapid credit growth in the past few years, which has been particularly concentrated in the real estate sector. Despite a recent slowdown, this may have increased financial stability risks.

### *Reform priorities*

The government's long-term vision, Cambodia Vision 2030, is for the country to become an upper middle-income economy by 2030. To achieve this goal, it has developed a number of long-term economic plans, of which the longest is the Industrial Development Policy (IDP) 2015-2025. The IDP aims to achieve the objectives of Cambodia Vision 2030 by developing a broader base for economic growth and upgrading the country's manufacturing capabilities from labour-intensive to skills-intensive activities by 2025. To accomplish this, it recognises a need to diversify away from textile and garment manufacturing by increasing the share of other industries in GDP and total exports.<sup>5</sup> It also recognises the need to enhance private domestic entrepreneurship.

The IDP stipulates strategies, approaches and priority sectors for industrial development. It identifies four pillars for increasing industrial development: *i*) FDI attraction; *ii*) SME modernisation and development; *iii*) an enhanced legal and business environment; and

*iv)* a more co-ordinated and strategic approach to skills development, industrial relations and territorial management and development. It aims to follow the development path adopted by many of its ASEAN peers by using FDI and integration into global value chains (GVCs) to build up and upgrade its industrial base. It stipulates that this can be achieved by focusing on economic corridors and economic poles<sup>6</sup> to link SMEs with GVCs; by enhancing spillovers and supporting infrastructure in industrial zones; by supporting social enterprises; and by increasing efforts to develop knowledge-based industries. It identifies a number of priority sectors, including electronic assembly, pharmaceuticals, furniture manufacturing, food processing, “future industries” such as in information and communications technology (ICT) and green technology, and industries that could enhance the integration of the agricultural, textile and tourism sectors into GVCs. It specifies that the following measures should be completed by 2018: *i)* improving the electricity supply in targeted industrial zones; *ii)* implementing a master plan for a multimodal transport and logistics system; *iii)* developing the labour market, specifically by strengthening industrial relations and skills development; and *iv)* developing and transforming Sihanouk Province into a model multi-purpose Special Economic Zone.

Another important strategic document is the Rectangular Strategy, which is currently in its third phase. This document is designed to chart the economic course of each new legislature of the National Assembly beginning in 2004. It is based around cross-cutting objectives, of which the four main pillars are: *i)* development of the agricultural sector; *ii)* development of physical infrastructure; *iii)* private-sector development and more and better jobs; and *iv)* better provision of basic health and education services. The current document outlines the economic priorities of the Fifth Legislature of the National Assembly (2013-2018). This third phase of the strategy specifies a focus on human capital development, as well as four priority areas for intervention: *i)* skills development, particularly in STEM subjects; *ii)* increased investment in transport infrastructure and trade facilitation measures; *iii)* modernisation of the agricultural sector; and *iv)* increasing the capacity and integrity of public institutions to improve public service delivery and the investment climate. The government develops a five-year roadmap to implement the principles of the Rectangular Strategy. The roadmap currently in force is the National Strategic Development Plan 2014-18 (and it is thus in its final year).

### *Private sector development and enterprise structure*

#### *Business environment trends*

Cambodia has registered impressive GDP growth rates since the mid-1990s, reaching 7.6% annual growth on average. Firms and investors operating in the country benefit from a broadly stable macroeconomic environment and pro-business government, competitive investment incentives and a relatively young and low-cost labour pool. Cambodia is also party to a number of preferential regimes, such as the Generalised System of Preferences, as well as important bilateral and multilateral trade agreements. Over the past few years, the country has seen a construction boom and growth in tourism and non-textile exports such as machinery parts. Investment from China has been particularly important, especially in construction.

Cambodia has enacted a number of reforms to enhance its business environment in the past few years. It has significantly improved its legal and institutional framework for accessing finance, and it was ranked 20<sup>th</sup> on this pillar in the most recent *Doing Business* assessment (World Bank, 2017<sup>[7]</sup>). It has also enacted reforms to improve the reliability of

electricity and to decrease the time and number of procedures required to start a business (World Bank, 2016<sup>[8]</sup>; World Bank, 2017<sup>[7]</sup>).

Despite this impressive performance, firms and investors may face obstacles due to rather limited infrastructure<sup>7</sup> and workforce skills, the possibility of corruption in certain areas of the public administration and enforcement of contracts (World Bank, 2017<sup>[7]</sup>; WEF, 2017<sup>[9]</sup>; GAN, 2017<sup>[10]</sup>). Integrity issues may be particularly prevalent in land and customs administration, with facilitation payments often required to obtain licenses and permits (GAN, 2017<sup>[10]</sup>). Recent minimum-wage increases may moderate the cost competitiveness of garment manufacturers, who are already experiencing rising competition from neighbouring countries such as Myanmar.

### *SME sector*

Cambodia counted 513 759 enterprises in 2014, according to the last economic census, of which 99.8% were MSMEs, mainly micro enterprises (97.6%) (NIS, 2015<sup>[11]</sup>).

SMEs provide a similar structural contribution to the economy as in OECD countries, accounting for around 71.7% of employment, with micro enterprises accounting for 58.3% of employment (NIS, 2015<sup>[11]</sup>). Information is not collected on their contribution to GDP or value added.

Micro enterprises in Cambodia tend to be new (61.7% are 1-5 years old) and engaged predominantly in wholesale and retail activities (60.7%), followed by manufacturing (14.0%) and accommodation and food service activities (10.9%). Small and medium-sized enterprises are predominantly found in education (33.7%) and manufacturing (13.5%) activities. Geographically, the highest concentrations of MSMEs are found in Phnom Penh (23.1%) and Siem Reap Province (18.5%), followed by Battambang Province (8.5%). MSMEs are more evenly spread across the territory and are engaged in different economic activities than large enterprises, of which 59.2% are based in Phnom Penh and 47.4% are engaged in manufacturing activities (NIS, 2015<sup>[11]</sup>). MSMEs are also more likely to be owned by Cambodian nationals: 47.4% of large enterprises are owned by foreigners, particularly Chinese nationals (who own 24.2% of large enterprises).

### *SME policy*

Under the Khmer Rouge regime from 1975 to 1979, all private enterprise in Cambodia was prohibited. Over the course of the 1980s, private enterprise gradually began to recover, first with the revival of food processing activities (predominantly rice milling) by co-operatives in the early 1980s, and then with the recovery of basic manufacturing operations (to meet domestic demand) in the mid-1980s. Nationalised firms were sold or leased to the private sector from late 1989, and in 1991 the government introduced a comprehensive privatisation programme (Baily, 2008<sup>[12]</sup>).

By the late 1990s, the country's macroeconomic framework was largely stable, and the basic institutions and infrastructure of a market economy had been built. The number of registered manufacturing SMEs had grown from zero to 24 000 by this time (Baily, 2008<sup>[12]</sup>). Following the country's 2003 general election, the government began to develop a series of strategic documents and institutions to accelerate and guide the development of private enterprise, particularly SMEs.

In 2004 the government launched its Rectangular Strategy, outlining 13 pillars to promote and develop private enterprise in the country, and thereby economic growth, job creation and productivity enhancement. One pillar of this strategy concerns SME development.

In the same year, the government established an SME Development Framework (grounded in the Rectangular Strategy) and an SME Sub-Committee. The Framework identified three main barriers hindering the development of Cambodia's SMEs – a weak regulatory and legal framework, limited SME access to finance and a lack of SME support activities – as well as measures to address them. It was implemented over two phases: the first ran from 2005-2007, while the second, from 2008-2010, mainly focused on regulatory reform. Meanwhile, the creation of the SME Sub-Committee in 2004 provided a platform to increase the coherency of SME development measures. Until then, 25 government agencies had been developing their own SME development policies and instruments, decreasing coherence and increasing compliance costs for SMEs.

## 2018 ASPI results

### *Strengthening the institutional, regulatory and operational environment (Dimensions 5 and 6)*

Cambodia is in the early stage of developing SME policies. This policy area has been assigned to a dedicated body, but it has limited operational autonomy and limited resources. A dedicated SME strategy is not in place, although substantial strategic planning has been conducted on broader industrial development, which includes a component on SMEs. Cambodia's scores of 2.55 for institutional framework and 2.31 for legislation, regulation and tax reflect these findings.

#### *Framework for strategic planning, design and co-ordination of SME policy*

The body responsible for formulating SME policy in Cambodia is the SME Sub-Committee (SCSME), which was established in 2004. The SCSME is chaired by the Minister of Industry and Handicraft (MIH) and includes representatives the Council for the Development of Cambodia; the Ministries of Labour and Vocational Training, Interior, Economy and Finance, Agriculture, Forestry and Fisheries, Tourism, Mines and Energy, Rural Development, Environment, and Women's Affairs; the General Department of Customs and Excise; the National Bank of Cambodia; and the Cambodia Import-Export Inspection and Fraud Repression Directorate General (Camcontrol) of the Ministry of Commerce. The committee is responsible for formulating SME policies and strategies, conducting dialogue with a wide range of stakeholders and co-ordinating funds from development assistance agencies and projects targeted at SME development.

The main body responsible for implementing SME policies and programmes is MIH. It has a dedicated unit for SME policy, the General Department of SMEs and Handicrafts. Its resources are rather limited, however, with MIH as a whole currently employing just 50 officials. But it does have a local presence, with offices in all 25 provinces of Cambodia.

The government does not currently have an SME development strategy in place, with objectives, concrete targets and instruments over the medium term. Instead, occasional interventions are guided by the goals of the country's industrial development strategy. However the government, via the Ministry of Industry and Handicraft, has started to develop a medium-term strategy called the SME Promotion and Development Policy.

Very little monitoring and evaluation currently takes place, save some reporting on the use of the department's budget to MIH, which then reports to the Council of Ministers and the prime minister. SME data is collected irregularly. The information was previously gathered by the Ministry of Planning with support from the Japan International

Co-operation Agency (JICA), but it aggregated small and medium enterprises and there have been concerns over its accuracy. Data are not collected on SME contribution to GDP or value added.

### *Scope of SME policy*

Cambodia has a legal SME definition that was developed under the SME Development Framework in 2005. It disaggregates firms by size and includes criteria of both employment and value. It does not disaggregate enterprises by sector, which increases its ease of use. However, it is not used consistently by different government entities. The National Institute of Statistics (NIS), for example, aggregates small and medium-sized enterprises in data collection exercises.

**Table 13.2. Cambodia's SME definition**

Size classification	Indicator	Number
Micro	Assets (excl. land)	USD 50 000
	Employment	≤ 10
Small	Assets (excl. land)	USD 50 000 – 250 000
	Employment	11 - 50
Medium	Assets (excl. land)	USD 250 000 – 500 000
	Employment	51 - 100

Source: SMESC (2005).

High informality rates may exclude a large number of SMEs from policy interventions. There are few programmes in place to tackle informality, save some measures to streamline and enhance company registration procedures.

### *Development of legislation and regulatory policies affecting SMEs*

Cambodia has not yet gone through a comprehensive regulatory review process. However, in the last ten years it has started to use some good practices to inform the development of regulations. In 2008, the Asian Development Bank (ADB) implemented a project to socialise the use of regulatory impact analysis (RIA). As part of this project, an RIA office was established in the Economic, Social and Cultural Council, the use of RIA was piloted in seven line ministries (2011-14) and a manual on the use of RIA was developed in 2014. The private sector is also consulted in the development of regulations at the draft stage via physical and virtual meetings. However, the transparency and representativeness of these consultations is rather limited: for instance, ongoing consultations are not listed online. Formal written guidance on how to conduct consultations is also unclear.

### *Company registration and ease of filing tax*

Procedures to launch a business are somewhat burdensome in Cambodia despite involving a relatively small number of steps. In general, nine steps are required, taking 99 days and costing 51.3% of income per capita (World Bank, 2017<sup>[7]</sup>). None of these steps can be fully completed online, and an applicant must interact with seven government agencies throughout the process. More than 75 licenses may apply to SMEs in Cambodia, and they are issued by a large number of ministries.

To comply fully with tax filing regulations, a company must submit 40 payments per year, a process that takes 173 hours and amounts to 21.7% of total profits (World Bank, 2017<sup>[7]</sup>). Filing contributions for employee social security is a particular bottleneck, taking 84 hours.

### *E-governance facilities*

Online platforms for filing tax have been available in Cambodia since 2017, but neither social security nor pension contributions can yet be filed online. Tax e-filing platforms are currently in an embryonic phase, with the e-payment platform of the General Department of Tax (GDT) only available for taxpayers who hold accounts with one of three banks: Vattanac, ACLEDA and Canadia. Furthermore, taxpayers are required to submit certain documents to the GDT in person or via direct mail. Enhancements to the platform were expected over the course of 2018. The country has also begun work to enhance the ease and security of digital transactions, with the government releasing a directive in December 2017 on the development of digital signatures (Sub-Decree 246). This directive is primarily designed to facilitate e-commerce, but could also be extended to e-governance. The main agency responsible for the development of e-governance platforms is the Ministry of Posts and Telecommunications.

### *Facilitating SME access to finance (Dimension 3)*

Cambodia has a relatively underdeveloped financial sector according to global indicators, but it is demonstrating a noteworthy reform effort in this area. It is currently ranked 61<sup>st</sup> for financial market development by the World Economic Forum (WEF, 2017<sup>[9]</sup>) and 20<sup>th</sup> for ease of getting credit by the World Bank (World Bank, 2017<sup>[7]</sup>). The country receives high scores for its credit information reporting system and secured transaction framework,<sup>8</sup> but its overall score is diminished by a low performance on indicators of access to and regulation of equity instruments. Few SMEs have access to formal external finance, and a relatively limited range of products are available. When loans are extended, collateral requirements are very high,<sup>9</sup> averaging around 165.1% of the value of the loan in some surveys (World Bank, 2016<sup>[13]</sup>), and there are few measures in place to address this. The country also has a relatively high number of unbanked citizens: only 22% of those aged over 15 had a bank account in 2014 (World Bank, 2014<sup>[14]</sup>). Overall, the country has a higher level of financial intermediation than many of its income-group peers, which may be testament to its financial sector development efforts over the past six years. Domestic credit to the private sector, a proxy measure of financial intermediation, stood at 69.7% of GDP in 2016, up from 44.7% in 2013 (World Bank, 2016a<sup>[2]</sup>). Cambodia's score of 2.89 in this dimension reflects these findings.

### *Legal, regulatory and institutional framework*

For debt financing, facilities to assess and hedge against credit risk are relatively advanced, particularly given Cambodia's income level. In 2012, the country set up its first credit reporting facility, the Credit Bureau Cambodia (CBC), and today it covers around 49.9% of the country's adult population (World Bank, 2017<sup>[7]</sup>). It provides at least two years of both positive and negative<sup>10</sup> data, it is online and in 2017 it started to provide credit scoring as a value-added service. The country also has an excellent secured transaction framework according to international assessment. In 2007 it passed the Law on Secured Transactions (No.0507/012/NS/RKM), which provides a unitary approach to the taking of security. It permits a broad range of collateral to be taken as security, and allows this to be notice based. At the same time, it established the Secured Transactions



Filing Office, a movable assets registry that is centralised and allows any interested third party to perform all registrations, amendments, cancellations and searches online. However, banks may be prevented from enforcing security interests in practice, and some are increasingly calling for measures to restrict changes in ownership and allow for creditors to repossess collateral (PPP, 2017<sup>[15]</sup>). This is partly due to the difficulty of enforcing contracts in Cambodia: procedures to resolve insolvency can take a year and a half and cost 103.4% of the claim value (World Bank, 2017<sup>[7]</sup>). A cadastre is in place, but a large share of land property is not formally registered and digitisation of the cadastre is still at an early stage.

For equity financing, the country has had a stock market in place since 2012, the Cambodia Stock Exchange (CSX), although it remains rather shallow and illiquid. There are currently only five firms listed, with around one new listing a year (bar 2013). The exchange is largely seen as having failed, with four of the five companies being state-owned<sup>11</sup> and a total market capitalisation of only around USD 196 million in March 2017 (OECD, 2017<sup>[16]</sup>) making it one of the smallest stock exchanges in the world. Reasons cited for the CSX's inability to scale and churn include an underestimation of the complexity of launching a stock exchange and issues with corporate governance in Cambodia, for instance weak financial reporting standards and limited information disclosure in English. In September 2015, it was announced that the CSX would be creating a new trading platform for SMEs, named the Growth Board, which would come with decreased listing requirements. To date, no SMEs have listed on this board. The government has also extended tax incentives to stimulate the growth of listing facilities in the country. Companies that listed on the CSX will receive a 10% reduction on profit tax and a 50% reduction on withholding taxes on interest and dividends for a period of three years from the date of listing.

### *Sources of external finance for MSMEs*

The government of Cambodia has few instruments in place to stimulate bank lending to SMEs. Its main instrument, the government-owned Rural Development Bank, was created in 1998 to address the missing market. The government is now working on establishing an SME bank in the country. Alternative instruments to leverage the private sector, such as dedicated credit lines for SME lending, are not extended. There is no public (or private) credit guarantee scheme operating in the country, nor are there public programmes or institutions to support export financing.

Microfinance is one of the main sources of external financing for the country's MSMEs. A main institution is ACLEDA Bank, which was founded in 1993 as a national non-governmental organisation (NGO) for providing credit to micro and small enterprises. In 2000, ACLEDA was licensed as a specialised financial institution under the National Bank of Cambodia (NBC), and in 2003 it received a commercial banking license from the NBC, which allowed it to extend its services. It has become one of the largest commercial banks in Cambodia, with a network of 258 branches across the country as of 2015. ACLEDA is rated by Standard & Poor's. It is co-owned by Cambodian stakeholders and international development and commercial financial institutions, with Cambodian stakeholders retaining majority shares.<sup>12</sup> Including ACLEDA, there were 35 registered microfinance institutions (MFIs) and 32 registered microfinance operators in Cambodia as of 2016 (NBC, 2016), although many more are known to exist informally. The Cambodia Microfinance Association currently has 45 members, including 39 licensed microfinance institutions and six NGOs (rural credit operators), with a gross outstanding loan portfolio of around USD 2 billion and a borrower base of about 1.8 million accounts,

predominately located in Phnom Penh and large provincial towns. Attempts have been made to increase regulatory oversight of these institutions, for instance the Regulation on Registration and Licensing of Microfinance Institutions (2000), but many remain unregistered. This is partially due to the rapid growth of the sector: the size of microfinance loans in Cambodia grew at four times the income growth of the average borrower between 2004 and 2014 (Hutt, 2017<sup>[17]</sup>).

Asset-based instruments are rarely used by firms of any size in Cambodia, despite the country's conducive secured transaction framework. The use of leasing instruments is increasing, but they are mainly utilised to purchase consumer goods, particularly automobiles, and are not commonly used by SMEs to secure corporate credit.

Equity instruments are very scarce in Cambodia. There are no private equity and venture capital (PE/VC) firms based in the country, but start-ups can still access funds, particularly those focused on the Mekong region, such as the Mekong Angel Investors Network or various initiatives of the Mekong Business Initiative. A concrete regulatory framework to govern PE/VC instruments is missing. There are no government programmes in place to stimulate PE/VC financing, but this could be wise given the limited number of such firms needing it and the need to invest in more pressing areas.

#### *Enhancing access to market and internationalisation (Dimension 4)*

Cambodia is struggling to improve the business ecosystem in order to provide better support to its SMEs in the export market. The latest export data show that the contribution from SMEs to national exports is still less than 10%, according to the Federation of Associations for Small and Medium Enterprises of Cambodia (FASMEC) (Sokhorn, 2018<sup>[18]</sup>). Cambodian SMEs are viewed as uncompetitive against foreign goods in both domestic and international markets, partly due to lack of government support. But the government faces an obstacle to developing export and growth strategies because of the low rate of SME formalisation (Kotoski and Sokhorn, 2017<sup>[19]</sup>). With a score of 2.69 for this dimension, Cambodia is still at the early stage of developing policies to improve SME market access and internationalisation.

#### *Export promotion*

In endeavouring to pursue economic liberalisation and trade promotion, Cambodia has tried to mobilise technical assistance from various development partners under national trade strategies over the years. On 18 February 2014, the prime minister launched the Cambodia Trade Integration Strategy (CTIS) 2014-2018 and an accompanying Trade Sector-Wide Approach (SWAp) Roadmap 2014-2018 to accelerate trade sector development. The CTIS is the third generation of a Diagnostic Trade Strategy that was first introduced in 2001. The following year, the Department of International Co-operation under the Ministry of Commerce worked with the United Nations Development Programme (UNDP) to prepare a Medium-Term Plan for the Implementation of Cambodia's Trade SWAp. It was launched in 2016 to measure initial progress against the roadmap and identify where aid for trade might still be lacking. To develop domestic industry, the country also launched the Industrial Development Policy 2015-2025. SME expansion is among the IDP's policy measures and action plans, along with investment promotion, regulatory framework improvement and key-sector development.

Despite these efforts, specific policies to promote SME exports have not been defined. Trade support programmes have mainly focused on developing basic infrastructure for

trading, while many capacity-building initiatives are fragmented and not specifically aimed at helping local SMEs. During consultations with government officials, FASMEC recently highlighted the lack of support for SMEs, including in exporting (Sokhorn, 2017<sup>[20]</sup>).

While Cambodia has experienced increased liberalisation and exposure to foreign economies, local SMEs have trailed behind in terms of competitiveness, even in the domestic market. Many Cambodian SMEs cite a lack of knowledge and skills as the main barrier to expanding abroad. Other factors include non-compliance with certain quality standards and lack of access to finance. A recent study found that Cambodian SMEs were not using free trade agreements mainly due to a lack of knowledge and capacity for dealing with the complexity of foreign trading procedures (Thangavelu, Oum and Neak, 2017<sup>[21]</sup>). The government has stressed that SMEs need to register within the national system in for better delivery of assistance. The *Khmer Times* reported on 28 October 2016, quoting MIH data, that fewer than 40 000 SMEs had been registered out of an estimated 530 000 SMEs nationwide (Chan, 2016a<sup>[22]</sup>). This indicates that informality may be hampering SME policy development and trade support.

### *Integration into GVCs*

To promote value-chain development and linkages between established foreign companies and local ones, the government established the Cambodia Special Economic Zone Board, which operates under the Council for the Development of Cambodia (CDC), the government agency in charge in providing incentives to stimulate investment in the country. Nineteen special economic zones (SEZs) were operating across the country as of May 2018, and 8 more were under construction. Under IDP 2015-2025, continuous development of industrial zones is aimed at promoting hubs for SMEs to enhance their competitiveness. The government sees SEZs as a means of establishing linkages between SMEs and multinational companies (MNCs). Through CTIS 2014-2018, Cambodia aims to foster opportunities to increase backward linkages for domestic SMEs in ten priority export sectors.<sup>13</sup>

Nevertheless, efforts to involve SMEs in the development of SEZs have been limited. FASMEC mentioned an absence of incentives for SMEs to move into SEZs (Chan, 2016b<sup>[23]</sup>). In 2016, it was reported that WorldBridge International Group had signed a memorandum of understanding with MIH to provide USD 25 million to develop an industrial park for SMEs in Kandal Province (Kotoski, 2016<sup>[24]</sup>). Called SME Eco Park, this would be the first SEZ for SMEs to be built in Cambodia. It is to be a hub for manufacturing and raw materials production, as well as providing packaging services and logistics support for SMEs. It remains unclear, however, whether there will be specific strategies for SMEs to help them integrate into the global production network and move up the value chain.

Scattered initiatives that aim to assimilate Cambodian SMEs into GVCs have emerged with support from foreign development partners. Capacity building on improving supply-chain linkages for Cambodian SMEs in the agriculture sector was conducted by the International Finance Corporation through the Cambodian Rice Project 2012-2015. Other activities include: identification of market opportunities through participation in international trade exhibitions; business matching with foreign rice merchants; improving product quality; and branding strategy. Meanwhile, the Business Alliance for Competitive SMEs, a partnership between the US Agency for International Development (USAID)

and the US-ASEAN Business Council, held a workshop in Phnom Penh to foster business linkages and knowledge transfers between MNCs and Cambodian SMEs.

### *Use of e-commerce*

E-commerce is in the early phase of development in Cambodia. The country remains the only ASEAN member state with no e-commerce law. A draft law is currently under review but has not been made public. The country still operates under a law passed in 1996 that mainly deals with postal services (Gaudemar, 2016<sup>[25]</sup>). As of June 2017, Cambodia's first law on consumer protection was still being worked on by the Ministry of Commerce, with financial and technical assistance from the ADB, *Rouse Magazine* reported.

Despite limited legal and logistical infrastructure for e-commerce in Cambodia (UNCTAD, 2017<sup>[26]</sup>), e-commerce in Cambodia has begun to flourish, led predominantly by the private sector. With more Cambodians now having access to smartphones, popular social media platforms such as Facebook and Instagram are being used as digital marketplaces, according to Mango Tango Asia, a market research company (Sokunthea, 2017<sup>[27]</sup>). Several local online shopping sites have become popular, including Glad Market, Shop168, and MALL855. Several e-payment solutions have also emerged, such as E-commerce Payment Gateway by ACLEDA Bank. Logistic services provided by the private sector have also surfaced, such as Cambo Quick and Fado168, which connect Amazon.com's services with Cambodian consumers (McGrath, 2017<sup>[28]</sup>). Specific support for Cambodian SMEs to increase their use of e-commerce have not yet been clearly defined.

### *Quality standards*

The Institute of Standards of Cambodia (ISC) is the body responsible for the preparation of national standards and guidelines for products, commodities, materials, services and operation. ISC, as a correspondent member of the International Organization for Standardization (ISO), is able to sell and adopt ISO standards nationally. In the 2016-2020 Medium Term Plan (MTP) for the Implementation of Cambodia's Trade SWAp, Cambodia's National Standards Council instructed the ISC to proceed with adoption and/or adjustment of the ASEAN harmonised standards within the shortest possible period.

Nevertheless, Cambodia is still at the early stage of helping local businesses to improve their product quality and deal with international quality standards. On 17 May 2016, the *Khmer Times* reported that many Cambodian businesses were still relying on laboratories in neighbouring countries like Viet Nam and Thailand for product inspection in order to comply with the Hazard Analysis Critical Control Point safety management system. This was despite improvements by the Industrial Laboratory Centre of Cambodia, which was seen by local businesses as lacking product coverage and test robustness. The 2016-2020 MTP noted that donors such as the ADB, the EU and others had provided resources for scaling up laboratory capacities, especially in Sanitary and Phytosanitary (SPS) measures and Technical Barriers to Trade (TBT), yet only two government laboratories had achieved international certification, and for a very narrow set of parameters. The absence of international accreditation means that certificates issued by such labs have no value in export markets. This poses a problem for Cambodian businesses seeking to go global. The lack of support for SMEs on complying with quality standards has made them less competitive against imported goods even in the domestic market (Sokhorng, 2017<sup>[29]</sup>).

Although Cambodia has not designed specific initiatives to help SMEs comply with quality standards, foreign development partners and NGOs have taken scattered actions. For example, with the support of an ASEAN-German co-operation project called Standards in the Southeast Asian Food Trade, the General Directorate of Agriculture organised a public-private dialogue on 31 August 2017 to create a platform to foster the use of organic standards among farmers and retailers. Other initiatives by various partners embedded in capacity-building programmes for Cambodian SMEs have been less specific on quality-standards improvement.

### *Trade facilitation*

Cambodia is taking steps to improve trade facilitation. According to the 2017 OECD Trade Facilitation Indicators (TFIs) used in the 2018 ASPI, Cambodia scored medium in indicators on fees and charges, information availability and formalities-procedures, and moderately low in formalities-documents.<sup>14</sup> A major reform in trade facilitation was the development in 2017 of a Cambodian National Single Window (CNSW) to streamline the country's customs procedures. However, as Cambodia is transitioning from manual to electronic procedures, the country's international trade procedures still involve manual tasks requiring submission of documents in multiple copies at various regulatory government agencies (Kunmakara, 2017<sup>[29]</sup>).

Although the CNSW is at the first stage, progress includes the development of a CNSW Blueprint with financial support from the World Bank and the completion of a Legal Gap Analysis carried out in 2014 under the ASEAN Single Window-ASEAN Connectivity through Trade and Investment (ASW-ACTI) project. Since October 2016, the US-ACTI project has assisted Cambodia by connecting the Automated System on Customs Data (ASYCUDA) of the General Department of Customs and Excise and the Certificates of Origin Automation System of the Ministry of Commerce to the ASEAN Single Window. The US-ACTI project has also helped Cambodia to join testing on the electronic exchange of Form D of the ASEAN Trade in Goods Agreement with other ASEAN Member States. Cambodia aims to complete the CNSW development process in 2018. These efforts are part of the initiative to expedite and digitalise customs procedures and cross-border trading.

Cambodia has also established a National Trade Repository as the source for all regulatory information for traders to import or export goods. It provides enquiry points for SPS under Camcontrol's Department of Technical Information and Public Relations, while the TBT enquiry point is under the ISC's Department of Information. However, the website enquiry points are not straightforward in directing visitors to the enquiry service.

Since Cambodia is still developing trade facilitation infrastructure and procedures, specific government programmes aimed at helping SMEs to deal with customs procedures have not been defined. There is, however, a Customs-Private Sector Partnership Mechanism in which the Cambodia Chamber of Commerce (CCC) acts as a co-chair. The mechanism, which provides a forum for the private sector to consult with customs, was officially launched on 26 January 2010 to enhance fair business and the investment climate.

### ***Boosting productivity, innovation and adoption of new technologies (Dimensions 1 and 2)***

Cambodia has made considerable efforts recently to develop a set of policies related to promotion of productivity, technology and innovation. Implementation remains the main

challenge. Very limited infrastructure is available for SMEs to get business development services (BDS) or support with innovation promotion. The country's score for Dimension 1 is 2.62, placing it at the early stage.

While Cambodia has developed a number of policies highlighting the importance of green growth for the country, very few mechanisms exist to support SMEs with greening. With a score of 1.88 for Dimension 2, Cambodia is still at an early stage of policy development focused on greening SMEs.

### *Productivity measures*

The recently created Committee for Productivity in Cambodia is the lead policy development agency for productivity enhancement at the national level, and it covers both large firms and SMEs. It is chaired by the Minister of Economy and Finance and has 18 other members, representing government institutions (including the MIH and the Ministry of Commerce), the private sector and academia. The National Productivity Centre of Cambodia (NPCC) under MIH is the main implementation agency for productivity enhancement programmes and policies.

Policies on SME productivity are covered in the Rectangular Strategy, the IDP 2015–2025 and the new SME Development Strategy, which is still being developed. The National Science and Technology Plan 2014–2020 also has some elements on SME productivity, although it focuses more sharply on agricultural productivity. Consultations on productivity policy development are being conducted as part of the Government-Private Sector Forum. SME-specific productivity enhancement projects are fragmented and most are externally financed. The NPCC was allotted USD 100 000 from the government budget for the implementation of its programmes. While monitoring takes place, it is very limited. There are no official statistics on national and SME productivity, although the Asian Productivity Organisation includes Cambodian data on national level productivity.

### *Business development services*

The Ministry of Industry and Handicraft is responsible for developing, regulating and implementing government policy on SMEs in the manufacturing sector and handicrafts. The strategic framework calls for improving SME access to BDS, but it does not have a detailed action plan, measurable targets, timeframe or expected impact.

Although BDS is seen as a strategic priority, Cambodia lacks BDS support infrastructure such as business support centres, incubators, accelerators or one-stop shops. There is also lack of experienced trainers who could provide support to SMEs. To date, SMEs have had access to BDS through donor-support programmes or limited services such as training or counselling by the National Productivity Centre, National Standard Institute and National Testing Laboratories. Donor-supported initiatives include the Seed Capital and Business Development programme by the Dutch Good Growth Fund, International Labour Organization (ILO) and others. The very few private initiatives include ImpactHub and Confluences Asia.

Getting reliable information is also a challenge for SMEs given the lack of a single portal, but this might be changing. In August 2017, a Business Information Centre (BIC) was launched in Phnom Penh by the Young Entrepreneurs Association of Cambodia (YEAC) in collaboration with the Cambodia Women Entrepreneurs Association, CCC. The BIC received technical support from the ADB and the Australian government-supported

Mekong Business Initiative. The BIC is expected to act as a one-stop resource for up-to-date information on business laws and regulations, opportunities and business support services through guides, toolkits and a database of financial support services.

### *Productive agglomerations and clusters enhancement*

Several government strategies contain elements on the promotion of industrial clusters and SEZs: the IDP; the National Strategic Development Plan 2014-2018; the Rectangular Strategy; and the SME Development Policy. These strategies specifically mention SME promotion in the cluster zones, including the promotion of linkages with large enterprises. The Law on Special Economic Zones is currently being drafted by the CDC. There are several fiscal and some non-fiscal incentives for investing in SEZs.

Cambodia's score in the ERIA Foreign Investment Liberalisation (FIL) index has declined from 93.2% in 2011 to 91.6% in 2014. Nevertheless, its 2014 score is still above the ASEAN median. The agriculture and natural resources sector is more open than the manufacturing sector. There are currently 22 special economic and industrial zones across Cambodia, up from 9 in 2014. However, the country still lacks facilities to encourage networking among innovative companies, such as science/industrial parks, competitive clusters or technology centres. The IDP has some elements on monitoring for the overall plan, though not specific to industrial clusters.

### *Technological innovation*

Cambodia's innovation performance is weak. There is very little expenditure on research and development (R&D), the number of researchers is low, publication levels are modest and patenting is extremely rare. Current policies focus on product diversification, trade expansion and efforts to increase FDI. There is little explicit focus on science or innovation policy, though general improvements to the business environment are likely to improve framework conditions for innovation. Cambodia currently has no stand-alone innovation strategy document. A number of broader strategic documents, such as the IDP, do reference innovation, however, and they specify measures to promote R&D for SMEs and to increase SME access to new technologies. The IDP also encourages technological innovation through an award scheme for priority sectors. Industrial innovation is a key focus in the Cambodia National Science and Technology Master Plan 2014-2020, particularly in the areas of agriculture, primary industries and ICT.

The main co-ordination structures relating to innovation promotion are the General Secretariat of the National Science and Technology Council (NSTC) and the National Committee on Science and Technology. But it is not clear whether they have an arbitration function, since the NSTC is under MIH but involves a number of stakeholders.

Cambodia's intellectual property (IP) laws are relatively more advanced than those of other ASEAN members, but enforcement is uneven and challenging. Cambodia's patent authority lacks sufficient funding and expertise to examine patent applications and has been collaborating with the IP offices of Singapore and Japan to grant patent protection to applicants who have already registered their patents in those countries.

A number of initiatives have taken place in the last five years, mainly with support from international donors. In 2013, the EU supported 56 companies through the Sustainable Product Innovation for Manufacturing SMEs programme in the fields of textiles, furniture, handicrafts and packaging. The Development Innovations project, funded by USAID from 2013-16, aimed to expand the role of technology in Cambodia's

development through support with prototyping budgets, consulting and workspace. Private initiatives such as Geeks in Cambodia organise regular events and innovation bootcamps that are starting to create awareness among SMEs, especially start-ups.

Although these small-scale initiatives exist, the country still lacks basic infrastructure to promote innovation. SMEs cannot benefit from incubators, science and technology parks or labs to develop and test their products. But there is a Technology Transfer Office under the Department of Techniques, Science and Technology.

### *Environmental policies targeting SMEs*

Cambodia does not have national policies specifically supporting the growth of green SMEs, but it is taking ambitious steps to develop policies around greening the private sector and supporting green growth. The Cambodian National Strategic Development Plan includes green growth and climate change as horizontal issues for sectoral development (such as agriculture), and highlights the importance of SMEs. It is supported by other strategies such as the National Policy on Green Growth and the SME Strategic Development Framework.

Although these policies demonstrate that the government views green growth as an important issue and supporting SMEs as vital to economic growth, direct support for the greening of SMEs needs to be further developed. Some sectors already have more highly developed plans to support green growth of SMEs. For example, the National Energy Efficiency Action Plan targets energy efficiency in industrial SMEs. Although the vast majority of enterprises are SMEs, and therefore specifically targeting them may seem unnecessary, small and micro enterprises make up the majority and many are not registered with the government. Determining ways to reach those enterprises, whether through local governments or direct outreach, will be an important step in enhancing access to greening assistance for small and micro enterprises.

### *Incentives and instruments for green SMEs*

Cambodia has not implemented regulatory incentives to complement its support schemes for greening industry. The country's environmental regulatory system is aimed at large projects. It requires environmental impact assessments for projects that are deemed likely to impact the environment, but it does not include incentives to encourage better environmental performance for SMEs, and it is unclear whether much attention is directed at promoting environmental compliance by SMEs. A new law governing environment and natural resources is being drafted to succeed a 1996 law.

There are numerous support schemes and financial incentives for greening in the private sector, but they do not target SMEs directly and there is little evidence that SMEs benefit from them. Programmes such as the Rural Electrification Fund and the National Biodigester Programme provide soft loans for specific technological adoption, but they do not target SMEs and are based on donor funding, so may have limited reach and longevity.

### *Stimulating entrepreneurship and human capital development (Dimensions 7 and 8)*

With its large youth population, Cambodia has started to recognise the importance of instilling entrepreneurial values through the education system and promoting entrepreneurial skills among young people. However, it is still in the development phase



of designing mechanisms and concrete strategies to deliver entrepreneurial education and training, despite having put the commitment in place. With a score of 2.54 in Dimension 7, Cambodia is on its way to entering the next policy development level.

Cambodia has put in place a number of strategies relevant for human capital development. But with a lack of relevant resources, it has been less successful in setting up implementation modalities. This is the main reason why the country scores 2.35 in Dimension 8, putting it in an early phase of policy development.

### *Entrepreneurial education*

Cambodia has shown a notable commitment to integrate entrepreneurial elements into its education system. In response to the National Vision to launch Cambodia into the middle-income country group in 2030, the National Strategic Development Plan (NSDP) 2014-2018 emphasises the development of human resources with the quality and ability to support the country's competitiveness. The commitment set out in the NSDP is articulated into policy in the Education Strategic Plan (ESP) 2014-2018 of the Ministry of Education, Youth, and Sport (MoEYS). ESP 2014-2018 aims to develop the building of knowledge, competence, entrepreneurship, skills, creativity and innovation in all sectors, especially science and technology. It particularly focuses on strengthening dialogue between the private sector and educational institutions on skills gaps, as well as the development of technical skills for youth. It includes a set of outcome indicators on the implementation of educational milestones, including on entrepreneurship.

Nevertheless, ESP 2014-2018 emphasises entrepreneurial learning (EL) most strongly in the youth development area, and EL elements are not clearly defined at any stages of education. Under ESP 2014-2018, the government is to provide training on leadership and entrepreneurial skills for youth on a regular basis, where youth refers to people with Khmer nationality aged 15-30. But entrepreneurial education for youth has not been clearly defined in the school system. The concept of vocational and technical education is still relatively new, and there are neither clear guidelines nor an agenda for entrepreneurship education at the university level. Nevertheless, several Cambodian universities have started to introduce EL elements, such as entrepreneurship promotion programmes by the National University of Management, in partnership with the Cambodia International Education Support Foundation and Waseda University, Japan.

### *Entrepreneurial skills*

The government is currently seeking to establish an Entrepreneurship Promotion Centre, which among other facilities would seek to foster entrepreneurial skills. Currently, Cambodia has a few programmes in this area targeted at young people. Youth embody great potential for Cambodia's future economic growth: almost 50% of the population is under the age of 25 (CIA, 2018<sub>[30]</sub>). Through the establishment of youth centres across the country, ESP 2014-2018 mandated MoEYS to facilitate short training courses on handicrafts, technology, agriculture and telecommunications, with the main focus on youth. The training was to include leadership and entrepreneurship to equip youth with capabilities to create and manage their own businesses. However, the implementing mechanism to deliver the entrepreneurship training has still to be developed.

Other activities by MoEYS to improve entrepreneurial skills are less apparent. But on 24 August 2017, ILO and MoEYS, supported by the ILO/Japan Fund for Building Social Safety Nets in Asia and the Pacific, won the Guinness World Record for the world's largest practical business seminar. The seminar, held to raise youth awareness on

entrepreneurship, took place in Phnom Penh and was attended by 2 304 Cambodians aged 15 to 29 (Keam, 2017<sup>[31]</sup>)

Many initiatives to nurture entrepreneurial skills have emerged from NGOs and the private sector. YEAC, launched in September 2009, aims to empower young entrepreneurs through training and conferences on entrepreneurship. Partnering with the Cambodia Women Entrepreneurs Association, the CCC and the Mekong Business Initiative, YEAC launched its ground-breaking Business Information Centre to facilitate and expedite the start-up process for new businesses by providing a one-stop resource for up-to-date information on business regulations and opportunities (Manet, 2017<sup>[32]</sup>). Meanwhile, the EZECOM internet service provider has an entrepreneurship programme called Hub Academy as the company's corporate social responsibility. Hub Academy provides a year-long entrepreneurship programme for 23 young Cambodians to support them towards becoming future business and community leaders.

### *Social entrepreneurship*

Cambodia has the highest number of NGOs per capita in the world. But in recent years, funding has been targeted at the government's budget rather than civil society. This has put funding pressures on NGOs, many of which are seeking different funding strategies to allow them to pursue their missions and help Cambodia with its social needs.

Though there is no legal definition for a social enterprise in Cambodia, most institutions agree that social entrepreneurship applies the principles of entrepreneurship to finding sustainable solutions to social or environmental problems. The IDP states that the country's industrial development policy should focus in part on "providing support to social enterprises that promote child nourishment, development of knowledge, promotion of national identity, development of cultural heritage, assistance to orphans, disabled persons and elderly people, and sports equipment for young athletes." The law stipulates that charitable and charity-linked activities are tax exempt. All NGOs must be registered with the Ministry of Interior.

Social entrepreneurship in Cambodia focuses on rural development and depends heavily on participation from local communities. The Co-operative Association of Cambodia plays an important role in providing support to co-operatives. Private initiatives like ImpactHub offer business incubator support, training and support for NGOs wishing to convert their model into a social enterprise. Social Enterprise Cambodia operates a web platform that shares the work of social enterprises and enables them to connect. The Royal University of Phnom Penh is also involved in advocacy actions. Impact Hub Phnom Penh works in partnership with donor agencies (USAID, UNDP) to build up the country's social enterprises, which conform to conventional definitions.

### *Inclusive entrepreneurship*

Cambodia has well-developed structural support for inclusive entrepreneurship targeting women, youth and persons with disabilities (PWD). As a result, it has performed consistently well on the planning and design block in this dimension. For women and youth, there are policies to promote entrepreneurship and a clear agency in charge. Entrepreneurship as a policy approach to social and labour-market inclusion for PWDs has yet to be formally explored. However, the government has focused on addressing PWD labour-market inclusion through legislative instruments touching upon employment practices, job placement services and enhancing employability through vocational training. The Government Sub-decree on Investments (No. 88/ANK/BK) promotes

employment through tax exemptions for foreign enterprises based on several factors, including the percentage of disabled workers.

Implementation activities for women and youth are relatively less developed by the government due to lack of funding, with many activities relying on the support of donors and associations. Cambodia has made progress in advancing women's entrepreneurship by putting in place Women's Development Centres with the aid of ADB. The centres reach low-income women in 14 provinces and provide market-access support through the Women's Business Council. YEAC plays a major role in addressing sectoral gaps left by government. Building on the government's considerable work in the area of entrepreneurial education, YEAC has taken the lead in advancing youth entrepreneurship by offering skills training, holding competitions, giving awards and intervening in the policy and regulatory environment. Inclusive entrepreneurship is not happening in silos and there is considerable co-ordination among various stakeholders for women and youth.

## The way forward

### *Strengthening the institutional, regulatory and operational environment*

Cambodia has carried out a wave of long-term economic development planning in recent years, but the institutional framework for SME policy is still rather underdeveloped, and laws and regulations are still burdensome. To enhance the institutional, regulatory and operational environment for SMEs, Cambodia could:

#### *Institutional framework for SME policy*

- **Institutionalise a regular economic census.** Cambodia could request technical assistance to enhance the quality of SME data collection. Access to reliable data on the enterprise population is a crucial element in designing and delivering targeted SME policies. To increase the accuracy of the data, Cambodia could seek technical assistance from international or bilateral agencies with demonstrated expertise.
- **Consider developing a targeted SME strategy.** Cambodia has developed a number of strategic economic plans, but a targeted SME strategy is still missing. This is a crucial element in ensuring a structured and sequenced set of programmes and policies to foster SME development, and should include quantitative targets.

#### *Legislation, regulation and tax*

- **Accelerate efforts to increase the ease of company registration.** Company registration is relatively burdensome in Cambodia, with a high number of licenses required. Steps could be taken to begin developing online registration platforms and streamlining the number of licenses required to operate a business.

### *Facilitating SME access to finance*

Cambodia has developed a strong legal and institutional framework for supplying credit over the last six years. Yet few instruments are in place to increase the flow of credit to MSMEs, and gaps in regulation and credit information remain. To increase MSME access to credit, Cambodia could:

- **Extend CBC coverage to include data on firms.** Credit information has increased over recent years, but the CBC does not yet compile credit information on firms. It could continue and ramp up efforts to compile such data, which it is currently collecting from a sample of firms for testing.
- **Consider developing a credit guarantee scheme.** Credit guarantee schemes can be a market-friendly instrument to incentivise lending to SMEs. A diagnostic exercise could be completed to explore whether a credit guarantee scheme is desirable and feasible, as well as what form it should take.

### *Enhancing access to market and internationalisation*

As Cambodia has undergone significant reforms to liberalise its economy, enhancing SME competitiveness is becoming more relevant to support SMEs in both domestic and international markets. To promote SME internationalisation, Cambodia could pursue the following actions:

- **Integrate SMEs into existing SEZs.** The aim is to establish business linkages between local SMEs and larger domestic companies or MNCs and to assimilate SMEs into GVCs. This can be promoted indirectly by improving foreign investment regulations to require MNCs and large companies operating in the SEZs to source from local SMEs, or more directly by incentivising local SMEs to establish businesses in the established SEZs and join the production network.
- **Embed specific support for SMEs in trade facilitation development.** Cambodia is still in the early phase of developing trade facilities and infrastructure. Specific support for SMEs will ensure that they may also enjoy the benefits from future improved facilities.
- **Develop a national agenda to support SME access to international markets.** This should include capacity building and assistance for SMEs to expand internationally. Cambodia's domestic market is too limited for local businesses to grow. Obstacles to competing in foreign markets include low product quality and lack of knowledge on foreign market opportunities, low capacities on international trade procedures and limited technological savvy. Improving the knowledge and skills of SMEs in those areas will greatly increase their opportunities to expand beyond domestic borders.

### *Boosting productivity, innovation and adoption of new technologies*

To increase productivity, spur innovation and promote the adoption of new technologies and SME greening, Cambodia could pursue the following actions:

#### *Productivity, technology and innovation*

- **Place a stronger focus on implementation.** Cambodia has developed solid policy documents on productivity in most areas, often specifically focused on SMEs, but implementation modalities could be improved. Cambodia could invest in the development of infrastructure for BDS and innovation promotion in the form of business support centres, incubators and one-stop shops. This should include development of both the physical infrastructure and skilled personnel.
- **Spread awareness on the importance of improving productivity and innovation.** Although Cambodia has policies promoting innovation and

productivity, SMEs and would-be entrepreneurs are not always aware of the benefits. By developing role models and promoting national competitions, policy makers could help create demand for BDS and innovation-development activities. This could be done in partnership with the private sector and academic institutions.

- **Further develop the educational sector.** By developing education in science, engineering and entrepreneurship, the government could help create spillovers and product diversification for the manufacture of higher value-added goods.

### *Environmental policies and SMEs*

- **Develop targeted action plans for environmental policies.** Environmental policies should be paired with action plans, targets and timelines to ensure that they have an impact. The government could consult with SMEs on green policy development to ensure that its approach takes account of the challenges and opportunities for specific sectors and makes SMEs aware of the options for greening.
- **Sharpen the focus of mechanisms and incentives on SMEs.** Support incentives should ensure that changes to the environmental regulatory structure take SMEs into account and provide incentives for compliance and good performance. The mechanisms should be monitored to ensure that support schemes and financial incentives for SMEs actually reach them and are appropriate to their needs.

### *Stimulating entrepreneurship and human capital development*

As youth dominate Cambodia's demographic structure, including entrepreneurial knowledge and skills in the national education system and training agenda can help the country reap the benefits of having a young population. Specific attention can be given to the following actions:

#### *Entrepreneurial education and skills*

- **Develop a concrete entrepreneurship curriculum for every education level.** The commitment to nurture entrepreneurial spirit among youth will be set in the Education Strategic Plan 2019-2023. A concrete curriculum on entrepreneurship in schools would greatly help Cambodia to deliver and nurture entrepreneurial values, attitudes and skills among school children and equip them with the leadership and creative values that characterise entrepreneurship attitudes. The curriculum would also be a means of ensuring the quality of entrepreneurship education in schools and would serve as a monitoring and evaluation tool.
- **Develop a training-of-trainers mechanism.** This would help ensure the quality and supply of entrepreneurship educators in the country. As Cambodia has a plan to promote entrepreneurship values, especially among youth, it needs to equip itself with a good national training-of-trainers programme to support the plan.

#### *Social and inclusive entrepreneurship*

- **Develop a formal definition or set of criteria for social enterprise.** The lack of a legal definition is a source of confusion and can lead to misperceptions. A clear legal definition or criteria would make it possible to avoid these pitfalls. A

definition might also allow NGOs to move towards a revenue-generating model and government to collect some income from it. Clear criteria are needed in order not to allow traditional businesses to benefit from a special status to avoid paying taxes.

- **Explore collaboration with the private sector.** Cambodia does not have the funds necessary to tackle its social challenges. Exploring closer links and collaboration with the private sector could bring added value. By developing the right set of incentives (not limited to tax exemption), the government could promote the development of inclusive and responsible business models from which social and inclusive enterprises could benefit. This could boost the development of implementation activities driven by private actions in collaboration with the government.
- **Develop implementation instruments to support target groups.** Policy makers should put stronger emphasis on the implementation modalities of their strategies for social and inclusive entrepreneurship promotion. This can be done by developing relevant instruments that focus on the specific needs of the target groups, such as access to finance, business support services and the market. The government could explore the possible introduction of “social clauses” into public procurement to ensure that NGOs, social enterprises and targeted groups can more easily sell their products or services to the government.

## Notes

<sup>1</sup> Cambodia has the smallest territory after Singapore and Brunei, and the smallest population after Brunei, Singapore and Lao PDR. It also has the fourth sparsest population, after Lao PDR, Brunei and Myanmar.

<sup>2</sup> Zircons, sapphires and rubies, notably.

<sup>3</sup> The share of the Cambodian population residing in rural areas was estimated to amount to 79.1% in 2016.

<sup>4</sup> For instance via the Public Financial Management Reform Programme (PFMRP), which was created in 2004 to cover a ten-year period, and the Debt Management Strategy 2015-2018.

<sup>5</sup> In particular, it aims for non-textiles to represent 15% of all merchandise exports by 2025.

<sup>6</sup> Those mentioned include Phnom Penh city, Sihanoukville and Koh Kong provinces, as well as those bordering neighbouring industrial centres such as Bangkok in Thailand and Ho Chi Minh in Viet Nam.

<sup>7</sup> Particularly transport infrastructure.

<sup>8</sup> Substantial steps were taken in this area between 2012 and 2014.

<sup>9</sup> Although not as high as in other CLM countries.

<sup>10</sup> And not more than ten years in the case of negative data.

<sup>11</sup> The first company to be listed on the exchange was the Phnom Penh Water Supply Authority, followed by Grand Twins International (Cambodia) PLC (a garments factory) in 2014, and the Phnom Penh Autonomous Port, the Phnom Penh SEZ PLC and the Sihanoukville Autonomous Port in 2015, 2016 and 2017 respectively.

<sup>12</sup> 51% of ACLEDA Plc. is owned by Cambodian stakeholders, while 49% is owned in equal shares by: COFIBRED; Sumitomo Mitsui Banking Corporation; ORIX Corporation; Triodos Microfinance Fund; Triodos Fair Share Fund; and Triodos Sustainable Finance Foundation.

<sup>13</sup> CTIS 2014-2018 includes a focus on ten export sectors identified as priority sectors by the government: garments, footwear, light manufacturing assembly based in SEZs, processed food, fisheries products, milled rice, cassava, rubber, tourism and high-value silk products.

<sup>14</sup> Four sets of indicators from the 2017 OECD TFIs are used in the 2018 ASPI: *i*) Information availability; *ii*) Fees and charges; *iii*) Formalities-documents; and *iv*) Formalities-procedures, with 2 being the highest possible score for each of the indicators. In 2017, Cambodia scored 1.0 for information availability, 1.7 for fees and charges, 1.6 for formalities-documents, and 1.2 for formalities-procedures.

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From:

## SME Policy Index: ASEAN 2018

Boosting Competitiveness and Inclusive Growth

Access the complete publication at:

<https://doi.org/10.1787/9789264305328-en>

### Please cite this chapter as:

OECD/Economic Research Institute for ASEAN and East Asia (2018), “Cambodia”, in *SME Policy Index: ASEAN 2018: Boosting Competitiveness and Inclusive Growth*, OECD Publishing, Paris/Economic Research Institute for ASEAN and East Asia, Jakarta.

DOI: <https://doi.org/10.1787/9789264305328-17-en>

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