

# Chapter 1

## **Cambodia Small and Medium Sized: Enterprises: Constraints, Policies and Proposals for Their Development**

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## **Chapter 1**

# **CAMBODIAN SMALL AND MEDIUM SIZED: ENTERPRISES: CONSTRAINTS, POLICIES AND PROPOSALS FOR THEIR DEVELOPMENT**

*Peter Baily*

### **Abstract**

In 2004 the Cambodian government formed the SME Sub-Committee and the SME Development Framework was created. The framework is the first attempt by the government of Cambodia to identify barriers and introduce measures specific to promoting development of the country's SMEs. Three main barriers to SME development have been identified; the weak regulatory and legal framework; limited SME access to finance; and a lack of SME support activities. A number of policies have been implemented and recommended to overcome these obstacles to SME development. These include policies to improve the Cambodian business environment.

### **INTRODUCTION**

Small and Medium sized Enterprise (SME) development is crucial for sustained and equitable development of the Cambodian economy. Evidence from more economically developed Asian nations demonstrates that SMEs have considerable potential for driving economic growth. Under the right conditions, entrepreneurs, regardless of background, can start and grow SMEs, generating profits and creating employment opportunities. SMEs drive industrial progress, improve an economy's ability to deal with shocks and are recognised as breeding grounds of innovation.<sup>1</sup>

As elsewhere in Asia, SMEs make up the vast majority of businesses in Cambodia. Almost 40% of the nation's enterprises have between 10 and 100 employees, and almost 99 percent have between 1 and 100 workers.<sup>2</sup> It is estimated that SMEs provide about two thirds of the country's employment.<sup>3</sup>

With the expansion of globalisation, manufacturing SMEs everywhere are facing increasing international competition and need to improve quality and efficiency of output to international standards to survive. The Cambodian business environment needs improving, and SMEs need developing, to be able to compete with imports. Creating a level playing field and encouraging SME development will not only enable Cambodian SMEs to compete successfully in their domestic market; it will also pave the way for their involvement in exporting.

The Royal Government of Cambodia (RGC) has stated a commitment to private sector led growth and recognises the importance of SMEs for sustainable and equitable economic development. Although still at the very early stages of implementation, the government has introduced a range of policies focused on SME development. Key to organising SME development strategies has been the forming of the SME Sub-committee in 2004.

This paper reports on the growth and current status of Cambodian SMEs, and the main barriers they face to their development. It discusses a number of planned and implemented policies, and recommendations to encourage SME development.

## **2. CAMBODIAN INDUSTRIAL SMEs**

### **2.1 History**

Following independence from the French in 1954 there was a boom in the number of Cambodian industrial SMEs. According to a 1958 government report, in the mid 1950s there were 369 registered SMEs operating in Cambodia. By 1958 there were over 1000.<sup>4</sup> Included in this group were assembly plants for Citroen cars, motorcycles and sewing machines, two scooter factories, soap factories, weaving factories, paper and sugar mills and a canning factory.<sup>5</sup>

These factories along with much of the country's infrastructure were destroyed as Cambodia got dragged into the deepening regional conflict. During the Khmer Rouge (KR) regime's control of the country from 1975 to 1979 all enterprises were forbidden, and trade, markets and money were outlawed.<sup>6</sup>

## 2.2 Growth

The subsequent growth of Cambodian SMEs has been remarkable considering the level of devastation of infrastructure and institutions during the country's recent civil war, and the banning of commerce from 1975 to 1979 under the Khmer Rouge (KR). By the early 1980s agro-industry food processing activities, predominantly rice milling, had started taking place under the cooperative sector. By the mid 1980s a host of small private enterprises providing basic manufactured goods, such as fish sauce, had emerged to meet growing domestic demand.<sup>7</sup> Nationalised SMEs were sold or leased to the private sector from late 1989, and in 1991 the government introduced a full-scale privatisation programme. Macro-economic stability had been largely achieved by the late 1990s and basic infrastructure and institutions had been rebuilt providing the platform for growth of SMEs.<sup>8</sup>

The number of Cambodian manufacturing SMEs has increased steadily since the late 1980s. A National Institute of Statistics (NIS) survey of industrial firms shows that

**Table 1: Registered SMEs by industry**

Enterprise type	1998	1999	2000	2001	2002	2003	2004	2005
Food, beverage and tobacco	18,590	19,147	20,152	21,871	21,568	20,869	22,712	23,343
Textile wearing apparel leather	310	396	366	2382	1,417	1,406	1,672	1,662
Wood products including furniture	895	814	869	141	13	13	16	-
Paper products printing publishing	26	23	24	23	15	21	25	31
Chemicals petroleum coal plastics	55	67	297	277	275	96	120	153
Non-metallic mineral products	811	777	666	721	757	681	680	718
Fabricated metal products	1,375	1,647	1,824	1,454	1,899	1,850	2,239	2,222
Other manufacturing	2,035	1,356	1,208	1,286	976	1,049	667	618
Total	24,097	24,227	25,406	28,155	26,920	25,985	28,131	28,747

*Notes:* SMEs in this data set are defined as employing up to 50 people. There are very few enterprises that employ between 50 and 100 people in Cambodia, so not including this group still provides a reasonable estimation of enterprises with fewer than 100 employees.

*Source:* Cambodian Ministry of Industry Mines and Energy, *Cambodian National Institute of Statistics Yearbook 2006*

manufacturing SMEs in Cambodia doubled between 1993 and 2000, a compounded growth rate of over ten percent per annum.<sup>9</sup> By the late 1990s registered manufacturing SMEs in Cambodia had grown to number over 24,000, increasing to nearly 29,000 by 2005, (see Table 1).<sup>10</sup>

The number of registered enterprises is less than half of all Cambodian manufacturing SMEs. Due to barriers to registration and little perceived benefit of joining the formal sector, as discussed further below, many of Cambodia's enterprises have remained informal.

At a rough approximation there are over 60,000 industrial SMEs in Cambodia today. The Ministry of Industry Mines and Energy (MIME) estimated that there were at least 30,000 unregistered industrial enterprises in Cambodia in 2005. The Asian Development Bank (ADB) estimated informal industrial enterprises with fewer than 50 employees to number about 30,000 in 2003.<sup>11</sup> With these two estimates of informal industrial SMEs both close to 30,000 and MIME data showing a further 30,000 registered SMEs in 2005, it is likely that there are at least 60,000 registered and unregistered SMEs in Cambodian today.

### **2.3 Involvement in International trade**

The growth of Cambodian exports has gained momentum as the country has stabilised and foreign investment has increase. Up until the mid 1990s the majority of exports were primary products, such as rubber and timber. Since 1993 there has been rapid growth in the garment industry. However Cambodian SME involvement in manufacturing exports remains minimal.<sup>12</sup>

Very few Cambodian manufacturing SMEs are involved in exporting. Rather than being processed in Cambodia, most of the country's primary goods, such as cashew nuts and rice paddy, are sent unprocessed to neighbouring countries, where production is more efficient, and then imported back into Cambodia as a finished product. There is a small cluster of SME garment manufacturers around Poipet on the Thai Cambodian border, exporting to Thai markets.<sup>13</sup> The only other manufactured

exports of any note are garments produced by large, typically foreign owned enterprises, with considerably more than 100 employees.<sup>14</sup>

Despite their lack of involvement in exports Cambodian SMEs are still competing with foreign producers. As Cambodia has moved towards a market economy and joined trade groups, including the Association of South East Asian Nations (ASEAN) and the World Trade Organisation (WTO), it has opened the door to international trade. Development of Cambodian domestic SMEs is taking place in an increasingly competitive international market place.

Many of the SMEs from Cambodia's neighbours are more competitive. Most have access to superior infrastructure, higher skilled human capital and face fewer bureaucratic barriers. In this context it is of crucial importance for Cambodia's economic development that the main issues hampering development of the country's SMEs are identified and addressed.

## **2.4 Definition**

Up to 2005 Cambodia did not have a single official classification of an SME. The National Institute of Statistics (NIS) classified enterprises with fewer than 10 employees as small, and 11 or more as large. It also, at times, further segregated enterprises with between 11 and 100 employees as medium sized. MIME defined small enterprises as those with fewer than 50 employees. Some ministries use either or both of these definitions, while others use different definitions again, some based on asset value. This makes it difficult to compare SME data from different sources and, as definitions have been changed over time, from one period to the next.

In July 2005 the Cambodia SME sub-committee proposed the following definitions of enterprise size to be applied to all ministries, (see Table 2). It is unclear whether definitions have been used consistently since.

For policy and statistical purposes the definition based on employee number is the preferred SME Sub-Committee option. When employee number is not suitable, such as when there is considerable variance over time in the number of employees at an enterprise, the definition based on financial assets should be used.<sup>15</sup>

**Table 2: SME definition**

	Employee number	Assets excluding land US\$
Micro	Less than 11	50,000
Small	11 – 50	50,000 – 250,000
Medium	51 – 100	250,000 – 500,000
Large	Over 100	Over 500,000

*Source:* Royal Government of Cambodia Sub-committee on Small and Medium Enterprises SME Secretariat *Small and Medium Enterprise Development Framework 2005*

For the purpose of this report, unless otherwise stated, the classification SME refers to any enterprise with up to 100 employees.

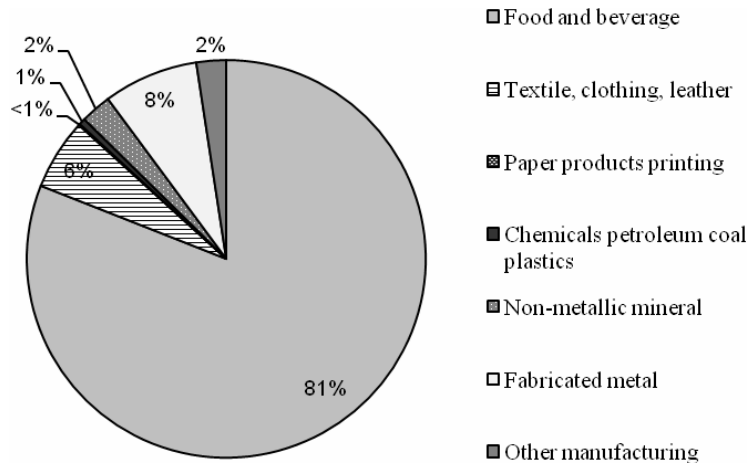
## **2.5 SMEs today**

Today the vast majority of Cambodian manufacturing SMEs are small family run businesses, involved in basic processing of primary produce for the domestic market. There are very few who export directly or by supplying larger domestically based exporting firms. Few have formal contracts or more than basic interactions with other companies. A lot of commerce is based around personal relationships.

According to MIME data, in 2005 over 80 percent of Cambodian industrial SMEs were involved in food, beverage and tobacco industries, (see Figure1). NIS survey data from 2000 show similar findings, with close to 80 percent of manufacturing SMEs from a sample of nearly 8,000 businesses involved in food, beverages and tobacco. Furniture manufacturers made up a further seven percent of the sample. Small scale textile and garment, machinery and non-metallic mineral producers made up the bulk of the remaining 13 percent. There is also a small number of Cambodian SMEs involved in traditional handicrafts and chemicals.<sup>16</sup>

The high concentration of manufacturing in the early industries (food, beverages, tobacco: textiles and clothing) is unusual. By comparison in low income countries it is common for early industries to produce about half of manufacturing value

**Figure 1: Industrial SMEs by sector 2005**



Source: Cambodian Ministry of Industry Mines and Energy, *Cambodian National Institute of Statistics Yearbook 2006*

added.<sup>17</sup> The high percentage of manufacturing of textiles and garments in Cambodia distorts the relative involvement in manufacturing of other sectors. The dominance of this sector follows a boom in FDI in garment factories from the mid 1990s to take advantage of Cambodia's preferential access to US and EU markets.

Cambodian firms typically have simple structures. Over 98 percent of manufacturing SMEs are single establishments, with only one branch or factory. More than 90 percent are single proprietorship businesses, owned and controlled by an individual or family. With the exception of large garment manufacturers, over 95 percent of enterprises in Cambodia are owned by Khmers, with minimal or no association with foreign supply chains.<sup>18</sup>

Cambodian SMEs are generally very small. According to the NIS 2000 survey, within the manufacturing sector nearly 86 percent of SMEs had fewer than 10 employees. Five percent had between 10 and 19 employees and about three percent had between 20 to 99 workers. Less than seven percent of Cambodian firms surveyed by the NIS were large establishments with more than 100 employees.<sup>19</sup>



While it is not unusual for a country with a small population to have so many small SMEs, this may indicate barriers to enterprise development. Traditionally, in a well functioning economy micro-enterprises develop into small enterprises, some of which develop into medium sized and large enterprises. Few Cambodian companies have developed in this fashion.

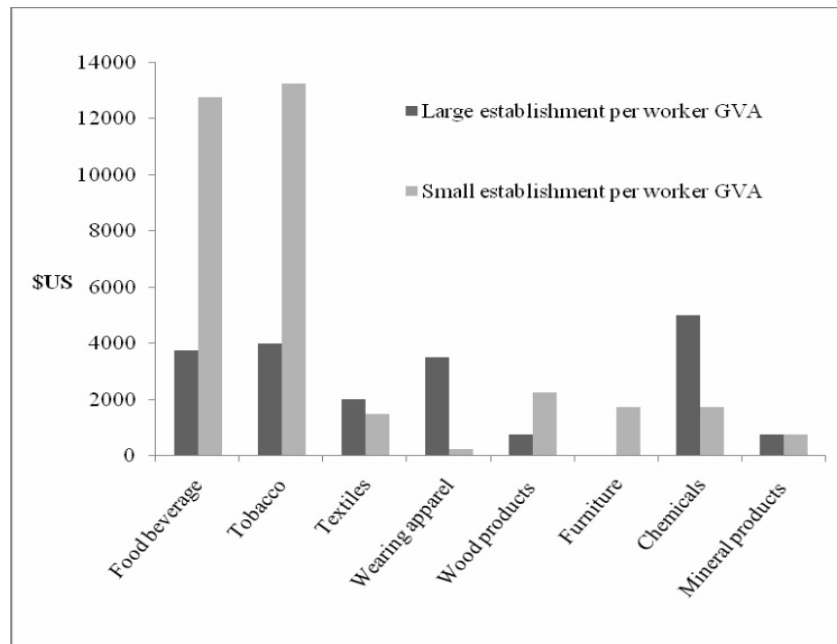
On the other hand, there is evidence that much of the growth in SME numbers, discussed above is due to increases in numbers of small as opposed to micro enterprises. Data from the Ministry of Planning (MoP) shows that the number of firms employing between 10 and 49 workers as a percentage of all firms, increased from 39 to 79 percent between 1993 and 2001. During the same period the number of firms employing fewer than 10 workers (micro enterprises) decreased as a percentage of all firms from 60 to 20 percent.<sup>20</sup> The SME survey associated with this report supports these findings, providing evidence of a number of firms developing from micro to small to medium sized enterprises.

## **2.6 SME performance**

Within the manufacturing sector NIS data shows per worker output is almost always higher for small firms than it is for large firms.<sup>21</sup> In the manufacture of food and beverages gross output per worker is over twice as high for small as it is for large enterprises (see Figure 2).

However, Cambodian SMEs have low total factor and labour productivity relative to neighbouring countries. By both measures, productivity of Cambodian firms lags behind enterprises in almost all other Asian nations. A 2004 World Bank (WB) study shows Cambodian firms to have total factor productivity 18 percentage points below those of India and 24 percentage points below those of China. Labour productivity is 65 percentage points below that of India, and almost two thirds below that of China.<sup>22</sup>

**Figure 2: Gross value added per worker in 2000**



*Notes:* Small firms are defined here as having fewer than 10 employees

*Source:* Cambodian National Institute of Statistics Yearbook 2006

### *2.6.1 Physical capital*

The productive capital used by Cambodian SMEs is often old and inefficient relative to that used in neighbouring countries. Companies are hampered in their abilities to upgrade due to an under-developed financial market. Many lenders simply increase the cost of credit to compensate for perceived risks. Investment is further hindered by a weak rule of law and weak institutions. It can cost considerably more than a loans value for a lender to seek legal recourse following a default.

To some extent the use of old and basic machinery also reflects a lack of human capital. Older machines are easier to repair with basic knowledge when they break-down.

### *2.6.2 Human capital*

Cambodians generally have limited formal education and training and have few opportunities to enhance their human capital. The World Bank reports that in 2003

nearly 97 percent of the country's manufacturing workers were unskilled and less than a quarter of Cambodian firms provided formal training to workers.<sup>23</sup>

Even a basic education is unavailable to many Khmers. There is a major shortage of qualified teachers and less than three percent of the country's GDP is spent on public education.<sup>24</sup> Although primary and junior high school education is officially free and compulsory, low official wages lead to teachers demanding fees from students, and families often remove children from school to help harvest and prepare family plots of land.

For students there is little motivation to study, as well-paying jobs are usually given based on family contacts, not ability.

### **3. THEORIES OF DEVELOPMENT**

Very generally theories of Asian development can be classified into two groups. On one hand are accumulation theories, where the accumulation of physical capital and upgrading technology is vital for economic development. On the other hand are assimilation theories, where factors such as entrepreneurship, innovation and the ability to learn and adopt technology are of crucial importance for enterprise and economic development. The relevant importance of accumulation verses assimilation is debated, but it is obvious that some mix of both is required for nations and enterprises to develop. Empirically the high rates of growth in Asian economies has been characterised by high rates of growth in both physical and human capital.

Many of the following barriers and recommendations reflect the importance of physical and human capital. Providing a level playing field where Cambodian SMEs can access and upgrade capital would go a long way towards enabling these enterprises to develop.

The Small and Medium Industry Development Corporation of Malaysia (SMIDEC) have identified four stages of enterprise development. During the initial stage factors such as access to an adequate workforce and raw materials, and

satisfactory infrastructure are crucial for development. As the enterprise enters the second stage, standards and technical assistance, production processes and market development take on more importance. During the third stage, factors such as technological, ICT and managerial capabilities become basic requirements. During the fourth and final stage enterprises become globally competitive and factors such as design capability, brand name promotion and industry upgrading are basic concerns.<sup>25</sup>

In terms of SMIDEC's model Cambodian SMEs are all around the first two stages of enterprise development. This again emphasises the importance of physical and human capital accumulation, and underlying this, an enabling business environment for enterprise development.

#### **4. AN ENABLING BUSINESS ENVIRONMENT**

The uncertain business climate exasperates the problems of low levels of physical and human capital available to Cambodia SMEs. Corruption, poor governance, weak courts and poor infrastructure cause excessive costs and uncertainties for Cambodian enterprises.<sup>26</sup>

Over the last ten years the Royal Government of Cambodia has introduced a number of laws designed to promote commerce in general. These include financial sector laws, a land law to strengthen land rights and encourage the use of property for collateral, and amendments to the Law on Investment to encourage purchases of productive capital. The Law on Enterprise Accounting and Audit was introduced as a first step towards implementing improved accounting standards. The law on Commercial Enterprises and a law on Commercial Arbitration have recently been passed in an attempt to reduce risks associated with trading. There are a further eight major commercial laws currently being considered by the government.<sup>27</sup>

These policies address many barriers hampering commerce and therefore SME development. But it is only within the last few years that the government has focused on removing barriers specific to the development of SMEs.

#### **4.1 SME promotion strategies**

Up until 2004 there was no single department controlling SME promotion policies. As many as 25 different ministries and organisations have developed their own SME promotion strategies, regulations and policies focusing on achieving varying outcomes. This increases not only uncertainty regarding requirements and government assistance, but also the compliance cost to SMEs. An SME garment manufacturer headed by a female entrepreneur will be subject to regulations and policies from at least the Ministry of Commerce (MOC), the Ministry of Women's Affairs, and the Ministry of Environment.

None of the ministries officially coordinate SME promotion activities or share information. This results in considerable duplication of data collection and often redundant strategies. At the worst policies designed to promote SME development can contradict each other.<sup>28</sup>

In 2004 the SME Sub-committee was formed to coordinate and promote policies to develop SMEs. By coordinating the SME policies of different government departments and associations it is hoped duplicating and contradicting policies can be avoided.

##### *4.1.1 The Rectangular Strategy*

In July 2004 the Royal Government of Cambodia produced the Rectangular Strategy, with thirteen approaches to encouraging Cambodian commercial development, (see Table 3). The Rectangular Strategy was intended to promote economic growth, generate employment, and encourage efficiency through competition. One of the main focuses of the Rectangular strategy was to promote the development of Cambodian SMEs.<sup>29</sup> None of these thirteen approaches were implemented at the time, but the Rectangular Strategy has provided a foundation for the SME Development Framework.<sup>30</sup>

**Table 3 Rectangular Strategy: 13 strategies for developing SMEs**

1. Provide SMES with medium and long term finance	<ul style="list-style-type: none"> <li>• Provide land titles and encourage use of collateral</li> <li>• Develop financial products and share credit information</li> <li>• Simplify SME accounting and taxation system</li> </ul>
2. Suppress smuggling	<ul style="list-style-type: none"> <li>• Strengthen capacity of anti-smuggling task force</li> <li>• Rationalise number of agencies involved at border checkpoints</li> <li>• Extend the single window concept to border checkpoints</li> </ul>
3. Reduce registration and start-up procedures for SMEs	<ul style="list-style-type: none"> <li>• Reduce administration and cost barriers to registering</li> <li>• Develop on-line registration, decentralise company registration</li> <li>• Link MOC, MEF tax and VAT registration, merge into one process</li> </ul>
4. Facilitate export-import activities by simplifying processes	<ul style="list-style-type: none"> <li>• Review licenses, introduce a single customs admin document</li> <li>• Single Window process at ports, and risk management</li> <li>• Enact the law on customs and develop implementing regulation</li> </ul>
5. Support newly established industries for a period	<ul style="list-style-type: none"> <li>• Foster private sector led incubator systems</li> <li>• One-stop window for all business licenses</li> </ul>
6. Promote linkages between SMEs and large enterprises	<ul style="list-style-type: none"> <li>• Encourage linkages between local clusters international orgs</li> <li>• Integrate SMEs clusters in global value chains</li> </ul>
7. Assist SMEs enhance productivity and reduce production costs	<ul style="list-style-type: none"> <li>• Develop toolkit packages for training and SME capacity building</li> <li>• Develop action plan to meet technology and training needs</li> </ul>
8. Improve quality of domestic produce to international standards	<ul style="list-style-type: none"> <li>• Encourage quality standards through ISO 9000 certificate</li> <li>• Encourage links between training, research institutions and SMEs</li> </ul>
9. Establish national libraries to test quality and criteria of products	<ul style="list-style-type: none"> <li>• Use existing public research institutes to enhance capacity for applied research and product quality testing</li> <li>• Strengthen the capacity of research institutes</li> <li>• Foster linkages between private sector and research institutes</li> </ul>
10. Strengthen mechanism for the protection of industrial property rights	<ul style="list-style-type: none"> <li>• Implement specific institution arrangement for effective intellectual property rights</li> </ul>
11. Promote vocational skills/training domestically and foreign	<ul style="list-style-type: none"> <li>• Promote learning networks and joint international marketing</li> <li>• Coordinate providers to identify needs and link with SMEs</li> </ul>
12. Expand and accelerate the “one village one product” program	<ul style="list-style-type: none"> <li>• Take a stock-take of clusters to identify number, size, products and locations</li> <li>• Cooperate with donors and associations to develop common service provisions and support for clusters</li> </ul>
13. Strengthen the legal framework	<ul style="list-style-type: none"> <li>• Enact laws on commercial enterprises, insolvency, secured transactions and contracts</li> <li>• Create specialised court to resolve commercial disputes</li> <li>• Extensive capacity building for commercial court system</li> </ul>

Source: Workshop on SME Development Program, *SME Development Framework SME sector road map 2005*

## **4.2 The SME Development Framework**

The SME Development Framework was created following the formation of the Cambodian SME Sub-committee. The framework is the first concerted effort by the government focused purely on promoting the development of Cambodian SMEs. The SME Development Framework uses the thirteen Rectangular Strategy approaches listed in Table 3 Rectangular Strategy as a foundation for advancing Cambodian SMEs.<sup>31</sup>

The SME Development Framework is a medium term strategy with two phases. The first stage intends to establish a business environment conducive to SME development. The second stage proposes to enhance and expand this business environment and assist SMEs to integrate into global networks. Phase one is being implemented from 2005 to 2007. The second phase is set to run from 2008 to 2010.<sup>32</sup>

The over-riding objective of the SME Development Framework is to reduce the cost to SMEs of doing business in Cambodia via four main approaches.<sup>33</sup>

1. establish how regulations impact on SMEs
2. make recommendations for streamlining regulatory requirements
3. provide a channel for the private sector to challenge official decisions
4. make legal and regulatory reform recommendations designed to reduce uncertainties and risk to SMEs.

## **5. BARRIERS AND RECOMMENDATIONS**

A number of surveys conducted by different organisations have identified a similar set of barriers impeding development of Cambodian SMEs. A 2004 WB survey identified the main issues hampering the development of Cambodian business in general. The ADB and the Cambodian SME Sub-Committee have identified many of the same issues as specific to the development of Cambodian SMEs. Below are the three most important issues, and associated problems, as identified by the SME Sub-Committee (see Table 4).

The same three issues have been acknowledged as important by both the WB and the ADB for the country's commerce and SME development.<sup>34</sup>

**Table 4: Barriers to SMEs doing business**

<b>1. Regulatory and Legal Framework</b>	<ul style="list-style-type: none"> <li>• Company registration</li> <li>• Licensing requirements</li> <li>• Commercial legal framework</li> <li>• Smuggling</li> </ul>
<b>2. Access to Finance</b>	<ul style="list-style-type: none"> <li>• Collateral and land titling</li> <li>• Leasing</li> <li>• Lack of information on borrowers</li> <li>• SME accounting</li> </ul>
<b>3. SME Support Activities</b>	<ul style="list-style-type: none"> <li>• Business development services</li> <li>• Access to markets</li> <li>• Technology and human resource upgrading</li> <li>• Improving linkages</li> </ul>

*Source: Royal Government of Cambodia Sub-committee on Small and Medium Enterprises SME Secretariat *Small and Medium Enterprise Development Framework 2005**

### **5.1 Regulatory and legal framework**

Cambodian firms are exposed to burdensome and often unnecessary regulations with uncertain interpretations. Most firms surveyed by the WB in 2004 claimed that tax, customs and other regulations were at least a moderate constraint to their operations.

Cambodian enterprises are inspected by various government departments on average 16 times per year.<sup>35</sup> This compares to India at five inspections and Bangladesh at seven inspections per year. Each inspection imposes opportunity costs on the business manager, with some inspections lasting for up to two days. Inspections also provide officials with opportunities to demand bribes.

Almost half of Cambodian firms claimed that regulatory interpretations were inconsistent and unpredictable.<sup>36</sup> Frequently officials would charge an informal ‘facilitation fee’ for processing documents necessary for trading.

The Cambodian judicial system is widely considered to be inefficient at dealing with commercial issues. More than 90 percent of firms surveyed by the WB said that they believed the judicial system is usually unfair and biased. In the same survey, the judicial system ranks almost as poorly with regard to speed of dealing with cases, affordability and enforcement of decisions.<sup>37</sup> The WB Doing Business ratings support



these findings, claiming that it is difficult and expensive to enforce a contract in Cambodia. The country is awarded the lowest possible score in the Doing Business creditor rights index.<sup>38</sup>

There are four areas the SME-Sub-Committee identifies as being the most damaging to SME development under the category of regulatory and legal framework, as listed in Table 3.

1. company registration
2. business regulations
3. a weak legal commercial framework
4. a high incidence of smuggling.

#### *5.1.1 Company registration*

The SME Sub-Committee has identified the financial and time constraints of registering a company as a significant issue facing SMEs. Up until 2004 registering firms were required to have a minimum amount of capital of US\$ 5,000. It took on average 94 days, 11 procedures and cost over 5 times per capita GDP for a Cambodian firm to register. This is among the highest cost in the region in terms of both time and financial burden. As a comparison, in Vietnam it took 63 days and 30 percent of per capita GDP, in Thailand it took 42 days, and seven percent of per capita GDP. In Singapore it took only eight days to start a business in 2003.<sup>39</sup>

These constraints motivate many firms to remain informal, which has negative implications for SME development. Unregistered firms have more trouble accessing formal credit and protecting their business from petty graft. Only registered firms are able to legally export or import goods. Unregistered firms are quite often unaware of, and therefore unable to take full advantage of the policies designed to benefit SMEs.

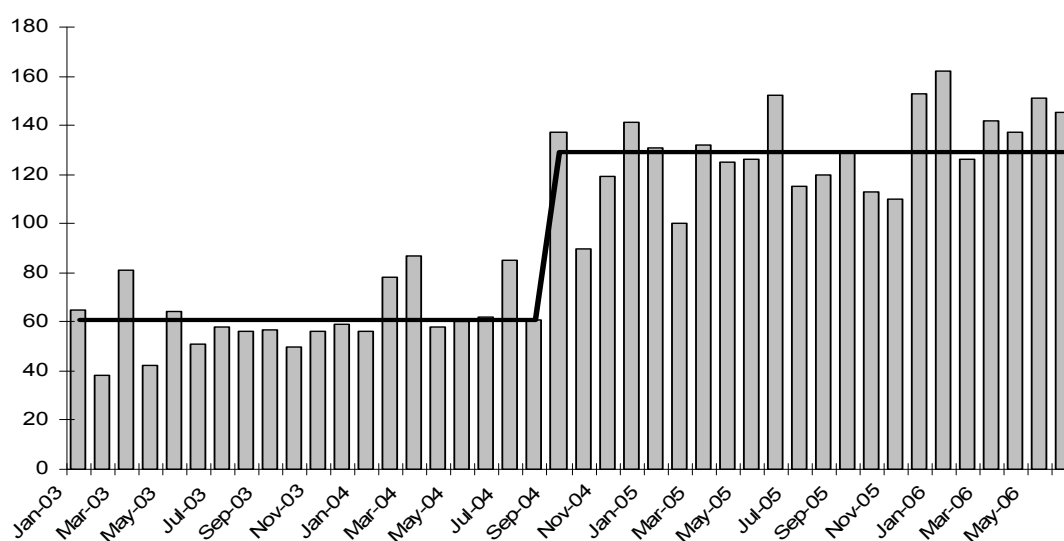
In addition, the large number of SMEs remaining informal limits policy makers' ability to understand the scale and scope of SMEs and the issues facing them. This hinders policy development and implementation.

### *Lowering barriers to company registration*

Steps were taken to address the problems preventing business registration by the MOC in August 2004. The cost of registration was reduced from US\$650 to US\$177. The minimal capital requirement for incorporation was reduced from KHR 20 million to KHR four million (from US\$5 thousand to US\$1 thousand). The documents necessary to apply for registration were reduced, and information about these changes was widely disseminated.<sup>40</sup>

The average number of companies registering doubled immediately following the changes in late 2004, from 61 to 129 per month,<sup>41</sup> (see Figure 3).

**Figure 3: Monthly enterprise registration**



*Source: Cambodian Ministry of Commerce in Royal Government of Cambodia Sub-committee on Small and Medium Enterprises SME Secretariat Small and Medium Enterprise Development Framework 2005*

While these efforts of the government should be applauded, more could be done to encourage registration. There are a number of potentially significant benefits to SMEs and government if registration is increased. Some of these benefits are mentioned above. Additionally by encouraging enterprises to register the formal sector will develop, and over time provide the government with increased tax revenues.

Both the time it takes and the financial costs of registration should be reduced further. It should be possible for an SME to register for amounts, as a percentage of GDP, closer to those charged in neighbouring countries.<sup>42</sup> If registration costs in Cambodia were reduced to 10 percent of GDP per capita, slightly more as a percentage than it is in Thailand, the nominal cost would be less than US\$50. To be able to afford a reduction in the cost of registration government departments must become more efficient.

### *5.1.2 Business regulations*

Gaining the licences necessary for legally trading in Cambodia is an inefficient and complicated process. Manufacturers require licences from MIME, MoC, the Ministry of the Interior (MOI), the Ministry of Health, the Ministry of Economy and Finance, the Ministry of Environment and the Ministry of Social Affairs, Labour and Vocational Training and Youth Rehabilitation (MOSALVY). There is much duplication of legal requirements. For example, manufacturing enterprises need to get operating permits from both the MIME and the MoC, safety inspections from MIME, MOI and MOSALVY and environmental checks from MIME and MoC.<sup>43</sup> Consolidation of requirements could reduce costs to both businesses and government.

Businesses are often unaware of the costs of licences or what is required of them. The lack of transparency leads to officials asking for ‘facilitation fees’ and other forms of bribery to provide a standard service.

#### *Lowering business regulation barriers*

Where they are necessary the required inspection and licensing requirements need to be streamlined and made transparent. The ADB recommend removing duplication and overlapping responsibilities.<sup>44</sup> To achieve this, the responsibilities of the different departments need to be clarified and compared to determine where redundancies exist. As a further step information on the processes for licensing and registration needs to be made easily available to Cambodian entrepreneurs. This should include providing clarity to businesses on what inspectors are entitled to do and to ask for.

The ADB recommend any citations should be made in writing and ample time allowed for enterprises to remedy violations<sup>45</sup>

To further reduce the opportunity for corruption, fines should be required to be paid at a central office rather than to the inspectors. Channels for reporting inspectors who ask for unofficial payment and for challenging citations should be introduced.

### *5.1.3 Commercial legal framework*

The business community usually tries to resolve commercial disputes without using the country's courts. There is no commercial court or arbitration tribunal. Cambodia lacks laws covering many factors necessary for a healthy business environment. For example, there are no laws covering insolvent enterprises, secured transactions, industrial standards or commercial transactions.<sup>46</sup> This acts as a disincentive for enterprises to enter into contracts, or to seek legal recourse to business disputes.

The ADB identify a number of characteristics common to a good commercial legal framework. These include well trained, adequately compensated and impartial judges; a strictly enforced code of ethics; transparent laws and court decisions; and opportunities for parties to challenge the decisions made by judges.<sup>47</sup>

#### *Improving the legal framework*

Any suspicion of corruption needs to be removed from the courts. The ADB suggest a code of ethics be introduced, and that judges be required to declare their assets to increase transparency.<sup>48</sup> Increasing transparency through improved dissemination of laws and regulations to lawyers, businesses and citizens is recommended by the WB. The WB also recommends increasing public education and awareness of court decisions.<sup>49</sup>

In the long run, judges need to receive appropriate training and adequate compensation through formal channels. There also needs to be harsh punishments delivered to any judges who are found guilty of corrupt behaviour.

Both the SME Sub-Committee and the ADB recommend that the government establish a specialised court to resolve commercial disputes. They suggest intensive

training for a select group of judges in commercial law. By creating a strong and specialised commercial court, not only will commercial disputes be dealt with efficiently, enforcement of decisions will be more certain, and participants will have more confidence in decisions.<sup>50</sup>

The Law on Commercial Arbitration was adopted in 2006. This law is designed to safeguard the legal rights and interests of parties and facilitate impartial and prompt resolution of economic disputes.<sup>51</sup> There are a number of additional draft laws designed to replace other out-dated laws, and establish an effective commercial legal framework. These are part of Cambodia's commitments under WTO requirements and every effort should be made to enact them as soon as possible.

A further recommendation is that legal information is widely disseminated. The ADB recommend a website containing all commercial legal information is built to make such information widely available and accessible. While there are not many Cambodians who have direct access to the internet, information from a website could be disseminated through, for example business associations or NGOs. A further suggestion from the ADB is that a legal gazette should be regularly distributed and easily available to all businesses without internet access.<sup>52</sup>

#### *5.1.4 Smuggling*

As a result of the high transaction costs faced by firms transporting goods legally across Cambodian borders there is wide spread smuggling. This has been cited by a large number of SMEs as a form of unfair competition.<sup>53</sup> Firms face a myriad of costs and time delays importing inputs through formal channels. As a result, these firms face delays in production, more expensive inputs, and associated higher production costs relative to firms which smuggle goods across Cambodia's borders.

#### *Reducing smuggling*

The preferred way to prevent smuggling is to improve customs procedures to the stage where there is little or no benefit to moving goods illegally across the border. This

would not only reduce the costs of inputs for many Cambodian SMEs, it would also encourage their participation in exporting.

A second, short run approach involves increasing both the probability of being caught and the punishment for smuggling.

#### *Customs procedures*

There are an excessive number of procedures required to get goods through Cambodian customs. Imports and exports have to be cleared through four departments: Customs; Ministry of Transport border authorities; the Border Police; and the Cambodia Import Export Inspection and Fraud Repression Department (CAM control). On average, exports take up to 16 days to clear customs. Imports take 11 days. This compares with, for example, China at 8 and 7 days respectively.<sup>54</sup> More than 20 documents are needed to export or import goods.<sup>55</sup> Clearance requirements are unpredictable. This limits the ability of firms to commit to or to meet customer demands. It is generally agreed that the majority of export and import procedures are superfluous.<sup>56</sup>

#### *Trade Facilitation Programme*

A Trade Facilitation programme is being implemented to simplify and improve the process of moving goods across Cambodian borders. The primary instrument of the programme is a Single Administration Document (SAD). SAD removes the necessity of exporting and importing firms to fill out duplicate forms at different departments.<sup>57</sup> This step was recommended by both the ADB, and the SME Sub-Committee.

SAD is an electronics customs clearance and risk management system for importing and exporting.<sup>58</sup> Under the system importers and exporters would need to visit only one department and provide all necessary information in a single form, significantly reducing transaction costs.<sup>59</sup> The fewer departments SMEs need to deal with the lower their transaction costs will be.

The government has taken steps to lower the taxes on goods imported and exported for business purposes. Qualified Investment Projects (QIP), meeting government requirements for promoting commerce, are provided tax free importation of production, raw materials and intermediate goods. Approved export QIP are provided tax holidays or beneficial depreciation schemes.<sup>60</sup>

### *Preventing smuggling*

To lessen the incentive to would be smugglers both the penalty and possibility of being caught could be increased. Cambodia has an anti-smuggling task force, but due to cultural norms and the low pay of officials, many smugglers get away with paying a bribe rather than significant penalties, even if caught. The capacity of the anti-smuggling task force needs to be strengthened. They need to have the ability and willingness to challenge anyone caught smuggling.

The ADB suggests a number of measures for improving the efficiency of the anti-smuggling task force. Employees of the task force should receive more training and, as with the judiciary, better formal rewards for doing their job. Controls at both borders and at product destinations, such as stores and markets, need to be strengthened. Regulations requiring Khmer labelling should be firmly enforced.<sup>61</sup>

## **5.2 Access to Finance**

The 2006 World Bank Doing Business report ranks Cambodia at 174 out of 175 countries for ease of getting credit. This ranking was based on the strength of legal rights and the availability of credit information.<sup>62</sup>

Access to finance is also a primary issue as identified by a number of commentators, including the ADB and the Cambodian Development Resource Institute. Cambodian firms receive over 98 percent of their capital through informal sources.<sup>63</sup> In 2004, only about one percent of investment capital and slightly more than one percent of working capital was provided by commercial banks.<sup>64</sup> This increases the cost of capital, limits the size of loans, and reduces the period money can be borrowed for, restricting the ability of SMEs to purchase productive capital.

Data shows that loans are more common in the manufacturing sector, but this is likely a result of borrowing by large garment factories rather than SMEs.

According to the Cambodian Sub-Committee, SME access to finance is constrained by four main factors.<sup>65</sup>

1. a lack of collateral
2. an in-adequate legal framework and poor contract enforcement
3. a limited number of financial products on offer
4. an inability of SMEs to prepare basic financial statements.

### *5.2.1 Collateral and land titling*

Banks are typically reluctant to extend credit unless the borrower can provide property as collateral for the loan. The weak legal system and a lack of traceability make banks unwilling to accept anything other than un-movable property as collateral. Unless the land has legal title transaction costs are increased by the banks efforts to verify ownership. These costs are passed onto the borrower in the form of higher interest rates.

The Ministry of Land Management Urban Planning and Construction, with help from international donors, are systematically issuing formal title on all land in Cambodia. Once SMEs have formal titles recognised by the courts the transaction costs associated with using land as collateral should decrease. However, as of 2005 less than ten percent of property had been issued with a title.<sup>66</sup> An optimistic estimate of the time needed to register formal title to all plots of land in Cambodia is ten years. Businesses without land are often constrained to expensive short term loans from informal sources.

### *5.2.2 Improving collateral*

The need for land as collateral can be reduced by strengthening the legal system as discussed above in 0. With more specialised courts, contracts will become cheaper, speedier and easier to enforce. Lenders will have more confidence in forms of collateral other than land. The ability and willingness of SMEs to access formal long term credit should increase as the risks and costs of lending decrease.

Improving the judicial system to deal with commercial cases is a long term project, unlikely to benefit SMEs in the foreseeable future. In the short term, SME ability to access productive capital can be improved by providing other forms of financial services, such as leasing.



### *5.2.3 Leasing*

There are very few financial services other than credit available to Cambodia SMEs. Leasing is common in many developing countries but has yet to become popular in Cambodia. This is probably, as with many of the problems facing SMEs, due to the difficulties enforcing contracts. Although banks have the authority to lease assets it seems the lack of legal protection discourages them from doing so.<sup>67</sup>

In 2000 the International Finance Corporation assessed the options for leasing in Cambodia. Their findings identified four main restrictions preventing leasing arrangements. One, the banking law restricted leasing to banks only. Two, the tax system discriminated against leasing arrangements. Three, the lack of traceability in Cambodia meant that banks were dependent on personal relationships with customers for securing repayments. And four, if there were payment defaults repossessing a leased asset was difficult.<sup>68</sup>

### *5.2.4 Improving access to leasing*

To overcome these barriers the SME Sub-Committee recommend three major policy changes. One, enacting a leasing law enabling non-bank financial institutions to finance and operate leases; Two, amending tax legislation to encourage both banks and other financial institutions to provide leasing services; three, strengthening the legal framework to effectively address issues of payment defaults.<sup>69</sup>

### *5.2.5 Limit information on borrowers*

One of the barriers to an effective financial sector in Cambodia is financial institutions' lack of traceability and knowledge about borrowers. Banks are often unwilling to extend credit unless they are aware of the potential borrower's credit history. With so few SMEs borrowing from the formal sector almost none have a credit history. Additionally, with such weak institutions it is easy for those with poor credit histories to hide this information.

### *5.2.6 Credit information sharing*

The SME Sub-Committee has made a number of recommendations to reduce the risks to financial organisations of extending credit, and hence lower transaction costs. They suggest a credit information sharing system to increase the information on potential borrowers available to banks. In theory this will lower the risks to lenders and the cost of finance to credit worthy entrepreneurs.

The National Bank of Cambodia (NBC) and the Association of Banks in Cambodia (ABC) have designed a system for sharing credit information among banks. However, the system relies on prospective borrowers providing evidence of previous borrowing which can be collaborated by other financial institutions.<sup>70</sup> This may benefit those with a good credit history, but will provide no help to individuals who have never borrowed in the formal sector. Additionally those who have defaulted on loans are unlikely to admit to ever having taken a loan. Hence the potential benefits of such a system will be limited.

The willingness of financial institutions to extend credit to SMEs will improve as the enforcement of contracts is strengthened. Enacting laws on commercial enterprises, insolvency and secured transactions will help, as discussed in 0. Building a transactions registry easily accessible to lenders will also improve access to formal loans for credit worthy entrepreneurs.

### *5.2.7 SME accounting*

Another barrier making banks reluctant to extend credit to SMEs is the basic or often total lack of financial statements kept by SMEs. Although this is not as big a problem for SMEs seeking formal credit as the issues discussed above it will become more important as the financial sector develops.

There are two main problems leading to poor SME financial reporting. One, managers often lack the skills to prepare even basic financial statements. And two, the financial reporting required by legislation is complex and provides little incentive for SME owner/managers to develop or improve their financial reporting abilities.<sup>71</sup>

Many SME owners do not know how to keep records of accounts. As noted earlier very few Cambodians receive more than a basic education, seldom including even rudimentary bookkeeping skills. According to the SME Sub-Committee, a survey of 300 Cambodian SMEs showed that almost no SMEs had access to accounting or bookkeeping training.<sup>72</sup> Few SMEs have access to, or know how to use computers with accounting software. Hiring an accountant is close to impossible for an SME, partially due to the lack of trained accountants in Cambodia, but mainly because of affordability.

The Law on Corporate Accounts, their Audit and Accounting Profession requires all enterprises, including SMEs, to keep accounting records, and to have them audited. Accounting records need to comply with Cambodian Accounting Standards, with, in theory, severe penalties for non-compliance. In 2003 15 Khmer accounting standards were approved based on international laws.<sup>73</sup> The English version of these standards is 223 pages long. This is too elaborate for almost all SMEs to understand. Most SMEs simply avoid the issue by not even attempting to comply with accounting laws.

#### *5.2.8 Improving SME accounting*

The National Accounting Council (NAC) of Cambodia recognises the need for simplified reporting standards and guidelines for SMEs. The SME Sub-Committee recommends that the NAC simplify existing reporting guidelines to increasing incentives for SMEs to comply with legislation.<sup>74</sup>

A subsequent recommendation is that the Ministry of Economy and Finance implement a training programme for SME business managers. Basic accounting and management skills can be taught through government sponsored training centres or business associations. Currently the Phnom Penh Small and Medium Industry Association (PPSMIA) offer accounting training courses and seminars to members.<sup>75</sup> More emphasise can be placed on teaching simple accounting skills as part of the school curriculum.

By simplifying requirements and training owners so they can meet these requirements, SMEs will benefit in three main ways. One, they will be in better

positions for approaching financial institutions for credit. Two, they will have a better understanding of the revenue and expenses of their enterprises. Three, good bookkeeping will make SME sales and attempts to partake in formal contracts much easier.

### **5.3 SME Support Activities**

The Government recognises market failure due to an inadequate range of services offered to SMEs by the private sector. Particularly there is a lack of adequately trained private sector providers connecting buyers with sellers or providing employment specific training.

The SME Sub-Committee identify four main areas where SMEs do not have appropriate support.<sup>76</sup>

1. business development services
2. access to markets
3. competitive technology and quality human resources
4. linkages to value chains, government and other businesses.

#### *5.3.1 Business development services*

There are a number of government ministries and business associations, such as the PPSMIA, and the Phnom Penh Chamber of Commerce, which offer Business development services (BDS) to SMEs.<sup>77</sup> However, these services reach very few SMEs. In Cambodia about one percent of SMEs received BDS, compared with, for example, 15 percent in Sri Lanka, and 11 percent in Thailand.<sup>78</sup>

The lack of take up of BDS services is due to an unawareness of services on offer and a lack of interest in services which are not considered essential for running businesses.<sup>79</sup>

### *Improving access to BDS*

The SME Sub-Committee has suggested three approaches for increasing SME use of BDS. One, the BDS on offer should be made widely known and available to all SMEs. Two, the benefits from such services should be emphasised to SME owners. And three, the specific BDS needs of SMEs should be identified along with the barriers preventing SMEs from using these services.<sup>80</sup>

Awareness of, and benefits from, BDS could be disseminated through relevant business associations and government departments. The media could also be used to spread this information. Once available services and their benefits are made obvious to a number of entrepreneurs, many more will learn of these services via word of mouth. The standard of BDS on offer needs to be kept high to develop a reputation as being worthwhile to SMEs.

To determine barriers and needs specific to SMEs, relevant associations could provide the government with information on the BDS requirements of their members. A BDS survey of SMEs and associated organisations would provide valuable information on requirements and barriers.

### *5.3.2 Access to markets*

There are a number of organisations and government departments providing information for SMEs on domestic and international markets. Market information is provided by the Cambodian Development Review Institute, and other research groups, aid organisations and local media. Many Government Ministries produce free monthly or quarterly newsletters. However, the information contained in government publications is sometimes unreliable and generally of limited use, and information from other sources is not easily understood by a lot of SMEs.<sup>81</sup> Many SME owners are simply un-aware of the possibilities for expanding their markets.

### *Improving access to markets*

To improve SME access to national and international markets the SME Sub-Committee recommends the government provide the following.<sup>82</sup>

1. more trade fairs
2. areas for SMEs to display their products
3. areas for SMEs to meet buyers
4. locations for SMEs to take part in short courses and training on markets

In theory trade fairs and areas to display products are good ideas for increasing information on Cambodian goods to would be buyers. However, in Cambodia, the buyers at trade fairs and visitors to product displays are typically members of the public. For Cambodian SMEs to develop they need to make businesses aware of their products and what they are capable of. More needs to be done to attract business buyers, both domestic and foreign, to these fairs and displays.

The government could better inform and provide incentives for businesses to increase their presence at these events. For a start, the government could provide widespread information on trade fairs and product displays to would be wholesale buyers. The government could make buyers aware of the advantages of purchasing goods produced in Cambodia. The government could also undertake research to determine where markets for Cambodian products exist and target events and advertising at these places.

Associations could increase marketing of Cambodian SME products through the internet. Currently PPSMIA have an informative website advertising members' goods.<sup>83</sup> For future consideration the SME Sub Committee suggest developing an SME portal site and promoting it to both SMEs and trade purchasers.

To improve market access SMEs need to be supplied with useful and timely information on factors such as prices and buyers. The SME Sub-Committee recommends improving the quality and reliability of information supplied by government ministries, speed of delivery and the format in which it is provided.<sup>84</sup>

Improving human capital as discussed below in 0, should increase SME owner's abilities to understand market information provided through other sources. Increasing SME access to the internet along with targeted training on how to source information through this medium would also be beneficial.

### *5.3.3 Technology and human resource upgrading*

The state of human and physical capital is considered a major constraint to Cambodian SMEs' abilities to compete with their counterparts in neighbouring countries. Many Cambodian companies use old and inefficient machines, increasing their production costs. This also constrains SMEs' abilities to upgrade the quality of their output. Many SME owners are unaware of existing technology, how to use it, or how to access it.

As previously mentioned, standard education is rudimentary and there is little in the way of formal training. The limited on the job training that does exist in Cambodia is typically very basic.

#### *Developing physical and human capital*

To a large extent improving SMEs' physical capital is reliant on improving their ability to access finance and on lowering the cost of importing productive capital. Both of these issues are discussed above in 0 and 0. Upgrading physical capital is also dependent on training and developing human capital, ensuring SME owners are aware of what technology is available and how to source it.

There is a number of aid organisations involved in providing Cambodian SMEs with training. The ADB provides business training for owners of enterprises with fewer than 10 employees. The Mekong Private Sector Development Facility provides self-study workbooks in Khmer and funds training courses to teach production and operations, marketing and human resource management.<sup>85</sup> As mentioned above, the PPSMIA offer training and seminars to teach SME owners basic management and accounting skills

Human capital could be further improved by disseminating knowledge about the benefits of and increasing access to relevant training. As mentioned earlier, the SME Sub-Committee recommend that the Ministry of Economy and Finance implement a training programme for SME owners. As part of this programme SME owners could be made aware of the long run benefits to production and profits of providing training to staff. Training courses for all staff in the industries Cambodian SMEs are most active in could also be provided by Government Ministries. Incentives, such as tax breaks, could be offered to SME owners to send their staff on courses.

Due to the often specific human capital needs of different industries, the government could work with business associations to provide appropriate training. Additionally strengthening property rights, minimising corruption and keeping taxes and business costs to a reasonable level will encourage entrepreneurialism and provide incentive for people to partake in training and education.

#### *5.3.4 Linkages*

Linkages between SMEs and from SMEs to government and other enterprises tend to be weak in Cambodia. There are very few formal contracts between businesses and along supply chains. This is a product of the weak rule of law and the uncertainty Cambodian firms have had to deal with. Under these circumstances businesses are reliant on personal relationships, and are wary of doing business with anyone they do not know and cannot observe. A lack of trust and faith in other businesses and the courts discourages long term commitments to other enterprises.

#### *Improving linkages*

There are a growing number of associations and organisations involved in developing linkages between Cambodian SMEs. Several Cambodian trade associations, already mentioned in this report, are working to increase the sharing of information between SMEs. A number of aid organisations, including the US Agency for International Development and the United Nations Industrial Development Association are working to develop SME clusters.<sup>86</sup>

Government agencies are involved in developing relationships between themselves and SMEs. With coordination of these policies through the influence of the SME Sub-Committee there is a possibility that government SME links will be strengthened and developed in a mutually beneficial way.



## **6. CONCLUSION**

Evidence from more economically developed Asian nations has demonstrated that SMEs have considerable potential for driving sustainable and equitable economic growth. Under the right conditions, entrepreneurs, regardless of background, can start and grow SMEs, generating profits and creating employment opportunities. SMEs drive industrial progress, improve an economy's ability to deal with shocks and are recognised as breeding grounds of innovation.

With the expansion of globalisation manufacturing SMEs in Cambodia are facing increasing international competition. These enterprises need to improve quality and efficiency of output to international standards to survive. A range of barriers are making it difficult for the nation's SMEs to compete with imports, and up until recently there has been little in the way of specific assistance for SME development.

In 2004 the Cambodian government formed the SME Sub-Committee and the SME Development Framework was created. This framework is the first attempt by the government of Cambodia to identify barriers and introduce measures specific to promoting development of the country's SMEs.

Three main barriers to SME development have been identified; weaknesses in the regulatory and legal framework; limited SME access to finance; and a lack of SME support activities. A number of policies have been implemented and recommended to overcome these obstacles to SME development. These include general policies to improve the Cambodian business environment.

As policies have been implemented and the Cambodian business environment has improved the country's SMEs have shown signs of developing. The number of SMEs in Cambodia as well as the size of many of these enterprises has increased since the mid 1990s.

To continue this trend and to further improve the competitiveness of the nation's SMEs the government needs to continue removing the barriers to doing

business which have been discussed above. A framework that rewards and protects the investment and work of entrepreneurs will increase investment in human and physical capital, further improving the competitiveness of Cambodian SMEs.

In the long run by increasing the activity of SMEs and their involvement in international trade the government will increase tax revenues. This will enable the government to upgrade infrastructure and supporting technology with flow on effects right through the economy. This will further encourage FDI and on-going business development. By establishing an enabling business environment and encouraging development of the nation's SMEs Cambodia will be able to maintain strong and equitable economic development.

## NOTES

<sup>1</sup> Tilman Altenburg and Ute Eckhardt, 2006.

<sup>2</sup> Often definitions of SMEs have a lower boundary. In Cambodia firms with fewer than 10 employees are often defined as micro enterprises rather than SMEs. For the purpose of this report any enterprise with 100 or fewer workers is an SME.

<sup>3</sup> Ministry of Industry Mines and Energy, in Cambodian department of Statistics Yearbook, 2006.

<sup>4</sup> By noting registered SMEs only this figure probably under-estimates the total number of SMEs operating in the country.

<sup>5</sup> Sarthi A, Kim. S, Chap. S and Meach Y 2003.

<sup>6</sup> Chandler, D 1998.

<sup>7</sup> Sarthi A, Kim. S, Chap. S and Meach Y, 2003.

<sup>8</sup> Chandler, D, 1998.

<sup>9</sup> National Institute of Statistics, 2003.

<sup>10</sup> Ministry of Industry Mines and Energy data in Cambodian National Institute of Statistics 2006 Yearbook 2006.

<sup>11</sup> Asian Development Bank, 2003.

<sup>12</sup> The Council for the Development of Cambodia, 2007.

<sup>13</sup> Murshid and Sokphally, 2005

<sup>14</sup> Nearly 80 percent of Cambodian exports last year were clothing and related manufactured goods. Almost all of these exports were produced by enterprises employing, on average, over 1000 workers.

<sup>15</sup> Royal Government of Cambodia SME Sub-committee, 2005.

<sup>16</sup> National Institute of Statistics, 2003.

<sup>17</sup> Snodgrass. D. R & T Briggs 1996

<sup>18</sup> National Institute of Statistics, 2003 and MIME website.

<sup>19</sup> National Institute of Statistics, 2003.

<sup>20</sup> Definitions of SMEs used in official MoP statistics changed after 2001, so an ongoing comparison was not possible. Meas, W. H. 2004

- <sup>21</sup> Small firms here are classified as those with fewer than 10 employees.
- <sup>22</sup> World Bank, 2004.
- <sup>23</sup> Unskilled workers are clerks, service and sales workers, craft and related trades workers, plant/machine operators and assemblers, armed forces and elementary occupations. World Bank 2004
- <sup>24</sup> The Council for the Development of Cambodia, 2007.
- <sup>25</sup> Saleh and Ndubisi 2006.
- <sup>26</sup> World Bank, 2004.
- <sup>27</sup> Royal Government of Cambodia Sub-committee of SMEs 2005. The RGC is behind it's own schedule for introducing SME promotion policies, as laid out in an implementation timetable it prepared for the WTO.
- <sup>28</sup> Royal Government of Cambodia Sub-committee of SMEs 2005
- <sup>29</sup> Rectangular Strategy for Growth, 2004.
- <sup>30</sup> Royal Government of Cambodia Sub-committee of SMEs 2005
- <sup>31</sup> Royal Government of Cambodia Sub-Committee on SMEs, 2005.
- <sup>32</sup> Workshop on SME Development Program, 2005.
- <sup>33</sup> Royal Government of Cambodia Sub-Committee on SMEs, 2005.
- <sup>34</sup> Asian Development Bank, 2003 and World Bank, 2004.
- <sup>35</sup> Visits from tax officials are the most common and time consuming, followed by visits from the police.
- <sup>36</sup> World Bank, 2004.
- <sup>37</sup> World Bank, 2004.
- <sup>38</sup> World Bank Doing Business, 2006.
- <sup>39</sup> World Bank, 2004.
- <sup>40</sup> World Bank 2004. Royal Government of Cambodia SME Sub-Committee, 2005. There is some confusion here. The WB reports the original fee at US\$650, while The Cambodian SME Sub-Committee report it to be US\$280.
- <sup>41</sup> Cambodian Ministry of Commerce in Royal Government of Cambodia SME Sub-Committee, 2005.
- <sup>42</sup> If the data was available registration could be set as a percentage of average SME revenue.
- <sup>43</sup> Asian Development Bank, 2003.
- <sup>44</sup> Asian Development Bank, 2003.
- <sup>45</sup> The Council for the Development of Cambodia, 2007.
- <sup>46</sup> Royal Government of Cambodia SME Sub-Committee, 2005.
- <sup>47</sup> Royal Government of Cambodia SME Sub-Committee, 2005.
- <sup>48</sup> Asian Development Bank, 2003.
- <sup>49</sup> World Bank 2004
- <sup>50</sup> Asian Development Bank, 2003.
- <sup>51</sup> The Council for the Development of Cambodia, 2007.
- <sup>52</sup> Asian Development Bank, 2003.
- <sup>53</sup> Asian Development Bank, 2003, World Bank, 2004.
- <sup>54</sup> The World Bank Doing Business Report, in Economic Institute of Cambodia, 2007.
- <sup>55</sup> The Council for the Development of Cambodia, 2007.
- <sup>56</sup> The World Bank, 2004.
- <sup>57</sup> The Council for the Development of Cambodia, 2007.
- <sup>58</sup> The Risk Management System is a process for determining which goods and persons carry the most risk and hence should be examined at the border.
- <sup>59</sup> The Council for the Development of Cambodia, 2007.
- <sup>60</sup> The Council for the Development of Cambodia, 2007.
- <sup>61</sup> Asian Development Bank, 2003.
- <sup>62</sup> The World Bank Doing Business report, 2006, in Economic Institute of Cambodia 2007.

- <sup>63</sup> World Bank, 2004.
- <sup>64</sup> World Bank, 2004.
- <sup>65</sup> Royal Government of Cambodia SME Sub-Committee, 2005.
- <sup>66</sup> The incidence of legal title is much higher in Phnom Penh and other urban centres relative to rural areas.
- <sup>67</sup> World Bank, 2004.
- <sup>68</sup> International Finance Corporation.
- <sup>69</sup> Royal Government of Cambodia SME Sub-Committee, 2005.
- <sup>70</sup> Royal Government of Cambodia SME Sub-Committee, 2005.
- <sup>71</sup> Royal Government of Cambodia SME Sub-Committee, 2005.
- <sup>72</sup> Royal Government of Cambodia SME Sub-Committee, 2005.
- <sup>73</sup> Royal Government of Cambodia SME Sub-Committee, 2005.
- <sup>74</sup> Royal Government of Cambodia SME Sub-Committee, 2005.
- <sup>75</sup> Phnom Penh Small and Medium sized Industry Association website, 2007.
- <sup>76</sup> Royal Government of Cambodia SME Sub-Committee, 2005.
- <sup>77</sup> Phnom Penh Small and Medium sized Industry Association website, 2007.
- <sup>78</sup> World Bank, 2004.
- <sup>79</sup> The SME Sub-Committee does not provide any additional information on this survey, such as when it was conducted, or by whom.
- <sup>80</sup> Royal Government of Cambodia SME Sub-Committee, 2005.
- <sup>81</sup> Royal Government of Cambodia SME Sub-Committee, 2005.
- <sup>82</sup> Royal Government of Cambodia SME Sub-Committee, 2005.
- <sup>83</sup> Phnom Penh Small and Medium sized Industry Association website, 2007.
- <sup>84</sup> Royal Government of Cambodia SME Sub-Committee, 2005.
- <sup>85</sup> Royal Government of Cambodia SME Sub-Committee 2005.
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